



MIDDLESEA INSURANCE

Annual Report & Financial Statements 2008



Middlesea Insurance p.l.c.

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GROUP MISSION STATEMENT

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

DIKJARAZZJONI TA' MISSJONI TAL-GRUPP

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

BUSINESS PHILOSOPHY

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

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

We embrace Professionalism and seek Excellence in everything we do.

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

FILOSOFIJA TAN-NEGOZZJU

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

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

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

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

In the introduction to my last year's statement I mentioned that "the inherent uncertain nature of insurance business was reflected in the cyclical movements both in the capital and technical operations." Indeed, our operations in 2008 were adversely affected by both the crisis in the world financial markets and the considerable technical loss of Progress Assicurazioni S.p.A. (Progress), our Italian subsidiary. These were the factors which broke the 27 year history of positive financial results for the Middlesea Group.



EXECUTIVE CHAIRMAN'S STATEMENT

PERFORMANCE

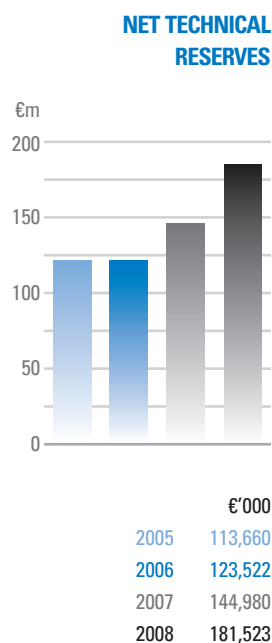
The Middlesea Group registered a pre-tax loss of €29.8 million (€20.6m after tax) for the year ended 31 December 2008, compared to a profit of €9.3 million in 2007. On consolidation, the primary causes for the Group's loss were, Progress's unfavourable technical result of €26.1 million and the impact of the unfavourable movements in capital markets (local and overseas) of €12.2 million. All the Group companies were adversely affected by the unprecedented downturn of our local and international investments. However, none of the companies held any exposures to the sub-prime (or toxic) assets which were the root causes of the global financial crisis.

Whilst these two sources of revenue registered disappointing results in 2008, Middlesea Insurance p.l.c. (MSI) produced a satisfactory positive technical result of €1.78 million. This, however, was outweighed by the negative investment return. Our subsidiary International Insurance Management Services Ltd, (IIMS) and associate, Middlesea Valletta Life Co. Ltd, (MSV) both contributed positive results to the Group.

The Group registered an overall increase of 15% in turnover from its general insurance operations in Italy, Malta and Gibraltar, with gross premiums written increasing to €118 million in 2008. Income generated from insurance management services, as consolidated, also increased to €1.82 million. Premium growth arose principally from the Italian operations, where an increase of 20% to €86 million was recorded. MSI registered an increase of 4% in turnover, with total premium underwritten in both general and group life business rising to €34 million.

The Group's focus on the strength of the Balance Sheet over the years has helped it to absorb the loss incurred in 2008, whilst at the same time moving into 2009 with a strong balance sheet. All the regulated companies within the Group adequately satisfied the statutory and regulatory solvency margins, with Middlesea Insurance p.l.c. holding a solvency cover of 250%.

EXECUTIVE CHAIRMAN'S STATEMENT



During its 27 year history Middlesea Insurance paid out to its shareholders total gross dividends amounting to €38.5 million. The Board of Directors that met on Monday 27 April 2009 considered the importance of the company's dividend policy, which focused on balance sheet strength, together with the equitable distribution of generated profits to shareholders. The Board concluded that, due to the result of the loss incurred for the financial year 2008, it should not recommend the payment of a dividend for that year.

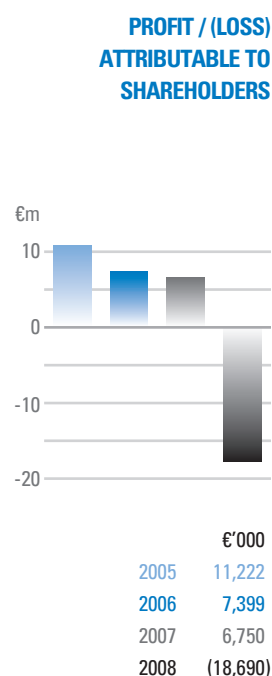
MIDDLESEA INSURANCE PLC

MSI registered a loss after taxation of €3.6 million as compared to a profit of €5.3 million in 2007. The company produced an overall positive technical result which was, however, outweighed by the capital losses (excluding capital gains) reported on investments (in local and foreign markets) totalling €7.4 million. Additionally, MSI booked an impairment provision of €2.5 million on its investment in the Italian subsidiary, Progress Assicurazioni.

Gross premiums written (excluding individual life) in Malta for the financial year 2008 increased by 4.62% over the previous year. The premium income for Malta and Gibraltar amounted to €32.3 million, reflecting an increase of €0.9 million over 2007. The general insurance business result continued to benefit from a favourable runoff (net of reinsurance) of €3.4 million. MSI continued with its prudent approach to claims reserving and its focus on claims management following developments in available technical information. In accordance with the company's policy the net technical provisions were strengthened by 6%, to €37.1 million. The loss ratio excluding run-off for the company was maintained at the same level as in the previous year.

The company's agency in Gibraltar registered a positive net underwriting result of €0.56 million, a 72% improvement on previous year with a premium income of €2.8 million. MSI's composite status continued to allow it to underwrite group life insurance business which increased to €1.7 million. The net underwriting result from this business after investments reduced to €0.31 million (2007 - €0.38m).

Since its inception, the company's investment policy has remained prudent and focused on security, liquidity and return. In accordance with International Financial Reporting Standards and the company's classification of fair value policy, a net investment loss (after income and favourable movements in fixed income securities but before impairment charge) of €1.7 million was taken to the profit and loss.



SUBSIDIARIES

Progress Assicurazioni S.p.A.

The Italian subsidiary, Progress Assicurazioni S.p.A., generated gross premiums written of €86 million, an increase of 20% on 2007. RCA (motor liability) business contributed 74% (against 72% in 2007) to the overall portfolio mix. The pre-tax contribution of Progress to the Group's results was a gross loss of €26.8 million, a very marked deterioration from the positive return of €3.10 million in 2007.

Progress registered a loss after taxation as consolidated in the Group results of €19.1 million. The introduction in Italy of the Convenzione tra Assicuratori per Risarcimento Diretto, (CARD), the mandatory Direct Indemnification system during the early part of 2007 as expected created uncertainties and negatively impacted the 2008 technical results. Technically speaking, this new system of claims settlement exposed the company to indemnification of its own insured's loss with a recovery (based on models of fixed amounts) from the tortfeasor's (the party responsible for a road traffic accident) insurers being inferior to the actual loss settled by the company with the insured. During 2008, Progress also undertook a further strengthening of its technical provisions which, together with the unfavourable impact of the CARD system, and the increased reserves in personal injuries and fatalities, impacted negatively on the results. An overall increase in the frequency of motor liability claims, late reported claims and a concentration in the challenging Campania region also contributed to the deterioration of the RCA results.

The Board of Directors and Management decided to strengthen the overall technical provisions of Progress during the year, by 28% to €160 million. The solvency of the company met the statutory requirements.

The Group is undertaking a management restructuring at Progress in key areas (including Underwriting, Claims and Management of Intermediaries), in order to secure reinforcement of its resources, with the ultimate objective to counter the multiple challenges prevailing within the Italian market. The strategy of the company was also being actively revisited, in the context of the current and forecast business cycles. Pruning of the agencies and the RCA portfolio, with an increased focus on northern Italy and business mix are high priorities for the company. Ensuring adequate pricing that is commensurate with the risks underwritten was always recognised by the company; however any increase in premium is subject to actuarial and regulatory provisions, which affects the timely implementation of such revisions. Following the negative result from motor liability in 2008 the company has requested the Regulator's authority to increase its RCA tariff.

In 2008 the Italian Government introduced the 'Anti Crisi' Decree No. 185/2008. This had a positive impact since all movements on investments between the 1 July and the 31 December 2008 were allowed not to be taken to Italian companies' Profit and Loss, unless investments were impaired. This has mitigated the loss in Progress's financial statements by €4.7 million. However this benefit could not be taken on consolidation in the holding company's (MSI) financial statements.

As a result of the financial loss of Progress in 2008, the issued share capital was adversely affected and reduced to €17.6 million. As indicated earlier, on the 6 April 2009 Progress announced an issue of share capital to increase its authorised and issued share capital by €1.96 million, to €19.6 million.

The Annual General Meeting of Progress held on the 30 April 2009 approved certain changes in order to cover the loss incurred in the financial year 2008 including (i) the utilisation of €6.1 million from existing reserves and (ii) a reduction in the nominal share value to €0.0069. This resulted in a total reduction of €7.9 million in the total value of the issued shares.

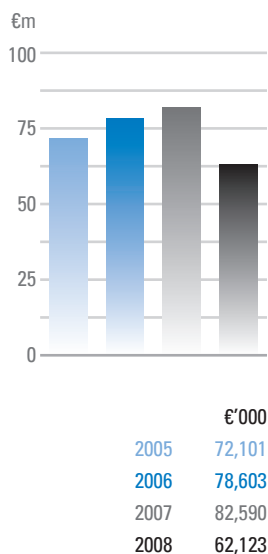
Furthermore the AGM approved a new capital injection of €1.96 million. As a result of the foregoing the total authorised and issued share capital of the company as at 30 April 2009 reached €19.6 million. All issues were fully subscribed.

[International Insurance Management Services Ltd.](#)

The Group's subsidiary providing insurance management services to the Group and international clients, International Insurance Management Services, further strengthened its international client base during the year. The company registered a positive financial result with a revenue fee income of €3.2 million and a post-tax profit contribution of €0.99 million to the Group. IIMS increased its international client base which now contributes 21% of its revenue. The subsidiary actively pursues insurance/reinsurance companies and captives that favourably consider setting up and operating from Malta. The company is well positioned to provide highly competitive and professional management services to international companies.

EXECUTIVE CHAIRMAN'S STATEMENT

SHAREHOLDERS' FUNDS



ASSOCIATE

Middlesea Valletta Life Assurance Co. Ltd, the specialised life company of the Group, registered a profit after tax of €1.92 million. Business written decreased by 19% to €110 million (the first slowdown registered in seven years), whilst the company's total assets increased marginally to €843 million as at the end of 2008. The investment return of MSV decreased from an income of €26.5 million in 2007 to a loss of €31.8 million in 2008, after taking into account fair value mark downs on its investment portfolio. The direct impact of the financial crisis on MSV was nevertheless mitigated due to its prudent investment policy, whereby the company holds a defensively positioned and widely diversified investment portfolio of quality assets, locally and overseas.

MSV's issued and paid-up capital as at the end of 2008 increased to €39.75 million, (through the capitalisation of the year end declared dividend) whilst total shareholders' equity reduced marginally to €90 million. The balance sheet of this associate company remained financially strong with its solvency cover exceeding statutory and regulatory requirements.

The company declared varied reversionary bonuses to its policyholders consistently with previous years. This was in accordance with its smoothing policy on bonus declarations over the period of the policies.

INVESTMENT MARKETS

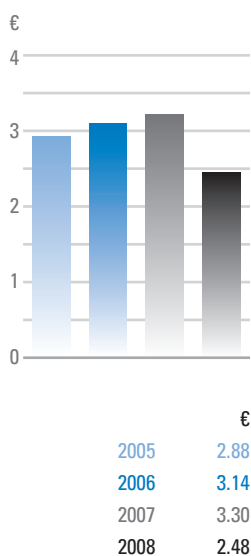
Middlesea Group's investment strategy of aiming to preserve capital value whilst maintaining liquidity and maximising returns, continued to apply throughout the Group. This strategy contributed towards the containment of fair value losses incurred during the year. However, the Group could not but follow the fortunes of the financial sector. Due to the unprecedented downturn in the value of local and international investments, the Group registered capital losses as declared earlier.

2008's upheaval in the financial markets was unprecedented in living memory. In 2007 the Group had taken some defensive measures and all new money was channelled into short term liquid instruments. Despite this the Group incurred losses in view of the magnitude of the fall in the equity markets. The equity exposure was actively monitored in relation to the solvency positions of each company.

Major economies continued with the downward business cycle trends emerging late in 2007. All central banks continued with the interest rate cutting exercise in 2008. Governments in many countries were offering massive financial bailouts to try to contain the financial crisis and its impact on the economy and to prevent established credit institutions from succumbing under the overwhelming weight of toxic assets.

Insurers must attempt to maximise investment returns and minimise risk to shareholders and policyholders. One of the primary risk control measures for investment strategies is the Asset/Liability Matching. This approach considers the risks related to the term, nature and

NET ASSET VALUE PER €0.60 SHARE



currency of both assets and liabilities. Insurers regularly review their investment strategy due to the evolving investment markets that constantly affect the insurance portfolios.

In this context in 2007 the Middlesea Group had commissioned Watson Wyatt Worldwide for consultancy on the formulation for the Group companies' investment strategy review. The objectives quantified the Group's risk appetite vis-à-vis liabilities and determined the optimal different asset classes allocations. This important exercise was completed in 2008 but the respective Board of Directors, on the recommendation of the Group investment committee, decided to time the full implementation in view of the high volatility prevailing in global financial markets, whilst monitoring developments continuously.

GROUP

The Group continued with its policy of carrying its financial assets at fair value through profit or loss, and of recognising in the balance sheet the value of its share of MSV's in-force business valuation, which both serve to reduce the gap between the reported value of the Group's net assets and the market value of its underlying businesses.

The Group's balance sheet remains a statement of net worth drawn up in accordance with International Financial Reporting Standards, and in accordance with applicable law, and is not meant to convey the business value of the Group.

Shareholders' funds were negatively impacted by the loss registered by the Group for 2008. As a result of this loss, shareholders' funds decreased by 25% to €62.1 million. The total group assets increased by 5% to €316 million during 2008. The further strengthening of the technical reserves, undertaken during the financial year, particularly in Progress Assicurazioni S.p.A., resulted in a 21% increase in the gross technical reserves of the Group. The ratio of the net technical reserves to the net premium written by the Group was also further strengthened, by 10 percentage points, and as at the end of the financial year 2008 stood at 177%.

In 2008 the Group's overall business net operating ratio (net of reinsurance) deteriorated from 92% to 129% as a result of the inordinately increased claims experience in the Italian subsidiary and after taking account of the losses sustained on the investment portfolio. The loss on the capital employed by the Group amounted to 30% whilst the net asset value per 60c share reduced to €2.48. The net loss per share amounted to 74c8 for the financial year 2008.

The administrative expenses of the Group, as included in the non-technical profit and loss account, represent expenditure after appropriate apportionments are made to the general and long term business technical accounts. This item of expenditure for 2008 increased by 3.6% to €2.96 million. The major increases of expenditure were incurred in information technology, marketing, and increase in staff costs in line with collective agreements and statutory cost of living increases.

BUSINESS DEVELOPMENT AND CORPORATE STRATEGY

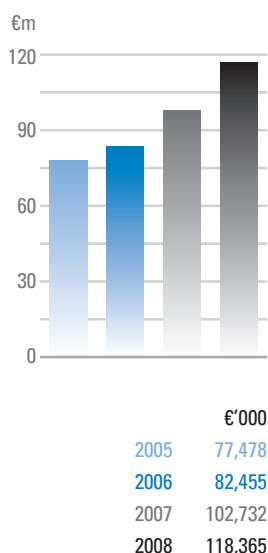
Notwithstanding the turbulence prevailing from the fourth quarter of 2007, Middlesea remained faithful to its values that had defined the company since its inception. The fundamental principles found in our Mission Statement and Business Philosophy continued to govern our relationship with all stakeholders.

During the year under review the Group continued to focus on its growth strategy in both the local and overseas markets. Identifying international partners that offered synergy for our overseas expansion presented challenges. Locally, we managed to register the desired growth and mix of business through our varied distribution channels, as well as by diversifying in insurance management services. However, overseas we faced strong challenges which emerged and became transparent through our working experience.

The Group made substantial investment in its information technology and service delivery. Further progress was registered in the implementation of a number of important projects within the various companies

EXECUTIVE CHAIRMAN'S STATEMENT

GROSS PREMIUMS WRITTEN - GENERAL BUSINESS



forming the group. The main objectives remained to manage real time information which would enable the Group to identify, target, correct market deficiencies and grasp opportunities. Ultimately these operational improvements should benefit our policyholders and other stakeholders.

CORPORATE GOVERNANCE

The unprecedented turmoil and consequential disarray in the global financial system in 2008, brought to the fore the fundamental importance of good corporate governance. Advancing best practice, ensuring public confidence, and strengthening trust in the market remained a *sine qua non* in our business.

The Boards of Directors of the Group companies remained committed to maintain and enhance the highest levels of governance in compliance. Total transparency, clarity, professionalism and accountability were the driving forces that enabled the board members to achieve this through their continued active participation in the various group committees, as explained in the 'Corporate Governance - Statement of Compliance' in this Annual Report. This focus will remain unabated.

CORPORATE SOCIAL RESPONSIBILITY

The Group's Corporate Social Responsibility (CSR) was a guiding principle during the year under review and the Middlesea Group actively participated within the communities in which it operates. Adhering and implementing our CSR policy ensured that the company's business philosophy and values were put in practice.

During 2008 we initiated a new project together with the University of Malta and the Malta Insurance Association. Thereby, Middlesea Group has been instrumental in driving and providing financial support for the setting up of a specialised insurance university degree at the University of Malta, starting from October 2008. More than 40 students have taken up this course, which leads to a first degree in Insurance and Finance. Indeed the Group holds the Chair in Insurance for the said university degree. This has further increased the educational training opportunities in Malta to meet the increasing demands in the insurance and financial services sector as well as enhancing Malta's status as an International Financial Centre of high repute.

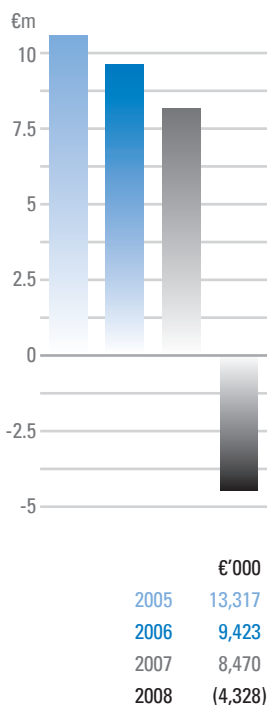
Middlesea supported a number of initiatives of local institutions and NGOs in various areas. These are amply described under the 'Corporate Social Responsibility Policy' included in this Annual Report.

WAY FORWARD

Middlesea's group strategy to seek and identify opportunities in overseas primary insurance markets was the driving force of its acquisition of Progress Assicurazioni S.p.A. in 2000. Initially this was a partnership with the Spanish leading insurer Mapfre Internacional that subsequently became one of the largest shareholders in the Middlesea Group.

The up-cycle motor insurance market at the time assisted this company to achieve encouraging results with profits registered between 2001

INVESTMENT RETURN / (EXPENSE)



and 2006. New challenges emerged in the following years including the introduction in February 2007 of the CARD system. The company's strategy to build a balanced portfolio initially from the south and later spreading into northern Italy proved to be a very challenging objective.

The considerable loss incurred by Progress in 2008, together with the immediate future challenges emerging in the Italian market have necessitated that the taking of important decisions on its future direction need to be made before the end of this current year by the Board of Directors.

Solvency II was expected to introduce a common European approach for insurers based on economic principles for the measurement of assets and liabilities. This entails a risk-based system where risk is measured on consistent principles and that capital requirements are aligned with the underlying risks underwritten by the insurer.

During 2008, the Group actively participated in local and international conferences on the subject of Solvency II that is expected to be introduced in 2012.

A major exercise was undertaken during the year which enabled the Group to participate in the completion of the Quantitative Impact Study 4, a study lead by the European Supervisory Committee, CEIOPS. All entities within the Group submitted their workings and observations to their respective Regulatory Authority.

The Board of Middlesea Insurance p.l.c. is currently examining the structure of the group, looking ahead at the long term needs of the business. Middlesea Insurance p.l.c. is today both an insurance company operating principally in the Maltese market and a holding company of a group that has interests in Italy, a large investment in Middlesea Valletta Life Assurance Co., in partnership with Bank of Valletta, an insurance management services arm (IIMS) and some property holding companies. This structure was not designed in this manner when Middlesea Insurance p.l.c. was founded but, it so evolved in this manner over time.

As explained in the last Annual General Meeting the Group's structure is not necessarily the ideal one. The outgoing Board would much prefer a Group structure which is headed by a separate holding company whose sole business would be that of owning and overseeing all the activities of the Group; and which would also comprise, amongst other interests, a separate insurance company that is engaged exclusively in insurance business, mainly in Malta. We have accordingly commenced the process that would propose this change to the shareholders for their consideration in due course. The change we envisage, which would first require various regulatory approvals, entails an internal reorganisation that would not impact in any way the interests of shareholders. It would however enhance management focus and business flexibility.

During 2008 the Middlesea Group continued to focus on future challenges that arise continually from market forces and increased statutory and regulatory requirements. The future direction of our subsidiary, Progress, together with the Group restructuring will be our priority in 2009.

The prospect of an early return to profitability becomes even more challenging when considering the current grey economic environment and the continuing uncertainties in the financial markets. The companies forming the Group follow the fortunes of the countries in which they operate, which in turn are showing signs of soft market conditions and cut-throat competition. Nonetheless, our collective determination is to strive without remittance to overcome these huge tasks.

In conclusion I would like to express my gratitude and appreciation for the unstinting efforts and determination of the Board of Directors, Management and Staff. I would also like to express my appreciation and thanks to our Shareholders for their continuous support, and our Customers for their trust in our organisation.



MARIO C. GRECH
EXECUTIVE CHAIRMAN

Fl-introduzzjoni għall-istqarrija li għamilt is-sena l-oħra jien semmejt li "in-natura incerta inerenti fin-negozju ta' assigurazzjoni kienet riflessa fiċ-ċaqliq ċikliku kemm fl-operazzjonijiet kapitali u kemm f'dawk teknici." Fil-fatt, l-operazzjonijiet tagħna fl-2008 ntlawt hażin kemm mill-kriżi fis-swieg finanzjarji globali u kemm mit-telf tekniku konsiderevoli ta' Progress Assicurazioni S.p.A., is-sussidjarja Taljana tagħna. Dawn kienu l-fatturi li tellfu s-27 sena storja ta' riżultati finanzjarji pożittivi tal-Grupp tal-Middlesea.

OPERAT

Il-Grupp tal-Middlesea rreġistra telf ta' €29.8 miljun qabel il-hlas tat-taxxa (€20.6m wara l-hlas tat-taxxa) għas-sena li għalqet fil-31 ta' Diċembru 2008 mqabbel ma' profitt ta' €9.3 miljun fis-sena 2007. Meta sar il-konsolidament, il-kawzi ewlenin tat-telf tal-Grupp kienu r-riżultat tekniku sfavorevoli ta' €26.1 miljun reġistrat minn Progress u l-impatt taċ-ċaqliq sfavorevoli ta' €12.2 miljun fis-swieg kapitali (lokali u barranin). Il-kumpaniji kollha tal-Grupp intlawt hażin mit-telf fis-swieg finanzjarji, esperjenza unika f'għexieren ta' snin. Madankollu, ebda waħda mill-kumpaniji ma kienet esposta għal dawk l-*sub-prime* li kienu l-kawzi fl-għerq tal-kriżi finanzjarja globali prezenti.

STQARRIJA TAĊ-CHAIRMAN EŻEKUTTIV

Filwaqt li dawn iż-żewġ sorsi ta' dħul taw riżultati diżappuntanti fis-sena 2008, il-Middlesea Insurance p.l.c. (MSI) tat riżultat tekniku pożittiv ta' €1.78 miljun. It-telf mill-investimenti fl-ishma biddel l-aspett favorevoli mir-riżultat pożittiv tekniku. Is-sussidjarja tagħna, l-International Insurance Management Services Ltd (IIMS), u l-assocjata, il-Middlesea Valletta Life Co. Ltd (MSV), it-tnejn ikkontribwixxew riżultati pożittivi lill-Grupp.

Il-Grupp irreġistra zieda totali ta' 15% fin-negozju mill-operazzjoni ta' assigurazzjoni ġenerali tiegħu fl-Italja, Malta u Gibiltà; il-primjums gross sottoskritti żdiedu għal €118 miljun fis-sena 2008. Dħul iġġenerat mis-servizzi ta' mmaniġġjar ta' assigurazzjoni, kif konsolidat, tela' wkoll għal €1.82 miljun. Tkabbir fil-primjum tela' l-aktar mill-operazzjoni Taljana li rreġistrat zieda ta' 20% għal €86 miljun. L-MSI irreġistrat zieda ta' 4% fin-negozju; il-primjums totali sottoskritti fin-negozju ġenerali u tal-hajja ta' gruppi telgħu għal €34 miljun.

L-iffukar tal-Grupp fuq is-saħħa tal-Karta Bilanċjali tul is-snin għenu jassorbi t-telf li ġarrab fis-sena 2008, filwaqt li fl-istess hin daħal fis-sena 2009 b'karta bilanċjali b'saħħitha. Il-kumpaniji regolati kollha fil-Grupp issodisfaw b'mod adegwat il-marġini ta' solvibilità statutorji u regolatorji; il-Middlesea Insurance p.l.c. kellha kopertura ta' solvibilità li tammonta għal 250%.

Tul l-istorja ta' 27 sena tagħha, il-Middlesea Insurance hallset lill-azzjonisti tagħha total ta' dividends gross li jammonta għal €38.5 miljun. Il-Bord tad-Diretturi li ltaqa' nhar it-Tnejn, 27 ta' April 2009, qies l-importanza tal-politika ta' dividend tal-kumpanija, li ffukat fuq is-saħħa tal-karta bilanċjali, flimkien mad-distribuzzjoni ekwa tal-profitti ġġenerati lill-azzjonisti. Il-Bord ikkonkluda li, minhabba

r-rizultat tat-telf li sar fis-sena finanzjarja 2008, ma kellux jirrikkmanda l-flas ta' dividend għal din is-sena.

MIDDLESEA INSURANCE P.L.C.

L-MSI irregistrat telf ta' €3.6 miljun wara l-flas tat-taxxa li jrid jitqabbel ma' profitt ta' €5.3 miljun fis-sena 2007. Il-kumpanija pproduċiet rizzultat tekniku ġenerali pożittiv li, madankollu, kien influenzzat b'mod negattiv mit-telf kapitali (eskluz qliġh kapitali) rappurtat fuq investimenti (fi swieq lokali u barranin) li b'kollox ammontaw għal €7.4 miljun. Barra minn dan, l-MSI kellha tipprovdi għal telf fil-valur ta' €2.5 miljun fuq l-investment tagħha fis-sussidjarja Taljana, Progress Assicurazioni.

Il-primjums gross sottoskritti (eskluz s-sottoskrizzjoni fuq negozju tal-hajja individwali) f'Malta għas-sena finanzjarja 2008 żdiedu b'4.62% fuq is-sena ta' qabel. Id-dhul minn primjums għal Malta u Ġibiltà ammontaw għal €32.3 miljun li jirrifletti żieda ta' €0.9 ta' miljun fuq is-sena 2007. Ir-rizzultat tan-negozju ta' assigurazzjoni ġenerali kompli jgawdi minn *run-off* favorevoli (meta taqta' r-riassigurazzjoni) ta' €3.4 miljun. L-MSI baqgħet iżzomm l-atteggjament prudenti tagħha fir-rizervar għal klejms u fuq l-iffukar fuq l-amministrazzjoni tal-klejms billi ssegwi żviluppi fuq informazzjoni teknika disponibbli. Skont il-politika tal-kumpanija, il-provvedimenti tekniċi netti ssaħħu b'6% għal €37.1 miljun. Il-proporzjon ta' telf, meta taqta' r-*run-off*, għall-kumpanija nżamm fl-istess livell tas-sena ta' qabel.

L-aġenzija tal-kumpanija f'Ġibiltà rregistrat rizzultat nett ta' sottoskrizzjoni pożittiv ta' €0.56 miljun, titjib

ta' 72% fuq is-sena ta' qabel; id-dhul minn primjums kien €2.8 miljun. L-istatus kompost tal-MSI kompli jippermettilha tissottoskrivi negozju ta' assigurazzjoni tal-hajja ta' gruppi, li tela' għal €1.7 miljun. Ir-rizzultat nett ta' sottoskrizzjoni minn dan in-negozju, wara l-investimenti, naqas għal €0.31 ta' miljun (2007 - €0.38m).

Sa mill-bidu tagħha, il-politika ta' investimenti tal-kumpanija baqgħet prudenti u ffukata fuq sigurtà, likwidità u qliġh. Skont l-International Financial Reporting Standards u l-klassifikazzjoni ta' politika ta' valur ekwu tal-kumpanija, telf nett ta' €1.7 miljun mill-investimenti (wara dhul u ċaqliq favorevoli f'investimenti bi dhul fiss, iżda qabel il-qtugh ta' spejjeż konnessi ma' telf fil-valur tas-sussidjarja) għadda għall-kont ta' qliġh u telf.

SUSSIDJARJI

Progress Assicurazioni S.p.A.

Is-sussidjarja Taljana, Progress Assicurazioni S.p.A. (Progress), iġġenerat €86 miljun primjums gross sottoskritti, żieda ta' 20% fuq is-sena ta' qabel. Negozju RCA (responsabbiltà ta' vetturi) ikkontribwixxa 74% (mqabbel ma' 72% fis-sena 2007) għat-taħlita tal-portafoll ġenerali. Il-kontribut ta' Progress lir-rizzultati tal-Grupp, qabel il-flas tat-taxxa, kien telf gross ta' €26.8 miljun, deterjorament sinifikanti ħafna mir-rizzultat pożittiv ta' €3.1 miljun fis-sena 2007.

Progress irregistrat telf ta' €19.1 miljun wara l-flas tat-taxxa kif konsolidat fir-rizzultati tal-Grupp. L-introduzzjoni fl-Italja tal-*Convenzione tra Assicuratori per Risarcimento Diretto* (CARD), is-sistema ta' Indennizz Dirett obligatorju mdaħħla tul il-bidu tas-sena 2007, holqot incertezzu u laqtet ħażin, kif kien mistenni, ir-rizzultati tekniċi tas-sena 2008. Mill-aspett tekniku din is-sistema ġdida ta' ħlas ta' klejms esponiet lill-kumpanija biex tindennizza l-ħsara tal-assigurat tagħha stess filwaqt li l-irkupru (ibbażat fuq mudelli ta' ammonti fissi) mill-assiguraturi ta' min hu responsabbli għall-incident stradali hu aktar baxx mit-telf attwali mħallas mill-kumpanija lill-assigurat. Tul is-sena 2008 Progress daħlet ukoll għal tishih ulterjuri tal-provvedimenti tekniċi tagħha li, flimkien mal-impatt sfavorevoli tas-sistema CARD u r-rizervi oġġha għal lezjonijiet personali u mwiet, kellhom impatt negattiv fuq ir-rizzultati. Din iż-żieda

STOARRIJA TAČ-CHAIRMAN EŻEKUTTIV

ġenerali fil-frekwenza ta' klejms ta' responsabbiltà ta' vetturi, klejms irrappurtati tard, u konċentrazzjoni fir-reġjun diffiċli tal-Campania, ikkontribwixxew ukoll għad-deterjorament tar-risultati tal-RCA.

Il-Bord tad-Diretturi u l-Maniġment iddeċidew li jsaħħu l-provvedimenti tekniċi ġenerali ta' Progress tul is-sena bi 28% għal €160 miljun. Is-solvibilità tal-kumpanija ssodisfat ir-rekwiżiti statutorji.

Il-Grupp għaddej b'ristrutturazzjoni tal-manigiement ta' Progress f'oqsma l-aktar importanti (fosthom Sottoskrizzjoni, Klejms u Amministrazzjoni ta' Intermedjarji) biex jiżgura tishih ulterjuri tar-rizorsi tiegħu, bil-ħsieb aħħari li jilqa' għall-ħafna sfidi li joffri s-suq Taljan. L-istrategija tal-kumpanija wkoll kienet qed tkun riveduta attivament fil-kuntest tač-ċikli ta' negozju prezenti u mbassra tas-suq. It-tizbir tal-aġenziji u tal-portafoll, b'iffukar akbar fuq l-Italja ta' Fuq u t-taħlita tan-negozju, huma prijoritajiet għolja għall-kumpanija. Il-kumpanija dejjem fittxet li tikseb prezz tajjeb u xieraq meta mqabbel mar-riskji li tidhol għalihom; madankollu, kull zieda fil-primjum hija suġġetta għal dispożizzjonijiet attwarjali u regolatorji li jolqtu l-implimentazzjoni fil-ħin addattat ta' dawn ir-revizjonijiet. Wara r-risultat negattiv minn assigurazzjoni ta' responsabbiltà ta' vetturi fis-sena 2008, il-kumpanija talbet l-awtorità tar-Regolatur għal zieda fit-tariffa tal-RCA tagħha.

Fis-sena 2008 l-Gvern Taljan introduċa d-Digriet 'Anti Crisi' Numru 185/2008. Dan kellu impatt pożittiv billi ppermetta li č-čaqliq negattiv fil-każ ta' investimenti bejn l-1 ta' Lulju u l-31 ta' Diċembru 2008 ma jgħaddix fil-Kont ta' Qligħ u Telf tal-kumpanija Taljana, sakemm ma jkunx hemm telf fil-valur tal-investimenti. Dan taffa t-telf fir-rapport finanzjarju ta' Progress b'€4.7 miljun. Iżda dan il-benefiċċju ma setax jittiehed fil-konsolidament tad-dikjarazzjonijiet finanzjarji tal-kumpanija ewlenija (l-MSI).

B'risultat tat-telf finanzjarju ta' Progress għas-sena 2008, il-kapital ta' ishma maħruġ intlaqat ħazin u tnaqqas għal €17.6 miljun. Kif intqal qabel, fis-6 ta' April 2009 Progress ħabbret ħruġ ta' kapital ta' ishma biex tkabbar il-kapital awtorizzat u maħruġ tagħha b'€1.96 miljun u hekk tela' għal €19.6 miljun.

Il-Laqqgħa Ġenerali Annwali li saret fit-30 ta' April 2009 approvat čerti bidliet biex tkopri t-telf imġarrab fis-sena fnanzjarja 2008 inklużi (i) l-utilizzazzjoni ta' €6.1 miljun mir-rizervi prezenti, u (ii) tnaqqis fil-valur nominali tal-ishma għal €0.0069. Dan wassal għal tnaqqis totali ta' €7.9 miljun fil-valur totali tal-ishma maħruġin.

Barra minn hekk, il-Laqqgħa Ġenerali Annwali approvat injezzjoni ta' €1.96 miljun kapital ġdid. B'risultat ta' dan t'hawn fuq, il-kapital totali awtorizzat u maħruġ tal-kumpanija laħaq, fit-30 ta' April 2009, id-€19.6 miljun. L-ishma maħruġa kienu sottoskritti kollha.

[International Insurance Management Services Ltd](#)

Is-sussidjarja tal-Grupp li tagħti servizzi amministrattivi ta' assigurazzjoni lill-Grupp u lil klijenti internazzjonali, l-International Insurance Management Services, komplet issaħħaħ il-baži ta' klijenti internazzjonali tagħha tul is-sena. Il-kumpanija rreġistrat rizultat

finanzjarju pożittiv; id-dhul minn tariffi kien €3.2 miljun u kien hemm kontribut ta' €0.99 ta' miljun lill-Grupp wara l-flus tat-taxxa. L-IIMS kabbret il-baži tal-klijenti internazzjonali tagħha li issa tikkontribwixxi 21% tad-dhul tagħha. Is-sussidjarja ssegwi attivament kumpaniji ta' assigurazzjoni/riassigurazzjoni u kumpaniji *captive* li qed jikkunsidraw attivament li jigu u joperaw minn centru finanzjarju Malti. Il-kumpanija qiegħda f'pożizzjoni tajba biex tagħti servizzi ta' ammistrazzjoni kompetittivi u professjonali ta' livell għoli lil kumpaniji internazzjonali.

ASSOĊJATA

Il-Middlesea Valletta Life Assurance Co. Ltd, il-kumpanija tal-Grupp speċjalizzata fuq assigurazzjoni tal-hajja, irreġistrat profitt ta' €1.92 miljun wara l-flus tat-taxxa. Negożju sottoskritt niżel b'19% għal €110 miljuni (l-ewwel tnaqqis reġistrat f'seba' snin) filwaqt li l-assi totali tal-kumpanija telghu marginalment għal €843 miljun sa tmiem is-sena 2008. Il-qligħ mill-investimenti tal-MSV niżel minn dhul ta' €26.5 miljun fis-sena 2007 għal telf ta' €31.8 miljun fis-sena 2008, meta jitqiesu t-telf fil-valur ekwu tal-portafoll ta' investimenti tagħha. Minkejja dan, l-impatt dirett tal-kriżi finanzjarja fuq l-MSV trażżan minhabba l-politika prudenti ta' investimenti li bis-saħħa tagħha l-kumpanija żżomm portafoll ta' investimenti f'assi lokali u barranin ta' kwalità pożizzjonat b'mod difensiv u mifruż b'mod wiesa'.

Il-kapital maħruġ u mħallas tal-MSV kif kien fi tmiem is-sena 2008 żdied għal €39.75 miljun (bis-saħħa tal-kapitalizzazzjoni tad-dividend iddikjarat f'għeluq is-sena) filwaqt li l-ekwità totali tal-azzjonisti niżlet marginalment għal €90 miljun. Il-karta bilanċjali ta' din il-kumpanija assoċjata baqgħet finanzjarjament b'saħħtiha, u l-kopertura ta' solvibilità tagħha hi oġġla mir-reqwiżiti statutorji u regolatorji.

Il-kumpanija ddikjarat diversi bonus riversjonarji lill-assigurati tagħha, kif għamlet fis-snin ta' qabel. Dan kien skont il-politika ta' livellar tad-dikjarazzjonijiet tal-bonus fuq il-perjodu tal-poloż.

SWIEQ TA' INVESTIMENTI

L-istrategġija ta' investimenti tal-Middlesea li hija maħsuba biex iżżomm shiħ il-valur tal-kapital filwaqt li iżżomm likwidità u tkabbar il-qligħ kemm jista' jkun, baqgħet tapplika għall-Grupp kollu. Din l-istrategġija kkontribwixxiet biex setgħu jitrażżnu t-telfiet fil-valur ekwu mgarrbin tul is-sena. Madankollu l-Grupp ma setax ma jimxix max-xorti tas-settur finanzjarju. Minhabba l-inżul bla preċedent fil-valur tal-investimenti lokali u internazzjonali, il-Grupp irreġistra telf kapitali kif intqal qabel.

It-taqlib tas-sena 2008 fis-swieq finanzjarji li kompla fis-sena li qegħdin fiha hu bla preċedent. Fis-sena 2007 l-Grupp kien ha xi mizuri difensivi u l-flus godda kollha tqiegħdu f'investimenti likwidi għal żmien qasir. Minkejja dan, il-Grupp ġarrab telf minhabba l-livell sostanzjali tal-waqqgħa fis-swieq tal-ishma. L-espożizzjoni għal investimenti f'ishma kienet immonitorjata attivament f'relazzjoni mal-pożizzjonijiet ta' solvibilità ta' kull kumpanija.

L-ekonomiji ewlenin baqgħu niżlin fix-xejriet taċ-ċiklu tan-negożju li bdew jidhru tard fis-sena 2007. Il-banek ċentrali kollha baqgħu għaddejnin bl-eżerċizzju ta' qtugħ tar-rati ta' mgħax fis-sena 2008. Il-gvernijiet f'hafna pajjiżi kienu qed joffru għajnuniet finanzjarji kbar biex jippruvaw irażżnu l-kriżi fis-swieq u l-impatt negattiv fuq l-ekonomija u biex ma jhallux istituzzjonijiet ta' kreditu stabbiliti jogħtru taħt il-piż enormi ta' assi b'riskju għoli.

Assiguraturi jeħtieġ jippruvaw jibbilanċjaw il-qligħ fuq l-investimenti mar-riskju inerenti għall-azzjonisti u għall-assigurati. Waħda mill-mizuri ewlenin tal-kontroll tar-riskju fil-każ ta' strategġiji ta' investiment hi l-*Asset/Liability Matching*. Dan l-atteġġjament iqis ir-riskji relatati mat-terminu, natura u munita kemm attivi u kemm passivi. Assiguraturi jirvedu regolarment l-istrategġija ta' investiment tagħhom minhabba s-swieq li l-evoluzzjoni kontinwa tagħhom toqot il-hin kollu l-investimenti tal-kumpaniji assiguratrici.

F'dan il-kuntest, fis-sena 2007 l-Grupp tal-Middlesea kien hatar lil Watson Wyatt Worldwide għal konsulenza fuq il-formulazzjoni ta' revizzjoni tal-istrategġija ta' investimenti għall-kumpaniji tal-Grupp. L-oġġettivi keġlu l-atteġġjament tal-Grupp lejn ir-riskju f'relazzjoni mal-passivi u ddeterminaw l-aqwa allokkazzjonijiet ta' klassijiet ta' assi differenti. Dan l-eżerċizzju importanti tlesta fis-sena 2008 iżda

STOARRIJA TA' CHAIRMAN EŻEKUTTIV

I-Bordijiet tad-Diretturi rispettivi, wara rakkomandazzjoni mill-kumitat tal-Grupp għall-Investimenti, iddeċidew li jagħtu żmien sakemm issir implimentazzjoni sħiħa minhabba l-volatilità prevalenti fis-swieq finanzjarji globali filwaqt li jibqgħu l-hin kollu jsegwu l-iżviluppi li jkunu għaddejnin.

GRUPP

Il-Grupp kompla sejjer bil-politika tiegħu li jikklassifika l-assi finanzjarji tiegħu f'livell ta' valur ekwu u jirrefletti ċ-ċaqliq fil-profitt jew telf, u li jagħraf fil-karta bilanċjali l-valur tal-ishma tiegħu fl-istima tal-valur tan-negożju, li t-tnejn li huma jservu biex inaqqsu d-differenza bejn il-valur irrappurtat tal-assi netti tal-Grupp u l-valur fis-suq tan-negożju li jsostnih.

Il-karta bilanċjali tal-Grupp tibqa' dikjarazzjoni tas-siwi nett tiegħu mfassla skont l-International Financial Reporting Standards u f'konformità mal-liġi applikabbli, u mhix maħsuba biex tgħid x'inhu l-valur kummerċjali tal-Grupp.

Il-fondi tal-azzjonisti ntlaqtu hażin mit-telf reġistrat mill-Grupp għas-sena 2008. B'riżultat ta' dan, il-fondi tal-azzjonisti niżlu b'25% għal €62.1 miljun. L-assi totali tal-grupp żdiedu b'5% għal €316 miljun tul is-sena 2008. It-tishih ulterjuri tar-riżervi tekniċi, li sar tul is-sena finanzjarja, partikolarment fil-każ ta' Progress Assicurazioni S.p.A., irriżulta f'żieda ta' 21% fir-riżervi tekniċi gross tal-Grupp. Il-proporzjon bejn ir-riżervi tekniċi netti u l-primjums netti sottoskritti mill-Grupp issaħhet aktar b'10 punti perċentwali u fi tmiem is-sena finanzjarja 2008 kienet 177%.

Fis-sena 2008 l-proporzjon operattiva netta tan-negożju ġenerali (wara l-qtugħ ta' spejjeż ta' riassigurazzjoni) ddgħajfet minn 92% għal 129% minhabba żieda konsiderevoli ta' klejms li kellha s-sussidjarja Taljana u wara li jitqies it-telf li sar fuq il-portafoll ta' investimenti. It-telf fuq il-kapital imhaddem mill-Grupp ammonta għal 30% filwaqt li l-valur nett tal-assi għal kull sehem ta' 60ċ niżel għal €2.48. It-telf nett kull sehem għas-sena finanzjarja 2008 kien 74ċ8.

L-ispejjeż amministrattivi tal-Grupp, kif imdaħħlin fil-kont mhux tekniku ta' qligħ u telf, jirrapprezentaw infiq wara allokkazzjoni xierqa fil-kontijiet tekniċi tan-negożju ġenerali u tan-negożju għat-tul. Dan l-oġġett ta' nefqa għas-sena 2008 żdied bi 3.6% għal €2.96 miljun. L-akbar żidiet fl-infiq saru fit-teknoloġija tal-informazzjoni, promozzjoni tas-suq, u żidiet lill-impjegati kif iridu l-ftehim kollettivi u ż-żidiet statutorji għall-għoli tal-ħajja.

ŻVILUPP TAN-NEGOZJU U STRATEĠIJA KORPORATTIVA

Minkejja ċ-ċaqliq qawwi prevalenti fl-aħħar tliet xhur tas-sena 2007, l-MSI baqgħet iżzomm sħiħ mal-valuri tagħha li kienu l-karatteristika tal-kumpanija sa mill-bidu tagħha. Il-prinċipji fundamentali li hemm fid-Dikjarazzjoni ta' Missjoni u l-Filosofija tan-Negożju baqgħu jriegħu r-relazzjoni tagħna ma' dawk kollha involuti.

Tul is-sena li qed inqisu, il-Grupp kompla jiffoka fuq l-istrategija ta' tkabbir tiegħu kemm fis-suq lokali u kemm f'dak barrani.

L-identifikazzjoni ta' sħab internazzjonali li joffru sinerġija għall-espansjoni tagħna barra mill-pajjiż ipprezentat sfidi. Lokalment, aħna rnexxielna nirreġistraw it-tkabbir u t-taħlita ta' negozju mixteqin bis-saħħa tad-diversi metodi ta' distribuzzjoni tagħna u wkoll billi ddiversifikajna s-servizzi ta' amministrazzjoni tal-assigurazzjoni. Iżda barra minn Malta sibna sfidi qawwijin li qamu u saru evidenti fil-kors tal-esperjenza tagħna.

Il-Grupp għamel investiment sostanzjali fit-teknoloġija tal-informatika tiegħu u fl-għoti ta' servizz. Kien reġistrat aktar progress fl-implimentazzjoni ta' għadd ta' proġetti importanti fl-ambitu tad-diversi kumpaniji li jiffurmaw il-grupp. L-oġġettivi prinċipali jibqgħu l-immaniġġjar ta' informazzjoni fil-hin attwali li tagħti lill-Grupp il-hila li jidentifika, jiffissa miri, jikkoreġi nuqqasijiet fis-suq u jaħtaf opportunitajiet. Fl-aħħar mill-aħħar, dan it-titjib fl-operat għandu jkun ta' benefiċċju għall-assigurati tagħna u ta' oħrajn involuti.

GOVERNANZA KORPORATTIVA

L-importanza fundamentali ta' governanza korporattiva tajba ma setgħetx tkun iktar siewja għall-esperjenza fiż-żminijiet li għaddejna u għaddejin minnhom is-swieq finanzjarji globali. Fin-negozju tagħna, ma nistgħux ngħaddu mingħajr ma nfittxu dejjem l-aħjar prattika, li niksbu l-fiducja tal-pubbliku, u li nsahħu l-fiducja fis-suq.

Il-Bordijiet tad-Diretturi tal-kumpaniji tal-Grupp baqgħu impenjati li jzommu u jtejbu l-ogħla livelli ta' governanza fil-qasam tal-konformità. It-trasparenza totali, iċ-ċarezza, il-professjonalità u l-kontabilità kienu l-forzi li mexxew lill-membri tal-bordijiet biex setgħu jiksbu dan permezz tas-sehem attiv kontinwu fid-diversi kumitati tal-grupp kif imfisser fit-taqsima 'Governanza Korporattiva - Dikjarazzjoni ta' Konformità' f'dan ir-Rapport Annwali. Dan l-iffukar irid jibqa' għaddej bla waqfien.

RESPONSABILITÀ SOĊJALI KORPORATTIVA

Ir-Responsabbiltà Soċjali Korporattiva tal-Grupp (RSK) kienet prinċipju gwida tul is-sena li qegħdin inqisu, u l-Grupp tal-Middlesea ħa sehem attiv fil-komunitajiet li fihom jopera. L-aderenza għall-politika ta' RSK tagħna u l-implimentazzjoni tagħha żguraw li l-filosofija u l-valuri tan-negozju tal-kumpanija tqiegħdu fil-prattika.

Tul is-sena 2008 aħna tajna bidu għal proġett ġdid flimkien mal-Università ta' Malta u l-Malta Insurance Association. Hekk il-Grupp tal-Middlesea kien strumentali biex mexxa 'l quddiem u ta appoġġ finanzjarju għat-twaqqif ta' grad universitarju speċjalizzat fl-assigurazzjoni fl-Università ta' Malta li nbeda f'Ottubru 2008. Aktar minn 40 student promettenti daħlu għal dan il-kors li jwassal għal grad inizjali fl-Assigurazzjoni u l-Finanza tul is-sena akkademika kurrenti. Fil-fatt, il-Grupp tal-Middlesea għandu ċ-Chair fl-Insurance għal dan il-grad universitarju. Dan kompla jzid l-opportunitajiet ta' taħriġ edukattiv f'Malta biex jilhaq mad-domanda dejjem tikber fis-settur tas-servizzi ta' assicurazzjoni u finanzjarji u jtejjeb ukoll l-istatus ta' Malta bħala Centru Finanzjarju Internazzjonali ta' fama għolja.

Il-Middlesea appoġġjat għadd kbir ta' inizjattivi ta' istituzzjonijiet lokali u NGOs f'diversi oqsma. Dawn huma deskritti fil-wisa' fit-taqsima 'Politika ta' Responsabbiltà Soċjali Korporattiva' inkluża f'dan ir-Rapport Annwali.

IT-TRIQ 'IL QUDDIEM

L-istrategija tal-Grupp tal-Middlesea li tfittex u tidentifika opportunitajiet fi swieq ta' assicurazzjoni primarja barra mill-pajjiż kienet il-hsieb li mexxa 'l quddiem l-akkwist ta' Progress Assicurazioni S.p.A. fis-sena 2000. Għall-bidu din kienet sħubija mal-assicuratur ewlieni Spanjol, Mapfre Internacional, li 'l quddiem sar wieħed mill-akbar azzjonisti fl-Grupp MSI.

Iċ-ċiklu pożittiv fuq assicurazzjoni tal-vetturi li kien sejjer tajjeb f'dak iż-żmien għen biex din il-kumpanija tikseb riżultati inkoraġġjanti li rreġistraw profitti bejn is-snin 2001 u 2006. Sfidi ġodda deheru tul is-snin ta' wara, fosthom l-introduzzjoni fi Frar 2007 tas-sistema CARD. L-istrategija tal-kumpanija li tibni

STOARRIJA TA' CHAIRMAN EŻEKUTTIV

portafoll bilanċjat, l-ewwel fin-nofsinar u li mbagħad infirex fl-Italja ta' Fuq, irrizulta f'objettiv li offra sfida kbira.

It-telf konsiderevoli ħafna mgarrab minn Progress fis-sena 2008, flimkien mal-isfidi futuri immedjati li qed joħorġu fis-suq Taljan, holqu l-htieġa li l-Bord tad-Diretturi jieħu deċiżjonijiet importanti fuq id-direzzjoni futura qabel tmiem is-sena kurrenti.

Solvency II kienet mistennija li ddaħħal approċċ komuni Ewropew għall-assiguraturi bbażat fuq prinċipji ekonomiċi għall-kejl ta' assi u passivi. Dan jitlob sistema bbażata fuq ir-riskju li fiha dan jitkejjel skont prinċipji konsistenti u li l-htieġa għal kapital tkun imfassla skont ir-riskji li jidhol għalihom l-assiguratatur.

Tul is-sena 2008 l-Grupp ħa sehem f'konferenzi lokali u internazzjonali fuq is-sugġett ta' Solvency II li hi mistennija li tiddaħħal fis-sena 2012.

Tul is-sena sar eżerċizzju kbir u importanti li ta okkażjoni lill-Grupp li jieħu sehem fit-tlestija ta' Quantitative Impact Study 4, studju li tmexxa mill-European Supervisory Committee, CEIOPS. L-entitajiet kollha fil-Grupp issottomettew il-hidmiet u l-osservazzjonijiet tagħhom lill-Awtoritajiet Regulatorji rispettivi tagħhom.

Il-Bord tal-Middlesea Insurance p.l.c. bħalissa qed jeżamina l-istruttura tal-Grupp u jħares 'il quddiem lejn il-htigijiet tan-negozju fuq medda twila ta' żmien. Illum il-Middlesea Insurance p.l.c. hija kemm kumpanija ta' assigurazzjoni li topera prinċipalment fis-suq Malti u kumpanija ewlenija ta' grupp li għandu interessi fl-Italja, investiment kbir fil-Middlesea Valletta Life Assurance Co., bi sħab mal-Bank of Valletta, fergħa ta' servizzi ta' amministrazzjoni ta' kumpaniji ta' assigurazzjoni (IIMS) u xi kumpaniji li jippossiedu propjeta'. Din l-istruttura ma kinitx imfassla għal dan il-ghan b'dan il-mod meta twaqqfet il-Middlesea Insurance p.l.c. izda maż-żmien evolviet biex waslet għal kif inhi issa.

Kif kien spjegat fl-aħħar Laqgħa Ġenerali Annwali, l-istruttura tal-grupp mhix neċessarjament dik ideali. Il-Bord li wasal biex tintemm il-ħatra tiegħu jippreferi struttura ta' Grupp li fir-ras tagħha hemm kumpanija ewlenija separata li l-funzjoni waħdanija tagħha hija dik li tkun propjetarja u trieġi l-attivitajiet kollha tal-kumpaniji fil-Grupp, u li jkollha bħala parti minnha, fost hwejjeġ oħra, kumpanija ta' assigurazzjoni separata li tkun imdaħħla esklussivament fin-negozju ta' assigurazzjoni, l-aktar f' Malta. Għaldaqstant aħna bdejna l-proċess li jasal biex maż-żmien jipproponi din il-bidla għall-konsiderazzjoni tal-azzjonisti. Il-bidla li qed nipproponu, li jkun jeħtiġilha diversi approvazzjonijiet regulatorji, timplika riorganizzazzjoni interna li b'ebda mod ma toqot l-interessi tal-azzjonisti. Madankollu hi ttejjeb l-iffukar tal-manigment u l-flessibilità tan-negozju.

Tul is-sena 2008 l-Grupp tal-Middlesea baqa' jiffoka fuq sfidi ġejjiena li l-hin kollu joħorġu mill-forzi tas-suq u minn htigijiet statutorji u regulatorji ġodda. Id-direzzjoni futura tas-sussidjarja tagħna, Progress, flimkien mar-ristrutturar tal-grupp, se jkunu l-prijorità tagħna fis-sena 2009.

Il-prospett li f'qasir żmien il-Grupp jerga' jkollu profitti jsir sfida saħansitra akbar meta wieħed iqis l-ambjent ekonomiku negattiv u l-inċerteżzi kontinwi fis-swieq finanzjarji. Il-kumpaniji li jiffurmaw il-Grupp jimxu max-xorti tal-pajjiżi li fihom joperaw, li min-naħa tagħhom qed juru sinjali ta' kondizzjonijiet ta' suq dgħajjef u kompetizzjoni qalila. Madankollu, id-determinazzjoni kollettiva tagħna hija li naħdmu bla waqfien biex negħlbu dawn il-problemi enormi.

Biex nikkonkludi rrid nesprimi l-gratitudni u l-apprezzament tiegħi għall-isforzi bla waqfien u r-rieda qawwija tal-Bord tad-Diretturi, tal-Maniġment u tal-Impjegati. Irrid ukoll nesprimi l-apprezzament u r-ringrazzjamenti tiegħi lill-Azzjonisti tagħna għall-appoġġ kontinwu tagħhom, u lill-Klijenti għall-fiduċja tagħhom fl-organizzazzjoni tagħna.



MARIO C. GRECH
CHAIRMAN EŻEKUTTIV



MR M.C. GRECH



MR R. E. D. CHALMERS



MR G. BONNICI



DR E. CARUANA DEMAJO



MR A. CORSI



MR G. DEBONO GRECH



MR T. DEPASQUALE



MR J. FERNÁNDEZ-CID PLAÑIOL

MR M.C. GRECH - EXECUTIVE CHAIRMAN

FORMERLY: Managing Director of the Mediterranean Insurance Brokers Group, Director on the Board of Mediterranean Survey Bureau, Governor on the Board of the Malta International Business Authority, Chairman of the Malta Green Card Bureau, Governor on the Board of the Malta Financial Services Centre and member of the Protection & Compensation Fund Board, Executive Chairman of Mediterranean Insurance Training Centre and Director of Malta International Training Centre, CEO Middlesea Valletta Life Assurance Co. Ltd and Progress Assicurazioni S.p.A., Director of Plaza Centre p.l.c., Governor on the Board of Malta College of Arts, Science and Technology and President of the Malta Insurance Association.

AT PRESENT: President of Progress Assicurazioni S.p.A., Founding Director and Deputy Chairman of Middlesea Valletta Life Assurance Co. Ltd., Governor on the Board of the Malta Arbitration Centre, Chairman of Growth Investments Ltd., Chairman and CEO of International Insurance Management Services Ltd., and Euro Globe Holdings Ltd., Director of Midi p.l.c. and of Premium Realty Ltd, Chairman of the Middlesea Group Investment Committee and the Group Executive Management Committee. Hon. Member of Malta Institute of Management and Life Vice President - Chartered Insurance Institute U.K.

MR R. E. D. CHALMERS M.A. DIV.(EDIN), F.C.A., A.T.I.I., F.C.P.A., M.I.A. (DEPUTY CHAIRMAN)

FORMERLY: A partner with the offices of Coopers and Lybrand (later PricewaterhouseCoopers) in Malta and in Hong Kong. Managing Partner of Coopers & Lybrand Hong Kong and Chairman of the firm's South East Asia Regional Executive and a member of the International Board of Directors. Upon the merger of Coopers & Lybrand and Price Waterhouse in 1998, he was appointed Chairman, Asia-Pacific, for PricewaterhouseCoopers, until his retirement in 2000. He was also a member of the PwC Global Management Board. He served as a non-executive director of the Hong Kong Securities and Futures Commission and he was also a member of the Takeovers and Mergers Panel. He was appointed by the Financial Secretary of Hong Kong to sit on the Banking Advisory Committee.

AT PRESENT: Chairman of Bank of Valletta Group p.l.c., Middlesea Valletta Life Assurance Co. Ltd, Valletta Fund Management Ltd and Valletta Fund Services Ltd. Member of the Board of Gasan Group Ltd, Alfred Gera & Sons Ltd, Simonds Farsons Cisk p.l.c. and Global Sources Ltd, a NASDAQ listed company.

MR G. BONNICI

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

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

DR E. CARUANA DEMAJO LL.D.

AT PRESENT: An advocate in civil and commercial practice since 1986.

MR A. CORSI

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

AT PRESENT: Area Manager for Spain, Portugal, Israel, Turkey, Malta and Latin America - Group Insurance Operations, Assicurazioni Generali Head Office.

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

FORMERLY: Director of Malta Dry-docks, Malta International Transport, Tug Malta, Smithtug Valletta. Served for 18 years as G.W.U. representative for the Security Department.

AT PRESENT: Member of the Board of Appeal for promotion at Maltacom, member of the disciplinary Board at Maltacom, Legal Procurator.

MR T. DEPASQUALE

FORMERLY: General Manager of Valletta Investment Bank Ltd, Chairman of BOV Stockbrokers Ltd and Director on the Board of Bank of Valletta International Ltd.

AT PRESENT: Chief Executive Officer of Bank of Valletta Group p.l.c., Director on the Board of Valletta Fund Management Ltd, Director on the Board of Valletta Fund Services Ltd, Chairman of the Malta Bankers' Association, Governor of Finance Malta, Director on the Board of Middlesea Valletta Life Assurance Company Ltd, Director on the Board of Midi p.l.c., Director on the Board of VISET Malta p.l.c.

MR J. FERNÁNDEZ-CID PLAÑIOL

FORMERLY: Holding a law degree from the Complutense University of Madrid. He has developed his career in the Mapfre Group with different management positions in Spain and abroad and notably in Belgium and the US. AT PRESENT: Managing Director of Mapfre Internacional. He is also member of the Board of Directors of the following Mapfre Group companies: Mapfre Re, Mapfre Asistencia, Mapfre USA, The Commerce Insurance Group (Massachusetts, USA) and Mapfre Genel Sigorta (Istanbul, Turkey).



MR V. GALEA SALOMONE



DR J.C. GRECH



MR A. JIMÉNEZ



DR M. SPARBERG



MR L. SPITERI



MR J.F.X. ZAHRA

BOARD OF DIRECTORS AND COMPANY SECRETARY



MR CARLO FARRUGIA

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

FORMERLY: President, The Malta Chamber of Commerce and Enterprise, Member of the Malta Council for Economic and Social Development, Director of Malta Enterprise Corporation.

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

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

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

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

MR A. JIMÉNEZ

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

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

DR M. SPARBERG

AT PRESENT: Senior Executive Manager of Munich Re Insurance Company, Munich, responsible for Malta, Italy, France, Belgium, Luxembourg and The Netherlands for all classes (property, casualty and marine) of reinsurance business. Vice-President of Munich Re, Italy.

MR L. SPITERI K.O.M, M.A. (OXON.)

FORMERLY: Member of Parliament, Co-Chairman Malta-EU Joint

Parliamentary Committee; Minister of Finance, Minister of Trade & Economic Development; Chairman Public Accounts Committee; Deputy Governor and Chairman of the Board of Directors, Central Bank of Malta; Research Officer Malta Chamber of Commerce; Head of Publications Union Press, Editor Malta News, Executive Editor It-Torċa; Chairman University Selection Board; Member Malta Broadcasting Authority.

AT PRESENT: Chairman Bortex Ltd, Roosendaal Hotels Limited; Chairman VBIE Ltd., Miracle Foods Ltd, Pinto Cold Stores Ltd; Director Bray Insurance Ltd, Bray 2008 Malta Ltd; Celsius Global Funds SICAV p.l.c.; Dolmen Properties Ltd; Elektra Ltd; Medavia Ltd; Munich Re of Malta Ltd; Progress Assicurazioni S.p.A.; RCI Insurance Ltd; RCI Life Ltd; Saad Group Bank Europe Ltd; Tumas Investments p.l.c.; Zerniq Ltd. Columnist, The Sunday Times and The Times of Malta.

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

FORMERLY: Head of Research of the Malta Development Corporation, visiting lecturer at the University of Malta, Secretary to the UNIDO National Committee (Malta), member on the boards of the Central Bank of Malta and the Malta Development Corporation, Chairman of the Financial Services Trade Section and Council Member of the Malta Chamber of Commerce, Chairman of the Bank of Valletta Group, Chairman of Middlesea Valletta Life Assurance Co. Ltd, Chairman of BOV Stockbrokers Ltd and Valletta Fund Management Ltd, Deputy Chairman of Middlesea Insurance p.l.c., Chairman, Maltacom p.l.c., Chairman, National Euro Changeover Committee, Chairman, National Commission for Higher Education, Director Corinthia Hotels International and President, Malta Council for Culture and the Arts.

AT PRESENT: Managing Director of Market Intelligence Services Co. Ltd; MISCO International Ltd; Chairman of Impetus Europe Consulting Group Ltd; Director, Progress Assicurazioni S.p.A.; Chairman, Multi Risk Indemnity Ltd; Chairman, Multi Risk Ltd; Director, Multi Risk Benefits Ltd; Director Medserv p.l.c.; Director, Nemea Bank p.l.c.; Chairman, C. Fino & Sons Ltd; Director, Power Image Services Ltd (Cyprus). Visiting lecturer in Managerial Economics at the Università degli Studi di Messina.

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

FORMERLY: Mr Farrugia worked at the Central Bank of Malta and Malta Financial Services Authority.

AT PRESENT: He is Company Secretary and Compliance Officer of the companies and committees within the Middlesea Group. Mr Farrugia published the Dictionary for Financial Services and is also involved in the Olympic Movement.



Middlesea Insurance p.l.c.

BUSINESS REVIEW

2008 proved to be a highly challenging year for Middlesea Insurance p.l.c. (MSI), the Group's holding company, primarily due to the increased competitive environment in the markets in which the Company continues to operate and the overall economic climate that negatively impacted our investment portfolio. In addition, MSI was also negatively impacted by the operations of one of its subsidiaries, to the extent that an impairment in the value of the Subsidiary was taken.

Notwithstanding these conditions, customers and tied and independent insurance intermediaries maintained their trust in our Company both in Malta and Gibraltar with overall premium written increasing by 3.6% on 2007. Group Life business increased by 14.4% to €1.68 million, non-Motor general business increased by 3.7% to reach €16.3 million and Motor business increased by 2.5% to reach €16.03 million.

Such increases were in line with one of our main strategic policies to sustain a healthy balanced portfolio of business with Motor accounting for slightly less than 50% of total premium income.

Our improved products and competitive pricing levels in areas such as Motor, Home, Health, Yacht & Pleasure Craft, Professional Indemnity and Asset and Liability Protection helped the Company penetrate further, in what has become a highly aggressive market with the provision of quality insurance services that meet the needs of a wide variety of private, commercial and corporate clients.

This business development was supported and maintained by our ever-increasing professionally trained and qualified personnel at all levels of our operation. Both our underwriting and claims' teams, all led and managed by highly experienced market professionals, achieved the desired technical results. This was achieved by striking the right and sustainable balance between following and respecting internal procedures and technical guidelines and meeting the necessities of more demanding customer requirements and expectations.

*From left
Standing:*

*Patrick Muscat, Simon Anastasi,
Vittorio Laferla.*

Sitting:

*Keith Mallia Milanes,
Sandra Sciriha, Joseph Avellino,
Mario Cumbo.*

RESULTS

Middlesea Insurance p.l.c. attained a net underwriting profit, before allocation of investment charges, of €1.8 million (2007: €2.7 million). This represents a marked reduction on the previous financial year which was the result of increased costs primarily related to IT and marketing and a less favourable claims' run-off than that achieved in earlier years.

During 2008, the Company was adversely affected by the downward pressure on security prices as a result of the overall local and international economic climate, registering net capital losses on securities (both realised and unrealised) of €6.41 million (2007 - €0.33 million). As a result of this, contrary to 2007, the 2008 technical account was negatively affected by an overall investment charge of €2.9 million turning a positive technical result into an overall net underwriting loss of €1.1 million. In 2007, the Company's technical operations benefitted from an allocated investment income of €1.4 million that contributed to the overall positive net underwriting result of €4.1 million.

With dividend income of €3.5 million (2007: €3.6million) from its subsidiary and associate companies, an impairment on the investment in Progress Assicurazioni S.p.A. of €2.5 million, and additional investment charges of €2.3 million (2007: income of €0.3 million) allocated to shareholders' funds, the company closed 2008 with a net loss before tax of €3.46 million when in 2007 the Company produced a profit of €6.97 million.

GENERAL BUSINESS

The company's general business operations comprise all the non-life classes of business underwritten in Malta and Gibraltar. Business was generated directly from customers and through tied insurance intermediaries, insurance brokers and underwriting agents. Further business growth was experienced through our website with clients purchasing and renewing their policies and requesting quotations online.

During 2008, General Business Premium Written in Malta increased by €1.3 million (2007: €1.7 million) from €28.1 million in 2007 to €29.4 million with the main growth experienced in the Property, Health and Motor classes. Premium Income in Gibraltar reduced from €3.2 million in 2007 to €2.8 million in 2008.

Acquisition costs were maintained at 21% of gross earned Premium but administrative and management expenses allocated to the technical account, although in line with expectations, increased by €0.6 million.

Although less than that achieved in 2007, the company's effective claims handling process produced a favourable gross run-off of €3 million (2007: €4.8 million). This decreased the amount of gross claims incurred during the year to €18.3 million (2007: €15.2 million). As a result the Company's Loss Ratio as at the end of the financial year declined from 49.2% in 2007 to 56.6% in 2008.

This decreased favourable claims' run-off contributed to a reduced underwriting result before reinsurance of €7.2 million, €2 million less than that achieved during the same period in 2007. However a marked improvement of €1.8 million in the Company's net reinsurance cost produced a result after reinsurance of €3.6 million, representing a marginal decrease of €0.2 million on 2007.

The revenue and technical and non-technical costs noted above generated a net underwriting result of €1.5 million before allocation of investment charges. This stood at €2.3 million in 2007.

This result is equivalent to a return of 4.5% on gross earned premium (2007: 7.5%) producing a respectable combined ratio of 96% (2007: 93%).

Investment charges allocated to this technical account amounted to €2.7 million compared to income of €1.4 million in 2007. This brought about a net underwriting loss of €1.3 million contrasting negatively against the profit of €3.7 million realised in 2007.

DISCONTINUED OPERATIONS

These consist of international reinsurance and legal cession business now in run-off for a number of years.

Investment charges of €0.19 million allocated to these accounts compared to charges of €0.02 million in 2007 produced a net underwriting loss €0.17 million when a positive contribution of €0.07 million was attained during 2007.

GROUP LIFE BUSINESS

The Company's composite status allows it to provide its corporate customers with Group Life protection. Premium Income generated within this profit centre increased by 14.4% over 2007 from €1.47 million to €1.68 million. However, as a result of a higher incidence of claims and a substantial reduction in investment income, this account's contribution to the company's technical result reduced from €0.38 million in 2007 to €0.31 million during 2008.



KEITH MALLIA-MILANES
ASSISTANT GENERAL MANAGER

RAPPORT TAN-NEGOZJU



Middlesea Insurance p.l.c.

Is-sena 2008 kienet sena ta' sfidi kbar għall-Middlesea Insurance p.l.c. (MSI), il-kumpanija ewlenija tal-Grupp, l-aktar minhabba l-ambjent kompetittiv aktar qawwi fis-swieq li fihom il-Kumpanija qiegħda topera u l-klima ekonomika ġenerali li laqtet b'mod negattiv il-portafoll ta' investimenti tagħna. Barra minn hekk, l-MSI intlaqtet ukoll b'mod negattiv mill-operazzjonijiet ta' waħda mis-sussidjarji tagħna billi kellha tassorbi l-waqqha fil-valur tas-Sussidjarja.

Minkejja dawn il-kondizzjonijiet, klijenti u intermedjarji ta' assigurazzjoni marbutin u indipendenti żammew il-fiduċja fil-Kumpanija tagħna kemm f'Malta u kemm f'Ġibiltà, u hekk il-primjum sottoskritt ġenerali tela' bi 3.6% fuq is-sena 2007. Negozju ta' Assigurazzjoni tal-Hajja ta' Gruppi żdied b'14.4% għal €1.68 miljun, negozju ġenerali Mhux ta' Vetturi żdied bi 3.7% biex lahaq €16.3 miljun, u Negozju ta' Assigurazzjoni ta' Vetturi żdied bi 2.5%, biex lahaq €16.03 miljun.

Dawn iż-żidiet kienu konformi mal-politiki strateġiċi tagħna li jostnu portafoll bilanċjat u b'saħħtu ta' negozju li minnu l-Assigurazzjoni tal-Vetturi għandha f'tit inqas minn 50% mit-total tiegħu.

Il-prodotti mtejbun u l-livelli ta' prezzijiet kompetittivi tagħna f'oqsma bħal Assigurazzjoni ta' Vetturi, Djar, Saħħa, Jottijiet u *Pleasure Craft*, Indennizz Professionali u protezzjoni ta' assi u responsabbiltà għenu biex il-Kumpanija tippenetra aktar f'dak li sar suq aggressiv mill-aktar bil-provvista ta' servizzi ta' assigurazzjoni ta' kwalità li jissodisfaw il-htigijiet ta' varjetà wiesgħa ta' klijenti privati, kummerċjali u korporattivi.

Dan l-iżvilupp fin-negozju kien mirfud u sostnut min-nies dejjem jizdiedu, imħarrġin u kwalifikati professjonalment, f'kull livell tal-operazzjonijiet tagħna. Kemm it-tim tas-sottoskrizzjoni u kemm dak tal-klejms, kollha mmexxijin u mmanigġjati minn nies professjonali li għandhom esperjenza kbira tas-suq, kisbu r-riżultati tekniċi mixtieqa. Dan inkiseb billi nstab il-bilanċ tajjeb u sostenibbli bejn l-aderenza u r-rispett tal-proċeduri interni u tal-linji gwida tekniċi u s-sodisfazzjon tal-htigijiet tar-rekwiziti u aspettattivi tal-klijenti li dejjem jistennew xi haġa aħjar.

RIŻULTATI

Il-Middlesea Insurance p.l.c. lahqet profitt nett ta' €1.8 miljun (2007: €2.7 miljun) mis-sottoskrizzjoni, qabel l-allokkazzjoni ta' tariffi fuq l-investimenti. Dan jirrappreżenta tnaqqis konsiderevoli mis-sena finanzjarja ta' qabel li kien riżultat ta' spejjeż oġhla relatati primarjament ma' IT u promozzjoni tas-suq u *run-off* inqas favorevoli minn dak reġistrat fis-snin ta' qabel.

Tul is-sena 2008 l-Kumpanija ntlaqtet hażin mill-pressjoni negattiva fuq prezzijiet ta' investimenti li rriżultat mill-klima ekonomika ġenerali lokali u internazzjonali li rreġistrat telf kapitali nett fuq investimenti (kemm realizzati u kemm mhux realizzati) ta' €6.41 miljun (2007: €0.33 miljun). B'riżultat ta' dan, kuntrarju għas-sena 2007, il-kont tekniċu għas-sena 2008 ntlaqat b'mod negattiv minn tariffa ġenerali ta' €2.9 miljun fuq l-investimenti li dawret riżultat tekniċu pożittiv f'telf nett ġenerali ta' €1.1 miljun mis-sottoskrizzjoni. Fis-sena 2007 l-operazzjonijiet tekniċi tal-Kumpanija gawdew minn dħul allokat ta' €1.4 miljun minn investimenti li kkontribwixxa għal riżultat ġenerali nett ta' sottoskrizzjoni pożittiv ta' €4.1 miljun.

Bi dħul ta' €3.5 miljun (2007: €3.6 miljun) minn dividends mill-kumpaniji sussidjarji u assoċjati tagħha, waqqha fil-valur ta' €2.5 miljun fuq l-investment fi Progress Assicurazioni S.p.A., u spejjeż addizzjonali ta' €2.3 miljun (2007: dħul ta' €0.3 miljun) fuq investimenti li ġew allokat lill-fondi tal-azzjonisti, il-kumpanija għalqet is-sena 2008 b'telf nett ta' €3.46 miljun qabel il-hlas tat-taxxa fil-waqt li fis-sena 2007 l-kumpanija holqot profitt ta' €6.97 miljun.

NEGOZJU ĠENERALI

L-operazzjonijiet ta' negozju ġenerali tal-kumpanija jhaddnu l-klassijiet kollha ta' negozju li ma jkoprox il-ħajja sottoskritti f'Malta u Ġibiltà. Negozju kien iġġenerat direttament minn klijenti u permezz ta' intermedjarji marbutin, brokers tal-assigurazzjoni u aġenti tas-sottoskrizzjoni. Kien hemm tkabbir ulterjuri permezz tal-websajt tagħna li klijenti użaw biex jixtru poloz, iġeddu l-poloz tagħhom u jitolbu kwotazzjonijiet bl-internet.

Tul is-sena 2008 Dħul ta' Primjum minn Negozju Ġenerali f'Malta kiber b'€1.3 miljun (2007: €1.7 miljun) minn €28.1 miljun fis-sena 2007 għal €29.4 miljun; it-tkabbir prinċipali kien fil-klassijiet ta' assicurazzjoni ta' Propjetà, Sahħa u Vetturi. Dħul ta' Primjum f'Ġibiltà naqas minn €3.2 miljun fis-sena 2007 għal €2.8 miljun fis-sena 2008.

Spejjeż ta' akkwist inżammu fil-livell ta' 21% tal-Primjum Gross Maqluġh, iżda spejjeż amministrattivi u maniġerjali allokatu għall-kont tekniku, għalkemm jaqblu mal-aspettattivi, telgħu b'€0.6 miljun.

Għalkemm inqas minn dak miksub fis-sena 2007, il-proċess effettiv ta' trattament tal-klejms li għandha l-kumpanija ipproduċa *run-off* gross favorevoli ta' €3 miljun (2007: €4.8 miljun). Dan niżel l-ammont ta' klejms gross tul is-sena għal €18.3 miljun (2007: €15.2 miljun). Hekk, il-Proporzjon ta' Telf tal-Kumpanija kif kienet f'għeluq is-sena finanzjarja niżel minn 49.2% fl-2007 għal 56.6% fl-2008.

Dan ir-*run-off* favorevoli mnaqqas ta' klejms ikkontribwixxa għal riżultat ta' sottoskrizzjoni mnaqqas qabel l-ispejjeż ta' ri-assigurazzjoni li kienu €7.2 miljun, €2 miljun inqas minn dawk miksubin tul l-istess perjodu fl-2007. Madankollu, titjib sostanzjali ta' €1.8 miljun fl-ispiza netta ta' riassigurazzjoni tal-Kumpanija pproduċa riżultat ta' €3.6 miljun wara r-riassigurazzjoni, li jirrappreżenta tnaqqis marġinali ta' €0.2 miljun mis-sena 2007.

Id-dħul u l-ispejjeż tekniċi u mhux tekniċi nnutati fil-paġna preċedenti ġġeneraw riżultat nett ta' €1.5 miljun mis-sottoskrizzjoni, qabel l-allokkazzjoni ta' tariffi fuq investimenti. Dan kien €2.3 miljun fis-sena 2007.

Dan ir-riżultat hu ekwivalenti għal qligħ ta' 4.5% fuq Primjum Gross Maqluġh (2007: 7.5%) li pproduċa proporzjon kombinata rispettabbli ta' 96% (2007: 93%).

Spejjeż fuq investimenti allokatu għal dan il-kont tekniku ammontaw għal €2.7 miljun li jridu jitqabblu ma' dħul ta' €1.4 miljun fis-sena 2007. Dan wassal għal telf nett ta' €1.3 miljun fis-sottoskrizzjoni li jikkontrasta b'mod negattiv mal-profitt ta' €3.7 miljun realizzat fis-sena 2007.

OPERAZZJONIJIET IMWAQQFIN

Dawn jikkonsistu f'negozju ta' riassigurazzjoni internazzjonali u ċessjoni legali li issa ilhom għadd ta' snin fil-fażi ta' *run-off*.

Tariffi ta' €0.19 miljun fuq investimenti li huma allokatu għal dawn il-kontijiet, meta mqabblin ma' qligħ ta' €0.02 miljun fis-sena 2007 ipproduċew telf nett ta' €0.17 miljun fis-sottoskrizzjoni meta tul is-sena 2007 kellhom kontribut pożittiv ta' €0.07 miljun.

NEGOZJU TA' ASSIGURAZZJONI TAL-HAJJA TA' GRUPPI

L-istatus kompost tal-Kumpanija jippermettilha tipprovdi lil klijenti korporattivi tagħha protezzjoni fuq il-Hajja ta' Gruppi. Dħul minn Primjum iġġenerat minn dan iċ-ċentru ta' profitti tela' b'14.4% fuq is-sena 2007 minn €1.47 miljun għal €1.68 miljun. Iżda bħala riżultat ta' incidenza oġhla ta' klejms u tnaqqis sostanzjali fid-dħul minn investimenti, il-kontribuzzjoni ta' dan il-kont lir-riżultat tekniku tal-kumpanija niżel minn €0.38 miljun fis-sena 2007 għal €0.31 miljun tul is-sena 2008.



KEITH MALLIA-MILANES
ASSISTANT GENERAL MANAGER



BUSINESS REVIEW

During 2008, Middlesea Valletta Life Assurance Co. Ltd. ("MSV Group" and "Group") registered a profit after tax of €1.92 million for the year ended 31 December 2008 compared to the profit after tax of €5.3 million recorded in 2007.

Gross written premiums (including investment contracts without DPF) decreased by 19% from €135.91 million in 2007 to €109.70 million in 2008. This decrease in business written, the first in the past six years, emanated from lower unit-linked business volumes as policyholders showed a marked preference for savings and investment products that are safer, such as with-profits investments. The bancassurance partnership with Bank of Valletta p.l.c. continued to perform strongly and remains MSV's most important channel of distribution.

The MSV Group's Balance Sheet increased marginally from €832.25 million at the end of 2007 to €843.02 million at the end of 2008, whilst the Life Fund (including investment contracts without DPF) increased by 2% from €728.93 million in 2007 to €742.28 million in 2008. The value-of-in-force business has reduced by 7% from €42.77 million in 2007 to €39.75 million in 2008 mainly due to lower investment returns. The value-of-in-force business reflects the discounted value of projected future transfers (after providing for taxation) to shareholders arising from policies in force at the end of the year.

Net Investment Income decreased from €26.54 million in 2007 to a loss of €31.77 million in 2008. During 2008, the insurance industry internationally has suffered from steeply falling stock market valuations and dramatically widening bond spreads. The direct impact of the crisis on MSV Group was contained due to the fact that the Group holds a defensively positioned and widely diversified investment portfolio of quality assets. The MSV Group had no direct exposure to any of the toxic assets that were one of the root causes of the crisis.

Total equity at the close of 2008 amounted to €90.02 million, a marginal decrease over the previous year.

Gross claims paid decreased by 20% from €34.93 million in 2007 to €27.79 million in 2008 whilst a similar reduction was registered in net claims incurred after reinsurance

*From left
Standing:*

*Victor Farrugia, Mary Spiteri,
Ray Gibson, David G. Curmi*

Sitting:

*Mark Camilleri, Denise Bezzina,
Stuart Fairbairn, Jonathan Kemp,
Patricia Brincat, Joseph Gauci.*



recoveries, which amounted to €27.71 million compared with €33.77 million in 2007. Claims incurred include maturities, surrenders, mortality and disability claims. The decrease in claims incurred was mainly due to a lower number of policies which matured in 2008.

During 2008, acquisition costs reduced by 10% from €6.36 million in 2007 to €5.75 million in 2008, mainly due to the lower business volumes registered in 2008.

For the second consecutive year MSV achieved another reduction in administrative costs due to increased efficiencies in the business processes mainly as a result of the implementation of the straight-through-processing business solution. As a result, administrative costs reduced from €4.24 million in 2007 to €4.08 million in 2008.

MSV's contribution towards the results of the Middlesea Group reduced from €2.63 million in 2007 to €0.96 million in 2008 as a result of the lower after tax profit.

The weighted average earnings per €2.50 share reduced from 36c7 in 2007 to 12c3 in 2008.

The Annual General Meeting approved the payment of a final dividend of €2 million net of tax, which dividend has been reinvested by shareholders as consideration for a new share issue of 800,000 ordinary shares of €2.50 per share. Consequently, the issued and fully paid up capital of MSV has increased from €39.75 million to €41.75 million.

The Board of Directors of MSV Group approved a resolution whereby differential rates of Regular Bonuses were declared in respect of with-profits plans held with MSV Group for the year ending 31 December 2008. These amounted to 3.65% for the Comprehensive Life Plan (regular and single premium policies), 3.75% in respect of the Comprehensive Flexi Plan (regular and single premium policies), 3.8% under the

BUSINESS REVIEW

Single Premium Plan and 3.8% under the with-profits option of the MSV Investment Bond. On the 'Old Series' Endowment and Whole Life policies, a Regular Bonus of 2.2% of the basic sum assured plus bonuses was declared. Finally, the Board also approved a Regular Bonus of 3.45% on those Secure Growth policies which formed part of the portfolio of business transferred to MSV Group from Assicurazioni Generali S.p.A. during 2000.

MSV's prudent policy of smoothing regular bonuses enabled the Board of Directors to declare Regular Bonuses that are only marginally lower than those declared for the previous year, despite the significant unrealised investment mark-downs registered during 2008. Smoothing entails establishing reserves from certain favourable years to compensate for unfavourable investment returns in certain other years during the policy term, so that bonuses declared in any one year do not reflect underlying investment returns in that year alone. As a result of smoothing, the investment risk of a with-profits investment is significantly lower than a direct investment in a single asset class.

Notwithstanding the prudent investment policy adopted by MSV, past performance is no guarantee for the future. Although with-profits investments have generally provided policyholders with satisfactory returns when compared with other similar investment products, in the light of the current volatility in the capital markets, investment returns could fluctuate further. Fair value movements and lower investment returns impinge directly on the rates of bonuses declared by MSV. Regular Bonuses are therefore expected to vary over the lifetime of the policy.

The MSV Group results for the year have to be seen in the context of the unprecedented financial turmoil that occurred during 2008. The Group's core insurance operations and investment portfolio displayed resilience in the face of the very adverse market conditions and the Group was therefore in a position to register a post-tax profit. Fair value mark-downs amounted to less than 10% of an investment portfolio of over €777 million.

Notwithstanding the reduction in business written, during 2008, MSV successfully managed to increase its share of the individual life insurance market, from around 60% to 62%, as other classes of business performed well.

Significant progress has been achieved in MSV's plans to enter the Italian life market and it is planned that MSV will write its first investment product policies in Italy during 2009.

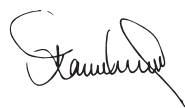
Through the combination of a strong brand, financial strength, product breadth, distribution reach, in particular the successful bancassurance partnership with Bank of Valletta p.l.c., MSV Group remains well poised to maintain its position

as the leader in the individual protection and long term savings market in Malta. Whilst challenging times are clearly with us, the consistent performance and strong financial and operational base of MSV Group put it firmly on track to take on new challenges and opportunities that may arise in the future in Malta as well as overseas.

SUBSIDIARIES

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

In 2008, Growth Investments registered a loss after tax of €52,154 compared with a profit after tax of €177,081 in the previous year.



DAVID G. CURMI
CHIEF EXECUTIVE OFFICER



Tul is-sena 2008 I-Middlesea Valletta Life Assurance Co. Ltd ("MSV Group" u "Grupp") irregistrat profitt ta' €1.92 miljun wara l-hlas tat-taxxa għas-sena li għalqet fil-31 ta' Diċembru 2008 li għandu jittqabbal mal-profitt ta' €5.3 miljun wara l-hlas tat-taxxa registrat fis-sena 2007.

Primjums gross sottoskritti (inklużi kuntratti ta' investiment mingħajr DPF) niżlu b'19% minn €135.91 miljun fis-sena 2007 għal €109.70 miljun fis-sena 2008. Dan it-tnaqqis fin-negozju sottoskritti, l-ewwel f'dawn l-aħħar sitt snin, ġie minn volumi aktar baxxi ta' negozju marbut ma' units billi assiguraturo wrew preferenza sinifikanti għal prodotti ta' tifdil u investimenti li huma aktar żguri bħal investimenti *with profits*. Is-shubija ta' bankassigurazzjoni mal-Bank of Valletta p.l.c. baqgħet għaddejja fis-sod u tibqa' l-aktar kanal importanti ta' distribuzzjoni li għandha l-MSV.

Il-Karta Bilanċjali tal-MSV Group kibret marginalment minn €832.25 miljun fi tmiem is-sena 2007 għal €843.02 miljun fi tmiem is-sena 2008, filwaqt li l-Fond tal-Hajja (inklużi l-kuntratti ta' investiment bla DPF) żdied bi 2% minn €728.93 miljun fis-sena 2007 għal €742.28 miljun fis-sena 2008. Il-valur tan-negozju eżistenti niżel b'7% minn €42.77 miljun fis-sena 2007 għal €39.75 miljun fis-sena 2008, l-aktar minhabba qligħ aktar baxx minn investimenti. Il-valur tan-negozju eżistenti jirrifletti l-valur skuntat ta' trasferimenti proġettati għall-futur (wara li jsir provvedimenti għat-taxxa) lil azzjonisti li jirriżultaw minn poloz fis-sehħ fi tmiem is-sena.

Dhul minn investimenti niżel minn €26.54 miljun fis-sena 2007 għal telf ta' €31.77 miljun fis-sena 2008. Tul is-sena 2008 l-industrija internazzjonali tal-assigurazzjoni ntlaqtet minn valutazzjonijiet ta' suq tal-istokks li ħadu sabta kbira u minn firxiet ta' bonds li twessgħu b'mod drammatiku. L-impatt dirett tal-kriżi fuq l-MSV Group kien kontenut minhabba l-fatt li l-Grupp għandu portafoll ta' investimenti ta' assi ta' kwalità pożizzjonat b'mod difensiv u diversifikat fil-wisa'. L-MSV Group m'hu espost għal ebda assi perikolużi li kienu waħda mill-kawzi ewlenin tal-kriżi.

L-ekwità totali f'għeluq is-sena 2008 ammontat għal €90.02 miljun, tnaqqis marginali mis-sena ta' qabel.

Klejms gross imħallsa naqsu b'20% minn €34.93 miljun fis-sena 2007 għal €27.79 miljun fis-sena 2008, filwaqt li tnaqqis simili kien registrat fil-klejms netti wara rkupru mir-riassigurazzjoni, li ammontaw għal €27.71 miljun meta mqabblin ma' €33.77 miljun fis-sena 2007. Klejms li daħlu jinkludu poloz li mmaturaw, poloz li nfdew, imwiet u klejms għal diżabilità. It-tnaqqis tal-klejms kien dovut l-aktar għal għadd inqas ta' poloz li mmaturaw fis-sena 2008.

Tul is-sena 2008 spejjeż għal kisba ta' negozju niżlu b'10% minn €6.36 miljun fis-sena 2007 għal €5.75 miljun fis-sena 2008, l-aktar minhabba volumi aktar baxxi ta' negozju tul is-sena 2008.

Għat-tieni sena konsekuttiva l-MSV kellha tnaqqis ieħor fl-ispejjeż ta' amministrazzjoni minhabba effiċjenza akbar fil-proċessi tan-negozju u l-aktar b'riżultat tal-implimentazzjoni tas-soluzzjoni ta' pproċessar dirett tan-negozju. B'riħet dan, spejjeż amministrattivi niżlu minn €4.24 miljun fis-sena 2007 għal €4.08 miljun fis-sena 2008.

Il-kontribuzzjoni tal-MSV għar-riżultati tal-Middlesea Group niżlet minn €2.63 miljun fis-sena 2007 għal €0.96 miljun fis-sena 2008 minhabba profitti aktar baxxi wara l-hlas tat-taxxa.

Il-qligħ medju mgħabbar għal kull sehem ta' €2.50 niżel minn 36c7 fis-sena 2007 għal 12c3 fis-sena 2008.

RAPPORT TAN-NEGOZJU



Il-Laqgħa Ġenerali Annwali approvat il-ħlas ta' dividend finali ta' €2 miljun wara l-ħlas tat-taxxa; dan id-dividend kien investit mill-ġdid mill-azzjonisti bħala ħlas għax-xiri ta' ħruġ ġdid ta' 800,000 sehem ordinarju ta' €2.50 kull sehem. Minħabba f'hekk, il-kapital maħruġ u mħallas kollu tal-kapital tal-MSV tela' minn €39.75 miljun għal €41.75 miljun.

Il-Bord tad-Diretturi tal-MSV Group approva risoluzzjoni li biha rati differenzjali ta' Bonusis Regolari kienu dikjarati fir-rigward ta' poloz *with-profits* miżmumin mal-MSV Group għas-sena li tagħlaq fil-31 ta' Diċembru 2008. Dawn ammontaw għal 3.65% fil-każ tal-Comprehensive Life Plan (poloz regolari u bi primjum wiehed), 3.75% fir-rigward tal-Comprehensive Flexi Plan (poloz regolari u bi primjum wiehed), 3.8% taħt is-Single Premium Plan u 3.8% taħt l-għażla *with-profits* tal-MSV Investment Bond. Fil-każ tal-poloz 'Old Series' Endowment u Whole Life, kien iddikjarat Bonus Regolari ta' 2.2% fuq is-somma bażika assigurata plus bonus. Fl-aħħarnett, il-Bord approva wkoll Bonus Regolari ta' 3.45% fuq dawk il-poloz Secure Growth li kienu jiffurmaw parti mill-portafoll ta' negozju trasferit lill-MSV Group mill-Assicurazioni Generali S.p.A. tul is-sena 2000.

Il-politika prudenti tal-MSV li tifrex fuq medda ta' snin il-bonusis regolari wasslet biex il-Bord tad-Diretturi ddikjara Bonusis Regolari li huma biss marginalment inqas minn dawk iddikjarati fis-sena ta' qabel, minkejja t-tnaqqis sinifikanti f'investimenti mhux realizzati tul is-sena 2008. It-tifrix tal-bonus ifisser li riservi minn ċerti snin favorevoli jkunu stabbiliti biex jagħmlu tajjeb għal qligħ sfavorevoli fuq investimenti f'ċerti snin oħrajn tul it-terminu tal-polza, biex bonusis iddikjarati f'xi sena partikolari ma jirriflettux qligħ minn investimenti li jirfdu l-polza li jsiru f'dik is-sena biss. B'riżultat ta' dan it-tifrix, ir-riskju ta' investment *with-profits* hu inqas b'mod sinifikanti minn investment dirett fi klassi ta' assi waħda.

Minkejja l-politika prudenti ta' investimenti adottata mill-MSV, l-operat tal-imghoddi ma jagħti ebda garanzija għall-futur. Għalkemm investimenti *with-profits* normalment taw lil dawk li għandhom polza qligħ sodisfaċenti meta mqabbel ma' prodotti ta' investment simili, fid-dawl ta' ċaqliq kurrenti fis-swieq kapitali qligħ minn investimenti jista' jkompli jittla' u jinżel. Movimenti ta' valur ekwu u qligħ aktar baxx minn investimenti jolqtu direttament lir-rata tal-bonusis iddikjarati mill-MSV. Bonusis Regolari għalhekk huma mistennija li jvarjaw tul il-ħajja tal-polza.

Ir-riżultati tal-MSV Group għas-sena jridu jitqiesu fil-kuntest tat-taqlib finanzjarju li qatt ma kien hawn bħalu li ġara tul l-2008. L-operazzjonijiet tal-qalba tal-assigurazzjoni u l-portafoll ta' investimenti tal-Grupp urew hila rezistenti quddiem kondizzjonijiet tas-suq mill-aktar ħżiena, u għaldaqstant il-grupp kien f'qagħda li irreġistra profit wara l-ħlas tat-taxxa. Tnaqqis fil-valur ekwu ammonta għal inqas minn 10% ta' portafoll ta' investimenti li jaqbeż is-€777 miljun.

Minkejja t-tnaqqis f'negozju sottoskritt, tul is-sena 2008 l-MSV irnexxielha tkabbar is-sehem tagħha tas-suq tal-assigurazzjoni tal-ħajja individwali minn madwar 60% għal 62%, filwaqt li klassijiet oħra ta' negozju marru tajjeb.

Sar progress sinifikanti fil-pjanijiet tal-MSV biex tidhol fis-suq tal-ħajja Taljan, u hu pplanat li l-MSV tissottoskrivi l-ewwel poloz ta' prodotti ta' investment fl-Italja tul is-sena 2009.

Bis-saħħa ta' taħlita ta' prodott qawwi, saħħa finanzjarja, wisa' ta' prodotti, firxa ta' distribuzzjoni, u b'mod speċjali s-sħubija li rnexxiet fil-qasam tal-bankassigurazzjoni mal-Bank of Valletta p.l.c., l-MSV Group jibqa' pożizzjonat tajjeb biex iżomm il-pożizzjoni tiegħu fuq quddiem nett fis-suq tal-protezzjoni individwali u tifdil fit-tul f'Malta. Filwaqt li hu ovvju li għandna quddiemna żminijiet li joffru sfida, l-operat

konsistenti u l-bażi qawwija finanzjarja u operattiva tal-MSV Group ipoġġuh f'qagħda soda biex jiffaċċja sfidi u opportunitajiet ġodda li jistgħu jipprezentaw ruħhom fil-futur f'Malta u wkoll barra.

SUSSIDJARJA

Growth Investments Ltd ("Growth Investments"), sussidjarja li hi propjetà kollha kemm hi tal-MSV Group, hija awtorizzata biex tagħti servizzi ta' investimenti skont it-termini tal-Att tal-1994 dwar Servizzi ta' Investiment. Growth Investments hi wkoll ir-rappreżentant ta' Fidelity Funds SICAV f'Malta, alleanza li twaqqfet fis-sena 1997 ma' Fidelity International.

Fis-sena 2008 Growth Investments irregistrat telf ta' €52,154 wara l-hlas tat-taxxa li jitqabbel ma' profitt ta' €177,081 wara l-hlas tat-taxxa fis-sena ta' qabel.



DAVID G. CURMI
CHIEF EXECUTIVE OFFICER



BUSINESS REVIEW

The financial year 2008 has seen International Insurance Management Services Ltd (IIMS) produce the best ever result in its 10 year history. IIMS and its subsidiary company, EuroMed Risk Solutions Ltd, registered an increase in profit after tax of 49% during the year and contributed a positive result of €0.99 million to the Group's performance.

IIMS, a wholly owned subsidiary of Middlesea Insurance p.l.c., provides insurance management services to the insurance entities within the Group and international clients that set up their insurance/reinsurance company in Malta. The international portfolio of clients increased during the financial year 2008 and now includes insurance as well as reinsurance clients. In November 2008, IIMS secured an insurance management agreement with Munich Re of Malta, a subsidiary company of the reinsurer of international repute, Münchener Rückversicherungs Gesellschaft of Germany. IIMS continues to focus on delivering its clients with a cost efficient and professional service.

The team of IIMS, which exceeds 70 employees continues to perform all the back office services to Middlesea Insurance p.l.c., Middlesea Valletta Life Assurance Co Ltd and Progress Assicurazioni S.p.A. Through this company, the Group seeks to maintain a lean and cost effective back office operation which contributes to the cost effectiveness of each company. The management and staff of IIMS are well trained to provide insurance management services to the Group and the diversified portfolio of international clients. Human resources together with IT resources remain an important element for this company to be able to perform and maintain a high service level to its customers. Investment in human resource as well as the IT resource are seen by the company as an investment into the future growth of IIMS. The vast majority of the employees of IIMS are fully qualified in their respective disciplines and the company encourages continued professional education for its employees in their specific areas of specialization through short term conferences as well as furthering structured studies.

*From left
Standing:*

*Elizabeth Carbonaro, Peter Spiteri,
Claud Fenech, Edward Costa,
John Mifsud, Karen Pisani,
Anne Marie Tabone.*

Sitting:

*Marzena Formosa, Bernard Fenech,
Lynne Joslin, Carlo Farrugia,
James Vella, Chris Borg,
Ana Zammit Munro, James Mallia.*

In 2008, the subsidiary company EuroMed Risk Solutions registered its first contracts for supply of services with non Group companies. This subsidiary company set up in 2005 was established to complement the services provided by IIMS to companies which are not licensed insurance or reinsurance companies. Through the establishment of this subsidiary, the Group has extended its provision of services in the fields of



accounting, company secretarial and administration to companies which outsource such requirements to service providers such as EuroMed Risk Solutions and thereby benefitting from economies of scale.

During the financial year 2008, IIMS and its subsidiary generated an increase of 39% in its revenue as consolidated within the Middlesea Group. The increased revenue was generated from the agreements entered into with international clients. The company's ongoing monitoring of expenditure has yielded effective results with the operating profit after taxation increasing by 49% during the year. The shareholder's funds also increased by 26% and reached a level of €4.0 million at the end of the financial year 2008.

As the financial services industry in Malta continues to increase its contribution to the Maltese economy, IIMS is well poised to maintain and improve its level of professional insurance management services to international clients who are looking with a particular positive attitude at Malta even in the current world economic scenario. All international clients of IIMS have their own specific and special requirements and the company is well poised to provide its clients with the individual attention required in order to ensure a personalised and efficient service to the client.

ANNE MARIE TABONE
GENERAL MANAGER

RAPPORT TAN-NEGOZJU



Is-sena finanzjarja 2008 rat l-International Insurance Management Services Ltd (IIMS) tipproduci l-aħjar riżultat li qatt kellha fl-10 snin storja tagħha. Tul is-sena l-IIMS u l-kumpanija sussidjarja tagħha EuroMed Risk Solutions Ltd irreġistraw żieda ta' 49% fil-profitti wara l-ħlas tat-taxxa u kkontribwixxew riżultat pożittiv ta' €0.99 ta' miljun lill-operat tal-Middlesea Group.

L-IIMS, sussidjarja li hija kollha propjetà tal-Middlesea Insurance p.l.c., tagħti servizzi amministrattivi ta' assigurazzjoni lill-entitajiet assigurativi tal-Grupp u lil klijenti internazzjonali li jwaqqfu l-kumpaniji ta' assigurazzjoni/riassigurazzjoni tagħhom f'Malta. Il-portafoll internazzjonali ta' klijenti kiber tul is-sena finanzjarja 2008 u issa jinkludi klijenti kemm ta' assigurazzjoni u kemm ta' riassigurazzjoni. F'Novembru 2008 l-IIMS waslet għal ftehim ta' amministrazzjoni ta' assigurazzjoni mal-Munich Re of Malta, kumpanija sussidjarja tar-riassiguratur ta' fama internazzjonali, Münchener Rückversicherungs Gesellschaft tal-Germanja. L-IIMS tibqa' ffukata biex tagħti lill-klijenti tagħha servizzi ekonomikament effiċjenti u wkoll professjonali.

Il-tim tal-IIMS, li jaqbeż is-70 impjegat, jibqa' jipprovdi s-servizzi amministrattivi kollha lill-Middlesea Insurance p.l.c., Middlesea Valletta Life Assurance Co. Ltd u lil Progress Assicurazioni S.p.A. Permezz ta' din il-kumpanija l-Grupp jfittex li jkollu operazzjoni amministrattiva ekonomika u effettiva li tikkontribwixxi biex kull kumpanija tkun ekonomikament effettiva. Il-manigment u l-impjegati tal- IIMS huma mharrġin sewwa biex jipprovdu servizzi amministrattivi ta' assigurazzjoni lill-Grupp u lill-portafoll diversifikat ta' klijenti internazzjonali. Ir-riżorsi umani, flimkien mar-riżorsi tal-IT, jibqgħu elementi importanti għal din il-kumpanija biex tkun tista tibqa tgħati servizz ta' livell għoli lil klijenti tagħha. Investimenti fir-riżorsi umani kif ukoll fir-riżorsi tal-IT huma meqjusa mill-kumpanija bħala investiment għat-tkabbir futur tal-IIMS. Il-maġġoranza kbira ħafna tal-impjegati tal-IIMS huma kwalifikati bis-shih fid-dixxiplini rispettivi tagħhom u l-kumpanija tinkoraġġixxi edukazzjoni professjonali kontinwa għall-impjegati tagħha fl-oqsma ta' speċjalizzazzjoni speċifiki tagħhom permezz ta' konferenzi qosra u wkoll b'aktar studji strutturati.

Fis-sena 2008 l-kumpanija sussidjarja EuroMed Risk Solutions irreġistraw l-ewwel kuntratti tagħha ma' kumpaniji li mhumiex fil-Grupp għall-fornitura ta' servizzi. Din il-kumpanija sussidjarja mwaqqfa fis-sena 2005 kienet stabbilita biex tikkomplementa s-servizzi pprovduti mill-IIMS lil kumpaniji li mhumiex kumpaniji li għandhom liċenzja għal negozju ta' assigurazzjoni jew riassigurazzjoni. Bis-saħħa tat-twaqqif ta' din is-sussidjarja l-Grupp wessa' l-provvediment ta' servizzi tiegħu fl-oqsma tal-kontabilità, segreterija u amministrazzjoni ta' kumpaniji lil kumpaniji li jagħtu dawn ir-rekwiziti tagħhom lil kumpanija oħra li tagħti dawn is-servizzi bħalma hi EuroMed Risk Solutions, u hekk igawdu minn ekonomiji ta' skala.

Tul is-sena finanzjarja 2008 l-IIMS u s-sussidjarja tagħha ġġeneraw żieda ta' 39% fid-dhul tagħha kif konsolidat fil-Middlesea Group. Id-dhul akbar kien iġġenerat mil-ftehim li saru ma' klijenti internazzjonali. Il-monitoraġġ għaddej il-hin kollu tal-infiq tal-kumpanija ta riżultati effettivi, tant li l-profitt operattiv tul is-sena żdied b'49% wara l-ħlas tat-taxxa. Il-fondi tal-azzjonisti kibru wkoll b'26% u laħqu l-livell ta' €4.0 miljuni fi tmiem is-sena finanzjarja 2008.

Meta l-industrija tas-servizzi finanzjarji f'Malta qed tkompli tkabbar il-kontribut tagħha lill-ekonomija Maltija, l-IIMS qiegħda f'pożizzjoni tajba biex

iżzomm u ttejjeb il-livell tas-servizzi amministrattivi professjonali ta' assicurazzjoni lil klijenti internazzjonali li qed iħarsu b'attitudni partikolarment pożittiva lejn Malta, imqar fix-xenarju ekonomiku globali kurrenti. Il-klijenti internazzjonali kollha tal-IIMS għandhom ir-rekwiziti speċifiċi u speċjali tagħhom, u l-kumpanija qiegħda f'pożizzjoni tajba biex tagħti lill-klijenti tagħha l-attenzjoni individwali biex tiżgura servizz personalizzat u effiċjenti lill-klijent.



ANNE MARIE TABONE
GENERAL MANAGER



BUSINESS REVIEW

Progress Assicurazioni S.p.A., the group company dedicated to the Italian non-life market, experienced its most challenging year since it formed part of the Middlesea Group. Various factors combined to make the conditions in which the company operated extremely difficult such that a programme of remedial measures was put in place for the purpose of mitigating the losses incurred.

During 2008 the Company incurred a net loss before tax of €26.8 million (2007: profit of €3.1 million). The main factors contributing to this result are the relatively new claims settlement system introduced in Italy called CARD (Convenzione tra Assicuratori per Risarcimento Diretto); a need to strengthen reserves as well as a general deterioration in the market cycle evidenced by strong price competition and increased claims costs. In addition, the CARD system appears to have contributed significantly to an increase in claims reported in the year but relating to the previous accident year – a phenomenon which, generally, had not yet featured in companies' pricing and reserving models.

This system, which is brought about by an obligation at law, applies to accidents between two regularly insured and identified vehicles both of which are licensed in Italy. The system covers property damage claims as well as bodily injuries resulting in a disability not exceeding nine percent. In addition, passenger liability for bodily injury, on which a similar system with full reimbursement already existed, was also included in the system.

The system obliges insurers to indemnify directly their own clients (Risarcimento Diretto) for claims sustained by them which are the fault of a third party, even if they are only insured on a third party basis. Insurers are then able to recover an amount called a "forfait" which, in the case of property damage, is a fixed sum depending on the location whilst, in the case of bodily injury, is based on a formula which in most cases is inferior to the amount expended, relying on the law of large numbers to balance the score.

On a national level the system was intended to speed up the process of claims settlement and provide a better service to injured parties since they will be dealing with their own insurer. However it has become evident that individual portfolios are subjected to a degree of variability which is particularly pronounced in relatively small portfolios. In addition all historical data available for pricing and reserving had so far been based on claims incurred or caused with fault. Following the introduction of the system insurers have been left with a reality that no past data is available for the new

From left:

*Fiona Micallef, Giovanni Ficarra,
Simon Camilleri, Stephen Gauci.*

reality of responsibility for claims suffered (not caused) or at least for the difference between the cost of such claims and the amount the system allows as recovery. Consequently the definition of good or bad risk has changed.

The Company distributed its products primarily through its agency network, which, in total remained unchanged at 164. Premiums were predominantly generated from the southern and central regions of Italy. During the year the Company commenced a process of closing a number of loss making agents particularly in the Campania region. An equal number of new agencies were taken on in other regions which however yielded a lower volume of business.

The written premium income generated in 2008 amounted to €86.1 million, an increase of 20.5% over the 2007 premium income. This increase emanated mainly from motor liability, motor material damage cover and accident.

During the year the company continued to pursue the improvement in class and territorial mix which however proved to be elusive. The marketing of the newly developed "All Risks

Photovoltaic Equipment" policy absorbed significant management time. Premium generation has proven to be slow, partly as a consequence of the credit crunch since such projects depend on bank lending to the developers. We continue to believe in the gradual development of this sector and have started to see initial signs of potential success.

On the other hand, the newly launched Health product presents considerable challenges considering the economic downturn. As a result the company is not actively promoting this product at this stage even though it remains available.

In 2008 gross claims incurred increased by 76.6% and amounted to €86.8 million. The gross loss ratio increased by 32.2 percentage points to 111.6%. Current year loss ratio has increased from 74.8% to 99.3% when compared to 2007.

Acquisition costs have remained almost unchanged and equate to 13.1% of the written premium. The ratio of the administrative expenses for the year improved from 6.7% to 6.0% primarily resulting from improved economies of scale as the Company's turnover increases together with an increased level of

outsourcing of back office functions to the Group's management services company.

The net loss after tax amounted to €19.1 million (2007 – profit of €1.5 million) whilst Shareholders' funds decreased to €16.4 million mainly due to the net loss which was partly offset by a gain on revaluation of property.

In late 2008 and in 2009, the Company put in place a series of remedial measures intended to help results return to acceptable levels. A decision was taken to outsource a large part of the claims settling to a specialist firm of international repute. With this agreement we expect to improve the efficiency in the handling of claims which would result in improved performance especially under the new system (CARD). The resources within the claims department are being reorganised to concentrate most of their efforts on the strict monitoring of claims handled by others on our behalf as well as the monitoring of those claims which are outsourced.

A further premium rate increase has been decided and will be fully implemented upon the passage of the statutory notification period. Underwriting criteria have been revisited and appropriate pruning put into place. Of particular importance to the results was the Motorcycle account which is being pruned drastically to an extent that it will now form an insignificant part of the ongoing portfolio.

An aggressive exercise of pruning of the agency network was carried out in late 2008 and this was followed by further

reductions in early 2009. We expect our premium to be significantly lower in 2009 as a result of these measures. On the other hand all future new agents will be selected based on the company's policy to expand in the northern regions of Italy and respecting the target mix on a class basis.

The management of the company is also being restructured and strengthened in the key areas of Underwriting, Claims and Management of Intermediaries with the objective of meeting the challenges presented by the current performance of the company as well as those presented by the market in which it operates which is clearly facing a down turn in its cycle.

During the 2008 Annual General Meeting of the Company, it is expected that shareholders will approve an increase in capital of just under €2 million.



STEPHEN GAUCI
CHIEF EXECUTIVE OFFICER

RAPPORT TAN-NEGOZJU



Progress Assicurazioni S.p.A., il-kumpanija tal-grupp iddedikata għas-suq Taljan li ma jagħtix koperturi tal-hajja, għaddiet mis-sena l-aktar sfidanti li kellha minn kemm ilha tiffirma parti mill-Middlesea Group. Diversi fatturi nqas għad li jkun jinfexxi programmi ta' miżuri rimedjali bl-iskop li jnaqqas kemm jista' jkun it-telf imġarrab.

Tul is-sena 2008 l-kumpanija kellha telf nett ta' €26.8 miljun (2007 – profitt ta' €3.1 miljun) qabel il-ħlas tat-taxxa. Il-fatturi ewlenin li kkontribwixxew għal dan ir-riżultat huma: is-sistema relattivament ġdida ta' ħlas ta' klejms imdahħla l-Italja u msejha CARD (Convenzione tra Assicuratori per Risarcimento Diretto); hteġa li jissahhu r-riservi, u wkoll deterjorament ġenerali fiċ-ċiklu tas-suq kif jidher minn kompetizzjoni qawwija fil-prezzijiet u spejjeż akbar fil-każ ta' klejms. Barra minn hekk, jidher li s-sistema CARD ikkontribwixxiet b'mod sinifikanti għal zieda fi klejms irrappurtati tul is-sena iżda relatati mas-sena ta' qabel li fiha sar l-incident – fenomenu li, f'linja ġenerali, ma kienx għadu deher fil-mudelli tal-kumpanija għall-ipprezzar tal-primjums u riservar għal klejms.

Din is-sistema, li ddaħħlet obligatorja bil-liġi, tapplika għal incidenti bejn żewġ vetturi assigurati b'mod regolari u identifikati li t-tnejn huma liċenzjati l-Italja. Is-sistema tkopri klejms ta' danni lil propjetà u wkoll leżjonijiet fiżiċi li jirriżultaw f'diżabilità li ma taqbiżx id-disgħa fil-mija. Barra minn hekk, iddaħħlet ukoll fis-sistema kopertura ta' responsabbiltà lejn passigġieri li jgarrbu leżjonijiet fiżiċi li dwarha diġà kien hemm sistema simili b'indennizz sħiħ.

Is-sistema tobligha lill-assiguraturi li jindennizzaw direttament lill-klijenti tagħhom (Risarcimento Diretto) għal klejms li jsofru li huma tort ta' terzi partijiet, anke jekk ikunu assigurati fuq bażi ta' terzi partijiet biss. Assiguraturi mbagħad ikunu jistgħu jirkupraw ammont imsejjaħ "forfait" li, fil-każ ta' danni lil propjetà, jikkonsisti f'somma fissa li tiddependi mill-lokazzjoni, filwaqt li fil-każ ta' leżjoni fiżika din hi bbażata fuq formula li fil-parti l-kbira tal-każijiet hija inqas mill-ammont imħallas mill-assiguratur; wiehed japplika n-norma ta' kwantitajiet kbar biex jasal jibbilanċja.

F'livell nazzjonali s-sistema kienet maħsuba biex tħaffef il-proċess tal-ħlas ta' klejms u tagħti servizzi aħjar lill-partijiet leżi billi jkunu qed jittrattaw mal-assiguratur tagħhom stess. Madankollu hu evidenti li portafolli individwali huma suġġetti għal grad ta' varjabilità li hu partikolarment għoli fil-każ ta' portafolli relattivament żgħar. Barra minn hekk, l-informazzjoni storika kollha aċċessibbli għall-ipprezzar tal-primjums u riservar għal klejms s'issa kienet ibbażata fuq klejms imħallsin jew ikkaġunati b'tort. Wara li ddaħħlet is-sistema, assiguraturi spiccaw bir-realtà li ebda informazzjoni tal-imghoddi mhi disponibbli għar-realtà ġdida ta' responsabbiltà għal klejms sofferti (mhux ikkaġunati) jew għallinqas għad-differenza bejn in-nefqa ta' dawn il-klejms u l-ammont li s-sistema tippermetti bhala rkupru. B'konsegwenza ta' dan, id-definizzjoni ta' riskju tajjeb jew hażin inbidlet.

Il-Kumpanija ddistribwixxiet il-prodotti tagħha l-aktar permezz tan-netwerk ta' agenti tagħha li fit-total tagħha baqgħet bla mibdula xejn, jiġifieri 164 agent. Primjums kienu ġġenerati l-aktar mir-regjunijiet tan-nofsinar u dawk ċentrali tal-Italja. Tul is-sena l-Kumpanija bdiet proċess għall-għeluq ta' numru ta' agenti li kienu qed jagħmlu telf, partikolarment fir-regjun tal-Campania. Numru ugwali ta' aġenziji godda nfethu f'regjunijiet oħra li, madankollu, ipproduċew volum ta' negozju inqas.

Id-dħul minn primjums sottoskritti fis-sena 2008 ġġenera €86.1 miljun, zieda ta' 20.5% fuq id-dħul ta' primjums fis-sena 2007. Din iż-żieda ġiet l-aktar minn kopertura ta' responsabbiltà ta' vetturi, ħsarat materjali lil vetturi u incidenti.

Tul is-sena l-kumpanija komplet taħdem għal titjib ta' taħlita ta' klassijiet u territorjali

li, madanakollu, irriżulta li diffiċli tintlaħaq. Il-promozzjoni fis-suq tal-polza ġdida "All Risks Photovoltaic Equipment" ħadet ħafna mill-ħin tal-manigment. Il-ġenerazzjoni tal-primjum kienet baxxa, parzjalment minħabba t-tnaqqis fis-self billi proġetti ta' din ix-xorta jiddependu fuq self tal-banek lil żviluppaturi. Aħna nibqgħu nemmnu fl-iżvilupp gradwali ta' dan is-settur u bdejna naraw sinjali tal-bidu li jista' jirnexxi.

Min-naħa l-oħra, il-prodott ta' Assigurazzjoni tas-Saħħa li għadna kif nedejna jipprezenta sfidi konsiderevoli meta tqis it-tnaqqis ekonomiku kurrenti. Minħabba f'hekk il-kumpanija mhix qed tippromwovi attivament dan il-prodott f'dan l-istadju, anke jekk jibqa' aċċessibbli.

Il-klejms gross li daħlu telgħu b'76.6% u ammontaw għal €86.8 miljun. Il-proporzjon tat-telf żdiedet bi 32.2 punt percentwali għal 111.6%. Il-proporzjon tat-telf għas-sena kurrenti telgħet minn 74.8% għal 99.3% meta mqabbla mas-sena 2007.

Spejjeż ta' akkwisti baqgħu kwazi l-istess u jaslu għal 13.1% tal-primjum sottoskritt. Il-proporzjon ta' spejjeż amministrattivi għas-sena tjebet minn 6.7% għal 6.0% u dan l-aktar minħabba ekonomiji ta' skala itjeb waqt li n-negozju mdawwar mill-Kumpanija, flimkien mal-livell oġġla ta' mogħdija ta' funzjonijiet amministrattivi lill-kumpanija għas-servizzi amministrattivi tal-Grupp.

It-telf nett wara l-ħlas tat-taxxa ammonta għal €19.1 miljun (2007 – profit ta' €1.5 miljun) filwaqt li l-fondi tal-Azzjonisti niżlu għal €16.4 miljun, l-aktar minħabba t-telf nett li kien parzjalment imtaffi minn qligħ mir-rivalutazzjoni tal-propjetà.

Tard fis-sena 2008 u fl-2009 l-Kumpanija ħadet sensiela ta' mizuri rimedjali maħsubin biex jgħinu l-kisba mill-ġdid ta' riżultati ta' livelli aċċettabbli. Ittiegħdet decizjoni li parti kbira tax-xogħol tal-ħlas tal-klejms tingħadda barra lil ditta speċjalizzata ta' fama internazzjonali. Bis-saħħa ta' dan il-ftehim nistennew li ntejbu l-effiċjenza fit-trattament tal-klejms li twassal għal operat aħjar, l-aktar taħt is-sistema l-ġdida (CARD). Ir-riżorsi fid-dipartiment tal-klejms qed ikunu riorganizzati biex jikkoncentraw il-parti l-kbira tal-isforzi tagħhom fuq monitoraġġ strett ta' klejms ittrattati f'isimna minn oħrajn u l-monitoraġġ ta' klejms ittrattati barra mill-kumpanija.

Kien deciz li jkun hemm zieda oħra fir-rata tal-primjums u din tkun implimentata għal kollox meta jgħaddi l-perjodu statutorju tan-notifika. Saret revizjoni tal-kriterji ta' sottoskrizzjoni u sar tiżbir skont kif meħtieġ. Ir-riżultati tal-kont tal-muturi kellu importanza partikolari; dan qed jinżabar b'mod drastiku sal-punt li issa jkun jiffirma parti insinifikanti mill-portafoll kurrenti.

Tard fis-sena 2008 sar eżerċizzju aggressiv ta' tiżbir tan-network ta' aġenziji u dan tkompla b'aktar tnaqqis kmieni fis-sena 2009. Aħna nistennew li b'riżultat ta' dawn il-mizuri

l-primjum tagħna fis-sena 2009 jkun wisq inqas. Min-naħa l-oħra l-aġenti futuri għodda kollha jingħażlu skont il-politika tal-kumpanija li tespandi fir-reġjunijiet tat-tramuntana tal-Italja u jirrispettaw it-taħlita bbażata fuq klassijiet li qed nimmiraw għaliha.

Il-manigment tal-kumpanija qed ikun ristrutturatur mill-ġdid u msaħħaħ f'oqsma importanti ħafna tas-Sottoskrizzjoni, Klejms u Mmanigġjar ta' Intermedjarji bl-oġġettiv li jintlaqgħu l-isfidi gejjin mill-operat prezenti tal-kumpanija kif ukoll dawk pprezentati mis-suq li fih topera, li ċertament qed jiffaċċja nżul fiċ-ċiklu tiegħu.

Tul il-Laqqgħa Ġenerali Annwali tal-Kumpanija għas-sena 2008 hu mistenni li l-azzjonisti japprovaw zieda fil-kapital ta' ftit inqas minn €2 miljuni.

STEPHEN GAUCI
CHIEF EXECUTIVE OFFICER

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Calabria (22)
Sardegna (9)
Basilicata (3)
Campania (31)
Puglia (22)
Molise (4)
Lazio (14)
Abruzzo (3)
Marche (1)
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Piemonte (2)
Trentino Alto Adige (1)
Veneto (1)

GROUP FINANCIAL HIGHLIGHTS

	2008		2007	
	GBP'000	US\$'000	GBP'000	US\$'000
Gross premiums written:				
General Business	113,198	165,474	98,247	143,619
Life Business	1,609	2,351	1,406	2,055
Total gross premiums	114,807	167,825	99,653	145,674
Group investment (expense)/income	(4,139)	(6,051)	8,100	11,841
(Loss)/profit for the financial year	(19,693)	(28,788)	6,607	9,659
Net Dividend	-	-	3,062	4,476
Net Dividend per €0.60 share	-	-	12p2	17c9
Share Capital	14,345	20,970	13,923	20,353
Net technical reserves:				
General Business	173,040	252,951	138,085	201,853
Life Business	559	818	567	829
Shareholders' Funds	59,411	86,848	78,985	115,461
Net asset value per €0.60 share	GBP 2.38	US\$ 3.47	GBP 3.16	US\$ 4.62
Total number of ordinary shares in issue	25,000,000	25,000,000	25,000,000	25,000,000

All figures including comparatives have been translated at the rate of exchange ruling at 31 December 2008

	2008	2007
	€'000	€'000
Gross premiums written		
- General Business	118,365	102,732
- Life Business	1,682	1,470
General business results	(27,705)	6,572
Life business results	307	383
Investment (expense)/return	(4,328)	8,470
Profit attributable to shareholders	(18,690)	6,750
Dividend proposed (net)	-	3,202
Earnings per share	(74c8)	27.0c
Net asset value per share	€ 2.48	€ 3.30

PROFESSIONAL SERVICES

The Group, in addition to its regular staff complement, as at 31 December 2008 utilised the professional services of the following individuals and institutions

LEGAL ADVISORS

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

AUDITORS

PricewaterhouseCoopers

ACTUARIES

Watson Wyatt Worldwide
Gismondi e Associati

BANKERS

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

SPONSORING STOCKBROKERS

Bank of Valletta p.l.c. - Financial Markets & Investments
Division

GROUP COMMITTEES

GROUP INVESTMENT COMMITTEE

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

THE AUDIT COMMITTEE

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

THE REMUNERATION COMMITTEE

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

THE RISK MANAGEMENT COMMITTEE

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

THE COMPLIANCE & PREVENTION OF MONEY LAUNDERING COMMITTEE

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

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



CARLO FARRUGIA,
COMPANY SECRETARY
MIDDLE SEA HOUSE, FLORIANA
27 APRIL 2009

The directors present their report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

REVIEW OF THE BUSINESS

In 2008, Middlesea Insurance p.l.c. ("MSI Group" and "Group") registered a loss after tax of €20.59 million compared to the profit after tax of €6.91 million recorded in 2007. The unprecedented world financial crisis and its effect on the performance of the investment portfolio together with the technical performance of the Italian subsidiary, Progress Assicurazioni S.p.A., led to this adverse turnaround in the financial results of the Group.

During 2008 the Italian subsidiary of the Group, Progress Assicurazioni S.p.A. (Progress), registered a loss after taxation as consolidated in the Group results of €19.1 million. This was due to a number of reasons including the marked deterioration in the loss ratio on the obligatory third party motor business ('RCA') by 24 percentage points. The Italian market generally also suffered a deterioration in loss experience on this business. In addition, the introduction of the mandatory Direct Indemnification system in Italy ("CARD") during the early part of 2007 negatively impacted the 2008 technical results. Progress also undertook an intensive exercise of reviewing all technical provisions and during 2008 strengthened further its technical provisions by 28% to €160 million. The company has put into place an action plan to address the new challenges in the Italian market. This includes pruning of the portfolio, focus on the geographical and business mix together with ensuring adequate pricing.

Middlesea Insurance p.l.c.'s (MSI) technical general business result before allocation of investment income was a profit of €1.48 million compared to the profit of €2.4 million generated during 2007, whilst its technical long term business generated a profit (before allocation of investment income) of €0.298 million consistent with the €0.293 million generated during 2007. Whilst the overall technical result remains satisfactory, a marginal deterioration in the loss ratio was registered, primarily in the motor class of business, which accounts for the reduced profits. The case reserves put in place by the Company however remain solid as is evidenced by the favourable run-off of €3.45 million (2007 – favourable run-off of €3.26 million) generated during the year.

Total investment income for the Group decreased from a positive return of €8.47 million during 2007 to a negative return of €4.33 million during 2008. The overall Group results were adversely affected by the performance of both the local and foreign equity markets, with net capital losses of €12.2 million registered during 2008 compared to the €1.1 million loss registered during 2007. This has had a significant impact on the results for the year and has contributed directly to the loss incurred. Given the overall cautious investment policy adopted, the Group was able to contain the direct impact of the global financial crisis. The MSI Group had no direct exposure to any of the sub-prime or other "toxic" assets that were among the root causes of the crisis.

During 2008 the Group registered an overall increase in turnover, with gross written premiums increasing by 15% from €104.2 million in 2007 to €120 million in 2008. In addition income generated from insurance management services also increased by 39% from €1.31 million to €1.82 million. Premium increases arose principally from the Italian operation where an increase of 20% was recorded with premiums reaching €86 million. Middlesea Insurance p.l.c. also recorded a marginal increase of 3.6%, with total premium generated from both the general business and group life business reaching €34 million, compared to the €32.8 million achieved during 2007.

The Group's net technical reserves at the end of 2008 were strengthened by 25% to the level of €181.52 million (2007 - €144.98 million). The net technical reserves as a percentage of net written premium showed a robust ratio of 177% (2007 – 167%). Included within these reserves are provisions in respect of IBNR, IBNER and unexpired risk, which were increased from €16.1 million in 2007 to €26.33 million in 2008.

The negative financial results directly impacted the total equity of the Group as reported in its Balance Sheet. Total equity reduced from €85.83 million to €63.78 million, reflecting a net asset value per share attributable to the shareholders of €2.48 as compared to €3.30 at the end of 2007.

The Group's outlook on its Maltese operations, subject to macroeconomic developments, remains cautiously optimistic, especially given its leading position in the general business insurance market in Malta. The Group aims to continue to deliver a broad and superior range of products that meet the needs of its customers. Whilst acknowledging that 2008 was a very negative year for its Italian operation, the Group is guardedly confident that the remedial measures introduced in this operation should contribute positively towards the performance of this company from 2009.

DIRECTORS' REPORT

RESULTS AND DIVIDENDS

The consolidated profit and loss account is set out on page 66. The directors do not recommend the payment of a dividend (2007 - €3,202,888).

TRANSACTIONS IN OWN SHARES

Pursuant to an Extraordinary Resolution passed by shareholders on the 25 June 2008, the Company is authorised to acquire its own shares subject to the limitations and conditions set out in the Companies Act, 1995. The authorisation given to the Company expires at the end of the next Annual General Meeting or on the 25 December 2009 whichever is the earlier. The Company did not transact in its own shares during 2008.

SHAREHOLDER REGISTER INFORMATION PURSUANT TO LISTING RULE 9.43

Middlesea Insurance p.l.c (MSI)'s authorised share capital is €36 million. The issued and fully paid up share capital is €15 million divided into 25 million Ordinary Shares of a nominal value of €0.60 each. The issued share capital consists of one class of ordinary shares with equal voting rights attached and freely transferable.

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. The remaining directors are elected at the Annual General Meeting. The Memorandum and Articles of Association address the appointment and replacement of Board members. The rules governing the amendments to the Memorandum & Articles are regulated by the Maltese Companies Act 1995.

SHAREHOLDER REGISTER INFORMATION

Directors' interests in the share capital of the Company as at 31 December 2008:

George Bonnici	6,510 shares
Dr Evelyn Caruana Demajo	28 shares
Gaston Debono Grech	12,764 shares
Tonio Depasquale	1,590 shares
Dr John C. Grech	10,000 shares
Mario C. Grech	5,450 shares
Joseph F.X. Zahra	330 shares

There were no changes as at the 31 March 2009

Shareholders holding 5% or more of the equity share capital as at 31 December 2008:

Bank of Valletta p.l.c.	5,411,430 shares
HSBC Bank Malta p.l.c. as subcustodian for BNY Brussels as custodian for Mapfre Internacional	5,250,000 shares
Münchener Rückversicherungs Gesellschaft	4,975,000 shares

Distribution of shares analysed by range:

Range of shareholding	As at 31 December 2008		As at 31 March 2009	
	No. of shareholders	Shares	No. of shareholders	Shares
1 - 500	2,675	460,435	2,684	462,237
501 - 1000	635	469,211	637	471,124
1001 - 5000	976	2,203,179	974	2,199,357
5001 and over	203	21,867,175	200	21,867,282

DIRECTORS' REPORT

DIRECTORS

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

M.C. Grech – Executive Chairman, R.E.D. Chalmers M.A.Div (Edin), F.C.A., A.T.I.I., F.C.P.A., MIA – Deputy Chairman, G. Bonnici, E. Caruana Demajo LL.D., A. Corsi (Degree in Statistics and Actuarial Services, Associate of the Italian Society of Actuaries "Ordine Nazionale degli Attuari"), G. Debono Grech L.P., FISMM, B.A. (Leg), Mag. Jur. (Int. Law), Dip. Trib. Eccl. Melita, T. Depasquale, J. Fernández – Cid Plañiol (appointed – 25 June 2008), V. Galea Salomone B.A. (Luther), M.B.A. (Henley-Brunel), J.C. Grech M.A.(Econ.), Dip. ICEI (A'dam), PhD (Geneva), F.C.I.B., M.B.I.M., F.M.I.M. A., Jimenez Herradon, M. Sparberg Dr Jur, L. Spiteri K.O.M., M.A. (Oxon), D. Sugranyes Bickel ("Licence en Sciences Economiques et Sociales") (resigned – 11 February 2008), J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S.

SHAREHOLDING DETAILS

As at 31 December 2008, Middlesea Insurance p.l.c.'s issued share capital was held by 4,489 shareholders. As at 31 March 2009 the issued shared capital was held by 4,495 shareholders.

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
EXECUTIVE CHAIRMAN

MIDDLE SEA HOUSE
FLORIANA, MALTA

27 APRIL 2009



R.E.D. CHALMERS
DEPUTY CHAIRMAN

RAPPORT TAD-DIRETTURI

Id-diretturi jipprezentaw ir-rapport tagħhom u d-dikjarazzjonijiet finanzjarji awditjati għas-sena li għalqet fil-31 ta' Diċembru 2008.

ATTIVITAJIET PRINCIPALI

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

HARSA LEJN IN-NEGOZJU

Fis-sena 2008 l-Middlesea Insurance p.l.c. ("MSI Group" u "Grupp") irreġistrat telf ta' €20.59 miljun wara l-hlas tat-taxxa li jrid jitqabbel mal-profit ta' €6.91 miljun wara l-hlas tat-taxxa reġistrat fis-sena 2007. Il-kriżi finanzjarja mondjali li qatt ma kien hawn bħalha u l-effetti tagħha fuq l-operat tal-portafoll ta' investimenti, flimkien mal-operat tekniku tas-sussidjarja Taljana Progress Assicurazioni S.p.A., wasslu għal din il-bidla negattiva fir-risultati finanzjarji tal-Grupp.

Tul is-sena 2008 s-sussidjarja Taljana tal-Grupp, Progress Assicurazioni S.p.A. (Progress), irreġistrat telf ta' €19.1 miljun wara l-hlas tat-taxxa kif konsolidat fir-risultati tal-Grupp. Dan ġara għal għadd ta' raġunijiet, inkluż id-deterjorament notevoli fil-proporzjon tat-telf fin-negozju ta' assigurazzjoni obligatorja ta' vetturi ta' terzi ('RCA') b'24 punt perċentwali. F'linja ġenerali, is-suq Taljan sofra deterjorament fl-esperjenza tat-telf minn dan in-negozju. Barra minn hekk, l-introduzzjoni tas-sistema ta' Indennizz Dirett obligatorju fl-Italja ("CARD") kmieni fis-sena 2007 kellha impatt negattiv fuq ir-risultati tekniċi tas-sena 2008. Progress dahlet ukoll għal eżerċizzju intensiv ta' revizjoni tad-dispozzjonijiet tekniċi kollha u tul is-sena 2008 kompliet saħħet il-provvedimenti tekniċi bi 28% għal €160 miljun. Il-kumpanija adottat pjan ta' azzjoni biex tindirizza l-isfidi ġodda fis-suq Taljan. Dawn jinkludu ż-żabra tal-portafoll, iffukar fuq it-taħlita ġeografika u kummerċjali, u l-iżgurar ta' pprezzar adegwat.

Ir-risultat tekniku tan-negozju ġenerali tal-Middlesea Insurance p.l.c. (MSI) qabel l-allokazzjoni tad-dhul mill-investimenti kien profit ta' €1.48 miljun li jrid jitqabbel mal-profit ta' €2.4 miljun iġġenerat tul is-sena 2007, filwaqt li n-negozju tekniku għat-tul iġġenera profit (qabel l-allokazzjoni tad-dhul minn investimenti) ta' €0.298 miljun, konsistenti mal-€0.293 miljun iġġenerati tul is-sena 2007. Filwaqt li r-risultat tekniku ġenerali jibqa' sodisfaċenti, deterjorament marginali kien irreġistrat fil-proporzjon tat-telf, l-aktar fin-negozju tal-klassi tal-vetturi, u dan jispjega t-tnaqis fil-profiti. Iżda r-rizervi għal kull każ li l-Kumpanija taħseb għalihom baqgħu sodi kif jidher mir-*run-off* favorevoli ta' €3.45 miljun (2007 - *run-off* favorevoli ta' €3.26 miljun) iġġenerati tul is-sena.

Id-dhul totali tal-Grupp minn investimenti niżel minn rizultat pożittiv ta' €8.47 miljun tul is-sena 2007 għal rizultat negattiv ta' €4.33 miljun tul is-sena 2008. Ir-risultati ġenerali tal-Grupp intlaqtu b'mod negattiv mill-operat tas-swieq ta' ekwitajiet kemm lokali u kemm barranin, b'telf kapitali nett ta' €12.2 miljun reġistrat tul is-sena 2008 li jrid jitqabbel mat-telf ta' €1.1 miljun reġistrat tul is-sena 2007. Dan kellu impatt sinifikanti fuq ir-risultati għas-sena u kkontribwixxa direttament għat-telf imġarrab. Minħabba l-politika ġenerali kawta ta' investimenti addottata, il-Grupp kien kapaci jassorbi l-impatt dirett tal-kriżi finanzjarja globali. L-MSI Group ma kien espost għal ebda wieħed mill-*Sub-prime* jew *toxic* li kienu fost il-kawzi fl-għeruf tal-kriżi.

Tul is-sena 2008 l-Grupp irreġistra zieda ġenerali fin-negozju, bil-primjums gross sottoskritti jtilgħu bi 15% minn €104.2 miljun fis-sena 2007 għal €120 miljun fis-sena 2008. Barra minn hekk, dhul iġġenerat minn servizzi ta' mmaniġġjar ta' assigurazzjoni telgħu wkoll b'39% minn €1.31 miljun għal €1.82 miljun. Żidiet fid-dhul ta' primjums telgħu l-aktar mill-operazzjoni Taljana li rreġistrat zieda ta' 20% u l-primjums tagħha laħqu s-€86 miljun. Il-Middlesea Insurance p.l.c. ukoll irreġistrat zieda marginali ta' 3.6%, u l-primjum totali iġġenerat min-negozju ġenerali flimkien man-negozju ta' assigurazzjoni tal-hajja ta' gruppi laħaq l-€34 miljun li jrid jitqabbel mat-€32.8 miljun milhuqin fis-sena 2007.

Ir-rizervi tekniċi netti tal-Grupp fi tmiem is-sena 2008 ssaħħu b'25% għal-livell ta' €181.52 miljun (2007 - €144.98 miljun). Ir-rizervi tekniċi netti bħala perċentwali tal-primjum sottokritt nett urew proporzjon b'saħħitha ta' 177% (2007: 167%). Inklużi f'dawn ir-rizervi huma provvedimenti fir-rigward ta' IBNR, IBNER u riskji li għadhom m'għaddewx, li telgħu minn €16.1 miljun fis-sena 2007 għal €26.33 miljun fis-sena 2008.

Ir-risultat finanzjarju negattiv kellu impatt dirett fuq l-ekwità totali tal-Grupp kif irrappurtat fil-Karta Bilajnċjali tiegħu. L-ekwità totali niżlet minn €85.83 miljun għal €63.78 miljun, li jirrifletti valur tal-assi nett għal kull sehem attribwibbli lill-azzjonisti ta' €2.48 li jrid jitqabbel mat-€3.30 fi tmiem is-sena 2007.

Il-previżjoni tal-Grupp dwar l-operazzjonijiet Maltin tiegħu, suġġetti għal żviluppi makroekonomiċi, tibqa' kawtament ottimista, l-aktar minħabba l-pożizzjoni fuq quddiem nett li għandu fis-suq tal-assigurazzjoni ta' negozju ġenerali f'Malta. Il-Grupp jaħseb biex jibqa' jipprovdi medda wiesgħa u superjuri ta' prodotti li jissodisfaw il-ftigijiet tal-klijenti tiegħu. Filwaqt li wieħed jagħraf li s-sena 2008 kienet sena negattiva hafna għall-operazzjoni Taljana tiegħu, il-Grupp hu fiduċjuż, anke jekk b'kawtela, li l-miżuri rimedjali li ddaħħlu f'din l-operazzjoni għandhom jikkontribwixxu b'mod pożittiv għar-risultati ta' din il-kumpanija mis-sena 2009.

RIŻULTI U DIVIDENDI

Il-kont konsolidat ta' qligh u telf jidher fil-paġna 66. Id-diretturi ma jirrikmandawx il-hlas ta' dividend (2007 - €3,202,888).

TRANSAZZJONIJIET F'ISHMA TAGHHA NFISHA

Bis-saħħa ta' Riżoluzzjoni Straordinarja mgħoddija mill-azzjonisti nhar il-25 ta' Ġunju 2008, il-Kumpanija hija awtorizzata li tixtri l-ishma tagħha nfisha sugġett għal-limitazzjonijiet u kondizzjonijiet imnizzlin fl-Att tal-1995 dwar Kumpaniji. L-awtorizzazzjoni tiskadi fi tmiem il-Laqqha Ġenerali Annwali li jmiss jew fil-25 ta' Diċembru 2009, skont liema data tiġi l-ewwel. Il-Kumpanija ma għamlet ebda transazzjoni fl-ishma tagħha nfisha tul is-sena 2008.

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

Il-kapital tal-ishma awtorizzat tal-Middlesea Insurance p.l.c (MSI) hu €36 miljun. Il-kapital tal-ishma maħruġ u mħallas kollu hu €15-il miljun maqsum f'25 miljun Sehem Ordinarju ta' valur nominali ta' €0.60 kull wieħed. Il-kapital ta' ishma maħruġ jikkonsisti fi klassi waħda ta' ishma ordinarji bi drittijiet ugwali tal-vot marbutin magħhom u trasferibbli liberament.

Skont l-Artikoli ta' Assoċjazzjoni tal-Kumpanija, id-diretturi kollha jirtiraw mill-kariga fil-Laqqha Ġenerali Annwali u huma eliġibbli biex jerġgħu jkunu eletti jew maħturin. Dawk il-membri li jew separatament jew fl-aggregat ikollhom mhux inqas minn 7% tad-drittijiet totali għall-vot għandhom id-dritt li jaħtru direttur, b'ittra indirizzata lill-Kumpanija, għal kull 7% mill-ishma jew singoli jew kompletati. Il-bqija tad-diretturi huma eletti fil-Laqqha Ġenerali Annwali. Il-Memorandum u l-Artikoli ta' Assoċjazzjoni jindirizzaw il-hatra u t-tibdil tal-membri tal-Bord. Ir-regoli li jrieġu l-emendi għall-Memorandum u l-Artikoli huma regolati mill-Att Malti tal-1995 dwar Kumpaniji.

INFORMAZZJONI FUQ IR-REĠISTRU TAL-AZZJONISTI

Interessi tad-Diretturi fil-kapital tal-ishma tal-Kumpanija kif kienu fil-31 ta' Diċembru 2008:

George Bonnici	6,510 sehem
Dr Evelyn Caruana Demajo	28 sehem
Gaston Debono Grech	12,764 sehem
Tonio Depasquale	1,590 sehem
Dr John C. Grech	10,000 sehem
Mario C. Grech	5,450 sehem
Joseph F.X. Zahra	330 sehem

Ma kien hemm ebda bidla sal-31 ta' Marzu 2009.

Azzjonisti li għandhom 5% jew aktar tal-kapital tal-ishma kif kienu fil-31 ta' Diċembru 2008:

Bank of Valletta p.l.c.	5,411,430 sehem
HSBC Bank Malta p.l.c. bħala subkustodju għal BNY Brussels bħala kustodju għal Mapfre Internacional	5,250,000 sehem
Münchener Rückversicherungs Gesellschaft	4,975,000 sehem

Distribuzzjoni ta' ishma analizzata skond il-medda:

Medda ta' Pussess ta' Ishma	Kif kienu fil-31 ta' Diċembru 2008 Numru ta' azzjonisti	Ishma	Kif kienu fil-31 ta' Marzu 2009 Numru ta' azzjonisti	Ishma
1 - 500	2,675	460,435	2,684	462,237
501 - 1000	635	469,211	637	471,124
1001 - 5000	976	2,203,179	974	2,199,357
5001 u fuqhom	203	21,867,175	200	21,867,282

RAPPORT TAD-DIRETTURI

DIRETTURI

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

M.C. Grech - Chairman Eżekuttiv, R.E.D. Chalmers M.A.Div (Edin), F.C.A., A.T.I.I., F.C.P.A., MIA - Deputat Chairman, G. Bonnici, E. Caruana Demajo LL.D., A. Corsi (Degree in Statistics and Actuarial Services, Associate of the Italian Society of Actuaries "Ordine Nazionale degli Attuari"), G. Debono Grech L.P., FISMM, B.A. (Leg), Mag. Jur. (Int. Law), Dip. Trib. Eccl. Melita, T. Depasquale, J. Fernández - Cid Plañiol (maħtur - 25 ta' Ġunju 2008), V. Galea Salomone B.A. (Luther), M.B.A. (Henley-Brunel), J.C. Grech M.A.(Econ.), Dip. ICEI (A'dam), PhD (Geneva), F.C.I.B., M.B.I.M., F.M.I.M., A. Jimenez Herradon, M. Sparberg Dr Jur, L. Spiteri K.O.M., M.A. (Oxon), D. Sugranyes Bickel ("Licence en Sciences Economiques et Sociales") (irriżenja - 11 ta' Frar 2008), J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S.

DETTALJI TA' PUSSESS TA' ISHMA

Fil-31 ta' Diċembru 2008, 4,489 azzjonist kellhom bejniethom il-kapital ta' ishma maħruġ tal-Middlesea Insurance p.l.c. Fil-31 ta' Marzu 2009 l-kapital ta' ishma maħruġ kien għand 4,495 azzjonist.

AWDITURI

L-awdituri, PricewaterhouseCoopers, indikaw ir-rieda tagħhom li jibqgħu fil-kariga, u rizoluzzjoni għall-hatra mill-ġdid tagħhom ser titressaq fil-Laqgħa Ġenerali Annwali.

B'ordni tal-Bord



M.C. GRECH
EXECUTIVE CHAIRMAN

MIDDLE SEA HOUSE
FLORIANA, MALTA

27 APRIL 2009



R.E.D. CHALMERS
DEPUTY CHAIRMAN

CORPORATE GOVERNANCE - STATEMENT OF COMPLIANCE

Issuers whose securities are listed on the Malta Stock Exchange are required to include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they adopted the Code of Principles of Good Corporate Governance (the "Principles") included in the MFSA Listing Rules (Listing Rule 8.37). Issuers are also required to state the effective measures taken to ensure compliance throughout the accounting period with the Principles (Listing Rule 8.38). The Issuer's Auditors are to include a report in the annual report on the Statement of Compliance. Middlesea Insurance p.l.c. (the "Company") adopted the Principles on their introduction. In certain areas, the governance procedures applied within the Company have been amended to implement the recommendations included in the Principles. Having regard also to other recognised models of corporate governance, the Company has in places retained or adopted alternative measures with appropriate explanations.

RESPONSIBILITIES OF THE BOARD

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

- (a) Setting business objectives, goals and the general strategic direction for management with a view to maximise value and reviewing the same;
- (b) Reviewing and approving the business plans and targets that are submitted by management and working with management in the implementation of these plans;
- (c) Identifying the principal business risks of the Company and overseeing the implementation within a realisable timeframe and monitoring of appropriate risk management systems;
- (d) Ensuring that effective internal control and management information systems for the Company are in place and monitoring the implementation of strategy and policies by management;
- (e) Ensuring an adequate, prudent and conservative investment strategic policy;
- (f) Ensuring compliance with statutory and regulatory requirements and high ethical standards;
- (g) Participating in the appointment of the Company's executive officers and assessing their performance including monitoring the establishment of appropriate systems for succession planning and for approving the compensation and motivation levels of such executive officers; and
- (h) Ensuring that the Company has in place a policy to enable it to communicate effectively with shareholders, other stakeholders and the public generally.

In 2006, the Board delegated its authority and vested accountability for the Company's day-to-day business to a high level management team led by the Executive Chairman. Consequently the co-ordination of management activities,

during 2008, was ensured through the continued operation of the Group Executive Management Committee (GEMC) that was led by the Executive Chairman. The GEMC brought together the Chief Executive Officers, General Manager and Group Chief Financial Officer of all the companies within the Middlesea Group of Companies, including its subsidiaries and principal associated company. Other members of Management were called to GEMC meetings as and when required. The GEMC met eleven times during 2008.

COMPOSITION OF THE BOARD

The appointment of Board Directors was reserved exclusively to the Company's shareholders in accordance with the Company's Articles of Association and in harmony with the generally accepted practices in Malta. In accordance with Article 97 (2), a shareholder holding 7% or more voting rights or a number of shareholders who together hold 7% or more, could appoint one Director for every such 7% holding through a letter addressed to the Company. Seven members of the Board were appointed during the year in terms of this rule. All shares that were not utilised to make appointments as stipulated above were used to elect a further six directors in the General Meeting. All such appointed or elected directors served as non-executive directors on Middlesea Insurance p.l.c.'s Board. Pursuant to Article 97 (6) of the Company's Articles of Association, Mr Mario C. Grech was appointed as a Director at the Annual General Meeting through a separate resolution approved by shareholders.

Mr Domingo Sugranyes Bickel resigned as Director during 2008 and Mr Javier Fernández-Cid Plañol was appointed as Director by one of the major shareholders at the Annual General Meeting held on the 25 June 2008.

The Board, as at the 31 December 2008, was composed of one executive director and thirteen non-executive directors. Five of the non-executive directors held positions with shareholders' organisations that appointed them and with whom they have a business relationship with the Company. Two non-executive directors, one elected by the shareholders at the general meeting and the other appointed by a shareholder organisation, have a relationship with the Company through their business concerns. All the directors are of the appropriate calibre, with the necessary skills and experience to assist them in providing leadership, integrity and judgement in directing the Company.

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

EXECUTIVE CHAIRMAN

Mr Mario C. Grech, who was appointed Executive Chairman on the 1 January 2007 immediately following the Annual General Meeting, continued to be responsible for the insurance operations in Malta, assisted by an Assistant General Manager. The Company was satisfied that it was compliant with Principle 2.2 since it had put in place a balanced Board and Management structure comprising, *inter*

CORPORATE GOVERNANCE - STATEMENT OF COMPLIANCE

alia, the Group Executive Management Committee together with other Board Group Committees. The Executive Chairman has to answer to the Board Group Committees as and when required.

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

Listing Rule 8.62 was amended in 2008 and requires the Audit Committee to meet at least four times a year. The Middlesea's Group Audit Committee met eight times during 2008. In addition the Audit Committee jointly with the Investments Committee met an additional nine times during 2008 to discuss the Group's future investment strategy review, through the assistance of an external consultancy initiated in 2007. The external auditors are invited to attend specific meetings of the Group Audit Committee. They are also entitled to convene a meeting of the committee if they consider that it is necessary. The terms and conditions of new contracts negotiated with related parties (regarding banking, reinsurance and local agents) are reviewed by the Company's Group Audit Committee.

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

In the case of Progress Assicurazioni S.p.A., a subsidiary company incorporated in Italy, the *Collegio Sindacale* is appointed, in terms of applicable Italian law. During the year under review, it was presided by Rag. Ferdinando Barbaro whilst Dott. Angelo Sillitti and Dott. Nicolo Francesco Rienzi acted as *sindaci effettivi*. The latter tendered his resignation in December due to new rules implemented in Italy that limited the number of companies that a *sindaco effettivo* could preside on. Rag. Salvatore Arico has now taken over the said duties.

REMUNERATION COMMITTEE

A separate report on the Group Remuneration Committee is included in the Annual Report in line with the policy initiated last year. It is the Board of Directors that approves the remuneration of Directors and Senior Management on the recommendation of the Remuneration Committee. The maximum aggregate directors' emoluments are established and approved by the shareholders during General Meetings as and when required.

RISK MANAGEMENT COMMITTEE

The Group Risk Management Committee is responsible for setting a Risk Management policy for the Group aligned with the direction and risk appetite of the respective Boards of the Group companies. This allows for the identification of a Risk Management philosophy and responsibilities, thereby creating and monitoring the environment and the structures for risk management to operate effectively. The Committee is charged with devising a risk management plan and adequate structures to implement the policy in respect of each Group company referred to earlier. Risk registers have been compiled in which business risks have been identified and prioritised in order to establish recommendations for the level of resources to be committed to manage these risks. This allows for the provision of a direction for the implementation of adequate systems and procedures to mitigate risks within certain imponderables and align risk exposure with approved risk appetite. The Committee ensures the maintenance of up-to-date Risk Registers and related management information. Consideration of urgent and *ad hoc* issues falls within the ambit of the Committee's functions and thus, where appropriate, will refer them to the Board with risk action plans. Adequate training will be provided to management and staff to enable them to contribute to the risk management process. The ethos of the Committee is to disseminate a Risk Management philosophy and risk awareness amongst all Group officials, and promote a proactive approach to the management of risk within acceptable professional parameters. During 2008, the Committee met seven times.

CORPORATE GOVERNANCE - STATEMENT OF COMPLIANCE

INVESTMENTS COMMITTEE

The Group Investments Committee, which to date includes top executive members, meets on a regular basis and oversees the investment activities of the Group, executes the policies and guidelines, scrutinising and approving material transactions and monitoring results. Any investment exceeding €1,164,686 (Lm500,000) requires the approval of the Board of the respective Company making the investment.

The investment strategy review that was commissioned to Watson Wyatt Worldwide continued to be monitored by the joint Audit and Investments Committees during 2008 with the first prudent implementation being carried out during the last quarter of the year. The revised investment strategy review was aimed to better quantify the Group's risk appetite in relation to liabilities and determine the optimal allocation to different asset classes. This important exercise that was expected to be completed during 2008 was delayed due to the financial turmoil in the international markets and is expected to be completed in 2009 if the right financial conditions materialise.

COMPLIANCE AND PREVENTION OF MONEY LAUNDERING COMMITTEE

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

The Group Prevention of Money Laundering Reporting Officer and Deputy Prevention of Money Laundering Reporting Officers also report to this Committee that met seven times during 2008.

The Committee ensures adherence to the document entitled "Code of Dealing" addressed to its directors and senior officers as well as the directors and senior officers of its subsidiaries. The aim behind this Code is to ensure compliance with the Principles and the dealing rules including those contained in Listing Rules 8.45 to 8.55. The Company has in place, a system for recording all advance notices received in connection with permitted dealings by directors and senior officers and acknowledgements of such advance notices. Furthermore, the Company reminds all directors and senior officers of their obligation to conform to the Code of Dealing on a yearly basis.

The review of procedures adopted by the different companies within the Group that was commissioned during the previous year continued during 2008. This enabled the Group to check that procedures were all in line with the updated MFSA Listing Rules and other financial services legislation. This process included the drawing up of compliance charts and manuals in order to facilitate adherence by the companies

within the Middlesea Group to the obligations found in the Listing Rules, Companies Act and other financial services legislation.

THE ROLE OF THE BOARD OF DIRECTORS

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

Management provides the directors with a report in connection with each Board Meeting. This report sets out the Company's management accounts including key performance indicators since the date of the previous Board meeting, includes a management commentary on the results and on relevant events and decisions, and sets out background information on various subject matters including any matter requiring the approval of the Board.

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

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

- (a) the reinsurance programme maintained by the Group Companies, ensuring the right balance between risk and reward and that the level of risk retention, particularly in the event of catastrophe, is consistent with the Group's resources. It was noted by the Board of Directors that the end result of this decision remained subjective due to the complexity of a potential catastrophic event (e.g. earthquake, tsunami);
- (b) the quality and credit-worthiness of the reinsurance counterparties dealt with, to ensure the effectiveness of the reinsurance programme;
- (c) assessing pricing strategies in relation to the level of risk assumed and to market conditions generally;
- (d) the measures employed to manage foreign currency risks both in relation to assets and to liabilities;
- (e) the measures taken to ensure a balanced mix of investments and application of the Company's policy which focused on security, liquidity and maximisation of returns;
- (f) the internal controls and other disciplines maintained, both within Group companies and within agents and other intermediaries, to ensure the proper conduct in good faith of all operations; and
- (g) the level of capital resources supporting each business activity, to ensure adequate solvency both from a regulatory and business perspective.

The Board has direct access to the external auditors of the Company, who attend Board meetings as and when required at which the Company's financial statements are approved

CORPORATE GOVERNANCE - STATEMENT OF COMPLIANCE

after they have been reviewed by the Group Audit Committee. Compliance with statutory and regulatory requirements and with continuing listing obligations is also ensured. In addition to the input of the Compliance and Prevention of Money Laundering Committee, the Board is advised directly, as appropriate, by its appointed stockbrokers and legal advisors.

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

During the period under review, the Board maintained its practice that when a potential conflict of interest may or is perceived to arise in respect of a Director in connection with any transaction or other matter, this interest is declared and the individual concerned refrains from taking part in proceedings or decisions relating to the matter. The Board minutes include a record of such declarations and of the action taken by the individual director concerned. As an exception to this rule, in order that the directors may discharge their responsibilities efficiently and effectively, it was agreed that directors appointed by shareholders need not disclose a conflict of interest or potential conflict of interest where this arises due to a conflict or potential conflict between the Company and the shareholder who appointed such director. In such a case, directors are allowed to participate in the discussions provided that they are required to act honestly and in good faith and always in the best interest of the Company.

The policy and procedures regarding conflicts of interest drawn up in the previous year was being discussed with the help of legal consultants. This manual provides a framework and guidelines as to how officials and members of the Company, including Directors, should go about managing conflicts of interest, including identifying, reporting and resolving such conflicts. The manual is expected to be implemented in the coming months.

During the 2008 financial year, the Board of Directors of Middlesea Insurance held seven meetings. The Board of Directors of the other Group Companies held Board meetings as follows:- Middlesea Valletta Life held seven meetings, Progress Assicurazioni held eight meetings, International Insurance Management Services held five meetings, Growth Investments held six meetings, EuroMed Risk Solutions held five meetings, Euro Globe Holdings held four meetings and Church Wharf Properties held five meetings. Details of attendance by the members at each respective Board meeting can be viewed at the Company Secretariat and Compliance Unit.

An evaluation of the Directors' competence was carried out towards the end of 2007 and beginning of 2008. This evaluation is expected to be revisited in the coming months.

Directors of the Board keep themselves abreast of developments in the financial spheres by attending seminars,

workshops and presentations as well as through other means of information or as may be requested by such member/s.

COMMUNICATIONS WITH SHAREHOLDERS

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

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

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

EURO CHANGEOVER

The euro changeover that was implemented on the 1 January 2008 brought significant challenges to the Group of Companies. In addition all the share capital of the different Companies underwent a renominialisation process. Middlesea Insurance p.l.c., as a listed company underwent the same renominialisation process that was approved by shareholders during the Annual General Meeting held on the 25 June 2008. The relative statutory and regulatory requirements were adhered to and the respective authorities were accordingly informed of the changes made in the Memorandum and Articles of Association of the Companies following the said renominialisation.

Approved by the Board of Directors on 27 April 2009 and signed on its behalf by:



LINO SPITERI
DIRECTOR



JOSEPH F.X. ZAHRA
DIRECTOR

27 APRIL 2009

GOVERNANZA KORPORATIVA - DIKJARAZZJONI TA' KONFORMITÀ

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

RESPONSABILTAJJIET TAL-BORD

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

- (a) Li jiffissa lill-manigment objettivi, għanijiet u direzzjoni strateġika ġenerali tan-negozju biex ikabbar kemm jista' jkun il-valur u jirrevedi dawn il-materji;
- (b) Li jirrevedi u japprova l-pjanijiet u l-miri kummerċjali li huma sottomessi mill-manigment u jaħdem mal-manigment fl-implimentazzjoni ta' dawn il-pjanijiet;
- (c) Li jidentifika r-riskji prinċipali tan-negozju tal-Kumpanija u jissorvelja l-implimentazzjoni f'qafas ta' żmien li jista' jintlaħaq u jikkontrolla sistemi xierqa ta' amministrazzjoni tar-riskju;
- (d) Li jiżgura li l-Kumpanija jkollha kontrolli intern effettivi u sistemi ta' informazzjoni amministrattiva u li dawn ikunu qed jikkontrollaw l-implimentazzjoni tal-istrateġija u tal-politiki mill-manigment;
- (e) Li jiżgura politika strateġika ta' investimenti adegwata, prudenti u konservattiva;
- (f) Li jiżgura konformità ma' rekwiżiti statutorji u regolatorji u standards etiċi għoljin;
- (g) Li jieħu sehem fil-hatra tal-uffiċjali eżekuttivi tal-Kumpanija u fil-valutazzjoni tal-operat tagħhom, fosthom is-sorveljanza tat-twaqqif ta' sistemi addattati għal ippanar ta' suċċessuri u għall-approvazzjoni tal-livelli ta' kumpens u motivazzjoni ta' dawn l-uffiċjali eżekuttivi; u
- (h) Li jiżgura li l-Kumpanija għandha politika li biha tista' tikkomunika b'mod effettiv mal-azzjonisti, persuni involuti oħrajn u l-pubbliku b'mod ġenerali.

Fis-sena 2006 l-Bord iddelega l-awtorità u ir-responsabilità tiegħu għan-negozju ta' kuljum tal-Kumpanija lil grupp maniġerjali ta' livell għoli mmexxi miċ-Chairman Eżekuttiv. Konsegwentement, tul is-sena 2008 l-koordinament ta' hidmiet amministrattivi kien żgurat bis-saħħa tal-operazzjoni ta' Kumitat Eżekuttiv tal-Manigment tal-Grupp li kien immxexxi

miċ-Chairman Eżekuttiv. Il-Kumitat Eżekuttiv tal-Manigment tal-Grupp (KEMG) ġab flimkien liċ-Chief Executive Officers, lill-General Manager u lill-Group Chief Financial Officer tal-kumpaniji kollha fil-Middlesea Group of Companies, inklużi s-sussidjarji u l-kumpanija prinċipali assoċjata tiegħu. Membri oħra tal-Manigment isejhu għal laqgħat tal-KEMG kif u meta meħtieġ. Il-KEMG Itaqa' h'dax-il darba tul l-2008.

KOMPOŻIZZJONI TAL-BORD

Kif regolat mill-Artikoli ta' Assoċjazzjoni tal-Kumpanija, u konformi mal-prattiki aċċettati b'mod ġenerali f'Malta, il-hatra ta' diretturi għall-Bord tad-Diretturi kienet rizervata esklussivament lill-azzjonisti tal-Kumpanija. Skont l-Artikolu 97 (2), azzjonist li għandu 7% jew aktar tad-drittijiet għall-vot jew għadd ta' azzjonisti li bejniethom għandhom 7% jew aktar, setgħu jaħtru Direttur wieħed għal kull tali pussess ta' 7% b'ittra indirizzata lill-Kumpanija. Seba' membri tal-Bord inhatru tul is-sena skont it-termini ta' din ir-regola. L-ishma kollha mhux uttilizzati biex jagħmlu ħatriet skont kif stipulat hawn fuq intużaw biex itellgħu sitt diretturi oħra fil-Laqqgħa Ġenerali. Id-diretturi kollha maħturin jew eletti b'dan il-mod servew b'ħala diretturi mhux eżekuttivi fil-Bord tal-Middlesea Insurance p.l.c. Skont l-Artikolu 97 (6) tal-Artikoli ta' Assoċjazzjoni tal-Kumpanija, is-Sur Mario C. Grech inhatar Direttur fil-Laqqgħa Ġenerali Annwali permezz ta' riżoluzzjoni separata approvata mill-azzjonisti.

Is-Sur Domingo Sugranyes Bickel irriżenja minn Direttur tul l-2008 u s-Sur Javier Fernández-Cid Plañol inhatar Direttur minn wieħed mill-azzjonisti fil-Laqqgħa Ġenerali Annwali li saret nhar il-25 ta' Ġunju 2008.

Il-Bord, fil-31 ta' Diċembru 2008, kien kompost minn direttur eżekuttiv wieħed u tlettax-il direttur mhux eżekuttivi. Hamsa mid-diretturi mhux eżekuttivi kienu jockkupaw karigi fl-organizzazzjonijiet tal-azzjonisti li hatruhom u li għandhom relazzjoni kummerċjali mal-Kumpanija. Żewġ diretturi mhux eżekuttivi, wieħed elett mill-azzjonisti fil-laqqgħa ġenerali u l-iehor maħtur minn organizzazzjoni azzjonista, għandhom relazzjoni mal-Kumpanija permezz tal-imprizi kummerċjali tagħhom. Id-diretturi kollha huma ta' kalibru idoneu u għandhom il-ħiliet u l-esperjenza meħtieġa biex jgħinuhom halli jagħtu sens ta' tmexxija, integrità u ġudizzju fid-direzzjoni tal-Kumpanija.

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

CHAIRMAN EŻEKUTTIV

Is-Sur Mario C. Grech, li nhatar Chairman Eżekuttiv fl-1 ta' Jannar 2007, immedjatament wara l-Laqqgħa Ġenerali Annwali baqa' responsabbli għall-operazzjonijiet ta' negożju ta' assigurazzjoni meġhun minn Assistant General Manager. Il-Kumpanija kienet sodisfatta li kienet konformi mal-Prinċipju 2.2 billi kienet daħhlet struttura ta' Bord u Manigment bilancjata li tikkomprendi, fost hwejjeq oħra, il-Kumitat Eżekuttiv tal-Manigment tal-Grupp flimkien ma' Kumitati tal-Bord tal-Grupp oħrajn. Li-Chairman Eżekuttiv irid jagħti kont lill-Kumitati tal-Bord tal-Grupp kif u meta jkun mitlub jagħmel dan.

GOVERNANZA KORPORATIVA - DIKJARAZZJONI TA' KONFORMITÀ

KUMITATI TAL-BORD

L-attivitajiet tal-Bord u tal-ogħla grupp ta' maniment tal-Kumpanija kienu segwiti u appoġġjati minn Kumitati tal-Grupp tal-Kumpanija li kienu strutturati biex jgħinu f'attivitajiet speċjalizzati u fi kwistjonijiet ta' governanza. Il-membri tad-diversi Kumitati tal-Grupp huma elenkati fir-Rapport Annwali.

KUMITAT TAL-VERIFIKA

It-termini tal-Kumitat tal-Verifika tal-Grupp, kif approvati mill-Bord tad-Diretturi, ta' kull Kumpanija huma mfasslin prinċipalment fuq ir-rakkomandazzjonijiet tal-Cadbury Report u l-Prinċipji tiegħu. Dawn jinkludu, fost hwejjeġ oħra, il-kontroll tal-proċess tal-irrapportar finanzjarju, il-kontroll tal-effettività tas-sistemi ta' kontroll intern tal-kumpanija, tal-awditjar intern u tal-immaniġġjar tar-riskji, il-kontroll tal-awditjar statutorju tar-rapporti annwali u konsolidati, il-monitoraġġ tal-indipendenza tal-awditur statutorju u tal-kumpanija tal-awdituri, ir-revizjoni tar-rapporti tal-attwarji, l-immaniġġjar ta' riskji finanzjarji, il-konformità u l-iżgurar ta' nuqqas ta' interess ta' dak li jkun fil-każ ta' transazzjonijiet bejn partijiet relatati u l-proċess tal-awditjar.

Il-kompożizzjoni tal-Kumitat tal-Verifika tal-Grupp ukoll hija regolata mir-Regoli ta' Llistjar. Dawn ir-Regoli kienu emendati f'Ottubru 2008 u Regola ta' Llistjar 8.56 tistipula li l-membri kollha tal-Kumitat tal-Verifika għandhom ikunu diretturi u mill-inqas membru wiehed għandu jkun direttur mhux eżekuttiv indipendenti u għandu jkun kompetenti fil-kontabilità u/jew fl-awditjar. Regola ta' Llistjar 8.56a titlob ukoll l-identifikazzjoni ta' membru tal-kumitat li jkollu l-kompetenza meħtieġa. Il-membri tal-Kumitat tal-Verifika tal-Grupp, jiġifieri s-Sur Lino Spiteri, is-Sur Roderick E. D. Chalmers, is-Sur Javier Fernandez-Cid Plañiol u s-Sur Joseph F. X. Zahra, kollha għandhom il-kompetenza meħtieġa fil-kontabilità u/jew fl-awditjar kif mitlub mir-Regola ta' Llistjar imsemmija in vista tal-esperjenza u/jew kwalifiki tagħhom u għaliex huma diretturi mhux eżekuttivi. Il-Kumpanija hi konformi wkoll mar-rewżiti ta' Regola ta' Llistjar 8.56.

Regola ta' Llistjar 8.62 kienet emendata fl-2008 u titlob li l-Kumitat tal-Verifika jiltaqa' mill-inqas erba' darbiet fis-sena. Tul is-sena 2008 l-Kumitat tal-Verifika tal-Middlesea Group iltaqa' tmien darbiet. Barra minn hekk, il-Kumitat tal-Verifika flimkien mal-Kumitat għall-Investimenti ltaqa' disa' darbiet oħra tul l-2008 biex jiddiskuti r-revizjoni tal-istrateġija tal-investimenti tal-Grupp fil-futur permezz tal-ghajnuna ta' konsulenza esterna li nbdiet fis-sena 2007. L-awdituri esterni huma mistednin biex jattendu laqgħat speċifiċi tal-Kumitat tal-Verifika tal-Grupp. Huma għandhom ukoll id-dritt li jsejhu laqgħa tal-kumitat jekk iqisu li hi meħtieġa. It-termini u kondizzjonijiet ta' kuntratti godda negozjati ma' partijiet relatati (fir-rigward ta' transazzjonijiet bankarji, riassigurazzjoni u aġenti lokali) huma riveduti mill-Kumitat tal-Verifika tal-Grupp tal-Kumpanija.

Awditjar Intern hu funzjoni ta' stima indipendenti stabbilita fl-organizzazzjoni nnifisha biex teżamina u tivvaluta l-attivitajiet tagħha bħala servizz lill-Grupp. L-Awditur Intern jirrapporta

lill-Kumitat tal-Verifika tal-Grupp u jattendi l-laqgħat tiegħu. Il-missjoni stabbilita mill-Kumitat tal-Verifika tal-Grupp għall-funzjoni tal-Awditur Intern hija li jadotta awditjar tal-proċess tan-negożju skont ir-riskju li hu intiż biex jiżgura kontrolli adegwati u wkoll effiċjenza fil-proċess tan-negożju.

Fil-każ ta' Progress Assicurazioni S.p.A., Kumpanija sussidjarja inkorporata l-Italja, il-*Collegio Sindacale* jinhatar skont it-termini tal-liġi Taljana applikabbli. Tul is-sena li qed nittrattaw, dan kien presjedut minn Rag. Ferdinando Barbaro filwaqt li Dott. Angelo Sillitti u Dott. Nicolo Francesco Rienzi aġixxew ta' *sindaci effettivi*. Dan tal-aħħar irriżenja f'Diċembru minhabba regoli godda implimentati fl-Italja li llimitaw in-numru ta' Kumpaniji li jista' jipresiedi *sindaco effettivo*. Rag. Salvatore Aricò issa assumu d-dmirijiet imsemmija.

KUMITAT GHAR-RIMUNERAZZJONI

Rapport separat fuq il-Kumitat għar-Rimunerazzjoni tal-Grupp hu inkluz fir-Rapport Annwali f'konformità mal-politika adottata l-ewwel darba s-sena l-oħra. Hu l-Bord tad-Diretturi li japprova r-rimunerazzjoni ta' Diretturi u l-Maniment Għoli fuq ir-rakkomandazzjoni tal-Kumitat għar-Rimunerazzjoni. Il-flasijiet aggregati massimi tad-Diretturi huma stabbiliti u approvati mill-azzjonisti waqt Laqgħat Ġenerali kif u meta meħtieġ.

KUMITAT GHALL-IMMANIĠĠJAR TAR-RISKJI

Il-Kumitat għall-Immaniġġjar tar-Riskji hu responsabbli biex jiffissa politika ta' Mmaniġġjar tar-Riskji għall-Grupp li tkun taqbel mad-direzzjoni u t-tendenza lejn ir-riskju li jagħtu l-Bordijiet rispettivi tal-Kumpanija. Dan jippermetti l-identifikazzjoni ta' filosofija u responsabbiltajiet ta' Mmaniġġjar tar-Riskji, u hekk johloq u jikkontrolla l-ambjent u l-istrutturi biex l-Immaniġġjar tar-Riskji jkun jista' jopera b'mod effettiv. Il-Kumitat għandu l-inkarigu li jfassal pjan ta' mmaniġġjar tar-riskji u strutturi adegwati biex jimplementaw il-politika fir-rigward ta' kull Kumpanija tal-Grupp msemmija qabel. Ingābru registri tar-riskji li filhom riskji kummerċjali kienu identifikati u mqegħdin f'ordni ta' prijetà biex ikunu stabbiliti rakkomandazzjonijiet dwar il-livell ta' riżorsi li għandhom ikunu allokati għall-immaniġġjar ta' dawn ir-riskji. Dan jippermetti li tinghata direzzjoni għall-implimentazzjoni ta' sistemi u proċeduri adegwati biex jitnaqqsu r-riskji skont id-dimensjoni ta' ċerti elementi li ma tistax tkejjilhom u biex l-espożizzjoni għar-riskju titlaqqaq mat-tendenza lejn ir-riskju kif approvata. Il-Kumitat jiżgura li jinżammu Registri ta' Riskji aġġornati u informazzjoni amministrattiva relatata. Il-konsiderazzjoni ta' kwistjonijiet urgenti u *ad hoc* taqaf fl-ambitu tal-funzjonijiet tal-Kumitat u għalhekk, fejn hu addattat, dan jirreferihom lill-Bord flimkien ma' pjanijiet ta' azzjoni dwar ir-riskju. Taħriġ adegwat se jinghata lill-maniment u lill-impjegati biex ikunu jistgħu jikkontribwixxu għall-proċess tal-immaniġġjar tar-riskji. L-ispiritu tal-Kumitat hu li jifrex filosofija ta' Mmaniġġjar tar-Riskji u għarfien tar-riskji fost l-uffiċjali kollha tal-Grupp, u jipromwovi attitudni proattiva għall-immaniġġjar tar-riskji fil-limiti ta' parametri professjonali aċċettabbli. Tul is-sena 2008 l-Kumitat iltaqa' seba' darbiet.

GOVERNANZA KORPORATIVA - DIKJARAZZJONI TA' KONFORMITÀ

KUMITAT GHALL-INVESTIMENTI

Il-Kumitat għall-Investimenti tal-Grupp, li bħalissa jinkludi membri eżekuttivi għoljin, jiltaqa' regolarment u jissorvelja l-attivitajiet tal-Grupp relatati mal-investimenti, jiffissa politiki u linji gwida, jifli u japprova transazzjonijiet materjali u jsegwi r-risultati. Kull investment li jaqbeż il-€1,164,686 (Lm500,000) jehtieg l-approvazzjoni tal-Bord tal-Kumpanija rispettiva li tagħmel l-investment.

Ir-revizjoni tal-istrateġija tal-investimenti li kienet ikkummissjonata lil Watson Wyatt Worldwide kompliet tkun segwita tul is-sena 2008 mill-Kumitati tal-Verifika u għall-Investimenti flimkien, u l-ewwel implimentazzjoni prudenti saret tul l-aħħar kwart tas-sena. L-istrateġija tal-investimenti riveduta kienet maħsuba biex tikkwantifika aħjar l-attitudni tal-Grupp lejn it-teħid ta' riskji f'relazżjoni ma' obligazzjonijiet u tiddetermina l-aħjar allokkazzjoni lil klassijiet differenti ta' assi. Dan l-eżerċizzju importanti li kien mistenni jitlesta fis-sena 2008 kien ittardjat htija taċ-ċaqliq kbir finanzjarju fis-swieq internazzjonali u hu mistenni li jitlesta fis-sena 2009 jekk ikun hemm il-kondizzjonijiet finanzjarji ġusti.

KUMITAT GHALL-KONFORMITÀ U PREVENZJONI TAL-HASIL TAL-FLUS

Il-Kumitat tal-Grupp għall-Konformità u l-Prevenzjoni tal-Hasil tal-Flus għandu f'idejh l-inkarigu li jstabbilixxi proċeduri li jiżguraw konformità mal-liġijiet, direttivi, regolati u regolamenti kollha applikabbli, u mal-prevenzjoni, kxif u/jew rizzoluzzjoni ta' problemi ta' konformità. It-Taqsima tas-Segretarjat tal-Kumpanija u l-Konformità hija responsabbli għal kwistjonijiet ta' konformità tal-Kumpaniji tal-Grupp u klijenti terzi u tirrapporta direttament lill-Kumitat tal-Grupp għall-Konformità u l-Prevenzjoni tal-Hasil tal-Flus.

L-Uffiċjal tal-Grupp inkarigat biex jirrapporta fuq il-Prevenzjoni tal-Hasil tal-Flus u l-Uffiċjali Deputati tal-Grupp inkarigati biex jirrappurtaw fuq il-Prevenzjoni tal-Hasil tal-Flus jirrappurtaw ukoll lil dan il-Kumitat li ltaqa' seba' darbiet tul is-sena 2008.

Il-Kumitat jiżgura adegżjoni mad-dokument imsejjaħ "Code of Dealing" indirizzat lid-Diretturi u uffiċjali ewlenin tiegħu u lid-Diretturi u uffiċjali għolja tas-sussidjarji tal-kumpanja. L-għan ta' dan il-Kodiċi hu li jiżgura konformità mal-Principji u r-regoli ta' "dealing" li qegħdin fir-Regoli ta' Llistjar 8.45 sa 8.55. Il-Kumpanija diġà għandha sistema biex iżzomm rekord tal-avviżi minn qabel kollha li tircievi f'konnessjoni ma' transazzjonijiet li huma permessi għad-Diretturi u uffiċjali għolja u dikjarazzjonijiet ta' riċevuta ta' avviżi ta' din ix-xorta. Barra minn hekk, il-Kumpanija kull sena tfakkar lid-Diretturi u uffiċjali għolja kollha bl-obbligu tagħhom li jikkonformaw mal-"Code of Dealing".

Il-harsa generali fuq il-proċeduri adottati mill-kumpaniji differenti fil-Grupp li kienet ikkummissjonata fis-sena ta' qabel baqgħet sejra tul is-sena 2008. Din tat l-okkażjoni biex ikun żgurat li l-proċeduri kollha kienu konformi mar-Regoli ta' Llistjar tal-MFSA kif aġġornati, u wkoll ma' leġiżlazzjoni oħra dwar servizzi finanzjarji. Dan il-proċess inkluda l-kumpilazzjoni ta' skedi u manwali ta' konformità biex titthaffef l-aderenza

min-naħa tal-kumpaniji fil-Middlesea Group mal-obbligi li huma mniżżlin fir-Regoli ta' Llistjar, l-Att dwar il-Kumpaniji u leġiżlazzjoni oħra dwar servizzi finanzjarji.

IL-FUNZJONI TAL-BORD TAD-DIRETTURI

L-attivitajiet tal-Bord tad-Diretturi huma eżerċitati b'mod imfassal biex jiżgura li l-Bord effettivament jiddeċiedi l-politiki u jissorvelja l-operazzjonijiet tal-Kumpanija.

F'konnessjoni ma' kull laqgħa tal-Bord, id-Diretturi jingħataw rapport mill-manigment. Dan ir-rapport jagħti r-rapporti manigerjali tal-Kumpanija, fosthom indikaturi prinċipali tal-operat, mid-data tal-laqgħa ta' qabel tal-Bord, jinkludi kummentarju mill-manigment fuq ir-risultati u avvenimenti u deċiżjonijiet rilevanti, u jagħti informazzjoni li tipprovdi sfond għal diversi suġġetti, fosthom kull materja li tkun teħtieġ l-approvazzjoni tal-Bord.

Barra milli jiddeċiedi l-istrateġija u d-direzzjoni tal-Kumpanija, il-Bord kien involut attivament fil-kontroll tal-progress imqabbel mal-baġits u pjanijiet, u fl-approvazzjoni ta' transazzjonijiet materjali jew sinifikanti.

Il-Bord segwa wkoll mill-qrib il-politiki u proċessi ewlenin ta' mmanigġjar tar-riskji mhaddmin mill-Middlesea Group li huma ċentrali għan-natura tal-operazzjonijiet tiegħu. Dawn il-politiki u proċessi jittrattaw, fost hwejjeġ oħra, kwistjonijiet bħal:

- (a) il-programm ta' riassigurazzjoni li għandu l-Grupp b'mod li jkun żgurat bilanċ ekwu bejn riskju u qligħ u li l-livell ta' riskju ritenut, partikolarment fil-każ ta' katastrofi, hu konsistenti mar-riżorsi tal-Grupp. Il-Bord tad-Diretturi osserva li r-risultat aħħari ta' din id-deċiżjoni baqa' wiehed soġġettiv minħabba l-kumplessità ta' avveniment katastrofiku potenzjali (ngħidu aħna, terremot, tzumani eċċ.);
- (b) il-kwalità li jkollhom il-kontropartijiet riassiguraturi, u l-fiduċja li mistennija jkollhom, li magħhom isir in-negożjar biex tkun żgurata l-effettività tal-programm ta' riassigurazzjoni;
- (c) il-valutazzjoni ta' strateġiji ta' ffinanzjar ta' prezzijiet f'relazżjoni mal-livell tar-riskju assunt u, b'mod ġenerali, mal-kondizzjonijiet tas-suq;
- (d) il-miżuri meħudin fl-immanigġjar ta' riskji f'muniti barranin kemm f'relazżjoni ma' assi u kemm ma' obligazzjonijiet;
- (e) il-miżuri meħudin biex tkun żgurata taħlita bilanċjata ta' investimenti u applikazzjoni tal-politika tal-Kumpanija li hi ffukata fuq sigurtà, likwidità u tkabbir kemm jista' jkun tal-qligħ;
- (f) il-kontrolli interni u dixxiplini oħrajn użati, kemm fil-kumpaniji tal-Grupp u kemm fil-każ ta' aġenti u intermedjarji oħrajn, biex tkun żgurata mgħiba xierqa *in bona fede* fl-operazzjonijiet kollha; u
- (g) il-livell ta' riżorsi kapitali li jsostnu kull attività kummerċjali, biex tkun żgurata solvibilità kemm mill-perspettiva regolatorja u kemm minn dik kummerċjali.

GOVERNANZA KORPORATIVA - DIKJARAZZJONI TA' KONFORMITÀ

Il-Bord għandu aċċess dirett għall-awdituri esterni tal-Kumpanija, li jattendu l-laqqgħat tal-Bord skont kif u meta meħtieġ, li fihom ikunu approvati r-rapporti finanzjarji tal-Kumpanija wara li jkunu ġew riveduti mill-Kumitat tal-Verifika tal-Grupp. Hija żgurata wkoll konformità ma' rekwiżiti statutorji u regolatorji u ma' obbligi kontinwi ta' llistjar. Barra milli jirċievi kontribut mill-Kumitat għall-Konformità u l-Prevenzjoni ta' Hasil tal-Flus, il-Bord ikollu l-parir direttament, kif addattat, mill-*istock brokers* u mill-konsulenti legali maħturin tiegħu.

Id-diretturi huma intitolati li jfittxu parir indipendenti kull meta jridu fuq kull aspett tad-dmirijiet u responsabbiltajiet tagħhom, a spejjeż tal-Kumpanija.

Tul il-perjodu li qed ikun ittrattat, il-Bord żamm il-prattika li meta jista' jidher li hemm jew ikun jidher li jista' jkun hemm konflitt potenzjali ta' interess fir-rigward ta' Direttur f'konnessjoni ma' xi transazzjoni jew xi materja oħra, dan l-interess ikun iddikjarat u l-individwu involut ma jihux sehem fil-proċeduri jew deċiżjonijiet relatati mal-materja. Il-minuti tal-Bord jinkludu dokumentazzjoni ta' dawn id-dikjarazzjonijiet u tal-azzjoni meħuda mid-direttur individwali involut. Bħala eċċezzjoni għal din ir-regola, biex id-Diretturi jkunu jistgħu jaqdu r-responsabbiltajiet tagħhom b'mod effiċjenti u effettiv, kien miftiehem li Diretturi maħturin mill-azzjonisti m'hemmx għalfejn jiżvelaw konflitt ta' interess jew konflitt potenzjali ta' interess meta dan jinholoq minhabba konflitt jew konflitt potenzjali bejn il-Kumpanija u l-azzjonist li jkun ħatar lil dak id-direttur. F'dan il-każ, Diretturi jithallew jiehdu sehem fid-diskussjonijiet basta jkunu mitlubin jaġixxu b'mod onest u *in bona fide* u dejjem fl-aħjar interess tal-Kumpanija.

Il-Politika u Proċeduri rigward konflitti ta' interess imfasslin is-sena ta' qabel kienu qed ikunu diskussi bl-għajruna ta' konsulenti legali. Dan il-manwal jaġti qafas u linji gwida kif uffiċjali u membri tal-Kumpanija, inklużi Diretturi, għandhom jaġixxu biex jitrattaw konflitti ta' interess, fosthom l-identifikazzjoni, l-irrapportar u r-riżoluzzjoni ta' konflitti ta' din ix-xorta. Il-manwal mistenni li jkun implimentat fix-xhur li ġejjin.

Tul is-sena finanzjarja 2008 l-Bord ta' Diretturi tal-Middlesea Insurance iltaqa' seba' darbiet. Il-Bordijiet ta' Diretturi tal-Kumpaniji tal-Grupp iltaqgħu kif ġejj: Middlesea Valletta Life iltaqa' seba' darbiet, Progress Assicurazioni Itaq' tmien darbiet, International Insurance Management Services iltaqa' hames darbiet, Growth Investments iltaqa' sitt darbiet, EuroMed Risk Solutions iltaqa' hames darbiet, Euro Globe Holdings iltaqa' erba' darbiet u Church Wharf Properties iltaqa' hames darbiet. Wieħed jista' jara d-dettalji tal-attendenza tal-membri għal kull laqgħa tal-Bord rispettiv fit-Taqsim tas-Segretarjat tal-Kumpanija u tal-Konformità.

Evalwazzjoni tal-kompetenza tad-Diretturi saret lejn tmien is-sena 2007 u l-bidu tas-sena 2008. Harsa ġdida lejn din l-evalwazzjoni mistennija tingħata fix-xhur li ġejjin.

Diretturi tal-Bord iżommu ruħhom aġġornati mal-iżviluppi fl-oqsma finanzjarji billi jattendu seminars, *workshops* u preżentazzjonijiet u wkoll permezz ta' mezzi oħra ta' informazzjoni jew skont kif ikun mitlub minn xi membru jew membri.

KOMUNIKAZZJONI MAL-AZZJONISTI

Skond l-obbligi statutorji tal-Kumpanija għat-termini tal-Att dwar il-Kumpaniji u r-Regoli ta' llistjar tal-MFSA, ir-Rapport Annwali u r-Rapporti Finanzjarji, id-dikjarazzjoni ta' dividend, l-elezzjoni ta' Diretturi, il-ħatra tal-Awdituri u l-awtorizzazzjoni tad-Diretturi biex jiffissaw il-ħlas ta' l-awdituri, u negozju speċjali iehor, huma proposti u approvati fil-Laqqgħa Ġenerali Annwali tal-Kumpanija. Il-Bord tad-Diretturi hu responsabbli biex jiżviluppa l-aġenda tal-Laqqgħa Ġenerali u jibgħatha lill-azzjonisti.

Il-Kumpanija tikkomunika mal-azzjonisti tagħha billi tippubblika r-riżultati tagħha kull sitt xhur tul is-sena, permezz tar-Rapport Annwali u r-Rapporti Finanzjarji, u permezz ta' taħbiriet perjodiċi tal-Kumpanija lis-suq ġenerali. Barra minn hekk, il-Kumpanija hi obligata toħroġ kull tliet xhur avviż tal-kumpanija għall-ewwel u t-tielet kwarti tas-sena li fih thabbar avvenimenti u/jew transazzjonijiet materjali li jkunu saru f'dawn il-kwarti tas-sena finanzjarja msemmijin li jitolbu li jkunu żvelati skond ir-Regoli ta' llistjar applikabbli.

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

IL-BIDLA GħALL-EWRO

Il-bidla għall-ewro li kienet implimentata nhar l-1 ta' Jannar 2008 gābet magħha sfidi sinifikanti lill-Grupp ta' Kumpaniji. Barra minn hekk, il-kapital tal-ishma tal-Kumpaniji differenti għadda minn proċess ta' rinominalizzazzjoni. Il-Middlesea Insurance p.l.c., bħala kumpanija llistjata, għaddiet mill-istess proċess ta' rinominalizzazzjoni li kien approvat mill-azzjonisti fil-Laqqgħa Ġenerali Annwali li saret nhar il-25 ta' Ġunju 2008. Ir-rekwiżiti tal-istrategija statutorja u regolatorja relattiva kienu osservati u l-awtoritajiet rispettivi kienu debitament infurmati bil-bidliet li saru fil-Memorandum u Artikoli ta' Assoċjazzjoni tal-Kumpanija wara r-rinominalizzazzjoni msemmija.

Approvat mill-Board tad-Diretturi nhar is-27 ta' April 2009 u ffirmat f'ismu minn:



LINO SPITERI
DIRETTUR



JOSEPH F.X. ZAHRA
DIRETTUR

27 TA' APRIL 2009

REMUNERATION COMMITTEE'S REPORT TO THE SHAREHOLDERS

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

The Group Remuneration Committee is composed of Dr John C. Grech (Chairman), Mr Victor Galea Salomone and Dr Michael Sparberg who are all non-executive directors of the company. The Company Secretary, Mr Carlo Farrugia, was appointed to act as secretary to the Remuneration Committee.

The Group Remuneration Committee concentrates on recommending the remuneration policy for the Group's directors and key management personnel, outlining the appropriate packages of their remuneration. The Remuneration Committee met three times during 2008. The Committee was actively involved in discussing management restructuring, performance related scheme, negotiations with staff unions, collective agreements and in preparing concrete proposals for discussion by the Board.

The Committee recommended the approval of management's proposal for a performance related bonus scheme for all company employees. The performance bonus is based on three pillars, namely the benchmarking of profitability, turnover and expenditure against budgets. The Committee was considering looking into areas of improvement of the performance related bonus scheme during 2009.

REMUNERATION OF DIRECTORS

All Directors on the Board of Middlesea Insurance p.l.c. are non-executive directors with the exception of the Executive Chairman. As in previous years, the Chairman declined receiving a director's fee. Three directors, namely Mr A. Corsi, Mr A. Jimenez and Mr D. Sugranyes Bickel (and later Mr Fernandez-Cid Plañiol), did not receive a fee in accordance with the established policy of the shareholder companies with which they were employed and which appointed them. Fees payable to non-executive directors in respect of 2008 amounted in total to €119,004 (2007: €110,945). The amount of €19,124 (2007: €11,064) were paid as Committee fees in total and €99,881 (2007: €99,881) were paid as other directors' fees as follows:

	Directors' Fees
Mr George Bonnici	€8,922
Dr Evelyn Caruana Demajo	€8,432
Mr Roderick E. D. Chalmers	€19,317
Mr Gaston Debono Grech	€8,502
Mr Tonio Depasquale	€8,922
Mr Victor Galea Salomone	€8,293
Dr John C. Grech	€8,595
Dr Michael Sparberg	€9,387
Mr Lino Spiteri	€19,317
Mr Joseph F. X. Zahra	€19,317

Non-executive Directors were entitled to a fee of €6,988 (2007: €6,988) each as directors of the company. Non-executive directors are not entitled to profit sharing, share options or pension benefits. Three directors also sit on the Board of a subsidiary company, registered and operating in Italy, and each received remuneration of €10,000 (2007: €10,000) annually in this respect that is included within the amounts listed above. Directors sitting on the Group Board Committees were also entitled to committee fees which did not exceed €2,330 per annum and which are included within the amounts listed above.

Contracted emoluments paid to the executive director amounted to €124,149 (2007: €113,995) as disclosed in note 10 to the financial statements. Furthermore, provisions of €55,956 (2007: €55,956) were made by the Group in respect of contracted pension obligations. The Company paid an insurance premium of €8,638 (2007: €14,356) during the year in respect of insurance cover in favour of its directors.

The Directors' fees are approved in aggregate by shareholders at the Annual General Meeting.



DR JOHN C. GRECH
CHAIRMAN
GROUP REMUNERATION COMMITTEE

27 APRIL 2009

RAPPORT TAL-KUMITAT GHAR-RIMUNERAZZJONI LILL-AZZJONISTI

Il-Kumitat għar-Rimunerazzjoni tal-Middlesea Insurance p.l.c. Group qiegħed b'dan jissottometti r-rapport tiegħu lill-azzjonisti skont il-Prinċipju 8.6.4 tal-Prinċipji għal Governanza Korporattiva Tajba relatata mal-Kumitati għar-Rimunerazzjoni.

Il-Kumitat tal-Grupp għar-Rimunerazzjoni hu magħmul minn Dr John C. Grech (Chairman), is-Sur Victor Galea Salomone u Dr Michael Sparberg li kollha huma diretturi mhux eżekuttivi tal-kumpanija. Is-Segretarju tal-Kumpanija, is-Sur Carlo Farrugia, inġenjar biex jaġixxi ta' sekretarju tal-Kumitat għar-Rimunerazzjoni.

Il-Kumitat tal-Grupp għar-Rimunerazzjoni jikkoncentra biex jirrikmanda l-politika ta' rimunerazzjoni għad-diretturi u għal persuni ewlenin fil-manigment tal-Grupp u jiddeskrivi l-pakketti xierqa tar-rimunerazzjoni tagħhom. Il-Kumitat għar-Rimunerazzjoni ltaqa' tliet darbiet tul is-sena 2008. Il-Kumitat kien involut attivament fid-diskussjoni fuq ir-ristrutturazzjoni tal-manigment, fuq skema relatata mal-operat, fuq negozjati ma' unjns tal-impjegati, fuq ftehim kollettivi u fit-tnejn ta' proposti konkreti biex ikunu diskussi mill-Bord.

Il-Kumitat irrikmanda l-approvazzjoni tal-proposti tal-manigment fuq skema ta' bonus relatat mal-operat għall-impjegati kollha tal-kumpanija. Il-bonus għall-operat hu bbażat fuq tliet pilastr, jgħid li l-livell ta' profitabilità, negozju tul is-sena u nefqa mqabbla mal-baġits. Il-Kumitat kien qed jikkunsidra fejn jista' jtejjeb l-iskema ta' bonus relatat mal-operat tul is-sena 2009.

REMUNERAZZJONI TA' DIRETTURI

Minbarra fil-każ ta' Chairman Eżekuttiv, id-diretturi kollha fil-Bord tal-Middlesea Insurance p.l.c. huma diretturi mhux eżekuttivi. Bħalma sar fis-senja ta' qabel, id-Chairman irrinunza għall-ħlas ta' direttur. Tliet diretturi, jgħid li s-Sur A. Corsi, is-Sur A. Jimenez u s-Sur D. Sugranyes Bickel (u wara s-Sur Fernandez-Cid Plañol), ma rċevewx ħlas, skond il-politika stabbilita tal-kumpanija azzjonisti li huma impjegati magħhom u li ħatruhom. Hlasijiet pagabbli lill diretturi mhux eżekuttivi fir-rigward tas-sena 2008 ammontaw b'kollox għal €119,004 (2007: €110,945). L-ammont ta' €19,124 (2007: €11,064) thallas bħala hlasijiet tal-Kumitat u €99,881 (2007: €99,881) thallsu bħala hlasijiet oħra lid-diretturi kif ġej:

	Hlasijiet ta' Diretturi
Is-Sur George Bonnici	€8,922
Dr Evelyn Caruana Demajo	€8,432
Is-Sur Roderick E. D. Chalmers	€19,317
Is-Sur Gaston Debono Grech	€8,502
Is-Sur Tonio Depasquale	€8,922
Is-Sur Victor Galea Salomone	€8,293
Dr John C. Grech	€8,595
Dr Michael Sparberg	€9,387
Is-Sur Lino Spiteri	€19,317
Is-Sur Joseph F. X. Zahra	€19,317

Diretturi mhux eżekuttivi kienu intitolati għal ħlas ta' €6,988 (2007: €6,988) bħala diretturi tal-kumpanija. Diretturi mhux eżekuttivi m'humix intitolati għal qsim fil-profitti, għażliet għal qsim jew benefiċċji ta' pensjoni. Tliet diretturi huma wkoll membri tal-Bord ta' kumpanija sussidjarja, reġistrata u topera fl-Italja, u kull wieħed irċieva rimunerazzjoni ta' €10,000 (2007: €10,000) fis-sena fir-rigward ta' dan li hi inkluzja fl-ammonti mnizzlin hawn fuq. Diretturi membri tal-Kumitati tal-Bord tal-Grupp kienu wkoll intitolati għal hlasijiet tal-kumitat li ma qabzux l-€2,330 fis-sena u li huma inkluzi fl-ammonti mnizzlin hawn fuq.

Salarji kontrattwali mħallsin lid-direttur eżekuttiv ammontaw għal €124,149 (2007: €113,995) kif jidher fin-nota 10 tad-dikjarazzjonijiet finanzjarji. Barra minn hekk, il-Grupp għamel dispożizzjonijiet ta' €55,956 (2007: €55,956) fir-rigward ta' obbligi kuntrattwali ta' pensjoni. Il-Kumpanija ħallset primjum ta' assigurazzjoni ta' €8,638 (2007: €14,356) tul is-sena fir-rigward ta' kopertura assigurattiva favur id-diretturi tagħha.

Il-hlasijiet tad-Diretturi huma approvati fl-aggregat tagħhom mill-azzjonisti fil-Laqqgħa Ġenerali Annwali.



DR JOHN C GRECH
CHAIRMAN
KUMITAT TAL-GRUPP GHAR-RIMUNERAZZJONI

27 TA' APRIL 2009

CORPORATE SOCIAL RESPONSIBILITY POLICY



Middlesea Group supports Community Chest Fund and Caritas.

Il-Middlesea Group jappoġġja l-Community Chest Fund u l-Caritas.



Mr Mark Camilleri, Chief Officer of Middlesea Valletta presenting the sponsorship cheque to The Malta Basketball Association.

Is-Sur Mark Camilleri, Uffiċjal Ewlieni tal-Middlesea Valletta, jipprezenta ċekk ta' sponsorxip lill-Malta Basketball Association.

The Middlesea Group believes that it is duty bound to help the community in which it operates, and of which it also forms part. Thus, the group aims to contribute to society through its business.

The Group's Corporate Social Responsibility Policy (CSR) is a guiding principle, setting out the organisation's overall objectives in this area. The company's Business Philosophy centres on the customers, the employees and the improvement of the community. By adhering to and implementing its CSR policy the company's philosophy and values are put into practice.

The Group constantly strives to lend a helping hand whenever it is needed, especially to charitable initiatives, educational purposes, national heritage and culture promotion, research, health, art, sports and the environment. Internally, the group's CSR policy is centred on good standards of business conduct.

Through its example of good practice, Middlesea Group continues to establish itself as one of the pioneers in the promotion of the practice of CSR amongst local businesses. As a good corporate citizen Middlesea Group is doing its part in helping to create a stronger society in which business organisations and the community can function well together.

Middlesea Group values its employees, treating them with dignity, respect and fairness, whilst ensuring a healthy working environment. The group believes that its employees are its greatest resource. Employees are given ample opportunity to advance their career through training and obtaining professional qualifications. The Group also provides welfare policies to the staff such as a health insurance scheme and maternity conditions.

Furthermore, Middlesea Group is an equal opportunities employer. One of the group's priorities is that of ensuring

that no employee is discriminated against on any basis. The group offers employment to people with disability through a collaborative scheme with The Eden Foundation.

The company engages in ethical marketing that aims to give a realistic impression of the services offered, without deceiving customers, whilst ensuring legal compliance with all the relevant legislation.

Within the community Middlesea Group supports a broad range of initiatives through sponsorship and donations, and also enables employees to donate money to charities via direct salary deductions. The group extends its support to local charities, arts, sports, culture and education.

Philanthropic organisations are often faced with exhaustive financial demands, when carrying out their valuable work. In 2008, Middlesea Group continued to support local organisations, by renewing its commitment to The Malta Community Chest Fund, Caritas Malta's San Blas Children's Project and Community Outreach Program.

Middlesea Insurance assisted the Malta Down Syndrome Association, encouraging it to continue in its mission to promote awareness about the condition. The Group also provided donations to Dar tal-Providenza, YMCA, and the Puttinu Cares for Children's Fund amongst others.

The Group also supported the development of the website tastefreedom.org, a website aimed at educating the public about eating disorders.

Additionally, Middlesea Group employees took part, for the second year running, in the annual CSR day, organised by HSBC Malta in collaboration with other leading institutions. On March 19, members of staff and the management, together with their relatives, opted to spend their holiday carrying out maintenance works at St. Joseph Home, Santa

CORPORATE SOCIAL RESPONSIBILITY POLICY



Ms Rita Scicluna presenting the donation cheque to The Malta Hospice Movement.

Ms Rita Scicluna tipprezenta ček ta' donazzjoni lill-Malta Hospice Movement.



Middlesea Insurance sponsors restoration of painting at Floriana Parish Church.

Middlesea Insurance tisponsorja u restorazzjoni ta' pittura li-tinsab fil-Knisja Parrokkjali tal Furjana.

Venera. Another staff initiative was the Dress Down Day, during which employees came to work in casual clothing and raised money for Hospice Malta.

Middlesea Group also agreed to provide assistance to artistic events such as the BOV opera festival and concerts by local and international artists. It also sponsored the Malta Society of Arts and Manufactures and Commerce's newsletter that promotes local talent. Throughout the year it assisted a number of local artists in exhibiting their art. These include acclaimed artists Mark Sagona, Charlot Cassar, Matthew Cassar, Richard Saliba, and Henry Alamango.

Middlesea Group also supported local literature through the sponsorship of the Kunsill Nazzjonali tal-Ktieb as well as some local publications.

Another CSR commitment of Middlesea Group is that of promoting environmental sustainability. The Group encourages environmental responsibility amongst all of its stakeholders, including its employees. For instance, in all its offices, arrangements are made to ensure that waste paper is recycled.

During 2008, the Group continued to promote the virtues of having a healthy lifestyle. Valuing sports as an essential element in achieving such a lifestyle, MSV has offered its support to a number of sports organisations including basketball, bowling, football, athletics and badminton.

Middlesea Group has reconfirmed its commitment to supporting Health Research. In fact it renewed its support to the Gozo Melanoma Screening Study. The company has been a sponsor of this study since its inception.

In support to education, Middlesea Valletta Life was the sole sponsor of "L'Italiano in Classe" an Italian language competition amongst Maltese Schools.

Furthermore, following the significant increase in demand for employment in the insurance sector, Middlesea Group has sponsored the launching of a new Major in Insurance and Finance within the Bachelor of Commerce course offered by the Faculty of Economics, Management and Accountancy at the University of Malta.

Middlesea Group values its relationship with the community. Thus it aims to be associated with the CSR initiative in the future, and to further integrate it within all the aspects of the business it carries out. Middlesea Group regards CSR not as a form of giving, but as a form of investing, since the improvement of society will benefit everyone, including business organisations.

POLITIKA TA' RESPONSABILITÀ SOĊJALI KORPORATTIVA



MSV sponsors Tenpin Bowling Association.

L-MSV tisponsorja t-Tenpin Bowling Association.



Middlesea Group employees and their families during CSR day at St. Joseph's Home.

Impjegati tal-Middlesea Group u l-familji tagħhom waqt Jum ir-RSK fid-Dar San Ġużepp.

Il-Middlesea Group jemmen li għandu dmir jgħin lill-komunità li fiha jopera, u li hu jiffirma parti minnha wkoll. Għaldaqstant il-grupp għandu l-għan li jikkontribwixxi lis-soċjetà permezz tan-negożju tiegħu.

Ir-Responsabbiltà Soċjali Korporattiva (RSK) hija prinċipju gwida li jesprimi l-oġettivi generali tal-organizzazzjoni f'dan il-qasam. Il-Filosofija tan-Negożju ta' kumpanija tiċċentra fuq il-klijenti, l-impjegati u t-titjib tal-komunità. Meta kumpanija tkun konsistenti mal-politika ta' RSK tagħha u timplimentaha, il-filosofija u l-valuri tagħha jkunu qed jitqiegħdu fil-prattika.

Il-Grupp il-hin kollu jagħmel l-almu tiegħu biex jgħin kull meta jkun hemm hteġa, l-aktar fil-każ ta' inizjattivi karitatevoli, skopijiet edukattivi, wirt nazzjonali u promozzjoni tal-kultura, riċerka, saħħa, art, sport u l-ambjent. Internament, il-politika ta' RSK tal-grupp hi ċentrata fuq standards tajbin ta' mgħiba kummerċjali.

Bis-saħħa tal-eżempju tiegħu ta' prassi tajba, il-Middlesea Group baqa' jstabbilixxi ruħu bħala wiehed mill-pijunieri fil-promozzjoni tal-prattika ta' RSK għall-intrapriżi lokali. Bħala ċittadin korporattiv tajjeb, il-Middlesea Group qed jagħmel il-parti tiegħu biex jgħin halli tinholoq soċjetà aktar b'saħħitha li fiha organizzazzjonijiet kummerċjali u l-komunità jistgħu jiffunzjonaw tajjeb flimkien.

Il-Middlesea Group jistma lill-impjegati tiegħu u jitrattahom b'dinjità, rispett u ekwità, filwaqt li jiżgura ambjent tax-xogħol san. Il-grupp jemmen li l-impjegati tiegħu huma l-akbar rizorsa li għandu. L-impjegati jingħataw opportunitajiet wesgħin biex jawnzaw fil-karriera tagħhom permezz ta' taħriġ u bil-kisba ta' kwalifiki professjonali. Il-Grupp jipprovdi wkoll politiki ta' benessri lill-istaff, bħal skema ta' assigurazzjoni tas-saħħa u kondizzjonijiet favur il-maternità.

Barra minn hekk, il-Middlesea Group hu impjegatur li jhaddem politika ta' opportunitajiet indaqs. Wahda mill-prijoritajiet tal-grupp hija li jiżgura li ma ssir ebda diskriminazzjoni,

għal ebda raġuni, ma' xi impjegati. Il-grupp joffri impjeg li persuni b'diżabbiltà bis-saħħa ta' skema kollaborattiva mal-Fundazzjoni Eden.

Il-kumpanija tidhol għal promozzjoni tas-suq li hi maħsuba biex tagħti impressjoni realistika tas-servizzi li joffri bla ma jgħarrq bil-klijenti, filwaqt li jiżgura konformità legali mal-leġiżlazzjoni rivelanti kollha.

Fl-ambitu tal-komunità l-Middlesea Group jappoġġja medda wiesgħa ta' inizjattivi permezz ta' sponsorxip u donazzjonijiet, u jagħti ċans lill-impjegati jagħtu flus għall-karità permezz ta' tnaqqis dirett mis-salarju. Il-grupp jestendi l-appoġġ tiegħu lil korpi karitatevoli, artistici, sportivi, kulturali u edukattivi lokali.

Organizzazzjonijiet filantropiċi spiss jiltaqgħu ma' talbiet finanzjarji kbar hafna meta jagħmlu l-hidma siewja tagħhom. Fl-2008 il-Middlesea Group kompli jappoġġja organizzazzjonijiet lokali billi għedded l-impenn tiegħu mal-Malta Community Chest Fund u mas-San Blas Children's Project and Community Outreach Program immexxi mill-Caritas Malta.

Il-Middlesea Insurance għenet lill-Malta Down Syndrome Association u hekk inkoraġġietha tibqa' sejra bil-missjoni tagħha li tippromwovi għarfien dwar din il-kondizzjoni.

Il-Grupp għamel ukoll għotjiet lid-Dar tal-Providenza, il-YMCA, u l-Puttinu Cares for Children's Fund, fost entitajiet oħra.

Il-Grupp appoġġja wkoll l-iżvilupp tal-websajt tasteffreedom.org, websajt maħsuba biex teduka lill-pubbliku fuq diżordnijiet ikaġunati mill-ikel.

Barra minn dan, impjegati tal-Middlesea Group hadu sehem, għat-tieni sena konsekuttiva, fil-jum annwali tal-RSK organizzat mill-HSBC Malta f'kollaborazzjoni ma' istituzzjonijiet ewlenin oħrajn. Fid-19 ta' Marzu membri

POLITIKA TA' RESPONSABBILTÀ SOĊJALI KORPORATTIVA



Middlesea Group Employees donate blood.

Impjegati tal-Middlesea Group jaghtu d-demm.



Middlesea sponsors ambulances of the Malta Red Cross Society

Il-Middlesea tisponsorja ambulanzi tas-Socjetà tas-Salib l-Ahmar ta' Malta

tal-istaff u l-manigment, flimkien ma' qrabathom, għażlu li jgħaddu l-gurnata vaganza tagħhom jagħmlu xogħlijiet ta' manutenzjoni f'Dar San Gużep, Santa Venera. Inizjattiva oħra tal-istaff kienet Dress Down Day li fiha impjegati daħlu għax-xogħol lebsin ta' kuljum u għabru flus għal Hospice Malta.

Il-Middlesea Group qabel ukoll li jgħin avvenimenti artistici bħall-BOV Opera Festival u kuncerti minn artisti lokali u internazzjonali. Sponsorja wkoll il-fuljett ta' aħbarijiet tal-Malta Society of Arts, Manufacture and Commerce li tippromwovi talent lokali. Tul is-sena għen għadd ta' artisti lokali jesebixxu x-xogħlijiet tal-arti tagħhom. Dawn jinkludu l-artisti magħrufin Mark Sagona, Charlot Cassar, Matthew Cassar, Richard Saliba u Henry Alamango.

Il-Middlesea Group appoġġja wkoll il-letteratura lokali bis-saħħa ta' sponsorxip tal-Kunsill Nazzjonali tal-Ktieb u wkoll xi pubblikazzjonijiet lokali.

Impenn ieħor ta' RSK tal-Middlesea Group hu l-promozzjoni ta' sostenibilità ambjentali. Il-Grupp jinkoraġġixxi r-responsabbiltà ambjentali fost dawk kollha involuti fih, inklużi l-impjegati tiegħu. Ngħidu aħna, fl-uffiċċji kollha tiegħu jsiru arrangamenti biex ikun żgurat li karta użata tiġi riċiklata.

Tul l-2008 l-Grupp kompli jippromwovi s-siwi ta' stil ta' ħajja sana. Billi jagħti siwi lill-isport bħala element essenzjali għall-kisba ta' stil ta' ħajja ta' din ix-xorta, l-MSV offriet l-appoġġ tagħha lil għadd ta' organizzazzjonijiet sportivi, inklużi l-baskitbol, il-logħob tal-boċċi, il-futbol, l-atletika u l-badmintin.

Il-Middlesea Group reġa' kkonferma l-impenn tiegħu li jappoġġja r-Riċerka fuq is-Saħħa. Fil-fatt, hu għedded l-appoġġ lill-Gozo Melanoma Screening Study. Il-kumpanija ilha tisponsorja dan l-istudju sa minn meta nbeda.

B'appoġġ lill-edukazzjoni, il-Middlesea Valletta Life kienet l-isponsor waħdani ta' "L'Italiano in Classe", kompetizzjoni fuq l-Isien Taljan fost Skejjet Maltin.

Barra minn hekk, wara zieda sinifikanti fid-domanda għal impjegati fis-settur tal-assigurazzjoni, il-Middlesea Group sponsorja t-tnejdja ta' Major in Insurance and Finance fil-Kors għal Baċċellerat fil-Kummerċ offrut mill-Fakultà tal-Ekonomija, Manigment u Kontabilità fl-Università ta' Malta.

Il-Middlesea Group jgħożż ir-relazzjoni li għandu mal-komunità. Għalhekk hu għandu l-għan li fil-gejjieni jkun assoċjat ma' inizjattivi ta' RSK u jkompli jintegraha fl-ambitu tal-aspetti kollha tan-negozju li jagħmel. Il-Middlesea Group iqis l-inizjattivi ta' RSK li jidhru għalihom mhux bħala forma ta' għoti iżda bħala forma ta' investment, għaliex it-titjib tas-soċjetà se jgawdi minnu kulhadd, inklużi organizzazzjonijiet kummerċjali.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

The financial statements of Middlesea Insurance p.l.c. for the year ended 31 December 2008 are included in the Annual Report 2008, which is published in hard-copy printed form and made available on the company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

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

- the consolidated financial statements give a true and fair view of the financial position of the Group and Company as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that the Group and Company faces.

GOING CONCERN BASIS

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

Approved by the Board of Directors on 27 April 2009 and signed on its behalf by:



M.C. GRECH
EXECUTIVE CHAIRMAN



R.E.D. CHALMERS
DEPUTY CHAIRMAN

INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of Middlesea Insurance p.l.c. and its subsidiaries (the "Group") and of Middlesea Insurance p.l.c. (the parent "Company") set out on pages 64 to 127 which comprise the balance sheets as at 31 December 2008 and the profit and loss accounts, statements of changes in equity and statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995. As described in the statement of directors' responsibilities on page 61, this responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion the financial statements

- give a true and fair view of the financial position of the Group and parent Company as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Insurance Business Act, 1998 and Maltese Companies Act, 1995.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

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

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

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 47 to 50 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

INDEPENDENT AUDITOR'S REPORT

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

- The information given in the directors' report is not consistent with the financial statements.
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
- Under the Listing Rules to review the statement made by the directors, set out on page 61, that the business is a going concern together with supporting assumptions or qualifications as necessary.

We have nothing to report to you in respect of these responsibilities.

PRICEWATERHOUSECOOPERS 

**167 MERCHANTS STREET
VALLETTA
MALTA**

**SIMON FLYNN
PARTNER**

27 APRIL 2009

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT - GENERAL BUSINESS

		Year ended 31 December			
	Notes	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Earned premiums, net of reinsurance					
Gross premiums written	3	118,365	102,732	32,309	31,335
Outward reinsurance premiums		(16,657)	(16,603)	(13,570)	(13,228)
Net premiums written		101,708	86,129	18,739	18,107
Change in the gross provision for unearned premiums		(8,190)	(9,909)	113	(431)
Change in the provision for unearned premiums, reinsurers' share		193	1,136	156	539
		(7,997)	(8,773)	269	108
Earned premiums, net of reinsurance		93,711	77,356	19,008	18,215
Allocated investment return transferred from the non-technical account	5	-	4,623	-	1,344
Total technical income		93,711	81,979	19,008	19,559
Claims incurred, net of reinsurance					
Claims paid		76,167	52,005	16,170	15,183
- gross amount		(7,534)	(5,737)	(5,995)	(4,745)
- reinsurers' share					
		68,633	46,268	10,175	10,438
Change in the provision for claims		29,019	11,156	2,261	(1,139)
- gross amount		(466)	1,328	(2)	2,037
- reinsurers' share					
		28,553	12,484	2,259	898
Claims incurred, net of reinsurance		97,186	58,752	12,434	11,336
Net operating expenses	4	21,157	16,655	5,098	4,478
Allocated investment expenses and charges	5	3,073	-	2,886	-
Total technical charges		121,416	75,407	20,418	15,814
Balance on the technical account for general business (page 66)		(27,705)	6,572	(1,410)	3,745

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT - LONG TERM BUSINESS

		Year ended 31 December	
		Group and Company	
	Notes	2008 €'000	2007 €'000
Earned premiums, net of reinsurance			
Gross premiums written	3	1,682	1,470
Outward reinsurance premiums		(647)	(612)
Earned premiums, net of reinsurance		1,035	858
Investment income			
Income from other investments	5	9	90
Total technical income		1,044	948
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		1,375	382
- reinsurers' share		(870)	(264)
		505	118
Change in the provision for claims			
- gross amount		(335)	438
- reinsurers' share		221	(283)
		(114)	155
Claims incurred, net of reinsurance		391	273
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		261	62
- reinsurers' share		(154)	(15)
		107	47
Net operating expenses		239	245
Total technical charges		737	565
Balance on the technical account for long term business (page 66)		307	383

PROFIT AND LOSS ACCOUNT

NON-TECHNICAL ACCOUNT

Year ended 31 December				
Notes	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Balances on technical accounts				
General business (page 64)	(27,705)	6,572	(1,410)	3,745
Long term business (page 65)	307	383	307	383
	(27,398)	6,955	(1,103)	4,128
Share of profit of associated undertaking involved in long term business	5 958	2,627	-	-
Total (loss)/income from insurance activities	(26,440)	9,582	(1,103)	4,128
Other investment income	5 3,480	7,191	5,210	6,510
Investment expenses and charges	5 (8,775)	(1,438)	(9,390)	(1,303)
Allocated investment expense/(return) transferred to the general business technical account	5 3,073	(4,623)	2,886	(1,344)
Other income	6 1,819	1,457	-	-
Administration expenses	4 (2,956)	(2,852)	(1,068)	(1,026)
(Loss)/profit before tax	(29,799)	9,317	(3,465)	6,965
Income tax credit/(expense)	9 9,207	(2,408)	(160)	(1,706)
(Loss)/profit for the financial year	(20,592)	6,909	(3,625)	5,259
Attributable to:				
- shareholders	(18,690)	6,750	(3,625)	5,259
- minority interests	(1,902)	159	-	-
	(20,592)	6,909	(3,625)	5,259
(Loss)/earnings per share attributable to shareholders	11 (74c8)	27c0		

BALANCE SHEET

As at 31 December

	Notes	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
ASSETS					
Intangible assets	13	1,030	1,065	607	656
Property, plant and equipment	14	9,719	5,952	1,100	1,126
Investment property	15	10,978	10,926	8,367	7,721
Investments in group undertakings	16	-	-	24,865	25,475
Investment in associated undertaking	17	41,734	43,077	13,044	11,919
Other investments	18	168,286	170,155	40,897	48,967
Deferred income tax	19	13,223	3,301	1,667	-
Reinsurers' share of technical provisions	20	29,360	28,899	13,645	13,685
Deferred acquisition costs	21	7,446	6,977	2,583	2,576
Insurance and other receivables	22	25,203	20,591	9,494	9,011
Income tax receivable		2,635	37	259	-
Cash and cash equivalents	23	6,361	9,899	3,418	3,076
Total assets		315,975	300,879	119,946	124,212
EQUITY					
Capital and reserves attributable to shareholders					
Share capital	24	15,000	14,559	15,000	14,559
Share premium account		2,778	2,778	2,778	2,778
Other reserves	25	22,976	21,551	133	33
Profit and loss account		21,369	43,702	18,249	25,517
Minority interests		62,123	82,590	36,160	42,887
		1,656	3,243	-	-
Total equity		63,779	85,833	36,160	42,887
LIABILITIES					
Deferred income tax	19	1,525	1,201	1,525	1,201
Provisions for other liabilities and charges	26	912	884	-	-
Technical provisions	20	210,883	173,879	50,739	48,796
Borrowings	27	16,285	16,381	16,285	16,381
Insurance and other payables	28	22,574	22,209	15,237	14,755
Income tax payable		17	492	-	192
Total liabilities		252,196	215,046	83,786	81,325
Total equity and liabilities		315,975	300,879	119,946	124,212

The financial statements on pages 64 to 127 were authorised for issue by the Board on 27 April 2009 were signed on its behalf by:



M.C. GRECH
EXECUTIVE CHAIRMAN



R.E.D. CHALMERS
DEPUTY CHAIRMAN

STATEMENTS OF CHANGES IN EQUITY

Group

	Notes	Attributable to shareholders					Total €'000
		Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Minority interests €'000	
Balance at 1 January 2007		14,559	2,778	21,695	39,572	2,933	81,537
Fair value losses on available-for-sale investments, net of tax	25	-	-	(131)	-	-	(131)
Release on sale of subsidiary undertaking	25	-	-	(13)	-	-	(13)
Net losses recognised directly in equity		-	-	(144)	-	-	(144)
Profit for the financial year		-	-	-	6,750	159	6,909
Total recognised (expense)/income for the financial year		-	-	(144)	6,750	159	6,765
Dividends for 2006	12	-	-	-	(2,620)	(61)	(2,681)
Increase in share capital of subsidiary		-	-	-	-	276	276
Disposal of subsidiary		-	-	-	-	(64)	(64)
Balance at 31 December 2007		14,559	2,778	21,551	43,702	3,243	85,833
Balance at 1 January 2008		14,559	2,778	21,551	43,702	3,243	85,833
Fair value gains on available-for-sale investments, net of tax	25	-	-	100	-	-	100
Revaluation of property, plant and equipment, net of tax	25	-	-	2,834	-	316	3,150
Share of decrease in value of in-force business of associated undertaking	25	-	-	(1,509)	-	-	(1,509)
Net gains recognised directly in equity		-	-	1,425	-	316	1,741
Loss for the financial year		-	-	-	(18,690)	(1,902)	(20,592)
Total recognised income/(expense) for the financial year		-	-	1,425	(18,690)	(1,586)	(18,851)
Dividends for 2007	12	-	-	-	(3,202)	(123)	(3,325)
Increase in share capital of subsidiary		-	-	-	-	122	122
Renominalisation of share capital		441	-	-	(441)	-	-
Balance at 31 December 2008		15,000	2,778	22,976	21,369	1,656	63,779

STATEMENT OF CHANGES IN EQUITY

Company

	Notes	Share capital €'000	Share premium account €'000	Other reserves €'000	Profit & loss account €'000	Total €'000
Balance at 1 January 2007		14,559	2,778	177	22,878	40,392
Fair value losses on available-for-sale investments, net of tax	25	-	-	(131)	-	(131)
Release on sale of subsidiary undertaking	25	-	-	(13)	-	(13)
Net losses recognised directly in equity		-	-	(144)	-	(144)
Profit for the financial year		-	-	-	5,259	5,259
Total recognised (expense)/income for the financial year		-	-	(144)	5,259	5,115
Dividends for 2006	12	-	-	-	(2,620)	(2,620)
Balance at 31 December 2007		14,559	2,778	33	25,517	42,887
Balance at 1 January 2008		14,559	2,778	33	25,517	42,887
Fair value gains on available-for-sale investments, net of tax	25	-	-	100	-	100
Net gains recognised directly in equity		-	-	100	-	100
Loss for the financial year		-	-	-	(3,625)	(3,625)
Total recognised income/(expense) for the financial year		-	-	100	(3,625)	(3,525)
Dividends for 2007	12	-	-	-	(3,202)	(3,202)
Renominalisation of share capital	24	441	-	-	(441)	-
Balance at 31 December 2008		15,000	2,778	133	18,249	36,160

The notes on pages 71 to 127 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December

	Notes	Group		Company	
		2008 €'000	2007 €'000	2008 €'000	2007 €'000
Cash flows from operating activities					
Cash generated from operations	29	6,177	20,618	1,469	4,828
Dividends received		915	1,196	655	1,206
Interest received		7,905	6,059	1,707	1,840
Interest paid		(793)	(1,125)	(774)	(1,084)
Income tax paid		(3,517)	(2,616)	(858)	(1,799)
Net cash generated from operating activities		10,687	24,132	2,199	4,991
Cash flows from investing activities					
Purchase of investment property	15	(169)	(92)	(169)	(92)
Disposal of investment property		100	-	100	-
Increase in investment in group undertaking		-	-	(22)	(1,993)
Disposal of group undertaking, net of cash acquired	16	-	(97)	-	86
Purchase of financial investments	18	(116,731)	(207,623)	(13,028)	(19,016)
Redemption of financial investments on maturity	18	103,291	179,117	13,451	3,947
Disposal of financial investments	18	3,306	17,898	1,419	17,541
Purchase of property, plant and equipment and intangible assets	13,14	(724)	(3,887)	(310)	(214)
Disposal of property, plant and equipment	13,14	-	47	-	44
Net cash (used in)/generated from investing activities		(10,927)	(14,637)	1,441	303
Cash flows from financing activities					
Bank loans	27	(96)	(1,709)	(96)	(1,709)
Proceeds from minority interest on issue of shares		-	276	-	-
Dividends paid to group shareholders	12	(3,202)	(2,620)	(3,202)	(2,620)
Dividends paid to minority interests		-	(61)	-	-
Net cash used in financing activities		(3,298)	(4,114)	(3,298)	(4,329)
Net movement in cash and cash equivalents		(3,538)	5,381	342	965
Cash and cash equivalents at beginning of year		9,899	4,518	3,076	2,111
Cash and cash equivalents at end of year	23	6,361	9,899	3,418	3,076

ACCOUNTING POLICIES

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

1. BASIS OF PREPARATION

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union, the Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

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

The preparation of financial statements in conformity with the above reporting framework requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 1.

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

Standards, interpretations and amendments to published standards effective in 2008

In 2008 the Group adopted new standards, amendments and interpretations to existing Standards that are mandatory for the Group's accounting period beginning on 1 January 2008. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, which are mandatory for the Group's accounting periods beginning after 1 January 2008. The Group has not early adopted these revisions to the requirements of IFRSs, and the Group's directors are of the opinion that there are no requirements that will have a possible impact on the Group's financial statements in the period of initial application.

2. CONSOLIDATION

(a) Group undertakings

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its Group (or subsidiary) undertakings drawn up to 31 December each year. Subsidiary undertakings are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. On acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All intercompany transactions between group companies are eliminated. Accounting policies for subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests. A list of the Group's subsidiaries is set out in note 16.

(b) Associated undertakings

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

ACCOUNTING POLICIES

2. CONSOLIDATION - CONTINUED

(b) Associated undertakings - CONTINUED

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies for associated undertakings are changed where necessary to ensure consistency with the policies adopted by the Group. A list of the Group's associated undertakings is set out in note 17.

3. SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. In identifying the Group's business segments, the directors are also guided by the Regulations under the Insurance Business Act, 1998 on the disclosure requirements relevant to specified insurance classes of business. A geographical segment is engaged in providing products and services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

4. FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Following Malta's adoption of the Euro as its national currency on 1 January 2008, the entity's functional currency was changed from Maltese Lira to Euro. The effects of the change in functional currency have been accounted for prospectively and all items have been translated into the new functional currency using the exchange rate at the date of the change.

In view of the redenomination of the company's share capital from Maltese Lira to Euro, the company's presentation currency also changed to Euro. Accordingly, the results and financial position relating to the comparative financial period were translated and presented in these financial statements at the Irrevocably Fixed Conversion Rate of €1: Lm0.429300 as at 1 January 2008.

Transactions and balances

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

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

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

5. PROPERTY, PLANT AND EQUIPMENT

As from 2008, land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be

ACCOUNTING POLICIES

5. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred.

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (accounting policy 11).

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

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

6. INVESTMENT PROPERTY

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

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

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

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

7. INTANGIBLE ASSETS

Computer software

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

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

8. SHARE OF ASSOCIATED UNDERTAKING'S VALUE OF IN-FORCE BUSINESS

The value of in-force business is determined by the directors of the associate, based on the advice of the company's approved actuary. The valuation represents the discounted value of projected future transfers to shareholders from policies in force at the year-end, after making 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

ACCOUNTING POLICIES

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

assumed vary depending upon the mix of investments held by the company and expected market conditions. Annual movements in the share of the in-force business valuation are credited or debited to reserves and are included in the balance sheet of the Group as part of the investments in associated undertaking.

9. INVESTMENTS IN GROUP AND ASSOCIATED UNDERTAKINGS

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

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

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

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

10. FINANCIAL ASSETS

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale investments and loans and receivables. The classification is dependant on the purpose for which the investments were acquired. The directors determine the appropriate classification of investments at the time of purchase and re-evaluate such designation at every reporting date.

- Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Group's Board and relevant key management personnel in accordance with a documented investment strategy. Assets that are part of these portfolios are designated upon initial recognition at fair value through profit or loss. Derivatives are also classified as fair value through profit or loss.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group has designated as fair value through profit or loss. They include, *inter alia*, insurance and other receivables, income tax receivable, cash and cash equivalents in the balance sheet as well as other financial investments (comprising deposits with credit institutions, unlisted fixed income debt securities and treasury bills) classified as loans and receivables within note 18.
- Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss. They include *inter alia* unlisted equities.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets. All investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss and available-for-sale investments are subsequently re-measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise. Any unrealised gain or loss on an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses arising on monetary securities, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit and loss.

10. FINANCIAL ASSETS - CONTINUED

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

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

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

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

11. IMPAIRMENT OF ASSETS

(a) Impairment of financial assets at amortised cost

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

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

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

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

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

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

ACCOUNTING POLICIES

11. IMPAIRMENT OF ASSETS - CONTINUED

(b) Impairment of financial assets carried at fair value

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

(c) Impairment of other non-financial assets

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

12. OFFSETTING FINANCIAL INSTRUMENTS

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

13. CASH AND CASH EQUIVALENTS

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

14. SHARE CAPITAL

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

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

15. INSURANCE CONTRACTS

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

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

Insurance contracts - General business

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

- (i) Premiums written relate to business incepted during the year together with any differences between the booked premiums for prior years and those previously accrued, less cancellations.
- (ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.
- (iii) Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs ("DAC") in the balance sheet. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.

15. INSURANCE CONTRACTS - CONTINUED

- (iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) or not enough reported (IBNER) and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.
- (v) Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).
- (vi) Provision in the form of an unexpired risk provision, is made on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before the balance sheet date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

Long term business – Group Life

Group life business consists of annual policies that cover the lives of a group of customers' employees for the year under cover. Premiums, including reinsurance premiums, and claims are accounted for when due for payment. Reinsurance recoveries are accounted for in the same period as the related claim. The long-term business provision is based on the net "unearned premiums" method as adjusted to take into account the premium written. The valuation is carried out in conjunction with the Company's appointed independent actuary. Profits, which accrue as a result of actuarial valuations, are released to the non-technical profit and loss account. Any shortfall between actuarial valuations and the balance on the long-term business provision is appropriated from the non-technical profit and loss account.

Reinsurance contracts held

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

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

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 11.

Receivables and payables related to insurance contracts

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

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

ACCOUNTING POLICIES

15. INSURANCE CONTRACTS - CONTINUED

The impairment loss is calculated following the same method used for these financial assets. These processes are described in accounting policy 11.

Liability adequacy test

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

16. BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. No borrowing costs have been capitalised. Interest costs are charged against income without restriction.

17. CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity.

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

Deferred income tax recognised using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent that future taxable profit will be available such that realisation of the related tax benefit is probable.

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.

19. REVENUE RECOGNITION

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

(a) *Rendering of services*

Premium recognition is described in accounting policy 15 dealing with insurance contracts.

(b) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

19. REVENUE RECOGNITION - CONTINUED

- (c) *Other net fair value gains/(losses) from financial assets at fair value through income*

Other gains or losses arising from changes in the fair value of the 'financial assets at fair value through income' category are presented in the income statement within 'Net fair value gains (or losses) on financial assets at fair value through income' in the period in which they arise.

- (d) *Interest income*

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

- (e) *Rent receivable*

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

20. INVESTMENT RETURN

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

Investment return is initially recorded in the non-technical account, except for income attributed to long term business which is recognised immediately in the long term business technical account. A transfer is made from the non-technical account to the general business technical account of the actual investment return on investments supporting the insurance technical provisions.

21. LEASES

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

22. DIVIDENDS

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

NOTES TO THE FINANCIAL STATEMENTS

1. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Ultimate liability arising from claims made under insurance contracts

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. In particular, insurance risks including exposure to liability can span over more than one accounting year, and this increases the uncertainty surrounding the estimate for final settlement.

The Group applies conventional statistical or actuarial models in order to determine the ultimate liability of claims. As disclosed in note 2.1, the Bornhuetter-Ferguson Paid model uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The initial loss ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. Details of sensitivity to any potential change in this initial loss ratio is disclosed in note 20 to these financial statements. The Group believes that the liability arising from claims under insurance contracts is adequately reserved as at the financial year-end.

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

The value of in-force business is a projection of future shareholders' profit expected from contracts in force at the year end, appropriately discounted and adjusted for the effect of taxation. This valuation requires the use of assumptions relating to future mortality, persistence, levels of expenses and investment returns over the longer term (see accounting policy 8).

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

The valuation assumes a margin of 2% (2007: 2%) between the weighted average projected investment return and the discount factor applied. The calculation also assumes lapse rates varying from 2% to 10% (2007: 2% to 10%), and an expense inflation rate of 3.5% (2007: 3.6%). Changes in current year assumptions, as compared to the 2006 valuation process, did not have a significant impact on the Group's net assets. If the assumed margin between weighted average projected investment return and discount rate were reduced by 1%, the after tax value of in-force business would increase to €42.40 million (2007: €45.59 million). If the assumed spread between weighted average projected investment return and discount rate were increased by 1%, the after tax value of in-force business would decrease to €37.38 million (2007: €40.23 million).

(c) Impairment of investments in group undertakings

Investments in group undertakings are accounted for using the cost method of accounting less impairment. The company first assesses whether objective evidence of impairment exists when, following the initial recognition of an investment, an event occurs that has an impact on the estimated future cash flows of that group undertaking. During 2008, Progress Assicurazioni S.p.A. suffered a loss to the extent that its net asset value is now lower than the carrying amount of the investment in the Company's balance sheet by €6 million. The determination of impairment requires judgement. In making this judgment, the Company has assessed the future operational and financing cash flows of Progress Assicurazioni S.p.A. that are based on three-year financial budgets approved by its directors. Based on this assessment, an impairment charge of €2.5 million has been recognised in the Company's financial statements and is included within 'Investment expenses and charges' in the non-technical profit and loss account.

This has no impact on the Group's results or balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK

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

2.1 INSURANCE RISK

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

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

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

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

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

a) Frequency and severity of claims

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

- The increasing levels of court awards in cases where damages are suffered as a result of injuries; the divergence of awards that is dependant on the territory of the claim and the jurisdiction of the court; the effect of inflation due to the prolonged period typically required to settle such cases.
- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.
- The increase in the number of reported claims as a result of the introduction of the obligatory direct indemnification system (CARD) in Italy.

The introduction of the obligatory direct indemnification system in the Italian market has exposed the Italian subsidiary to claims from injured parties being indemnified for property damage and minor bodily injuries (defined as up to 9% disability) even if they are only covered by third party risk. The Italian operation is entitled to recover from the insurers of the driver at fault an amount that is determined in accordance with a stipulated formula. This system can have an important impact on the faults experience in relation to its premium rates payable. In addition, the system of recovery from other insurance companies exposes the operation to potential variability especially given the relatively small portfolio of business compared to the whole Italian market.

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

Underwriting

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

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.1 INSURANCE RISK - CONTINUED

a) Frequency and severity of claims - CONTINUED

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

Reinsurance arrangements

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

In addition, on the acquisition of Progress Assicurazioni S.p.A., the Group had entered into a reinsurance arrangement with Mapfre Internacional, the previous shareholders of the Italian company. In terms of this agreement, Mapfre Internacional agreed to reimburse the company for the net adverse run-off cost of all risks incepted prior to the date of original acquisition. Recoveries in terms of this arrangement are further disclosed in Note 20 to the financial statements.

Claims handling

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

In the case of the Company, authority limits are set for the settlement of claims through the individual agents. Any claims incurred above these limits are referred to head office for handling. In addition, all claims involving bodily injury are referred to head office irrespective of their amount. In the case of the Italian subsidiary, all claims are managed and settled directly by the company. Agents do not have authority to settle claims.

Concentration of insurance risk

The Group's risks are concentrated across the Euro-Med region. 72% (2007: 69%) of premium is written in Italy and Sicily, 26% (2007: 28%) is written in Malta and 2% (2007: 3%) is written in Gibraltar. The Group further diversifies business underwritten in Italy through a distribution network comprising 112 agencies operating on the Italian mainland, 43 agencies operating in Sicily and a further 9 agencies operating in Sardegna.

The entry into the Italian and Gibraltar markets was a result of a strategic decision by the Group to diversify risk away from the Maltese Islands, and to increase the potential for growth.

From a Group perspective, compulsory motor liability remains the largest class of business written at 58% (2007: 55%) of total premium. Other significant insurance business classes include motor comprehensive insurance at 19% (2007: 20%) and accident and health at 11% (2007: 11%). The remaining 12% (2007: 14%) of premium written is generated across a spread of classes including property, marine, other non-motor liability business and long term business. Further information on premiums written, and claims incurred and insurance liabilities by insurance business class is provided in Note 3 to these financial statements.

The concentration of motor third party liability is mainly located within the Italian operation where this class (RCA) accounts for 74% (2007: 72%) of the total business written in Italy. The emphasis of RCA business is consistent with general market trends

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.1 INSURANCE RISK - CONTINUED

a) Frequency and severity of claims - CONTINUED

in Southern Italy and Sicily where RCA is traditionally the predominant type of insurance cover taken out by a policyholder. The subsidiary is continuously adopting various measures to improve the mix of non-RCA business, including:

- setting performance targets for agents driven by an increase in the content of non-RCA business;
- terminating agency agreements that underperform;
- negotiating contracts with new intermediaries where portfolios are predominantly non-RCA business;
- launching new products which cover both commercial and personal lines of business.

The above measures are further complemented by strong underwriting disciplines, including realignment of the Italian operation's pricing strategy commensurate with the level of risk.

The spread of business underwritten by the local company (including the Gibraltar branch) is more diversified. Comprehensive motor business accounts for 29% (2007: 30%) of premium written, followed by property at 18% (2007: 19%), accident and health at 21% (2007: 19%), and motor liability at 18% (2007: 18%). The remaining 14% (2007: 14%) of the portfolio is spread across marine, non-motor liability business and long term business.

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

Claims on contracts are accounted for on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, the estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where information about the claim event is generally available. Certain classes of business, most notably those exposed to liability, can take several years to develop and are therefore subject to a greater degree of uncertainty than other classes of business which are typically settled in a shorter period of time.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR and a provision for reported claims not yet paid at the balance sheet date.

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

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

The Company has constructed 'chain ladders' that triangulate the settlement of claims by accounting year or underwriting year, depending on the class of business (i.e. covering risks underwritten in Malta or Gibraltar). The 'chain ladders' include the known claims incurred (i.e. the claims paid and claims outstanding in any given year) by underwriting/accounting year, and they demonstrate how each year has progressed in the subsequent years of development. The 'chain ladder' is then projected forward giving greater weighting to recent years. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. In fact, large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

The Italian subsidiary applies multiple actuarial techniques to estimate the ultimate cost of claims for material classes of insurance business (essentially RCA). An external actuarial assessment on the adequacy of claims reserving is commissioned on an annual basis, in accordance with Italian Regulatory requirements. The choice of selected results depends on an assessment of the technique that is considered to be most appropriate in relation to observed historical developments. The methods used in reserving as at 31 December were the following:

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.1 INSURANCE RISK - CONTINUED

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

- Loss Development Method Paid (LDM)
- Loss Development Method Paid Inflated Adjusted
- Bornhuetter-Ferguson Paid

The basic LDM involves the analysis of historical claims paid development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims paid data for each accident year that is not fully developed to produce an estimated ultimate claims cost of each accident year. The second method follows through from the basic framework but is adjusted to cater for inflation.

Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums, using an initial loss ratio estimate; the latter is based on the paid claims to date. The initial loss ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The two estimates are combined using a formula that gives more weight to the experience-based estimates as time passes.

The projections given by the various methodologies assist in estimating the range of possible outcomes. The results achieved by the different methodologies are appropriately weighted by the actuary for the purposes of reserving applied in the financial statements.

Note 20 presents the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Group's estimation technique for claims reserving.

2.2 FINANCIAL RISK

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

MARKET RISK

a) Cash flow and fair value interest rate risk

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

In general, the Group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. Several line items on the balance sheet are based on fixed interest rates, and are therefore subject to changes in fair value resulting from changes in market rates. This risk is managed through investment in debt securities and deposits having a wide range of maturity dates. Group investment parameters exist to limit exposure to any one particular issuer and any one particular security (with the exception of investment in Government paper). The Group also has assets as well as loan facilities issued at variable rates which expose it to cash flow interest rate risk. Periodic reports are prepared at portfolio, legal entity and asset and liability class level that are circulated to the Group's relevant key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.2 FINANCIAL RISK: MARKET RISK - CONTINUED

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

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

Group	2007				
	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets					
Debt securities – listed fixed interest rate	46,805	13,653	23,210	17,156	100,824
Treasury bills	348	-	-	-	348
Loans and receivables:					
- Deposits with banks and credit institutions	30,605	-	-	-	30,605
- Treasury bills	4,997	-	-	-	4,997
- Unlisted fixed income debt securities	233	-	-	-	233
- Cash and cash equivalents	9,899	-	-	-	9,899
Total interest bearing assets	92,887	13,653	23,210	17,156	146,906
Liabilities					
Borrowings	-	-	4,749	11,632	16,381
Deposits received from reinsurers	4,722	-	-	-	4,722
Total interest bearing liabilities	4,722	-	4,749	11,632	21,103

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.2 FINANCIAL RISK: MARKET RISK - CONTINUED

2008					
Company	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets					
Debt securities - listed fixed interest rate	2,325	1,998	9,310	12,138	25,771
Treasury bills	149	-	-	-	149
Loans and receivables:					
- Deposits with banks and credit institutions	5,002	-	-	-	5,002
- Cash and cash equivalents	3,418	-	-	-	3,418
Total interest bearing assets	10,894	1,998	9,310	12,138	34,340
Liabilities					
Borrowings	-	-	6,979	9,306	16,285
Deposits received from reinsurers	4,347	-	-	-	4,347
Total interest bearing liabilities	4,347	-	6,979	9,306	20,632
2007					
Company	Within 1 year €'000	Between 1 - 2 years €'000	Between 2 - 5 years €'000	Over 5 years €'000	Total €'000
Assets					
Debt securities - listed fixed interest rate	1,466	728	10,255	11,150	23,599
Treasury bills	349	-	-	-	349
Loans and receivables:					
- Deposits with banks and credit institutions	7,900	-	-	-	7,900
- Unlisted fixed income debt securities	233	-	-	-	233
- Cash and cash equivalents	3,076	-	-	-	3,076
- Loan to related party	-	819	-	-	819
Total interest bearing assets	13,024	1,547	10,255	11,150	35,976
Liabilities					
Borrowings	-	-	4,749	11,632	16,381
Deposits received from reinsurers	3,843	-	-	-	3,843
Total interest bearing liabilities	3,843	-	4,749	11,632	20,224

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.2 FINANCIAL RISK: MARKET RISK - CONTINUED

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

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Assets held at variable rates				
Deposits with banks or credit institutions	5,325	30,605	5,002	7,900
Treasury bills	74,441	4,997	149	-
Cash and cash equivalents	6,361	9,899	3,418	3,076
	86,127	45,501	8,569	10,976
Liabilities issued at variable rates				
Borrowings	16,285	16,381	16,285	16,381
Deposits received from reinsurers	5,650	4,722	4,347	3,843
	21,935	21,103	20,632	20,224
	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Assets held at fixed rates				
Debt securities	69,389	101,172	25,771	23,948
Loans and receivables	-	233	-	233
Loan to related parties	-	-	-	819
	69,389	101,405	25,771	25,000

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

Up to the balance sheet date the Group did not have any hedging policy with respect to interest rate risk as exposure to such risks was not deemed to be significant by the directors.

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.2 FINANCIAL RISK: MARKET RISK - CONTINUED

i) Sensitivity Analysis – interest rate risk

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

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

At 31 December 2008, if interest rates at that date would have been 90 basis points (2007: 135 basis points) lower with all other variables held constant, the Group pre-tax results for the year would have improved by €1.34 million (2007: €3.03 million). The Company pre-tax results for the year would have improved by €0.95 million (2007: €2.10 million). An increase of 90 basis points (2007: 135 basis points), with all other variables held constant, would have resulted in a decrease in Group pre-tax results of €1.87 million (2007: €2.80 million). The Company pre-tax results for the year would have decreased by €1.55 million (2007: €1.86 million).

b) Equity price risks

The Group's financial assets are susceptible to the risk of decreases in value due to changes in the prices of equities because of investments held and classified on the balance sheet as fair value through profit or loss or as available-for-sale. During the current year, the financial markets have experienced extreme volatility due to uncertainty and disruption in large segments of the financial and credit markets resulting in downward pressures on security prices.

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

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

i) Sensitivity analysis – equity price risk

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

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

An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in an impact of €1.84 million (2007: €3.26 million) on the Group's pre-tax results.

An increase and a decrease in 10% in equity prices, with all other variables held constant, would result in an impact of €0.96 million (2007: €1.66 million) on the Company's pre-tax results.

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.2 FINANCIAL RISK: MARKET RISK - CONTINUED

c) *Currency risk*

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

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

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

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

At 31 December 2008, foreign currency exposure amounted to €1.39 million (2007: €4.19 million). €0.53 million was hedged as at the financial year end (2007: €0.47 million) leaving an unhedged exposure of €0.86 million (2007: €3.73 million).

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

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

CREDIT RISK

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.2 FINANCIAL RISK: CREDIT RISK - CONTINUED

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

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

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

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

The total assets bearing credit risk are the following:

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Debt securities	69,389	100,824	25,771	23,599
Other financial assets (including deposits with banks, treasury bills and debt securities)	79,766	36,183	5,151	8,482
Reinsurers share of technical provisions	22,446	22,201	8,898	9,117
Insurance and other receivables	24,422	19,443	8,968	8,015
Income tax receivable	2,635	37	259	-
Cash and cash equivalents	6,361	9,899	3,418	3,076
Total	205,019	188,587	52,465	52,289

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

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

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
AAA	26,874	74,443	1,645	363
AA	22,696	44,123	11,504	13,599
A	126,827	47,515	28,823	29,095
BBB	119	606	-	-
Not rated	28,503	21,900	10,493	9,232
Total	205,019	188,587	52,465	52,289

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.2 FINANCIAL RISK: CREDIT RISK - CONTINUED

Financial assets that are past due but not impaired

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

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Within credit terms	2,453	1,126	2,038	1,111
Not more than three months	1,048	1,082	562	717
Within three to twelve months	836	745	604	250
Over twelve months	942	897	301	348
	5,279	3,850	3,505	2,426

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

The overall exposure of the Group in terms of IFRS 7 is €5.28 million, of which €2.45 million are not contractually due. With respect to the remaining balance, it is the view that no impairment charge is necessary, due to the following reasons:

1. The amount due was settled after year end.
2. In cases where the amount has not been settled, agreement for settlement has been reached or is being negotiated.
3. Collateral of €129,115 (2007: €129,115) is in place and which can be called upon if negotiations fail. The collateral is in the form of a hypothec on property taken out against one particular agent.

Financial assets that are impaired

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

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Within three to twelve months	751	278	-	-
Over twelve months	1,501	1,591	675	675
	2,252	1,869	675	675

These balances are covered by the following:

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Impairment loss (note 22)	2,130	1,747	553	553
Other insurance payables	122	122	122	122
	2,252	1,869	675	675

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF RISK - CONTINUED

2.2 FINANCIAL RISK: CREDIT RISK - CONTINUED

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

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

LIQUIDITY RISK

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

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

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

	Expected cash flows (undiscounted) (€ millions) 2008						Total
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	
Technical provisions – claims outstanding	68.3	27.4	16.3	10.8	10.2	27.0	160.0
Borrowings	0.6	0.6	3.0	2.8	2.7	10.0	19.7
Insurance and other payables	22.5	-	-	-	-	-	22.5

	Expected cash flows (undiscounted) (€ millions) 2007						Total
	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5yrs	
Technical provisions – claims outstanding	55.7	22.4	14.7	9.0	7.5	22.1	131.4
Borrowings	0.7	0.9	0.9	3.5	3.1	13.1	22.2
Insurance and other payables	22.2	-	-	-	-	-	22.2
Income tax payable	0.5	-	-	-	-	-	0.5

2.3 CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- To comply with the obligations to maintain positive solvency position based on the regulatory requirements of the insurance markets where the Group operates;
- To provide for the capital requirements of the companies within the Group;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The capital requirements of the companies within the Group are maintained in accordance with regulatory solvency and capital requirements of the insurance markets in which they operate. The financing of the Group's subsidiaries and associate companies is provided by the Company in the form of share capital in the respective company. The Company is financed by shareholders' total equity together with borrowings from banks.

As at 31 December 2008 the Company held net assets of €36.2 million. Other than investments in Group and associated undertakings, all assets were fully admissible for solvency purposes. Investments in Group and associated undertakings are valued, for solvency purposes, on the basis of surplus assets of each specific company (after covering their respective solvency margins). The carrying value of investments in the Group and associated undertakings is recorded in the balance sheet at €37.9 million whilst the admissible portion of these investments was €16.8 million. The Company's own solvency requirements were adequately covered by net admissible assets throughout the financial period.

All companies within the Group were compliant with the respective regulatory solvency requirements throughout the financial period.

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION

3.1 PRIMARY REPORTING FORMAT - GEOGRAPHICAL SEGMENTS

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

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

The segment results for the year ended 31 December are as follows:

	Group			
	Gross premiums written		(Loss)/profit before tax	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Malta	31,121	29,608	(3,554)	5,937
Italy	86,056	71,396	(26,822)	3,096
Gibraltar	2,842	3,179	563	328
London - discontinued	28	19	14	(44)
Total for the year	120,047	104,202	(29,799)	9,317

There is no business transacted between the segments other than as disclosed in note 32.

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 mainly including technical provisions. Segment liabilities for the London and Gibraltar branch are principally backed by investments and other assets managed from Malta (the home country of the parent company).

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

	Assets		Liabilities	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Malta	122,004	126,170	74,654	72,658
Italy	185,881	165,954	169,453	133,633
Gibraltar	6,662	7,082	6,662	7,082
London - discontinued	1,428	1,673	1,427	1,673
	315,975	300,879	252,196	215,046

The assets allocated to the Malta operation include the aggregate investment in the associated undertaking of €41.7 million (2007: €43.1 million). This undertaking is involved in underwriting life assurance in Malta.

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION - CONTINUED

3.1 PRIMARY REPORTING FORMAT - GEOGRAPHICAL SEGMENTS - CONTINUED

Other information

	Group 2008		
	Malta €'000	Italy €'000	Total €'000
Share of profit of associated undertaking	958	-	958
Capital expenditure	664	229	893
Depreciation and amortisation - tangible and intangible assets	545	344	889
Impairment loss on receivables	-	458	458
Write back of impairment loss on receivables	-	(75)	(75)
Other non-cash movements	(120)	83	(37)

Other information

	Group 2007		
	Malta €'000	Italy €'000	Total €'000
Share of profit of associated undertaking	2,627	-	2,627
Capital expenditure	716	3,263	3,979
Depreciation and amortisation - tangible and intangible assets	464	317	781
Impairment loss on receivables	145	212	357
Write-back of impairment losses on receivables	(101)	(162)	(263)
Other non-cash movements	-	83	83

Capital expenditure comprises additions to tangible and intangible assets.

3.2 SECONDARY REPORTING FORMAT - BUSINESS SEGMENTS

General business

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

Gross premiums written and gross premiums earned by class of business

	Group			
	Gross premiums written		Gross premiums earned	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Direct insurance				
Motor (third party liability)	69,863	57,311	62,830	51,481
Motor (other classes)	22,813	20,545	21,667	18,559
Fire and other damage to property	8,281	9,315	8,507	7,921
Accident & health	12,981	11,035	12,651	10,155
Other classes	4,427	4,526	4,520	4,707
	118,365	102,732	110,175	92,823

25% (2007: 27%) of gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta, 73% (2007: 69%) emanate from contracts concluded in or from Italy and 2% (2007: 3%) emanate from contracts concluded in or from Gibraltar.

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION - CONTINUED

3.2 SECONDARY REPORTING FORMAT - BUSINESS SEGMENTS - CONTINUED

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

	Group					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Direct insurance						
Motor (third party liability)	81,089	45,930	11,748	8,989	(26)	312
Motor (other classes)	12,713	10,730	6,448	5,252	(177)	1,132
Fire and other damage to property	3,929	2,731	2,649	2,516	2,216	2,889
Accident & health	3,834	3,754	3,758	2,880	1,145	477
Other classes	3,621	16	1,288	1,211	572	2,055
	105,186	63,161	25,891	20,848	3,730	6,865

Gross premiums written and gross premiums earned by class of business

	Company			
	Gross premiums written		Gross premiums earned	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Direct insurance				
Motor (third party liability)	6,073	5,850	6,053	5,864
Motor (other classes)	9,953	9,779	9,920	9,802
Fire and other damage to property	6,147	6,394	6,366	6,100
Accident & health	7,204	6,340	7,069	5,904
Other classes	2,932	2,972	3,014	3,234
	32,309	31,335	32,422	30,904

91% (2007: 90%) of gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta. The balance emanates from contracts concluded in or from Gibraltar.

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION - CONTINUED

3.2 SECONDARY REPORTING FORMAT - BUSINESS SEGMENTS - CONTINUED

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

	Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Direct insurance						
Motor (third party liability)	3,829	3,391	1,625	1,474	-	455
Motor (other classes)	6,621	6,293	2,655	2,454	(73)	795
Fire and other damage to property	2,532	1,753	1,958	1,892	1,998	2,728
Accident & health	3,435	3,520	1,884	1,452	1,042	438
Other classes	2,014	(913)	871	749	555	2,022
	18,431	14,044	8,993	8,021	3,522	6,438

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	
	2008 €'000	2007 €'000
Gross premiums written		
Direct insurance	1,670	1,459
Reinsurance inwards	12	11
	1,682	1,470

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

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION - CONTINUED

3.2 SECONDARY REPORTING FORMAT - BUSINESS SEGMENTS - CONTINUED

Group segment assets and liabilities

	Motor third party €'000	Motor other €'000	Fire and other damage to property €'000	Accident & health €'000	Other classes €'000	Long-term business €'000	Un- allocated €'000	Total €'000
At 31 December 2008								
Assets allocated to business segments	143,894	30,344	18,634	8,635	16,063	905	22,218	240,693
Assets allocated to shareholders	-	-	-	-	-	-	75,282	75,282
Total assets	143,894	30,344	18,634	8,635	16,063	905	97,500	315,975
Liabilities allocated to business segments	141,487	27,982	18,823	9,877	16,156	905	6,707	221,937
Liabilities allocated to shareholders	-	-	-	-	-	-	30,259	30,259
Total liabilities	141,487	27,982	18,823	9,877	16,156	905	36,966	252,196
At 31 December 2007								
Assets allocated to business segments	114,125	26,800	17,599	8,170	13,203	1,113	16,274	197,284
Assets allocated to shareholders	-	-	-	-	-	-	103,595	103,595
Total assets	114,125	26,800	17,599	8,170	13,203	1,113	119,869	300,879
Liabilities allocated to business segments	111,835	24,793	18,304	9,263	13,293	1,112	6,533	185,133
Liabilities allocated to shareholders	-	-	-	-	-	-	29,913	29,913
Total liabilities	111,835	24,793	18,304	9,263	13,293	1,112	36,446	215,046

NOTES TO THE FINANCIAL STATEMENTS

4. NET OPERATING EXPENSES

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Acquisition costs	19,454	17,000	6,979	6,750
Change in deferred acquisition costs, net of reinsurance	(420)	(1,366)	26	119
Administrative expenses	10,105	8,796	3,330	2,673
Reinsurance commissions and profit participation	(4,787)	(4,678)	(3,930)	(3,793)
	24,352	19,752	6,405	5,749
Allocated to:				
General business technical account	21,157	16,655	5,098	4,478
Long term business technical account	239	245	239	245
Non-technical account (administrative expenses)	2,956	2,852	1,068	1,026
	24,352	19,752	6,405	5,749

Total commissions for direct business accounted for in the financial year amounted to €16.39 million (2007: €13.87 million) in the Group's technical result and €5.96 million (2007: €5.84 million) in the Company's technical result. Administrative expenses mainly comprise employee benefit expenses which are analysed in note 8.

Non-technical account

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

5. INVESTMENT RETURN

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Investment income				
Share of associated undertaking's profit, net of tax	958	2,627	-	-
Dividend income from group undertakings	-	-	3,524	3,566
Gain on sale of shares in subsidiary company	-	3	-	16
Rental receivable from investment property	607	566	483	438
Interest receivable from loans and receivables				
- group undertakings	-	-	17	37
- other financial assets not at fair value through profit or loss	1,304	2,209	369	618
Income from financial assets at fair value through profit or loss				
- dividend income	865	1,294	434	944
- net gains	-	2,611	-	750
Net fair value gains on investment property	649	667	577	305
	4,383	9,977	5,404	6,674

NOTES TO THE FINANCIAL STATEMENTS

5. INVESTMENT RETURN - CONTINUED

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
<i>Investment expenses and charges:</i>				
Direct operating expenses arising from investment property that generated rental income	58	64	58	64
Interest expense for financial liabilities that are not at fair value through profit or loss	955	956	936	914
Net fair value losses on financial assets at fair value through profit or loss	6,594	-	5,016	-
Impairment charge (note 1)	-	-	2,500	-
Exchange differences	1,031	331	1,033	330
Other investment expenses	73	156	32	69
	8,711	1,507	9,575	1,377
Total investment (charge)/return	(4,328)	8,470	(4,171)	5,297

Analysed between:

Allocated investment (charge)/return transferred to the general business technical account	(3,073)	4,623	(2,886)	1,344
Investment (charge)/return included in the non-technical account	(1,264)	3,757	(1,294)	3,863
Investment return included in the long term business technical account	9	90	9	90
	(4,328)	8,470	(4,171)	5,297

In accordance with IAS 39, fair value movements on financial assets at fair value through profit or loss include nominal interest income for the Group of €5.59 million (Company: €1.39 million) and realised and unrealised capital losses on investments of €12.18 million (Company: €6.41 million). Corresponding figures for 2007 were €3.68 million (Company: €1.08 million) and €1.07 million (Company: €0.33 million) respectively.

6. OTHER INCOME

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Management fees	1,819	1,311	-	-
Other income	-	146	-	-
	1,819	1,457	-	-

NOTES TO THE FINANCIAL STATEMENTS

7. (LOSS)/PROFIT BEFORE TAX

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

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Employee benefit expense (note 8)	6,664	5,720	1,821	1,706
Depreciation/amortisation:				
- intangible assets (note 13)	406	333	251	216
- tangible assets (note 14)	483	448	134	162
Impairment loss on receivables	458	357	-	145
Write back of impairment loss on receivables	(75)	(263)	-	(101)
Impairment loss on investment in group undertaking	-	-	2,500	-

Fees charged by the parent company auditor for services rendered during the financial periods ended 31 December 2008 and 2007 amounted to:

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Annual statutory audit	67	64	44	44
Other assurance services	11	25	11	25
Tax advisory and compliance services	3	5	3	5
Other	24	5	24	5
	105	99	82	79

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

	Group	
	2008	2007
	€'000	€'000
Annual statutory audit	27	27
Other assurance services	8	7
Other	6	5
	41	39

8. EMPLOYEE BENEFIT EXPENSE

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Salaries	5,579	4,770	1,679	1,567
Social security costs	1,029	894	86	83
Provision for contracted pension obligations (note 10)	56	56	56	56
	6,664	5,720	1,821	1,706

NOTES TO THE FINANCIAL STATEMENTS

8. EMPLOYEE BENEFIT EXPENSE - CONTINUED

The average number of persons employed during the year was:

	Group 2008	2007	Company 2008	2007
Key management personnel	14	10	6	4
Managerial	23	25	10	10
Technical	110	106	34	37
Administrative	23	21	2	2
	170	162	52	53

9. INCOME TAX EXPENSE

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Current tax expense	444	2,933	1,556	1,558
Deferred tax credit (note 19)	(9,651)	(525)	(1,396)	148
Income tax (credit)/expense	(9,207)	2,408	160	1,706

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 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
(Loss)/profit before tax	(29,799)	9,317	(3,465)	6,965
Tax at 35%	(10,430)	3,261	(1,213)	2,438
Adjusted for tax effect of:				
Dividends received from untaxed income	-	-	(454)	(891)
Exempt income	(377)	(875)	-	-
Differences arising from section 15 of the Income Tax Act	(661)	(571)	-	-
Non-deductible expenditure	1,066	465	1,799	168
Foreign tax payable	-	124	372	215
Withholding tax regime on investment property	(89)	(59)	(89)	(59)
Different tax rates on overseas subsidiary	1,803	101	-	-
Other	(519)	(38)	(255)	(165)
Income tax (credit)/expense	(9,207)	2,408	160	1,706

NOTES TO THE FINANCIAL STATEMENTS

10. DIRECTORS' EMOLUMENTS

	2008 €'000	2007 €'000
Contracted emoluments paid to management	124	114
Directors' fees	119	111
	<hr/> 243	<hr/> 225

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

The Company paid insurance premiums of €9k (2007: €14k) during the year in respect of insurance cover in favour of its directors. Furthermore, provisions have been made (Group: 2008 – €56k and 2007 – €56k, Company: 2008 – €56k and 2007 – €56k) in respect of contracted pension obligations.

11. (LOSS)/EARNINGS PER SHARE

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

	Group 2008 €'000	2007 €'000
Net (loss)/profit attributable to shareholders	(18,690)	6,750
Weighted average number of ordinary shares in issue (note 24)	25,000,000	25,000,000
(Loss)/earnings per share	(74c8)	27c0

12. DIVIDENDS

At the forthcoming Annual General Meeting, no dividend is to be proposed. The dividends declared after the financial year end in respect of 2007 were €3.20 million (12.81 cents per share with a nominal value of 58.23 cents) and in respect of 2006 were €2.62 million (10.48 cents per share with a nominal value of 58.23 cents).

NOTES TO THE FINANCIAL STATEMENTS

13. INTANGIBLE ASSETS

<i>Computer software</i>	Group €'000	Company €'000
At 1 January 2007		
Cost	3,261	1,966
Accumulated amortisation	(2,259)	(1,168)
	<hr/>	<hr/>
Net book value	1,002	798
	<hr/>	<hr/>
Year ended 31 December 2007		
Opening net book amount	1,002	798
Additions	397	74
Disposal (disposal of subsidiary)	(3)	-
Amortisation charge	(333)	(216)
Amortisation released on disposal	2	-
	<hr/>	<hr/>
Closing net book amount	1,065	656
	<hr/>	<hr/>
At 31 December 2007		
Cost	3,655	2,040
Accumulated amortisation	(2,590)	(1,384)
	<hr/>	<hr/>
Net book value	1,065	656
	<hr/>	<hr/>
Year ended 31 December 2008		
Opening net book amount	1,065	656
Additions	371	202
Amortisation charge	(406)	(251)
	<hr/>	<hr/>
Closing net book amount	1,030	607
	<hr/>	<hr/>
At 31 December 2008		
Cost	4,026	2,242
Accumulated amortisation	(2,996)	(1,635)
	<hr/>	<hr/>
Net book value	1,030	607
	<hr/>	<hr/>

Amortisation expense has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture, fittings and equipment €'000	Total €'000
At 1 January 2007					
Cost	1,284	1,364	161	3,531	6,340
Accumulated depreciation	(58)	(444)	(119)	(2,751)	(3,372)
Net book amount	1,226	920	42	780	2,968
Year ended 31 December 2007					
Opening net book amount	1,226	920	42	780	2,968
Additions	3,078	48	2	362	3,490
Disposals	-	(44)	(25)	(154)	(223)
Depreciation charge	(76)	(36)	(11)	(325)	(448)
Depreciation released on disposals	-	-	22	143	165
Closing net book amount	4,228	888	30	806	5,952
At 31 December 2007					
Cost	4,362	1,368	138	3,739	9,607
Accumulated depreciation	(134)	(480)	(108)	(2,933)	(3,655)
Net book amount	4,228	888	30	806	5,952
Year ended 31 December 2008					
Opening net book amount	4,228	888	30	806	5,952
Additions	-	4	3	346	353
Disposals	-	-	(28)	-	(28)
Depreciation charge	(121)	(32)	(11)	(319)	(483)
Depreciation released on disposals	-	-	28	-	28
Transfer from investment property	666	-	-	-	666
Revaluation surplus	3,231	-	-	-	3,231
Closing net book amount	8,004	860	22	833	9,719
At 31 December 2008					
Cost	5,028	1,372	113	4,085	10,598
Accumulated depreciation	(255)	(512)	(91)	(3,252)	(4,110)
Revaluation surplus	3,231	-	-	-	3,231
Net book amount	8,004	860	22	833	9,719

As from 2008, land and buildings are shown at fair value. The Group's land and buildings were revalued at 31 December 2008 by independent valuers. Valuations were made on the basis of market value. The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (note 25).

Depreciation expense has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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

	2008 €'000	2007 €'000
At 31 December		
Cost	5,028	4,362
Accumulated depreciation	(255)	(134)
	<hr/>	<hr/>
Net book amount	4,773	4,228

Company

	Freehold land and buildings €'000	Leasehold improvements €'000	Motor vehicles €'000	Furniture fittings and equipment €'000	Total €'000
At 1 January 2007					
Cost	69	1,224	115	2,157	3,565
Accumulated depreciation	(1)	(434)	(79)	(1,859)	(2,373)
	<hr/>				
Net book amount	68	790	36	298	1,192
	<hr/>				
Year ended 31 December 2007					
Opening net book amount	68	790	36	298	1,192
Additions	-	2	-	138	140
Disposals	-	(44)	-	-	(44)
Depreciation charge	(1)	(29)	(7)	(125)	(162)
	<hr/>				
Closing net book amount	67	719	29	311	1,126
	<hr/>				
At 31 December 2007					
Cost	69	1,182	115	2,295	3,661
Accumulated depreciation	(2)	(463)	(86)	(1,984)	(2,535)
	<hr/>				
Net book amount	67	719	29	311	1,126
	<hr/>				
Year ended 31 December 2008					
Opening net book amount	67	719	29	311	1,126
Additions	-	4	2	102	108
Disposals	-	-	(28)	-	(28)
Depreciation charge	(1)	(30)	(9)	(94)	(134)
Depreciation released on disposal	-	-	28	-	28
	<hr/>				
Closing net book amount	66	693	22	319	1,100
	<hr/>				
At 31 December 2008					
Cost	69	1,186	89	2,397	3,741
Accumulated depreciation	(3)	(493)	(67)	(2,078)	(2,641)
	<hr/>				
Net book amount	66	693	22	319	1,100
	<hr/>				

Depreciation expense has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENT PROPERTY

	Group €'000	Company €'000
At 1 January 2007		
Cost	8,398	5,852
Accumulated fair value gains	1,769	1,472
	<hr/>	<hr/>
Net book amount	10,167	7,324
	<hr/>	<hr/>
Year ended 31 December 2007		
Opening net book amount	10,167	7,324
Additions	92	92
Net fair value gains	667	305
	<hr/>	<hr/>
Closing net book amount	10,926	7,721
	<hr/>	<hr/>
Year ended 31 December 2008		
Opening net book amount	10,926	7,721
Additions	169	169
Net fair value gains	549	477
Transfer to property, plant and equipment	(666)	-
	<hr/>	<hr/>
Net book amount	10,978	8,367
	<hr/>	<hr/>
At 31 December 2008		
Cost	7,993	6,113
Accumulated fair value gains	2,985	2,254
	<hr/>	<hr/>
Net book amount	10,978	8,367
	<hr/>	<hr/>

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

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

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Cost	8,495	8,247	6,112	5,944
Accumulated depreciation	(494)	(461)	(437)	(377)
	<hr/>		<hr/>	
Net book amount	8,001	7,786	5,675	5,567
	<hr/>		<hr/>	

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN GROUP UNDERTAKINGS

	Company €'000
Year ended 31 December 2007	
Opening net book amount and cost	23,078
Additions	2,479
Disposals	(82)
	<hr/>
Closing net book amount and cost	25,475
	<hr/>
Year ended 31 December 2008	
Opening net book amount and cost	25,475
Additions	1,890
Impairment charge (note 1)	(2,500)
	<hr/>
Closing net book amount	24,865
	<hr/>
At 31 December 2008	
Cost	27,365
Impairment charge	(2,500)
	<hr/>
Net book amount	24,865
	<hr/>

The group undertakings at 31 December are shown below:

Group undertakings	Registered office	Class of shares held	Percentage of shares held 2008	Percentage of shares held 2007
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75%	75%
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
EuroMed Risk Solutions Limited	Development House Floriana	Ordinary shares	100%	100%
International Insurance Management Services Limited	Development House Floriana	Ordinary shares	100%	100%
Progress Assicurazioni S.p.A.	Piazza A. Gentile Palermo	Ordinary shares	90%	90%

The Company's share in the net asset values of the subsidiary undertakings is €26.12 million (2007: €32.47 million).

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

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENT IN ASSOCIATED UNDERTAKING

	Group €'000	Company €'000
At 1 January 2007		
Cost	9,590	9,590
Accumulated share of associated undertaking's profits and reserves	30,858	-
	<hr/>	<hr/>
Net book amount	40,448	9,590
	<hr/>	<hr/>
Year ended 31 December 2007		
Opening net book amount	40,448	9,590
Additions	2,329	2,329
Share of associated undertaking's profits and reserves	300	-
	<hr/>	<hr/>
Closing net book amount	43,077	11,919
	<hr/>	<hr/>
At 31 December 2007		
Cost	11,919	11,919
Accumulated share of associated undertaking's profits and reserves	31,158	-
	<hr/>	<hr/>
Net book amount	43,077	11,919
	<hr/>	<hr/>
Year ended 31 December 2008		
Opening net book amount	43,077	11,919
Additions	1,125	1,125
Share of associated undertaking's profits and movement in reserves	(2,468)	-
	<hr/>	<hr/>
Closing net book amount	41,734	13,044
	<hr/>	<hr/>
At 31 December 2008		
Cost	13,044	13,044
Accumulated share of associated undertaking's profits and reserves	28,690	-
	<hr/>	<hr/>
Net book amount	41,734	13,044
	<hr/>	<hr/>

The associated undertaking at 31 December which is unlisted is shown below:

Associated undertaking	Registered office	Class of shares held	Percentage of shares held 2008	Percentage of shares held 2007
Middlesea Valletta Life Assurance Company Limited	Middle Sea House Floriana	Ordinary shares	50%	50%

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENT IN ASSOCIATED UNDERTAKING - CONTINUED

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

	2008 €'000	2007 €'000
Investments	776,722	761,043
Net current assets	12,001	13,272
Intangible assets	42,796	45,905
Property, plant and equipment	881	671
Technical provisions and financial liabilities	(742,279)	(728,930)
Deferred taxation	(106)	(851)
	90,015	91,110
Shareholders' funds	90,015	91,110
	45,008	45,555
50% (2007: 50%) thereof relating to Group	45,008	45,555
Less: Group's share of the profit arising on the sale of investment property to Middlesea Valletta Life Assurance Company Limited	(2,464)	(2,464)
Less: Middlesea Valletta Life Assurance Company Limited's share of investment in a Group subsidiary	(795)	-
Amount at which the Group's investment is carried in the balance sheet	41,749	43,091

The profit after tax earned by Middlesea Valletta Life Assurance Company Limited for the year ended 31 December 2008 was €1.92 million (2007: €5.26 million). Total revenue for the year ended 31 December 2008 amounted to €109.7 million (2007: €135.91 million).

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

18. OTHER INVESTMENTS

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

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Fair value through profit or loss	162,193	133,705	35,524	40,616
Available-for-sale	768	615	371	218
Loans and receivables	5,325	35,835	5,002	8,133
	168,286	170,155	40,897	48,967

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER INVESTMENTS - CONTINUED

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Equity securities, other variable yield securities and units in unit trusts	18,363	32,533	9,604	16,668
Debt securities – listed fixed interest rate	143,830	101,172	25,920	23,948
Total investments at fair value through profit or loss	162,193	133,705	35,524	40,616

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

The movements for the year are summarised as follows:

	Group €'000	Company €'000
Year ended 31 December 2007		
Opening net book amount	123,109	41,693
Additions	51,801	16,731
Disposals – sales	(18,195)	(17,830)
Disposals – redemptions	(22,320)	-
Disposals – on disposal of subsidiary	(27)	-
Net fair value (losses)/gains (excluding net realised movements)	(663)	22
Closing net book amount	133,705	40,616
Year ended 31 December 2008		
Opening net book amount	133,705	40,616
Additions	113,341	9,638
Disposals – sales	(3,537)	(1,651)
Disposals – redemptions	(69,339)	(6,942)
Net fair value losses (excluding net realised movements)	(11,977)	(6,137)
Closing net book amount	162,193	35,524

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER INVESTMENTS - CONTINUED

(b) Available-for-sale financial assets

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Unlisted shares	768	615	371	218

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

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Year ended 31 December				
Opening net book amount	615	794	218	397
Additions	-	22	-	22
Net fair value gains/(losses) (note 25)	153	(201)	153	(201)
Closing net book amount	768	615	371	218

(c) Loans and receivables

Analysed by type of investment as follows:

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Deposits with banks or credit institutions	5,325	30,605	5,002	7,900
Treasury bills	-	4,997	-	-
Unlisted fixed income debt securities	-	233	-	233
	5,325	35,835	5,002	8,133

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables - continued

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

Group

	Unlisted fixed income debt securities €'000	Treasury bills €'000	Total €'000
Year ended 31 December 2007			
Opening net book amount	233	17,093	17,326
Additions	-	140,803	140,803
Disposals – redemptions	-	(152,899)	(152,899)
Closing net book amount	233	4,997	5,230
Year ended 31 December 2008			
Opening net book amount	233	4,997	5,230
Disposals – redemptions	(233)	(4,997)	(5,230)
Closing net book amount	-	-	-

Company

	Unlisted fixed income debt securities €'000	Total €'000
Year ended 31 December 2007		
Opening and closing net book amount	233	233
Year ended 31 December 2008		
Opening and closing net book amount	233	233
Disposals - redemptions	(233)	(233)
Closing net book amount	-	-

NOTES TO THE FINANCIAL STATEMENTS

19. DEFERRED INCOME TAX

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Balance at 1 January	(2,100)	(1,507)	1,201	1,123
Movements during the year:				
Profit and loss account (note 9)	(9,651)	(525)	(1,396)	148
Fair value reserve (note 25)	53	(70)	53	(70)
Release on disposal of subsidiary	-	2	-	-
Balance at 31 December - net	(11,698)	(2,100)	(142)	1,201

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

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Temporary differences on property, plant and equipment	72	191	21	145
Temporary differences attributable to unrealised capital losses and exchange gains	(885)	2,176	275	1,434
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	(4,809)	(2,453)	(339)	(313)
Temporary differences attributable to insurance technical provisions	(5,782)	(1,725)	-	-
Temporary differences attributable to other provisions	(373)	(393)	(197)	(163)
Other temporary differences, including impact of non-deductible expenses and different tax rates	79	104	98	98
Balance at 31 December - net	(11,698)	(2,100)	(142)	1,201

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

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Deferred tax asset	(13,223)	(3,301)	(1,667)	-
Deferred tax liability	1,525	1,201	1,525	1,201
	(11,698)	(2,100)	(142)	1,201

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

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. Losses amounting to €1.8 million (2007: Nil) expire in 2013.

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Gross				
Short-term insurance contracts				
- claims outstanding	160,047	131,363	36,966	35,040
- provision for unearned premiums and unexpired risks	50,089	41,899	13,026	13,139
Long term business provision – Group Life	747	617	747	617
Total technical provisions, gross	210,883	173,879	50,739	48,796
Recoverable from reinsurers				
Short-term insurance contracts				
- claims outstanding	22,446	22,201	8,898	9,117
- provision for unearned premiums and unexpired risks	6,673	6,480	4,506	4,350
Long term business provision – Group Life	241	218	241	218
Total reinsurers' share of insurance liabilities	29,360	28,899	13,645	13,685
Net				
Short-term insurance contracts				
- claims outstanding	137,601	109,162	28,068	25,923
- provision for unearned premiums and unexpired risks	43,416	35,419	8,520	8,789
Long term business provision – Group Life	506	399	506	399
Total technical provisions, net	181,523	144,980	37,094	35,111

Technical provisions are classified as current liabilities.

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2008 and 2007 are not material.

The technical provisions are largely based on case-by-case estimates supplemented with additional provisions for IBNR, IBNER and unexpired risks in those instances where the ultimate cost determined by estimation techniques is higher. IBNR and IBNER included in claims outstanding for the Group amounted to €21.6 million (2007: €16.1 million).

As described in note 2.1, the Bornhuetter-Ferguson Paid model is applied when calculating the ultimate cost of claims reserves for the Italian subsidiary. A key variable used in applying this model is the initial loss ratio estimate. This estimate is determined by an external actuary and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claim inflation. A change of 2.5% in this ratio, would affect the technical provisions by approximately €1.5 million (2007: €1.15 million).

The development tables below give an indication of the time it takes to settle certain claims. This is attributable to certain classes of business taking several years to develop (as mentioned in note 2.1) and also to the length of time it takes certain classes to be resolved in court.

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Group's estimate of total claims incurred for each accident year has changed at successive year-ends on a net basis. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet on a net basis. The accident-year basis is considered to be the most appropriate for the business written by the Group. The Company and its Italian subsidiary operate in different markets and separate consideration was made for the development of their respective insurance liabilities.

Group

Accident Year	2001	2002	2003	2004	2005	2006	2007	2008	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Estimate of the ultimate claims costs:									
- at end of accident year	27,773	44,667	48,256	53,092	48,059	48,808	60,370	92,471	
- one year later	27,547	47,004	48,371	53,176	50,152	48,957	67,579	-	
- two years later	26,831	43,993	45,958	51,661	48,546	48,127	-	-	
- three years later	25,722	44,415	44,811	50,832	47,609	-	-	-	
- four years later	25,077	43,908	44,395	50,062	-	-	-	-	
- five years later	25,461	43,509	44,369	-	-	-	-	-	
- six years later	25,281	43,332	-	-	-	-	-	-	
- seven years later	25,331	-	-	-	-	-	-	-	
Current estimates of cumulative claims	25,331	43,332	44,369	50,062	47,609	48,127	67,579	92,471	418,880
Cumulative payments to date	(23,001)	(40,040)	(39,452)	(41,690)	(37,495)	(35,327)	(41,711)	(30,260)	(288,976)
Liability recognised in the balance sheet	2,330	3,292	4,917	8,372	10,114	12,800	25,868	62,211	129,904
Liability in respect of prior years									7,697
Total reserve included in the balance sheet									137,601

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

Company

Accident year	2001	2002	2003	2004	2005	2006	2007	2008	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Estimate of the ultimate claims costs:									
- at end of accident year	9,934	15,494	15,288	14,645	13,253	13,639	14,710	15,843	
- one year later	9,702	16,061	14,328	14,457	13,318	12,952	13,809	-	
- two years later	9,834	15,282	13,452	13,484	11,788	11,738	-	-	
- three years later	9,757	14,663	12,710	12,479	11,272	-	-	-	
- four years later	9,432	14,548	12,542	12,159	-	-	-	-	
- five years later	9,310	14,243	11,962	-	-	-	-	-	
- six years later	9,238	14,197	-	-	-	-	-	-	
- seven years later	9,220	-	-	-	-	-	-	-	
Current estimates of cumulative claims	9,220	14,197	11,962	12,159	11,272	11,738	13,809	15,843	100,200
Cumulative payments to date	(8,047)	(13,362)	(11,270)	(10,188)	(9,476)	(8,513)	(9,312)	(6,867)	(77,035)
Liability recognised in the balance sheet	1,173	835	692	1,971	1,796	3,225	4,497	8,976	23,165
Liability in respect of prior years									4,903
Total reserve included in the balance sheet									28,068

The Group and company continue to benefit from reinsurance programmes that were purchased in prior years and includes proportional cover supplemented by excess of loss reinsurance cover. The reinsurers' share of claims liabilities is estimated net of the provision for known and expected incidents of insolvency of reinsurers.

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are offset against the amounts due to the same reinsurers for premium ceded under the respective treaties. The balances due from/to reinsurers are disclosed within receivables and payables in notes 22 and 28.

Recoveries on claims outstanding from reinsurers include an amount of €3.95 million (2007: €4.26 million) that is recoverable from Mapfre Internacional under arrangements entered into upon the acquisition of Progress Assicurazioni S.p.A. on 29 September 2000. In terms of these arrangements, Mapfre Internacional agreed to meet the run-off cost of all risks incepted prior to the date of acquisition.

Long term business provision

The balance on the long term business provision has been certified by the company's appointed actuary as being sufficient to meet liabilities at 31 December 2008. 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:

	2008	2007
	€'000	€'000
Investments	4,107	4,318
Insurance and other receivables	1,073	564
Cash at bank and in hand	112	117
Claims outstanding	(80)	(194)
Insurance and other payables	(4,706)	(4,406)
	506	399
Long term business provision, net of reinsurance	506	399

Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustments expenses

	Group		
	Year ended 2007		
	Gross	Reinsurance	Net
	€'000	€'000	€'000
Total at beginning of year	119,769	(23,246)	96,523
Claims settled during the year	(52,387)	6,001	(46,386)
Increase/(decrease) in liabilities			
- arising from current year claims	68,591	(6,474)	62,117
- arising from prior year claims	(4,610)	1,518	(3,092)
Total at year end	131,363	(22,201)	109,162

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(a) Claims and loss adjustments expenses - CONTINUED

	Group Year ended 2008		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	131,363	(22,201)	109,162
Claims settled during the year	(77,542)	8,404	(69,138)
Increase/(decrease) in liabilities			
- arising from current year claims	100,377	(6,970)	93,407
- arising from prior year claims	5,849	(1,679)	4,170
Total at year end	160,047	(22,446)	137,601

	Company Year ended 2007		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	35,741	(10,871)	24,870
Claims settled during the year	(15,565)	5,009	(10,556)
Increase/(decrease) in liabilities			
- arising from current year claims	20,734	(5,870)	14,864
- arising from prior year claims	(5,870)	2,615	(3,255)
Total at year end	35,040	(9,117)	25,923

	Company Year ended 2008		
	Gross €'000	Reinsurance €'000	Net €'000
Total at beginning of year	35,040	(9,117)	25,923
Claims settled during the year	(17,545)	6,865	(10,680)
Increase/(decrease) in liabilities			
- arising from current year claims	22,156	(5,886)	16,270
- arising from prior year claims	(2,685)	(760)	(3,445)
Total at year end	36,966	(8,898)	28,068

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(a) Claims and loss adjustments expenses - CONTINUED

The Group continuously monitors closely the development in insurance liabilities in order to ascertain the adequacy of its claims reserves. Movements in reserves in respect of claims occurring in previous years arise when these claims are actually settled and/or when reserves are revised to reflect new information that emerges.

The company registered a gross favorable run-off of €2.68 million (2007: €5.87 million). After the effect of reinsurance, this increased to €3.45 million (2007: €3.26 million). This run-off arose principally from a favorable development on claims in the motor class of direct general business of insurance. This is attributable, *inter alia*, to savings made during the claims handling process.

From a Group perspective, a gross adverse run-off of €5.85 million was incurred as opposed to the gross favorable run-off of €4.61 million registered during 2007. This run-off arose on the claims liabilities of the Group's insurance subsidiary in Italy. This was the result of a number of external developments that led to increases in the frequency and in the extent of claims. The deterioration was primarily driven by the impact of the Direct Indemnification system introduced in Italy during 2007, by the increased late reporting of claims (in excess of the IBNR provision), also due to the introduction of this new indemnification system, and by the strengthening of pre-2007 reserves due to further information received on injury claims.

(b) Provision for unearned premiums and unexpired risks

The movements for the year are summarised as follows:

	Group Year ended 2007		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	31,990	(5,344)	26,646
Net charge/(credit) to profit and loss	9,909	(1,136)	8,773
At end of year	41,899	(6,480)	35,419
	Group Year ended 2008		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	41,899	(6,480)	35,419
Net charge/(credit) to profit and loss	8,190	(193)	7,997
At end of year	50,089	(6,673)	43,416

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(b) Provision for unearned premiums - CONTINUED

	Company Year ended 2007		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	12,708	(3,811)	8,897
Net (credit)/charge to profit and loss	431	(539)	(108)
At end of year	13,139	(4,350)	8,789

	Company Year ended 2008		
	Gross €'000	Reinsurance €'000	Net €'000
At beginning of year	13,139	(4,350)	8,789
Net credit to profit and loss	(113)	(156)	(269)
At end of year	13,026	(4,506)	8,520

21. DEFERRED ACQUISITION COSTS

	Group 2008 €'000		Company 2008 €'000	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Year ended 31 December				
Opening net book amount	6,977	5,134	2,576	2,453
Net amount charged to the profit and loss	469	1,843	7	123
Closing net book amount	7,446	6,977	2,583	2,576

Deferred acquisition costs are all classified as current assets.

NOTES TO THE FINANCIAL STATEMENTS

22. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
<i>Receivables arising from direct insurance operations:</i>				
- due from policyholders	207	115	207	115
- due from agents, brokers and intermediaries	21,736	12,614	7,499	6,002
- due from reinsurers	2,271	5,209	905	634
<i>Receivables arising from reinsurance operations:</i>				
- due from reinsurers	132	83	132	83
<i>Deposits with ceding undertakings</i>	147	151	147	151
<i>Other loans and receivables:</i>				
- prepayments	781	1,148	526	996
- accrued interest and rent	1,490	2,598	557	602
- receivables from group undertakings	-	-	74	162
- loans to related parties	-	-	-	819
- other receivables	569	420	-	-
<i>Provision for impairment of receivables</i>	(2,130)	(1,747)	(553)	(553)
	25,203	20,591	9,494	9,011
Current portion	25,203	20,591	9,494	9,011

Loans to related parties are unsecured, interest bearing, and have no fixed date of repayment.

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

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Balance as at 1 January	1,747	1,653	553	509
Provision for impairment for the year	458	357	-	145
Release of provision for impairment during the year	(75)	(263)	-	(101)
Balance as at 31 December	2,130	1,747	553	553

NOTES TO THE FINANCIAL STATEMENTS

23. CASH AND CASH EQUIVALENTS

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

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Cash at bank and in hand	6,361	9,899	3,418	3,076

24. SHARE CAPITAL

	Group and Company 2008 €'000		2007 €'000
Authorised 60 million ordinary shares of €0.60 each (2007: 60 million of €0.5823 each)	36,000		34,941
Issued and fully paid 25 million ordinary shares of €0.60 each (2007: 25 million of €0.5823 each)	15,000		14,559

As a result of Malta's adoption of the euro as its national currency with effect from 1 January 2008, the Company's share capital was redenominated in euro at the Irrevocably Fixed Conversion Rate of €1: Lm0.429300 as at that date.

During the Annual General Meeting of the Company held on 25 June 2008 the issued and paid up value of the 25,000,000 Ordinary shares was increased from €0.582343 each share up to the nominal and paid up value of €0.60 each at a consideration of €0.44 million paid up from the retained profits of the Company.

25. OTHER RESERVES

Group	Value of in-force business €'000	Available- for-sale investments €'000	Land and buildings revaluation €'000	Total €'000
Balance at 1 January 2007	21,384	177	134	21,695
Revaluation - gross (note 18)	-	(201)	-	(201)
Revaluation - tax (note 19)	-	70	-	70
Release on sale of subsidiary undertaking	-	(13)	-	(13)
Balance at 31 December 2007	21,384	33	134	21,551
Balance at 1 January 2008	21,384	33	134	21,551
Revaluation – gross (note 14 and 18)	-	153	2,907	3,060
Revaluation – tax (note 19)	-	(53)	(73)	(126)
Share of decrease in value of in-force business of associated company	(1,509)	-	-	(1,509)
Balance at 31 December 2008	19,875	133	2,968	22,976

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

25. OTHER RESERVES - CONTINUED

Company

	Available- for-sale investments
	€'000
Balance at 1 January 2007	177
Revaluation – gross (note 18)	(201)
Revaluation – tax (note 19)	70
Release on sale of subsidiary undertaking	(13)
	<hr/>
Balance at 31 December 2007	33
	<hr/>
Balance at 1 January 2008	33
Revaluation – gross (note 18)	153
Revaluation – tax (note 19)	(53)
	<hr/>
Balance at 31 December 2008	133
	<hr/>

The above reserves are not distributable reserves.

26. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Group	
	2008	2007
	€'000	€'000
Provision for severance indemnity	912	884
	<hr/>	

	Group	
	2008	2007
	€'000	€'000
At 1 January	884	808
Profit and loss account	86	83
Payments	(58)	(7)
	<hr/>	
Balance at 31 December	912	884
	<hr/>	

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. These liabilities are all non-current in nature.

NOTES TO THE FINANCIAL STATEMENTS

27. BORROWINGS

	Group and Company	
	2008	2007
	€'000	€'000
Bank loans	16,285	16,381

The borrowings are secured by a special hypothec on investments. The carrying amounts of borrowings approximate their fair value.

28. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Deposits received from reinsurers	5,650	4,722	4,347	3,843
Creditors arising out of direct insurance operations	5,994	5,854	1,958	2,019
Creditors arising out of reinsurance operations	712	679	864	679
Amounts owed to associated undertaking	1,947	2,946	1,839	2,165
Amounts owed to group undertakings	-	-	1,152	1,154
Social security and other tax payables	913	445	518	351
Accruals and deferred income	7,358	7,563	4,559	4,544
	22,574	22,209	15,237	14,755

All trade and other payables are classified as current.

29. CASH GENERATED FROM OPERATIONS

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

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
(Loss)/profit before tax	(29,799)	9,317	(3,465)	6,965
Adjusted for:				
Depreciation (note 14)	483	448	134	162
Impairment charges (note 16 and note 22)	383	94	2,500	44
Provision for severance indemnity (note 26)	86	83	-	-
Amortisation (note 13)	406	333	251	216
Adjustments relating to investment return	3,677	(8,421)	960	(5,284)
Movements in:				
Insurance and other receivables	(5,196)	(2,743)	(1,208)	1,293
Deferred acquisition costs	(469)	(1,843)	(7)	(123)
Reinsurers' share of technical provisions	(461)	(107)	40	1,200
Technical provisions	37,004	21,565	1,943	(208)
Insurance and other payables	63	1,892	321	563
Cash generated from operations	6,177	20,618	1,469	4,828

NOTES TO THE FINANCIAL STATEMENTS

29. CASH GENERATED FROM OPERATIONS - CONTINUED

Non-cash transactions

The principal non-cash transactions comprised dividends receivable from group and associated undertakings as consideration for the additional investment in these companies.

30. COMMITMENTS

Capital commitments

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Authorised and not contracted for - property, plant and equipment	419	191	224	46
Authorised and not contracted for - intangible assets	568	184	332	111

In addition, the directors have resolved to subscribe to the Company's share of 90% of the proposed increase in the issued share capital of Progress Assicurazioni S.p.A. of €1,960,497. The Board further resolved that, in the event that any of the other shareholders declines to take up their share of this increase, the Company would acquire that amount of share capital not subscribed.

Operating lease commitments – where the company is a lessor

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

	Group 2008 €'000	2007 €'000	Company 2008 €'000	2007 €'000
Not later than 1 year	352	268	352	268
Later than 1 year and not later than 5 years	583	843	583	843
Later than 5 years	-	224	-	224
	935	1,335	935	1,335

Investment property includes properties valued at €3.35 million (2007: €3.36 million) on which the lessees have an option to buy these properties at a pre-determined price and within a pre-determined time. The fair value of these properties does not exceed the pre-determined option price.

31. CONTINGENCIES

The Company has given guarantees to third parties amounting to €175,775 (2007: €175,775) not arising under contracts of insurance.

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY TRANSACTIONS

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

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

	2008	2007
	€'000	€'000
<i>(a) Sales of insurance contracts and other services</i>		
Sale of insurance contracts		
- subsidiaries	44	42
- associate	104	97
- shareholders represented on the Board	1,332	990
Recoveries on claims outstanding from Mapfre Internacional under reinsurance arrangements entered into upon the acquisition of Progress Assicurazioni S.p.A.	305	422
Reimbursement of expenses for back-office services provided		
- associate	1,132	1,077
Investment income		
- subsidiaries (dividends/interest receivable)	1,317	1,273
- associate (dividends)	1,125	2,329
- shareholders represented on the Board (dividends/interest receivable)	73	266
<hr/>		
<i>(b) Purchases of products and services</i>		
Reinsurance premium ceded to shareholders (represented on the Board)	11,886	10,142
Acquisition costs payable to intermediaries where directors of the company are shareholders in companies that act as insurance agents	1,057	1,246
Reimbursement of expenses payable for back-office services		
- subsidiaries	836	839
Interest payable on borrowings		
- shareholder represented on the Board (acting as banker)	810	711
Rental income payable to associate	23	23
<hr/>		

Key management personnel comprises the Chief Executive Officers, General Manager, Assistant General Managers, Chief Officers and Chief Underwriters. Total remuneration paid by the Group to key management personnel during the year amounted to €0.72 million (Company: €0.33 million). Corresponding figures for 2007 were €0.57 million and €0.21 million.

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY TRANSACTIONS - CONTINUED

Year end balances arising from the above transactions:

	Group		Company	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
Debtors arising out of direct insurance operations:				
- intermediaries	1,991	1,471	640	990
Creditors arising out of direct insurance operations	1,330	1,557	856	930
Amounts owed by subsidiary undertakings	-	-	74	981
Amounts owed to subsidiary undertakings	-	-	1,152	1,154
Amounts owed to associated undertaking	1,947	2,946	1,839	2,165
Reinsurers share of technical provisions	8,914	10,752	4,289	4,928
Investments in related parties	3,205	9,653	3,205	9,651
Accruals and deferred income (key management personnel)	720	664	720	664

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

33. FAIR VALUES

The fair value of publicly traded investments classified as financial assets through profit or loss is based on quoted market prices at the balance sheet date. The fair value of unquoted equities, with the exception of investments in group undertakings and associates, is established using valuation techniques.

Equity accounting in the holding Company's accounts is no longer permitted under IAS 27 and IAS 28 (both revised 2003). Consequently, as from 1 January 2005, the investments in unlisted group undertakings and associates are valued at cost in the Company's accounts. Had equity accounting been applied, the carrying amount of these investments would have increased by €26 million (2007: €39.7 million). This has no impact on the Group's balance sheet.

At 31 December 2008 and 2007, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values.

34. STATUTORY INFORMATION

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

35. COMPARATIVE INFORMATION

In view of the change in the company's presentation currency from Maltese Lira to euro, all comparative information in these financial statements has been converted into euro using the Irrevocably Fixed Conversion Rate of €1: Lm0.429300.



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