





Middlesea Insurance p.l.c.

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Mission Statement

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

Business Philosophy

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

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

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

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

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



Gross Premium-General Business

Lm31,107,289	2002
Lm34,641,173	2003
Lm35,367,261	2004

Over recent years, the insurance sector has experienced a phenomenon whereby limited opportunities precluded insurers from achieving acceptable results. After several years of difficult market conditions, particularly the results in underlying assets which were adversely affected by depressed international capital markets, our rigorous policy of improving cost efficiency and the result from effective technical operations has enabled the delivery of a strong performance in 2004.

Our consistent strategy continued to be focused on providing a broad range of products through multi-channel distribution, applying technically correct pricing, ensuring adequate reserving and pursuing growth with a territorial spread and portfolio mix. Our professional discipline has helped us to achieve our operational projections for the year in highly competitive markets. We continued to employ an efficient capital structure through the allocation of our shareholders' equity across the Middlesea Group with the ultimate aim of maximising our potential for profitable growth.

In 2004, we took another step towards achieving our long-term objective. The final results showed that the Middlesea Group registered an operating profit on ordinary activities before tax of Lm2.21 million (€5.1m) for the year, compared to Lm1.38 million (€3.2m) as at 31 December 2003. Strong improvement was registered across most of our business activities and this as a result of the changes implemented in recent years. Our combined operating ratio on general business improved to 98% (2003: 102%) resulting in an increased profit after tax of Lm1.58 million (€3.6m) (2003: Lm1.07 million). Our return on capital employed excluding Middlesea's share of embedded value¹ and unrealised gains (which is taken to reserves) of 9.32% (2003: 6.65%) reflected these robust results.

This strong performance, and consonant with our dividend policy, has enabled your board to recommend the payment of a final dividend of 6cents per share, totalling Lm750,000, an increase of 20% over last year.

Gross premiums written (general and group life) amounted to Lm35.94 million (€82.7m). We have consolidated our market share and continued to focus on reorganising the underlying portfolio in Malta, Gibraltar and Italy. Net technical reserves

increased by 13% to Lm47.2 million (€108.6m); the ratio of net technical reserves to net premiums written was 160% at the end of the year. Shareholders' funds (including our share in MSV of the embedded value) grew by 10% to Lm24.07 million (€55.4m). The net asset value per share was Lm1.93 and the earnings per share increased by 49% to 12c7. Total Group assets increased by almost 7% to Lm100.2 million (€230.6m). These positive results help us to enhance our balance sheet on which we strive for future growth, produce acceptable returns to our shareholders and deliver our commitments to customers.

The operations of Middlesea Insurance plc, Middlesea Valletta Life Assurance Co. Ltd, Progress Assicurazioni S.p.A. and International Insurance Management Services Ltd all contributed positively to the overall result.

The gross premiums written (general business) of the holding company, Middlesea Insurance plc, increased by 7% to Lm13.64 million (€31.4m). Motor insurance remained the major contributor of general insurance retail business. Our balanced personal and commercial portfolio allowed us to achieve acceptable operating results through the underwriting cycle. Though personal lines business in Malta is highly competitive and sensitive to price movements, we believe it is prudent to apply adequate pricing commensurate with the underlying risk.

We have registered a considerable improvement in the net underwriting result (NUR) of our technical operations, in particular the motor class. The NUR of the motor class improved to a favourable surplus of Lm0.71 million (€1.6m) as opposed to a loss in 2003 of Lm0.44 million (€1.0m), with the overall (all classes) NUR registering a surplus of Lm0.70 million (€1.6m) (2003: Lm0.56m loss). The current market pricing on property business remains inadequate, particularly when considering the high catastrophe reinsurance costs for the year. The liability class registered a loss mainly as a result of higher court awards. It is important to note that through the intervention of the Malta Insurance Association, capping was introduced in both the Civil Code and the Motor Vehicles Insurance (Third Party Risks) Ordinance. These changes together with the EU 4th and 5th Motor Directives were

¹Embedded value is the discounted value of projected future profits on secured business.

Chairman's Statement

Investment Return

2002	Lm2,160,698
2003	Lm2,328,660
2004	Lm2,323,829

expected to impinge on the future results for the overall liability class of business in Malta. Injury awards need to reflect economic reality and sustainability; otherwise, national competitiveness will suffer.

Our disciplined approach to underwriting and pricing, coupled with efficient claims handling, strict cost control, product innovation and excellent customer service will ensure sustainability of improved results in the future.

In line with the consolidation policy introduced in 2004 by Progress Assicurazioni S.p.A., gross premium written reduced to Lm21.66 million (€49.8m). The positive overall technical operation was in accordance with our expectation and contributed positively to the Group results. The business was generated through a network of agents operating in Southern Italy and Sicily.

Our Italian subsidiary continued to pursue a policy of adequate pricing and reserving with a territorial spread and portfolio mix between motor RCA² and non-motor business. It was encouraging that this subsidiary company registered a total profit in its accounts of Lm1.1 million (€2.5 million) (2003: Lm0.8m) in accordance with the Italian statutory and regulatory regime. After consolidation adjustments and adoption of the Middlesea's accounting policies, this resulted in a contribution before tax of Lm0.31 million (€0.7m) to the Group. Pursuant to this company's policy to maintain capital adequacy, the paid up capital was increased to €15 million, with shareholders' funds increasing to Lm9.38 million (€21.6m) as at the end of 2004.

The primary challenge in the medium term lies in the consolidation of our portfolio together with our realisation of an improved business mix in anticipation of a highly competitive market.

Middlesea has reached agreement with Corporación Mapfre to acquire the remaining 38.97% of their shareholding, which transaction will be concluded in 2005. The financing of this specific investment has been attained through a long term arrangement at competitive terms with a leading local financial institution.

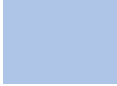
Middlesea Valletta Life Assurance Company Ltd (MSV), in its 10th year of operation, also contributed positively to the Group's overall result. The total profit after tax increased from Lm1.3 million in 2003 to Lm1.52 million (€3.5m). The demand for life assurance increased significantly and MSV registered further expansion in sales, especially from the bancassurance distribution reflecting enhanced customer confidence and loyalty. The gross premiums written increased by 60% to Lm34.9 million (€80.3m). The Life Fund, including technical provisions for unit-linked liabilities, improved by 32% to Lm159.1 million (€366.2m). The benefit of this investment was also reflected in the increase of the discounted value of projected future profits on secured business to Lm12.90 million (€29.7m). MSV increased its share capital to Lm8.6 million (€19.8m), with the result that the shareholders' funds as at the end of 2004 were Lm23.79 million (€54.8m).

The board continued to pursue the feasibility of expanding its operations outside Malta. Development of MSV's product range for the provision of life, pensions and other financial products to the local and eventually the Italian markets will be another milestone in the continuing evolution of MSV.

The Group's total investments, excluding its share in Middlesea Valletta Life Assurance Co. Ltd, amounted to Lm58.06 million (€133.6m). Global equity markets delivered relatively good overall performance in 2004 despite the slackening economy and sharp rise in energy prices which dampened earnings prospects. Returns were stronger in Asia and in Europe than in the US. Global bond yields and their prices fluctuated in 2004 due to a changing assessment of the growth and inflation outlook. Corporate bonds experienced good performance as a result of further yield spread tightening.

The local equity market realised an impressive performance with the Malta Stock Exchange index appreciating by 44.37%. Local longer term bond yields mostly appreciated or ended the year at similar levels to the start of the year thus producing marginal price depreciation. The Group's investment income (excluding unrealised capital gains and share of MSV's profits) after investment expenses and charges amounted to Lm1.5 million (€3.5m). In addition to this income, the portfolio delivered an unrealised capital appreciation (Lm0.76 million

² *Responsabilità Civile Auto.*



Net Technical Reserves	
Lm31,901,424	2002
Lm41,734,123	2003
Lm47,188,061	2004

- €1.75m) originating both from the local and foreign markets. This had a positive effect on the net asset value of the Group.

International Insurance Management Services Ltd (IIMS) continued with its endeavours to focus on the generation of third party business in the field of management of captive insurance and reinsurance companies operating from Malta. The successful contribution of the backoffice activities provided by this company to the Group contributed to lower overall costs, higher efficiency and gradually improved service levels for our customers. Progress was registered in the implementation of the new IT software package which would assist the rationalisation of our organisational and operational structure. Continued attention was given to the development of the human resource, the cornerstone of our organisation. This specialist company, besides offering backoffice services, will continue to focus on the generation of 'non-risk' income, now even more so, with the increased international interest in Malta's financial centre.

The board continued to give considerable importance to the adoption of corporate governance principles through the various Group committees. The duties of the members sitting on these committees were set out clearly in formal terms of reference, which would continue to be reviewed in accordance with future required changes. At this stage, it is important to mention that the board of directors is actively pursuing changes to the Group's accounting policies in accordance with updates in the International Financial Reporting Standards (IFRSs) which became effective on 1 January 2005. Whilst full compliance with the International Accounting Standards (IASs) has been adhered to since 1995, the introduction of a new IFRS for insurance accounting and the updates of IASs is expected to have a positive impact on 2004 comparative information in next year's report.

A new committee on Risk Management was established. This committee will take charge of the identification, assessment, management and control of the risks of our business. An Internal Audit unit reporting directly to the Audit Committee was also in place. The ultimate objective for these ongoing changes in corporate governance was to create improved transparency, clearer communication of the Group's activities

to all stakeholders and the total application of best practice within all our business activities.

In November 2004, we became aware that a purchaser was being sought for the 15.78% shareholding in the Company held by the Government of Malta and the 7.33% shareholding in the Company held by Air Malta p.l.c. The Company was advised that Corporación Mapfre S.A. had indicated that it was, in principle, interested to increase its shareholding. During January 2005, four special trades took place on the Malta Stock Exchange, wherein the Government of Malta sold 7.85% of its shareholding in the Company and Air Malta p.l.c. sold its 7.33% shareholding, both to Corporación Mapfre S.A. who thereby increased their holding to 20.66%. The new composition of our shareholding sustains our international vision in our endeavours to seek growth outside of Malta.

The dynamism of the insurance sector both locally and internationally will continue to present challenges. The cadre of our management and staff, together with the directors who bring a varied and wide experience in finance, commerce and professional disciplines, will provide us with the necessary requisites in our pursuance of creating real added value to our policyholders, shareholders and other stakeholders. It is fitting here to express my appreciation for the full dedication and support of members of management and staff and of the directors of the Group, which support made it possible to achieve the excellent results during the year.

Middlesea's future direction is clearly based on its strategy of business mix, geographical spread, varied distribution and absolute resolve to succeed. This encourages us all to do our best to achieve further improved results, whilst remaining constantly on our guard to deal as best as we can with a continually changing scenario and its imponderables.



M. C. GRECH
Chairman & CEO



Stqarrija ta' Chairman

Profit attributable to shareholders

2002	Lm1,140,463
2003	Lm1,066,185
2004	Lm1,583,391

Tul dawn l-ahhar snin is-settur ta' l-assigurazzjoni ghadha mill-esperjenza ta' fenomenu li minhabba fih opportunitajiet limitati żammew lill-assiguraturi milli jiksbu riżultati aċċettabbli. Wara snin ta' kondizzjonijiet diffiċli tas-suq, partikolarment ir-riżultati ta' l-assi sostenituri li kienu milqutin hażin minn swieq kapitali internazzjonali depressi, il-politika rigoruża taghna li ntejjbu l-effiċjenza fl-infiq u r-riżultat minn operazzjonijiet tekniċi effettivi wasslu biex seta' jkollna operat qawwi fl-2004.

L-istrategġija konsistenti taghna kompliet tiffoka fuq il-provvista ta' medda wiesgħa ta' prodotti permezz ta' distribuzzjoni b'modi diversi, l-applikazzjoni ta' prezzijiet teknikament korretti, l-iżgurar ta' riservi adegwati u t-ftittxija ta' tkabbir b'firxa territorjali u portafoll imhallat. Id-dixxiplina professjonali taghna ghenet biex nilhqu l-projezzjonijiet operattivi taghna għas-sena fi swieq kompetittivi għall-ahhar. Ahna komplejna nadottaw struttura effiċjenti ta' kapital permezz ta' l-allokkazzjoni ta' l-ekwiżità ta' ishma taghna fil-Middlesea Group bl-għan ahhari li nkabbiru kemm jista' jkun il-potenzjal taghna għal tkabbir li jhalli profitt.

Fl-2004 għamilna wkoll pass iehor lejn l-ilhug ta' l-oġġettivi fit-tul taghna. Ir-riżultati finali wrew li f'din is-sena l-Middlesea Group irregistra profitt operattiv ta' Lm2.21 miljun (€5.1m) fuq attivitajiet ordinarji qabel il-hlas tat-taxxa, mqabbel ma' Lm1.38 miljun (€3.2m) kif kien fil-31 ta' Diċembru 2003. Titjib qawwi kien irregiſtrat fil-parti l-kbira ta' l-attivitajiet tan-negozju taghna, u dan minhabba bidliet implimentati fis-snin reċenti. Il-proporzjon operattiva maghduda fuq negozju ġenerali tjebet għal 98% (2003: 102%) u riżultat fi profitt akbar ta' Lm1.58 miljun (€3.6m) (2003: Lm1.07 miljun) wara l-hlas tat-taxxa. Il-qligh taghna fuq il-kapital imhaddem, meta teskludi s-sehem tal-Middlesea ta' valur¹ inerenti qligh mhux realiżżat (li ghadha għar-riservi) ta' 9.32% (2003: 6.65%) riless f'dawn ir-riżultati robusti.

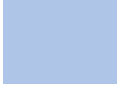
Bis-sahha ta' dan l-operat qawwi, u b'mod li hu konsistenti mal-politika taghna dwar dividendi, il-bord taghkom seta' jirrikkmanda l-hlas ta' dividend finali ta' 6ċ għal kull sehem, li jagħmel total ta' Lm750,000; żjieda ta' 20% fuq is-sena l-oħra.

Primjums gross sottoskritti (ġenerali u hajja ta' gruppi) ammontaw għal Lm35.94 miljun (€82.7m). Ahna kkonsolidajna s-sehem taghna tas-suq u komplejna niffukaw fuq ir-riorganizzazzjoni tal-portafoll sottoskritti f'Malta, Ġibiltà u l-Italja. Ir-riservi tekniċi netti telghu bi 13% għal Lm47.2 miljun (€108.6m); il-proporzjon ta' riservi tekniċi netti għal primjums netti sottoskritti kienet 160% fl-ahhar tas-sena. Il-fondi ta' l-azzjonisti (inkluż is-sehem fl-MSV tal-valur inerenti) kibru b'10% għal Lm24.07 miljun (€55.4m). Il-valur ta' l-assi nett kull sehem kien Lm1.93 u d-dhul għal kull sehem tela' b'49% għal 12ċ7. L-assi totali tal-Grupp kibru bi kważi 7% għal Lm100.2 miljun (€230.6m). Dawn ir-riżultati pożittivi ghenuna ntejjbu l-karta bilanċjali taghna li fuqha nahdmu għal tkabbir futur, nipproduċu qligh aċċettabbli għall-azzjonisti taghna u nonoraw l-impenji li għamilna lill-klijenti.

L-operazzjonijiet tal-Middlesea Insurance p.l.c., il-Middlesea Valletta Life Assurance Co. Ltd, Progress Assicurazioni S.p.A. u l-International Insurance Management Services Ltd kollha kkontribwew pożittivament għar-riżultat ġenerali.

Il-primjums gross sottoskritti (negozju ġenerali) tal-kumpanija ewlenija, il-Middlesea Insurance p.l.c., żdiedu b'7% għal Lm13.64 miljun (€31.4m). L-assigurazzjoni tal-vetturi bil-mutur baqgħet il-kontributor ewlieni għan-negozju ta' assicurazzjoni ġenerali. Il-portafoll personali u kummerċjali bilanċjat taghna tana l-okkażjoni li niksbu riżultati operattivi pożittivi tul iċ-ċiklu ta' sottoskrizzjoni. Għalkemm in-negozju ta' linji personali f'Malta hu kompetittiv u sensitiv għall-ahhar għaċ-

¹ Valur inerenti bu l-valur skuntat ta' profitti futuri proġettati fuq negozju miksub.



Shareholders' funds	
Lm21,210,840	2002
Lm21,858,848	2003
Lm24,073,737	2004

ċaqliq fil-prezzijiet, ahna nemmnu li hu prudenti li tapplika prezzijiet proporzjonati għar-riskju involut.

Irrreġistrajna titjib konsiderevoli fir-riżultati ta' sottoskrizzjoni netti ta' l-operazzjonijiet tekniċi tagħna, b'mod partikolari fil-klassi tal-vetturi bil-mutur. Ir-riżultati ta' sottoskrizzjoni netti tal-klassi tal-vetturi bil-mutur tjebru għal surplus favorevoli ta' Lm0.71 miljun (€1.6m) meta mqabbel ma' telf ta' Lm0.44 miljun (€1.0m) fl-2003 filwaqt li r-riżultati ta' sottoskrizzjoni netti ġenerali (il-klassijiet kollha) rreġistraw surplus ta' Lm0.70 miljun (€1.6m) (2003: telf ta' Lm0.56m). L-ipprezzar tas-suq kurrenti fuq negozju ta' propjetà jibqa' inadegwat, partikolarment meta tqis l-ispejjeż għolja ta' riassigurazzjoni ta' katastrofi. Il-klassi ta' responsabbiltà legali rreġistraw telf l-iktar minhabba ż-żjieda fl-assenji oghla mill-qrati. Hu importanti li wiehed jinnota li permezz ta' l-intervent tal-Malta Insurance Association iddahhal limitu li jiffissa l-oghla kumpens kemm fil-Kodiċi Ċivili u kemm fl-Ordinanza dwar l-Assigurazzjoni ta' Vetturi tal-Mutur għar-Riskji ta' Terzi Partijiet. Dawn il-bidliet, flimkien mar-4 u l-5 Direttivi ta' l-UE dwar Vetturi bil-Mutur, mistennija jolqtu r-riżultati previsti fil-każ ta' assicurazzjoni tal-klassi ta' responsabbiltà legali f'Malta. Kumpens għal każijiet ta' leżjoni jehtieġ jirrifletti r-realtà u s-sostenibilità ekonomiċi; altrimenti l-kompetittività nazzjonali tbat.

Il-mod dixxiplinat kif ahna nittrattaw is-sottoskrizzjoni u l-ipprezzar, flimkien ma' l-immanigġjar effiċjenti tal-klejms, kontroll strett ta' l-ispejjeż, innovazzjoni tal-prodott u servizz eċċellenti lill-klijenti għandhom jiżguraw sostenibilità ta' riżultati itjeb fil-futur.

Konformi mal-politika ta' konsolidament li kienet introdotta fl-2004 minn Progress Assicurazioni S.p.A., primjums gross sottoskritti niżlu għal Lm21.66 miljun (€49.8m). L-operazzjoni teknika ġenerali pożittiva kienet fil-linja ta' dak li stennejna

u kkontribwiet pożittivament għar-riżultati tal-Grupp. In-negozju kien iġġenerat permezz ta' firxa ta' agenti fin-Nofsinar ta' l-Italja u fi Sqallija.

Is-sussidjarja Taljana tagħna baqgħet issegwi politika ta' ffixar ta' pprezzijiet u bini ta' riservi adegwati b'firxa territorjali u portafoll imhallat bejn vetturi bil-mutur RCA² u negozju ġenerali. Kien inkoraġġanti li din il-kumpanija sussidjarja rreġistraw fil-kontijiet tagħha profitt totali ta' Lm1.1 miljun (€2.5 miljun) (2003: Lm0.8m) ibbażat fuq ir-reġim statutorju u regolatorju Taljan. Wara aġġustamenti għal konsolidament u adożzjoni tal-politiki ta' kontabilità tal-Middlesea, dan irriżulta f'kontribut ta' Lm0.31 ta' miljun (€0.7m) lill-Grupp qabel il-hlas tat-taxxa. Konformi mal-politika ta' din il-kumpanija li żżomm kapital adegwat, il-kapital imhallas żdied għal €15il miljun, u l-fondi ta' l-azzjonisti telghu għal Lm9.38 miljuni (€21.6m) fi tmiem l-2004.

L-isfida primarja fi żmien medju qiegħda fil-konsolidament tal-portafoll tagħna flimkien mar-realizzazzjoni ta' tahlita itjeb ta' negozju u dan b'anticipazzjoni ta' kompetizzjoni ikbar fis-suq Taljan. Il-Middlesea waslet fi ftehim ma' Corporación Mapfre biex tixtri l-bqija tad-38.97% ta' l-ishma tagħhom, transazzjoni li tkun konkluża fis-sena 2005. L-iffinanzjar ta' dan l-investment speċifiku ntlahaq bis-sahha ta' arrangament fit-tul b'termini kompetittivi ma' istituzzjoni finanzjarja lokali ewlenija.

Il-Middlesea Valletta Life Assurance Company Ltd (MSV), fl-ghaxar sena ta' operazzjonijiet tagħha, ikkontribwiet ukoll għar-riżultat ġenerali tal-Grupp. Il-profitt totali wara l-hlas tat-taxxa tela' minn Lm1.3 miljun fl-2003 għal Lm1.52 miljun (€3.5m). Id-domanda għal assicurazzjoni tal-hajja kibret b'mod sinifikanti u l-MSV rreġistraw espansjoni ulterjuri fil-bejgħ, speċjalment mid-distribuzzjoni tal-bankassigurazzjoni li tirrifletti

²Responsabilità Civile Auto.



Stqarrija ta' Chairman

Net asset value per share

2002	Lm1.70
2003	Lm1.75
2004	Lm1.93

fiduċja u lealtà min-naħa tal-klijenti. Il-primjums gross miktubin telgħu b'60% għal Lm34.9 miljun (€80.3m). Il-Fond tal-hajja, inklużi provvedimenti tekniċi għal *unit-linked liabilities*, tjejb bi 32% għal Lm159.1 miljun (€366.2m). Il-benefiċċju ta' dan l-investment kien rifless ukoll fiż-żjieda tal-valur skuntat ta' profitti futuri pproġettati fuq negozju żgurat għal Lm12.90 miljun (€29.7m). Il-MSV kabbret il-kapital ta' ishma tagħha għal Lm8.6 miljuni (€19.8m), bir-riżultat li l-fondi ta' l-azzjonisti fi tmiem l-2004 kienu Lm23.79 miljun (€54.8m).

Il-bord kompli jsegwi l-kwistjoni ta' kemm wiehed għandu jespandi l-operazzjonijiet tiegħu barra minn Malta. L-iżvilupp tal-medda ta' prodotti ta' l-MSV għall-provvediment ta' prodotti tal-hajja, pensjonijiet u prodotti oħra finanzjarji għas-suq lokali u eventwalment dak Taljan jkun jikkostitwixxi grajja importanti fl-evoluzzjoni kontinwa ta' l-MSV.

L-investimenti totali tal-Grupp, meta teskludi s-sehem tiegħu fil-Middlesea Valletta Life Assurance Co. Ltd, ammontaw għal Lm58.06 miljun (€133.6 m). Swieq ta' ekwità globali kellhom operat generali relattivament tajjeb fl-2004 minkejja ekonomija x'aktarx dgħajfa u qabża qawwija fil-prezzijiet ta' l-enerġija li mewwtet il-prospetti ta' qligh. Il-qligh kien aktar qawwi fl-Asja u fl-Ewropa milli fl-Istati Uniti. Qligh minn bonds globali u l-prezzijiet tagħhom telgħu u niżlu tul l-2004 minhabba valutazzjoni kontinwament tinbidel tat-tkabbir u inflazzjoni fil-futur. Bonds korporattivi marru tajjeb minhabba firxa ulterjuri aktar stretta tal-qligh.

Is-suq ta' ekwitajiet lokali mar tajjeb b'mod impressjonanti tant li l-indiċi tal-Borża ta' Malta apprezza b'44.37%. Qligh minn bonds għat-tul lokali fil-biċċa l-kbira apprezza jew spicċaw is-sena flivelli simili għal dawk li kellhom fil-bidu tas-sena u hekk ipproduċew deprezzament marginali fil-prezz. Id-dhul mill-investimenti tal-Grupp (meta teskludi l-qligh

kapitali mhux realizzati u s-sehem mill-profitti ta' l-MSV), wara li jitnaqqsu l-ispejjeż u nfiq kollha fuq l-investimenti, ammonta għal Lm1.5 miljun (€3.5m). B'żjieda ma' dan id-dhul, il-portafoll ta' wkoll apprezzament kapitali mhux realizzati (Lm0.76 ta' miljun - €1.75m) li oriġina kemm mis-swieq lokali u kemm minn dawk barranin. Dan kellu effett pożittiv fuq il-valur ta' l-assi nett tal-Grupp.

L-International Insurance Management Services Ltd (IIMS) kompliet bl-isforzi tagħha li tiffoka fuq il-ġenerazzjoni ta' negozju ma' terzi partijiet fil-qasam ta' l-immaniġġjar ta' kumpaniji ta' assigurazzjoni u ta' riassigurazzjoni *captive* li joperaw minn Malta. Il-kontribut pożittiv tas-servizzi pprovduti minn din il-kumpanija lill-Grupp ikkontribwixxa biex inaqqas l-ispejjeż ġenerali, iġib effiċjenza akbar u jtejjeb gradwalment il-livelli ta' servizz lill-klijenti tagħna. Sar progress fl-implimentazzjoni ta' pakkett ta' softwer ġdid ta' IT li għandu jghin ir-razzjonalizzazzjoni ta' l-istruttura organizzattiva u operattiva tagħna. Ngħatat attenzjoni kontinwa lill-iżvilupp tar-riżorsi umani, li huma l-pedament ta' l-organizzazzjoni tagħna. Din il-kumpanija speċjalizzata, barra milli toffri servizzi *backoffice*, se tkompli tiffoka fuq il-ġenerazzjoni ta' dhul "mhux konness ma' riskji", u l-aktar issa meta hawn interess internazzjonali akbar fiċ-ċentru finanzjarju ta' Malta.

Il-bord kompli jagħti importanza konsiderevoli lill-adozzjoni ta' prinċipji ta' governanza korporattiva permezz tad-diversi kumitati tal-Grupp. Id-dmirijiet tal-membri li jservu fuq dawn il-kumitati kienu deskritti f'termini ta' referenza formali li jibqgħu jkunu riveduti skond il-bidliet meħtieġa fil-futur. F'dan l-istadju hu importanti li jingħad li l-bord tad-diretturi qed isegwi attivament bidliet fil-politika ta' kontabilità tal-Grupp skond aġġornamenti fl-International Financial Reporting Standards (IFRSs) li dahlu fis-seħh fl-1 ta' Jannar 2005. Filwaqt li konformità shiha ma' l-International Accounting

Standards (IASs) ilha li ddahhlet sa mill-1995, l-introduzzjoni ta' IFRS godda għall-kontabilità fil-qasam ta' l-assigurazzjoni u l-aġġornamenti ta' l-IASs mistenni jkollu mpatt pożittiv fuq l-2004 informazzjoni komparattiva fir-rapport tas-sena li gejjja.

Twaqqaf kumitat ġdid għall-Immaniġġjar tar-Riskji. Dan il-kumitat se jjeħu f'idejh l-identifikazzjoni, valutazzjoni, immaniġġjar u kontroll tar-riskji ta' l-operat tagħna. Kien qed jopera wkoll unit ta' Verifika Interna li jirrapporta direttament lill-Kumitat tal-Verifika. L-objettiv aħhari ta' dawn il-bidliet li għaddejnin fil-governanza korporattiva kien li tinholoq trasparenza mtejjba, komunikazzjoni aktar ċara ta' l-attivitajiet tal-Grupp lil dawk kollha involuti fih u l-applikazzjoni totali ta' l-itjeb prattika fl-oqsma kollha tan-negozju tagħna.

F'Novembru 2004 aħna sirna nafu li kien qed jifittex xerrej għas-sehem ta' 15.78% fil-kumpanija li kellu l-Gvern ta' Malta u għas-sehem ta' 7.33% fil-kumpanija li kellha l-Air Malta p.l.c. Il-kumpanija kienet mgħarrfa li Corporación Mapfre S.A. kienet indikat li, fi prinċipju, kienet interessata li tkabbar is-sehem li kellha. Tul Jannar 2005 erba' transazzjonijiet speċjali saru fil-Borża ta' Malta li bihom il-Gvern ta' Malta biegh 7.85% ta' l-ishma tiegħu fil-Kumpanija u l-Air Malta p.l.c. bieghet is-sehem ta' 7.33% tagħha, it-tnejn lil Corporación Mapfre S.A. li b'hekk ziedet is-sehem tagħha għal 20.66%. Il-kompożizzjoni ta' l-azzjonisti tagħna ssostni l-viżjoni internazzjonali fl-isforzi tagħna biex infittxu tkabbir barra minn Malta.

Id-dinamiżmu tas-settur ta' l-assigurazzjoni, kemm f'livell lokali u kemm f'dak internazzjonali, se jkompli jippreżenta sfidi. Il-professionalità tal-manigment u l-istaff tagħna, flimkien mad-diretturi li jgħibu magħhom il-kontribut ta' esperjenza varjata u wiesgħa fil-finanza, kummerċ u dixxiplini professjonali, se tipprovvilna r-rekwiżiti neċessarji fit-ftittxija tagħna li noholqu valur miżjud reali lil dawk li għandhom poloz tagħna,

lill-azzjonisti u lil dawk kollha involuti magħna. Hu xieraq hawn li nesprimi l-apprezzament tiegħi għad-dedikazzjoni u l-appoġġ tal-membri tal-manigment u l-istaff u lid-diretturi tal-Grupp; kien dan l-appoġġ li għamilha possibbli li niksbru dawn ir-riżultati eċċellenti tul is-sena.

Id-direzzjoni futura tal-Middlesea hi bbażata fuq strategija ċara ta' portafoll ibbilanċjat, firxa ġeografika, distribuzzjoni varja u determinazzjoni assoluta li nirmexxu. Din tinkoragġina lkoll li nagħmlu mill-aħjar li nistgħu biex niksbru riżultati pożittivi filwaqt li nibqgħu dejjem attenti biex niffaċċjaw mill-aħjar li nistgħu xenarju li jinbidel il-hin kollu u l-inċertezzi li jgħib miegħu.



M. C. GRECH
Chairman & CEO

Board of Directors



Mr M.C. Grech



Mr R.E.D. Chalmers



Mr F. Xerri de Caro



Mr T. Depasquale



Mr H. Attard Montalto



Dr M. Sparberg



Mr V. Galea Salomone



Mr L. Spiteri

Mr. M.C. Grech - 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, Director of Plaza Centre plc.

At present: Chief Executive Officer of Middlesea Insurance p.l.c., 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. and of Premium Realty Ltd, Life Vice President - Chartered Insurance Institute U.K. and President of the Malta Insurance Association, Chairman of the Middlesea Group Investment Committee and the Corporate Management Committee.

Mr R. E. D. Chalmers M.A. Div.(Edin), F.C.A., A.T.I.I., F.C.P.A., M.I.A.

Formerly: A partner with the offices of Coopers and Lybrand (later PricewaterhouseCoopers) in Malta and in Hong Kong. Managing Partner of Coopers & Lybrand Hong Kong and Chairman of the firm's South East Asia Regional Executive and a member of the International Board of Directors. Upon the merger of Coopers & Lybrand and Price Waterhouse in 1998, he was appointed Chairman, Asia-Pacific, for PricewaterhouseCoopers, until his retirement in 2000. He was also a member of the PwC Global Management Board. He served as a non-executive director of the Hong Kong Securities and Futures Commission and he was also a member of the Takeovers and Mergers Panel. He was appointed by the Financial Secretary of Hong Kong to sit on the Banking Advisory Committee. Member on the board and Chairman of the Audit Committee of Gasan Mamo Insurance Co Ltd. **At present:** Chairman of Bank of Valletta Group plc, Middlesea Valletta Life Assurance Ltd and Valletta Fund Management Ltd. Member of the Board of Gasan Group Ltd, Alfred Gera & Sons Ltd, and Global Sources Ltd, a NASDAQ listed company.

Mr. G. Bonnici

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

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

Mr J. Camilleri M.A. (Human Resources Leadership)

Formerly: Private Secretary to the Prime Minister and Chairman of Telemalta Corporation, 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.

At present: Personal Assistant to the European Commissioner Dr J. Borg.

Dr E. Caruana Demajo LL.D.

At present: An advocate in civil and commercial practice.

Mr A. Corsi

Formerly: Actuary in the Life Department - Assicurazioni Generali and subsidiaries.

At present: Area Manager for Spain, Portugal, USA, Israel, Malta and Latin America - Group Insurance Operations, Assicurazioni Generali Head Office.

Mr G. Debono Grech L.P. F.I.S.M.M. (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: Member of the Board of Appeal for promotion at Maltacom, member of the disciplinary Board at Maltacom, Legal Procurator.

Mr T. Depasquale

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

At Present: Chief Executive Officer of Bank of Valletta Group p.l.c., Director on the Board of Valletta Fund Management Ltd, Director on the Board of BOV Stockbrokers Ltd, Director on the Board of Middlesea Valletta Life Assurance Company Ltd and Director on the Board of Valletta Waterfront.



Dr J. C. Grech



Mr G. Debono Grech



Mr D. Sugranyes Bickel



Mr G. Bonnici



Dr E. Caruana Demajo



Mr A. Corsi



Mr J. Camilleri

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.

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

Formerly: 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 Middlesea 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, Vice-Chairman of FIMBANK. Holds directorships on various other company boards. Dr Grech is also visiting professor at the University of Malta.

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.

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. 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: Chairman Bortex Group, Chairman Roosendaal Hotels Limited; Director VBIE Ltd., Miracle Foods Ltd, Pinto Cold Stores Ltd,

Medavia Ltd, Tumas Investments p.l.c., Dolmen Properties p.l.c., P. Cutajar Co. Ltd, Zerniq Ltd, Zone Ltd, Columnist, The Sunday Times and The Times of Malta.

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 Corporacion 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 Caja Salud, Mapfre Re, Mapfre America, Mapfre Asistencia and Mapfre Inmuebles and member of the Board and Executive Committee of Mapfre Mutualidad, the Group parent company.

Mr F. Xerri de Caro, ACIB -

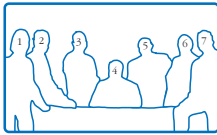
Formerly: Chairman and Director of Lohombus Corporation, Chairman of the Malta Bankers Association, Chairman Human Resources and Support Services at the Malta Tourism Authority, Director of Bank of Valletta International Limited, Director of Investment Finance Bank Limited, Director of Valletta Investment Bank Limited, Director of Middlesea Valletta Life Assurance Company Ltd, Director of Valletta Fund Management Company Ltd and Chief Officer of Bank of Valletta p.l.c.

At present: On the Board of Governors of the Malta Financial Services Authority, Deputy Chairman of Gozo Channel Company Ltd, Director of International Hotel Investments p.l.c. and Director Credit Info Malta Ltd.

Middlesea Group Management



Middlesea Insurance p.l.c.



- 1 - Ms S. Sciriha
- 2 - Mr M. Cumbo
- 3 - Mr P. Muscat
- 4 - Mr J. M. Rizzo
- 5 - Mr S. Camilleri
- 6 - Mr J. Avellino
- 7 - Mr K. Mallia Milanese

Middlesea Insurance p.l.c.

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

Mr Joseph Avellino
ACII, Chartered Insurer
- Assistant General Manager

Mr Simon Camilleri
ACII, Chartered Insurer
- Assistant General Manager

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

Mr Patrick Muscat
ACII, Chartered Insurer
- Assistant General Manager

Ms Sandra Sciriha
- Executive Consultant

Mr Mario Cumbo
- Chartered Surveyor



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



- 1 - Mr P. Spiteri
- 2 - Ms M. Formosa
- 3 - Ms A. M. Tabone
- 4 - Mr B. Fenech
- 5 - Mr C. Borg
- 6 - Mr E. M. Borg
- 7 - Ms E. Carbonaro
- 8 - Mr J. Mallia
- 9 - Ms A. Zammit Munro

International Insurance Management Services Ltd.

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

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

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

Mr Bernard Fenech
MBA (Grenoble) MIMIS, MIAP
- Assistant General Manager

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

Mr Christopher Borg
B. Comm., BA (Hons) Accty,
MIA, CPA
- Internal Auditor

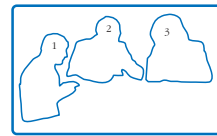
Mr Evander M. Borg
FCII, MBA, (Henley - Brunel) FRSA
- Senior Executive Manager

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

Mr Peter Spiteri
FCII, AIRM, Chartered Insurer
- Senior Executive Manager



- 1 - Mr V. Ellul
- 2 - Mr M. Camilleri
- 3 - Mr D. G. Curmi
- 4 - Mr V. Farrugia
- 5 - Mr H. Damato
- 6 - Mr R. Gibson
- 7 - Ms D. Bezzina



- 1 - Rag G. Ficarra
- 2 - Mr S. Gauci
- 3 - Sig. ra N. Ciotta

Middlesea Valletta Life

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

Progress Assicurazioni Spa

Mr Stephen Gauci
ACII
- Direttore generale

Sig. ra Nunzia Ciotta
- Dirigente

Rag. Giovanni Ficarra
- Dirigente



Middlesea Insurance p.l.c.

The year 2004 was one in which Middlesea Insurance plc started to reap some of the benefits of its consolidating actions taken during the last years. Our challenges were to absorb the adverse effects of downward trends in the international investment markets, and the increased reinsurance costs experienced in the recent years. Utilisation of quality reinsurers remains the company's policy.

The profit before tax generated by the holding company from its technical underwriting operations, both general business and long term business operations was Lm0.72million (€1.7m) which contributed 38% to the total pre tax profit as compared to the negative result of Lm0.29million (€0.7m) incurred last year. The main contributor to these improved results was the annual general business which registered a profit of Lm0.67m (€1.5m) for the year compared to a loss of Lm0.57million (€1.3m) last year.

Net investment income, excluding the Company's share of group undertakings and participating interest amounted to Lm0.66million (€1.5m) a reduction of 10% over that of last year. Total administrative expenditure, including staff costs, was Lm1.34million (€3.1m) reflecting an increase of 6% over 2003. The expense ratio which is the expenditure as a percentage of the gross premium written has remained consistent at 9.4%.

The net technical provisions, excluding equalisation reserve, amounted to Lm14.6million (€33.6m) out of which Lm10.3million (€23.7m) relate to outstanding claims reserves. The net technical reserves ratio to net written premium, after reinsurance, was 159%.

The total profit before tax for the year amounted to Lm1.9million (€4.4m) reflecting a healthy improvement over last year's result of Lm0.93m (€2.1m). Profit after tax was Lm1.58million (€3.6m), resulting in earnings per share of 12.7cents as compared to 8.5cents last year.

Annual Insurance Business

The gross premium written by Middlesea increased by 7% over last year to Lm13.6million (€31.3m). This equates to 38% of the Group's technical turnover. The Gibraltar branch contributed Lm1.6million (€3.7m), an increase of 9% from this territory. The composition of the total portfolio remained fairly stable with motor being the largest class of business at 55%. The net earned premium after proportional reinsurance increased by 12% and the net premium ceded decreased as a percentage of gross earned premium from 28.4% to 27.5% indicating a higher retention policy adopted in 2004. Acquisition costs remained consistent however commission receivable from reinsurers as a percentage of net premium ceded decreased 5 percentage points.

The claims incurred from continued operations for the current financial year amounted to Lm8.4million (€19.3m) producing a loss ratio to earned premium of 61% (2003: 77%). The company experienced a favourable run-off which reduced the claims incurred before any recoveries from reinsurance to Lm7.9million (€18.2m); an improved loss ratio of 57.6%. Claims recoverable under proportional and facultative treaties amounted to 18% of the total claims incurred which is lower than last year's recovery of 25.9%. All major classes resulted in an improved loss ratio with a marked improvement in the motor class. The liability class showed deterioration mainly due to an unfavourable run-off resulting from risks the majority of which are no longer on our books. Gibraltar has a deteriorated loss ratio in view of one large loss which has affected both the fire and liability classes. Motor loss ratio of the Gibraltar account has remained consistent with that of last year.

The gross underwriting results from continued operations, before reinsurance, allocation of investment income and apportionment of costs, was Lm2.66million (€6.1m), a return of 19.5% on gross written premiums as compared to 0.8% last year. All classes of business, with the exception of liability,

registered a positive result. The net underwriting result after reinsurance and after allocation of investment income and apportionment of expenditure was a profit of Lm0.75million (€1.7m) from the local operations and a loss of Lm0.05million (€0.1m) from Gibraltar. The combined operational ratio which is the underwriting result, after reinsurance and after allocation of all expenditure but before allocation of investment income, to net earned premium equated to 97% as compared to 113% in 2003.

The results show that, the approach the company has adopted in recent years of revisiting regularly its pricing mechanism and the selective methodology of accepting business, is now giving the desired result. This process is an ongoing one and will be continuously refined with new management information systems in which the company is investing. The company values its strong relationships with its producers, be they tied agents or sub-agents and also brokers, and will continue to enhance this for the benefit of the whole spectrum of its customers. The reinsurers are also critical partners in the equation as they provide capacity and security for all the underlying business. It is therefore incumbent on the company to continue to adopt underwriting practices which will produce a balanced and equitable return to all stakeholders.

Funded Business

This mainly represents commercial reinsurance and the run-off account for the international reinsurance business which was written by the company and is now regarded as discontinued operation. During this year several closings were received which amounted to an earned premium of Lm0.07million (€0.2m). Settlement of various claims reserved under this category were made during the year. This resulted in a technical loss of Lm0.13million (€0.3m) which was mitigated partially by the release in the three year reserve from the commercial reinsurance business, resulting in a loss of Lm0.09million (€0.2m). Management will continue to carry out an orderly run-off of this discontinued portfolio.

Long Term

The holding company writes an account of long term business which solely consists of Group Life business. The gross written premium amounted to Lm0.57million (€1.3m) a reduction of 4% over last year. The gross loss ratio from this business deteriorated from 35.8% to 66%. The net technical result amounted to Lm0.15million (€0.3m) which is a reduction from Lm0.21million (€0.5m) achieved last year. This area continues to be one of competitive prices in the local limited market and therefore priority is to maintain profitability by pricing our products correctly.



J. M. Rizzo
General Manager



Middlesea Insurance p.l.c.

Is-sena 2004 kienet waħda li tulha l-Middlesea Insurance p.l.c. bdiet taħsad uħud mill-benefiċċji ta' l-azzjonijiet ta' konsolidament li ttiehdu tul dawn l-aħħar snin. L-isfidi tagħna kienu li nassorbu l-effetti ħżiena tax-xejriet 'l isfel fis-swieq internazzjonali ta' l-investimenti u l-ispejjeż oghla ta' riassigurazzjoni li kellna fis-snin reċenti. L-użu ta' riassiguratari ta' kwalità jibqa' l-politika tal-kumpanija.

Il-profitt qabel il-hlas tat-taxxa ġġenerat mill-kumpanija ewlenija mill-operazzjonijiet ta' sottokrizzjoni tagħha, kemm negozju generali u kemm negozju għat-tul, kien Lm0.72 ta' miljun (€1.7m) li kkontribwixxa 38% mill-profitt qabel il-hlas tat-taxxa meta mqabbel mar-riżultat negattiv ta' Lm0.29 ta' miljun (€0.7m) tas-sena l-oħra. Il-kontributor ewlieni għal dawn ir-riżultati mtejjba kien in-negozju totali annwali li rreġistra profitt ta' Lm0.67 ta' miljun (€1.5m) għas-sena mqabbel ma' telf ta' Lm0.57 ta' miljun (€1.3m) is-sena l-oħra.

Dhul nett minn investimenti, meta teskludi s-sehem tal-Kumpanija fl-intrapriżi tal-grupp u l-interess parteċipattiv, ammonta għal Lm0.66 ta' miljun (€1.5m), tnaqqis ta' 10% mis-sena l-oħra. In-nefqa amministrattiva totali, inklużi l-ispejjeż ta' l-istaff, kienet Lm1.34 miljun (€3.1m) li tirrifletti żjieda ta' 6% fuq l-2003. Il-proporzjon ta' spejjeż, li hija n-nefqa bħala perċentwali tal-primjum gross sottokrizzjoni, baqgħet konsistenti fuq 9.4%.

Il-provvedimenti tekniċi netti, eskluzi r-riserva għal ekwalizzazzjoni, ammontaw għal Lm14.6 miljun (€33.6m) li minnhom Lm10.3 miljun (€23.7m) huma relatati ma' riservi għal klejms pendenti. Il-proporzjon tar-riservi tekniċi netti mal-primjums netti sottokrizzjoni, wara li tqiesu l-ispejjeż ta' riassigurazzjoni, kienet 159%.

Il-profitt totali qabel il-hlas tat-taxxa għas-sena ammonta għal Lm1.9 miljun (€4.4m) li jirrifletti titjib san fuq ir-riżultat tas-sena l-oħra li kien Lm0.93 ta' miljun (€2.1m). Profitt wara l-hlas tat-taxxa kien Lm1.58 miljun (€3.6m), li jirriżulta fi

qligh ta' 12.7% għal kull sehem meta mqabbel ma' 8.5% s-sena l-oħra.

Negozju Annwali ta' Assigurazzjoni

Il-primjum gross sottokrizzjoni mill-Middlesea tela' b'7% fuq is-sena l-oħra għal Lm13.6 miljun (€31.3m). Dan hu ekwivalenti għal 38% tan-negozju tekniku globali tal-Grupp. Il-fergħa ta' Ġibiltà kkontribwiet Lm1.6 miljun (€3.7m), żjieda ta' 9% minn dan it-territorju. Il-kompożizzjoni tal-portafoll totali baqgħet biżżejjed stabbli u l-vetturi kienu l-akbar klassi b'55%. Il-primjum maqluġh nett wara riassigurazzjoni proporzjonali tela' bi 12% u l-primjum nett ċedut niżel bħala perċentwali minn 28.4% għal 27.5% li jindika politika ta' żamma oghla ta' riskju adottata fl-2004. Spejjeż għall-akkwist ta' negozju baqgħu konsistenti, iżda kummissjonijiet li jridu jidhu mingħand riassiguratari bħala perċentwali ta' primjum nett ċedut niżlu b'5 punti perċentwali.

Il-klejms li rriżultaw minn operazzjonijiet li għadhom għadejjien ammontaw għal Lm8.4 miljun (€19.3m) u pproduċew proporzjon ta' telf meta mqabbla ma' primjums maqluġhin ta' 61% (2003: 77%). Il-kumpanija kellha esperjenza favorevoli fil-każ ta' klejms pendenti minn snin oħra li rriduċew il-klejms li rriżultaw qabel ma saru rkupri minn riassigurazzjoni għal Lm7.9 miljun (€18.2m); proporzjon ta' telf imtejjba ta' 57.6%. Klejms li fuqhom jista' jsir irkupru taħt trattati proporzjonali u fakultattivi ammontaw għal 18% tal-klejms totali li dahlu, li huma inqas mill-irkupru li sar is-sena l-oħra meta kien 25.9%. Il-klassijiet maġġuri kollha taw proporzjon ta' telf aħjar b'titjib sinifikanti fil-klassi tal-vetturi. Il-klassi ta' responsabbiltà legali wriet deterjorament l-aktar minhabba l-hlas ta' klejms minn snin oħra fuq riskji li l-maġġoranza tagħhom m'għadhomx sottokrizzjoni minna. Ġibiltà għandha proporzjon ta' telf aghar minn qabel htija ta' telfa waħda kbira li laqtet il-klassijiet ta' hruq u responsabbiltà legali. Il-proporzjon ta' telf imqabbla ma primjums maqluġhin tal-kont ta' Ġibiltà baqa' konsistenti ma' dak tas-sena l-oħra.

Ir-riżultati gross ta' sottoskrizzjoni minn operazzjonijiet li għadhom għaddejjin, qabel l-ispejjeż tar-riassigurazzjoni, l-allokazzjoni ta' dhul minn investimenti u t-tqassim ta' spejjeż skond kull kont, laħqu Lm2.66 miljuni (€6.1m), qligh ta' 19.5% fuq primjums gross sottoskritti meta mqabblin mal-0.8% tas-sena l-oħra. Il-klassijiet ta' negozju kollha, bl-eċċezzjoni tar-responsabbiltà legali, irreġistraw riżultat pożittiv. Ir-riżultat tas-sottoskrizzjoni nett, wara l-ispejjeż ta' riassigurazzjoni u wara l-allokazzjoni ta' dhul minn investimenti u t-tqassim ta' nfiq skond il-kont, kien profitt ta' Lm0.75 ta' miljun (€1.7m) minn operazzjonijiet lokali u telf ta' Lm0.05 ta' miljun (€0.1m) minn Ġibiltà. Il-proporzjon operattiva meta tiehu kollox flimkien, li tikkonsisti fir-riżultat tas-sottoskrizzjoni wara li jitnaqqsu l-ispejjeż ta' riassigurazzjoni u wara l-allokazzjoni ta' l-ispejjeż kollha iżda qabel l-allokazzjoni ta' dhul minn investimenti, mqabbla ma' primjum maqlugh nett kienet ekwivalenti għal 97% meta mqabbel ma' 113% fl-2003.

Ir-riżultati juru li l-atteggjament adottat mill-kumpanija fis-snin reċenti li regolarment tagħti harsa lejn il-mekkanizmu ta' pprezzar tagħha u lejn il-metodoloġija selettiva dwar negozju ġdid issa qiegħed jagħti r-riżultat mixtieq. Dan hu proċess sejjer il-hin kollu u jkun irfinut kontinwament b'sistemi ġodda ta' informazzjoni dwar manigment li l-kumpanija qed tinvesti fihom. Il-kumpanija tghożż ir-relazzjonijiet qawwija li għandha mal-produtturi tagħha, kemm jekk huma aġenti jew sotto-aġenti marbutin u wkoll brokers, u se tibqa' ttejjibhom għall-benefiċċju ta' l-ispettru kollu tal-klijenti tagħha. Ir-riassiguraturi huma wkoll shab kritiċi fl-ekwazzjoni għaliex jipprovdu kapacià. Hu għalhekk doveruż li l-kumpanija tibqa' tadotta pratki ta' sottoskrizzjoni li jipproduċu qligh bilancjat u ekwu lil dawk kollha involuti fiha.

Negozju Finanzjat

Dan jirrappreżenta l-aktar riassigurazzjoni kummerċjali u l-kont ta' klejms pendenti minn snin oħra għan-negozju ta' riassigurazzjoni internazzjonali li kien sottoskritti mill-kumpanija u issa jittqies bhala operazzjoni li twaqqfet. Tul dis-sena rċevejna

hafna kontijiet li nġhalqu li ammontaw għal dhul ta' Lm0.07 ta' miljun (€0.2m) minn primjums. Tul is-sena wkoll saru diversi hlasijiet ta' klejms li kellhom riserva taht din il-kategorija. Dan irriżulta f'telf tekniku ta' Lm0.13 ta' miljun (€0.3m) li kien parzjalment mitigat mir-rilaxx fir-riservi ta' tliet snin minn-negozju ta' riassigurazzjoni kummerċjali u li rriżulta f'telf ta' Lm0.09 ta' miljun (€0.2m). Il-manigment se jkompli għaddej b'mod ordnat fuq dan il-kont ta' klejms pendenti ta' dan il-portafoll li m'għadux jopera.

Negozju għat-Tul

Il-kumpanija ewlenija tissottoskrivi kont ta' negozju għat-tul li jikkonsisti biss f'negozju ta' Assigurazzjoni tal-Hajja ta' Gruppi. Il-primjum gross sottoskritti ammonta għal Lm0.57 ta' miljun (€1.3m), tnaqqis ta' 4% mis-sena l-oħra. Il-proporzjon ta' telf gross minn dan in-negozju marret lura minn 35.8% għal 66%. Ir-riżultat tekniku nett ammonta għal Lm0.15 ta' miljun (€0.4m) li hu inqas mill-Lm0.20 ta' miljun (€0.5m) kif kien is-sena l-oħra. Dan il-qasam jibqa' wiehed ta' prezzijiet kompetittivi fis-suq limitat lokali u għalhekk hija prijorità li tinżamm il-profitabilità billi l-prodotti tagħna jkunu pprezzati b'mod korrett.



J. M. Rizzo
General Manager



MIDDLESEA VALLETTA LIFE
Assurance Company Limited

During 2004, the MSV Group registered a profit after tax of Lm1.52 million (€3.5m) representing a 17% increase over the corresponding figure of Lm1.3 million recorded in 2003. Gross written premiums increased significantly by 60% from Lm21.9million to Lm34.88 million (€80.3m) in 2004.

Funds invested by MSV Group at the end of 2004 amounted to Lm163.6 million (€376.6m). This corresponds to an increase of 31%. The value of the life fund increased by 32% from Lm120.8 million to Lm159.1 million (€366.2m) and total assets also grew by 32% to Lm184.2 million (€424.0m). Shareholders' funds at the close of 2004 amounted to Lm23.8 million (€54.8m), an increase of 18% over the previous year. The value of in-force business also increased over the period from Lm11.9 million to Lm12.9million (€29.7m). 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 income increased to Lm11.7million (€26.9m) in 2004, mainly as a result of unrealised gains of Lm5.85 million (€13.5m) from investments in both the local and international capital markets.

Gross claims incurred increased to Lm3.4million (€7.7m). Claims incurred after reinsurance Lm3.2 million (€7.4m) include maturities, surrenders and mortality and disability claims.

MSV Group's acquisition costs increased by 29% from Lm1.7 million in 2003 to Lm 2.2 million (€5.0m) essentially reflecting the growth in the gross written premiums. Administrative expenses increased by 10% to Lm1.2 million (€2.8m). 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 gross premium income improved from 10.7% in 2003 to 8.6% in 2004.

During 2004 the shareholders of MSV have continued to show their commitment towards strengthening the financial stability of the company by increasing the issued and paid-up share capital from Lm6.3 million (€14.5m) to Lm8.6 million (€19.8m). The weighted average earnings per Lm1.00 share increased from 17c1 in 2003 to 19c5.

MSV Group's contribution towards the pre-tax results of the Middlesea Group increased from Lm0.68 million in 2003 to Lm0.82million (€1.9m).

The Board of Directors of MSV Group approved a resolution whereby differential rates of reversionary bonuses were declared in respect of with-profits investments held with MSV for the year ending 31 December 2004. These amounted to 3.75% for the Comprehensive Life Plan (Regular and Single Premium Policies), 4% in respect of its Comprehensive Flexi Plan (Regular and Single Premium Policies), 4.1% under the Single Premium Plan and 4.1% under the with-profits option of the Investment Bond. On the 'Old Series' Endowment and Whole of Life policies, a Reversionary Bonus of 2.0% of the basic sum assured plus bonuses was declared. 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.

Although no terminal bonus was declared for policies on claims arising out of death or maturity during 2005, any terminal bonuses declared on MSV's "Old Series" policies accumulated over prior years remained payable on any such claims during 2005.

In determining the amount of bonus to be declared in 2004, the Board took into consideration the relatively satisfactory investment returns achieved during 2004. With-profits policies are designed to protect policyholders from volatility in investment markets by smoothing performance over time.

Smoothing holds back part of the profits in the good years so that returns to policyholders can be higher than would otherwise be the case in other years when investment returns are lower. 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.

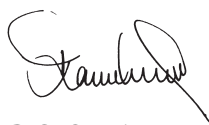
The year under review has once again been marked by satisfactory results in all areas of MSV Group's operations. The significant increase in revenue was attributable to product innovation and to the product strategy of the MSV Group as well as to the strong distribution platform. Bancassurance is an important distribution channel for MSV Group and during 2004 sales through this channel increased significantly. During 2004, sales of the Investment Bond exceeded expectations whilst during the same year the company launched, in conjunction with BNP Paribas, its first capital guaranteed product, the Capital Guaranteed Bond which is a linked long term contract of insurance.

MSV Group is committed to continue to focus on product innovation to fulfil the evolving demands of its customers. Its strategy is to offer customers innovative products that offer the highest long term protection and returns commensurate with an acceptable level of risk and backed by high-quality service. The Group is also well-positioned to take on the challenges which the forthcoming pension reform in Malta will bring particularly in the second and third pillar pension provision. Having established itself as the leading provider of life insurance and long-term savings products in the Maltese insurance market, MSV Group is now seeking opportunities for overseas expansion, particularly in the Euro-Med region. Considerable progress has already been made in the preparatory work for the establishment of a life operation in Italy.

Subsidiaries

Growth Investments Ltd. ("Growth Investments"), a wholly-owned subsidiary of the MSV Group, is authorized to provide investment services in terms of the Investment Services Act 1994. Growth Investments is also the exclusive representative of Fidelity Funds SICAV in Malta, an alliance that was established in 1997.

In 2004 Growth Investments registered a profit after tax of Lm111,445 (€256,491) compared with Lm46,842 in the previous year. The year was characterized by an improvement and stabilization in world markets leading to a gradual return of investor confidence. Nevertheless, during 2004, investors were slow to return to equities. Assuming the global economic outlook remains positive, Growth Investments is confident that the momentum gathered towards the end of 2004 will continue well into 2005 and beyond.



D.G. Curmi
General Manager





MIDDLESEA VALLETTA LIFE Assurance Company Limited

Tul l-2004 l-MSV Group irreġistra profitt ta' Lm1.52 miljun (€3.5m) wara l-hlas tat-taxxa li jirrapreżentaw żjieda ta' 17% fuq iċ-ċifra korrespondenti ta' Lm1.3 miljun registrata fl-2003. Primjums sottoskritti gross telghu b'mod sinifikanti b'60% minn Lm21.9 miljun fl-2003 għal Lm34.88 miljun (€80.3m) fl-2004.

Fondi investiti mill-MSV Group fi tmiem l-2004 ammontaw għal Lm163.6 miljun (€376.6m). Dan jikkorrispondi għal żjieda ta' 31%. Il-valur tal-fond tal-hajja tela' bi 32% minn Lm120.8 miljun għal Lm159.1 miljun (€366.2m) u l-assi totali kibru wkoll bi 32% għal Lm184.2 miljun (€424.0m). Il-fondi ta' l-azzjonisti f'għeluq l-2004 ammontaw għal Lm23.8 miljun (€54.8m), żjieda ta' 18% fuq is-sena ta' qabel. Il-valur ta' negozju attwali kiber ukoll tul il-perjodu, minn Lm11.9 miljun għal Lm12.9 miljun (€29.7m). Il-valur tan-negozju attwali jirrifletti l-valur skuntat ta' trasferimenti futuri pproġettati lil azzjonisti li jirriżultaw minn poloz li kienu fis-sehh fi tmiem is-sena wara li jsir provvediment għat-taxxa.

Dhul minn investimenti kiber għal Lm11.7 miljun (€26.9m) fl-2004, l-aktar minhabba qligħ mhux realizzati ta' Lm5.85 miljun (€13.5m) minn investimenti fis-swieq kapitali kemm lokali u kemm internazzjonali.

Klejms gross telghu għal Lm3.4 miljun (€7.7m). Klejms netti, wara l-irkupri mir-riassigurazzjoni, telghu għal Lm3.2 miljun (€7.4m) fl-2004 u jinkludu poloz maturati, poloz imsarrfin, u klejms f'każ ta' mewt u diżabilità.

L-ispejjeż għal akkwist ta' negozju mill-MSV Group telghu b'29% minn Lm1.7 miljun fl-2003 għal Lm 2.2 miljun (€5.0m) li essenzjalment jirriflettu t-ktabbir fi primjums gross sottoskritti. Spejjeż amministrattivi telghu b'10% għal Lm1.2 miljun (€2.8m). Dan hu attribwit l-aktar għall-investiment kontinwu ta' l-MSV Group f'sistemi IT mahsubin biex itejjbu l-effiċjenza tiegħu u jnaqqsu l-ispejjeż fuq medda twila ta' żmien. Minkejja dawn iż-żjiediet, il-proporzjon ta' spejjeż operattivi netti ma' dhul

minn primjums tjebet minn 10.7% fl-2003 għal 8.6% fl-2004.

Tul l-2004 l-azzjonisti ta' l-MSV komplew juru l-impenn tagħhom għat-tishih ta' l-istabilità finanzjarja tal-kumpanija billi ziedu l-kapital ta' ishma mahruġin u mhallsin minn Lm6.3 miljun (€14.5m) għal Lm8.6 miljun (€19.8m). Il-qligħ medju aġġustat kull sehem ta' Lm1.00 tela' minn 17ċ1 fl-2003 għal 19ċ5.

Il-kontribut ta' l-MSV Group għar-riżultat tal-Middlesea Group qabel il-hlas tat-taxxa tela' minn Lm0.68 ta' miljun fl-2003 għal Lm0.82 ta' miljun (€1.9m).

Il-Bord tad-Diretturi ta' l-MSV Group approva riżoluzzjoni li biha rati differenzjali ta' bonusis riversjonarji kienu ddikjarati fir-rigward ta' investimenti *with-profits* ma' l-MSV għas-sena li għaqlet fil-31 ta' Diċembru 2004. Dawn ammontaw għal 3.75% fil-każ tal-Comprehensive Life Plan (Regular u Single Premium Policies), 4% fil-każ tal-Comprehensive Flexi Plan (Regular u Single Premium Policies), 4.1% fil-każ tas-Single Premium Plan u 4.1% fil-każ ta' l-għażla *with-profits* ta' l-Investment Bond. Fil-każ ta' l-'Old Series' Endowment u poloz Whole of Life, kien iddikjarat Bonus Riversjonarju ta' 2.0% fuq is-somma assigurata bażika flimkien mal-bonusis. Barra minn dawn, il-Bord approva wkoll bonus riversjonarju ta' 3.25% fuq dawk il-poloż Secure Growth li kienu jiffurmaw parti mill-portafoll ta' negozju trasferit mill-Assicurazioni Generali S.p.A. tul is-sena 2000.

Għalkemm ma kien iddikjarat ebda bonus terminali fil-każ ta' poloz għal klejms li jirriżultaw minn mewt jew maturità tul l-2005, kull bonus terminali ddikjarat fuq poloz "Old Series" ta' l-MSV Group akkumulat fis-snin ta' qabel baqa' pagabbli fuq kull klejm ta' din ix-xorta li saret tul l-2005.

Fid-determinazzjoni ta' l-ammont ta' bonus li għandu jkun iddikjarat għall-2004, il-Bord qies il-qligħ relattivament sodisfaċenti li sar minn investimenti tul l-2004.

Poloz *with-profits* huma mfasslin biex jiproteġu lill-proprietarju minn ċaqliq fis-swieq ta' l-investimenti billi jwittu l-operat medju tul iż-żmien. Din it-twitija żżomm lura parti mill-profitti fis-snin tajbin biex il-qligh lill-propjetarji tal-poloż jista' jkunu oghla milli fil-fatt ikun fi snin meta l-qligh minn investiment jkun aktar baxx. F'kuntest internazzjonali, kumpaniji ta' assigurazzjoni tal-hajja qeghdin inaqqsu r-rati tal-bonus biex jirriflettu l-qligh attwali li jkun qed isir minn investimenti. Rati ta' bonus li m'humiex sostenibbli jservu biss biex jaghmlu hsara lis-sahha finanzjarja tal-Fond tal-Hajja u potenzjalment jillimitaw il-qligh li propjetarji tal-poloż jista' jkollhom fil-futur.

Is-sena li qed tkun ikkunsidrata ghal darb'ohra kellha riżultati sodisfaċenti fl-oqsma kollha ta' l-operazzjonijiet ta' l-MSV Group. Iż-żjeda sinifikanti fid-dhul kienet attribwita ghal innovazzjoni tal-prodott u ghall-istrateġija tal-prodott ta' l-MSV Group, u wkoll ghall-pjattaforma qawwija tad-distribuzzjoni. Il-bankassigurazzjoni hija kanal ta' distribuzzjoni importanti ghall-MSV Group u tul l-2004 l-bejgħ permezz ta' dan il-kanal kiber b'mod sinifikanti. Tul l-2004 bejgħ ta' l-Investment Bond qabeż dak li kien mistenni filwaqt li tul l-istess sena l-kumpanija nidiet, flimkien ma' BNP Paribas, l-ewwel prodott tagħha b'kapital garantit, il-Capital Guaranteed Bond.

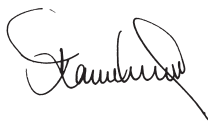
L-MSV Group hu komess li jibqa' jiffoka fuq l-innovazzjoni tal-prodott biex jissodisfa d-domanda dejjem tevolve tal-klijenti tiegħu. L-istrateġija ta' l-MSV Group hija li joffri lill-klijenti prodotti innovattivi li jagħtu l-oghla protezzjoni u qligh fuq medda ta' tul ta' żmien li jkunu proporzjonati ma' livell aċċettabbli ta' riskju u msahha minn servizz ta' kwalità għolja. L-MSV Group qiegħed ukoll f'pożizzjoni tajba li jilqa' l-isfidi li r-riforma tal-pensjonijiet f'Malta se ġġib magħha, partikolarment fil-provvediment ta' pensjoni fit-tieni u t-tielet pilastri. Issa li stabbilixxa ruħu bhala l-provveditur ewlieni ta' assigurazzjoni tal-hajja u prodotti ta' tiffidil għat-tul fis-suk ta' l-assigurazzjoni Malti, l-MSV Group issa qed ifittex opportunitajiet għal espansjoni barra minn Malta, partikolarment fir-reġjun Ewro-Mediterranju. Progress konsiderevoli diġà sar fil-hidma

preparatorja għat-twaqqif ta' operazzjoni ta' assigurazzjoni tal-hajja fl-Italja.

Sussidjarji

Growth Investments Ltd. ("Growth Investments"), sussidarja li l-ishma tagħha huma kollha ta' l-MSV Group, hija awtorizzata li tipprovdi servizzi ta' investiment għat-termini ta' l-Att ta' l-1994 dwar Servizzi ta' Investiment. Growth Investments hija wkoll ir-rappreżentant esklussiv f'Malta ta' Fidelity Funds SICAV, alleanza li twaqqfet fl-1997.

Fl-2004 Growth Investments irregistrat profitt ta' Lm111,445 (€256,491) wara l-hlas tat-taxxa, mqabbel ma' Lm46,842 fis-sena ta' qabel. L-2004 kienet karatterizzata minn titjib u stabbilizzazzjoni fis-swieq dinjin li wasslu għal ritorn gradwali tal-fiduċja ta' l-investituri. Madankollu, tul l-2004 l-investituri haduha bil-mod biex jirritornaw lura għall-ekwitajiet. Jekk wiehed jassumi li l-futur ekonomiku globali jibqa' jidher pożittiv, Growth Investments hija fiduċjuża li l-ispinta milhuqa lejn tmien l-2004 għandha tkompli sejra tul l-2005 u 'l quddiem.



D.G. Curmi
General Manager



Business Review



International Insurance Management Services Ltd.

The year 2004 has been a challenging and exciting one for the licensed Insurance Management company of the Middlesea Group - International Insurance Management Services Ltd (IIMS). Malta's newfound EU status has been the main reason for the increased number of interested international clients who have visited Malta and opened discussions with IIMS for the potential of setting up Captive insurance companies, as well as direct writing insurance companies under the Maltese Insurance Business Act. This past year can be described as the foundation year for a number of international clients who have now gained a thorough understanding and confidence in the Maltese jurisdiction which enabled them to start the process of promoting their application to the Malta Financial Services Authority (MFSA).

IIMS has fully recognised and actively promotes the advantages that Malta offers to international clients who choose to operate from Malta utilising their passporting rights to generate insurance business from other European countries. Fully cognisant of the size of the Island, medium sized promoters of insurance companies view Malta as an ideal jurisdiction from where to operate. IIMS is currently assisting three such promoters to evaluate their business proposal and conduct the necessary feasible studies prior to presenting the license application to the MFSA once the project is judged to be economically feasible. IIMS is fully geared up to provide insurance management services together with back office operations to such companies.

The company has over the past years strengthened its most important asset, the professional workforce of around 50 executives and, is committed to continue investing in the professional development of this workforce which is the backbone to the level of service that the company offers to its local and international clients. The Middlesea Group experience has continued to enhance the knowledge and expertise of IIMS's workforce. During 2004, IIMS continued to provide the insurance companies of the Group with the entire backoffice services. The provision of this service from a specialised Insurance Management company was the result

of a focused strategy adopted by the Group in the year 2002 when IIMS was entrusted with the role of providing a lean and effective backoffice operation to the Middlesea Group.

In 2004, the company generated a profit after taxation of Lm0.20million (€0.5m) which equates to a return of 27.7% on the turnover of Lm0.74million (€1.7m) earned. The balance sheet was further strengthened by the retention of the profit generated, so that, at the end of 2004, shareholders' funds increased by 38.7% over the previous year to Lm0.73million (€1.7m). The strong shareholders' funds provide a generous 13.82 cover for the required Statutory Own Fund of an Insurance Manager as stipulated by the relevant Directive issued under the Insurance Business Act, 1998.

The professional aptitude, commitment to the task, training and intercultural awareness of IIMS' human capital are the foundation upon which, this company will continue to provide the Middlesea Group and international clients with effective and efficient management services. It is envisaged that 2005 will be the year when Malta will register its first captives after joining the European Union. This will continue to highlight the potential of this financial jurisdiction and together with the formation of direct writing insurance companies will be fundamental to Malta taking off as a Captive domicile of choice. International Insurance Management Services Ltd will continue to provide promoters of captive insurance/reinsurance companies and direct writing companies with the required services and thereby increasing its client base, turnover and profitability for the benefit of the shareholders of the Middlesea Group.

A. M. Tabone
General Manager

Is-sena 2004 kienet wahda ta' sfida u eċċitanti għall-kumpanija liċenzjata ta' Insurance Management tal-Middlesea Group - l-International Insurance Management Services Ltd (IIMS). L-istatus ġdid ta' Malta fl-UE kien ir-raġuni ewlenija għall-għadd akbar ta' klijenti internazzjonali interessati li żaru Malta u fethu diskussjonijiet ma' l-IIMS dwar il-potenzjal tat-twaqqif ta' Captive Insurance Companies, u wkoll kumpaniji ta' assigurazzjoni diretta taht l-Att dwar in-Negożju ta' Assigurazzjoni Malti. Dis-sena li għaddiet tista' tkun deskritta bhala s-sena tal-fondazzjoni għal għadd ta' klijenti internazzjonali li issa kisbu fehim tajjeb hafna tal-ġurisdizzjoni Maltija u fiduċja shiha fiha li wassluhom biex jibdew il-proċess li jippromwovu l-applikazzjoni tagħhom lill-Awtorità ta' Malta għal Servizzi Finanzjarji (MFSA).

L-IIMS għarfet sewwa u tippromwovi attivament il-vantaġġi li Malta toffri lil klijenti internazzjonali li jagħzlu li joperaw minn Malta u jutilizzaw id-drittijiet li jagħtihom dan il-passaport biex jiġġeneraw negożju ta' assigurazzjoni minn pajjiżi oħra Ewropej. B'għarfien shih tad-daqs tal-gżira, promuturi ta' daqs medju ta' kumpaniji ta' assigurazzjoni jharsu lejn Malta bhala ġurisdizzjoni ideali minn fejn joperaw. L-IIMS bhalissa qed tgħin tliet promuturi ta' din ix-xorta biex jevalwaw il-proposti ta' negożju tagħhom u jagħmlu l-istudji ta' vijabilità mehteġa qabel ma' jipprezentaw l-applikazzjoni tagħhom għal liċenzja lill-MFSA, darba li l-proġett jitqies li hu ekonomikament vijabbli. L-IIMS hija mhejjija għal kollox biex tipprovdi servizzi ta' mmaniġġjar ta' assigurazzjoni flimkien ma' operazzjonijiet ta' amministrazzjoni lil kumpaniji ta' din ix-xorta.

Il-kumpanija fis-snin li għaddew saħhet l-aktar assi importanti tagħha, forza tax-xogħol professjonali ta' madwar 50 eżekuttiv, u hija kommissa li tkompli tinvesti fl-iżvilupp professjonali ta' din il-forza tax-xogħol li hija s-sinla tal-livell ta' servizz li l-kumpanija toffri lill-klijenti lokali u internazzjonali tagħha. Tul l-2004 l-IIMS kompliet tipprovdi lill-kumpaniji ta' assigurazzjoni tal-Grupp b'servizz shaħ ta' ufficiċju amministrattiv.

Il-fornitura ta' dan is-servizz minn Kumpanija speċjalizzata ta' Mmaniġġjar ta' Assigurazzjoni kien ir-riżultat ta' strateġija

ffokata adottata mill-Grupp fis-sena 2002 meta l-IIMS kienet fdata bil-funzjoni li tipprovdi operazzjoni amministrattiva lill-Middlesea Group.

Fl-2004 l-kumpanija ġġenerat profitt ta' Lm0.20 ta' miljun (€0.5m) wara l-hlas tat-taxxa li hu ugwali għal qligh ta' 27.7% fuq in-negożju kollu li rrenda Lm0.74 ta' miljun (€1.7m). Il-karta bilanċjali ssahhet aktar biż-żamma tal-profitti ġġenerati biex, fi tmiem l-2004, il-fondi ta' l-azzjonisti żdiedu bi 38.7% fuq is-sena ta' qabel għal Lm0.73 ta' miljun (€1.7m). Fondi b'sahhithom ta' l-azzjonisti jipprovdu kopertura ġeneruża ta' 13.82 għall-iStatutory Own Fund ta' Insurance Manager kif mitlub mid-Direttiva rilevanti mahruġa taht l-Att ta' l-1989 dwar Negożju ta' Assigurazzjoni.

Il-professjonalizmu, l-impenn għax-xogħol, it-tahriġ u l-għarfien interkulturali tal-kapital uman ta' l-IIMS huma s-sisien li fuqhom din il-kumpanija se tkompli tipprovdi lill-Middlesea Group u lil klijenti Internazzjonali b'servizzi ta' manigment effettivi u effiċjenti. Hu mahsub li l-2005 se tkun is-sena meta Malta tirreġistra l-ewwel kumpaniji *Captive* wara l-adeżjoni ma' l-Unjoni Ewropea. Dan ikompli jenfasizza l-potenzjal ta' din il-ġurisdizzjoni finanzjarja u, flimkien mal-formazzjoni ta' kumpaniji ta' assigurazzjoni b'sottoskrizzjoni diretta, ikun fundamentali għal Malta li tibda t-triq biex issir domicilju magħżul għal kumpaniji *Captive*. L-International Insurance Management Services Ltd se tkompli tipprovdi lil promuturi ta' kumpaniji ta' assigurazzjoni u riassigurazzjoni *captive* u kumpaniji ta' sottoskrizzjoni diretta b'servizzi mehteġa u b'hekk tkabbar il-bażi tal-klijenti, l-ammont tan-negożju u l-profitabilità tagħha għall-benefiċċju ta' l-azzjonisti tal-Middlesea Group.



A. M. Tabone
General Manager



This report marks Progress's fourth full year of operation within the Middlesea Group, a year dedicated to consolidation of the growth achieved in previous years. The results achieved during the year 2004 continue to be satisfactory.

During the year, the company continued to concentrate its activities primarily in the regions of Italy, south of and including Lazio, although it made its first incursion into the northern regions of Trentino Alto Adige and Piemonte solely in the non-Motor classes. Sales outlets increased from 111 at the end of 2003 to 114 at the end of 2004. 40 of such agencies are based in Sicily, 7 in Sardinia whilst the remaining 67 agencies are located on mainland Italy. This means that 65% of the company's distribution network continues to be located outside Sicily. Progress' collaboration with a bank in the selection of certain of its agents through an agreement concluded two years ago, came to a natural end as the process of introduction of agents was completed. On the other hand, towards the end of the year, the company concluded a bancassurance agreement with Banca Nuova, a member of the Banca Popolare di Vicenza group. This new partnership, should contribute significantly to our objective of increasing the non-motor portfolio content in our business.

In addition, the company has introduced or enhanced, actuarial involvement in all relevant technical areas and especially in the calculation of premium rates as well as claims reserving to "costo ultimo" notwithstanding the important limitations presented by the limited size of its portfolio. This function is outsourced to a highly respected Italian firm of international repute.

This improvement in 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 decrease in turnover of 2.3%. The reduction in turnover results from the company's decision

to maintain pricing at their current levels, notwithstanding signs of softening in the market; this area is constantly monitored to ensure timely required action. In addition portfolio pruning continued with the same vigour as in previous years.

The company's approach in regard to portfolio composition was geared to a number of measures aimed at achieving its targeted mix. One important measure continued to centre on the linking of commission levels in new agency agreements 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 of Lm21.66 million (€49.8m) was registered in 2004; this partly as a result of portfolio pruning and consequent upon an upward adjustment in rates, of circa 11%, on the motor liability account carried out during a period of relative market weakening. The company continues to follow a policy of monitoring its pricing levels in an effort to ensure that adjustments are made proactively rather than retrospectively.

On the claims side, the company has, over the past three years, dedicated much resource aimed at ensuring that adequate reserving criteria is applied. This has proved to be most effective. During 2004, further enhancements in systems and practices were introduced. One such enhancement involves optical processing of all claims documentation backed by dedicated document management software personalised to the claims process, which allows management to monitor and ensure that all necessary action is taken in a timely fashion. In addition a special unit has been established to deal with

all claims still unresolved after a period of two years. This unit is fully focused on a fresh approach to such claims in an endeavour to close such events to the satisfaction of the client, the company and the injured party.

In 2004 gross claims incurred increased by 5.3% to Lm17.85 million (€41.1m). The loss ratio increased by two percentage points to 80.1%. 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. In fact the increase in claims ratio was fully recoverable from these protections which 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 supported by teams of independent professionals. 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. Finally, as a result of the growth achieved, the time is now ripe to divide claims resulting from the region of Campania into two claims settlement units and this is likely to be implemented during 2005.

Acquisition costs equate to 14.1% of premium income, an increase of point six of a percentage point as a result of the improvement in mix of business achieved during the year.

Progress continued to strengthen its staff complement where required intensifying its use of the Group's management services. Based on its policy of containing costs; its expense ratio was maintained at 6.8%. Investment income amounted to Lm1.26 million (€2.9m) an increase of 36.5% due to the generation of additional funds for investment from operations as well as the availability of funds generated from the increase

in capital announced last year.

Progress achieved a net profit before tax of Lm1.11 million (€2.5m), whilst shareholders' funds increased by 7% to Lm9.39 million (€21.6m). Gross technical reserves at Lm39.24 million (€90.3m) increased by 8.7%. Net technical reserves amount to Lm34.63 million (€79.7m) an increase of 13.8%, equating to 168.4% of net premium. Debtors reduced by 19.2% primarily resulting from an advance payment made by Mapfre against the indemnity on claims reserve.



S. Gauci
General Manager



Dan ir-rapport jimmarka r-raba' sena shiha ta' operat ta' Progress fil-Middlesea Group, sena dedikata għall-konsolidament tat-tkabbir li sar fis-snin ta' qabel. Ir-riżultati miksuba tul il-perjodu li jasal sa l-2004 baqgħu sodisfaċenti.

Tul is-sena l-kumpanija kompliet tikkonċentra fuq l-attivitàjiet tagħha primarjament fir-reġjuni ta' l-Italja mil-Lazio 'l isfel, għalkemm għamlet l-ewwel dhul tagħha fir-reġjuni tat-tramuntana tat-Trentino Alto Adige u l-Piemonte f'dawk il-klassijiet biss li ma jkoprux vetturi. Uffiċċji tal-bejgħ telghu minn 111 fi tmiem l-2003 għal 114 fi tmiem l-2004. 40 minn dawn l-aġenziji huma bbażati fi Sqallija, 7 f'Sardinja waqt li s-67 aġenzija l-oħra qegħdin fit-terraferma Taljana. Dan ifisser li 65% tan-netwerk ta' distribuzzjoni tal-kumpanija għadha llokata barra minn Sqallija. Il-kollaborazzjoni ta' Progress ma' bank fl-għażla ta' whud mill-aġenti tagħha bis-sahha ta' ftehim milhuq sentejn ilu, għalaq b'mod naturali meta l-proċess wasal fi tmiemu. Min-naha l-oħra, lejn għeluq is-sena l-kumpanija lahqet ftehim ta' bankassigurazzjoni ma' Banca Nuova, membru tal-grupp tal-Banca Popolare di Vicenza. Din is-shubija ġdida għandha tikkontribwixxi b'mod sinifikanti għall-oġettiv tagħna li nkabbru l-kontenut tal-portafoll mhux ta' vetturi fin-negożju tagħna.

Barra minn hekk il-kumpanija introduċiet jew tejbet involviment attwarju fl-oqsma tekniċi rilevanti kollha u speċjalment fil-kalkolu tar-rati tal-primjums u wkoll fir-riservi ta' klejms għall-“costo ultimo” minkejja l-limitazzjonijiet ippreżentati mid-daqs limitat tal-portafoll tagħha. Din il-funzjoni nġhatat barra mill-kumpanija lil ditta Taljana rispettata hafna li għandha fama internazzjonali.

Dan it-titjib fil-kompożizzjoni tal-portafoll kif maqsum bejn responsabbiltà legali ta' vetturi u klassijiet oħra ta' negożju tibqa' tkun prijorità importanti għall-kumpanija. Tul is-sena kien hemm titjib ta' żewġ punti perċentwali f'din il-proporzjon minkejja tnaqqis ġenerali ta' 2.3% fin-negożju transatt. Ir-riduzzjoni fin-negożju transatt hi riżultat tad-deċiżjoni tal-

kumpanija li żżomm il-prezzijiet fil-livell kurrenti tagħhom minkejja sinjali li s-suq qed irahhas il-prezzijiet; dan il-qasam qed jkun mmonitorjat kontinwament biex ikun żgurat li tittiehed azzjoni fil-mument opportun. Barra minn hekk, is-selezzjonar tal-portafoll baqa' għaddej bl-istess impenn bħal fis-snin ta' qabel.

L-atteggjament tal-kumpanija fir-rigward tal-kompożizzjoni tal-portafoll kien marbut ma' għadd ta' miżuri mahsubin biex iwasslu għat-tahlita li riedet tasal għaliha. Miżura importanti baqgħet tiċċentra fuq ir-rabta ta' livelli ta' kummissjoni fi ftehim ma' aġenziji godda mat-tahlita ta' negożju li attwalment jipproduċu. F'dan ir-rigward, kienu deċiżi livelli ta' rimunerazzjoni b'mod li jekk it-tahlita ppjanata ma tintlahaqx ma jkunx vijabbli għall-aġenti li jibqgħu jirrapprezentaw il-kumpanija. Barra minn hekk, biex ittejjeb il-kompetenza teknika ta' l-aġenti u l-impjegati tagħha, il-kumpanija baqgħet tiddedika l-isforzi tagħha biex tiżviluppa aktar il-hila professjonali tagħhom kemm b'konferenzi organizzati internament u kemm b'korsijiet u seminars esterni għal membri li jokkupaw karigi importanti.

Kien irregistrat dhul minn primjums sottoskritti ta' Lm21.66 miljun (€49.8m), parti minnu minhabba selezzjonar tal-portafoll iżda wkoll minhabba aġġustament 'il fuq fir-rati, ta' xi 11%, fil-kont tar-responsabbiltà legali ta' vetturi li sar tul perjodu meta s-suq kien relattivament dgħajfef. Il-kumpanija se tkompli ssegwi politika ta' monitoraġġ fil-livelli ta' prezzijiet tagħha fi sforz biex tiżgura li l-aġġustamenti jsiru b'mod proattiv aktar milli retrospettivament.

Fil-qasam tal-klejms, fit-tliet snin li għaddew il-kumpanija ddedikat hafna riżorsi biex tiżgura l-applikazzjoni ta' kriterji ta' riservar adegwati. Dan instab effettiv hafna. Tul l-2004 iddahhal titjib ulterjuri fis-sistemi u pratki. Titjib partikolari jinvolvi l-ipproċessar ottiku tad-dokumentazzjoni kollha tal-klejms imsaħħah minn softwer apposta għall-immaniġġjar tad-dokumenti ppersonalizzat għall-proċess tal-klejms li

jippermetti lill-manigment jimmonitorja u jizgura li l-azzjoni neccessarja kollha tittiehed fil-hin rikjest. Barra minn hekk, twaqqaf grupp speċjali biex jitratta l-klejms kollha li jibqgħu mhux solvuti wara li jgħaddu sentejn. Dan il-grupp hu ffokat għal kollox fuq atteggjament gdid lejn klejms ta' dix-xorta f'tentattiv biex okkorrenzi bħal dawn jingħalqu għas-sodisfazzjon tal-kljient, tal-kumpanija u tal-parti leża.

Klejms grossi li dahlu telgħu b'5.3% fl-2004 għal Lm17.85 miljun (€41.1m). Il-proporzjon tat-telf telgħet b'żewġ punti perċentwali għal 80.1%. *Run-off* fuq klejms li saru fuq negozju f'dawn l-aħħar tliet snin kien sodisfacenti iżda saru rkupri sinifikanti bis-saħħa tal-miżuri protettivi maħsuba biex jipprovdu salvagwardja kontra l-effetti ta' riservar inadegwat fis-snin qabel ma l-kumpanija saret tagħmel parti mill-Middlesea Group. Fil-fatt, iż-żjieda fil-proporzjon tal-klejms kienet irkuprata kollha kemm hi minn dawn il-miżuri protettivi li ffurmaw parti mill-indennizz komprensiv ipprovdut mill-azzjonisti tal-kumpanija li kien hemm qabel.

Progress qed tkompli timmanigġja l-klejms kollha bl-impjegati tagħha stess fl-uffiċċji tagħha stess meghjuna minn gruppi ta' nies professjonali indipendenti. Dawn qegħdin Palermo, Katanja, Napli u Sassari. Barra minn hekk, struttura separata twaqqfet apposta biex timmanigġja klejms ġejjin mir-reġjun tal-Puglia. Meta l-volumi ta' xogħol jilhqgħu livelli vijabbli, jinfetħ l-uffiċċju għall-hlasijiet ta' klejms li hu ppjanat fil-Puglia. Fl-aħħarnett, b'riżultat tat-tkabbir milhuq, issa hu l-waqt li naqsmu l-klejms mir-reġjun ta' Kampanja f'żewġ unitajiet għall-hlas ta' klejms, u dan x'aktarx isir tul l-2005.

Spejjeż konnessi ma' l-akkwist ta' negozju jilhqgħu 14.1% mid-dhul minn primjums, żjieda ta' punt sitta ta' punt perċentwali; dan ġej minn titjib fit-tahlita tan-negozju li ntlahqet tul is-sena.

Progress komplet issaħħah in-numru ta' impjegati tagħha meta mehtieg filwaqt li ntensifikat l-użu li tagħmel mis-servizzi tal-manigment tal-Grupp. Ibbazata fuq il-politika tagħha ta'

trażzin ta' l-ispejjeż, il-proporzjon ta' l-ispiża baqgħet 6.8%. Dhul minn investimenti ammonta għal Lm1.26 miljun (€2.9m), żjieda ta' 36.5% dovuti għall-ġenerazzjoni ta' fondi addizzjonali minn investiment minn operazzjonijiet u wkoll mill-aċċessibilità għal fondi ġġenerati miż-żjieda fil-kapital imhabbra s-sena l-oħra.

Progress iġġenerat profitt qabel il-hlas tat-taxxa, Lm1.11 miljun (€2.5m) u l-Fondi ta' l-Azzjonisti telgħu b'7% għal Lm9.39 miljun (€21.6m). Il-riservi tekniċi grossi li huma Lm39.24 miljun (€90.3m) żdiedu bi 8.7%. Riservi tekniċi netti jammontaw għal Lm34.63 miljun (€79.7m), żjieda ta' 13.8%, li tiġi 168.4% tal-primjum nett. Debituri naqsu b'19.2% li primarjament ġejjin minn hlas minn qabel magħmul minn Mapfre kontra l-indennizz fuq ir-riserva għall-klejms.



S. Gauci
General Manager



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Group Financial Highlights

	2004		2003	
	EURO'000	US\$'000	EURO'000	US\$'000
Gross premiums written:				
General Business	81,398	111,061	79,726	108,780
Life Business	1,315	1,794	1,369	1,868
Total gross premiums	82,713	112,855	81,095	110,648
Investment income	5,346	7,294	5,357	7,310
Profit attributable to shareholders	3,644	4,972	2,453	3,347
Dividend proposed	1,726	2,355	1,438	1,963
Share Capital	14,384	19,626	14,384	19,626
Technical reserves:				
General Business	108,180	147,602	95,595	130,431
Life Business	423	578	456	622
Shareholders' Funds	55,406	75,597	50,308	68,641
Net asset value per share	4.44	6.06	4.03	5.50
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 2004

	2004	2003	2002
	Lm	Lm	Lm
Gross premiums written:			
General Business	35,367,261	34,641,173	31,107,289
Life Business	571,377	594,598	608,809
General Business results	1,495,032	583,726	864,179
Life Business results	147,877	207,420	89,314
Investment return - non-life	2,323,829	2,328,660	2,160,698
Investment return - life	40,472	40,217	37,310
Profit attributable to shareholders	1,583,391	1,066,185	1,140,463
Dividend proposed	750,000	625,000	568,750
Earnings per share	12.7c	8.5c	9.1c
Net asset value per share	1.93c	1.75	1.70



Professional Services

The Group in addition to its regular staff complement, as at 31 December 2004 utilised the professional services of the following various individuals and institutions:

Legal Advisors

Ganado & Associates Advocates
Mamo TCV Advocates
Sapiano & Associates
Scirha, Attard Montalto, Galea & 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 Consultant

Zerniq Ltd

Sponsoring Stockbrokers

Bank of Valletta Stockbrokers Limited

Group Committees

Investments Committees

M.C. Grech (Chairman)
Dr R. Borg BA (Hons), MA, LL.D
R.E.D. Chalmers M.A. Div (Edin), FCA, ATII, FCPA, MIA
D.G. Curmi ACII, Chartered Insurer
T. Depasquale
E. Ellul BA (Hons) Econ, Dip Pol Econ
M. Formosa MA (Econ), MA (Financial Services)
S. Gauci ACII
L. Grech MA (Oxon) - resigned 18 June 2004
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
- resigned 12 November 2004

Audit Committee

L. Spiteri MA (Oxon) (Chairman)
H. Attard Montalto
D. Sugranyes Bickel (License en Sciences Economiques
et Sociales)
R.E.D. Chalmers MA Div (Edin), FCA, ATII, FCPA, MIA

Remuneration Committee

Dr J.C. Grech MA(Econ), Dip. ICEI (A'dam), PhD
(Geneva), FCIB, MBIM, FMIM (Chairman)
Dr M. Sparberg
F. Xerri de Caro ACIB
V. Galea Salomone BA (Luther), MBA (Henley-Brunel)

Compliance Committee

Dr R.A. Staines LL.D (Chairman)
D.G. Curmi ACII, Chartered Insurer
J.M. Rizzo ACII, AIMIS, AMIAP, Chartered Insurer
S. Gauci ACII
A.M. Tabone BA (Hons) Accty, FIA, CPA
E.M. Borg FCII, MBA (Henley-Brunel), FRSA

Corporate Management Committee

M.C. Grech (Chairman)
Dr E. Caruana Demajo LL.D
T. Depasquale
L. Lubelli MSc
Dr F. Vassallo LL.D - resigned 1 March 2005
J.M. Rizzo ACII, AIMIS, AMIAP, Chartered Insurer
D.G. Curmi ACII, Chartered Insurer
S. Gauci ACII
A.M. Tabone BA (Hons) Accty, FIA, CPA

Risk Management Committee

G. Bonnici
G. Debono Grech L.P. FISMM (Luton), BA (Leg), Mag.
Jur. (Int.Law) Dip. Trib. Eccl. Melita
J.M. Rizzo ACII, AIMIS, AMIAP, Chartered Insurer
D.G. Curmi ACII, Chartered Insurer
S. Gauci ACII
A.M. Tabone BA (Hons) Accty, FIA, CPA

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 2004

H. Attard Montalto	72 shares
G. Bonnici	3,255 shares
Dr E. Caruana Demajo	14 shares
G. Debono Grech	6,382 shares
T. Depasquale	795 shares
Dr J.C. Grech	5,000 shares
M.C. Grech	2,725 shares
F. Xerri de Caro	29 shares

There were no changes as at 2 May 2005.

Shareholders holding 5% or more of the equity share capital as at 31 December 2004

HSBC Bank Malta plc as subcustodian 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 changes in shareholders holding 5% or more of the equity share capital which as at 2 May 2005 was as follows:

Government of Malta - Consolidated Fund	7.93%
Münchener Rückversicherungs Gesellschaft	12.73%
HSBC Bank Malta plc as subcustodian for BNY as custodian for Mapfre Inversion Terceros	20.69%
Bank of Valletta p.l.c.	21.65%

Shareholding Details

As at 31 December 2004, Middlesea Insurance p.l.c.'s Issued Share Capital was held by 4,566 shareholders. As at 2 May 2005, the Issued Share Capital was held by 4,534 shareholders. The Issued Share Capital consists of one class of ordinary shares with equal voting rights.

Distribution of shareholders analysed by range

Range of Shareholding	As at 31 December 2004		As at 2 May 2005	
	No. of shareholders	Shares	No. of shareholders	Shares
1 - 1000	3,864	834,683	3,910	894,995
1001 - 5000	645	1,281,437	566	1,186,831
5001 and over	57	10,383,880	58	10,418,174

Authority for the purchase of own shares

Pursuant to an Extraordinary Resolution passed by shareholders on 18 June 2004, 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 17 September 2005 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 2004.

Principal activities

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

Review of the business

Middlesea Insurance p.l.c. registered a profit before taxation and minority interest of Lm2,212,182, an improvement over the 2003 profit of Lm1,384,970. Positive results were seen in the Holding Company's continuing technical operations with General Business recording a net underwriting profit of Lm671,361, and Long Term Business reporting a net underwriting profit of Lm147,877.

Positive results were also recorded by the Company's subsidiary and associated companies, with particular reference being made to the Italian subsidiary which contributed a pre-tax profit to the Group of Lm314,350, and the Company's investment in the life assurance company which contributed a pre-tax profit of Lm819,258.

The Group's profit for the year amounted to Lm1,583,391 (2003: Lm1,066,185) after accounting for minority interest. The directors expect that the present level of activity will be sustained for the foreseeable future.

The Group's balance sheet has continued strengthening with total investments under management at 31 December 2004 of Lm69 million and total net technical reserves of Lm47.2 million. Shareholders' funds at the end of 2004 were Lm24.1 million which equates to Lm1.93c per share.

Results and dividends

The consolidated profit and loss account is set out on page 45. The directors recommend the payment of a dividend of Lm750,000 (2003: Lm625,000).

Directors

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

M.C. Grech - Chairman and C.E.O., H. Attard Montalto, G. Bonnici, J. Camilleri M.A. (Human Resources Leadership), E. Caruana Demajo LL.D., R.E.D. Chalmers M.A.Div (Edin), F.C.A., A.T.I.I., F.C.P.A., MIA - appointed 23 December 2004, A. Corsi (Degree in Statistics and Actuarial Services, Associate of the Italian Society of Actuaries "Ordine Nazionale degli Attuari") - appointed 18 June 2004, G. Debono Grech L.P., FISMM, B.A. (Leg), Mag. Jur. (Int. Law), Dip. Trib. Eccl. Melita, V. Galea Salomone B.A. (Luther), M.B.A. (Henley-Brunel), J.C. Grech M.A.(Econ.), Dip. ICEI (A'dam), PhD (Geneva), F.C.I.B., M.B.I.M., F.M.I.M., M. Sparberg Dr Jur, L. Spiteri M.A. (Oxon), D. Sugranyes Bickel ("Licence en Sciences Economiques et Sociales"), F. Xerri De Caro A.C.I.B., L. Grech M.A. (Oxon) - resigned 18 June 2004, M. Grima Dip. M.S., M.B.A. (Henley), M.I.M., M.C.M.I., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. - Deputy Chairman - resigned 12 November 2004.

On 1 February 2005, Mr M. Grima resigned as director and Mr T. Depasquale was appointed in his stead.

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

Auditors

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

By order of the Board



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

Middle Sea House
Floriana, Malta

29 April 2005

Id-diretturi jipprezentaw ir-rapport taghhom u d-dikjarazzjonijiet awditjati ghas-sena li ghalqet fil-31 ta' Diċembru 2004.

Attivitajiet prinċipali

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

Analizi tan-negozju

Il-Middlesea Insurance p.l.c. rreġistrat profit ta' Lm2,212,182 qabel il-hlas tat-taxxa u interess minoritarju, titjib fuq il-profit ta' Lm1,384,970 fl-2003. Riżultati pożittivi ntlahqu fl-operazzjonijiet tekniċi kontinwati tal-Kumpanija Ewlenija; in-Negozju Ġenerali rreġistra profitti netti ta' Lm671,361 minn sottokrizzjonijiet u n-Negozju ghat-Tul irrapporta profitti netti ta' Lm147,877 minn sottokrizzjonijiet.

Kien hemm ukoll riżultati pożittivi mill-kumpaniji sussidjarji u assoċjati tal-Kumpanija li fosthom issir referenza speċjali ghas-sussidjarja Taljana li kkontribwiet lill-Grupp profit ta' Lm314,350 qabel il-hlas tat-taxxa u għall-investiment tal-Kumpanija fil-kumpanija ta' l-assigurazzjoni tal-hajja li kkontribwiet profit ta' Lm819,258 qabel il-hlas tat-taxxa.

Il-profitti tal-Grupp ghas-sena ammontaw għal Lm1,583,391 (2003: Lm1,066,185) wara li nġhata kas ta' interess minoritarju. Id-diretturi jistennew li l-livell preżenti ta' attività jibqa' għaddej kif inhu fil-futur prevedibbli.

Il-karta bilanċjali tal-Grupp komplet tissahhah kif jidher mill-investiment totali ta' Lm69 miljun immanigġjati kif kienu fil-31 ta' Diċembru 2004 u r-riservi tekniċi netti totali ta' Lm47.2 miljun. Il-fondi ta' l-azzjonisti fi tmien l-2004 kienu Lm24.1 miljun li huma ekwivalenti għal Lm1.93c għal kull sehem.

Riżultati u dividendi

Il-kont ta' qligh u telf konsolidat qiegħed f'pagna 45. Id-diretturi jirrikmandaw il-hlas ta' dividend ta' Lm750,000 (2003: Lm625,000).

Diretturi

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

M.C. Grech - Chairman u C.E.O., H. Attard Montalto, G. Bonnici, J. Camilleri M.A. (Human Resources Leadership), E. Caruana Demajo LL.D., R.E.D. Chalmers M.A.Div (Edin), F.C.A., A.T.I.I., F.C.P.A., MIA - mahtur 23 ta' Diċembru 2004, A. Corsi (Degree in Statistics and Actuarial Services, Associate of the Italian Society of Actuaries "Ordine Nazionale degli Attuari") - mahtur 18 ta' Ġunju 2004, G. Debono Grech L.P., FISMM, B.A. (Leg), Mag. Jur. (Int. Law), Dip. Trib. Eccl. Melita, V. Galea Salomone B.A. (Luther), M.B.A. (Henley-Brunel), J.C. Grech M.A.(Econ.), Dip. ICEI (A'dam), Ph.D. (Geneva), F.C.I.B., M.B.I.M., F.M.I.M., M. Sparberg Dr Jur L. Spiteri M.A. (Oxon), D. Sugranyes Bickel (*Licence en Sciences Economiques et Sociales*), F. Xerri De Caro A.C.I.B., L. Grech M.A. (Oxon) - irriżenja 18 ta' Ġunju 2004, M. Grima Dip. M.S., M.B.A. (Henley), M.I.M., M.C.M.I., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. - Deputat Chairman - irriżenja 12 ta' Novembru 2004.

Fl-1 ta' Frar 2005 is-Sur M. Grima rriżenja minn direttur u s-Sur T. Depasquale nħatar minflok.

Skond l-Artikli ta' Assocjazzjoni tal-Kumpanija, id-diretturi kollha jirtiraw mill-kariga fil-Laqgħa Ġenerali u huma eligibbli biex jerġghu jkun eletti jew appuntati mill-ġdid. Dawk il-membri li jew separatament jew fl-aggregat ikollhom miħux inqas minn 7% tad-drittijiet għall-vot totali għandhom id-dritt jappuntaw direttur, b'ittra indirizzata lill-Kumpanija, għal kull sehem ta' 7% shih, b'dan iżda 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 taghhom li jibqgħu fil-kariga u riżoluzzjoni biex jinħatra mill-ġdid se tkun proposta fil-Laqgħa Ġenerali Annwali.

B'ordni tal-Bord



R.E.D. Chalmers
Direttur

Corporate Governance - Statement of Compliance

In accordance with the Listing Rule 8.25 of the Malta Financial Services Authority, listed companies should endeavour to adopt the Code of Principles of Good Corporate Governance (the "Principles") included in the said Listing Rules. 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 (Listing Rule 8.26). They are also required to state the effective measures taken to ensure compliance with the Principles (Listing Rule 8.27). The Auditors, in the Annual Report, are to include a report on the Statement of Compliance. Middlesea Insurance plc (the "Company") adopted the Principles on their introduction. 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 with appropriate explanation.

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, assumed 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 within a realisable time frame 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 and motivation 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 delegated authority and vested 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 was ensured through the operation of a Corporate Management Committee led by the Chairman and CEO. It brought together the General Managers of the Company and of its subsidiaries and principal associated company, 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 was 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%, could appoint one Director for every such 7% holding by letter addressed to the Company; eight members of the Board were appointed during the year in terms of this rule. All shares not utilised to make appointments in terms of the above could be used, leading to the election of a further six directors. All the directors so appointed or elected served 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 held the position of Chairman of the Board and CEO of the Company. Middlesea was satisfied that the Company was compliant with paragraph 2.3 of the Principles since it had put in place a balanced management structure comprising, inter alia, the Corporate Management Committee and certain Board Committees to which the CEO has to answer.

The Regulatory regime requires that, prior to being appointed or elected directors, nominees underwent a screening process by the Malta Financial Services Authority.

Remuneration of directors

As in previous years, the Chairman declined receiving a fee. Two foreign directors did not receive a fee in accordance with the established policy of the shareholders' companies with which they were employed, and which appointed them. Fees payable to non-executive directors in respect of 2004 amounted to Lm37,500. Contracted emoluments paid to the executive director amounted to Lm38,669, as disclosed in note 9 to the financial statements. The Company paid in insurance premium of Lm5,976 during the year, in respect of insurance cover in favour of its directors. Furthermore, provisions of Lm32,768 were made in respect of contracted pension obligations.

Board Committees

The activities of the Board and of the Company's senior management team were monitored and supported by standing committees designed to assist in specialist activities and in governance issues. The members sitting on the various Group Committees are listed on page 30.

Group Investments Committee

The Group Investments Committee meets monthly and 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 approval of the respective Board.



Corporate Governance - Statement of Compliance

Audit Committee

The Audit Committee's terms of reference, as approved by the Board of Directors, are modelled mainly on the recommendations of the Cadbury Report and its Principles. They include, inter alia, the responsibility of reviewing the financial reporting process, the system of internal control and management of financial risks, the effectiveness of the systems of internal control and compliance and the arm's length nature of related party transactions, the audit process, and the Company's process for monitoring compliance with laws and regulations and its own core of business conduct.

The Audit Committee is required to meet at least four times a year. During 2004 it met seven times. 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. On the 12 October 2004, the Listing Authority confirmed that the Audit Committee of Middlesea Insurance p.l.c. conforms to the requirements of MFSA Listing Rule 8.65.1. The Company is in the process of strengthening its procedures regarding related party transactions.

The internal audit function within Middlesea Group was set up in May 2004. Internal Audit is an independent appraisal function established within the organisation to examine and evaluate its activities as a service to the Group. The vision set by the Audit Committee for the Internal Audit function is to adopt business process risk-based audits, aimed at ensuring adequate controls and also business process efficiency.

The Internal Auditor reports directly to the Audit Committee, and attends the meetings of the Committee.

Over the first months of operations of the Internal Audit Unit, the Audit Committee approved an Internal Audit Charter and an Internal Audit Plan intended to lay a solid strategic foundation for the Unit in its relevance to the Committee, management and the Boards of Directors of the Group. Internal Audit familiarisation meetings were held with management officials and a high level review of the internal control components was reported to the Audit Committee. Assistance was also provided to management to establish formal standard policies and procedures framework, and to establish a Group Corporate Code of Ethics.

Remuneration Committee

The Remuneration Committee concentrated on establishing the remuneration policy for the Group's directors and senior executives, outlined the various elements of their remuneration and disclosed the amount of remuneration paid to directors in 2004. The Remuneration Committee meets in accordance with its Terms of Reference and as many times as it deems necessary. The CEO is normally invited to attend meetings of the Committee, except when his own remuneration is discussed.

Compliance Committee

The Compliance Committee meets in accordance with its Terms of Reference and as many times as it deems necessary and in conjunction with the group Compliance Unit that reports to it, is concerned with establishing procedures to ensure compliance with all applicable laws, directives and regulations, and with the prevention, detection and/or resolution of compliance problems.

The Compliance Committee has approved a document entitled "Code of Dealing" addressed to its directors and senior officers as well as the directors and senior officers of its subsidiaries. The aim behind this Code is to ensure compliance with the Principles and the dealing rules contained in Listing Rules 8.34 to 8.44. The Company has in place a system for recording all advance notices received in connection with permitted dealings by directors and senior officers and acknowledgements of such advance notices. Furthermore, the Company will be requesting all directors and senior officers for a confirmation with the Code of Dealing on a yearly basis.

In the case of Progress Assicurazioni SpA, a company incorporated in Italy, the Collegio Sindacale is appointed in terms of applicable Italian law, to act as the Compliance Committee. During the year it was presided by Rag. Ferdinando Barbaro and Dott. Nicolo Francesco Rienzi and Dott. Angelo Sillitti as *sindaci effettivi*.

Corporate Management Committee

The Corporate Management Committee met eight times during 2004. It is delegated by the Board of Directors of each Group Company with responsibility for (a) the overall coordination and supervision of the performance in operative and administrative matters of the individual companies and the group as a whole; (b) the implementation of strategic plans and objectives and (c) the adoption of decisions within the faculties that may be determined by the Group Boards.

Risk Management Committee

The Risk Management Committee, which meets quarterly, is responsible for setting a Risk Management policy for the Group aligned with the direction and risk appetite of the Boards. This allows for the identification of a Risk Management philosophy and responsibilities thereby creating and monitoring the environment and the structures for risk management to operate effectively. The Committee is charged with devising a risk management plan and adequate structures to implement the policy referred to earlier. Risk registers have been compiled in which business risks have been identified and prioritised in order to establish recommendations for the level of resources to be committed to manage these risks. This allows for the provision of a direction for the implementation of adequate systems and procedures to mitigate risks and align risk exposure with approved risk appetite. The Committee will ensure the maintenance of up-to-date Risk Registers and related management information. Consideration of urgent and ad hoc issues falls within the ambit of the Committee's functions and thus, where appropriate, will refer them to the Board with risk action plans. Adequate training will be provided to management and staff to enable them to contribute to the risk management process; indeed, the directors who sit on the Committee will be undergoing specific in-house training as an introduction to the wide field of Corporate Risk



Corporate Governance - Statement of Compliance

Management. This training will also be made available to all Directors. The ethos of the Committee is to disseminate a Risk Management philosophy and risk awareness amongst all Group officials, and promote a proactive approach to the management of risk.

The exercise of the role of the Board

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

In connection with each Board meeting, the directors are given 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.

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

The Board also monitored closely the key risk management policies and processes employed by the Middlesea Group, 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 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 employed to manage foreign currency risks both in relation to assets and to liabilities
- (e) the measures taken to ensure a balanced mix of investments and application of the Company's policy which focused on security, liquidity and maximisation of returns
- (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 after they have been reviewed by the Audit Committee. Compliance with statutory and regulatory requirements and with continuing listing obligations is also ensured. In addition to the input of the Compliance Committee, the Board is advised directly, as appropriate, by its appointed stock brokers, legal advisors 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 may arise or is perceived to arise in respect of a director in connection with any transaction or other matter, the interest is declared and the individual concerned refrains from taking part in proceedings or decisions relating to the matter. The Board minutes include a record of such declaration and of the action taken by the individual director concerned.

During the 2004 financial year, the Board held seven meetings.

Communications with Shareholders

Pursuant to the Company's statutory obligations in terms of the Companies Act and the MFS 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 the General Meeting and 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. The Report is amplified further 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 foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the financial statements.

Governanza korporattiva - Dikjarazzjoni ta' konformità

Konformi mar-Regola ta' Llistjar 8.25 l-Awtorità ta' Malta għal Servizzi Finanzjarji, kumpaniji llistjati għandhom jagħmlu l-almu tagħhom biex jadottaw il-Kodiċi ta' Prinċipji ta' Governanza Korporattiva Tajba (il-"Prinċipji") inkluż fir-Regoli ta' Llistjar imsemmija. Kumpaniji llistjati huma mitluba jinkludu Dikjarazzjoni ta' Konformità fir-Rapport Annwali tagħhom u jagħtu spjegazzjoni dwar safejn huma adottaw il-Prinċipji (Regola ta' Llistjar 8.26). Huma wkoll mitluba jgħidu liema miżuri effettivi tiegħu biex tkun żgurata l-konformità mal-Prinċipji (Regola ta' Llistjar 8.27). L-Awdituri, fir-Rapport Annwali, għandhom jinkludu rapport dwar id-Dikjarazzjoni ta' Konformità. Il-Middlesea Insurance plc (il-"Kumpanija") adottat il-Prinċipji meta ddahhlu u tibqa' tqishom bhala konsistenti mal-fehmiet tagħha. F'ċerti oqsma, il-proċeduri ta' governanza applikati fil-Kumpanija kienu emendati biex jimplementaw ir-rakkomandazzjonijiet inklużi fil-Prinċipji. Waqt li tagħti kas ta' mudelli rikonoxxuti oħra ta' governanza korporattiva, il-Kumpanija f'xi każi żammet jew adottat miżuri alternattivi bi spjegazzjonijiet adattati.

Responsabbiltajiet tal-Bord

Il-Bord jagħraf il-mandat statutorju tiegħu li jmessi l-amministrazzjoni u l-immaniġġjar tal-Kumpanija. Il-Bord, meta jissodisfa dan il-mandat u jaqdi dmiru ta' amministratur tal-Kumpanija, assuma responsabbiltà għal dan li ġej:

- Li jiffissa objettivi, għanijiet u d-direzzjoni strateġika ġenerali għall-manjiġment bl-iskop li jikseb l-oġġettivi ta' valur possibbli
- Li jeżamina u japprova l-pjani u r-riżultati mixtieqa ta' negozju sottomessi mill-manjiġment fl-implimentazzjoni ta' dawn il-pjani;
- Li jidentifika r-riskji prinċipali tan-negozju tal-Kumpanija u jissorvelja l-implimentazzjoni f'perjodu ta' żmien li jista' jintlaħaq u l-monitoraġġ ta' sistemi adatti ta' mmaniġġjar tar-riskji;
- Li jiżgura li l-Kumpanija jkollha kontroll intern effettiv u sistemi ta' informazzjoni maniġerjali;
- Li jipparteċipa fil-hatra ta' l-uffiċjali eżekuttivi tal-Kumpanija u jevalwa l-operat tagħhom inkluż il-monitoraġġ tat-twaqqif ta' sistemi adatti għall-ippjanar ta' min jilhaq warajhom u għall-approvazzjoni ta' livelli ta' kumpens u motivazzjoni ta' uffiċjali eżekuttivi ta' dix-xorta; u
- Li jiżgura li l-Kumpanija għandha politika biex hi tkun tista' tikkomunika b'mod effettiv ma' azzjonisti, ma' persuni jew korpi involuti fiha u mal-pubbliku.

Il-Bord iddelega awtorità u kontabilità vestita għat-tmexxija minn ġurnata għal oħra tal-Kumpanija lil grupp ta' manjiġment immexxi miċ-Chairman u Chief Executive Officer (CEO).

Il-koordinament ta' hidmijiet ta' manjiġment kien żgurat bis-saħħa ta' l-operat ta' Kumitat Maniġerjali Korporattiv immexxi miċ-Chairman u CEO. Dan għar flimkien il-General Managers tal-Kumpanija u tas-sussidjarji u l-kumpanija assoċjata prinċipali tagħha, flimkien ma' Direttur mhux eżekuttiv wiehed minn kull kumpanija.

Kompożizzjoni tal-Bord

Kif regolata mill-Istatuti tal-Kumpanija, u konsistenti mal-pratki aċċettati b'mod ġenerali f'Malta, il-hatra ta' diretturi għall-Bord kienet riservata esklussivament għall-azzjonisti tal-Kumpanija. Azzjonist li jkollu mhux inqas minn 7% tad-drittijiet tal-vot tal-kapital ta' ishma mahruġ jew għadd ta' azzjonisti li bejniethom ikollhom mhux inqas minn 7%, jista' jahtar Direttur għal kull tali propjetà ta' 7% b'ittra indirizzata lill-Kumpanija; tmien membri tal-Bord inhatru matul is-sena skond it-termini ta' din ir-regola. L-ishma kollha mhux uttilizzati biex jagħmlu hatriet skond it-termini ta' hawn setgħu jintużaw, u b'hekk saret elezzjoni ta' sitt membri oħra. Id-diretturi kollha mahturin jew eletti b'dan il-mod serew fil-Bord f'kapacità mhux eżekuttiva.

Konformi ma' l-Istatut tal-Kumpanija, is-Sur Mario C. Grech, bhala persuna li tokkupa kariga maniġerjali anzjana fil-Kumpanija, nhatar fil-Laqgħa Ġenerali Annwali permezz ta' elezzjoni separata miftuħa għall-azzjonisti kollha. Is-Sur Grech kellu l-kariga ta' Chairman tal-Bord u CEO tal-Kumpanija. Il-Middlesea kienet sodisfatta li l-Kumpanija kienet konformi mal-paragrafu 2.3 tal-Prinċipji billi kienet hasbet biex ikollha struttura ta' manjiġment bilanċjata li tinkorpora, interalia, il-Kumitat Maniġerjali Korporattiv u ċerti Kumitati tal-Bord li s-CEO irid jagħtihom rendikont.

Ir-regim regolatorju kien jitlob li, qabel ma jinhatru jew ikunu eletti diretturi, dawk nominati kellhom jgħaddu minn proċess ta' skrutinju mill-Awtorità ta' Malta għal Servizzi Finanzjarji.

Rimunerazzjoni ta' diretturi

Bhal fis-snin ta' qabel iċ-Chairman irrinunzja milli jithallas. Żewġ diretturi barranin ma thallsux, skond il-politika stabbilita tal-kumpanija ta' l-azzjonisti li jkun impjegati magħhom u li hatruh. Hlasijiet lil diretturi mhux eżekuttivi fir-rigward ta' l-2004 ammontaw għal Lm37,500. Salarij kontrattwali mhallsin lid-direttur eżekuttiv ammontaw għal Lm38,669, kif żvelat f'nota 9 tad-dikjarazzjonijiet finanzjarji. Il-Kumpanija hallsset Lm5,976 primjum ta' assigurazzjoni tul is-sena fir-rigward ta' kopertura ta' assigurazzjoni favur id-diretturi tagħha. Barra minn hekk, saru provvedimenti ta' Lm32,768 fir-rigward ta' obbligi kuntrattati għal pensjonijiet.

Kumitati tal-Bord

L-attivitatijiet tal-Bord u tal-grupp ta' manjiġment anżjan tal-Kumpanija kellhom l-appoġġ ta' kumitati permanenti mahsubin biex jgħinu f'attivitatijiet speċjalizzati u fi kwistjonijiet ta' governanza. Il-membri tad-diversi Kumitati tal-Grupp huma mniżżlin f'paġna 30.

Kumitat għall-Investimenti tal-Grupp

Il-Kumitat għall-Investimenti tal-Grupp jiltaqa' kull xahar u jissorvelja l-attivitatijiet ta' investment tal-Grupp, jistabbilixxi politiki u linji gwida ġenerali, jgħarbel u japprova transazzjonijiet materjali u jimmonitorja riżultati. Kull investment li jaqbeż il-Lm500,000 jehtieg approvazzjoni mill-Bord rispettiv.

Governanza korporattiva - Dikjarazzjoni ta' konformità

Kumitat tal-Verifika

It-termini ta' referenza tal-Kumitat tal-Verifika, kif approvati mill-Bord tad-Diretturi, hu mfassal prinċipalment fuq ir-rakkomandazzjonijiet tal-Cadbury Report u l-Prinċipji tiegħu. Dawn jinkludu, fost hwejjeġ oħra, ir-responsabbiltà ta' l-eżami tal-proċess ta' rappurtar finanzjarju, is-sistema ta' kontroll intern u l-immaniġġjar ta' riskji finanzjarji, l-effettività tas-sistemi ta' kontroll intern u n-natura ta' transazzjonijiet ma' parti relatata biex tkun żgurata t-trasparenza, il-proċess tal-verifika, u l-proċess tal-Kumpanija biex timmonitorja l-konformità ma' liġijiet u regolamenti u l-qalba tal-kondotta tan-negozju tagħha stess.

Il-Kumitat tal-Verifika hu mitlub li jiltaqa' mill-inqas erba' darbiet fis-sena. Tul l-2004 ltaqa' seba' darbiet. L-awdituri esterni huma mistiedna jattendu laqgħat speċifiċi tal-Kumitat tal-Verifika u huma intitolati jsejnhu laqgħa tal-kumitat jekk jidhrilhom li din hi meħtieġa. Fit-12 ta' Ottubru 2004 l-Awtorità ta' Llistjar ikkonfermat li l-Kumitat tal-Verifika tal-Middlesea Insurance p.l.c. jikkonforma mar-rekwiżiti tar-Regola ta' Llistjar 8.65.1 ta' l-MFSA. Il-Kumpanija qiegħda fil-proċess li ssahħa il-proċeduri tagħha dwar transazzjonijiet ma' parti relatata.

Il-funzjoni tal-verifika interna fil-Middlesea Group twaqqfet f'Mejju 2004. Verifika Interna hija funzjoni ta' evalwazzjoni indipendenti li teżamina u tevalwa l-attivitajiet tagħha bħala servizz lill-Grupp. Il-viżjoni mfassla mill-Kumitat tal-Verifika għall-funzjoni ta' Verifika Interna hi li jadotta verifiki bbażati fuq ir-riskji tal-proċess tan-negozju mahsubin biex jiżguraw kontrolli adegwati u wkoll effiċjenza fil-proċess tan-negozju.

L-Awditur Intern jissottometti r-rapporti tiegħu direttament lill-Kumitat tal-Verifika u jattendi l-laqgħat tal-Kumitat.

Tul l-ewwel xhur ta' operazzjonijiet tal-Grupp ta' Verifika Interna, il-Kumitat tal-Verifika approva Karta ta' Verifika Interna u Pjan ta' Verifika Interna mahsubin biex iqiegħdu pedament strateġiku sod għall-Grupp fir-rigward tar-rilevanza tiegħu għall-Kumitat, għall-manigment u għall-Bord tad-Diretturi tal-Grupp. Laqgħat ta' familjarizzazzjoni mal-Verifika Interna saru ma' uffiċjali tal-manigment u eżami ta' livell għoli tal-komponenti tal-kontroll intern kien irrappurtat lill-Kumitat tal-Verifika. Nghatat ukoll għajnuna lill-manigment fit-twaqqif ta' qafas formali standard ta' politika u proċeduri u ta' Kodiċi ta' Etika Korporattiv għall-Grupp.

Il-Kumitat għar-Rimunerazzjoni

Il-Kumitat għar-Rimunerazzjoni ikkonċentra fuq it-twaqqif tal-politika ta' rimunerazzjoni għad-diretturi u uffiċjali eżekuttivi anzjani tal-Grupp, ifassal id-diversi elementi tar-rimunerazzjoni tagħhom u jiżvela l-ammont ta' rimunerazzjoni mhallsa lid-diretturi fl-2004. Il-Kumitat għar-Rimunerazzjoni jiltaqa' skond it-Termini ta' Referenza tiegħu u skond kemmil darba jkun meħtieġ. CEO normalment ikun mistieden jattendi l-laqgħat tal-kumitat, hliet meta r-rimunerazzjoni tiegħu tkun diskussa.

Il-Kumitat għall-Konformità

Il-Kumitat għall-Konformità jiltaqa' skond it-Termini ta' Referenza tiegħu u skond kemmil darba jkun meħtieġ u, flimkien ma' l-Unità għall-Konformità tal-Grupp li tissottomettulu r-rapporti, għandu x'jaqsam mat-twaqqif ta' proċeduri mahsubin biex jiżguraw konformità mal-liġijiet, direttivi u regolamenti applikabbli kollha, u mal-prevenzjoni, kxif u/jew riżoluzzjoni ta' problemi ta' konformità.

Il-Kumitat għar-Rimunerazzjoni approva dokument imsemmi *Code of Dealing* indirizzat lid-diretturi u uffiċjali anzjani tiegħu u wkoll għad-diretturi u uffiċjali anzjani tas-sussidjarji tiegħu. L-iskop ta' dan il-Kodiċi hu li jiżgura konformità mal-Prinċipji u r-regoli ta' negozjar li hemm fir-Regoli ta' Llistjar 8.34 sa 8.44. Il-Kumpanija għandha sistema biex tiddokumenta l-avviżi kollha mogħtija minn qabel li jaslulha f'konnessjoni ma' b'cejjeċ ta' negozju li hu permess li jsiru minn diretturi u uffiċjali anzjani u dikjarazzjonijiet li dawn l-avviżi minn qabel ikunu waslu. Barra minn hekk, il-Kumpanija se titlob lid-diretturi u uffiċjali anzjani kollha biex jikkonformaw mal-*Code of Dealing* kull sena.

Fil-każ ta' Progress Assicurazioni SpA, Kumpanija inkorporata fl-Italja, il-Collegio Sindacale hu mahtur, għat-termini tal-liġi Taljana applikabbli, biex jaġixxi bħala Kumitat għall-Konformità. Matul is-sena kien presjedut minn Rag. Ferdinando Barbaro u Dott. Nicolo Francesco Rienzi u Dott. Angelo Sillitti bħala *sindaci effettivi*.

Kumitat għal Immaniġġjar Korporattiv

Il-Kumitat għal Immaniġġjar Korporattiv iltaqa' tmien darbiet tul l-2004. Dan hu delegat mill-Bord ta' Diretturi ta' kull Kumpanija tal-Grupp bir-responsabbiltà (a) tal-koordinament u superviżjoni ġenerali ta' l-operat tal-kumpaniji individwali u tal-Grupp in ġenerali f'materji operattivi u amministrattivi, (b) għall-implimentazzjoni ta' pjani u objettivi strateġiċi u (c) għall-adozzjoni ta' deċiżjonijiet li jaqgħu fl-ambitu tal-fakultajiet li jistgħu jkunu determinati mill-Bords.

Kumitat dwar l-Immaniġġjar tar-Riskji

Il-Kumitat dwar l-Immaniġġjar tar-Riskji, li jiltaqa' kull tliet xhur hu responsabbli li jsawwar politika ta' Mmaniġġjar tar-Riskji għall-Grupp allinjata mad-direzzjoni u l-attitudni lejn riskji tal-Bords. Dan jippermetti l-identifikazzjoni ta' filosofija ta' Mmaniġġjar tar-Riskji u responsabbiltajiet u hekk johloq l-ambjent u l-istrutturi biex l-immaniġġjar tar-riskji jopera b'mod effettiv. Il-Kumitat għandu l-inkarigu li jfassal pjan ta' mmaniġġjar ta' riskji u strutturi adegwati biex tkun implimentata l-politika msemmija qabel. Reġistri ta' riskji kienu kompilati li fihom kienu identifikati riskji ta' negozju u saret lista ta' prijoritajiet biex ikunu stabbiliti rakkomandazzjonijiet għal-livell ta' riżorsi li jkun jeħtieġ ikunu kommessi biex jimmaniġġjaw dawn ir-riskji. Dan jippermetti l-għoti ta' direzzjoni għall-implimentazzjoni ta' sistemi u proċeduri adegwati biex jtnaqqsu r-riskji u l-espożizzjoni għar-riskji tkun allinjata ma' l-attitudni lejn ir-riskji kif approvata. Il-Kumitat se jiżgura ż-żamma ta' Reġistri ta' Riskji u informazzjoni manigerjali relatata. Il-konsiderazzjoni ta' kwistjonijiet urġenti u *ad hoc* taq' fl-ambitu tal-funzjonijiet tal-Kumitat u għalhekk, meta hu xieraq, dan jirreferihom lill-Bord bi pjani ta' azzjoni dwar riskju. Tahrig adegwat se jingħata lill-manigment u lill-impjegati biex ikunu jistgħu jikkontribwixxu għall-proċess ta' mmaniġġjar

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ta' riskji; fil-fatt, id-Diretturi membri tal-Kumitat se jirċievu tahrig speċifiku *in-house* bhala introduzzjoni għall-qasam wiesa' ta' Mmaniġġjar Korporattiv tar-Riskji. Dan it-tahrig se jkun ukoll aċċessibbli għad-Diretturi kollha. L-etos ta' dan il-Kumitat hu li jxerred filosofija ta' Mmaniġġjar tar-Riskji u għarfien ta' riskji fost l-uffiċjali tal-Grupp kollha, u jipprovwovi attegġjament proattiv għall-immaniġġjar tar-riskju.

L-eżerċizzju tal-funzjoni tal-Bord

Il-hidmiet tal-Bord tad-Diretturi huma eżerċitati b'mod maħsub biex jiżguraw li l-Bord jista' jiffunzjona indipendentement mill-manigment u jissorvelja b'mod effettiv l-operazzjonijiet tal-Kumpanija.

F'konnessjoni ma' kull Laqgħa tal-Bord, id-Diretturi jingħataw rapport mill-manigment. Dan ir-rapport ikun fih il-kontinju tal-manigment tal-Kumpanija mid-data tal-Laqgħa tal-Bord preċedenti, jinkludi kummentarju mill-manigment fuq ir-riżultati u fuq avvenimenti u deċiżjonijiet rilevanti, u jagħti informazzjoni li tipprovdi sfond għal kull materja li tehtieg l-approvazzjoni tal-Bord.

Minbarra li jiddeċiedi l-istrateġija u d-direzzjoni tal-Kumpanija, il-Bord kien involut attivament fil-monitoraġġ tal-progress imqabbel mal-baġits u pjani, u fl-approvazzjoni ta' transazzjonijiet materjali jew sinifikanti.

Il-Bord jimmonitorja wkoll il-politiki u l-proċessi l-aktar importanti ta' l-immaniġġjar tar-riskji użati mill-Middlesea Group, li huma ċentrali għan-natura ta' l-operazzjonijiet tagħha. Dawn il-politiki u proċessi jitrattaw, *inter alia*, kwistjonijiet bħal:

- il-programm ta' riassigurazzjoni li għandu l-Grupp, biex jiżgura l-bilanċ korrett bejn riskju u premju u jiżgura li l-livell ta' x'sehem jinżamm mir-riskju, partikolarment fil-każ ta' katastrofi, hu konsistenti mar-rizorsi tal-Kumpanija
- il-kwalità tal-kontropartijiet riassigurattivi li jsir negozju magħhom u kemm għandhom jingħataw kreditu biex tkun żgurata l-effettività tal-programm ta' riassigurazzjoni
- valutazzjoni ta' strateġiji ta' ffinanzjar ta' prezzijiet f'relazzjoni mal-livell tar-riskju li jittiehed u tal-kondizzjonijiet tas-suq b'mod ġenerali
- il-miżuri użati biex ikunu mmaniġġjati riskji konnessi ma' munita barranija f'relazzjoni kemm ma' assi u kemm ma' responsabilitajiet finanzjarji
- il-miżuri adottati biex ikun żgurati tahlita bilanċjata ta' investimenti u applikazzjoni tal-politika tal-Kumpanija li ffukat fuq sigurtà, likwidità u l-ogħla qligħ possibbli.
- il-kontrolli interni u dixxiplini oħra li jittiehdu, kemm fil-kumpaniji tal-Grupp u kemm fl-aġenziji u intermedjarji oħra, biex tkun żgurata l-imġiba xierqa *bona fide* fl-operazzjonijiet kollha; u
- il-livell ta' rizorsi kapitali li jsostnu kull attività tan-negozju, biex tkun żgurata s-solvibilità kemm minn perspettiva regolatorja u kemm minn dik tan-negozju.

Il-Bord għandu aċċess dirett għall-awdituri esterni tal-Kumpanija, li jattendu l-laqgħat tal-Bord li fihom ikunu approvati d-dikjarazzjonijiet finanzjarji wara li dawn ikunu ġew eżaminati mill-Kumitat tal-Verifika. Barra minn hekk, biex jiżgura konformità ma' rekwiżiti statutorji u regolatorji u ma' obbligi ta' llistjar kontinwati, minbarra mill-kontribut tal-Kumitat għall-Konformità, il-Bord jingħata parir dirett, skond kif adattat, mill-istockbrokers, konsulent legali u awdituri esterni mahturin tiegħu.

Id-Diretturi huma intitolati jfittxu parir professjonali indipendenti kull meta jridu fuq kull aspett tad-dmirijiet u responsabbiltajiet tagħom, a spejjeż tal-Kumpanija.

Hija l-prattika tal-Bord li meta tista' tinqala' possibiltà ta' konflitt ta' interessi jew meta dan l-konflitt huwa perċettibbli fir-rispett ta' Direttur f'konnessjoni ma' xi transazzjoni jew xi materja oħra, il-konflitt ta' interess ikun iddikjarat u l-individwu involut ma jihux sehem fil-proċeduri jew deċiżjonijiet rigward il-materja. Il-minuti tal-Bord jiddokumentaw dikjarazzjoni ta' dix-xorta u l-azzjoni meħuda mid-direttur individwali involut.

Tul is-sena finanzjarja 2004 l-Bord kellu seba' laqgħat.

Komunikazzjoni ma' l-Azzjonisti

Konformi ma' l-obbligi statutorji tal-Kumpanija għat-termini ta' l-Att dwar il-Kumpaniji u r-Regoli ta' Llistjar ta' l-MFSA, ir-Rapport Annwali u d-Dikjarazzjonijiet Finanzjarji, id-dikjarazzjoni ta' dividend, l-elezzjoni ta' diretturi, il-hatra ta' Awdituri u l-awtorizzazzjoni tad-diretturi biex jiffissaw il-hlas ta' l-awdituri, u materji speċjali oħra, huma proposti u approvati fil-Laqgħa Ġenerali Annwali tal-Kumpanija. Il-Bord tad-Diretturi hu responsabbli biex jiżviluppa l-aġenda għal-Laqgħa Ġenerali u jibgħatha lill-azzjonisti.

Il-Kumpanija tikkomunika ma' l-azzjonisti tagħha permezz tar-Rapport Annwali u d-Dikjarazzjonijiet Finanzjarji, billi tippubblika r-riżultati tagħha fuq bażi ta' kull sitt xhur tul is-sena, u permezz ta' avvizi perjodiċi tal-Kumpanija lis-suq ġenerali. Il-livell ta' żvelar adottat fir-Rapport Annwali hu maħsub li jmur lil hinn mill-obbligi statutorji biex iservi ta' mezz effettiv ta' komunikazzjoni u informazzjoni fuq in-negozju tal-Kumpanija. Ir-Rapport huwa amplifikat aktar fil-preżentazzjonijiet li jsiru lill-azzjonisti fil-kors tal-Laqgħa Ġenerali Annwali.

Intrapriża li sejra tajjeb

Id-Diretturi huma sodisfatti li, meta kkunsidraw is-saħħa tal-karta bilanċjali tal-Grupp, margini ta' solvibilità u profitabilità tal-Grupp, hu raġonevoli li wiehed jassumi li l-Kumpanija u l-Grupp għandhom rizorsi adegwati biex ikomplu joperaw fil-futur prevedibbli. Għal din ir-raġuni d-Diretturi adottaw il-baži ta' intrapriża li sejra tajjeb meta ppreparaw id-dikjarazzjonijiet finanzjarji.



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 the 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 33 to 35 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 2005



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 42 to 85. As described in the statement of directors' responsibilities on page 40, 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 2004 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 2004 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 2005

Profit and Loss account

Technical account - general business

Annual business	Notes	Group		Company	
		2004 Lm	2003 Lm	2004 Lm	2003 Lm
Earned premiums, net of reinsurance					
Gross premiums written	1	35,298,600	34,618,289	13,643,537	12,759,812
Outward reinsurance premiums		(6,154,553)	(6,605,888)	(4,793,115)	(4,538,441)
Net premiums written		29,144,047	28,012,401	8,850,422	8,221,371
Change in the gross provision for unearned premiums		230,100	(1,251,268)	4,783	(418,104)
Change in the provision for unearned premiums reinsurers' share		(30,817)	(217,779)	(46,804)	(186,818)
		199,283	(1,469,047)	(42,021)	(604,922)
Earned premiums, net of reinsurance		29,343,330	26,543,354	8,808,401	7,616,449
Allocated investment return transferred from the non-technical account	4	1,027,239	1,156,455	397,471	441,274
Total technical income		30,370,569	27,699,809	9,205,872	8,057,723
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		22,606,679	17,646,913	8,016,893	6,496,072
- reinsurers' share		(5,730,498)	(4,204,460)	(2,414,021)	(2,110,882)
		16,876,181	13,442,453	5,602,872	4,385,190
Change in the provision for claims					
- gross amount		3,470,131	8,921,745	142,451	3,150,857
- reinsurers' share		2,270,682	(707,883)	384,268	(912,385)
		5,740,813	8,213,862	526,719	2,238,472
Claims incurred, net of reinsurance		22,616,994	21,656,315	6,129,591	6,623,662
Net operating expenses	3	6,124,924	5,457,427	2,391,588	2,020,921
Change in the equalisation provision		14,328	(16,343)	13,332	(16,343)
Total technical charges		28,756,246	27,097,399	8,534,511	8,628,240
Balance on the technical account for general annual business (page 45)		1,614,323	602,410	671,361	(570,517)

Profit and Loss account

Technical account - general business

Fund business	Notes	Group		Company	
		2004 Lm	2003 Lm	2004 Lm	2003 Lm
Earned premiums, net of reinsurance					
Gross premiums written	1	68,661	22,884	70,524	568,386
Outward reinsurance premiums		(1,083)	(8,526)	(1,083)	(39,778)
Earned premiums, net of reinsurance		67,578	14,358	69,441	528,608
Allocated investment return transferred from the non-technical account					
	4	48,883	19,914	48,883	19,914
Total technical income		116,461	34,272	118,324	548,522
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		470,051	707,740	630,358	806,831
- reinsurers' share		(36,737)	(275,723)	(36,737)	(275,723)
		433,314	432,017	593,621	531,108
Change in the provision for claims					
- gross amount		(307,138)	(757,528)	(491,655)	(611,639)
- reinsurers' share		40,152	293,571	40,668	293,571
		(266,986)	(463,957)	(450,987)	(318,068)
Claims incurred, net of reinsurance		166,328	(31,940)	142,634	213,040
Net operating expenses	3	69,424	8,333	69,964	265,887
Change in the equalisation provision		-	(1,401)	-	(1,401)
Total technical charges		235,752	(25,008)	212,598	477,526
Balance on the technical account for general fund business (page 45)		(119,291)	59,280	(94,274)	70,996

Profit and Loss account

Technical account - long term business

	Notes	Group and Company	
		2004	2003
		Lm	Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	571,377	594,598
Outward reinsurance premiums		(277,175)	(222,643)
		294,202	371,955
Investment income			
Income from other investments		40,472	40,217
		334,674	412,172
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		275,861	268,590
- reinsurers' share		(160,986)	(164,020)
		114,875	104,570
Change in the provision for claims			
- gross amount		101,090	(55,519)
- reinsurers' share		(79,173)	41,394
		21,917	(14,125)
		136,792	90,445
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		(17,899)	(3,337)
- reinsurers' share		(17,886)	23,626
		(35,785)	20,289
Net operating expenses	3	85,790	94,018
Total technical charges		186,797	204,752
Balance on the technical account for long term business (page 45)		147,877	207,420

Profit and Loss account Non - technical account

	Notes	Group		Company	
		2004 Lm	2003 Lm	2004 Lm	2003 Lm
Balances on technical accounts					
General business – annual (page 42)		1,614,323	602,410	671,361	(570,517)
General business – fund (page 43)		(119,291)	59,280	(94,274)	70,996
Long term business (page 44)		147,877	207,420	147,877	207,420
		1,642,909	869,110	724,964	(292,101)
Share of group undertaking's profit before tax involved in general business	4	-	-	314,350	476,451
Share of participating interest's profit before tax involved in long term business	4	819,258	680,077	819,258	680,077
Total income from insurance activities		2,462,167	1,549,187	1,858,572	864,427
Share of group undertakings' profit before tax	4	-	-	148,224	170,656
Other investment income	4	2,172,725	2,046,274	1,041,880	1,090,028
Investment expenses and charges	4	(668,154)	(397,691)	(376,998)	(351,266)
Allocated investment return transferred to the general business technical account	4	(1,076,122)	(1,176,369)	(446,354)	(461,188)
Other income	5	491,224	496,541	-	-
Administration expenses	3	(1,169,658)	(1,055,008)	(327,384)	(305,752)
Continuing operations		2,343,205	1,381,752	2,028,963	925,723
Discontinuing operation	2	(131,023)	81,182	(131,023)	81,182
Operating profit on ordinary activities before tax	6	2,212,182	1,462,934	1,897,940	1,006,905
Provision for loss on discontinuing operation		-	(77,964)	-	(77,964)
Profit on ordinary activities before tax		2,212,182	1,384,970	1,897,940	928,941
Tax on profit on ordinary activities	8	(503,026)	(27,312)	(314,549)	137,244
Profit on ordinary activities after tax		1,709,156	1,357,658	1,583,391	1,066,185
Minority interests	24	(125,765)	(291,473)	-	-
Profit for the financial year		1,583,391	1,066,185	1,583,391	1,066,185
Earnings per share	10	12.7c	8.5c	12.7c	8.5c

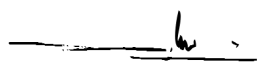
Balance sheet

	Notes	Group		Company	
		2004 Lm	2003 Lm	2004 Lm	2003 Lm
ASSETS					
Investments					
Land and buildings - investment property	12	3,422,742	3,433,922	2,526,119	2,534,144
Investments in group undertakings	13	-	-	6,281,482	5,057,505
Investment in participating interest	14	10,911,311	9,024,992	10,911,311	9,024,992
Other financial investments					
- held-to-maturity	15	3,759,205	3,695,668	-	-
- deposits with banks or credit institutions	16	3,281,517	7,588,787	3,125,794	1,707,897
- other originated loans and receivables	17	5,127,484	5,311,375	4,510,704	4,745,803
- available-for-sale	18	42,351,702	32,501,734	12,235,982	11,597,946
Deposits with ceding undertakings		118,121	122,466	118,172	122,223
		68,972,082	61,678,944	39,709,564	34,790,510
Reinsurers' share of technical provisions					
Provision for unearned premiums		1,572,539	1,600,625	1,341,750	1,388,554
Long term business provision	25	75,276	57,392	75,276	57,392
Claims outstanding	19	11,282,485	13,459,015	5,048,095	5,393,858
		12,930,300	15,117,032	6,465,121	6,839,804
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		102,121	75,124	102,121	75,124
- intermediaries		5,368,295	5,925,865	2,646,124	3,011,911
Debtors arising out of reinsurance operations		201,328	507,918	201,328	507,918
Amounts owed by group undertakings		-	-	602,005	946,925
Amounts owed by participating interest		-	226,956	98,682	566,652
Other debtors		343,135	425,814	-	-
Taxation recoverable		164,033	268,228	-	-
		6,178,912	7,429,905	3,650,260	5,108,530
Other assets					
Tangible assets	20	1,604,846	1,485,790	585,685	595,639
Deferred taxation	27	1,447,633	1,370,012	673,473	659,612
Cash at bank and in hand		6,241,623	3,501,728	1,011,413	1,254,768
		9,294,102	6,357,530	2,270,571	2,510,019
Prepayments and accrued income					
Accrued interest and rent		798,443	1,099,801	210,434	608,909
Deferred acquisition costs		1,109,308	1,146,848	1,109,308	1,146,848
Other prepayments and accrued income		897,904	833,564	904,791	743,180
		2,805,655	3,080,213	2,224,533	2,498,937
Total assets		100,181,051	93,663,624	54,320,049	51,747,800

Balance sheet

	Notes	Group		Company	
		2004 Lm	2003 Lm	2004 Lm	2003 Lm
LIABILITIES					
Capital and reserves					
Called up share capital	21	6,250,000	6,250,000	6,250,000	6,250,000
Share premium account		1,192,500	1,192,500	1,192,500	1,192,500
Revaluation reserve	22	1,857,946	963,998	1,857,946	963,998
Other reserves	23	5,227,500	4,864,950	5,227,500	4,864,950
Profit and loss account		9,545,791	8,587,400	9,545,791	8,587,400
		24,073,737	21,858,848	24,073,737	21,858,848
Minority interests					
	24	4,623,454	3,709,670	-	-
Technical provisions					
Provision for unearned premiums		11,440,479	11,630,274	5,522,881	5,527,664
Long term business provision	25	203,283	221,182	203,283	221,182
Claims outstanding		48,460,271	44,999,699	15,367,599	15,615,713
Equalisation provision	26	14,328	-	13,332	-
		60,118,361	56,851,155	21,107,095	21,364,559
Provisions for other risks and charges					
	27	615,549	316,502	278,779	5,493
Deposits received from reinsurers					
		1,459,612	1,448,038	1,278,478	1,190,751
Creditors					
Creditors arising out of direct insurance operations		1,516,446	2,353,586	888,910	1,109,352
Creditors arising out of reinsurance operations		537,221	729,986	537,221	729,986
Amounts owed to credit institutions	28	2,885,436	2,234,430	2,885,436	2,234,430
Amounts owed to participating interest		241,041	-	-	-
Current taxation		1,174,098	1,242,171	1,174,098	1,241,138
Other taxation and social security		64,512	79,025	-	-
		6,418,754	6,639,198	5,485,665	5,314,906
Accruals and deferred income					
		2,871,584	2,840,213	2,096,295	2,013,243
Total liabilities					
		100,181,051	93,663,624	54,320,049	51,747,800

The financial statements on pages 42 to 85 were authorised for issue by the Board on 29 April 2005 and were signed on its behalf by:



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



R.E.D. Chalmers
Director

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 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		-	-	-	-	(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
Balance at 1 January 2004		6,250,000	1,192,500	963,998	4,864,950	8,587,400	21,858,848
Available-for-sale investments:							
- net fair value gains, net of deferred taxation	22	-	-	730,836	-	-	730,836
- transfer to net profit, net of deferred taxation	22	-	-	71,854	-	-	71,854
Share of participating interest's reserves	22,23	-	-	91,258	510,000	-	601,258
Currency translation differences	23	-	-	-	(147,450)	-	(147,450)
Net gains not recognised in profit and loss account		-	-	893,948	362,550	-	1,256,498
Dividends for 2003	11	-	-	-	-	(625,000)	(625,000)
Profit for the financial year		-	-	-	-	1,583,391	1,583,391
Balance at 31 December 2004		6,250,000	1,192,500	1,857,946	5,227,500	9,545,791	24,073,737

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 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		-	-	-	-	(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
Balance at 1 January 2004		6,250,000	1,192,500	963,998	4,864,950	8,587,400	21,858,848
Available-for-sale investments:							
- net fair value gains, net of deferred taxation	22	-	-	599,119	-	-	599,119
- transfer to net profit, net of deferred taxation	22	-	-	(11,838)	-	-	(11,838)
Share of group undertakings' reserves	22	-	-	215,409	-	-	215,409
Share of participating interest's reserves	22,23	-	-	91,258	510,000	-	601,258
Currency translation differences	23	-	-	-	(147,450)	-	(147,450)
Net gains not recognised in profit and loss account		-	-	893,948	362,550	-	1,256,498
Dividends for 2003	11	-	-	-	-	(625,000)	(625,000)
Profit for the financial year		-	-	-	-	1,583,391	1,583,391
Balance at 31 December 2004		6,250,000	1,192,500	1,857,946	5,227,500	9,545,791	24,073,737

Cash flow statement

	Notes	Group		Company	
		2004 Lm	2003 Lm	2004 Lm	2003 Lm
Operating activities					
Cash generated from operations	29	7,970,041	9,581,263	2,316,638	2,103,545
Tax paid		(459,739)	(215,440)	(74,790)	(6,836)
Net cash generated from operating activities		7,510,302	9,365,823	2,241,848	2,096,709
Investing activities					
Purchase of investment property	12	(12,676)	-	(12,676)	-
Disposal of investment property	12	-	173,221	-	173,221
Increase in investment in participating interest	14	(510,000)	-	(510,000)	-
Increase in investment in group undertaking	13	-	-	(652,242)	(656,330)
Disposal of investment in group undertaking	13	-	-	45,080	-
Purchase of financial investments	15-18	(24,457,056)	(16,765,510)	(9,042,774)	(7,678,378)
Disposal of financial investments	15-18	13,994,599	8,131,852	8,084,384	5,318,007
Purchase of tangible assets	20	(261,105)	(283,864)	(64,987)	(130,195)
Disposal of tangible assets	20	10,754	632	10,754	500
Net cash used in investing activities		(11,235,484)	(8,743,669)	(2,142,461)	(2,973,175)
Financing activities					
Bank loans	28	651,006	644,500	651,006	644,500
Proceeds from minority interest on issue of shares	24	626,664	630,273	-	-
Dividends paid to group shareholders	11	(625,000)	(568,750)	(625,000)	(568,750)
Dividends paid to minority interests	24	(4,900)	(9,800)	-	-
Net cash generated from financing activities		647,770	696,223	26,006	75,750
(Decrease)/increase in cash and cash equivalents		(3,077,412)	1,318,377	125,393	(800,716)
Movement in cash and cash equivalents					
At beginning of year		11,555,978	10,050,999	2,982,822	3,783,538
Net cash (outflow)/inflow		(3,077,412)	1,318,377	125,393	(800,716)
Effect of exchange rate changes		65,329	186,602	-	-
At end of year	30	8,543,895	11,555,978	3,108,215	2,982,822

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.

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.



Accounting policies

4. Basis of accounting - continued

(a) General business - annual basis - continued

- (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 analysis 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.

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 provided for as soon as they become anticipated.

4. Basis of accounting - continued

(b) General business - fund basis - continued

- (i) Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the 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 diminution in value is likely to be permanent, the carrying amount is reduced to the recoverable amount. Any impairment loss is recognised as an investment expense in the profit and loss account. Realised gains and losses on the sale of investment property are credited or charged to the profit and loss account.

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.

Accounting policies

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 designation on a regular basis. All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets.

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

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.
- 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, interest payable and impairment charge.

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.

11. Investment return - continued

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	1 - 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.



Accounting policies

18. Provisions - continued

(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 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.

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.

The Group has investments in securities denominated in foreign currencies and in a foreign operation whose net assets are exposed to foreign currency translation risk. Currency exposure is mitigated primarily by holding a large part of these investments in a manner that reflects the basket of currencies that determines the value of the Maltese Lira. The gain or loss relating to the ineffective portion of the investments hedged in this manner is recognised immediately in the profit and loss account.

21. Borrowing costs

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

Notes to the financial statements

1. Segmental analysis

General business

Gross premiums written and gross premiums earned by class of business

	Group			
	Gross premiums written		Gross premiums earned	
	2004	2003	2004	2003
	Lm	Lm	Lm	Lm
Direct insurance				
Motor (third party liability)	18,646,952	18,731,928	19,062,827	18,126,143
Motor (other classes)	7,409,495	7,122,801	7,341,845	6,717,471
Fire and other damage to property	3,553,852	3,356,895	3,512,902	3,256,536
Other classes	5,688,301	5,406,665	5,611,126	5,266,871
	35,298,600	34,618,289	35,528,700	33,367,021
Reinsurance acceptances				
Motor (other classes)	-	(2,688)	-	(2,688)
Fire and other damage to property	69,089	24,174	69,089	24,174
Other classes	(428)	1,398	(428)	1,398
	35,367,261	34,641,173	35,597,361	33,389,905

34% (2003: 33%) of gross premiums written on direct general insurance business emanate from contracts concluded in or from Malta, 61% (2003: 63%) emanate from contracts concluded in or from Italy and 5% (2003: 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	
	2004	2003	2004	2003	2004	2003
	Lm	Lm	Lm	Lm	Lm	Lm
Direct insurance						
Motor (third party liability)	17,585,794	17,833,782	3,138,803	2,935,524	(507,083)	(778,692)
Motor (other classes)	3,908,019	4,258,246	1,817,346	1,770,854	308,416	224,189
Fire and other damage to property	889,446	2,882,282	970,694	877,872	1,627,641	(57,119)
Other classes	3,693,551	1,594,348	1,620,893	1,497,178	(126,232)	898,945
	26,076,810	26,568,658	7,547,736	7,081,428	1,302,742	287,323
Reinsurance acceptances						
Motor (other classes)	4,970	37,814	-	1,679	(3,980)	(10,709)
Fire and other damage to property	141,913	(95,577)	69,548	6,826	7,986	36,655
Other classes	16,030	7,975	192	421	176	(165)
	26,239,723	26,518,870	7,617,476	7,090,354	1,306,924	313,104

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	
	2004	2003	2004	2003
	Lm	Lm	Lm	Lm
Direct insurance				
Motor (third party liability)	2,606,437	2,174,958	2,587,425	2,051,141
Motor (other classes)	4,888,547	4,788,576	4,852,887	4,515,968
Fire and other damage to property	2,725,949	2,664,805	2,745,306	2,629,724
Other classes	3,422,604	3,131,473	3,462,702	3,144,875
	13,643,537	12,759,812	13,648,320	12,341,708
Reinsurance acceptances				
Motor (other classes)	-	111,472	-	111,472
Fire and other damage to property	69,089	100,102	69,089	100,102
Other classes	1,435	356,812	1,435	356,812
	13,714,061	13,328,198	13,718,844	12,910,094

88% (2003: 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

	Gross claims incurred		Company Gross operating expenses		Reinsurance balance	
	2004	2003	2004	2003	2004	2003
	Lm	Lm	Lm	Lm	Lm	Lm
Direct insurance						
Motor (third party liability)	1,708,920	1,691,808	637,355	528,792	93,838	30,783
Motor (other classes)	3,211,892	3,872,809	1,195,402	1,164,234	175,086	64,533
Fire and other damage to property	631,456	2,746,190	726,207	682,598	1,429,264	(224,676)
Other classes	2,607,076	1,336,122	948,805	860,047	(4,203)	616,602
	8,159,344	9,646,929	3,507,769	3,235,671	1,693,985	487,242
Reinsurance acceptances						
Motor (other classes)	(9,279)	99,450	-	55,717	(3,980)	(10,709)
Fire and other damage to property	139,548	(66,580)	69,548	42,058	8,502	51,285
Other classes	8,434	162,322	732	168,707	176	16,455
	8,298,047	9,842,121	3,578,049	3,502,153	1,698,683	544,273

Notes to the financial statements

1. Segmental analysis - continued

General business - continued

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

Long term business

	Group and Company	
	2004	2003
	Lm	Lm
Gross premiums written		
Direct insurance	564,713	587,613
Reinsurance inwards	6,664	6,985
	571,377	594,598

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	
	2004	2003	2004	2003
	Lm	Lm	Lm	Lm
Continuing operations				
Malta	12,607,371	11,886,475	1,772,544	400,816
Italy	21,655,063	21,858,477	616,373	934,218
Gibraltar	1,602,805	1,468,236	(45,712)	46,718
Total continuing operations	35,865,239	35,213,188	2,343,205	1,381,752
Discontinuing operation (see note 2)				
Malta	(77)	7,649	(950)	78,289
London branch	73,476	14,934	(130,073)	(75,071)
Total discontinuing operation	73,399	22,583	(131,023)	3,218
Total for the year	35,938,638	35,235,771	2,212,182	1,384,970

There is no business transacted between the segments other than as disclosed in Note 34.

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 and other assets managed from Malta (the home country of the parent company).

The Group's assets and liabilities for segments operating outside Malta for the year then ended are as follows:

- Assets of Lm50,264,510 (2003: Lm45,839,601) and liabilities of Lm40,853,998 (2003: Lm38,285,016) that are held by the Group's subsidiary in Italy.
- Net technical provisions of Lm909,623 (2003: Lm1,146,081) relate to the Group's London operation. These technical provisions are backed by investments and other net assets of Lm1,953,856 (2003: Lm2,214,701) allocated to this operation and managed from Malta.
- Net technical provisions of Lm1,829,142 (2003: Lm1,376,542) that relate to the Group's agency in Gibraltar. These technical provisions are backed by Lm1,829,142 (2003: Lm1,376,542) worth of investments managed from Malta.

Net technical provisions relating to discontinuing operations amount to:

	Group	
	2004	2003
	Lm	Lm
Malta	119,595	115,478
London	909,623	1,146,081
	1,029,218	1,261,559

Other information

	2004				Group			
	Malta	London	Italy	Total	Malta	London	Italy	Total
	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm
Share of profit before tax of participating interest	819,258	-	-	819,258	680,077	-	-	680,077
Capital expenditure	109,415	-	151,690	261,105	275,324	-	112,169	387,493
Depreciation - investment property	23,058	-	2,250	25,308	23,507	-	2,235	25,742
Depreciation - tangible assets	94,329	6,987	45,527	146,843	89,617	10,833	63,747	164,197
Amortisation	34,921	-	222,520	257,441	25,903	-	65,287	91,190
Impairment charge	115,670	-	270,981	386,651	51,524	-	-	51,524
Other non-cash movements	86,079	(38,394)	(36,151)	11,534	75,000	77,964	164,187	317,151

Capital expenditure comprises additions to tangible assets.

Notes to the financial statements

2. Discontinuing operation

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

	Group and Company	
	2004	2003
	Lm	Lm
Earned premiums, net of reinsurance	72,332	11,644
Allocated investment return transferred from the non-technical account	41,216	2,519
Claims incurred, net of reinsurance	(176,847)	73,314
Net operating expenses	(67,724)	(6,295)
	<hr/>	<hr/>
Balance on the technical account for general fund business in respect of discontinuing operation	(131,023)	81,182
	<hr/>	<hr/>
Operating cash flows	(208,639)	(523,025)

During 2003 a charge of Lm77,964 was effected to the provision on the accounts 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	
	2004	2003
	Lm	Lm
Gross run-off incurred	167,630	(102,056)
Reinsurers' share	9,217	28,742
	<hr/>	<hr/>
Adverse/(favourable) run-off, net of reinsurance	176,847	(73,314)

Notes to the financial statements

3. Net operating expenses

	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
(a) Technical accounts				
Acquisition costs	5,811,353	5,529,288	2,949,572	3,008,033
Change in deferred acquisition costs, net of reinsurance	(5,576)	(130,496)	(5,576)	(130,496)
Administrative expenses	1,852,460	1,700,509	674,812	633,563
Reinsurance commissions and profit participation	(1,378,099)	(1,539,523)	(1,071,466)	(1,130,274)
	6,280,138	5,559,778	2,547,342	2,380,826
Allocated to:				
Annual general business	6,124,924	5,457,427	2,391,588	2,020,921
Fund general business	69,424	8,333	69,964	265,887
Long term business	85,790	94,018	85,790	94,018
	6,280,138	5,559,778	2,547,342	2,380,826

Total commissions for direct business accounted for in the financial year amounted to Lm5,578,298 (2003: Lm5,270,586) in the Group's technical result and Lm2,715,980 (2003: Lm2,491,774) 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	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Investment income				
Share of group undertakings' profit before tax	-	-	462,574	647,107
Share of participating interest's profit before tax	819,258	680,077	819,258	680,077
Income from investment property	216,012	140,008	162,640	92,708
Interest receivable from group undertakings	-	-	18,799	32,577
Other interest receivable from other investments	1,621,402	1,498,029	591,251	585,020
Other income from other investments	203,698	112,391	172,571	83,877
Gains on the realisation of investment property	-	105,493	-	105,493
Gains on the realisation of other investments	206,544	229,713	171,550	229,713
	3,066,914	2,765,711	2,398,643	2,456,572
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	49,192	56,462	46,807	51,152
Interest expense	121,094	120,032	110,740	102,742
Other investment expenses	106,452	80,842	103,781	65,044
Losses on the realisation of other investments	4,765	88,831	-	80,804
Provision for impairment	386,651	51,524	115,670	51,524
	668,154	397,691	376,998	351,266
Total investment return	2,398,760	2,368,020	2,021,645	2,105,306
Analysed between:				
Allocated investment return transferred to the general business technical account	1,076,122	1,176,369	446,354	461,188
Investment return included in the non-technical account	1,247,707	1,152,291	1,500,360	1,604,758
Allocated against provision for loss on discontinuing operation (note 27)	74,931	39,360	74,931	39,360
	2,398,760	2,368,020	2,021,645	2,105,306

Notes to the financial statements

5. Other income

	Group		Company	
	2004	2003	2004	2003
	Lm	Lm	Lm	Lm
Management fees	405,647	415,484	-	-
Other income	85,577	81,057	-	-
	491,224	496,541	-	-

6. Operating profit on ordinary activities before tax

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

	Group		Company	
	2004	2003	2004	2003
	Lm	Lm	Lm	Lm
Staff costs (note 7)	1,849,348	1,783,765	494,515	446,842
Auditors' remuneration	44,003	42,075	13,250	13,250
Amortisation of goodwill	9,239	12,308	9,239	12,308
Depreciation:				
- investment property (note 12)	25,308	25,742	20,701	21,150
- tangible assets (note 20)	146,843	164,197	74,416	81,444
Exchange losses	61,096	28,318	61,096	28,318

7. Staff costs

	Group		Company	
	2004	2003	2004	2003
	Lm	Lm	Lm	Lm
Salaries	1,543,420	1,455,979	450,021	406,973
Social security costs	273,160	299,452	25,769	23,678
Provision for contracted pension obligations	32,768	28,334	18,725	16,191
	1,849,348	1,783,765	494,515	446,842

The average number of persons employed during the year was:

	Group		Company	
	2004	2003	2004	2003
Managerial	26	31	13	14
Technical	55	54	35	28
Administrative	59	48	3	3
	140	133	51	45

Notes to the financial statements

8. Tax on profit on ordinary activities

	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Current tax expense	503,450	310,187	7,750	10,113
Share of group undertakings' taxation	-	-	71,654	70,718
Share of participating interest's taxation	49,299	20,813	49,299	20,813
Deferred tax (credit)/charge (note 27)	(49,723)	(303,688)	185,846	(238,888)
Tax charge/(credit)	503,026	27,312	314,549	(137,244)

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	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Profit on ordinary activities before tax	2,212,182	1,384,970	1,897,940	928,941
Tax on ordinary profit at 35%	774,264	484,739	664,279	325,129
Adjusted for tax effect of:				
Dividends received from untaxed income	(248)	-	(248)	-
Exempt income	(299,671)	(326,666)	(299,671)	(326,666)
Tax effect of differences arising from Section 15 of the Income Tax Act	(162,667)	(158,107)	(162,667)	(158,107)
Temporary differences attributable to unrecognised deferred tax movements	85,309	13,011	41,912	9,766
Non-deductible expenditure	65,800	28,146	46,625	26,445
Other	40,239	(13,811)	24,319	(13,811)
Tax charge/(credit)	503,026	27,312	314,549	(137,244)

Notes to the financial statements

9. Directors' emoluments

	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Contracted emoluments paid to management	38,669	39,924	38,669	39,924
Directors' fees	37,500	31,500	37,500	31,500
	76,169	71,424	76,169	71,424

The executive director is entitled to the use of a company car.

The Company has paid insurance premiums of Lm5,976 (2003: Lm5,094) during the year in respect of insurance cover in favour of its directors. Furthermore, provisions have been made (Group: 2004 - Lm32,768 and 2003 - Lm28,334, Company: 2004 - Lm18,725 and 2003 - Lm16,191) 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	
	2004	2003
Net profit attributable to shareholders	Lm1,583,391	Lm1,066,185
Weighted average number of ordinary shares in issue	12,500,000	12,500,000
Earnings per share	12.7c	8.5c

11. Dividends

At the forthcoming Annual General Meeting, a dividend in respect of 2004 of 6 cents per share amounting to Lm750,000 is to be proposed. The dividend 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 2005. The dividends declared after the financial year end in respect of 2003 were Lm625,000 (5c per share) and in respect of 2002 were Lm568,750 (4c55 per share).

Notes to the financial statements

12. Land and buildings – investment property

	Group Lm	Company Lm
Year ended 31 December 2004		
Opening net book amount	3,433,922	2,534,144
Additions	12,676	12,676
Depreciation	(25,308)	(20,701)
Currency translation differences	1,452	-
Closing net book amount	3,422,742	2,526,119
At 31 December 2004		
Cost	3,540,497	2,633,795
Depreciation	(128,617)	(107,676)
Currency translation differences	10,862	-
Net book amount	3,422,742	2,526,119
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)
Currency translation differences	9,410	-
Net book amount	3,433,922	2,534,144

The fair value of land and buildings at the balance sheet date amounted to Lm4,165,334 (2003: Lm4,127,130) for the Group and Lm3,207,920 (2003: Lm3,192,324) 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 2004	
Opening net book amount	5,057,505
Additions	652,242
Disposals	(45,080)
Share of group undertakings' profits and reserves	579,239
Currency translation differences	37,576
Closing net book amount	6,281,482
At 31 December 2004	
Cost	3,887,276
Share of group undertakings' profits and reserves	2,209,180
Currency translation differences	185,026
Net book amount	6,281,482
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	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
Currency translation differences	147,450
Net book amount	5,057,505

The principal group undertakings at 31 December are shown below:

Group undertakings	Registered office	Class of shares held	Percentage of shares held 2004	Percentage of shares held 2003
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 (Liquidated)	Middle Sea House Floriana	Ordinary shares	-	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%

Notes to the financial statements

14. Investment in participating interest

	Group and Company Lm
Year ended 31 December 2004	
Opening net book amount	9,024,992
Additions	1,173,000
Share of participating interest's profits and reserves	713,319
	<hr/>
Closing net book amount	10,911,311
	<hr/>
At 31 December 2004	
Cost	1,955,540
Share of participating interest's profits and reserves	8,955,771
	<hr/>
Net book amount	10,911,311
	<hr/>
Year ended 31 December 2003	
Opening net book amount	7,720,519
Share of participating interest's profits and reserves	1,304,473
	<hr/>
Closing net book amount	9,024,992
	<hr/>
At 31 December 2003	
Cost	782,540
Share of participating interest's profits and reserves	8,242,452
	<hr/>
Net book amount	9,024,992
	<hr/>

The participating interest at 31 December is shown below:

Participating interest	Registered office	Class of shares held	Percentage of shares held 2004	Percentage of shares held 2003
Middlesea Valletta Life Assurance Company Limited	Middle Sea House Floriana	Ordinary shares	51%	51%

Notes to the financial statements

14. Investment in participating interest - continued

Middlesea Insurance p.l.c. is entitled in terms of the Articles of Association of 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:

	2004	2003
	Lm	Lm
Investments	149,645,389	119,848,694
Value of in-force business	12,900,000	11,900,000
Tangible fixed assets	591,983	557,964
Assets held to cover linked liabilities	13,990,045	4,645,221
Net current assets	5,101,868	3,287,785
Technical provisions	(159,391,330)	(121,066,374)
Deferred taxation	954,031	973,549
Shareholders' funds	23,791,986	20,146,839
51% thereof relating to Group	12,133,913	10,274,888
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	(136,000)	(163,200)
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	10,918,953	9,032,728

The profit after tax earned by Middlesea Valletta Life Assurance Company Limited for the year ended 31 December 2004 was Lm1,522,776 (2003: Lm1,303,654).

Notes to the financial statements

15. Other financial assets - held-to-maturity

Group

	Quoted fixed income debt securities Lm
Year ended 31 December 2004	
Opening net book amount	3,695,668
Amortisation	39,129
Currency translation differences	24,408
Closing net book amount	<u>3,759,205</u>
At 31 December 2004	
Amortised cost	3,524,762
Currency translation differences	234,443
Net book amount	<u>3,759,205</u>
Year ended 31 December 2003	
Opening net book amount	3,547,455
Amortisation	36,738
Currency translation differences	111,475
Closing net book amount	<u>3,695,668</u>
At 31 December 2003	
Amortised cost	3,485,633
Currency translation differences	210,035
Net book amount	<u>3,695,668</u>

Maturity of fixed income debt securities:

	Group	
	2004	2003
	Lm	Lm
Between 2 and 5 years	3,147,245	-
Over 5 years	611,960	3,695,668
	<u>3,759,205</u>	<u>3,695,668</u>
Weighted average effective interest rate	<u>6.2%</u>	<u>6.3%</u>

Notes to the financial statements

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

	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Deposits with banks or credit institutions	3,281,517	7,588,787	3,125,794	1,707,897

Maturity of deposits with banks or credit institutions:

	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Within 3 months	2,202,835	6,704,895	2,047,112	824,005
Within 1 year but exceeding 3 months	1,078,682	883,892	1,078,682	883,892
	3,281,517	7,588,787	3,125,794	1,707,897

The above deposits earn interest as follows:

	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
At floating rates	1,711,058	6,572,503	1,595,326	730,072
At fixed rates	1,570,459	1,016,284	1,530,468	977,825
	3,281,517	7,588,787	3,125,794	1,707,897
Weighted average effective interest rate	3.2%	2.6%	3.2%	4.2%

At 31 December 2004, none of the above financial assets of the Group and the Company were pledged (2003: Lm750,000).

Notes to the financial statements

17. Other financial assets - other originated loans and receivables

Group

	Quoted fixed income debt securities Lm	Treasury bills Lm	Unquoted fixed income securities Lm	Total Lm
Year ended 31 December 2004				
Opening net book amount	3,546,569	1,647,886	116,920	5,311,375
Additions	856,830	3,416,705	-	4,273,535
Disposals	(67,320)	(4,370,885)	-	(4,438,205)
Currency translation differences	(17,419)	-	112	(17,307)
Amortisation	(1,914)	-	-	(1,914)
Closing net book amount	4,316,746	693,706	117,032	5,127,484
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

Maturity of fixed income debt securities and treasury bills:

	2004 Lm	2003 Lm
Within one year	995,306	1,647,886
Between 1 and 2 years	203,200	301,600
Between 2 and 5 years	606,075	456,921
Over 5 years	3,322,903	2,904,968
	5,127,484	5,311,375
Weighted average effective interest rate	5.6%	5.2%

Notes to the financial statements

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

Company	Quoted fixed income debt securities Lm	Treasury bills Lm	Unquoted fixed income securities Lm	Total Lm
Year ended 31 December 2004				
Opening net book amount	3,096,568	1,549,235	100,000	4,745,803
Additions	756,830	3,192,959	-	3,949,789
Disposals	(67,320)	(4,098,235)	-	(4,165,555)
Currency translation differences	(17,419)	-	-	(17,419)
Amortisation	(1,914)	-	-	(1,914)
Closing net book amount	3,766,745	643,959	100,000	4,510,704
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

Maturity of fixed income debt securities and treasury bills:

	2004 Lm	2003 Lm
Within one year	945,559	1,549,235
Between 1 and 2 years	183,200	301,600
Between 2 and 5 years	509,043	390,000
Over 5 years	2,872,902	2,504,968
	4,510,704	4,745,803
Weighted average effective interest rate	5.6%	5.1%

The above financial assets of the Group and Company include pledged investments amounting to Lm2,455,624 (2003: Lm1,478,558).

Notes to the financial statements

18. Other financial investments - available-for-sale

Group	Quoted shares, other variable yield securities and units in unit trusts Lm	Quoted fixed income debt securities Lm	Treasury bills Lm	Unquoted shares Lm	Total Lm
Year ended 31 December 2004					
Opening net book amount	4,567,826	27,432,585	-	501,323	32,501,734
Additions	1,956,402	14,991,719	6,061,576	100,000	23,109,697
Disposals	(384,280)	(13,341,220)	-	-	(13,725,500)
Amortisation	-	(288,539)	3,122	-	(285,417)
Net gains/(losses) from changes in fair value	939,912	163,073	-	(189,496)	913,489
Transfer to net profit on realisation of investments	(7,723)	(111,000)	-	-	(118,723)
Hedging losses transferred to profit and loss account	(211,328)	31,385	-	-	(179,943)
Currency translation differences	6,371	129,797	-	197	136,365
Closing net book amount	6,867,180	29,007,800	6,064,698	412,024	42,351,702
At 31 December 2004					
Cost	7,433,781	28,025,603	6,064,698	306,088	41,830,170
Revaluation reserve	(95,086)	246,936	-	104,382	256,232
Provision for impairment	(521,916)	-	-	-	(521,916)
Currency translation differences	50,401	735,261	-	1,554	787,216
Net book amount	6,867,180	29,007,800	6,064,698	412,024	42,351,702
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)
Currency translation differences	44,030	605,464	-	1,357	650,851
Net book amount	4,567,826	27,432,585	-	501,323	32,501,734

Notes to the financial statements

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

Company	Quoted shares, other variable yield securities and units in unit trusts Lm	Quoted fixed income debt securities Lm	Unquoted shares Lm	Total Lm
Year ended 31 December 2004				
Opening net book amount	3,396,354	7,780,125	421,467	11,597,946
Additions	1,431,952	2,511,884	100,000	4,043,836
Disposals	(279,301)	(3,467,978)	-	(3,747,279)
Amortisation	-	(23,768)	-	(23,768)
Net gains/(losses) from changes in fair value	795,670	32,016	(189,496)	638,190
Transfer to net profit on realisation of investments	(20,418)	(72,582)	-	(93,000)
Hedging losses transferred to profit and loss account	(211,328)	31,385	-	(179,943)
Closing net book amount	5,112,929	6,791,082	331,971	12,235,982
At 31 December 2004				
Cost	5,270,217	6,642,300	227,589	12,140,106
Revaluation reserve	93,647	148,782	104,382	346,811
Provision for impairment	(250,935)	-	-	(250,935)
Net book amount	5,112,929	6,791,082	331,971	12,235,982
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
Maturity of fixed income debt securities:				
	Group		Company	
	2004	2003	2004	2003
	Lm	Lm	Lm	Lm
Within one year	10,085,674	11,571,532	452,189	1,711,978
Between 1 and 2 years	8,518,628	3,265,816	669,839	339,331
Between 2 and 5 years	15,127,155	9,561,855	4,328,013	2,695,434
Over 5 years	1,341,041	3,033,382	1,341,041	3,033,382
	35,072,498	27,432,585	6,791,082	7,780,125
Weighted average effective interest rate	2.7%	3.2%	4.2%	4.1%

The above financial assets include pledged investments amounting to Lm468,589 (2003: Lm452,795) for the Group and Lm257,857 (2003: Lm291,092) for the Company.

Notes to the financial statements

19. Reinsurers' share of technical provisions

Recoveries on claims outstanding from reinsurers include an amount of Lm2,019,379 (2003: Lm3,129,843) 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 accepted 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 2004					
Opening net book amount	919,511	452,763	104,250	9,266	1,485,790
Additions	36,871	218,634	-	5,600	261,105
Disposals	-	-	(4,455)	(46,969)	(51,424)
Depreciation charge	(19,190)	(121,535)	(1,424)	(4,694)	(146,843)
Depreciation released on disposals	-	-	4,263	46,636	50,899
Currency translation differences	3,937	1,354	-	28	5,319
Closing net book amount	941,129	551,216	102,634	9,867	1,604,846
At 31 December 2004					
Cost	1,094,571	1,874,471	104,104	60,495	3,133,641
Accumulated depreciation	(192,154)	(1,330,475)	(1,470)	(50,855)	(1,574,954)
Currency translation differences	38,712	7,220	-	227	46,159
Net book amount	941,129	551,216	102,634	9,867	1,604,846
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)
Currency translation differences	34,775	5,866	-	199	40,840
Net book amount	919,511	452,763	104,250	9,266	1,485,790

Company

	Buildings & leasehold improvements Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2004					
Opening net book amount	309,581	181,273	104,250	535	595,639
Additions	28,847	36,140	-	-	64,987
Disposals	-	-	(4,455)	(46,969)	(51,424)
Depreciation charge	(11,572)	(61,218)	(1,424)	(202)	(74,416)
Depreciation released on disposals	-	-	4,263	46,636	50,899
Closing net book amount	326,856	156,195	102,634	-	585,685
At 31 December 2004					
Cost	489,526	1,259,762	104,104	41,378	1,894,770
Accumulated depreciation	(162,670)	(1,103,567)	(1,470)	(41,378)	(1,309,085)
Net book amount	326,856	156,195	102,634	-	585,685
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

Notes to the financial statements

21. Share capital

	Group and Company	
	2004	2003
	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	
	2004	2003	2004	2003
	Lm	Lm	Lm	Lm
Balance at 1 January before taxation	583,949	506,975	710,700	507,416
Net gains/(losses) from changes in fair value	813,145	(65,400)	638,190	(106,712)
Transfer to net profit on realisation of investments	(101,502)	21,941	(93,000)	28,965
Losses transferred to net profit due to impairment	253,870	51,524	115,670	51,524
Share of group undertakings' reserves	-	-	215,409	160,598
Share of participating interest's reserves	91,258	68,909	91,258	68,909
Balance at 31 December before taxation	1,640,720	583,949	1,678,227	710,700
Deferred taxation	217,226	380,049	179,719	253,298
Balance at 31 December	1,857,946	963,998	1,857,946	963,998

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 2004	4,717,500	147,450	4,864,950
Share of participating interest's reserves	510,000	-	510,000
Hedging gains transferred to profit and loss account	-	(147,450)	(147,450)
Balance at 31 December 2004	5,227,500	-	5,227,500
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

The above reserves are not distributable reserves.

Notes to the financial statements

24. Minority interests

	Group	
	2004	2003
	Lm	Lm
Balance at 1 January	3,709,670	2,576,946
Additions	626,664	630,273
Share of net profit of group undertakings	125,765	291,473
Share of movement in reserves of group undertakings	130,210	143,159
Currency translation differences	36,045	77,619
Dividends paid	(4,900)	(9,800)
Balance at 31 December	4,623,454	3,709,670

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 2004. 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	
	2004	2003
	Lm	Lm
Investments	976,625	904,852
Debtors	192,699	112,032
Cash at bank and in hand	17,411	3,148
Claims outstanding	(56,196)	(34,279)
Creditors	(971,709)	(816,435)
Revaluation reserve	(30,823)	(5,528)
Long term business provision, net of reinsurance	128,007	163,790

26. Equalisation provision

As explained in accounting policy 5 on page 53, an equalisation provision is established in the financial statements. The effect of this provision is to decrease shareholders' funds by Lm9,281 for the Group and Lm8,666 for the Company (2003: increase of Lm11,534). The increase in the provision during the year had the effect of decreasing the balance on the technical account for general business and the profit on ordinary activities before taxation by Lm14,328 for the Group and Lm13,332 for the Company (2003: increase of Lm17,744).

Notes to the financial statements

27. Provisions for other risks and charges

	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Deferred tax liability	278,779	5,493	278,779	5,493
Provision for severance indemnity	336,770	311,009	-	-
	615,549	316,502	278,779	5,493
Deferred taxation				
	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Balance at 1 January	(1,364,519)	(935,897)	(654,119)	(538,353)
Movements during the year:				
Profit and loss account (note 8)	(49,723)	(303,688)	185,846	(238,888)
Revaluation reserve (note 22)	245,388	(242,561)	73,579	5,495
Other: transfer to current taxation	-	117,627	-	117,627
Balance at 31 December (net)	(1,168,854)	(1,364,519)	(394,694)	(654,119)

Deferred taxation is calculated on temporary differences under the liability method using the principal tax rate within the relevant jurisdiction. The year end balance comprises:

	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Temporary differences attributable to fixed assets	49,100	29,473	24,843	11,335
Temporary differences attributable to unrealised capital losses and exchange gains	55,237	44,964	(61,253)	19,154
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	(715,007)	(930,340)	(319,420)	(675,872)
Temporary differences attributable to insurance technical provisions	(316,851)	(265,808)	-	-
Temporary differences attributable to other provisions	(278,392)	(281,358)	(80,744)	(50,616)
Other temporary differences, including impact of non-deductible expenses and different tax rates	37,059	38,550	41,880	41,880
Balance at 31 December (net)	(1,168,854)	(1,364,519)	(394,694)	(654,119)

Notes to the financial statements

27. Provisions for other risks and charges - continued

Deferred taxation - continued

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

	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Deferred tax asset	(1,447,633)	(1,370,012)	(673,473)	(659,612)
Deferred tax liability	278,779	5,493	278,779	5,493
	(1,168,854)	(1,364,519)	(394,694)	(654,119)

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 operations 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 Lm84,932 (2003: Lm65,784) has been reduced by offsetting an expected future investment return of Lm84,932 (2003: Lm58,032) on reserves for outstanding claims liabilities.

	Group and Company	
	2004 Lm	2003 Lm
At 1 January	(7,752)	(9,991)
Profit and loss account	(38,394)	77,964
Utilised during the year	46,146	(75,725)
Balance at 31 December	-	(7,752)

Provision for severance indemnity

	Group	
	2004 Lm	2003 Lm
Balance at 1 January	311,009	297,151
Profit and loss account	23,707	4,520
Currency translation differences	2,054	9,338
Balance at 31 December	336,770	311,009

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

Notes to the financial statements

28. Amounts owed to credit institutions

	Group and Company	
	2004	2003
	Lm	Lm
Long term		
Bank loans	2,885,436	2,234,430

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	
	2004	2003
	Lm	Lm
At floating rates	2,829,568	2,160,439
At fixed rates	55,868	73,991
	2,885,436	2,234,430

Weighted average effective interest rate:

	Group and Company	
	2004	2003
Bank loans	3.3%	3.8%

Maturity of long term borrowings:

	Group and Company	
	2004	2003
	Lm	Lm
Within 1 year	97,417	1,518,500
Between 1 and 2 years	166,196	76,129
Between 2 and 5 years	1,998,588	247,665
More than 5 years	623,235	392,136
	2,885,436	2,234,430

29. Cash generated from operations

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

	Group		Company	
	2004	2003	2004	2003
	Lm	Lm	Lm	Lm
Operating profit on ordinary activities before tax	2,212,182	1,462,934	1,897,940	1,006,905
Adjustments for:				
Share of group undertakings' profit before tax, adjusted for net dividend received	-	-	(440,586)	(619,607)
Share of participating interest's profit before tax, adjusted for net dividend received	(819,258)	(680,077)	(819,258)	(680,077)
Depreciation (note 12, 20)	172,151	189,939	95,117	102,594
Provision for loss on discontinuing operation	7,752	(75,725)	7,752	(75,725)
Bad and doubtful debts	26,221	230,147	86,079	75,000
Provision for impairment	386,651	51,524	115,670	51,524
Provision for severance indemnity (note 27)	23,707	4,520	-	-
Amortisation	257,441	91,190	34,921	25,903
(Profit)/loss on sale of tangible fixed assets	(10,229)	4,209	(10,229)	4,209
Gains on realisation of investments	(201,779)	(250,584)	(171,550)	(258,611)
Exchange differences	12,336	-	12,336	-
Movements in:				
Deposits with ceding undertakings	4,345	15,375	4,051	17,381
Reinsurers' share of technical provisions	2,244,579	(127,928)	374,683	(366,976)
Debtors, prepayments and accrued income	1,174,104	(477,775)	816,714	(61,694)
Amounts owed by group undertakings	-	-	344,920	187,706
Technical provisions	3,030,318	9,339,786	(257,464)	2,880,722
Deposits received from reinsurers	8,549	(202,299)	87,727	(223,903)
Creditors, accruals and deferred income	(1,027,026)	257,974	(330,155)	216,687
Amounts owed to/by participating interests	467,997	(251,947)	467,970	(178,493)
Cash generated from operations	7,970,041	9,581,263	2,316,638	2,103,545

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	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Cash at bank and in hand	6,241,623	3,501,728	1,011,413	1,254,768
Time deposits and treasury bills maturing within three months	2,302,272	8,054,250	2,096,802	1,728,054
	8,543,895	11,555,978	3,108,215	2,982,822

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

	Group		Company	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
At floating rates	6,094,600	3,200,733	902,752	1,056,193
At fixed rates	10,964	10,746	-	-
	6,105,564	3,211,479	902,752	1,056,193
Weighted average effective interest rate	1.9%	1.7%	1.5%	1.9%

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 2004 and 2003. 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:

- 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.
- 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	
	2004 Lm	2003 Lm	2004 Lm	2003 Lm
Provision for bad and doubtful debts	846,783	816,101	226,464	140,385

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.

Notes to the financial statements

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 2004 Lm	Fair value 2004 Lm	Carrying value 2004 Lm	Fair value 2004 Lm
Financial investments				
Held-to-maturity investments	3,759,205	4,082,407	-	-
Other originated loans and receivables	5,127,484	5,338,146	4,510,704	4,667,494
	8,886,689	9,420,553	4,510,704	4,667,494

	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

At 31 December 2004 and 2003, the carrying amounts of the Group's other financial assets and liabilities approximated their fair values.

Liquidity risk

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

Market risk

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

Interest rate risk

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

Notes to the financial statements

32. Commitments

Capital commitments

	2004 Lm	Group	2003 Lm	2004 Lm	Company	2003 Lm
Authorised and not contracted for	597,974		510,220	504,630		448,220

Operating lease commitments - where the company is a lessor

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

	2004 Lm	Group	2003 Lm	2004 Lm	Company	2003 Lm
Not later than 1 year	175,967		247,422	139,967		103,422
Later than 1 year and not later than 5 years	503,471		309,631	388,371		302,531
Later than 5 years	232,005		464,192	232,005		277,092
	911,443		1,021,245	760,343		683,045

33. Contingencies

The Company has given guarantees to third parties amounting to Lm25,000 (2003: 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 7.1% (2003: 6.3%) 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% (2003: 1%) of the Group's gross premium written;
- three shareholders, who are represented on the Company's Board act as reinsurers for the Group. Reinsurance premium ceded to these shareholders amounted to 56% (2003: 53%) of the Group's outward reinsurance premium;
- the Group also holds 2.1% (2003: 3.7%) 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.

Notes to the financial statements

34. Related party transactions - continued

Year end balances arising from the above transactions comprise:

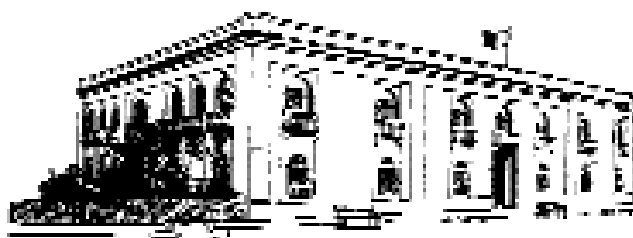
	2004 Lm	Group	2003 Lm
Debtors arising out of direct insurance operations:			
- intermediaries	308,478		405,218
Creditors arising out of direct insurance operations	313,099		674,658
Reinsurers share of technical provisions	2,614,623		2,406,219
Investments	1,472,456		2,285,732
Amounts owed (to)/by participating interest	(241,041)		226,956

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. Also, during the year, Corporacion Mapfre sold 10% of its shareholding in Progress Assicurazioni S.p.A. to the company's associated undertaking, Middlesea Valletta Life Assurance Company Limited for a consideration of Lm938,100, determined by reference to the net asset value of the company.

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.



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