Middlesea Insurance p.l.c.

Middlesea Insurance p.l.c.

Mission Statement

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

Business Philosophy

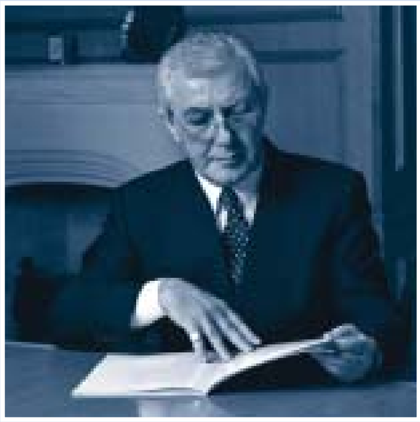
We make quality and reliability the driving force to uphold our professional reputation and image.

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

We regard the Company as a customer driven organisation which provides 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.



In 2003, the insurance and capital markets continued to experience formidable challenges in an environment of slow worldwide economic growth. Indeed, we have experienced a scenario of failed companies and others that had to undertake significant capital injection. Regulatory authorities across the globe maintained their focused attention to improve overall standards, compliance and transparency within stricter parameters. The Companies within the Group pursued a determined direction in the application of basic fundamentals with the objective of achieving a balance between growth and attainment of added value that is expected from customers and shareholders. The organisational structure and the strategy of the Group have contributed to the overall positive result in 2003.

Middlesea Group registered a profit after tax of Lm1.07 million (€ 2.5m) for the year ended 31 December 2003 (Lm1.14 million in 2002). Our commitment to applying our stated strategy clearly and consistently helped to achieve the main operational targets of maintaining productivity and keeping costs in line with revenues. The operations of Middlesea Insurance p.l.c. (MSI) produced a negative return whilst Middlesea Valletta Life Assurance Co. Ltd (MSV) and Progress Assicurazioni S.p.A. (PA) continued to contribute positively to the overall result.

Consonant with our dividend policy in the context of the balance sheet, contingencies and sustainability, the Board is recommending the payment of a dividend of 5c per share, totaling Lm625,000 (2002 – Lm568,750).

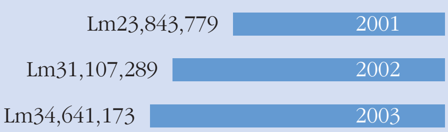
Given the uncertain economic climate in 2003, it was encouraging to note an improvement in non-life Gross Written Premiums (GWP). Having maintained a policy of territorial spread, business mix and pricing discipline, Middlesea posted a GWP growth (general and group life) of 11% year on year to Lm35.2 million (€ 81.6m). The discontinued London Branch and international reinsurance operation in run-off did not materially impact the results. More important for the future, the underlying performance of ongoing operations in 2003 was satisfactory, reflecting the work carried out in reorganising the portfolio of business.

Net technical reserves increased by 31% to Lm41.7 million (€ 96.7m); the ratio of net technical reserves to net premiums written was 147%. Shareholders' funds grew by 3% to Lm21.9 million (€ 50.6m). The net asset value per 50c share was Lm1.75 and the earnings per share reduced from 9c1 to 8c5. Total Group assets increased by 16% to Lm93.7 million (€ 217.0 m).

The GWP of the holding company (MSI) increased by 2% to Lm13.92 million (€ 32.3m). Motor insurance remained the largest class of non-life business in our portfolio. As in most countries, motor was the classic high-volume, low margin and difficult class of insurance business, mainly due to inadequate pricing and it being prone to high claims ratio. This even more so now with the introduction of the Fourth Motor insurance directive that will impinge on contract law and jurisdiction with the ultimate increased onus for third party liability. Notwithstanding the loss generated during the year by this class of business, concentrated effort in the implementation of corrective measures appeared to be reaping the desired result. This was evidenced by the loss ratio that improved from 94% in 2002 to 82% in 2003.

The 15 September storm impacted heavily on the result attained from the Property business with a gross loss (before reinsurance) of Lm1.70 million (€ 3.9m) which produced a loss ratio of 99% as compared to 31% in previous year. This class of business would have shown a loss ratio of 23% without

Gross Premium-General Business



Chairman's Statement

the storm loss. The current market pricing on Property business needs to be revisited to reflect the unfavourable terms and high costs of reinsurance with particular reference to the catastrophe XL protection. On basis year 2001 the company incurred an increase of 65% in reinsurance costs (57% on basis year 2002). The gross underwriting result of Health, Liability, Accident and Group Life generated a profit. Our focus remained on achieving the right technical price commensurate with the risk notwithstanding the high level of competition.

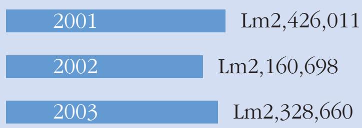
In Italy, Progress Assicurazioni S.p.A. was an important contributor to the technical operations. The importance of our investment in this company was reflected in the year-to-year increase in GWP of 18% to Lm21.9 million (€ 50.6m) generated primarily through a network of 111 agents operating in Sardegna, Lazio, Campania, Puglia, Calabria and Sicily. This company continued with its planned strategy of applying technically correct pricing, ensuring adequate reserving and pursuing growth with a territorial spread and portfolio mix between motor and general business. During the year the company succeeded to increase its general business to 24.2%. The overall loss ratio improved from 83% to 80%. Total pre-tax profit was Lm0.93 million (€ 2.2m) resulting in a contribution of a profit after tax and minority interest of Lm0.31 million (€ 0.7m) to the Middlesea Group. During the year the shareholders agreed to increase the capital by € 6m to € 15m by the end of 2004.

Middlesea Valletta Life Assurance Company (MSV), also contributed positively to the Group's result with the share of profit after tax increasing to Lm0.66 million (€ 1.5m). The demand for life assurance shifted positively and MSV registered an improvement in sales, especially from the *bancassurance* distribution reflecting an increased customer confidence. The GWP increased by 15% to Lm21.86 million (€ 50.6m). The Life Fund increased by 27% to Lm120.84 million (€ 280.0m), whilst shareholders' funds increased to Lm20.15 million (€ 46.7m). The benefit of this investment was reflected in the increase of the embedded value (the discounted value of projected future profits on secured business) from Lm10.8 million to Lm11.9 million (€ 27.6m). The Board of Directors of MSV favourably considered an adequate increase in the share capital of the company to sustain its projected growth.

The Group's total investments excluding its share in MSV amounted to Lm52.7 million (€ 122.0m). Global equity markets rose from their March 2003 lows supported by declining geopolitical risk and low interest rates. The performance proved to be best in US Dollar terms as the Dollar continued its slide, hitting historic lows against Sterling and Euro. Global bonds experienced a major sell-off in summer 2003 and continued with a flat to declining performance amid good economic news as investors anticipated the timing of rising interest rates. For 2003, as a whole, the best returns came from Euro zone and corporate bonds, which enjoyed considerable yield spread tightening. The local equity market realized a positive performance with the Malta Stock Exchange index appreciating by 13.6%. Local bonds yields continued to decline resulting in further price appreciation. The Group's investment income (excluding unrealised capital gains and share of MSV's profits) after investment expenses and charges amounted to Lm1.65 million (€ 3.8m). Assets benefited from the improved sentiment in capital markets reflected in price appreciation of investments which had a positive effect on the Group's reserves.

With a view to streamlining functions, improving corporate processes for Group efficiency and cost savings, management continued with the outsourcing of non-technical operations to the subsidiary International Insurance Management Services Ltd (IIMS). Additionally, IIMS is focusing on the generation of third party business in the field of risk management and the management of captive

Investment Return



insurance and reinsurance companies operating from Malta. In our endeavour to rationalise our organisational and operational structure, MSI has concluded the acquisition of a new management information software system. Focused attention continued to be given to the development of our human resources.

During the year, the Middlesea Group continued to benefit following the adoption of corporate governance principles through the various Group committees made up of the Investment Committee, Audit Committee, Remuneration Committee, Compliance Committee and the Corporate Management Committee. Members of the Board actively participated on these Committees with the assistance, when required, of the executive members of management. This underscored the Group's recognition of traditional values which became a permanent part of our structure to ensure best corporate practice. It is my duty here to thank the Board of Directors and other participating members including the executive management and staff for their willingness and capability to embrace change in our dynamic pursuit to achieve the ultimate beneficial result for our customers and shareholders.

The Board of Directors had long established that Middlesea's growth strategy required diversification not only in the underlying business of risk management and insurance, but also from a territorial perspective. Our focus on overseas development in primary markets concentrated on the Euro-Mediterranean region. Our first venture into this field was the establishment of a branch in Gibraltar followed by the acquisition of a majority interest in Progress Assicurazioni S.p.A. A further development during 2004 is the anticipated establishment of a life branch office in Italy subject to the approval of the regulatory authorities MFSA and ISVAP.

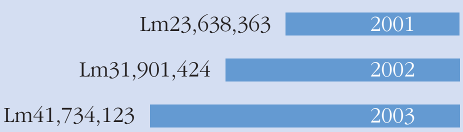
Changes to regulation and accounting practices are also key challenges faced by all European insurers and reinsurers in the medium term. This will force fundamental structural change at company and sector level. New initiatives including the International Financial Reporting Standard on insurance and Solvency II will undoubtedly result in increased costs which will likely necessitate a change in both product pricing and structure.

The considerable change expected in the Maltese insurance sector wherein foreign insurers are being replaced by newly-established indigenous insurers will impact upon the quality of competition which in the past was not considered to be on a level playing field. In the medium to long term this should benefit the Middlesea Group which, with its strong balance sheet and international experience, is considered to be the leading Insurance Group in Malta.

With the historic event of Malta's accession to the European Union on 1 May 2004, the Middlesea Group is poised for continued growth in an enlarged European market as we continue to build momentum organically, while remaining alert for opportunities to expand with strategic partners who offer real synergy.

M. C. GRECH
Chairman & CEO

Net Technical Reserves



Stqarrija taċ-Chairman

Fis-sena 2003 s-swieq ta' l-assigurazzjoni u dawk kapitali komplew għaddejjin bl-esperjenza ta' sfidi formidabbli f'ambjent ta' tkabbir ekonomiku baxx mad-dinja kollha. Fil-fatt is-settur ta' l-assigurazzjoni għadda minn xenarju li kumpaniji kellhom jinvestu aktar kapital b'mod sinifikanti. Awtoritajiet regolatorji fid-dinja kollha baqgħu jiffukaw l-attenzjoni tagħhom biex itejjbu l-istandards ġenerali, konformità u trasparenza f'parametri aktar stretti. Il-Kumpaniji fil-Grupp żammew direzzjoni determinata fl-applikazzjoni ta' miżuri fundamentali bażiċi bl-objettiv li jaslu għal bilanċ bejn tkabbir u l-ilħiq ta' valur miżjud li hu mistenni mill-konsumaturi u azzjonisti. L-istruttura organizzattiva u l-istrateġija tal-Grupp ikkontribwew għal riżultat pożittiv fl-2003.

Il-Middlesea Group irreġistra profitt wara l-ħlas tat-taxxa ta' Lm1.07 miljun (€ 2.5m) għas-sena li għalqet fil-31 ta' Diċembru 2003 (Lm1.14 miljun fl-2002). L-impenn li napplikaw l-istrateġija dikjarata tagħna b'mod ċar u konsistenti għenet biex nilħqu l-miri operazzjonali ewlenin jigifieri li nżommu l-livell ta' produttività u wkoll l-ispejjeż f'linja ġusta mad-dħul. L-operazzjonijiet tal-Middlesea Insurance plc (MSI) ipproduċew riżultat negattiv waqt li l-Middlesea Valletta Life Assurance Co. Ltd (MSV) u l-Progress Assicurazioni S.p.A. (PA) komplew jikkontribwixxu pożittivament għar-riżultat ġenerali.

Skond il-politika tagħna dwar dividendi fil-kuntest tal-karta bilanċjali, kontinġenzi u sostenibilità, il-Bord qed jirrikkmanda l-ħlas ta' dividend ta' 5ċ kull sehem li jammontaw għal Lm625,000 (2002 – Lm568,750).

Fid-dawl tal-klima ekonomika inċerta fis-sena 2003, kien inkoraġġjanti ninnutaw titjib fil-Primjums Gross Sottoskritti (GWP) fin-negozju ġenerali. Billi segwiet politika ta' firxa territorjali, taħlita tal-portafoll u dixxiplina fil-prezzijiet, il-Middlesea waslet għal tkabbir tal-GWP ta' 11% sena wara sena għal Lm35.2 miljun (€ 81.6m). Il-Fergħa ta' Londra, issa magħluqa, u l-operazzjoni ta' riassigurazzjoni internazzjonali fil-perijodu sakemm tingħalaq għal kollox, ma kellhomx impatt materjali fuq ir-riżultati. Dak li hu aktar importanti għall-futur hu li l-operat li jsostni l-operazzjonijiet kien sodisfaċenti u jirrifletti x-xogħol li sar fir-riorganizzazzjoni tal-portafoll tan-negozju.

Ir-riservi tekniċi netti telgħu b'31% għal Lm41.7 miljun (€ 96.7m); il-proporzjon ta' riservi tekniċi netti mqabbla ma' primjums netti sottoskritti kienet 147%. Il-fondi ta' l-azzjonisti kibru bi 3% għal Lm21.9 miljun (€ 50.7m). Il-valur ta' l-assi netti kull sehem ta' 50ċ kien Lm1.75 u d-dħul kull sehem niżel minn 9ċ1 għal 8ċ5. L-assi totali tal-Grupp żdiedu b'16% għal Lm93.7 miljun (€ 217.0m).

Il-GWP tal-kumpanija ewlenija (MSI) kiber bi 2% għal Lm13.92 miljun (€ 32.3m). L-assigurazzjoni tal-vetturi bil-mutur (vetturi) baqgħet l-akbar klassi ta' negozju ġenerali fil-portafoll tagħna. Bħal f'ħafna pajjiżi oħra, kienet in-negozju klassiku b'volum għoli, marġini baxxi u klassi diffiċli ta' negozju ta' assigurazzjoni, l-aktar minħabba prezzijiet mhux adegwati u għaliex għandha tendenza għal proporzjon għolja ta' klejms. Id-dħul tar-Raba' Direttiva fuq l-Assigurazzjoni tal-Vetturi bil-mutur se taffettwa l-liġi tal-kuntratti u ġurisdizzjoni li ultimament twassal għal żjieda fuq ir-responsabbiltà lejn partijiet terzi.

Stqarrija taċ-Chairman

Minkejja t-telf iġġenerat tul is-sena minn din il-klassi ta' negozju, sforz konċentrat fl-implimentazzjoni ta' miżuri korrettivi deher li qed jagħti r-riżultat mixtieq. Dan jurih il-fatt li proporzjon ta' telf gross tjiebet minn 94% fl-2002 għal 82% fl-2003.

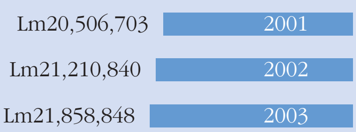
Il-maltempata tal-15 ta' Settembru ħalliet impatt qawwi fuq ir-riżultat min-negozju assigurattiv tal-Propjetà b'telf gross (qabel ir-riassigurazzjoni) ta' Lm1.70 miljun (€ 3.9m) li pproduċa proporzjon ta' telf ta' 99% meta mqabbel ma' 31% fis-sena ta' qabel. Din il-klassi ta' negozju kienet turi proporzjon ta' telf ta' 23% mingħajr it-telf ikkaġunat mill-maltempata. Il-prezz tas-suq kurrenti fuq negozju ta' assigurazzjoni fuq Propjetà jeħtieġ jinbidel biex jirrifletti t-termini sfavorevoli u l-ispejjeż għolja ta' riassigurazzjoni b'referenza partikolari għall-"Catastrophe XL". Fuq il-bażi tas-sena 2001 il-kumpanija kellha zjieda ta' 65% fl-ispejjeż ta' riassigurazzjoni (57% fuq is-sena bazi 2002). Ir-riżultat gross ta' sottoskrizzjoni tas-Saħħa, Responsabbiltà, Inċidenti u Ħajja ta' Gruppi ġġenera profitt. Aħna bqajna ffokati biex naslu għall-prezz tekniku ġust meta tqis ir-riskju, minkejja l-livell għoli ta' kompetizzjoni.

Fl-Italja, Progress Assicurazioni S.p.A. kienet kontributur importanti għall-operazzjonijiuet tekniċi. L-importanza ta' l-investiment tagħna f'din il-kumpanija kien rifless fiż-żjieda minn sena għal sena ta' Primjums Gross Sottoskritti ta' 18% għal Lm21.9 miljun (€ 50.6m) iġġenerati primarjament bis-saħħa ta' firxa ta' 111-il aġent li joperaw f'Sardinja, Lazio, Campania, Puglia, Kalabrija u Sqallija. Din il-kumpanija kompliet sejra bl-istrateġija ppjanata tagħha li tapplika prezzijiet teknikament korretti, tiżgura riservi adegwati u tfittex it-tkabbir b'firxa territorjali u l-aħjar taħlita ta' portafoll bejn vetturi u negozju ġenerali. Tul is-sena l-kumpanija rnexxielha ttella' n-negozju ġenerali tagħha għal 24.2%. Il-proporzjon ta' telf tjiebet minn 83% għal 80%. Il-profitt totali qabel l-ħlas tat-taxxa kien Lm0.93 miljun (€ 2.2m) li rriżulta f'kontribuzzjoni ta' profitt wara l-ħlas tat-taxxa u interess minoritarju ta' Lm0.31 miljun (€ 0.7m) lill-Middlesea Group. Tul is-sena l-azzjonisti qablu li jkabbru l-kapital b'€ 6m għal € 15 miljun sa tmiem is-sena 2004.

Il-Middlesea Valletta Life Assurance Company Ltd (MSV) wkoll ikkontribwiet pożittivament għar-riżultati tal-Grupp bis-sehem tagħha tal-profitt li wara l-ħlas tat-taxxa tela' għal Lm0.66 miljun (€ 1.5m). Id-domanda għal assigurazzjoni tal-ħajja ċċaqalqet pożittivament u l-MSV irreġistrat titjib fil-bejgħ, l-aktar mid-distribuzzjoni tal-bankassigurazzjoni li tirrifletti fiduċja ogħla mill-konsumaturi. Il-Primjums Gross Sottoskritti telgħu bi 15% għal Lm21.86 miljun (€ 50.6m). Il-Fond tal-Ħajja kiber b'27% għal Lm120.84 miljun (€ 280.0m), waqt li l-fondi ta' l-azzjonisti kibru għal Lm20.15 miljun (€ 46.7m). Il-benefiċċju ta' dan l-investment kien rifless fiż-żjieda tal-valur inerenti (il-valur skuntat tal-profitti futuri proġettati fuq negozju żgurat) minn Lm10.8 miljun għal Lm11.9 miljun (€ 27.6m). Il-Bord tad-Diretturi ta' l-MSV ikkunsidra favorevolment żjieda adegwata fil-kapital ta' l-ishma tal-kumpanija biex isostni t-tkabbir proġettat tagħha.

L-investimenti totali tal-Grupp minbarra s-sehem tiegħu fl-MSV ammontaw għal Lm52.7 miljun (€ 122.0m). Is-swieq globali ta' l-ishma telgħu

Shareholders' funds



Stqarrija taċ-Chairman

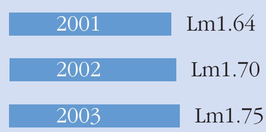
mill-pożizzjoni baxxa li kellhom f'Marzu 2003 u dan kien sostnut minn riskji ġeopolitiċi inqas u rati ta' mgħax baxxi. L-operat mar l-aħjar f'termini ta' Dollari Amerikani minħabba l-inżul kontinwu tad-Dollaru li niżel għall-aktar punt storikament baxx tiegħu kontra l-Isterlina u l-Euro. Bonds globali raw ħruġ qawwi minn investiment fis-Sajf tas-sena 2003 u komplew b'operat baxx u dejjem nieżel waqt li kien hemm aħbarijiet ekonomiċi tajbin billi investituri antiċipaw meta kien ser ikun hemm tlugħ fir-rati ta' l-imgħaxijiet. Għas-sena 2003, b'mod ġenerali, l-aħjar riżultati ġew miz-zona Euro u bonds korporattivi li gawdew minn kontroll konsiderevoli fuq il-firxa tal-qligħ. Is-suq ta' l-ishma lokali kellu riżultati pożittivi u l-indiċi tal-Borża ta' Malta apprezza bi 13.6%. Qligħ minn bonds lokali kompla jinżel u hekk wassal għal aktar apprezzament tal-prezzijiet. Id-dħul tal-Grupp minn investimenti (meta jitħallew barra qligħ kapitali mhux realizzati u s-sehem tar-rizultati ta' l-MSV) wara li jinqatgħu l-ispejjeż kollha ammonta għal Lm1.65 miljun (€ 3.8m). L-assi gawdew mis-sentiment itjeb fi swieq kapitali li dehru fl-apprezzament fil-prezz ta' l-investimenti u li kellu effett pożittiv fuq ir-riservi tal-Grupp.

Bl-iskop li ssir razzjonalizzazzjoni tal-funzjonijiet u jitjiebu l-proċessi korporattivi b'riżq l-effiċjenza maniġerjali tal-Grupp, kompla għaddej bit-trasferiment ta' operazzjonijiet mhux tekniċi lis-sussidjarja l-International Insurance Management Services Ltd (IIMS). Barra minn hekk, l-IIMS qed tiffoka fuq il-ħolqien ta' negozju minn partijiet terzi internazzjonali fil-qasam ta' l-immaniġġjar tar-riskji u l-immaniġġjar ta' kumpaniji ta' assigurazzjoni u ta' riassigurazzjoni captive li joperaw minn Malta. Fl-isforzi tagħna biex nirrazzjonalizaw l-istruttura organizzattiva u operazzjonali, l-MSI ikkonkludiet l-akkwist ta' sistema ġdida ta' software ta' l-informatika għall-amministrazzjoni. Baqgħet ukoll tingħata attenzjoni lill-iżvilupp tar-riżorsi umani tagħna.

Tul is-sena l-Middlesea Group kompla jgawdi wara li adotta l-prinċipji ta' tmexxija korporattiva (*corporate governance*) permezz ta' diversi kumitati tal-Grupp magħmulin minn Kumitat għall-Investimenti, Kumitat għall-Verifika (*Audit*), Kumitat għar-Rimunerazzjoni, Kumitat għall-Konformità u Kumitat għat-Tmexxija Korporattiva. Membri tal-Bord ipparteċipaw attivament f'dawn il-Kumitati bl-għajnuna, meta kien meħtieġ, tal-membri eżekuttivi tal-management. Dan issottolinja l-għarfien li l-Grupp għandu tal-valuri tradizzjonali li saru parti permanenti mill-istruttura tagħna biex tiżgura l-aħjar prassi korporattiva. Hu dmir tiegħi li nirringrazzja lill-Bord tad-Diretturi u membri oħra li pparteċipaw, fosthom il-management eżekuttiv u l-istaff, għad-dispożizzjoni u l-ħila li jħaddnu u jħaddmu l-bidla fit-tfittxija kontinwa tagħna biex naslu għar-riżultat aħħari li jkun ta' beneficċju għall-klijenti u l-azzjonisti tagħna.

Il-Bord tad-Diretturi ilu li stabbilixxa li l-istrateġija ta' tkabbir tal-Middlesea teħtieġ diversifikazzjoni mhux biss fin-negozju li jsostni l-immaniġġjar tar-riskju u l-assigurazzjoni, imma wkoll minn perspettiva territorjali. L-enfasi tagħna fuq żvilupp barra mill-pajjiż fi swieq primarji hija kkonċentrata fir-reġjun Euro-Mediterranju. L-ewwel intrapriża tagħna f'dan il-qasam kienet it-twaqqif ta' fergħa f'Ġibiltà u warajha l-akkwist ta' interess maġoritarju fi Progress Assicurazioni S.p.A. Żvilupp ulterjuri tul is-sena 2004 hu t-twaqqif imbassar ta' uffiċċju ta' assigurazzjoni tal-ħajja fl-Italja soġġett għall-kisba ta' approvazzjoni mill-awtoritajiet regolatorji MFSA u ISVAP.

Net asset value per share



Stqarrija taċ-Chairman

Bidliet fir-regolamenti u pratki ta' kontabilità huma wkoll sfidi kruċjali ffaċċjati mill-assiguraturi u riassiguraturi kollha Ewropej fuq medda ta' żmien medju. Dan se jġib bilfors bidla strutturali fundamentali f'livell ta' kumpanija u settur. Inizjattivi ġodda jinkludu l-International Financial Reporting Standard fuq l-assigurazzjoni u Solvency II u dawn bla dubju se jirriżultaw fi spejjeż ogħla li x'aktarx iġibu magħhom bidla kemm fil-prezz tal-prodott u kemm fl-istruttura.

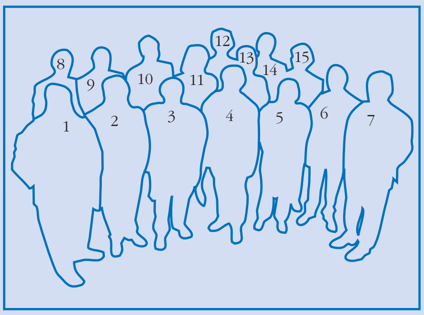
Il-bidla konsiderevoli mistennija fis-settur ta' l-assigurazzjoni Malti, fejn assiguraturi barranin qed jeħdulhom posthom assiguraturi indiġeni li għadhom kemm twaqqfu, se jkollha impatt fuq il-kwalità tal-kompetizzjoni li fl-imgħoddi ma tqisitx li kienet qed issir fuq l-istess bażi. Fuq medda ta' żmien minn medju għal twil, dan għandu jkun ta' benefiċċju għall-Middlesea Group li, bil-karta bilanċjali soda u l-esperjenza internazzjonali tiegħu, hu meqjus bħala l-Grupp ta' Assigurazzjoni ewlieni f'Malta.

Bl-avveniment storiku ta' l-adeżjoni ta' Malta għall-Unjoni Ewropea fl-1 ta' Mejju 2004, il-Middlesea Group qiegħed f'pożizzjoni tajba għal tkabbir kontinwu f'suq Ewropew imkabbar hekk kif aħna nkomplu nibnu momentum organikament filwaqt ukoll li nibqgħu miftuħin għal kull opportunità għal espansjoni fis-swieq barranin ma' sħab strateġiċi li joffru sinerġija reali.

M. C. GRECH
Chairman & CEO

Board of Directors

1 - Mr G. Debono Grech
2 - Mr G. Bonnici
3 - Mr M. Grima
4 - Mr M. C. Grech
5 - Mr J. Camilleri
6 - Dr J. C. Grech
7 - Mr J. F. X. Zahra
8 - Mr I.Spiteri
9 - Mr F. Xerri de Caro
10 - Mr L. Grech
11 - Dr E. Caruana Demajo
12 - Dr jur M. Sparberg
13 - Mr H. Attard Montalto
14 - Mr D. Sugranyes Bickel
15 - Mr V. Galea Salomone



Board of Directors

Mr M.C. Grech - Group Chairman
Formerly: Managing Director of the Mediterranean Insurance Brokers Group, Director on the Board of Mediterranean Survey Bureau, Governor of the Malta International Business Authority, Chairman of the Malta Green Card Bureau, Governor on the Board of the Malta Financial Services Centre and member of the Protection & Compensation Fund Board.
At present: President of Progress Assicurazioni S.p.A., Deputy Chairman and CEO of Middlesea Valletta Life Assurance Co. Ltd., Governor on the Board of the Malta Arbitration Centre and Malta College of Arts, Science and Technology, Chairman of Growth Investments Ltd., Chairman and CEO of International Insurance Management Services Ltd. and Euroglobe Ltd., Director of Malta International Training Centre, Director of Midi p.l.c., Life Vice President – Chartered Insurance Institute U.K., and President of the Malta Insurance Association.

Mr J. F.X. Zahra B.A. (Hons) Econ., M.A. (Econ.), MCIM, MMRS – Deputy Chairman
Formerly: Head of Research of the Malta Development Corporation, visiting lecturer at the University of Malta, Secretary to the UNIDO National Committee (Malta), member on the boards of the Central Bank of Malta and the Malta Development Corporation. Chairman of the Financial Services Trade Section and Council member of the Malta Chamber of Commerce.
Presently: Chairman of the Bank of Valletta Group p.l.c., Chairman of Middlesea Valletta Life Assurance Co. Ltd, Chairman of BOV Stockbrokers Ltd, and Chairman of Valletta Fund Management Ltd; Deputy Chairman of Middlesea Insurance p.l.c., Director of Progress Assicurazioni S.p.A. and MISCO International Ltd. Visiting lecturer in Managerial Economics at the Universita` degli Studi di Messina, President of the Malta Council for Maltese Culture and the Arts, and member of the Committee of Guarantee for Maltese Heritage and Culture.

Mr H. Attard Montalto
Formerly: Director of Freeport Terminal (Malta) Ltd, Malta Development Corporation and Mid-Med Bank p.l.c.
At present: Director on various boards and Financial Controller.

Mr G. Bonnici
Formerly: Managing Director of Galdes & Mamo Ltd, Managing Director of Hayes Insurance Agency Ltd, Chairman of the Board of Management of The Union Club.
At present: Director and Chairman of Bonnici Insurance Agency Ltd. Also holds directorship of various other subsidiaries and/or associated companies.

Mr J. Camilleri M.A. (Human Resources Leadership)
Formerly: Private Secretary to the Prime Minister and Chairman of Telemalta Corporation.
At present: Chief Executive Officer of the Employment and Training Corporation, member of the Employment Committee of the European Union and member on the Administrative Board of the European Foundation, Dublin.

Dr E. Caruana Demajo LL.D.
At present: An advocate in civil and commercial practice.

Mr D. Sugranyes Bickel (*Licence en Sciences Economiques et Sociales*)
Formerly: Secretary General of International Christian Union of Business Executives – UNIAPAC (Brussels), General Manager and member of the Board of Corporación Mapfre, Chief Executive and Chairman of Mapfre Caución y Crédito.
At present: Vice-Chairman of the Board, Chairman of the Executive Committee and Chief Executive of Corporacion Mapfre, S.A., member of the Boards of Mapfre-Caja Madrid Holding, Mapfre Seguros Generales, Mapfre Guanarteme, Mapfre Caja Salud, Mapfre Re, Mapfre América, Mapfre Asistencia and Mapfre Inmuebles and Member of the Board and Executive Committee of Mapfre Mutualidad, the Group parent company,

Dr J.C. Grech M.A. (Econ.), Dip. ICEI (A'dam), Ph.D. (Geneva), FCIB, MBIM, FMIM
Formely: Chairman Malta Tourism Authority, 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: Member of the Advisory Board of the Mediterranean Academy of Diplomatic Studies, Chairman & Managing Director of EMCS Ltd., Chairman of Unipol Insurance Services Limited, Chairman International Advisory Board of FIMBANK. Holds directorships on various other company boards. Dr Grech is also visiting professor at the University of Malta.

Mr L Grech M.A. (Oxon)
Formerly: Chief Executive and/or Director on various Air Malta subsidiaries and associated companies, 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, Holiday Malta Co. Ltd, Accor-Air Malta Co. Ltd and several associated companies. He is also Director on the Board of Medavia Co. Ltd, Dragonara Casino Ltd and Flight Catering Co. Ltd and a number of other private company boards.
At present: Financial / Marketing Consultant and moreover, Chairman/Director of various private companies.

Mr M. Grima Dip. M.S., M.B.A. (Henley), MIM, MCMI
Formerly: Trustee member of the BOV Employees Foundation, Director of Bank of Valletta p.l.c.
At present: Executive Head Bancassurance, Bank of Valletta p.l.c., Director of Middlesea Valletta Life Assurance Co. Ltd.

Dr Michael Sparberg
At present: Senior Executive Manager of Munich Re Insurance Company, Munich, responsible for Malta, Italy, France, Belgium and Luxembourg for all classes (property, casualty, marine) of reinsurance business. Vice President of Munich Re, Italy.

Mr G. Debono Grech L.P. FISMM (Luton), B.A. (Leg.), Mag.Jur. (Int. Law) Dip. Trib.Eccl.Melita
Formerly: Director of Malta Drydocks, Malta International Transport, Tug Malta, Smithtug Valletta. Served for 18 years as G.W.U. representative for the Security Department.
At present: On the Board of Middlesea Insurance p.l.c., member of the Board of Appeal for promotion at Maltacom, member of the disciplinary Board at Maltacom and Legal Procurator.

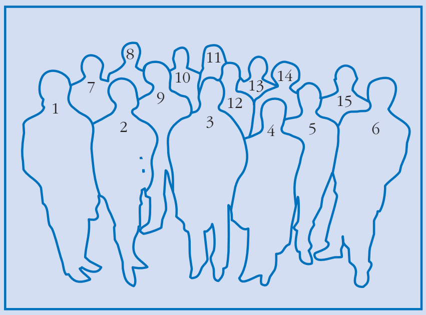
Mr L. Spiteri M.A. (Oxon)
Formerly: Member of Parliament, Co-Chairman Malta-EU Joint Parliamentary Committee; Minister of Finance, Minister of Trade & Economic Development; Chairman, Public Accounts Committee; Deputy Governor and Chairman of the Board of Directors, Central Bank of Malta; Research Officer, Malta Chamber of Commerce; Head of Publications Union Press, Editor Malta News, Deputy Editor It-Torca; Chairman, University Selection Board; Member, Malta Broadcasting Authority.
At present: Financial Consultant, Bortex Group, Roosendaal Hotels Limited; Director, Bortex Clothing Industry Co. Ltd. VBIE Ltd; Miracle Foods Ltd, Pinto Cold Stores Ltd, Medavia Ltd, Tumas Investments p.l.c., Dolmen Properties p.l.c., Zerniq Ltd, Zone Ltd, Columnist, The Sunday Times and The Times of Malta.

Mr F. Xerri de Caro, ACIB
Formerly: Chairman and Director of Lohombus Corporation, Chairman of the Malta Bankers' Association, Chairman Human Resources and Support Services at Malta Tourism Authority, Director on the Board of Bank of Valletta International Limited, Director on the Board of Investment Finance Bank Limited and Director on the Board of Valletta Investment Bank Limited.
At present: Chief Officer, Credit Management & Retail Business at Bank of Valletta p.l.c., Director on the Board of Valletta Fund Management Limited, Board of Governors Malta Financial Services Authority, Director Gozo Channel Co. Ltd, and Director on the Board of Middlesea Valletta Life Assurance Co. Ltd.

Mr. V. Galea Salomone B.A. (Luther), M.B.A. (Henley-Brunel)
At Present: Executive Director of V.J. Salomone Ltd and holds directorship of various other subsidiary and/or associated companies. Vice-President, The Malta Chamber of Commerce and Enterprise.

Middlesea Group Management

1 - Ms A. M. Tabone
2 - Ms E. Carbonaro
3 - Ms S. Sciriha
4 - Ms M. Formosa
5 - Mr M. Camilleri
6 - Mr J. M. Rizzo
7 - Mr D. G. Curmi
8 - Rag. G. Ficara
9 - Mr P. Muscat
10 - Mr S. Gauci
11 - Sig. ra N. Ciotta
12 - Mr K. Mallia Milanes
13 - Mr S. Camilleri
14 - Mr J. Avellino
15 - Mr B. Fenech



Management

Middlesea Insurance p.l.c.

MIDDLESEA VALLETTA LIFE
Assurance Company Limited

International Insurance Management Services Ltd.
a member of the Middlesea Group

Progress
Assicurazioni Spa Gruppo Middlesea

Middlesea Insurance p.l.c.

Mr Joseph M. Rizzo
ACII, AIMIS, AMIAP,
Chartered Insurer
- General Manager

Mr Simon Camilleri
ACII, Chartered Insurer
- Assistant General Manager

Mr Joseph Avellino
ACII, Chartered Insurer
- Assistant General Manager

Mr Keith Mallia Milanes
ACII, Chartered Insurer
- Assistant General Manager

Ms Sandra Sciriha
- Executive Consultant

Mr Patrick Muscat
ACII, Chartered Insurer
- Assistant General Manager

Ms Marzena Formosa
MA (Econ) MA (Fin. Serv.)
- Assistant General Manager

Ms Elizabeth Carbonaro
FCCA, MIA, CPA
- Assistant General Manager

Mr Bernard Fenech
MIMIS, MIAP
- Assistant General Manager

Mr Evander M. Borg
FCII, MBA, FRSA
- Senior Executive Manager

Mr James Mallia
B. Comm., BA (Hons) Accty, FIA, CPA
- Senior Executive Manager

Mr Peter Spiteri
FCII
- Senior Executive Manager

Ms Ana Cristina Zammit Munro
BA (Hons) Mgmt, MBA (Mktg)
- Senior Executive Manager

Middlesea Valletta Life Assurance Company Ltd

Mr David G. Curmi
ACII, Chartered Insurer
- General Manager

Mr Mark Camilleri
FCII, DMU (AMS),
Chartered Insurer
- Assistant General Manager

Ms Denise Bezzina
ACII
- Senior Executive Manager

Mr Vince Ellul
- Senior Executive Manager

Mr Victor Farrugia
FCII, BSc, MA (Fin. Serv.)
- Senior Executive Manager

Mr Ray Gibson
- Senior Executive Manager

International Insurance Management Services Ltd.

Ms Anne Marie Tabone
BA (Hons) Accty, FIA, CPA
- General Manager

Progress Assicurazioni S.p.A.

Mr Stephen Gauci
ACII
- Direttore generale

Sig. ra Nunzia Ciotta
- Dirigente

Rag. Giovanni Ficara
- Dirigente

Middlesea Insurance p.l.c.

Middlesea Insurance p.l.c. ("Middlesea") is a composite Company writing mainly general business in Malta and Gibraltar. The Company continued to pursue a strategy of selective underwriting and the fair pricing of its business aimed at providing insurance products which reflect the protection and security important to its customers and intermediaries.

The main factors that affected the Company's performance in 2003 were the September storm and the continuously increasing cost of purchasing adequate protection against catastrophic events (including that of storm) from financially secure reinsurers. The storm event impacted the performance at the gross level to the extent of Lm1.93million. Excluding long term business, the cost of catastrophic reinsurance protections equated to 13.76% of the Company's net retained earned premiums as compared to 8.79% the year before.

Middlesea registered a profit before tax of Lm0.93million (€ 2.2m) equating to an increase of 24% over the previous year (Lm0.75million). Profit after tax was Lm1.07million (€ 2.5m) representing a reduction of Lm0.07million (6.5%) over 2002. The Company's net underwriting result, including long term and funded business from its discontinuing operation, amounted to a loss of Lm0.37million (€ 0.9m) compared to a loss of Lm0.30million in the previous year. Net investment income, including the Company's share of pre-tax profits from Group undertakings and participating interests, increased to Lm2.07million (€ 4.8m) from Lm1.67million. As the holding Company, Middlesea has a high proportion of its investments in its subsidiaries and associated companies. These together produced an income of Lm1.33million (€ 3.1m), an increase over last year of Lm0.36million. Total staff and other administrative expenditure, increased to Lm1.26million (€ 2.9m) and amounted to 9.5% of total premium income compared with 7.9% in the previous year. Acquisition costs of the Direct Insurance Business as a percentage of total premium income decreased by 1.3 percentage points.

Net technical provisions (after reinsurance) excluding the equalisation reserve, equated to Lm14.50million (€ 33.6m), an increase of 20.9% from Lm11.99million. This included increases in the net provision for unearned premiums and outstanding claims. The ratio of net technical reserves to net written premium (after reinsurance) increased from 139.7% to 159.2%.

Annual Insurance Business

This business consists of all the major classes of general business written both locally and through the Gibraltar Branch. During this year, the Company consolidated its agency network and continued to take the necessary steps to ensure that appropriate action is taken to maximise individual levels of performance. Risk management measures were also introduced into all classes of business and efforts made to ensure all premiums charged by the Company adequately and fairly reflect underlying exposures. In order to safeguard the Company's policyholders and its shareholders, this work, as its overriding consideration, has been undertaken with both prudence and equity.

Notwithstanding these remedial measures, gross premium written increased from Lm12.52million to Lm12.76million (€ 29.6m). The Company's domestic operations contributed 88% of this turnover. Premium income from Gibraltar increased by 6% and continued to comprise 12% of the Company's total premium income. Motor business, at 54.6%, contributed the highest percentage of business followed by property (including engineering) at 20.9%. Accident and health business comprised 14.5%. The predominant class of business written in Gibraltar is motor which formed 76% of the premium written from that territory.

The net underwriting result of the Company's domestic operations, after allocation of expenditure and apportionment of investment income but before the effect of the equalisation reserve, was a loss of Lm0.63million (€ 1.5m) (inclusive of the legal cession which is now in run-off), whilst that of Gibraltar was a profit of Lm0.05million (€ 0.1m). Technical losses were registered in property and motor business. The overall ratio of gross incurred claims to gross earned premium deteriorated by 3 percentage points. The storm loss, which mainly affected the property and motor classes, contributed significantly to this loss ratio to the extent that, had this incident not occurred, the gross loss ratio would have improved by 9 percentage points compared to the previous year.

Although the underwriting operations of the Company produced a net underwriting loss, significant improvements continued to be made in most classes. The Company will continue to seek the most effective methods of providing stakeholders with satisfactory returns whilst at the same time improving service to its customers and intermediaries. In this regard, the Company is committed to implementing a comprehensive underwriting computer system which will integrate in real time all its agents and binder holders. As well as enhancing service levels, it will also give management better tools with which to evaluate its portfolio. This project will start to be implemented during 2004.

Group Life Business

Group Life business performed very positively in 2003, having contributed a profit of Lm0.21million (€ 0.5m). Written premiums remained at the same level of Lm0.59million (€ 1.4m), whilst earned premiums after cessions to reinsurers increased from Lm0.32million to Lm0.37million (€ 0.9m). Claims incurred were significantly lower than the previous year. Net investment income and expenditure remained at the same level as last year.

Fund Insurance Business

The Company's fund business with companies outside the group reduced significantly. The result here mainly reflected the run-off of the Company's International Reinsurance business. Looking in some further detail at the run-off of this account, gross outstanding reserves at the end of the year were Lm1.55million (€ 3.6m), of which Lm0.25million (€ 0.6m) related to 1996 and prior underwriting years. Total reserves net of reinsurance totalled Lm1.30million (€ 3.1m) and total claims settled during 2003 were Lm0.63million (€ 1.5m). Excluding the movement in the equalisation provision, this business, together with some commercial indigenous reinsurance accepted, produced a small loss of Lm0.01million (€ 0.02m).

J.M. Rizzo
General Manager

Business Review

MIDDLESEA VALLETTA LIFE
Assurance Company Limited

During 2003, the MSV Group registered a profit after tax of Lm1.30million (€ 3.0m) representing a significant increase over the corresponding figure of Lm0.49million recorded in 2002. Gross written premiums increased by 15% from Lm19million in 2002 to Lm21.86million (€ 50.6m) in 2003. This growth was largely attributable to increased sales of protection policies, house loan policies, single premium plans and unit-linked policies. Funds invested by MSV Group at the end of 2003 amounted to Lm119.85million (€ 277.7m) compared with Lm95.61million in 2002. This corresponds to an increase of 25%. The value of the life fund increased by 27% from Lm95.4million to Lm120.84million (€ 280.0m) and total assets grew by 23% from Lm115.36million to Lm142.06million (€ 329m). Shareholders' funds at the close of 2003 amounted to Lm20.15million (€ 46.7m), an increase of 14% over the previous year. The value of in-force business also increased over the period from Lm10.79million to Lm11.90million (€ 27.6m). The value of in-force business reflects the discounted value of projected future transfers to shareholders arising from policies in force at the end of the year after providing for taxation.

Investment return increased from Lm1.23million in 2002 to Lm10.28 million (€ 23.8m) in 2003, mainly as a result of unrealised gains of Lm5.26 million (€ 12.2m) from investments in both the local and international capital markets. This was a significant improvement over the unrealised losses of Lm2.91million registered during the previous year.

Gross claims incurred decreased marginally from Lm2.56million in 2002 to Lm2.46million (€ 5.7m), whilst net claims incurred, after recoveries from reinsurance, also changed very slightly from Lm2.20million to Lm2.24 million (€ 5.2m). Claims incurred include maturities, surrenders, mortality and disability claims.

MSV Group's acquisition costs increased by 7% from Lm1.58million in 2002 to Lm1.70million (€ 3.9m) essentially reflecting the growth in its gross written income. Administrative expenses increased by 19% from Lm0.91million to Lm1.09million (€ 2.5m). This was mainly attributable to MSV Group's continued investment in IT systems aimed at improving its efficiency and reducing its longer term costs. Despite these increases, the ratio of net operating costs to premium income improved from 10.8% in 2002 to 10.7% in 2003.

The Board of Directors of MSV Group approved a resolution whereby differential rates of reversionary bonuses were declared in respect of its core products. These amounted to 3.60% for the Comprehensive Life Plan, 3.75% in respect of its Comprehensive Flexi Plan and 4.00% under Single Premium Plans.

Although no terminal bonus was declared for policies on claims arising out of death or maturity during 2003, any terminal bonuses declared on MSV Group's "Old Series" policies accumulated over prior years remained payable on any such claims which occurred during 2003. Furthermore, the Board also approved a reversionary bonus of 3.25% on those Secure Growth policies which formed part of the portfolio of business transferred from Assicurazioni Generali S.p.A. during 2000.

It was necessary, in determining the amount of bonus to be declared in 2003, for the Board to take into consideration the relatively satisfactory investment returns achieved during 2003. With-profits policies are designed, by smoothing performance over time, to protect policyholders from volatility in investment markets. Thus, part of the investment returns earned during the more favourable periods are retained to compensate for the less productive years. Internationally, life insurance companies have been reducing bonus rates to reflect the actual investment returns being earned. Unsustainable bonus rates would only serve to harm the financial strength of the Life Fund and potentially limit returns which could be earned by policyholders in the future.

In line with its commitment to review continuously and improve its current product range, the MSV Group launched towards the end of 2003 its new Investment Bond. This is a unique product which offers policyholders the opportunity to combine in one portfolio, an investment in a fund or funds of their choice balanced by a participation in MSV's with-profits fund. Sales of this product have been encouraging and it is expected that sales will be maintained at the same levels during 2004.

Having established itself as the leading provider of life insurance and related products in the local life insurance market, MSV Group also aims to focus on its overseas development particularly in the Euro-Mediterranean region. An important initiative is planned for 2004 with the anticipated establishment, subject to the approval of the respective regulators in Malta and in Italy, of a branch in Italy.

The year under review has been marked by satisfactory results in all areas of MSV Group's operations. During 2003, it continued to strengthen its financial position and its contribution towards the pre-tax results of the Middlesea Group increased from Lm0.25million in 2002 to Lm0.68million (€ 1.58m). MSV Group's principal aim is to meet the needs of its policyholders and prospective clients in a professional and efficient a manner as possible.

Subsidiaries

GROWTH
INVESTMENTS LTD

Growth Investments Limited ("Growth Investments") registered a 2003 profit after tax of Lm46,842 (€ 108,519) compared with Lm12,975 in the previous year. Following the stockmarket downturns between 2000 and early 2003, a sustained global recovery was experienced throughout the remainder of 2003. Nevertheless investors were slow to return to equities. In August 2003, Growth Investments revised its Fidelity Funds SICAV charging structure by reducing initial charges and improving its distribution network agreements. This measure helped to make the charging structure of its Fidelity Funds more attractive. Assuming the global economic outlook remains positive, Growth Investments is confident that the momentum gathered towards the end of 2003 will continue well into 2004 and beyond.

D.G. Curmi
General Manager

Business Review

International Insurance Management Services Ltd.

During 2003, International Insurance Management Services Ltd ("IIMS") continued to provide insurance management services to its existing client base which included a mixture of both Group and third party companies. Following the restructuring which took place within the Middlesea Group in 2002 which saw all the Group's support services outsourced to IIMS, the company's focus in 2003 was continuously to improve and excel in all areas of expertise. IIMS's experienced and professionally trained employees are organised into specialist departments which include accounts, finance and investments, management information systems, marketing, product development, administration, human resources, reinsurance services, compliance and company secretariat office. This specialist insurance management company, a wholly owned subsidiary of Middlesea Insurance p.l.c., continues to develop its wide range of services in risk management and the formation and management of captive insurance and reinsurance companies. Its insurance, reinsurance, financial and legal expertise places the company in a leading position. In this respect, it is able to offer prospective international clients who choose to establish an insurance/reinsurance company to operate from Malta and benefit from the country's passporting rights to other EU countries, the full breadth of management and administrative services.

The company's financial position was further strengthened during 2003 with its capital base increasing to Lm0.53million (€ 1.2m) as at the end of the year. The company's profit after taxation amounted to Lm0.24million (€ 0.6m) just exceeding the previous year's corresponding figure of Lm0.23million. No dividends were distributed resulting in an increase in the net asset value per Lm1 share to Lm10.57 as at the year end. The company's turnover increased to Lm0.76million (€ 1.8m) from Lm0.67million recorded the previous year. In accordance with the Own Funds Directive issued under the Insurance Business Act, a licensed insurance management company is required to hold "Own Funds" of Lm25,000 (€ 0.06m), which must be adequately covered by admissible net assets as defined by the Directive. IIMS's strong financial position is translated into an 11.5 cover of the Own Funds requirement stipulated in the Directive.

IIMS is looking forward to new and challenging times. In pursuing its endeavours to encourage international clients to set up and operate captives from Malta, it is now able to offer the far broader opportunities that the Island's membership of the European Union will undoubtedly provide. During the second part of 2003, IIMS registered an increased number of enquiries from such potential clients. The professional team at IIMS is well prepared for this challenge and relishes the opportunities which lie ahead. The Insurance Directive for captive insurance companies issued by the Malta Financial Services Authority in December 2003 entitled "Business of Affiliated Insurance" has widened the definition of captive insurance companies and clarified the situation for those considering starting a captive in Malta. Malta's accession to the European Union on the 1st May 2004 will give added impetus and provide, insurance companies registered and operating from Malta a much larger playing field than was previously available. Amongst other things, they will in particular, have the ability to bypass fronting arrangements. As the longest standing licensed insurance manager in Malta, IIMS welcomes this new era and looks forward to building further on its reputation as the Island's preferred insurance manager for a wide range of insurance entities.

A.M. Tabone
General Manager

This report marks Progress's third full year of operation within the Middlesea Group. The company continues to grow at a healthy rate whilst the results it has achieved continue to be satisfactory.

During the year, the company continued to concentrate its activities in the regions of Italy, south of and including Lazio. Sales outlets increased from 92 at the end of 2002 to 111 at the end of 2003. 39 of such agencies are based in Sicily, 9 in Sardinia whilst the remaining 63 agencies are located on mainland Italy. This means that 65% of the company's distribution network is now located outside Sicily, up from 61% at the end of 2002. Progress continues to collaborate with a bank in the selection of certain of its agents through an agreement concluded last year. This relates to the introduction of agents to each other, each party always retaining the right to accept or decline. This agreement has proved to be very beneficial in a number of instances. However, most of the company's new outlets are the result of efforts by its own business development structure.

Improving the composition of the portfolio as between motor liability and other classes of business remains an important priority for the company. During the year, a two percentage point improvement in this ratio was achieved notwithstanding an overall increase in turnover of 18%. The company's approach in this regard was geared to a number of measures aimed at achieving its targeted mix. One important change relates to the appointment of new agents. All new agency agreements now include provision for agents' remuneration to be directly linked to the mix of business they actually produce. In this respect, remuneration levels have been set in such a way that unless the target mix is achieved, it would be unfeasible for agents to continue to represent the company. Furthermore, to improve the technical competence of its agents and staff, the company continued to dedicate efforts towards their further professional development both through conferences organised internally as well as external courses and seminars for key staff.

Written premium income increased by 18% during 2003 to Lm21.86million (€ 50.6m) partly as a result of increased numbers of policies written but also consequent upon two upwards adjustments in rates on the motor liability account. On 1st January 2003 a 3% rate increase was applied. This was supplemented by a further increase of 6% in July 2003. The company continues to follow a policy of continuously monitoring its pricing levels in an effort to ensure adjustments are made proactively rather than retrospectively. In this respect, the company is, in collaboration with its external actuaries, investing in the development of even more sophisticated pricing models. These new models will be available shortly through Progress's actuaries and, as soon as selected company personnel have undergone intensive training, will be handed over to the company by the end of 2004.

On the claims side, the company has, over the past three years, dedicated much resource aimed at ensuring adequate reserving criteria is applied. This has proved to be most effective. However, as part of the upgrade of the actuarial models mentioned earlier, Progress will also have the use of more sophisticated tools to assist in its unstinting endeavours to achieve adequate reserving levels and hence the correct pricing of its products.

Claims incurred increased by 18% in 2003 to Lm16.67million (€ 38.6m). The loss ratio, however, improved by three percentage points to 80%. Run-off of claims on business written in the last three years was satisfactory but significant recoveries were made on the protections in place to safeguard against inadequate reserving in the years before the company became part of the Middlesea Group. These protections formed part of the comprehensive indemnity provided by the previous shareholders of the company.

Progress continues to manage all its claims through its own personnel in its own offices. These are located in Palermo, Catania, Naples and Sassari.

In addition, a separate structure has been put in place to handle claims emanating from the region of Puglia. Once volumes reach viable levels, the planned settlement office in Puglia will be opened. Furthermore, in the latter part of the year, a further strengthening of the claims structure was implemented. This is aimed at achieving greater centralisation of the majority of initial administrative tasks within the company's head office prior to the allocation of claims to the appropriate claims settlement office. As a result of these measures, Progress has already noticed a marked improvement in expediting the settlement process. Finally, the long awaited new computerised system is now fully operational and the company is actively pursuing further enhancements to its electronic systems aimed at continuing to improve levels of service to the public.

Progress continued to increase its staff complement whilst intensifying its use of the Group's management services and, due to its policy of containing costs, its expense ratio reduced to 6.6%. Investment income amounted to Lm0.84million (€ 2.0m) a reduction of 8% due to exceptional realisation of gains towards the end of 2002.

Progress's contribution to the Group's profit before tax but after the elimination of the minority interests amounted to Lm0.48million (€ 1.1m).

As mentioned by the Chairman earlier in this report, Progress's shareholders have agreed to increase its capital base by the amount of € 6m. This allows the company the necessary freedom to continue to consolidate its position whilst taking advantage of the challenging opportunities available to it within its chosen markets.

S.Gauci
General Manager

Head Office, Branches & Agencies

HEAD OFFICE
Middlesea House
Floriana VLT 16
Tel: 00356 21 24 62 62
Fax: 00356 21 24 81 95
e-mail: middlesea@middlesea.com
website: www.middlesea.com

CLAIMS & HEALTH DEPARTMENTS
41, Market Street
Floriana VLT 16
Tel: 00356 21 24 62 62
Fax: 00356 21 24 81 95

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: 21 33 00 11
Fax: 21 34 79 47
e-mail: info@allcare.com.mt

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

CONTIGEN INSURANCE
AGENCY LIMITED
164 Melita Street
Valletta VLT 10
Tel: 21 24 47 59
Fax: 21 24 68 60
e-mail: sanpaolo@kemmunet.net.mt

ENGLAND INSURANCE
AGENCY LIMITED
190, 1st Floor, Marina Street
Pieta MSD 08
Tel: 21 25 10 15
Fax: 21 24 45 07
e-mail: info@englandins.com.mt

FENICI INSURANCE
AGENCY LIMITED
One Veronica Court
G. Cali Street
Ta' Xbiex MSD 14
Tel: 21 33 64 74
Fax: 21 34 23 83
e-mail:info@fenici.com.mt

LAFERLA INSURANCE
AGENCY LIMITED
Vincenti Buildings
Strait Street
Valletta CMR 01
Tel: 21 22 44 05
Fax: 21 24 08 11
e-mail: info.lis@laferla.com.mt

MELITA INSURANCE
AGENCY LIMITED
High-Rise
16 Triq l-Imradd
Ta' Xbiex
Tel: 21 31 60 27
Fax: 21 31 60 32
e-mail: melitains@nextgen.net.mt

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

UNTOURS INSURANCE
AGENTS LIMITED
(agents for Non-Motor Insurance)
South Street
Valletta VLT 11
Tel: 21 23 16 19
Fax: 21 24 35 30
e-mail: untours@waldonet.net.mt

OVERSEAS AGENT

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

Group Financial Highlights

	2003		2002	
	EURO'000	**US$'000**	EURO'000	US$'000
Gross premiums written:				
General Business	**80,253**	**100,875**	72,066	90,584
Life Business	**1,378**	**1,731**	1,410	1,773
Total gross premiums	**81,631**	**102,606**	73,476	92,357
Investment income	**5,395**	**6,781**	5,006	6,292
Profit attributable to shareholders	**2,470**	**3,104**	2,642	3,321
Dividend proposed	**1,448**	**1,820**	1,318	1,656
Share Capital	**14,479**	**18,200**	14,479	18,200
Technical reserves:				
General Business	**96,226**	**120,953**	73,461	92,338
Life Business	**459**	**577**	445	559
Shareholders’ Funds	**50,640**	**63,653**	49,139	61,766
Net Asset value per share	**4.05**	**5.09**	3.93	4.94
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 2003

	2003	**2002**	**2001**
	Lm	**Lm**	**Lm**
Gross premiums written			
- General Business	34,641,173	31,107,289	23,843,779
- Life Business	594,598	608,809	482,979
General Business results	583,726	864,179	754,665
Life business results	207,420	89,314	38,319
Investment return - non-life	2,328,660	2,160,698	2,426,011
Investment return - life	40,217	37,310	37,462
Profit attributable to shareholders	1,066,185	1,140,463	1,423,322
Dividend proposed	625,000	568,750	568,750
Earnings per share	8.5c	9.1c	11.4c
Net asset value per share	1.75	1.70	1.64

Professional Services

The Company, in addition to its regular staff complement, as at 31 December 2003 utilised the professional services of various individuals and institutions.

Legal Advisors
Ganado & Associates Advocates
Mamo TCV Advocates
Sapiano & Associates

Auditors
PricewaterhouseCoopers

Actuaries
Watson Wyatt Worldwide

Bankers
Bank of Valletta p.l.c.
Lombard Bank (Malta) p.l.c.
HSBC Bank (Malta) p.l.c.
National Westminster Bank
SG Hambros Bank & Trust (Gibraltar) Limited

Investment Managers
Merill Lynch Investment Managers Limited

Investment Committee
M.C. Grech (Chairman)
R. Borg BA (Hons), MA, LL.D
D. G. Curmi ACII, Chartered Insurer
E. Ellul BA (Hons) Econ, Dip Pol Econ
M. Formosa MA (Econ), MA (Financial Services)
S. Gauci ACII
L. Grech MA (Oxon)
L. Lubelli, MSc
J. M. Rizzo ACII, AIMIS, AMIAP, Chartered Insurer
A.M. Tabone BA (Hons) Accty, FIA, CPA
F. Xerri de Caro, ACIB
J.F.X. Zahra BA (Hons) Econ, MA (Econ) MCIM, MMRS

Investment Consultant
Zerniq Ltd

Sponsoring Stockbrokers
Bank of Valletta Stockbrokers Limited

Share Register Information

Share Register information pursuant to the Malta Financial Services Authority Listing Rules

Directors' interests in the share capital of the Company as at 31 December 2003

H. Attard Montalto	72 shares
G. Bonnici	3,255 shares
Dr E. Caruana Demajo	14 shares
G. Debono Grech	6,182 shares
Dr J.C. Grech	5,108 shares
L. Grech	1,250 shares
M.C. Grech	2,725 shares
F. Xerri de Caro	29 shares
J.F.X. Zahra	165 shares

There were no changes in Directors' interests as at 3 May 2004.

Shareholders holding 5% or more of the equity share capital as at 31 December 2003

HSBC Bank Malta plc as subscustodian for BNY as custodian for Mapfre Inversion Terceros	5.49%
Air Malta p.l.c.	7.33%
Münchener Rückversicherungs Gesellschaft	12.73%
Government of Malta – Consolidated Fund	15.78%
Bank of Valletta p.l.c.	21.65%

There were no changes in Shareholders holding 5% or more of the equity share capital as at 3 May 2004.

Shareholding Details

As at 31 December 2003, Middlesea Insurance p.l.c.'s Issued Share Capital was held by 4,678 shareholders. As at 3 May 2004, the Issued Share Capital was held by 4,632 shareholders. The Issued Share Capital consists of one class of ordinary shares with equal voting rights.

Distribution of shareholders analysed by range

	As at 31 December 2003		As at 3 May 2004	
Range of Shareholding	**No. of shareholders**	**Shares**	**No. of shareholders**	**Shares**
1 – 1000	3,975	854,949	3,927	843,792
1001 – 5000	644	1,268,234	644	1,267,370
5001 and over	59	10,376,817	61	10,388,838

Authority for the purchase of own shares

Pursuant to an Extraordinary Resolution passed by shareholders on 11 June 2003, the Company is authorised to acquire its own shares subject to the limitations and conditions set out in the Companies Act 1995. The authorisation given to the Company expires at the end of the next Annual General Meeting or on the 10 September 2004 whichever is the earlier. Since this authority was granted, the Company has not purchased any of its own shares.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2003.

Principal activities

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

Review of the business

The Group registered a profit before taxation and minority interest of Lm1,384,970 as compared to Lm1,265,113 in 2002. General insurance annual business continues to report favourable results and generated a profit of Lm602,410 during 2003 (2002: Lm853,941). The major contributors towards this year's performance remain the Group's operation in Italy and long term business operations. Long term business operations, principally carried out through a participating interest, improved over the previous year and registered a profit of Lm887,497 (2002: Lm340,157). International reinsurance business, which the Group ceased to write in November 2000, continued to run-off in line with overall expectations, and the impact of this business on 2003 results was negligible.

The Group's profit for the year amounted to Lm1,066,185 (2002: Lm1,140,463), after accounting for minority interests in the Italian subsidiary. The directors expect that the present level of activity will be sustained for the foreseeable future.

Results and dividends

The consolidated profit and loss account is set out on page 35. The directors recommend the payment of a dividend of Lm625,000 (2002 – Lm568,750).

Directors

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

M.C. Grech - Chairman and C.E.O., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. - Deputy Chairman, H. Attard Montalto, G. Bonnici, J. Camilleri – appointed 8 August 2003, E. Caruana Demajo LL.D., G. Debono Grech L.P., FISMM, B.A. (Leg), Mag. Jur. (Int. Law), Dip. Trib. Eccl. Melita & Hum., St., M. Jur, V. Galea Salomone B.A. (Luther), M.B.A. (Henley-Brunel) – appointed 9 July 2003, J.C. Grech B.A.(Hons.) Econ., M.A.(Econ.), Dip. ICEI (A'dam), PhD (Geneva), F.C.I.B., M.B.I.M., F.M.I.M., L. Grech M.A. (Oxon), M. Grima Dip. M.S., M.B.A. (Henley), M.I.M., M.C.M.I., M. Sparberg Dr Jur, L. Spiteri M.A. (Oxon), D. Sugranyes Bickel (*License on Sciences Economiques of Sociales*), F. Xerri De Caro A.C.I.B., P. Borg – resigned 11 June 2003. A. Corsi (Degree in Statistics and Actuarial Services, Associate of the Italian Society of Actuaries "Ordine Nazionale degli Attuari") – resigned 11 June 2003.

In accordance with the Articles of Association of the Company, all directors retire from office at the Annual General Meeting and are eligible for re-election or re-appointment. Those members who either separately or in aggregate hold not less than 7% of the total voting rights have the right to appoint a director, by letter addressed to the Company, for each and every complete 7% shareholding, so however that those members who hold that percentage separately are required to exercise this right. The remaining directors are elected at the Annual General Meeting.

Auditors

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

By order of the Board

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

Middle Sea House
Floriana, Malta

29 April 2004

Id-diretturi jippreżentaw ir-rapport tagħhom u d-dikjarazzjonijiet finanzjarji awditjati għas-sena li għalqet fil-31 ta' Diċembru 2003.

Attivitajiet prinċipali

L-attivitajiet prinċipali tal-Grupp jikkonsistu fin-negozju ta' l-assigurazzjoni, inkluż negozju għat-tul.

Analiżi tan-negozju

Il-Grupp irreġistra profitt qabel il-ħlas tat-taxxa u interess minoritarju ta' Lm1,384,970 meta mqabbel ma' Lm1,265,113 fis-sena 2002. Negozju ta' assigurazzjoni ġenerali kompla jħalli riżultati favorevoli u ġġenera Lm602,410 profitt tul is-sena 2003 (2002: Lm853,941). Il-kontributuri prinċipali għall-mod kif mar l-operat din is-sena baqgħu l-operazzjoni tal-Grupp fl-Italja u l-operazzjonijiet ta' negozju għat-tul. Operazzjonijiet ta' negozju għat-tul, mmexxija prinċipalment permezz ta' interess parteċipattiv, marru aħjar mis-sena ta' qabel u rreġistraw Lm887,497 profitt (2002: Lm340,157). Negozju ta' riassigurazzjoni internazzjonali, li l-Grupp ma baqax jissottoskrivi sa minn Novembru 2000, baqa' fil-fażi ta' l-għeluq gradwali konformi ma' l-aspettattivi ġenerali, u l-impatt ta' dan in-negozju fuq ir-riżultati tas-sena 2003 kien negliġibbli.

Il-profitt tal-Grupp għas-sena ammonta għal Lm1,066,185 (2002: Lm1,140,463), wara li tqiesu interessi minoritarji fis-sussidjarja Taljana. Id-diretturi jistennew li l-livell preżenti ta' attività jibqa' sejjer kif inhu fil-futur prevedibbli.

Riżultati u dividendi

Il-kont konsolidat ta' qligħ u telf qiegħed f'paġna 35. Id-diretturi jirrikkmandaw il-ħlas ta' dividend ta' Lm625,000 (2002 – Lm568,750).

Diretturi

Id-diretturi tal-Kumpanija li kienu fil-kariga tul is-sena kienu:

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. - Deputat Chairman, H. Attard Montalto, G. Bonnici, J. Camilleri – appuntat 8 ta' Awissu 2003, E. Caruana Demajo LL.D., G. Debono Grech L.P., FISMM, B.A. (Leg), Mag. Jur. (Int. Law), Dip. Trib. Eccl. Melita & Hum., St., M. Jur, V. Galea Salomone B.A. (Luther), M.B.A. (Henley-Brunel) – appuntat 9 ta' Lulju 2003, J.C. Grech B.A.(Hons.) Econ., M.A.(Econ.), Dip. ICEI (A'dam), PhD (Geneva), F.C.I.B., M.B.I.M., F.M.I.M., L. Grech M.A. (Oxon), M. Grima Dip. M.S., M.B.A. (Henley), M.I.M., M.C.M.I., M. Sparberg Dr Jur, L. Spiteri M.A. (Oxon), D. Sugranyes Bickel (*License on Sciences Economiques of Sociales*), F. Xerri De Caro A.C.I.B., P. Borg – irriżenja 11 ta' Ġunju 2003. A. Corsi (Degree in Statistics and Actuarial Services, Associate of the Italian Society of Actuaries "Ordine Nazionale degli Attuari") – irriżenja 11 ta' Ġunju 2003

Skond l-Artikli ta' Assoċjazzjoni tal-Kumpanija, id-diretturi kollha jirtiraw mill-kariga fil-Laqgħa Ġenerali Annwali u huma eliġibbli biex jerġgħu jkunu eletti jew appuntati mill-ġdid. Dawk il-membri li jew separatament jew fl-aggregat ikollhom mhux inqas minn 7% tad-drittijiet għall-vot totali għandhom id-dritt jappuntaw direttur, b'ittra indirizzata lill-Kumpanija, għal kull sehem ta' 7% sħiħ, bl-għan li dawk il-membri li għandhom dik il-perċentwali separatament għandhom jeżerċitaw dan id-dritt. Il-bqija tad-diretturi huma eletti fil-Laqgħa Ġenerali Annwali.

Awdituri

L-awdituri, PricewaterhouseCoopers, indikaw ir-rieda tagħhom li jibqgħu fil-kariga u riżoluzzjoni biex jinħatru mill-ġdid se tkun proposta fil-Laqgħa Ġenerali Annwali.

B'ordni tal-Bord

J.F.X. Zahra
Deputy Chairman

Corporate Governance - Statement of Compliance

On 1 January 2004, the Malta Financial Services Authority Listing Rules came into effect. These included a Code of Principles of Good Corporate Governance (the "Principles") that was previously incorporated in the Malta Stock Exchange Bye-Laws. In accordance with Listing Rules 8.25 and 8.26, companies whose securities are listed should endeavour to adopt these Principles. Listed companies are required to include a Statement of Compliance in their Annual Report providing an explanation of the extent to which they have adopted the Principles. This statement is required to be supported by a report of the Auditors.

Middlesea Insurance plc (the "Company") adopted the Principles on their introduction and continues to view them as being consistent with its own views. In certain areas, the governance procedures applied within the Company have been amended to implement the recommendations included in the Principles. Having regard also to other recognised models of corporate governance, the Company has in places retained or adopted alternative measures.

Responsibilities of the Board

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board, in fulfilling this mandate and discharging its duty of stewardship of the Company, assumes responsibility for the following:

(a) Setting business objectives, goals and the general strategic direction for management with a view to maximise value;
(b) Reviewing and approving the business plans and targets that are submitted by management and working with management in the implementation of these plans;
(c) Identifying the principal business risks of the Company and overseeing the implementation and monitoring of appropriate risk management systems;
(d) Ensuring that effective internal control and management information systems for the Company are in place;
(e) Participating in the appointment of the Company's executive officers and assessing their performance, including monitoring the establishment of appropriate systems for succession planning and for approving the compensation levels of such executive officers; and
(f) Ensuring that the Company has in place a policy to enable it to communicate effectively with shareholders, other stakeholders and the public generally.

The Board delegates authority and vests accountability for the Company's day to day business with a management team led by the Chairman and Chief Executive Officer (CEO).

Co-ordination of management activities is ensured through the operation of a Corporate Management Committee that is led by the Chairman and CEO. It brings together the general managers of the Company and of its subsidiaries and principal associated company, including Middlesea Valletta Life Assurance Company Limited, Progress Assicurazioni S.p.A. and International Insurance Management Services Limited, together with one non-executive director from each company.

Composition of the Board

As regulated by the Company's Articles of Association and consistent with generally accepted practices in Malta, the appointment of directors to the Board is reserved exclusively to the Company's shareholders. A shareholder holding not less than 7% of voting rights of the issued share capital or a number of shareholders who between them hold not less than 7%, shall appoint one Director for every such 7% holding by letter addressed to the Company; eight members of the Board were appointed in 2003 in terms of this rule. All shares not utilised to make appointments in terms of the above shall be entitled to vote at the Annual General Meeting, leading in 2003 to the election of a further six directors. All the directors so appointed or elected serve on the Board in a non-executive capacity.

Pursuant to the Company's Articles of Association, Mr Mario C. Grech, as a person holding a senior managerial position in the Company, was appointed at the Annual General Meeting through a separate election open to all shareholders. Mr. Grech holds the position of Chairman of the Board and CEO of the Company. Middlesea's Board is satisfied that the Company is nevertheless compliant with paragraph 2.3 of the Principles since it has put in place a balanced management structure comprising, inter alia, the Corporate Management Committee and various Board Committees.

Regulatory requirements require that, prior to being appointed or elected directors, nominees undergo a screening process by the Malta Financial Services Authority.

Remuneration of directors

The Chairman has declined receiving a fee together with two other directors in accordance with the policy of the shareholders' companies which appointed them. Fees payable to non-executive directors in respect of 2003 have therefore amounted to Lm31,500. Contracted emoluments paid to the executive director amounted to Lm42,537. The Company has paid insurance premiums of Lm5,094 during the year in respect of insurance cover in favour of its directors. Furthermore, provisions of Lm28,334 have been made in respect of contracted pension obligations.

Board Committees

The activities of the Board and of the Company's senior management team are supported by standing committees designed to assist in specialist activities and in governance issues. These committees report to the Board.

Group Investment Committee

The Group Investment Committee, which reports to the Board, is constituted by Mr Mario C. Grech, Mr Joseph F. X. Zahra, Mr Frank Xerri de Caro and Mr Louis Grech, directors, together with Mr Emanuel Ellul, Dr Reno Borg, Mr Luigi Lubelli and five members of management from Group companies. The Committee oversees the investment activities of the Group, setting overall policies and guidelines, scrutinising and approving material transactions and monitoring results. Any investment exceeding Lm500,000 requires Board approval.

The Audit Committee

The Audit Committee is composed of Mr Lino Spiteri (Chairman), Mr Hugh Attard Montalto, Mr Domingo Sugranyes Bickel and Mr Joseph F. X. Zahra. Its terms of reference, as approved by the Board of Directors, are modelled mainly on the recommendations of the Cadbury Report and on the Principles. They include, inter alia, the responsibility of reviewing the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its own code of business conduct. The external auditors are invited to attend specific meetings of the Audit Committee and are entitled to convene a meeting of the committee if they consider that it is necessary.

The Remuneration Committee

A Remuneration Committee composed of Mr Louis Grech, Dr John C Grech, Dr Michael Sparberg and Mr Frank Xerri de Caro was established by the Board. This committee concentrates on establishing Directors' fees and monitoring and ensuring the fair compensation of members of the Group's senior management team.

The Compliance Committee

The Compliance Committee is chaired by Dr Robert A. Staines and also comprises the Company Secretary, who serves as Compliance Officer for all companies within the Group in Malta, Dr. Richard Camilleri, the Company's legal advisor, and the general managers of the Group companies based in Malta. The Committee, in conjunction with the Group Compliance Unit that reports to it, is concerned with establishing procedures to ensure compliance with all applicable laws and regulations, and with the prevention, detection and/or resolution of compliance problems.

In the case of Progress Assicurazioni S.p.A., a company incorporated in Italy, the Collegio Sindacale is appointed in terms of applicable Italian law.

The Role of the Board

The activities of the Board are exercised in a manner designed to ensure that it can function independently of management and effectively supervise the operations of the Company.

In connection with each Board Meeting, the directors are served with a report by management. This report sets out the Company's management accounts since the date of the previous Board Meeting, includes a management commentary on the results and on relevant events and decisions, and sets out background information on any matter requiring the approval of the Board.

Corporate Governance - Statement of Compliance

Apart from setting the strategy and direction of the Company, the Board is actively involved in monitoring progress against plans, in approving material or significant transactions.

The Board also monitors closely the key risk management policies and processes employed by the Middlesea Group, and which are central to the nature of its operations. These policies and processes deal, inter alia, with issues such as:

(a) the reinsurance programme maintained by the Group, ensuring the right balance between risk and reward and ensuring that the level of risk retention, particularly in the event of catastrophe, is consistent with the Company's resources;
(b) the quality and creditworthiness of the reinsurance counterparties dealt with, to ensure the effectiveness of the reinsurance programme;
(c) assessing pricing strategies in relation to the level of risk assumed and to market conditions generally;
(d) the measures adopted to manage foreign currency risks both in relation to assets and to liabilities;
(e) the measures adopted to ensure a balanced mix of investments;
(f) the internal controls and other disciplines maintained, both within Group companies and within agents and other intermediaries, to ensure the proper conduct in good faith of all operations; and
(g) the level of capital resources supporting each business activity, to ensure adequate solvency both from a regulatory and business perspective.

The Board has direct access to the external auditors of the Company, who attend at Board meetings at which the Company's financial statements are approved. Moreover, in ensuring compliance with statutory requirements and with continuing listing obligations, and in addition to the input of the Compliance Committee, the Board is advised directly, as appropriate, by its appointed broker, legal advisor and external auditors.

Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at the Company's expense.

It is the practice of the Board that when a potential conflict of interest arises in connection with any transaction or other matter, the conflict of interest is declared and the individual concerned refrains from taking part in proceedings relating to the matter or decision. The Board minutes include a record of such declaration and of the action taken by the individual director concerned. In all other circumstances, the directors play a full and constructive role in the Company's affairs.

During the 2003 financial year, the Board held five meetings.

Communications with Shareholders

Pursuant to the Company's statutory obligations in terms of the Companies Act and the MFSA Listing Rules, the Annual Report and Financial Statements, the declaration of a dividend, the election of directors, the appointment of the auditors and the authorisation of the directors to set the auditors' fees, and other special business, are proposed and approved at the Company's Annual General Meeting. The Board of Directors is responsible for developing the agenda for this General Meeting and for sending it to the shareholders.

The Company communicates with its shareholders by way of the Annual Report and Financial Statements, by publishing its results on a six-monthly basis during the year, and through periodical Company announcements to the market in general. The level of disclosure adopted in the Annual Report is designed to go beyond statutory obligations, to serve as an effective means of communication and information on the Company's business. It is further amplified upon in the presentations given to shareholders in the course of the Annual General Meeting.

Going concern

The directors are satisfied that, having taken into account the strength of the Group's balance sheet, solvency margins and Group profitability, it is reasonable to assume that the Company and Group have adequate resources to continue operating for the forseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

Report of the auditors on the Statement of Compliance on Corporate Governance

To the members of Middlesea Insurance plc pursuant to Listing Rule 8.28 issued by the Listing Authority.

Listing Rules 8.26 and 8.27 issued by the Listing Authority require the Company's directors to include in their Annual Report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance with those Principles.

Our responsibility, as auditors of the Company, is laid down by Listing Rule 8.28 which requires us to include a report on the Statement of Compliance.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this Statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's Corporate Governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 26 to 28 has been properly prepared in accordance with the requirements of Listing Rules 8.26 and 8.27 issued by the Listing Authority.

PricewaterhouseCoopers

167 Merchants Street
Valletta
Malta

29 April 2004

Statement of Directors' responsibilities

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

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

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

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

Report of the auditors on the financial statements

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

We have audited the financial statements on pages 32 to 75. As described in the statement of directors' responsibilities on page 30, 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 2003 are disclosed in accounting policy 5 and note 26.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit, changes in equity and cash flows for the year then ended in accordance with the requirements of the Insurance Business Act, 1998 and the Companies Act, 1995.

PricewaterhouseCoopers

167 Merchants Street
Valletta
Malta

29 April 2004

Profit and Loss account
Technical account - general business

Annual business

	Notes	Group 2003 Lm	Group 2002 Lm	Company 2003 Lm	Company 2002 Lm
Earned premiums, net of reinsurance					
Gross premiums written	1	**34,618,289**	30,970,330	**12,759,812**	12,523,384
Outward reinsurance premiums		**(6,605,888)**	(6,190,175)	**(4,538,441)**	(4,776,571)
Net premiums written		**28,012,401**	24,780,155	**8,221,371**	7,746,813
Change in the gross provision for unearned premiums		**(1,251,268)**	(1,694,423)	**(418,104)**	(500,422)
Change in the provision for unearned premiums, reinsurers' share		**(217,779)**	233,654	**(186,818)**	148,097
		(1,469,047)	(1,460,769)	**(604,922)**	(352,325)
Earned premiums, net of reinsurance		**26,543,354**	23,319,386	**7,616,449**	7,394,488
Allocated investment return transferred from the non-technical account	4	**1,156,455**	1,252,262	**441,274**	367,010
Total technical income		**27,699,809**	24,571,648	**8,057,723**	7,761,498
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		**17,646,913**	16,342,720	**6,496,072**	7,924,089
- reinsurers' share		**(4,204,460)**	(4,408,165)	**(2,110,882)**	(2,950,549)
		13,442,453	11,934,555	**4,385,190**	4,973,540
Change in the provision for claims					
- gross amount		**8,921,745**	6,948,763	**3,150,857**	1,017,888
- reinsurers' share		**(707,883)**	320,038	**(912,385)**	483,194
		8,213,862	7,268,801	**2,238,472**	1,501,082
Claims incurred, net of reinsurance		**21,656,315**	19,203,356	**6,623,662**	6,474,622
Net operating expenses	3	**5,457,427**	4,498,008	**2,020,921**	1,655,328
Change in the equalisation provision		**(16,343)**	16,343	**(16,343)**	16,343
Total technical charges		**27,097,399**	23,717,707	**8,628,240**	8,146,293
Balance on the technical account for general annual business (page 35)		**602,410**	853,941	**(570,517)**	(384,795)

Profit and Loss account
Technical account - general business

Fund business

	Notes	Group 2003 Lm	Group 2002 Lm	Company 2003 Lm	Company 2002 Lm
Earned premiums, net of reinsurance					
Gross premiums written	1	**22,884**	136,959	**568,386**	547,079
Outward reinsurance premiums		**(8,526)**	(16,156)	**(39,778)**	(16,156)
Earned premiums, net of reinsurance		**14,358**	120,803	**528,608**	530,923
Allocated investment return/(expenses) transferred from the non-technical account	4	**19,914**	(12,108)	**19,914**	(12,108)
Total technical income		**34,272**	108,695	**548,522**	518,815
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		**707,740**	1,670,503	**806,831**	1,743,116
- reinsurers' share		**(275,723)**	(661,360)	**(275,723)**	(661,360)
		432,017	1,009,143	**531,108**	1,081,756
Change in the provision for claims					
- gross amount		**(757,528)**	(2,196,246)	**(611,639)**	(2,061,778)
- reinsurers' share		**293,571**	1,101,566	**293,571**	1,101,566
		(463,957)	(1,094,680)	**(318,068)**	(960,212)
Claims incurred, net of reinsurance		**(31,940)**	(85,537)	**213,040**	121,544
Net operating expenses	3	**8,333**	31,756	**265,887**	252,996
Change in the equalisation provision		**(1,401)**	1,401	**(1,401)**	1,401
Total technical charges		**(25,008)**	(52,380)	**477,526**	375,941
Balance on the technical account for general fund business (page 35)		**59,280**	161,075	**70,996**	142,874

Profit and Loss account
Technical account - long term business

	Notes	Group and Company 2003 Lm	2002 Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	**594,598**	608,809
Outward reinsurance premiums		**(222,643)**	(287,113)
Earned premiums, net of reinsurance		**371,955**	321,696
Investment income			
Income from other investments		**40,217**	37,310
Total technical income		**412,172**	359,006
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**268,590**	370,614
- reinsurers' share		**(164,020)**	(214,955)
		104,570	155,659
Change in the provision for claims			
- gross amount		**(55,519)**	1,067
- reinsurers' share		**41,394**	8,308
		(14,125)	9,375
Claims incurred, net of reinsurance		**90,445**	165,034
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		**(3,337)**	30,576
- reinsurers' share		**23,626**	793
		20,289	31,369
Net operating expenses	3	**94,018**	73,289
Total technical charges		**204,752**	269,692
Balance on the technical account for long term business (page 35)		**207,420**	89,314

Profit and Loss account
Non - Technical account

	Notes	Group 2003 Lm	Group 2002 Lm	Company 2003 Lm	Company 2002 Lm
Balances on technical accounts					
General business – annual (page 32)		**602,410**	853,941	**(570,517)**	(384,795)
General business – fund (page 33)		**59,280**	161,075	**70,996**	142,874
Long term business (page 34)		**207,420**	89,314	**207,420**	89,314
		869,110	1,104,330	**(292,101)**	(152,607)
Share of group undertaking's profit before tax involved in general business	4	**-**	-	**476,451**	533,585
Share of participating interest's profit before tax involved in long term business	4	**680,077**	250,843	**680,077**	250,843
Total income from insurance activities		**1,549,187**	1,355,173	**864,427**	631,821
Share of group undertakings' profit before tax	4	-	-	**170,656**	182,996
Other investment income	4	**2,046,274**	2,564,385	**1,090,028**	1,281,550
Investment expenses and charges	4	**(397,691)**	(654,530)	**(351,266)**	(582,916)
Allocated investment return transferred to the general business technical account	4	**(1,176,369)**	(1,240,154)	**(461,188)**	(354,902)
Other income	5	**496,541**	455,514	**-**	-
Administration expenses	3	**(1,055,008)**	(1,064,438)	**(305,752)**	(258,796)
Continuing operations		**1,381,752**	1,265,113	**925,723**	748,916
Discontinuing operation	2	**81,182**	150,837	**81,182**	150,837
Operating profit on ordinary activities before tax	6	**1,462,934**	1,415,950	**1,006,905**	899,753
Provision for loss on discontinuing operation	27	**(77,964)**	(150,837)	**(77,964)**	(150,837)
Profit on ordinary activities before tax		**1,384,970**	1,265,113	**928,941**	748,916
Tax on profit on ordinary activities	8	**(27,312)**	521,070	**137,244**	391,547
Profit on ordinary activities after tax		**1,357,658**	1,786,183	**1,066,185**	1,140,463
Minority interests	24	**(291,473)**	(645,720)	**-**	-
Profit for the financial year		**1,066,185**	1,140,463	**1,066,185**	1,140,463
Earnings per share	10	**8.5c**	9.1c	**8.5c**	9.1c

Balance sheet

	Notes	Group 2003 Lm	Group 2002 Lm	Company 2003 Lm	Company 2002 Lm
ASSETS					
Investments					
Land and buildings – investment property	12	**3,433,922**	3,518,177	**2,534,144**	2,618,813
Investments in group undertakings	13	**-**	-	**5,057,505**	3,615,204
Investment in participating interest	14	**9,024,992**	7,720,519	**9,024,992**	7,720,519
Other financial investments					
- held-to-maturity	15	**3,695,668**	3,547,455	**-**	-
- deposits with banks or credit institutions	16	**7,588,787**	4,995,184	**1,707,897**	3,151,701
- other originated loans and receivables	17	**5,311,375**	3,204,004	**4,745,803**	2,801,304
- available-for-sale	18	**32,501,734**	24,586,369	**11,597,946**	10,616,822
Deposits with ceding undertakings		**122,466**	137,841	**122,223**	139,604
		61,678,944	47,709,549	**34,790,510**	30,663,967
Reinsurers' share of technical provisions					
Provision for unearned premiums		**1,600,625**	1,809,414	**1,388,554**	1,575,372
Long term business provision	25	**57,392**	81,018	**57,392**	81,018
Claims outstanding	19	**13,459,015**	12,828,392	**5,393,858**	4,816,438
		15,117,032	14,718,824	**6,839,804**	6,472,828
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		**75,124**	201,133	**75,124**	201,133
- intermediaries		**5,925,865**	5,886,562	**3,011,911**	3,425,975
Debtors arising out of reinsurance operations		**507,918**	507,262	**507,918**	507,262
Amounts owed by group undertakings		**-**	-	**946,925**	1,134,631
Amounts owed by participating interest		**226,956**	-	**566,652**	-
Other debtors		**425,814**	689,891	**-**	-
Taxation recoverable		**268,228**	835,271	**-**	487,676
		7,429,905	8,120,119	**5,108,530**	5,756,677
Other assets					
Tangible assets	20	**1,485,790**	1,244,261	**595,639**	447,968
Deferred taxation	27	**1,370,012**	944,455	**659,612**	546,911
Cash at bank and in hand		**3,501,728**	5,543,343	**1,254,768**	1,119,365
		6,357,530	7,732,059	**2,510,019**	2,114,244
Prepayments and accrued income					
Accrued interest and rent		**1,099,801**	703,599	**608,909**	338,355
Deferred acquisition costs		**1,146,848**	1,105,685	**1,146,848**	1,105,685
Other prepayments and accrued income		**833,564**	703,609	**743,180**	646,962
		3,080,213	2,512,893	**2,498,937**	2,091,002
Total assets		**93,663,624**	80,793,444	**51,747,800**	47,098,718

Balance sheet

	Notes	Group 2003 Lm	Group 2002 Lm	Company 2003 Lm	Company 2002 Lm
LIABILITIES					
Capital and reserves					
Called up share capital	21	**6,250,000**	6,250,000	**6,250,000**	6,250,000
Share premium account		**1,192,500**	1,192,500	**1,192,500**	1,192,500
Revaluation reserve	22	**963,998**	766,209	**963,998**	766,209
Other reserves	23	**4,864,950**	4,212,166	**4,864,950**	4,212,166
Profit and loss account		**8,587,400**	8,789,965	**8,587,400**	8,789,965
		21,858,848	21,210,840	**21,858,848**	21,210,840
Minority interests	24	**3,709,670**	2,576,946	**-**	-
Technical provisions					
Provision for unearned premiums		**11,630,274**	10,218,463	**5,527,664**	5,109,560
Long term business provision	25	**221,182**	224,519	**221,182**	224,519
Claims outstanding		**44,999,699**	36,159,522	**15,615,713**	13,132,014
Equalisation provision	26	**-**	17,744	**-**	17,744
		56,851,155	46,620,248	**21,364,559**	18,483,837
Provisions for other risks and charges	27	**316,502**	305,709	**5,493**	8,558
Deposits received from reinsurers		**1,448,038**	1,638,043	**1,190,751**	1,414,654
Creditors					
Creditors arising out of direct insurance operations		**2,353,586**	2,047,296	**1,109,352**	936,559
Creditors arising out of reinsurance operations		**729,986**	682,684	**729,986**	682,684
Amounts owed to credit institutions	28	**2,234,430**	1,589,930	**2,234,430**	1,589,930
Amounts owed to participating interest		**-**	1,168,155	**-**	755,005
Current taxation		**1,242,171**	-	**1,241,138**	-
Other taxation and social security		**79,025**	53,976	**-**	-
		6,639,198	5,542,041	**5,314,906**	3,964,178
Accruals and deferred income		**2,840,213**	2,899,617	**2,013,243**	2,016,651
Total liabilities		**93,663,624**	80,793,444	**51,747,800**	47,098,718

The financial statements on pages 32 to 75 were authorised for issue by the Board on 29 April 2004 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 2002		6,250,000	1,192,500	1,386,355	3,459,596	8,218,252	20,506,703
Available-for-sale investments:							
- net fair value losses, net of deferred taxation	22	-	-	(709,975)	-	-	(709,975)
- transfer to net profit, net of deferred taxation	22	-	-	84,458	-	-	84,458
Share of participating interest's reserves	22,23	-	-	5,371	657,900	-	663,271
Currency translation differences	23	-	-	-	94,670	-	94,670
Net (losses)/gains not recognised in profit and loss account		-	-	(620,146)	752,570	-	132,424
Dividends for 2001	11	-	-	-	-	(568,750)	(568,750)
Profit for the financial year		-	-	-	-	1,140,463	1,140,463
Balance at 31 December 2002		**6,250,000**	**1,192,500**	**766,209**	**4,212,166**	**8,789,965**	**21,210,840**
Balance at 1 January 2003		6,250,000	1,192,500	766,209	4,212,166	8,789,965	21,210,840
Available-for-sale investments:							
- net fair value gains, net of deferred taxation	22	-	-	125,654	-	-	125,654
- transfer to net profit, net of deferred taxation	22	-	-	3,226	-	-	3,226
Share of participating interest's reserves	22,23	-	-	68,909	566,100	-	635,009
Currency translation differences	23	-	-	-	86,684	-	86,684
Net gains not recognised in profit and loss account		-	-	197,789	652,784	-	850,573
Dividends for 2002	11	-	-	-	-	(568,750)	(568,750)
Taxation in connection with distributions	8	-	-	-	-	(700,000)	(700,000)
Profit for the financial year		-	-	-	-	1,066,185	1,066,185
Balance at 31 December 2003		**6,250,000**	**1,192,500**	**963,998**	**4,864,950**	**8,587,400**	**21,858,848**

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 2002		6,250,000	1,192,500	1,386,355	3,459,596	8,218,252	20,506,703
Available-for-sale investments:							
- net fair value losses, net of deferred taxation	22	-	-	(478,901)	-	-	(478,901)
- transfer to net profit, net of deferred taxation	22	-	-	155,233	-	-	155,233
Share of group undertakings' reserves	22	-	-	(301,849)	-	-	(301,849)
Share of participating interest's reserves	22,23	-	-	5,371	657,900	-	663,271
Currency translation differences	23	-	-	-	94,670	-	94,670
Net (losses)/gains not recognised in profit and loss account		-	-	(620,146)	752,570	-	132,424
Dividends for 2001	11	-	-	-	-	(568,750)	(568,750)
Profit for the financial year		-	-	-	-	1,140,463	1,140,463
Balance at 31 December 2002		**6,250,000**	**1,192,500**	**766,209**	**4,212,166**	**8,789,965**	**21,210,840**
Balance at 1 January 2003		6,250,000	1,192,500	766,209	4,212,166	8,789,965	21,210,840
Available-for-sale investments:							
- net fair value losses, net of deferred taxation	22	-	-	(41,970)	-	-	(41,970)
- transfer to net profit, net of deferred taxation	22	-	-	10,252	-	-	10,252
Share of group undertakings' reserves	22	-	-	160,598	-	-	160,598
Share of participating interest's reserves	22,23	-	-	68,909	566,100	-	635,009
Currency translation differences	23	-	-	-	86,684	-	86,684
Net gains not recognised in profit and loss account		-	-	197,789	652,784	-	850,573
Dividends for 2002	11	-	-	-	-	(568,750)	(568,750)
Taxation in connection with distributions	8	-	-	-	-	(700,000)	(700,000)
Profit for the financial year		-	-	-	-	1,066,185	1,066,185
Balance at 31 December 2003		**6,250,000**	**1,192,500**	**963,998**	**4,864,950**	**8,587,400**	**21,858,848**

Cash flow statement

	Notes	Group 2003 Lm	Group 2002 Lm	Company 2003 Lm	Company 2002 Lm
Operating activities					
Cash generated from operations	29	**9,581,263**	8,095,259	**2,103,545**	47,251
Tax (paid)/recovered		**(215,440)**	281,514	**(6,836)**	114,094
Net cash generated from operating activities		**9,365,823**	8,376,773	**2,096,709**	161,345
Investing activities					
Purchase of investment property	12	**-**	(3,676)	**-**	(3,676)
Disposal of investment property	12	**173,221**	505,883	**173,221**	505,883
Increase in investment in group undertaking	13	**-**	-	**(656,330)**	-
Purchase of financial investments	15-18	**(16,765,510)**	(17,378,926)	**(7,678,378)**	(3,723,896)
Disposal of financial investments	15-18	**8,131,852**	12,882,980	**5,318,007**	4,736,391
Purchase of tangible assets	20	**(283,864)**	(293,934)	**(130,195)**	(100,643)
Disposal of tangible assets	20	**632**	30,660	**500**	30,660
Net cash (used in)/generated from investing activities		**(8,743,669)**	(4,257,013)	**(2,973,175)**	1,444,719
Financing activities					
Bank loans	28	**644,500**	3,916	**644,500**	3,916
Proceeds from minority interest on issue of shares	24	**630,273**	-	**-**	-
Dividends paid to group shareholders	11	**(568,750)**	(568,750)	**(568,750)**	(568,750)
Dividends paid to minority interests	24	**(9,800)**	(14,700)	**-**	-
Net cash generated from/(used in) financing activities		**696,223**	(579,534)	**75,750**	(564,834)
Increase/(decrease) in cash and cash equivalents		**1,318,377**	3,540,226	**(800,716)**	1,041,230

Movement in cash and cash equivalents

	Notes	Group 2003 Lm	Group 2002 Lm	Company 2003 Lm	Company 2002 Lm
At beginning of year		**10,050,999**	6,356,454	**3,783,538**	2,742,308
Net cash inflow/(outflow)		**1,318,377**	3,540,226	**(800,716)**	1,041,230
Effect of exchange rate changes		**186,602**	154,319	**-**	-
At end of year	30	**11,555,978**	10,050,999	**2,982,822**	3,783,538

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 Insurance Business Act, 1998 and the Companies Act, 1995, which require their preparation in accordance with International Financial Reporting Standards.

The preparation of financial statements in conformity with the above reporting framework requires the use of estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The financial statements are prepared under the historical cost convention as modified to include the fair valuation of available-for-sale investments and the share of participating interest's value of in-force business.

2. Form and content of these financial statements

The 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

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its Group (or subsidiary) undertakings drawn up to 31 December each year. Subsidiary undertakings 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. 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 profit and loss the share of the participating interest's profit or loss for the year. The interest in the participating interest is carried in the balance sheet at an amount that reflects the share of the net assets of the participating interest. Where necessary, accounting policies for participating interests are changed to ensure consistency with the policies adopted by the Group.

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

(c) Foreign currency translation

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

Accounting policies

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 together with any differences between the booked premiums for prior years and those previously accrued, 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 and related reinsurance recoveries

Claims outstanding

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries.

The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until several years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims the company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Reinsurance recoveries

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

4. Basis of accounting - continued

(a) General business - annual basis - continued

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Group's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

(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 provi ded for as soon as they become anticipated.

(i) Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Group.

(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 Group expects the ultimate settlement will cost, based on the current facts and circumstances.

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

(c) Long term business

Premiums, including reinsurance premiums, and claims are accounted for when due for payment. Reinsurance recoveries are accounted for in the same period as the related claim. Profits which accrue as a result of actuarial valuations are released to the non-technical profit and loss account. Any shortfall between actuarial valuations and the balance on the long term business provision is appropriated from the non-technical profit and loss account.

5. Equalisation provision

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

6. Land and buildings – investment property

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

Accounting policies

7. Investments in group undertakings and participating interests

Investments in group undertakings and participating interests are accounted for by the equity method of accounting. Equity accounting involves recognising in the profit and loss account 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 financial investments

The Group classifies its investments into the following categories:

(a) Held-to-maturity investments include securities with fixed or determinable payments and maturity that the Group has the intent and ability to hold to maturity.

(b) Originated loans and receivables are financial assets created by the Group by providing money to debtors, other than those that are originated with the intent to be sold immediately or in the short term. They include, inter alia, securities acquired at original issuance, i.e. directly from the issuer.

(c) Available-for-sale investments include all securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The classification is dependant on the purpose for which the investments were acquired. The directors determine the appropriate classification of investments at the time of purchase and re-evaluate such designtion on a regular basis. All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets.

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

An investment is impaired when the carrying value is greater than the recoverable amount. The Group reviews the carrying value of its investments on a regular basis. If the carrying value of an investment is greater than its recoverable amount, the carrying value is reduced through a charge to the profit and loss account in the period of decline. The following are the policies used to determine whether there has been impairment:

- Quoted available-for-sale securities: The decision to make an impairment provision is based on the review of the issuer's current financial position and future prospects and an assessment of the probability that the current market price will recover to former levels. If the Group decides that an asset is impaired, the cumulative net loss previously recognised in equity that is not expected to recover is removed from equity and recognised in the net profit for the period.

9. Other financial investments - continued

- Non-quoted available-for-sale securities: The Group takes into consideration the issuer's current financial position and future prospects in determining whether an impairment provision is required.

- Held-to-maturity securities and originated loans and receivables: If it is probable that the Group will not be able to collect amounts due, principal and interest, according to the contractual terms of the security, the Group considers that impairment has taken place. The amount of the impairment loss is the difference between the asset's carrying value and the present value of expected future cash flows discounted at the security's original effective interest rate.

10. Deposits with ceding undertakings

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

11. Investment return

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

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account of the actual investment return on investments supporting the insurance technical provisions.

12. Leases

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

13. Debtors

Debtors are carried at original amount less provision made for impairment of these receivables. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount.

14. Tangible fixed assets

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

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

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

15. Cash and cash equivalents

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

16. Goodwill

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

17. Dividends

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

18. Provisions

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

(a) Provision for loss on discontinuing operation

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

(b) Provision for severance indemnity

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

19. Deferred taxation

Deferred income tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in the determination of deferred income tax.

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

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

20. Foreign currencies

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

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities are reported as part of the fair value gain or loss.

21. Borrowing costs

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

1. Segmental analysis

General business

Gross premiums written and gross premiums earned by class of business

	Group			
	Gross premiums written		Gross premiums earned	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Direct insurance				
Motor (third party liability)	**18,731,928**	16,368,466	**18,126,143**	15,499,986
Motor (other classes)	**7,122,801**	6,402,019	**6,717,471**	6,152,498
Fire and other damage to property	**3,356,895**	3,185,359	**3,256,536**	2,956,725
Other classes	**5,406,665**	5,014,486	**5,266,871**	4,666,698
	34,618,289	30,970,330	**33,367,021**	29,275,907
Reinsurance acceptances				
Motor (other classes)	**(2,688)**	(404)	**(2,688)**	(404)
Fire and other damage to property	**24,174**	135,683	**24,174**	135,683
Other classes	**1,398**	1,680	**1,398**	1,680
	34,641,173	31,107,289	**33,389,905**	29,412,866

33% (2002: 37%) of gross premiums written on direct general insurance business emanate from contracts concluded in or from Malta, 63% (2002: 59%) emanate from contracts concluded in or from Italy and 4% (2002: 4%) emanate 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	
	2003	2002	**2003**	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm	**Lm**	Lm
Direct insurance						
Motor (third party liability)	**17,833,782**	15,016,834	**2,935,524**	2,534,691	**(778,692)**	(766,411)
Motor (other classes)	**4,258,246**	4,554,833	**1,770,854**	1,543,103	**224,189**	(43,910)
Fire and other damage to property	**2,882,282**	1,287,527	**877,872**	868,141	**(57,119)**	724,474
Other classes	**1,594,348**	2,432,289	**1,497,178**	1,277,979	**898,945**	228,335
	26,568,658	23,291,483	**7,081,428**	6,223,914	**287,323**	142,488
Reinsurance acceptances						
Motor (other classes)	**37,814**	(30,955)	**1,679**	512	**(10,709)**	28,336
Fire and other damage to property	**(95,577)**	(492,447)	**6,826**	36,136	**36,655**	415,738
Other classes	**7,975**	(2,341)	**421**	(2,480)	**(165)**	9,876
	26,518,870	22,765,740	**7,090,354**	6,258,082	**313,104**	596,438

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	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Direct insurance				
Motor (third party liability)	**2,174,958**	1,999,029	**2,051,141**	1,928,963
Motor (other classes)	**4,788,576**	4,540,504	**4,515,968**	4,381,361
Fire and other damage to property	**2,664,805**	2,631,695	**2,629,724**	2,515,492
Other classes	**3,131,473**	3,352,156	**3,144,875**	3,197,146
	12,759,812	12,523,384	**12,341,708**	12,022,962
Reinsurance acceptances				
Motor (other classes)	**111,472**	89,756	**111,472**	89,756
Fire and other damage to property	**100,102**	194,728	**100,102**	194,728
Other classes	**356,812**	262,595	**356,812**	262,595
	13,328,198	13,070,463	**12,910,094**	12,570,041

88% (2002: 89%) of gross premiums written on direct general insurance business emanate from contracts concluded in or from Malta. The balance emanates 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	
	2003	2002	**2003**	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm	**Lm**	Lm
Direct insurance						
Motor (third party liability)	**1,691,808**	1,850,455	**528,792**	481,029	**30,783**	(90,764)
Motor (other classes)	**3,872,809**	4,213,719	**1,164,234**	1,092,587	**64,533**	(193,854)
Fire and other damage to property	**2,746,190**	896,887	**682,598**	706,793	**(224,676)**	826,468
Other classes	**1,336,122**	1,980,916	**860,047**	801,242	**616,602**	192,946
	9,646,929	8,941,977	**3,235,671**	3,081,651	**487,242**	734,796
Reinsurance acceptances						
Motor (other classes)	**99,450**	(10,859)	**55,717**	59,961	**(10,709)**	28,336
Fire and other damage to property	**(66,580)**	(420,537)	**42,058**	48,465	**51,285**	401,057
Other classes	**162,322**	112,734	**168,707**	146,982	**16,455**	24,557
	9,842,121	8,623,315	**3,502,153**	3,337,059	**544,273**	1,188,746

1. Segmental analysis - continued

General business - continued

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

Long term business

	Group and Company	
	2003	2002
	Lm	Lm
Gross premiums written		
Direct insurance	**587,613**	601,178
Reinsurance inwards	**6,985**	7,631
	594,598	608,809

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

Analysis by geographic area

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

	Group			
	Gross written premiums		Profit/(loss) before taxation	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Continuing operations				
Malta	**11,886,475**	11,749,511	**400,816**	71,464
Italy	**21,858,477**	18,446,946	**934,218**	1,046,245
Gibraltar	**1,468,236**	1,379,051	**46,718**	147,404
Total continuing operations	**35,213,188**	31,575,508	**1,381,752**	1,265,113
Discontinuing operation (see note 2)				
Malta	**7,649**	(1,138)	**78,289**	7,681
London branch	**14,934**	141,728	**(75,071)**	(7,681)
Total discontinuing operation	**22,583**	140,590	**3,218**	-
Total for the year	**35,235,771**	31,716,098	**1,384,970**	1,265,113

Notes to the financial statements

1. **Segmental analysis** - continued

Analysis by geographic area - continued

Segment assets and liabilities

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

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

(a) Assets of Lm45,839,601 (2002: Lm35,839,930) and liabilities of Lm38,285,016 (2002: Lm30,644,537) that are held by the Group's subsidiary in Italy.

(b)Net technical provisions of Lm1,146,081 (2002: Lm1,497,629) that relate to the Group's London branch operation. These technical provisions are backed by net assets of Lm425,866 (2002: Lm303,896) held by the branch and by Lm1,788,835 (2002: Lm2,467,396) worth of investments managed from Malta.

(c)Net technical provisions of Lm1,376,542 (2002: Lm983,056) that relate to the Group's agency in Gibraltar. These technical provisions are backed by Lm1,376,542 (2002: Lm983,056) worth of investments managed from Malta.

Net technical provisions relating to discontinuing operations amount to:

	Group	
	2003	2002
	Lm	Lm
Malta	**115,478**	211,404
London	**1,146,081**	1,497,629
	1,261,559	1,709,033

Other information

	Group							
	2003				2002			
	Malta	**London**	**Italy**	**Total**	Malta	London	Italy	Total
	Lm	**Lm**	**Lm**	**Lm**	Lm	Lm	Lm	Lm
Share of profit before tax of participating interest	**680,077**	**-**	**-**	**680,077**	250,843	-	-	250,843
Capital expenditure	**275,324**	**-**	**112,169**	**387,493**	156,280	-	137,654	293,934
Depreciation - investment property	**23,507**	**-**	**2,235**	**25,742**	25,547	-	2,167	27,714
Depreciation - tangible assets	**89,617**	**10,833**	**63,747**	**164,197**	90,369	14,505	38,053	142,927
Amortisation	**25,903**	**-**	**65,287**	**91,190**	16,015	-	7,191	23,206
Impairment charge	**51,524**	**-**	**-**	**51,524**	245,000	-	-	245,000
Other non-cash expenses	**75,000**	**77,964**	**159,667**	**312,631**	-	150,837	246,739	397,576

Capital expenditure comprises additions to tangible assets.

2. Discontinuing operation

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

	Group and Company	
	2003	2002
	Lm	Lm
Earned premiums, net of reinsurance	**11,644**	162,168
Allocated investment return transferred from the non-technical account	**2,519**	(25,168)
Claims incurred, net of reinsurance	**73,314**	44,463
Net operating expenses	**(6,295)**	(30,626)
Balance on the technical account for general fund business in respect of discontinuing operation	**81,182**	150,837
Operating cash flows	**(523,025)**	(804,900)

In addition, a provision of Lm77,964 (2002: Lm150,837) has been made for the estimated costs of running-off the Group's international reinsurance business (see note 27).

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

	Group and Company	
	2003	2002
	Lm	Lm
Gross run-off incurred	**(102,056)**	(464,967)
Reinsurers' share	**28,742**	420,504
Favourable run-off, net of reinsurance	**(73,314)**	(44,463)

3. Net operating expenses

(a) Technical accounts

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Acquisition costs	**5,529,288**	5,091,465	**3,008,033**	3,031,713
Change in deferred acquisition costs, net of reinsurance	**(130,496)**	(63,618)	**(130,496)**	(63,618)
Administrative expenses	**1,700,509**	1,336,778	**633,563**	475,531
Reinsurance commissions and profit participation	**(1,539,523)**	(1,761,572)	**(1,130,274)**	(1,462,013)
	5,559,778	4,603,053	**2,380,826**	1,981,613
Allocated to:				
Annual general business	**5,457,427**	4,498,008	**2,020,921**	1,655,328
Fund general business	**8,333**	31,756	**265,887**	252,996
Long term business	**94,018**	73,289	**94,018**	73,289
	5,559,778	4,603,053	**2,380,826**	1,981,613

Total commissions for direct business accounted for in the financial period amounted to Lm5,270,586 (2002: Lm4,833,410) in the Group's technical result and Lm2,491,774 (2002: Lm2,544,113) in the Company's technical result.

(b) Non-technical account

Administrative expenses in the non-technical profit and loss account represent expenditure after appropriate apportionments are made to the general and long term business technical accounts. Administrative expenses comprise staff costs, premises costs, depreciation charge, directors' fees, auditors' remuneration, professional fees, marketing and promotional costs, and other general office expenditure.

4. Investment return

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Investment income				
Share of group undertakings' profit before tax	**-**	-	**647,107**	716,581
Share of participating interest's profit before tax	**680,077**	250,843	**680,077**	250,843
Income from investment property	**140,008**	266,748	**92,708**	187,908
Interest receivable from group undertakings	**-**	-	**32,577**	44,034
Other interest receivable from other investments	**1,498,029**	1,496,105	**585,020**	609,544
Other income from other investments	**112,391**	150,858	**83,877**	91,806
Gains on the realisation of investment property	**105,493**	270,338	**105,493**	270,338
Gains on the realisation of other investments	**229,713**	413,998	**229,713**	111,582
	2,765,711	2,848,890	**2,456,572**	2,282,636
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**56,462**	46,609	**51,152**	39,788
Interest expense	**120,032**	149,855	**102,742**	135,659
Other investment expenses	**80,842**	202,037	**65,044**	153,107
Losses on the realisation of other investments	**88,831**	11,029	**80,804**	9,362
Provision for impairment	**51,524**	245,000	**51,524**	245,000
	397,691	654,530	**351,266**	582,916
Total investment return	**2,368,020**	2,194,360	**2,105,306**	1,699,720
Analysed between:				
Allocated investment return transferred to the general business technical account	**1,176,369**	1,240,154	**461,188**	354,902
Investment return included in the non-technical account	**1,152,291**	920,544	**1,604,758**	1,311,156
Allocated against provision for loss on discontinuing operation (note 27)	**39,360**	33,662	**39,360**	33,662
	2,368,020	2,194,360	**2,105,306**	1,699,720

5. Other income

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Management fees	**415,484**	395,378	**-**	-
Other income	**81,057**	60,136	**-**	-
	496,541	455,514	**-**	-

6. Operating profit on ordinary activities before tax

Operating profit on ordinary activities before tax is stated after charging:

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Staff costs (note 7)	**1,783,765**	1,565,961	**446,842**	423,187
Auditors' remuneration	**42,075**	40,455	**13,250**	13,250
Amortisation of goodwill	**12,308**	12,308	**12,308**	12,308
Depreciation:				
- investment property (note 12)	**25,742**	27,714	**21,150**	22,190
- tangible assets (note 20)	**164,197**	142,927	**81,444**	90,886
Exchange losses	**28,318**	105,698	**28,318**	105,698

7. Staff costs

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Salaries	**1,455,979**	1,346,961	**406,973**	428,803
Social security costs	**299,452**	241,150	**23,678**	26,751
Provision for contracted pension obligations	**28,334**	27,807	**16,191**	17,590
	1,783,765	1,615,918	**446,842**	473,144

The above staff costs include Lm Nil (2002: Lm49,957) which had already been provided for in the previous year.

The average number of persons employed during the year was:

	Group		Company	
	2003	2002	**2003**	2002
Managerial	**31**	31	**14**	13
Technical	**54**	49	**28**	28
Administrative	**48**	43	**3**	3
	133	123	**45**	44

8. Tax on profit on ordinary activities

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Current tax expense	**310,187**	16,039	**10,113**	-
Share of group undertakings' taxation	**-**	-	**70,718**	(231,963)
Share of participating interest's taxation	**20,813**	8,592	**20,813**	8,592
Deferred tax credit (note 27)	**(303,688)**	(545,701)	**(238,888)**	(168,176)
Tax charge/(credit)	**27,312**	(521,070)	**(137,244)**	(391,547)

During the year, the company went through a process of discussion with the Inland Revenue Department regarding objections and open assessments covering basis year 1991 to 1997. In the context of this process, a review of past distributions and group relief was made. A provision of Lm700,000, which is reflected in the statement of changes in equity, has been made in respect of contingent tax liabilities relating to the above.

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	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Profit on ordinary activities before tax	**1,384,970**	1,265,113	**928,941**	748,916
Tax on ordinary profit at 35%	**484,739**	442,790	**325,129**	262,121
Adjusted for tax effect of:				
Dividends received from untaxed income	**-**	(2,411)	**-**	(2,411)
Exempt income	**(326,666)**	(184,821)	**(326,666)**	(182,507)
Tax effect of differences arising from Section 15 of the Income Tax Act	**(158,107)**	(146,865)	**(158,107)**	(146,865)
Temporary differences attributable to unrecognised deferred tax movements	**16,277**	(626,622)	**9,766**	(320,755)
Other	**11,069**	(3,141)	**12,634**	(1,130)
Tax charge/(credit)	**27,312**	(521,070)	**(137,244)**	(391,547)

9. Directors' emoluments

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Contracted emoluments paid to management	**42,537**	42,485	**42,537**	42,485
Directors' fees	**31,500**	13,000	**31,500**	13,000
	74,037	55,485	**74,037**	55,485

The Company has paid insurance premiums of Lm5,094 (2002: Lm4,164) during the year in respect of insurance cover in favour of its directors. Furthermore, provisions have been made (Group: 2003 – Lm28,334 and 2002 – Lm27,807, Company: 2003 – Lm16,191 and 2002 – Lm17,590) in respect of contracted pension obligations.

10. Earnings per share

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

	Group and Company	
	2003	2002
Net profit attributable to shareholders	**Lm1,066,185**	Lm1,140,463
Weighted average number of ordinary shares in issue	**12,500,000**	12,500,000
Earnings per share	**8.5c**	9.1c

11. Dividends

At the forthcoming Annual General Meeting, a dividend in respect of 2003 of 5 cents per share amounting to Lm625,000 is to be proposed. The divident for the year is being paid out of the Company's untaxed account. 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 2004. The dividends declared after the financial year end in respect of both 2002 and 2001 were Lm568,750 (4c55 per share).

12. Land and buildings – investment property

	Group	Company
	Lm	Lm
Year ended 31 December 2003		
Opening net book amount	3,518,177	2,618,813
Disposals	(74,442)	(74,442)
Depreciation	(25,742)	(21,150)
Depreciation released on disposals	10,923	10,923
Currency translation differences	5,006	-
Closing net book amount	**3,433,922**	**2,534,144**
At 31 December 2003		
Cost	3,527,821	2,621,119
Depreciation	(103,309)	(86,975)
Translation reserve	9,410	-
Net book amount	3,433,922	2,534,144
Year ended 31 December 2002		
Opening net book amount	3,770,729	2,872,872
Additions	3,676	3,676
Disposals	(268,025)	(268,025)
Depreciation	(27,714)	(22,190)
Depreciation released on disposals	32,480	32,480
Currency translation differences	7,031	-
Closing net book amount	3,518,177	2,618,813
At 31 December 2002		
Cost	3,602,263	2,695,561
Depreciation	(88,490)	(76,748)
Translation reserve	4,404	-
Net book amount	3,518,177	2,618,813

The fair value of land and buildings at the balance sheet date amounted to Lm4,127,130 (2002: Lm3,996,351) for the Group and Lm3,192,324 (2002: Lm3,098,416) for the Company. The fair value is the open market value as determined by independent professionally qualified valuers.

13. Investments in group undertakings

	Company
	Lm
Year ended 31 December 2003	
Opening net book amount	3,615,204
Additions	656,330
Share of group undertakings' profits and reserves	699,287
Currency translation differences (note 23)	86,684
Closing net book amount	**5,057,505**
At 31 December 2003	
Cost	3,280,114
Share of group undertakings' profits and reserves	1,629,941
Translation reserve	147,450
Net book amount	5,057,505
Year ended 31 December 2002	
Opening net book amount	2,930,186
Share of group undertakings' profits and reserves	590,348
Currency translation differences (note 23)	94,670
Closing net book amount	3,615,204
At 31 December 2002	
Cost	2,623,784
Share of group undertakings' profits and reserves	930,654
Translation reserve	60,766
Net book amount	3,615,204

The principal group undertakings at 31 December are shown below:

Group undertakings	**Registered office**	**Class of shares held**	**Percentage of shares held 2003**	Percentage of shares held 2002
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	**100%**	100%
Euro Globe Services 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 (In liquidation)	Middle Sea House Floriana	Ordinary shares	**100%**	100%
Malta International Training Centre Limited	Europa Centre Floriana	Ordinary shares	**60%**	60%
Progress Assicurazioni S.p.A.	Piazza A. Gentile Palermo	Ordinary shares	**51%**	51%

14. Investment in participating interest

	Group and Company Lm
Year ended 31 December 2003	
Opening net book amount	7,720,519
Share of participating interest's profits and reserves	1,304,473
Closing net book amount	**9,024,992**
At 31 December 2003	
Cost	782,540
Share of participating interest's profits and reserves	8,242,452
Net book amount	9,024,992
Year ended 31 December 2002	
Opening net book amount	6,799,697
Share of participating interest's profits and reserves	920,822
Closing net book amount	7,720,519
At 31 December 2002	
Cost	782,540
Share of participating interest's profits and reserves	6,937,979
Net book amount	7,720,519

The participating interest at 31 December is shown below:

Participating interest	**Registered office**	**Class of shares held**	**Percentage of shares held 2003**	Percentage of shares held 2002
Middlesea Valletta Life Assurance Company Limited	Middle Sea House Floriana	Ordinary shares	**51%**	51%

14. Investment in participating interest - continued

Middlesea Insurance p.l.c. is entitled in terms of the Articles of Association of Middlesea Valletta Life Assurance Company Limited 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, Middlesea Valletta Life Assurance Company Limited has been excluded from consolidation in terms of Section 170(4)(a) of the Companies Act, 1995 and has been accounted for as a participating interest.

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

	2003	2002
	Lm	Lm
Investments	**119,848,694**	95,611,584
Value of in-force business	**11,900,000**	10,790,000
Tangible fixed assets	**557,964**	463,859
Assets held to cover linked liabilities	**4,645,221**	3,104,079
Net current assets	**3,287,785**	2,263,288
Technical provisions	**(121,066,374)**	(95,634,664)
Deferred taxation	**973,549**	1,053,263
Shareholders' funds	**20,146,839**	17,651,409
51% thereof relating to Group	**10,274,888**	9,002,219
Less: Amounts arising on the transfer of individual life assurance business to Middlesea Valletta Life Assurance Company Limited in 1994, not recognised in the consolidated balance sheet	**(163,200)**	(190,400)
Less: Group's share of the profit arising on the sale of investment property to Middlesea Valletta Life Assurance Company Limited	**(1,078,960)**	(1,078,960)
Amount at which the Group's investment is carried in the balance sheet	**9,032,728**	7,732,859

The profit after tax earned by Middlesea Valletta Life Assurance Company Limited for the year ended 31 December 2003 was Lm1,303,654 (2002: Lm490,312).

15. Other financial assets - held-to-maturity

Group

	Quoted fixed income debt securities Lm
Year ended 31 December 2003	
Opening net book amount	3,547,455
Amortisation	36,738
Currency translation differences	111,475
Closing net book amount	**3,695,668**
At 31 December 2003	
Amortised cost	3,485,633
Translation reserve	210,035
Net book amount	3,695,668
Year ended 31 December 2002	
Opening net book amount	3,360,767
Amortisation	33,664
Currency translation differences	153,024
Closing net book amount	3,547,455
At 31 December 2002	
Amortised cost	3,448,895
Translation reserve	98,560
Net book amount	3,547,455

Maturity of fixed income debt securities:

	Group	
	2003 Lm	2002 Lm
Over 5 years	**3,695,668**	3,547,455
Weighted average effective interest rate	**6.3%**	6.3%

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

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Deposits with banks or credit institutions	**7,588,787**	4,995,184	**1,707,897**	3,151,701

Maturity of deposits with banks or credit institutions:

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Within 3 months	**6,704,895**	4,130,015	**824,005**	2,286,532
Within 1 year but exceeding 3 months	**883,892**	115,169	**883,892**	115,169
Between 1 and 2 years	**-**	750,000	**-**	750,000
	7,588,787	4,995,184	**1,707,897**	3,151,701

The above deposits earn interest as follows:

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
At floating rates	**6,572,503**	3,997,727	**730,072**	2,191,207
At fixed rates	**1,016,284**	997,457	**977,825**	960,494
	7,588,787	4,995,184	**1,707,897**	3,151,701
Weighted average effective interest rate	**2.6%**	3.4%	**4.2%**	3.8%

The above financial assets of the Group and the Company include pledged investments amounting to Lm750,000 (2002: Lm750,000).

17. Other financial assets - other originated loans and receivables

Group

	Quoted fixed income debt securities Lm	Treasury bills Lm	Unquoted fixed income securities Lm	Total Lm
Year ended 31 December 2003				
Opening net book amount	2,726,363	377,641	100,000	3,204,004
Additions	1,294,642	3,116,619	16,920	4,428,181
Disposals	(473,766)	(1,846,374)	-	(2,320,140)
Amortisation	(670)	-	-	(670)
Closing net book amount	**3,546,569**	**1,647,886**	**116,920**	**5,311,375**
Year ended 31 December 2002				
Opening net book amount	2,838,530	1,337,565	100,000	4,276,095
Additions	391,744	377,641	-	769,385
Disposals	(503,985)	(1,375,006)	-	(1,878,991)
Currency translation difference	-	37,441	-	37,441
Amortisation	74	-	-	74
Closing net book amount	2,726,363	377,641	100,000	3,204,004

Maturity of fixed income debt securities and treasury bills:

	2003 Lm	2002 Lm
Within one year	**1,647,886**	443,041
Between 1 and 2 years	**301,600**	-
Between 2 and 5 years	**456,921**	531,600
Over 5 years	**2,904,968**	2,229,363
	5,311,375	3,204,004
Weighted average effective interest rate	**5.2%**	6.6%

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

Company

	Quoted fixed income debt securities Lm	Treasury bills Lm	Unquoted fixed income securities Lm	Total Lm
Year ended 31 December 2003				
Opening net book amount	2,323,663	377,641	100,000	2,801,304
Additions	1,214,641	2,967,235	-	4,181,876
Disposals	(441,066)	(1,795,641)	-	(2,236,707)
Amortisation	(670)	-	-	(670)
Closing net book amount	**3,096,568**	**1,549,235**	**100,000**	**4,745,803**
Year ended 31 December 2002				
Opening net book amount	2,435,830	515,270	100,000	3,051,100
Additions	391,744	377,641	-	769,385
Disposals	(503,985)	(515,270)	-	(1,019,255)
Amortisation	74	-	-	74
Closing net book amount	2,323,663	377,641	100,000	2,801,304

Maturity of fixed income debt securities and treasury bills:

	2003 Lm	2002 Lm
Within one year	**1,549,235**	410,341
Between 1 and 2 years	**301,600**	-
Between 2 and 5 years	**390,000**	511,600
Over 5 years	**2,504,968**	1,879,363
	4,745,803	2,801,304
Weighted average effective interest rate	**5.1%**	6.6%

The above financial assets of the Group and Company include pledged investments amounting to Lm1,478,558 (2002: Lm1,362,990).

18. Other financial investments - available-for-sale

Group	Quoted shares, other variable yield securities and units in unit trusts	Quoted fixed income debt securities	Unquoted shares	Total
	Lm	Lm	Lm	Lm
Year ended 31 December 2003				
Opening net book amount	3,846,033	19,821,263	919,073	24,586,369
Additions	1,074,257	14,012,437	50,000	15,136,694
Disposals	(1,142,282)	(6,536,181)	-	(7,678,463)
Amortisation	-	(114,950)	-	(114,950)
Net gains/(losses) from changes in fair value	507,970	(76,546)	(468,660)	(37,236)
Release of provision for impairment on sale of investments	161,259	-	-	161,259
Transfer to net profit on realisation of investments	102,610	(87,422)	-	15,188
Currency translation differences	17,979	413,984	910	432,873
Closing net book amount	**4,567,826**	**27,432,585**	**501,323**	**32,501,734**
At 31 December 2003				
Cost	6,072,987	26,632,258	206,088	32,911,333
Revaluation reserve	(1,413,926)	194,863	293,878	(925,185)
Provision for impairment	(135,265)	-	-	(135,265)
Translation reserve	44,030	605,464	1,357	650,851
Net book amount	4,567,826	27,432,585	501,323	32,501,734
Year ended 31 December 2002				
Opening net book amount	5,277,766	14,317,726	920,081	20,515,573
Additions	182,333	16,807,591	-	16,989,924
Disposals	(254,957)	(11,720,048)	(1,021)	(11,976,026)
Amortisation	-	(44,636)	-	(44,636)
Net (losses)/gains from changes in fair value	(1,451,466)	312,318	(2,013)	(1,141,161)
Transfer to net profit on realisation of investments	51,709	(176,403)	765	(123,929)
Currency translation differences	40,648	324,715	1,261	366,624
Closing net book amount	3,846,033	19,821,263	919,073	24,586,369
At 31 December 2002				
Cost	6,141,012	19,270,952	156,088	25,568,052
Revaluation reserve	(2,076,030)	358,831	762,538	(954,661)
Provision for impairment	(245,000)	-	-	(245,000)
Translation reserve	26,051	191,480	447	217,978
Net book amount	3,846,033	19,821,263	919,073	24,586,369

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

Company	Quoted shares, other variable yield securities and units in unit trusts Lm	Quoted fixed income debt securities Lm	Unquoted shares Lm	Total Lm
Year ended 31 December 2003				
Opening net book amount	3,079,298	6,647,397	890,127	10,616,822
Additions	813,842	2,682,660	-	3,496,502
Disposals	(1,131,581)	(1,454,384)	-	(2,585,965)
Amortisation	-	(12,925)	-	(12,925)
Net gains/(losses) from changes in fair value	376,448	(14,500)	(468,660)	(106,712)
Release of provision for impairment on sale of investments	161,259	-	-	161,259
Transfer to net profit on realisation of investments	97,088	(68,123)	-	28,965
Closing net book amount	**3,396,354**	**7,780,125**	**421,467**	**11,597,946**
At 31 December 2003				
Cost	4,328,894	7,590,777	127,589	12,047,260
Revaluation reserve	(797,275)	189,348	293,878	(314,049)
Provision for impairment	(135,265)	-	-	(135,265)
Net book amount	3,396,354	7,780,125	421,467	11,597,946
Year ended 31 December 2002				
Opening net book amount	4,097,685	7,186,232	892,140	12,176,057
Additions	182,265	3,149,887	-	3,332,152
Disposals	(253,068)	(3,874,375)	-	(4,127,443)
Amortisation	-	(3,781)	-	(3,781)
Net (losses)/gains from changes in fair value	(999,293)	227,062	(2,013)	(774,244)
Transfer to net profit on realisation of investments	51,709	(37,628)	-	14,081
Closing net book amount	3,079,298	6,647,397	890,127	10,616,822
At 31 December 2002				
Cost	4,646,633	6,375,426	127,589	11,149,648
Revaluation reserve	(1,322,335)	271,971	762,538	(287,826)
Provision for impairment	(245,000)	-	-	(245,000)
Net book amount	3,079,298	6,647,397	890,127	10,616,822

Maturity of fixed income debt securities:

	Group		**Company**	
	2003 Lm	2002 Lm	**2003 Lm**	2002 Lm
Within one year	**11,571,532**	4,405,158	**1,711,978**	158,112
Between 1 and 2 years	**3,265,816**	9,184,020	**339,331**	1,009,204
Between 2 and 5 years	**9,561,855**	2,385,113	**2,695,434**	1,633,109
Over 5 years	**3,033,382**	3,846,972	**3,033,382**	3,846,972
	27,432,585	19,821,263	**7,780,125**	6,647,397
Weighted average effective interest rate	**3.2%**	3.8%	**4.1%**	4.6%

The above financial assets include pledged investments amounting to Lm452,795 (2002: Lm541,197) for the Group and Lm291,092 (2002: Lm386,660) for the Company.

Notes to the financial statements

19. Reinsurers' share of technical provisions

Recoveries on claims outstanding from reinsurers include an amount of Lm3,129,843 (2002: Lm2,391,675) that is recoverable from Corporacion Mapfre Compania Internacional De Reaseguros S.A. under reinsurance arrangements entered into upon the acquisition of a 51% shareholding in Mapfre Progress S.p.A. on 29 September 2000. In terms of these arrangements, Corporacion Mapfre Compania Internacional De Reaseguros S.A. agreed to meet the run-off cost of all risks incepted prior to the date of acquisition.

20. Tangible assets

Group

	Buildings & leasehold improvements Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2003					
Opening net book amount	842,628	379,211	6,754	15,668	1,244,261
Additions	76,375	207,489	103,629	-	387,493
Disposals	-	(615)	(30,450)	-	(31,065)
Depreciation charge	(17,865)	(138,310)	(1,424)	(6,598)	(164,197)
Depreciation released on disposals	-	483	25,741	-	26,224
Currency translation differences	18,373	4,505	-	196	23,074
Closing net book amount	**919,511**	**452,763**	**104,250**	**9,266**	**1,485,790**
At 31 December 2003					
Cost	1,057,700	1,655,837	108,559	101,864	2,923,960
Accumulated depreciation	(172,964)	(1,208,940)	(4,309)	(92,797)	(1,479,010)
Translation reserve	34,775	5,866	-	199	40,840
Net book amount	919,511	452,763	104,250	9,266	1,485,790
At 31 December 2002					
Cost	981,325	1,448,963	35,380	101,864	2,567,532
Accumulated depreciation	(155,099)	(1,071,113)	(28,626)	(86,199)	(1,341,037)
Translation reserve	16,402	1,361	-	3	17,766
Net book amount	842,628	379,211	6,754	15,668	1,244,261

Company

	Leasehold improvements Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2003					
Opening net book amount	257,932	179,527	6,754	3,755	447,968
Additions	62,450	67,745	103,629	-	233,824
Disposals	-	-	(30,450)	-	(30,450)
Depreciation charge	(10,801)	(65,999)	(1,424)	(3,220)	(81,444)
Depreciation released on disposals	-	-	25,741	-	25,741
Closing net book amount	**309,581**	**181,273**	**104,250**	**535**	**595,639**
At 31 December 2003					
Cost	460,679	1,223,622	108,559	88,347	1,881,207
Accumulated depreciation	(151,098)	(1,042,349)	(4,309)	(87,812)	(1,285,568)
Net book amount	309,581	181,273	104,250	535	595,639
At 31 December 2002					
Cost	398,229	1,155,877	35,380	88,347	1,677,833
Accumulated depreciation	(140,297)	(976,350)	(28,626)	(84,592)	(1,229,865)
Net book amount	257,932	179,527	6,754	3,755	447,968

21. Share capital

	Group and Company	
	2003	2002
	Lm	Lm
Authorised		
30,000,000 Ordinary shares of 50 cents each	**15,000,000**	15,000,000
Issued and fully paid		
12,500,000 Ordinary shares of 50 cents each	**6,250,000**	6,250,000

22. Revaluation reserve

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Balance at 1 January before taxation	**506,975**	1,319,057	**507,416**	1,319,057
Net losses from changes in fair value	**(65,400)**	(1,005,759)	**(106,712)**	(774,244)
Transfer to net profit on realisation of investments	**21,941**	(56,694)	**28,965**	14,081
Losses transferred to net profit due to impairment	**51,524**	245,000	**51,524**	245,000
Share of group undertakings' reserves	**-**	-	**160,598**	(301,849)
Share of participating interest's reserves	**68,909**	5,371	**68,909**	5,371
Balance at 31 December before taxation	**583,949**	506,975	**710,700**	507,416
Deferred taxation	**380,049**	259,234	**253,298**	258,793
Balance at 31 December	**963,998**	766,209	**963,998**	766,209

This reserve is not a distributable reserve.

23. Other reserves

Group and Company

	Value of in-force business Lm	**Translation reserve Lm**	**Total Lm**
Balance at 1 January 2003	4,151,400	60,766	4,212,166
Share of participating interest's reserves	566,100	-	566,100
Exchange differences arising on retranslation of foreign subsidiary	-	86,684	86,684
Balance at 31 December 2003	**4,717,500**	**147,450**	**4,864,950**
Balance at 1 January 2002	3,493,500	(33,904)	3,459,596
Share of participating interest's reserves	657,900	-	657,900
Exchange differences arising on retranslation of foreign subsidiary	-	94,670	94,670
Balance at 31 December 2002	4,151,400	60,766	4,212,166

The above reserves are not distributable reserves.

24. Minority interests

	Group 2003 Lm	Group 2002 Lm
Balance at 1 January	**2,576,946**	2,056,577
Additions	**630,273**	-
Share of net profit of group undertakings	**291,473**	645,720
Share of movement in reserves of group undertakings	**143,159**	(202,633)
Currency translation differences	**77,619**	91,982
Dividends paid	**(9,800)**	(14,700)
Balance at 31 December	**3,709,670**	2,576,946

25. Long term business provision

The balance on the long term business provision has been certified by approved actuaries as being sufficient to meet liabilities at 31 December 2003. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall balance sheet, are as follows:

	Group and Company 2003 Lm	Group and Company 2002 Lm
Investments	**904,852**	649,069
Debtors	**112,032**	105,855
Cash at bank and in hand	**3,148**	127,093
Claims outstanding	**(34,279)**	(48,404)
Creditors	**(816,435)**	(704,387)
Revaluation reserve	**(5,528)**	14,275
Long term business provision, net of reinsurance	**163,790**	143,501

26. Equalisation provision

As explained in accounting policy 5 on page 43, an equalisation provision is established in the financial statements. The effect of this provision is to increase shareholders' funds by Lm11,534 (2002: reduction of Lm11,534). 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 Lm17,744 (2002: decrease of Lm17,744).

27. Provisions for other risks and charges

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Deferred tax liability	**5,493**	8,558	**5,493**	8,558
Provision for severance indemnity	**311,009**	297,151	**-**	-
	316,502	305,709	**5,493**	8,558

Deferred taxation

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Balance at 1 January	**(935,897)**	(198,260)	**(538,353)**	(178,682)
Movements during the year:				
Profit and loss account (note 8)	**(303,688)**	(545,701)	**(238,888)**	(168,176)
Revaluation reserve (note 22)	**(242,561)**	(191,936)	**5,495**	(191,495)
Other: transfer to current taxation	**117,627**	-	**117,627**	-
Balance at 31 December (net)	**(1,364,519)**	(935,897)	**(654,119)**	(538,353)

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (2002: 35%). The year end balance comprises:

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Temporary differences attributable to fixed assets	**29,473**	5,276	**11,335**	7,676
Temporary differences attributable to unrealised capital losses and exchange gains	**44,964**	(45,799)	**19,154**	(45,358)
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	**(930,340)**	(921,130)	**(675,872)**	(526,427)
Temporary differences attributable to insurance technical provisions	**(265,808)**	-	**-**	-
Temporary differences attributable to other provisions	**(281,358)**	(24,366)	**(50,616)**	(24,366)
Other temporary differences, including impact of non-deductible expenses and different tax rates	**38,550**	50,122	**41,880**	50,122
Balance at 31 December (net)	**(1,364,519)**	(935,897)	**(654,119)**	(538,353)

27. Provisions for other risks and charges - continued

Deferred taxation - continued

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off a current tax asset against a current tax liability. The following amounts determined after appropriate offsetting are shown in the balance sheet.

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Deferred tax asset	**(1,370,012)**	(944,455)	**(659,612)**	(546,911)
Deferred tax liability	**5,493**	8,558	**5,493**	8,558
	(1,364,519)	(935,897)	**(654,119)**	(538,353)

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 directors had initially estimated that the operation of the London branch would be substantially discontinued by 31 December 2002. Although the oerations have not been fully discontinued, the directors believe that the impact of the extension required beyond their original estimate will not be significant. It is estimated that all material costs associated with running-off the business have been provided for. The gross provision of Lm65,784 (2002: Lm82,679) has been reduced by offsetting an expected future investment return of Lm58,032 (2002: Lm72,688) on reserves for outstanding claims liabilities.

	Group and Company	
	2003	2002
	Lm	Lm
At 1 January	**(9,991)**	(4,188)
Profit and loss account	**77,964**	150,837
Utilised during the year	**(75,725)**	(156,640)
Balance at 31 December	**(7,752)**	(9,991)

The excess of the future investment return over the gross provision amounting to Lm7,752 (2002: Lm9,991) has been classified within other prepayments and accrued income.

Provision for severance indemnity

	Group	
	2003	2002
	Lm	Lm
Balance at 1 January	**297,151**	261,071
Profit and loss account	**4,520**	24,193
Currency translation differences	**9,338**	11,887
Balance at 31 December	**311,009**	297,151

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.

28. Amounts owed to credit institutions

	Group and Company	
	2003	2002
	Lm	Lm
Long term		
Bank loans	**2,234,430**	1,589,930

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

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

	Group and Company	
	2003	2002
	Lm	Lm
At floating rates	**2,234,430**	1,589,930
Weighted average effective interest rate	**3.8%**	4.6%

Maturity of long term borrowings:

	Group and Company	
	2003	2002
	Lm	Lm
Within 1 year	**1,500,000**	-
Between 1 and 2 years	**73,991**	1,500,000
Between 2 and 5 years	**-**	89,930
More than 5 years	**660,439**	-
	2,234,430	1,589,930

29. Cash generated from operations

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

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Operating profit on ordinary activities before tax	**1,462,934**	1,415,950	**1,006,905**	899,753
Adjustments for:				
Share of group undertakings' profit before tax, adjusted for net dividend received	**-**	-	**(619,607)**	(675,534)
Share of participating interest's profit before tax, adjusted for net dividend received	**(680,077)**	(250,843)	**(680,077)**	(250,843)
Depreciation (notes 12, 20)	**189,939**	170,641	**102,594**	113,076
Provision for loss on discontinuing operation	**(75,725)**	(156,640)	**(75,725)**	(156,640)
Bad and doubtful debts	**230,147**	222,546	**75,000**	-
Provision for impairment	**51,524**	245,000	**51,524**	245,000
Provision for severance indemnity (note 27)	**4,520**	24,193	**-**	-
Amortisation	**91,190**	23,206	**25,903**	16,015
Loss/(profit) on sale of tangible fixed assets	**4,209**	(2,633)	**4,209**	(2,633)
Gains on the realisation of investments	**(250,584)**	(673,307)	**(258,611)**	(372,558)
Movements in:				
Deposits with ceding undertakings	**15,375**	105,388	**17,381**	103,625
Reinsurers' share of technical provisions	**(127,928)**	1,196,794	**(366,976)**	1,445,764
Debtors, prepayments and accrued income	**(477,775)**	(1,421,253)	**(61,694)**	(529,337)
Amounts owed by group undertakings	**-**	-	**187,706**	(142,265)
Technical provisions	**9,339,786**	6,496,327	**2,880,722**	(494,081)
Deposits received from reinsurers	**(202,299)**	(26,272)	**(223,903)**	20,957
Creditors, accruals and deferred income	**257,974**	708,709	**216,687**	(147,153)
Amounts owed by/to participating interests	**(251,947)**	17,453	**(178,493)**	(25,895)
Cash generated from operations	**9,581,263**	8,095,259	**2,103,545**	47,251

Notes to the financial statements

30. Cash and cash equivalents

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

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Cash at bank and in hand	**3,501,728**	5,543,343	**1,254,768**	1,119,365
Time deposits and treasury bills maturing within three months	**8,054,250**	4,507,656	**1,728,054**	2,664,173
	11,555,978	10,050,999	**2,982,822**	3,783,538

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

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
At floating rates	**3,200,733**	5,341,215	**1,056,193**	1,062,627
At fixed rates	**10,746**	15,545	**-**	-
	3,211,479	5,356,760	**1,056,193**	1,062,627
Weighted average effective interest rate	**1.7%**	2.1%	**1.9%**	2.5%

31. Financial instruments

The nature of the Group's operations implies that financial instruments are extensively used in the course of its activities. The Group did not make use of derivative financial instruments during the years ended 31 December 2003 and 2002. The Group is potentially exposed to a range of risks that are managed as outlined below.

Currency risk

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

(a) maintaining a portion of the Group's investments, as would equate to the Group's foreign liabilities, in a mix of currencies broadly matching that in which the liabilities are stated.

(b) managing other foreign currency investments in a manner which minimises variations from the basket of currencies that determines the value of the Maltese Lira.

Credit risk

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

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Provision for bad and doubtful debts	**815,715**	569,707	**140,000**	65,000

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

31. **Financial instruments** - continued

Fair values

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

	Group		**Company**	
	Carrying value 2003 Lm	**Fair value 2003 Lm**	**Carrying value 2003 Lm**	**Fair value 2003 Lm**
Financial investments				
Held-to-maturity investments	**3,695,668**	**3,955,111**	**-**	**-**
Other originated loans and receivables	**5,311,375**	**5,539,687**	**4,745,803**	**4,918,035**
	9,007,043	**9,494,798**	**4,745,803**	**4,918,035**

	Group		Company	
	Carrying value 2002 Lm	Fair value 2002 Lm	Carrying value 2002 Lm	Fair value 2002 Lm
Financial investments				
Held-to-maturity investments	3,547,455	3,800,134	-	-
Other originated loans and receivables	3,204,004	3,415,729	2,801,304	2,985,417
	6,751,459	7,215,863	2,801,304	2,985,417

At 31 December 2003 and 2002, the carrying amounts of the Group's other financial assets and liabilities approximated their fair values.

Liquidity risk

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

Market risk

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

Interest rate risk

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

32. Commitments

Capital commitments

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Authorised and not contracted for	**510,220**	600,670	**448,220**	600,670

Operating lease commitments – where the company is a lessor

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

	Group		Company	
	2003	2002	**2003**	2002
	Lm	Lm	**Lm**	Lm
Not later than 1 year	**247,422**	116,256	**103,422**	80,256
Later than 1 year and not later than 5 years	**309,631**	213,179	**302,531**	69,179
Later than 5 years	**586,340**	43,100	**399,240**	-
	1,143,393	372,535	**805,193**	149,435

33. Contingencies

The Company has given guarantees to third parties amounting to Lm25,000 (2002: Lm25,000) not arising under contracts of insurance.

34. Related party transactions

In the normal course of business, the Group enters into various transactions with related parties. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operational decisions. These include directors and shareholders who hold a substantial amount of the votes able to be cast at general meetings.

Relevant particulars of related party transactions, all of which have been carried out on an arms length basis, are as follows:

- two directors are shareholders in companies that act as insurance agents for Middlesea Insurance p.l.c. Acquisition costs paid to these agents comprised 6.3% (2002: 8.4%) of the Group's total acquisition costs;
- two shareholders who are also represented on the Company's Board place insurance business with the Company. Premium income written in respect of this business amounted to 1% (2002: 1%) of the Group's gross premium written;
- three shareholders, two of whom are represented on the Company's Board act as reinsurers for the Group. Reinsurance premium ceded to these shareholders amounted to 53% (2002: 51%) of the Group's outward reinsurance premium;
- the Group also holds 3.7% (2002 6.7%) of its investments in or with two shareholders, who are also represented on the Company's Board;
- an agreement with an associated undertaking, Middlesea Valletta Life Assurance Company Limited, for the sharing of certain common administrative costs.

34. **Related party transactions** - continued

Year end balances arising from the above transactions comprise:

	Group	
	2003	2002
	Lm	Lm
Debtors arising out of direct insurance operations:		
- intermediaries	**405,218**	343,962
Creditors arising out of direct insurance operations	**674,658**	385,080
Reinsurers' share of technical provisions	**2,406,219**	1,418,015
Investments	**2,285,732**	3,195,950
Amounts owed by participating interest	**226,956**	-
Amounts owed to participating interest	**-**	1,168,155

Outstanding balances at 31 December arising on reinsurance arrangements entered into with Corporacion Mapfre Compania Internacional De Reaseguros S.A. on acquisition of the 51% shareholding in the Italian subsidiary, Progress Assicurazioni S.p.A. are disclosed in note 19 to these financial statements.

In addition, one shareholder who is also represented on the Company's Board, acts as one of the Group's bankers.

35. **Statutory information**

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