



MIDDLESEA INSURANCE P.L.C.

Annual Report & Financial Statements 2009

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GROUP MISSION STATEMENT

We are committed to achieve sustainable growth to the benefit of our stakeholders by providing a comprehensive range of high quality insurance services to the communities where we operate and by fostering mutually beneficial relationships with all our customers.

DIKJARAZZJONI TA' MISSJONI TAL-GRUPP

Aħna impenjati li naslu għal tkabbir sostenibbli għall-benefiċċju tal-azzjonisti tagħna billi nipprovdu firxa komprensiva ta' servizzi ta' assigurazzjoni ta' kwalità għolja lill-komunitajiet li noperaw fosthom u billi nrawmu relazzjonijiet li jkunu ta' benefiċċju reċiproku mal-klijenti tagħna kollha.

BUSINESS PHILOSOPHY

We put our Customers first and strive to secure their loyalty through top quality service.

We value our Employees and seek to help them achieve their full potential.

We embrace Professionalism and seek Excellence in everything we do.

We do our best to help our Communities be better places in which to live, work and grow.

FILOSOFIJA TAN-NEGOZJU

Aħna nqiegħdu fl-ewwel post lill-Klijenti tagħna u naħdmu biex niżguraw il-lealtà tagħhom bis-saħħa ta' servizz tal-ogħla kwalità.

Aħna ngħożžu lill-Impjegati tagħna u nippruvaw ngħinuhom jaslu biex jiżviluppaw il-potenzjal kollu tagħhom.

Aħna nħaddnu l-Professjonalizmu u nfittxu l-Eċċellenza f'kulma nagħmlu.

Aħna nagħmlu l-almu tagħna kollu biex ngħinu lill-Komunitajiet li fosthom ngħixu, ikunu ambjent aħjar fejn naħdmu u nikbru.



Chairman's Statement

As expected, the enclosed financial statements for the Middlesea Group for the year ended 31st December 2009 do not make pleasant reading. Whereas the domestic operations of the Group – that is MSI, IIMS and our 50% share of the MSV results reported a very satisfactory profit of €8.7 million, compared to a loss of €3.0 million in the previous year, the extraordinary write off of €63.1 million that we have taken on our investment in Progress Assicurazioni (Progress) means that the overall Group loss for the year amounts to €54.4 million. This compares with the pre tax losses reported in FY 2008 of €29.8 million.

That is the bad news. The good news is that the steps taken earlier this year – which you are all familiar with – means that Middlesea has put Progress and its losses behind it, and the write off of the investment in that company that we have taken in the FY 2009 accounts should represent the end of this very unfortunate saga.

Notwithstanding the awful losses that we have taken on Progress, Middlesea remains a financially strong company. You will see from the balance sheet that shareholders' equity for the Group at 31 December 2009 stood at €48.7 million. This makes Middlesea the highest capitalised insurance company in Malta by far.

In this statement, I intend to provide you with a brief summary of the events of the past year. However, I do not propose just to look back at the difficult challenges that we have encountered – but also to look forward to the future, and to the opportunities that I see that lie ahead for Middlesea.

SIGNIFICANT EVENTS DURING THE YEAR AND SUBSEQUENT TO THE YEAR-END

During the year ended 31 December 2008, Progress Assicurazioni S.p.A. (Progress) registered a loss after taxation as consolidated in the Group accounts of €19.1 million. In the first six months of 2009, Progress continued to report material negative results, with further losses of €19.4 million being included in the Middlesea Group results for the half year to 30 June 2009.

The operations at Progress were seriously impacted by the confluence of a number of material adverse factors. These included the combination of the down cycle in the RCA (motor car insurance) sector experienced by the entire Italian insurance industry, a marked deterioration in the performance of certain agents, an elevated incidence of late reported claims, together with a high RCA content in the overall portfolio of Progress, which business had a geographic concentration in Sicily and the southern regions of Italy. Further, the company was also negatively affected by the regulatory reforms to the claims settlement system introduced in the market in 2007, at a time when it was seeking to expand its operations. Finally, the unprecedented disruption witnessed in the international financial markets in 2008 and 2009 had a negative knock-on effect on the Italian economy and investment performance.

In view of the very serious adverse developments affecting the Progress operations, the Progress and Middlesea Insurance p.l.c. Boards of Directors moved to take various corrective actions during 2008 and 2009, with a series of radical remedial measures. The MFSA and the Italian regulator, ISVAP, were alerted to the problems being encountered by the company, and were kept abreast with developments on a regular basis. Remedial actions included steps to radically downsize the portfolio through the termination of non-performing agencies (which were reduced from 164 to 34 at substantial cost), premium rate increases, claims management restructuring measures and the engagement of various

specialist consultants, including anti-fraud investigators to review the legitimacy of the high level of claims being experienced. In addition, further specialised re-insurance cover was acquired to protect against any further deterioration in claims experience.

In an effort to ensure that Progress was able to withstand the significant losses that were being incurred, the Board of Directors also sought financial support from the Parent Company. During 2009 Middlesea Insurance p.l.c. provided substantial financial support to Progress, injecting additional capital into the company in excess of €45.0 million. In turn, in order to stabilise the balance sheet of Middlesea Insurance p.l.c. so as to enable it to withstand the Progress losses, a Rights Issue amounting to €40.2 million was launched in November 2009. The three major institutional shareholders (Bank of Valletta p.l.c., Mapfre Internacional and Munich Re) agreed to subscribe to the new issue of shares, with Bank of Valletta p.l.c. and Mapfre Internacional also agreeing to underwrite the issue. In the event, these three institutional shareholders subscribed to €35.6 million of the total amount of new capital of €40.2 million raised by the Rights Issue.

Progress' financial results continued to deteriorate further in the last quarter of 2009, with an extraordinarily high level of claims incidence being experienced, these claims exacerbating the losses of the company well beyond the estimates that had been prepared in anticipation of the Rights Issue. The position was reached in January 2010 whereby the draft unaudited management accounts of Progress

Chairman's Statement

as at 31 December 2009 indicated that the company had exhausted its shareholders' equity base, and, in the absence of a reasonable expectation of further financial support from the parent company, it could not continue in operation in conformity with the requirements of Italian law. The Progress Board therefore asked the Board of Directors of Middlesea Insurance p.l.c. whether it was able to commit to providing further financial support to Progress, so as to enable the company to continue in business in conformity with Italian law and regulations. On 5 February 2010, the Middlesea Board informed the Progress Board that, having provided more than €45.0 million of capital support to Progress over the last year, Middlesea was not in a position to commit to inject further capital into Progress at that time without putting at risk its own viability. Accordingly, Middlesea was not able to commit to Progress that it would be able to provide further capital to the company at that time so as to enable it to continue in operation.

I can assure you that this decision was taken with a heavy heart and with great regret. After acquiring Progress in 2000 and a number of years of positive and encouraging results, Middlesea Insurance was looking to Progress Assicurazioni as the strategic platform upon which to build its business outside Malta. Alas, it was not to be, as the business has been rendered unsustainable due to the confluence of number of overwhelming events happening in an already tough international financial environment. We had no alternative but to take the decision that we did.

In the circumstances I have described, and absent the reasonable expectation of further financial support from the parent company or other source, there was not a reasonable prospect that Progress would be able to continue operating in the business of insurance in conformity with the requirements of the Italian law and regulations. Therefore the Progress Board of Directors concluded on 5 February 2010 that they had no alternative other than to formally inform ISVAP and the MFSA (who had been kept fully informed of all

developments throughout) of the economic and financial position of the company, and that it was the Board's view that the company should move to cease writing new business forthwith, and, in accordance with terms and conditions to be agreed with ISVAP, to initiate the necessary early steps and procedures to secure the orderly winding up of the company.

On 9 February 2010, ISVAP informed the company that it had appointed Professor Avv. Andrea Gemma as Provisional Administrator ("Commissario") of Progress with immediate effect. This was followed on 30 March with an announcement from ISVAP that it had placed Progress Assicurazioni S.p.A. in Compulsory Administrative Liquidation ("liquidazione coatta amministrativa"), and that it had nominated Professor Avv. Andrea Gemma to act as Liquidator ("commissario liquidatore") for a period of three years. On the same date ISVAP also appointed a 3 man Supervisory Committee ("comitato di sorveglianza") for the liquidation for the same period.

PREPARATION OF THE ACCOUNTS FOR FY 2009

Following these events, and for the reasons more fully set out in the notes on the Basis of Preparation of the accounts, the Middlesea Board of Directors resolved that the accounts of Middlesea and of the Middlesea Group as at 31 December 2009 should be drawn up on the basis that recognised that Progress had been placed in Compulsory Administrative Liquidation. In adopting this approach it would be necessary for the total Middlesea investment in Progress to be written off, and for full provision to be made for the €8.5 million subordinated loan to Progress that had been guaranteed by Middlesea. This has resulted in an impairment charge of €63.1 million to which I referred in the first paragraph of this statement.

Why did we choose to adopt this approach – an approach which effectively

'deconsolidates' Progress, taking account of those events that took place immediately subsequent to the year end? The reasons that the Board chose to adopt this approach are as follows:-

- Progress is now in Compulsory Administrative Liquidation, and in the view of the Board, there must be significant doubt as to whether the Middlesea investment in Progress has any residual value, and whether the subordinated loan guaranteed by Middlesea will be recovered;
- In these circumstances, it is believed that it is only prudent that we should make full provision in the FY 2009 accounts against the investment held by Middlesea in Progress, and in respect of the subordinated loan guaranteed by the Company;
- The Board has been advised that as Progress is a limited liability company, and that as a general principle of Italian Company law it benefits from the protection of limited liability, whereby the liability of each shareholder, in relation to the obligations of the company, is limited to the amount of the underwritten capital. Accordingly, capital payments may be requested from the shareholder only by reference and limited to any unpaid amount of the underwritten capital. The Board is also advised that as Middlesea has fully paid up the amount of share capital in Progress underwritten by it, no further payments can be requested from Middlesea qua shareholder;
- As you will be aware from our Company Announcements earlier in the year, and from my address at the Extraordinary General Meeting held on 16 March, the Middlesea Board had resolved in early February that it was not in a position to provide further capital support to Progress. Accordingly, the Board is of the opinion that it would be unrealistic to draw up the FY 2009 accounts on a basis that assumed the provision of

such support – only to then reverse the position in the accounts for FY 2010. In the view of the Board, this would result in the mis-statement of both the FY 2009 and FY 2010 Group accounts;

- In any event, the Progress books of account and records are no longer under the control of Middlesea, and it would not be possible to determine accurately the amount of assets, liabilities, financial position and profit and loss for consolidation purposes. Furthermore, audited financial statements for Progress for FY2009 are not available and, in the circumstances, are unlikely to be produced within the required timeframes;
- Above all, the Board is anxious that the FY 2009 accounts should fairly reflect the decisions that have been taken in respect of Progress up until the date of these financial statements – that is that, for the reasons already explained, the Middlesea Group was not in a position to provide further capital support to Progress, and as a result of which the group was left with no option other than to exit the Italian insurance market. The Board believes that the accounts, as drawn up, properly reflect the reality of this position – a position that takes our losses and puts the Progress saga behind us.

To summarise – the Middlesea Board believes that the adoption of a basis of preparation which writes off the totality of the investment in Progress, and recognises the reality that no further capital support will be extended to the company is the most realistic basis to adopt for the preparation of the FY 2009 accounts in the prevailing exceptional circumstances. Accordingly, the Board has not consolidated Progress in the Group's financial statements for the year ended 31 December 2009, but has made full provision in respect of the entire investment in and guarantee extended to that company.

I should point out that prudent and practical

though the approach may be, it does not meet with the technical requirements of International Accounting Standard 27, which provides that Progress should have been consolidated on 31st December and then de-consolidated 5 weeks later when Middlesea formally "lost control" of Progress. Consequently our Auditors, qualified their audit report in this regard.

OUR CURRENT FINANCIAL POSITION

As I have commented above, the approach that we have adopted to the FY 2009 accounts puts Progress and its losses behind us. As can be seen from the financial statements, the results for the domestic operations for the year are very satisfactory. As was announced at the end of March, MSV reported profits after taxation for FY 2009 of €6.2 million, and the enclosed accounts show that the technical results of MSI reported a profit of €5.5 million on premium income of €33.4 million. Premiums written in FY 2009 were much in line with those of the previous year.

Having dealt with the past, and having stabilised and, most importantly, having significantly de-risked the Group, the time has now come to look forward. Middlesea is a strong company with an excellent client base and has a dedicated and talented executive team. The relationships with our local clients remain at the heart of our ability to create value for our shareholders. The renewals we have secured in 2010 to date, and our ability to maintain our market position, even during very difficult times, demonstrate the strength of these relationships and the quality of our people – and our priority will be to build further on these relationships with an unparalleled level of client service.

Our balance sheet position shows shareholders' equity of €48.7 million, making us the highest capitalised insurance company in Malta by far. As noted in the

financial statement disclosures, we did face regulatory solvency issues during the year due to the support that we extended to Progress, but the Rights Issue in 2009 and the subsequent deconsolidation of Progress restored the position as at the year end, and we continue to take the necessary measures to ensure that we continue to meet all regulatory solvency requirements on a going forward basis.

THE EXTRAORDINARY GENERAL MEETING OF 16TH MARCH 2010

As you are aware, the Rights Issue launched following the Extraordinary General Meeting of 20 November 2009 was directed at stabilising further the balance sheet position of Middlesea Insurance p.l.c.. Our three major institutional shareholders, Bank of Valletta p.l.c., Mapfre Internacional and Munich Re, agreed to subscribe to the new issue of shares, with Bank of Valletta p.l.c. and Mapfre Internacional also agreeing to underwrite the issue. The final outcome of the Issue led to an important change in the shareholding structure of Middlesea Insurance p.l.c., with Bank of Valletta p.l.c. and Mapfre Internacional each holding 31.08% of the issued capital of the company. Munich Re retained its shareholding position of 19.9%, whilst the aggregate holding of other individual shareholders reduced to just under 18%.

Following such changes, a new Board of Directors for Middlesea Insurance p.l.c. was appointed during the Extraordinary General Meeting of 16 March 2010, principally to reflect the changes in the shareholding of the company, but also to enhance our already strong corporate governance structures. We have now a smaller Board composition, carrying elements of both continuity and new blood. The calibre of the Board, the mix of local and international expertise, as well as the professional background of the Directors establishes the platform for further development and sustainable business growth. I would like to

Chairman's Statement

extend my appreciation and my gratitude to all the previous directors who have retired from office in 2010, for their many years of dedicated service to the company.

It would be remiss of me not to acknowledge with gratitude the many years of service to Middlesea given by Mario C. Grech, who served as Executive Chairman and CEO of the company from 1994 until his retirement at the end of 2009, and who was so instrumental in building Middlesea Insurance into Malta's leading insurance company. We wish him every success and happiness in his well deserved retirement.

On behalf of the Board, I would like to express our sincere thanks to our many clients for the business that they bring to all Middlesea companies, and, particularly, for the great confidence and trust that they have demonstrated in Middlesea throughout, but especially during the recent period of stress that we have experienced. In turn, our commitment to our many clients – and to improve further the services that we extend to them – is firm and resolute. Sincere thanks are also extended to the entire senior management team led by Anne Marie Tabone, and all of the staff for their dedication, hard work and unswerving commitment over what has been the most challenging and stressful period in Middlesea's history.

MIDDLESEA IN THE COMMUNITY

Middlesea Insurance has a long history of addressing society's needs through business success, particularly in the fields of education and philanthropy. Middlesea Insurance p.l.c. was the pioneer in establishing professional Insurance studies in Malta, ensuring a platform and a continuous supply of trained professionals for the whole insurance market. Our commitment to education did not stop there, and Middlesea also championed the establishment of the first Insurance and Finance degree course at the University of Malta, a course which started in 2008. We

are committed to continue to extend ongoing support to this important initiative.

Besides, various specific support in the fields of arts, culture and sports was provided during the year in the form of sponsorships and other activities. To sustain and build on such heritage of tangible contributions to society, we have also set an internal commitment to review and refresh our Corporate Social Responsibility policy over the short to medium term.

DIVIDEND

The results we are reporting make it impossible for us to consider recommending a dividend this year. This is a matter of great regret, and it is only the second time that we have had to pass on declaring a dividend following a positive twenty five year history of year on year dividend payouts. You can rest assured that one of my priorities – and that of the Board – is to restore dividend payments at the earliest possible opportunity.

LOOKING FORWARD

The events of the past two years have been a huge strain and a debilitating distraction on the management and staff of Middlesea Insurance p.l.c. and its subsidiary companies. I firmly believe that it is now time to return to business and to rebuild the morale and motivation of the talented and committed individuals who work within Middlesea, and the agents and intermediaries that support it.

Over the course of my first few weeks as Chairman, I have been impressed by the strength of the Company's client base and business capacity, and the respect and reputation carried by the Middlesea brand. But nothing has impressed me more than observing at first hand the skilled and dedicated people base of this company. On assuming my new responsibilities, I regarded as one of my first priorities to be

the greater empowerment of our people. Our people represent an asset of immense value to Middlesea, and it is primarily on their commitment, professionalism, expertise and dedication to our customers that we will determine and build our future success.

In the 2010 year to date, we have already made good progress in updating and refreshing our business strategies, and embedding our strategic thinking into our day to day business activity. Clearly, we will be a more focused company than in the past – and this is already being reflected by the current group restructuring initiatives taking place, whereby each major subsidiary or associate company, viz. Middlesea Insurance, IIMS and Middlesea Valletta, will be restructured into autonomous, self-sustainable operational units, so as to give them the flexibility to develop and grow. Going forward I see:

- Middlesea Insurance will enter into a period of consolidation and reorganisation, geared to maintain its status as the clear local insurance leader and returning the company to what it does best – that is to the role of a client-centric, profitable and progressive domestic insurer. This it will carry out with its own fully fledged technical operations and support functions, in coordination with its distribution network.
- IIMS a fully owned subsidiary of MSI will transit to being an exclusively third party service provider to the insurance industry, attracting further foreign investment and reputable foreign clients to our jurisdiction. In doing so it will continue to play a vital and creative role in the development of Malta as a respected and reputable financial services centre. IIMS was the first Insurance Manager in Malta and year on year increases in its third party client base and revenues is very encouraging.
- Middlesea Valletta, which is an important 50% / 50% joint venture operation with Bank of Valletta p.l.c., will maintain its

status as the largest life insurer in Malta, building its own stand alone capacity and company structures to allow for focus, strategic edge together with speed and responsiveness in the market. With a base of 80,000 customers, shareholders equity of over €100 million and total assets close to €1 billion, Middlesea Valletta is well placed to grow further and maintain its status.

Insofar as Middlesea Insurance itself is concerned, it is also our Board's view that the long term success of your company is best served by sustaining the strength of its capital base and maintaining underwriting discipline. We must continuously enhance and modernise our distribution networks and improve on cost efficiency. We will invest in our information systems infrastructure and in our people, two crucial pillars for our long term success and growth. Looking forward, I believe that our underwriting performance and discipline, our ability to innovate, our people and our capacity to conduct large transactions are the strengths on which we will enhance our competitive advantage, build long term sustainable success and achieve our strategic objectives.

CONCLUSION

The global economic environment remains volatile and fragile. At the same time competition remains keen. However, whilst new challenges will present themselves, we believe that these in themselves will create new opportunities. We have a clear strategy – now we just have to execute our strategy with precision, passion and focus to achieve the desired results.

Our vision requires quality work and effort. Achieving our objective will not be either simple or straightforward – but we look to the future with confidence, positively and with optimism. I am heartened when I look at the board and the people who stand behind Middlesea Insurance p.l.c.. The fact that we were able to withstand the most

extraordinary challenges overseas whilst at the same time registering positive results locally is remarkable – and is an eloquent tribute to the dedication, the skills and professionalism of our people. It is also a reflection of our clients and represents an attestation of their continued loyalty and trust. My gratitude also extends to the support and loyalty of you, our shareholders. I am confident that we can repay your trust and investment.



JOSEPH F.X. ZAHRA
CHAIRMAN
MIDDLESEA INSURANCE P.L.C.

27 APRIL 2010

Stqarrija ta' Chairman

INTRODUZZJONI

Kif mistenni, il-kontenut ta' dawn id-dikjarazzjonijiet finanzjarji tal-Grupp Middlesea għas-sena li għalqet fil-31 ta' Diċembru 2009 mhux sodisfacenti. Filwaqt li l-attivitajiet domestiċi għall-Grupp – jiġifieri r-riżultati tal-MSI, l-IIMS u s-sehem tagħna tal-50% fl-MSV irrapportaw qligħ sodisfacenti hafna ta' €8.7 miljun, meta mqabbla ma' telf ta' €3.0 miljun fis-sena ta' qabel, minhabba r-*write-off* straordinarju ta' €63.1 miljun li kellna naghmlu fuq l-investment tagħna fi Progress Assicurazioni (Progress), dan ifisser li t-telf globali tal-Grupp għas-sena jammonta għal €54.4 miljun. Dan huwa paragonabbli mat-telf ta' qabel it-taxxa rrapportati fis-Sena Finanzjarja 2008 ta' €29.8 miljun.

Din hija l-aħbar il-hazina. L-aħbar it-tajba hija li l-passi li hadna aktar kmieni din is-sena – li koll tafu dwarhom – t-fisser li l-Middlesea issa halliet warajha lil Progress u t-telf tagħha, u r-*write-off* tal-investment f'dik il-kumpanija li ddahhal fil-kontijiet tas-Sena Finanzjarja 2009 għandu jirrapprezenta t-tmiem ta' din l-istorja wisq sfortunata.

Minkejja t-telfiet hżiena li għarrabna minn Progress, il-Middlesea tibqa' kumpanija b'saħħha finanzjarjament. Taraw mill-*balance sheet* li l-kapital tal-azzjonisti għall-Grupp fil-31 ta' Diċembru 2009 kien ta' €48.7 miljun. B'hekk il-Middlesea hija l-kumpanija tal-assigurazzjoni l-aktar ikkapitalizzata f'Malta.

F'din l-istqarrija, l-intenzjoni tiegħi hi li nagħtikhom gabra qasira tal-avvenimenti tas-sena li għaddiet. Madankollu, mhux qed nipproponi li nħarsu lura biss lejn l-isfidi diffiċli li l-taqajna magħhom – izda wkoll li nħarsu 'l quddiem lejn il-gejjieni, u l-opportunitajiet li jien nara li hemm lesti għall-Middlesea.

AVVENIMENTI SINIFIKANTI MATUL IS-SENA U WARA TMIEM IS-SENA

Matul is-sena li għalqet fil-31 ta' Diċembru 2008, Progress Assicurazioni S.p.A. (Progress) irreġistrat telf wara t-taxxa kif ikkonsolidat fil-kontijiet tal-Grupp ta' €19.1 miljun. Fl-ewwel sitt xhur tal-2009, Progress kompliet tirrapporta riżultati negattivi materjali, b'aktar telfiet ta' €19.4 miljun li ġew inklużi fir-riżultati tal-Grupp tal-Middlesea għal nofs is-sena sat-30 ta' Ġunju 2009.

L-attivitajiet ta' Progress ġew milquta serjament mill-konfluenza ta' għadd ta'

fatturi materjali negattivi. Dawn kienu jinkludu l-konvergenza ta' ciklu negattiv fis-settur tal-RCA (assigurazzjoni tal-karozzi) li għarrbet l-industrija tal-assigurazzjoni Taljana shiħa, deterjorament sinifikanti fil-prestazzjoni ta' ċerti agenti, incidenza għolja ta' klejms li ġew irrapportati tard, flimkien ma' kontenut għoli ta' RCA fil-portafoll ġenerali ta' Progress, li bħala negożju kellu koncentrazzjoni ġeografika fi Sqallija u fir-reġjuni tan-Nofsinhar tal-Italja. Barra minn hekk, il-kumpanija kienet milquta b'mod negattiv mir-riformi regolatorji għas-sistema tar-riżoluzzjoni ta' klejms li dahlet fis-suq fl-2007, fi żmien meta kienet qed tipprova tespandi l-attivitajiet tagħha. Fl-aħħar nett, it-tarbit mingħajr precedent fis-swieq finanzjarji internazzjonali fl-2008 u l-2009 kellu implikazzjonijiet negattivi fuq l-ekonomija u l-prestazzjoni finanzjarja Taljana u fuq l-investimenti tal-kumpanija.

Minhabba diffikultajiet serji hafna li żviluppaw u affettwaw l-attivitajiet ta' Progress, il-Bord tad-Diretturi ta' Progress u dak tal-Middlesea Insurance p.l.c. irreaġixxew billi hadu diversi passi korrettivi matul l-2008 u l-2009, b'sensiela ta' miżuri radikali ta' rimedju. L-MFSA u r-regolatur Taljan, l-ISVAP, kienu mgħarrfa dwar il-problemi li kienet qed tilitaqa' magħhom il-kumpanija, u nżammu agġornati bl-izviluppi fuq bażi regolari. L-azzjonijiet rimedjali kienu jinkludu passi biex il-portafoll jtnaqqas radikalment permezz tal-għeluq ta' aġenziji li ma kinux qed irendu (li tnaqqsu minn 164 għal 34 bi spiza sostanzjali), zidiet fir-rati tal-primjums, miżuri ta' ristrutturar tal-ġestjoni ta' klejms u l-involvement ta' diversi konsulenti speċjalizzati, inklużi investigaturi ta' kontra l-frodi sabiex jeżaminaw il-legittimità tal-ammont kbir ta' klejms li kienu qed isiru. Barra dan, inxtrat kopertura ta' riassigurazzjoni iżjed speċjalizzata għal harsien minn aktar deterjorament fl-esperjenza tal-klejms.

Fi sforz biex ikun żgurat li Progress setgħet tirreżisti t-telf sinifikanti li kienet qed issofri, il-Bord tad-Diretturi ta' Progress talab ukoll appoġġ finanzjarju mill-Kumpanija Principali. Matul l-2009 l-Middlesea Insurance p.l.c. tat appoġġ finanzjarju sostanzjali lil Progress, bl-injezzjoni ta' kapital addizzjonali fil-kumpanija li kien jaqbeż il-€45.0 miljun. Min-naħa l-oħra, sabiex tiġi stabilizzata l-*balance sheet* tal-Middlesea Insurance p.l.c. halli tkun tista' tirreżisti t-telf ta' Progress, f'Novembru 2009 tnediet Rights Issue li kien jammonta għal €40.2 miljun. It-tliet azzjonisti istituzzjonali ewlenin (Bank

of Valletta p.l.c., Mapfre Internacional u Munich Re) qablu li jissottoskrivu għall-fruġ tal-ishma l-ġodda, u l-Bank of Valletta p.l.c. u Mapfre Internacional qablu wkoll li jiggarrantixxu x-xiri tal-ishma. Dakinhar tal-fruġ, dawn it-tliet azzjonisti istituzzjonali ssottoskrivew għal €35.6 miljun tal-ammont totali ta' kapital ġdid ta' €40.2 miljun li nġabru mir-Rights Issue.

Ir-riżultati finanzjarji ta' Progress komplew jiddeterjoraw fl-aħħar tliet xhur tal-2009, fejn kien hemm incidenza straordinarja u qawwiya ta' klejms, fejn dawn il-klejms aggrawaw it-telf tal-kumpanija bil-wisq aktar mill-estimi li kienu thejgew qabel ir-Rights Issue. Il-pożizzjoni ntlahqet f'Janjar 2010 meta l-abbozz tal-kontijiet mhux verifikati tal-amministrazzjoni ta' Progress sal-31 ta' Diċembru 2009 kien jindika li l-kumpanija kienet użat il-baži tal-ekwità tal-azzjonisti tagħha, u, fin-nuqqas ta' aspettattiva raġonevoli ta' aktar appoġġ finanzjarju mill-kumpanija principali, ma setgħetx tkompli bl-attività tagħha b'konformità marrekwiżiti tal-ligi Taljana. Il-Bord ta' Progress għaldaqstant talab lill-Bord tad-Diretturi ta' Middlesea Insurance p.l.c. jekk setgħetx tikkommetti ruħha li tagħti aktar appoġġ finanzjarju lil Progress, sabiex il-kumpanija tkun tista' tkompli bin-negożju b'konformità mal-ligi u r-regolamenti Taljani. Fil-5 ta' Frar 2010, il-Bord ta' Middlesea avza lill-Bord ta' Progress li, billi kien ta aktar minn €45.0 miljun f'appoġġ kapitali lil Progress matul is-sena ta' qabel, Middlesea ma kinetx f'pożizzjoni li tikkommetti ruħha li tinjetta aktar kapital fi Progress mingħajr ma tqiegħed il-vijabbiltà tagħha stess f'riskju. Għaldaqstant, Middlesea ma setgħetx tikkommetti ruħha ma' Progress li setgħet tipprovdli aktar kapital lill-kumpanija sabiex tkun tista' tkompli bl-attività tagħha.

Nista' nassigurakom li dik id-deċizzjoni ttiehdet b'dispaċir kbir. Wara x-xiri ta' Progress fis-sena 2000 u għadd ta' snin ta' riżultati pożittivi u inkoraġġanti, il-Middlesea Insurance kienet qed tanticipa li Progress Assicurazioni tkun il-pjattaforma strateġika li fuqha setgħet tibni n-negożju tagħha barra minn Malta. Sfortunatament, dan ma kienx innalla, billi n-negożju sar wieħed mhux sostenibbli minhabba l-konfluenza ta' għadd ta' ġrajġiet insuperabbli li seħħew fi klima finanzjarja internazzjonali li diġà kienet diffiċli. Ma kellna ebda alternattiva hliet dik li niehdu d-deċizzjoni li hadna.

Fiċ-ċirkostanzi li spjegajt, u fin-nuqqas tal-aspettattiva raġonevoli ta' aktar appoġġ

Stqarrija ta' Chairman

finanzjarju mill-kumpanija prinċipali jew sors ieħor, ma kienx hemm prospetti raġonevoli li Progress setgħet tkompli topera fin-negozju tal-assigurazzjoni b'konformità mar-rekwiżiti tal-liġi u r-regolamenti Taljani. Għaldaqstant fil-5 ta' Frar 2010 l-Bord tad-Diretturi ta' Progress ikkonkluda li ma kellhom ebda alternattiva għajr li javżaw formalment lill-ISVAP u l-MFSA (li dejjem inżammu informati bis-shiħ dwar l-iżviluppi kollha) dwar il-pożizzjoni ekonomika u finanzjarja tal-kumpanija, u li kienet l-opinjoni tal-Bord li l-kumpanija għandha tirreaġixxi minnufih u ma taċċettax aktar negożju, u, skont it-termini u l-kundizzjonijiet li kellhom ikunu miftiehma mal-ISVAP, tibda bl-ewwel passi u proċeduri meħtieġa biex tassigura l-likwidazzjoni tal-kumpanija kif suppost.

Fid-9 ta' Frar 2010, l-ISVAP avża lill-kumpanija li kien hatar lill-Professor Avv. Andrea Gemma bħala Amministratur Proviżorju ("Commissario") ta' Progress b'effett immedjat. Imbagħad wara, fit-30 ta' Marzu l-ISVAP habbar li kien qiegħed lill-Progress Assicurazioni S.p.A. f'likwidazzjoni Amministrattiva Obbligatorja ("liquidazione coatta amministrativa"), u li kien hatar lill-Professor Avv. Andrea Gemma bħala Likwidatur ("commissario liquidatore") għal perjodu ta' tliet snin. Fl-istess data l-ISVAP hatar ukoll Kumitat ta' Sorveljanza ("comitato di sorveglianza") ta' 3 persuni għal-likwidazzjoni għall-istess perjodu.

THEJJIIJA TAL-KONTIJET GĦAS-SENA FINANZJARJA 2009

Wara dawn l-avvenimenti, u għar-raġunijiet spjegati aktar fid-dettall fin-noti dwar il-Bazi ta' Thejjija tal-kontijiet, il-Bord tad-Diretturi tal-Middlesea ddeċieda li l-kontijiet tal-Middlesea u tal-Grupp Middlesea sal-31 ta' Diċembru 2009 kellhom jithejjew abbażi tar-rikonoxximent li Progress kienet tqiegħdet f'likwidazzjoni Amministrattiva Obbligatorja. Biex għie adottat dan il-metodu, kien meħtieġ li l-investment totali tal-Middlesea fi Progress jitħassar, u li jsir provvediment shiħ għas-self subordinat ta' €8.5 miljun lil Progress li kien għie ggarantit mill-Middlesea. Dan wassal għal telf minhabba *impairment charge* ta' €63.1 miljun li rreferjett għalih fl-ewwel paragrafu ta' din l-istqarrija.

Għaliex għażilna li nadottaw dan il-metodu – metodu li effettivament "jiddekkonsolida" lil Progress, meta jitqiesu dawk l-avvenimenti li sehħew immedjatament wara tmiem is-sena? Ir-raġunijiet għaliex il-Bord iddeċieda li jadotta dan il-metodu huma dawn li għejjin:-

- Progress issa qiegħda f'likwidazzjoni Amministrattiva Obbligatorja, u fl-opinjoni tal-Bord, hemm dubju sinifikanti dwar jekk l-investment tal-Middlesea fi Progress għandux xi valur residwu, u jekk is-self subordinat iggarantit mill-Middlesea hux se jiġi rkuprat;
- F'dawn iċ-ċirkostanzi, nemmnu li jkun prudenti li aħna naghmlu provvediment shiħ fil-kontijiet tas-Sena Finanzjarja 2009 kontra l-investment li l-Middlesea għandha fi Progress, u fir-rigward tas-self subordinat iggarantit mill-Kumpanija;
- Il-Bord ingħata l-parir li billi Progress hija kumpanija b'responsabbiltà limitata, u li bi prinċipju ġenerali tal-liġi Taljana tal-Kumpaniji din tibbenefika mill-protezzjoni tar-responsabbiltà limitata, fejn ir-responsabbiltà ta' kull wieħed mill-azzjonisti, b'relazzi mal-obbligazzjonijiet tal-kumpanija, hija limitata għall-ammont ta' kapital sottokritt. Għaldaqstant, jistgħu jintalbu pagamenti kapitali mingħand azzjonista b'referenza biss, u limitati għal, xi ammont mhux imħallas mill-kapital sottokritt. Il-Bord ingħata l-parir ukoll li billi l-Middlesea hallset l-ammont shiħ tal-kapital tal-ishma fi Progress sottokritt minnha, ma jistgħux jintalbu aktar pagamenti mill-Middlesea bħala azzjonista;
- Kif tafu mill-*Company Announcements* li hargu mill-kumpanija aktar kmieni din is-sena, u mid-diskors tiegħi fil-Laqqgħa Ġenerali Straordinarja li saret fis-16 ta' Marzu 2010, fil-bidu ta' Frar 2010 il-Bord tal-Middlesea iddeċieda li ma kienx f'pożizzjoni li jagħti aktar appoġġ finanzjarju lil Progress. Għaldaqstant, il-Bord huwa tal-opinjoni li ma jkunx realistiku li l-kontijiet tas-Sena Finanzjarja 2009 jithejjew abbażi tal-assunzjoni li dan l-appoġġ se jingħata – biex imbagħad immorru lura minn din il-pożizzjoni fil-kontijiet għas-Sena Finanzjarja 2010. Fl-opinjoni tal-Bord, dan iwassal għal dikjarazzjoni skorretta fil-kontijiet tal-Grupp kemm għas-Sena Finanzjarja 2009 u kemm għas-Sena Finanzjarja 2010;
- Lkun xi jkun il-każ, il-kotba tal-kontijiet u r-rekords ta' Progress m'għadhomx taħt il-kontroll tal-Middlesea, u ma jkunx possibbli li jiġi ddeterminat bi preċizzjoni l-ammont tal-assi, obligazzjonijiet, pozizzjoni finanzjarja u qligħ u telf għal skopijiet ta' konsolidament. Barra minn hekk, ir-rapporti finanzjarji verifikati ta' Progress għas-Sena Finanzjarja 2009 mhumiex disponibbli u, fiċ-ċirkostanzi, mhux probabbli li jitlestew fiż-żmien mitlub;

- Fuq kollox, il-Bord jixtieq li l-kontijiet tas-Sena Finanzjarja 2009 għandhom jirriflettu kif jixraq id-deċizzjonijiet li ttieħdu fir-rigward ta' Progress sad-data ta' dawn ir-rapporti finanzjarji – jiġifieri li, għar-raġunijiet li diġà spjegajt, il-Grupp tal-Middlesea ma kienx f'pożizzjoni li jagħti aktar appoġġ kapitali lil Progress, u bħala riżultat ta' dan il-grupp ma thallitlu ebda għażla għajr li johroġ mis-suq tal-assigurazzjoni Taljan. Il-Bord jemmen li l-kontijiet, kif thejjew, jirriflettu r-realtà ta' din il-pożizzjoni kif suppost – pożizzjoni li tassorbi t-telf li għarrabna u l-istorja ta' Progress tagħmilha xi haġa tal-imghoddi.

Fil-qosor il-Bord tal-Middlesea jemmen li l-adozzjoni tat-thejjija tal-kontijiet abbażi tar-*write off* totali tal-investment totali fi Progress, u tar-rikonoxximent tar-realtà li mhux se jiġi estiz aktar ebda appoġġ kapitali lill-kumpanija hija l-bażi l-aktar realistika li għandha tiġi adottata għat-thejjija tal-kontijiet tas-Sena Finanzjarja 2009 fiċ-ċirkostanzi eċċezzjonali prevalenti. Għaldaqstant, il-Bord ma kkonolidax lil Progress fir-rapporti finanzjarji tal-Grupp għas-sena li għalqet fil-31 ta' Diċembru 2009, iżda għamel provvediment shiħ fir-rigward tal-investment kollu f'dik il-kumpanija u tal-garanzija li kienet għiet estiza lilha.

Irrid ngħid li għalkemm il-metodu jista' jkun wieħed prudenti u prattiku, dan ma jissodisfax ir-rekwiżiti tekniċi ta' IAS 27, li jipprevedi li Progress kellha tiġi kkonolidata fil-31 ta' Diċembru u mbagħad iddekkonsolidata 5 ġimgħat aktar tard meta l-Middlesea formalment "tilfet il-kontroll" ta' Progress – u l-Awdituri tagħna, ikkwalfikaw l-opinjoni tagħhom f'dan ir-rigward.

IL-POŻIZZJONI FINANZJARJA ATTWALI TAGĦNA

Kif għidt hawn fuq, il-metodu li adottajna fir-rigward tal-kontijiet tas-Sena Finanzjarja 2009 jirrendi lil Progress u t-telf tagħha affarijiet tal-imghoddi. Kif tistgħu taraw mir-rapporti finanzjarji, ir-riżultati għall-attivitajiet domestiċi għas-sena huma sodisfaċenti hafna. Kif kien thabbar fl-aħħar ta' Marzu, MSV irrapportat qligħ wara t-taxxa ta' €6.2 miljun għas-Sena Finanzjarja 2009, u l-kontijiet inseriti juru li r-riżultati tekniċi tal-MSI rrapportaw qligħ ta' €5.5 miljun fuq dħul minn primjums ta' €33.4 miljun. Il-primjums li ġew irregistrati fis-Sena Finanzjarja 2009 kienu konformi ma' dawk tas-sena ta' qabel.

Stqarrija ta' Chairman

Wara li ttrattajna l-passat, u wara li stabilizzajna rwiehna, u fuq kollox, naqqasna r-riskju għall-Grupp b'mod sinifikanti, issa wasal iż-żmien li nħarsu 'l quddiem. Il-Middlesea hija kumpanija soda b'bażi eċċellenti ta' klijenti u għandha tim eżekuttiv iddedikat u kapaċi. Ir-relazzjonijiet mal-klijenti lokali tagħna jibqgħu l-pern tal-ħila li għandna biex noholqu l-gid għall-azzjonisti tagħna. It-tigdid ta' poloz li assigurajna fl-2010 s'issa, u l-kapaċità tagħna li nżommu l-pożizzjoni tagħna fis-suq, anke matul żminijiet diffiċli ħafna, juru l-qawwa ta' dawn ir-relazzjonijiet u l-kwalitajiet tan-nies tagħna – u l-prijorità tagħna se tkun dik li nibnu aktar fuq dawn ir-relazzjonijiet b'livell liema bħalu ta' servizz lill-klijent.

Il-pożizzjoni tal-*balance sheet* tagħna turi kapital tal-azzjonisti ta' €48.7 miljun, u dan jagħmilna l-kumpanija tal-assigurazzjoni bl-akbar kapital f'Malta. Kif hemm żvelat fin-notamenti tar-rapporti finanzjarji, tabilhaqq kellna nħabbtu wiċċna ma' kwistjonijiet regolatorji ta' solvibilità matul is-sena minħabba l-appoġġ li tajna lil Progress, iżda bir-Rights Issue ta' Diċembru tas-sena l-oħra u d-dekonsolidament sussegwenti ta' Progress il-pożizzjoni marret lura għal dik li kienet fi tmiem is-sena, u qed inkomplu niehdu l-miżuri meħtieġa biex niżguraw li nkomplu nissodisfaw ir-rekwiżiti ta' solvibilità regolatorji kollha biex nimxu 'l quddiem.

IL-LAQGHA ĠENERALI STRAORDINARJA TAS-16 TA' MARZU 2010

Kif tafu, ir-Rights Issue li tnieda wara l-Laqgħa Ġenerali Straordinarja tal-20 ta' Novembru 2009 kien immirat biex jistabilizza aktar il-pożizzjoni tal-*balance sheet* tal-Middlesea Insurance p.l.c. It-tliet azzjonisti istituzzjonali ewlenin tagħna, Bank of Valletta p.l.c., Mapfre Internacional u Munich Re, qablu li jissottoskrivu għall-ħruġ tal-ishma l-godda, bil-Bank of Valletta p.l.c. u Mapfre Internacional jaqblu wkoll li jggarantixxu x-xiri tal-ishma. L-eżitu finali tar-Rights Issue wassal għal bidla importanti fl-istruttura azzjonarja tal-Middlesea Insurance p.l.c., bil-Bank of Valletta p.l.c. u Mapfre Internacional titulari ta' 31.08% kull wieħed tal-kapital maħruġ mill-kumpanija. Munich Re żamm il-pożizzjoni azzjonarja tiegħu ta' 19.9%, filwaqt li s-sehem aggregat tal-azzjonisti individwali l-oħra tnaqqas għal ftit anqas minn 18%.

Wara dan it-tibdil, inħatar Bord tad-Diretturi gdid għall-Middlesea Insurance p.l.c. matul il-

Laqgħa Ġenerali Straordinarja tas-16 ta' Marzu 2010, prinċipalment biex jirrifletti l-bidliet fl-ishma tal-kumpanija, iżda wkoll biex itejjeb l-istutturi tal-governanza korporattiva tagħna li huma diġà sodi. Issa l-Bord huwa ftit iżgħar fin-numru, waqt li jipprovdi elementi kemm ta' kontinwità u kemm ta' demm gdid. Il-kalibru tal-Bord, it-taħlita ta' kompetenzi lokali u internazzjonali, kif ukoll l-isfond professjonali tad-Diretturi jstabbilixxu l-pjattaforma għal aktar żvilupp u tkabbir sostenibbli tan-negozju. Nixtieq nestendi l-apprezzament u l-gratitudni tiegħi lid-diretturi preċedenti kollha li rtiraw mill-kariga fl-2010, għas-servizz li taw b'dedikazzjoni lill-kumpanija għall-bosta snin.

Inkun qed nonqos jekk ma nirrikonoxxi bi gratitudni l-ħafna snin ta' servizz li Mario C. Grech ta lill-Middlesea, fejn serva bħala ċ-Chairman Eżekuttiv u CEO tal-kumpanija mill-1994 sa ma rtira fl-aħħar tal-2009, u li tant kien strumentali biex il-Middlesea Insurance issir il-kumpanija tal-assigurazzjoni ewlenija f'Malta. Nixtiequ kull suċċess u hena fl-irtirar tant misthoqq tiegħu.

F'isem il-Bord, nixtieq nringrazzja bl-aktar mod sinċier lill-ħafna klijenti tagħna għan-negozju li jipprovdu lill-kumpaniji kollha tal-Middlesea, u b'mod partikolarli, għall-fiduċja kbira u l-affidabilità li minn dejjem urew fil-Middlesea iżda speċjalment matul il-perjodu reċenti ta' tensjoni li għaddejna minnu. Ma jonqos li nsemmu li l-impenn tagħna lejn il-ħafna klijenti li għandna – u lejn aktar titjib fis-servizzi li noffruhom – huwa sod u deċiż. Nixtieq nringrazzja wkoll bl-aktar mod sinċier lit-tim kollu tal-uffiċjali għolja tal-manigment immexxi minn Anne Marie Tabone, u lill-istaff kollu għad-dedikazzjoni tagħhom, xogħol iebes u impenn sod tul l-aktar perjodu li holoq sfidi u tensjoni fl-istorja tal-Middlesea.

IL-MIDDLESEA FIL-KOMUNITÀ

Il-Middlesea Insurance għandha storja twila fejn tindirizza l-ftigijiet tas-soċjetà permezz tas-suċċess fin-negozju, b'mod partikolarli fl-oqsma tal-edukazzjoni u l-benefiċenza. Il-Middlesea Insurance p.l.c. kienet minn tal-ewwel biex gie stabbilit l-istudju professjonali fl-Assigurazzjoni f'Malta, u b'hekk żgurat pjattaforma u provvista kontinwa ta' professjonisti mharrġa għas-suq kollu tal-assigurazzjoni. L-impenn tagħna lejn l-edukazzjoni ma waqafx hemm, u l-Middlesea appoġġat ukoll bis-sħiħ it-twaqqif tal-ewwel kors ta' grad fl-Assigurazzjoni u l-Finanzi fl-Università ta' Malta, kors li beda fl-2008. Aħna impenjati

li nkomplu noffru l-appoġġ kontinwu tagħna f'din l-inizjattiva importanti.

Barra dan, matul is-sena ngħata appoġġ speċifiku lil oqsma diversi bħall-arti, il-kultura u l-isports fil-forma ta' appoġġ finanzjarju u attivitajiet oħrajn. Sabiex insostnu u nkomplu nibnu dan il-patrimonju ta' kontributi tanġibbli lis-soċjetà, aħna impenjajna rwiehna wkoll internament biex nevalwaw u ngeddu l-politika tagħna dwar ir-Responsabbiltà Soċjali Korporattiva f'perjodu ta' żmien qasir jew medju.

DIVIDEND

Ir-riżultati li qed nipprezentaw juru li huwa impossibbli li nikkunsidraw xi rakkomandazzjoni ta' dividend din is-sena. Jiddispijacija ħafna għal dan, u din hija biss it-tieni darba li ma stajniex nipproponu dividend wara storja pożittiva ta' ħamsa u għoxrin sena ta' pagamenti ta' dividends sena wara sena. Nista' nassigurakom li waħda mill-prijoritajiet tiegħi – u dik tal-Bord – hija li nirrestitwixxu l-pagamenti tad-dividends mal-ewwel opportunità possibbli.

INHARSU 'L QUDDIEM

L-avvenimenti ta' dawn l-aħħar sentejn kienu ta' ansjetà u distrazzjoni kbira għall-manigment u l-istaff tal-Middlesea Insurance p.l.c. u l-kumpaniji sussidjarji tagħna. Ninsab deċiż li issa wasal iż-żmien li nerġġu lura għan-negozju u nerġġu nibnu l-moral u l-motivazzjoni tal-individwi ta' ħila u b'impenn li jaħdmu mal-Middlesea, u l-aġenti u l-intermedjarji li jappoġġawha.

Matul l-ewwel ftit ġimgħat tiegħi bħala Chairman, kont impressjonat bis-saħħa tal-baži tal-klijenti u l-kapaċità kummerċjali tal-Kumpanija, u r-rispett u r-reputazzjoni li jgawdi isem il-Middlesea. Iżda xejn ma impressjonani aktar minn meta osservajt mill-vicin il-baži tan-nies kapaċi u dedikati ta' din il-kumpanija. Hekk kif assumejt ir-responsabbiltajiet godda tiegħi, bdejt inħares lejn l-għoti ta' aktar spazju għall-inizjattiva u l-iżvilupp tan-nies tagħna bħala waħda mill-ewwel prijoritajiet tiegħi. In-nies tagħna jirrapreżentaw assi ta' valur immens għall-Middlesea, u huwa proprju fuq l-impenn, il-professjonalizmu, il-kompetenza u d-dedikazzjoni li għandhom għall-klijenti tagħna li primarjament se niddeterminaw u nibnu s-suċċess tagħna fil-ġejjieni.

S'issa fl-2010, diġà għamilna progress ġmielu fl-aġġornar u t-tigdid tal-istrategiji tan-

Stqarrija ta' Chairman

negozju tagħna, u fl-integrazzjoni tal-hsieb strateġiku fl-operat tan-negozju tagħna ta' kuljum. Jidher ċar li se nkunu kumpanija aktar iffokata milli konna fil-passat – u dan digà qed jiġi rifless mill-inizjattivi li għaddejjin bħalissa għar-ristrutturar tal-grupp, li permezz tiegħu kull waħda mill-kumpaniji sussidjarji jew assoċjati ewlenin, jiġifieri l-Middlesea Insurance, l-IIMS u l-Middlesea Valletta, ser tiġi ristrutturata f'taqsimi operazzjonali awtonoma u sostenibbli minnha nfisha, sabiex tingħata l-flessibilità li tiżviluppa u tikber. Biex nimxu 'l quddiem qed nara li:

- Il-Middlesea Insurance se tidhol f'fażi ta' konsolidament u riorganizzazzjoni, lesta li tħares u zżomm l-istatus tagħha bħala l-protagonista distinta fl-assigurazzjoni lokali u tmur lura għal dak li kumpanija kapaci tagħmel l-aħjar – jiġifieri għall-irwol ta' assiguratrici domestika ffokata fuq il-klijent, profitabbli u progressiva. Dan tagħmlu b'operat tekniku u bil-funzjonijiet ta' appoġġ tagħha żviluppatisew, b'koordinazzjoni man-network tad-distribuzzjoni tagħha.
- L-IIMS, il-kumpanija sussidjarja proprjeta assoluta tal-MSI, se tgħaddi biex tkun provditur tas-servizzi terzi lill-industrija tal-assigurazzjoni, filwaqt li tiġbed lejn il-ġurisdizzjoni tagħna aktar investment barrani u klijenti barranin ta' reputazzjoni tajba. B'hekk tkun tista' tkompli bl-irwol vitali u kreattiv tagħha fl-iżvilupp ta' Malta bħala centru ta' servizzi finanzjarji rispettat u ta' reputazzjoni tajba. L-IIMS kienet l-ewwel Gestitrici tal-Assigurazzjoni f'Malta u sena wara sena ż-żidiet fil-bażi tal-klijenti terzi tagħha u fid-dhul huma inkoraġġanti ferm.
- Il-Middlesea Valletta, li hija *joint venture* 50% / 50% importanti mal-Bank of Valletta p.l.c., għandha tħares l-istatus tagħha bħala l-akbar assiguratrici tal-ħajja f'Malta, filwaqt li tibni l-kapaċità u l-istrutturi indipendenti fil-kumpanija sabiex tkun tista' topera b'koncentrazzjoni, vantaġġ strateġiku u b'heffa u sensitività għas-suq. B'bażi ta' 80,000 klijent, u bl-ekwità tal-azzjonisti ta' aktar minn €100 miljun u assi totali ta' kważi biljun ewro, il-Middlesea Valletta tinsab f'forma tajba ħafna biex tkompli tikber u tħares l-istatus tagħha.

Sa fejn għandha x'taqsam il-Middlesea Insurance innfisha, hija wkoll l-opinjoni tal-Bord tagħna li s-suċċess tal-kumpanija tiegħek fuq medda twila ta' żmien jista' jinkiseb l-aħjar billi tkun sostnuta s-saħħa tal-bażi kapitali tagħna u titħares id-

dixxiplina fis-sottoskrizzjonijiet. Irridu kontinwament intejbu u nimmodernizzaw in-networks tad-distribuzzjoni tagħna u ntejbu l-effikaċja fl-infiq. Se ninvestu fl-infrastruttura tas-sistemi tal-informazzjoni u fin-nies tagħna, żewġ pilastru kruċjali għas-suċċess u t-tkabbir tagħna fit-tul. Meta nħares 'il quddiem, nemmen li l-prestazzjoni tas-sottoskrizzjonijiet tagħna u d-dixxiplina teknika, il-kapaċità tagħna li nkunu innovattivi, in-nies u l-hila li għandna biex neżgewwixxu tranżazzjonijiet kbar huma s-sisien li fuqhom se ntejbu l-vantaġġ kompetittiv tagħna, nibnu suċċess li jkun sostenibbli fit-tul u nilhqu l-għanijiet strateġiċi tagħna.

KONKLUŻJONI

Il-klima ekonomika globali għadha volatili u fragli. Fl-istess hin il-kompetizzjoni baqgħet qalila. Madankollu, filwaqt li għad iridu jiffaċċaw sfidi ġodda, nemmu li dawn minnhom infushom se johlqu opportunitajiet ġodda. Għandna strateġija ċara – issa kull ma rridu nagħmlu hu li nimplementaw l-istrateġija tagħna b'preċiżjoni, passjoni u koncentrazzjoni biex niksbu r-riżultati mixtieqa.

Il-viżjoni tagħna tehtieg hidma u sforz għall-kwalità. Mhux se jkun sempliċi jew faċli li nilhqu l-għan tagħna – iżda qed inħarsu lejn il-gejjieni b'fiduċja, b'mod pożittiv u b'ottimizmu. Nagħmel il-qalb meta nikkunsidra min huma l-bord u n-nies wara l-Middlesea Insurance p.l.c.. Il-fatt li kellna l-hila nirreżistu l-isfidi l-aktar straordinarji barra minn xtutna waqt li fl-istess hin f'pajjiżna rreġistrajna riżultati pożittivi jfisser ħafna – u huwa rikonoxximent ċar tad-dedikazzjoni, il-hiliet u l-professionalizmu tan-nies tagħna. Huwa wkoll riflessjoni tal-klijenti tagħna u jirrapprezenta konferma tal-lealtà u l-fiduċja kontinwa tagħhom. Nirringrazzja minn qalbi lill-azzjonisti tagħna tal-appoġġ u l-lealtà tagħhom. Jien fiduċjuż li nistgħu rroddulkom lura l-fiduċja u l-investment tagħkom.

JOSEPH F.X. ZAHRA
CHAIRMAN
MIDDLESEA INSURANCE P.L.C.

27 TA' APRIL 2010

Board of Directors & Company Secretary

CHAIRMAN

MR JOSEPH F. X. ZAHRA
B.A. (HONS) ECON., M.A. (ECON.), FCIM, MMRS

FORMERLY Head of Research, Malta Development Corporation, Director, Central Bank of Malta, Director, Malta Development Corporation, Director, Corinthia Hotels International Ltd, Chairman, Bank of Valletta p.l.c., Chairman, Middlesea Valletta Life Assurance Co. Ltd, Chairman, BOV Stockbrokers Ltd, Chairman, Valletta Fund Management Ltd, Chairman, Maltacom p.l.c., Chairman, Go Mobile Limited, Chairman, National Euro Changeover Committee, Chairman, National Commission for Higher Education, and Chairman, Malta Council for Culture and the Arts.

AT PRESENT Chairman, Middlesea Insurance p.l.c., Chairman, C. Fino & Sons Ltd, Chairman, Express Trailers Ltd, Chairman,

Document Archive Management Ltd, Chairman, Impetus Europe Consulting Group Ltd, Chairman, Multi Risk Limited, Chairman, Multi Risk Indemnity Ltd, Managing Director, Market Intelligence Services Co. Ltd, Managing Director, MISCO International Ltd, Director, Multi Risk Benefits Ltd, Director Medserv p.l.c., Director, Nemea Bank p.l.c., Director, PowerImage Services Ltd, (Cyprus), Director, Promise Professional Services Ltd, (Cyprus), Director, 3a Malta Ltd, Director, Surge Consulting Ltd, Director, Combined Maritime Services Ltd, Director, Middlesea Valletta Life Assurance Co. Ltd, Director, Foundation for Medical Services.

MR GEORGE BONNICI

(RESIGNED ON THE 16 MARCH 2010)

FORMERLY Managing Director Galdes & Mamo Ltd, Chairman of Bonnici Insurance Agency Ltd, Managing Director Hayes Insurance Agency Ltd, Chairman Board of Management The Union Club, Director of Middlesea Insurance p.l.c..

AT PRESENT Holds directorship of various other subsidiary and/or associated companies.

DR EVELYN CARUANA DEMAJO LL.D.

(RESIGNED ON THE 16 MARCH 2010)

AT PRESENT Graduated in Law (LL.D.) from the University of Malta in 1986 and was awarded a warrant to practice in the Superior Court in 1987. She is an Advocate in private, civil and commercial practice since that year. She serves on the Malta Psychology Profession Board since 2006. Served as a Director on the Board of Middlesea Insurance p.l.c. since 2000.

MR RODERICK 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 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.

AT PRESENT Chairman Bank of Valletta Group p.l.c., Chairman Middlesea Valletta Life Assurance Ltd, Chairman Valletta Fund Management Ltd, Chairman Valletta Fund Services Ltd, Director Gasan Group, Director Gasan Finance Company p.l.c., Director Alfred Gera & Sons Ltd, Director Simonds Farsons Cisk p.l.c., Director Global Sources Ltd a NASDAQ listed company.

MR GASTON DEBONO GRECH L.P. F.I.S.M.M. (LUTON), B.A. (LEG.), MAG.JUR. (INT. LAW) DIP. TRIB. ECCL.MELITA

FORMERLY Director Malta Drydocks, Director Malta International Transport, Director Tug Malta, Director Smithtug Valletta. Served for 18 years as G.W.U. representative for the Security Department.

AT PRESENT Legal Procurator.

MR TONIO DEPASQUALE

FORMERLY General Manager Valletta Investment Bank Ltd, where he was responsible for the introduction of

investment banking and other relative services within the BOV Group, Director Bank of Valletta International Ltd, Chairman BOV Stockbrokers Ltd, Chairman Malta Bankers' Association, Governor Finance Malta.

AT PRESENT Chief Executive Officer Bank of Valletta Group p.l.c., Director Valletta Fund Management Ltd, Director Valletta Fund Services Ltd, Director Middlesea Valletta Life Assurance Company Ltd.

MR JAVIER FERNÁNDEZ-CID PLAÑIOL

FORMERLY Holding a law degree from the Complutense University of Madrid. He has developed his career in the MAPFRE Group with different management positions in Spain and abroad and notably in Belgium and the US.

AT PRESENT Managing Director Mapfre Internacional. Board member of the following Mapfre Group companies: Mapfre Re, Mapfre Asistencia, Mapfre Global Risks, Mapfre USA, The Commerce Insurance Group (Massachusetts, USA) and Mapfre Genel Sigorta (Istanbul, Turkey).

MR VICTOR GALEA SALOMONE B.A. (LUTHER), M.B.A. (HENLEY- BRUNEL)

(RESIGNED ON THE 16 MARCH 2010)

FORMERLY President Malta Chamber of Commerce and Enterprise, Member Malta Council for Economic and Social Development, Director Malta Enterprise Corporation, Director Middlesea Insurance p.l.c..

Board of Directors & Company Secretary

AT PRESENT Managing Director V.J. Salomone Marketing Ltd, Director V.J. Salomone Ltd and holds directorship of various other group subsidiaries and/or associated companies.

DR JOHN C. GRECH
M.A. (ECON.), DIP. ICEI (A'DAM),
PH.D. (GENEVA), F.C.I.B., M.B.I.M.,
F.M.I.M.

(RESIGNED ON THE 16 MARCH 2010)

FORMERLY Chairman Malta Tourism Authority, Chairman Malta External Trade Corporation, Deputy Chairman Malta Development Corporation, Director Malta Freeport Corporation, Chairman Bank of Valletta Group of Companies, Chairman Middlesea Valletta Life Assurance Co. Ltd, Founding President Maltese Australian Chamber of Commerce, Founding President Mediterranean Bank Network, Director Middlesea Insurance p.l.c..

AT PRESENT Chairman & Managing Director EMCS Investments Ltd, Chairman MelitaUnipol Insurance Agency Ltd, Chairman MelitaUnipol Financial Ltd, Vice-Chairman FIMBANK p.l.c.. Holds directorships on various other company boards. Dr Grech is also visiting professor at the University of Malta and teaches Economic Diplomacy at the Mediterranean Academy for Diplomatic Studies.

MR MARIO C. GRECH

(RESIGNED ON THE 16 MARCH 2010)

FORMERLY Managing Director Mediterranean Insurance Brokers Group, Director Mediterranean Survey Bureau, Governor Malta International Business Authority, Chairman Malta Green Card Bureau, Governor Malta Financial Services Centre and member Protection & Compensation Fund Board, Founder Director/Chairman Mediterranean Insurance Training Centre, Director Malta International Training Centre, Director Plaza Centre p.l.c., Governor Malta College of Arts, Science and Technology, President Malta Insurance Association, Managing Director, Group Chief Executive Officer and Executive Chairman Middlesea Insurance p.l.c., Founder Director/Deputy Chairman Middlesea Valletta Life Assurance Co. Ltd, President Progress Assicurazioni S.p.A., Chairman and CEO International Insurance Management Services Ltd, Chairman Euro Globe Holdings Ltd, Chairman Church Wharf Properties Ltd, Chairman EuroMed Risk Solutions Ltd, Director Premium Realty Ltd.

AT PRESENT Director Middlesea Valletta Life Assurance Co. Ltd, Governor Malta Arbitration Centre, Chairman Growth Investments Ltd., Director Midi p.l.c., Director Tigne Mall Ltd, Member Middlesea Group Investment Committee, Life Vice President Chartered Insurance Institute U.K.

MR ANDRÉS JIMÉNEZ HERRADÓN

FORMERLY Mr A. Jiménez Herradón joined Mapfre organisation in 1966 and has held a number of senior management positions in insurance and reinsurance activities since 1982.

AT PRESENT Mr Jiménez Herradón is responsible for the international operations of the Mapfre Group. He is Chairman of Mapfre Re, Compania de Reaseguros in Madrid (Spain). He is also Chairman and CEO of Mapfre Internacional and Mapfre America and Chairman of The Commerce Group in USA. Mr Jiménez Herradón is member of the Board and member of the Executive Committee of Mapfre S.A., parent company of Mapfre Group, and member of the Board of trustees of Fundacion Mapfre.

MR PEDRO LÓPEZ SOLANES

(APPOINTED ON THE 16 MARCH 2010)

AT PRESENT Deputy General Manager and Chief Financial Officer Mapfre Internacional S.A. in Spain, Director of Mapfre Inversion Sociedad de Valores (Spain), Director Mapfre Global Risk (Spain), Director Mapfre Genel Sigorta (Turkey).

DR MICHAEL SPARBERG

FORMERLY Holding a law degree and doctor of laws (LL.D.) from Universities of Freiburg i.Br. and Tübingen, Germany. After working as a lawyer he developed his career in the Munich Re Group with different managing positions.

AT PRESENT Managing Director Munich Reinsurance Company, Munich, responsible for Malta, Italy, France, Belgium, Luxembourg and The Netherlands for all classes (property, casualty and marine) of reinsurance business. Board Member of Munich Re Italy.

MR LINO SPITERI
K.O.M, 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 Central Bank of Malta, Research Officer Malta Chamber of Commerce, Head of Publications Union Press, Editor Malta News, Executive Editor It-Torca, Chairman University Selection Board, Member Malta Broadcasting Authority, Director Progress Assicurazioni S.p.A..

AT PRESENT Chairman Bortex Group and Vbie Group; sits on various other domestic boards and on boards of foreign financial institutions registered in Malta; columnist, The Times and Sunday Times of Malta.

THE NOBLE MR PAUL S.
TESTAFERRATA MORONI VIANI

(APPOINTED ON THE 16 MARCH 2010)

AT PRESENT Mainly involved in tourism and investment services, marketing and sales research, contracting, administration, property construction and development, managing operations, strategic planning and new business development. Director of Bank of Valletta p.l.c., GO p.l.c., Innovate Software Limited, Mobisile Communications Limited, Worldwide Communications Limited, Go Data Centre Services Limited, St. George's Park Co. Ltd, SGP Projects Ltd, Euro Appliances Co. Ltd, Spinola Hotels Ltd, Reliant Ltd, Cambridge Place Ltd, Sales & Letting Ltd (formerly Circles Ltd) and Testaferrata Moroni Viani Holdings Ltd (formerly Macapps Ltd) and Vltava Fund SICAV p.l.c.

COMPANY SECRETARY

MR CARLO FARRUGIA,
DIP. GEN. MGMT
(MAASTRICHT), PGDTI, M.A.
(TRANSL. & INTERP.).

FORMERLY Previously employed at the Central Bank of Malta and Malta Financial Services Authority and appointed as a bank inspector for a number of years.

AT PRESENT Joined the Middlesea Group in 2007 and appointed Company Secretary and Compliance Officer of the group companies. Serves as committees' secretary to the Board Committees within the Middlesea Group. Published the Dictionary for Financial Services and is involved in the Olympic Movement.



Chief Operations Officer Review

Middlesea Insurance p.l.c. (MSI) maintained its successful underwriting performance in the Maltese Insurance market during 2009 and retained its market share despite a soft-rating-cycle that was triggered by competition. MSI retained its prudent rating structures and reserving policies in line with its objectives of providing policy holders with appropriate insurance protection and security that is commensurate with underwriting disciplines and fair pricing, and of honouring all claim payments for appropriate and legitimate claims. MSI operated within the Maltese market directly through its head office and through its distribution network, which is made up of agents and tied insurance intermediaries. The Company also operated through an agent in Gibraltar.

The challenges that Middlesea Insurance p.l.c. faced over the past twenty four months are well known to the shareholders and the market. The investment made by the Company in the year 2000 in its Italian subsidiary, Progress Assicurazioni S.p.A. (Progress), has presented the leading insurance company in Malta with significant challenges in terms of its financial results and impacted the focus of the Board and Management of the Company. The Company, having written off its investment in Progress following crucial decisions taken by the Board of Directors in the initial months of 2010, reported a loss on this investment of €69.5 million in 2009 following an impairment charge of €2.5 million in 2008. These losses close the sad story of the investment undertaken by the Company in the Italian non life insurance business market.

As a composite insurer, MSI has provided the Maltese market with insurance protection in all non life classes of business together with life protection to groups of policyholders. In the midst of the extraordinary challenges experienced by MSI during the past twelve months due to its investment in Progress, the Company's profit before tax and impairment charges increased significantly from a loss of €0.9 million registered in 2008 to €6.6 million in 2009.

FINANCIAL REVIEW

MSI underwrote a portfolio of non life business similar to that of 2008 with a total premium income of €32.2 million. The

Company maintained its position as the largest insurance carrier in Malta with a market share consistent with that of the previous year of 23.4%. During 2009, MSI also retained its presence in the market of Gibraltar, where a premium income of €2.6 million was generated. MSI's reinsurance strategy during 2009 was similar to the strategy followed in previous years, including protection purchased on both a proportional and non proportional basis. Overall, the Company ceded 42% of the premium generated to its panel of reinsurers, providing further strength to MSI's balance sheet. The non life technical operations of the company generated a rate of technical return on earned premium (net of reinsurance) of 7.2% - a return consistent with that registered in 2008.

The economic slow down experienced during 2009 together with the pressure on all industries to operate at lower cost levels, limited growth in the Group Life portfolio of MSI. The premium generated on this book of business amounted to €1.2 million in 2009 whilst the rate of technical return on earned premium net of reinsurance amounted to 79%. The performance of this business improved significantly during the year compared to the 29% return achieved in 2008.

The investment income generated on the investment portfolio of the company reflected the recovery experienced in both the international and local capital markets. Excluding the impairment charge relating to Progress, the Company registered a

substantial increase in this source of income, registering an income of €5.7 million in 2009 compared to a loss of €1.7 million in 2008. The Company maintains a prudent, conservative investment policy to complement its core risk insurance business.

The positive performance of MSI generated through its insurance activities was significantly outweighed by the impairment provision undertaken in respect of Progress. Following the full impairment of this investment, MSI registered a loss after taxation of €63.4 million for the financial year 2009.

Indeed the significant loss has eliminated all retained earnings of the Company built over the years. Despite this, MSI still maintains the largest balance sheet in the non life insurance market in Malta, with shareholders' equity totalling €44.4 million. In accordance with solvency regulations, MSI's holding company structure requires that the Company takes account of the solvency position of its subsidiary and associated companies when valuing these investments for its own solvency calculation. The impact of Progress on this calculation resulted in MSI not having satisfied the solvency regulatory requirements at all times during 2009. With the elimination of any liability towards Progress after 2009 in excess of the amounts already suffered, MSI's capital at 31 December 2009 would have satisfied its solvency requirement.

Due to new regulations that came into force as from 1 January 2010, certain of the

Group's assets, however, became no longer admissible for solvency purposes. This, again, resulted in the Company not meeting its regulatory requirements in the first months of 2010. MSI has already agreed a plan with the Regulator to reinstate its regulatory capital to the required regulatory level and is in the process of implementing this plan.

SUBSIDIARY AND ASSOCIATED COMPANIES

The Company apart from being an insurance risk carrier developed an investment portfolio over its 29 year history that also encompassed investments in subsidiaries and associate companies. Whereas, the investment in the Italian subsidiary Progress represents a negative experience and one investment that did not yield the desired result, the performance of the associate company Middlesea Valletta Life Assurance Co Ltd (MSVLA) has been satisfactory. During its fifteen year history, MSVLA has proved to be a long term success story contributing positively to the Group's financial results. During the financial year 2009, despite the economic slowdown experienced world-wide, MSVLA registered a 14% growth in its portfolio together with a significant growth in its profitability. The Group's share of profit from this associate company amounted to €3.1 million in 2009 as compared to €0.9 million in the previous year. The local subsidiary International Insurance Management Services Ltd (IIMS), which provided insurance management services to the insurance operations of the Group and to international third party clients, maintained its positive performance during 2009 and contributed positively to the Group's result for the year. With the current re-structuring of the companies within the Middlesea Group, as described in the Chairman's statement, the subsidiary IIMS will assume a more autonomous structure geared to allow it to focus entirely on its third party clients and core business operations.

OUTLOOK

MSI has weathered an unprecedented arduous storm - we have gone through extraordinary tough times over the past twenty four months. Notwithstanding such difficulties our core local Maltese operations have remained intact

and strong. With this experience we now look forward to a more focused operation which will provide all our stakeholders with improved service levels, quality delivery, an improved workplace together with a return to satisfactory overall Group profit generation.

We will continue to operate and consolidate our position as the market leader in Malta whilst maintaining our stable and disciplined underwriting philosophy and strong, prudent reserving policy. Accordingly, we will focus on:

- enhancing our customer relationship and overall customer experience,
- boosting our extensive product range,
- providing an efficient infrastructure to our workforce and intermediary network with sustained investment in information technology.

The risk nature of our business makes us cautious and prudent in projecting results for the future. Still, with the re-focused strategies and operations of the Company, the strength of our balance sheet, our professional, experienced and dedicated workforce, as well as the apparent recoveries (albeit cyclical) in the capital markets, we look forward to the forthcoming financial years with confidence and optimism that MSI will continue to strengthen its market and financial position and achieve sustainable long term growth.



ANNE MARIE TABONE
CHIEF OPERATIONS OFFICER
MIDDLESEA INSURANCE P.L.C.

27 APRIL 2010

Rapport Tač-Chief Operations Officer

Il-Middlesea Insurance p.l.c. (MSI) kompliet tagħti prestazzjoni tajba fis-sottoskrizzjoni tal-assigurazzjoni fis-suq Malti matul l-2009 u żammet is-sehem tas-suq tagħha minkejja ciklu ta' ipprezzar baxx li nħoloq minħabba l-kompetizzjoni. L-MSI żammet l-istrutturi ta' rati u l-politika ta' riżervar prudenti skont l-oġġettivi tagħha li tagħti lil detenturi ta' poloz protezzjoni u sigurtà xierqa ta' assicurazzjoni li hi proporzjonata mad-dixxiplini tas-sottoskrizzjonijiet u prezzijiet ġusti u li tonora t-talbiet kollha għal filas għal talbiet xierqa u legittimi. L-MSI hadmet fis-suq Malti mill-uffiċċju prinċipali tagħha u permezz ta' network ta' distribuzzjoni li hi magħmula minn agenti u intermedjarji tal-assigurazzjoni kollegati. Il-Kumpanija hadmet ukoll permezz ta' agent f'Ġibiltà.

L-isfidi li l-Middlesea Insurance p.l.c. habbtet wiċċha magħhom matul l-aħħar erbgha u għoxrin xahar huma magħrufa sewwa mill-azzjonisti u mis-suq. L-investiment li l-Kumpanija għamlet fis-sena 2000 fil-kumpanija sussidjarja Taljana tagħha, Progress Assicurazioni S.p.A. (Progress), ipprezenta lill-kumpanija ewlenija tal-assigurazzjoni f'Malta bi sfidi sinifikanti fir-rigward tar-riżultati finanzjarji tagħha u influwenza dak li fuqu kienu ffokati l-Bord u l-Maniġment tal-Kumpanija. Il-Kumpanija, li assumiet il-kancellazzjoni tal-investiment tagħha fi Progress, wara deċizzjonijiet kruċjali meħudin mill-Bord tad-Diretturi fl-ewwel xhur tal-2010, irrapporstat telf fuq dan l-investiment ta' €69.5 miljun fl-2009 wara *impairment charge* ta' €2.5 miljun fl-2008. Dan it-telf għalaq il-grajja sfortunata tal-investiment li kienet għamlet il-Kumpanija fis-suq Taljan tan-negozju tal-assigurazzjoni mhux fuq il-ħajja.

Bħala assiguratrici komposta, l-MSI pprovdiet lis-suq Malti bi protezzjoni ta' assicurazzjoni fil-klassijiet kollha tan-negozju mhux fuq il-ħajja flimkien ma' assicurazzjoni fuq il-ħajja lil gruppi ta' detenturi ta' poloz. Fil-qalba tal-isfidi straordinarji li għaddiet minnhom l-MSI matul l-aħħar tnaħ-il xahar minħabba l-investiment tagħha fi Progress, il-qligh tal-Kumpanija qabel it-taxxa u *impairment charge* żdied b'mod sinifikanti minn telf ta' €0.9 miljun irregiſtrat fl-2008 għal €6.6 miljun fl-2009.

ANALIŻI FINANZJARJA

L-MSI issottoskriviet portafoll ta' negozju mhux fuq il-ħajja simili għal dak tal-2008 bi dħul totali minn primjums ta' €32.2 miljun. Il-Kumpanija żammet il-pożizzjoni tagħha bħala l-akbar kumpanija tal-assigurazzjoni

f'Malta b'sehem fis-suq konsistenti ma' dak tas-sena ta' qabel ta' 23.4%. Matul l-2009 l-MSI żammet ukoll il-preżenza tagħha fis-suq ta' Ġibiltà fejn kien iġġenerat dħul ta' primjums ta' €2.6 miljun. L-istrategija tal-MSI ta' riassigurazzjoni tul l-2009 kienet simili għall-istrategija li mxiet biha fis-snin preċedenti u tinkludi protezzjoni mixtrija kemm fuq bażi proporzjonali u kemm mhux proporzjonali. B'kollox il-kumpanija ċediet 42% tal-primjums iġġenerati lill-panel ta' riassiguratrici tagħha li jagħti aktar saħħa lill-*balance sheet* tal-MSI. L-operazzjonijiet tekniċi mhux fuq il-ħajja tal-kumpanija iġġeneraw rata ta' qligh fuq primjums maqluġhin (wara t-tnaqqis għar-riassigurazzjoni) ta' 7.2%, qligh konsistenti meta mqabbel ma' dak irregiſtrat fl-2008.

It-tnaqqis fl-attività ekonomika ta' matul l-2009, flimkien mal-pressjoni fuq l-industrija kollha biex joperaw b'livelli ta' spejjeż aktar baxxi, illimita it-tkabbir fil-portafoll Group Life tal-MSI. Il-primjums iġġenerati f'dan il-ktieb tan-negozju telgħu għal €1.2 miljun fl-2009 filwaqt li r-rata ta' qligh tekniċu minn primjums maqluġhin, wara t-tnaqqis għar-riassigurazzjoni, laqget id-79%. In-negozju tjiieb b'mod sinifikanti matul is-sena meta mqabbel mal-qligh ta' 29% miksub fl-2008.

Id-dħul mill-investiment iġġenerat mill-portafoll tal-investimenti tal-kumpanija irrifletta l-irkuprar fis-swieq tal-kapital kemm internazzjonali kif ukoll lokali. Meta jiġi eskluż l-*impairment charge* ta' Progress il-Kumpanija rregiſtrat żieda sostanzjali f'dan is-sors ta' dħul, bi dħul ta' €5.7 miljun fl-2009 meta mqabbel ma' telf ta' €1.7 miljun fl-2008. Il-Kumpanija żzomm politika ta' investiment prudenti u konservattiva sabiex tikkomplimenta n-negozju prinċipali tal-assigurazzjoni tar-riskju tagħha.

Il-prestazzjoni pożittiva tal-MSI maħluqa mill-attività tagħha ta' assicurazzjoni kienet żbilanċjata b'mod sinifikanti mill-*impairment charge* magħmul fir-rigward ta' Progress. Wara l-*impairment charge* shiħ ta' dan l-investiment, l-MSI irregiſtrat telf wara l-ħlas tat-taxxa ta' €63.4 miljun għas-sena finanzjarja 2009.

Tabilhaqq it-telf sinifikanti elimina l-qligh kollu mfaddal li l-Kumpanija bniet tul is-snin. Minkejja dan, l-MSI għad għandha l-akbar *balance sheet* fis-suq tal-assigurazzjoni mhux fuq il-ħajja f'Malta, b'kapital tal-azzjonisti li jammonta għal €44.4 miljun. B'konformità ma' regolamenti dwar is-solvibilità, l-istruttura tal-kumpanija prinċipali tal-

MSI teziġi li l-Kumpanija tqis il-pożizzjoni ta' solvibilità tal-kumpaniji sussidjarji u assoċjati tagħha meta tiġi biex tivvaluta dawn l-investimenti għal kalkulazzjoni tas-solvibilità tagħha stess. Ir-riżultat tal-impatt ta' Progress fuq din il-kalkulazzjoni kien li l-MSI mhux dejjem issodisfat ir-rekwiżiti regolatorji tas-solvibilità matul l-2009. Bl-eliminazzjoni ta' kull responsabbiltà għal Progress wara l-2009, minbarra l-ammonti diġa mgarrba, il-kapital tal-MSI fil-31 ta' Diċembru 2009 kien ikun jissodisfa r-rekwiżiti ta' solvibilità tagħha.

Madankollu, minħabba regolamenti ġodda li daħlu fis-seħħ mill-1 ta' Jannar 2010, ċerti assi tal-Grupp ma baqgħux aktar ammissibbli għal skopijiet ta' solvibilità u reġa' rriżulta li l-Kumpanija ma ssodisfatx ir-rekwiżiti regolatorji tagħha fl-ewwel xhur tal-2010. Iżda l-MSI diġa qablet dwar pjan mar-Regolatur sabiex il-kapital regolatorju tagħha jitqiegħed mill-ġdid fil-livell regolatorju meħtieġ u tinsab fil-proċess li timplimenta dan il-pjan.

KUMPANJI SUSSIDJARJI U ASSOĠJATI

Matul id-29 sena tal-istorja tagħha, il-Kumpanija, barra l-irwol tagħha bħala kumpanija ta' assicurazzjoni tar-riskju, żviluppat portafoll ta' investimenti li jinkludi wkoll investiment f'kumpaniji sussidjarji u assoċjati. Filwaqt li l-investiment fil-kumpanija sussidjarja Taljana Progress jirrapprezenta esperjenza negattiva u investiment wieħed li ma pproduciex ir-riżultat mixtieq, il-prestazzjoni tal-kumpanija assoċjata Middlesea Valletta Life Assurance Co Ltd (MSVLA) kienet waħda sodisfaċenti. Matul il-ħmistax-il sena tal-istorja tagħha, il-MSVLA uriet li kienet storja ta' suċċess għal żmien twil u li kkontribwiet b'mod pożittiv għar-riżultati finanzjarji tal-Grupp. Matul is-sena finanzjarja 2009, minkejja t-tnaqqis fl-attività ekonomika li ġarrbet id-dinja kollha, l-MSVLA irregiſtrat tkabbir ta' 14% fil-portafoll tagħha flimkien ma' tkabbir sinifikanti fil-qligh. Is-sehem tal-Grupp mill-qligh ta' din il-kumpanija assoċjata kien jammonta għal €3.1 miljun fl-2009 meta mqabbel maż-€0.9 miljun fis-sena ta' qabel. Il-kumpanija sussidjarja lokali International Insurance Management Services Ltd (IIMS), li pprovdiet servizzi ta' immaniġġjar ta' assicurazzjoni għall-operazzjonijiet ta' assicurazzjoni tal-Grupp u lil klijenti terzi internazzjonali, baqgħet turi prestazzjoni pożittiva matul l-2009 u kkontribwiet b'mod pożittiv għar-riżultat tal-Grupp għas-sena. Bir-ristrutturar attwali tal-kumpaniji fil-

Rapport Tač-Chief Operations Officer

Grupp Middlesea, kif deskritt fl-istqarrija tač-Chairman, il-kumpanija sussidjarja IIMS se tassumi struttura aktar awtonoma mfassla b'mod li tithalla tiffoka totalment fuq il-klijenti terzi u l-operazzjonijiet tan-negozju prinċipali tagħha.

PROSPETTIVA

L-MSI għelbet burraxka qalila bla precedent - għaddejna minn żminijiet straordinarji diffiċli tul dawn l-aħħar erbgħa u għoxrin xahar. Minkejja dawn id-diffikultajiet l-operazzjonijiet prinċipali f'Malta baqgħu sħaħ u b'saħħithom. Wara din l-esperjenza issa qed nistennew bil-herqa li naħdmu b'mod aktar iffokat sabiex nagħtu lill-partijiet interessati kollha tagħna livelli ta' servizz aħjar, servizz ta' kwalità, post tax-xogħol fejn naħdmu aħjar flimkien ma' ritorn lejn ġenerazzjoni ta' qligħ sodisfaċenti għall-grupp kollu.

Aħna se nkomplu noperaw u nikkonsolidaw il-pożizzjoni tagħna f'Malta bħala l-protagonisti fis-suq waqt li nżommu l-filosofija tagħna ta' sottoskrizzjoni stabbli u dixiplinata u politika ta' riżerva b'saħħitha u prudenti. Għaldaqstant se niffukaw fuq:

- it-tisħih tar-relazzjoni mal-klijenti tagħna u l-kwalità tas-servizzi li noffru,
- l-għoti ta' spinta lill-firxa estensiva tal-prodotti tagħna,
- il-provizzjoni ta' infrastruttura effiċjenti għall-ħaddiema tagħna u n-network intermedjarju b'investiment sostnut fit-teknoloġija tal-informazzjoni.

In-natura riskjuża tan-negozju tagħna tagħmilna kawti u prudenti meta niġu biex inbassru r-riżultati għall-ġejjieni. Iżda, bl-istrategġiji u bl-operazzjonijiet tal-Kumpanija kkonċentri mill-ġdid, bil-*balance sheet* tagħna b'saħħitha, bil-ħaddiema professjonali, ta' esperjenza u dedikati tagħna, kif ukoll sitwazzjoni fejn s-swieq tal-kapital jidher li qed jirkupraw (għalkemm b'mod ċikliku), nistennew bil-herqa s-snin finanzjarji li ġejjin b'fiduċja u ottimizmu li l-MSI tkompli ssahħaħ il-pożizzjoni tagħna fis-suq u finanzjarjament, u li tikseb tkabbir sostenibbli fit-tul.



ANNE MARIE TABONE
CHIEF OPERATIONS OFFICER
MIDDLESEA INSURANCE P.L.C.

27 TA' APRIL 2010

Head Offices, Branches & Agencies

HEAD OFFICES

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Fax: (00356) 2122 6429
e-mail: info@msvlife.com
Website: www.msvlife.com

INTERNATIONAL INSURANCE MANAGEMENT SERVICES LTD

Development House, 4th Floor,
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Fax: (00356) 2124 8774
e-mail: iims@middlesea.com

MSI CLAIMS DEPARTMENT

41, Market Street
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Tel: (00356) 2124 6262
Fax: (00356) 2124 8195
e-mail: middlesea@middlesea.com

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Suite 1A, Tisa House
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LOCAL AGENCIES

ALLCARE INSURANCE AGENCY LIMITED

University Roundabout
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e-mail: info@allcare.com.mt

BONNICI INSURANCE AGENCY LIMITED

222, The Strand
Gzira, GZR 1022
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Fax: (00356) 2131 0390
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ENGLAND INSURANCE AGENCY LIMITED

190, 1st Floor, Marina Street
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e-mail: info@england.com.mt

LAFERLA INSURANCE AGENCY LIMITED

Vincenti Buildings
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Valletta, VLT 1453
Tel: (00356) 2122 4405
Fax: (00356) 2124 0811
e-mail: info@laferla.com.mt

MELITAUNIPOL INSURANCE AGENCY LIMITED

17 Market Street
Floriana, FRN 1081
Tel: (00356) 2206 7000 / 2123 6363
Fax: (00356) 2124 1954
e-mail: agency@melitaunipol.com

MILLENNIUM INSURANCE AGENCY LTD

(agents for Motor insurance)
14/12 Vincenti Buildings
Strait Street
Valletta VLT 1432
Tel: (00356) 2123 6355 / 2123 6253
Fax: (00356) 2123 6640
e-mail:
millennium@millennium-insurance.com

OVERSEAS AGENT

MASCARENHAS INSURANCE AND FINANCE LIMITED

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

Group Financial Highlights

	2009		2008	
	GBP'000	US\$'000	GBP'000	US\$'000
Gross premiums written:				
- General Business	28,576	46,168	104,895	169,469
- Life Business	1,026	1,658	1,491	2,408
Total gross premiums	29,602	47,826	106,386	171,877
Group investment expense	(49,230)	(79,537)	(3,835)	(6,197)
Loss for the financial year before tax	(48,846)	(78,915)	(18,249)	(29,483)
Net Dividend	-	-	-	-
Net Dividend per €0.60 share	-	-	-	-
Share Capital	48,918	79,033	13,293	21,476
Net technical reserves:				
General Business	34,638	55,961	160,347	259,058
Life Business	338	545	518	838
Shareholders' Funds	43,126	69,675	55,053	88,945
Net assets value per €0.60 share	0.47	0.76	2.20	3.56
Total number of ordinary shares in issue	92,000,000	92,000,000	25,000,000	25,000,000

All figures have been translated at the rate of exchange ruling at 31 December 2009.

	2009 €'000	2008 €'000
Gross premiums written		
- General Business	32,246	118,365
- Life Business	1,158	1,682
General business results	4,800	(27,705)
Life business results	675	307
Investment return	(55,552)	(4,328)
Loss attributable to shareholders	(53,462)	(18,690)
Dividend proposed (net)	-	-
Earnings per share	(€1.99)	(€0.75)
Net asset value per share	€0.53	€2.48

Professional Services

The Group, in addition to its regular staff complement, as at 31 December 2009 utilised the professional services of the following individuals and institutions

LEGAL ADVISORS

Aequitas Legal
Mamo TCV Advocates
Schriha, Attard Montalto, Galea & Associates
Dr Lorraine Conti LL.D.
Studio Legale Associato Inzerillo-Visconti

AUDITORS

PricewaterhouseCoopers

ACTUARIES

Towers Watson
Gismondi e Associati

BANKERS

Bank of Valletta p.l.c.
Lombard Bank (Malta) p.l.c.
HSBC Bank (Malta) Ltd
National Westminster Bank
SG Hambros Bank & Trust (Gibraltar) Limited
APS Bank Limited
Banco di Sicilia S.p.A.
Unicredit Banca D'Impresa S.p.A.
Intesa Sanpaolo S.p.A.
Banco di Napoli S.p.A.
Banca Nuova S.p.A.

SPONSORING STOCKBROKERS

Bank of Valletta p.l.c. – Financial Markets & Investments Division
Charts Investment Management Service Limited

GROUP COMMITTEES

THE INVESTMENT COMMITTEE

Mr Mario C. Grech (Chairman)
Mr Roderick E. D.Chalmers MA Div (Edin), FCA, ATII, FCPA, MIA
Mr Tonio Depasquale
Dr Reno Borg BA (Hons), MA, LLD
Mr Emanuel Ellul BA (Hons) Econ, Dip Pol Econ
Mr David G. Curmi ACII Chartered Insurer
Mr Stephen Gauci ACII
Ms Anne Marie Tabone BA (Hons) Accty, FIA, CPA
Ms Marzena Formosa MA (Econ), MA (Financial Services)
Mr Lino Spiteri K.O.M., MA (Oxon)

THE AUDIT COMMITTEE

Mr Lino Spiteri K.O.M., MA (Oxon) (Chairman)
Mr Roderick E. D.Chalmers MA Div (Edin), FCA, ATII, FCPA, MIA
Mr Javier Fernandez-Cid Plañol
Mr Joseph F.X. Zahra BA (Hons) Econ, MA (Econ), MCIM, MMRS

THE REMUNERATION COMMITTEE

Dr John C Grech MA (Econ) Dip. ICEI (A'dam) PhD (Geneva), FCIB, MBIM, FMIM, (Chairman)
Dr Michael Sparberg
Mr Victor Galea Salomone BA (Luther), MBA (Henley-Brunel)

THE RISK MANAGEMENT COMMITTEE

Mr Joseph F.X. Zahra BA (Hons) Econ, MA (Econ), MCIM, MMRS (Chairman)
Mr George Bonnici
Mr Gaston Debono Grech L.P. FISMM (Luton), BA (Leg), Mag.Jur. (Int.Law), Dip.Trib. Eccl.Melita
Mr David G. Curmi ACII Chartered Insurer
Mr Stephen Gauci ACII
Ms Anne Marie Tabone BA (Hons) Accty, FIA, CPA

THE COMPLIANCE & PREVENTION OF MONEY LAUNDERING COMMITTEE

Mr Emanuel Ellul BA (Hons) Econ. Dip. Pol. Econ. (Chairman)
Mr George Bonnici
Dr Evelyn Caruana Demajo LLD
Dr Robert A. Staines LLD
Mr David G. Curmi ACII Chartered Insurer
Mr Stephen Gauci ACII
Ms Anne Marie Tabone BA (Hons) Accty, FIA, CPA

The Company Secretary, Mr Carlo Farrugia, Dip.Gen.Mgmt.(Maastricht), PGDTI, MA (Trans. and Interp.), acts as the committee secretary to the above mentioned committees.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

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

REVIEW OF BUSINESS

The financial results for 2009 have been significantly impacted by events that occurred during the year and subsequent to the year end (as detailed in note 1 to these Financial Statements) in relation to the operations of the Italian subsidiary, Progress Assicurazioni S.p.A. (Progress). The Group registered a loss of €55.2 million for the year to 31 December 2009 (FY 2009), inclusive of an impairment charge on Progress of €63.1 million. During the first part of 2010 important steps were taken in connection with this subsidiary, which is now in Compulsory Administrative Liquidation. The total write off of the investment in Progress has been accounted for in the financial statements for FY 2009. The losses incurred by Progress have placed a strain on the Company's regulatory requirements. Both Middlesea Insurance p.l.c. and Progress did not meet their regulatory solvency requirements at all times during the year and as at 31 December 2009. This is explained in detail in note 5.4 to the financial statements which also sets out the Company's plans, that have been agreed with the Regulator, to rectify this position.

The domestic operations of the Group, namely, Middlesea Insurance p.l.c., International Insurance Management Services Ltd, together with the associate company Middlesea Valletta Life Assurance Co Ltd, generated a total profit before tax and impairment charges for FY 2009 amounting to €8.7 million – a considerable improvement when compared to a loss from these operations of €2.98 million in FY 2008. This was largely due to an improvement in the performance of the Company's investment portfolio. The associate company, specialising in life business, reported a considerable increase in profitability during 2009. The Group's share of profit of Middlesea Valletta Life Assurance Co Ltd (MSV) for FY 2009 amounted to €3.1 million, as compared to €0.96 million registered in FY 2008.

Notwithstanding the substantial loss incurred, Middlesea's shareholders' equity at 31 December 2009 amounted to €48.7 million (2008: €63.8 million) on a consolidated basis.

As detailed in note 1 (Significant events during the year and subsequent to the year end) and note 2 (Basis of preparation) of these financial statements, the Group accounts of Middlesea Insurance p.l.c. have departed from the requirements of IAS 27 "Consolidated and Separate Financial Statements". This course of action has been adopted in order to provide a more meaningful approach to the preparation of the FY 2009 accounts. This approach, in the opinion of the Directors, as explained further in note 2, leads to financial statements that properly reflect the decisions undertaken in respect of Progress up to the date of this report.

Looking Forward

The events of the past two years have placed a huge strain on the financial resources and on the management and staff of Middlesea Insurance p.l.c.. Having taken the tough but necessary steps to bring to an end the undesirable impact of Progress on the operations and financials of Middlesea Insurance p.l.c., the Board of Directors looks forward to a more focused Group with a clear objective of maintaining and strengthening the Company's status as the leader in the local insurance industry. Going forward, the Board envisages the following:

- Middlesea Insurance p.l.c. will enter into a period of consolidation and reorganisation, geared to maintaining its status as the clear local insurance leader and returning the company to the role of a client-centric, profitable and progressive domestic insurer. This it will do with its own fully fledged technical operations and support functions, in coordination with its distribution network.
- IIMS, as a fully owned subsidiary of MSI will transit to being an exclusively third party service provider to the insurance industry, attracting further foreign investment and reputable foreign clients to Malta. In doing so it will continue to play a vital and creative role in the development of Malta as a respected and reputable financial services centre.
- MSV, which is an important 50% / 50% joint venture operation with Bank of Valletta p.l.c., will maintain its status as the largest life insurer in Malta, building its own stand alone capacity and company structures. With a base of 80,000 customers, shareholders equity of over €100 million and total assets close to €1 billion, MSV is well placed to grow and develop further.

RESULTS AND DIVIDENDS

The consolidated profit and loss account is set out on page 42. The directors do not recommend the payment of a dividend (2008 – €nil).

TRANSACTIONS IN OWN SHARES

Pursuant to an Extraordinary Resolution passed by shareholders on the 25 June 2008, 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 expired at the end of the Annual General Meeting held on 26 June 2009.

SHAREHOLDER REGISTER INFORMATION PURSUANT TO LISTING RULE 9.43

Pursuant to an Extraordinary General Meeting held on the 20 November 2009 the Authorised Share Capital of the Company was increased to sixty million euro (€60,000,000) divided into one hundred million Ordinary Shares of a nominal value of sixty euro cents (€0.60) each (2008: €36 million).

Directors' Report

The same Extraordinary General Meeting also authorised the Board of Directors to issue up to a maximum of sixty seven million (67,000,000) Ordinary Shares of a nominal value of sixty euro cents (€0.60) each. The New Ordinary Shares were admitted to listing on the Official List of the Malta Stock Exchange on the 22 December 2009 and trading in the said Ordinary Shares commenced on the 23 December 2009. At 31 December 2009, the issued and fully paid share capital was fifty five million and two hundred thousand euro (€55,200,000) made up of ninety two million (92,000,000) Ordinary Shares of a nominal value of sixty euro cents (€0.60) each. The issued and fully paid up share capital as at 31 December 2008 was fifteen million euro (€15,000,000) divided into twenty five million (25,000,000) Ordinary Shares of a nominal value of sixty euro cents (€0.60) each.

Pursuant to an Extraordinary General Meeting held on the 16 March 2010 the Authorised Share Capital of the Company was increased to ninety million euro (€90,000,000) divided into one hundred and fifty million (150,000,000) Ordinary Shares of a nominal value of sixty euro cents (€0.60) each.

SHAREHOLDER REGISTER INFORMATION

Directors' interests in the share capital of the Company as at 31 December 2009:

George Bonnici	14,844 shares
Evelyn Caruana Demajo	4,359 shares
Gaston Debono Grech	49,180 shares
Tonio Depasquale	1,590 shares
John C. Grech	30,000 shares
Mario C. Grech	20,056 shares
Joseph F.X. Zahra	1,214 shares

Position as at the 17 April 2010:

George Bonnici	14,844 shares
Evelyn Caruana Demajo	4,359 shares
Gaston Debono Grech	49,180 shares
Tonio Depasquale	1,590 shares
Mario C. Grech	5,450 shares
Joseph F.X. Zahra	1,214 shares

Mr George Bonnici, Dr Evelyn Caruana Demajo, Dr John C. Grech and Mr Mario C. Grech resigned as directors, without seeking re-election, during the Extraordinary General Meeting held on the 16 March 2010. Dr John C. Grech and Mr Mario C. Grech respectively disposed of 30,000 shares and 14,606 shares during the period 1 January 2010 to 17 April 2010. Further details in this respect are included in the 'Corporate Governance – Statement of Compliance'.

Shareholders holding 5% or more of the equity share capital as at 31 December 2009:

Bank of Valletta p.l.c.	30.79%
HSBC Bank Malta p.l.c. as subcustodian for BNY Brussels as custodian for Mapfre Internacional	30.79%
Münchener Rückversicherungs Gesellschaft	19.90%

As at 17 April 2010 the shareholders holding 5% or more were as follows:

Bank of Valletta p.l.c.	31.08%
HSBC Bank Malta p.l.c. as subcustodian for BNY Brussels as custodian for Mapfre Internacional	31.08%
Münchener Rückversicherungs Gesellschaft	19.90%

Distribution of shares analysed by range:

Range of shareholding	As at 31 December 2009 No. of shareholders	Shares	As at 17 April 2010 No. of shareholders	Shares
1 – 500	2,373	436,200	2,371	439,139
501 – 1000	713	524,501	717	527,696
1001 – 5000	1,170	2,735,456	1,200	2,805,017
5001 and over	371	88,303,843	390	88,228,148

SHAREHOLDING DETAILS

As at 31 December 2009, Middlesea Insurance p.l.c.'s issued share capital was held by 4,627 shareholders. As at 17 April 2010, the issued share capital was held by 4,678 shareholders. The issued share capital consists of one class of ordinary shares with equal voting rights.

Directors' Report

DIRECTORS

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

Joseph F.X. Zahra (Chairman from 1 January 2010), George Bonnici, Evelyn Caruana Demajo, Roderick E. D. Chalmers, Gaston Debono Grech, Tonio Depasquale, Javier Fernández-Cid Plañiol, Victor Galea Salomone, John C. Grech, Mario C. Grech (resigned as Chairman 31 December 2009), Andrés Jiménez Herradón, Michael Sparberg, Lino Spiteri, Alessandro Corsi (resigned on 26 June 2009).

At the Extraordinary General Meeting held on the 16 March 2010 all the directors resigned from office.

At the same Extraordinary General Meeting the shareholders appointed/elected the new Board of Directors:

Joseph F. X. Zahra, Roderick E. D. Chalmers, Gaston Debono Grech, Tonio Depasquale, Javier Fernández-Cid Plañiol, Andrés Jiménez Herradón, Michael Sparberg, Lino Spiteri, Paul Testaferrata Moroni Viani.

Pedro López Solanes was appointed director by the Board following the changes in the Memorandum and Articles of the Company which were approved at the Extraordinary General Meeting on the 16 March 2010.

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. Further information is given in the 'Corporate Governance - Statement of Compliance'.

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



JOSEPH F. X. ZAHRA
CHAIRMAN

MIDDLE SEA HOUSE
FLORIANA, MALTA

27 APRIL 2010



RODERICK E. D. CHALMERS
DIRECTOR

Rapport tad-Diretturi

Id-diretturi qed jipprezentaw ir-rapport tagħhom u d-dikjarazzjonijiet finanzjarji awditjati għas-sena li għalqet fil-31 ta' Diċembru 2009.

ATTIVITAJIET PRINĊIPALI

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

HARSA LEJN IN-NEGOZJU

Ir-risultati finanzjarji għall-2009 ntaqtu b'mod sinifikanti minn avvenimenti li għaww tul is-sena u wara tmiem is-sena (kif dettaljati f'Nota 1 ta' dawn id-Dikjarazzjonijiet Finanzjarji) fir-rigward tal-operazzjonijiet tas-sussidjarja Taljana Progress Assicurazioni S.p.A. (Progress). Il-Grupp irreġistra telf ta' €55.2 miljun għas-sena li għalqet fil-31 ta' Diċembru 2009 (SF 2009), inkluża *impairment charge* ta' €63.1 miljun fuq Progress. Tul l-ewwel parti tal-2010 ttiehdu passi importanti f'konnessjoni ma' din is-sussidjarja li issa qiegħda f'Likwidazzjoni Amministrattiva Obbligatorja. Il-kancellament totali tal-investment fi Progress ingħata kont tiegħu fid-dikjarazzjonijiet finanzjarji għas-SF 2009. It-telfiet imġarrba minn Progress tefgħu piż fuq ir-rekwiżiti regolatorji tal-Kumpanija. Kemm il-Middlesea Insurance p.l.c. u kemm Progress ma ssodisfawx ir-rekwiżiti ta' solvenza regolatorji dejjem tul is-sena u kif kienu fil-31 ta' Diċembru 2009. Dan hu spjegat fid-dettall fin-nota 5.4 tad-dikjarazzjonijiet finanzjarji li tispjega wkoll il-pjanijiet tal-Kumpanija, li nqablu mar-Regolatur, biex tirrettifika din il-pożizzjoni.

L-operazzjonijiet domestiċi tal-Grupp, jiġifieri l-Middlesea Insurance p.l.c., l-International Insurance Management Services Ltd, flimkien mal-kumpanija assoċjata Middlesea Valletta Life Assurance Co. Ltd, iġġeneraw profitt totali qabel il-hlas tat-taxxa u *impairment charge* għas-SF 2009 li ammontaw għal €8.7 miljun – titjib konsiderevoli meta mqabblin ma' telf ta' €2.98 miljun minn dawn l-operazzjonijiet fis-SF 2008. Dan kien dovut l-aktar għat-titjib fl-operat tal-portafoll ta' investimenti tal-kumpanija. Il-kumpanija assoċjata, li tispesjalizza fin-negozju ta' assigurazzjoni tal-ħajja, irrappurtat żjeda konsiderevoli fil-profitti tul l-2009. Is-sehem tal-Grupp mill-profitt tal-Middlesea Valletta Life Assurance Co. Ltd (MSV) għas-SF 2009 ammonta għal €3.1 miljun, meta mqabbel maż-€0.96 ta' miljun irreġistrat fis-SF 2008.

Minkejja t-telf sostanzjali mġarrab, l-ekwità tal-azzjonisti tal-Middlesea fil-31 ta' Diċembru 2009 ammontat għal €48.7 miljun (2008: €63.8 miljun) fuq bażi konsolidata.

Kif iddettaljat f'Nota 1 (Avvenimenti sinifikanti tul is-sena u wara tmiem is-sena) u f'Nota 2 (Bażi ta' preparazzjoni) ta' dawn id-dikjarazzjonijiet finanzjarji, il-kontijiet tal-Grupp ta' Middlesea Insurance p.l.c. iddevjaw mir-rekwiżiti ta' IAS 27 "Dikjarazzjonijiet Finanzjarji Konsolidati u Separati". Dan il-kors ta' azzjoni kien addottat biex jipprovdi pożizzjoni li tagħmel sens fil-preparazzjoni tal-kontijiet għas-SF 2009. Din il-pożizzjoni, fil-fehma tad-Diretturi, kif spjegat aktar f'nota 2, twassal għal dikjarazzjonijiet finanzjarji li jirriflettu sewwa d-deċizzjonijiet meħudin fir-rigward ta' Progress.

Inħarsu 'l Quddiem

L-avvenimenti tas-sentejn li għaddew ikaġunaw tensjoni enormi fuq ir-rizorsi finanzjarji u fuq il-manigment u l-impjegati ta' Middlesea Insurance p.l.c. Wara li ha passi ebsin iżda neċessarji biex iwassal għal tmiemu l-impatt mhux mixtieq ta' Progress fuq l-operazzjonijiet u l-finanzi ta' Middlesea Insurance p.l.c., il-Bord tad-Diretturi jħares 'il quddiem lejn Grupp aktar iffukat b'objettiv ċar li jsostni u jsaħħa l-istatus tal-Kumpanija bħala dik li qiegħda quddiem nett fl-industrija tal-assigurazzjoni lokali. Fil-mixja 'l quddiem il-Bord għandu f'moħfu dan li gej:-

- Il-Middlesea Insurance se tidhol f'fażi ta' konsolidament u riorganizzazzjoni, lesta li tħares u zzomm l-istatus tagħha bħala l-protagonista distinta fl-assigurazzjoni lokali u tmur lura għal dak li kumpanija kapaci tagħmel l-aħjar – jiġifieri għall-irwol ta' assiguratrici domestika ffokata fuq il-klijent, profitabbli u progressiva. Dan tagħmlu b'operat tekniku u bil-funzjonijiet ta' appoġġ tagħha żviluppatti sew, b'kordinazzjoni man-netwerk tad-distribuzzjoni tagħha.
- L-IIMS, il-kumpanija sussidjarja proprjeta assoluta tal-MSI, se tgħaddi biex tkun provdutor tas-servizzi terzi lill-industrija tal-assigurazzjoni, filwaqt li tiġbed lejn il-ġurisidizzjoni tagħna aktar investment barrani u klijenti barranin ta' reputazzjoni tajba. B'hekk tkun tista' tkompli bl-irwol vitali u kreattiv tagħha fl-iżvilupp ta' Malta bħala centru ta' servizzi finanzjarji rispettat u ta' reputazzjoni tajba. L-IIMS kienet l-ewwel Ġestitrici tal-Assigurazzjoni f'Malta u sena wara sena ż-żidiet fil-baži tal-klijenti terzi tagħha u fid-dhul huma inkoraġġanti ferm.
- Il-Middlesea Valletta, li hija *joint venture* 50% / 50% importanti mal-Bank of Valletta p.l.c., għandha tħares l-istatus tagħha bħala l-akbar assiguratrici tal-ħajja f'Malta, filwaqt li tibni l-kapacità u l-istrutturi indipendenti fil-kumpanija sabiex tkun tista' topera b'koncentrazzjoni, vantaġġ strateġiku u b'heffa u sensitività għas-suq. B'baži ta' 80,000 klijent, u bl-ekwità tal-azzjonisti ta' aktar minn €100 miljun u assi totali ta' kważi biljun ewro, il-Middlesea Valletta tinsab f'forma tajba ħafna biex tkompli tikber u tħares l-istatus tagħha.

RIŻULTATI U DIVIDENDI

Il-kont ta' qligh u telf konsolidat qiegħed f'paġna 42. Id-diretturi m'humieqx jirrikmandaw il-hlas ta' dividend (2008 - €xejn).

TRANSazzjonijiet f'ISHMA PRPRJI

Bis-saħħa ta' Riżoluzzjoni Straordinarja mgħoddija mill-azzjonisti nhar il-25 ta' Ġunju 2008, il-Kumpanija hija awtorizzata li tixtri l-ishma tagħha stess sugġett għal-limitazzjonijiet u l-kondizzjonijiet imniżżlin fl-Att tal-1995 dwar Kumpaniji. L-awtorizzazzjoni mogħtija skadjet mal-għeluq tal-Laqqha Generali Annwali li saret nhar is-26 ta' Ġunju 2009.

Rapport tad-Diretturi

INFORMAZZJONI DWAR IR-REĠISTRU TAL-AZZJONISTI SKONT REGOLA TA' LLISTJAR 9.43

Bis-saħħa ta' Laqgħa Ġenerali Straordinarja li saret nhar l-20 ta' Novembru 2009, il-Kapital ta' Ishma Awtorizzat żdied għal sittin miljun ewro (€60,000,000) maqsumin f'mitt miljun Sehem Ordinarju ta' valur nominali ta' sittin ewrocentezmu (€0.60) kull wieħed (2008: €36 miljun).

L-istess Laqgħa Ġenerali Straordinarja awtorizzat ukoll lill-Bord tad-Diretturi biex joħroġ sa massimu ta' sebgħa u sittin miljun (67,000,000) Sehem Ordinarju ta' valur nominali ta' sittin ewrocentezmu (€0.60) kull wieħed. L-Ishma Ordinarji Ġodda ddaħħlu fil-Lista Uffiċjali tal-Borża ta' Malta nhar it-22 ta' Diċembru 2009 u n-negożju fl-imsemmija Ishma Ordinarji beda nhar it-23 ta' Diċembru 2009. Nhar il-31 ta' Diċembru 2009 l-kapital maħruġ u mħallas kollu kien f'hamsa u f'hamsin miljun u mitejn elf ewro (€55,200,000) li kienu jikkonsistu minn tnejn u disgħin miljun (92,000,000) Sehem Ordinarju ta' valur nominali ta' sittin ewrocentezmu (€0.60) kull wieħed. Il-kapital ta' ishma maħruġ u mħallas kollu nhar il-31 ta' Diċembru 2008 kien f'hamstax-il miljun ewro (€15,000,000) divizi f'hamsa u għoxrin miljun (€25,000,000) Sehem Ordinarju ta' valur nominali ta' sittin ewrocentezmu (€0.60) kull wieħed.

Bis-saħħa ta' Laqgħa Ġenerali Straordinarja li saret nhar is-16 ta' Marzu 2010 l-Kapital ta' Ishma Awtorizzat tal-Kumpanija ttella' għal disgħin miljun ewro (€90,000,000) divizi f'mija u f'hamsin miljun (150,000,000) Sehem Ordinarju ta' valur nominali ta' sittin ewrocentezmu (€0.60) kull wieħed.

INFORMAZZJONI FIR-REĠISTRU TAL-AZZJONISTI

Interessi tad-Diretturi fil-kapital tal-ishma kif kien nhar il-31 ta' Diċembru 2009:

George Bonnici	14,844 sehem
Evelyn Caruana Demajo	4,359 sehem
Gaston Debono Grech	49,180 sehem
Tonio Depasquale	1,590 sehem
John C. Grech	30,000 sehem
Mario C. Grech	20,056 sehem
Joseph F.X. Zahra	1,214 sehem

Pozizzjoni kif kienet fis-17 ta' April 2010:

George Bonnici	14,844 sehem
Evelyn Caruana Demajo	4,359 sehem
Gaston Debono Grech	49,180 sehem
Tonio Depasquale	1,590 sehem
Mario C. Grech	5,450 sehem
Joseph F.X. Zahra	1,214 sehem

Is-Sur George Bonnici, Dr Evelyn Caruana Demajo, Dr John C. Grech u s-Sur Mario C. Grech irriżenjaw minn diretturi, bla ma reġgħu harġu għall-elezzjoni, tul il-Laqgħa Ġenerali Straordinarja li saret nhar is-16 ta' Marzu 2010. Dr John C. Grech u s-Sur Mario C. Grech rispettivament iddisponew minn 30,000 sehem u 14,606 sehem tul il-perjodu 1 ta' Jannar 2010 sa 17 ta' April 2010. Dettalji ulterjuri f'dan ir-rigward huma inklużi fil-'Governanza Korporattiva - Dikjarazzjoni ta' Konformità'.

Azzjonisti li kellhom 5% jew aktar tal-kapital tal-ishma tal-ekwità kif kienu fil-31 ta' Diċembru 2009:

Bank of Valletta p.l.c.	30.79%
HSBC Bank Malta p.l.c. bħala sottokustodju għal BNY Brussels bħala kustodju għal Mapfre Internacional	30.79%
Münchener Rückversicherungs Gesellschaft	19.90%

Nhar is-17 ta' April 2010 l-azzjonisti li kellhom 5% jew aktar tal-kapital kienu kif ġej:

Bank of Valletta p.l.c.	31.08%
HSBC Bank Malta p.l.c. bħala sottokustodju għal BNY Brussels bħala kustodju għal Mapfre Internacional	31.08%
Münchener Rückversicherungs Gesellschaft	19.90%

Distribuzzjoni tal-ishma analizzata skont il-medda:

Medda ta' pussess ta' ishma	Nhar il-31 ta' Diċembru 2009 Numru ta' azzjonisti	Ishma	Nhar is-17 ta' April 2010 Numru ta' Azzjonisti	Ishma
1 – 500	2,373	436,200	2,371	439,139
501 – 1000	713	524,501	717	527,696
1001 – 5000	1,170	2,735,456	1,200	2,805,017
5001 u aktar	371	88,303,843	390	88,228,148

Rapport tad-Diretturi

DETTALJI TA' PUSSESS TA' ISHMA

Nhar il-31 ta' Diċembru 2009 l-kapital tal-ishma maħruġ tal-Middlesea Insurance p.l.c. kien fil-pussess ta' 4,627 azzjonist. Nhar is-17 ta' April 2010 l-kapital ta' ishma kien fil-pussess ta' 4,678 azzjonist. Il-kapital ta' ishma maħruġ hu magħmul minn klassi waħda ta' ishma ordinarji bi drittijiet għall-vot ugwali.

DIRETTURI

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

Joseph F.X. Zahra (Chairman mill-1 ta' Jannar 2010), George Bonnici, Evelyn Caruana Demajo, Roderick E.D. Chalmers, Gaston Debono Grech, Tonio Depasquale, Javier Fernández-Cid Plañol, Victor Galea Salomone, John C. Grech, Mario C. Grech (irriżenja bħala Chairman fil-31 ta' Diċembru 2009), Andrés Jimenéz Herradón, Michael Sparberg, Lino Spiteri, Alessandro Corsi (irriżenja fis-26 ta' Ġunju 2009).

Fil-Laqqha Ġenerali Straordinarja li saret nhar is-16 ta' Marzu 2010 d-diretturi kollha rriżenjaw.

Fil-istess Laqqha Ġenerali Straordinarja l-azzjonisti hatru jew elegġew il-Bord tad-Diretturi l-ġdid:

Joseph F.X. Zahra, Roderick E.D. Chalmers, Gaston Debono Grech, Tonio Depasquale, Javier Fernández-Cid Plañol, Andrés Jimenéz Herradón, Michael Sparberg, Lino Spiteri, Paul Testaferrata Moroni Viani.

Pedro López Solanes inġar direttur mill-Bord wara l-bidliet fil-Memorandum u Artikoli ta' Assoċjazzjoni tal-Kumpanija li kienu approvati fil-Laqqha Ġenerali Straordinarja tas-16 ta' Marzu 2010.

Skont l-Artikoli ta' Assoċjazzjoni tal-Kumpanija, id-diretturi kollha jirtiraw mill-kariga fil-Laqqha Ġenerali Annwali u huma eliġibbli biex jerġgħu jkunu eletti jew maħturin mill-ġdid. Informazzjoni ulterjuri tingħata fil-'Governanza Korporattiva - Dikjarazzjoni ta' Konformita'.

AWDITURI

L-awdituri, PricewaterhouseCoopers, indikaw li huma lesti jibqgħu fil-kariga u rizzoluzzjoni biex jerġgħu jinġatru se tkun proposta fil-Laqqha Ġenerali Annwali.

B'ordni tal-Bord



JOSEPH F.X. ZAHRA
CHAIRMAN

MIDDLE SEA HOUSE
FLORIANA

27 TA' APRIL 2010



RODERICK E. D. CHALMERS
DIRETTUR

Corporate Governance – Statement of Compliance

Issuers whose securities are listed on the Malta Stock Exchange are required to include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they adopted the Code of Principles of Good Corporate Governance (the 'Principles') included in the Malta Financial Services Authority (MFSA) Listing Rules (Listing Rule 8.37). Issuers are also required to state the effective measures taken to ensure compliance throughout the accounting period with the Principles. The Issuer's Auditors are to include a report in the annual report on the statement of compliance (Listing Rule 8.38). Middlesea Insurance p.l.c. (the 'Company') adopted the Principles since 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 retained or adopted alternative measures with appropriate explanations in certain areas.

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 *inter alia* responsibility for the following:

- (a) setting business objectives, goals and the general strategic direction for management with a view to maximise value and reviewing the same;
- (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 timeframe and monitoring of appropriate risk management systems;
- (d) ensuring that effective internal control and management information systems for the Company are in place and monitoring the implementation of strategy and policies by management;
- (e) ensuring an adequate, prudent and conservative investment strategic policy;
- (f) ensuring compliance with statutory and regulatory requirements and high ethical standards;
- (g) 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
- (h) 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 its authority and vested accountability for the Company's day to day business to a high level management team led by the Executive Chairman. Consequently the co-ordination of management activities, during 2009, was ensured through the continued operation of the Group Executive Management Committee (GEMC) that was led by the Executive Chairman. The GEMC brought together the Chief Executive Officers, General Manager and Group Chief Financial Officer of all the companies within the Middlesea Group of Companies, including its subsidiaries and principal associated company. Other members of Management were called to GEMC meetings as and when required. The GEMC met eleven times during 2009.

CHAIRMAN OF THE BOARD

During 2009, Mr Mario C. Grech, continued to act as Executive Chairman of the Group and was responsible for the insurance operations in Malta with the assistance of senior management. The position of Executive Chairman was reconsidered during the Board meeting held on the 30 December 2009. On that date, Mr Mario C. Grech also informed the Board that he did not wish to renew his contract that was due to expire on the 31 December 2009. Consequently, the Board of Directors appointed Mr Joseph F.X. Zahra as non-executive Chairman of the Board of Directors and Ms Anne Marie Tabone as Chief Operations Officer of the Company, hence ensuring a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the Company's business in conformity to The Code of Principles of Good Corporate Governance.

Subsequent to these developments the Board implemented a change in strategy that entails regular management meetings within each group and associated company. Consequently the GEMC meetings were discontinued as from the 1 January 2010.

COMPOSITION OF THE BOARD

During 2009 the appointment of the Board of Directors was reserved exclusively to the Company's shareholders in accordance with the Company's Articles of Association and in harmony with the generally accepted practices in Malta. In accordance with Article 97 (2), a shareholder holding 7% or more voting rights or a number of shareholders who together hold 7% or more, could appoint one director for every such 7% holding through a letter addressed to the Company. Seven members of the Board were appointed during the year in terms of this

rule. All shares that were not utilised to make appointments as stipulated above were used to elect a further five directors in the General Meeting. All such appointed or elected directors served as non-executive directors on Middlesea Insurance p.l.c.'s Board. Pursuant to Article 97 (6) of the Company's Articles of Association, Mr Mario C. Grech was appointed as a director at the Annual General Meeting through a separate resolution approved by shareholders.

During the year the Board was composed of one executive director and twelve non-executive directors. Five of the non-executive directors held positions with shareholders' organisations that appointed them and that have a business relationship with the Company. Two non-executive directors, one elected by the shareholders at the general meeting and the other appointed by a shareholder organisation, have a relationship with the Company through their business concerns.

The Memorandum and Articles of Association of the Company were amended and the composition of the Board of Directors was changed following the Extraordinary General Meeting held on the 16 March 2010. Further details are provided in the last section of this report.

All the directors are of the appropriate calibre, with the necessary skills and experience to assist them in providing leadership, integrity and judgement in directing the Company. The Regulatory regime requires director nominees to undergo a screening process by the Malta Financial Services Authority prior to being appointed or elected directors.

BOARD COMMITTEES

The activities of the Board and of the Company's senior management team were monitored and supported by Group Company's Committees that were structured to assist in specialist activities and governance issues. The members sitting on the various Group Committees are listed in the Annual Report.

AUDIT COMMITTEE

The Group Audit Committee's terms of reference, as approved by the Board of Directors of each respective company, are modelled mainly on the recommendations of the Cadbury Report and its Principles. These include, *inter alia*, the monitoring of the financial reporting process, the monitoring of the effectiveness of the Company's internal control, internal audit and risk management systems, the monitoring of the statutory audit of the annual and consolidated accounts, the review and monitoring of the independence of the statutory auditor and audit firm, the reviewing of actuarial reports, the management of financial

Corporate Governance – Statement of Compliance

risks, the arm's length nature of related party transactions and the audit process.

The Group Audit Committee's composition is also regulated by the Listing Rules. The said Rules were amended in October 2008 and Listing Rule 8.56 stipulates that all members of the Audit Committee must be directors and that at least one member must be an independent non-executive director and must be competent in accounting and/or auditing. Listing Rule 8.56a also requires the identification of the committee member having the required competence. During the year the Group Audit Committee was composed of Mr Lino Spiteri, Mr Roderick E. D. Chalmers, Mr Javier Fernández-Cid Plañol and Mr Joseph F.X. Zahra, who all have the required competence in accounting and/or auditing as required under the said Listing Rule in view of their experience and/or qualifications. The Company was also compliant with the other requirements of Listing Rule 8.56.

Mr Joseph F.X. Zahra resigned as a member of the Audit Committee on the 1 January 2010 following his appointment as Chairman of the Company. The Noble Paul Testaferata Moroni Viani was appointed in his stead following his election on the 16 March 2010.

Listing Rule 8.62 was amended in 2008 and requires the Audit Committee to meet at least four times a year. The Middlesea's Group Audit Committee met twenty three times during 2009. The substantial number of meetings were required, amongst other things, to monitor closely and continuously the position and results at Progress Assicurazioni S.p.A..

The external auditors are invited to attend specific meetings of the Group Audit Committee. They are also entitled to convene a meeting of the committee if they consider that it is necessary. The terms and conditions of new contracts negotiated with related parties (regarding banking, reinsurance and local agents) are reviewed by the Group Audit Committee.

Internal Audit is an independent appraisal function established within the organisation to examine and evaluate its activities. The Internal Auditor reports to the Group Audit Committee and attends its meetings. The mission set by the Group Audit Committee for the Internal Auditor is to adopt business process risk-based audits, aimed at ensuring adequate controls and also business process efficiency.

In addition, in the case of Progress Assicurazioni S.p.A., a subsidiary company incorporated in Italy, a *Collegio Sindacale* is appointed, in terms

of applicable Italian law. During the year under review, it was presided by Rag. Ferdinando Barbaro whilst Dott. Angelo Sillitti and Rag. Salvatore Aricò acted as *sindaci effettivi*.

REMUNERATION COMMITTEE

A separate report on the Group Remuneration Committee is included in the Annual Report. The Board of Directors approves the remuneration of directors and senior management on the recommendation of the Remuneration Committee. The maximum aggregate directors' emoluments are established and approved by the shareholders during General Meetings as and when required.

During the financial year ended 31 December 2009, the Group incurred an additional one time expense in connection with vacation leave that had not been taken by the former Executive Chairman during his employment with the company. This led to the maximum aggregate for the year being exceeded. As disclosed in the report of the Remuneration Committee, the shareholders will be requested to note and ratify this excess, that is due to special circumstances, at the Annual General Meeting to be held on the 9 June 2010.

RISK MANAGEMENT COMMITTEE

The Group Risk Management Committee is responsible for setting a Risk Management policy for the Group aligned with the direction and risk appetite of the respective Boards of the Group Companies. 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 setting up adequate structures to implement the policy in respect of each Group company 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 within certain imponderables, and align risk exposure with approved risk appetite. The Committee ensures 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, where appropriate, are referred 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. 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

within acceptable professional parameters. During 2009, the Committee met eight times.

Risk Management is an internal control function established within the organisation to examine and evaluate risk management as a service to the Group. The Risk Management Officer reports to the Group Risk Management Committee and attends its meetings.

INVESTMENTS COMMITTEE

The Group Investments Committee, which includes senior executive members, meets on a regular basis and oversees the investment activities of the Group, executes its policies and guidelines, scrutinises and approves material transactions and monitors results. Any investment exceeding €1,164,686 requires the approval of the Board of the respective Company making the investment. The Committee held twelve meetings during 2009.

The investment strategy review that was commissioned to Towers Watson continued to be monitored and implemented by the Investments Committee during 2009. The revised investment strategy review was aimed to better quantify the Group's risk appetite in relation to liabilities and determine the optimal allocation to different asset classes.

COMPLIANCE AND PREVENTION OF MONEY LAUNDERING COMMITTEE

The Group Compliance and the Prevention of Money Laundering Committee is concerned with establishing procedures to ensure compliance with all applicable laws, directives, rules and regulations, and with the prevention, detection and/or resolution of compliance problems. The Company Secretariat and Compliance Unit is responsible for compliance issues for Group Companies and third party clients and reports to the Group Compliance and Prevention of Money Laundering Committee that met seven times during 2009.

The Group Prevention of Money Laundering Reporting Officer and Deputy Prevention of Money Laundering Reporting Officers also report to this Committee.

This Committee has in place 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 including those contained in Listing Rules 8.45 to 8.55. The Company has in place a system for recording all advanced notices received in connection with permitted dealings by directors and senior officers and

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acknowledgements of such advanced notices. Furthermore, the Company reminds all directors and senior officers of their obligation to conform to the Code of Dealing on a yearly basis. A letter to this effect was last sent to all directors and senior officers of the company in January 2010.

The Company did not receive any advance written notice from directors in connection with transactions in Middlesea Insurance p.l.c. shares.

The review of procedures adopted by the different companies within the Group that was commissioned during the previous year continued to be updated during 2009. This enabled the Group to check that procedures were all in line with the updated MFSA Listing Rules and other financial services legislation. This process included the drawing up of compliance charts and manuals in order to facilitate adherence by the companies within the Middlesea Group to the obligations found in the Listing Rules, Companies Act and other financial services legislation.

The Compliance Officer, as approved by the MFSA, reports to the Group Compliance and Prevention of Money Laundering Committee and attends its meetings.

THE ROLE OF THE BOARD OF DIRECTORS

The activities of the Board of Directors are exercised in a manner designed to ensure that the Board effectively sets policies and supervises the operations of the Company.

Management provides the directors with a report in connection with each Board Meeting. This report sets out the Company's management accounts including key performance indicators 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 various subjects including 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 and, 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 Companies, 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 Group's resources;
- (b) the quality and credit worthiness of the reinsurance counterparties dealt with, to ensure the effectiveness of the reinsurance programme;
 - (c) the assessment of 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 Board meetings as and when required including those at which the Company's financial statements are approved after they have been reviewed by the Group Audit Committee. Compliance with statutory and regulatory requirements and with continuing listing obligations is also ensured. In addition to the input of the Compliance and Prevention of Money Laundering Committee, the Board is advised directly, as appropriate, by its appointed stockbrokers and legal advisors.

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

During the period under review, the Board maintained its practice that when a potential conflict of interest may or is perceived to arise in respect of a director in connection with any transaction or other matter, this 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 declarations and of the action taken by the individual director concerned. As an exception to this rule, in order that the directors may discharge their responsibilities efficiently and effectively, it was agreed that directors appointed by shareholders need not disclose

a conflict of interest or potential conflict of interest where this arises due to a conflict or potential conflict between the Company and the shareholder who appointed such director. In such a case, directors are allowed to participate in the discussions provided that they are required to act honestly and in good faith and always in the best interest of the Company.

The Policy and Procedures regarding conflicts of interest were discussed with the help of legal consultants. This manual provides a framework and guidelines as to how officials and members of the Company, including directors, should go about managing conflicts of interest, including identifying, reporting and resolving such conflicts. The manual will be implemented once it is finalised and approved by the Board of Directors.

During the 2009 financial year, the Board of Directors of Middlesea Insurance p.l.c. held fourteen meetings. The Board of Directors of the other subsidiary and associated companies held Board meetings as follows:

- Middlesea Valletta Life Assurance Co Ltd. held six meetings;
- Progress Assicurazioni S.p.A. held eleven meetings;
- International Insurance Management Services Ltd. held five meetings;
- Growth Investments Ltd. held six meetings;
- EuroMed Risk Solutions Ltd. held five meetings;
- Euro Globe Holdings Ltd. held four meetings; and
- Church Wharf Properties Ltd. held four meetings.

Details of attendance by the members at each respective Board and Committee meeting can be viewed at the Company Secretariat and Compliance Unit.

Directors of the Board keep themselves abreast of developments in the financial spheres. An evaluation of the directors' competence was carried out towards the end of 2007 and beginning of 2008. Another similar evaluation was carried out in the last quarter of 2009 and a report will be submitted to the Board during 2010.

COMMUNICATIONS WITH SHAREHOLDERS

Pursuant to the Company's statutory obligations in terms of the Companies Act and the MFSA Listing Rules, the Annual Report and Financial Statements, the declaration of a dividend, the election of directors, the appointment of the auditors, the authorisation of the directors to set their fees, and other special business,

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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 publishing its results on a six-monthly basis during the year, by way of the Annual Report and Financial Statements, and through periodical company announcements to the market in general. In addition existing Listing Rules require the Company to issue a quarterly company announcement for the first and third quarter announcing material events and/or transactions that have taken place during the said quarters of the financial year that would require disclosure under the applicable Listing Rules.

The Annual Report, which is designed to serve as an effective means of communication and information on the Company's business, is amplified further in the presentations given to shareholders in the course of the Annual General Meeting.

During the year the Company issued several company announcements to keep the shareholders abreast of the corporate developments, particularly with reference to the investment in Progress Assicurazioni S.p.A.. A company announcement issued on the 11 January 2010 stated that preliminary unaudited data for the fourth quarter 2009 of Progress Assicurazioni S.p.A., had indicated a marked deterioration in claims experience during the period.

Further detailed examination of the said unaudited data as at the 31 December 2009 indicated that it would not be possible for Progress Assicurazioni S.p.A. to continue in business in conformity with Italian regulations without the injection of material further capital support. The Board of Directors of Middlesea Insurance p.l.c. concluded that it was not feasible at this time for Middlesea Insurance p.l.c. to provide further capital to Progress Assicurazioni S.p.A. over and above the €45 million that had been injected over the past year.

Progress Assicurazioni S.p.A. informed the Italian Insurance Regulators (ISVAP) that it wished to take the necessary measures to cease writing business in Italy, and to wind up the company in accordance with procedures to be agreed with ISVAP in view of the prevailing situation. On the 9 February 2010, ISVAP informed the company that it had appointed Professor Avv. Andrea Gemma as Provisional Administrator ('Commissario') of Progress Assicurazioni S.p.A. with immediate effect.

Middlesea Insurance p.l.c. issued a company announcement on the 11 February 2010 in line with the Listing Rules requirements, to make the above mentioned information available to the public domain.

A company announcement was issued on the 31 March 2010 to notify that on the 30 March 2010, ISVAP announced that it had placed Progress Assicurazioni S.p.A. in Compulsory Administrative Liquidation ('liquidazione coatta amministrativa'), and that it had nominated Professor Avv. Andrea Gemma to act as Liquidator ('commissario liquidatore') for a period of three years. On the same date ISVAP also appointed Avv. Carlo Alessi, Rag. Luigi Andreoli and Avv. Massimo Liguori to the Supervisory Committee ('comitato di sorveglianza') for the liquidation for the same period.

EXTRAORDINARY GENERAL MEETING – CHANGES TO THE COMPANY'S CORPORATE STRUCTURE

The Company convened an Extraordinary General Meeting on the 20 November 2009 in which the shareholders were invited to approve extraordinary resolutions in connection with a new Rights Issue to shareholders. The said resolutions that were approved included the following:

- (1) to increase the Authorised Share Capital of the Company;
- (2) to change the Allotment Period of equity securities;
- (3) to delete the shareholding limitation;
- (4) to introduce changes in accordance with the Listing Rules; and
- (5) to authorise the Board of Directors to issue the new shares.

The Board of Directors approved the Rights Issue on the 20 November 2009. The said Rights Issue process was completed and the new shares were available for trading on the Malta Stock Exchange on the 23 December 2009.

The shareholding structure of the Company changed as a consequence of the Rights Issue process and consequently the Board of Directors convened an Extraordinary General Meeting on the 16 March 2010. The Shareholders were invited to approve the amended Memorandum and Articles of Association that was sent to all shareholders. The proposed changes that were approved included the following:

- (1) to ensure that the constitution of the Board would be more proportionate to the respective shareholding quantum in the Company through a smaller and

- (2) more manageable Board of Directors; to empower the Board to co-opt one additional director to enable the Board to add to its ranks those specialist skills that might be considered necessary and desirable from time to time;
- (3) to provide for the separation of the position of the Chairman of the Board from that of the senior executive positions of the Company, in accordance with current practices of good corporate governance;
- (4) to increase the Authorised Share Capital of the Company;
- (5) to incorporate certain modifications required by the Shareholders' Directive that has been transcribed into Chapter 19 issued by the Listing Authority, and other minor amendments requested by the said Authority; and
- (6) to update other provisions thereof and renumber the Articles as required.

The shareholders also appointed/elected the new Board of Directors during the said Extraordinary General Meeting that now comprises the following directors:

- Joseph F.X. Zahra
- Roderick E. D. Chalmers
- Gaston Debono Grech
- Tonio Depasquale
- Javier Fernández-Cid Plañol
- Andrés Jiménez Herradón
- Michael Sparberg
- Lino Spiteri
- Paul Testaferrata Moroni Viani.

The Board of Directors appointed Mr Joseph F.X. Zahra as Chairman of the Board and co-opted Mr Pedro Lopez Solanes as Executive Director on the Board of Directors in accordance with the Articles of Association of the Company.



LINO SPITERI

DIRECTOR

27 APRIL 2010



RODERICK E.D. CHALMERS

DIRECTOR

Governanza Korporattiva – Dikjarazzjoni ta' Konformità

Dawk li johorġu titoli ta' sigurtà u li huma llistjati fil-Borża ta' Malta huma meħtieġa li jinkludu fir-Rapport Annwali tagħhom Dikjarazzjoni ta' Konformità li tagħti spjegazzjoni ta' safejn adottaw il-Kodiċi ta' Princijpi ta' Governanza Korporattiva Tajba (il-"Princijpi") inkluż fir-Regoli ta' Llistjar ta' I-MFSA (Regola ta' Llistjar 8.37). Huma mitlubin ukoll li jgħidu x'inhuma l-miżuri effettivi meħudin biex jiżguraw konformità mal-Princijpi tul is-sena finanzjarja. L-Awdituri ta' min johorġ titoli ta' sigurtà għandhom jinkludu rapport fir-Rapport Annwali fuq id-Dikjarazzjoni ta' Konformità (Regola ta' Llistjar 8.38). Il-Middlesea Insurance p.l.c. (il-"Kumpanija") adottat il-Princijpi malli dahlu fis-seħħ. F'ċerti oqsma, il-proceduri ta' governanza applikati fil-Kumpanija kienu emendati biex jimplimentaw ir-rakkomandazzjonijiet inklużi fil-Princijpi. Waqt li tat kas ukoll ta' mudelli rikonoxxuti oħrajn ta' governanza korporattiva, il-Kumpanija f'xi każi żammet jew adottat miżuri alternattivi u tat l-ispejgazzjonijiet xierqa f'ċerti oqsma.

RESPONSABBILTAJET TAL-BORD

Il-Bord jagħraf il-mandat statutorju tiegħu li jmxexxi l-amministrazzjoni u l-immaniġġjar tal-Kumpanija. Il-Bord, fit-tweġġ ta' dan il-mandat u l-qadi tad-dmir tiegħu ta' amministrazzjoni tal-Kumpanija, assuma *inter alia* responsabbiltà ta' dan li ġej:

- li jiffissa lill-manigment objettivi, għanijiet u direzzjoni strateġika ġenerali tan-negożju biex ikabbar kemm jista' jkun il-valur u jirrevedi dawn il-materji;
- li jirrevedi u japprova l-pjanijiet u l-miri kummerċjali li huma sottomessi mill-manigment u jaħdem mal-manigment fl-implimentazzjoni ta' dawn il-pjanijiet;
- li jidentifika r-riskji prinċipali tan-negożju tal-Kumpanija u jissorvelja l-implimentazzjoni f'qafas ta' żmien li jista' jintlaħaq u jikkontrolla sistemi xierqa ta' mmaniġġjar tar-riskju;
- li jiżgura li l-Kumpanija jkollha kontroll intern effettiv u sistemi ta' informazzjoni manigerjali u kontroll fuq l-implimentazzjoni tal-istrateġija u tal-politiki mill-manigment;
- li jiżgura politika strateġika ta' investimenti adegwata, prudenti u konservattiva;
- li jiżgura konformità ma' rekwiżiti statutorji u regolatorji u standards etici għoljin;
- li jjeħu sehem fil-hatra ta' l-uffiċjali eżekuttivi tal-Kumpanija u fil-valutazzjoni tal-operat tagħhom, fosthom is-sorveljanza tat-twaqqif ta' sistemi addattati għal ipplanar ta' suċċessuri u għall-approvazzjoni tal-livelli ta' kumpens u motivazzjoni ta' dawn l-uffiċjali eżekuttivi; u
- li jiżgura li l-Kumpanija għandha politika li biha tista' tikkomunika b'mod effettiv mal-azzjonisti, persuni involuti oħrajn u l-pubbliku b'mod ġenerali.

Il-Bord iddelega l-awtorità tiegħu u għadda l-kontabilità tal-amministrazzjoni ta' kuljum

tal-Kumpanija lil tim manigerjali ta' grad għoli mmexxi miċ-Chairman Eżekuttiv. B'riżultat ta' dan, tul is-sena 2009 l-koordinament tal-attivitajiet manigerjali kien żgurat permezz tal-operazzjoni kontinwata tal-Group Executive Management Committee (GEMC) li kien immexxi miċ-Chairman Eżekuttiv. Il-GEMC kien jiġbor fih iċ-Chief Executive Officers, il-General Manager u l-Group Chief Financial Officer tal-kumpaniji kollha fil-Middlesea Group of Companies, inklużi s-sussidjarji u l-kumpanija assoċjata prinċipali tiegħu. Membri oħra tal-Manigment kienu jissejġu għal-laqqgħat tal-GEMC kif u meta meħtieġin. Il-GEMC Itaqa' f'dax-il darba tul l-2009.

CHAIRMAN TAL-BORD

Tul is-sena 2009 s-Sur Mario C. Grech baqa' jaġixxi ta' Chairman Eżekuttiv tal-Grupp u kien responsabbli għall-operazzjonijiet tal-assigurazzjoni f'Malta bl-għajna tal-manigment ewlieni. Il-pożizzjoni ta' Chairman Eżekuttiv tqieset mill-ġdid waqt il-laqqgħa tal-Bord li saret nhar it-30 ta' Diċembru 2009. F'dik id-data s-Sur Mario C. Grech għarraf ukoll lill-Bord li ma xtaqx iġedded il-kuntratt tiegħu li kellu jiskadi fil-31 ta' Diċembru 2009. B'riżultat ta' dan il-Bord tad-Diretturi hatar lis-Sur Joseph F.X. Zahra bħala Chairman mhux eżekuttiv tal-Bord tad-Diretturi u lil Ms Anne Marie Tabone bħala Chief Operations Officer tal-Kumpanija, u hekk żgura separazzjoni ċara ta' responsabbiltajiet f'ras il-kumpanija bejn it-tmexxija tal-bord u r-responsabbiltà eżekuttiva għat-tmexxija tan-negożju tal-Kumpanija f'konformità mal-Kodiċi ta' Princijpi ta' Governanza Korporattiva Tajba.

Sussegwentement għal dawn l-iżviluppi, il-Bord implimenta bidla ta' strateġija li tinvolvi laqqgħat manigerjali regolari f'kull grupp u kumpanija assoċjata. Konsegwentement, il-laqqgħat tal-GEMC ma baqgħux isiru sa mill-1 ta' Jannar 2010.

KOMPOŻIZZJONI TAL-BORD

Tul is-sena 2009 l-hatra tal-Bord ta' Diretturi kienet riservata esklussivament għall-azzjonisti tal-Kumpanija skont l-Artikoli ta' Assoċjazzjoni tal-Kumpanija u bi qbil mal-prattiki ġeneralment aċċettati f'Malta. Skont l-Artikolu 97 (2), azzjonist li jkollu pussess ta' drittijiet għall-vot ta' 7% jew aktar jew numru ta' azzjonisti li flimkien ikollhom pussess ta' 7% jew aktar, setgħu jaħtru direttur wiehed għal kull tali pussess ta' 7% bis-saħħa ta' ittra indirizzata lill-Kumpanija. Seba' membri tal-Bord inhatri tul is-sena skont din ir-regola. L-ishma kollha li ma kinux utillizzati biex isiru hatriet, kif stipulat iktar il-fuq, intużaw biex jeleġġu hames diretturi oħrajn fil-Laqqgħa Ġenerali. Id-diretturi kollha mahturin jew eletti b'dan il-mod servev

bħala diretturi mhux eżekuttivi fil-Bord tal-Middlesea Insurance p.l.c. Bis-saħħa ta' Artikolu 97 (6) tal-Artikoli ta' Assoċjazzjoni tal-Kumpanija, is-Sur Mario C. Grech inhatar Diretturi fil-Laqqgħa Ġenerali Annwali permezz ta' riżoluzzjoni separata approvata mill-azzjonisti.

Tul is-sena l-Bord kien kompost minn direttur eżekuttiv wiehed u tna-x il direttur mhux eżekuttiv. Hamsa mid-diretturi mhux eżekuttivi kellhom pożizzjonijiet fl-organizzazzjonijiet azzjonisti li hatruhom u li għandhom relazzjoni ta' negożju mal-Kumpanija. Żewġ diretturi mhux eżekuttivi, wiehed elett mill-azzjonisti fil-laqqgħa ġenerali u l-iehor mahtur minn organizzazzjoni azzjonista, għandhom relazzjoni mal-Kumpanija permezz tan-negożji kummerċjali tagħhom.

Il-Memorandum u Artikoli ta' Assoċjazzjoni tal-Kumpanija kienu emendati u l-kompożizzjoni tal-Bord ta' Diretturi nbidlet wara l-Laqqgħa Ġenerali Straordinarja li saret nhar is-16 ta' Marzu 2010. Aktar dettalji qed jingħataw fl-aħhar taqsima ta' dan ir-rapport.

Id-diretturi kollha għandhom il-kalibru xieraq, il-hiliet u l-esperjenza neċessarji biex jgħinuhom jipprovdu tmexxija, integrità u ġudizzju fid-direzzjoni tal-Kumpanija. Ir-regim Regulatorju jitlob li dawk nominati għal diretturi jgħaddu minn proċess ta' għarbil mill-Awtorità ta' Malta għal Servizzi Finanzjarji qabel ma jinhatru jew ikunu eletti diretturi.

KUMITATI TAL-BORD

L-attivitajiet tal-Bord u tat-tim manigerjali ewlieni tal-Kumpanija kienu segwiti l-hin kollu u appoġġjati mill-Kumitati tal-Grupp tal-Kumpanija li kienu strutturati biex jgħinu f'ħidmiet speċjalizzati u fi kwistjonijiet ta' governanza. Il-membri li kienu f'dawn id-diversi Kumitati tal-Grupp huma mniżlin fir-Rapport Annwali.

KUMITAT TAL-AWDITJAR

It-termini ta' referenzata l-Kumitati tal-Awditjar tal-Grupp, kif approvati mill-Bord ta' Diretturi ta' kull kumpanija rispettiva, huma mfasslin primarjament fuq ir-rakkomandazzjonijiet tal-Cadbury Report u tal-Princijpi tiegħu. Dawn jinkludu, *inter alia*, il-kontroll kontinwu tal-proċess tal-irrapportar finanzjarju, il-kontroll kontinwu tal-effettività tal-kontrolli interni tal-Kumpanija, is-sistemi tal-awditjar intern u l-immaniġġjar tar-riskji, il-kontroll kontinwu tal-awditjar statutorju tal-kontijiet annwali u konsolidati, il-konsiderazzjoni u kontroll tal-indipendenza tal-awditur statutorju u tad-ditta ta' awditjar, il-konsiderazzjoni tar-rapporti attwarjali, l-immaniġġjar ta' riskji finanzjarji, in-natura ta' transazzjonijiet bejn partijiet relatati li jeħtieġ li jinżammu f'distanza xierqa minn xulxin u tal-proċess ta' awditjar.

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Il-kompożizzjoni tal-Kumitat ta' l-Awditjar tal-Grupp hija regolata wkoll mir-Regoli ta' Llistjar. Ir-Regoli msemmijin kienu emendati f'Ottubru 2008 u Regola ta' Llistjar 8.56 tistipula li l-membri kollha tal-Kumitat tal-Awditjar għandhom ikunu diretturi u li mill-inqas membru wiehed irid ikun direttur mhux eżekuttiv indipendenti u għandu jkun kompetenti fil-kontabilità u/jew fl-awditjar. Regola ta' Llistjar 8.56a titlob ukoll l-identifikazzjoni tal-membri tal-kumitat li għandu l-kompetenza neċessarja. Tul is-sena l-Kumitat tal-Awditjar tal-Grupp kien kompost mis-Sur Lino Spiteri, mis-Sur Roderick E. D. Chalmers, mis-Sur Javier Fernández-Cid Plañol u mis-Sur Joseph F.X. Zahra, li kollha għandhom il-kompetenza neċessarja fil-kontabilità u/jew fl-awditjar kif mitlub mir-Regola ta' Llistjar imsemmija in vista tal-esperjenza u/jew kwalifiki tagħhom. Il-Kumpanija kienet ukoll konformi mar-rekwiżiti l-oħra tar-Regola ta' Llistjar 8.56.

Is-Sur Joseph F.X. Zahra rriżenja minn membru tal-Kumitat tal-Awditjar nhar l-1 ta' Jannar 2010 wara l-hatra tiegħu bħala Chairman tal-Kumpanija. In-Nobbli Paul Testaferata Moroni Viani nħatar floku wara l-elezzjoni tiegħu nhar is-16 ta' Marzu 2010.

Regola ta' Llistjar 8.62 kienet emendata fl-2008 u titlob lill-Kumitat tal-Awditjar li jiltaqa' mill-inqas erba' darbiet fis-sena. Il-Kumitat tal-Awditjar tal-Grupp tal-Middlesea ltaqa' tlieta u għoxrin darba tul is-sena 2009. Kien meħtieġ għadd sostanzjali ta' laqgħat, fost hejjeġ oħra biex jikkontrolla mill-qrib u kontinwament il-qagħda u r-riżultati fi Progress Assicurazioni S.p.A..

L-awdituri esterni huma mistiedna biex jattendu laqgħat speċifiċi tal-Kumitat tal-Awditjar tal-Grupp. Huma għandhom ukoll id-dritt li jsejnhu laqgħa tal-kumitat jekk iqsu li dan hu meħtieġ. It-termini u kondizzjonijiet ta' kuntratti godda negozjati ma' partijiet li għandhom relazzjoni mal-Grupp (fir-rigward ta' bbankjar, ri-assigurazzjoni u agenti lokali) huma ċċekkjati mill-Kumitat tal-Awditjar tal-Grupp.

Awditjar Intern hu funzjoni ta' valutazzjoni indipendenti stabbilita fl-organizzazzjoni nnifisha biex teżamina u tevalwa l-attivitàjiet tagħha. L-Awditjar Intern jirrapporta lill-Kumitat tal-Awditjar tal-Grupp u jattendi l-laqgħat tiegħu. Il-missjoni ffissata mill-Kumitat tal-Awditjar tal-Grupp għall-Awditjar Intern hija li jadotta hidmiet ta' awditjar ta' proċessi ta' negozju bbażati fuq ir-riskju maħsubin biex jiżguraw kontrolli adegwati u wkoll effiċjenza fil-proċess tan-negozju.

Barra minn hekk, fil-każ ta' Progress Assicurazioni S.p.A., kumpanija sussidjarja inkorporata l-Italja, inħatar *Collegio Sindacale* skont it-termini tal-leġiżlazzjoni

Taljana applikabbli. Tul is-sena li qed tkun ikkunsidrata, dan kien presjedut minn Rag. Ferdinando Barbaro filwaqt li Dott. Angelo Sillitti u Rag. Salvatore Aricò kienu iservu bħala *sindaci effettivi*.

KUMITAT TAR-RIMUNERAZZJONI

Rapport separat fuq il-Kumitat tar-Rimunerazzjoni tal-Grupp hu inkluz fir-rapport Annwali. Il-Bord tad-Diretturi japprova r-rimunerazzjoni tad-diretturi u tal-manigment ewlieni fuq rakkomandazzjoni tal-Kumitat tar-Rimunerazzjoni. Il-hlasijiet aggregati massimi tad-diretturi huma stabbiliti u approvati mill-azzjonisti waqt Laqgħat Ġenerali skont kif u meta meħtieġ.

Tul is-sena finanzjarja li għalqet fil-31 ta' Diċembru 2009, il-Grupp inkorra hlas ta' darba relatat ma' 'leave' mhux meħud miċ-Chairman Eżekuttiv preċedenti matul l-impjeg tiegħu mal-Kumpanija. Dan wassal sabiex inqabeż l-aggregat massimu tas-sena. Kif hemm fir-rapport tal-Kumitat tar-Rimunerazzjoni, l-azzjonisti fil-Laqgħa Ġenerali Annwali li għandha ssir fid-9 ta' Ġunju 2010 se jintalbu jinnutaw u japprovaw dan il-eċċess dovut għal ċirkustanzi speċjali.

KUMITAT GHALL-IMMANIĠĠJAR TAR-RISKJI

Il-Kumitat għall-Immaniġġjar tar-Riskji tal-Grupp hu responsabbli biex jistabilixxi politika ta' Mmaniġġjar tar-Riskji għall-Grupp li tkun taqbel mad-direzzjoni u l-attitudni lejn ir-riskju tal-Bordijiet rispettivi tal-Kumpaniji fil-Grupp. Dan jippermetti l-identifikazzjoni ta' filosofija u responsabbiltajiet dwar l-Immaniġġjar tar-Riskji, u hekk jinholqu u jkunu kkontrollati l-ambjent u l-istrutturi biex l-immaniġġjar tar-riskji jopera b'mod effettiv. Il-Kumitat għandu d-dmir li jfassal pjan ta' mmaniġġjar tar-riskji u jwaqqaf strutturi adegwati biex jimplimenta l-politiki fir-rigward ta' kull kumpanija tal-Grupp li għalihom diġà saret referenza. Saru registri tar-riskji li fihom kienu identifikati riskji kummerċjali u tqiegħdu f'ordni ta' prijorità biex ikunu stabbiliti rakkomandazzjonijiet fir-rigward tal-livell ta' riżorsi li jridu jkunu impenjati għall-immaniġġjar ta' dawn ir-riskji. Dan jagħmilha possibbli li jsiru dispożizzjonijiet għall-implimentazzjoni ta' sistemi u proċeduri adegwati maħsubin biex itaffu riskji li jkollhom ċerti incertezzu u biex l-espożizzjoni għar-riskju tkun allineata mal-attitudni lejn ir-riskju. Il-Kumitat jiżgura li jinżammu aġġornati Registri ta' Riskji u informazzjoni manigerjali relatata. Konsiderazzjoni ta' kwistjonijiet urġenti u *ad hoc* taqa' fl-ambitu tal-funzjonijiet tal-Kumitat u, fejn hu meħtieġ, dawn ikunu riferuti lill-Bord bi pjanijiet għal azzjoni dwar ir-riskju. Se jingħata taħriġ adegwat lill-manigment u lill-impjegati biex ikunu jistgħu

jikkontribwixxu fil-proċess tal-immaniġġjar tar-riskji. L-etos tal-Kumitat hu li jxerred il-filosofija tal-immaniġġjar tar-riskji u tal-għarfien tagħhom fost l-uffiċjali kollha tal-Grupp, u li jippromwovi approċċ proattiv għall-immaniġġjar tar-riskji fil-limiti ta' parametri professjonali aċċettabbli. Tul is-sena 2009 l-Kumitat iltaqa' tmien darbiet.

L-immaniġġjar tar-riskji hu funzjoni ta' kontroll interna stabbilita fl-organizzazzjoni nfisha biex teżamina u tevalwa l-immaniġġjar tar-riskji bħala servizz lill-Grupp. L-Uffiċjal inkarigat mill-Immaniġġjar tar-Riskji jirrapporta lill-Kumitat għall-Immaniġġjar tar-Riskji tal-Grupp u jattendi l-laqgħat tiegħu.

KUMITAT GHALL-INVESTIMENTI

Il-Kumitat tal-Grupp għall-Investimenti, li jinkludi membri eżekuttivi ewlieni, jiltaqa' fuq bażi regolari u jissorvelja l-attivitàjiet ta' investimenti tal-Grupp, jeseġwixxi l-politiki u l-linji gwida tiegħu, jifli u japprova transazzjonijiet materjali u jzomm ir-riżultati taħt kontroll. Kull investiment li jaqbeż il-€1,164,686 jeħtieġu l-approvazzjoni tal-Bord tal-Kumpanija rispettiva li tkun qed tagħmel l-investiment. Il-Kumitat għamel tnax-il laqgħa tul is-sena 2009.

Il-kontroll tal-istrategija tal-investimenti li kien ikkummissjonat lil Towers Watson baqa' jkun ikkontrollat u implimentat mill-Kumitat għall-Investimenti tul is-sena 2009. Il-kontroll tal-istrategija tal-investimenti riveduta kien maħsub biex jikkwantifika l-attitudni tal-Grupp lejn ir-riskju f'relazzjoni mal-obbligazzjonijiet finanzjarji u jiddetermina l-ogħla allokkazzjoni għal klassijiet differenti ta' assi.

KUMITAT TAL-GRUPP GHALL-KONFORMITÀ U PREVENZJONI TA' HASIL TAL-FLUS

Il-Kumitat tal-Grupp għall-Konformità u Prevenzjoni ta' Hasil tal-Flus għandu l-inkarigu tat-tfassil ta' proċeduri li jiżguraw konformità mal-liġijiet, direttivi, regoli u regolamenti applikabbli kollha, u mal-prevenzjoni, kxif u/jew rizoluzzjoni ta' problemi ta' konformità. It-Taqsim tas-Segretarjat u Konformità tal-Kumpanija hija responsabbli minn kwistjonijiet ta' konformità fil-każ ta' Kumpaniji tal-Grupp u klijenti terzi u tirrapporta lill-Kumitat tal-Grupp għall-Konformità u Prevenzjoni ta' Hasil tal-Flus li ltaqa' seba' darbiet tul is-sena 2009.

L-Uffiċjali tal-Grupp li jirrapporta dwar il-Prevenzjoni ta' Hasil tal-Flus u l-Uffiċjali Deputati li jirrapportaw dwar il-Prevenzjoni ta' Hasil tal-Flus jirrapportaw ukoll lil dan il-Kumitat.

Il-Kumitat għandu dokument imsemmi 'Kodiċi ta' Negozjar' indirizzat lid-diretturi u uffiċjali ewlieni tiegħu u wkoll lid-diretturi u uffiċjali ewlieni tas-sussidjarji tal-Kumpanija. Dan

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il-Kodiċi għandu l-għan li jiżgura konformità mal-Prinċipji u mar-regoli ta' negozjar inkluzi dawk li hemm fir-Regoli ta' Llistjar 8.45 to 8.55. Il-Kumpanija għandha sistema li tirrekordja l-avviżi bil-quddiem kollha li jidhru f'konnessjoni ma' negozji permessi li jsiru minn diretturi u uffiċjali ewlenin u ta' noti ta' riċevuti ta' avviżi bil-quddiem ta' din ix-xorta. Barra minn hekk, il-Kumpanija kull sena tfakkar lid-diretturi u uffiċjali ewlenin kollha fl-obbligu tagħhom li jikkonformaw mal-Kodiċi ta' Negozjar. Ittra f'dan ir-rigward intbagħtet lid-direttur u uffiċjali ewlenin kollha tal-Kumpanija f'Jannar ta' 2010.

Il-Kumpanija ma rċevietx avviżi bil-miktub bil-quddiem miġhand diretturi fir-rigward ta' transazzjonijiet f'ishma ta Middlesea Insurance p.l.c..

Il-kontroll ta' proċeduri adottati minn kumpaniji differenti membri tal-Grupp li kien ikkummissjonat tul is-sena ta' qabel baqa' jkun aġġornat tul is-sena 2009. B'hekk il-Grupp seta' jiċċekkja li l-proċeduri kollha kienu konformi mar-Regoli ta' Llistjar tal-MFSA aġġornati u ma' legiżlazzjoni oħra dwar servizzi finanzjarji. Dan il-proċess kien jinkludi li jsiru tabelli u manwali ta' konformità biex iħaffu l-aderenza tal-kumpaniji fil-Middlesea Group għall-obbligi li jinsabu fir-Regoli ta' Llistjar, l-Att dwar Kumpaniji u legiżlazzjoni oħra dwar servizzi finanzjarji.

L-Uffiċjal dwar Konformità, kif approvat mill-MFSA, jirrapporta lill-Kumitat tal-Grupp għall-Konformità u Prevenzjoni dwar il-Hasil tal-Flus u jattendi l-laqgħat tiegħu.

IL-FUNZJONI TAL-BORD TAD-DIRETTURI

L-attivitajiet tal-Bord tad-Diretturi huma eżerċitati b'mod maħsub biex jiżguraw li l-Bord effettivament jiffissa politiki u jissorvelja l-operazzjonijiet tal-Kumpanija.

Il-Maniġment jagħti lid-diretturi rapport f'konnessjoni ma' kull Laqgħa tal-Bord. Dan ir-rapport jagħti l-kontinjuet manigerjali tal-Kumpanija inkluzi indikaturi tal-operat ewlenin mid-data tal-laqgħa ta' qabel tal-Bord, inkluzi kummentarju manigerjali fuq ir-riżultati, u fuq avvenimenti u deċiżjonijiet rilevanti, u jagħti informazzjoni li tagħti sfond fuq diversi suġġetti inkluzi materji li jkunu jeħtieġu l-approvazzjoni tal-Bord.

Minbarra li jiffissa l-istrateġija u d-direzzjoni tal-Kumpanija, il-Bord kien involut attivament biex jikkontrolla l-progress fid-dawl ta' baġits u pjanijiet u biex japprova transazzjonijiet materjali jew sinifikanti.

Il-Bord ikkontrolla wkoll mill-qrib il-politiki u proċessi importanti użati mill-Middlesea

Group dwar immaniġġjar tar-riskji li huma ċentrali għan-natura tal-operazzjonijiet tiegħu. Dawn il-politiki u proċessi jittrattaw, *inter alia*, kwistjonijiet bħal:

- il-programm ta' riassigurazzjoni li għandhom il-Kumpaniji tal-Grupp, b'mod li jkun żgurat il-bilanċ ġust bejn riskju u qligħ u li l-livell taz-zamma ta' ammont tar-riskju, partikolarment fil-każ ta' katastrofi, hu konsistenti mar-riżorsi tal-Grupp;
- il-kwalità u l-livell ta' krettu tal-kontropartijiet fir-riassigurazzjoni li magħhom isiru t-trattattivi, biex tkun żgurata l-effettività tal-programm ta' riassigurazzjoni;
- il-valutazzjoni ta' strateġija ta' pprezzar f'relazżjoni mal-livell ta' riskju assunt u mal-kondizzjonijiet tas-suq b'mod ġenerali;
- il-miżuri użati fl-immaniġġjar ta' riskji f'munita barranija kemm fir-rigward ta' assi u kemm fir-rigward ta' responsabbiltajiet;
- il-miżuri meħudin biex tkun żgurata taħlita bilanċjata ta' investimenti u l-applikazzjoni tal-politika tal-Kumpanija li tiffoka fuq sigurtà, likwidità u massimizazzjoni tal-qligħ;
- il-kontrolli intern u dixiplini oħra użati, kemm fil-kumpaniji tal-Grupp u kemm fl-aġenti u intermedjarji oħrajn, biex tkun żgurata mġiba xierqa b'fiduċja massima fl-operazzjonijiet kollha; u
- il-livell ta' riżorsi kapitali li jirfdu kull attività kummerċjali, biex tkun żgurata solvenza adegwata kemm mill-perspettiva regolatorja u kemm mill-perspettiva kummerċjali.

Il-Bord għandu aċċess dirett għall-awdituri esterni tal-Kumpanija li jattendu l-laqgħat tal-Bord kif u meta meħtieġ, inkluzi dawk meta d-dikjarazzjonijiet finanzjarji tal-Grupp ikunu approvati wara li jkunu ġew ikkontrollati mill-Kumitat għall-Awditjar tal-Grupp. Konformità ma' rekwiżiti statutorji u regolatorji u ma' obbligi kontinwi ta' Llistjar hija wkoll żgurata. Minbarra l-kontribut tal-Kumitat tal-Grupp għall-Konformità u Prevenzjoni dwar il-Hasil tal-Flus, il-Bord jingħata pariri, kif xieraq, mill-*stockbrokers* u konsulenti legali tiegħu.

Diretturi għandhom id-dritt li jieħdu parir professjonali indipendenti f'kull hin fuq xi aspett tad-dmirijiet u responsabbiltajiet tagħhom, a spejjeż tal-Kumpanija.

Tul l-aħħar sena finanzjarja, il-Bord zamm mal-prattika tiegħu li meta jkun hemm jew ikun jidher li jista' jkun hemm konflitt ta' interess potenzjali fir-rigward ta' direttur f'konnessjoni ma' xi transazzjoni jew materja oħra, dan l-interess ikun iddikjarat u l-individwu involut jastjeni milli jieħu sehem fi proċeduri jew deċiżjonijiet relatati mal-materja. Il-minuti tal-Bord jinkludu rekord ta'

dikjarazzjonijiet ta' din ix-xorta u tal-azzjoni li tiegħet mid-direttur individwali involut. Bħala eċċezzjoni għal din ir-regola, biex id-diretturi jkunu jistgħu jaqdu r-responsabbiltajiet tagħhom b'mod effiċjenti u effettiv, kien miftiehem li diretturi maħturin mill-azzjonisti m'għandhomx għalfejn jiżvelaw konflitt jew konflitt potenzjali bejn il-Kumpanija u l-azzjonist li hatar lil dan id-direttur. F'każ ta' din ix-xorta, diretturi jistgħu jieħdu sehem fid-diskussjonijiet sakemm jintalbu li jagixxu b'mod onest u b'fiduċja massima, u dejjem fl-aħjar interess tal-Kumpanija.

Il-Politika u Proċeduri fil-każ ta' konflitti ta' interess kienu diskussi bl-għajnun ta' konsulenti legali. Dan il-manwal jagħti qafas u linji gwida fuq kif uffiċjali u membri tal-Kumpanija, inkluzi diretturi, għandhom jimxu fl-immaniġġjar ta' konflitti ta' interess, inkluzi l-identifikazzjoni, irrapportar u riżoluzzjoni ta' konflitti ta' din ix-xorta. Il-manwal ikun implimentat meta jkun finalizzat u approvat mill-Bord tad-Diretturi.

Tul is-sena finanzjarja 2009 l-Bord tad-Diretturi tal-Middlesea Insurance għamel erbatax-il laqgħa. Il-Bord tad-Diretturi tal-kumpaniji l-oħra sussidjarji u assoċjati għamlu laqgħat tal-Bord kif ġej:

- Middlesea Valletta Life Assurance Co. Ltd għamel sitt laqgħat;
- Progress Assicurazioni S.p.A. għamel hdx-il laqgħa;
- International Insurance Management Services Ltd għamel hames laqgħat;
- Growth Investments Ltd għamel sitt laqgħat;
- EuroMed Risk Solutions Ltd għamel hames laqgħat;
- Euro Globe Holdings Ltd għamel erba' laqgħat; u
- Church Wharf Properties Ltd għamel erba' laqgħat.

Wieħed jista' jara d-dettalji tal-attendanza tal-membri għal kull laqgħa ta' Bord jew Kumitat għand it-Taqsima tas-Segretarjat tal-Kumpanija u Konformità.

Diretturi tal-Bord iżommu ruħhom aġġornati mal-iżviluppi fl-isferi finanzjarji. Evalwazzjoni tal-kompetenza tad-Diretturi saret lejn tmiem is-sena 2007 u l-bidu tas-sena 2008. Evalwazzjoni oħra simili saret fl-aħħar kwart tas-sena 2009 u rapport se jkun sottomess lill-Bord tul is-sena 2010.

KOMMUNIKAZZJONI MA' AZZJONISTI

Skont l-obbligi statutorji tal-Kumpanija kif jirriżultaw mill-Att dwar Kumpaniji u r-Regoli ta' Llistjar tal-MFSA, ir-Rapport Annwali u d-Dikjarazzjonijiet Finanzjarji, id-dikjarazzjoni

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ta' dividend, l-elezzjoni ta' diretturi, il-hatra ta' awdituri, l-awtorizzazzjoni ta' diretturi li jiffissaw il-filasijiet tagħhom, u negozju speċjali ieħor, huma proposti u approvati fil-Laqqha Ġenerali Annwali tal-Kumpanija. Il-Bord tad-Diretturi hu responsabbli għall-iżvilupp tal-aġenda għal-Laqqha Ġenerali u biex din tintbagħat lill-azzjonisti.

Il-Kumpanija tikkomunika mal-azzjonisti billi tippubblika r-riżultati tagħha tul is-sena kull sitt xhur permezz tar-Rapport Annwali u d-Dikjarazzjonijiet Finanzjarji, u permezz ta' 'company announcements' perjodikament lis-suq ġenerali. Barra minn hekk, Regoli ta' Llistjar eżistenti jitolbu li l-Kumpanija tofrög 'company announcement' kull tliet xhur għall-ewwel u t-tielet kwarti tas-sena li fihom thabbar avvenimenti materjali u/jew transazzjonijiet li jkunu saru tul l-imsemmija kwarti tas-sena finanzjarja li jkun jehtieg li jkunu żvelati skont ir-Regoli ta' Llistjar applikabbli.

Ir-Rapport Annwali, li hu maħsub biex iservi ta' mezz effettiv ta' komunikazzjoni u informazzjoni fuq in-negozju tal-Kumpanija, hu amplifikat aktar fil-prezentazzjonijiet mogħtijin lill-azzjonisti fil-kors tal-Laqqha Ġenerali Annwali.

Tul is-sena l-Kumpanija harġet 'company announcements' biex iżzomm lill-azzjonisti aġġornati mal-iżviluppi korporattivi, partikolarment b'referenza għall-investment fi Progress Assicurazioni S.p.A.. 'Company announcement' mahruġ fil-11 ta' Jannar 2010 qal li data preliminari mhux awditjata għar-raba' kwart tas-sena 2009 ta' Progress Assicurazioni S.p.A. kienet tindika deterjorament sinifikanti fl-esperjenza ta' klejms tul il-perjodu.

Eżami dettaljat ulterjuri tad-data mhux awditjata msemmija kif kienet fil-31 ta' Diċembru 2009 indika li ma kienx se jkun possibbli għal Progress Assicurazioni S.p.A. li tibqa' fin-negozju f'konformità mar-regolamenti Taljani mingħajr ma jkun hemm injezzjoni ta' kapital materjali ulterjuri. Il-Bord tad-Diretturi tal-Middlesea Insurance p.l.c. ikkonkluda li ma kienx possibbli f'dak il-mument li l-Middlesea Insurance p.l.c. tipprovi kapital ulterjuri lil Progress Assicurazioni S.p.A. aktar mill-€45 miljun li kienet injettat tul is-sena mgħoddija.

Progress Assicurazioni S.p.A. infurmat lir-Regolaturi tal-Assigurazzjoni Taljani (ISVAP) li hi xtaqet tiehu l-miżuri neċessarji biex tiegħa milli tissottoskrivi negozju fl-Italja, u li xtaqet ixxolji l-kumpanija skont proċeduri li jkunu miftiehma mal-ISVAP in vista tas-sitwazzjoni prevalenti. Fid-9 ta' Frar 2010, ISVAP infurmat lill-kumpanija li hi kienet hatret lill-Professor Avv. Andrea Gemma bħala Amministratur Provvizorju

('Commissario') ta' Progress Assicurazioni S.p.A. b'effett immedjat.

Il-Middlesea Insurance p.l.c., konformi mar-rekwiżiti tar-Regoli ta' Llistjar, harġet 'company announcement' nhar il-11 ta' Frar 2010 biex tagħmel l-informazzjoni msemmija hawn fuq aċċessibbli għad-dominju pubbliku.

'Company announcement' nħareġ nhar il-31 ta' Marzu 2010 biex jgħarraf li nhar it-30 ta' Marzu 2010 ISVAP habbret li kienet qiegħdet lil Progress Assicurazioni S.p.A. f'Likwidazzjoni Amministrattiva Obbligatorja ("liquidazione coatta amministrativa"), u li kienet innominat lill-Professor Avv. Andrea Gemma biex jaġixxi ta' Likwidatur ("commissario liquidatore") għal perjodu ta' tliet snin. Fl-istess data ISVAP hatret ukoll lill-Avv. Carlo Alessi, Rag. Luigi Andreoli u Avv. Massimo Liguori biex iservu f'Kumitat ta' Sorveljanza ("comitato di sorveglianza") għal-likwidazzjoni għall-istess perjodu.

LAQQHA ĠENERALI STRAORDINARJA – BIDLIET FL- ISTRUTTURA KORPORATTIVA TAL- KUMPANIJA

Il-Kumpanija sejhet Laqqha Ġenerali Straordinarja fl-20 ta' Novembru 2009 li fiha l-Azzjonisti kienu mistiedna japprovaw riżoluzzjonijiet straordinari f'konnessjoni mar-'Rights Issue' ġdid għall-Azzjonisti. Ir-riżoluzzjonijiet imsemmija li kienu approvati kienu jinkludu dawn li ġejjin:

- (1) li jiddied il-Kapital ta' Ishma Awtorizzat tal-Kumpanija;
- (2) li jinbidel il-Perjodu ta' Assenjazzjoni tal-ishma;
- (3) li titħassar il-limitazzjoni ta' kemm wiehed ikollu ishma;
- (4) li jiddaħhlu bidliet skont ir-Regoli ta' Llistjar; u
- (5) biex il-Bord tad-Diretturi jkun awtorizzat li johroġ l-ishma ġodda.

Il-Bord tad-Diretturi approva r-'Rights Issue' nhar l-20 ta' Novembru 2009. Il-proċess tar-'Rights Issue' imsemmi tlesta u l-ishma ġodda kienu aċċessibbli għan-negozju fil-Borża ta' Malta nhar it-23 ta' Diċembru 2009.

L-istruttura tal-pussess ta' ishma tal-Kumpanija nbidlet b'konsegwenza tal-proċess tar-'Rights Issue' u konsegwentement il-Bord tad-Diretturi sejjah Laqqha Ġenerali Straordinarja għas-16 ta' Marzu 2010. L-Azzjonisti kienu mistiedna japprovaw il-Memorandum u Artikoli ta' Assocjazzjoni emendati li kienu ntbagħtu lill-Azzjonisti kollha. Il-bidliet proposti jinkludu dawn li ġejjin:

- (1) li jkun żgurat li l-kostituzzjoni tal-Bord tkun aktar proporzjonata għall-ammont ta' pussess ta' ishma rispettiv fil-Kumpanija bis-saħħa ta' Bord tad-Diretturi iżgħar u aktar manigġabbli;
- (2) biex il-Bord jingħata s-setgħa li jikkooptja Direttur addizzjonali wiehed sabiex il-Bord ikun jista' jzid fost il-membri tiegħu dawk il-hiliet speċjalizzati li jstgħu jttqiesu meħtieġa u desiderabbli minn żmien għal żmien;
- (3) biex ikun iprovdut għas-separazzjoni tal-pożizzjoni ta' Chairman tal-Bord minn dik tal-pożizzjonijiet eżekuttivi ewlenin tal-Kumpanija, skont il-prattiki kurrenti ta' governanza korporattiva tajba;
- (4) biex jiddied il-Kapital ta' ishma Awtorizzat tal-Kumpanija;
- (5) biex ikunu inkorporati ċerti modifiki meħtieġin mid-Direttiva dwar Azzjonisti li kienet traskritta f'Kapitolu 19 mahruġ mill-Awtorità ta' Llistjar, u emendi minuri oħrajn mitlubin mill-Awtorità msemmija; u
- (6) biex ikunu aġġornati dispożizzjonijiet oħra minnhom; u li ssir numerazzjoni ġdida tal-Artikoli skont kif meħtieġ.

Fil-kors tal-Laqqha Ġenerali Straordinarja l-azzjonisti hatru/eleggew ukoll il-Bord tad-Diretturi ġdid li issa hu magħmul mid-diretturi li ġejjin:

- Joseph F. X. Zahra
- Roderick E. D. Chalmers
- Gaston Debono Grech
- Tonio Depasquale
- Javier Fernández-Cid Plañón
- Andrés Jiménez Hérradon
- Michael Sparberg
- Lino Spiteri
- Paul Testaferrata Moroni Viani.

Il-Bord tad-Diretturi hatar lis-Sur Joseph F.X. Zahra bħala Chairman tal-Bord u kkooptja lis-Sur Pedro López Solanes bħala Direttur Eżekuttiv fil-Bord tad-Diretturi skont l-Artikoli ta' Assocjazzjoni tal-Kumpanija.



LINO SPITERI
DIRETTUR



RODERICK
E.D. CHALMERS
DIRETTUR

27 TA' APRIL 2010

Remuneration Committee's Report to the Shareholders

The Middlesea Insurance p.l.c. Group Remuneration Committee hereby submits its report to shareholders in accordance with Principle 8.6.4 of the Principles for Good Corporate Governance relating to Remuneration Committees.

The Group Remuneration Committee was composed of Dr John C. Grech (Chairman), Mr Victor Galea Salomone and Dr Michael Sparberg who were all non-executive directors of the Company. The Company Secretary, Mr Carlo Farrugia, was appointed to act as secretary to the Remuneration Committee. On the 16 March 2010, Dr John C. Grech (Chairman) and Mr Victor Galea Salomone tendered their resignation as Board and Committee members and Mr Tonio Depasquale (Chairman) and Mr Javier Fernández-Cid Plañiol were appointed in their stead.

The Group Remuneration Committee concentrates on recommending the remuneration policy for the Group's directors and key management personnel, outlining the appropriate packages of their remuneration. The Remuneration Committee held one formal meeting during 2009 together with a number of informal meetings that tackled the separation of the CEO and Chairman positions within the Company, Human Resources and related remuneration issues.

REMUNERATION OF DIRECTORS

As at the 31 December 2009, all Directors on the Board of Middlesea Insurance p.l.c. were non executive directors with the exception of the Executive Chairman. As in previous years, the Chairman declined receiving a director's fee. Mr Fernandez-Cid Plañiol and Mr J. Jiménez Herradón, did not receive a fee in accordance with the established policy of the shareholder company with which they were employed and which appointed them. Mr A. Corsi who was a Director until the Annual General Meeting held on the 26 June 2009 did not receive a fee in accordance with the same policy. Fees payable to non-executive directors in respect of 2009 amounted in total to €116,233 (2008: €119,004) and were paid as directors' fees as follows:

	Directors' Fees
Mr George Bonnici	€9,317
Mr Roderick E. D. Chalmers	€19,317
Dr Evelyn Caruana Demajo	€8,572
Mr Victor Galea Salomone	€8,224
Mr Gaston Debono Grech	€8,433

Mr Tonio Depasquale	€8,292
Dr John C. Grech	€8,456
Dr Michael Sparberg	€6,988
Mr Lino Spiteri	€19,317
Mr Joseph F. X. Zahra	€19,317

Non-executive Directors were entitled to a fee of €6,988 (2008: €6,988) each as directors of the Company. Non-executive directors are not entitled to profit sharing, share options or pension benefits. Three directors also sat on the Board of a subsidiary company, registered and operating in Italy, and each received a remuneration of €10,000 (2008: €10,000) annually in this respect that is included within the amounts listed above. Directors sitting on the Group Board Committees were also entitled to committee fees which did not exceed €2,329 per annum and which are included within the amounts listed above.

Contracted emoluments paid and payable to the Executive Chairman amounted to €229,994 (2008: €124,149) as disclosed in note 13 to the financial statements. Furthermore, provisions of €55,956 (2008: €55,956) were made by the Group in respect of contracted pension obligations. The Company paid an insurance premium of €8,500 (2008: €8,638) during the year in respect of insurance cover in favour of its directors.

The position of Executive Chairman was removed as at the 31 December 2009 and Mr Joseph F.X. Zahra was appointed as non executive Chairman of the Board of Directors as from the 1 January 2010. The Remuneration Committee made their recommendations to the Board of Directors for the remuneration of the Chairman that was approved and established at €40,000 for 2010. The Board of Directors also appointed Ms Anne Marie Tabone as Chief Operations Officer of the Company as from the 1 January 2010 thus ensuring the separation between the Management and Chairman of the Company in accordance with the Principles for Good Corporate Governance.

The Directors' fees are approved in aggregate by shareholders at the Annual General Meeting. The aggregate fees approved at the Annual General Meeting held on the 26 June 2009 amounted to €350,000. Due to an extraordinary one time expense incurred in connection with the vacation leave that had not been taken by the former Executive Chairman during

his employment with the Company this aggregate was exceeded by €56,538 for the financial year 2009. The shareholders, at the Annual General Meeting to be held on the 9 June 2010 will be invited to consider the special circumstances and to accordingly ratify the increase in the maximum aggregate from €350,000 to €406,538 for the financial year 2009.



TONIO DEPASQUALE
CHAIRMAN
REMUNERATION COMMITTEE

27 APRIL 2010

Rapport tal-Kumitat tar-Rimunerazzjoni lill-Azzjonisti

Il-Kumitat tar-Rimunerazzjoni tal-Middlesea Insurance p.l.c. Group giegħed jissottometti r-rapport tiegħu lill-azzjonisti skont il-Prinċipju 8.6.4 tal-Prinċipji għal Governanza Korporattiva Tajba relatata ma' Kumitati tar-Rimunerazzjoni.

Il-Kumitat tar-Rimunerazzjoni tal-Grupp kien kompost minn Dr John C. Grech (Chairman), is-Sur Victor Galea Salomone u Dr Michael Sparberg li kollha kienu diretturi mhux eżekuttivi tal-kumpanija. Is-Segretarju tal-Kumpanija, is-Sur Carlo Farrugia, inhatar segretarju tal-Kumitat tar-Rimunerazzjoni. Fis-16 ta' Marzu 2010, Dr John C. Grech (Chairman) u s-Sur Victor Galea Salomone tefgħu r-riżenja tagħhom minn membri tal-Bord u tal-Kumitat u s-Sur Tonio Depasquale (Chairman) u s-Sur Javier Fernández-Cid Plañol inhattru flokhom.

Il-Kumitat tar-Rimunerazzjoni tal-Grupp jikkonċentra biex jirrikmanda l-politika ta' rimunerazzjoni tad-diretturi u tal-persuni manigerjali importanti tal-Grupp u jfassal il-pakketti xierqa għar-rimunerazzjoni tagħhom. Il-Kumitat tar-Rimunerazzjoni ltaqa' formalment darba tul is-sena 2009 u kellu għadd ta' laqgħat informali li ttrattaw is-separazzjoni tal-pożizzjonijiet ta' CEO u Chairman fil-Kumpanija, ir-Riżorsi Umani u kwistjonijiet ta' rimunerazzjoni marbutin magħhom.

RIMUNERAZZJONI TA' DIRETTURI

Sa nhar il-31 ta' Diċembru 2009, id-Diretturi fil-Bord tal-Middlesea Insurance p.l.c. kienu Diretturi mhux eżekuttivi għajr iċ-Chairman Eżekuttiv. Bħal fil-każ tas-snin ta' qabel, iċ-Chairman irrifjuta li jirċievi hlas ta' Direttur. Is-Sur Fernandez-Cid u s-Sur A. Jimenez ma rċevewx hlas skont il-politika stabbilita tal-kumpanija azzjonista li kienu impjegati magħha u li hatrithom. Is-Sur A. Corsi li kien Direttur sal-Laqqgħa Ġenerali Annwali li saret nhar is-26 ta' Ġunju 2009 ma rċevix hlas skont l-istess politika. Hlasijiet pagabbli lil Diretturi mhux eżekuttivi fir-rigward tas-sena 2009 ammontaw għal total ta' €116,233 (2008: €119,004) u thallsu kif ġej bħala hlasijiet ta' Diretturi:

Hlasijiet ta' Diretturi	
Is-Sur George Bonnici	€9,317
Is-Sur Roderick E. D. Chalmers	€19,317
Dr Evelyn Caruana Demajo	€8,572
Is-Sur Victor Galea Salomone	€8,224
Is-Sur Gaston Debono Grech	€8,433
Is-Sur Tonio Depasquale	€8,292
Dr John C. Grech	€8,456
Dr Michael Sparberg	€6,988

Is-Sur Lino Spiteri	€19,317
Is-Sur Joseph F. X. Zahra	€19,317

Diretturi mhux eżekuttivi kienu intitolati għal hlas ta' €6,988 (2008: €6,988) kull wiehed bħala Diretturi tal-Kumpanija. Diretturi mhux eżekuttivi mhumix intitolati għal qsim tal-profitti, benefiċċji ta' drittijiet fuq ishma jew benefiċċji ta' pensjoni. Tliet Diretturi kienu wkoll fil-Bord ta' kumpanija sussidjarja reġistrata u topera fl-Italja, u kull wiehed irċieva rimunerazzjoni ta' €10,000 (2008: €10,000) fis-sena li huma mnizzlin hawn fuq. Diretturi li kienu f'Kumitati tal-Bord tal-Grupp kienu wkoll intitolati għal hlasijiet bħala membri li ma kinux jaqzbu l-€2,329 fis-sena u li huma inkluzi fl-ammonti mnizzlin hawn fuq.

Hlasijiet kuntrattati mhallsin u pagabbli liċ-Chairman Eżekuttiv ammontaw għal €229,994 (2008: €124,149) kif jidher fin-nota 13 tad-dikjarazzjoni finanzjarja. Barra minn hekk, saru provvedimenti ta' €55,956 (2008: €55,956) mill-Grupp fir-rigward ta' obbligi ta' pensjonijiet kuntrattati. Il-Kumpanija hallset €8,500 (2008: €8,638) primjum ta' assigurazzjoni tul is-sena fir-rigward ta' kopertura favur id-Diretturi tagħha.

Il-pożizzjoni taċ-Chairman tnehhiet nhar il-31 ta' Diċembru 2009 u s-Sur Joseph F.X. Zahra nħatar Chairman mhux eżekuttiv tal-Bord tad-Diretturi b'effett mill-1 ta' Jannar 2010. Il-Kumitat tar-Rimunerazzjoni għamel ir-rakkomandazzjonijiet tiegħu lill-Bord tad-Diretturi għar-rimunerazzjoni taċ-Chairman, li kienet approvata u stabbilita għal €40,000 għas-sena 2010. Il-Bord tad-Diretturi ħatar ukoll lil Ms Anne Marie Tabone bħala Chief Operations Officer tal-Kumpanija b'effett mill-1 ta' Jannar 2010 u hekk żgura s-separazzjoni bejn il-Maniġment u ċ-Chairman tal-Kumpanija skont il-Prinċipji ta' Governanza Korporattiva tajba.

Il-hlasijiet tad-Diretturi huma approvati fl-aggregat tagħhom mill-azzjonisti fil-Laqqgħa Ġenerali Annwali. Il-hlasijiet aggregati approvati fil-Laqqgħa Ġenerali Annwali li saret fis-26 ta' Ġunju 2009 ammontaw għal €350,000. Minhabba l-ispiża straordinarja ta' darba li saret f'konnessjoni ma bilanċ ta' 'leave' li ma ttehidx miċ-Chairman Eżekuttiv precedent tul it-terminu ta' l-impjeg tiegħu, il-Kumpanija qabzet dan l-aggregat b'€56,538 għas-sena finanzjarja 2009. L-azzjonisti, fil-Laqqgħa Ġenerali Annwali li għandha ssir nhar id-9 ta' Ġunju 2010, se jkunu mistiedna jqisu ċ-ċirkustanzi speċjali

u jirratifikaw iż-żieda fl-aggregat massimu minn €350,000 għal €406,538 għas-sena finanzjarja 2009.

TONIO DEPASQUALE
CHAIRMAN
KUMITAT TAR-RIMUNERAZZJONI

27 TA' APRIL 2010

Statement of Directors' Responsibilities

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

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

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the European Union;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Insurance Business Act, 1998 and the Maltese Companies Act, 1995. They are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Middlesea Insurance p.l.c. for the year ended 31 December 2009 are included in the Annual Report 2009, which is published in hard-copy printed form and made available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

The directors confirm that, to the best of their knowledge:

- the consolidated financial statements give a true and fair view of the financial

position of the Group and Company as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union on the basis explained in note 2 to the financial statements; and

- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that the Group and Company faces.

GOING CONCERN BASIS

After making due enquiries, the directors have a reasonable expectation, at the time of approving the financial statements, that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board of Directors on 27 April 2010 and signed on its behalf by:



**JOSEPH
F.X. ZAHRA**

CHAIRMAN



**RODERICK E.D.
CHALMERS**

DIRECTOR

Independent Auditor's Report

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Middlesea Insurance p.l.c. and its subsidiaries ("the Group") and of Middlesea Insurance p.l.c. ("the Stand Alone Company" or "the Parent Company") set out on pages 40 to 112 which comprise the balance sheets as at 31 December 2009 and the profit and loss accounts, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995. As described in the Statement of directors' responsibilities on page 37, this responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements

in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion – Stand Alone Company

In our opinion, the financial statements of Middlesea Insurance p.l.c. (as a Stand Alone Company) give a true and fair view of its financial position as at 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

Basis for qualified opinion – Group

As explained in note 1, the Parent Company has, since the financial year-end, resolved that it was not in a position to provide further capital support to Progress Assicurazioni S.p.A. ("Progress") after it emerged that Progress' losses in the last quarter of 2009 materially exceeded those projected. The directors are of the opinion that the Group's ultimate liability towards Progress is now limited to the capital that the Parent Company injected into Progress together with a guarantee that it extended in connection with a subordinated loan taken by Progress. These accounts include full provision for both the investment and the guarantee. The directors believe that consolidating the further losses incurred by Progress beyond this amount, and their subsequent reversal in 2010, would render the Group's financial statements misleading. Furthermore, due to the fact that Progress has now been put into Compulsory Administrative Liquidation, the Group does not have access to the necessary information to enable it to account for its 2009 financial statements. For these reasons, the directors have not consolidated the financial statements of Progress in the period up to 31 December 2009, in accordance with IAS 27 "Consolidated and Separate Financial Statements" and have accordingly de-recognised Progress as a subsidiary of the Group as from 1 January 2009.

Under International Financial Reporting Standards, because Progress had not yet been put into Administration at 31 December 2009, and because it therefore was still controlled by the Parent Company as at that date, its financial statements should have been consolidated in the Group's 2009 accounts in accordance with IAS 27. The early de-recognition of Progress from the consolidated financial statements as at 1 January 2009 therefore constitutes a departure from IFRSs as adopted by the EU.

The effect of this early de-recognition, based upon Progress' unaudited management accounts for the year ended 31 December 2009, is disclosed in detail in note 2. Due to the fact, for reasons explained above, that Progress' audited financial statements as at that date are not available, we were unable to determine the impact of the early de-recognition of this subsidiary on the Group's financial statements.

Qualified opinion – Group

In our opinion, except for the effects of the matter relating to the early de-recognition of Progress as a subsidiary of the Group, described in the basis for qualified opinion paragraph above and that is contrary to the requirements of IAS 27, the financial statements give a true and fair view of the financial position of the Group as at 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Insurance Business Act, 1998 and Maltese Companies Act, 1995.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 5.4 to the financial statements, which describes the impact of the adverse results of Progress on Middlesea Insurance p.l.c.'s regulatory solvency margin. The Parent Company and Progress did not meet their regulatory solvency requirements at all times during the year and as at 31 December 2009. The same note describes the remedial measures that are being taken by the Parent Company to rectify its position.

REPORT ON CORPORATE GOVERNANCE

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of

Independent Auditor's Report

Compliance providing an explanation of 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 throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the directors.

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 the financial statements included in the Annual Report. 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 27 to 30 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' report and the statement of Directors' responsibilities. Our responsibilities do not extend to any other information.

We also have responsibilities:

- Under the Maltese Companies Act, 1995 to report to you if, in our opinion:
 - The information given in the directors' report is not consistent with the financial statements.
 - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.

- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
- Under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

We have nothing to report to you in respect of these responsibilities, except for the fact that, as discussed above, audited financial information relating to Progress for the year ended 31 December 2009 and as at that date was not available.

PRICEWATERHOUSECOOPERS 

167, MERCHANTS STREET
VALLETTA VLT 1174
MALTA

SIMON FLYNN
PARTNER

27 APRIL 2010

Profit and Loss Accounts

Technical Accounts – General Business

		Year ended 31 December			
		Group		Company	
Notes		2009 €'000	2008 €'000	2009 €'000	2008 €'000
Earned premiums, net of reinsurance					
	6	32,246	118,365	32,246	32,309
		(13,471)	(16,657)	(13,471)	(13,570)
<hr/>					
		18,775	101,708	18,775	18,739
<hr/>					
		56	(8,190)	56	113
		74	193	74	156
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		130	(7,997)	130	269
<hr/>					
		18,905	93,711	18,905	19,008
Allocated investment return transferred from the non-technical account					
	8	3,435	-	3,435	-
<hr/>					
		22,340	93,711	22,340	19,008
<hr/>					
Claims incurred, net of reinsurance					
		16,621	76,167	16,621	16,170
		(6,762)	(7,534)	(6,762)	(5,995)
<hr/>					
		9,859	68,633	9,859	10,175
<hr/>					
		2,941	29,019	2,941	2,261
		(233)	(466)	(233)	(2)
<hr/>					
		2,708	28,553	2,708	2,259
<hr/>					
		12,567	97,186	12,567	12,434
Net operating expenses					
	7	4,973	21,157	4,973	5,098
Allocated investment expenses and charges					
	8	-	3,073	-	2,886
<hr/>					
		17,540	121,416	17,540	20,418
<hr/>					
Balance on the technical accounts for general business (page 42)					
		4,800	(27,705)	4,800	(1,410)

Profit and Loss Account

Technical Account – Long Term Business

		Year ended 31 December	
		Group and Company	
		2009	2008
		€'000	€'000
	Notes		
Earned premiums, net of reinsurance			
Gross premiums written	6	1,158	1,682
Outward reinsurance premiums		(542)	(647)
		616	1,035
Earned premiums, net of reinsurance			
Investment income			
Income from other investments	8	187	9
		803	1,044
Total technical income			
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		417	1,375
- reinsurers' share		(193)	(870)
		224	505
Change in the provision for claims			
- gross amount		(25)	(335)
- reinsurers' share		17	221
		(8)	(114)
		216	391
Claims incurred, net of reinsurance			
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		(339)	261
- reinsurers' share		142	(154)
		(197)	107
Net operating expenses			
	7	109	239
		128	737
Total technical charges			
		675	307
Balance on the technical account for long term business (page 42)		675	307

Profit and Loss Accounts

Non-Technical Accounts

Year ended 31 December

	Notes	Group		Company	
		2009 €'000	2008 €'000	2009 €'000	2008 €'000
Balances on technical accounts					
General business (page 40)		4,800	(27,705)	4,800	(1,410)
Long term business (page 41)		675	307	675	307
		5,475	(27,398)	5,475	(1,103)
Share of profit of associated undertaking	8	3,121	958	-	-
Total income/(loss) from insurance activities		8,596	(26,440)	5,475	(1,103)
Other investment income	8	5,474	3,480	6,943	5,210
Investment expenses and charges	8	(1,213)	(8,775)	(1,213)	(6,890)
Allocated investment (return)/expense transferred to the general business technical account	8	(3,435)	3,073	(3,435)	2,886
Other income	9	1,950	1,819	-	-
Administration expenses	7	(2,699)	(2,956)	(1,127)	(1,068)
Profit/(loss) for the financial year before impairment charge and tax					
Impairment of investment in group undertaking	8	8,673 (63,121)	(29,799) -	6,643 (69,523)	(965) (2,500)
Loss for the financial year before tax					
Income tax (expense)/credit	12	(54,448) (670)	(29,799) 9,207	(62,880) (521)	(3,465) (160)
Loss for the financial year					
Attributable to:					
- shareholders		(53,462)	(18,690)	(63,401)	(3,625)
- minority interests		(1,656)	(1,902)	-	-
		(55,118)	(20,592)	(63,401)	(3,625)
Loss per share attributable to shareholders					
	14	(€1.99)	(€0.75)		

Statements of Comprehensive Income

		Year ended 31 December				
		Group		Company		
Notes	2009 €'000	2008 €'000	2009 €'000	2008 €'000		
	Loss for the financial year	(55,118)	(20,592)	(63,401)	(3,625)	
	Other comprehensive income:					
	Fair value gain/(loss) on investment in associate undertaking	28	-	2,620	(1,673)	
	Change in other available-for-sale investments	28	(129)	(133)	100	
	Revaluation of property, plant and equipment	28	-	-	-	
	Share of increase/(decrease) in value of in-force business of associated undertaking	28	489	-	-	
	Total other comprehensive income, net of tax		360	1,741	2,487	(1,573)
	Total comprehensive income for the year	(54,758)	(18,851)	(60,914)	(5,198)	
	Attributable to					
	- shareholders		(53,102)	(17,265)		
	- minority interests		(1,656)	(1,586)		
	Total comprehensive income for the year	(54,758)	(18,851)			

Items disclosed in the statement above are disclosed net of tax. The income tax relating to each component is disclosed in notes 22 and 28.

Balance Sheets

	Group		Company		At 1 January	
	At 31 December		At 31 December			
Notes	2009 €'000	2008 €'000	2009 €'000	2008 €'000 <i>restated</i>	2008 €'000 <i>restated</i>	
ASSETS						
Intangible assets	16	700	1,030	454	607	656
Property, plant and equipment	17	1,721	9,719	1,006	1,100	1,126
Investment property	18	8,708	10,978	9,167	8,367	7,721
Investment in subsidiary undertakings	19	-	-	1,212	24,865	25,475
Investment in associated undertakings	20	51,957	41,734	51,957	42,542	43,090
Other investments	21	46,535	168,286	45,713	40,897	48,967
Deferred income tax	22	3,447	13,223	1,025	1,667	-
Reinsurers' share of technical provisions	23	13,793	29,360	13,793	13,645	13,685
Deferred acquisition costs	24	2,673	7,446	2,673	2,583	2,576
Insurance and other receivables	25	10,167	25,203	10,034	9,494	9,011
Income tax receivable		330	2,635	293	259	-
Cash and cash equivalents	26	3,724	6,361	3,080	3,418	3,076
Total assets		143,755	315,975	140,407	149,444	155,383
EQUITY						
Capital and reserves attributable to shareholders						
Share capital	27	55,200	15,000	55,200	15,000	14,559
Share premium account		2,221	2,778	2,221	2,778	2,778
Other reserves	28	20,368	22,976	32,118	29,631	31,204
Profit and loss account		(29,125)	21,369	(45,152)	18,249	25,517
Minority interests		48,664	62,123	44,387	65,658	74,058
		-	1,656	-	-	-
Total equity		48,664	63,779	44,387	65,658	74,058
LIABILITIES						
Deferred income tax	22	1,044	1,525	1,041	1,525	1,201
Provisions for other liabilities and charges	29	9,402	1,716	9,402	804	706
Technical provisions	23	53,260	210,883	53,260	50,739	48,796
Borrowings	30	16,285	16,285	16,285	16,285	16,381
Insurance and other payables	31	15,096	21,770	16,032	14,433	14,049
Income tax payable		4	17	-	-	192
Total liabilities		95,091	252,196	96,020	83,786	81,325
Total equity and liabilities		143,755	315,975	140,407	149,444	155,383

The financial statements on pages 40 to 112 were authorised for issue by the Board on 27 April 2010 were signed on its behalf by:


JOSEPH F. X. ZAHRA
 CHAIRMAN


RODERICK E. D. CHALMERS
 DIRECTOR

Statements of Changes in Equity

Group

	Notes	Attributable to shareholders					Total €'000
		Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Minority interests €'000	
Balance at 1 January 2008		14,559	2,778	21,551	43,702	3,243	85,833
Comprehensive income							
Loss for the financial year		-	-	-	(18,690)	(1,902)	(20,592)
Other comprehensive income:							
Change in other available-for-sale investments	28	-	-	100	-	-	100
Revaluation of property, plant and equipment	28	-	-	2,834	-	316	3,150
Share of decrease in value of in-force business of associated undertaking	28	-	-	(1,509)	-	-	(1,509)
Total other comprehensive income, net of tax		-	-	1,425	-	316	1,741
Total comprehensive income		-	-	1,425	(18,690)	(1,586)	(18,851)
Transactions with owners							
Dividends for 2007	15	-	-	-	(3,202)	(123)	(3,325)
Increase in share capital of subsidiary		-	-	-	-	122	122
Renominalisation of share capital	27	441	-	-	(441)	-	-
Total transactions with owners		441	-	-	(3,643)	(1)	(3,203)
Balance at 31 December 2008		15,000	2,778	22,976	21,369	1,656	63,779

Statements of Changes in Equity

Group - continued

		Attributable to shareholders					
Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Minority interests €'000	Total €'000	
	Balance at 1 January 2009	15,000	2,778	22,976	21,369	1,656	63,779
Comprehensive income							
	Loss for the financial year	-	-	-	(53,462)	(1,656)	(55,118)
Other comprehensive income:							
	Change in other available-for-sale investments	28	-	(129)	-	-	(129)
	Transfer of revaluation surplus on de-recognition of subsidiary	28	-	(2,968)	2,968	-	-
	Share of increase in value of in-force business of associated undertaking	28	-	489	-	-	489
	Total other comprehensive income, net of tax	-	-	(2,608)	2,968	-	360
	Total comprehensive income	-	-	(2,608)	(50,494)	(1,656)	(54,758)
Transactions with owners							
	Issue of share capital	40,200	(557)	-	-	-	39,643
	Total transactions with owners	40,200	(557)	-	-	-	39,643
	Balance at 31 December 2009	55,200	2,221	20,368	(29,125)	-	48,664

Statements of Changes in Equity

Company

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Total €'000
Balance at 1 January 2008						
- as previously stated		14,559	2,778	33	25,517	42,887
- impact of voluntary change in accounting policy		-	-	31,171	-	31,171
- as restated		14,559	2,778	31,204	25,517	74,058
Comprehensive income						
Loss for the financial year		-	-	-	(3,625)	(3,625)
Other comprehensive income:						
Fair value loss on investment in associated undertaking	28	-	-	(1,673)	-	(1,673)
Change in other available-for-sale investments	28	-	-	100	-	100
Total other comprehensive income, net of tax		-	-	(1,573)	-	(1,573)
Total comprehensive income		-	-	(1,573)	(3,625)	(5,198)
Transactions with owners						
Dividends for 2007	15	-	-	-	(3,202)	(3,202)
Renominalisation of share capital	27	441	-	-	(441)	-
Total transactions with owners		441	-	-	(3,643)	(3,202)
Balance at 31 December 2008		15,000	2,778	29,631	18,249	65,658

Statements of Changes in Equity

Company - continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Total €'000
Balance at 1 January 2009						
- as previously stated		15,000	2,778	133	18,249	36,160
- impact of voluntary change in accounting policy		-	-	29,498	-	29,498
- as restated		15,000	2,778	29,631	18,249	65,658
Comprehensive income						
Loss for the financial year		-	-	-	(63,401)	(63,401)
Other comprehensive income:						
Fair value gain on investment in associated undertaking	28	-	-	2,620	-	2,620
Change in other available-for-sale investments	28	-	-	(133)	-	(133)
Total other comprehensive income, net of tax		-	-	2,487	-	2,487
Total comprehensive income		-	-	2,487	(63,401)	(60,914)
Transactions with owners						
Increase in share capital	27	40,200	(557)	-	-	39,643
Total transactions with owners		40,200	(557)	-	-	39,643
Balance at 31 December 2009		55,200	2,221	32,118	(45,152)	44,387

The notes on pages 40 to 112 are an integral part of these financial statements.

Statements of Cash Flows

		Year ended 31 December			
		Group		Company	
	Notes	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Cash flows from operating activities					
Cash generated from operations	32	5,111	6,177	4,383	1,469
Dividends received		547	915	1,008	655
Interest received		1,755	7,905	1,728	1,707
Interest paid		(697)	(793)	(697)	(774)
Income tax paid		(709)	(3,517)	(711)	(858)
Net cash generated from operating activities		6,007	10,687	5,711	2,199
Cash flows from investing activities					
Purchase of investment property	18	(23)	(169)	(23)	(169)
Disposal of investment property		-	100	-	100
Investment in subsidiary undertakings	19	(38,165)	-	(38,165)	(22)
Increase in investment in associated undertaking		(5,000)	-	(5,000)	-
Purchase of financial investments	21	(55,621)	(116,731)	(55,621)	(13,028)
Redemption of financial investments on maturity	21	2,395	103,291	2,395	13,451
Disposal of financial investments	21	50,531	3,306	50,531	1,419
Purchase of property, plant and equipment and intangible assets	16,17	(220)	(724)	(157)	(310)
Net cash (used in)/generated from		(46,103)	(10,927)	(46,040)	1,441
Cash flows from financing activities					
Issue of ordinary shares		39,991	-	39,991	-
Bank loans	30	-	(96)	-	(96)
Dividends paid to group shareholders	15	-	(3,202)	-	(3,202)
Net cash generated from/(used in) financing activities		39,991	(3,298)	39,991	(3,298)
Net movement in cash and cash equivalents		(105)	(3,538)	(338)	342
Cash and cash equivalents at beginning of year		6,361	9,899	3,418	3,076
De-recognition of subsidiary undertakings		(2,532)	-	-	-
Cash and cash equivalents at end of year	26	3,724	6,361	3,080	3,418

Notes to the Financial Statements

1. SIGNIFICANT EVENTS DURING THE YEAR AND SUBSEQUENT TO THE YEAR-END

During the year ended 31 December 2008, Progress Assicurazioni S.p.A. (Progress) registered a loss after taxation as consolidated in the Group accounts of €19.1 million. In the first six months of 2009, Progress continued to report material negative results, with further losses of €19.4 million being included in the Middlesea Group results for the half year to 30 June 2009.

The operations at Progress were seriously impacted by the confluence of a number of material adverse factors. These included the combination of the down cycle in the RCA (motor car insurance) sector experienced by the entire Italian insurance industry, a marked deterioration in the performance of certain Agents, an elevated incidence of late reported claims, together with a high RCA content in the overall portfolio of Progress, which business had a geographic concentration in Sicily and the southern regions of Italy. Further, the company was also negatively affected by changes to the claims settlement system reforms introduced in the market in 2007, at a time when it was seeking to expand its operations. Finally, the unprecedented disruption witnessed in the international financial markets in 2008 and 2009 had a negative knock-on effect on the Italian economy and investment performance.

In view of the very serious adverse developments affecting the Progress operations, the Progress and Middlesea Insurance p.l.c. Boards of Directors moved to take various corrective actions during 2008 and 2009, with a series of radical remedial measures. The MFSA and the Italian regulator, ISVAP, were alerted to the problems being encountered by the company, and were kept abreast with developments on a regular basis. Remedial actions included steps to radically downsize the portfolio through the termination of non-performing agencies (which were reduced from 164 to 39 at substantial cost), premium rate increases, claims management restructuring measures and the engagement of various specialist consultants, including anti-fraud investigators to review the legitimacy of the high level of claims being experienced. In addition, further specialised re-insurance cover was acquired to protect against any further deterioration in claims experience.

In an effort to ensure that Progress was able to withstand the substantial losses that were being incurred, the Board of Directors also sought financial support from the Parent Company. During 2009 Middlesea Insurance p.l.c. provided substantial financial support to Progress, injecting additional capital into the company in excess of €45 million. In turn, in order to stabilise the balance sheet of Middlesea Insurance p.l.c. so as to enable it to withstand the Progress losses, a Rights Issue amounting to €40.2 million was launched in November 2009. The three major institutional shareholders (Bank of Valletta, Mapfre Internacional and Munich Re) agreed to subscribe to the new issue of shares, with Bank of Valletta and Mapfre also agreeing to underwrite the issue. In the event, these three institutional shareholders subscribed to €35.6 million of the total amount of new capital of €40.2 million raised by the Rights Issue.

Progress' financial results continued to deteriorate further in the last quarter of 2009, with an extraordinarily high level of claims incidence being experienced, these claims exacerbating the losses of the company well beyond the estimates that had been prepared in anticipation of the Rights Issue. The position was reached in January 2010 whereby the draft unaudited management accounts of Progress as at 31 December 2009 indicated that the company had exhausted its shareholders' equity base, and in the absence of a reasonable expectation of further financial support from the Parent Company, it could not continue in operation in conformity with the requirements of Italian law. The Progress Board therefore asked the Board of Directors of Middlesea Insurance p.l.c. whether it was able to commit to providing further financial support to Progress, so as to enable the company to continue in business in conformity with Italian law and regulations. On 5 February 2010, the Middlesea Board informed the Progress Board that, having provided more than €45 million of capital support to Progress over the last year, Middlesea was not in a position to commit to inject further capital into Progress at that time without putting at risk its own viability. Accordingly, Middlesea was not able to commit to Progress that it would be able to provide further capital to the company at that time so as to enable it to continue in operation.

In the above circumstances, and absent the reasonable expectation of further financial support from the Parent Company or other source, there was not a reasonable prospect that Progress would be able to continue operating in the business of insurance in conformity with the requirements of the Italian law and regulations, and the Progress Board of Directors concluded on 5 February 2010 that they had no alternative other than to formally inform ISVAP and the MFSA (who had been kept fully informed of all developments throughout) of the economic and financial position of the company, and that it was the Board's view that the company should move to cease writing new business forthwith, and, in accordance with terms and conditions to be agreed with ISVAP, to initiate the necessary early steps and procedures to secure the orderly winding up of the company.

On 9 February 2010, ISVAP informed the company that it had appointed Professor Avv. Andrea Gemma as Provisional Administrator ("Commissario") of Progress Assicurazioni S.p.A. with immediate effect. On 30 March 2010 ISVAP announced that it had placed Progress Assicurazioni S.p.A. in Compulsory Administrative Liquidation ("liquidazione coatta amministrativa"), and that it had nominated Professor Avv. Andrea Gemma to act as Liquidator ("commissario liquidatore") for a period of three years. On the same date ISVAP also appointed Avv. Carlo Alessi, Rag. Luigi Andreoli and Avv. Massimo Liguori to the Supervisory Committee ("comitato di sorveglianza") for the liquidation for the same period.

Following the above, and for the reasons more fully set out in note 2 in the Basis of Preparation of the accounts, the Middlesea Board of Directors resolved that the accounts of Middlesea and of the Middlesea Group as at 31 December 2009 should be drawn up on the basis that took cognisance of the above events (and therefore departed from the requirements of IAS 27), and recognised that Progress had been placed in Compulsory Administrative Liquidation. In adopting this approach it would be necessary for the total Middlesea investment in Progress to be written off, and for full provision to be made for the €8.5 million subordinated loan to Progress that had been guaranteed by Middlesea. This has resulted in an impairment charge being included in the 2009 accounts of €69.5 million for the Company and €63.1 million for the Group.

Notes to the Financial Statements

2. BASIS OF PREPARATION

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union, the Insurance Business Act, 1998 and the Maltese Companies Act, 1995 except for the fact that the directors have, for the reasons described below, elected to depart from the requirement under IAS 27 to consolidate Progress Assicurazioni S.p.A..

The financial statements are prepared under the historical cost convention as modified by the revaluation of property, plant and equipment, investment property, investment in associated undertaking, financial assets at fair value through profit or loss, other available-for-sale investments and the share of associated undertaking's value of in-force business.

The preparation of financial statements in conformity with the above reporting framework requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

The balance sheet is organised in increasing order of liquidity, with additional disclosures on the current or non-current nature of the Group's assets and liabilities provided within the notes to the financial statements.

All amounts in the notes are shown in thousands of euros, rounded to the nearest thousand, unless otherwise stated.

Departure from IAS 27

Reference is made to note 1 which sets out details of the significant events that occurred during the year and subsequent to the year end in connection with the subsidiary company Progress Assicurazioni S.p.A. (Progress). The note sets out the circumstances which culminated in Progress being placed in Compulsory Administrative Liquidation by ISVAP on 30 March 2010.

The Middlesea Board of Directors have given the most careful consideration as to how to account for the results and financial position of Progress in the Group and Company accounts for the financial year ended 31st December 2009 (FY 2009). The Board is advised that the technical requirements of IAS 27 provide that the results and balance sheet position of Progress should be consolidated in full in the Group accounts for FY 2009 on a line by line basis, and then be de-consolidated in the FY 2010 accounts upon Middlesea "losing control" of Progress.

However, the Board has chosen to adopt a different and, it believes, a more pragmatic and practical approach to the preparation of the FY 2009 accounts. In preparing these accounts, the Board has written off in full the investment that Middlesea had made in Progress, together with making full provision for the €8.5 million subordinated loan to Progress that had been guaranteed by Middlesea. This has resulted in an impairment charge of €69.5 million being included in the FY 2009 accounts for the Company and €63.1 million for the Group.

The reasons that the Board has chosen to adopt this approach are as follows:-

- Progress is now in Compulsory Administrative Liquidation, and in the view of the Board, there must be significant doubt as to whether the Middlesea investment in Progress has any residual value, and whether the subordinated loan guaranteed by Middlesea will be recovered;
- In these circumstances, it is believed that it is prudent to make full provision in the FY 2009 accounts against the investment held by Middlesea in Progress, and in respect of the subordinated loan guaranteed by the Company;
- The Board has been advised that as Progress is a limited liability company, as a general principle of Italian Company law it benefits from the protection of limited liability, whereby the liability of each shareholder, in relation to the obligations of the company, is limited to the amount of the underwritten capital. Accordingly, capital payments may be requested from the shareholder only by reference (and limited to) any unpaid amount of the underwritten capital. The Board is also advised that as Middlesea has fully paid up the amount of share capital in Progress underwritten by it, no further payments can be requested from Middlesea *qua* shareholder;
- As explained in note 1, the Middlesea Board resolved that it was not in a position to provide further capital support to Progress, accordingly, the Board is of the opinion that it would be unrealistic to draw up the FY 2009 accounts on a basis that assumed the provision of such support – only to then reverse the position in the accounts for FY 2010. In the view of the Board, this would result in the mis-statement of both the FY 2009 and FY 2010 Group accounts;
- In any event, the Progress books of account and records are no longer under the control of Middlesea, and it would not be possible to accurately determine the amount of assets, liabilities, financial position and profit and loss for consolidation purposes. Furthermore, audited financial statements for Progress for FY 2009 are not available and, in the circumstances, are unlikely to be produced within the required timeframes;
- Above all, the Board is anxious that the FY 2009 accounts should fairly reflect the decisions that have been taken in respect of Progress until the date of these financial statements – that is that, for the reasons explained in note 1, the Middlesea Group was not in a position to provide further capital support to Progress, and as a result of which the Group was left with no option other than to exit the Italian insurance market. The Board believes that the accounts, as drawn up, properly reflect the reality of this position.

Notes to the Financial Statements

2. BASIS OF PREPARATION - CONTINUED

For the above reasons, the Middlesea Board believes that the adoption of a basis of preparation which writes off the totality of the investment in Progress and recognises the reality that no further capital support will be extended to the company is the most realistic basis to adopt in the prevailing circumstances. Accordingly, the Board has not consolidated Progress in the Group's financial statements for the year ended 31 December 2009, but has made full provision in respect of the investment in and guarantee extended to that company.

The amount of assets, liabilities, financial position and profit and loss that were not consolidated cannot be ascertained reliably since Progress' audited financial statements for 2009 are not available and are unlikely to be produced in the circumstances. The amounts that would have been consolidated are summarised below. These are based on the unaudited management accounts as at 31 December 2009, which were not subject to an actuarial review and other closing procedures, but that have been adjusted to reflect consolidation adjustments that would have been necessary and the write-off of the company's deferred tax asset of €7.1 million that is no longer realisable given that the company has now been put into liquidation.

Balance Sheet	At 31 December 2009 (unaudited) €'000
Assets	
Property, plant and equipment	7,731
Investment property	1,488
Other financial investments	121,625
Reinsurers' share of technical provisions	41,620
Insurance and other receivables	17,889
Income tax receivable	1,544
Cash and cash equivalents	1,249
	<hr/>
Total assets	193,146
	<hr/>
Liabilities	
Provisions for other liabilities and charges	651
Technical provisions	190,513
Insurance and other payables	12,279
	<hr/>
Total liabilities	203,443
	<hr/>
Net liabilities	(10,297)
	<hr/>

Notes to the Financial Statements

2. BASIS OF PREPARATION - CONTINUED

Profit and loss account

	For the period ending 31 December 2009 (unaudited) €'000
Technical account	
Earned premiums, net of reinsurance	
Gross earned premiums	66,425
Reinsurers' share	(18,110)
	<hr/>
Earned premiums, net of reinsurance	48,315
Allocated investment return transferred from the non-technical account	4,454
	<hr/>
<i>Total technical income</i>	52,769
	<hr/>
Claims incurred, net of reinsurance	
- Gross claims incurred	114,429
- Reinsurers' share	(28,238)
	<hr/>
Claims incurred, net of reinsurance	86,191
Net operating expenses	22,759
	<hr/>
<i>Total technical charges</i>	108,950
	<hr/>
Balance on the technical account for general business	(56,181)
	<hr/>
Non-technical account	
Balance on technical account	(56,181)
Investment income	5,430
Investment expenses and charges	(242)
Allocated investment return transferred to the general business technical account	(4,454)
Administration expenses	(660)
	<hr/>
Loss before tax	(56,107)
Income tax expense	(8,982)
	<hr/>
Loss after tax	(65,089)
	<hr/>

Notes to the Financial Statements

2. BASIS OF PREPARATION - CONTINUED

Standards, interpretations and amendments to published standards effective in 2009

The following standards, amendments to and interpretations of published standards have been issued and are mandatory for accounting periods beginning on or after 1 January 2009. The impact of these standards, amendments and interpretations on the Group's operations is assessed below:

- IFRS 7, 'Financial instruments – Disclosures' (amendment), requires enhanced disclosures about fair value measurement and liquidity risk. The Group adopted the amendment to IFRS 7 with effect from 1 January 2009. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:
 - Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The adoption of the amendment results in additional disclosures and there is no impact on loss per share.

- IAS 1 (revised), 'Presentation of financial statements', effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on loss per share.
- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the new standard, the Group's external segment reporting will be based on the internal reporting to the executive management (in its function as the chief operating decision maker), which makes decisions on the allocation of resources and assesses the performance of the reportable segments. The application of IFRS 8 does not have any material effects for the Group but has an impact on segment disclosures. The segment disclosures have been changed accordingly.

Voluntary change in accounting policy in 2009

During the year, the Company changed its accounting policy with respect to its investment in associated undertakings. The Company now applies the fair value model under IAS 39. Prior to this change in policy, the Company measured its investments in associated undertakings at cost less impairment. The Company believes that the new accounting policy is more consistent with its "fair-value" approach on other investments and gives a more "economic" and, therefore, more relevant valuation to this investment.

The impact of this voluntary change in accounting policy on the Company's financial statements is to increase the value of the investment in associated undertakings. The related adjustments to opening balances and movements during the year are recognised directly in equity as disclosed in notes 20 and 28. This change was applied retrospectively and, consequently, in line with IAS 1 (revised), resulted in the presentation of three balance sheets at 1 January 2008, 31 December 2008 and 31 December 2009.

This change in policy has no impact on the consolidated figures for the Group.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, which are mandatory for the Group's accounting periods beginning after 1 January 2009. The Group has not early adopted these revisions to the requirements of IFRSs, and the Group's directors are of the opinion that there are no requirements that will have a possible impact on the Group's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement tools in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 will be driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. Subject to adoption by the EU, IFRS 9 will be effective for financial periods beginning on, or after, 1 January 2013. The Group is considering the implications of the standard and its impact on the Group's financial results and position.

Notes to the Financial Statements

3. OTHER ACCOUNTING POLICIES

The principal other accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 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. Accounting policies for subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests. A list of the Group's subsidiaries is set out in note 19.

(b) Associated undertakings

Interests in associated undertakings are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. These are undertakings over which the Group has significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights, but which it does not control. Equity accounting involves recognising in the profit and loss the share of the associated undertaking's post-acquisition profits or losses and recognising in reserves its share of post-acquisition movements in reserves. The interest in the associated undertaking is carried in the balance sheet at an amount that reflects the share of the net assets of the associated undertaking. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies for associated undertakings are changed where necessary to ensure consistency with the policies adopted by the Group. A list of the Group's associated undertakings is set out in note 20.

3.2 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management which implements the strategic decisions taken by the Board. In identifying the Group's business segments, the chief operating decision-maker is also guided by the Regulations under the Insurance Business Act, 1998 on the disclosure requirements relevant to specified insurance classes of business.

3.3 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The euro is the Group and Company's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies have been converted into the functional currency at the rates of exchange ruling on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

All foreign exchange gains and losses that relate to net claims incurred are presented in the technical profit and loss account within 'claims incurred'. All other foreign exchange gains and losses are presented in the profit and loss account within 'investment income' or 'investment expense'.

Translation differences on non-monetary financial assets, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as other available-for-sale financial assets, are included in the fair value reserve in equity.

Notes to the Financial Statements

3. OTHER ACCOUNTING POLICIES - CONTINUED

3.4 PROPERTY, PLANT AND EQUIPMENT

Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Buildings	100 years
Leasehold improvements	40 years
Motor vehicles	5 years
Furniture, fittings and equipment	3 - 10 years

The assets' residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (accounting policy 3.11).

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

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

3.5 INVESTMENT PROPERTY

Property held for long-term rental yields that is not occupied by the companies in the Group is classified as investment property.

Investment property comprises freehold land and buildings. It is carried at fair value. Fair value is based on active market prices, and/or valuation methods such as discounted cash flow projections. These valuations are reviewed annually by an independent valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

Changes in fair values are recorded in the profit and loss account.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

3.6 INTANGIBLE ASSETS – COMPUTER SOFTWARE

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their useful lives, not exceeding a period of five years.

All costs associated with maintaining computer software programmes are recognised as an expense as incurred.

3.7 SHARE OF ASSOCIATED UNDERTAKING'S VALUE OF IN-FORCE BUSINESS

The value of in-force business is determined by the directors of the associate, based on the advice of the company's approved actuary. The valuation represents the discounted value of projected future transfers to shareholders from policies in force at the year-end, after making a provision for taxation. In determining this valuation, assumptions relating to future mortality, persistency and levels of expenses are based

Notes to the Financial Statements

3. OTHER ACCOUNTING POLICIES - CONTINUED

3.7 SHARE OF ASSOCIATED UNDERTAKING'S VALUE OF IN-FORCE BUSINESS - CONTINUED

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 of the Group as part of the investments in associated undertakings.

3.8 INVESTMENTS IN GROUP UNDERTAKINGS

In the Company's financial statements, investments in group undertakings are accounted for by the cost method of accounting less impairment.

Provisions are recorded, where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the impairment is identified. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

The dividend income from such investments is included in the profit and loss account in the accounting year in which the Company's rights to receive payment of any dividend is established.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account and included within investment income.

3.9 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

In the Company financial statements, investments in associated undertakings are accounted at associated undertakings are recognised in other comprehensive income.

Fair value is determined by using valuation techniques that are commonly accepted such as the present value technique, reference to other instruments that are substantially the same or other valuation techniques. Further information is also disclosed in note 4(a) to these financial statements.

When investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account. Dividends are recognised in the profit and loss account when the Company's right to receive payments is established. Both are included within investment income.

3.10 FINANCIAL ASSETS

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, other available-for-sale investments and loans and receivables. 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 at every reporting date.

Classification

- Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Group's Board and relevant key management personnel in accordance with a documented investment strategy. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss. Derivatives are also classified as fair value through profit or loss.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group has designated as fair value through profit or loss. They include, *inter alia*, insurance and other receivables, income tax receivable, cash and cash equivalents in the balance sheet as well as other financial investments (comprising deposits with credit institutions, unlisted fixed income debt securities and treasury bills) classified as loans and receivables within note 21.
- Other available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss. They include *inter alia* unlisted equities.

Notes to the Financial Statements

3. OTHER ACCOUNTING POLICIES - CONTINUED

3.10 FINANCIAL ASSETS - CONTINUED

Recognition and measurement

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 recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are de-recognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss and other available-for-sale investments are subsequently re-measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment.

Gains or losses arising from changes in the value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the profit and loss account within investment income.

The fair values of quoted investments are based on current bid prices at the balance sheet date. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, and other valuation techniques, as appropriate. Subsequent changes in the fair value of any derivative instruments are recognised immediately in the profit and loss account. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative.

The Group enters into currency forward contracts to hedge the foreign exchange risk arising on its investments denominated in a foreign currency. These transactions provide effective economic hedges under the Company's risk management policies. However hedge accounting under the specific rules in IAS 39 is not required, because the change in the value of the hedged financial instrument is recognised in the profit and loss account.

3.11 IMPAIRMENT OF ASSETS

(a) Impairment of financial assets at amortised cost

The Group assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ("a loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- (i) significant financial difficulty of the issuer or debtor;
- (ii) a breach of contract, such as a default or delinquency in payments;
- (iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- (iv) the disappearance of an active market for that financial asset because of financial difficulties; or
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Notes to the Financial Statements

3. OTHER ACCOUNTING POLICIES - CONTINUED

3.11 IMPAIRMENT OF ASSETS - CONTINUED

(a) Impairment of financial assets at amortised cost - continued

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

(b) Assets classified as investments in associated undertakings/other available-for-sale investments

The Group assesses at end of the reporting period whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in the profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not subsequently reversed through the profit and loss account.

(c) Impairment of other non-financial assets

Assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3.12 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and deposits held at call with banks, which are held for operational purposes.

3.14 SHARE CAPITAL

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the share premium.

3.15 INSURANCE CONTRACTS

The Group issues contracts that transfer significant insurance risk and that are classified as insurance contracts.

As a general guideline, the Group defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Insurance contracts - General business

The results for general 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.

Notes to the Financial Statements

3. OTHER ACCOUNTING POLICIES - CONTINUED

3.15 INSURANCE CONTRACTS - CONTINUED

Insurance contracts - General business - continued

- (ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.
- (iii) Commissions and other acquisition costs that vary with, and are related to, securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ("DAC") in the balance sheet. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.
- (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 (IBNR) or not enough reported (IBNER) and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.
- (v) 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 Group. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).
- (vi) Provision in the form of an unexpired risk provision, is made on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before the balance sheet date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

Long term business – Group Life

Group life business consists of annual policies that cover the lives of a group of customers' employees for the year under cover. 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. The long-term business provision is based on the net "unearned premiums" method as adjusted to take into account the premium written. The valuation is carried out in conjunction with the Company's appointed independent actuary. 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.

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within receivables), as well as longer term receivables (classified within reinsurers' share of technical provisions) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 3.11.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that an insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost.

Notes to the Financial Statements

3. OTHER ACCOUNTING POLICIES - CONTINUED

3.15 INSURANCE CONTRACTS - CONTINUED

Receivables and payables related to insurance contracts - continued

The impairment loss is calculated following the same method used for these financial assets. These processes are described in accounting policy 3.11.

Liability adequacy test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision as described above). Any DAC written off as a result of this test cannot subsequently be reinstated.

3.16 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction cost of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.17 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provision where appropriate.

Deferred income tax is recognised 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. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date. 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity.

Deferred tax related to fair value re-measurements charged or credited directly in other comprehensive income or to equity, is also credited or charged directly to equity and subsequently recognised in the profit and loss account together with the deferred gain or loss.

3.18 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Notes to the Financial Statements

3. OTHER ACCOUNTING POLICIES - CONTINUED

3.19 REVENUE RECOGNITION

Revenue comprises the fair value for services and is recognised as follows:

(a) *Rendering of services*

Premium recognition is described in accounting policy 3.15 dealing with insurance contracts.

(b) *Dividend income*

Dividend income is recognised in the profit and loss account as part of investment income when the right to receive payment is established.

(c) *Other net fair value gains/(losses) from financial assets at fair value through profit or loss*

Other gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account within 'other investment income' or 'investment expenses and charges' in the period in which they arise.

(d) *Interest income*

Interest income from financial assets not classified as fair value through profit or loss is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

(e) *Rent receivable*

Rent receivable from investment property is accounted for on an accruals basis in accordance with the substance of the relevant lease agreements.

3.20 INVESTMENT RETURN

Investment return includes dividend income, other net fair value movements on financial assets at fair value through profit or loss (including interest income from financial assets classified as fair value through profit or loss), interest income from financial assets not classified as fair value through profit or loss, rental receivable, share of associated undertaking's result, and is net of investment expenses, charges, and interest.

Investment return is initially recorded in the non-technical account, except for income attributed to long term business which is recognised immediately in the long term business 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.

3.21 LEASES

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

3.22 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of affecting the reported amount of assets and liabilities within the next financial year are discussed below.

In 2008, the Group also considered the ultimate liability arising from insurance contracts entered into by Progress and the impairment of the investment in Progress to be critical accounting estimates. Further information on these estimates made in 2008 is disclosed in note 2 and note 23 to these accounts. Those adjustments are not considered to be critical any longer as at 31 December 2009 following the de-recognition of Progress as explained further in note 2.

Notes to the Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES - CONTINUED

(a) Fair value of investments in associated undertakings

The Company measures its investment in Middlesea Valletta Life Assurance Co Limited (MSV) at fair value. This investment is not quoted in an active market and its fair value is determined using a valuation technique by reference to MSV's embedded value. The embedded value is considered an approximation to an economic ("market-consistent") valuation and is made up of two items:

- i. Net assets of MSV taken at face value. These represent the market value of assets in excess of statutory reserves; and
- ii. Value of in-force business (VIF) representing the profits expected to emerge from the business currently in force. The VIF is based on an annual independent valuation and is measured as the discounted value of future profits and movements/releases of regulatory capital. The value of in-force business captures the value of existing business as well as the value of new business written during the period net of the cost of supporting capital.

The embedded value results are, therefore, driven by the estimates of future profits, and so the assumptions used to make these estimates are critical. Even though the assumptions used are best estimates, the process of deriving them involves a significant amount of judgment. The valuation model and main assumptions used are described in more detail below. The model is based on company-generated cash flows and observable market data on interest rates and equity returns.

(b) Estimate of in-force business of the associated company

The value of in-force business is a projection of future shareholders' profit expected from contracts in force at the year-end, appropriately discounted and adjusted for the effect of taxation. This valuation requires the use of assumptions relating to future mortality, persistency, levels of expenses and investment returns over the longer term (see accounting policy 3.7).

The after tax value of in-force business is determined by the directors on an annual basis, based on the advice of the approved actuary. The value of in-force business depends upon assumptions made regarding future economic and demographic experience. The economic assumptions are internally consistent and reflect the directors' view of economic conditions in the longer term.

The valuation, as disclosed in note 28, assumes a spread of 2% (2008: 2%) between the weighted average projected investment return and the discount factor applied. The calculation also assumes lapse rates varying from 2% to 10% (2008: 2% to 10%), and an expense inflation rate of 3.5% (2008: 3.5%).

Changes in current year assumptions were compared to the 2008 valuation process that had an impact on the value of in-force business in 2009 as follows:

- reduction in mortality assumptions increased value of in-force-business by €0.45 million;
- revision in investment returns and risk discount rate assumptions reduced value of in-force-business by €1.86 million; and
- change to assumption in respect of future allocations to asset shares reduced value of in-force business by €4.67 million.

If the assumed spread between weighted average projected investment return and discount rate were reduced by 1%, the after tax value of in-force business would increase to €21.51 million (2008: €21.2 million). If the assumed spread between weighted average projected investment return and discount rate were increased by 1%, the after tax value of in-force business would decrease to €19.33 million (2008: €18.69 million).

If the assumed future allocations to asset shares were increased by 0.25% then the value of in-force business would reduce by €3.32 million.

If the assumed future allocations to asset shares were decreased by 0.25% then the value of in-force business would increase by €4.96 million.

5. MANAGEMENT OF RISK

The Group is a party to contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way that the Group manages them.

5.1 INSURANCE RISK

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is fortuitous.

The terms and conditions of the contracts set out the bases for the determination of the Group's liability should the insured event occur. The risks underwritten include accident and health, motor (including third party liability), marine and transport, fire and other damage to property, liability and group life. Details of gross premiums written as well as the insurance liabilities analysed by class are provided in the "Segmental Analysis" (note 6).

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.1 INSURANCE RISK - CONTINUED

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments are significantly different to the amounts included within technical provisions. This could occur because the frequency or severity of claims and benefits are greater or lower than estimated. Insurance events are fortuitous and the actual number and amount of claims and benefits may vary from year to year from the estimate established using statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risk accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the potential variability of the expected outcome.

a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The following are considered by the Group to be the most significant:

- The increasing levels of court awards in cases where damages are suffered as a result of injuries; the divergence of awards that is dependant on the territory of the claim and the jurisdiction of the court; the effect of inflation due to the prolonged period typically required to settle such cases;
- The concentration of motor third party liability insurance mainly located within the Italian operation, in particular in Campania and Sicily;
- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed;
- The increase in the number of reported claims arising from the obligatory direct indemnification system (CARD) in Italy; and
- The increase in the number of claims reported by agents that were terminated in Italy.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

As disclosed in note 1, Progress experienced an exceptional high incidence of claims during 2009 due to a number of material adverse factors. Progress took a number of remedial measures, including steps to radically downsize the portfolio, claims management restructuring measures, the engagement of various specialist consultants and the purchase of two further types of reinsurance. In spite of these measures, the level of claims deteriorated further resulting in the company being put into administration and ceasing to write new business in 2010.

Underwriting

The underwriting strategy ensures that the risks underwritten are well diversified in terms of type and amount of risk and geography.

The Group follows strict underwriting guidelines and sets limits on the overall retention of risk that it carries. Any risk in excess of this limit is either reinsured under a facultative cover note or is declined. Underwriting limits are in place to enforce appropriate risk selection criteria. In certain circumstances, certain exclusions to risks are included within these guidelines. For example, the Group does not insure US risks unless they are incidental. The Group can impose deductibles to help manage its costs. It also uses its experience and expertise to mitigate the risk of fraudulent claims. Insurance contracts also entitle the Group to pursue third parties for payment of some or all of the costs (i.e. subrogation). A significant portion of the Group's business is underwritten through an agency distribution network. Underwriting authority limits are set for individual agencies or branches, and any contracts through which the Group is committed to cover risks in excess of these authority limits require head office approval.

All agents are assessed based on the targets set to them and on their overall contribution to the results of the Group and those agents that are considered to be performing below the targets set to them are terminated. Out of a total of 164 agencies in operation at the end of 2008, Progress had terminated 130 contracts at the end of December 2009. Underwriting in Italy ceased completely once Progress was put into administration/liquidation as explained further in note 2.

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.1 INSURANCE RISK - CONTINUED

a) *Frequency and severity of claims - continued*

Reinsurance arrangements

The Group has reinsurance protection in place for all classes of business. The type of reinsurance cover, and the level of retention, is based on the Group's internal risk management assessment which takes into account the risk being covered, the sums assured and the geographical location of the risk. The Boards of the individual insurance companies within the Group approve each reinsurance program on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional covers, which limit the liability of the Group to any one individual claim or event. It is generally the Group's policy for reinsurance to be placed with listed multinational reinsurance companies whose credit rating is not less than A.

On the acquisition of Progress Assicurazioni S.p.A., the Group had entered into a reinsurance arrangement with Mapfre Internacional, the previous shareholders of the Italian company. In terms of this agreement, Mapfre Internacional agreed to reimburse the company for the net adverse run-off cost of all risks incepted prior to the date of original acquisition.

During 2009, Progress Assicurazioni S.p.A. entered into two further types of reinsurance:

- Stop loss reinsurance treaties on all RCA unexpired risks existing at 31 December 2008 and all RCA policies underwritten in 2009, covering portfolio losses in excess of 105% of premiums up to an upper limit of 130%.
- Adverse Development Cover (ADC) for all losses occurring on all RCA policies underwritten in the years 2001 to 2008. The treaty provides cover for unfavourable run-offs over the amounts provided for by the company at 30 June 2009, up to a limit of €40 million, at a premium cost of €14 million.

As disclosed in note 2, Progress was not consolidated in the Group balance sheet as at 31 December 2009.

Claims handling

The Group has specialised claims units dealing with the mitigation of risks surrounding known claims. These units investigate and adjust all claims. Claims are reviewed individually on a regular basis. Those claims that take more than one year to settle are reviewed regularly, and are adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions and other factors. The Group actively manages and pursues early settlement of claims to reduce its exposure to unpredictable developments.

In the case of the Company, authority limits are set for the settlement of claims through the individual agents. Any claims incurred above these limits are referred to head office for handling. In addition, all claims involving bodily injury are referred to head office irrespective of their amount.

In the case of the Italian subsidiary, all claims were managed and settled directly by the company. Agents did not have authority to settle claims. Various claims management restructuring measures were put in place during 2009 to manage the increasing incidence of claims, including the engagement of various "specialists".

Concentration of insurance risk

Up until 31 December 2009, including the unaudited figures of Progress Assicurazioni S.p.A., 63% of the Group's business was written in Italy (2008: 72%), 34% was written in Malta (2008: 26%) and 3% (2008: 2%) was written in Gibraltar. As explained in note 2, Progress is not consolidated in the current financial year and therefore consolidated premiums written mainly include business written in Malta.

From a Group perspective, motor third party liability was the largest class of business written. From a Company perspective, the portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 29% (2008: 29%) and accident and health comprising 21% (2008: 21%) of the total portfolio. Other significant insurance business classes include motor liability business at 18% (2008: 18%) and fire and other damage to property at 19% (2008: 18%). The remaining 13% (2008: 14%) of premium written is generated across a spread of classes including marine, other non-motor liability business and long term business. Further information on premiums written and claims incurred by insurance business class is provided in note 6 to these financial statements.

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.1 INSURANCE RISK - CONTINUED

b) Sources of uncertainty in the estimation of future claim payments

Claims on contracts are accounted for on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, 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 information about the claim event is generally available. Certain classes of business, most notably those exposed to liability, can take several years to develop and are therefore subject to a greater degree of uncertainty than other classes of business which are typically settled in a shorter period of time.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and recoveries. The Group 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 possible that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR and a provision for reported claims not yet paid at the balance sheet date.

In calculating the estimated cost of unpaid claims, the Group uses a combination of estimation techniques, based partly on known information at year-end, partly on statistical analysis of historical experience and (in so far as was relevant to the Italian operation during 2008) on actuarial valuations carried out by an independent external actuary.

The reserve takes into account the estimated cost of the settlement of the claim, based on the information available at each period end. The statistical techniques are based on the statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

The Company has constructed 'chain ladders' that triangulate the settlement of claims by accounting year or underwriting year, depending on the class of business (i.e. covering risks underwritten in Malta or Gibraltar). The 'chain ladders' include the known claims incurred (i.e. the claims paid and claims outstanding in any given year) by underwriting/accounting year, and they demonstrate how each year has progressed in the subsequent years of development. The 'chain ladder' is then projected forward giving greater weighting to recent years. 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. In fact, 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.

The Italian subsidiary used multiple statistical techniques to estimate the ultimate cost of claims for material classes of insurance business (essentially RCA). An external actuarial assessment on the adequacy of claims reserving was commissioned on an annual basis, in accordance with Italian Regulatory requirements until 31 December 2008. No external actuarial assessment was made on Progress' claims reserves as at 31 December 2009 given that the company was put in administration in February 2010 as explained further in note 1.

Note 23 presents the development of the estimate of ultimate claim cost for claims notified in a given year.

5.2 FINANCIAL RISK

The Group is exposed to a range of financial risks through its financial assets, financial liabilities, and insurance and reinsurance assets and liabilities. The most important components of these financial risks for the Group are: interest rate risk, equity price risk, currency risk, credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

MARKET RISK

a) Cash flow and fair value interest rate risk

The Group matches its insurance liabilities with a portfolio of equity, property, and debt securities and short term deposits. The non-equity portion of the financial assets in this portfolio is characterised by interest rate risk.

In general, the Group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Several line items on the balance sheet are based on fixed interest rates, and are therefore subject to changes in fair value resulting from changes in market rates. This risk is managed through investment in debt securities and deposits having a wide range of maturity dates. Group investment parameters exist to limit exposure to any one particular issuer and any one particular security (with the exception of investment

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK: MARKET RISK - CONTINUED

a) Cash flow and fair value interest rate risk - continued

in government securities). The Group also has assets as well as loan facilities issued at variable rates which expose it to cash flow interest rate risk. Periodic reports are prepared at portfolio, legal entity and asset and liability class level that are circulated to the Group's relevant key management personnel.

Assets and liabilities exposed to interest rate risk and their maturities are analysed below:

Group	2009				
	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets					
Debt securities – listed fixed interest rate	5,216	787	7,088	3,928	17,019
Loans and receivables:					
- Deposits with banks and credit institutions	15,943	-	-	-	15,943
- Cash and cash equivalents	3,724	-	-	-	3,724
Total interest bearing assets	24,883	787	7,088	3,928	36,686
Liabilities					
Borrowings	-	2,326	6,979	6,980	16,285
Deposits received from reinsurers	4,211	-	-	-	4,211
Total interest bearing liabilities	4,211	2,326	6,979	6,980	20,496

As disclosed in note 2, Progress has been de-recognised from the Group's financial statements as at 31 December 2009 and, accordingly, is not included in the above consolidated figures.

Group	2008				
	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets					
Debt securities – listed fixed interest rate	19,902	5,838	20,561	23,088	69,389
Treasury bills	74,441	-	-	-	74,441
Loans and receivables:					
- Deposits with banks and credit institutions	5,325	-	-	-	5,325
- Cash and cash equivalents	6,361	-	-	-	6,361
Total interest bearing assets	106,029	5,838	20,561	23,088	155,516
Liabilities					
Borrowings	-	-	6,979	9,306	16,285
Deposits received from reinsurers	5,650	-	-	-	5,650
Total interest bearing liabilities	5,650	-	6,979	9,306	21,935

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK: MARKET RISK - CONTINUED

a) Cash flow and fair value interest rate risk - continued

Company	2009				
	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets					
Debt securities – listed fixed interest rate	5,216	787	7,088	3,441	16,532
Loans and receivables:					
- Deposits with banks and credit institutions	15,943	-	-	-	15,943
- Cash and cash equivalents	3,080	-	-	-	3,080
Total interest bearing assets	24,239	787	7,088	3,441	35,555
Liabilities					
Borrowings	-	2,326	6,979	6,980	16,285
Deposits received from reinsurers	4,211	-	-	-	4,211
Total interest bearing liabilities	4,211	2,326	6,979	6,980	20,496
Company	2008				
	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets					
Debt securities – listed fixed interest rate	2,325	1,998	9,310	12,138	25,771
Treasury bills	149	-	-	-	149
Loans and receivables:					
- Deposits with banks and credit institutions	5,002	-	-	-	5,002
- Cash and cash equivalents	3,418	-	-	-	3,418
Total interest bearing assets	10,894	1,998	9,310	12,138	34,340
Liabilities					
Borrowings	-	-	6,979	9,306	16,285
Deposits received from reinsurers	4,347	-	-	-	4,347
Total interest bearing liabilities	4,347	-	6,979	9,306	20,632

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK: MARKET RISK - CONTINUED

a) Cash flow and fair value interest rate risk - continued

Assets and liabilities issued at variable rates expose the Group to cash flow interest rate risk whilst assets and liabilities issued at fixed rates expose the Group to fair value interest rate risk. The overall exposure to these two risks are as follows:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Assets held at variable rates				
Deposits with banks or credit institutions	15,943	5,325	15,943	5,002
Treasury bills	-	74,441	-	149
Cash and cash equivalents	3,724	6,361	3,080	3,418
	19,667	86,127	19,023	8,569
Liabilities issued at variable rates				
Borrowings	16,285	16,285	16,285	16,285
Deposits received from reinsurers	4,211	5,650	4,211	4,347
	20,496	21,935	20,496	20,632
Assets held at fixed rates				
Debt securities	17,019	69,389	16,532	25,771

Insurance and other liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and, with the exception of deposits received from reinsurers, are contractually non-interest bearing. In those instances where interest is payable (e.g. in the case of damages awarded by the Courts), interest is included in the claims cost whilst the investment income earned until the claim is settled is credited to the profit and loss account as it accrues.

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.

i) Sensitivity Analysis – interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

The interest rate sensitivity, which considers the impact of changes in interest rates on financial assets and financial liabilities, has been based on a model of Euro Swap rates, being the Group's and Company's largest exposure. The sensitivity chosen aims to reflect a 1 in 10 year events.

At 31 December 2009, if interest rates at that date would have been 90 basis points (2008: 90 basis points) lower with all other variables held constant, the Group (excluding Progress) and Company pre-tax results for the year would have improved by €0.45 million (2008: €0.95 million). An increase of 90 basis points (2008: 90 basis points), with all other variables held constant, would have resulted in a decrease in the Group's (excluding Progress) and Company's pre-tax results for the year of €0.41 million (2008: €1.55 million).

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK: MARKET RISK - CONTINUED

b) *Equity price risks*

The Group's financial assets are susceptible to the risk of decreases in value due to changes in the prices of equities because of investments held and classified on the balance sheet as fair value through profit or loss or as available-for-sale.

The directors manage this risk of price volatility by entering into a diverse range of investments including equities and collective investment schemes. In addition, the Group's investments are spread geographically in a diverse number of different "Zone of approved countries" in terms of Insurance Directive 16. The Group has an active Investment Committee that has established a set of investment guidelines that is also approved by the Board of Directors. Investments over prescribed limits are directly approved by the Board. These guidelines provide parameters for investment management, including contracts with external portfolio managers. They include, *inter alia*, reference to an optimal spread of the investment portfolio, minimum security ratings assessment of equity issuers and maximum exposures by the Group to any one issuer and its connected parties. These parameters also consider solvency restrictions imposed by the relevant Regulations.

Management structures are in place to monitor all the Group's overall market positions on a frequent basis. Reports are prepared at portfolio, legal entity and asset and liability class level that are circulated to the Group's relevant key management personnel. These are also reviewed on a monthly basis by the Investment Committee and on a quarterly basis by the Board.

i) *Sensitivity analysis – equity price risk*

The sensitivity for equity price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity traded in the market.

The sensitivity for equity price risk is derived based on global equity returns, assuming that currency exposures are hedged. The sensitivities chosen aim to reflect a 1 in 10 year event. Given the investment strategy of the Group and Company, the global equity markets are considered to be the more appropriate benchmark for sensitivity purposes.

An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in an impact of €1.32 million (2008: €0.96 million) on the Group's (excluding Progress) and Company's pre-tax results.

c) *Currency risk*

The Company has assets and liabilities denominated in currencies other than Euro, the functional currency, principally including Sterling and US Dollar. The Company is therefore exposed to currency risk, as the value of assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates.

The Company's exposure to exchange risk is limited through the establishment of guidelines for investing in foreign currency and hedging currency risk through forward exchange contracts where considered necessary. These guidelines are approved by the Board and a manageable exposure to currency risk is thereby permitted.

The Company also operates in Gibraltar creating an additional source of foreign currency risk – GBP.

- The operating results of the Group's foreign branches are translated at average exchange rates prevailing during the period in the financial statements; and
- The investment in foreign branches is translated into Euro using the foreign currency exchange rate at the financial statement period-end date.

At 31 December 2009, foreign currency exposure amounted to €1.80 million (2008: €1.39 million). €0.51 million was hedged as at the financial year-end (2008: €0.53 million) leaving an unhedged exposure of €1.29 million (2008: €0.86 million).

The subsidiaries of the Group are not exposed to currency risk as both the assets and liabilities of the subsidiaries are mainly denominated in their functional currency.

The Group's and the Company's net exposure to foreign currencies is not considered to be material and accordingly a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the balance sheet date is not deemed necessary.

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK - CONTINUED

CREDIT RISK

Credit risk is the risk of decreases in value when counterparties are not capable of fulfilling their obligations or when a change in their credit status takes place. Key areas where the Group is exposed to credit risk are:

- Investments and cash and cash equivalents
- Reinsurers' share of insurance liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance contract holders
- Amounts due from insurance intermediaries
- Counterparty risk with respect to derivative transactions

The Group places limits on the level of credit risk undertaken from the main categories of financial instruments. These limits also take due consideration of the solvency restrictions imposed by the relevant Regulations. The investment strategy of the Group considers the credit standing of the counterparty and control structures are in place to assess and monitor these risk thresholds.

The Group structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparties. The Group has in place internal control structures to assess and monitor credit exposures and risk thresholds.

The Group's cash is placed with a number of quality financial institutions, thereby reducing the concentration of counterparty credit risk to an acceptable level.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is monitored on a quarterly basis by reviewing credit grades provided by rating agencies and other publicly available financial information, thereby ensuring the continuous financial strength of the reinsurer. At the same time as the Board approves the overall reinsurance protection of the Group, it ensures that the reinsurers' credit rating (either Standard & Poors or equivalent) is within the parameters set by it.

The Group is exposed to contract holders and intermediaries for insurance premium. Credit agreements are in place in all cases where credit is granted, and in the case of larger risks, premium payment warranties are in place. This limits the liability of the Group towards the insured or any third party if the premium remains unsettled after the credit period granted and allows the Group to cancel the policy *ab initio*, if considered necessary. Records are kept of the payment history for significant contract holders and intermediaries with whom regular business is conducted. Credit is not granted to contract holders or intermediaries whose payment history is not satisfactory. Credit risk with respect to debtors is further limited due to the large number of customers comprising the Group's debtor base.

The exposure to individual counterparties is also managed by other mechanisms, such as the right to offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal audit performs regular reviews to assess the degree of compliance with the Group's procedures on credit.

The Group does not enter into derivative contracts, with the exception of forward contracts that are transacted for the purpose of hedging foreign currency exposure as described earlier. All forward contracts are placed with quality financial institutions within the parameters of a hedging policy approved by the Board.

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK: CREDIT RISK - CONTINUED

The total assets bearing credit risk are the following:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Debt securities	17,019	69,389	16,532	25,771
Other financial assets (including deposits with banks, treasury bills and debt securities)	15,943	79,766	15,943	5,151
Reinsurers share of technical provisions	9,114	22,446	9,114	8,898
Insurance and other receivables	9,524	24,422	9,458	8,968
Income tax receivable	330	2,635	293	259
Cash and cash equivalents	3,724	6,361	3,080	3,418
Total	55,654	205,019	54,420	52,465

The carrying amounts disclosed above represent the maximum exposure to credit risk.

These assets are analysed in the table below using Standard & Poors rating (or equivalent).

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
AAA	-	26,874	-	1,645
AA	12,577	22,696	12,577	11,504
A	25,835	126,827	24,925	28,823
BBB	-	119	-	-
Not rated	17,242	28,503	16,918	10,493
Total	55,654	205,019	54,420	52,465

As disclosed in note 2, Progress has been de-recognised from the Group's financial statements as at 31 December 2009, and accordingly, is not included in the consolidated figures.

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK: CREDIT RISK - CONTINUED

Financial assets that are past due but not impaired

Within insurance and other receivables are the following receivables that are classified as past due but not impaired:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Within credit terms	2,664	2,453	2,664	2,038
Not more than three months	1,347	1,048	1,347	562
Within three to twelve months	1,389	836	1,389	604
Over twelve months	378	942	378	301
	5,778	5,279	5,778	3,505

IFRS 7 defines a financial asset as being past due when the counterparty has failed to make a payment when contractually due. It goes further to stipulate that full disclosure must be made of all balances due from this particular counterparty, including those which are still within credit terms and therefore not contractually due.

The overall exposure of the Group in terms of IFRS 7 is €5.78 million, of which €2.66 million is not contractually due. With respect to the remaining balance, circa €0.94 million is due from one counterparty. It is the view of the directors that no impairment charge is necessary, due to the following reasons:

1. Settlements after year-end.
2. In cases where the amount has not been settled, agreement for settlement has been reached or is being negotiated.

Financial assets that are impaired

Within insurance and other receivables are the following receivables that are classified as impaired:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Within three to twelve months	-	751	-	-
Over twelve months	675	1,501	675	675
	675	2,252	675	675

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK: CREDIT RISK - CONTINUED

These balances are covered by the following:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Impairment loss (note 25)	553	2,130	553	553
Other insurance payables	122	122	122	122
	675	2,252	675	675

A decision to impair an asset is based on the following information that comes to the attention of the Group:

- Significant financial difficulty of the debtor.
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

LIQUIDITY RISK

Liquidity risk is the risk of not being able to meet unexpected or unexpectedly high payments in the short term, hence incurring a financial loss through the disposal of assets at an unfavourable price.

The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Group manages its funds in such a manner as to ensure an adequate portion of available funds to meet such calls, principally through limits set by the Board on the minimum proportion of maturing funds available to meet such calls. Furthermore, the Group invests a majority of its assets in listed investments that can be readily disposed of.

The following table indicates the expected timing of cash flows arising from the Group's liabilities:

	Group expected cash flows (undiscounted) (€ millions) 2009							Total
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs		
Technical provisions – claims outstanding	18.2	6.4	3.7	2.2	2.5	6.9	39.9	
Borrowings	0.5	2.9	2.7	2.7	2.6	7.3	18.7	
Insurance and other payables	15.1	-	-	-	-	-	15.1	
	Group expected cash flows (undiscounted) (€ millions) 2008							
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total	
Technical provisions – claims outstanding	68.3	27.4	16.3	10.8	10.2	27.0	160.0	
Borrowings	0.6	0.6	3.0	2.8	2.7	10.0	19.7	
Insurance and other payables	21.8	-	-	-	-	-	21.8	
	Company expected cash flows (undiscounted) (€ millions) 2009							
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total	
Technical provisions – claims outstanding	18.2	6.4	3.7	2.2	2.5	6.9	39.9	
Borrowings	0.5	2.9	2.7	2.7	2.6	7.3	18.7	
Insurance and other payables	16.0	-	-	-	-	-	16.0	

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.2 FINANCIAL RISK: LIQUIDITY RISK - CONTINUED

	Company expected cash flows (undiscounted) (€ millions) 2008						Total
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	
Technical provisions – claims outstanding	17.4	5.3	3.9	2.3	3.0	5.1	37.0
Borrowings	0.6	0.6	3.0	2.8	2.7	10.0	19.7
Insurance and other payables	14.4	-	-	-	-	-	14.4

5.3 FAIR VALUES

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following tables present the assets measured at fair value at 31 December 2009.

Group	Level 1 €'000	Level 3 €'000	Total Balance €'000
Assets			
Financial assets at fair value through income			
- Equity securities	13,163	-	13,163
- Debt securities	17,019	-	17,019
Other available-for-sale investments	-	410	410
Total assets	30,182	410	30,592
Company			
	Level 1 €'000	Level 3 €'000	Total Balance €'000
Assets			
Financial assets at fair value through income			
- Equity securities	13,163	-	13,163
- Debt securities	16,532	-	16,532
Investment in associated undertakings	-	51,957	51,957
Other available-for-sale investments	-	75	75
Total assets	29,695	52,032	81,727

At 31 December 2009, the financial assets measured at fair value on a recurring basis classified as Level 1 accounted for 99% at Group level and 36% at Company level. Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities and equity securities.

At 31 December 2009, 64% of the financial assets measured at fair value on a recurring basis at Company level were classified as Level 3. They constitute investment in unlisted equities. Fair values were determined by using valuation techniques. These equities mainly include the investment in Middlesea Valletta Life Assurance Co Ltd. The fair value of this investment is determined using discounted future cash flows using assumptions relating to future mortality, persistency, levels of expense and investment returns as described further in note 4.

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.3 FAIR VALUES - CONTINUED

The model is based on company-generated cash flows and observable market data on interest rates and equity returns. Determination to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2009.

Group	Investments in associates €'000	Other available-for-sale investments €'000	Total €'000
Opening balance	-	768	768
Net fair value losses	-	(290)	(290)
De-recognition of subsidiary	-	(68)	(68)
Closing balance	-	410	410

Company	Investments in associates €'000	Other available-for-sale investments €'000	Total €'000
Opening balance (restated) - note 20	42,542	371	42,913
Additions	6,795	-	6,795
Net fair value gains/(losses)	2,620	(296)	2,324
Closing balance	51,957	75	52,032
Total losses for the period included in profit and loss account	-	(59)	(59)

At 31 December 2009 and 2008, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values.

5.4 CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- To comply with the insurance capital requirements established by the regulators of the insurance markets in which the Group operates;
- To provide for the capital requirements of the companies within the Group;
- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The defined capital for Middlesea Insurance p.l.c. ("MSI" or "the Company") comprises shareholders' equity. The minimum own funds required by Insurance Rule 1 at 31 December 2009 amounted to €6.4 million (2008: €6.4 million). In addition, the Group is subject to insurance solvency requirements as established by the Regulators from time to time. In each country in which the Group operates, the local Insurance Regulations specify the minimum amount and type of capital that must be held by the insurance companies within the Group in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the year. Given the

Notes to the Financial Statements

5. MANAGEMENT OF RISK - CONTINUED

5.4 CAPITAL MANAGEMENT - CONTINUED

composite nature of the Company, Middlesea Insurance p.l.c. is obliged to abide with capital requirements for both its long term and its general insurance business.

The losses incurred by Progress Assicurazioni S.p.A. (Progress) during the course of 2008 and 2009 (discussed in detail in note 1) significantly eroded the Group's capital base. As a result, the general business regulatory capital of both Progress and MSI fell below the capital regulatory requirement imposed by the respective Regulators during the second half of the year. The Group was required to submit a plan to the Insurance Regulators both locally and in Italy setting out how it would increase its regulatory capital by the required amount. This plan entailed a rights issue being launched in November 2009, which led to a capital injection of €39.7 million (net of issue costs) by the shareholders of MSI. These proceeds were applied to reinstate the statutory and regulatory capital requirements across the Group. In addition to this new injection of share capital, Progress also obtained a subordinated loan of €8.5 million (that was guaranteed by MSI) to enable it to meet its regulatory and solvency requirements.

The further deterioration of Progress's financial results in the last quarter of 2009, beyond the losses anticipated at the time of the Rights Issue, meant that the proceeds of the Rights Issue and those of the subordinated loan were insufficient for Progress to continue to meet its regulatory requirements as at 31 December 2009. Furthermore, management accounts as at that date showed Progress reporting negative equity. This had a direct negative implication on the solvency position of Middlesea Insurance p.l.c.. For the purposes of this solvency calculation, the investment in Progress was determined by reference to Progress' net asset/liability position, after applying asset admissibility criteria, as well as its own required minimum margin. This is independent of the fact that, as explained in note 2, the directors have been advised that in the circumstances MSI's exposure towards Progress is limited to the capital injected and its subordinated loan agreement guarantee. At 31 December 2009, on the basis of Progress' unaudited management information, which is disclosed in note 2, there was a calculated solvency deficiency of €29 million in this respect. This also resulted in MSI not meeting its regulatory capital requirements at 31 December 2009.

In February 2010 Progress was put into Provisional Administration, upon which it qualified for exclusion from the Group's solvency requirements. Excluding any liability towards Progress in excess of the losses already suffered, MSI's capital at 31 December 2009 would have satisfied its solvency regulatory requirements. This position would have therefore crystallised in February 2010. However, as from 1 January 2010, new regulations that came into force resulted in certain of the Group's assets no longer being admissible for solvency purposes. This again resulted in the Company not meeting its regulatory requirements in 2010. The Company has agreed a plan with the Regulator to reinstate its regulatory capital to the minimum amount required, plus the multiple requested, and is in the process of implementing this plan.

The Company was compliant at all times with its capital requirements with respect to its long-term business. All other companies within the Group were also compliant with the respective minimum regulatory requirements throughout the financial period.

6. SEGMENT INFORMATION

The Group is organised on a worldwide basis into four geographical segments that are all principally involved in the business of general insurance: Malta, Italy, Gibraltar and London (discontinued):

- Malta – The holding Company is incorporated in Malta and is licensed under the Insurance Business Act, 1998, as a composite insurer, to carry on both general and long term business of insurance.
- Italy – The Italian subsidiary carried on general business of insurance in Sicily and on the Italian mainland. The subsidiary was put into liquidation in 2010 as explained further in note 1.
- Gibraltar – The holding Company also operates through a branch in Gibraltar carrying on general business of insurance.
- London – Up to November 2000, the holding Company operated in the UK, as a general business reinsurer, through a branch in London. This branch has since been closed and the Group's international reinsurance acceptance business is close to being fully run-off.

The segment results for the years ended 31 December 2009 and 2008 are indicated below. The Group figures exclude Progress in Italy as a result of its de-recognition as explained further in note 2.

Notes to the Financial Statements

6. SEGMENT INFORMATION - CONTINUED

Group

	Gross premiums written		(Loss)/profit before tax	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Malta	30,804	31,121	4,000	(3,554)
Italy	-	86,056	(58,958)	(26,822)
Gibraltar	2,583	2,842	440	563
London – discontinued	17	28	70	14
Total for the year	33,404	120,047	(54,448)	(29,799)

There is no business transacted between the segments other than as disclosed in note 36.

Group 2009

	Malta €'000	Italy €'000	Total €'000
Other information:			
Depreciation and amortisation	580	-	580
Impairment of investment in group undertaking	-	(63,121)	(63,121)
Share of profit of participating interest	3,121	-	3,121
Interest income	1,448	-	1,448
Interest expense	654	-	654
Income tax expense	670	-	670

No information is disclosed for 'Italy' following the Group's decision to derecognise Progress for the period ending 31 December 2009 as explained further in note 2.

Group 2008

	Malta €'000	Italy €'000	Total €'000
Other information:			
Depreciation and amortisation	545	344	889
Share of profit of participating interest	958	-	958
Interest income	1,805	5,104	6,909
Interest expense	936	19	955
Income tax expense	1,452	7,755	9,207

Segment assets include all operating assets used by a segment and consist principally of investments, reinsurers' share of technical provisions and receivables, net of provisions. Segment liabilities comprise operating liabilities mainly including technical provisions. Segment liabilities for the London and Gibraltar branches 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 for the year then ended are shown below. The assets and liabilities as at 31 December 2009 exclude Progress as a result of the Italian company's de-recognition as explained further in note 2.

Notes to the Financial Statements

6. SEGMENT INFORMATION - CONTINUED

	Assets		Liabilities	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Malta	134,083	122,004	85,422	74,654
Italy	-	185,881	-	169,453
Gibraltar	8,253	6,662	8,251	6,662
London - discontinued	1,419	1,428	1,418	1,427
	143,755	315,975	95,091	252,196

The assets allocated to the Malta operation include the aggregate investment in associated undertakings of €52.0 million (2008: €41.7 million).

The total of non current assets, other than financial instruments, deferred tax assets, post employment benefits and risks arising under insurance contracts are detailed in the table below.

	Group 2009		
	Malta €'000	Italy €'000	Total €'000
Total assets include:			
Investment in associated undertakings	51,957	-	51,957
Non-current asset additions	243	-	243
Non-current assets	11,129	-	11,129

No information is disclosed for 'Italy' following the Group's decision to derecognise Progress for the period ending 31 December 2009 as explained further in note 2.

	Group 2008		
	Malta €'000	Italy €'000	Total €'000
Total assets include:			
Investment in associated undertakings	41,734	-	41,734
Non current asset additions	664	229	893
Non current assets	10,715	11,012	21,727

Notes to the Financial Statements

6. SEGMENT INFORMATION - CONTINUED

Information about business segments

General business

The Group's four geographic segments operate in two main business segments, general business, that is further sub-divided into various insurance business classes, and long-term business as follows:

Gross premiums written and gross premiums earned by class of business

	Group			
	Gross premiums written		Gross premiums earned	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Direct insurance				
Motor (third party liability)	5,972	69,863	5,989	62,830
Motor (other classes)	9,788	22,813	9,816	21,667
Fire and other damage to property	6,363	8,281	6,471	8,507
Accident and health	7,171	12,981	7,116	12,651
Other classes	2,952	4,427	2,910	4,520
	32,246	118,365	32,302	110,175

92% (2008: 25%) of consolidated gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta and 8% (2008: 2%) emanate from contracts concluded in or from Gibraltar. As explained in note 2, Progress was not consolidated during the period ending 31 December 2009. The premiums written in Italy during 2009, that are based upon unaudited management accounts, are disclosed in note 2.

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

	Group					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Direct insurance						
Motor (third party liability)	4,350	81,089	1,685	11,748	19	(26)
Motor (other classes)	6,984	12,713	2,764	6,448	32	(177)
Fire and other damage to property	2,698	3,929	1,980	2,649	1,649	2,216
Accident and health	3,959	3,834	1,865	3,758	678	1,145
Other classes	1,571	3,621	932	1,288	(229)	572
	19,562	105,186	9,226	25,891	2,149	3,730

Notes to the Financial Statements

6. SEGMENT INFORMATION - CONTINUED

The Group figures above exclude Progress following the decision to derecognise Progress from 1 January 2009 as further explained in note 2.

Gross premiums written and gross premiums earned by class of business

	Company			
	Gross premiums written		Gross premiums earned	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Direct insurance				
Motor (third party liability)	5,972	6,073	5,989	6,053
Motor (other classes)	9,788	9,953	9,816	9,920
Fire and other damage to property	6,363	6,147	6,471	6,366
Accident and health	7,171	7,204	7,116	7,069
Other classes	2,952	2,932	2,910	3,014
	32,246	32,309	32,302	32,422

92% (2008: 91%) of gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta. The balance emanates from contracts concluded in or from Gibraltar.

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

	Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Direct insurance						
Motor (third party liability)	4,350	3,829	1,685	1,625	19	-
Motor (other classes)	6,984	6,621	2,764	2,655	32	(73)
Fire and other damage to property	2,698	2,532	1,980	1,958	1,649	1,998
Accident and health	3,959	3,435	1,865	1,884	678	1,042
Other classes	1,571	2,014	932	871	(229)	555
	19,562	18,431	9,226	8,993	2,149	3,522

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	
	2009 €'000	2008 €'000
Gross premiums written		
Direct insurance	1,148	1,670
Reinsurance inwards	10	12
	1,158	1,682

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.

Notes to the Financial Statements

7. NET OPERATING EXPENSES

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Acquisition costs	7,336	19,454	7,336	6,979
Change in deferred acquisition costs, net of reinsurance	(52)	(420)	(52)	26
Administrative expenses	4,944	10,105	3,372	3,330
Reinsurance commissions and profit participation	(4,447)	(4,787)	(4,447)	(3,930)
	7,781	24,352	6,209	6,405
Allocated to:				
General business technical account	4,973	21,157	4,973	5,098
Long term business technical account	109	239	109	239
Non-technical account (administrative expenses)	2,699	2,956	1,127	1,068
	7,781	24,352	6,209	6,405

Total commissions for direct business accounted for in the financial year amounted to €6.39 million (2008: €16.39 million) in the Group's technical result and €6.39 million (2008: €5.96 million) in the Company's technical result. Administrative expenses mainly comprise employee benefit expenses which are analysed in note 11.

The Group figures above exclude Progress following the decision to derecognise Progress for the period ending 31 December 2009 as explained further in note 2.

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. They include staff costs, premises costs, depreciation charge, directors' fees, auditors' remuneration, professional fees, marketing and promotional costs, and other general office expenditure.

8. INVESTMENT RETURN

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Investment income				
Share of profit of associated undertaking involved in insurance business net of tax	3,121	958	-	-
Dividend income from group undertakings	-	-	1,475	3,524
Rental receivable from investment property	508	607	508	483
Interest receivable from loans and receivables				
- group undertakings	-	-	-	17
- other financial assets not at fair value through profit or loss	114	1,304	93	369
Income from financial assets at fair value through profit or loss				
- dividend income	530	865	530	434
- other net fair value gains	3,758	-	3,747	-
Net fair value gains on investment property	751	649	777	577
	8,782	4,383	7,130	5,404

Notes to the Financial Statements

8. INVESTMENT RETURN - CONTINUED

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	51	58	51	58
Interest expense for financial liabilities that are not at fair value through profit or loss	654	955	654	936
Net fair value losses on financial assets at fair value through profit or loss	-	6,594	-	5,016
Impairment loss on investment in group undertaking (note 1)	63,121	-	69,523	2,500
Impairment of other available-for-sale financial assets (note 28)	477	-	477	-
Exchange differences	16	1,031	16	1,033
Other investment expenses	15	73	15	32
	64,334	8,711	70,736	9,575
Total investment charge	(55,552)	(4,328)	(63,606)	(4,171)
Analysed between:				
Allocated investment return/(charge) transferred to the general business technical account	3,435	(3,073)	3,435	(2,886)
Impairment loss on investment in group undertaking included in non-technical account	(63,121)	-	(69,523)	(2,500)
Other investment income/(charge) included in the non-technical account	3,947	(1,264)	2,295	1,206
Investment return included in the long term business technical account	187	9	187	9
	(55,552)	(4,328)	(63,606)	(4,171)

In accordance with IAS 39, fair value movements on financial assets at fair value through profit or loss include nominal interest income for the Group of €1.35 million (Company: €1.33 million) and realised and unrealised capital gains on investments of €2.41 million (Company: €2.42 million). Corresponding figures for 2008 were €5.59 million (Company: €1.39 million) and €12.18 million loss (Company: €6.41 million loss) respectively.

The Group figures above exclude Progress following the decision to derecognise Progress for the period ending 31 December 2009 as explained further in note 2.

9. OTHER INCOME

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Management fees	1,950	1,819	-	-

Notes to the Financial Statements

10. LOSS BEFORE TAX

The loss before tax is stated after charging/(crediting):

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Employee benefit expense (note 11)	3,844	6,664	1,769	1,821
Depreciation/amortisation:				
- intangible assets (note 16)	364	406	271	251
- tangible assets (note 17)	216	483	133	134
Impairment loss on receivables (note 25)	-	458	-	-
Write back of impairment loss on receivables (note 25)	-	(75)	-	-
Impairment loss on investment in subsidiary undertaking (notes 2 and 8)	63,121	-	69,523	2,500
Impairment loss on other available-for-sale financial assets (note 8)	477	-	477	-

The financial statements include fees charged by the Parent Company auditor for services rendered during the financial periods ended 31 December 2009 and 2008 relating to entities that are included in the consolidation, amounting to:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Annual statutory audit	58	67	51	44
Other assurance services	85	11	85	11
Tax advisory and compliance services	3	3	3	3
Other	32	24	32	24
	178	105	171	82

In addition, fees charged by other auditors (who are also part of the network of member firms of PricewaterhouseCoopers) amounted to:

	Group	
	2009 €'000	2008 €'000
Annual statutory audit	-	27
Other assurance services	-	8
Other	-	6
	-	41

The Group figures above exclude Progress following the decision to derecognise Progress for the period ending 31 December 2009 as explained further in note 2.

Notes to the Financial Statements

11. EMPLOYEE BENEFIT EXPENSE

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Salaries	3,597	5,579	1,629	1,679
Social security costs	191	1,029	84	86
Provision for contracted pension obligations (note 13)	56	56	56	56
	3,844	6,664	1,769	1,821

The average number of persons employed during the year was:

	Group		Company	
	2009	2008	2009	2008
Key management personnel	11	14	5	6
Managerial	17	23	11	10
Technical	84	110	34	34
Administrative	7	23	2	2
	119	170	52	52

The Group figures above exclude Progress following the decision to derecognise Progress for the period ending 31 December 2009 as explained further in note 2.

12. INCOME TAX EXPENSE

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Current tax expense	675	444	677	1,556
Deferred tax credit (note 22)	(5)	(9,651)	(156)	(1,396)
Income tax expense/(credit)	670	(9,207)	521	160

Notes to the Financial Statements

12. INCOME TAX EXPENSE - CONTINUED

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

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Loss before tax	(54,448)	(29,799)	(62,880)	(3,465)
Tax at 35%	(19,057)	(10,430)	(22,008)	(1,213)
Adjusted for tax effect of:				
Dividends received from untaxed income	-	-	(509)	(454)
Exempt income	(5,260)	(377)	(1,049)	-
Differences arising from section 15 of the Income Tax Act	-	(661)	-	-
Unrecognised deferred tax movements	25,208	-	24,333	-
Non-deductible expenditure	25	1,066	-	1,799
Foreign tax payable	-	-	-	372
Withholding tax regime on investment property	(176)	(89)	(176)	(89)
Different tax rates on overseas subsidiary	-	1,803	-	-
Other	(70)	(519)	(70)	(255)
Income tax expense/(credit)	670	(9,207)	521	160

The Group figures above exclude Progress following the decision to derecognise Progress for the period ending 31 December 2009 as explained further in note 2.

13. DIRECTORS' EMOLUMENTS

	2009 €'000	2008 €'000
Contracted emoluments paid to management	230	124
Directors' fees	116	119
	346	243

The Company paid insurance premiums of €9k (2008: €9k) during the year in respect of insurance cover in favour of its directors. The executive director was entitled to the use of a company car. Furthermore, provisions of €56k (2008: €56k) have been made, net of recoveries, in respect of contracted pension obligations.

Notes to the Financial Statements

14. LOSS PER SHARE

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

	Group	
	2009	2008
	€'000	€'000
Net loss attributable to shareholders	(53,462)	(18,690)
Weighted average number of ordinary shares in issue (note 27)	26,835,616	25,000,000
Loss per share	(€1.99)	(€0.75)

15. DIVIDENDS

At the forthcoming Annual General Meeting, no dividend is to be proposed. No dividends were declared after the financial year-end in respect of 2008. Dividends for 2007 amounted to €3.20 million (12.81 cents per share with a nominal value of 58.23 cents).

Notes to the Financial Statements

16. INTANGIBLE ASSETS

	Group €'000	Company €'000
Computer software		
At 1 January 2008		
Cost	3,655	2,040
Accumulated amortisation	(2,590)	(1,384)
	<hr/>	<hr/>
Net book value	1,065	656
	<hr/>	<hr/>
Year ended 31 December 2008		
Opening net book amount	1,065	656
Additions	371	202
Amortisation charge	(406)	(251)
	<hr/>	<hr/>
Closing net book amount	1,030	607
	<hr/>	<hr/>
At 31 December 2008		
Cost	4,026	2,242
Accumulated amortisation	(2,996)	(1,635)
	<hr/>	<hr/>
Net book value	1,030	607
	<hr/>	<hr/>
Year ended 31 December 2009		
Opening net book amount	1,030	607
Effect of de-recognition of subsidiary undertaking	(115)	-
Additions	149	118
Amortisation charge	(364)	(271)
	<hr/>	<hr/>
Closing net book amount	700	454
	<hr/>	<hr/>
At 31 December 2009		
Cost	2,873	2,360
Accumulated amortisation	(2,173)	(1,906)
	<hr/>	<hr/>
Net book value	700	454
	<hr/>	<hr/>

Amortisation expense has been charged in administrative expenses.

Notes to the Financial Statements

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2008					
Cost	4,362	1,368	138	3,739	9,607
Accumulated depreciation	(134)	(480)	(108)	(2,933)	(3,655)
Net book amount	4,228	888	30	806	5,952
Year ended 31 December 2008					
Opening net book amount	4,228	888	30	806	5,952
Additions	-	4	3	346	353
Disposals	-	-	(28)	-	(28)
Depreciation charge	(121)	(32)	(11)	(319)	(483)
Depreciation released on disposals	-	-	28	-	28
Transfer from investment property	666	-	-	-	666
Revaluation surplus	3,231	-	-	-	3,231
Closing net book amount	8,004	860	22	833	9,719
At 31 December 2008					
Cost	5,028	1,372	113	4,085	10,598
Accumulated depreciation	(255)	(512)	(91)	(3,252)	(4,110)
Revaluation surplus	3,231	-	-	-	3,231
Net book amount	8,004	860	22	833	9,719
Year ended 31 December 2009					
Opening net book amount	8,004	860	22	833	9,719
Effect of de-recognition of subsidiary undertaking	(7,513)	-	(2)	(338)	(7,853)
Additions	-	13	-	58	71
Depreciation charge	(5)	(34)	(9)	(168)	(216)
Closing net book amount	486	839	11	385	1,721
At 31 December 2009					
Cost	498	1,385	94	2,890	4,867
Accumulated depreciation	(12)	(546)	(83)	(2,505)	(3,146)
Net book amount	486	839	11	385	1,721

Land and buildings are shown at fair value. The Group's land and buildings were revalued at 31 December 2009 by independent valuers. Valuations were made on the basis of market value. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (note 28).

Depreciation expense has been charged in administrative expenses.

Notes to the Financial Statements

17. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

If land and buildings were stated on a historical cost basis, the amounts would be as follows:

	2009 €'000	2008 €'000
At 31 December		
Cost	498	5,028
Accumulated depreciation	(12)	(255)
	<hr/>	<hr/>
Net book amount	486	4,773

Company

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2008					
Cost	69	1,182	115	2,295	3,661
Accumulated depreciation	(2)	(463)	(86)	(1,984)	(2,535)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount	67	719	29	311	1,126
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Year ended 31 December 2008					
Opening net book amount	67	719	29	311	1,126
Additions	-	4	2	102	108
Disposals	-	-	(28)	-	(28)
Depreciation charge	(1)	(30)	(9)	(94)	(134)
Depreciation released on disposal	-	-	28	-	28
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Closing net book amount	66	693	22	319	1,100
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008					
Cost	69	1,186	89	2,397	3,741
Accumulated depreciation	(3)	(493)	(67)	(2,078)	(2,641)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount	66	693	22	319	1,100
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Year ended 31 December 2009					
Opening net book amount	66	693	22	319	1,100
Additions	-	10	-	29	39
Depreciation charge	-	(21)	(9)	(103)	(133)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Closing net book amount	66	682	13	245	1,006
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009					
Cost	69	1,196	89	2,426	3,780
Accumulated depreciation	(3)	(514)	(76)	(2,181)	(2,774)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount	66	682	13	245	1,006
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Depreciation expense has been charged in administrative expenses.

Notes to the Financial Statements

18. INVESTMENT PROPERTY

	Group €'000	Company €'000
At 1 January 2008		
Cost	8,490	5,944
Accumulated fair value gains	2,436	1,777
	<hr/>	<hr/>
Net book amount	10,926	7,721
	<hr/>	<hr/>
Year ended 31 December 2008		
Opening net book amount	10,926	7,721
Additions	169	169
Net fair value gains	549	477
Transfer to property, plant and equipment	(666)	-
	<hr/>	<hr/>
Net book amount	10,978	8,367
	<hr/>	<hr/>
At 31 December 2008		
Cost	7,993	6,113
Accumulated fair value gains	2,985	2,254
	<hr/>	<hr/>
Net book amount	10,978	8,367
	<hr/>	<hr/>
Year ended 31 December 2009		
Opening net book amount	10,978	8,367
Effect of de-recognition of subsidiary undertaking	(3,044)	-
Additions	23	23
Net fair value gains	751	777
	<hr/>	<hr/>
Net book amount	8,708	9,167
	<hr/>	<hr/>
At 31 December 2009		
Cost	5,706	6,136
Accumulated fair value gains	3,002	3,031
	<hr/>	<hr/>
Net book amount	8,708	9,167
	<hr/>	<hr/>

The investment properties are valued annually on 31 December at fair value comprising market value by independent professionally qualified valuers.

If the investment property was stated on the historical cost basis, the amounts would be as follows:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Cost	5,706	8,495	6,136	6,112
Accumulated depreciation	(488)	(494)	(498)	(437)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount	5,218	8,001	5,638	5,675
	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Financial Statements

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
Year ended 31 December 2008	
Opening net book amount and cost	25,475
Additions	1,890
Impairment charge	(2,500)
	<hr/>
Closing net book amount	24,865
	<hr/>
At 31 December 2008	
Cost	27,365
Impairment charge	(2,500)
	<hr/>
Net book amount	24,865
	<hr/>
Year ended 31 December 2009	
Opening net book amount and cost	24,865
Additions	38,165
Impairment charge	(61,023)
Transfer to investment in associated undertakings (note 20)	(795)
	<hr/>
Closing net book amount	1,212
	<hr/>
At 31 December 2009	
Cost	64,735
Impairment charge	(63,523)
	<hr/>
Net book amount	1,212
	<hr/>

Following the significant losses made by Progress during 2008, an impairment charge of €2.5 million was recognised in the Company's financial statements during 2008 and was included within 'Impairment of investment in group undertakings' in the non-technical profit and loss account. This charge was determined by reference to the future operational and financing cash flows of Progress projected at the time of the assessment. In view of the events that occurred during 2009 to date, as described further in note 1, the investment in Progress Assicurazioni S.p.A. was fully written off as at 31 December 2009. The impairment charge is included within 'Impairment of investment in group undertaking' in the non-technical profit and loss account together with the provision for a guarantee of €8.5 million extended to Progress as disclosed in note 29. This has no impact on the Group's results or balance sheet.

Notes to the Financial Statements

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS - CONTINUED

The Group undertakings at 31 December are shown below:

Group undertakings	Registered office	Class of shares held	Percentage of shares held 2009	Percentage of shares held 2008
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	-	75%
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Euromed Risk Solutions Limited	Development House Floriana	Ordinary shares	100%	100%
International Insurance Management Services Limited	Development House Floriana	Ordinary shares	100%	100%
Progress Assicurazioni S.p.A. (refer to note 2)	Piazza A. Gentile Palermo	Ordinary shares	100%	90%

The Company's share in the net asset values of the subsidiary undertakings is €5.53 million (2008: €26.12 million).

The amount of dividends that could be distributed in cash by the insurance subsidiary, Progress Assicurazioni S.p.A., was dependent on the solvency restrictions imposed by the Italian Regulations.

Notes to the Financial Statements

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group €'000	Company €'000
At 1 January 2008		
Cost	11,919	11,919
Accumulated share of associated undertaking's profits and reserves	31,158	-
Fair value movements	-	31,171
	<hr/>	<hr/>
Net book amount	43,077	43,090
Year ended 31 December 2008		
Opening net book amount		
- as previously stated	43,077	11,919
- impact of voluntary change in accounting policy (note 2)	-	31,171
	<hr/>	<hr/>
- as restated	43,077	43,090
Additions	1,125	1,125
Share of associated undertaking's profits and movement in reserves	(2,468)	-
Fair value movements (note 28)	-	(1,673)
	<hr/>	<hr/>
Closing net book amount	41,734	42,542
At 31 December 2008		
Cost	13,044	13,044
Accumulated share of associated undertaking's profits and reserves	28,690	-
Fair value movements	-	29,498
	<hr/>	<hr/>
Net book amount	41,734	42,542
Year ended 31 December 2009		
Opening net book amount		
- as previously stated	41,734	13,044
- impact of voluntary change in accounting policy (note 2)	-	29,498
	<hr/>	<hr/>
- as restated	41,734	42,542
Additions	6,000	6,000
Share of associated undertaking's profits and movement in reserves	3,428	-
Fair value movements (note 28)	-	2,620
Transfer from investment in subsidiary undertakings (note 19)	795	795
	<hr/>	<hr/>
Closing net book amount	51,957	51,957
At 31 December 2009		
Cost	19,839	19,839
Accumulated share of associated undertaking's profits and reserves	32,118	-
Fair value movements (note 28)	-	32,118
	<hr/>	<hr/>
Net book amount	51,957	51,957

Notes to the Financial Statements

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS - CONTINUED

The associated undertakings at 31 December which are unlisted are shown below:

Associated undertaking	Registered office	Class of shares held	Percentage of shares held 2009	Percentage of shares held 2008
Middlesea Valletta Life Assurance Company Limited	Middle Sea House Floriana	Ordinary shares	50%	50%
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	50%	-

A summary of the audited balance sheets at 31 December of Middlesea Valletta Life Assurance Company Limited, which represents a significant investment to the Group, and of Church Wharf Properties Limited, are set out below:

	2009 €'000	2008 €'000
Investments	927,776	776,722
Net current assets	16,634	12,001
Intangible assets	44,050	42,796
Property, plant and equipment	814	881
Technical provisions and financial liabilities	(879,205)	(742,279)
Deferred taxation	(1,227)	(106)
Shareholders' funds	108,842	90,015
50% (2008: 50%) thereof relating to Group	54,421	45,008
Less: Group's share of the profit arising on the sale of investment property to Middlesea Valletta Life Assurance Company Limited	(2,464)	(2,464)
Less: Middlesea Valletta Life Assurance Company Limited's share of investment in a Group subsidiary	-	(795)
Amount at which the Group's investment is carried in the balance sheet	51,957	41,749

The profit after tax earned by Middlesea Valletta Life Assurance Company Limited for the year ended 31 December 2009 amounted to €6.2 million (2008: €1.92 million). Total revenue for the year ended 31 December 2009 amounted to €124.6 million (2008: €109.7 million). The profit after tax earned by Church Wharf Limited for the year ended 31 December 2009 amounted to €56,000 and the total revenue for the year amounted to €92,000.

The amount of dividends that can be distributed in cash by the insurance associate is restricted by the solvency requirements imposed by the MFSA Regulations.

As at 31 December 2009, 2,177,100 shares held in MSV were pledged in connection with the subordinated loan extended to Progress. The pledge was released on 9 April 2010.

Notes to the Financial Statements

21. OTHER INVESTMENTS

The investments are summarised by measurement category in the table below.

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Fair value through profit or loss	30,182	162,193	29,695	35,524
Other available-for-sale	410	768	75	371
Loans and receivables	15,943	5,325	15,943	5,002
	46,535	168,286	45,713	40,897

(a) *Investments at fair value through profit or loss*

Analysed by type of investment as follows:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Equity securities, other variable yield securities and units in unit trusts	13,163	18,363	13,163	9,604
Debt securities – listed fixed interest rate	17,019	143,830	16,532	25,920
Total investments at fair value through profit or loss	30,182	162,193	29,695	35,524

Equity securities, other variable yield securities and units in unit trusts are classified as non-current.

The movements for the year are summarised as follows:

	Group €'000	Company €'000
Year ended 31 December 2008		
Opening net book amount	133,705	40,616
Additions	113,341	9,638
Disposals – sales	(3,537)	(1,651)
Disposals – redemptions	(69,339)	(6,942)
Net fair value losses (excluding net realised movements)	(11,977)	(6,137)
Closing net book amount	162,193	35,524
Year ended 31 December 2009		
Opening net book amount	162,193	35,524
Effect of de-recognition of subsidiary undertaking	(126,168)	-
Additions	27,748	27,748
Disposals – sales	(32,666)	(32,666)
Disposals – redemptions	(2,395)	(2,395)
Net fair value gains (excluding net realised movements)	1,470	1,484
Closing net book amount	30,182	29,695

Notes to the Financial Statements

21. OTHER INVESTMENTS - CONTINUED

(b) *Other available-for-sale financial assets*

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Unlisted shares	410	768	75	371

Unlisted shares are classified as non-current. The movements for the year are summarised as follows:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Year ended 31 December				
Opening net book amount	768	615	371	218
Effect of de-recognition of subsidiary undertaking	(68)	-	-	-
Net fair value (losses)/gains (note 28)	(290)	153	(296)	153
Closing net book amount	410	768	75	371

(c) *Loans and receivables*

Analysed by type of investment as follows:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Deposits with banks or credit institutions	15,943	5,325	15,943	5,002

The movements during 2008 for treasury bills and unlisted fixed income debt securities are summarised as follows:

	Group		Total €'000
	Unlisted fixed income debt securities €'000	Treasury bills €'000	
Year ended 31 December 2008			
Opening net book amount	233	4,997	5,230
Disposals – redemptions	(233)	(4,997)	(5,230)
Closing net book amount	-	-	-

Notes to the Financial Statements

22. DEFERRED INCOME TAX

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Balance at 1 January	(11,698)	(2,100)	(142)	1,201
Movements during the year:				
Profit and loss account (note 12)	(5)	(9,651)	(156)	(1,396)
Other reserves (note 28)	316	53	314	53
Effect of de-recognition of subsidiary undertaking	8,984	-	-	-
Balance at 31 December – net	(2,403)	(11,698)	16	(142)

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	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Temporary differences on property, plant and equipment	196	72	139	21
Temporary differences attributable to unrealised capital losses and exchange gains	841	(885)	840	275
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	(3,341)	(4,809)	(864)	(339)
Temporary differences attributable to insurance technical provisions	-	(5,782)	-	-
Temporary differences attributable to other provisions	(197)	(373)	(197)	(197)
Other temporary differences, including impact of non-deductible expenses and different tax rates	98	79	98	98
Balance at 31 December - net	(2,403)	(11,698)	16	(142)

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	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Deferred tax asset	(3,447)	(13,223)	(1,025)	(1,667)
Deferred tax liability	1,044	1,525	1,041	1,525
	(2,403)	(11,698)	16	(142)

The deferred income tax assets and liabilities are, principally, recoverable after more than 12 months.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Notes to the Financial Statements

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Gross				
Short-term insurance contracts				
- claims outstanding	39,882	160,047	39,882	36,966
- provision for unearned premiums and unexpired risks	12,970	50,089	12,970	13,026
Long term business provision – Group Life	408	747	408	747
Total technical provisions, gross	53,260	210,883	53,260	50,739
Recoverable from reinsurers				
Short-term insurance contracts				
- claims outstanding	9,114	22,446	9,114	8,898
- provision for unearned premiums and unexpired risks	4,580	6,673	4,580	4,506
Long term business provision – Group Life	99	241	99	241
Total reinsurers' share of insurance liabilities	13,793	29,360	13,793	13,645
Net				
Short-term insurance contracts				
- claims outstanding	30,768	137,601	30,768	28,068
- provision for unearned premiums and unexpired risks	8,390	43,416	8,390	8,520
Long term business provision – Group Life	309	506	309	506
Total technical provisions, net	39,467	181,523	39,467	37,094

Technical provisions are classified as current liabilities.

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2009 and 2008 are not material.

The technical provisions are largely based on case-by-case estimates supplemented with additional provisions for IBNR, IBNER and unexpired risks in those instances where the ultimate cost determined by estimation techniques is higher. IBNR and IBNER included in claims outstanding for the Group amounted to €21.6 million in 2008. As described in note 2, Progress was not consolidated for the period ending 31 December 2009.

The Bornhuetter-Ferguson Paid model was applied when calculating the ultimate cost of claims reserves for the Italian subsidiary at 31 December 2008. A key variable used in applying this model was the initial loss ratio estimate. This estimate was determined by an external actuary and was based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claim inflation.

The development tables below give an indication of the time it takes to settle certain claims. This is attributable to certain classes of business taking several years to develop and is also due to the length of time it takes certain classes to be resolved in court.

Notes to the Financial Statements

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

The top half of the table below illustrates how the Company's estimate of total claims incurred for each accident year has changed at successive year-ends on a net basis. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet on a net basis. The accident-year basis is considered to be the most appropriate for the business written by the Company. The table has not been reproduced for the Group following the Board's decision to de-recognise Progress as explained in note 2.

Company

Accident year	2001 €'000	2002 €'000	2003 €'000	2004 €'000	2005 €'000	2006 €'000	2007 €'000	2008 €'000	2009 €'000	Total €'000
Estimate of the ultimate claims costs:										
- at end of accident year	9,934	15,494	15,288	14,645	13,253	13,639	14,710	15,843	15,443	
- one year later	9,702	16,061	14,328	14,457	13,318	12,952	13,809	16,067		
- two years later	9,834	15,282	13,452	13,484	11,788	11,738	12,966			
- three years later	9,757	14,663	12,710	12,479	11,272	11,056				
- four years later	9,432	14,548	12,542	12,159	10,930					
- five years later	9,310	14,243	11,962	11,754						
- six years later	9,238	14,197	11,847							
- seven years later	9,220	14,047								
- eight years later	9,125									
Current estimates of cumulative claims	9,125	14,047	11,847	11,754	10,930	11,056	12,966	16,067	15,443	113,235
Cumulative payments to date	(7,973)	(13,253)	(11,080)	(9,523)	(9,559)	(8,695)	(9,930)	(10,495)	(6,871)	(87,379)
Liability recognised in the balance sheet	1,152	794	767	2,231	1,371	2,361	3,036	5,572	8,572	25,856
Liability in respect of prior years										4,912
Total reserve included in the balance sheet										30,768

The Company continues to benefit from reinsurance programmes that were purchased in prior years and includes proportional cover supplemented by excess of loss reinsurance cover. The reinsurers' share of claims liabilities is estimated net of the provision for known and expected incidents of insolvency of reinsurers.

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are offset against the amounts due to the same reinsurers for premium ceded under the respective treaties. The balances due from/to reinsurers are disclosed within receivables and payables in notes 25 and 31.

LONG TERM BUSINESS PROVISION

The balance on the long term business provision has been certified by the Company's appointed actuary as being sufficient to meet liabilities at 31 December 2009. 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:

	2009 €'000	2008 €'000
Investments	4,401	4,107
Insurance and other receivables	339	1,073
Cash at bank and in hand	413	112
Claims outstanding	(72)	(80)
Insurance and other payables	(4,772)	(4,706)
Long term business provision, net of reinsurance	309	506

Notes to the Financial Statements

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

(a) Claims and loss adjustments expenses

	Group Year ended 2008		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	131,363	(22,201)	109,162
Claims settled during the year	(77,542)	8,404	(69,138)
Increase/(decrease) in liabilities			
- arising from current year claims	100,377	(6,970)	93,407
- arising from prior year claims	5,849	(1,679)	4,170
Total at year end	160,047	(22,446)	137,601

	Group Year ended 2009		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	160,047	(22,446)	137,601
De-recognition of subsidiary undertaking	(123,081)	13,548	(109,533)
Claims settled during the year	(17,038)	6,955	(10,083)
Increase/(decrease) in liabilities			
- arising from current year claims	22,008	(6,574)	15,434
- arising from prior year claims	(2,054)	(597)	(2,651)
Total at year-end	39,882	(9,114)	30,768

	Company Year ended 2008		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	35,040	(9,117)	25,923
Claims settled during the year	(17,545)	6,865	(10,680)
Increase/(decrease) in liabilities			
- arising from current year claims	22,156	(5,886)	16,270
- arising from prior year claims	(2,685)	(760)	(3,445)
Total at year-end	36,966	(8,898)	28,068

Notes to the Financial Statements

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

	Company		
	Year ended 2009		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	36,966	(8,898)	28,068
Claims settled during the year	(17,038)	6,955	(10,083)
Increase/(decrease) in liabilities			
- arising from current year claims	22,008	(6,574)	15,434
- arising from prior year claims	(2,054)	(597)	(2,651)
Total at year-end	39,882	(9,114)	30,768

The Group continuously monitors closely the development in insurance liabilities in order to ascertain the adequacy of its claims reserves. Movements in reserves in respect of claims occurring in previous years arise when these claims are actually settled and/or when reserves are revised to reflect new information that emerges.

The Company registered a gross favorable run-off of €2.05 million (2008: €2.68 million). After the effect of reinsurance, this amounts to €2.65 million (2008: €3.45 million). This run-off arose principally from a favorable development on claims in the motor class business. This is attributable, *inter alia*, to savings made during the claims handling process.

From a Group perspective, a significant adverse run-off was incurred in 2009 and 2008. This run-off arose on the claims liabilities of the Group's insurance subsidiary in Italy. This was the result of a number of reasons that led to increases in the frequency and in the extent of claims. These reasons are explained further in note 1. The adverse financial results produced by Progress led to the Group ceasing to write business in Italy in 2010 after the company was put into administration. As explained in note 2, Progress has been de-recognised from the Group's financial statements for the period ending 31 December 2009.

(b) Provision for unearned premiums and unexpired risks

The movements for the year are summarised as follows:

	Group		
	Year ended 2008		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	41,899	(6,480)	35,419
Net charge/(credit) to profit and loss	8,190	(193)	7,997
At end of year	50,089	(6,673)	43,416

	Group		
	Year ended 2009		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	50,089	(6,673)	43,416
Effect of de-recognition of subsidiary undertaking	(37,063)	2,167	(34,896)
Net credit to profit and loss	(56)	(74)	(130)
At end of year	12,970	(4,580)	8,390

Notes to the Financial Statements

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(b) Provision for unearned premiums - continued

	Company Year ended 2008		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	13,139	(4,350)	8,789
Net credit to profit and loss	(113)	(156)	(269)
At end of year	13,026	(4,506)	8,520

	Company Year ended 2009		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	13,026	(4,506)	8,520
Net credit to profit and loss	(56)	(74)	(130)
At end of year	12,970	(4,580)	8,390

24. DEFERRED ACQUISITION COSTS

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Year ended 31 December				
Opening net book amount	7,446	6,977	2,583	2,576
Effect of de-recognition of subsidiary undertaking	(4,863)	-	-	-
Net amount charged to the profit and loss	90	469	90	7
Closing net book amount	2,673	7,446	2,673	2,583

Deferred acquisition costs are all classified as current assets.

Notes to the Financial Statements

25. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
<i>Receivables arising from direct insurance operations:</i>				
- due from policyholders	-	207	-	207
- due from agents, brokers and intermediaries	8,508	21,736	8,508	7,499
- due from reinsurers	473	2,271	473	905
<i>Receivables arising from reinsurance operations:</i>				
- due from reinsurers	94	132	94	132
<i>Deposits with ceding undertakings</i>	147	147	147	147
<i>Other loans and receivables:</i>				
- prepayments	643	781	576	526
- accrued interest and rent	291	1,490	281	557
- receivables from group undertakings	-	-	508	74
- other receivables	564	569	-	-
<i>Provision for impairment of receivables</i>	(553)	(2,130)	(553)	(553)
	10,167	25,203	10,034	9,494
Current portion	10,167	25,203	10,034	9,494

Balances due from Group undertakings and other receivables are unsecured, non-interest bearing and have no fixed date of repayment.

Movements in the provision for impairment of receivables are as follows:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Balance as at 1 January	2,130	1,747	553	553
Effect of de-recognition of subsidiary undertaking	(1,577)	-	-	-
Provision for impairment for the year	-	458	-	-
Release of provision for impairment during the year	-	(75)	-	-
Balance as at 31 December	553	2,130	553	553

As explained further in note 2, insurance and other receivables relating to Progress were derecognised in the period ending 31 December 2009.

Notes to the Financial Statements

26. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
Cash at bank and in hand	3,724	6,361	3,080	3,418

27. SHARE CAPITAL

	Group and Company	
	2009	2008
	€'000	€'000
Authorised		
100 million ordinary shares of €0.60 each (2008: 60 million of €0.60 each)	60,000	36,000
Issued and fully paid		
92 million ordinary shares of €0.60 each (2008: 25 million of €0.60 each)	55,200	15,000

During the Annual General Meeting of the Company held on 25 June 2008 the issued and paid up value of the 25,000,000 Ordinary shares was increased from €0.582343 each share up to the nominal and paid up value of €0.60 each at a consideration of €0.44 million paid up from the retained profits of the Company.

During an Extraordinary General Meeting held on 20 November 2009, the issued and paid up Ordinary shares were increased to 92,000,000 Ordinary shares at a nominal value of €0.60 each through a Rights Share Issue. The related transaction costs amounting to €557k have been netted off against the share premium account.

Notes to the Financial Statements

28. OTHER RESERVES

Group

	Value of in-force business €'000	Available- for-sale investments €'000	Land and buildings revaluation €'000	Total €'000
Balance at 1 January 2008	21,384	33	134	21,551
Fair value movements – gross (note 21)	-	153	2,907	3,060
Fair value movements – tax (note 22)	-	(53)	(73)	(126)
Share of decrease in value of in-force business of associated company	(1,509)	-	-	(1,509)
	<hr/>			
Balance at 31 December 2008	19,875	133	2,968	22,976
	<hr/>			
Balance at 1 January 2009	19,875	133	2,968	22,976
Effect of de-recognition of subsidiary undertaking	-	-	(2,968)	(2,968)
Fair value movements – gross (note 21)	-	(290)	-	(290)
Fair value movements – tax (note 22)	-	102	-	102
Share of decrease in value of in-force business of associated company	489	-	-	489
Net loss transferred to net profit on impairment – gross (note 8)	-	477	-	477
Net loss transferred to net profit on impairment – tax (note 22)	-	(418)	-	(418)
	<hr/>			
Balance at 31 December 2009	20,364	4	-	20,368
	<hr/>			

The above reserves are not distributable reserves.

Notes to the Financial Statements

28. OTHER RESERVES - CONTINUED

Company

	Investment in associate undertaking €'000	Available- for-sale investments €'000	Total €'000
Balance at 1 January 2008			
- as previously stated	-	33	33
- impact of a voluntary change in accounting policy (note 2)	31,171	-	31,171
- as restated	31,171	33	31,204
Fair value movements – gross (note 20 and 21)	(1,673)	153	(1,520)
Fair value movements – tax (note 22)	-	(53)	(53)
Balance at 31 December 2008	29,498	133	29,631
Balance at 1 January 2009			
- as previously stated	-	133	133
- impact of a voluntary change in accounting policy (note 2)	29,498	-	29,498
- as restated	29,498	133	29,631
Fair value movements – gross (note 20 and 21)	2,620	(296)	2,324
Fair value movements – tax (note 22)	-	104	104
Net loss transferred to net profit on impairment – gross (note 8)	-	477	477
Net loss transferred to net profit on impairment – tax (note 22)	-	(418)	(418)
Balance at 31 December 2009	32,118	-	32,118

The above reserves are not distributable reserves.

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Provision for severance indemnity	-	912	-	-
Provision for guarantees given on behalf of subsidiary	8,500	-	8,500	-
Provision for contracted pension obligations	902	804	902	804
Balance at 31 December	9,402	1,716	9,402	804

Notes to the Financial Statements

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES - CONTINUED

(a) Provision for severance indemnity

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
At 1 January	912	884	-	-
Effect of de-recognition of subsidiary undertaking	(912)	-	-	-
Profit and loss account	-	86	-	-
Payments	-	(58)	-	-
Balance at 31 December	-	912	-	-

The above represented 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. These liabilities were non-current in nature. This amount has been derecognised at 1 January 2009 as further explained in notes 2 and 33.

(b) Provision for guarantees given on behalf of subsidiary

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Profit and loss account	8,500	-	8,500	-
Balance at 31 December	8,500	-	8,500	-

The provision as at 31 December 2009 represents a provision for the guarantee issued on behalf of a Group undertaking against a subordinated loan taken out by Progress Assicurazioni S.p.A. which will now be repaid by the Company as further explained in note 1. The charge is included within the "impairment of investment in group undertaking" in the non-technical profit and loss account.

(c) Provision for contracted pension obligations

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
At 1 January	804	706	804	706
Profit and loss account	98	98	98	98
Balance at 31 December	902	804	902	804

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Current	75	-	75	-
Non current	827	804	827	804
Total	902	804	902	804

Notes to the Financial Statements

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES - CONTINUED

The Group operates a defined benefit plan in favour of the former Executive Chairman i.e. a pension plan that defines an amount of pension benefit that he will receive on retirement. The liability recognised in the balance sheet is the present value of the obligation determined by discounting estimated future cash outflows.

30. BORROWINGS

	Group and Company	
	2009	2008
	€'000	€'000
Bank loans	16,285	16,285

The carrying amounts of borrowings approximate their fair value.

31. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
Deposits received from reinsurers	4,211	5,650	4,211	4,347
Creditors arising out of direct insurance operations	2,763	5,994	2,763	1,958
Creditors arising out of reinsurance operations	770	712	770	864
Amounts owed to associated undertaking	1,329	1,862	1,248	1,755
Amounts owed to group undertakings	-	-	1,150	1,152
Social security and other tax payables	323	913	320	518
Accruals and deferred income	5,700	6,639	5,570	3,839
	15,096	21,770	16,032	14,433

All trade and other payables are classified as current.

As explained further in note 2, insurance and other payables related to Progress were derecognised in the period ending 31 December 2009.

Notes to the Financial Statements

32. CASH GENERATED FROM OPERATIONS

Reconciliation of loss before tax to cash generated from operations:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Loss before tax	(54,448)	(29,799)	(62,880)	(3,465)
Adjusted for:				
Depreciation (note 17)	216	483	133	134
Impairment charges	63,121	383	69,523	2,500
Other provision for liabilities and charges (note 29)	98	184	98	98
Amortisation (note 16)	364	406	271	251
Adjustments relating to investment return	(7,143)	3,677	(5,491)	960
Movements in:				
Insurance and other receivables	(795)	(5,196)	(847)	(1,208)
Deferred acquisition costs	(90)	(469)	(90)	(7)
Reinsurers' share of technical provisions	(148)	(461)	(148)	40
Technical provisions	2,521	37,004	2,521	1,943
Insurance and other payables	1,415	(35)	1,293	223
Cash generated from operations	5,111	6,177	4,383	1,469

Non-cash transactions

The principal non-cash transactions comprised dividends receivable from Group and associated undertakings as consideration for the additional investment in these companies in addition to the de-recognition of subsidiary undertakings.

33. DE-RECOGNITION OF PROGRESS ASSICURAZIONI S.P.A.

As explained further in notes 1 and 2 to these financial statements, the Board has decided not to consolidate Progress in the Group financial statements for the year ended 31 December 2009. The table below summarises the net assets that were de-recognised as a result of this decision:

	As at 31 December 2008 €'000
Assets	
Intangible assets	115
Property, plant and equipment	7,853
Investment property	1,488
Other investments	126,559
Deferred income tax	8,984
Reinsurers' share of technical provisions	15,715
Deferred acquisition costs	4,863
Insurance and other receivables	15,522
Income tax receivable	2,341
Cash and cash equivalents	2,440
Liabilities	
Provisions for other liabilities and charges	(912)
Technical provisions	(160,144)
Insurance and other payables	(8,397)
Net assets	16,427

Notes to the Financial Statements

34. COMMITMENTS

Capital commitments

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Authorised and not contracted for - property, plant and equipment	141	419	141	224
Authorised and not contracted for - intangible assets	145	568	145	332

Operating lease commitments – where the company is a lessor

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

	Group and Company	
	2009 €'000	2008 €'000
Not later than 1 year	419	352
Later than 1 year and not later than 5 years	326	583
	745	935

35. CONTINGENCIES

The Company has given guarantees to third parties amounting to €1.4 million (2008: €0.2 million) not arising under contracts of insurance.

36. 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 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:

	2009 €'000	2008 €'000
<i>(a) Sales of insurance contracts and other services</i>		
Sale of insurance contracts		
- subsidiaries	48	44
- associates	104	104
- shareholders represented on the Board	865	1,332
Recoveries on claims outstanding from Mapfre Internacional under reinsurance arrangements entered into upon the acquisition of Progress Assicurazioni S.p.A.	-	305
Reimbursement of expenses for back-office services provided		
- associate	1,185	1,132
- shareholders represented on the Board	57	-
Investment income		
- subsidiaries (dividends/interest receivable)	450	1,317
- associate (dividends)	1,025	1,125
- shareholders represented on the Board (dividends/interest receivable)	210	73

Notes to the Financial Statements

36. RELATED PARTY TRANSACTIONS - CONTINUED

	2009 €'000	2008 €'000
<i>(b) Purchases of products and services</i>		
Reinsurance premium ceded to shareholders (represented on the Board)	10,011	11,886
Acquisition costs payable to intermediaries where directors of the company are shareholders in companies that act as insurance agents	1,238	1,057
Reimbursement of expenses payable for back-office services - subsidiaries	852	836
Interest payable on borrowings - shareholder represented on the Board (acting as banker)	538	810
Rental income payable to associate	26	23

Key management personnel during 2009 and 2008 comprised the Chief Executive Officers, General Manager, Assistant General Managers, Chief Officers and Chief Underwriters. Total remuneration paid by the Group to key management personnel during the year amounted to €0.91 million (Company: €0.39 million). Corresponding figures for 2008 were €0.72 million and €0.33 million.

Year-end balances arising from the above transactions:

	Group		Company	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Debtors arising out of direct insurance operations:				
- intermediaries	970	1,991	916	640
Creditors arising out of direct insurance operations	1,614	1,330	1,614	856
Amounts owed by subsidiary undertakings	-	-	508	74
Amounts owed to subsidiary undertaking	-	-	1,150	1,152
Amounts owed to associated undertaking	1,329	1,862	1,248	1,755
Reinsurers share of technical provisions	5,155	8,914	5,155	4,289
Investments in related parties	11,939	3,205	11,939	3,205
Provision for contracted pension obligations (key management personnel)	902	804	902	804
Accruals and other liabilities (key management personnel)	107	-	107	-

All balances above have arisen in the course of the Group's normal operations.

37. RECLASSIFICATION OF COMPARATIVE INFORMATION

Certain comparative figures disclosed in the main components of the financial statements have been reclassified to conform with the current year's disclosures for the purpose of fairer presentation.

38. STATUTORY INFORMATION

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

WWW.MIDDLESEA.COM



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