MIDDLESEA INSURANCE P.L.C.

Annual Report & Financial Statements 2010

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Middlesea Insurance p.l.c.

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

Aħna nħaddnu l-Professjonaliżmu 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

The audited financial statements for Middlesea Insurance p.l.c. and Middlesea Group for the year ended 31 December 2010 present a positive turnaround in results when compared to previous year. Middlesea Insurance p.l.c. registered a satisfactory profit before tax of €8.86million in 2010 when compared to the loss of €62.88million registered in FY 2009. The Middlesea Group reported a profit before tax of €6.44million in comparison to the loss of €54.4million on the consolidated accounts for 2009. Such an improvement in results is testament to our hard work during the year, and provides us with prudent self-belief and good confidence for the future.

The financial year 2010 has been a challenging, eventful and overall a satisfactory year. Indeed FY 2010, has marked a significant year for Middlesea Insurance p.l.c. in reviving the company for the future; in taking the company forward and in gearing up for future challenges that will be offered by the insurance market.

In my first year as Non Executive Chairman, with the support of the new Board of Directors appointed in 2010 I have presided over twelve intensive months of challenges, change initiatives, design of new strategic plans and intensive work against a backdrop of fierce competition. Together we have taken tough decisions and navigated difficult routes that brought us to where we stand today.

Following the Progress Assicurazioni S.p.A. debacle and two consecutive difficult financial years, my concluding comment in the Annual Report for 2009 ended with an important message to you, our shareholders: that we are confident that we can repay your trust and investment. We have objectively delivered on that promise. But we acknowledge that there are further changes, inroads and improvements to be made on various corporate facets. We have navigated some hard and daunting challenges during the year. Yet we still managed to generate a satisfactory profit level, which stopped the financial haemorrhage that was endured by Middlesea Insurance p.l.c. over the previous two financial years. Notwithstanding the difficulties and the material financial hits in 2008 and 2009, Middlesea Insurance p.l.c. remains a strong insurance company - a dominant player with a robust balance sheet, being the strongest balance sheet in the local insurance market, backed up by reputable, successful and expert institutional shareholders. Amidst the challenges and strenuous global economic conditions, in 2010 we have stabilised the Company and the Group, and laid the foundations for future development and sustainable growth. Middlesea Insurance p.l.c. remains the leading insurance company in Malta and our commitment is to improve on this position.

My statement provides an overview of what we have managed to achieve during an exciting year. Equally important, I also intend sharing our views for the future, our determination to exploit further the potential of the company and to create further value adding opportunities for the benefit of our shareholders, customers, employees and all stakeholders.

FINANCIAL YEAR REVIEW

Shareholding and Governance:
As I had communicated in my annual report for 2009, during financial year 2010 there was a significant change in the underlying shareholding structure of Middlesea Insurance p.l.c. resulting from the take-up by shareholders in the Rights Issue of November 2009. In effect the shareholding of Mapfre Internacional and Bank of Valletta p.l.c. increased to 31.08% for each institutional shareholder; Munich Re retained its shareholding position of 19.9% ; the aggregate holding of the other individual shareholders reduced to just under 18%.

This also triggered a change in the structure of the board of directors and the chairmanship. I was appointed Non Executive Chairman of Middlesea Insurance p.l.c. as from 1 January 2010 and a new, smaller Board of Directors was appointed during the Extraordinary General Meeting of 16 March 2010. Board Committees were likewise consolidated and streamlined. These developments took place principally to reflect the changes in shareholding and also to enhance the already strong corporate governance structures of the Company in line with contemporary business exigencies and future business strategy requirements.

Progress Assicurazioni S.p.A.:
During the start of my tenure as Chairman, one of the Board's first decisions related to Progress Assicurazioni S.p.A. Once it was confirmed that Progress had no reasonable possibility or potential to continue operating in conformity with the requirements of Italian law and regulations, we diligently and swiftly informed the Italian Regulator (ISVAP) and the local Maltese Regulator (MFSA) that the company should move to cease writing business immediately and to put in train a process for 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 of Progress and on 30 March 2010, ISVAP then made an announcement confirming that it had placed Progress Assicurazioni S.p.A. in Compulsory Administrative Liquidation. In February 2011 an application was made to the Italian Courts in Palermo, requesting that the bankruptcy of Progress

Chairman's Statement

Assicurazioni S.p.A. be ascertained and declared as such by the court. This application was made by Andrea Gemma in his capacity as Liquidator appointed by ISVAP to oversee the administration of the company. We are informed that it is a normal procedure for Liquidators to obtain a Court Ruling in order to enable them to move forward with the liquidation process.

As explained in detail in last year's annual report and during the Annual General Meeting we have also consciously and prudently opted to write off on very valid, practical and rational grounds the full investment in Progress in the accounts for FY 2009. In this regard, current year results are not impacted by Progress's operational performance as Progress is no longer under the control of Middlesea Insurance p.l.c..

Where we stand today
Whilst leaving no stone unturned in tackling tirelessly the Progress saga, ensuring due diligence along all the stages of the process, as from the first weeks of 2010 we also started work on the transformation and revival process of Middlesea Insurance p.l.c.. Indeed 2010 was coined by the Board of Directors as the *Stabilisation Year* within the change and rehabilitation programme designed for Middlesea Insurance p.l.c., and the Middlesea Group. Board decisions and management actions are directed at maintaining Middlesea Insurance p.l.c. as a strong company and as a leader in the local insurance market, with an effective governance system, prudent risk profile, sound, quality business lines, and an appropriate robust capital structure.
Early in the year we set clear strategic objectives. This is what we wanted to do, this is what we achieved:

1) We have successfully re-focused Middlesesa Insurance p.l.c. and the Middlesea Group, strengthening our balance sheet and the regulatory solvency position.

2) We have stabilised and gave new impetus to Middlesea Insurance p.l.c. and the operating companies of the Group, through restructuring, whilst maintaining the strong earning powers of the core business lines.

3) We made a turnaround in results boosting shareholders' value, with a new strategic plan that places Customers, Innovation and Our People as central business foundations.

Consolidating our position and re-focusing our core operations
Our business motivation was re-focused on local operations, going back to basics whilst consolidating position in the local insurance market. Having dealt with Progress, we embarked on a pruning and divestment process of non-core and foreign operations, starting with the cessation of underwriting in Gibraltar. Following strategic feasibility analysis, in June 2010, we served notice to the agent in the region informing that we desired to cease writing business in Gibraltar. Upon the expiration of the notice period, as from 1 January 2011 no further risk underwriting is taking place from the branch and the business is now technically in run off. Similarly, we have moved swiftly to assign momentum to the closure and conclusion of the run off process of the discontinued operations relating to Malta Re and International Re business, which has been going on for a number of years. These projects were assigned stronger momentum and executive priority in 2010 and will be sustained during 2011. During 2010, Middlesea Insurance p.l.c. also divested of its interests in Mediterranean Survey Bureau Valletta Ltd, which did not represent a core strategic activity.

In taking such initiatives, focus on our mainstay operations led to overall satisfactory results. Notwithstanding fierce price competition in the market we managed to avoid the dangerous currents of price wars, increase gross premiums by 4.9%, whilst registering a positive profit after tax and an improvement in our regulatory solvency position.

Restructuring and rehabilitation
Key strategic changes were made in restructuring Middlesea Insurance p.l.c. and the operating companies within the Group. The thrust and concentration of the main operating companies were realigned and sharpened. Group operating companies, namely Middlesea Insurance p.l.c., International Insurance Management Services Ltd (renamed as Bee Insurance Management Ltd as from the 24 August 2010), and Middlesea Valletta Life Assurance Co Ltd (rebranded as MSV Life p.l.c. as from 29 November 2010), are now stand-alone, fully fledged autonomous operations, and focussing on their core business. Such corporate reorganisation was also marked with a smooth process of internal employee placements within each company.

By concentrating on its focal and fundamental business lines in Malta, Middlesea Insurance p.l.c. is now geared to improve its position and status in the general insurance local market, and to sustain its role as a customer-centric, profitable and forward looking insurer that balances optimisation of returns with the management of risks. The company's results for 2010 are heartening and provide a good foundation for prudent optimism for future development and success.

Results from the other main operating companies within the Group were also encouraging. Bee Insurance Management Ltd, which now provides insurance management and back office services solely to third party clients, registered a profit before tax of €219K notwithstanding the extensive restructuring that occurred in the organisation and the elimination of fee income from Group Companies from 1 July 2010. MSV Life p.l.c., a jointly controlled company with Bank of Valletta p.l.c., on the other hand registered a record year of turnover, with total premiums for the year increasing by 18.3% to €147.49 million - and pre-tax profits of €11.63 million. MSI's 50% share of MSV profits are consolidated in the Group Accounts and for FY 2010 this amounted to €3.9 million as compared to €3.1 million in FY 2009. It is also worth noting that MSV, which is by far the leading life insurer in Malta, further consolidated its position during year 2010 increasing its total assets to €1.1 billion, and currently boasts of shareholders' equity of €108.89 million and a client base of more than 83,500 customers.

An investment in corporate image and brand equity was made in both BEE Insurance Management Limited and MSV Life p.l.c. during the year. At the same time, a project to renew and rebrand the corporate image of MSI initiated in 2010 and is planned for launch in 2011. A visible investment upgrade in company offices was also undertaken to cater for current customer service requirements. By mid-2011 all Middlesea Insurance p.l.c. operating units will be relocated within Middle Sea House whilst MSV Life p.l.c. will move to separate, new offices. Such initiatives are motivated to maintain Middlesea Insurance p.l.c. and its operating group companies at the forefront of service delivery and to maintain its status as a leading employer, providing its people with an appropriate work environment.

Business philosophy and initiatives

I reiterate that it is the Board's view that the long-term success of your company is best served by sustaining the strength of its capital base, by maintaining underwriting discipline and through the delivery of a professional, quality service. We sustained such principles during the year, facing tough competition, mainly based on pricing, addressing and correcting loss making accounts, pruning specific business areas, whilst seeking new business opportunities. Strategic thrust and initiatives during the year on customers, innovation and our people were also pivotal to the overall turnaround in results.

We have invested in a customer-centric development programme across the organisation for all employees, in order to develop a quality customer charter and upgrade service levels. Our business philosophy on customer orientation commits us to enhance the experience of our varied client profiles. The objective is to position ourselves as partners to our customers who seek from us expertise and assistance in the management of risks and to provide them with the necessary peace of mind. Positive steps forward were made during the year but we acknowledge that more work and investment is required to facilitate the process, to improve our customer promise and to engage better with clients. This project will be carried through to 2011 and sustained with appropriate maintenance initiatives and training programmes.

Innovation was positioned at the centre of our strategic plans and is fundamental to our long term business success. Innovation was sought not only in our product and service packs - yes these are crucial and a number of plans are already on the drawing board. But we are also seeking creativity in other corporate spheres: in employee development, in contemporary leadership and management, practices, in processes and procedures and for new, efficient modes to engage with clients and with business partners. Satisfactory progress was made thanks to the help and direct support of our industry shareholder Mapfre Internacional. Already a number of innovative programmes with our foreign partners were taken in areas including product development, information technology, governance and risk management. MSI will maintain and strengthen its relationships with Mapfre in enhancing management structures, work methods, and in launching new products in 2011.

I regarded as one of my first responsibilities on assuming chairmanship to be the greater empowerment of our people. Direct initiatives were undertaken in this regard where I personally, established periodic meetings and direct contact with all employees throughout the year. At the same time with the assistance of my professional aides we set the tone, laid the foundations and developed policies for a participative management style that encourages open communication, teamwork, and engagement with all employees, giving everyone the opportunity to grow and develop with the organisation.

The Board of Directors strongly believe that our success depends on the quality of our people and that they represent an asset of immense value to Middlesea. Indeed, we pride ourselves that the technical knowledge of our people is locally second to none. Investment in their knowledge base and development must be sustained. We have already made a significant investment in the Human Resource function during 2010. Further returns from this investment will be sought with eagerness and drive in the coming months, as the ultimate objective is to build up more efficient talent management, development programmes, performance management and motivation systems.

The investment policy and portfolio of Middlesea Insurance p.l.c. was re-configured in order to improve asset-liability matching between underlying investments, business risks and term profiles. Similarly, the reinsurance programme for 2011 was upgraded, increasing its protection strength whilst rendering it more efficient from an operational perspective. Investment in information systems was sustained and I am pleased to inform you that a number of agents, tied insurance intermediaries and brokers are now on-line and operating through our operating system. Further creative investment is in the pipeline for information technology and company website to enhance service delivery and operational efficiencies.

Concurrently we have consolidated our governance and risk management

Chairman's Statement

structures. In line with contemporary governance good practice in 2010 a corporate code of conduct was launched for the guidance of all officers and employees working within Middlesea Group and for the first time we launched an annual internal Board of Directors self assessment programme in order to uphold a quality culture across all corporate levels. Momentum was assigned on the Solvency II implementation project, the new insurance regulatory regime that will be put into force by the European Union as from 1st January 2013. With satisfaction, QIS5, which follows four similar preliminary quantitative tests launched by CEIOPS (Committee of European Insurance and Occupational Pension Schemes) in preparation for the implementation of the Solvency II framework, was executed and submitted to the Regulatory Authority within set European Union deadlines on 1st November 2010.

During the year we have also built on our heritage and reputation of supporting our community's needs through contributions directed at sponsorships, programmes and initiatives for philanthropic organisations and in education. Indeed Middlesea Insurance p.l.c. has always been a pioneer in promoting insurance education in Malta. After recently championing the establishment of the first Insurance and Finance Degree course at the University of Malta in 2008, we have continued to support and sponsor this programme. We intend maintaining such support to promote further education in the field.

OUTLOOK AND PRIORITIES

We have navigated safely and with tact during this stabilisation period, managing troubled waters whilst steering the company to port; we have improved upon existing structures and established new foundations that will help us to traverse new horizons in the future development and evolution of the company.

Our strategic foresight is on further business development, optimisation of returns and sustainable growth. We are confident that with a strong balance sheet, a disciplined underwriting policy, a modernised distribution channel and professional risk management we will succeed in our endeavours. Middlesea Insurance p.l.c. will still seek to bolster its position in Malta strengthening its foothold in the personal lines, commercial and health business. It will also exploit its composite license and further strengthen its Group Life portfolio. We seek quality - and we will achieve it with the input of all, both internal resources and external partners.

We believe that there is further potential for growth in the local market and this will be pursued with continued tact, determination and creativity. These will be our priorities for 2011:

Underwriting Discipline and Security
We are guided by prudence and treasure the trust that our customers place with us. Customers deserve respect and we pledge to ensure the long-term viability of the insurance products that are offered as these are fundamental in day-to-day life, in business and for the economy. Therefore we are committed to underwriting discipline.

We will not adopt short-term pricing tactics to grow business and boost turnover levels, as this translates to short-termism, which can prejudice the stability of the market, and risk protection of customers. Our competitive edge will not be based just on prices - our customers are purchasing security and primarily we will focus on applying fair prices on the basis of the underlying risks being insured. We will not pursue expansion in premium volumes just for the sake of increasing turnover figures - we only seek sustainable growth that is conducive to an improvement in the company's bottom line results that is beneficial for all our stakeholders.

In addition, overall security to stakeholders will continue to stem from our balance sheet, technical reserves, our reinsurance protection and prudent investment policy, and from the strength and expertise of our shareholders.

Governance and Risk Management
The requirements set out by the upcoming new Insurance Regulatory Regime, Solvency II, is another priority. With satisfaction we note that good progress was achieved on the execution of the Solvency II project during 2010 and we are on track for full implementation as per the regulatory target date of 1 January 2013. The importance we assign to risk management and governance will remain core to our business attitude as we pride ourselves with having one of the best, professional governance systems in the local insurance market. It is our intention to build on and sustain our existing structures using also the expertise and synergies with our institutional shareholders.

Cost Rationalisation
Cost control and rationalisation is a pressing priority which the Board has communicated to the Executive Team. The restructuring programme within the Group carried an element of additional costs related with corporate reorganisation. The investments in the human resource function, in information technology, and in other projects, also represented crucial investment elements that contributed to a higher overall overhead bill during the year. Allowing for the launch of a number of projects planned for 2011 and further fine-tuning in corporate organisation structures, the Board is determined that the executive team reaches a rationalised and efficient company cost structure by 2012.

Sustainable Dividends to our shareholders
Current regulatory requirements do not allow the Company to make a payment of a dividend, due to the negative accumulated reserves on the Profit & Loss Account, amounting to €37.4 million, featuring in the Balance Sheet

as at 31 December 2010. Such a negative balance arises due to the losses incurred during the Progress saga.

We are disappointed that notwithstanding that, we have registered positive results, we are still not in a position to share part of the profits registered this year with our shareholders. Since incorporation Middlesea has a track record of paying prudent dividends which has been impacted over the last three years by the difficulties encountered at Progress Assicurazioni S.p.A.. We are fully committed to restore dividend payments at the earliest possible opportunity and in this regard we are proposing to you as our shareholders, a resolution to restructure our issued share capital and our profit and loss account within the parameters allowed by the Companies Act. This will allow us to share with you in a prudent manner, future business success in the form of dividends without being affected and impinged negatively by issues that related to the past.

CONCLUSION

The goals we aspire for will not be easy but we will target and achieve such objectives with resolve. Strategy does not exist in a vacuum and in this regard in 2010 we have taken steps in embedding our strategic thinking into our day-to-day business activities that will guide us through 2011 and beyond. There is still more work to be done and further challenges to overcome. But our priorities are clear and executive focus has been directed accordingly.

Are we confident that we are able to grow, expand locally and succeed? My answer is simple and direct - Yes. We are capable even though we will have to face tough challenges along the way. I reiterate that our vision requires quality work and effort. Insurance business by nature deals with risks and inherently is impacted by the challenges of uncertainty. Current international economic and financial market conditions are still not as stable as one would prefer. Even if the economic downturn has slowed down, it will take some more time for economic performance to return to its pre-crisis level and for companies to invest more and also insure this investment. To compound matters recent dramatic events in the Arab world and amongst our neighbours in North Africa also fuel economic and business turbulences on world and local business, and create further uncertainties. Yet, whilst we acknowledge that the future will not be easy and will provide further challenges we are firm believers that in themselves, challenges can provide new opportunities. The willpower and results displayed in 2010, give us good confidence going forward.

Year 2010 was indeed a very important year for Middlesea Insurance p.l.c.. I consider myself privileged to have been part of this critical period, and glad to have contributed to this change process through direct collaboration, with a seasoned professional team of Directors and executives during such an eventful year. I am fortunate to have worked very closely with some professional and diligent people in the organisation who worked tirelessly and provided their relentless support as we tackled more than one significant challenge during the year. Middlesea owes its success to such employees and future sustainable growth will hinge on our ability to maintain, nurture and develop further the quality of our people and the executive team. MSI's cadre of professional people together with our institutional shareholders who are expert in the industry will form the foundations for the Company's continued future business success.

The results achieved witness the esteem and trust of our clients - we thank our customers for their confidence in the Company. Together with the Board of Directors, I must also express our sincere gratitude to you, our shareholders, for your continued, resilient, loyal support and strong belief in the notable abilities and characteristics of this Company. Together we have recorded a successful year and achieved a positive turnaround in performance. Our commitment and conviction to repay your trust and investment remains intact.

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

14 MARCH 2011

Stqarrija taċ-Chairman

INTRODUZZJONI

Ir-rapporti finanzjarji verifikati tal-Middlesea Insurance p.l.c. u tal-Grupp tal-Middlesea għas-sena li għalqet fil-31 ta' Diċembru 2010 jippreżentaw żvolta pożittiva fir-riżultati meta mqabbla mas-sena ta' qabel. Il-Middlesea Insurance p.l.c. irreġistrat qligħ sodisfaċenti qabel it-taxxa ta' €8.86 miljun fl-2010 meta mqabbel mat-telf ta' €62.88 miljun irreġistrat fis-Sena Finanzjarja 2009. Il-Grupp tal-Middlesea rrapporta qligħ qabel it-taxxa ta' €6.44 miljun meta mqabbel ma' telf ta' €54.4 miljun fil-kontijiet konsolidati għall-2009. Tali titjib fir-riżultati jixhed il-ħidma kbira tagħna matul is-sena, u jġegħelna nemmnu fina nfusna b'mod prudenti u jwassal biex ikollna fiduċja għall-ġejjieni.

Is-sena finanzjarja 2010 kienet sena li matulha nħolqu ħafna sfidi u seħħew ħafna avvenimenti , iżda b'mod ġenerali ir-riżultat kien wieħed sodisfaċenti. Fil-fatt is-sena finanzjarja 2010 rrappreżentat sena sinifikanti għall-Middlesea Insurance p.l.c. sabiex il-kumpanija terġa' tqum fuq saqajha, biex tingħata spinta 'l quddiem u biex tħejji lilha nnifisha għall-isfidi futuri li se joffri s-suq tal-assigurazzjoni.

Fl-ewwel sena tiegħi bħala Chairman, bl-appoġġ tal-Bord tad-Diretturi l-ġdid maħtur fl-2010, jiena ppresedejt għal tnax-il xahar intensivi mimlijin sfidi, inizjattivi għal bidla, tfassil ta' pjanijiet strateġiċi ġodda u xogħol intensiv, fl-isfond ta' xenarju ta' kompetizzjoni ħarxa. Flimkien ħadna deċiżjonijiet iebsin u għelibna żminijiet diffiċli li wassluna fejn ninsabu llum.

Wara l-isfortuna ta' Progress Assicurazioni S.p.A. u wara sentejn finanzjarji konsekuttivi diffiċli, il-konklużjoni tiegħi fir-Rapport Annwali għall-2009 wasslet messaġġ importanti lilkom, l-azzjonisti tagħna: li aħna ninsabu kunfidenti li nistgħu nroddulkom lura l-fiduċja li wrejtu fina u l-investiment li għamiltu. B'mod oġġettiv nistgħu ngħidu li wettaqna dik il-wegħda. Iżda nammettu li hemm sfidi u ostakli ulterjuri, u iktar titjib xi jsir f'diversi aspetti korporattivi. Matul din is-sena għelibna sfidi iebsin li setgħu qatgħulna qalbna. Iżda xorta rnexxielna niġġeneraw livell ta' qligħ sodisfaċenti, li ndirizza l-problemi finanzjarji mġarrba mill-Middlesea Insurance p.l.c. matul is-sentejn preċedenti. Minkejja d-diffikultajiet u d-daqqiet finanzjarji materjali fl-2008 u l-2009, il-Middlesea Insurance p.l.c. għadha kumpanija tal-assigurazzjoni b'saħħitha – attur ewlieni b'*Balance Sheet* robusta li fil-fatt hija l-iktar *Balance Sheet* stabbli fis-suq lokali tal-assigurazzjoni, appoġġjata minn azzjonisti istituzzjonali esperti, b'reputazzjoni tajba u ta' suċċess. F'dan l-ambjent ta' sfidi u f'din il-qagħda ekonomika globali diffiċli, fl-2010 stabilizzajna l-kumpanija u l-Grupp, u wittejna t-triq għal iktar żvilupp u tkabbir sostenibbli. Middlesea Insurance p.l.c. għadha l-kumpanija tal-assigurazzjoni ewlenija f'Malta u l-impenn tagħna huwa li nkomplu ntejbu din il-pożizzjoni.

Din l-istqarrija tagħti ħarsa lejn dak li rnexxielna niksbu f'sena tassew interessanti. Bl-istess mod, beħsiebni wkoll naqsam magħkom il-viżjoni tagħna għall-ġejjieni u r-rieda tagħna li nkomplu nisfruttaw il-potenzjal tal-kumpanija u li noħolqu opportunitajiet oħra li jżidu l-valur għall-benefiċċju tal-azzjonisti, tal-klijenti, l-impjegati tagħna u tal-partijiet kollha interessati.

ANALIŻI TAS-SENA FINANZJARJA

L-Ishma u l-Governanza

Kif diġà ktibt fir-rapport annwali tiegħi għall-2009, matul is-sena finanzjarja 2010 kien hemm bidla sinifikanti fl-istruttura azzjonarja tal-Middlesea Insurance p.l.c., riżultat tal-parteċipazzjoni tal-azzjonisti fir-*Rights Issue* f'Novembru 2009. Fil-fatt, l-ishma ta' Mapfre Internacional u tal-Bank of Valletta p.l.c. żdiedu għal 31.08% kull wieħed. Munich Re żamm l-istess pożizzjoni azzjonarja tiegħu ta' 19.9% u is-sehem aggregat tal-azzjonisti individwali l-oħra naqas għal ftit anqas minn 18%.

Dan ikkawża wkoll bidla fl-istruttura tal-bord tad-diretturi u fil-kariga taċ-Chairman. Jiena ġejt maħtur bħala Chairman mhux eżekuttiv tal-Middlesea Insurance p.l.c. mill-1 ta' Jannar 2010, u fil-Laqgħa Ġenerali Straordinarja tas-16 ta' Marzu 2010 nħatar Bord tad-Diretturi ġdid u iżgħar fin-numru. Il-Kumitati tal-Bord ġew ikkonsolidati u ssimplifikati. Dawn l-iżviluppi seħħew prinċipalment biex jirriflettu l-bidliet azzjonarji kif ukoll biex ikomplu jsaħħu l-istrutturi ta' governanza korporattiva tajbin tal-kumpanija, f'konformità mal-eżiġenzi kontemporanji tan-negozju u mar-rekwiżiti futuri tal-istrateġiji tan-negozju.

Progress Assicurazioni S.p.A.

Fil-bidu tal-kariga tiegħi bħala Chairman, waħda mill-ewwel deċiżjonijiet tal-Bord kienet relatata ma' Progress Assicurazioni S.p.A.. Kif ġie kkonfermat li Progress ma kellha ebda possibilità jew potenzjal raġonevoli biex tkompli topera f'konformità mar-rekwiżiti tal-liġi u tar-regolamenti Taljani, infurmajna minnufih u b'mod diliġenti lir-Regolatur Taljan (l-ISVAP) u lir-Regolatur Malti (l-MFSA) li l-kumpanija għandha tipproċedi immedjatement billi ma taċċettax aktar negozju u biex tibda proċess tal-likwidazzjoni tal-kumpanija kif suppost. Fid-9 ta' Frar 2010 l-ISVAP informa lill-kumpanija li kien ħatar lill-Professur Avv. Andrea Gemma bħala Amministratur Provviżorju ta' Progress Assicurazzioni S.p.A. u fit-30 ta' Marzu 2010, l-ISVAP imbagħad ikkonferma li kien qiegħed lill-Progress Assicurazioni S.p.A. f'Likwidazzjoni Amministrattiva Obbligatorja. Fi Frar 2011 tressqet talba quddiem il-Qrati Taljani f'Palermo, fejn intalab li l-falliment ta' Progress Assicurazioni S.p.A. jiġi aċċertat u ddikjarat bħala tali mill-qorti. Din it-talba tressqet mill-Professur Avv. Andrea Gemma fil-kapaċità tiegħu bħala Likwidatur maħtur mill-ISVAP biex jissorvelja l-amministrazzjoni tal-kumpanija. Ninsabu infurmati li hija proċedura normali għall-Likwidatur li jikseb sentenza tal-Qorti biex ikun jista' jipproċedi bil-proċess tal-likwidazzjoni.

Kif spjegat fid-dettall fir-rapport annwali tas-sena li għaddiet u fil-Laqgħa Ġenerali Annwali, aħna għażilna b'konvinzjoni ċara u bi prudenza li nikkanċellaw, minħabba raġunijiet validi u prattiċi , l-investiment kollu fi Progress mill-kontijiet għas-Sena Finanzjarja 2009. F'dan ir-rigward, ir-riżultati tas-sena attwali mhumiex affetwati mill-prestazzjoni operazzjonali ta' Progress, billi Progress m'għadhiex taħt il-kontroll tal-Middlesea Insurance p.l.c..

Is-sitwazzjoni attwali

Filwaqt li għamilna l-almu kollu tagħna biex naffrontaw l-isfidi ta' Progress, żgurajna id-diliġenza dovuta fl-istadji kollha tal-proċess, u sa mill-ewwel ġimgħat tal-2010 bdejna naħdmu wkoll fuq il-proċess ta' trasformazzjoni u ta' rilanċ tal-Middlesea Insurance p.l.c.. Fil-fatt, is-sena 2010 ġiet indikata mill-Bord tad-Diretturi bħala s-*Sena ta' Stabilizzazzjoni* fil-kuntest tal-programm ta' bidla u riabilitazzjoni mfassal għall-Middlesea Insurance p.l.c., u għall-Grupp tal-Middlesea. Id-deċiżjonijiet tal-Bord u l-azzjonijiet maniġerjali huma maħsuba biex il-Middlesea Insurance plc tibqa' kumpanija b'saħħitha u protagonista fis-suq lokali tal-assigurazzjoni, b'sistema ta' governanza effettiva, profil ta' riskji prudenti, strateġiji tan-negozju tajbin u ta' kwalità għolja u struttura tal-kapital xierqa u robusta.

Iktar kmieni din is-sena stabbilixxejna għanijiet strateġiċi ċari. Dan huwa dak li ridna nagħmlu, dan huwa dak li ksibna:

1) Irnexxielna nirrifokaw lil-Middlesea Insurance p.l.c. u lil-Grupp tal-Middlesea, filwaqt li saħħaħna l-*Balance Sheet* tagħna

u l-pożizzjoni regolatorja ta' solvibilità.

2) Stabbilizzajna u tajna impetu ġdid lill-Middlesea Insurance p.l.c. u lill-kumpaniji operazzjonali tal-Grupp, permezz ta' ristrutturazzjoni, filwaqt li żammejna l-elementi fundamentali b'saħħithom.

3) Kellna żvolta fir-riżultati fejn żdied il-valur tal-kumpanija għall- azzjonisti, permezz ta' pjan strateġiku ġdid li jikkunsidra lill-Kljienti, l-Innovazzjoni u lir-Riżorsi Umanani tagħna bħala l-pedamenti ewlenin tan-negozju.

Il-konsolidazzjoni tal-pożizzjoni tagħna u r-irrifokar tal-operazzjonijiet bażiċi tagħna

Il-motivazzjoni tan-negozju tagħna reġgħet ġiet iffukata fuq l-operazzjonijiet lokali, billi morna lura għall-għeruq tagħna filwaqt li kkonsolidajna l-pożizzjoni tagħna fis-suq lokali tal-assigurazzjoni. Wara li ttrattajna l-kwistjoni ta' Progress Assicurazioni SpA, bdejna proċess ta' ridimenzjoni tal-operazzjonijiet sekondarji u dawk barranin, li beda billi waqqafna il-bejgħ ta' poloz ġodda f'Ġibiltà. Wara li għamilna analiżi strateġika tal-vijabilità, f'Ġunju 2010, aħna nfurmajna lill-aġent f'dan ir-reġjun li xtaqna nieqfu noperaw minn dan r-reġjun. Meta skada l-perijodu tan-notifika, mill-1 ta' Jannar 2011 ma baqax isir bejgħ ta' poloz ġodda f'dik il-fergħa u teknikament issa n-negozju huwa fi stat ta' *run-off*. Bl-istess mod, minnufih żidna r-ritmu biex nagħlqu u nikkonkludu l-proċess ta' *run-off* tal-operazzjonijiet relatati man-negozju tal-Malta Re u tal-International Re, liema proċess ilu għaddej numru ta' snin. Dawn il-proġetti ngħataw impetu ikbar u prijorità eżekuttiva fl-2010 u dan se jibqa' jsir fl-2011. Matul l-2010, il-Middlesea Insurance p.l.c. biegħet l-interess tagħha fil-Mediterranean Survey Bureau Valletta Ltd, li ma kienx jirrappreżenta attività strateġika bażika.

Meta ħadna dawn l-inizjattivi, iffukajna fuq l-operazzjonijet prinċipali tagħna, u dan ta riżultati sodisfaċenti fuq diversi binarji. Minkejja l-kompetizzjoni ħarxa fis-suq ibbażata fuq prezzijiet, irnexxielna nevitaw il-kurrenti perikolużi tal-ġlieda fil-prezzijiet, inżidu l-*premiums* totali b'4.9%, filwaqt li rreġistrajna qligħ posittiv wara t-taxxa kif ukoll titjib fil-pożizzjoni regolatorja ta' solvibilità tagħna.

Ristrutturar u riabilitazzjoni

Seħħew bidliet strateġiċi ewlenin fl-istrutturar tal-Middlesea Insurance p.l.c. u tal-kumpaniji operazzjonali fil-Grupp. Il-kontribut u l-konċentrazzjoni tal-kumpaniji operazzjonali ewlenin ġew riorganizzati. Il-kumpaniji operattivi tal-grupp, jiġifieri l-Middlesea Insurance p.l.c., l-International Insurance Management Services Ltd (li ngħatat l-isem ġdid ta' Bee Insurance Management Ltd fl-24 ta' Lulju 2010), u l-Middlesea Valletta Life Assurance Co Ltd (li mid-29 ta' Novembru 2010 saret MSV Life p.l.c.) issa huma kumpaniji indipendenti, operazzjonijiet awtonomi żviluppati sew, li qed jiffukaw fuq in-negozju bażiku tagħhom. Din ir-riorganizzazzjoni korporattiva kienet ikkaratterizzata wkoll minn proċess ta' assenjazzjoni ta' rwoli ġodda lill-impjegati f'kull kumpanija.

B'riżultat tal-konċentrazzjoni fuq l-istrateġija tan-negozju bażiku u fundamentali tagħha f'Malta, il-Middlesea Insurance p.l.c. issa tinsab lesta li ttejjeb il-pożizzjoni u l-istatus tagħha fis-suq lokali ġenerali tal-assigurazzjoni, u li żżomm ir-rwol tagħha ta' assiguratriċi ffokata fuq il-klijenti; kumpanija profitabbli li tħares il-quddiem u li tibbilanċja it-tkabbir fil-qligħ mal-immaniġġjar tar-riskji. Ir-riżultati tal-kumpanija għall-2010 huma inkoraġġanti u jipprovdu bażi tajba ta' ottimiżmu prudenti għal żvilupp u suċċess fil-ġejjieni.

Ir-riżultati tal-kumpaniji operazzjonali ewlenin l-oħra fil-Grupp ukoll iqawwulna qalbna. Bee Insurance Management Ltd, li issa tipprovdi servizzi ta' mmaniġġjar ta' kumpaniji tal-assigurazzjoni u servizzi amministrattivi esklussivament lil klijenti terzi, irreġistrat qligħ qabel it-taxxa ta' €219 elf minkejja r-ristrutturar estensiv li sar fl-organizzazzjoni u l-eliminazzjoni tad-dħul mill-Kumpaniji tal-Grupp, mill-1 ta' Lulju, 2010. Minn naħa l-oħra, MSV Life p.l.c., kumpanija kkontrollata flimkien mal-Bank of Valletta p.l.c., irreġistrat sena rekord ta' volum tan-negozju, fejn il-*premiums* totali għal dik is-sena żdiedu bi 18.3% għal €147.49 miljun u f'dik id-sena l-profitt qabel it-taxxa kien ta' €11.63 miljun. Is-sehem ta' 50% tal-MSI fil-qligħ tal-MSV huwa kkonsolidat fil-Kontijiet tal-Grupp, u għas-Sena Finanzjarja 2010 dan ammonta għal €3.9 miljun meta mqabbel ma' €3.1 miljun fis-Sena Finazjarja 2009. Ta' min jinnota wkoll li l-MSV, li hija ċertament l-assiguratriċi tal-ħajja ewlenija f'Malta, kompliet tikkonsolida l-pożizzjoni tagħha fl-2010, sena li matulha hija żiedet l-assi totali tagħha għal €1.1 biljun, u attwalment tgawdi ekwità tal-azzjonisti ta' €108.89 miljun u bażi ta' aktar minn 83,500 klijent.

Matul is-sena sar investiment fid-dehra tal- kumpanija u fil- *brand equity* kemm fil-BEE Insurance Management Limited u kemm fl-MSV Life p.l.c. Fl-istess waqt, fl-2010 nbeda proġett biex tiġġedded u tingħata dehra ġdida lill-immaġni korporattiva tal-MSI u huwa ppjanat li dan jitnieda fl-2011. Sar ukoll investiment viżibbli fl-uffiċċji tal-kumpanija biex jiġu moqdija l-ħtiġijiet attwali tas-servizz lill-klijenti. Sa nofs l-2011, it-taqsimiet operattivi kollha tal-Middlesea Insurance p.l.c. se jiġu rilokati fil-Middle Sea House filwaqt li l-MSV Life p.l.c. se tiċċaqlaq f'uffiċċji ġodda separati. Tali inizjattivi ttieħdu biex il-Middlesea Insurance p.l.c. u l-kumpaniji operattivi tal-gruppi tagħha jibqgħu fuq quddiem f'dak li għandu x'jaqsam mal-provvista tas-servizzi u biex jitħares l-istatus tagħha bħala entità ewlenija ta' min iħaddem, li tipprovdi lin-nies li jaħdmu magħha ambjent tax-xogħol xieraq.

Il-filosofija u l-inizjattivi tan-negozju

Intenni li fl-opinjoni tal-Bord l-aħjar mod biex jiġi garantit is-suċċess fit-tul tal-kumpanija tagħkom huwa billi tkun mħarsa s-saħħa tal-bażi kapitali tagħha, billi titħares id-dixxiplina fil-bejgħ tal-poloz u billi jingħata servizz professjonali u ta' kwalità għolja. Aħna sostnejna dawn il-prinċipji matul is-sena, filwaqt li ffaċċjajna kompetizzjoni ħarxa bbażata prinċipalment fuq il-prezzijiet, indirizzajna u kkorreġejna poloz speċifiċi li kienu qed jirreġistraw telf, organizzajna b'mod aħjar oqsma speċifiċi tan-negozju filwaqt li fittxejna opportunitajiet ġodda ta' negozju. Hadna inizjattivi strateġiċi matul is-sena mmirati lejn il-konsumaturi, u sabiex intejbu l-innovazzjoni u l- iżvilupp tan-nies tagħna. Dawn l- inizjattivi kienu deċiżivi fl-iżvolta ġenerali fir-riżultati.

Investejna fi programm ta' żvilupp iffokat fuq il-klijenti li kien indirizzat lill-impjegati kollha tal-organizzazzjoni, bl-għan li niżviluppaw *Customer Charter* li jindirizza il-kwalità u l-livell tas-servizz għall-konsumaturi. Grazzi għall-filosofija tan-negozju tagħna dwar servizzi orjentati lejn il-klijenti, aħna nimpenjaw ruħna li ntejbu l-esperjenza tal-klijenti tagħna. L-għan huwa li nippożizzjonaw ruħna bħala *partners* tal-klijenti tagħna li jitolbu l-kompetenza u l-għajnuna tagħna fl-immaniġġjar tar-riskji u li nipprovdulhom is-serħan tal-moħħ li jkollhom bżonn. Saru passi 'l quddiem matul is-sena iżda nirrikonoxxu li hemm bżonn aktar ħidma u investimenti biex niffaċilitaw dan il-proċess, nagħmlu titjib fil-*Customer Promise* u nirrelataw aħjar mal-klijenti. Dan il-proġett se jibqa' għaddej fl-2011 u se jiġi sostnut b'inizjattivi ta' manteniment u programmi ta' taħriġ xierqa.

L-innovazzjoni tpoġġiet fil-qofol talpjanijiet strateġiċi tagħna u hija fundamentali għas-suċċess fit-tul tan-negozju tagħna. Aħna ma ridniex biss innovazzjoni fil-prodotti u fil-pakketti ta' servizzi tagħna – iva, dawn huma kruċjali u diġà qed jitfasslu numru ta' pjanijiet. Madankollu aħna qed infittxu l-kreattività fi sferi korporattivi oħra: fl-iżvilupp tal-impjegati, fi prattiċi moderni ta' tmexxija u mmaniġġjar, fil-proċessi u l-proċeduri, u għal metodi ġodda u effiċjenti biex nikkomunikaw mal-klijenti u mal-imsieħba fin-negozju tagħna. Sar progress sodisfaċenti grazzi għall-għajnuna u l-appoġġ dirett tal-azzjonist fl-industrija tagħna, Mapfre Internacional. Diġà bdew numru ta' programmi innovattivi flimkien mal-imsieħba barranin tagħna f'oqsma li jinkludu l-iżvilupp tal-prodotti, fit-teknoloġija tal-informazzjoni, fil-governanza u fl-immaniġġjar tar-riskji. L-MSI se żżomm u ssaħħaħ ir-relazzjonijiet tagħha ma' Mapfre biex ttejjeb l-istrutturi tal-*management* u l-metodi tax-xogħol, u tniedi prodotti ġodda fl-2011.

Hekk kif assumejt il-kariga ta' Chairman, deherli li waħda mill-ewwel responsabbilitajiet tiegħi kienet li nagħti aktar *empowerment* lin-nies tagħna. F'dan is-sens ittieħdu inizjattivi diretti u jiena personalment stabbilixxejt laqgħat perjodiċi u kuntatt dirett mal-impjegati kollha tul is-sena. Fl-istess waqt, bl-għajnuna tal-assistenti professjonali tiegħi aħna ħloqna l-ambjent, lestejna l-qafas u żviluppajna politika ġdida għal stil ta' *management* parteċipattiv li jħeġġeġ komunikazzjoni libera, spirtu ta' *team* u involviment milll-impjegati kollha, fejn kulħadd ikollu l-opportunità li jikber u jiżviluppa fi ħdan l-organizzazzjoni.

Il-Bord tad-Diretturi huwa konvint li s-suċċess tagħna jiddependi fuq il-kwalità tan-nies tagħna u li dawn jirrappreżentaw valur importanti għall-Middlesea. Fil-fatt, aħna onorati li l-għarfien tekniku tar-riżorsi umani tagħna huwa ta' livell għoli ħafna. L-investiment fl-isfera ta' kompetenzi u l-iżvilupp tagħhom għandu jiġi sostnut. Diġà għamilna investiment sinifikanti fil-funzjoni tar-riżorsi umani fl-2010. Fix-xhur li ġejjin se naħdmu b'ħeġġa u motivazzjoni biex niksbu u naraw aktar riżultati pożittivi minn dan l-investiment, billi l-għan aħħari huwa li nsiru iktar effiċjenti fl-immaniġġjar tat-talent, fil-programmi ta' żvilupp, fit-tmexxija professjonali u fis-sistemi ta' motivazzjoni.

Il-politika u l-portafoll ta' investimenti tal-Middlesea Insurance p.l.c. ġew riveduti sabiex jitjieb l-*asset-liability matching* bejn l-investimenti, r-riskji tan-negozju u t-terminu tal-*asset* u l-*liabilities*. Bl-istess mod, l-programm ta' riassigurazzjoni għall-2011 ġie aġġornat, billi żdiedet is-saħħa tal-protezzjoni tiegħu filwaqt li sar iktar effiċjenti minn perspettiva operazzjonali. L-investiment fis-sistemi tal-informazzjoni ġie sostnut, u bi pjaċir ninfurmakom li numru ta' Aġenti, *Tied Insurance Intermediaries* u *Brokers* issa jinsabu *on-line* u qed joperaw permezz tas-sistema operattiva tagħna. Huwa ppjanat aktar investiment fit-teknoloġija tal-informazzjoni, fis-sit elettroniku tal-kumpanija u biex isir titjib fil-provvista tas-servizzi u tiżdied l-effiċjenza operazzjonali.

Ikkonsolidajna s-sistema ta' governanza tagħna flimkien ma' dik tal-immaniġġjar tar-riskji. F'konformità mal-prattika tajba kontemporanja ta' governanza, fl-2010 inħareġ *Code of Conduct* bħala gwida għall-uffiċjali u l-impjegati kollha li jaħdmu mal-Grupp tal-Middlesea u għall-ewwel darba tajna bidu għal programm annwali intern ta' *self assessment* tal-Membri tal-Bord tad-Diretturi bl-għan li nrawwmu u nsostnu kultura ta' kwalità fil-livelli korporattivi kollha. Saret enfasi fuq il-proġett ta' implimentazzjoni ta' Solvency II, is-sistema regolatorja tal-assigurazzjoni l-ġdida li l-Unjoni Ewropea se ddaħħal fis-seħħ mill-1 ta' Jannar 2013. B'sodisfazzjon nistgħu ngħidu li l-QIS5, li segwa erba' testijiet kwantitattivi preliminari simili magħmula mis-CEIOPS (Committee of European Insurance and Occupational Pension Schemes) bħala tħejjija għall-implimentazzjoni tal-qafas ta' Solvency II, ġie eżegwit u ppreżentat lill-Awtorità Regolatorja sal-iskadenzi stabbiliti mill-Unjoni Ewropea fl-1 ta' Novembru 2010.

Matul is-sena aħna komplejna nibnu fuq il-wirt u r-reputazzjoni tagħna bħala sostenituri tal-ħtiġijiet tal-komunità tagħna permezz ta' kontributi mmirati lejn appoġġ finanzjarju, programmi u inizjattivi għal operazzjonijiet filantropiċi u fis-settur tal-edukazzjoni. Fil-fatt il-Middlesea Insurance p.l.c. minn dejjem kienet fuq quddiem fil-promozzjoni tal-edukazzjoni dwar l-assigurazzjoni f'Malta. Wara li reċentement appoġġjana bis-sħiħ it-twaqqif tal-ewwel kors fl-Assigurazzjoni u l-Finanzi fl-Università ta' Malta fl-2008, komplejna nappoġġjaw, anke b'mod finanzjarju dan il-programm. Aħna beħsiebna nibqgħu nagħtu dan l-appoġġ biex nippromwovu edukazzjoni ulterjuri f'dan il-qasam.

PROSPETTI U PRIJORITAJIET

B'għaqal u attenzjoni żammejna t-tmun sod waqt li konna għaddejjin mill-maltempati, waqt li wassalna l-vapur sal-port qawwi u sħiħ; tejjibna l-istrutturi eżistenti tagħna u stabbilixxejna pedamenti ġodda li se jgħinuna nsalpaw orizzonti ġodda għall-iżvilupp u l-evoluzzjoni tal-kumpanija fil-ġejjieni.

Il-previżjonijiet strateġiċi tagħna huma bbażati fuq iktar żvilupp tan-negozju, titjib fil-qligħ u tkabbir sostnenibbli. Aħna ninsabu fiduċjużi li permezz ta' *Balance Sheet* soda, politika ta' *underwriting* dixxiplinata, mezzi ta' distribuzzjoni modernizzati u mmaniġġjar professjonali tar-riskji se jirnexxielna f'ħidmietna. Il-Middlesea Insurance p.l.c. se tistinka biex issaħħaħ il-pożizzjoni tagħha f'Malta, tikkonsolida l-pożizzjoni tagħha fin-negozju tal-*personal lines*, assigurazzjoni ta' poloz kummerċjali u fl-assikurazzjoni tas-saħħa. Se tisfrutta wkoll il-liċenzja *composite* tagħha u tkompli ssaħħaħ il-portafoll tal-*Group Life*. Aħna rridu l-kwalità - u rridu niksbuha bil-kontribut ta' kulħadd, kemm tar-riżorsi interni u kemm dak tal-imsieħba esterni.

Nemmnu li hemm aktar potenzjal għal tkabbir fis-suq lokali u dan se jkompli jiġi sfruttat b'għaqal, determinazzjoni u kreattività. Dawn se jkunu l-prijoritajiet tagħna għall-2011:

Id-Dixxiplina u s-Sigurtà fl-*Underwriting*
Aħna nimxu bi prudenza u napprezzaw il-fiduċja li l-klijenti juru fina. Il-klijenti jistħoqqilhom rispett u aħna kommessi li niżguraw il-vijabilità fit-tul tal-prodotti tal-assigurazzjoni li noffru għaliex dawn huma fundamentali fil-ħajja ta' kuljum, fin-negozju u għall-ekonomija. Għalhekk aħna nosservaw bis-sħiħ id-dixxiplina fl-*underwriting*.

Aħna m'aħniex se naddottaw tattiċi ta' tibdil fil-prezzijiet għall-żmien qasir biex inkabbru n-negozju u ngħollu l-livelli tal-bejgħ, għax dan l-aġir ma jikkonsidrax is-sostenibilita' fit-tul u jista' jipperikola l-istabilità tas-suq u jpoġġi l-protezzjoni tal-klijenti f'riskju. Il-vantaġġ kompetittiv tagħna mhux se jkun ibbażat biss fuq il-prezzijiet – il-klijenti tagħna qed jixtru sigurtà u aħna se noqogħdu prinċipalment attenti li napplikaw prezzijiet ġusti abbażi tar-riskji li jkunu qed jiġu assigurati. Aħna m'aħniex se nfittxu espansjoni fil-volumi tal-*premiums* sempliċement biex inżidu ċ-ċifri tal-bejgħ – aħna rridu biss tkabbir sostenibbli li jwassal għal titjib fir-riżultati aħħarin tal-kumpanija u li jkun ta' benefiċċju għall-partijiet interessati kollha tagħna.
Barra minn hekk, is-sigurtà globali tal-partijiet interessati se tkompli toħroġ mill-*Balance Sheet* tagħna, mir-riservi tekniċi tagħna, mill-politika tagħna ta' protezzjoni tar-riassigurazzjoni u ta' investiment għaqli, u mis-saħħa u l-kompetenzi tal-azzjonisti tagħna.

Stqarrija taċ-Chairman

Il-Governanza u l-Immaniġġjar tar-Riskji

Ir-rekwiżiti stabbiliti mis-sistema regolatorja tal-assigurazzjoni l-ġdida, Solvency II jikkostitwixxu prijorità oħra. B'sodisfazzjon nosservaw li sar progress fit-twettiq tal-proġett ta' Solvency II fl-2010 u ninsabu fil-ħin għall-implimentazzjoni sħiħa skont il-mira regolatorja tal-1 ta' Jannar 2013. L-importanza li nagħtu lill-immaniġġjar tar-riskji u l-governanza se jibqgħu il-qofol tal-attitudni tagħna lejn in-negozju peress li aħna nistgħu ngħidu b'wiċċna mill-quddiem li għandna waħda mill-aħjar sistemi ta' governanza professjonali fis-suq lokali tal-assigurazzjoni. L-intenzjoni tagħna hija li nkomplu nibnu u nsaħħu l-istrutturi eżistenti tagħna billi nagħmlu użu mill-kompetenzi tal-azzjonisti istituzzjonali tagħna u mis-sinerġiji magħhom.

Il-kontroll tal-ispejjeż

Il-kontroll tal-ispejjeż huwa prijorità urġenti li l-Bord ikkomunika lil-*management* tal-Kumpanija. Il-programm ta' ristrutturar fil-Grupp kien jinvolvi element ta' spiża addizzjonali relatat mar-riorganizzazzjoni tal-Kumpanija. L-investmenti fil-funzjoni tar-riżorsi umani, fit-teknoloġija tal-informazzjoni u fi proġetti oħra wkoll jirrappreżentaw elementi importanti ta' investiment li komplew itellgħu l-kont tal-ispejjeż amminstrattivi ġenerali tul is-sena. Filwaqt li huma previsti numru ta' proġetti għall-2011 u rfinar ulterjuri tal-istrutturi organizzattivi tal-kumpanija, il-Bord huwa determinat li l-*management* tal-kumpanija għandu jiżviluppa struttura sistematika u effiċjenti tal-ispejjeż tal-kumpanija sal-2012.

Dividends sostenibbli għall-azzjonisti tagħna

Ir-rekwiżiti regolatorji attwali ma jippermettux lill-Kumpanija tagħmel pagament ta' *dividend,* minħabba r-riservi negattivi akkumulati fil-*Profit & Loss Account*, li jammontaw għal €37.4 miljun, hekk kif dehru fil-*Balance Sheet* fil-31 ta' Diċembru 2010. Tali bilanċ negattiv jirriżulta mit-telf imġarrab mill-istorja ta' Progress Assicurazioni S.p.A..

Ninsabu diżappuntati li minkejja r-riżultati pożittivi li rreġistrajna, xorta m'aħniex f'pożizzjoni li naqsmu parti mill-qligħ irreġistrat din is-sena mal-azzjonisti tagħna. Sa mill-inkorporazzjoni tagħha, il-Middlesea Insurance p.l.c. għandha storja ta' pagamenti prudenti ta' *dividends* li f'dawn l-aħħar tliet snin intlaqtu ħażin mid- diffikultajiet fi Progress Assicurazioni S.p.A.. Aħna kommessi li nerġgħu nibdew l-pagamenti tad-*dividends* mal-ewwel opportunità u f'dan ir-rigward aħna qed nipproponu lilkom, bħala l-azzjonisti tagħna, riżoluzzjoni biex nirristrutturaw l-*Issued Share Capital* u l-*Profit & Loss Account* tagħna fil-parametri permessi mill-Att tal-Kumpaniji. Dan jippermettilna li naqsmu magħkom b'mod prudenti s-suċċess futur fin-negozju fil-forma ta' *dividends* mingħajr ma niġu affettwati jew influwenzati negattivament minn kwistjonijiet tal-passat.

KONKLUŻJONI

Il-miri li qed naspiraw għalihom mhumiex faċli biex jintlaħqu, iżda se naħdmu b'determinazzjoni għal dawn l-għanijiet u se nilħquhom. L-istrateġija ma teżistix fl-arja, u fil-fatt fl-2010 ħadna passi biex nintegraw il-ħsibijiet strateġiċi fl-attivitajiet kummerċjali tagħna ta' kuljum li se jiggwidawna fl-2011 u li 'l hinn. Għad hemm iktar xogħol xi jsir u iktar sfidi x'jingħelbu. Iżda l-prijoritajiet tagħna huma ċari u l-istess direzzjoni ingħatatat lil-*management*.

Inħossuna fiduċjużi li nistgħu nikbru, nespandu lokalment u jkollna suċċess? Ir-risposta tiegħi hija sempliċi u diretta – Iva. Aħna kapaċi nagħmlu dan, għalkemm hemm sfidi ibsin li rridu nħabbtu wiċċna magħhom sakemm naslu. Għal darb'oħra nsostni li l-viżjoni tagħna tirrikjedi ħidma ta' kwalità għolja u sforzi kbar. In-negozju tal-assigurazzjoni min-natura tiegħu jittratta r-riskji u huwa influwenzat mill-isfidi tal-inċertezza. Is-sitwazzjoni internazzjonali attwali tas-suq ekonomiku u finanzjarju għadha mhijiex stabbli daqskemm wieħed jixtieq. Għalkemm ir-riċessjoni ttaffiet, għad irid jgħaddi iktar żmien biex il-qagħda ekonomika terġa' lura fil-livell ta' qabel il-kriżi u biex il-kumpaniji jirritornaw għall- investimenti u jassigurawhom. Din is-sitwazzjoni kompliet tmur għall-agħar bl-avvenimenti drammatiċi reċenti fid-dinja Għarbija u fost il-ġirien tagħna fl-Afrika ta' Fuq li ħolqu instabbiltà ekonomika u kummerċjali fin-negozju dinji u lokali, u nisslu aktar inċertezzi. Minkejja dan, għalkemm nirrikonoxxu li l-ġejjieni mhux se jkun ward u żgħar u se jippreżentalna iktar sfidi, aħna konvinti bis-sħiħ li l-isfidi min-natura tagħhom jipprovdu opportunitajiet ġodda. Id-determinazzjoni u r-riżultati li ntwerew fl-2010 jgħinuna nħarsu 'l quddiem b'fiduċja.

Is-sena 2010 kienet tassew sena importanti għall-Middlesea Insurance p.l.c. Inħossni privileġġjat li tajt is-sehem tiegħi f'dan il-perijodu importanti, u nħossni wkoll kuntent li kkontribbwixxejt f'dan il-proċess ta' bidla permezz ta' kollaborazzjoni diretta, flimkien mad-Diretturi u diriġenti li huma professjonali u esperti, f'sena tant movimentata bħalma kienet din. Inħossni wkoll ixxurtjat li ħdimt mill-qrib ma' persuni professjonali u diliġenti fi ħdan l-organizzazzjoni li ħadmu bla heda u taw l-appoġġ kontinwu tagħhom aħna u nikkumbattu diversi sfidi sinifikanti matul is-sena. Il-Middlesea taf is-suċċess tagħha lil dawn l-impjegati, u t-tkabbir sostenibbli futur jiddependi mill-ħila tagħna li nħarsu, nikkoltivaw u nkomplu niżviluppaw il-kwalità tan-nies u tal-*management* tagħna. Il-qafas ta' professjonisti tal-MSI flimkien mal-azzjonisti istituzzjonali tagħna li huma esperti fl-industrija se jkunu l-pedamenti biex il-Kumpanija jibqa' jkollha suċċess fin-negozju fil-ġejjieni.

Ir-riżultati li ksibna huma xhieda tal-istima u l-fiduċja li l-klijenti tagħna għandhom fil-konfront tagħna –nirringrazzjaw lill-klijenti tagħna ta' din il-fiduċja fil-Kumpanija. Flimkien mal-Bord tad-Diretturi, nixtieq ukoll nuri l-gratitudni sinċiera tiegħi lejkhom, bħala l-azzjonisti tagħna, għall-appoġġ kontinwu u leali tagħkom u għall-fiduċja kbira tagħkom f' din il-Kumpanija. Flimkien irnexxielna jkollna sena ta' suċċess u ksibna riżultati positivi. Aħna nibqgħu naħdmu b'impenn u b'konvinzjoni sabiex inroddu lura il-fiduċja u l-investiment tagħkom.

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

14 TA' MARZU 2011

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, Maltacom p.l.c., 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., Director Medserv p.l.c., Director, Nemea Bank p.l.c., Director, MSV Life p.l.c., Managing Director, Market Intelligence Services Co. Ltd, Managing Director, MISCO International Ltd, Chairman, C. Fino & Sons Ltd, Chairman, Document Archive Management Ltd, Chairman, Impetus Europe Consulting Group Ltd, Chairman, Multi Risk Limited, Chairman, Multi Risk Indemnity Ltd, Director, Multi Risk Benefits Ltd, Director, PowerImage Services Ltd, (Cyprus), Director, Promise Professional Services Ltd, (Cyprus), Director, 3a Malta Ltd, Director, Surge Consulting Ltd, Director, Combined Maritime Services Ltd, Chairman, BEE Insurance Management Ltd, Chairman, EuroMed Risk Solutions Ltd, Chairman Euro Globe Holdings Ltd, Chairman, Church Wharf Properties Ltd, Director, Growth Investments Ltd, Director, Foundation for Medical Services.

MR RODERICK E. D. CHALMERS
M.A. DIV.(EDIN), F.C.A., A.T.I.I., F.C.P.A., F.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 MSV Life p.l.c., Chairman Valletta Fund Management Ltd, Chairman Valletta Fund Services Ltd, Member of the Board of Gasan Group Ltd, 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 MSV Life p.l.c.

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

Board of Directors & Company Secretary

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 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 Vice-Chairman of Mapfre S.A. and responsible for the international operations of the 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 a member of the Board and a 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 AS EXECUTIVE DIRECTOR)

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), Director of Mapfre Re (Spain), Director of RMI Inc. (USA).

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, market 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, Mobisle 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.

THE FOLLOWING BOARD DIRECTORS RESIGNED FOLLOWING THE EXTRAORDINARY GENERAL MEETING HELD ON THE 16 MARCH 2010

Mr George Bonnici, Dr Evelyn Caruana Demajo, Mr Victor Galea Salomone, Dr John C. Grech, Mr Mario C. Grech.

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 was appointed Company Secretary and Compliance Officer of the group companies. Serves as committee secretary to the Board Committees of Middlesea Insurance p.l.c.. Published the Dictionary for Financial Services and is involved in the Olympic Movement.

Chief Operations Officer Review

Financial year 2010 represented a stabilising yet challenging and unique year for the Company. It has been a year characterised by the determination of the Board, management and staff to succeed in re-establishing the sound financial strength of Middlesea Insurance p.l.c.. The events of the previous two financial years, which were indeed disheartening, served to strenghten the team at Middlesea which was willing to take on the challenge and turn around the financials for this important Maltese Insurance Company. The results of 2010 give evidence of the commitment and hard work of the people that lead and work within the company.

During the first months of 2010 the Company went through a restructuring of the executive management team and the re-building of the professional human resource capacity required to provide a more efficient and focused service to the clients of the Company. Having established a strategy for Middlesea to focus its operations in Malta, a market well known to us and in which we have operated for almost 30 years, management focused all its efforts to re-consolidate its leading position in Malta. The customer is of utmost importance to Middlesea, and in accordance with the newly defined strategy of the Company, all employees have been given the opportunity to participate in a customer centricity programme which commenced during the year and which will continue during 2011 with a clear objective of creating a stronger engagement with the customer. A renewed promise will define the way we do business for the benefit of our customers and all stakeholders.

Performance Review

Notwithstanding the highly competitive Maltese market, growth was registered in both the Non Life and Group Life businesses by a total increase of 4.9%. The Non Life portfolio, which represented 94.6% of the business, grew by 2.8% compared with an average increase of 2.2% for the total market premium written in Malta during 2010 - as per the Malta Insurance Association statistics. Middlesea retained its leading position in this sector of the market with a market share of 23.4% in 2010. Total premium generated from the foreign account in Gibraltar, totalled €2.7 million in 2010 as compared to €2.6 million in 2009. In accordance with the Company's strategy to consolidate and focus its insurance activities in Malta, 2010 represents the last year of operation of Middlesea Insurance p.l.c. in Gibraltar. The discontinuation of the underwriting activity in Gibraltar became effective on the 1 January 2011. The Company will continue to honour its committments to the policyholders in Gibraltar through an effective claims handling and policy maintenance service. This service is provided by the local agent and an executive of Middlesea Insurance p.l.c who continues to monitor the portfolio.

Through its reinsurance strategy the Company ensures that promises made to its policyholders are maintained at all times and irrespective of the magnitute of claims. This is achieved through the international sharing of risks by purchasing reinsurance protections from highly rated reinsurance companies. This allows for adequate spread of risks accepted. During 2010 the company paid out 44% of the premiums written by way of reinsurance premium which, whilst providing for risk sharing, also allowed the company to recover part of the claims paid out to policyholders. This is in accordance with the reinsurance agreements entered into by the Company. Adequate reinsurance protection is essential to an insurer. As part of its re-focused strategy, during 2010, management undertook a thorough study of the protections purchased in preparation for the 2011 reinsurance programme. Whilst maintaining high levels of protection, the 2011 reinsurance programme seeks to acquire a higher element of equitable profit sharing with our partners in the reinsurance industry.

The incidence of claims on Middlesea Insurance p.l.c. is highly dependant on the events and the frequency at which they may occur throughout the particular financial year. For this reason, claims administration is a high priority service which the Company continues to provide to its policyholders. Attaining adequate results for shareholders requires a high level of control and fairness to claimants when assessing and settling claims. In accepting premium from policyholders, the Company binds itself to the efficient settlement of all legitimate claims covered by the policy purchased. Management is committed to provide an efficient service in line with the promise made to each and every policyholder, whilst every effort will continue to be made to assist customers to purchase the correct insurance cover which is best suited for their individual needs. During 2010, despite the high cost of claims being experienced, particularly in the Motor class of business, the net loss ratio for the company reduced by 2.6 percentage points to 62.9%.

Management is committed to increase

efficiency within the Company whilst streamlining costs notwithstanding the additional cost absorbed by the Company following the restructuring within the Group as from 1 July 2010. During 2011, the Company will continue to invest in information technology and human resource capacity in order to build a robust organisation to maintain and enhance its efficient service to all policyholders.

The technical performance of the Company for its general and life portfolio yielded a return of 8.7% on net earned premium during the year. This is prior to any allocation of investment income. Investment income from the local and international capital markets reduced further in 2010 following the unwinding of unrealised capital gains registered in previous years. The investment strategy for the Company was re-visited during the year and in accordance with the risk capital of the Company, the investment strategy was revised to reflect the financial strength of the Company's balance sheet.

During 2010 the Company went through a year of consolidation and change. Nonetheless, a profit after taxation of €7.7 million was registered. When compared to the loss sustained in 2009 of €63.4 million (due to the impairment charge taken on the investment in the Italian subsidiary), this reflects a highly satisfactory technical performance. The 2010 performance also compares favourably to the results achieved in 2009 before the impairment charge, which amounted to €6.1 million, thereby resulting in a 26% increase in profits for the Company during the current financial year.

The performance of the re-focused companies within the Group, namely MSV Life p.l.c. (associate) and Bee Insurance Management (subsidiary) have also been satisfactory and both companies distributed a dividend to Middlesea Insurance p.l.c. during the year in accordance with their dividend policy. As detailed in the Chairman's statement both these companies are now operating on a stand alone basis with a clear focus on their core operations and a focused strategy for growth and achievement of sustainable profitability.

Middlesea Insurance p.l.c. has always maintained the importance of a strong balance sheet. The difficult period experienced during the financial years 2008 and 2009 have not weakened this financial strength of the Company. Thanks to its shareholders, Middlesea Insurance p.l.c. reinstated its balance sheet strength, which allowed it to continue to enjoy the strongest insurance balance sheet amongst its competitors. The positive results of 2010 have further enhanced this strength with the Net Asset Value per share increasing by 7c during the year to 60c as at 31 December 2010. The solvency position of the Company was fully reinstated during the year and is more than fully compliant with the regulatory requirements. At the end of 2010 the Company enjoyed a solvency cover of 359% of the minimum solvency requirements.

Looking forward

The financial year 2010 marked the turnaround from the financial losses sustained by the Company and the Group due to its investment in Italy. This year has allowed us to stabilise our operations in Malta with a re-focused strategy which will drive management's initiatives during the coming year. The positive results achieved by the Group and its successful transition away from the difficult experiences it went through during these last years, were possible thanks to the diligent direction provided by the Board of Directors and the commitment and support of the management and staff of Middlesea Insurance p.l.c.. My sincere appreciation goes to the entire Middlesea team that withstood the difficult moments and that today looks forward to deliver results in an enhanced and more stable environment.

We enter 2011 with optimism, albeit in an economical and political scenario which remains challenging, particularly with the prevailing events in the North African region and the unprecedented natural catastrophes which the world has experienced during the first quarter of the year. Consequently, we remain prudent and retain our focus on the company's financial strength, and by achieving total customer satisfaction and organisational efficiency to take advantage of arising opportunities. We shall maintain our focus on underwriting discipline, effective claims management and cost containment so as to maximise the financial return to our shareholders.

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

14 MARCH 2011

Rapport Taċ-Chief Operations Officer

Is-sena finanzjarja 2010 irrappreżentat sena ta' stabilizzar iżda mimlija sfidi u sena unika għall-Kumpanija. Kienet sena karatterizzata mid-determinazzjoni tal-Bord, *management* u l-impjegati tal-Kumpanija sabiex jirnexxielhom jerġgħu jistabbilixxu s-saħħa finanzjarja tal-Middlesea Insurance p.l.c.. L-avvenimenti li ġraw tul l-aħħar sentejn finanzjarji, li kienu tassew ta' qtigħ il-qalb, servew sabiex isaħħu lit-*team* tal-Middlesea, li kien lest li jilqa' din l-isfida u jġib bidla fir-riżultati finanzjarji ta' din il-Kumpanija tal-Assigurazzjoni ewlenija f'Malta. Ir-riżultati miksuba fl-2010 kienu evidenza tal-impenn u x-xogħol iebes tan-nies li jmexxu u jaħdmu fil-Kumpanija.

Matul l-ewwel xhur tal-2010, il-Kumpanija irristrutturat it-*team* tal-*management* u ħadmet sabiex issaħħaħ ir-riżorsi umani professjonali li kienu meħtieġa biex tipprovdi servizz iktar effiċjenti u ffukat lill-klijenti tal-Kumpanija. Wara li ġiet stabbilita l-istrateġija biex il-Middlesea tiffoka l-operat tagħha f'Malta, suq li nafuh sew u li fih ilna noperaw għal kważi 30 sena, l-isforzi tal-*management* kienu lkoll dedikati sabiex il-Kumpanija tikkonsolida mill-ġdid il-pożizzjoni ewlenija tagħha f'Malta. Il-klijent huwa ta' mportanza kbira għal Middlesea, u f'konformità mal-istrateġija l-ġdida tal-Kumpanija, l-impjegati kollha ngħataw l-opportunità li jipparteċipaw fi programm ta' taħriġ dwar "*Customer Centricity*". Dan il-programm beda matul is-sena u se jkompli matul l-2011 bl-għan ċar li tinħoloq relazzjoni aktar b'saħħitha mal-klijent. Il-wegħda mġedda se tiddefinixxi l-mod kif nagħmlu n-negozju, għall-benefiċċju tal-klijenti tagħna u l-partijiet interessati kollha.

Reviżjoni tal-Prestazzjoni

Minkejja l-kompetittività qawwija fis-suq Malti, ġie reġistrat tkabbir kemm fin-negozju *Non Life* kif ukoll *Group Life,* b'żieda totali ta' 4.9%. Il-portafoll *Non Life* li rrappreżenta 94.6% tan-negozju, kiber bi 2.8%, meta mqabbel maż-żieda medja ta' 2.2% fit-total ta' *premiums* fis-suq Malti fl-2010 - skont statistika maħruġa mill-Malta Insurance Association. Middlesea żammet il-pożizzjoni ewlenija tagħha f'dan is-settur tas-suq, b'sehem ta' 23.4% fl-2010. Il-*premium* totali ġġenerat mill-aġent barrani f'Ġibiltà, ammonta għal €2.7 miljun fl-2010, meta mqabbel ma' €2.6 miljun fl-2009. Skont l-istrateġija tal-Kumpanija li tikkonsolida u tiffoka l-attivitajiet tal-assigurazzjoni tagħha f'Malta, l-2010 tirrappreżenta l-aħħar sena ta' operat għall-Middlesea Insurance p.l.c. f'Ġibiltà. Il-waqfien ta' bejgħ ta' poloz f'Ġibiltà sar effettiv mill-1 ta' Jannar 2011. Il-Kumpanija se tkompli tonora l-obbligazzjonijiet tagħha lejn il-*policyholders* f'Ġibiltà permezz ta' proċess ta' *claims handling* effettiv u servizz ta' manutenzjoni tal-polza tal-assigurazzjoni. Dan is-servizz huwa pprovdut mill-aġent lokali filwaqt li mpjegat eżekuttiv ta' Middlesea Insurance p.l.c. se jkompli jissorvelja l-portafoll.

Permezz tal-istrateġija fir-rigward ta' riassigurazzjoni il-Kumpanija tiżgura li l-wegħdiet li jsiru lil *policyholders* jiġu miżmuma f'kull mument u rrispettivament mill-kobor tal-*claims*. Dan jinkiseb permezz tal-qsim fuq livell internazzjonali tar-riskji, billi l-Kumpanija tixtri protezzjoni ta' riassigurazzjoni minn kumpaniji ta' riassigurazzjoni ta' reputazzjoni għolja ħafna. Dan jippermetti firxa adegwata tar-riskji aċċettati. Matul l-2010, il-Kumpanija ħallset 44% tal-*premiums* miktuba minnha lir-riassiguraturi li, filwaqt li provda għall-qsim tar-riskji, ippermetta ukoll li l-Kumpanija tirkupra parti mill-*claims* imħallsa lill-*policyholders*. Dan huwa f'konformità mal-ftehim ta' riassigurazzjoni li daħlet għalihom il-Kumpanija. Protezzjoni f'forma ta' riassigurazzjoni adegwata hija essenzjali għall-assiguratur. Bħala parti mill-istrateġija rifokata tal-Kumpanija, matul l-2010 il-*management* għamel studju dettaljat tal-protezzjonijiet mixtrija, bi preparazzjoni għall-programm ta' riassigurazzjoni tal-2011. Filwaqt li nżammu livelli għolja ta' protezzjoni, il-programm ta' riassigurazzjoni għall-2011 ifittex li jikseb tqassim tal-profitti aktar ekwilibrat mas-sħab tagħna fl-industrija tar-riassigurazzjoni.

L-inċidenza ta' *claims* għall-Middlesea Insurance p.l.c. tiddependi ħafna mill-avvenimenti u l-frekwenza li biha justgħu jseħħu l-inċidenti tul is-sena finanzjarja partikolari. Għal din ir-raġuni l-amministrazzjoni tal-*claims* huwa servizz li jingħata prijorità għolja u li l-Kumpanija tkompli tipprovdi lill-*policyholders*. Sabiex niksbu riżultati adegwati għall-azzjonisti, hemm bżonn ta' livel għoli ta' kontroll u ġustizzja ma' min jiftaħ *claim,* waqt li l-*claims* jiġu evalwati u mħallsa. Meta l-Kumpanija taċċetta *premium* mingħand *policyholders* tintrabat li tħallas kull *claim* leġittima u koperta mill-polza mixtrija, b'mod effiċjenti. Il-*management* huwa kommess li jipprovdi servizz effiċjenti, f'konformità mall-wegħda li ssir li kull *policyholder,* filwaqt li se jibqa' jsir kull sforz sabiex il-klijent jingħata assistenza sabiex jixtri l-livell ta' kopertura l-aktar addattat għall-bżonnijiet individwali tiegħu. Matul l-2010, minkejja l-ispejjeż għolja esperjenzati fi *claims*, partikolarment fil-qasam tal-assigurazzjoni tal-karozzi, in-*net loss ratio* tal-Kumpanija tnaqqas b'2.6 punti perċentwali għall- 62.9%.

Minkejja l-ispejjeż addizzjonali assorbiti mill-Kumpanija wara r-ristrutturar fi ħdan il-Grupp mill-1 Lulju 2010, il-*management* huwa kommess li jżid l-effiċjenza fil-Kumpanija filwaqt li jitnaqqsu l-ispejjeż. Matul l-2011, il-Kumpanija se tkompli tinvesti fit-teknoloġija tal-informatika u r-riżorsi umani sabiex nibnu organizzazzjoni robusta u nżommu u nsaħħu is-servizz effiċjenti tagħna lill-*policyholders* kollha.

Il-prestazzjoni teknika tal-Kumpanija għall-portafolli ġenerali u *life* taw ritorn ta' 8.7% fuq in-*net earned premium* matul is-sena. Dan qabel kwalunkwe allokazzjoni ta' dħul minn investimenti. Dħul minn investiment mis-swieq kapitali lokali u internazzjonali naqas iktar fl-2010 wara l-*unwinding* tal-qligħ kapitali mhux realizzat li kien reġistrat fis-snin preċedenti. L-istrateġija ta' investiment tal-Kumpanija ġiet riviżitata matul is-sena u skont ir-*Risk Capital* tal-Kumpanija, l-istrateġija ġiet riveduta biex tirrifletti s-saħħa finanzjarja tal-*Balance Sheet* tal-Kumpanija.

Matul l-2010, il-Kumpanija għaddiet minn sena ta' konsolidazzjoni u bidla. Madankollu, ġie rreġistrat profitt wara t-tnaqqis tat-taxxa ta' €7.7 miljun. Meta mqabbel mat-telf ta' €63.4 miljun sostnut fl-2009 (minħabba *impairment charge* fir-rigward tal-investiment fis-sussidjarja Taljana), dan jirrifletti rendiment tekniku sodisfaċenti ħafna. Il-prestazzjoni tal-2010 titqabbel tajjeb mar-riżultati miksuba fl-2009 qabel l-*impairment charge,* li ammonta għal

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€6.1 miljun, u tirriżulta f'żieda ta' 26% fil-profitti tal-Kumpanija matul is-sena finanzjarja kurrenti.

Il-prestazzjoni tal-kumpaniji tal-Grupp kif iffokati mill-ġdid, jiġifieri l-MSV Life p.l.c. (kumpanija assoċċjata) u Bee Insurance Management Limited (kumpanija sussidjarja) kienu wkoll sodisfaċenti u ż-żewġ kumpaniji taw dividend lill-Middlesea Insurance p.l.c. matul is-sena f'konformità mad-*dividend policy* tagħhom. Kif dettaljat fid-dikjarazzjoni taċ-*Chairman*, dawn iż-żewġ kumpaniji, issa qed joperaw indipendentement b'enfasi ċara fuq l-operazzjonijiet ewlenin tagħhom u strateġija ffokata għat- tkabbir u l-kisba ta' profittabilità sostenibbli.

Middlesea Insurance p.l.c. minn dejjem sostniet l-importanza ta' *balance sheet* b'saħħitha. Il-perjodu diffiċli esperjenzat matul is-snin finanzjarji 2008 u 2009 ma dgħajjifx din is-saħħa finanzjarja tal-Kumpanija. Grazzi għall-azzjonisti tagħha, Middlesea Insurance p.l.c. ikkonsolidat is-saħħa tal-*balance sheet* tagħha, biex b'hekk baqgħet l-iktar *balance sheet* b'saħħitha fost il-kompetituri fil-qasam tal-assigurazzjoni. Ir-riżultati pożittivi tal-2010 komplew iżidu din is-saħħa, bin-*Net Asset Value* għall-kull sehem jiżdied b' 7ċ matul is-sena għall-60ċ fil-31 ta' Diċembru, 2010. Il-pożizzjoni ta' solvibbiltà tal-Kumpanija ġiet kompletament ristabbilita matul is-sena u hija konformi mar-rekwiżiti regulatorji. Fi tmiem l-2010 il-Kumpanija kellha kopertura ta' solvibbilità ta' 359% tar-rekwiżiti minimi.

Inħarsu 'l quddiem

Is-sena finanzjarja 2010 mmarkat l-inverżjoni mit-telf finanzjarju sostnut mill-Kumpanija u l-Grupp dovut għall-investiment fl-Italja. Din is-sena ppermettiet li nistabilizzaw l-operazzjonijiet tagħna f'Malta, bi strateġija ffokata mill-ġdid, li se tmexxi l-inizzjattivi tal-*management* matul is-sena li ġejja. Ir-riżultati finanzjarji miksuba mill-Grupp u t-transizzjoni b' suċċess lil hinn mill-esperjenzi diffiċli li għadda minnhom matul dawn is-snin, kienu possibbli grazzi għad-direzzjoni diliġenti provduta mill-Bord tad-Diretturi u l-impenn u l-appoġġ tal-*management* u l-impjegati tal-Middlesea Insurance p.l.c.. L-apprezzament sinċier tiegħi imur għat-*team* kollu tal-Middlesea, li żamm sod tul il-mumenti diffiċli u li llum qed iħares 'l quddiem sabiex jagħti iktar riżultati, f'ambjent imtejjeb u iktar stabbli.

Se nidħlu fl-2011 b'ottimiżmu, minkejja li x-xenarju ekonomiku u politiku jibqa' wieħed mimli sfidi, partikolarment bl-avvenimenti prevalenti fir-reġjun tal-Afrika ta' fuq u l-katastrofi naturali bla preċedent li d-dinja esperjenzat fl-ewwel kwart tas-sena. Konsegwentement aħna se nibqgħu prudenti u se nżommu l-attenzjoni tagħna fuq is-saħħa finanzjarja tal-Kumpanija, u billi niksbu sodisfazzjon totali tal-klijenti tagħna u effiċċjenza organizzattiva, sabiex nieħdu vantaġġ mill-opportunitajiet li jqumu. Aħna se nkomplu nżommu l-attenzjoni tagħna fuq id-dixxiplina fl-*underwriting, claims management* effettiv, u trażżin fl-ispejjeż, sabiex inkabbru d-dħul finanzjarju għall-azzjonisti tagħna.

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

14 TA' MARZU 2011

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Group Financial Highlights

	2010 GBP'000	2010 US$'000	2009 GBP'000	2009 US$'000
Gross premiums written:				
General Business	**28,429**	**44,360**	27,649	43,144
Life Business	**1,627**	**2,538**	993	1,549
Total gross premiums	**30,056**	**46,898**	28,642	44,693
Group investment income/(expense)	**5,305**	**8,278**	(47,633)	(74,326)
Profit/(loss) for the financial year	**4,588**	**7,159**	(47,261)	(73,745)
Share Capital	**47,331**	**73,855**	47,331	73,855
Net technical reserves:				
General Business	**34,013**	**53,074**	33,514	52,295
Life Business	**434**	**677**	327	510
Shareholders' Funds	**47,116**	**73,519**	41,727	65,110
Net assets value per €0.60 share	**0.51**	**0.80**	0.45	0.71
Total number of ordinary shares in issue	**92,000,000**	**92,000,000**	92,000,000	92,000,000

All figures have been translated at the rate of exchange ruling at 31 December 2010.

	2010 €'000	2009 €'000
Gross premiums written		
- General Business	**33,155**	32,246
- Life Business	**1,897**	1,158
General business results	**2,870**	4,800
Life business results	**710**	675
Investment return/(expense)	**6,187**	(55,552)
Profit/(loss) attributable to shareholders	**5,351**	(53,462)
Earnings/(loss) per share	**€0.06**	(€1.99)
Net asset value per share	**€0.60**	€0.53

Professional Services

The Company and its subsidiaries, in addition to its regular staff complement, as at 31 December 2010 utilised the professional services of the following individuals and institutions:

LEGAL ADVISORS
Mamo TCV Advocates
Schriha, Attard Montalto, Galea & Associates
Dr Lorraine Conti LL.D.

AUDITORS
PricewaterhouseCoopers

ACTUARIES
Towers Watson

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

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

GROUP COMMITTEES

THE INVESTMENT COMMITTEE
Mr Roderick E. D. Chalmers MA Div (Edin), FCA, ATII, FCPA, FIA
Mr Tonio Depasquale
Mr Pedro López Solanes
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, FIA
Mr Pedro López Solanes
The Noble Mr Paul Testaferrata Moroni Viani

THE REMUNERATION COMMITTEE
Mr Tonio Depasquale
Dr Michael Sparberg
Mr Javier Fernández-Cid Plañiol

THE COMPLIANCE & PREVENTION OF MONEY LAUNDERING AND RISK MANAGEMENT COMMITTEE
Mr Lino Spiteri K.O.M., MA (Oxon)
Mr Gaston Debono Grech L.P. FISMM (Luton), BA (Leg), Mag Jur. (Int. Law), Dip. Trib. Eccl. Melita
Mr Pedro López Solanes

The Company Secretary, Mr Carlo Farrugia, Dip.Gen.Mgmnt.(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 2010.

PRINCIPAL ACTIVITIES

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

REVIEW OF BUSINESS

Middlesea Insurance p.l.c. registered a profit before tax of €8.86 million during the year ended 31 December 2010. Premium written increased by 4.9% over the 2009 volumes to €35.1 million.

The financial results for 2010, as detailed in note 1 to these Financial Statements are not impacted with the results of Progress Assicurazioni S.p.A. (Progress). The Group registered a profit of €6.4 million for the year to 31 December 2010 (FY 2010) compared to a profit from the domestic operations of the Group in FY 2009 of €8.7 million largely due to a more subdued performance of the Company's investment portfolio partly mitigated by the increased profitability of the associate company specialised in life business. The Group's share of profit of MSV Life p.l.c. for FY 2010 amounted to €3.9 million, as compared to €3.1 million registered in FY 2009.

During February 2011, the Company became aware that an application had been made to the Italian Courts in Palermo, requesting that bankruptcy of Progress Assicurazioni S.p.A. be ascertained and declared as such by the court. This application is being made by Professor Avv. Andrea Gemma in his capacity as Liquidator appointed to oversee the administration of the company by ISVAP, the Italian Regulator. The Company is informed that, it is normal procedure for Liquidators to obtain a court ruling in order to enable them to move forward with the liquidation process. On the basis of legal advise received, the Board understands that the Company has no further obligations beyond the amounts written off in 2009.

Middlesea Insurance p.l.c.'s solvency position as at 31 December 2010 stood at 359% of the minimum solvency requirement. As stated in last year's Directors' report, the impact of the losses incurred on Progress placed a strain on the Company's regulatory requirements resulting, in the Company not meeting the regulatory capital requirements. This deficiency was rectified by June 2010 in accordance with a plan agreed with the Regulator. This is explained in detail in note 5 to the financial statements.

Middlesea's shareholders' equity at 31 December 2010 amounted to €54.9 million (2009: €48.7 million) on a consolidated basis.

RESULTS AND DIVIDENDS

The consolidated profit and loss account is set out on page 34. The retained losses for the Company as at year end amounted to €37.4 million and consequently the directors cannot and do not recommend the payment of a dividend (2009: €Nil).

INFORMATION PURSUANT TO THE LISTING RULES

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 Ordinary Shares of a nominal value of sixty euro cents (€0.60) each (2009: €60 million).

At 31 December 2010 and 2009, the issued and fully paid up share capital was fifty five million and two hundred thousand euro (€55.2 million) made up of ninety two million (92 million) ordinary shares of a nominal value of sixty euro cents (€0.60) each.

SHAREHOLDERS HOLDING 5% OR MORE OF THE EQUITY SHARE CAPITAL AS AT 4 MARCH 2011:

Bank of Valletta p.l.c.	31.077%
HSBC Bank Malta p.l.c. as subcustodian for BNY Brussels as custodian for Mapfre Internacional	31.077%
Münchener Rückversicherungs Gesellschaft	19.900%

The Company has in place a document entitled 'Code of Dealing for Directors & Selected Officers and Employees' addressed to all directors and selected officers of the Company and its Subsidiary undertakings. The aim behind this Code is to ensure compliance with the Principles and the dealing rules including those contained in the Listing Rules. The Company has in place a system for recording all advance notices received in connection with permitted dealings by directors and selected officers and acknowledgements of such advance notices. Furthermore, the Company reminds all directors and senior officers of their obligation to conform to the Code of Dealing on a yearly basis.

Directors' Report

DIRECTORS

The directors of the Company who held office during the year prior to the Extraordinary General Meeting were:

Joseph F. X. Zahra (Chairman from 1 January 2010)
George Bonnici (resigned on 16 March 2010)
Evelyn Caruana Demajo (resigned on 16 March 2010)
Roderick E. D. Chalmers
Gaston Debono Grech
Tonio Depasquale
Javier Fernández-Cid Plañiol
Victor Galea Salomone (resigned on 16 March 2010)
John C. Grech (resigned on 16 March 2010)
Mario C. Grech (resigned on 16 March 2010)
Andrés Jiménez Herradón
Michael Sparberg
Lino Spiteri

At the Extraordinary General Meeting held on the 16 March 2010 and at the Annual General Meeting held on the 9 June 2010, all the directors resigned from office. At the same Extraordinary General Meeting, the shareholders appointed/elected the new Board of Directors which was also re-appointed during the Annual General Meeting of the 9 June 2010:

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 Statement of Corporate Governance.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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 the parent company as at the end of each reporting 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 EU;
- 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 the parent company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the group and the parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Report

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS - CONTINUED

The financial statements of Middlesea Insurance p.l.c. for the year ended 31 December 2010 are included in the Annual Report 2010, which is published in hard-copy printed form and may be made available on the parent 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 2010, 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 1 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 face.

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

RODERICK E. D. CHALMERS
DIRECTOR

MIDDLE SEA HOUSE
FLORIANA, MALTA

14 MARCH 2011

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') in accordance with the current applicable Listing Rules of the Malta Financial Services Authority (MFSA). 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. 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.

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum and Articles of the Company may be amended by means of an extraordinary resolution of the company in general meetings.

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.

On the 1 January 2010, Mr Joseph F. X. Zahra was appointed as non-Executive Chairman of the Board of Directors and Ms Anne Marie Tabone was appointed as Chief Operations Officer of the Company. With the appointment of a non-Executive Chairman the Board delegated its authority and vested accountability for the Company's day to day business to a management team led by the Chief Operations Officer that was appointed on the 1 January 2010. This ensures a clear division of responsibilities between the running of the board and the executive body responsibility for the running of the Company's business in conformity with the Code of Principles of Good Corporate Governance and the Listing Rules.

COMPOSITION OF THE BOARD

The shareholding structure of the Company changed as a consequence of the Rights Issue process which was finalised in December 2009 and consequently the Board of Directors convened an Extraordinary General Meeting on the 16 March 2010. An amended Memorandum and Articles of Association of the Company was approved by Shareholders during the said Extraordinary General Meeting. This was reported in detail in the Corporate Governance Statement of Compliance submitted in the 2009 Annual Report. During this Extraordinary General Meeting, all thirteen directors holding office at the time resigned. At the same Extraordinary General Meeting, the shareholders appointed/elected a new Board of Directors on the basis of the amended Memorandum and Articles of Association of the Company.

After the Extraordinary General Meeting, the Board was composed of nine non-executive directors and one executive director. Five of the non-executive directors and the Executive Director held positions with shareholders' organisations that appointed them and that have a business relationship with the Company.

In accordance with Article 97 of the Articles of Association of the Company, a shareholder holding 11% or more voting rights or a number of shareholders who together hold 11% or more, can appoint one Director for every such 11% 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 two directors at the said

Extraordinary General Meeting and at the Annual General Meeting held on the 9 June 2010. All such appointed or elected directors served as non-executive directors on Middlesea Insurance p.l.c.'s Board. The Board of Directors co-opted Mr Pedro López Solanes as Executive Director on the Board of Directors pursuant to Article 100 of the Company's Articles of Association.

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. All Directors are required to fulfil the fit and proper procedures carried out by the Malta Financial Services Authority in line with standard regulatory due diligence procedures.

BOARD COMMITTEES

The activities of the Board and of the Company's senior management team were monitored and supported by the Company's Committees that were structured to assist in specialist activities and governance issues. The said Board Committees are the Audit Committee, the Investments Committee, the Compliance, Prevention of Money Laundering, and Risk Management Committee and the Remuneration Committee.

The Board of Directors held a Board meeting immediately after the Extraordinary General Meeting held on the 16 March 2010 and appointed the respective Board Committee Members. The Terms of Reference of all the Board Committees have been approved by the Board of Directors and by the Malta Financial Services Authority.

The members sitting on the various Board Committees are listed in the 2010 Annual Report.

AUDIT COMMITTEE

The Audit Committee's terms of reference 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 audit of the annual and consolidated accounts, the maintenance of communication on such matters between the Board, management, the external Auditors and the internal Auditors, the making of recommendations to the Board in relation to the appointment of the external Auditor and the approval of the remuneration and terms of engagement of the external Auditor following appointment by the Shareholders in general meeting, the monitoring and reviewing of the external Auditor's independence and in particular the provision of additional services, the development and implementation of a policy on the engagement of the external Auditor to supply non-audit services, the reviewing of actuarial reports, the management of financial risks, the arm's length nature of related party transactions and the audit process.

The composition of the Company's Audit Committee of MSI is also regulated by the Listing Rules. The said Listing Rules amended in October 2008 stipulate that all members of the Audit Committee must be directors, with the majority of members being non-executive directors, and that at least one member must be an independent director and must be competent in accounting and/or auditing. The said Listing Rules also require the identification of the committee member having the required criteria of competence and independence. Between the 1 January and the 16 March 2010 the Audit Committee was composed of Mr Lino Spiteri, Mr Roderick E. D. Chalmers, and Mr Javier Fernández-Cid Plañiol. From the 16 March 2010 the Audit Committee was composed of Mr Lino Spiteri, Mr Roderick E. D. Chalmers, Mr Pedro López Solanes and Mr Paul Testaferrata Moroni Viani. The composition of the Audit Committee is such that it fulfills the requirements of the Listing Rules with respect to required competence in accounting and/or auditing as required under the Listing Rules in view of their experience and/or qualifications. The Audit Committee Chairman, Mr Lino Spiteri, has the required independence criteria stipulated in the Listing Rules.

The Listing Rules require the Audit Committee to meet at least four times a year. The Middlesea Insurance Audit Committee met ten times during 2010.

The external auditors are invited to attend specific meetings of the 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 agent related matters) are reviewed by the 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 Audit Committee and attends its meetings. The mission set by the Audit Committee for the Internal Auditor is to adopt business process risk-based audits, aimed at assessing the adequacy of controls and business process efficiency.

REMUNERATION COMMITTEE

A separate report by the Remuneration Committee is included in the 2010 Annual Report. The Board of Directors approves the remuneration of Directors and Chief Officers 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 year, the Remuneration Committee met four times.

During the Annual General Meeting held on the 9 June 2010 the Shareholders approved an excess over the amount originally approved in the maximum aggregate of directors' emoluments for 2009.

RISK MANAGEMENT COMMITTEE

The Group Risk Management Committee met on the 12 January 2010 and was subsequently amalgamated with the Compliance, and Prevention of Money Laundering and Risk Management Committee following the Annual General Meeting and Board of Directors meeting held on the 16 March 2010.

INVESTMENTS COMMITTEE

On the 16 March 2010 the Investments Committee, was reconstituted and is now composed entirely of Board members with the attendance of Chief Officers as and when required in line with good corporate governance principles. The Investments Committee oversees the investment activities of the Company and its Subsidiaries, executes its policies and guidelines, scrutinises and approves material transactions and monitors results. The committee held five meetings during 2010 and reviewed and re-configured the investment policy of Middlesea Insurance to match better the business and risk profile of the company.

COMPLIANCE AND PREVENTION OF MONEY LAUNDERING COMMITTEE

The Group Compliance and Prevention of Money Laundering Committee met on the 11 January 2010. The Risk Management function was subsequently amalgamated with this Committee following the Annual General Meeting and Board of Directors meeting held on the 16 March 2010.

COMPLIANCE, PREVENTION OF MONEY LAUNDERING AND RISK MANAGEMENT COMMITTEE

The Compliance, Prevention of Money Laundering and Risk Management Committee was appointed following the Annual General Meeting and Board of Directors meetings held on the 16 March 2010.

This Committee is entrusted 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 respective Compliance Officers responsible for compliance of the Company and its licensed subsidiary reported directly to the Compliance, Prevention of Money Laundering and Risk Management Committee that met three times during 2010.

The respective Prevention of Money Laundering Reporting Officers of the Company and its Subsidiary also report directly to this Committee.

The Committee has in place a document entitled 'Code of Dealing for Directors & Selected Officers and Employees' addressed to all directors and selected officers of the Company and its Subsidiary undertakings. The aim behind this Code is to ensure compliance with the Principles and the dealing rules including those contained in the Listing Rules. The Company has in place a system for recording all advance notices received in connection with permitted dealings by directors and selected officers and acknowledgements of such advance notices. Furthermore, the Company reminds all directors and senior officers of their obligation to conform to the Code of Dealing on a yearly basis.

During 2010 there were two Directors who did not give the required advanced written notice.

The review of operational procedures adopted by the Company and its Subsidiaries will be reviewed and updated during 2011. A Compliance Review manual was drafted and approved by the Committee on the 22 October 2010. The compliance review process commenced during the last quarter of 2010 and will continue during 2011. Compliance reviews are also carried out regularly within the licensed subsidiary companies as required.

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 updates and provides the directors with a report at each Board Meeting. This report sets out the Company's management accounts including key performance indicators since the date of the previous Board meeting, with 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 Middlesea Insurance and its subsidiaries, 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 Company, ensuring the right balance between risk and reward and that the level of risk retention, particularly in the event of catastrophe, is consistent with the Company's resources;
(b) the quality and 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 the Company, its Subsidiaries and Tied Insurance Intermediaries, to ensure the proper conduct in good faith of all operations;
(g) the level of capital resources supporting each business activity, to ensure adequate solvency both from a regulatory and business perspective; and
(h) the Solvency II project that is being phased in line with regulatory and statutory requirements.

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 Audit Committee. Compliance with statutory and regulatory requirements and with continuing listing obligations is also ensured. In addition to the input of the Compliance, Prevention of Money Laundering and Risk Management 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 procedure relating to the management of conflicts of interest is being discussed in the light of the eventual implementation of the Code of Conduct for all Directors and Employees which was launched during 2010. This Code of Conduct clearly sets out the Company's principles and direction on the management of conflicts of interest. In this light the current draft policy and procedure is being aligned to the new Code and is expected to be implemented during 2011.

During the 2010 financial year, the Board of Directors of Middlesea Insurance held eleven meetings. The Board of Directors of the Subsidiary and Associated companies held Board meetings as follows:

- BEE Insurance Management Limited (formerly International Insurance Management Services Ltd) held four meetings;
- MSV Life p.l.c. (formerly Middlesea Valletta Life Assurance Co Ltd) held seven meetings;
- Progress Assicurazioni S.p.A. held two meetings (prior to the company being put into voluntary administration on the 11 February 2010);
- EuroMed Risk Solutions Ltd held four meetings;
- Euro Globe Holdings Ltd held one meeting; and
- Church Wharf Properties Ltd held one meeting.

Records of attendances by Board and Committee members at each respective Board and Committee meeting are held by the Company Secretary and can be viewed as required.

Corporate Governance – Statement of Compliance

Directors of the Board keep themselves abreast of developments in the financial spheres. During 2010 a questionnaire was sent to all directors requesting information on the seminars, meetings, conferences and/or training that each director attended during the period. The new directors appointed on the Board of Directors were well informed on the issues pertaining to the company even though a formal induction course was not held. 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. A new evaluation with a new format was submitted to the Board of Directors at the Board meeting held on the 18 November 2010 and a report will be submitted to the Board of Directors in early 2011.

SHAREHOLDERS HOLDING 5% OR MORE OF THE EQUITY SHARE CAPITAL AS AT 4 MARCH 2011:

Bank of Valletta p.l.c.	31.077%
HSBC Bank Malta p.l.c. as subcustodian for BNY Brussels as custodian for Mapfre Internacional	31.077%
Münchener Rückversicherungs Gesellschaft	19.900%

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, 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 General Meeting is conducted in accordance with the Memorandum and Articles of the company and has the powers therein defined. The Shareholders' rights can be exercised in accordance with the articles of association of the company.

The Company communicates with its shareholders by publishing its results on a six-monthly basis, by way of its 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 interim 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 corporate developments.

The Board of Directors convened an Extraordinary General Meeting on the 16 March 2010 and the Shareholders approved the amended Memorandum and Articles of Association. 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 more manageable Board of Directors;
(2) 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 Annual General Meeting was held on the 9 June 2010 and Shareholders were given detailed information and feedback on the Company, its Subsidiaries and Associated Company.

LINO SPITERI
DIRECTOR

RODERICK E. D. CHALMERS
DIRECTOR

14 MARCH 2011

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 in accordance with the current applicable Listing Rules.

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 between the 1 January and the 16 March 2010. Following the Extraordinary General Meeting held on the 16 March the Group Remuneration Committee was reconstituted and is now composed of Mr Tonio Depasquale (Chairman), Mr Javier Fernández-Cid Plañiol and Dr Michael Sparberg. Mr Carlo Farrugia, the Company Secretary, was appointed to act as secretary to the Committee.

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 four meetings during 2010.

REMUNERATION OF DIRECTORS

On the 16 March 2010 all Board Directors of Middlesea Insurance p.l.c. resigned to pave the way for the new Board of Directors to be elected in accordance with the new Memorandum and Articles of Association approved by Shareholders during the Extraordinary General Meeting held on the 16 March 2010. As at the 31 December 2010, the Board of Directors of Middlesea Insurance p.l.c. was composed of nine non-executive directors and one Executive Director. Three Directors, namely Mr J. Fernández-Cid Plañiol, Mr A. Jiménez Herradón and Mr P. López Solanes (the Executive Director), did not receive a fee in accordance with the established policy of the shareholder company with which they were employed and which appointed them. Fees payable to directors in respect of 2010 amounted in total to €142,133 (2009: €116,233) and were paid as directors' fees as follows:

	Directors' Fees
Mr George Bonnici	€1,838 (resigned on the 16 March 2010)
Mr Roderick E. D. Chalmers	€17,229
Dr Evelyn Caruana Demajo	€1,699 (resigned on the 16 March 2010)
Mr Victor Galea Salomone	€1,768 (resigned on the 16 March 2010)
Mr Mario C. Grech	€1,159 (resigned on the 16 March 2010)
Mr Gaston Debono Grech	€13,687
Mr Tonio Depasquale	€16,880
Dr John C. Grech	€1,817 (resigned on the 16 March 2010)
Dr Michael Sparberg	€13,687
Mr Lino Spiteri	€20,398
Mr Paul Testaferrata Moroni Viani	€11,971 (appointed on the 16 March 2010)
Mr Joseph F. X. Zahra	€40,000

Directors were entitled to a fee of €6,988 per annum up till the 16 March 2010, thereafter revised to €12,000 per annum (2009: €6,988) each as directors of the company. 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, (until the 11 February 2010) but received no remuneration (2009: €10,000). Directors sitting on the Board Committees were also entitled to committee fees amounting to a maximum of €2,329 per annum up till the 16 March 2010, thereafter revised to €4,000 per annum as Committee Chairman and €3,000 per annum as Committee Members (2009: €2,329 maximum per annum) and which are included within the amounts listed above.

Contracted emoluments paid to Mr Mario C. Grech who was a Director of the Company between the 1 January and the 16 March 2010 amounted to €21,942 in respect of contracted service and salary and pension payments effected in accordance with his employment contract as the Executive Chairman of the Company that expired on the 31 December 2009.

During 2010 no provisions were made by the Company in respect of contracted pension obligations. The Company paid an insurance premium of €7,125 (2009: €8,500) during the year in respect of insurance cover in favour of all its directors.

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 Ordinary Resolution to increase the Directors' fees maximum aggregate from €350,000 to €406,538 for the financial year 2009 was approved by Shareholders during the Annual General Meeting held on the 9 June 2010. The Shareholders during the said Annual General Meeting also approved the new maximum aggregate payable to Directors for the financial year 2010 amounting to €250,000.

T. Depasquale

TONIO DEPASQUALE
CHAIRMAN - REMUNERATION COMMITTEE

14 MARCH 2011

Independent Auditor's Report

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated and stand-alone parent company financial statements of Middlesea Insurance p.l.c. (together the "financial statements") on pages 32 to 104, which comprise the consolidated and parent company balance sheets as at 31 December 2010, and the consolidated and parent company profit and loss accounts, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements
As explained more comprehensively in the Statement of directors' responsibilities for the financial statements on pages 22 to 23, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 judgement, 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 of financial statements that give a true and fair view 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 the directors, 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
In our opinion the financial statements
- give a true and fair view of the financial position of the group and the parent company as at 31 December 2010, and of their financial performance and their cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 and note 5 to the financial statements. Those notes explain how the company addressed those matters referred to in our 2009 audit report relating to the early de-recognition of Progress Assicurazioni S.p.A. ("Progress") as a subsidiary of the Group and to the negative impact that the adverse results of Progress had on Middlesea Insurance p.l.c.'s regulatory solvency margin in 2009 and in early 2010.

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 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.

Independent Auditor's 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 24 to 28 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 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.

PRICEWATERHOUSECOOPERS

167 MERCHANTS STREET
VALLETTA
MALTA

SIMON FLYNN
PARTNER

14 MARCH 2011

Profit and Loss Accounts
Technical Accounts – General Business

	Notes	Year ended 31 December Group and Company 2010 €'000	2009 €'000
Earned premiums, net of reinsurance			
Gross premiums written	6	**33,155**	32,246
Outward reinsurance premiums		**(14,699)**	(13,471)
Net premiums written		**18,456**	18,775
Change in the gross provision for unearned premiums		**(937)**	56
Change in the provision for unearned premiums, reinsurers' share		**635**	74
		(302)	130
Earned premiums, net of reinsurance		**18,154**	18,905
Allocated investment return transferred from the non-technical account	8	**1,667**	3,435
Total technical income		**19,821**	22,340
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**18,036**	16,621
- reinsurers' share		**(5,336)**	(6,762)
		12,700	9,859
Change in the provision for claims			
- gross amount		**(71)**	2,941
- reinsurers' share		**(780)**	(233)
		(851)	2,708
Claims incurred, net of reinsurance		**11,849**	12,567
Net operating expenses	7	**5,102**	4,973
Total technical charges		**16,951**	17,540
Balance on the technical accounts for general business (page 34)		**2,870**	4,800

Profit and Loss Account
Technical Account – Long Term Business

	Notes	Year ended 31 December Group and Company 2010 €'000	2009 €'000
Earned premiums, net of reinsurance			
Gross premiums written	6	**1,897**	1,158
Outward reinsurance premiums		**(864)**	(542)
Earned premiums, net of reinsurance		**1,033**	616
Investment income			
Income from other investments	8	**253**	187
Total technical income		**1,286**	803
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**603**	417
- reinsurers' share		**(407)**	(193)
		196	224
Change in the provision for claims			
- gross amount		**1**	(25)
- reinsurers' share		**21**	17
		22	(8)
Claims incurred, net of reinsurance		**218**	216
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		**274**	(339)
- reinsurers' share		**(170)**	142
		104	(197)
Net operating expenses	7	**254**	109
Total technical charges		**576**	128
Balance on the technical account for long term business (page 34)		**710**	675

Profit and Loss Accounts
Non-Technical Accounts

	Notes	Group 2010 €'000	Group 2009 €'000	Company 2010 €'000	Company 2009 €'000
		Year ended 31 December			
Balances on technical accounts					
General business (page 32)		**2,870**	4,800	**2,870**	4,800
Long term business (page 33)		**710**	675	**710**	675
		3,580	5,475	**3,580**	5,475
Share of profit of associated undertaking	8	**3,920**	3,121	**-**	-
Total income from insurance activities		**7,500**	8,596	**3,580**	5,475
Other investment income	8	**3,035**	5,474	**9,530**	6,943
Investment expenses and charges	8	**(1,021)**	(1,213)	**(1,021)**	(1,213)
Allocated investment return transferred to the general business technical account	8	**(1,667)**	(3,435)	**(1,667)**	(3,435)
Other income	9	**1,252**	1,950	**-**	-
Administrative expenses	7	**(2,658)**	(2,699)	**(1,565)**	(1,127)
Profit for the financial year before impairment charge and tax		**6,441**	8,673	**8,857**	6,643
Impairment of investment in group undertaking	8	**-**	(63,121)	**-**	(69,523)
Profit/(loss) for the financial year before tax		**6,441**	(54,448)	**8,857**	(62,880)
Income tax expense	12	**(1,090)**	(670)	**(1,118)**	(521)
Profit/(loss) for the financial year		**5,351**	(55,118)	**7,739**	(63,401)
Attributable to:					
- shareholders		**5,351**	(53,462)	**7,739**	(63,401)
- minority interests		**-**	(1,656)	**-**	-
		5,351	(55,118)	**7,739**	(63,401)
Earnings/(loss) per share attributable to shareholders	14	**€0.06**	(€1.99)		

The notes on pages 41 to 104 are an integral part of these financial statements.

Statements of Comprehensive Income

		Year ended 31 December			
		Group		Company	
	Notes	**2010 €'000**	2009 €'000	**2010 €'000**	2009 €'000
Profit/(loss) for the financial year		**5,351**	(55,118)	**7,739**	(63,401)
Other comprehensive income:					
Fair value gain on investment in associated undertakings	28	**-**	-	**2,016**	2,620
Change in other available-for-sale investments	28	**31**	(129)	**-**	(133)
Share of increase in value of in-force business of associated undertaking	28	**903**	489	**-**	-
Total other comprehensive income, net of tax		**934**	360	**2,016**	2,487
Total comprehensive income for the year		**6,285**	(54,758)	**9,755**	(60,914)
Attributable to					
- shareholders		**6,285**	(53,102)		
- minority interests		**-**	(1,656)		
Total comprehensive income for the year		**6,285**	(54,758)		

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.

The notes on pages 41 to 104 are an integral part of these financial statements.

Balance Sheets

	Notes	Group 2010 €'000	Group 2009 €'000	Company 2010 €'000	Company 2009 €'000
		At 31 December			
ASSETS					
Intangible assets	16	**468**	700	**457**	454
Property, plant and equipment	17	**1,874**	1,721	**1,393**	1,006
Investment property	18	**7,406**	8,708	**7,831**	9,167
Investment in subsidiary undertakings	19	**-**	-	**1,212**	1,212
Investment in associated undertakings	20	**53,009**	51,957	**55,473**	51,957
Other investments	21	**40,976**	46,535	**40,348**	45,713
Deferred income tax	22	**2,620**	3,447	**1,113**	1,025
Reinsurers' share of technical provisions	23	**15,357**	13,793	**15,357**	13,793
Deferred acquisition costs	24	**2,960**	2,673	**2,960**	2,673
Insurance and other receivables	25	**10,303**	10,167	**10,056**	10,034
Income tax receivable		**331**	330	**290**	293
Cash and cash equivalents	26	**2,734**	3,724	**1,875**	3,080
Total assets		**138,038**	143,755	**138,365**	140,407
EQUITY					
Capital and reserves attributable to shareholders					
Share capital	27	**55,200**	55,200	**55,200**	55,200
Share premium account		**2,221**	2,221	**2,221**	2,221
Other reserves	28	**21,302**	20,368	**34,134**	32,118
Profit and loss account		**(23,774)**	(29,125)	**(37,413)**	(45,152)
Total equity		**54,949**	48,664	**54,142**	44,387
LIABILITIES					
Deferred income tax	22	**766**	1,044	**748**	1,041
Provisions for other liabilities and charges	29	**833**	9,402	**833**	9,402
Technical provisions	23	**55,531**	53,260	**55,531**	53,260
Borrowings	30	**13,285**	16,285	**13,285**	16,285
Insurance and other payables	31	**12,674**	15,096	**13,826**	16,032
Income tax payable		**-**	4	**-**	-
Total liabilities		**83,089**	95,091	**84,223**	96,020
Total equity and liabilities		**138,038**	143,755	**138,365**	140,407

The notes on pages 41 to 104 are an integral part of these financial statements.

The financial statements on pages 32 to 104 were authorised for issue by the Board on 14 March 2011 and were signed on its behalf by:

JOSEPH F. X. ZAHRA
CHAIRMAN

RODERICK E. D. CHALMERS
DIRECTOR

Statements of Changes in Equity

Group

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Minority interests €'000	Total €'000
		Attributable to shareholders					
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							
Increase in 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

Group - continued

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Total €'000
		Attributable to shareholders				
Balance at 1 January 2010		55,200	2,221	20,368	(29,125)	48,664
Comprehensive income						
Profit for the financial year		-	-	-	5,351	5,351
Other comprehensive income:						
Change in other available-for-sale investments	28	-	-	31	-	31
Share of increase in value of in-force business of associated undertaking	28	-	-	903	-	903
Total other comprehensive income, net of tax		-	-	934	-	934
Total comprehensive income		-	-	934	5,351	6,285
Balance at 31 December 2010		**55,200**	**2,221**	**21,302**	**(23,774)**	**54,949**

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 2009		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**
Balance at 1 January 2010		55,200	2,221	32,118	(45,152)	44,387
Comprehensive income						
Profit for the financial year		-	-	-	7,739	7,739
Other comprehensive income:						
Fair value gain on investment in associated undertaking	28	-	-	2,016	-	2,016
Total other comprehensive income, net of tax		-	-	2,016	-	2,016
Total comprehensive income		-	-	2,016	7,739	9,755
Balance at 31 December 2010		**55,200**	**2,221**	**34,134**	**(37,413)**	**54,142**

The notes on pages 41 to 104 are an integral part of these financial statements.

Statements of Cash Flows

	Notes	Group 2010 €'000	Group 2009 €'000	Company 2010 €'000	Company 2009 €'000
		Year ended 31 December			
Cash flows from operating activities					
Cash generated from/(used in) operations	32	**3,016**	5,111	**(915)**	4,383
Dividends received		**286**	547	**5,579**	1,008
Interest received		**1,010**	1,755	**982**	1,728
Interest paid		**(753)**	(697)	**(753)**	(697)
Income tax paid		**(562)**	(709)	**(1,496)**	(711)
Net cash generated from operating activities		**2,997**	6,007	**3,397**	5,711
Cash flows from investing activities					
Purchase of investment property	18	**(241)**	(23)	**(241)**	(23)
Disposal of investment property		**2,357**	-	**2,357**	-
Investment in subsidiary undertakings	19	**-**	(38,165)	**-**	(38,165)
Increase in investment in associated undertaking		**-**	(5,000)	**-**	(5,000)
Purchase of financial investments	21	**(32,888)**	(55,621)	**(32,888)**	(55,621)
Redemption of financial investments on maturity	21	**30,209**	2,395	**30,209**	2,395
Disposal of financial investments	21	**8,567**	50,531	**8,319**	50,531
Purchase of property, plant and equipment and intangible assets	16,17	**(713)**	(220)	**(872)**	(157)
Disposal of property, plant and equipment and intangible assets	16,17	**222**	-	**14**	-
Net cash generated from/(used in) investing activities		**7,513**	(46,103)	**6,898**	(46,040)
Cash flows from financing activities					
Issue of ordinary shares		**-**	39,991	**-**	39,991
Bank loans	30	**(3,000)**	-	**(3,000)**	-
Subordinated loan		**(8,500)**	-	**(8,500)**	-
Net cash (used in)/generated from financing activities		**(11,500)**	39,991	**(11,500)**	39,991
Net movement in cash and cash equivalents		**(990)**	(105)	**(1,205)**	(338)
Cash and cash equivalents at beginning of year		**3,724**	6,361	**3,080**	3,418
De-recognition of subsidiary undertakings		**-**	(2,532)	**-**	-
Cash and cash equivalents at end of year	26	**2,734**	3,724	**1,875**	3,080

The notes on pages 41 to 104 are an integral part of these financial statements.

Notes to the Financial Statements

1. 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.

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 3.

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 Euro, rounded to the nearest thousand, unless otherwise stated.

Consolidated accounts

The 2009 financial statements (FY 2009) provided a detailed note on the circumstances which led to the Company's subsidiary, Progress Assicurazioni S.p.A. ("Progress") being placed in Compulsory Administrative Liquidation ("liquidazione coatta amministrativa") on 9 February 2010 and was subsequently placed into liquidation on 30 March 2010. The directors had elected not to consolidate Progress in the Group's financial statements for the year ended 31 December 2009 in accordance with IAS 27 but had made full provision in respect of the investment in and the guarantee extended to that company. This had resulted in an impairment charge of €69.5 million for the Company and €63.1 million for the Group being included in the FY 2009 accounts.

The unaudited management accounts of Progress as at 31 December 2009, which were not subject to an actuarial review and other closing procedures, but adjusted to reflect consolidated adjustments that would have been necessary and to write-off of the company's deferred tax asset, showed a loss after tax of €65.1 million and a net liability position of €10.3 million. The Middlesea Board resolved in 2009 that it was not in a position to provide further capital support to Progress. The Board was therefore of the opinion that it would be unrealistic to draw up FY 2009 accounts on a basis that assumed the provision of such support, only to reverse the position in the accounts of FY 2010. In the view of the Board, this would have resulted in the mis-statement of both the FY 2009 and FY 2010 Group accounts.

The decision taken by the Board to adopt this approach was based on the fact that:

- Progress had been placed into Compulsory Administrative Liquidation at the time the 2009 accounts were being considered and there was significant doubt as to whether Middlesea's investment in Progress had any residual value, and whether the subordinated loan guaranteed by Middlesea would be recovered;
- The Board had 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 any unpaid amount of the underwritten capital. The Board was also advised that as Middlesea had fully paid up the amount of share capital in Progress underwritten by it, no further payments could be requested from Middlesea *qua* shareholder;
- The Progress books of account and records were no longer under the control of Middlesea, and it was not possible to accurately determine the assets, liabilities, financial position and profit or loss for consolidation purposes.

There were no further developments in this respect during 2010. During February 2011, the Company became aware that an application had been made to the Italian Courts in Palermo, requesting that bankruptcy of Progress Assicurazioni S.p.A. be ascertained and declared as such by the court. This application is being made by Professor Avv. Andrea Gemma in his capacity as Liquidator appointed to oversee the administration of the company by ISVAP, the Italian Regulator.

1. BASIS OF PREPARATION - CONTINUED

The Board believes that none of the above considerations have changed or that the Company has any further obligations in addition to the amounts written off in 2009. No further provisions were therefore included in the FY 2010 accounts in this regard. In addition, the departure from IAS 27 arising in 2009 because of the early de-recognition of Progress from the consolidated financial statements as at 1 January 2009 was resolved once control of Progress passed over to the Administrator on 9 February 2010. The current period's consolidated figures are deemed to be comparable to those of 2009 since they both exclude the consolidation of Progress financial statements on a line-by-line basis. In addition, both FY 2010 and FY 2009 accounts are prepared on the basis that no further support is required by the Company beyond the provision made in 2009. The FY 2009 accounts do not include any further losses that would have been required on consolidation, which would have had to be subsequently reversed in the FY 2010 accounts on the de-recognition of Progress.

Standards, interpretations and amendments to published standards effective in 2010

In 2010, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2010. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

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 but are mandatory for the Group's accounting periods beginning after 1 January 2010. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that there are no requirements that will have a possible significant 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 models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is 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 is 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.

2. 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.

2.1 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 over which the Group has the power to govern the financial and operating polices generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which effective control is transferred to the Group. They are deconsolidated from the date on which control ceases. 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

Associated undertakings are entities 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. 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. Equity accounting involves recognising in the profit and loss the share of the associated undertaking's post-

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.1 CONSOLIDATION - CONTINUED

(b) Associated undertakings - continued

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.

Intra-group gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intra-group 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.

2.2 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.

2.3 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 financial assets and liabilities held at fair value through profit and 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 other comprehensive income.

2.4 PROPERTY, PLANT AND EQUIPMENT

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.

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.4 PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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 2.11).

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

2.5 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.

2.6 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.

2.7 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 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.

2.8 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.

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.8 INVESTMENTS IN GROUP UNDERTAKINGS - CONTINUED

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.

2.9 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

In the Company's financial statements, investments in associated undertakings are accounted at fair value. Changes in the fair value of 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, and other valuation techniques. Further information is also disclosed in note 3(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.

2.10 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 (i.e. available-for-sale investments other than the investment in associated undertakings) 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.

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.10 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 other comprehensive income. 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.

2.11 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.

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.11 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).

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.15 INSURANCE CONTRACTS - CONTINUED

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 comprise all amounts due during the financial year in respect of contracts of insurance entered into regardless of the fact that such amounts may relate in whole or in part to a later financial year and includes any differences between the booked premiums for prior years and those previously accrued, less cancellations.

(ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

(iii) 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 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.

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.15 INSURANCE CONTRACTS - CONTINUED

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 2.11.

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.

The impairment loss is calculated following the same method used for these financial assets. These processes are described in accounting policy 2.11.

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.

2.16 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.

2.17 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.

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.17 CURRENT AND DEFERRED INCOME TAX - CONTINUED

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 tax 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.

2.18 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. The increase in the provision due to passage of time is recognised as interest expense.

2.19 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 2.15 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.

2. OTHER ACCOUNTING POLICIES - CONTINUED

2.20 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.

2.21 BORROWING COSTS

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment or investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of the company's interest-bearing borrowings.

2.22 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.

2.23 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.

3. 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.

(a) Fair value of investments in associated undertakings

The Company measures its investment in MSV Life p.l.c. (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 valuation and is measured as the discounted value of future profits from existing business.

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 the Company's projected 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 adjusted for taxation and discounted by a risk adjusted discount rate. In assessing the projected cash-flows, a long term view of a maintainable level of investment return is assumed. This valuation requires the use of assumptions relating to future mortality, persistency, levels of expenses and investment returns and asset allocations over the longer term (see accounting policy 2.7). This valuation in inherently uncertain and assumptions are reviewed on an annual basis as experienced and the reliability of the estimation process developed.

Assumptions

The after tax value of in-force business is determined on an annual basis. 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, which are inherently uncertain.

The valuation, as disclosed in note 28, assumes a spread of 2% (2009: 2%) between the weighted average projected investment return and the risk adjusted discount factor applied of 7.5% (2009: 7.5%). The calculation also assumes lapse rates varying by product from 2% to 10% (2009: 2% to 10%), and an expense inflation rate of 3.5% (2009: 3.5%).

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

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

Changes in assumptions

Assumptions are reviewed on annual basis to reflect the development of experience and to improve on the reliability of the estimation process. A change was made to the assumption for future allocations to asset shares by refining the model to cater for an annual calculation for the first ten years of the projection, and an average rate beyond that. In prior years an average asset share allocation rate was applied to all years projected. The effect of the change was to reduce the value in-force business by €5.25 million.

Mortality assumptions were adjusted during 2010. Although references are still made to table AM80, percentage reductions were applied to that table to better reflect the likely future experience. The effect of this change was to increase the value of in-force business by €0.96 million.

The methodology applied to modelling unit linked contracts was enhanced to increase the level of granularity in the calculations. The effect of the change was to increase the value of in-force business by €0.88 million.

Sensitivity analysis

The value in-force business is sensitive to a large number of assumptions. The following table describes the impact on the value of in-force business arising from a change in the following variables, with all other variables held constant:

Assumption	**Change in variable**	**Impact on value of in-force business €m**
Investment return	+1.00%	2.9
Investment return	-1.00%	(2.8)
Risk adjusted discount rate	+1.00%	(1.4)
Risk adjusted discount rate	-1.00%	1.6
Renewal expense	+10.00%	(0.4)
Renewal expense	-10.00%	0.4
Lapse rate	+2.00%	0.5
Lapse rate	-2.00%	(0.5)
Mortality	+15.00%	(0.5)
Mortality	-15.00%	0.5

4. 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.

4.1 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).

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; and
- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.

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

4. MANAGEMENT OF RISK – CONTINUED

4.1 INSURANCE RISK – CONTINUED

a) Frequency and severity of claims - continued

Underwriting

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

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.

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 Board approves 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.

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.

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.

Concentration of insurance risk

Up until 31 December 2010, 92% of the Group's business was written in Malta (2009: 92%) and 8% was written in Gibraltar (2009: 8%). The portfolio is diversified in terms of type of business written, with motor comprehensive business comprising 25% (2009: 29%) and accident and health comprising 23% (2009: 21%) of the total portfolio. Other significant insurance business classes include motor liability business at 19% (2009: 18%) and fire and other damage to property at 19% (2009: 19%). The remaining 14% (2009: 13%) 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.

4. MANAGEMENT OF RISK - CONTINUED

4.1 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. 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.

In calculating the estimated cost of unpaid claims, the Group uses estimation techniques, based partly on known information at year-end and partly on statistical analysis of historical experience. 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.

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

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.

4.2 FINANCIAL 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 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.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK: MARKET RISK - CONTINUED

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

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

	2010				
Group	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	754	3,021	5,476	4,298	13,549
Loans and receivables:					
- Deposits with banks and credit institutions	22,360	-	-	-	22,360
- Cash and cash equivalents	2,734	-	-	-	2,734
Total interest bearing assets	25,848	3,021	5,476	4,298	38,643
Liabilities					
Borrowings	2,326	2,326	6,133	2,500	13,285
Deposits received from reinsurers	4,616	-	-	-	4,616
Total interest bearing liabilities	6,942	2,326	6,133	2,500	17,901

	2009				
Group	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

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK: MARKET RISK - CONTINUED

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

Company — **2010**

	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	754	3,021	5,476	3,802	13,053
Loans and receivables:					
- Deposits with banks and credit institutions	22,360	-	-	-	22,360
- Cash and cash equivalents	1,875	-	-	-	1,875
Total interest bearing assets	24,989	3,021	5,476	3,802	37,288
Liabilities					
Borrowings	2,326	2,326	6,133	2,500	13,285
Deposits received from reinsurers	4,616	-	-	-	4,616
Total interest bearing liabilities	6,942	2,326	6,133	2,500	17,901

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

4. MANAGEMENT OF RISK - CONTINUED

4.2 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	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Assets held at variable rates				
Deposits with banks or credit institutions	**22,360**	15,943	**22,360**	15,943
Cash and cash equivalents	**2,734**	3,724	**1,875**	3,080
	25,094	19,667	**24,235**	19,023
Liabilities issued at variable rates				
Borrowings	**13,285**	16,285	**13,285**	16,285
Deposits received from reinsurers	**4,616**	4,211	**4,616**	4,211
	17,901	20,496	**17,901**	20,496

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Assets held at fixed rates				
Debt securities	**13,549**	17,019	**13,053**	16,532

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.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK: MARKET RISK - CONTINUED

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

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 event.

At 31 December 2010, if interest rates at that date would have been 90 basis points (2009: 90 basis points) lower with all other variables held constant, the Group and Company pre-tax results for the year would have improved by €0.41 million (2009: €0.45 million). An increase of 90 basis points (2009: 90 basis points), with all other variables held constant, would have resulted in a decrease in the Group's and Company's pre-tax results for the year of €0.38 million (2009: €0.41 million).

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 (excluding investments in associated undertakings) 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 (excluding investments in associated undertakings) 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 €0.49 million (2009: €1.32 million) on the Group's (excluding Progress) and Company's pre-tax results.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK: MARKET RISK - CONTINUED

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 2010, foreign currency exposure amounted to €0.12 million (2009: €1.80 million). This exposure was not hedged as at the financial year-end. As at 31 December 2009, €0.51 million was hedged leaving an unhedged exposure of €1.29 million.

The subsidiaries of the Group are not exposed to currency risk as both the assets and liabilities of the subsidiaries are 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.

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.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK: CREDIT RISK - CONTINUED

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.

The total assets bearing credit risk are the following:

	Group		**Company**	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Debt securities	**13,549**	17,019	**13,053**	16,532
Other financial assets (including deposits with banks and credit institutions)	**22,360**	15,943	**22,360**	15,943
Reinsurers' share of technical provisions	**9,873**	9,114	**9,873**	9,114
Insurance and other receivables	**9,786**	9,524	**9,578**	9,458
Income tax receivable	**331**	330	**290**	293
Cash and cash equivalents	**2,734**	3,724	**1,875**	3,080
Total	**58,633**	55,654	**57,029**	54,420

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

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK: CREDIT RISK - CONTINUED

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

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
AA	**13,863**	12,577	**13,863**	12,577
A	**13,222**	25,835	**12,684**	24,925
BBB	**13,907**	-	**13,528**	-
Not rated	**17,641**	17,242	**16,954**	16,918
	58,633	55,654	**57,029**	54,420

The company does not hold any collateral as security to its credit risk.

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 and Company	
	2010	2009
	€'000	€'000
Within credit terms	**3,336**	2,664
Not more than three months	**1,667**	1,347
Within three to twelve months	**925**	1,389
Over twelve months	**404**	378
	6,332	5,778

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 €6.33 million (2009: €5.78 million), of which €3.34 million (2009: €2.66 million) is not contractually due. 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.

Trade receivables at 31 December 2010 comprise amounts of €1.02 million whose terms have been renegotiated from the original terms and which are classified as fully performing.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK: CREDIT RISK - CONTINUED

Financial assets that are impaired

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

	Group and Company	
	2010	2009
	€'000	€'000
Over twelve months	**618**	675
	618	675

These balances are covered by the following:

	Group and Company	
	2010	2009
	€'000	€'000
Provision for impairment of receivables (note 25)	**496**	553
Other insurance payables	**122**	122
	618	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.

4. MANAGEMENT OF RISK - CONTINUED

4.2 FINANCIAL RISK: LIQUIDITY RISK - CONTINUED

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

	Group expected cash flows (undiscounted) (€ millions) 2010						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions - claims outstanding	17.9	6.4	4.2	2.0	1.3	8.0	39.8
Borrowings	2.9	2.7	2.6	2.6	1.6	2.8	15.2
Insurance and other payables	12.7	-	-	-	-	-	12.7

	Group 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	15.1	-	-	-	-	-	15.1

	Company expected cash flows (undiscounted) (€ millions) 2010						
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	Total
Technical provisions - claims outstanding	17.9	6.4	4.2	2.0	1.3	8.0	39.8
Borrowings	2.9	2.7	2.6	2.6	1.6	2.8	15.2
Insurance and other payables	13.8	-	-	-	-	-	13.8

	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

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES

The following table presents the assets measured in the balance sheet at fair value 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).

Group

	Level 1 €'000	Level 3 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities	4,914	-	4,914
- Debt securities	13,549	-	13,549
Other available-for-sale investments	-	153	153
Total assets	**18,463**	**153**	**18,616**

Company

	Level 1 €'000	Level 3 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- Equity securities	4,914	-	4,914
- Debt securities	13,053	-	13,053
Investment in associated undertakings	-	55,473	55,473
Other available-for-sale investments	-	21	21
Total assets	**17,967**	**55,494**	**73,461**

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

Group

	Level 1 €'000	Level 3 €'000	Total €'000
Assets			
Financial assets at fair value through profit or loss			
- 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 €'000
Assets			
Financial assets at fair value through profit or loss			
- 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**

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

At 31 December 2010, the financial assets measured at fair value on a recurring basis classified as Level 1 accounted for 99% (2009: 99%) at Group level and 24% (2009: 36%) at Company level. Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities and equity securities.

At 31 December 2010, 76% (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 MSV Life p.l.c. 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 3. 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 2010.

Group	**Investments in associates** €'000	**Other available-for-sale investments** €'000	**Total** €'000
Opening balance	-	410	410
Disposals	-	(262)	(262)
Net fair value gains	-	5	5
Closing balance	**-**	**153**	**153**

Company	**Investments in associates** €'000	**Other available-for-sale investments** €'000	**Total** €'000
Opening balance	51,957	75	52,032
Additions	1,500	-	1,500
Disposals	-	(12)	(12)
Net fair value gains/(losses)	2,016	(42)	1,974
Closing balance	**55,473**	**21**	**55,494**
Total losses for the period included in profit and loss account	**-**	**(42)**	**(42)**

4. MANAGEMENT OF RISK - CONTINUED

4.3 FAIR VALUES - CONTINUED

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 2010 and 2009, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values.

5. 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 regulatory capital for Middlesea Insurance p.l.c. ("MSI" or "the Company") comprises shareholders' equity and subordinated loans. The minimum own funds required by Insurance Rule 1 at 31 December 2010 amounted to €7.0 million (2009: €6.4 million). In addition, the Insurance Business Regulations stipulate 'the required margin of solvency' that the Company is required to hold. Regulatory capital requirements may be set at a multiple of this requirement. The minimum required capital must be maintained at all times throughout the year. Given the 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 minimum capital regulatory requirements of the Company as at 31 December 2010 amounted to €7.6 million. At 31 December 2010, the regulatory capital held by the Company represented by admissible assets exceeded the minimum capital regulatory requirement and also the multiple set by the Regulator. During the first six months of the year, the company did not meet its regulatory capital requirement. This was due to the negative impact that the financial position of Progress had on the Company's capital base and to the fact that new regulations that came into force on 1 January 2010 resulted in certain of the Group's assets no longer being admissible for solvency purposes. The Company agreed a plan with the Regulator to reinstate its regulatory capital to the minimum amount required, plus the multiple requested. The positive results achieved by the Company and the Group during 2010 together with the conversion of a loan into a subordinated loan contributed to the successful achievement of this plan in the second six months of the year. As has been reported in the 2009 Financial Statements, the Company did not meet the regulatory solvency requirements as at 31 December 2009, with a calculated solvency deficiency of €29 million. This was due to the fact that the losses incurred by Progress had significantly eroded the Group's capital base.

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

Management has determined the operating segments based on the reports reviewed by the Executive Management team that are used to make strategic decisions. 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.

The Company mainly writes its business from Malta. The Company also operates through a branch in Gibraltar carrying on general business of insurance. As at 1 January 2011, this branch has been put in run-off.

6. SEGMENT INFORMATION - CONTINUED

The Group's geographic segments operate in two main business segments, general business, that is further sub-divided into various insurance business classes, and long term business. The segment results for the years ended 31 December 2010 and 2009 are indicated below.

General business

Gross premiums written and gross premiums earned by class of business

	Group and Company			
	Grosso premiums written		Gross premiums earned	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Direct insurance				
Motor (third party liability)	**6,681**	5,972	**6,477**	5,989
Motor (other classes)	**8,590**	9,788	**8,329**	9,816
Fire and other damage to property	**6,607**	6,363	**6,476**	6,471
Accident and health	**8,062**	7,171	**7,790**	7,116
Other classes	**3,215**	2,952	**3,146**	2,910
	33,155	32,246	**32,218**	32,302

92% (2009: 92%) of consolidated gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta and 8% (2009: 8%) emanate from contracts concluded in or from Gibraltar. All premiums emanate from external customers and there is no business transacted between segments other than as disclosed in note 36.

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

	Group and Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2010	2009	**2010**	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Direct insurance						
Motor (third party liability)	**6,858**	4,350	**1,953**	1,685	**46**	19
Motor (other classes)	**4,074**	6,984	**2,511**	2,764	**61**	32
Fire and other damage to property	**2,132**	2,698	**1,975**	1,980	**2,170**	1,649
Accident and health	**4,354**	3,959	**1,970**	1,865	**1,100**	678
Other classes	**547**	1,571	**928**	932	**336**	(229)
	17,965	19,562	**9,337**	9,226	**3,713**	2,149

6. SEGMENT INFORMATION - CONTINUED

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

The total profit before investment income for general business segments amounts to €1,203k (2009: €1,365k).

Long term business

	Group and Company	
	2010	2009
	€'000	€'000
Gross premiums written		
Direct insurance	**1,888**	1,149
Reinsurance inwards	**9**	9
	1,897	1,158

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.

The total profit before investment income for long term business amounts to €457k (2009: €488k).

Reconciliation of reportable segment profit to profit or loss for the financial year before tax

	Group	
	2010	2009
	€'000	€'000
Profit on general business before investment income	**1,203**	1,365
Profit on long term business before investment income	**457**	488
Net investment income	**6,187**	7,569
Other income	**1,252**	1,950
Administrative expenses	**(2,658)**	(2,699)
Profit before impairment charge and tax	**6,441**	8,673
Impairment of investment in group undertaking	**-**	(63,121)
Profit/(loss) for the financial year before tax	**6,441**	(54,448)

6. SEGMENT INFORMATION - CONTINUED

Reconciliation of reportable segment profit to profit or loss for the financial year before tax - continued

	Company 2010 €'000	2009 €'000
Profit on general business before investment income	**1,203**	1,365
Profit on long term business before investment income	**457**	488
Net investment income	**8,762**	5,917
Administrative expenses	**(1,565)**	(1,127)
Profit before impairment charge and tax	**8,857**	6,643
Impairment of investment in group undertaking	**-**	(69,523)
Profit/(loss) for the financial year before tax	**8,857**	(62,880)

Geographical information

The segment results for the years ended 31 December 2010 and 2009 by geographical area are indicated below:

	Group and Company Gross premiums written 2010 €'000	2009 €'000
Malta	**32,327**	30,804
Gibraltar	**2,716**	2,583
London - discontinued	**9**	17
Total for the year	**35,052**	33,404

Group segment assets and liabilities

The Group operates a business model which does not allocate either assets or liabilities of the operating segments in its internal reporting. Segment assets below consist principally of investments backing up the net technical reserves, reinsurers' share of technical provisions and insurance receivables.

6. SEGMENT INFORMATION - CONTINUED

Group segment assets and liabilities - continued

	Motor third party €'000	Motor other €'000	Fire and other damage to property €'000	Accident and health €'000	Other classes €'000	Long term business €'000	Unallocated €'000	Total €'000
At 31 December 2010								
Assets allocated to business segments	16,956	13,429	10,264	5,272	11,903	816	9,019	67,659
Assets allocated to shareholders	-	-	-	-	-	-	70,379	70,379
Total assets	16,956	13,429	10,264	5,272	11,903	816	79,398	138,038
At 31 December 2009								
Assets allocated to business segments	17,540	11,018	10,259	4,581	12,141	542	8,522	64,603
Assets allocated to shareholders	-	-	-	-	-	-	79,152	79,152
Total assets	17,540	11,018	10,259	4,581	12,141	542	87,674	143,755

The assets allocated to shareholders include the aggregate investment in associated undertakings of €53.0 million (2009: €52.0 million).

The total of non current assets, other than financial instruments, deferred tax assets, post employment benefits and risks arising under insurance contracts of €9,748k (2009: €11,129k) are all located in Malta.

7. NET OPERATING EXPENSES

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Acquisition costs	**7,466**	7,336	**7,466**	7,336
Change in deferred acquisition costs, net of reinsurance	**(108)**	(52)	**(108)**	(52)
Administrative expenses	**5,148**	4,944	**4,055**	3,372
Reinsurance commissions and profit participation	**(4,492)**	(4,447)	**(4,492)**	(4,447)
	8,014	7,781	**6,921**	6,209
Allocated to:				
General business technical account	**5,102**	4,973	**5,102**	4,973
Long term business technical account	**254**	109	**254**	109
Non-technical account (administrative expenses)	**2,658**	2,699	**1,565**	1,127
	8,014	7,781	**6,921**	6,209

Total commissions for direct business accounted for in the financial year amounted to €6.29 million (2009: €6.39 million) in the Group's and Company's technical result. Administrative expenses mainly comprise employee benefit expenses which are analysed in note 11.

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, auditor's remuneration, professional fees, marketing and promotional costs, and other general office expenditure.

8. INVESTMENT RETURN

	Group 2010 €'000	Group 2009 €'000	Company 2010 €'000	Company 2009 €'000
Investment income				
Share of profit of associated undertaking involved in insurance business, net of tax	**3,920**	3,121	**-**	-
Share of profit of associated undertaking involved in investment property business, net of tax	**229**	-	**-**	-
Dividend income from group undertakings	**-**	-	**6,795**	1,475
Rental receivable from investment property	**504**	508	**504**	508
Interest receivable from loans and receivables				
- other financial assets not at fair value through profit or loss	**362**	114	**357**	93
Income from financial assets at fair value through profit or loss				
- dividend income	**398**	530	**398**	530
- other net fair value gains	**981**	3,758	**949**	3,747
Net fair value gains on investment property	**814**	751	**780**	777
	7,208	8,782	**9,783**	7,130
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**63**	51	**63**	51
Interest expense for financial liabilities that are not at fair value through profit or loss	**746**	654	**746**	654
Impairment loss on investment in group undertaking (note 1)	**-**	63,121	**-**	69,523
Impairment of other available-for-sale financial assets (note 21, 28)	**42**	477	**42**	477
Exchange differences	**168**	16	**168**	16
Other investment expenses	**2**	15	**2**	15
	1,021	64,334	**1,021**	70,736
Total investment income/(charge)	**6,187**	(55,552)	**8,762**	(63,606)
Analysed between:				
Allocated investment return transferred to the general business technical account	**1,667**	3,435	**1,667**	3,435
Impairment loss on investment in group undertaking included in the non-technical account	**-**	(63,121)	**-**	(69,523)
Other investment income included in the non-technical account	**4,267**	3,947	**6,842**	2,295
Investment return included in the long term business technical account	**253**	187	**253**	187
	6,187	(55,552)	**8,762**	(63,606)

8. INVESTMENT RETURN - CONTINUED

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 €0.77 million (Company: €0.75 million) and realised and unrealised capital gains on investments of €0.21 million (Company: €0.20 million). Corresponding figures for 2009 were €1.35 million (Company: €1.33 million) and €2.41 million loss (Company: €2.42 million loss) respectively.

9. OTHER INCOME

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Management fees	**1,252**	1,950	-	-

10. PROFIT/(LOSS) BEFORE TAX

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

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Employee benefit expense (note 11)	**3,456**	3,844	**2,269**	1,769
Depreciation/amortisation:				
- intangible assets (note 16)	**372**	364	**320**	271
- property, plant and equipment (note 17)	**199**	216	**149**	133
Release of provision for impairment on receivables (note 25)	**(57)**	-	**(57)**	-
Impairment loss on investment in subsidiary undertaking (notes 1 and 8)	**-**	63,121	**-**	69,523
Impairment loss on other available-for-sale financial assets (note 8)	**42**	477	**42**	477

10. PROFIT/(LOSS) BEFORE TAX - CONTINUED

The financial statements include fees charged by the Parent Company auditor for services rendered during the financial periods ended 31 December 2010 and 2009 relating to entities that are included in the consolidation amounting to:

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Annual statutory audit	**63**	58	**55**	51
Other assurance services	**11**	85	**11**	85
Tax advisory and compliance services	**3**	3	**3**	3
Other	**35**	32	**35**	32
	112	178	**104**	171

11. EMPLOYEE BENEFIT EXPENSE

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Salaries	**3,280**	3,597	**2,155**	1,629
Social security costs	**176**	191	**114**	84
Provision for contracted pension obligations (note 13)	**-**	56	**-**	56
	3,456	3,844	**2,269**	1,769

The average number of persons employed during the year was:

	Group		Company	
	2010	2009	**2010**	2009
Key management personnel	**13**	11	**10**	5
Managerial	**21**	17	**16**	11
Technical	**73**	84	**41**	34
Administrative	**8**	7	**6**	2
	115	119	**73**	52

12. INCOME TAX EXPENSE

	Group 2010 €'000	Group 2009 €'000	Company 2010 €'000	Company 2009 €'000
Current tax expense	**557**	675	**1,499**	677
Deferred tax expense/(credit) (note 22)	**533**	(5)	**(381)**	(156)
Income tax expense	**1,090**	670	**1,118**	521

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 2010 €'000	Group 2009 €'000	Company 2010 €'000	Company 2009 €'000
Profit/(loss) before tax	**6,441**	(54,448)	**8,857**	(62,880)
Tax at 35%	**2,254**	(19,057)	**3,100**	(22,008)
Adjusted for tax effect of:				
Dividends received from untaxed income	**-**	-	**(1,434)**	(509)
Exempt income	**(1,595)**	(5,260)	**(144)**	(1,049)
Unrecognised deferred tax movements	**837**	25,208	**-**	24,333
Withholding tax regime on investment property	**(142)**	(176)	**(142)**	(176)
Other	**(264)**	(45)	**(262)**	(70)
Income tax expense	**1,090**	670	**1,118**	521

13. DIRECTORS' EMOLUMENTS

	2010 €'000	2009 €'000
Contracted emoluments paid to management	**-**	230
Directors' fees	**142**	116
	142	346

The Company paid insurance premiums of €7k (2009: €9k) during the year in respect of insurance cover in favour of its directors. Furthermore, no provisions (2009: €56k) have been made, net of recoveries, in respect of contracted pension obligations.

14. EARNINGS/(LOSS) PER SHARE

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

	Group	
	2010	2009
	€'000	€'000
Profit/(loss) attributable to shareholders	**5,351**	(53,462)
Weighted average number of ordinary shares in issue (note 27)	**92,000,000**	26,835,616
Earnings/(loss) per share attributable to shareholders	**€0.06**	(€1.99)

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 2010.

16. INTANGIBLE ASSETS

Computer software	Group €'000	Company €'000
At 1 January 2009		
Cost	4,026	2,242
Accumulated amortisation	(2,996)	(1,635)
Net book value	1,030	607
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)
Closing net book amount	700	454
At 31 December 2009		
Cost	2,873	2,360
Accumulated amortisation	(2,173)	(1,906)
Net book amount	**700**	**454**
Year ended 31 December 2010		
Opening net book amount	700	454
Additions	341	323
Disposals	(354)	-
Amortisation charge	(372)	(320)
Amortisation released on disposal	153	-
Closing net book amount	468	457
At 31 December 2010		
Cost	2,860	2,801
Accumulated amortisation	(2,392)	(2,344)
Net book amount	**468**	**457**

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 2009					
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**
Year ended 31 December 2010					
Opening net book amount	486	839	11	385	1,721
Additions	-	202	-	170	372
Disposals	-	-	(86)	(44)	(130)
Depreciation charge	(5)	(55)	(1)	(138)	(199)
Depreciation released on disposal	-	-	76	34	110
Closing net book amount	481	986	-	407	1,874
At 31 December 2010					
Cost	498	1,587	8	3,016	5,109
Accumulated depreciation	(17)	(601)	(8)	(2,609)	(3,235)
Net book amount	**481**	**986**	**-**	**407**	**1,874**

Land and buildings are shown at fair value. The Group's land and buildings were revalued at 31 December 2010 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.

17. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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

	2010 €'000	2009 €'000
At 31 December		
Cost	**498**	498
Accumulated depreciation	**(17)**	(12)
Net book amount	**481**	486

Company

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2009					
Cost	69	1,186	89	2,397	3,741
Accumulated depreciation	(3)	(493)	(67)	(2,078)	(2,641)
Net book amount	66	693	22	319	1,100
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)
Closing net book amount	66	682	13	245	1,006
At 31 December 2009					
Cost	69	1,196	89	2,426	3,780
Accumulated depreciation	(3)	(514)	(76)	(2,181)	(2,774)
Net book amount	**66**	**682**	**13**	**245**	**1,006**
Year ended 31 December 2010					
Opening net book amount	66	682	13	245	1,006
Additions	-	332	-	217	549
Disposals	-	-	(87)	-	(87)
Depreciation charge	(1)	(52)	-	(96)	(149)
Depreciation released on disposal	-	-	74	-	74
Closing net book amount	65	962	-	366	1,393
At 31 December 2010					
Cost	69	1,528	2	2,643	4,242
Accumulated depreciation	(4)	(566)	(2)	(2,277)	(2,849)
Net book amount	**65**	**962**	**-**	**366**	**1,393**

Depreciation expense has been charged in administrative expenses.

18. INVESTMENT PROPERTY

	Group €'000	Company €'000
At 1 January 2009		
Cost	7,993	6,113
Accumulated fair value gains	2,985	2,254
Net book amount	10,978	8,367
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
Net book amount	8,708	9,167
At 31 December 2009		
Cost	5,706	6,136
Accumulated fair value gains	3,002	3,031
Net book amount	**8,708**	**9,167**
Year ended 31 December 2010		
Opening net book amount	8,708	9,167
Additions	241	241
Disposals	(2,320)	(2,320)
Net fair value gains	777	743
Net book amount	7,406	7,831
At 31 December 2010		
Cost	4,505	4,933
Accumulated fair value gains	2,901	2,898
Net book amount	**7,406**	**7,831**

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	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000
Cost	**4,505**	5,706	**4,933**	6,136
Accumulated depreciation	**(335)**	(488)	**(343)**	(498)
Net book amount	**4,170**	5,218	**4,590**	5,638

19. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company €'000
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)
Closing net book amount	**1,212**
At 31 December 2009	
Cost	64,735
Impairment charge	(63,523)
Net book amount	1,212
Year ended 31 December 2010	
Opening and closing net book amount and cost	**1,212**

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.

The subsidiary undertakings at 31 December are shown below:

Subsidiary undertakings	Registered office	Class of shares held	Percentage of shares held 2010	Percentage of shares held 2009
Euro Globe Holdings Limited	Middle Sea House, Floriana	Ordinary shares	100%	100%
Euromed Risk Solutions Limited	Development House, Floriana	Ordinary shares	100%	100%
Bee Insurance Management Services Limited (formerly known as International Insurance Management Services Limited)	Development House, Floriana	Ordinary shares	100%	100%

The Company's share in the net asset values of the subsidiary undertakings is €5.33 million (2009: €5.53 million).

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS

	Group €'000	Company €'000
At 1 January 2009		
Cost	13,044	13,044
Accumulated share of associated undertakings' profits and reserves	28,690	-
Accumulated fair value movements (note 28)	-	29,498
Net book amount	41,734	42,542
Year ended 31 December 2009		
Opening net book amount	41,734	42,542
Additions	6,000	6,000
Share of associated undertakings' profits and movement in reserves	3,428	-
Fair value movements (note 28)	-	2,620
Transfer from investment in subsidiary undertakings (note 19)	795	795
Closing net book amount	51,957	51,957
At 31 December 2009		
Cost	19,839	19,839
Accumulated share of associated undertakings' profits and reserves	32,118	-
Accumulated fair value movements (note 28)	-	32,118
Net book amount	**51,957**	**51,957**
Year ended 31 December 2010		
Opening net book amount	51,957	51,957
Additions	1,500	1,500
Share of associated undertakings' profits and movement in reserves	(448)	-
Fair value movements (note 28)	-	2,016
Closing net book amount	53,009	55,473
At 31 December 2010		
Cost	21,339	21,339
Accumulated share of associated undertakings' profits and reserves	31,670	-
Accumulated fair value movements (note 28)	-	34,134
Net book amount	**53,009**	**55,473**

20. INVESTMENT IN ASSOCIATED UNDERTAKINGS - CONTINUED

The Group's aggregated assets and liabilities and the share of the results of its associated undertakings, all of which are unlisted are as follows:

2010	**Registered office**	**Assets €'000**	**Liabilities €'000**	**Revenues €'000**	**Profit €'000**	**% of interest held**
MSV Life p.l.c. (formerly known as Middlesea Valletta Life Assurance Company Limited)	Middle Sea House, Floriana	1,130,708	1,021,817	147,400	7,841	50%
Church Wharf Properties Limited	Middle Sea House, Floriana	2,329	273	45	457	50%
		1,133,037	1,022,090	147,445	8,298	

2009	**Registered office**	**Assets €'000**	**Liabilities €'000**	**Revenues €'000**	**Profit €'000**	**% of interest held**
MSV Life p.l.c. (formerly known as Middlesea Valletta Life Assurance Company Limited)	Middle Sea House, Floriana	999,243	892,049	124,600	6,201	50%
Church Wharf Properties Limited	Middle Sea House, Floriana	1,683	35	92	56	50%
		1,000,926	892,084	124,692	6,257	

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 Life p.l.c. were pledged in connection with the subordinated loan extended to Progress. The pledge was released on 9 April 2010.

21. OTHER INVESTMENTS

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

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Fair value through profit or loss	**18,463**	30,182	**17,967**	29,695
Other available-for-sale	**153**	410	**21**	75
Loans and receivables	**22,360**	15,943	**22,360**	15,943
	40,976	46,535	**40,348**	45,713

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Equity securities, other variable yield securities and units in unit trusts	**4,914**	13,163	**4,914**	13,163
Debt securities – listed fixed interest rate	**13,549**	17,019	**13,053**	16,532
Total investments at fair value through profit or loss	**18,463**	30,182	**17,967**	29,695

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	**Company**
	€'000	€'000
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 gain (excluding net realised movements)	1,470	1,484
Closing net book amount	30,182	29,695
Year ended 31 December 2010		
Opening net book amount	30,182	29,695
Additions	1,811	1,811
Disposals – sales	(8,572)	(8,572)
Disposals – redemptions	(5,216)	(5,216)
Net fair value gains (excluding net realised movements)	258	249
Closing net book amount	18,463	17,967

21. OTHER INVESTMENTS - CONTINUED

(b) Other available-for-sale financial assets

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Unlisted shares	**153**	410	**21**	75

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

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Year ended 31 December				
Opening net book amount	**410**	768	**75**	371
Effect of de-recognition of subsidiary undertaking	**-**	(68)	**-**	-
Disposals	**(262)**	-	**(12)**	-
Net fair value gains/(losses) (note 8, 28)	**5**	(290)	**(42)**	(296)
Closing net book amount	**153**	410	**21**	75

(c) Loans and receivables

Analysed by type of investment as follows:

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Deposits with banks or credit institutions	**22,360**	15,943	**22,360**	15,943

22. DEFERRED INCOME TAX

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Balance at 1 January	**(2,403)**	(11,698)	**16**	(142)
Movements during the year:				
Profit and loss account (note 12)	**533**	(5)	**(381)**	(156)
Other reserves (note 28)	**16**	316	**-**	314
Effect of de-recognition of subsidiary undertaking	**-**	8,984	**-**	-
Balance at 31 December – net	**(1,854)**	(2,403)	**(365)**	16

22. DEFERRED INCOME TAX - CONTINUED

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	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Temporary differences on property, plant and equipment	**(10)**	196	**(14)**	139
Temporary differences attributable to unrealised capital losses and exchange gains	**542**	841	**523**	840
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	**(2,307)**	(3,341)	**(795)**	(864)
Temporary differences attributable to other provisions	**(177)**	(197)	**(177)**	(197)
Other temporary differences, including impact of non-deductible expenses and different tax rates	**98**	98	**98**	98
Balance at 31 December - net	**(1,854)**	(2,403)	**(365)**	16

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	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Deferred tax asset	**(2,620)**	(3,447)	**(1,113)**	(1,025)
Deferred tax liability	**766**	1,044	**748**	1,041
	(1,854)	(2,403)	**(365)**	16

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.

The Group and Company have unutilsed capital losses of €3.55 million (2009: €3.62 million), which give rise to a deferred tax asset of €1.24 million (2009: €1.27 million) that has not been recognised in these financial statements. The Group also has unutilised trading losses of €2.4 million (2009: €Nil), giving rise to a further deferred tax asset of €0.84 million (2009: €Nil) which has not been recognised in these financial statements. The deferred tax assets are re-examined on an annual basis.

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Gross				
Short-term insurance contracts				
- claims outstanding	**39,812**	39,882	**39,812**	39,882
- provision for unearned premiums and unexpired risks	**15,037**	12,970	**15,037**	12,970
Long term business provision – Group Life	**682**	408	**682**	408
Total technical provisions, gross	**55,531**	53,260	**55,531**	53,260
Recoverable from reinsurers				
Short-term insurance contracts				
- claims outstanding	**9,873**	9,114	**9,873**	9,114
- provision for unearned premiums and unexpired risks	**5,215**	4,580	**5,215**	4,580
Long term business provision – Group Life	**269**	99	**269**	99
Total reinsurers' share of insurance liabilities	**15,357**	13,793	**15,357**	13,793
Net				
Short-term insurance contracts				
- claims outstanding	**29,939**	30,768	**29,939**	30,768
- provision for unearned premiums and unexpired risks	**9,822**	8,390	**9,822**	8,390
Long term business provision – Group Life	**413**	309	**413**	309
Total technical provisions, net	**40,174**	39,467	**40,174**	39,467

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 2010 and 2009 are not material.

The technical provisions are largely based on case-by-case estimates supplemented with additional provisions for IBNR and unexpired risks in those instances where the ultimate cost determined by estimation techniques is higher.

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.

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.

Company

Accident year	2001 €'000	2002 €'000	2003 €'000	2004 €'000	2005 €'000	2006 €'000	2007 €'000	2008 €'000	2009 €'000	2010 €'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	17,328	
- one year later	9,702	16,061	14,328	14,457	13,318	12,952	13,809	16,067	15,513		
- two years later	9,834	15,282	13,452	13,484	11,788	11,738	12,966	13,822			
- three years later	9,757	14,663	12,710	12,479	11,272	11,056	11,877				
- four years later	9,432	14,548	12,542	12,159	10,930	10,199					
- five years later	9,310	14,243	11,962	11,754	10,507						
- six years later	9,238	14,197	11,847	10,899							
- seven years later	9,220	14,047	11,556								
- eight years later	9,125	14,063									
- nine years later	9,415										
Current estimates of cumulative claims	9,415	14,063	11,556	10,899	10,507	10,199	11,877	13,822	15,513	17,328	125,179
Cumulative payments to date	(7,999)	(13,261)	(11,103)	(9,626)	(9,589)	(8,936)	(10,307)	(11,200)	(10,462)	(7,474)	(99,957)
Liability recognised in the balance sheet	1,416	802	453	1,273	918	1,263	1,570	2,622	5,051	9,854	25,222
Liability in respect of prior years											4,717
Total reserve included in the balance sheet											29,939

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

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 2010. 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:

	2010 **€'000**	2009 €'000
Investments	**3,392**	4,401
Insurance and other receivables	**726**	339
Cash at bank and in hand	**523**	413
Claims outstanding	**(93)**	(72)
Insurance and other payables	**(4,135)**	(4,772)
Long term business provision, net of reinsurance	**413**	309

Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustments expenses

	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

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(a) Claims and loss adjustments expenses - 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

	Group and Company Year ended 2010		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	39,882	(9,114)	30,768
Claims settled during the year	(18,639)	5,743	(12,896)
Increase/(decrease) in liabilities			
- arising from current year claims	23,835	(6,507)	17,328
- arising from prior year claims	(5,266)	5	(5,261)
Total at year-end	39,812	(9,873)	29,939

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 €5.27 million (2009: €2.05 million). After the effect of reinsurance, this amounts to €5.26 million (2009: €2.65 million). This run-off arose principally from a favorable development on claims in the motor and liability classes both on the local and Gibraltar direct general business of insurance. This is attributable, *inter alia*, to savings made during the claims handling process.

23. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(b) Provision for unearned premiums and unexpired risks

The movements for the year are summarised as follows:

	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

	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

	Group and Company Year ended 2010		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	12,970	(4,580)	8,390
Transfer from insurance payables	1,130	-	1,130
Net charge/(credit) to profit and loss	937	(635)	302
At end of year	15,037	(5,215)	9,822

The balance at 31 December 2010 includes a provision for unexpired risks of €0.65 million (2009: Nil).

Notes to the Financial Statements

24. DEFERRED ACQUISITION COSTS

	Group 2010 €'000	Group 2009 €'000	Company 2010 €'000	Company 2009 €'000
Year ended 31 December				
Opening net book amount	**2,673**	7,446	**2,673**	2,583
Effect of de-recognition of subsidiary undertaking	**-**	(4,863)	**-**	-
Net amount charged to profit and loss	**287**	90	**287**	90
Closing net book amount	**2,960**	2,673	**2,960**	2,673

Deferred acquisition costs are all classified as current assets.

25. INSURANCE AND OTHER RECEIVABLES

	Group 2010 €'000	Group 2009 €'000	Company 2010 €'000	Company 2009 €'000
Receivables arising from direct insurance operations:				
- due from policyholders	**137**	-	**137**	-
- due from agents, brokers and intermediaries	**8,597**	8,508	**8,597**	8,508
- due from reinsurers	**676**	473	**676**	473
Receivables arising from reinsurance operations:				
- due from reinsurers	**103**	94	**103**	94
Deposits with ceding undertakings	**147**	147	**147**	147
Other loans and receivables:				
- prepayments	**517**	643	**478**	576
- accrued interest and rent	**314**	291	**305**	281
- receivables from group undertakings	**-**	-	**5**	508
- receivables from associated undertakings	**142**	-	**104**	-
- other receivables	**166**	564	**-**	-
Provision for impairment of receivables	**(496)**	(553)	**(496)**	(553)
	10,303	10,167	**10,056**	10,034
Current portion	**10,303**	10,167	**10,056**	10,034

Balances due from group undertakings and other receivables are unsecured, non-interest bearing and have no fixed date of repayment.

25. INSURANCE AND OTHER RECEIVABLES - CONTINUED

Movements in the provision for impairment of receivables are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Balance as at 1 January	**553**	2,130	**553**	553
Effect of de-recognition of subsidiary undertaking	**-**	(1,577)	**-**	-
Release of provision for impairment during the year	**(57)**	-	**(57)**	-
Balance as at 31 December	**496**	553	**496**	553

26. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**2,734**	3,724	**1,875**	3,080

27. SHARE CAPITAL

	Group and Company	
	2010	2009
	€'000	€'000
Authorised		
150 million ordinary shares of €0.60 each (2009: 100 million of €0.60 each)	**90,000**	60,000
Issued and fully paid		
92 million ordinary shares of €0.60 each (2009: 92 million ordinary shares of €0.60 each)	**55,200**	55,200

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.

During the Extraordinary General Meeting held on 16 March 2010, the authorised share capital was increased to 150,000,000 Ordinary shares at a nominal value of €0.60 each.

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 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 increase 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)
Balance at 31 December 2009	20,364	4	-	20,368
Balance at 1 January 2010	20,364	4	-	20,368
Fair value movements - gross (note 8, 21)	-	47	-	47
Fair value movements - tax (note 22)	-	(16)	-	(16)
Share of increase in value of in-force business of associated company	903	-	-	903
Balance at 31 December 2010	21,267	35	-	21,302

The above reserves are not distributable reserves.

28. OTHER RESERVES - CONTINUED

Company

	Investment in associated undertakings €'000	Available-for-sale investments €'000	Total €'000
Balance at 1 January 2009	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
Balance at 1 January 2010	32,118	-	32,118
Fair value movements - gross (note 20 and 21)	2,016	-	2,016
		-	
Balance at 31 December 2010	34,134	-	34,134

The above reserves are not distributable reserves.

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Group		Company	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000
Provision for guarantees given on behalf of a subsidiary	**-**	8,500	**-**	8,500
Provision for contracted pension obligations	**833**	902	**833**	902
Balance at 31 December	**833**	9,402	**833**	9,402

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES - CONTINUED

(a) Provision for severance indemnity

	Group	
	2010	2009
	€'000	€'000
At 1 January	**-**	912
Effect of de-recognition of subsidiary undertaking	**-**	(912)
Balance at 31 December	**-**	-

(b) Provision for guarantees given on behalf of subsidiary

	Group and Company	
	2010	2009
	€'000	€'000
At 1 January	**8,500**	-
Profit and loss account	**-**	8,500
Payments	**(8,500)**	-
Balance at 31 December	-	8,500

The provision as at 31 December 2009 represented 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 was repaid by the Company during 2010. The charge was included within the "impairment of investment in group undertaking" in the non-technical profit and loss account.

(c) Provision for contracted pension obligations

	Group and Company	
	2010	2009
	€'000	€'000
At 1 January	**902**	804
Profit and loss account	**-**	98
Payments	**(69)**	-
Balance at 31 December	**833**	902

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES - CONTINUED

(c) Provision for contracted pension obligations - continued

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Current	**75**	75	**75**	75
Non current	**758**	827	**758**	827
Total	**833**	902	**833**	902

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	
	2010	2009
	€'000	€'000
Bank loans	**13,285**	16,285

The carrying amounts of borrowings approximate their fair value.

31. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Deposits received from reinsurers	**4,616**	4,211	**4,616**	4,211
Creditors arising out of direct insurance operations	**3,114**	2,763	**3,114**	2,763
Creditors arising out of reinsurance operations	**363**	770	**363**	770
Amounts owed to associated undertaking	**16**	1,329	**15**	1,248
Amounts owed to group undertakings	**-**	-	**1,274**	1,150
Social security and other tax payables	**411**	323	**408**	320
Accruals and deferred income	**4,154**	5,700	**4,036**	5,570
	12,674	15,096	**13,826**	16,032

All trade and other payables are classified as current.

32. CASH GENERATED FROM/(USED IN) OPERATIONS

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

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Profit/(loss) before tax	**6,441**	(54,448)	**8,857**	(62,880)
Adjusted for:				
Depreciation (note 17)	**199**	216	**149**	133
Impairment charges	**-**	63,121	**-**	69,523
Release of provision for impairment of receivables	**(57)**	-	**(57)**	-
Other provision for liabilities and charges (note 29)	**(69)**	98	**(69)**	98
Amortisation (note 16)	**372**	364	**320**	271
Adjustments relating to investment return	**(1,913)**	(7,143)	**(8,489)**	(5,491)
Profit on sale of property, plant and equipment	**(1)**	-	**(1)**	-
Movements in:				
Insurance and other receivables	**39**	(795)	**154**	(847)
Deferred acquisition costs	**(287)**	(90)	**(287)**	(90)
Reinsurers' share of technical provisions	**(1,564)**	(148)	**(1,564)**	(148)
Technical provisions	**2,271**	2,521	**2,271**	2,521
Insurance and other payables	**(2,415)**	1,415	**(2,199)**	1,293
Cash generated from/(used in) operations	**3,016**	5,111	**(915)**	4,383

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 note 1 to these financial statements, the Board had 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 that decision:

	As at 1 January 2009 €'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

34. COMMITMENTS

Capital commitments

	Group		Company	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000
Authorised and not contracted for				
- property, plant and equipment	**549**	141	**549**	141
- intangible assets	**401**	145	**401**	145

Operating lease commitments – where the company is a lessor

The Group and the Company lease out certain premises under operating leases. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group and Company	
	2010 €'000	2009 €'000
Not later than 1 year	**338**	419
Later than 1 year and not later than 5 years	**409**	326
	747	745

Rental income from operating leases recognised in profit or loss during the year is disclosed in note 8.

35. CONTINGENCIES

The Company has given guarantees to third parties amounting to €1.47 million (2009: €1.40 million) not arising under contracts of insurance. Subsequent to the year end one of these guarantees, amounting to €1.29 million was released.

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 arm's length basis, are as follows:

	2010 €'000	2009 €'000
(a) Sales of insurance contracts and other services		
Sale of insurance contracts		
- subsidiaries	**16**	48
- associates	**131**	104
- shareholders represented on the Board	**1,652**	865
Reimbursement of expenses for back-office services provided		
- associate	**610**	1,185
- shareholders represented on the Board	**42**	57
Investment income		
- subsidiaries (dividends/interest receivable)	**350**	450
- associate (dividends)	**6,444**	1,025
- shareholders represented on the Board (dividends/interest receivable)	**234**	210

	2010 €'000	2009 €'000
(b) Purchases of products and services		
Reinsurance premium ceded to shareholders (represented on the Board)	**11,188**	10,011
Acquisition costs payable to intermediaries where directors of the Company are shareholders in companies that act as insurance agents	**236**	1,238
Reimbursement of expenses payable for back-office services		
- subsidiaries	**631**	852
Interest payable on borrowings		
- shareholder represented on the Board (acting as banker)	**528**	538
Rental income payable to associate	**27**	26

36. RELATED PARTY TRANSACTIONS - CONTINUED

During the year, the Company acquired intangible assets amount to €17k (2009: €Nil) and property, plant and equipment amounting to €217k (2009: €Nil) from a subsidiary. The Group transferred investment property for €2.36 million (2009: €Nil), property, plant and equipment for €10k (2009: €Nil) and intangible assets for €200k (2009: €Nil) to one of its associates.

During the year the Company paid a subordinated loan on behalf of a group undertaking as disclosed in note 29.

Key management personnel during 2010 and 2009 comprised the Chief Executive Officers, Chief Operation Officer, 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 €0.73 million (Company: €0.48 million). Corresponding figures for 2009 were €0.91 million and €0.39 million.

Year-end balances arising from the above transactions:

	Group		Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Debtors arising out of direct insurance operations	**83**	970	**83**	916
Creditors arising out of direct insurance operations	**2,606**	1,614	**2,606**	1,614
Amounts owed by subsidiary undertakings	**-**	-	**4**	508
Amounts owed to subsidiary undertaking	**-**	-	**1,274**	1,150
Amount owed by associated undertaking	**-**	-	**104**	-
Amounts owed to associated undertaking	**15**	1,329	**15**	1,248
Reinsurers' share of technical provisions	**5,880**	5,155	**5,880**	5,155
Investments in related parties	**12,199**	11,939	**12,199**	11,939
Provision for contracted pension obligations (key management personnel)	**833**	902	**833**	902
Accruals and other liabilities (key management personnel)	**-**	107	**-**	107

All balances above have arisen in the course of the Group's normal operations.

37. STATUTORY INFORMATION

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

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