Middle Sea Insurance

Annual Report & Financial Statements 2002

Middlesea Insurance p.l.c.

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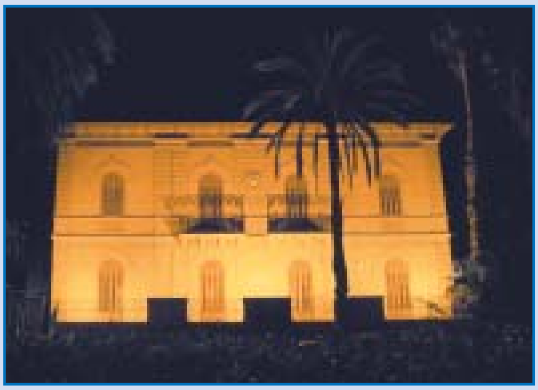
Mission Statement

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



Sicily Head Office

Business Philosophy

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

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

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

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

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

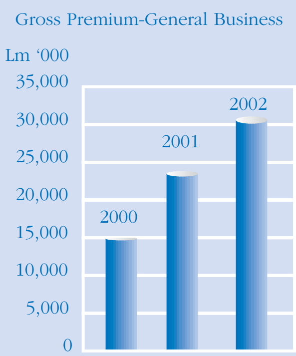
Chairman's Statement

The initial years of the new millennium have proved to be one of the most difficult periods ever experienced in the history of the insurance industry. Post the September 11th event, the downturn in the world economy, global major uncertainty and political tensions have depressed the capital markets. This, coupled with the unsatisfactory technical results, had a negative impact on the financial results of most insurers and reinsurers.

2002 was a tough year also for the Middlesea Group. The negative technical result from indigenous non-life operations, particularly the motor and liability classes of business, together with the ongoing turmoil in the local and international capital markets have adversely affected our results. Within this scenario, the Group registered a profit after tax of Lm1.14 million (€ 2.73m) for the year ended 31 December 2002. Certain recent strategic changes initiated by Middlesea, particularly the establishment of a direct presence in overseas markets, have benefited the overall results of the Group.

Non-life written premiums continued to register sound growth with the focus being on territorial spread, business mix and price adjustments. A significant growth of 30% in general business Gross Premiums Written was achieved in 2002, which resulted in a total turnover of Lm31.11 million (€ 74.33m). The ratio of net technical reserves (which increased to Lm31.70 million (€ 75.75m) to net premiums written was 127%. Shareholders' funds grew by 3.4% to Lm21.21 million (€ 50.68m). Total assets increased by Lm9.37 million (€ 22.40m) to Lm80.86 million (€ 193.21m). Earnings per share decreased from 11c4 to 9c1; however an increase from Lm1.64 to Lm1.70 was registered in the net asset value per 50c share.

Having considered Middlesea's policy on the enhancement of the balance sheet and future sustainability, the Board is recommending the payment of a gross final dividend of 7c per share, which is equivalent to a dividend yield of 3.18% based on the closing price on Friday 11th April 2003.



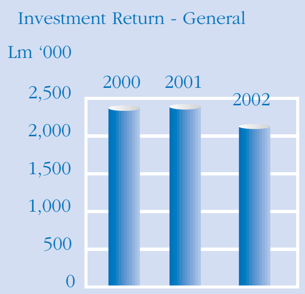
Chairman's Statement

The Group's total investments amounted to Lm47.71 million (€ 114.00m). Equity markets suffered considerable corrections for the third year running as a result of uncertainty and a deteriorating economic outlook. The weak world economy and disappointing news from companies caused the stock markets to slump further during 2002. The write-down on certain foreign equities amounted to Lm0.25 million (€ 0.59m), which had a direct impact on this year's Group profits. Bond markets provided some relief with an investor flight to safety prompting positive returns for major bond indices. Similar trends were reflected in the local capital market where equity delivered a negative return but the bond market continued to hold major interest for investors, resulting in higher bond prices due to greater demand and further decline in interest rates. The disappointing performance of the local and international equities has adversely affected the Group's investment return.

Middlesea Valletta Life Assurance Company, contributed positively to the Group's result with the share of profit increasing by 101% to Lm0.25 million (€ 0.60m). The Gross Premiums Written fell by 14% to almost Lm19 million (€ 45.37m) as a result of a lower turnover on single premium policies. The Life Fund increased by 18% to Lm95.4 million (€ 227.96m), whilst shareholders' funds increased to Lm17.65 million (€ 42.17m). The benefit of this investment is reflected in the increase of the embedded value from Lm9.5 million (€ 22.70m) to Lm10.79 million (€ 25.78m). Embedded value represents the discounted value of projected future profits on secured business.

In Italy, Progress Assicurazioni S.p.A. was also a significant contributor to technical operations. The importance of this company was reflected in the year-to-year increase in premium income of 49% to Lm18.45 million (€ 44.08m) and its contribution of a profit, after minority interest, of Lm0.53 million (€ 1.28 m) to the Middlesea Group. This company continued to implement its planned strategy mainly in correcting its pricing policy and ensuring adequate reserving.

The improvement of corporate processes and overall Group efficiency continued through the rationalisation of organisational structures, in particular the outsourcing of non-technical operations to the subsidiary International Insurance Management Services Ltd. The introduction of new real time information technology is expected to assist management in focusing on customer orientation, which will contribute to Middlesea's competitiveness. Based on our



corporate philosophy, special attention continued to be given to the Group's human resource. This was being achieved through continued professional development and the introduction of an incentivised-based remuneration policy. It is time to return to simple but vital and proven principles. Consistently applied, these create true value. Correct pricing is of fundamental importance, and rates have been adjusted to reflect the new risk dimensions. The risk management of cash flow was further improved. Underpinning this is the drive to ensure adequacy of capital. In this context, the Group continues to review its planned growth. As in the past, we will continue to allocate capital resources to those areas of business that we consider most suitable for the ultimate benefit of our customers and shareholders.

New challenges continue to emerge and the introduction of a stricter statutory and regulatory regime is expected. Middlesea Group operates to high standards of ethics and corporate governance and also has a demanding programme of corporate social responsibility.

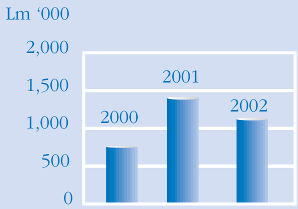
We always recognised traditional values and made them permanent keystones in corporate behaviour. Given the soaring cost to the insurance industry as a result of attritional catastrophe losses, the rising cost of court awards, the spectre of terrorism, and the dismal investment climate, it is evident that the foreseeable operational environment continues to present considerable challenges. With this in mind, it becomes imperative that the companies within the Group have to ensure the application of basic fundamentals. This will enable Middlesea to manage the level of business and achieve a balance between value creation and capital adequacy. We shall continue to be a low-cost producer, quality service provider and insurer of choice.

The unstinting efforts of management and staff cannot go unregistered. I also thank all the directors for their invaluable contribution during this process of consolidating the Company, enabling it to emerge with renewed vigour and strategically in a stronger position thus creating the lasting value that is expected from customers and shareholders.

M. C. Grech

Chairman & CEO

Profit attributable to shareholders



Stqarrija taċ-Chairman

L-ewwel snin tal-millennju l-ġdid kienu wieħed mill-perijodi l-aktar diffiċli li l-industrija ta' l-assigurazzjoni qatt għaddiet minnhom fl-istorja tagħha. Wara l-ġrajja tal-11 ta' Settembru, it-triq għan-niżla li ħadet l-ekonomija dinjija, l-inċertezza globali mill-akbar u tensjonijiet politiċi ddeprimew is-swieq kapitali. Dan, flimkien mar-riżultati tekniċi xejn sodisfaċenti, kellhom impatt negattiv fuq ir-riżultati finanzjarji tal-parti l-kbira ta' l-assiguraturi u riassiguraturi.

L-2002 kienet sena iebsa għall-Middlesea Group ukoll. Ir-riżultati tekniċi negattivi mill-operazzjonijiet lokali ta' assigurazzjoni mhux fuq il-ħajja, l-aktar fin-negozju tal-klassijiet tal-karozzi u responsabbiltà legali, flimkien maċ-ċaqliq kbir fis-swieq lokali u internazzjonali, laqtu ħażin ir-riżultati tagħna. Fil-kuntest ta' dan ix-xenarju l-Grupp irreġistra profit wara t-taxxa ta' Lm1.14 miljun (€ 2.73m) għas-sena li għalqet fil-31 ta' Diċembru 2002. Il-bidliet li nbdew dan l-aħħar mill-Middlesea, l-aktar it-twaqqif ta' preżenza diretta fi swieq barranin, kienu ta' benefiċċju għar-riżultati ġenerali tal-Grupp.

Primjums sottoskritti ta' assigurazzjoni mhux fuq il-ħajja baqgħu jirreġistraw tkabbir sod bis-saħħa ta' ffokar fuq firxa territorjali, taħlita ta' negozju u aġġustament tal-prezzijiet. Fl-2002 intlaħaq tkabbir sinifikattiv ta' 30% fi Primjums Gross Sottoskritti fin-negozju ġenerali li rriżulta f´negozju totali li jammonta għal Lm31.11 miljun (€ 74.33m). Il-proporzjon bejn ir-riżervi tekniċi netti (li zjiedu għal Lm31.70 miljun (€75.75m)) u l-primjums netti sottoskritti kien ta' 127%. Il-fondi ta' l-azzjonisti kibru bi 3.4% għal Lm21.21 miljun (€ 50.68m). L-assi totali kibru b´Lm9.37 miljun (€ 22.40m) għal Lm80.86 miljun (€ 193.21m). Il-qligħ kull sehem niżel minn 11ċ4 għal 9ċ1; iżda kienet reġistrata żjieda minn Lm1.64 għal Lm1.70 fil-valur ta' l-assi nett għal kull sehem ta' 50ċ.

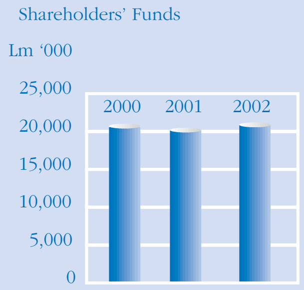
Wara li qies il-politika tal-Middlesea dwar it-titjib tal-karta bilanċjali u s-sostenibilità futura, il-Bord qed jirrikkmanda l-ħlas ta' dividend finali gross ta' 7ċ kull sehem, li jfisser produzzjoni ta' dividend ta' 3.18% ibbażat fuq il-prezz ta' l-għeluq tan-negozju nhar il-ġimgħa, 11 ta' April 2003.

L-investimenti totali tal-Grupp ammontaw għal Lm47.71 miljun (€ 114.00m). Is-swieq ta' l-ishma batew sewwa minn korrezzjonijiet konsiderevoli għat-tielet sena wara l-oħra ħtija ta' inċertezza u prospetti ekonomiċi li qed jiddeterjoraw. L-ekonomija dgħajfa dinjija u l-aħbarijiet diżappuntanti minn kumpaniji wasslu biex is-swieq ta' l-istokks ikomplu jinżlu tul l-2002. Id-devalwazzjoni ta' ċerti ishma barranin ammontat għal Lm0.25 miljun (€ 0.59m) u kellha impatt dirett fuq il-Profitt tal-Grupp għal din is-sena. Is-swieq tal-bonds taw ftit tan-nifs billi l-investituri fittxew is-sigurtà u hekk ħolqu riżultati pożittivi fil-każ ta' indiċijiet ewlenin ta' bonds. Tendenzi simili kienu riflessi fis-suq kapitali lokali fejn l-ishma taw riżultat negattiv iżda s-suq tal-bonds baqa' jiġbed l-interess ewlieni ta' l-investituri u hekk wassal għal prezzijiet ta' bonds ogħla minħabba domanda akbar u nżul ulterjuri fir-rata ta' mgħaxijiet.

Ir-riżultati diżappuntanti li kellhom is-swieq kapitali lokali u internazzjonali laqtu ħażin il-qligħ mill-investimenti tal-Grupp.

Il-Middlesea Valletta Life Assurance Company ikkontribwiet pożittivament għar-riżultati tal-Grupp meta s-sehem tagħha għall-profitti tal-Grupp telgħu b´101% għal Lm0.25 miljun (€ 0.60m). Il-Primjums Gross Sottoskritti niżlu b´14% għal kważi Lm19 miljun (€ 45.37m). Il-Fond tal-ħajja kiber bi 18% għal Lm95.4 miljun (€ 227.96m), filwaqt li l-fondi ta' l-azzjonisti telgħu għal Lm17.65 miljun (€ 42.17m). Il-benefiċċju ta' dan l-investiment hu rifless fiż-żjieda tal-valur inerenti minn Lm9.5 miljun (€ 22.70m) għal Lm10.79 miljun (€ 25.78m). Il-valur inerenti jirrappreżenta l-valur skuntat ta' profitti futuri proġettati minn negozju sottoskritt.

Fl-Italja, Progress Assicurazioni S.p.A. kienet ukoll kontributur sinifikanti għall-operazzjonijiuet tekniċi. L-importanza ta' din il-kumpanija hija riflessa fiż-żjieda minn sena għal sena tad-dħul minn primjums ta' 49% għal Lm18.45 miljun (€ 44.08m) u l-kontribut tagħha ta' profitt, wara l-ħlas ta' interess minoritajru, ta' Lm0.53 miljun (€ 1.28m) lill-Middlesea Group. Din il-kumpanija kompliet timplimenta l-istrateġija ppjanata tagħha li tikkoreġi l-prattika tal-prezzijiet tagħha u tiżgura riservi adegwati.



Stqarrija taċ-Chairman

It-titjib tal-proċessi korporattivi u l-effiċjenza ġenerali tal-Grupp komplew bis-saħħa tar-razzjonalizzazzjoni ta' l-istrutturi organizzattivi, partikolarment billi operazzjonijiet ta' natura mhux teknika għaddew f´idejn is-sussidjarja International Insurance Management Services Ltd. L-introduzzjoni ta' teknoloġija ta' l-informatika *real time* hi mistennija tgħin lill-management biex jiffoka fuq orjentament lejn il-konsumatur li se jikkontribwixxi għall-kompetittività tal-Middlesea. Fuq il-bażi tal-filosofija korporattiva tagħna, baqgħet tingħata attenzjoni speċjali lir-riżorsi umani tal-Grupp. Dan kien qed isir bis-saħħa ta' żvilupp professjonali kontinwu bl-introduzzjoni ta' prattika ta' rimunerazzjoni bbażata fuq inċentivi.

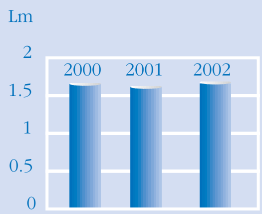
Issa hu ż-żmien li nerġgħu lura għal prinċipji vitali li ż-żmien wera kemm kienu tajbin. Meta applikati b´konsistenza, dawn joħolqu valur reali. L-applikazzjoni ta' prezzijiet korretti hija ta' importanza fundamentali, u r-rati kienu aġġustati biex jirriflettu d-dimensjonijiet ġodda tar-riskju. L-immaniġġjar tar-riskju tal-likwidità kompla jittejjeb. Fil-bażi ta' dan hemm l-enerġija meħtieġa biex wieħed jiżgura kapital adegwat. F´dan il-kuntest il-Grupp jibqa' jirrevedi l-mod tat-tkabbir tiegħu. Bħal fl-imgħoddi, aħna se nkomplu nallokaw riżorsi kapitali lil dawk l-oqsma tan-negozju li nħossu li huma l-aktar addattati għall-benefiżżju aħħari tal-klijenti u l-azzjonisti tagħna.

Sfidi ġodda jibqgħu iqumu u hu mistenni li jiddaħħal reġim statutorju u regolatorju aktar strett. Il-Middlesea Group jopera fuq livelli għolja ta' etika u governabilità korporattiva (*corporate governance*) u għandu wkoll programm esiżenti ta' responsabbiltà soċjali korporattiva.

Aħna dejjem għarafna l-valuri tradizzjonali għamilniehom il-qofol permanenti fl-imġiba korporattiva.

Minħabba l-ispejjeż dejjem telgħin li għandha l-industrija ta' l-assigurazzjoni b´riżultat ta' telfiet katastrofiċi mill-akbar, kumpens dejjem jogħla mill-qrati, l-ispettru tat-terroriżmu, u l-klima depressa ta' investimenti, hu evidenti li l-

Net Asset Value per Share



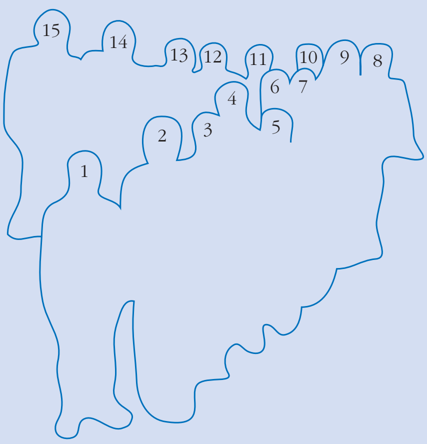
ambjent li naħdmu fih li nistgħu nipprevedu jibqa' jippreżenta sfidi konsiderevoli. B'dan f'moħħna, hu imperattiv li l-kumpaniji fil-Grupp jassiguraw l-applikazzjoni ta' prinċipji fundamentali bażiċi. Dan jagħmilha possibbli għall-Middlesea li timmaniġġja l-livell tan-negozju u tasal għal bilanċ bejn il-ħolqien ta' valur u bejn kapital adegwat. Aħna nibqgħu nkunu produttur bi prezzijiet baxxi, provvedituri ta' servizz ta' kwalità, u assiguratur li l-klijent jagħtih preferenza.

L-isforzi bla waqfien tal-management u l-impjegati ma jistgħux ma jissemmewx. Jien nirringrazzja wkoll lid-diretturi kollha għall-kontribut mill-aktar siewi tagħhom tul dan il-proċess ta' konsolidament tal-kumpanija u li wassluha biex toħroġ b'saħħa mġedda u strategikament f'qagħda aktar soda ħalli tkun tista' toħloq il-valur dejjiemi li jistennew minnha l-klijenti u l-azzjonisti.

M. C. Grech

Chairman & CEO

Board of Directors



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

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

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

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

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

Mr P. Borg
At present: Managing Director of Bortex Clothing Ind. Co. Ltd.

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

Mr D. Sugranyes Bickel ("Licence en Sciences Economiques et Sociales")
Formerly: Secretary General, International Christian Union of Business Executives – UNIAPAC (Brussels). Managing positions in Corporacion Mapfre, Mapfre Re, Mapfre Caucion y Credito.
At present: Chairman and Chief Executive of Corporacion Mapfre. Member of the Board and Executive Committee of Mapfre Mutualidad (Group Parent Company), Director of Progress Assicurazioni S.p.A.

Dr J. C. Grech M.A.(Econ.) Dip.I.C.E.I. (A'dam), Ph.D. (Geneva), F.C.I.B., M.B.I.M., F.M.I.M.
Formerly: Chairman of the Malta External Trade Corporation, Deputy Chairman of the Malta Development Corporation, Director on the board of the Malta Freeport Corporation, Chairman of Bank of Valletta Group of Companies, Chairman of Middlesea Valletta Life Assurance Co. Ltd., Founding President of the Maltese Australian Chamber of Commerce, Founding President of the Mediterranean Bank Network.
At present: Chairman of the Malta Tourism Authority, Member of the Advisory Board of the Mediterranean Academy of Diplomatic Studies, Chairman & Managing Director of EMCS Ltd., Chairman Unipol Insurance Services Limited, Chairman International Advisory Board of FIMBANK. Holds directorships on various other company boards. Dr Grech is also visiting professor at the University of Malta.

Mr L. Grech MA (Oxon)
Formerly: Chief Executive and /or Director on various Air Malta subsidiaries and Associated Companies.
Presently: Chairman of the Air Malta Group of Companies, Chairman of Air Supplies and Catering Co Ltd, Hal Ferh Holidays Co Ltd, Selmun Palace Hotel Co Ltd, Tigne' Development Co Ltd, Sterling Travel and Tourism Co Ltd, Holiday Malta Co Ltd, Accor-Air Malta Co Ltd and several associated companies. He is also a Director on the Board of Medavia Co Ltd, Dragonara Casino Ltd and Flight Catering Co Ltd and a number of other private company boards.

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

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

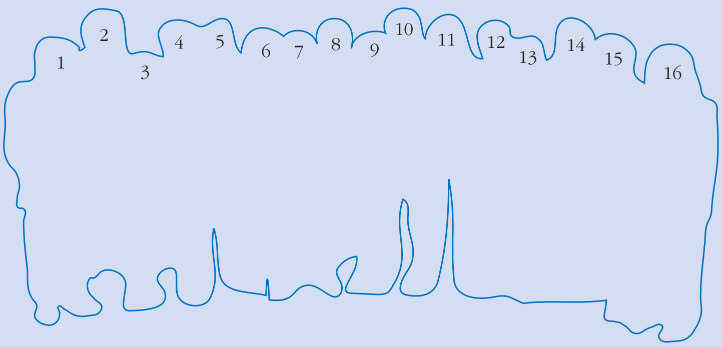
Mr G. Debono Grech L.P. F.I.S.M.M. (Luton), B.A. (Leg), Mag.Jur. (Int. Law) Dip. Trib.Eccl.Melita
Formerly: Director of Malta Drydocks, Malta International Transport, Tug Malta, Smithtug Valletta. Served for 18 years as G.W.U. representative for the Security Department.
At present: Member of the Board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

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

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

Mr A. Corsi.
Formerly: Actuary in the Life Department - Assicurazioni Generali Head Office and subsidiaries.
At present: Executive Officer at Assicurazioni Generali Head Office.

Management



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

Middlesea Insurance p.l.c.

MIDDLESEA VALLETTA LIFE
Assurance Company Limited

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

Progress
Assicurazioni Spa Gruppo Middlesea

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

Mr Simon Camilleri
ACII, Chartered Insurer
- Assistant General Manager

Mr Joseph Avellino
ACII, Chartered Insurer
- Assistant General Manager

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

Ms Sandra Sciriha
- Executive Consultant

Mr Patrick Muscat
ACII, Chartered Insurer
- Assistant General Manager

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

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

Ms Denise Bezzina
ACII
- Senior Executive Manager

Mr Vince Ellul
- Senior Executive Manager

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

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

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

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

Mr Bernard Fenech
MIMIS, MIAP
- Assistant General Manager

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

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

Mr Peter Spiteri
FCII
- Senior Executive Manager

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

Mr Stephen Gauci
ACII
- Direttore generale

Sig. ra Nunzia Ciotta
- Dirigente

Rag. Giovanni Ficara
- Dirigente

Dott. Claudio Lesca
- Dirigente

Middlesea Insurance p.l.c.

Middlesea Insurance p.l.c. (Middlesea) is the holding company of the Group and during 2002 continued to develop its core operations of underwriting general insurance and group life business. As the holding company, Middlesea invests, through the redistribution of profits generated by its subsidiary and associated companies, a high proportion of its investment portfolio in Group companies and, as at the end of 2002, 37% of its investment portfolio was invested in Group companies.

The Company's operational performance was adversely affected by its unsatisfactory domestic underwriting results, especially in the motor sector, as well as increased reinsurance costs and poor investment returns caused by the global economic downturn. The increased worldwide threat of terrorism and restricted conditions applied by the international reinsurance market necessitated a review of the company's original policy coverages and, where appropriate, the imposition of protective clauses aimed at containing the company's exposure to such contingency where applied.

Middlesea recorded a profit after taxation of Lm1.14m (€ 2.73m) for the year ended 31 December 2002, a reduction of Lm0.28m (€ 0.68m) over the previous year. The Company incurred a net underwriting loss of Lm0.30m (€ 0.73m) compared with a net underwriting profit of Lm0.32m (€ 0.77m) in 2001. The Company's net investment income, including its share of the pre-tax profit of Group undertakings and participating interests, fell to Lm1.67m (€ 3.98m), a 12% reduction over the previous year's corresponding figure. Poor investment returns from international markets were partially mitigated by an increase in the company's share of profits from its subsidiary and associated companies which overall contributed Lm0.97m (€ 2.31m) before tax towards Middlesea's total investment income compared with Lm0.34m (€ 0.80m) the year before.

General Insurance

Middlesea's strategy over the last year was to consolidate its position locally in terms of its distribution network. The Company has always seen the close monitoring of its underwriting results as crucially important to its operational success and continued to pay particular attention to this aspect of its business including scrutinising the performance of its agency network. As a consequence, during 2002 Middlesea terminated three agency agreements. In addition to writing business through its own Head Office in Floriana, the Company continued to source business through a network of eleven local agents and one foreign agent.

Gross premiums written by Middlesea reached a level of Lm12.52m (€ 29.92m) in 2002 representing an increase of 8% over the previous year's corresponding figure of Lm11.62m (€ 27.76m). The Company's domestic operations contributed 89% of total written premiums whereas its Gibraltar Branch generated the remainder. Whilst the Company's Head Office contribution continued, in percentage terms, to be consistent with that of 2001, premiums generated through local agents fell by 2% whilst volumes written by its Gibraltar Branch increased by 2%. Motor business remains the principal class contributing 52% of total premiums written, followed by fire and health which contributed 17% and 9% respectively. Notwithstanding the company's increased premium volumes, its mix of business largely remained consistent with that of the previous year, with all categories, except for marine and engineering, having registered some growth.

The Company's net underwriting result, before the effect of the equalisation reserve, was a loss of Lm0.38m (€ 0.90m) against a profit for the preceding year of Lm0.47m (€ 1.12m). Whilst technical performance improved in the marine cargo and engineering classes, all other categories of business experienced some deterioration. Technical losses were registered in the motor and liability sectors, the Company's motor account having suffered an especially adverse result. The main causes were increases in claims frequency and claims costs as well as higher court awards for bodily injuries. Remedial measures aimed at improving the company's performance in this sector of its portfolio have already been introduced and will continue to be reinforced.

Net technical provisions, including those of the Gibraltar Branch, at the end of 2002 were Lm9.39m (€ 22.43m), an increase of Lm1.89m (€ 4.53m) over 2001. This movement was attributable to a number of factors including increased unearned premium provisions arising from the Company's growth, an increase in gross claims reserves and the overall decrease in reinsurers' share of the Company's technical provisions largely caused by the discontinuation of a significant reinsurance contract.

Written premium income from Middlesea's Gibraltar Branch amounted to Lm1.38m (€ 3.30m) in 2002, an increase of 22% over the preceding year's figure of Lm1.13m (€ 2.70m). All categories of business contributed to the Branch's growth and, with the exception of fire which was impacted by high reinsurance costs, all classes made net underwriting profits. This produced a net underwriting result of Lm0.15m (€ 0.35m) as compared with Lm0.09m (€ 0.21m) in 2001.

Group Life

As a composite insurer, the Company continues to provide group life insurance to its clients and this business generated gross premiums of Lm0.61m (€ 1.46m) in 2002 corresponding to a 26% increase over 2001 levels. Claims experience was in line with the previous year. Group life resulted in an increased contribution of Lm0.09m (€ 0.22m) being made to Middlesea's 2002 profit and loss account compared with the corresponding figure of Lm0.04m (€ 0.09m) for 2001.

International Reinsurance

As at the end of the year 2002 the result from Middlesea's discontinued International Reinsurance operations was a breakeven position. This took account of savings made from outstanding losses settled either without any payment or for amounts lower than reserved values and also includes the effect of new claim notifications as well as an additional provision for expenditure. Premium adjustments totalled Lm0.14m (€ 0.34m) whilst paid claims totalled Lm1.59m (€ 3.81m) of which Lm0.64m (€ 1.53m) were recovered from reinsurers. Gross outstanding losses reduced by Lm1.80m (€ 4.30m) whilst Lm0.26m (€ 0.62m) was released from pipeline claims provisions leaving total incurred losses after reinsurance of Lm0.06m (€ 0.15m). Net technical provisions carried forward as at the end of 2002 were Lm1.78m (€ 4.26m) compared with Lm2.86m (€ 6.84m) the previous year.

J.M. Rizzo
General Manager

Business Review

MIDDLESEA VALLETTA LIFE
Assurance Company Limited

Middlesea Valletta Life Assurance Co. Ltd. (MSV) is the specialist life insurer within the Middlesea Group. The Company, which was established in September 1994, transacts individual life insurance business and financial services. In 1997 MSV set up a subsidiary, Growth Investments Limited (Growth) whose main activity is the distribution of Fidelity Investment Funds in Malta. In addition, Growth was also granted a license to act as a Financial Intermediary on the Malta Stock Exchange. With a market share of some 56%, MSV is the leading company in the Maltese life assurance market for life assurance and related products.

During 2002, MSV continued to strengthen its financial position and again made a positive contribution to the results of the Group.

Whilst gross written premiums decreased by 14% from Lm22.12m (€ 52.85m) in 2001 to Lm19m (€ 45.40m) in 2002, this was largely attributable to the Company ceasing to market its Single Premium Plan during the first half of the year pending the launch of the new MSV Single Premium Plan in the second half of the year. Funds invested by MSV and Growth at 31 December 2002 amounted to Lm95.61m (€ 228.46m) compared with Lm80.12m (€ 191.44m) in 2001, an increase of 19%. The value of the life fund increased by 18% from Lm80.84m (€ 193.17m) to Lm95.40m (€ 227.95m) whilst total assets grew by 17% from Lm98.43m (€ 235.21m) to Lm115.38m (€ 275.69m). The value of in-force business also increased over the period from Lm9.50m (€ 22.70m) to Lm10.79m (€ 25.78m). The value of in-force business reflects the discounted value of projected future transfers to shareholders arising from policies in force at the end of the year after providing for taxation.

Investment income, after taking into account unrealised losses on investments on both the local and international capital markets of Lm3.12m (€ 7.47m), was Lm1.23m (€ 2.94m), a significant improvement over the negative investment return registered during the previous year of Lm0.29m. (€ 0.70m).

Gross claims incurred increased from Lm1.51m (€ 3.62m) in 2001 to Lm2.56m (€ 6.12m) in 2002, whilst the net claims incurred, after recoveries from reinsurance, increased from Lm1.44m (€ 3.44m) in 2001 to Lm2.20m (€ 5.25m) in 2002. Claims incurred include maturities, surrenders and death claims.

Acquisition costs, representing the expenses incurred by the Company in acquiring its business, reduced by 20% from Lm1.97m (€ 4.71m) in 2001 to Lm1.58m (€ 3.79m). Administrative expenses increased by 15% from Lm0.80m (€ 1.90m) in 2001 to Lm0.91m (€ 2.19m) in 2002. This increase was largely attributable to the Company's continuing investment in IT systems aimed at improving the efficiency of its operations.

The Company produced a profit after taxation for the year of Lm0.49m (€ 1.17m). This amount compares favourably with the corresponding profit of Lm0.30m (€ 0.72m) generated in 2001. The Group's share of the profits of MSV for 2002 grew to Lm0.25m (€ 0.60m) compared with Lm0.12m (€0 .30m) the previous year. Shareholders funds increased by 11% from Lm15.91m (€ 38.03m) in 2001 to Lm17.65m (€ 42.18m) in 2002 whilst earnings per share increased from 5c6 to 7c8.

The Company has an extensive range of products to suit its clients' needs encompassing pure life assurance protection plans to savings and unit-linked investment and retirement plans. The MSV Comprehensive Flexi Plan remains the flagship product of the Company. This regular premium with profits plan remains a popular medium for family savings whilst also providing valuable life insurance protection.

The Company's Board of Directors approved a resolution whereby the reversionary bonus declared on the Comprehensive Life Policy and on the Comprehensive Flexi Plan as at 31 December 2002 was 3.75% on the policy account whilst on the 'Old Series' Endowment and Whole of Life policies, a reversionary bonus of 2.10% of the basic sum assured plus bonuses was declared.

Although no terminal bonus was declared for policies on claims arising out of death or maturity during 2002, any terminal bonus declared on the Company's "Old Series" policies accumulated over prior years, will remain payable on any such claims occurring in 2003. Furthermore, the company's Board also approved a reversionary bonus of 3.50% on those Secure Growth policies that were part of the portfolio of business transferred from Assicurazioni Generali S.p.A. to the company during 2000. It was necessary, in determining the amount of bonus to be declared in 2002, for the Board to take into consideration the impact which the unrealised investment losses had on the life fund of MSV.

MSV is totally committed, by continuously reviewing and improving its current product range and by introducing new and innovative products, to providing an efficient service to both its existing and potential policyholders and highly values its relationship with its clients. Having established its pre-eminent position in its domestic market, the Company will continue to provide its customers, whether policyholders or intermediaries, with products and service of a consistently high standard not only in terms of quality but also performance and price.

D.G. Curmi
General Manager

Business Review

International Insurance Management Services Ltd.

a member of the Middlesea Group

International Insurance Management Services Limited (IIMS) which forms part of the Group as a wholly-owned subsidiary of Middlesea, continues to provide insurance management services to local and international clients. As well as the active management of captive Companies within the Maltese jurisdiction, IIMS also provides facilities for the initial formation of such concerns. To supplement its operations in the risk and captive management field, IIMS extended its activities during 2002 by becoming the service provider for the Group's insurance entities. Accordingly, with effect from the 1st January 2002, the employment contracts of all employees within the holding Company's service departments were transferred to IIMS. This process, together with management agreements entered into between the various Group Companies, enabled each operating Company to concentrate on their individual business strategies rather than being unduly encumbered by service and administration issues.

IIMS seeks to provide its clients, whether Group or third party companies, with an efficient management and back office operation. The Company's specialist departments include accounts, finance and investments, management information systems, marketing, product development, administration, human resources, reinsurance and ancillary services. Furthermore, during the last quarter of 2002, with the aim of further enhancing the range of facilities available to its clients, IIMS also set up a compliance and company secretariat office.

The 2002 financial year was the first complete year of IIMS's operations with its full staffing complement and enhanced Group role. During 2002, the total turnover of IIMS reached Lm 0.67m (€ 1.60m) and the company contributed a net profit after tax of Lm0.23m (€ 0.54m) to the Group's result. This net profit was retained within the company's balance sheet and, therefore, significantly strengthened its financial position.

IIMS looks forward to continuing to supply current and prospective clients with cost effective, confidential and commercially competitive services in the field of insurance and reinsurance management and will continue to enhance the breadth and depth of facilities it is able to offer. In this respect, the firm establishment of Malta within the global arena as an attractive and advantageous captive location will undoubtedly help IIMS to enlarge further its international client base.

A.M. Tabone
General Manager

Business Review

The 2002 year saw the completion of Progress's second full year of operations as part of Middlesea Group. It also witnessed a substantial growth in the company's premium volumes as well as a significant increase in profitability.

The company was successful, as a key component to its development strategy, in substantially expanding its agency network during 2002 having increased its business sources from 77 to 92 as at the end of 2002. In this regard, in accordance with Progress's objectives of further improving its territorial spread, an increased proportion of the company's agents, now representing 61% of the total, are based on the Italian mainland. To help further develop its agency network, the company finalized, in the latter part of the year, an agreement with an Italian bank. This places at Progress's disposal an additional distribution channel and is aimed at facilitating the reciprocal introduction of quality agents, each partner being free to select those intermediaries which best suit their longer term goals.

Written premium income during 2002 increased by 49% over the preceding year to Lm 18.45m (€ 44.09m). This growth was attributable to two factors. On the one hand, the number of new policies issued by the company during the year increased by 38% over corresponding 2001 volumes and, on the other hand, due to rating improvements implemented by the company during 2002, the average premium generated by each insurance policy rose by 6%. In this respect, the company sees the maintenance of adequate pricing levels as paramount to achieving its profitability objectives. This is especially the case in the important motor category, a class which not only comprises a substantial portion of the company's turnover but which, largely as a result of a relentless increase in court awards, is also subject to sustained claims inflation. So that timely price adjustments may be implemented reflecting the experience of each sector of the account, Progress has put in place a system for monitoring key performance indicators and, during 2002, its motor premiums were raised twice during the year, once in February and again in July. Similarly, rate increases were also applied to the fire and theft sections of the company's household policy. In order to enhance further its range of policies especially in the non-motor classes, the company introduced a number of new products in the personal accident and fire classes. Of notable importance in the fire class was a new restauranteurs' policy. This new insurance, together with the previously launched hoteliers' policy, will help the company target the tourist industry, an important segment of the economy for the regions within which Progress operates.

Whilst, in monetary terms, gross claims incurred increased over 2001 by 33% and totalled Lm14.34m (€ 34.28m) for the year, the company's loss ratio reduced by 16 percentage points. This was mainly due to a 0.4 percentage points reduction in claims frequency. The company continued to apply its new reserving criteria consistently throughout the year and, encouragingly, the net run-off of its loss reserves was satisfactory. It should be noted that all upwards revisions of reserves in respect of business written prior to Middlesea's involvement are covered by the comprehensive indemnity provided by the company's previous shareholders. All of Progress's claims are handled by its own employees from offices located in Palermo, Catania, Naples and, more recently, Sassari. The company's claims handling procedures were the subject of close management scrutiny during 2002. This was aimed at further enhancing the company's management of each claim whilst also achieving a containment of its costs. In addition to the opening of a new claims settlement office in Sassari, staff numbers were increased in Naples, the company's network of motor engineers was strengthened and greater use is being made of computerised systems. Consideration was also given to opening further claims settlement offices and an additional location has been identified. The company also concluded an agreement with a service company for its representation in respect of third party claims arising out of compulsory motor insurance in other EU countries and non-EU signatories to the green card agreement. Consequently, the company is now represented by a single specialist organisation in all such countries. This should lead to greater efficiency in the handling and settlement of the company's non-domestic claims.

In order to service the increased volumes of business generated by its expanded agency network, it was necessary for Progress to increase its staff complement but, in order to contain its staffing needs, management service agreements were also effected, primarily with Group companies. The company's management expense ratio fell from 7.7% of premium income to 7.3%. Progress places a high level of importance on the training and development of its personnel and believes its investment in these fields was a major contributor to its improved operational performance in 2002.

Investment income increased by 156% and amounted to Lm0.77m (€1.83m). The company's investment performance was significantly affected by unrealised losses resulting from prevailing market conditions in both 2000 and in 2001 which, in line with Italian regulations, were taken to profit and loss. However, the company's investment return in 2002 was favourably affected by realised investment gains, which neutralised its unrealised losses for the year. The company's total assets increased by 33% during 2002 reaching a level of Lm36.06m (€86.16m) at the end of the year.

Progress's contribution to the Group's profit before taxation but after taking into account adjustments to conform with the Group's accounting policies and minority interests amounted to Lm0.53m (€1.28m), a satisfactory improvement over the previous year's results of Lm0.13m (€0.32m).

Following Progress's satisfactory 2002 performance, the company is continuing its strategy of consolidating its existing portfolio and, to improve further the balance of its account, is concentrating on developing its non-motor lines of business. This is being achieved through incentive schemes and other tools aimed at producing targeted business volumes.

S. Gauci
General Manager

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Group Financial Highlights

	2002		2001	
	EURO'000	**US$'000**	EURO'000	US$'000
Gross premiums written:				
General Business	**74,331**	**77,830**	56,975	59,657
Life Business	**1,455**	**1,523**	1,154	1,208
Total gross premiums	**75,786**	**79,353**	58,129	60,866
Group investment income	**5,252**	**5,499**	5,885	6,162
Profit before taxation after minority interest	**1,480**	**1,550**	3,029	3,172
Gross Dividend	**2,091**	**2,189**	2,091	2,189
Net Dividend	**1,359**	**1,423**	1,359	1,423
Gross Dividend per Lm0.50 share	**0.17**	**0.18**	0.17	0.18
Share Capital	**14,934**	**15,638**	14,934	15,638
Technical reserves:				
General Business	**75,770**	**79,337**	56,123	58,765
Life Business	**459**	**480**	361	378
Shareholders' Funds	**50,683**	**53,070**	49,001	51,308
Net Asset value per Lm0.50 share	**4.06**	**4.25**	3.92	4.10
Total number of ordinary shares in issue	**12,500,000**	**12,500,000**	12,500,000	12,500,000

All figures have been translated at the rate of exchange ruling at 31 December 2002

	2002	**2001**	**2000**
	Lm	**Lm**	**Lm**
Gross premiums written			
- General Business	31,107,289	23,843,779	15,110,345
- Life Business	608,809	482,979	442,417
General Busines technical results	864,179	754,665	55,876
Life business net results	89,314	38,319	(48,686)
Investment return - non-life	2,160,698	2,426,011	2,396,160
Investment return - life	37,310	37,462	26,509
Profit before tax after minority interests	619,393	1,267,747	617,742
Profit attributable to shareholders	1,140,463	1,423,322	756,059
Dividend proposed (gross)	875,000	875,000	850,000
Earnings per share	9.1c	11.4c	6.0c
Net asset value per share	1.70	1.64	1.67

Professional Services

The Company, in addition to its regular staff complement, as at 31 December 2002 utilised the professional services of various individuals and institutions.

Legal Advisors
Adrian Borg Cardona LLM (Lond.) LLD
Richard Camilleri LLM (Lond.) LLD
Joseph Borg Bartolo ACII, LLD

Auditors
PricewaterhouseCoopers

Actuaries
Watson Wyatt Worldwide

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

Investment Managers
Merill Lynch Investment Managers Limited

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

Investment Consultant
Zerniq Ltd

Sponsoring Stockbrokers
Bank of Valletta Stockbrokers Limited

Share Register Information

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

Directors' interest in the share capital of the Company as at 31 December 2002

H. Attard Montalto	72 shares
G. Bonnici	3,255 shares
Dr. E. Caruana Demajo	14 shares
G.Debono Grech	6,032 shares
Dr. J.C. Grech	5,108 shares
L. Grech	1,250 shares
M.C. Grech	2,725 shares
F. Spiteri	1,525 shares
F. Xerri de Caro	29 shares
J.F.X. Zahra	165 shares

Shareholders holding 5% or more of the equity share capital as at 28 February 2003

	% holding
HSBC Bank Malta plc as subcustodian for BNY as custodian for Mapfre Inversion Terceros	5.89%
Air Malta p.l.c.	7.00%
Munchener Ruckversicherungs Gesellschaft	12.73%
Government of Malta – Consolidated Fund	15.77%
Bank of Valletta p.l.c.	21.65%

Shareholding Details

As at 28 February 2003, Middlesea Insurance p.l.c.'s Issued Share Capital was held by 4,712 shareholders. The Issued Share Capital consist of one class of ordinary shares with equal voting rights.

Distribution of shareholders as at 28 February 2003 analysed by range:

Range of Shareholding	No. of shareholders	Shares
1 – 500	3,464	467,950
501 – 1000	538	389,448
1001 – 5000	653	1,280,133
5001 & over	57	10,362,469

Company Secretary and Registered Office:

Evander M. Borg FCII, FRSA, MBA
Middle Sea House
Floriana VLT 16
Malta.
Tel: (00356) 21 24 62 62

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2002.

Principal activities

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

Review of the business

The Group registered a profit before taxation and minority interests of Lm1,265,113 as compared to Lm1,407,314 in 2001. General insurance annual business continues to report favourable results and generated a profit of Lm853,941 during 2002 (2001: Lm999,261). The Group's operation in Italy was the major contributor to this year's performance. Long term business operations, principally carried out through a participating interest, improved over the previous year and registered a profit of Lm340,157 (2001: Lm162,950). International reinsurance business, which the Group ceased to write in November 2000, continued to run-off in line with overall expectations, and the impact of this business on 2002 results was negligible.

The Group's profit for the year amounted to Lm1,140,463 (2001: Lm1,423,322), after accounting for minority interests in the Italian subsidiary. The directors expect that the present level of activity will be sustained for the foreseeable future.

Results and dividends

The consolidated profit and loss account is set out on page 35. The directors recommend the payment of a net dividend of Lm568,750 (2001 – Lm568,750) equivalent to a gross dividend of 7.0 cents per share (2001 – 7.0 cents).

Directors

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

M.C. Grech - Chairman and C.E.O., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. - Deputy Chairman, H. Attard Montalto, G. Bonnici - appointed 22 June 2002, P. Borg, E. Caruana Demajo LL.D., A. Corsi (Degree in Statistics and Actuarial Services, Associate of the Italian Society of Actuaries "Ordine Nazionale degli Attuari") – appointed 8 April 2002, G. Debono Grech PL, FIMSM, B.A. Leg & Hum. St., M. Jur. – appointed 22 June 2002, J.C. Grech B.A.(Hons.) Econ., M.A.(Econ.), Dip. ICEI (A'dam), PhD (Geneva), F.C.I.B., M.B.I.M., F.M.I.M., L. Grech M.A. (Oxon), M. Grima Dip. M.S., M.B.A. (Henley), M.I.M., M. Sparberg Dr Jur – appointed 25 February 2002, L. Spiteri M.A. (Oxon), D. Sugranyes Bickel ("License en Sciences Economiques of Sociates") – appointed 22 June 2002, F. Xerri De Caro A.C.I.B., G. Daboni – resigned 31 January 2002, E.P. Delia B.A. (Hons.) Econ., M.A., M. Litt (Oxon) – resigned 22 June 2002, R.R. Franke – resigned 25 February 2002, F. Spiteri – resigned 22 June 2002.

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

Auditors

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

By order of the Board

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

Middle Sea House
Floriana,
Malta

11 April 2003

Id-diretturi jippreżentaw ir-rapport tagħhom u d-dikjarazzjonijiet finanzjarji għas-sena li għalqet fil-31 ta' Diċembru 2002.

Attivitajiet prinċipali

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

Kif sejjer in-negozju

Il-Grupp irreġistra qligħ ta' Lm1,265,113 qabel il-ħlas tat-taxxa u ta' interess minoritarju mqabbel ma' Lm1,407,314 fis-sena 2001. Negozju ta' assigurazzjoni ġenerali tul is-sena baqa' jagħti riżultati favorevoli uġġenera profitt ta' Lm853,941 tul is-sena 2002 (2001: Lm999.261). L-operazzjoni tal-Grupp fl-Italja kienet kontribut ewlieni għal kif mar in-negozju din is-sena. Operazzjonijiet ta' negozju għal medda ta' tul ta' żmien, li prinċipalment isir bis-saħħa ta' interess parteċipattiv, tjieb fuq is-sena l-oħra u rreġistra profitt ta' Lm340,157 (2001: Lm162,950). Negozju ta' riassigurazzjoni internazzjonali, li l-Grupp ma baqax jissottoskrivi f'Novembru 2000, baqa' sejjer bil-proċess ta' l-għeluq skond il-previżjonijiet ġenerali, u l-impatt ta' dan in-negozju fuq ir-riżultati tas-sena 2002 kien negliġibbli.

Il-profitt tal-Grupp għas-sena ammonta għal Lm1,140,463 (2001: Lm1,423,322), wara li tqiesu l-interessi minoritarji fis-sussidjarja Taljana. Id-diretturi jistennew li l-livell preżenti ta' attività jinżamm fil-futur safejn wieħed jista' jara.

Riżultati u dividendi

Il-kont ta' qligħ u telf konsolidat jinsab f'paġna 35. Id-diretturi jirrikkmandaw il-ħlas ta' dividend nett ta' Lm568,750 (2001: Lm568,750) li hu ekwivalenti għal dividend gross ta' 7 ċenteżmi kull sehem (2001: 7 ċenteżmi).

Diretturi

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

M.C. Grech – Chairman u C.E.O., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. – Deputat Chairman, H. Attard Montalto, G. Bonnici – maħtur 22 ta' Ġunju 2002, P. Borg, E. Caruana Demajo LL.D., A. Corsi (Degree in Statistics and Actuarial Services, Associate of the Italian Society of Actuaries "Ordine Nazionale degli Attuari") – maħtur 8 ta' April 2002, G. Debono Grech PL, FIMSM, B.A. Leg & Hum.St., M.Jur – maħtur 22 ta' Ġunju 2002, J.C. Grech B.A. (Hons.) Econ., M.A. (Econ.), Dip.ICEI (A'dam), PhD (Geneva). F.C.I.B., M.B.I.M., F.M.I.M., L. Grech M.A. (Oxon.), M. Grima Dip.M.S., M.B.A. (Henley), M.I.M., M. Sparberg Dr Jur – maħtur 25 ta' Frar 2002, L. Spiteri M.A. (Oxon.), D. Sugranyes Bickel ("License en Sciences Economiques of Sociates") – maħtur 22 ta' Ġunju 2002, F. Xerri De Caro A.C.I.B., G. Daboni – irriżenja 31 ta' Jannar 2002, E.P. Delia B.A. (Hons.) Econ., M.A., M.Litt (Oxon) – irriżenja 22 ta' Ġunju 2002, R.R. Franke – irriżenja 25 ta' Frar 2002, F. Spiteri - irriżenja 22 ta' Ġunju 2002.

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

Awdituri

L-awdituri, PricewaterhouseCoopers, wrew ir-rieda tagħhom li jibqgħu fil-kariga u riżoluzzjoni għall-ħatra mill-ġdid tagħhom se titressaq fil-Laqgħa Ġenerali Annwali.

B'ordni tal-Bord

J.F.X. Zahra
Deputy Chairman

Corporate Governance - Statement of Compliance

In October 2001, the Council of the Malta Stock Exchange approved a Code of Principles of Good Corporate Governance (the "Principles") which, in accordance with Bye-law 6.05.07 (i), companies whose securities are quoted on the Official List or the Alternative Companies List should endeavour to adopt. Although their adoption is not mandatory, the Principles have been included as an Appendix to the Bye-Laws of the Exchange, and listed companies are required to include a Statement of Compliance in their Annual Report supported by a report of the Auditors.

As a public company since its foundation, Middlesea Insurance p.l.c. (the "Company") welcomes the development and publication of the Principles, which it views as consistent with its own values. In the course of the year the directors have reviewed the Principles to determine the scope for their adoption within the Company. In certain areas, the governance procedures applied within the Company have been amended to implement the recommendations included in the Principles. Having regard also to other recognised models of corporate governance, the Company has in places retained or adopted alternative measures.

Role and responsibilities

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

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

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

Co-ordination of management activities is ensured through the operation of a Corporate Management Committee that is led by the Chairman and Chief Executive Officer, and that brings together the general managers of the Company and of its subsidiaries and principal associated company, including Middlesea Valletta Life Assurance Company Limited, Progress Assicurazioni S.p.A. and International Insurance Management Services Limited.

Composition of the Board

As regulated by the Company's Articles of Association and consistent with generally accepted practices in Malta, the appointment of directors to the Board is reserved exclusively to the Company's shareholders. A shareholder holding not less than 7% of voting rights of the issued share capital or a number of shareholders who between them hold not less than 7%, shall appoint one Director for every such 7% holding by letter addressed to the company; nine members of the Board were appointed in 2002 in terms of this rule. All shares not utilised to make appointments in terms of the above shall be entitled to vote at the Annual General Meeting, leading in 2002 to the election of a further five directors. All the directors so appointed or elected serve on the Board in a non-executive capacity.

Pursuant to the Company's Articles of Association, Mr Mario C. Grech, as a person holding a senior managerial position in the Company, was appointed at the Annual General Meeting through a separate election open to all shareholders.

The Company's Listing Agreement with the Malta Stock Exchange, and regulatory requirements, require that prior to being appointed or elected directors, nominees undergo a screening process by the Exchange and by the Malta Financial Services Authority.

Material share transactions involving directors

During 2002 Corporacion Mapfre S.A., of which Mr. Domingo Sugranyes Bickel is a senior executive, acquired 290,930 shares in the Company from Assicurazioni Generali S.p.A. A company announcement regarding this transaction was made on 7 November 2002 in compliance with Malta Stock Exchange requirements. No other material transactions in the Company's shares were effected in which any director had a beneficial or non-beneficial interest.

Corporate Governance - Statement of Compliance

Remuneration of directors

As agreed by shareholders at the 2002 Annual General Meeting, an *ad hoc* committee was formed with the specific brief of submitting recommendations to the Board on non-executive directors' fees. This *ad hoc* committee was composed of three directors, Dr John C Grech, Dr Michael Sparberg and Mr Frank Xerri de Caro, together with Mr Emanuel Ellul and Mr Joseph Zrinzo, who was appointed for the purpose at the Annual General Meeting.

The *ad hoc* committee submitted its recommendations to the Board on 17 December 2002. The committee recommended that the annual fees receivable by a non-executive director by virtue of his office should amount to Lm3,000 per annum but that, given budgetary constraints, this amount should be reduced to Lm2,000 for the twelve month period ending 30 June 2003 alone.

A director has declined receiving remuneration in accordance with the established policy of the shareholder company with which he is employed. Fees payable to non-executive directors in respect of 2002 have therefore amounted to Lm13,000. Contracted emoluments paid to the executive director amounted to Lm42,485. The Company has paid insurance premiums of Lm4,164 during the year in respect of insurance cover in favour of its directors. Furthermore, provisions of Lm27,807 have been made in respect of contracted pension obligations.

Board Committees

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

Group Investments Committee

The Group Investments Committee is constituted by Mr Mario C. Grech, Mr Joseph F. X. Zahra, Mr Frank Xerri de Caro and Mr Louis Grech, directors, together with Mr Emanuel Ellul, Dr Reno Borg, Mr L. Lubelli and four members of management. The Committee oversees the investment activities of the Group, setting overall policies and guidelines, scrutinising and approving material transactions and monitoring results.

The Audit Committee

The Audit Committee is composed of Mr Hugh Attard Montalto, Mr Lino Spiteri, Mr Domingo Sugranyes Bickel and Mr Joseph F. X. Zahra. Its terms of reference are modelled mainly on the recommendations of the Cadbury Report and the Principles published by the Malta Stock Exchange. They include, inter alia, the responsibility of reviewing the Company's annual financial statements and of discussing such statements, and the results of the external audit process, with the external auditors. The external auditors attend the meetings of the Audit Committee and are entitled to convene a meeting of the committee if they consider that it is necessary.

The Remuneration Committee

A Remuneration Committee composed of Mr Peter Borg, Mr Louis Grech, Dr John C Grech, Dr Michael Sparberg and Mr Frank Xerri de Caro was established by the Board after the conclusion and approval of the report of the *adhoc* committee. This committee will concentrate on monitoring and ensuring the fair compensation of members of the Group's senior management team.

The Compliance Committee

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

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

The exercise of the role of the Board

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

Corporate Governance - Statement of Compliance

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

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

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

(a) the reinsurance programme maintained by the group, ensuring the right balance between risk and reward and ensuring that the level of risk retention, particularly in the event of catastrophe, is consistent with the Company's resources ;

(b) the quality and creditworthiness of the reinsurance counterparties dealt with, to ensure the effectiveness of the reinsurance programme;

(c) assessing pricing strategies in relation to the level of risk assumed and to market conditions generally;

(d) the measures adopted to manage foreign currency risks both in relation to assets and to liabilities;

(e) the measures adopted to ensure a balanced mix of investments;

(f) the internal controls and other disciplines maintained, both within group companies and within agents and other intermediaries, to ensure the proper conduct in good faith of all operations; and

(g) the level of capital resources supporting each business activity, to ensure adequate solvency both from a regulatory and business perspective.

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

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

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

During the 2002 financial year, the Board held six meetings.

Communications with Shareholders

Pursuant to the Company's statutory obligations in terms of the Companies Act and the Malta Stock Exchange Bye-laws, the Annual Report and Financial Statements, the declaration of a dividend, the election of directors, the appointment of the auditors and the authorisation of the directors to set the auditors' fees, and other special business, are proposed and approved at the Company's Annual General Meeting.

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

Periodical information meetings for investors and financial intermediaries are also held when the Board deems appropriate to ensure an informed market in the Company's shares.

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

To the members of Middlesea Insurance p.l.c. pursuant to the Malta Stock Exchange Bye-Law 6.05.07(iii)

The Malta Stock Exchange Bye-Law 6.05.07(ii) requires the company's directors to include in their Annual Report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance with those Principles.

Our responsibility, as auditors of the company, is laid down by the Malta Stock Exchange Bye-Law 6.05.07(iii) which requires us to include a report on the Statement of Compliance.

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

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

In our opinion, the Statement of Compliance set out on pages 26 to 28 has been properly prepared in accordance with the requirements of the Malta Stock Exchange Bye-Law 6.05.07(ii).

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

11 April 2003

Statement of directors' responsibilities

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

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

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

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

Report of the auditors on the financial statements

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

We have audited the financial statements on pages 32 to 72. As described in the statement of directors' responsibilities on page 30, these financial statements are the responsibility of the Company's directors. Our responsibility is to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our evaluation of the presentation of information has had regard to the statutory requirements for insurance companies to maintain equalisation reserves. The nature of equalisation reserves and the amount set aside at 31 December 2002 are disclosed in accounting policy 5 and note 26.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit, changes in equity and cash flows for the year then ended in accordance with the requirements of the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

PricewaterhouseCoopers

167 Merchants Street
Valletta
Malta

11 April 2003

Profit and Loss account
Technical account - general business

Annual business

	Notes	Group 2002 Lm	Group 2001 Lm	Company 2002 Lm	Company 2001 Lm
Earned premiums, net of reinsurance					
Gross premiums written	1	**30,970,330**	23,462,818	**12,523,384**	11,616,010
Outward reinsurance premiums		**(6,190,175)**	(6,616,345)	**(4,776,571)**	(5,903,548)
Net premiums written		**24,780,155**	16,846,473	**7,746,813**	5,712,462
Change in the gross provision for unearned premiums		**(1,694,423)**	(2,175,123)	**(500,422)**	(743,339)
Change in the provision for unearned premiums, reinsurers' share		**233,654**	(604,151)	**148,097**	(585,704)
		(1,460,769)	(2,779,274)	**(352,325)**	(1,329,043)
Earned premiums, net of reinsurance		**23,319,386**	14,067,199	**7,394,488**	4,383,419
Allocated investment return transferred from the non-technical account	4	**1,252,262**	1,157,135	**367,010**	698,059
Total technical income		**24,571,648**	15,224,334	**7,761,498**	5,081,478
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		**16,342,720**	16,383,787	**7,924,089**	7,319,937
- reinsurers' share		**(4,408,165)**	(4,480,417)	**(2,950,549)**	(3,783,724)
		11,934,555	11,903,370	**4,973,540**	3,536,213
Change in the provision for claims					
- gross amount		**6,948,763**	1,925,299	**1,017,888**	659,694
- reinsurers' share		**320,038**	(1,969,012)	**483,194**	(209,860)
		7,268,801	(43,713)	**1,501,082**	449,834
Claims incurred, net of reinsurance		**19,203,356**	11,859,657	**6,474,622**	3,986,047
Net operating expenses	3	**4,498,008**	2,365,416	**1,655,328**	566,947
Change in the equalisation provision		**16,343**	-	**16,343**	-
Total technical charges		**23,717,707**	14,225,073	**8,146,293**	4,552,994
Balance on the technical account for general annual business (page 35)		**853,941**	999,261	**(384,795)**	528,484

Profit and Loss account
Technical account - general business

Fund business

	Notes	Group 2002 Lm	Group 2001 Lm	Company 2002 Lm	Company 2001 Lm
Earned premiums, net of reinsurance					
Gross premiums written	1	**136,959**	380,961	**547,079**	639,583
Outward reinsurance premiums		**(16,156)**	(175,450)	**(16,156)**	(187,416)
Earned premiums, net of reinsurance		**120,803**	205,511	**530,923**	452,167
Allocated investment (expenses)/return transferred from the non-technical account	4	**(12,108)**	49,558	**(12,108)**	49,558
Total technical income		**108,695**	255,069	**518,815**	501,725
Claims incurred, net of reinsurance					
Claims paid					
- gross amount		**1,670,503**	2,821,080	**1,743,116**	2,858,448
- reinsurers' share		**(661,360)**	(1,002,417)	**(661,360)**	(1,002,417)
		1,009,143	1,818,663	**1,081,756**	1,856,031
Change in the provision for claims					
- gross amount		**(2,196,246)**	(1,187,614)	**(2,061,778)**	(1,100,519)
- reinsurers' share		**1,101,566**	(333,632)	**1,101,566**	(333,632)
		(1,094,680)	(1,521,246)	**(960,212)**	(1,434,151)
Claims incurred, net of reinsurance		**(85,537)**	297,417	**121,544**	421,880
Net operating expenses	3	**31,756**	171,919	**252,996**	294,112
Change in the equalisation provision		**1,401**	-	**1,401**	-
Total technical charges		**(52,380)**	469,336	**375,941**	715,992
Balance on the technical account for general fund business (page 35)		**161,075**	(214,267)	**142,874**	(214,267)

Profit and Loss account
Technical account - long term business

	Notes	Group 2002 Lm	and Company 2001 Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	**608,809**	482,979
Outward reinsurance premiums		**(287,113)**	(228,818)
Earned premiums, net of reinsurance		**321,696**	254,161
Investment income			
Income from other investments		**37,310**	37,462
Other technical income, net of reinsurance		**-**	67
Total technical income		**359,006**	291,690
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**370,614**	420,157
- reinsurers' share		**(214,955)**	(217,287)
		155,659	202,870
Change in the provision for claims			
- gross amount		**1,067**	(50,974)
- reinsurers' share		**8,308**	20,648
		9,375	(30,326)
Claims incurred, net of reinsurance		**165,034**	172,544
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		**30,576**	48,178
- reinsurers' share		**793**	(26,053)
		31,369	22,125
Net operating expenses	3	**73,289**	58,702
Total technical charges		**269,962**	253,371
Balance on the technical account for long term business (page 35)		**89,314**	38,319

Profit and Loss account
Non-technical account

	Notes	Group 2002 Lm	Group 2001 Lm	Company 2002 Lm	Company 2001 Lm
Balances on technical accounts					
General business – annual (page 32)		**853,941**	999,261	**(384,795)**	528,484
General business – fund (page 33)		**161,075**	(214,267)	**142,874**	(214,267)
Long term business (page 34)		**89,314**	38,319	**89,314**	38,319
		1,104,330	823,313	**(152,607)**	352,536
Share of group undertaking's profit before tax involved in general business	4	**-**	-	**533,585**	133,854
Share of participating interest's profit before tax involved in long term business	4	**250,843**	124,631	**250,843**	124,631
Total income from insurance activities		**1,355,173**	947,944	**631,821**	611,021
Share of group undertakings' profit before tax	4	**-**	-	**182,996**	78,106
Other investment income	4	**2,564,385**	2,803,148	**1,281,550**	2,023,625
Investment expenses and charges	4	**(654,530)**	(501,768)	**(582,916)**	(466,517)
Allocated investment return transferred to the general business technical account	4	**(1,240,154)**	(1,206,693)	**(354,902)**	(747,617)
Other income	5	**455,514**	315,962	**-**	203,949
Other charges		**(1,064,438)**	(920,950)	**(258,796)**	(409,904)
Continuing operations		**1,265,113**	1,677,809	**748,916**	1,532,829
Discontinuing operation	2	**150,837**	(240,166)	**150,837**	(240,166)
Operating profit on ordinary activities before tax	6	**1,415,950**	1,437,643	**899,753**	1,292,663
Provision for loss on discontinuing operation	27	**(150,837)**	(30,329)	**(150,837)**	(30,329)
Profit on ordinary activities before tax		**1,265,113**	1,407,314	**748,916**	1,262,334
Tax on profit on ordinary activities	8	**521,070**	155,575	**391,547**	160,988
Profit on ordinary activities after tax		**1,786,183**	1,562,889	**1,140,463**	1,423,322
Minority interests	24	**(645,720)**	(139,567)	**-**	-
Profit for the financial year		**1,140,463**	1,423,322	**1,140,463**	1,423,322
Earnings per share	10	**9.1c**	11.4c	**9.1c**	11.4c

Balance sheet

	Notes	Group 2002 Lm	Group 2001 Lm	Company 2002 Lm	Company 2001 Lm
ASSETS					
Investments					
Land and buildings – investment property	12	**3,518,177**	3,770,729	**2,618,813**	2,872,872
Investments in group undertakings	13	**-**	-	**3,615,204**	2,930,186
Investment in participating interest	14	**7,720,519**	6,799,697	**7,720,519**	6,799,697
Other financial investments					
- held-to-maturity	15	**3,547,455**	3,360,767	**-**	-
- deposits with banks or credit institutions	16	**4,995,184**	2,575,623	**3,151,701**	1,649,258
- other originated loans and receivables	17	**3,204,004**	4,276,095	**2,801,304**	3,051,100
- available-for-sale	18	**24,586,369**	20,515,573	**10,616,822**	12,176,057
Deposits with ceding undertakings		**137,841**	243,229	**139,604**	243,229
		47,709,549	41,541,713	**30,663,967**	29,722,399
Reinsurers' share of technical provisions					
Provision for unearned premiums		**1,809,414**	1,564,708	**1,575,372**	1,427,275
Long term business provision	25	**81,018**	81,811	**81,018**	81,811
Claims outstanding	19	**12,828,392**	13,914,346	**4,816,438**	6,409,506
		14,718,824	15,560,865	**6,472,828**	7,918,592
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		**201,133**	147,134	**201,133**	147,134
- intermediaries		**5,886,562**	4,533,902	**3,425,975**	2,800,602
Debtors arising out of reinsurance operations		**507,262**	791,521	**507,262**	791,521
Amounts owed by group undertakings		**-**	-	**1,134,631**	992,366
Other debtors		**689,891**	753,394	**-**	-
Taxation recoverable		**896,668**	1,183,404	**487,676**	601,770
		8,181,516	7,409,355	**5,756,677**	5,333,393
Other assets					
Tangible assets	20	**1,244,261**	1,093,641	**447,968**	466,238
Deferred taxation	27	**944,455**	284,096	**546,911**	264,518
Cash at bank and in hand		**5,543,343**	3,311,177	**1,119,365**	1,445,692
		7,732,059	4,688,914	**2,114,244**	2,176,448
Prepayments and accrued income					
Accrued interest and rent		**703,599**	680,146	**338,355**	394,546
Deferred acquisition costs		**1,105,685**	1,030,887	**1,105,685**	1,030,887
Other prepayments and accrued income		**703,609**	570,650	**646,962**	537,850
		2,512,893	2,281,683	**2,091,002**	1,963,283
Total assets		**80,854,841**	71,482,530	**47,098,718**	47,114,115

Balance sheet

	Notes	Group 2002 Lm	Group 2001 Lm	Company 2002 Lm	Company 2001 Lm
LIABILITIES					
Capital and reserves					
Called up share capital	21	**6,250,000**	6,250,000	**6,250,000**	6,250,000
Share premium account		**1,192,500**	1,192,500	**1,192,500**	1,192,500
Revaluation reserve	22	**766,209**	1,386,355	**766,209**	1,386,355
Other reserves	23	**4,212,166**	3,459,596	**4,212,166**	3,459,596
Profit and loss account		**8,789,965**	8,218,252	**8,789,965**	8,218,252
		21,210,840	20,506,703	**21,210,840**	20,506,703
Minority interests	24	**2,576,946**	2,056,577	**-**	-
Technical provisions					
Provision for unearned premiums		**10,218,463**	8,353,546	**5,109,560**	4,609,138
Long term business provision	25	**224,519**	193,943	**224,519**	193,943
Claims outstanding		**36,159,522**	30,651,739	**13,132,014**	14,174,837
Equalisation provision	26	**17,744**	-	**17,744**	-
		46,620,248	39,199,228	**18,483,837**	18,977,918
Provisions for other risks and charges	27	**305,709**	346,907	**8,558**	85,836
Deposits received from reinsurers		**1,638,043**	1,652,530	**1,414,654**	1,393,697
Creditors					
Creditors arising out of direct insurance operations		**2,047,296**	1,458,434	**936,559**	894,706
Creditors arising out of reinsurance operations		**682,684**	789,540	**682,684**	789,540
Amounts owed to credit institutions	28	**1,589,930**	1,586,014	**1,589,930**	1,586,014
Amounts owed to participating interest		**1,168,155**	1,150,702	**755,005**	780,900
Other taxation and social security		**115,373**	343,426	**-**	-
		5,603,438	5,328,116	**3,964,178**	4,051,160
Accruals and deferred income		**2,899,617**	2,392,469	**2,016,651**	2,098,801
Total liabilities		**80,854,841**	71,482,530	**47,098,718**	47,114,115

The financial statements on pages 32 to 72 were authorised for issue by the Board on 11 April 2003 and were signed on its behalf by:

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

J.F.X. Zahra
Deputy Chairman

Statement of changes in equity

Group

	Notes	Share capital Lm	Share premium account Lm	Revaluation reserve Lm	Other reserves Lm	Profit & loss account Lm	Total Lm
Balance at 1 January 2001		6,250,000	1,192,500	2,740,715	3,172,200	7,347,430	20,702,845
Available-for-sale investments:							
- net fair value losses, net of deferred taxation	22	-	-	(1,357,165)	-	-	(1,357,165)
- transfer to net profit on realisation of investments, net of deferred taxation	22	-	-	79,060	-	-	79,060
Share of participating interest's reserves	22,23	-	-	(76,255)	321,300	-	245,045
Currency translation differences	23	-	-	-	(33,904)	-	(33,904)
Net (losses)/gains not recognised in profit and loss account		-	-	(1,354,360)	287,396	-	(1,066,964)
Dividends for 2000	11	-	-	-	-	(552,500)	(552,500)
Profit for the financial year		-	-	-	-	1,423,322	1,423,322
Balance at 31 December 2001		**6,250,000**	**1,192,500**	**1,386,355**	**3,459,596**	**8,218,252**	**20,506,703**
Balance at 1 January 2002		6,250,000	1,192,500	1,386,355	3,459,596	8,218,252	20,506,703
Available-for-sale investments:							
- net fair value losses, net of deferred taxation	22	-	-	(709,975)	-	-	(709,975)
- transfer to net profit, net of deferred taxation	22	-	-	84,458	-	-	84,458
Share of participating interest's reserves	22,23	-	-	5,371	657,900	-	663,271
Currency translation differences	23	-	-	-	94,670	-	94,670
Net (losses)/gains not recognised in profit and loss account		-	-	(620,146)	752,570	-	132,424
Dividends for 2001	11	-	-	-	-	(568,750)	(568,750)
Profit for the financial year		-	-	-	-	1,140,463	1,140,463
Balance at 31 December 2002		**6,250,000**	**1,192,500**	**766,209**	**4,212,166**	**8,789,965**	**21,210,840**

Statement of changes in equity

Company

	Notes	Share capital Lm	Share premium account Lm	Revaluation reserve Lm	Other reserves Lm	Profit & loss account Lm	Total Lm
Balance at 1 January 2001		6,250,000	1,192,500	2,740,715	3,172,200	7,347,430	20,702,845
Available-for-sale investments:							
- net fair value losses, net of deferred taxation	22	-	-	(1,031,597)	-	-	(1,031,597)
- transfer to net profit on realisation of investments, net of deferred taxation	22	-	-	87,973	-	-	87,973
Share of group undertakings' reserves	22	-	-	(334,481)	-	-	(334,481)
Share of participating interest's reserves	22,23	-	-	(76,255)	321,300	-	245,045
Currency translation differences	23	-	-	-	(33,904)	-	(33,904)
Net (losses)/gains not recognised in profit and loss account		-	-	(1,354,360)	287,396	-	(1,066,964)
Dividends for 2000	11	-	-	-	-	(552,500)	(552,500)
Profit for the financial year		-	-	-	-	1,423,322	1,423,322
Balance at 31 December 2001		**6,250,000**	**1,192,500**	**1,386,355**	**3,459,596**	**8,218,252**	**20,506,703**
Balance at 1 January 2002		6,250,000	1,192,500	1,386,355	3,459,596	8,218,252	20,506,703
Available-for-sale investments:							
- net fair value losses, net of deferred taxation	22	-	-	(478,901)	-	-	(478,901)
- transfer to net profit, net of deferred taxation	22	-	-	155,233	-	-	155,233
Share of group undertakings' reserves	22	-	-	(301,849)	-	-	(301,849)
Share of participating interest's reserves	22,23	-	-	5,371	657,900	-	663,271
Currency translation differences	23	-	-	-	94,670	-	94,670
Net (losses)/gains not recognised in profit and loss account		-	-	(620,146)	752,570	-	132,424
Dividends for 2001	11	-	-	-	-	(568,750)	(568,750)
Profit for the financial year		-	-	-	-	1,140,463	1,140,463
Balance at 31 December 2002		**6,250,000**	**1,192,500**	**766,209**	**4,212,166**	**8,789,965**	**21,210,840**

Cash flow statement

	Notes	Group 2002 Lm	Group 2001 Lm	Company 2002 Lm	Company 2001 Lm
Operating activities					
Cash generated from/(used in) operations	29	**8,095,259**	549,009	**47,251**	(397,304)
Tax recovered/(paid)		**281,514**	(3,273)	**114,094**	99,348
Net cash generated from/(used in) operating activities		**8,376,773**	545,736	**161,345**	(297,956)
Investing activities					
Purchase of investment property	12	**(3,676)**	(1,735,797)	**(3,676)**	(1,735,797)
Disposal of investment property	12	**505,883**	3,100,633	**505,883**	3,100,633
Purchase of financial investments	14-18	**(17,378,926)**	(7,972,133)	**(3,723,896)**	(5,339,699)
Disposal of financial investments	15-18	**12,882,980**	8,333,532	**4,736,391**	5,092,793
Purchase of tangible assets	20	**(293,934)**	(125,226)	**(100,643)**	(85,457)
Disposal of tangible assets	20	**30,660**	760	**30,660**	760
Net cash (used in)/generated from investing activities		**(4,257,013)**	1,601,769	**1,444,719**	1,033,233
Financing activities					
Bank loans	28	**3,916**	(1,137)	**3,916**	(1,137)
Dividends paid to group shareholders	11	**(568,750)**	(552,500)	**(568,750)**	(552,500)
Dividends paid to minority interests	24	**(14,700)**	-	**-**	-
Share issue proceeds from minority interests		**-**	20,000	**-**	-
Net cash used in financing activities		**(579,534)**	(533,637)	**(564,834)**	(553,637)
Increase in cash and cash equivalents		**3,540,226**	1,613,868	**1,041,230**	181,640
Movement in cash and cash equivalents					
At beginning of year		**6,356,454**	4,712,738	**2,742,308**	2,560,668
Net cash inflow		**3,540,226**	1,613,868	**1,041,230**	181,640
Effect of exchange rate changes		**154,319**	29,848	**-**	-
At end of year	30	**10,050,999**	6,356,454	**3,783,538**	2,742,308

Accounting policies

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

1. Basis of preparation

These financial statements are prepared in accordance with the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995, which requires their preparation in accordance with International Financial Reporting Standards.

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

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

2. Form and content of these financial statements

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

3. Consolidation

(a) Group undertakings

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

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

(b) Participating interests

Interests in participating interests are accounted for by the equity method of accounting. These are undertakings over which the Group has significant influence, but which it does not control. Equity accounting involves recognising in the profit and loss account the share of the participating interest's profit or loss for the year. The interest in the participating interest is carried in the balance sheet at an amount that reflects the share of the net assets of the participating interest. Where necessary, accounting policies for participating interests are changed to ensure consistency with the policies adopted by the Group.

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

(c) Foreign currency translation

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

4. Basis of accounting

(a) General business - annual basis

The results for direct business are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) Premiums written relate to business incepted during the year less cancellations.

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

(iii) Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

(iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

Accounting policies

4. Basis of accounting - continued

(a) General business - annual basis (continued)

(v) Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of those claims. Where applicable claims outstanding are reduced by anticipated salvage and other recoveries.

(vi) Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

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

(b) General business - fund basis

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

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

(ii) The insurance fund is included within the technical provision for claims outstanding and is assessed after making full provision for the estimated ultimate costs of all claims, including the related expenses, whether reported or not, in respect of each underwriting year. The level of the insurance fund is established using statistical projections of the amounts that the Company expects the ultimate settlement will cost, based on the current facts and circumstances.

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

(c) Long term business

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

5. Equalisation provision

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

6. Land and buildings – investment property

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

7. Investments in group undertakings and participating interests

Investments in group undertakings and participating interests are accounted for by the equity method of accounting. Equity accounting involves recognising in the profit and loss account the share of the group undertakings' and participating interests' profit or loss for the year. The interest in the group undertakings and the participating interests is carried in the balance sheet at an amount that reflects the share of the net assets of the group undertakings and the participating interests.

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

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

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

9. Other financial investments

The Group classifies its investments into the following categories:

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

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

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

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

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

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

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

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

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

10. Deposits with ceding undertakings

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

11. Investment return

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

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

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

Accounting policies

12. Leases

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

13. Debtors

Debtors are carried at anticipated realisable value. An estimate is made for doubtful debtors based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

14. Tangible fixed assets

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

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

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

15. Cash and cash equivalents

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

16. Goodwill

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

17. Dividends

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

18. Provisions

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

(a) Provision for loss on discontinuing operation

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

(b) Provision for severance indemnity

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

19. Deferred taxation

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

The principal temporary differences arise on the revaluation of certain financial assets and unutilised tax losses and allowances. Deferred income tax related to fair value re-measurement of available-for-sale investments is charged or credited directly to equity. Deferred tax assets are recognised only to the extent that future taxable profit will be available such that realisation of the related tax benefit is probable.

20. Foreign currencies

Transactions in foreign currencies have been converted into Maltese Lira at the rates of exchange ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies have been translated into Maltese Lira at the rates of exchange ruling at the balance sheet date. All resulting differences are taken to the profit and loss account. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities are reported as part of the fair value gain or loss.

21. Borrowing costs

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

Notes to the financial statements

1. Segmental analysis

General business

Gross premiums written and gross premiums earned by class of business

	Group			
	Gross premiums written		Gross premiums earned	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Direct insurance				
Motor (third party liability)	**16,368,466**	10,965,765	**15,499,986**	9,687,603
Motor (other classes)	**6,402,019**	5,590,319	**6,152,498**	5,276,285
Fire and other damage to property	**3,185,359**	2,913,412	**2,956,725**	2,605,558
Other classes	**5,014,486**	3,993,322	**4,666,698**	3,718,249
	30,970,330	23,462,818	**29,275,907**	21,287,695
Reinsurance acceptances				
Motor (other classes)	**(404)**	70,732	**(404)**	70,732
Fire and other damage to property	**135,683**	304,110	**135,683**	304,110
Other classes	**1,680**	6,119	**1,680**	6,119
	31,107,289	23,843,779	**29,412,866**	21,668,656

37% (2001: 45%) of gross premiums written on direct general insurance business emanate from contracts concluded in or from Malta, 59% (2001: 50%) emanate from contracts concluded in or from Italy and 4% (2001: 5%) emanate from contracts concluded in or from Gibraltar.

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

	Group					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2002	2001	**2002**	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm	**Lm**	Lm
Direct insurance						
Motor (third party liability)	**15,016,834**	11,209,515	**2,534,691**	1,999,972	**(766,411)**	(2,194,555)
Motor (other classes)	**4,554,833**	4,085,369	**1,543,103**	1,286,812	**(43,910)**	(245,753)
Fire and other damage to property	**1,287,527**	1,361,093	**868,141**	767,405	**724,474**	331,922
Other classes	**2,432,289**	1,653,109	**1,277,979**	910,987	**228,335**	279,693
	23,291,483	18,309,086	**6,223,914**	4,965,176	**142,488**	(1,828,693)
Reinsurance acceptances						
Motor (other classes)	**(30,955)**	30,363	**512**	23,127	**28,336**	23,826
Fire and other damage to property	**(492,447)**	1,594,418	**36,136**	173,088	**415,738**	(1,196,731)
Other classes	**(2,341)**	8,685	**(2,480)**	2,080	**9,876**	(14,070)
	22,765,740	19,942,552	**6,258,082**	5,163,471	**596,438**	(3,015,668)

Notes to the financial statements

1. **Segmental analysis** - continued

General business - continued

Gross premiums written and gross premiums earned by class of business

	Company			
	Gross premiums written		**Gross premiums earned**	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Direct insurance				
Motor (third party liability)	**1,999,029**	1,687,760	**1,928,963**	1,596,662
Motor (other classes)	**4,540,504**	4,254,818	**4,381,361**	4,025,102
Fire and other damage to property	**2,631,695**	2,594,094	**2,515,492**	2,337,133
Other classes	**3,352,156**	3,079,338	**3,197,146**	2,913,774
	12,523,384	11,616,010	**12,022,962**	10,872,671
Reinsurance acceptances				
Motor (other classes)	**89,756**	137,768	**89,756**	137,768
Fire and other damage to property	**194,728**	339,577	**194,728**	339,577
Other classes	**262,595**	162,238	**262,595**	162,238
	13,070,463	12,255,593	**12,570,041**	11,512,254

89% (2001: 90%) of gross premiums written on direct general insurance business emanate from contracts concluded in or from Malta. The balance emanates from contracts concluded in or from Gibraltar.

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

	Company					
	Gross claims incurred		**Gross operating expenses**		**Reinsurance balance**	
	2002	2001	**2002**	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm	**Lm**	Lm
Direct insurance						
Motor (third party liability)	**1,850,455**	1,495,514	**481,029**	423,778	**(90,764)**	(131,945)
Motor (other classes)	**4,213,719**	3,791,920	**1,092,587**	1,059,928	**(193,854)**	(355,925)
Fire and other damage to property	**896,887**	1,232,635	**706,793**	713,157	**826,468**	325,653
Other classes	**1,980,916**	1,459,562	**801,242**	755,694	**192,946**	272,275
	8,941,977	7,979,631	**3,081,651**	2,952,557	**734,796**	110,058
Reinsurance acceptances						
Motor (other classes)	**(10,859)**	66,064	**59,961**	54,467	**28,336**	23,826
Fire and other damage to property	**(420,537)**	1,610,079	**48,465**	190,247	**401,057**	(1,194,089)
Other classes	**112,734**	81,786	**146,982**	75,776	**24,557**	(4,748)
	8,623,315	9,737,560	**3,337,059**	3,273,047	**1,188,746**	(1,064,953)

1. Segmental analysis - continued

General business - continued

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

Long term business

	Group and Company	
	2002	2001
	Lm	Lm
Gross premiums written		
Direct insurance	**601,178**	470,316
Reinsurance inwards	**7,631**	12,663
	608,809	482,979

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

Analysis by geographic area

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

	Group			
	Gross written premiums		Profit/(loss) before taxation	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Continuing operations				
Malta	**11,749,511**	11,088,141	**71,464**	1,323,026
Italy	**18,446,946**	11,846,808	**1,046,245**	262,459
Gibraltar	**1,379,051**	1,128,756	**147,404**	92,324
Total continuing operations	**31,575,508**	24,063,705	**1,265,113**	1,677,809
Discontinuing operation (see note 2)				
Malta	**(1,138)**	37,580	**7,681**	61,036
London branch	**141,728**	225,473	**(7,681)**	(331,531)
Total discontinuing operation	**140,590**	263,053	**-**	(270,495)
Total for the year	**31,716,098**	24,326,758	**1,265,113**	1,407,314

Notes to the financial statements

1. **Segmental analysis** - continued

Analysis by geographic area - continued

Segment assets and liabilities

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

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

(a) Assets of Lm35,839,930 (2001: Lm25,792,121) and liabilities of Lm30,644,537 (2001: Lm21,676,703) that are held by the Group's subsidiary in Italy.
(b) Net technical provisions of Lm1,497,629 (2001: Lm2,403,187) that relate to the Group's London branch operation. These technical provisions are backed by net assets of Lm303,896 (2001: Lm784,420) held by the branch and by Lm2,467,396 (2001: Lm2,355,143) worth of investments managed from Malta.
(c) Net technical provisions of Lm983,056 (2001: Lm738,487) that relate to the Group's agency in Gibraltar. These technical provisions are backed by Lm983,056 (2001: Lm738,487) worth of investments managed from Malta.

Net technical provisions relating to discontinuing operations amount to:

	Group and Company	
	2002	2001
	Lm	Lm
Malta	**211,404**	301,230
London	**1,497,629**	2,403,187
	1,709,033	2,704,417

Other information

	Group							
	2002				2001			
	Malta	**London**	**Italy**	**Total**	Malta	London	Italy	Total
	Lm	**Lm**	**Lm**	**Lm**	Lm	Lm	Lm	Lm
Share of profit before tax of participating interest	**250,843**	**-**	**-**	**250,843**	124,631	-	-	124,631
Capital expenditure	**156,280**	**-**	**137,654**	**293,934**	95,703	-	29,523	125,226
Depreciation – investment property	**25,547**	**-**	**2,167**	**27,714**	18,923	-	6,218	25,141
Depreciation – tangible assets	**90,369**	**14,505**	**38,053**	**142,927**	93,342	19,921	26,420	139,683
Impairment charge	**245,000**	**-**	**-**	**245,000**	-	-	-	-
Other non-cash expenses	**12,308**	**150,837**	**246,739**	**409,884**	12,308	30,329	57,174	99,811

Capital expenditure comprises additions to tangible assets.

2. Discontinuing operation

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

	Group and Company	
	2002	2001
	Lm	Lm
Earned premiums, net of reinsurance	**162,168**	131,170
Allocated investment return transferred from the non-technical account	**(25,168)**	22,361
Claims incurred, net of reinsurance	**44,463**	(234,983)
Net operating expenses	**(30,626)**	(158,714)
Balance on the technical account for general fund business in respect of discontinuing operation	**150,837**	(240,166)
Operating cash flows	**(804,900)**	(2,373,864)

In addition, a provision of Lm150,837 (2001: Lm30,329) has been made for estimated costs of running-off the Company's international reinsurance business (see note 27).

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

	Group and Company	
	2002	2001
	Lm	Lm
Gross run-off incurred	**(464,967)**	1,562,029
Reinsurers' share	**420,504**	(1,327,046)
(Favourable)/adverse run-off, net of reinsurance	**(44,463)**	234,983

3. Net operating expenses

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Acquisition costs	**5,091,465**	4,290,802	**3,031,713**	3,038,057
Change in deferred acquisition costs, net of reinsurance	**(63,618)**	(345,458)	**(63,618)**	(345,458)
Administrative expenses	**1,336,778**	1,146,559	**475,531**	508,879
Reinsurance commissions and profit participation	**(1,761,572)**	(2,495,866)	**(1,462,013)**	(2,281,717)
	4,603,053	2,596,037	**1,981,613**	919,761
Allocated to:				
Annual general business	**4,498,008**	2,365,416	**1,655,328**	566,947
Fund general business	**31,756**	171,919	**252,996**	294,112
Long term business	**73,289**	58,702	**73,289**	58,702
	4,603,053	2,596,037	**1,981,613**	919,761

Total commissions for direct business accounted for in the financial period amounted to Lm4,833,410 (2001: Lm3,749,133) in the Group's technical result and Lm2,552,419 (2001: Lm2,374,194) in the Company's technical result.

4. Investment return

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Investment income				
Share of group undertakings' profit before tax	**-**	-	**716,581**	211,960
Share of participating interest's profit before tax	**250,843**	124,631	**250,843**	124,631
Income from investment property	**266,748**	341,710	**187,908**	254,540
Interest receivable from group undertakings	**-**	-	**44,034**	38,790
Other interest receivable from other investments	**1,496,105**	1,400,409	**609,544**	689,928
Other income from other investments	**150,858**	104,151	**91,806**	83,489
Gains on the realisation of investment property	**270,338**	1,209,877	**270,338**	1,209,877
Gains on the realisation of other investments	**413,998**	-	**111,582**	-
	2,848,890	3,180,778	**2,282,636**	2,613,215
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**46,609**	70,493	**39,788**	59,900
Interest expense	**109,838**	90,726	**95,642**	83,167
Other investment expenses	**242,054**	204,169	**193,124**	156,784
Losses on the realisation of other investments	**11,029**	136,380	**9,362**	166,666
Provision for impairment	**245,000**	-	**245,000**	-
	654,530	501,768	**582,916**	466,517
Total investment return	**2,194,360**	2,679,010	**1,699,720**	2,146,698
Analysed between:				
Allocated investment return transferred to the general business technical account	**1,240,154**	1,206,693	**354,902**	747,617
Investment return included in the non-technical account	**920,544**	1,219,318	**1,311,156**	1,146,082
Allocated against provision for loss on discontinuing operation (note 27)	**33,662**	252,999	**33,662**	252,999
	2,194,360	2,679,010	**1,699,720**	2,146,698

5. Other income

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Management fees	**395,378**	210,268	**-**	203,949
Other income	**60,136**	105,694	**-**	-
	455,514	315,962	**-**	203,949

6. Operating profit on ordinary activities before tax

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

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Staff costs (note 7)	**1,565,961**	1,324,593	**423,187**	722,273
Auditors' remuneration	**40,455**	34,829	**11,500**	11,500
Amortisation of goodwill	**12,308**	12,308	**12,308**	12,308
Depreciation:				
- investment property (note 12)	**27,714**	25,141	**22,190**	18,923
- tangible assets (note 20)	**142,927**	139,683	**90,886**	108,940
Exchange losses	**105,698**	43,020	**105,698**	43,020

7. Staff costs

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Salaries	**1,346,961**	1,127,998	**428,803**	698,485
Social security costs	**241,150**	212,559	**26,751**	51,655
Provision for contracted pension obligations	**27,807**	23,806	**17,590**	11,903
	1,615,918	1,364,363	**473,144**	762,043

The above staff costs include Lm49,957 (2001: Lm39,770) which had already been provided for in the previous year.

The average number of persons employed during the year was:

	Group		Company	
	2002	2001	**2002**	2001
Managerial	**31**	31	**13**	26
Technical	**48**	42	**27**	26
Administrative	**43**	44	**3**	30
	122	117	**43**	82

As a result of a re-organisation of the functions within the Group, staff previously employed with Middlesea Insurance p.l.c. have been transferred to a subsidiary undertaking. This explains the decrease in staff costs for the Company in 2002.

8. Tax on profit on ordinary activities

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Current tax expense	**16,039**	42,107	**-**	-
Share of group undertakings' taxation	**-**	-	**(231,963)**	17,116
Share of participating interest's taxation	**8,592**	(10,184)	**8,592**	(10,184)
Deferred tax credit (note 27)	**(545,701)**	(187,498)	**(168,176)**	(167,920)
Tax credit	**(521,070)**	(155,575)	**(391,547)**	(160,988)

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

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Profit on ordinary activities before tax	**1,265,113**	1,407,314	**748,916**	1,262,334
Tax on ordinary profit at 35%	**442,790**	492,560	**262,121**	441,817
Adjusted for tax effect of:				
Dividends received from untaxed income	**(2,411)**	(2,993)	**(2,411)**	(2,993)
Exempt income	**(184,821)**	(558,005)	**(182,507)**	(556,695)
Tax effect of differences arising from Section 15 of the Income Tax Act	**(146,865)**	(14,993)	**(146,865)**	(14,993)
Temporary differences attributable to deferred tax asset not previously recognised	**(626,622)**	(90,997)	**(320,755)**	(46,977)
Adjustments regarding previous years	**(3,978)**	9,365	**(3,978)**	9,365
Other	**837**	9,488	**2,848**	9,488
Tax credit	**(521,070)**	(155,575)	**(391,547)**	(160,988)

As at 31 December, the Group had tax losses available for carry forward against future taxable income, which relate to the Italian subsidiary Progress Assicurazioni SpA. According to Italian tax legislation, losses may be carried forward for up to five years and the expiry of the tax effect of these losses is summarised as follows:

Group

	2002	2001
	Lm	Lm
Within one year	**-**	143,219
Within two and five years	**262,745**	483,403
	262,745	626,622

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The deferred tax asset of Lm626,622 on the above unutilised tax credits was not recognised at 31 December 2001.

During the year, tax losses having a tax effect of Lm363,877, were absorbed against taxable profits. The directors have re-assessed the probability of realisation of the remaining unutilised tax losses in the light of the favourable results for the subsidiary undertaking in 2002, and the consideration of future profit projections. On this basis, a deferred tax asset of Lm262,745 has been recognised in respect of unabsorbed tax losses carried forward as at 31 December 2002.

9. Directors' emoluments

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Contracted emoluments paid to management	**42,485**	38,714	**42,485**	38,714
Directors' fees	**13,000**	-	**13,000**	-
	55,485	38,714	**55,485**	38,714

The Company has paid insurance premiums of Lm4,164 (2001: Lm3,490) during the year in respect of insurance cover in favour of its directors. Furthermore, provisions have been made (Group: 2002 - Lm27,807 and 2001 – Lm23,806, Company: 2002 - Lm17,590 and 2001 – Lm11,903) in respect of contracted pension obligations.

10. Earnings per share

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

	Group		Company	
	2002	2001	**2002**	2001
Net profit attributable to shareholders	**Lm1,140,463**	Lm1,423,322	**Lm1,140,463**	Lm1,423,322
Weighted average number of ordinary shares in issue	**12,500,000**	12,500,000	**12,500,000**	12,500,000
Earnings per share	**9.1c**	11.4c	**9.1c**	11.4c

11. Dividends

At the forthcoming Annual General Meeting, a dividend in respect of 2002 of 7.0 cents per share (gross) amounting to Lm568,750 (net) is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2003. The net dividends declared after the financial year end in respect of 2001 and 2000 were Lm568,750 (gross 7c per share) and Lm552,500 (gross 6.8c per share) respectively.

12. Land and buildings – investment property

	Group	Company
	Lm	Lm
Year ended 31 December 2002		
Opening net book amount	3,770,729	2,872,872
Additions	3,676	3,676
Disposals	(268,025)	(268,025)
Depreciation	(27,714)	(22,190)
Depreciation released on disposals	32,480	32,480
Currency translation differences	7,031	-
Closing net book amount	**3,518,177**	**2,618,813**
At 31 December 2002		
Cost	3,602,263	2,695,561
Depreciation	(88,490)	(76,748)
Translation reserve	4,404	-
Net book amount	3,518,177	2,618,813
Year ended 31 December 2001		
Opening net book amount	2,873,405	1,966,703
Additions	1,735,797	1,735,797
Disposals	(930,176)	(930,176)
Depreciation	(25,141)	(18,923)
Depreciation released on disposals	119,471	119,471
Currency translation differences	(2,627)	-
Closing net book amount	3,770,729	2,872,872
At 31 December 2001		
Cost	3,866,612	2,959,910
Depreciation	(93,256)	(87,038)
Translation reserve	(2,627)	-
Net book amount	3,770,729	2,872,872

The fair value of land and buildings at the balance sheet date amounted to Lm3,996,351(2001: Lm4,458,432) for the Group and Lm3,098,416 (2001: Lm3,551,730) for the Company. The fair value is the open market value as determined by independent professionally qualified valuers.

13. Investments in group undertakings

	Company Lm
Year ended 31 December 2002	
Opening net book amount	2,930,186
Share of group undertakings' profits and reserves	590,348
Currency translation differences (note 23)	94,670
Closing net book amount	**3,615,204**
At 31 December 2002	
Cost	2,623,784
Share of group undertakings' profits and reserves	930,654
Translation reserve	60,766
Net book amount	3,615,204
Year ended 31 December 2001	
Opening net book amount	3,103,727
Share of group undertakings' profits and reserves	(139,637)
Currency translation differences	(33,904)
Closing net book amount	2,930,186
At 31 December 2001	
Cost	2,623,784
Share of group undertakings' profits and reserves	340,306
Translation reserve	(33,904)
Net book amount	2,930,186

The principal group undertakings at 31 December are shown below:

Group undertakings	**Registered office**	**Class of shares held**	**Percentage of shares held 2002**	Percentage of shares held 2001
Euro Globe Limited	Middle Sea House Floriana	Ordinary shares	**-**	100%
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	**100%**	-
Euro Globe Services Limited	Middle Sea House Floriana	Ordinary shares	**100%**	-
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	**75.5%**	75.5%
International Insurance Management Services Limited	Middle Sea House Floriana	Ordinary shares	**100%**	100%
International Insurance Management Services (Offshore) Limited (in liquidation)	Middle Sea House Floriana	Ordinary shares	**100%**	100%
Malta International Training Centre Limited	Europa Centre Floriana	Ordinary shares	**60%**	60%
Progress Assicurazioni S.p.A.	Piazza A. Gentile Palermo	Ordinary shares	**51%**	51%

By virtue of an extraordinary resolution dated 22 April 2002, it was resolved that Euro Globe Limited be divided in terms of Section 374 of the Companies Act, 1995. The division became effective on 15 October 2002. Upon division, all its assets, liabilities and obligations were transferred to Euro Globe Services Limited and Euro Globe Holdings Limited.

14. Investment in participating interest

	Group and Company
	Lm
Year ended 31 December 2002	
Opening net book amount	6,799,697
Share of participating interest's profits and reserves	920,822
Closing net book amount	**7,720,519**
At 31 December 2002	
Cost	782,540
Share of participating interest's profits and reserves	6,937,979
Net book amount	7,720,519
Year ended 31 December 2001	
Opening net book amount	6,988,797
Addition	510,000
Group's share of profit arising on sale of investment property to participating interest	(1,078,960)
Share of participating interest's profits and reserves	379,860
Closing net book amount	6,799,697
At 31 December 2001	
Cost	782,540
Share of participating interest's profits and reserves	6,017,157
Net book amount	6,799,697

The participating interest at 31 December is shown below:

Participating interest	**Registered office**	**Class of shares held**	**Percentage of shares held 2002**	Percentage of shares held 2001
Middlesea Valletta Life Assurance Company Limited	Middle Sea House Floriana	Ordinary shares	**51%**	51%

14. Investment in participating interest - continued

Middlesea Insurance p.l.c. is entitled in terms of the Articles of Association of Middlesea Valletta Life Assurance Company Limited (MSV) to elect four out of eight directors and no shareholder is in a position to exercise a dominant influence on the financial and operating policies of this company. Accordingly, MSV has been excluded from consolidation in terms of Section 170(4)(a) of the Companies Act, 1995 and has been accounted for as a participating interest.

A summary of the audited balance sheet at 31 December 2002 of Middlesea Valletta Life Assurance Company Limited, which represents a significant investment to the Group, is set out below:

	2002	2001
	Lm	Lm
Investments	**95,611,584**	80,118,510
Value of in-force business	**10,790,000**	9,500,000
Tangible fixed assets	**463,859**	492,614
Assets held to cover linked liabilities	**3,104,079**	3,228,633
Net current assets	**2,263,288**	3,617,058
Technical provisions	**(95,634,664)**	(81,032,025)
Deferred taxation	**1,053,263**	(10,896)
Shareholders' funds	**17,651,409**	15,913,894
51% thereof relating to Group	**9,002,219**	8,116,086
Less: amounts arising on the transfer of individual life assurance business to Middlesea Valletta Life Assurance Company Limited in 1994, not recognised in the consolidated balance sheet	**(190,400)**	(217,600)
Less: Group's share of the profit arising on the sale of investment property to Middlesea Valletta Life Assurance Company Limited	**(1,078,960)**	(1,078,960)
Amount at which the Group's investment is carried in the balance sheet	**7,732,859**	6,819,526

The profit after tax earned by Middlesea Valletta Life Assurance Company Limited for the year ended 31 December 2002 was Lm490,312 (2001:Lm300,253).

15. Other financial assets - held-to-maturity

Group

	Quoted fixed income debt securities Lm
Year ended 31 December 2002	
Opening net book amount	3,360,767
Amortisation	33,664
Currency translation differences	153,024
Closing net book amount	**3,547,455**
At 31 December 2002	
Amortised cost	3,448,895
Translation reserve	98,560
Net book amount	3,547,455
Year ended 31 December 2001	
Opening net book amount	3,384,800
Amortisation	30,431
Currency translation differences	(54,464)
Closing net book amount	3,360,767
At 31 December 2001	
Amortised cost	3,415,231
Translation reserve	(54,464)
Net book amount	3,360,767

Maturity of fixed income debt securities:

	2002 Lm	2001 Lm
Over 5 years	**3,547,455**	3,360,767
Weighted average effective interest rate	**6.3%**	6.4%

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

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Deposits with banks or credit institutions	**4,995,184**	2,575,623	**3,151,701**	1,649,258

Maturity of deposits with banks or credit institutions:

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Within 3 months	**4,130,015**	1,707,712	**2,286,532**	781,347
Within 1 year but exceeding 3 months	**115,169**	117,911	**115,169**	117,911
Between 1 and 2 years	**750,000**	750,000	**750,000**	750,000
	4,995,184	2,575,623	**3,151,701**	1,649,258

The above deposits earn interest as follows:

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
At floating rates	**3,997,727**	1,048,273	**2,191,207**	1,013,273
At fixed rates	**997,457**	1,527,350	**960,494**	635,985
	4,995,184	2,575,623	**3,151,701**	1,649,258
Weighted average effective interest rate	**3.4%**	4.6%	**3.8%**	5.1%

The above financial assets of the Group and the Company include pledged investments amounting to Lm750,000 (2001: Lm750,000).

17. Other financial assets - other originated loans and receivables

Group

	Quoted fixed income debt securities Lm	Treasury bills Lm	Unquoted fixed income securities Lm	Total Lm
Year ended 31 December 2002				
Opening net book amount	2,838,530	1,337,565	100,000	4,276,095
Additions	391,744	377,641	-	769,385
Disposals	(503,985)	(1,375,006)	-	(1,878,991)
Currency translation difference	-	37,441	-	37,441
Amortisation	74	-	-	74
Closing net book amount	**2,726,363**	**377,641**	**100,000**	**3,204,004**
Year ended 31 December 2001				
Opening net book amount	2,501,110	366,000	100,000	2,967,110
Additions	387,420	2,692,295	-	3,079,715
Disposals	(50,000)	(1,719,000)	-	(1,769,000)
Amortisation	-	(1,730)	-	(1,730)
Closing net book amount	2,838,530	1,337,565	100,000	4,276,095

Maturity of fixed income debt securities and treasury bills:

	2002 Lm	2001 Lm
Within 3 months	**443,041**	1,337,565
Between 2 and 5 years	**531,600**	417,000
Over 5 years	**2,229,363**	2,521,530
	3,204,004	4,276,095
Weighted average effective interest rate	**6.6%**	5.9%

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

Company

	Quoted fixed income debt securities Lm	Treasury bills Lm	Unquoted fixed income securities Lm	Total Lm
Year ended 31 December 2002				
Opening net book amount	2,435,830	515,270	100,000	3,051,100
Additions	391,744	377,641	-	769,385
Disposals	(503,985)	(515,270)	-	(1,019,255)
Amortisation	74	-	-	74
Closing net book amount	**2,323,663**	**377,641**	**100,000**	**2,801,304**
Year ended 31 December 2001				
Opening net book amount	2,198,411	311,000	100,000	2,609,411
Additions	237,419	1,870,000	-	2,107,419
Disposals	-	(1,664,000)	-	(1,664,000)
Amortisation	-	(1,730)	-	(1,730)
Closing net book amount	2,435,830	515,270	100,000	3,051,100

Maturity of fixed income debt securities and treasury bills:

	2002 Lm	2001 Lm
Within one year	**410,341**	515,269
Between 2 and 5 years	**511,600**	364,301
Over 5 years	**1,879,363**	2,171,530
	2,801,304	3,051,100
Weighted average effective interest rate	**6.6%**	6.5%

The above financial assets of the Group and Company include pledged investments amounting to Lm1,362,990 (2001: Lm1,362,990).

18. Other financial investments - available-for-sale

Group

	Quoted shares, other variable yield securities and units in unit trusts Lm	Quoted fixed income debt securities Lm	Unquoted shares & securities Lm	Total Lm
Year ended 31 December 2002				
Opening net book amount	5,277,766	14,317,726	920,081	20,515,573
Additions	182,333	16,807,591	-	16,989,924
Disposals	(254,957)	(11,720,048)	(1,021)	(11,976,026)
Amortisation	-	(44,636)	-	(44,636)
Net (losses)/gains from changes in fair value	(1,451,466)	312,318	(2,013)	(1,141,161)
Transfer to net profit on realisation of investments	51,709	(176,403)	765	(123,929)
Currency translation differences	40,648	324,715	1,261	366,624
Closing net book amount	**3,846,033**	**19,821,263**	**919,073**	**24,586,369**
At 31 December 2002				
Cost	6,141,012	19,270,952	156,088	25,568,052
Revaluation reserve	(2,076,030)	358,831	762,538	(954,661)
Provision for impairment	(245,000)	-	-	(245,000)
Translation reserve	26,051	191,480	447	217,978
Net book amount	3,846,033	19,821,263	919,073	24,586,369
Year ended 31 December 2001				
Opening net book amount	5,758,517	16,740,725	1,107,515	23,606,757
Additions	2,513,905	4,512,040	2,762	7,028,707
Disposals	(1,372,447)	(6,906,612)	(24,853)	(8,303,912)
Amortisation	-	(5,614)	-	(5,614)
Net (losses)/gains from changes in fair value	(1,747,773)	132,716	(164,529)	(1,779,586)
Transfer to net profit on realisation of investments	140,161	(22,294)	-	117,867
Currency translation differences	(14,597)	(133,235)	(814)	(148,646)
Closing net book amount	5,277,766	14,317,726	920,081	20,515,573
At 31 December 2001				
Cost	6,213,636	14,228,045	157,109	20,598,790
Revaluation reserve	(921,273)	222,916	763,786	65,429
Translation reserve	(14,597)	(133,235)	(814)	(148,646)
Net book amount	5,277,766	14,317,726	920,081	20,515,573

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

Company

	Quoted shares, other variable yield securities and units in unit trusts Lm	Quoted fixed income debt securities Lm	Unquoted shares & securities Lm	Total Lm
Year ended 31 December 2002				
Opening net book amount	4,097,685	7,186,232	892,140	12,176,057
Additions	182,265	3,149,887	-	3,332,152
Disposals	(253,068)	(3,874,375)	-	(4,127,443)
Amortisation	-	(3,781)	-	(3,781)
Net (losses)/gains from changes in fair value	(999,293)	227,062	(2,013)	(774,244)
Transfer to net profit on realisation of investments	51,709	(37,628)	-	14,081
Closing net book amount	**3,079,298**	**6,647,397**	**890,127**	**10,616,822**
At 31 December 2002				
Cost	4,646,633	6,375,426	127,589	11,149,648
Revaluation reserve	(1,322,335)	271,971	762,538	(287,826)
Provision for impairment	(245,000)	-	-	(245,000)
Net book amount	3,079,298	6,647,397	890,127	10,616,822
Year ended 31 December 2001				
Opening net book amount	4,378,395	8,460,633	1,056,669	13,895,697
Additions	1,682,523	2,909,594	-	4,592,117
Disposals	(886,662)	(4,256,797)	-	(5,143,459)
Amortisation	-	4,930	-	4,930
Net (losses)/gains from changes in fair value	(1,216,104)	72,058	(164,529)	(1,308,575)
Transfer to net profit on realisation of investments	139,533	(4,186)	-	135,347
Closing net book amount	4,097,685	7,186,232	892,140	12,176,057
At 31 December 2001				
Cost	4,717,436	7,103,695	127,589	11,948,720
Revaluation reserve	(619,751)	82,537	764,551	227,337
Net book amount	4,097,685	7,186,232	892,140	12,176,057

Maturity of fixed income debt securities:

	Group		**Company**	
	2002 Lm	2001 Lm	**2002 Lm**	2001 Lm
Within one year	**4,405,158**	246,480	**158,112**	246,480
Between 1 and 2 years	**9,184,020**	1,335,600	**1,009,204**	1,046,087
Between 2 and 5 years	**2,385,113**	7,210,021	**1,633,109**	1,866,993
Over 5 years	**3,846,972**	5,525,625	**3,846,972**	4,026,672
	19,821,263	14,317,726	**6,647,397**	7,186,232
Weighted average effective interest rate	**3.8%**	5.0%	**4.6%**	4.9%

The above financial assets include pledged investments amounting to Lm541,197 (2001:Lm541,197) for the Group and Lm386,660 (2001: Lm386,660) for the Company.

Notes to the financial statements

19. Reinsurers' share of technical provisions

Recoveries on claims outstanding from reinsurers include an amount of Lm2,391,675 (2001: Lm1,410,000) that is recoverable from Corporacion Mapfre Compania Internacional De Reaseguros S.A. under reinsurance arrangements entered into upon the acquisition of a 51% shareholding in Mapfre Progress S.p.A. on 29 September 2000. In terms of these arrangements, Corporacion Mapfre Compania Internacional De Reaseguros S.A. agreed to meet the run-off cost of all risks incepted prior to the date of acquisition.

20. Tangible assets

Group

	Buildings & leasehold improvements Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2002					
Opening net book amount	788,404	275,848	15,186	14,203	1,093,641
Additions	44,403	242,417	-	7,114	293,934
Disposals	-	(53,056)	(48,325)	(4,732)	(106,113)
Depreciation charge	(15,937)	(119,135)	(2,203)	(5,652)	(142,927)
Depreciation released on disposals	-	31,258	42,096	4,732	78,086
Currency translation differences	25,758	1,879	-	3	27,640
Closing net book amount	**842,628**	**379,211**	**6,754**	**15,668**	**1,244,261**
At 31 December 2002					
Cost	981,325	1,448,963	35,380	101,864	2,567,532
Accumulated depreciation	(155,099)	(1,071,113)	(28,626)	(86,199)	(1,341,037)
Translation reserve	16,402	1,361	-	3	17,766
Net book amount	842,628	379,211	6,754	15,668	1,244,261
At 31 December 2001					
Cost	936,922	1,259,602	83,705	99,482	2,379,711
Accumulated depreciation	(139,162)	(983,236)	(68,519)	(85,279)	(1,276,196)
Translation reserve	(9,356)	(518)	-	-	(9,874)
Net book amount	788,404	275,848	15,186	14,203	1,093,641

Company

	Leasehold improvements Lm	Office furniture & equipment Lm	Property furniture & fittings Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2002					
Opening net book amount	222,736	221,341	15,186	6,975	466,238
Additions	44,403	56,240	-	-	100,643
Disposals	-	(53,056)	(48,325)	-	(101,381)
Depreciation charge	(9,207)	(76,256)	(2,203)	(3,220)	(90,886)
Depreciation released on disposals	-	31,258	42,096	-	73,354
Closing net book amount	**257,932**	**179,527**	**6,754**	**3,755**	**447,968**
At 31 December 2002					
Cost	398,229	1,155,877	35,380	88,347	1,677,833
Accumulated depreciation	(140,297)	(976,350)	(28,626)	(84,592)	(1,229,865)
Net book amount	257,932	179,527	6,754	3,755	447,968
At 31 December 2001					
Cost	353,826	1,152,693	83,705	88,347	1,678,571
Accumulated depreciation	(131,090)	(931,352)	(68,519)	(81,372)	(1,212,333)
Net book amount	222,736	221,341	15,186	6,975	466,238

21. Share capital

	Group and Company	
	2002	2001
	Lm	Lm
Authorised		
30,000,000 Ordinary shares of 50 cents each	**15,000,000**	15,000,000
Issued and fully paid		
12,500,000 Ordinary shares of 50 cents each	**6,250,000**	6,250,000

22. Revaluation reserve

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Balance at 1 January before taxation	**1,319,057**	2,903,021	**1,319,057**	2,903,021
Net losses from changes in fair value	**(1,005,759)**	(1,634,143)	**(774,244)**	(1,308,575)
Transfer to net profit on realisation of investments	**(56,694)**	126,434	**14,081**	135,347
Losses transferred to net profit due to impairment	**245,000**	-	**245,000**	-
Share of group undertakings' reserves	**-**	-	**(301,849)**	(334,481)
Share of participating interest's reserves	**5,371**	(76,255)	**5,371**	(76,255)
Balance at 31 December before taxation	**506,975**	1,319,057	**507,416**	1,319,057
Deferred taxation	**259,234**	67,298	**258,793**	67,298
Balance at 31 December	**766,209**	1,386,355	**766,209**	1,386,355

This reserve is not a distributable reserve.

23. Other reserves

Group and Company

	Value of in-force business	**Translation reserve**	**Total**
	Lm	**Lm**	**Lm**
Balance at 1 January 2002	3,493,500	(33,904)	3,459,596
Share of participating interest's reserves	657,900	-	657,900
Exchange differences arising on retranslation of foreign subsidiary	-	94,670	94,670
Balance at 31 December 2002	**4,151,400**	**60,766**	**4,212,166**
Balance at 1 January 2001	3,172,200	-	3,172,200
Share of participating interest's reserves	321,300	-	321,300
Exchange differences arising on retranslation of foreign subsidiary	-	(33,904)	(33,904)
Balance at 31 December 2001	3,493,500	(33,904)	3,459,596

The above reserves are not distributable reserves.

Notes to the financial statements

24. Minority interests

	Group	
	2002	2001
	Lm	Lm
Balance at 1 January	**2,056,577**	2,070,193
Share of net profit of group undertakings	**645,720**	139,567
Share of movement in reserves of group undertakings	**(202,633)**	(145,006)
Currency translation differences	**91,982**	(32,553)
Dividends paid	**(14,700)**	-
Amount arising on dilution of shareholding in group undertaking	**-**	24,376
Balance at 31 December	**2,576,946**	2,056,577

25. Long term business provision

The balance on the long term business provision has been certified by approved actuaries as being sufficient to meet liabilities at 31 December 2002. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall balance sheet, are as follows:

	Group and Company	
	2002	2001
	Lm	Lm
Investments	**649,069**	669,142
Debtors	**105,855**	102,725
Cash at bank and in hand	**127,093**	67,147
Claims outstanding	**(48,404)**	(39,029)
Creditors	**(704,387)**	(681,734)
Revaluation reserve	**14,275**	(6,119)
Long term business provision, net of reinsurance	**143,501**	112,132

26. Equalisation provision

As explained in accounting policy 5 on page 42, an equalisation provision is established in the financial statements. The effect of this provision is to reduce shareholders' funds by Lm11,534 (2001: Lm nil). The increase in the provision during the year had the effect of decreasing the balance on the technical account for general business and the profit on ordinary activities before taxation by Lm17,744.

27. Provisions for other risks and charges

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Deferred tax liability	**8,558**	85,836	**8,558**	85,836
Provision for severance indemnity	**297,151**	261,071	**-**	-
	305,709	346,907	**8,558**	85,836

Deferred taxation

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Balance at 1 January	**(198,260)**	218,842	**(178,682)**	218,842
Movements during the year:				
Profit and loss account (note 8)	**(545,701)**	(187,498)	**(168,176)**	(167,920)
Revaluation reserve (note 22)	**(191,936)**	(229,604)	**(191,495)**	(229,604)
Balance at 31 December (net)	**(935,897)**	(198,260)	**(538,353)**	(178,682)

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (2001: 35%). The year end balance comprises:

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Temporary differences attributable to fixed assets	**5,276**	11,335	**7,676**	11,335
Temporary differences attributable to unrealised capital losses and exchange gains	**(45,799)**	231,884	**(45,358)**	231,884
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	**(921,130)**	(468,377)	**(526,427)**	(448,799)
Other temporary differences	**25,756**	26,898	**25,756**	26,898
Balance at 31 December (net)	**(935,897)**	(198,260)	**(538,353)**	(178,682)

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 off-setting are shown in the balance sheet.

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Deferred tax asset	**(944,455)**	(284,096)	**(546,911)**	(264,518)
Deferred tax liability	**8,558**	85,836	**8,558**	85,836
	(935,897)	(198,260)	**(538,353)**	(178,682)

27. Provisions for other risks and charges - continued

Provision for loss on discontinuing operation
This was established to provide for the estimated costs of running-off the book of international reinsurance acceptances which the Group ceased writing as from 1 November 2000. The directors had initially estimated that the operation of the London branch would be substantially discontinued by 31 December 2002. Although the operations have not been fully discontinued, the directors believe that the impact of the extension required beyond their original estimate will not be significant. It is estimated that all material costs associated with running-off the business have been provided for. The gross provision of Lm82,679 (2001: Lm157,382) has been reduced by offsetting an expected future investment return of Lm72,688 (2001: Lm161,570) on reserves for outstanding claims liabilities.

	Group and Company	
	2002	2001
	Lm	Lm
At 1 January	**(4,188)**	515,993
Profit and loss account	**150,837**	30,329
Utilised during the year	**(156,640)**	(550,510)
Balance at 31 December	**(9,991)**	(4,188)

The excess of the future investment return over the gross provision amounting to Lm9,991 (2001: Lm4,188) has been classified within other prepayments and accrued income.

Provision for severance indemnity	Group	
	2002	2001
	Lm	Lm
Balance at 1 January	**261,071**	240,003
Profit and loss account	**24,193**	24,930
Currency translation differences	**11,887**	(3,862)
Balance at 31 December	**297,151**	261,071

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

28. Amounts owed to credit institutions

	Group and Company	
	2002	2001
	Lm	Lm
Long term		
Bank loans	**1,589,930**	1,586,014

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

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

	Group and Company	
	2002	2001
	Lm	Lm
At floating rates	**1,589,930**	**1,586,014**

Weighted average effective interest rate:

	Group and Company	
	2002	2001
Bank loans	**4.6%**	5.2%

Maturity of long term borrowings:

	Group and Company	
	2002	2001
	Lm	Lm
Between 2 and 5 years	**1,589,930**	1,586,014

29. Cash generated from/(used in) operations

Reconciliation of operating profit on ordinary activities before tax to cash generated from/(used in) operations:

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Operating profit on ordinary activities before tax	**1,415,950**	1,437,643	**899,753**	1,292,663
Adjustments for:				
Share of group undertakings' profit before tax, adjusted for net dividend received	**-**	-	**(675,534)**	(211,960)
Share of participating interest's profit before tax, adjusted for net dividend received	**(250,843)**	(124,631)	**(250,843)**	(124,631)
Depreciation (note 12, 20)	**170,641**	164,824	**113,076**	127,863
Provision for loss on discontinuing operation	**(156,640)**	(550,510)	**(156,640)**	(550,510)
Bad and doubtful debts	**222,546**	32,244	**-**	-
Provision for impairment	**245,000**	-	**245,000**	-
Provision for severance indemnity (note 27)	**24,193**	24,930	**-**	-
Amortisation	**23,206**	(12,509)	**16,015**	7,378
(Profit)/loss on sale of tangible fixed assets	**(2,633)**	1,091	**(2,633)**	1,091
Gains on the realisation of investments	**(673,307)**	(1,074,588)	**(372,558)**	(1,044,302)
Movements in:				
Deposits with ceding undertakings	**105,388**	(35,671)	**103,625**	(35,671)
Reinsurers' share of technical provisions	**1,196,794**	(1,705,095)	**1,445,764**	36,807
Debtors, prepayments and accrued income	**(1,421,253)**	(88,903)	**(529,337)**	847,883
Amounts owed by group undertakings	**-**	-	**(142,265)**	(147,175)
Technical provisions	**6,496,327**	2,910,013	**(494,081)**	299,718
Deposits received from reinsurers	**(26,272)**	(429,796)	**20,957**	(495,318)
Creditors, accruals and deferred income	**708,709**	(100,599)	**(147,153)**	(510,031)
Amounts owed to participating interests	**17,453**	100,566	**(25,895)**	108,891
Cash generated from/(used in) operations	**8,095,259**	549,009	**47,251**	(397,304)

Notes to the financial statements

30. Cash and cash equivalents

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

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Cash at bank and in hand	**5,543,343**	3,311,177	**1,119,365**	1,445,692
Time deposits and treasury bills maturing within three months	**4,507,656**	3,045,277	**2,664,173**	1,296,616
	10,050,999	6,356,454	**3,783,538**	2,742,308

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

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
At floating rates	**5,341,215**	2,954,565	**1,062,627**	1,128,063
At fixed rates	**15,545**	30,352	**-**	-
	5,356,760	2,984,917	**1,062,627**	1,128,063
Weighted average effective interest rate	**2.1%**	2.4%	**2.5%**	2.8%

31. Financial instruments

The nature of the Group's operations implies that financial instruments are extensively used in the course of its activities. The Group did not make use of derivative financial instruments during the years ended 31 December 2002 and 2001. The Group is potentially exposed to a range of risks that are managed as outlined below.

Currency risk

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

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

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

Credit risk

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

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Provision for bad and doubtful debts	**569,707**	395,000	**65,000**	65,000

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

31. Financial instruments - continued

Fair values

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

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

	Group		Company	
	Carrying value 2001 Lm	Fair value 2001 Lm	Carrying value 2001 Lm	Fair value 2001 Lm
Financial investments				
Held-to-maturity investments	3,360,767	3,500,113	-	-
Other originated loans and receivables	4,276,095	4,466,843	3,051,100	3,228,283
	7,636,862	7,966,956	3,051,100	3,228,283

At 31 December 2002 and 2001, the carrying amounts of the Group's other financial assets and liabilities approximated their fair values.

Liquidity risk

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

Market risk

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

Interest rate risk

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

Notes to the financial statements

32. Commitments

Capital commitments

	Group and Company	
	2002	2001
	Lm	Lm
Authorised and not contracted for	**600,670**	660,000

Operating lease commitments - where the company is a lessor

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

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Not later than 1 year	**116,256**	233,843	**80,256**	157,259
Later than 1 year and not later than 5 years	**213,179**	404,797	**69,179**	250,651
Later than 5 years	**43,100**	72,000	**-**	-
	372,535	710,640	**149,435**	407,910

33. Contingencies

The Company has given guarantees to third parties amounting to Lm25,000 (2001: Lm25,000) not arising under contracts of insurance. At 31 December 2002 and 2001, the Company and the Group had a contingent tax liability of Lm163,000 arising in respect of property sold to an associated company.

34. Related party transactions

The Group has an agreement with Middlesea Valletta Life Assurance Company Limited for the sharing of certain common administrative costs.

During 2001 the Company sold investment property to this associated undertaking for a consideration of Lm2,803,750. The unrealised profit element arising on this transaction amounting to Lm1,078,960 was credited against the net investment in the participating interest within the Group's balance sheet (see note 14). This gain will only be recognised by the Group upon the disposal of the said investment by the associated undertaking.

Two directors are shareholders in companies that act as insurance agents for Middlesea Insurance p.l.c. Another director is a shareholder of a company acting as investment consultant to Middlesea Insurance p.l.c.

The Group has entered into reinsurance arrangements with three companies who are shareholders and who are represented on the Company's board. All transactions with related parties are carried out at arm's length.

35. Statutory information

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

COM 140503

Middle Sea Insurance p.l.c.

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