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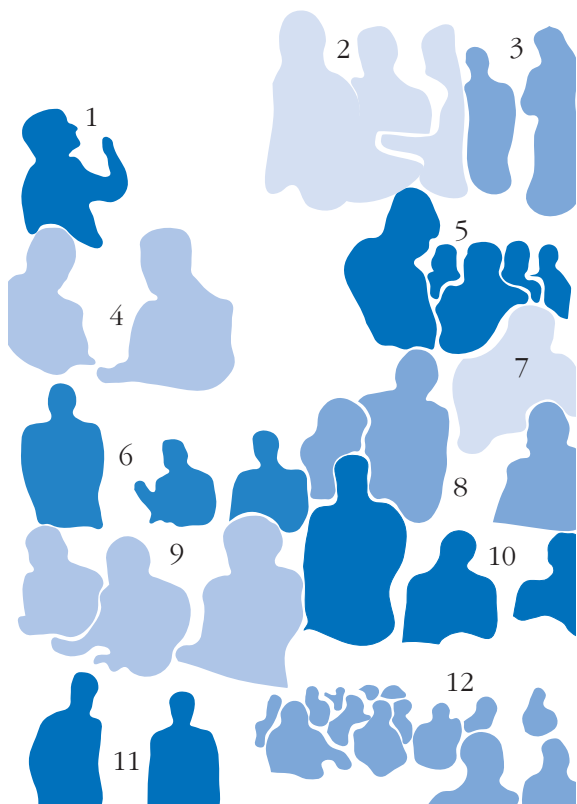
ANNIVERSARY

1981 - 2006

25 years of service

The
Inve

DECADE OF SERVICE™



1. The official opening of Middle Sea House by the Minister of Finance, Hon. L. Spiteri - 1982.
2. Mr M.C. Grech presenting a memento to Hon. Prime Minister, Lawrence Gonzi during an official visit to Middle Sea House.
3. Mr M.C. Grech presenting a donation to President Edward Fenech Adami on behalf of the Community Chest Fund.
4. Launching of the Investment Bond, the first unit-linked product in Malta - 1998.
5. The first trading session of Middlesea Insurance p.l.c shares on the Malta Stock Exchange - 1994.
6. Mr S. Borg on the tenth anniversary of Middlesea Insurance p.l.c. - 1991.
7. Signing of Partnership Agreement between Middlesea Insurance p.l.c. and Corporación Mapfre S.p.A. - Middlesea acquired 51% of Progress Assicurazioni S.p.A. - 2000.
8. The setting up of Middlesea Valletta Life Assurance Company Limited - 1994.
9. Signing of agreement of Gibraltar branch office - 2000.
10. MITC Applied Insurance Studies Course Graduation - 1998.
11. Mr R.E.D. Chalmers and Mr M.C. Grech.
12. Shareholders of Middlesea at the first Annual General Meeting.



Middlesea Insurance p.l.c.

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Mission Statement

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

Business Philosophy

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

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

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

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

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

Missjoni

Biex jitrawwem l-iżvilupp ta' l-ekonomija Maltija bil-partecipazzjoni fis-swieq lokali u internazzjonali ta' l-assigurazzjoni b'firxa komprensiva ta' servizzi, li thares lejn tkabbir ipplanat u l-ogħla profitt possibbli.

Filosofija tan-Negozju

Abna nqieghdu l-kwalità u l-fiducia bhala l-forzi li jmexxuna biex inżommu l-ogħla reputazzjoni u dehra professjonali.

Abna naddmu biex niżguraw dan billi niżviluppaw il-kompetenza professjonali, biliet u benessri ta' l-impjegati tagħna f'kull livell, permezz ta' proċess żviluppat tajjeb ta' ppjanar tal-karriera.

Abna nqisu l-Kumpanija bhala organizzazzjoni għas-servizz tal-klijent li tagħti servizz ta' eċċellenza biex tiżgura s-sodisfazzjon tal-btiegiet tal-klijenti tagħna.

Abna nsewgu l-innovazzjoni u nżommu sistemi attivi ta' analiżi, riċerka u monitoraġġ tas-suq.

Abna nippruwaw intejbu l-operat u s-servizzi tagħna billi ninkoraġġixxu kontinwament orjentament pożittiv ta' bidla fil-grupp maniġerjali u ta' impjegati tagħna.



CHAIRMAN'S STATEMENT

Gross Premium Written - General Business

2003	Lm34,641,173
2004	Lm35,367,261
2005	Lm33,261,505

On 29 June 1981, Middlesea Insurance p.l.c. was established as the first public insurance company. Its early beginnings saw it operating as a reinsurer with the role of recipient of the reinsurance legal cession. It soon became obvious that long-term growth could only be achieved overseas, and therefore, the company immediately set up a London contact office which, in 1987, was upgraded to a branch office operating in the international reinsurance market. Today, 25 years later, Middlesea has grown into a group of general, long-term business and insurance management companies with emphasis on primary insurance markets locally and overseas.

Concurrent with the evolution of the company was the change in shareholder base. Initially, the company's shareholders were primarily Government and parastatal companies. As the company began its path to becoming an indigenous composite insurer, the shareholder base was restructured over time to reflect changes in strategy. In 2005, Münchener Rückversicherungs-Gesellschaft acquired the remaining shares held by the Government of Malta thus increasing its shareholding to 19.9%. Furthermore, Corporación Mapfre consolidated their position by increasing their shareholding to 21%. Hence, the shareholding today includes international and prestigious names together with our local strategic partner Bank of Valletta p.l.c.

The results for the financial year 2005, saw the convergence of an encouraging technical performance across all business activities by all companies within the Middlesea Group, a favourable run-off in incurred claims, a strong investment return from capital markets (particularly in the domestic market), the implementation of revised International Financial Reporting Standards (IFRSs) and the company's focus on improving cost efficiency. The Board of Directors implemented changes to the Group's accounting policies in accordance with updates in the IFRSs which became effective on 1 January 2005. The Group adopted the Fair Value Accounting option whereby movements in the fair value of investments were recognised in the Profit and Loss Statement. In line with IFRSs, the comparatives for 2004 were

also restated to ensure consistency.

Middlesea Group registered an operating profit before tax of Lm6.51million (€15.2m) for the year ended 31 December 2005, an increase of 79% over 2004.

Middlesea's dividend policy of enhancing its balance sheet and ensuring future sustainability, has enabled the Board to recommend the payment of a final dividend of 7 cents per share (Lm875,000), an increase of 17% over last year. To mark Middlesea's 25th Anniversary, the Board is also recommending the payment of a special commemorative dividend of 3 cents per share (Lm375,000). Furthermore, the Board of Directors is recommending a share split whereby each share of nominal value 50 cents will be split into two shares of 25 cents each.

During 2005, Group companies continued to apply strict underwriting guidelines and continuously strove to achieve a desirable business mix in the overall portfolio. Gross Written Premiums (general and group life) decreased by 6%, amounting to Lm33.8million (€78.7m).

Shareholders' funds (including MSI's share of the embedded value in Middlesea Valletta Life) grew to Lm30.95million (€72.1m). The net asset value per 50c share increased to Lm2.48 and the earnings per share increased by 81% to 38c5. Total Group assets increased by 6% to Lm108.4million (€252.5m). These results are a solid base on which to expand our business to customers who continue to expect high quality products at competitive and equitable prices.

A number of key performance indicators evidenced the robustness of these results. The positive claims reserve run-off, favourably affected the Group's general business net operating ratio (net of reinsurance but before allocation of investment income) that improved to 95.2%. A return of 21.2% was registered on capital employed, and the gross technical reserves remained very strong at Lm60.3million (€140.5m). The ratio of net technical reserves to net premiums written, increased to 181%.

CHAIRMAN'S STATEMENT

Investment Return

2003	Lm3,117,107
2004	Lm3,849,661
2005	Lm5,716,856

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

The Gross Written Premiums of the holding company, Middlesea Insurance p.l.c., were Lm13.9million (€32.4m). The main contributor to this remained Motor insurance, with all classes of business recording net underwriting profits complemented by the investment return for the year. The technical result was impacted favourably by a net claims run-off of Lm0.98million (€2.28m). Our uniquely balanced distribution range covered agents, brokers, sub-agents and direct sales. This mix meant that we were less dependent on any one product or distribution channel. This enabled us to take selective pricing action and maintain our disciplined approach to underwriting, coupled with efficient claims handling and strict cost control. Middlesea Insurance p.l.c. contributed Lm4.38million (€10.2m) before tax to the Group.

Our Italian subsidiary Progress Assicurazioni S.p.A. consolidated its position and through its pursuance of a strict pricing policy in 2005, booked a gross premium of Lm19.9million (€46.4m). Furthermore, it continued to assess its agency network performance criteria in prevailing soft market conditions. The Management continued to work on a new development plan, aimed at curbing the shortfall in business resulting from the application of these policies. Also, further growth was created in identified market segments and products; this contributed to the increase in its non-RCA (*responsabilità civile auto*) business to 28.2%.

Through the acquisition in July 2005 of just under 40%, from Corporación Mapfre, MSI's current holding in Progress Assicurazioni S.p.A. increased to 89.98% with the associate company, Middlesea Valletta Life (MSV) holding 10% and the balance held by individuals.

In 2005 after consolidation adjustments Progress Assicurazioni S.p.A. contributed Lm0.87million (€2m) before tax to the MSI Group.

In 2005, Middlesea's associate Middlesea Valletta Life Assurance Company (MSV) continued with its success story, demonstrating its financial strength and resilience. This Company increased its competitive advantage through its varied distribution network. Business generated including non-participating contracts increased to Lm39.3million (€91.5m). The Company continued to meet customer demand for products with and/or without discretionary participation features. The Life Fund increased by 34% to Lm218.1million (€508m) whilst the total investments increased by 34% to Lm224.4million (€522.7m).

MSV contributed positively to the Group's overall result with a share of profit after tax of Lm1.16million (€2.7m). Additionally, the benefit of the investment in MSV was reflected in the increase of the total discounted value of projected future profits on secure business (embedded value) to Lm16.6million (€38.7m). In 2005, MSI continued to strengthen its strategic alliance with Bank of Valletta p.l.c. by registering parity in shareholding at fifty percent each in MSV. Middlesea Valletta Life will concentrate on potential opportunities overseas with emphasis on the southern market in Italy.

The Group's total investments (excluding its investment in MSV) amounted to Lm67.8million (€157.9m), which generated an investment income (after expenses) of Lm4.6million (€10.7m), of which fair value movements from both local and foreign markets amounted to Lm2.2million (€5.1m). In 2005, most regions of the world recorded an improvement in economic growth, which had a positive impact on the performance of equity markets, particularly in Europe and Japan. European equities, led by Switzerland followed by the Eurozone and the UK, delivered strong gains. On the fixed income side, robust economic growth and increased inflationary risks, driven by high energy prices, triggered monetary policy tightening. Yields moved up from their historic lows and bonds ended the year with modest overall returns. Exchange rate developments were dominated by appreciation in the US dollar relative to most other major currencies.

CHAIRMAN'S STATEMENT

Net Technical Reserves

2003	Lm42,394,114
2004	Lm47,882,528
2005	Lm48,794,311

On the local scene, the equity market delivered an extraordinary performance with the MSE index rising a remarkable 62% for the year. Bonds registered an eventful year starting with CBM's 25 basis points increase in the central intervention rate, followed by Malta's entry into ERM II and finally ECB raising euro rates in the last quarter of 2005. The entry into ERM II and the adoption of a 100% euro peg resulted in narrowing yield spreads between euro and Maltese lira, generating capital gains in medium to long term local bonds.

International Insurance Management Services (IIMS) continued to project Malta's efforts to attract international companies, including insurers and reinsurers, to register and operate from Malta. These efforts were reflected in our registration of the first insurance company under the new legislative regime. Malta's accession to the European Union has triggered considerable interest from international companies in the Maltese financial centre, which has, over the years, established itself as an attractive jurisdiction in the Euro Med region. IIMS contributed Lm0.1million (€0.23m) before tax to the Middlesea Group.

The Board believes that good corporate governance and an understanding of the impact of our operations locally and overseas, are important aspects of the way we conduct business. Members of the Board continued their active participation on the various Group Committees as reported in the "Corporate Governance - Statement of Compliance".

Our policy of Corporate Social Responsibility (CSR) was adopted from establishment in 1981. This policy focused on the management of good corporate performance and is concerned with standards of business conduct, the promotion of good and fair relations with employees, business partners, shareholders, customers and the community at large. It also encompasses products, services, marketing, as well as social issues, the environment, Maltese heritage and culture. Middlesea's commitment to implement its CSR policy through training and career development manifested itself in the Malta International Training Centre (MITC) which, since 1982, has offered

education and training services to all insurance and financial services providers locally and overseas. Such upgrading in professional services had the consumer as the ultimate beneficiary. Middlesea was also actively involved in facilitating the provision of work training and experience to persons with special needs. Middlesea, an equal opportunities employer, was a pioneer in introducing flexible and work conditions to all members of staff before this was introduced statutorily.

The implementation of revised accounting standards, together with the inherently uncertain nature of insurance business, meant that the reported results of insurance companies were exposed to considerable volatility. Both capital markets and the insurance market were prone to cyclical movements and Middlesea's Financial Year 2005 results benefited from favourable movements in both markets. The efforts of the Board of Directors, Management and staff have always been supported by the long-standing shareholders. All contributed to this success story and it is therefore appropriate that all should be thanked.

Our future direction remains embedded in our consistent strategy of attaining a balanced business mix from a geographical spread through varied distribution. We are encouraged by the 2005 result, which was achieved through the concurrent contribution from various segments of our operation. Of course, it must be borne in mind that future expectations need to be based on a prudent analytical appreciation. Hence, it remains fundamental to approach the future imponderables with prudence but with an absolute resolve to succeed. With the strength of its balance sheet, Middlesea is in a strong position to continue on its path of growth and development both locally and overseas.



M. C. GRECH
Chairman & CEO

STQARRIJA TA' ĊHAIRMAN

Profit Attributable to Shareholders

2003 Lm1,691,877

2004 Lm2,661,329

2005 Lm4,817,528

Fid-29 ta' Ġunju 1981, il-Middlesea Insurance p.l.c. twaqqfet bhala l-ewwel kumpanija pubblika ta' assigurazzjoni. Fil-bidunett hi bdiet taghmel negozju ta' riassikurazzjoni u kienet ukoll taghmel dan bis-sahha ta' ċessjoni obbligatorja. Dak iż-żmien beda jidher illi t-tkabbir f'medda ta' żmien fit-tul seta' jintlahaq biss b'negozju ġej minn barra minn Malta, u għalhekk il-kumpanija minnufih fethet uffičju għal kuntatti f'Londra li, fl-1987, sar fergħa li minnu l-kumpanija tinnegozja fis-suq tarriassigurazzjoni internazzjonali. Illum, 25 sena wara, il-Middlesea kibret biex saret grupp li jhaddan kumpaniji ta' assikurazzjoni ġenerali, kumpanija ta' assigurarazzjoni fuq il-ħajja u kumpanija ta' amministrazzjoni ta' l-assigurarazzjoni b'enfasi fuq is-swieq ta' assigurarazzjoni primarja kemm hawn Malta u kemm barra mill-pajjiż.

Fl-istess żmien ta' l-evoluzzjoni tal-kumpanija kien hemm ukoll bdil fit-tqassim ta' l-ishma tagħha. Meta twaqqfet, l-azzjonisti tal-kumpanija kienu fil-biċċa l-kbira kumpaniji parastatali u l-Gvern. Izda meta l-kumpanija bdiet it-triq tagħha biex issir assiguratatur indigenu, kemm fil-qasam ta' assigurarazzjoni ġenerali kif ukoll fil-qasam ta' l-assigurarazzjoni fuq il-ħajja, it-tqassim ta' l-ishma nbidel fuq medda ta' snin biex jirrifletti bidliet fl-istrateġija. Fl-2005 l-Münchener Rückversicherungs Gesellschaft xtrat il-bqija ta' l-ishma li kellu l-Gvern ta' Malta u hekk tellgħet sehemha għal 19.9%. Barra minn hekk, Corporación Mapfre kkonsolidat il-pożizzjoni tagħha billi żiediet sehemha għal 21%. Hekk fost l-azzjonisti llum hemm ditti internazzjonali u prestiġjużi flimkien mas-sieheb strateġiku lokali tagħna l-Bank of Valletta p.l.c.

Ir-riżultati għas-sena finanzjarja 2005 juru operat tekniku pożittiv mal-firxa kollha ta' attivitajiet tan-negozju mill-kumpaniji kollha fil-Grupp Middlesea, għeluq favorevoli ta' claims rappurtati,

qligh qawwi fuq investimenti minn swieq kapitali (l-aktar fis-suq domestiku), l-implimentazzjoni ta' l-*International Financial Reporting Standards* (IFRSs) riveduti u l-hidma tal-kumpanija biex tikseb kontroll fuq l-infiq. Il-Bord tad-Diretturi wettaq bidliet għall-prinċipji taż-żamma tal-kotba tal-Grupp skond aġġornamenti fl-IFRSs li dahlu fis-seħħ fl-1 ta' Jannar 2005. Il-Grupp għażel is-sistema ta' *Fair Value Accounting* li juri kemm tassew telgħu jew niżlu l-investimenti fid-Dikjarazzjoni tal-Qligh u Telf. Kif iridu l-IFRSs, il-figuri għall-2004 inhadmu mill-ġdid biex ikun hemm konsistenza meta jkunu mqabbla ma' dawk ta' l-2005.

Il-Grupp Middlesea kellu qligh operattiv ta' Lm6.51 miljun (€15.2m) qabel il-hlas tat-taxxa għas-sena li għalqet fil-31 ta' Diċembru 2005, żieda ta' 79% fuq l-2004.

Meta tiġi biex tara kif għandha tqassam id-dividendi, il-Middlesea tfittex li ttejjeb il-karta bilanċjali tagħha u tfittex ukoll li tkun tista' iżżomm l-istess livell ta' tqassim fil-ġejjieni; dan il-hsieb wassal biex il-Bord jirrikkmanda l-hlas ta' dividend finali ta' 7 ċenteżmi għal kull sehem (Lm875,000), żieda ta' 17% fuq is-sena l-oħra. Biex jiċċelebra l-25 Anniversarju tal-Middlesea, il-Bord qieghed jirrikkmanda wkoll il-hlas ta' dividend k commemorattiv speċjali ta' 3 ċenteżmi għal kull sehem (Lm375,000). Barra minn hekk, il-Bord tad-Diretturi qed jirrikkmanda qsim ta' l-ishma b'mod li kull sehem ta' valur nominali ta' 50 ċenteżmu jinqasam f'zewġ ishma ta' 25 ċenteżmu kull wiehed.

Tul l-2005 l-kumpaniji tal-Grupp baqgħu japplikaw linji gwida stretti ta' aċċettazzjoni ta' riskji, u baqgħu jishqu biex jiksbu tahlita tajba ta' negozju fil-portafoll ġenerali. *Premia lordi* aċċettati (ġenerali u ħajja ta' gruppi) niżlu b'6% għal Lm33.8 miljun (€78.7m).

STQARRIJA TA' ĊHAIRMAN

Shareholders Funds

2003	Lm22,775,226
2004	Lm25,198,383
2005	Lm30,952,826

Il-fondi ta' l-azzjonisti (maghdud is-sehem tal-valur inerenti ta' l-MSI fil-Middlesea Valletta Life) telghu ghal Lm30.95 miljun (€72.1m). Il-valur nett ta' l-assi ghal kull sehem ta' 50ċ tela' ghal Lm2.48 u l-qligh fuq kull sehem żdied b'81% ghal 38ċ5. L-assi totali tal-Grupp kibru b'6% ghal Lm108.4 miljun (€252.5m). Dawn ir-riżultati jiffurmaw pedament sod li fuqu nistghu nkomplu nibnu filwaqt li nishqu biex inkabbro n-negozju taghna, u hekk nilhqu klijenti li jibqgħu jistennew prodotti ta' kwalità għolja bi prezzijiet kompetittivi u xierqa.

Għadd ta' indikaturi ewlenin ta' l-operat taghna wrew ċar is-saħħa tar-riżultati. L-ghelug pozzittiv tar-riserva ghal claims halliet riżultat tajjeb fuq id-dhul min-negozju ġenerali tal-Grupp meta mqabbel ma' l-ispejjeż (meta tqis l-ispejjeż ta' riassigurazzjoni iżda qabel ma tqis id-dhul minn investimenti); il-proporzjon bejn dhul u spejjeż tjeib ghal 95.2%. Kien hemm qligh ta' 21.2% fuq il-kapital imhaddem, u r-riservi tekniċi lordi baqgħu tajbin f'livell ta' Lm60.3 miljun (€140.5m). Il-proporzjon ta' riservi tekniċi netti mqabbla ma' premia netti aċċettati telgħet ghal 181%.

L-operazzjonijiet tal-*Middlesea Insurance p.l.c.*, il-*Middlesea Valletta Life Assurance Co. Ltd* u l-*Progress Assicurazioni S.p.A.* kollha taw sehem pozzittiv għar-riżultat ġenerali.

Il-*premia lordi* aċċettati mill-kumpanija ewlenija, il-*Middlesea Insurance p.l.c.*, kienu Lm13.9 miljuni (€32.4m). L-aktar li dahlu premia kien mill-assigurazzjoni ta' vetturi bil-mutur, iżda l-oqsma kollha ta' negozju hallew profitti netti minn operazzjonijiet tekniċi, u ma' dawn għandu jżdied ukoll il-qligh fuq investimenti tul is-sena. Ir-riżultat tekniċu ntlaqat favorevolment mill-ghelug nett ta' claims li kien Lm0.98 ta' miljun (€2.28m). Ahna għandna medda ta' distribuzzjoni mqasma tajjeb bejn aġenti, *brokers*, sottoaġenti u bejgħ dirett.

Din it-tahlita tfisser li ahna konna inqas dipendenti minn xi prodott wiehed jew minn xi mezz ta' distribuzzjoni wiehed. Hekk stajna niehdu azzjoni selettiva fejn jidhlu prezzijiet, u nżommu dixxiplina fl-aċċettazzjoni ta' riskji, flimkien ma' proċessar effiċjenti ta' claims u kontroll strett ta' l-infiq. Il-*Middlesea Insurance p.l.c.* kkontribwiet Lm4.38 miljun (€10.2m) lill-Grupp qabel il-hlas tat-taxxa.

Is-sussidjarja taljana taghna *Progress Assicurazioni S.p.A.* fl-2005 kkonsolidat il-pożizzjoni taghha bis-saħħa ta' politika stretta ta' ffissar ta' prezzijiet u dahhlet premium lord ta' Lm19.9 miljun (€46.4m). Barra minn hekk, kompliet twiežen l-operat *network* ta' aġenziji taghna fid-dawl tal-kondizzjonijiet kurrenti ta' suq dgħajjef. Dan wassal għal tnaqqis fin-negozju, u l-*management* għalhekk baqa' jahdem fuq pjan ta' żvilupp ġdid mahsub biex jagħmel tajjeb għal dan it-tnaqqis u wkoll biex johloq aktar tkabbir f'setturi tas-suq u prodotti li ġew identifikati; dan wassal għal żieda fin-negozju mhux konness ma' responsabbiltà ċivili mill-użu ta' vetturi li telgħa' għal 28.2%.

Wara li f'Lulju 2005 kisbet ftit inqas minn 40% minghand Corporación Mapfre, il-MSI kabbret is-sehem taghha fi Progress Assicurazioni S.p.A. għal 89.98%; il-kumpanija assoċjata Middlesea Valletta Life Assurance Co. Ltd għandha 10%, u l-bilanċ hu fidejn individwi.

Fl-2005, wara aġġustamenti ta' konsolidament, *Progress Assicurazioni S.p.A.* kkontribwiet Lm0.87 miljun (€2m) lill-Grupp MSI qabel il-hlas tat-taxxa.

Fl-2005 l-assoċjata tal-Middlesea, il-*Middlesea Valletta Life Assurance Co. Ltd (MSV)*, baqgħet għaddejja bl-istorja ta' suċċess taghha u hekk uriet is-saħħa u l-hila taghha li tadatta ruhha għaċ-ċirkostanzi. Din il-kumpanija kabbret il-vantaġġ

STQARRIJA TA' ĊHAIRMAN

Net Asset Value per Share

2003	Lm1.82
2004	Lm2.02
2005	Lm2.48

kompetittiv tagħha bis-saħha tan-network varjata ta' distribuzzjoni li għandha. In-negozju tagħha, meta tqis ukoll kuntratti mhux parteċipattivi, tela' għal Lm39.3 miljun (€91.5m). Il-kumpanija baqgħet tissodisfa d-domanda tal-klijenti għal prodotti kemm b'karatteristiċi ta' parteċipazzjoni diskrezzjonarja u kemm mingħajrhom. Il-Fond tal-hajja tela' b'34% għal Lm218.1 miljun (€508m) filwaqt li l-investimenti totali telgħu b'34% għal Lm224.4 miljun (€522.7m).

L-MSV tat sehem pożittiv għar-riżultat ġenerali tal-Grupp bi qligħ ta' Lm1.16 miljun (€2.7m) wara l-hlas tat-taxxa. Barra minn dan, il-benefiċċju ta' investiment fl-MSV kien rifless fiż-żieda fil-valur inerenti, li huwa l-valur skuntat totali ta' profitti proġettati għall-futur fuq negozju miksub; dan tela' għal Lm16.6 miljun (€38.7m). Tul l-2005 l-MSI baqgħet issaħħah l-alleanza strateġika tagħha mal-Bank of Valletta p.l.c. billi t-tnejn kellhom ishma ndaqs - hamsin fil-mija kull wiehed - fl-MSV. Il-Middlesea Valletta Life issa se tikkonċentra fuq opportunitajiet li jistgħu jinqalghu barra minn Malta b'enfasi fuq is-suq tan-nofsinar ta' l-Italja.

L-investimenti totali tal-Grupp (meta tneħhi l-investimenti tagħha fl-MSV) ammontaw għal Lm67.8 miljun (€157.9m) li hallew dhul (wara li nqatgħu l-ispejjeż) ta' Lm4.6 miljun (€10.7m), li minnhom Lm2.2 miljun (€5.1m) ġejjin minn ċaqliq fil-valur tassew ta' l-investimenti fi swieq lokali u barranin. Fl-2005 l-parti l-kbira tar-reġjuni tad-dinja kellhom titjib fi tkabbir ekonomiku u dan kellu impatt pożittiv fuq l-operat tas-swieq ta' l-ishma f'kumpaniji, partikolarment fl-Ewropa u fil-Ġappun. Ishma f'kumpaniji Ewropej, bl-Iżvizzera fuq quddiem u warajha l-Eurozone u r-Renju Unit, taw qligħ qawwi. Fil-qasam ta' investimenti li jagħtu dhul fiss, tkabbir ekonomiku qawwi u riskji akbar ta' inflazzjoni, minhabba prezzijiet għolja ta' l-enerġija, wasslu għal politika monetarja riġida.

Qligħ minn investimenti likwidi tela' mil-livell storiku baxx tiegħu u bonds spiċċaw is-sena bi qligħ ġenerali modest. Żviluppi fir-rati tal-kambju kienu milquta l-aktar minn apprezzament fid-dollari Amerikan meta mqabbel mal-parti l-kbira tal-muniti maġġuri l-oħra.

Fix-xena lokali s-suq ta' l-ishma mar tajjed b'mod straordinarju u l-indiċi tal-Borża ta' Malta tela' b'cifra eċċellenti ta' 62% tul is-sena. Bonds kellhom sena interessanti ħafna, l-ewwel biż-żieda ta' 25 punt bażiku fir-rata ċentrali ta' intervent, imbagħad bid-dhul ta' Malta f'ERM II u fl-ahharnett meta l-Bank Ċentrali Ewropew għolla r-rati ta' l-ewro fl-ahhar tliet xhur ta' l-2005. Id-dhul f'ERM II u l-adozzjoni ta' rabta 100% ma' l-ewro wasslu għal tnaqqis fid-differenza fil-qligħ minn flus likwidi bejn l-ewro u l-lira Maltija u hallew qligħ kapitali f'bonds lokali f'medda ta' żmien minn medja sa fit-tul.

L-*International Insurance Management Services (IIMS)* kompliet twassal l-isforzi ta' Malta biex tiġbed kumpaniji internazzjonali, fosthom assiguratari u riassiguratari, biex jirreġistraw u joperaw minn Malta. Dawn l-isforzi hallew riżultat meta rreġistrajna l-ewwel kumpanija ta' assigurazzjoni taht ir-reġim leġiżlattiv ġdid. Id-dhul ta' Malta fl-Unjoni Ewropea qanqal interess konsiderevoli fost kumpaniji internazzjonali biex joperaw mis-suq finanzjarju Malti li, tul is-snin, stabbilixxa ruħu bħala ġurizdizzjoni attraenti fir-reġjun Ewro-Mediterranju. L-IIMS kkontribwiet Lm0.1 miljun (€0.23m) lill-Grupp qabel il-hlas tat-taxxa.

Il-Bord jemmen li prinċipji tajba ta' tmexxija ta' korporazzjoni u għarfien sew ta' l-impatt ta' l-operazzjonijiet tagħna lokalment u barra, huma fatturi importanti fil-mod kif immexxu n-negozju tagħna. Membri tal-Bord komplew bil-

parteċipazzjoni attiva tagħhom f'diversi kumitati tal-Grupp kif irrappurtat fil-“Prinċipji għat-Tmexxija ta’ Korporazzjoni - Dikjarazzjoni ta’ Konformità”.

Il-politika tagħna ta’ Responsabbiltà Soċjali tal-Korporazzjoni (RSK) kienet imhaddna sa mit-twaqqif tagħna fl-1981. Din il-politika harsat l-aktar lejn l-amministrazzjoni ta’ operat korporattiv tajjeb u tfittex li thares *standards* ta’ mgħiba kummerċjali tajba, u li jkolna relazzjonijiet tajbin u ġusti ma’ l-impjegati, ma’ shab fin-negozju, ma’ l-azzjonisti, mal-klijenti u mal-komunità b’mod generali. Thaddan ukoll prodotti, servizzi, promozzjoni tal-bejgħ u wkoll interess fi kwistjonijiet soċjali, l-ambjent, il-wirt Malti u l-kultura. L-impenn tal-Middlesea biex twettaq l-politika tar-RSK tagħha permezz ta’ tahrig u żvilupp tal-karriera deher fil-*Malta International Training Centre (MITC)* li, sa mill-1982, offra servizzi ta’ edukazzjoni u tahrig lil dawk kollha li jipprovdu servizzi assigurattivi u finanzjarji hawn Malta u f’pajjiżi barranin. Din il-hidma biex jitgholla l-livell ta’ servizzi professjonali hija mahsuba biex il-konsumatur ikun dak li, fl-ahhar mill-ahhar, igawdi mill-benefiċċji tagħha. Il-Middlesea tagħti sehem attiv ukoll billi tgħin biex jingħata tahrig u esperjenza tax-xogħol lil persuni bi bżonnijiet speċjali. Il-Middlesea, bhala prinċipal li jfittex li jagħti opportunitajiet indaqs lill-impjegati tiegħu, kien minn tal-bidu fost dawk li dahhlu kondizzjonijiet ta’ xogħol flessibbli lill-impjegati kollha tiegħu qabel ma dawn iddahhlu b’ligi.

L-implimentazzjoni ta’ *standards* riveduti ta’ kontabilità, flimkien man-natura intrinsikament inċerta tan-negozju ta’ l-assigurazzjoni, tfisser li r-riżultati ta’ kumpanija ta’ assigurazzjoni jistgħu jinbidlu malajr. Kemm is-swieq kapitali u kemm is-suq ta’ l-assigurazzjoni għaddu minn ċaqliq ċikliku u r-riżultati tas-Sena Finanzjarja 2005 tal-Middlesea gawdew minn ċaqliq favorevoli fiż-

zewg swieq. L-isforzi tal-Bord tad-Diretturi, *management* u impjegati dejjem kellhom l-appoġġ ta’ l-azzjonisti li ilhom żmien magħna. Kollha taw sehem għal dan is-suċċess, u għalhekk huwa xieraq li lil kulhadd ngħidulu grazzi.

Id-direzzjoni tagħna għall-gejjieni tibqa’ msejsa fl-istrateġija konsistenti tagħna, li tfittex li niksbu tahlita tajba ta’ negozju minn firxa ġeografika permezz ta’ distribuzzjoni varjata. Ir-riżultat ta’ l-2005, li ntlahaq bis-sahha tal-kontribut ta’ diversi taqsimiet ta’ l-operazzjoni tagħna flimkien, jagħmlilna kuraġġ. Naturalment għandna nżommu f’moħħna li l-aspettattivi tagħna għall-gejjieni jehtieġ ikunu bbażati fuq apprezzament analitiku prudenti. Għalhekk jibqa’ fundamentali li nersqu lejn l-inċertezz tal-futur bi prudenza iżda b’determinazzjoni assoluta li nirmexxu. Bis-sahha tal-karta bilanċjali tagħha, il-Middlesea qiegħda f’pożizzjoni qawwija li tkompli fit-triq ta’ tkabbir u żvilupp kemm hawn Malta u kemm barra mill-pajjiż.



M. C. GRECH
Chairman & CEO

*“Ad Majorem
Populi
Commoditatem”*

*For the greater
benefit of the people*





DVM · THRACES · VBIQVE · PVCNO ·
IN · SEDE · SIC · TVTA · CONSTO ·
MDCCXXI

Portes des Bombes, Floriana, Malta.

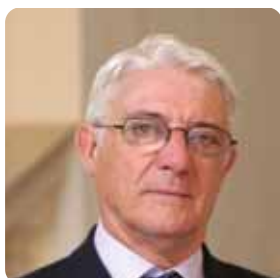
BOARD OF DIRECTORS



Mr M.C. Grech
Mr R.E.D. Chalmers
Mr F. Xerri de Caro



Mr T. Depasquale
Mr J.F.X. Zahra
Dr M. Sparberg



Mr V. Galea Salomone
Mr L. Spiteri
Dr J. C. Grech



Mr G. Debono Grech
Mr D. Sugranyes Bickel
Mr G. Bonnici



Dr E. Caruana Demajo
Mr A. Corsi
Mr A. Jimenez

BOARD OF DIRECTORS

Mr M.C. Grech - Chairman

Formerly: Managing Director of the Mediterranean Insurance Brokers Group, Director on the Board of Mediterranean Survey Bureau, Governor of the Malta International Business Authority, Chairman of the Malta Green Card Bureau, Governor on the Board of the Malta Financial Services Centre and member of the Protection & Compensation Fund Board, Director of Plaza Centre p.l.c.

At present: Chief Executive Officer of Middlesea Insurance p.l.c., President of Progress Assicurazioni S.p.A., Deputy Chairman and CEO of Middlesea Valletta Life Assurance Co. Ltd, Governor on the Board of the Malta Arbitration Centre and Malta College of Arts, Science and Technology, Chairman of Growth Investments Ltd, Chairman and CEO of International Insurance Management Services Ltd, and Euroglobe Ltd, Director of Malta International Training Centre, Director of Midi p.l.c. and of Premium Realty Ltd, Life Vice President - Chartered Insurance Institute U.K. and President of the Malta Insurance Association, Chairman of the Middlesea Group Investment Committee and the Corporate Management Committee.

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

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

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

Mr F. Xerri de Caro, ACIB

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

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

Mr T. Depasquale

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

At Present: Chief Executive Officer of Bank of Valletta Group p.l.c., Director on the Board of

Valletta Fund Management Ltd, Director on the Board of BOV Stockbrokers Ltd, Director on the Board of Middlesea Valletta Life Assurance Company Ltd and Director on the Board of Valletta Waterfront.

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. and President, Malta Council for Culture and the Arts.

At present: Chairman, National Euro Changeover Committee, Chairman, National Commission for Higher Education; Managing Director of Market Intelligence Services Co. Ltd, MISCO International Ltd, Chairman of Impetus Europe Consulting Group Ltd, Director, Progress Assicurazioni S.p.A., Director, Corinthia Hotels International Ltd. Visiting lecturer in Managerial Economics at the Università degli Studi di Messina.

Dr M. Sparberg

At present: Senior Executive Manager of Munich Reinsurance Company, Munich, responsible for Malta, Italy, France, Belgium and Luxembourg for all classes (property, casualty and marine) of reinsurance business. Vice President of Munich Re, Italy.

Mr V. Galea Salomone B.A. (Luther), M.B.A. (Henley-Brunel)

At present: Managing Director of V. J. Salomone Marketing Ltd, Director of V.J. Salomone Ltd and holds directorship of various other subsidiary and/or associated companies. President, The Malta Chamber of Commerce and Enterprise. Member of the Malta Council for Economic and Social Development.

Mr L. Spiteri M.A. (Oxon)

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

At present: Chairman Bortex Group, Chairman Roosendaal Hotels Limited; Director Progress Assicurazioni S.p.A., Director VBIE Ltd., Miracle Foods Ltd, Pinto Cold Stores Ltd, Medavia Ltd, Tumas Investments p.l.c., Dolmen Properties p.l.c., P. Cutajar Co. Ltd, Zerniq Ltd, Columnist, The Sunday Times and The Times of Malta.

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

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

the Mediterranean Bank Network.

At present: Member of the Advisory Board of the Mediterranean Academy of Diplomatic Studies, Chairman & Managing Director of EMCS Ltd, Chairman of Unipol Insurance Services Limited, Vice-Chairman of FIMBANK. Holds directorships on various other company boards. Dr Grech is also visiting professor at the University of Malta.

Mr G. Debono Grech L.P. F.I.S.M.M. (Luton), B.A. (Leg.), Mag.Jur. (Int. Law), Dip. Trib.Eccl.Melita

Formerly: Director of Malta Drydocks, Malta International Transport, Tug Malta, Smithug, 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 D. Sugranyes Bickel (Licence en Sciences Economiques et Sociales)

Formerly: Secretary General of International Christian Union of Business Executives - UNIAPAC (Brussels), General Manager and member of the Board of Corporación Mapfre, Chief Executive and Chairman of Mapfre Caución y Crédito.

At present: Vice-Chairman of the Board, Chairman of the Executive Committee and Chief Executive of Corporación Mapfre S.A., member of the Boards of Mapfre-Caja Madrid Holding, Mapfre Caja Salud, Mapfre Re, Mapfre America, Mapfre Asistencia and Mapfre Inmuebles and member of the Board and Executive Committee of Mapfre Mutualidad, the Group parent company.

Mr. 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.

Mr A. Corsi

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

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

Mr A. Jiménez

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

At present: Mr Jiménez currently is Chairman and CEO of Mapfre Re, Compañía de Reaseguros in Madrid (Spain). He is also Chairman and CEO of Mapfre Internacional. Mr Jiménez is member of the Board and member of the Executive Committee of Mapfre América, Mapfre América Vida and Mapfre Mutualidad, parent company of Mapfre System. Mr Jiménez is also member of the Board of Shelter Insurance Companies in Missouri (USA).





BUSINESS REVIEW



J. M. Rizzo
General Manager



Middlesea Insurance p.l.c.

In a relatively new market environment with its insurance providers now mainly comprising recent indigenous entrants vying to establish their own market positions, Middlesea Insurance maintained its domestic market share of general business at the acceptable level of 25%. The company's underwriting principles were not compromised for volume and this resulted in an enhanced performance. From a technical point of view, the company's improved results were achieved from the good quality of business on its books and the prudent reserving policies it adopted over the years. The investments of the company also contributed to its positive result as did its subsidiaries and associated companies which, in themselves, form a substantial part of the company's investment portfolio.

The profit before tax generated by the holding company from its technical underwriting operations, both general business and long term business operations, was Lm3.38million (€7.9m), a contribution of 59.3% to the total pre tax profit. This is equivalent to an increase of 173% over last year's corresponding figure of Lm1.24million (€2.89m). This improvement came from all sources namely that of general business in both Malta and Gibraltar and also group life business written locally. The main contributor to the general business result was the performance of the motor account. In addition to this portfolio's improved loss ratios for the current year, it also benefited from a substantial release from past years' claims provisions.

The reserving position of the company continues to strengthen in relation to its written premiums. Its net technical provisions (reserves for outstanding claims and unearned premiums both net of reinsurance) amounted to Lm14million (€32.6m) equating to a net reserve ratio to net written premium of 169%. This compares favourably to last year's 159%.

Net investment income, based on the revised IFRSs (described in more detail in the financial statements), amounted to Lm4.75million (€11.1m), an increase from Lm2.16million (€5.03m) (as restated). Total administrative expenditure, including staff costs, was Lm1.46million (€3.4m) reflecting an increase of 8.6% over 2004. The company's expense ratio, which is its administrative expenditure expressed as a percentage of gross written premiums, also increased from 9.4% to 10.5%.

The total profit before tax for the year amounted to Lm5.69million (€13.2m) reflecting a 184% improvement over

last year's result of Lm2.01million (€4.68m). Profit after tax was Lm3.84million (€8.9m), resulting in earnings per share of 30.7cents as compared to 13.9 cents last year. Last year's figures as quoted are restated.

The company is very conscious of the importance and benefits of having at its disposal detailed and accurate information produced on a timely basis. This enables management to use its underwriting capacities effectively and efficiently, immediately detect and action trends and provide a service of excellence to the company's policyholders. In this regard, during 2005 the company started to implement a new comprehensive administrative and technical underwriting integrated computer system. This will continue to be further extended to incorporate the company's distribution network both locally and overseas.

General Business

General business comprises, in the main, the continued operations of the underwriting activities of the company in Malta and Gibraltar for non-life business. The figures also include the results, which have a relatively negligible effect, of the discontinued reinsurance operations now in run-off.

Gross premiums written by the company amounted to Lm13.3million (€31m), a reduction of 2.8% over the previous year. This reduction is attributable to the selective underwriting strategy in place and, whilst stemming mainly from the motor class, both locally and more so in Gibraltar, it was also to a lesser extent a feature of the property class. The contribution of this business to the Group's turnover was 40%. Gibraltar contributed Lm1.5million (€3.49m), representing 11% of the company's turnover. The composition of the portfolio as a whole remained consistent with previous years with motor generating 54% of the 2005 total. Net premiums ceded by way of proportional reinsurance, after movements in unearned premium reserves, increased by 9%. This was due to changes in the company's retention policy on its property business aimed at containing the cost of its catastrophic protections. Acquisition costs increased marginally and commission receivable from reinsurers as a percentage of net premiums ceded also increased slightly by one percentage point.

The company's incurred claims costs, after reinsurance recoveries, stood at Lm4.84million (€11.3m) equal to a reduction



Middlesea Insurance p.l.c *Gross Premium Written*

2001	Lm12,738,572
2002	Lm13,679,272
2003	Lm13,922,796
2004	Lm14,285,438
2005	Lm13,900,106

of 23% from Lm6.27million (€14.6m). After reinsurance, its ratio of net incurred claims to net earned premiums for the account as a whole reduced from 70.65% to 58.68%. The largest improvement was registered in the motor class. The favourable run-off of this account served to reduce net incurred claims by Lm0.98million (€2.28m). This net release of reserves from previous years' provisions arose from the settlement, closure or withdrawal of claims for amounts within their reserved values as well as the on-going revision, on a claim by claim basis, of reserves in the light of updated information. The management of the company continuously monitors reserves and their movements using statistical models and techniques including development triangulations. These ensure the maintenance of adequate reserves across the portfolio as a whole. Claims recoverable under proportional treaties and facultative placements amounted to 26% of total incurred claims. This is higher than last year's 18% recovery rate but is in line with the higher premiums ceded as reported in the preceding paragraph. The loss ratio for Gibraltar reduced to 55% from a high of 106% last year. The motor account, forming 79% of the portfolio written in this territory, continued to improve with its loss ratio falling from 77% to 54%.

The gross underwriting result for continued operations, including direct acquisition costs but before reinsurance, the allocation of investment income and apportionment of costs, was Lm3.88million (€9.04m), a return of 29.2% on gross written premiums as compared to 19.5% last year. All classes of business registered a positive result. The net underwriting result after reinsurance and after the allocation of investment income and apportionment of expenditure was a profit of Lm2.4million (€5.59m) from local operations and a profit of Lm0.52million (€1.21m) from Gibraltar. The combined operational ratio for Malta and Gibraltar operations which is the underwriting result after reinsurance and after the allocation of all expenditure but before the allocation of investment income expressed as a percentage of net earned premiums equated to 87.6% as compared to 96.8% in 2004. The rate of return after reinsurance and administrative expenses but before the allocation of investment income was 7.5% for local operations and 18% for Gibraltar.

The results show the benefits of selective underwriting principles, prudent reserving policies and a good investment performance. The company continues to rely on its strong

relationships with all its intermediaries and reinsurers. It is also committed to giving a direct service by providing online electronic facilities to all its customers and producers. The company will continue to seek expansion in territories where it believes it would be beneficial to widen the spread of its business and to create adequate opportunities for increasing profits for its shareholders. As in the past, in recognition of the role, as its most valuable asset, the company's staff play in securing its continued success, the company will continue to concentrate on the training and development of its personnel.

Long Term Business

The holding company writes an account of long term business which solely consists of Group Life business. For the 2005 year, this class of business produced a technical result after reinsurance, allocation of expenditure and investment income, of Lm0.4million (€0.93m) as compared to Lm0.18million (€0.42m). This improvement came mainly from a more favourable loss ratio and an increase in allocated investment income.

J. M. Rizzo
General Manager



Middlesea Insurance p.l.c.

F'ambjent relattivament ġdid tas-suq, meta l-provvedituri ta' l-assigurazzjoni tiegħu li ġeneralment huma kumpaniji indigjeni godda jikkompetu kontra xulxin biex jistabbilixxu l-pożizzjoni tagħhom fis-suq, il-Middlesea Insurance żammet is-sehem tagħha tas-suq domestiku ta' negozju ġenerali fil-livell aċċettabbli ta' 25%. Il-prinċipji ta' sottoskrizzjoni tal-kumpanija ma kinux kompromessi biex jikber il-volum, u dan irriżulta f'operat itjeb. Mill-aspett tekniku r-riżultati mtejbja tal-kumpanija nkisbu bis-sahha tal-kwalità tajba tan-negozju fil-kotba tagħha u l-politika prudenti ta' riservi li adottat tul is-snin. L-investimenti tal-kumpanija wkoll ikkontribwew għar-riżultati pożittivi tagħha kif għamlu wkoll il-kumpaniji sussidjarji u assoċjati tagħha li, fihom infushom, jiffurma parti sostanzjali mill-portafoll ta' investimenti tal-kumpanija.

Il-qligh qabel it-taxxa ġġenerat mill-kumpanija ewlenija mill-operazzjonijiet ta' sottoskrizzjoni tekniċi tagħha, kemm f'operazzjonijiet ta' negozju ġenerali u kemm ta' negozju għat-tul, kien Lm3.38 miljun (€7.9m), kontribuzzjoni ta' 59.3% lill-qligh totali qabel il-hlas tat-taxxa. Dan hu ekwivalenti għal żieda ta' 173% fuq iċ-ċifra korrispondenti tas-sena l-oħra li kienet Lm1.24 miljun (€2.89m). Dan it-titjib ġie mis-sorsi kollha, jiġifieri minn dak tan-negozju ġenerali kemm f'Malta u kemm f'Ġibiltà u wkoll min-negozju ta' assicurazzjoni tal-hajja ta' gruppi sottoskritt lokalment. Il-kontributor ewlieni għar-riżultat tan-negozju ġenerali kien l-operat tal-kont ta' l-assigurazzjoni ta' vetturi. Minbarra titjib fil-proporzjon ta' telf meta mqabbel mal-premjums ta' dan il-portafoll għas-sena kurrenti, hu gawda wkoll minn rilaxx sostanzjali mill-provvedimenti għal klejms tas-snin ta' qabel.

Il-pożizzjoni tar-riservi tal-kumpanija tkompli tissahhah f'relazzjoni mal-primjums sottoskritti tagħha. Il-provvedimenti tekniċi netti tagħha (ir-riservi għal klejms pendenti u primjums mhux maqlughin bla ma jitqies, fiż-żewġ każijiet, is-sehem ta' riassigurazzjoni) ammontaw għal Lm14-il miljun (€32.6m) li kienu ugwali għal proporzjon ta' riserva netta mqabbla ma' primjums netti ta' 169%. Dan jitqabbel favorevolment mal-159% tas-sena l-oħra.

Dhul nett minn investimenti, ibbażat fuq l-istandards riveduti ta' l-IFRS's (u kif deskritti f'aktar dettalji fid-dikjarazzjonijiet finanzjarji), ammontaw għal Lm4.75 miljun (€11.1m), tkabbir minn Lm2.16 miljun (€5.03m) (kif ġie kkalkulat mill-ġdid). In-nefqa amministrattiva totali, inklużi spejjeż għall-istaff, kienet

Lm1.46 miljun (€3.4m) li tirrifletti żieda ta' 8.6% fuq l-2004. Il-proporzjon ta' spejjeż tal-kumpanija, li hija n-nefqa amministrattiva tagħha bhala perċentwali tal-primjums gross sottoskritti, telgħet ukoll minn 9.4% għal 10.5%.

Il-qligh totali qabel it-taxxa għas-sena ammonta għal Lm5.69 miljun (€13.2m) li jirrifletti titjib ta' Lm2.01miljun (€4.68m) fuq ir-riżultat tas-sena l-oħra, jiġifieri 184%. Il-qligh wara t-taxxa kien Lm3.84 miljun (€8.9m), li jagħti dhul ta' 30.7 ċenteżmu għal kull sehem meta mqabbel mat-13.9 ċenteżmi tas-sena l-oħra. Iċ-ċifri għas-sena l-oħra huma kkwotati kif ikkalkulati mill-ġdid.

Il-kumpanija taf tajjeb x'inhuma l-importanza u l-benefiċċji li jkollha informazzjoni dettaljata u eżatta prodotta fil-hin li jkollha bżonnha. Dan iqiegħed lill-manigment f'pożizzjoni li juża l-kapaċitajiet ta' sottoskrizzjoni tiegħu b'mod effettiv u effiċjenti, jikxef xerjiet u jaġixxi fuqhom immedjatament u jipprovi servizz ta' eċċellenza lill-assigurati tal-kumpanija. F'dan ir-rigward il-kumpanija, tul l-2005, bdiet timplimenta sistema amministrattiva u teknika ta' kompjuter ġdida komprensiva integrata ta' sottoskrizzjoni. Din se tkompli tkun estiża ulterjorment biex tinkorpora n-netwerk ta' distribuzzjoni tal-kumpanija kemm lokalment u kemm barra mill-pajjiż.

Negozju ġenerali

Negozju ġenerali jiġbor fih, f'linja ġenerali, l-operazzjonijiet kontinwati ta' l-attivitajiet ta' sottoskrizzjoni tal-kumpanija f'Malta u Ġibiltà fil-qasam ta' negozju mhux tal-hajja. Iċ-ċifri jinkludu wkoll ir-riżultati, li għandhom effett relattivament negligibbli, ta' operazzjonijiet ta' riassigurazzjoni li twaqqfu u li bħalissa qed jingħalqu.

Il-primjums gross sottoskritti mill-kumpanija ammontaw għal Lm13.3 miljun (€31m), tnaqqis ta' 2.8% mis-sena ta' qabel. Dan it-tnaqqis ġej mill-istrategija kurrenti ta' sottoskrizzjoni selettiva u, waqt li ġej l-aktar mill-klassi tal-vetturi, tant lokalment u tant aktar f'Ġibiltà, fi skala inqas kien ukoll fattur tal-klassi tal-propjetà. Il-kontribuzzjoni ta' dan in-negozju għan-negozju totali tal-Grupp kienet 40%. Ġibiltà kkontribwiet Lm1.5 miljun (€3.49m), li jirrappreżenta 11% tan-negozju totali ġġenerat mill-kumpanija. Il-kompożizzjoni tal-portafoll b'mod ġenerali baqgħet konsistenti mas-snin ta' qabel u l-klassi tal-vetturi ġġenerat 54% mit-total għall-2005. Il-primjums

Middlesea Insurance p.l.c Gross Technical Provisions

2001	Lm18,977,918
2002	Lm18,466,093
2003	Lm21,364,559
2004	Lm21,093,763
2005	Lm20,305,007

nett ċeduti bhala riassigurazzjoni proporzjonali, wara ċaqliq fir-riservi ta' primjum mhux maqlugh, tela' b'9%. Dan kien dovut għall-bidliet adottati fil-politika ta' ritenzjoni tal-kumpanija adottata fuq in-negozju tagħha ta' assigurazzjoni ta' propjetà mahsuba biex tnaqqas in-nefqa fuq il-protezzjoni tagħha ta' riskji katastrofiċi. Spejjeż ta' akkwisti telghu marginalment u kummissjonijiet li għandhom jidhlu minn riassiguraturi bhala perċentwali ta' primjum nett ċedut telghu wkoll b'punt perċentwali wiehed.

Il-klejms li dahlu lill-kumpanija, wara rkupri mir-riassigurazzjoni, kienu Lm4.84 miljun (€11.3m), tnaqqis ta' 23% minn Lm6.27 miljun (€14.6m) fis-sena ta' qabel. Il-proporzjon netta ta' klejms li dahlu, wara li thallset ir-riassigurazzjoni, imqabbla ma' primjums netti maqlughin mill-kont kollu mehud b'mod generali naqset minn 70.65% għal 58.68%. L-akbar titjib kien registrat fil-klassi ta' l-assigurazzjoni tal-vetturi. L-gheluq b'mod favorevoli ta' kljems pendenti li jaqgħu taht dan il-kont servew biex naqqsu n-nefqa tal-klejms li dahlu b'Lm0.98 ta' miljun (€2.28m). Dan ir-rilaxx nett ta' riservi mill-provvedimenti għas-snin ta' qabel gie mill-hlas, għeluq jew irtirar ta' klejms b'ammonti fil-parametri tal-valuri tar-riservi allokatati għalihom u wkoll b'riżultat ta' revizjoni għaddejja l-hin kollu, fuq il-baži ta' kull klejm mehuda għal rasha, ta' riservi fid-dawl ta' informazzjoni aġġornata. Il-manigment jikkontrolla l-hin kollu r-riservi u ċ-ċaqliq tagħhom bl-użu ta' mudelli u tekniki statistiċi. Klejms li jstgħu jkunu rkuprati taht trattati proporzjonali u koperturi fakultattivi ammontaw għal 26% tal-klejms totali li dahlu. Dan hu oghla mir-rata ta' 18% ta' rkupri li saru s-sena l-oħra iżda tikkonforma mal-primjums ċeduti oghla kif irrappurtat fil-paragrafu ta' qabel. Il-proporzjon ta' telf fil-każ ta' Ġibiltà naqset għal 55% mil-livell għoli ta' 106% s-sena l-oħra. Il-kont tal-klassi tal-vetturi, li jifforma 79% tal-portafoll sottoskritt f'dan it-territorju, baqa' jitjeb bi proporzjon ta' telf li nizlet minn 77% għal 54%.

Ir-riżultat gross ta' sottoskrizzjoni fil-każ ta' l-operazzjonijiet kontinwanti, inklużi l-ispejjeż għal akkwisti diretti iżda qabel ir-riassigurazzjoni, l-allokkazzjoni ta' dhul minn investimenti u t-tqassim ta' l-ispejjeż kien Lm3.88 miljun (€9.04m), qligh ta' 29.2% fuq primjums gross sottoskritti meta mqabblin ma' 19.5% tas-sena l-oħra. Il-klassijiet kollha ta' negozju rreġistraw riżultat pożittiv. Ir-riżultat nett ta' sottoskrizzjoni wara r-riassigurazzjoni u wara l-allokkazzjoni ta' dhul minn investimenti u t-tqassim ta' l-ispejjeż halla Lm2.4 miljun (€5.59m) qligh

mill-operazzjonijiet lokali u Lm0.52 ta' miljun (€1.21m) qligh minn Ġibiltà. Il-proporzjon operattiva totali għall-operazzjonijiet f'Malta u Ġibiltà, li hi r-riżultat ta' sottoskrizzjoni, wara r-riassigurazzjoni u wara l-allokkazzjoni ta' l-ispejjeż kollha iżda qabel l-allokkazzjoni ta' dhul minn investimenti espressa bhala perċentwali tal-primjums netti maqlughin, kienet 87.6% meta mqabbla ma' 96.8% fl-2004. Ir-rata ta' qligh wara spejjeż ta' riassigurazzjoni u amministrattivi, iżda qabel l-allokkazzjoni ta' xi dhul minn investimenti, kienet 7.5% fil-każ ta' l-operazzjonijiet lokali u 18% fil-każ ta' Ġibiltà.

Ir-riżultati juru l-benefiċċju ta' prinċipji ta' sottoskrizzjoni selettiva, politika ta' riservar prudenti, u thaddim tajeb ta' investimenti. Il-kumpanija tibqa' tistrieħ fuq ir-relazzjonijiet b'sahhithom li għandha ma' l-intermedjarji u r-riassiguraturi kollha tagħha. Hi wkoll kommissa li tagħti servizz dirett billi tippovdi faċilitajiet elettronici bl-internet lill-klijenti u lill-produtturi kollha tagħha. Il-kumpanija se tkompli tftitex li tespandi f'territorji fejn temmen li jkun ta' ġid li twassa' n-negozju tagħha u li tohloq opportunitajiet biex tkabbar il-profitti lill-azzjonisti tagħha. Bhal m'ghamlet fl-imghoddi, b'għarfien tal-funzjoni ta' l-istaf tal-kumpanija, bhala l-assi l-aktar siewi tagħha, biex jiżgura s-suċċess deġġiem tagħha, il-kumpanija se tibqa' tikkonċentra fuq it-taħriġ u l-iżvilupp ta' l-impjegati tagħha.

Negozju għat-tul

Il-kumpanija ewlenija tissottoskrivi kont ta' negozju għat-tul li jikkonsisti biss minn negozju ta' Assigurazzjoni tal-Hajja ta' Gruppi. Fis-sena 2005 din il-klassi ta' negozju tat riżultat tekniku, wara r-riassigurazzjoni, l-allokkazzjoni ta' spejjeż u dhul minn investimenti, ta' Lm0.4 ta' miljun (€0.93m) meta mqabbel ma' Lm0.18 miljun (€0.42) fis-sena ta' qabel. Dan it-titjib gie l-aktar minn proporzjon ta' telf aktar favorevoli u żieda fid-dhul ta' investment allokat.



J. M. Rizzo
General Manager

BUSINESS REVIEW



D.G. Curmi
General Manager



MIDDLESEA VALLETTA LIFE
Assurance Company Limited

During 2005, the MSV Group recorded a profit after tax of Lm2.3million (€5.36m) representing an increase of 27.5% over the restated corresponding figure of Lm1.8million (€4.19m) recorded in 2004. Business Written (including Investment Contracts Without a Discretionary Participation Feature (DPF)) increased by 12.6% from Lm34.9million (€81.3m) in 2004 to Lm39.3million (€91.5m) in 2005.

Funds invested by MSV Group at the end of 2005 amounted to Lm224.4million (€m522.7m). This corresponds to an increase of 34% over the figure of Lm167.5million (€390.2m) in 2004. The value of the life fund (including Investment Contracts Without DPF) increased by 34% from Lm162.9million (€379.4m) in 2004 to Lm218.1million (€508m) in 2005. The Group's Balance Sheet increased by 33% to Lm250.2million (€583m).

Total equity at the close of 2005 amounted to Lm29.1million (€67.78m), an increase of 22% over the previous year. The value of in-force business also increased from Lm12.9million (€30m) in 2004 to Lm16.6million (€m38.7m) in 2005. The value of in-force business reflects the discounted value of projected future transfers to shareholders arising from policies in force at the end of the year after providing for taxation.

In 2005, the MSV Group results were driven by a very strong investment performance from local and international financial markets and investments. Investment income increased from Lm10.92million (€25.44m) in 2004 to Lm26.19million (€61m).

Gross claims incurred increased from Lm3.3million (€7.69) in 2004 to Lm4.9million (€11.41m) whilst claims incurred after reinsurance amounted to Lm4.76million (€11.09m) an increase of 47% over 2004. Claims incurred include maturities, surrenders, mortality and disability claims. This increase in claims is mainly attributable to a higher number of maturities.

MSV Group's acquisition costs increased by 6% from Lm2.05million (€4.78m) in 2004 to Lm2.18million (€5.08m) despite the higher increase in Business Written, reflecting the better management of acquisition costs. Administrative expenses increased by 13% from Lm1.41million (€3.28m) in 2004 to Lm1.6million (€3.73m) in 2005. Once again this increase in administrative expenses was mainly attributable to MSV Group's continued investment in IT systems aimed at improving its efficiency and reducing longer term costs. Despite these

increases, the ratio of net operating expenses to business written increased marginally from 8.17% to 8.56%.

The weighted average earnings per Lm1.00 share increased from 23c1 in 2004 to 26c7 in 2005.

MSV Group's contribution towards the results of the Middlesea Group increased from Lm0.92million (€2.13m) in 2004 to Lm1.16million (€2.7m).

During the year an interim dividend of Lm300,000 (€0.7m) was paid whilst the Board recommended the capitalisation of Lm1,400,000 (€3.26m) from the revenue reserves account of MSV Group for the purpose of issuing 1,400,000 fully paid ordinary shares of Lm1 per share by way of a Bonus Share Issue thereby increasing the issued and fully paid up capital to Lm10million (€23.29m).

Following the approval by the Annual General Meeting of MSV of the increase in the Authorised Share Capital from Lm10million (€23.29m) to Lm15million (€34.94m), the Board recommended the issue of a further 1 million ordinary shares of Lm1 each fully paid up and which will be subscribed for in cash.

The MSV Group results for 2005 have been prepared in accordance with the new and revised International Financial Reporting Standards (IFRS). The adoption of the IFRS 4 resulted in the reclassification of the products of the company. The products of the company have been classified into the three main categories of Insurance Contracts, Investment Contracts with a DPF and Investment Contracts without DPF. The DPF feature is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. Whilst Insurance Contracts and Investment Contracts with DPF continue to be measured and accounted for under accounting practices existing at the time at the date of transition to IFRS, the premiums arising under Investment Contracts without DPF are classified as a financial liability.

The Board of Directors of MSV Group approved a resolution whereby differential rates of reversionary bonuses were declared in respect of with-profits investments held with MSV for the year ending 31 December 2005. These amounted to 3.85% for the Comprehensive Life Plan (Regular and Single Premium Policies), 4.25% in respect of its Comprehensive



Middlesea Sea Valletta Life Assurance Company Limited Business Written

2001	Lm22,118,579
2002	Lm18,987,347
2003	Lm21,861,901
2004	Lm34,877,522
2005	Lm39,265,467

Flexi Plan (Regular and Single Premium Policies), 4.5% under the Single Premium Plan and 4.5% under the with-profits option of the Investment Bond. On the 'Old Series' Endowment and Whole of Life policies, a reversionary bonus of 2.2% of the basic sum assured plus bonuses was declared. Furthermore, the Board also approved a reversionary bonus of 3.45% on those Secure Growth policies which formed part of the portfolio of business transferred from Assicurazioni Generali S.p.A. during 2000.

The Board also approved the declaration of a terminal bonus in respect of Comprehensive Life Plan (Single and Regular Premium Policies) that have been in force for more than 10 years. This terminal bonus will be paid on claims payable as a result of death or maturity in 2006 at a rate of 1.5% for every year after the 10th year of the policy, subject to a maximum of 5%. This terminal bonus will be paid on the value of the Policy Account as at the date of death or maturity.

In determining the rates of bonus declared in 2005, the Board took into consideration the strong investment performance achieved during 2005.

During 2005, MSV Group continued to demonstrate its resilience in the individual protection and long-term savings market in Malta. Despite operating in a competitive market, the company succeeded in maintaining its market share, which now stands at over 65%. The strategy of the company is to offer a broad range of products through a multi-distribution platform. The bancassurance venture with Bank of Valletta p.l.c. remains the most important distribution channel of the company and, during 2005, this continued to register further significant growth.

Product innovation continues to feature prominently in the strategy of the company. In June 2005, the company launched the multi-currency version of the MSV Investment Bond and this was the first multi-currency insurance related product to be launched in the local life insurance market.

The company recognizes that customer service is vital to the future of its business. In 2005, the company launched a web-enabled 24x7 Policy Enquiry Tool to all intermediaries which enables all intermediaries to view policies introduced by them on a 24x7 basis.

The company is committed to continuing to focus on product innovation to fulfil the three principal life insurance demands of protection, savings and retirement. The company aims to promote and provide value for money protection, savings, and investment products and services that offer peace of mind and the possibility of growth commensurate with an acceptable level of risk and backed by high-quality service.

Considerable preparatory work has already been undertaken in relation to planned pension reform in Malta and the company is confident it will be in a position to offer both group and individual pension solutions once the relevant legislation is enacted.

Whilst maintaining its position as the leading provider of life insurance and long-term savings products in the Maltese insurance market, MSV Group is now seeking challenges in other markets that offer opportunities for further profitable growth. In this respect, considerable progress has already been made in the preparatory work for the establishment of a life operation in Italy.

Subsidiaries

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

In 2005, Growth Investments registered a profit after tax of Lm200,602 (€467,277) compared with Lm125,873 (€293,205) in the previous year. This satisfactory performance was mainly due to an increase in business from the back-office services offered by Growth Investments to the MSV Group and from the financial intermediary services offered to the Middlesea Group.

David G. Curmi
General Manager



BUSINESS REVIEW



MIDDLESEA VALLETTA LIFE
Assurance Company Limited

Middlesea Sea Valletta Life Assurance Company Limited Asset Allocation with Profits Fund

Short Term Fixed Interest & Cash Deposits	19.6%
Long Term Fixed Interest Securities	37.4%
Equities	31.3%
Property	11.6%

Il-Middlesea Valletta Life Assurance Company Limited (Grupp MSV) tul l-2005 r-registrat Lm2.3 miljun (€5.36m) profit wara l-hlas tat-taxxa, li jirrapreżentaw zieda ta' 27.5% fuq iċ-ċifra korrispondenti ta' Lm1.8 miljun (€4.19m) registrata fl-2004. Negożju sottoskritt (inklużi Kuntratti ta' Investment Minghajr Fattur Parteċipattiv Diskrezzjonarju (DPF)) tela' bi 12.6% minn Lm34.9 miljun (€81.3m) fl-2004 ghal Lm39.3 miljun (€91.5m) fl-2005.

Fondi investiti mill-Grupp MSV kif kienu fi tmiem l-2005 ammontaw ghal Lm224.4 miljun (€m522.7m). Dan jikkorrispondi ghal zieda ta' 34% fuq iċ-ċifra ta' Lm167.5 miljun (€390.2m) ghall-2004. Il-valur tal-Fond tal-Hajja (inklużi Kuntratti ta' Investment Minghajr DPF) tela' b'34% minn Lm162.9 miljun (€379.4m) fl-2004 ghal Lm218.1 miljun (€508m) fl-2005. Il-Karta Bilanċjali tal-Grupp kibret bi 33% ghal Lm250.2 miljun (€583m).

L-ekwità totali f'gheluq is-sena 2005 ammontat ghal Lm29.1 miljun (€67.78m), zieda ta' 22% fuq is-sena ta' qabel. Il-valur tan-negożju kurrenti wkoll tela' minn Lm12.9 miljun (€30m) fl-2004 ghal Lm16.6 miljun (€m38.7m) fl-2005. Il-valur tan-negożju kurrenti jirrifletti l-valur skuntat ta' trasferimenti futuri proġettati lill-azzjonisti minn poloz li jkunu ghadhom validi fi tmiem is-sena wara li jsir provvediment ghat-taxxa.

Fl-2005 r-riżultati tal-Grupp MSV hadu spinta mir-riżultati tajbin hafna ta' l-investimenti fi swieq u investimenti lokali u internazzjonali. Dhul minn investimenti tela' minn Lm10.92 miljun (€25.44m) fl-2004 ghal Lm26.19 miljun (€61m).

Klejms gross li dahlu telghu minn Lm3.3 miljun (€7.69) fl-2004 ghal Lm4.9 miljun (€11.41m) filwaqt li klejms li dahlu, wara li taqta' spejjeż ta' riassigurazzjoni, ammontaw ghal Lm4.76 miljun (€11.09m), zieda ta' 47% fuq l-2004. Klejms li dahlu jinkludu maturitajiet, tisrif, klejms ta' mewt jew diżabilità, u ż-zieda fi klejms hija attribwita l-aktar ghan-numru oghla ta' maturitajiet.

In-nefqa tal-Grupp MSV fuq akkwisti telghet b'6% minn Lm2.05 miljun (€4.78m) fl-2004 ghal Lm2.18 miljun (€5.08m) minkejja ż-zieda fin-Negożju Sottoskritt, u dan jirrifletti mmaniġġjar ahjar ta' l-ispejjeż ghal akkwisti. Spejjeż amministrattivi telghu bi 13% minn Lm1.41 miljun (€3.28m) fl-2004 ghal Lm1.6 miljun (€m3.73m) fl-2005. Ghal darb'ohra din iż-zieda fi spejjeż amministrattivi kienet attribwita l-aktar ghall-investimenti li l-Grupp MSV baqa' jagħmel f'sistemi ta' IT mahsubin biex itejbu l-effiċjenza tiegħu u jnaqqsu l-ispejjeż fuq medda ta'

żmien twila. Minkejja dawn iż-żidiet, il-proporzjon ta' Spejjeż Operattivi Netti mqabblin ma' Negożju Sottoskritt telghet b'mod marginali minn 8.17% ghal 8.56%.

Id-dhul medju mgħabbar ghal kull sehem ta' Lm1.00 tela' minn 23ċ1 fl-2004 ghal 26ċ7 fl-2005.

Il-kontribut tal-Grupp MSV għar-riżultati tal-Grupp Middlesea kiber minn Lm0.92 miljun (€m2.13m) fl-2004 ghal Lm1.16 miljun (€2.7m).

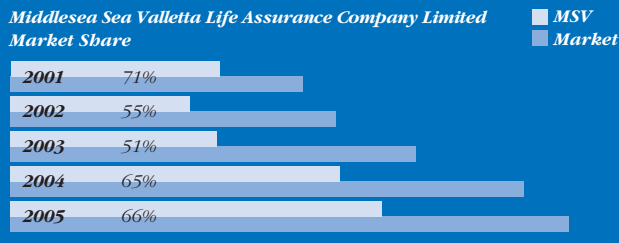
Tul is-sena thallas dividend interim ta' Lm300,000 (€0.7m), filwaqt li l-Bord irrikkmanda l-kapitalizzazzjoni ta' Lm1,400,000 (€3.26m) mill-kont tar-riservi mid-dhul tal-Grupp MSV bl-iskop tal-hruġ ta' 1,400,000 sehem ordinarju mhallsin kollha bhala hruġ ta' Ishma Bonus biex jitghollew sa Lm10 miljuni (€23.29m) l-harġiet u l-kapital imhallas kollu.

Wara l-approvazzjoni mil-Laqgħa Ġenerali Anwali ta' MSV taż-zieda fil-Kapital ta' Ishma Garantit minn Lm10 miljun (€23.29m) ghal Lm15-il miljun (€34.94m), il-Bord irrikkmanda l-hruġ ta' 1,000,000 sehem ordinarju iehor ta' Lm1 kull wiehed imhallsin kollha u li jinxtraw bi flus kontanti.

Ir-riżultati tal-Grupp MSV għall-2005 nhadmu skond l-*International Financial Reporting Standards (IFRS)* godda u riveduti. L-adozzjoni ta' l-*IFRS 4* wasslet għar-riklassifikazzjoni tal-prodotti tal-kumpanija. Il-prodotti tal-kumpanija ġew klassifikati fi tliet kategoriji ewlenin, jiġifieri Kuntratti ta' Assigurazzjoni, Kuntratti ta' Investment b'DPF u Kuntratti ta' Investment Minghajr DPF. Il-fattur DPF hu dritt kontrattwali li wiehed jirċievi, bhala supplement mal-benefiċċji garantiti, benefiċċji jew bonusis addizzjonali. Filwaqt li Kuntratti ta' Assigurazzjoni u Kuntratti ta' Investment b'DPF jibqgħu jitkejlu u jiddaħhlu fil-kontijiet skond prassi ta' kontabilità viġenti fid-data tat-transazzjoni għall-*IFRS*, il-primjums li jirriżultaw minn Kuntratti ta' Investment Minghajr DPF huma kklassifikati bhala debitu finanzjarju.

Il-Bord tad-Diretturi tal-Grupp MSV approva riżoluzzjoni li biha rati differenzjali ta' bonusis riversjonarji kienu ddikjarati fir-rigward ta' investimenti bla profitti ma' l-MSV għas-sena li għalqet fil-31 ta' Diċembru 2005. Dawn ammontaw ghal 3.85% fil-każ tal-Comprehensive Life Plan (Poloz bi Primjum Regolari u Singolu), 4.25% fir-rigward tal-Comprehensive Flexi Plan (Poloz bi Primjum Regolari u Singolu), 4.5% fil-każ tas-Single Premium Plan u 4.5% fil-każ ta' l-opzjoni bi profitti ta'

Middlesea Sea Valletta Life Assurance Company Limited
Market Share



l-Investment Bond. Fil-każ ta' poloz ta' l-'Old Series' Endowment u Whole of Life, kien iddikjarat Bonus Riversjonarju ta' 2.2% fuq is-somma bażika assicurata li magħha jingħaddu l-bonusis.

Barra minn hekk, il-Bord approva bonus riversjonarju ta' 3.45% fuq poloz *Secure Growth* li kienu jiffurmaw parti mill-portafoll ta' negozju trasferit minghand Assicurazioni Generali S.p.A. tul is-sena 2000.

Il-Bord approva wkoll id-dikjarazzjoni ta' Bonus Terminali fir-rigward tal-*Comprehensive Life Plan* (Poloz bi Primjum Regolari u Singolu) li ilhom fis-seħh għal aktar minn 10 snin. Il-Bonus Terminali jithallas fuq klejms pagabbli minhabba mewt jew għax jimaturaw fl-2006, b'rata ta' 1.5% għal kull sena wara l-10 sena tal-polza, sugġett għal massimu ta' 5%. Dan il-Bonus Terminali jithallas fuq il-valur tal-Kont tal-Polza kif ikun fid-data tal-mewt jew maturità.

Meta ġie biex jistabbilixxi r-rati tal-bonus iddikjarati fl-2005, il-Bord qies ir-riżultati tajbin hafna ta' l-investimenti tul l-2005.

Il-Grupp MSV kompli, tul l-2005, juri s-sens ta' riżolutezza tiegħu fis-suq ta' protezzjoni individwali u tiffidil għat-tul. Minkejja li topera f'suq kompetittiv, il-kumpanija rnexxielha żżomm sehemha mis-suq li issa qabeż il-65%. L-istrategġija tal-kumpanija hi li toffri medda wiesgħa ta' prodotti permezz ta' pjattaforma ta' distribuzzjoni multipla. L-impriża ta' bankassigurazzjoni mal-Bank of Valletta p.l.c. tibqa' l-aktar kanal ta' distribuzzjoni importanti tal-kumpanija, u tul l-2005 din baqgħet tirreġistra aktar tkabbir sinifikanti.

L-innovazzjoni ta' prodotti tkompli tiffigura b'mod prominenti fl-istrategġija tal-kumpanija. F'Ġunju 2005 l-kumpanija nidiet verżjoni ta' l-MSV Investment Bond ibbażata fuq pluralità ta' muniti, u dan kien l-ewwel prodott ta' assicurazzjoni marbut ma' pluralità ta' muniti li tnieda fis-suq lokali ta' assicurazzjoni tal-hajja.

Il-kumpanija tagħraf li s-servizz lill-klijenti hu vitali għall-futur tan-negozju. Fl-2005 l-kumpanija nidiet 24x7 Policy Enquiry Tool li topera fuq l-internet 24 siegħa l-ġimgha kollha għall-intermedjarji kollha biex huma jkunu jistgħu jaraw il-poloz introdotti minnhom 24 siegħa l-ġimgha kollha.

Il-kumpanija hi kommissa li tkompli tiffoka fuq l-innovazzjoni tal-prodotti biex tissodisfa t-tliet domandi prinċipali għal assicurazzjoni tal-hajja, jiġifieri protezzjoni, tiffidil u rtirar mix-

xogħol. Il-kumpanija għandha l-għan li tippromwovi u tipprovdi valur lill-protezzjoni tal-flus, tiffidil u prodotti u servizzi ta' investment li joffri serhan tal-mohħ u l-possibiltà ta' tkabbir li jaqbel ma' livell ta' riskju aċċettabbli u sostnut minn servizz ta' kwalità għolja.

Diġà saret hidma preparatorja konsiderevoli f'konnessjoni mar-riforma ppjanat għall-pensjonijiet f'Malta, u l-kumpanija hija fiduċjuża li meta tghaddi l-leġiżlazzjoni rilevanti tkun f'qagħda li toffri soluzzjonijiet għal pensjonijiet għal individwi u għal gruppi.

Filwaqt li jżomm il-pożizzjoni tiegħu bhala l-fornitur fuq quddiemnett ta' prodotti ta' assicurazzjoni tal-hajja u ta' tiffidil għat-tul fis-suq ta' l-assigurazzjoni Malti, il-Grupp MSV issa qieghed ifittex sfidi fi swieq oħrajn li joffru opportunitajiet għal tkabbir ulterjuri li jhalla profit. Diġà sar progress konsiderevoli fil-hidma preparatorja biex titwaqqaf operazzjoni ta' assicurazzjoni tal-hajja fl-Italja.

Sussidjarji

Growth Investments Ltd (Growth Investments), sussidarja li hi propjetà shiħa tal-Grupp MSV, hija awtorizzata biex tagħti servizzi skond it-termini ta' l-Att ta' l-1992 dwar Servizzi ta' Investimenti. Growth Investments hija wkoll ir-rappreżentant esklussiv ta' Fidelity Funds SICAV f'Malta, alleanza li bdiet fl-1997 ma' Fidelity International.

Fl-2005 Growth Investments irreġistat profit ta' Lm200,602 (€467,277) wara l-hlas tat-taxxa, imqabbel ma' Lm125,873 (€293,205) fis-sena ta' qabel. Dan ir-riżultat sodisfaċenti ġie l-aktar minn żieda fin-negozju mis-servizzi amministrattivi mogħtija minn Growth Investments lill-Grupp MSV u minn servizzi intermedjarji finanzjarji mogħtija lill-Grupp Middlesea.

David G. Curmi
General Manager





Our future direction remains embedded in our consistent strategy of attaining a balanced business mix from a geographical spread through varied distribution.



The façade of Middle Sea House lit up at night.

BUSINESS REVIEW



A. M. Tabone
General Manager



International Insurance Management Services Ltd.

The commitment of International Insurance Management Services over the past years in promoting Malta as the jurisdiction of choice for international operators setting up captive and direct writing insurance companies has started yielding the desired result. The financial year 2005 has been an important year for the Maltese insurance management market with the registration and licensing of a number of international management companies, captive insurance companies and insurance companies which, whilst operating from Malta, will focus on their own rather than Maltese business. The Middlesea Group, through its subsidiary IIMS, also reaped the benefits of its own efforts in promoting Malta as a captive insurance location and, coupled with Malta's membership of the European Union, was successful in concluding its first client's application for a general insurance company licensed in Malta with passporting rights to underwrite direct business in another European country. Whilst this contract was satisfactorily concluded during the year with ongoing insurance management services now in force with effect from the financial year 2006, the company also entered into a second contract during 2005 where the licensing application was in its feasibility and drafting stages.

During this financial year, IIMS also observed a significant increase in the number of international promoters of captive and direct insurance companies visiting the Island. Their purpose was to explore further the benefits of this location and to assess the feasibility of setting up their insurance operations in Malta. The development of the Maltese insurance management market has created a healthy competitive environment and a sizeable one worthy of a visit by any international investor. This, together with Malta's membership of the European Union, its robust regulatory framework and the professional workforce available on the Island are the important ingredients which attract international investors to explore Malta as the preferred jurisdiction for their insurance operations.

Throughout 2005, IIMS continued to enhance the level of service provided to its largest client, the Middlesea Group. Through the services available to the Group, IIMS focuses on providing effective and economical back office operations whilst freeing individual Group companies to concentrate on their core activities of marketing, issuing and servicing insurance contracts. This service to the Group, which entered its fourth

year in 2005, was further extended with the setting up of an Internal Audit Department which, similar to all other operational departments of IIMS, was established to provide an important service to the Board and management of the risk carriers within the Group.

IIMS's financial position was further consolidated during 2005 with an increase of 11% in turnover and a 35% increase in shareholders' funds. The company generated a profit after taxation of Lm0.26million (€0.6m) equivalent to a return of 31.2% on earned management fees of Lm0.82million (€1.9m). The increased retained earnings of the company provided scope to broaden its investment portfolio and, in this respect, the company invested in the local bond market. This contributed positively to IIMS's overall result. The company's focus on expenditure levels remains key to providing clients with cost effective and competitive management services. This ensures the maintenance of targeted fee income and an adequate return for its shareholders. It is equally important to provide clients with professional levels of service and, in this respect, the management of IIMS continues to encourage and support its workforce in enhancing their professional status through continued professional education. This ensures the company keeps its most vital asset well equipped to meet the challenges of the future.

IIMS is at the forefront of attracting and successfully establishing insurance companies in Malta. In 1991 IIMS was the first indigenous insurance manager to launch its services on the Island and, whilst forming part of the largest Maltese insurance group, the position of IIMS remains consistent with Malta's own role within the European Union. Malta is the ideal location for small to medium sized insurance operations and IIMS has the necessary skills and professionalism to provide such companies with all the necessary administrative and support functions.

A handwritten signature in black ink, appearing to read 'A. M. Tabone', with a small horizontal line at the end.

A. M. Tabone
General Manager



L-impenn ta' l-International Insurance Management Services tul is-snin li għaddew biex tippromwovi lil Malta bhala ġurizdizzjoni li tista' tinghażel minn operaturi internazzjonali biex iwaqqfu kumpaniji *captive* u li jagħmlu sottoskrizzjoni diretta beda jagħti l-benefiċċji mixtieqa. Is-sena finanzjarja 2005 kienet sena importanti għas-suq Malti ta' mmaniġġjar ta' assigurazzjoni bir-registrazzjoni u liċenzjar ta' kumpaniji internazzjonali ta' manigment, kumpaniji ta' assigurazzjoni *captive* u kumpaniji ta' assigurazzjoni li, waqt li joperaw minn Malta, jiffukaw fuq in-negozju tagħhom stess aktar milli fuq negozju minn Malta.

Il-Grupp Middlesea, bis-saħha tas-sussidjarja tagħha l-IIMS, ukoll hasdet il-benefiċċji ta' l-isforzi tagħha stess biex tippromwovi lil Malta bhala lokalità għal assigurazzjoni *captive* u, ukoll bis-saħha tas-shubija ta' Malta fl-Unjoni Ewropea, irnexxiha tikkonkludi l-applikazzjoni ta' l-ewwel klijent tagħha għal kumpanija ta' assigurazzjoni ġenerali liċenzjata f'Malta bi drittijiet ta' għoti ta' passaport biex tissottoskrivi negozju dirett f'pajjiż Ewropew iehor. Filwaqt li dan il-kuntratt kien konkluż b'mod sodisfaċenti tul is-sena, b'servizzi ta' mmaniġġjar ta' assigurazzjoni kurrenti li issa dahlu fis-seħh b'effett mis-sena finanzjarja 2006, tul l-2005 l-kumpanija dahlet ukoll għat-tieni kuntratt li l-applikazzjoni għal liċenzja tiegħu kienet fl-istadji ta' studju tal-vijabilità u abbozzar tagħha.

Tul din is-sena finanzjarja l-IIMS osservat ukoll tkabbir sinifikanti fin-numru ta' promoturi internazzjonali ta' kumpaniji *captive* u diretti li żaru l-gżira. L-iskop tagħhom kien li jesploraw ahjar il-benefiċċji ta' din il-lokalità u jivvalutaw il-vijabilità li jwaqqfu l-operazzjoni ta' assigurazzjoni tagħhom f'Malta. L-iżvilupp tas-suq Malti ta' mmaniġġjar ta' assigurazzjoni holoq ambjent kompetittiv san u mdaqqas li kull investitur internazzjonali jsibha interessanti li jżuru. Dan il-fatt, flimkien mas-shubija ta' Malta fl-Unjoni Ewropea, il-qafas regolatorju b'saħhtu tagħha u l-forza tax-xogħol professjonali li hawn fil-gżira, huma ingredjenti importanti li jkomplu jiġbdu investituri internazzjonali biex jesploraw Malta bhala l-ġurizdizzjoni preferita għall-operazzjoni ta' assigurazzjoni tagħhom.

Tul l-2005 l-IIMS kompliet ittejjeb il-livell ta' servizz li tagħti lill-akbar klijent tagħha, il-Grupp Middlesea. Permezz tas-servizzi li tista' tagħti lill-Grupp, l-IIMS tiffoka fuq l-għoti lill-Grupp ta' operazzjonijiet amministrattivi effettivi u ekonomiċi filwaqt li thalli liberi lill-kumpaniji individwali tal-Grupp biex

jikkoncentraw fuq l-attivitajiet bażiċi tagħhom ta' promozzjoni tal-bejgħ, hruġ u proċessar ta' kuntratti ta' assigurazzjoni. Dan is-servizz lill-Grupp, li dahal fir-4 sena tiegħu fl-2005, kompli jkun estiż bit-twaqqif ta' Dipartiment tar-Revizjoni Intern li, bħad-dipartimenti operattivi l-oħrajn kollha ta' l-IIMS, twaqqaf biex jagħti servizz importanti lill-Bord u l-immaniġġjar ta' dawk li jgħorru r-riskji fil-Grupp.

Il-qagħda finanzjarja ta' l-IIMS kompliet tikkonsolida ruhha tul l-2005 bi tkabbir ta' 11% fin-negozju u zieda ta' 35% fil-fondi ta' l-azzjonisti. Il-kumpanija ġġenerat Lm0.26 ta' miljun (€0.6m) profit wara l-hlas tat-taxxa, ekwivalenti għal qligħ ta' 31.2% fuq il-Lm0.82 ta' miljun (€1.9m) hlasijiet ta' manigment li qalgħet. Id-dhul ritenut akbar tal-kumpanija jipprovdi skop għal twessigh tal-portafoll ta' investimenti tagħha u, f'dan ir-rigward, il-kumpanija investiet fis-suq tal-bonds lokali. Dan ikkontribwixxa b'mod pożittiv għar-riżultat ġenerali ta' l-IIMS. L-iffukar tal-kumpanija fuq livelli ta' nfiq jibqa' element kjavi biex jagħti lill-klijenti servizzi ta' manigment effettivi għall-hlasijiet li jagħmel u kompetittivi. Dan jiżgura li tintlahaq il-mira ta' dhul minn hlasijiet u qligħ adegwat għall-azzjonisti tagħha. Hu daqstant iehor importanti li l-klijenti jingħataw il-livelli ta' servizz professjonali u, f'dan ir-rigward, il-manigment ta' l-IIMS jibqa' jinkoraġġixxi u jappoġġja lill-forza tax-xogħol tiegħu biex ittejjeb l-istatus professjonali tagħha bis-saħha ta' edukazzjoni professjonali dejiema. Dan jiżgura li l-kumpanija iżzomm l-aktar assi vitali tagħha mgħammar tajjeb biex jilqa' l-isfidi tal-futur.

L-IIMS hija fuq quddiemnett biex tkompli tiġbed u twaqqaf b'suċċess kumpaniji ta' assigurazzjoni f'Malta. Fl-1991 l-IIMS kienet l-ewwel maniger ta' assigurazzjoni indigenu li nieda s-servizzi tiegħu fil-gżira u, waqt li tiffirma parti mill-akbar grupp ta' assigurazzjoni Malti, il-pożizzjoni ta' l-IIMS tibqa' konsistenti mar-rwol ta' Malta nnifisha fl-Unjoni Ewropea. Malta hija lokalità ideali għal operazzjonijiet ta' assigurazzjoni żgħar u ta' daqs medju, u l-IIMS għandha l-hiliet u l-professjonalizmu neċessarji biex tagħti lil dawn il-kumpaniji s-servizzi amministrattivi u l-funzjonijiet ta' appoġġ kollha.

A. M. Tabone
General Manager

BUSINESS REVIEW



S. Gauci
General Manager



This report marks Progress's fifth full year of operation within the Middlesea Group, a year characterised by increased competition and pressure on pricing levels. Progress dedicated this year to the further consolidation of the growth it achieved in previous years. The results achieved during the year 2005 continue to be satisfactory.

During the year, the company continued to concentrate its activities primarily in the regions of Italy south of, and including, Lazio. It made its first incursion into the region of Molise and continues to trade in the northern regions of Trentino Alto Adige and Piemonte. Sales outlets increased from 114 at the end of 2004 to 115 at the end of 2005. 37 of such agencies are based in Sicily, 8 in Sardinia whilst the remaining 70 agencies are located on mainland Italy. This means that 68% of the company's distribution network continues to be located outside Sicily. The company's bancassurance agreement with Banca Nuova, a member of the Banca Popolare di Vicenza group, resulted in increased property turnover exceeding expectations. This new partnership should contribute significantly to Progress's objective of increasing the non-motor content of its portfolio. Due to the nature of this mortgage based business, the benefits are spread over the period of the mortgage and, consequently, this business's contribution to the bottom line should become evident in the longer term.

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

The improvement in the composition of the portfolio as between motor liability and other classes of business remains an important priority for the company. During the year, a two and a half percentage point improvement in this ratio was achieved notwithstanding an overall decrease in turnover of 7%. The reduction in turnover results from the company's decision to maintain pricing at its current level, notwithstanding the definite softening in the market. This decision is constantly monitored and revisited.

The company continued to emphasise with its agents the

importance of achieving its targeted portfolio composition. Measures introduced in previous years to link remuneration to achieving this objective continue to assist in improving business mix. Furthermore, the company continued to invest in the professional development of its agents and employees.

Written premium income of Lm20million (€47.3m) was registered in 2005, a reduction of 7% due to management's decision to retain rates unchanged in a weakening pricing environment. The process of developing actuarially based pricing models in collaboration with the company's consultant actuary continues unabated and today motor liability prices are entirely computed actuarially.

On a similar note, the enhancement of the company's claims handling processes continued with special emphasis on the efficient settlement of claims and strong reserving criteria. Today claims documentation is all processed optically using dedicated document management software tailored to the claims process. During 2005, further enhancements to systems and practices were introduced. The whole process allows management to monitor data and take any action which may be required on a timely basis. In addition, the special unit established to deal with claims which have remained unsettled for longer periods is making inroads in resolving a proportion of such cases out of court to the satisfaction of all parties concerned.

In 2005 gross claims incurred decreased by 12% and amounted to Lm15.5million (€36.2m). The loss ratio decreased by five percentage points to 77%. Run-off of claims on all business was satisfactory. Protections are in place to safeguard against inadequate reserving in the years before the company became part of the Middlesea Group.

Progress continues to manage all its claims through its own personnel in its own offices supported by teams of independent professionals. These are located in Palermo, Catania, Naples and Sassari. In addition, whilst a separate structure exists to handle claims emanating from the region of Puglia, a fully fledged settlement office has not yet been opened there since volumes do not currently justify such a presence. The planned division of the claims handled by the team responsible for the central Italian regions into two units was implemented during the year and is now fully operational.



*Progress Assicurazioni S.p.A.
Gross Premium Written*

2001	€29,885,566
2002	€45,002,355
2003	€51,976,403
2004	€50,780,895
2005	€47,337,556

Acquisition costs equate to 13% of premium income, a decrease of point six of a percentage point over 2004.

Progress continued to make use of the Group's management services. Mainly, however, due to the reduction in turnover, its expense ratio increased by point eight of a percentage point to 7.9%. Investment income amounted to Lm0.96million (€2.2m) a reduction of 5.9% mainly due to unrealised losses on fixed income securities taken to profit and loss.

Progress achieved a net underwriting profit before tax of Lm0.9million (€2.14m) whilst shareholders' funds increased by 5% to Lm9.75million (€22.7m).

S. Gauci
General Manager



Progress Assicurazioni S.p.A.
Total Assets

2001	€64,809,761
2002	€86,157,130
2003	€110,961,914
2004	€117,370,335
2005	€122,252,666

Dan ir-rapport jimmarka l-hames sena shiha ta' operazzjonijiet ta' Progress fil-Grupp Middlesea, sena karatterizzata minn kompetizzjoni akbar u pressjoni fuq livelli ta' prezzijiet. Progress iddedikat din is-sena għall-konsolidament ulterjuri tat-tkabbir miksub fis-snin ta' qabel. Ir-riżultati miksubin tul is-sena 2005 baqghu sodisfaċenti.

Tul is-sena l-kumpanija kompliet tikkonċentra fuq l-attivitatijiet tagħha primarjament fir-reġjuni ta' l-Italja tal-Lazio u l' isfel minnu. Hi dahlet l-ewwel darba fir-reġjun ta' Molise u ghadha tinnegozja fir-reġjuni tat-tramuntana, it-Trentino Alto Adige u l-Piemonte. Uffiċċji tal-bejgħ telghu minn 114 fi tmiem l-2004 għal 115 fi tmiem l-2005. 37 minn dawn l-aġenziji huma bbażati fi Sqallija, 8 f'Sardinja u s-70 l-ohra fit-terraferma Taljana. Dan ifisser li 68% tan-netwerk ta' distribuzzjoni tal-kumpanija baqghet sitwata barra minn Sqallija.

Il-ftehim ta' bankassigurazzjoni tal-Kumpanija ma' Banca Nuova, membru tal-grupp Banca Popolare di Vicenza, wassal għal negozju akbar fl-assigurazzjoni tal-propjetà li qabez dak li kien mistenni. Din is-shubija ġdida għandha tikkontribwixxi b'mod sinifikanti għall-oġettiv ta' Progress li tkabbar il-kontenut tal-portafoll tan-negozju tagħna li m'hux konness ma' l-assigurazzjoni ta' vetturi. Minhabba n-natura ta' dan in-negozju bbażat fuq l-ipoteka, il-benefiċċji huma mifruxin fuq il-perjodu ta' l-ipoteka u għalhekk il-kontribut ta' dan in-negozju lir-riżultati finanzjarji għandu jibda jidher wara tul ta' żmien.

Barra minn hekk, l-involviment attwarjali mtejjeb fl-oqsma tekniċi rilevanti kollha, u l-aktar il-kalkolu tar-rati ta' primjum u tar-riservi għal klejms imqabblin mal-*"costo ultimo,"* baqa' sejjer minkejja limitazzjonijiet importanti li ġejjin mid-daqs limitat tal-portafoll. Din il-funzjoni thalliet f'idejn kumpanija Taljana rispettata hafna li għandha fama internazzjonali.

It-titjib tal-kompożizzjoni tal-portafoll kif imqassam bejn responsabbiltà ta' vetturi u klassijiet ta' negozju oħrajn jibqa' prijorità importanti għall-kumpanija. Tul is-sena kellna titjib ta' żewġ punti u nofs perċentwali f'din il-proporzjon minkejja tnaqqis ġenerali ta' 7% fin-negozju. It-tnaqqis fin-negozju ġej mid-deċizzjoni tal-kumpanija li żżomm il-prezzijiet fil-livell kurrenti, minkejja li s-suq qed juri sinjali ċari ta' dgħjufija. Din id-deċizzjoni hija kkontrollata u kkunsidrata mill-ġdid il-hin kollu. Il-kumpanija baqghet tenfasizza ma' l-aġenti tagħha l-importanza

li jilhqu l-kompożizzjoni prevista tal-portafoll tagħha. Miżuri mdahhlin fis-snin ta' qabel biex jorbtu r-rimunerazzjoni ma' l-ilhuq ta' dan l-oġettiv komplew jghinu għat-titjib tal-kompożizzjoni tan-negozju. Barra minn dan, il-kumpanija baqghet tinvesti fl-iżvilupp professjonali ta' l-aġenti u l-impjegati tagħha.

Dhul minn primjum sottoskritt fl-2005 lahaq l-Lm20 miljun (€47.3m), tnaqqis ta' 7% minhabba d-deċizzjoni tal-manigment li ma jibdilx ir-rati f'xenarju ta' suq li qed jiddgħajef fil-qasam tal-prezzijiet. Il-proċess ta' l-iżvilupp ta' mudelli ta' pprezzar ibbażati fuq informazzjoni mill-attwarji, li qed isir f'kollaborazzjoni ma' l-attwarju konsulent tal-kumpanija, għadu għaddej bla waqfien, u llum il-prezzijiet tar-riskju ta' responsabbiltà tal-vetturi huma kkalkulati kollha b'mod attwarjali.

Fuq nota simili, it-titjib tal-proċessi tal-kumpanija għat-trattament tal-klejms baqa' sejjer b'enfasi speċjali fuq għeluq effiċjenti ta' klejms u kriterji qawwijn fil-kalkolu ta' riservi. Illum id-dokumentazzjoni tal-kljems hija kollha pproċessat viżwalment bl-użu ta' softwer maniġerjali magħmul apposta u mfassal għall-proċess tal-klejms. Tul l-2005 ddahhal titjib ulterjuri fis-sistemi u l-pratki. Il-proċess kollu jippermetti lill-manigment jikkontrolla l-informazzjoni u jiehu kull azzjoni li tista' tkun mehtieġa fil-mument. Barra minn hekk, unità speċjali mwaqqfa biex tahdem fuq klejms li baqghu mhux imhallsin għal perjodi itwal min-normal qed tagħmel progress biex issolvi proporzjon minn dawn il-każijiet barra mill-qrati għas-sodisfazzjon tal-partijiet involuti kollha.

Klejms Gross li dahlu fl-2005 naqsu bi 12% u ammontaw għal Lm15.5 miljun (€36.2m). Il-proporzjon tat-telf nizlet b'hames punti perċentwali għal 77%. L-għeluq ta' klejms pendenti fuq il-medda kollha tan-negozju kien sodisfaċenti. Il-kumpanija għandha sistema ta' protezzjoni biex tilqa' għal riservar inadegwat taż-żmien meta l-kumpanija kienet għadha ma saritx parti mill-Grupp Middlesea.

Progress baqghet timmaniġġja l-klejms kollha permezz ta' l-impjegati tagħha stess fl-uffiċċji tagħha stess appoggjati minn gruppi ta' nies professjonali indipendenti. Dawn qegħdin Palermo, Katanja, Napli u Sassari. Barra minn hekk, filwaqt li hemm struttura separata biex tipproċessa klejms mir-reġjun tal-Puglia, għad ma nfetaxx uffiċċju hemm li jipproċessa

Progress Assicurazioni S.p.A.
Total Investments

2001	€32,443,551
2002	€47,100,888
2003	€70,390,752
2004	€79,327,165
2005	€87,710,231

Progress Assicurazioni S.p.A.
Shareholders Funds

2001	€9,929,477
2002	€11,622,191
2003	€20,120,039
2004	€21,590,363
2005	€22,701,684

I-klejms mill-bidu sa l-ahhar billi l-volum tax-xoghol kurrenti ma jiġġustifikax din il-preżenza. Id-diviżjoni ppjanata tal-klejms ittrattati mill-grupp responsabbli mir-reġjuni ċentrali ta' l-Italja f'żewġ unitajiet kienet implimentata tul is-sena u issa qed topera bis-shih.

Spejjeż ta' akkwist kienu 13% tad-dhul minn primjums, tnaqqis ta' punt sitta ta' punt perċentwali mill-2004.

Progress baqgħet tuża s-servizzi manigerjali tal-Grupp. Izda b'mod ġenerali, minhabba tnaqqis fil-volum tax-xoghol, il-proporzjon ta' spejjeż tagħha telgħet b'punt tmienja ta' punt perċentwali għal 7.9% l-aktar minhabba tnaqqis fin-negozju. Dhul minn investimenti ammonta għal Lm0.96 ta' miljun (€2.2m), tnaqqis ta' 5.9% l-aktar minhabba telf mhux realizat fuq titoli bi dhul fiss li għadda għall-kont ta' qligħ u telf.

Progress għamlet Lm0.9 ta' miljun (€2.14m) profitt qabel il-hlas tat-taxxa filwaqt li l-fondi ta' l-azzjonisti telghu b'5% għal Lm9.75 miljun (€22.7m).



S. Gauci
General Manager

Middlesea is in a strong position to continue on its path of growth and development both locally and overseas.





The Grand Harbour of Malta.

HEAD OFFICE, BRANCHES & AGENCIES

HEAD OFFICE

Middle Sea House
Floriana
Tel: (00356) 2124 6262
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e-mail: middlesea@middlesea.com
website: www.middlesea.com

CLAIMS & HEALTH DEPARTMENTS

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

GIBRALTAR BRANCH

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Fax: (00350) 76741
e-mail: masbro@gibnet.gi

LOCAL AGENCIES

ALLCARE INSURANCE

AGENCY LIMITED
University Roundabout
Msida MSD 04
Tel: (00356) 2133 0011
Fax: (00356) 2134 7947
e-mail: info@allcare.com.mt

BONNICI INSURANCE

AGENCY LIMITED
222, The Strand
Gzira GZR 03
Tel: (00356) 2133 9110
Fax: (00356) 2131 0390
e-mail: info@bonniciinsurance.com

ENGLAND INSURANCE

AGENCY LIMITED
190, 1st Floor, Marina Street
Pieta MSD 08
Tel: (00356) 2125 1015
Fax: (00356) 2124 4507
e-mail: info@englandins.com.mt

LAFERLA INSURANCE

AGENCY LIMITED
Vincenti Buildings
Strait Street
Valletta CMR 01
Tel: (00356) 2122 4405
Fax: (00356) 2124 0811
e-mail: info.lis@laferla.com.mt

MELITA INSURANCE

AGENCY LIMITED
High-Rise
16 Triq l-Imradd
Ta' Xbiex
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Fax: (00356) 2131 6032
e-mail: melitains@nextgen.net.mt

UNIPOL INSURANCE

AGENCY LIMITED
57 Market Street
Floriana VLT 15
Tel: (00356) 2123 6363
Fax: (00356) 2124 1954
e-mail: unipol@unipol2000.com

UNTOURS INSURANCE

AGENTS LIMITED
(agents for Non-Motor Insurance)
South Street
Valletta VLT 11
Tel: (00356) 2123 1619
Fax: (00356) 2124 3530
e-mail: untours@waldonet.net.mt

OVERSEAS AGENT

MASCARENHAS INSURANCE AND FINANCE LIMITED

Suite 1A, Tisa House
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Fax: (00350) 76741
e-mail: masbro@gibnet.gi

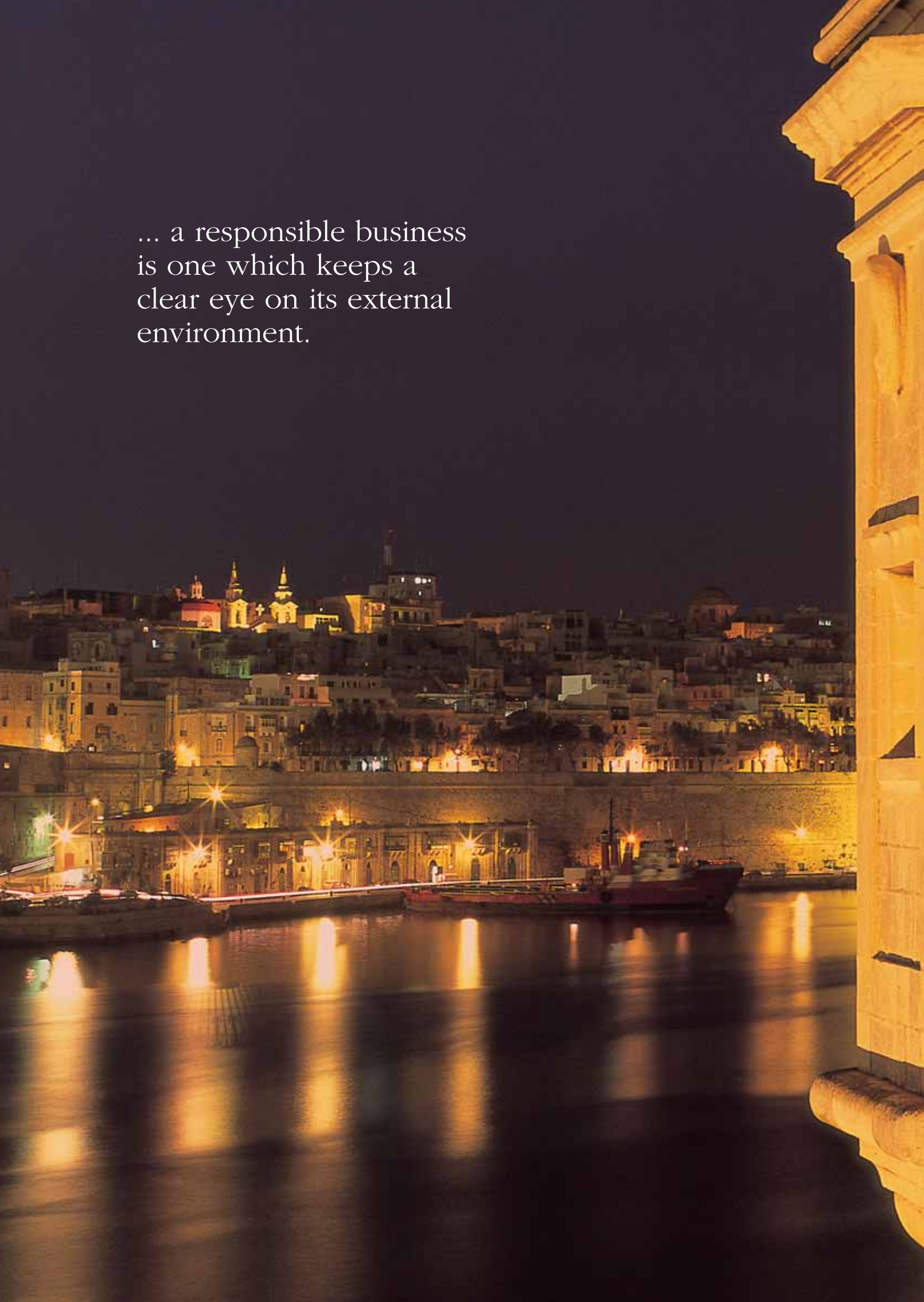
GROUP FINANCIAL HIGHLIGHTS

	2005		2004	
	EURO'000	US\$'000	EURO'000	US\$'000
Gross premiums written:				
General Business	77,478	92,071	82,384	97,900
Life Business	1,339	1,592	1,331	1,582
Total gross premiums	78,817	93,663	83,715	99,482
Group investment income	13,317	15,825	8,967	10,656
Profit for the financial year	11,313	13,443	6,900	8,200
Net Dividend	2,912	3,460	1,747	2,076
Net Dividend per Lm0.50 share	0.23	0.28	0.14	0.17
Share Capital	14,559	17,301	14,559	17,301
Technical reserves:				
General Business	113,245	134,574	111,107	132,034
Life Business	415	493	429	510
Shareholders' Funds	72,101	85,681	58,696	69,752
Net Asset value per Lm0.50 share	5.77	6.86	4.70	5.58
Total number of ordinary shares in issue	12,500,000	12,500,000	12,500,000	12,500,000

All figures have been translated at the rate of exchange ruling at 31 December 2005

	2005	2004
	Lm	Lm
Gross premiums written		
- General Business	33,261,505	35,367,261
- Life Business	575,001	571,377
General business results	4,136,793	2,363,801
Life business results	396,830	175,077
Investment return	5,716,856	3,849,661
Profit attributable to shareholders	4,817,528	2,661,329
Dividend proposed (net)	1,250,000	750,000
Earnings per share	38.5c	21.3c
Net asset value per share	2.48	2.02

... a responsible business
is one which keeps a
clear eye on its external
environment.





A sentry box placed on the tip of the bastions and that epitomises the role of the fortifications around the Grand Harbour.

PROFESSIONAL SERVICES

The Group, in addition to its regular staff complement, as at 31 December 2005 utilised the professional services of the following individuals and institutions:-

Legal Advisors

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

Auditors

PricewaterhouseCoopers

Actuaries

Watson Wyatt Worldwide

Bankers

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

Investment Consultant

Zerniq Ltd

Sponsoring Stockbrokers

Bank of Valletta p.l.c.

Group Committees

Investments Committee

M. C. Grech (Chairman)
Dr. R. Borg BA (Hons), MA, LL.D
R.E.D Chalmers M.A. Div (Edin), FCA, ATII, FCPA, MIA
D.G. Curmi ACII, Chartered Insurer
T. Depasquale
E. Ellul BA (Hons) Econ, Dip Pol Econ
M. Formosa MA (Econ), MA (Financial Services)
S.Gauci ACII
L. Lubelli MSc
J.M.Rizzo ACII, AIMS, AMIAP, Chartered Insurer
A.M.Tabone BA (Hons) Accty, FIA, CPA
F.Xerri de Caro ACIB

Audit Committee

L. Spiteri MA (Oxon) (Chairman)
D. Sugranyes Bickel (License en Sciences Economiques et Sociales)
R.E.D Chalmers M.A. Div (Edin), FCA, ATII, FCPA, MIA
J.F.X.Zahra BA(Hons) Econ, MA(Econ), MCIM, MMRS

Remuneration Committee

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

Compliance Committee

Dr. R. A. Staines LL.D (Chairman)
D.G.Curmi ACII Chartered Insurer
G. Debono Grech L.P. FISMM (Luton), BA (Leg), Mag. Jur. (Int. Law) Dip. Trib.Eccl. Melita
V.Galea Salomone BA (Luther), MBA (Henley-Brunel)
J.M.Rizzo ACII, AIMS, AMIAP, Chartered Insurer
S.Gauci ACII
A.M.Tabone BA (Hons) Accty, FIA, CPA
E.M.Borg FCII, MBA (Henley-Brunel) FRSA

Corporate Management Committee

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

Risk Management Committee

J.F.X.Zahra BA(Hons) Econ, MA(Econ), MCIM, MMRS (Chairman)
G. Bonnici
G. Debono Grech L.P. FISMM (Luton), BA(Leg), Mag. Jur. (Int. Law) Dip. Trib.Eccl. Melita
D.G.Curmi ACII Chartered Insurer
J.M.Rizzo ACII, AIMS, AMIAP, Chartered Insurer
S.Gauci ACII
A.M.Tabone BA (Hons) Accty, FIA, CPA

SHARE REGISTER INFORMATION

Share Register information pursuant to the Malta Financial Services Authority Listing Rules

Directors' interests in the share capital of the Company as at 31 December 2005

G. Bonnici	3,255 shares
Dr E. Caruana Demajo	14 shares
G. Debono Grech	6,382 shares
T. Depasquale	795 shares
Dr J.C. Grech	5,000 shares
M.C. Grech	2,725 shares
F. Xerri de Caro	29 shares
J.F.X. Zahra	165 shares

There were no changes as at 2 May 2006.

Shareholders holding 5% or more of the equity share capital as at 31 December 2005

Münchener Rückversicherungs Gesellschaft	19.99%
HSBC Bank Malta p.l.c. as sub-custodian of BNY Brussels as custodian for Corporación Mapfre	21.00%
Bank of Valletta p.l.c.	21.65%

There were no changes as at 2 May 2006.

Shareholding Details

As at 31 December 2005, Middlesea Insurance p.l.c.'s Issued Share Capital was held by 4,460 shareholders. As at 2 May 2006, the Issued Share Capital was held by 4,446 shareholders. The Issued Share Capital consist of one class of ordinary shares with equal voting rights.

Distribution of shareholders analysed by range

Range of shareholding	As at 31 December 2005		As at 2 May 2006	
	No. of shareholders	Shares	No. of shareholders	Shares
1 - 1000	3,787	818,763	3,775	819,650
1001 - 5000	617	1,211,849	517	373,636
5001 and over	56	10,469,388	57	10,467,304

Authority for the purchase of own shares

Pursuant to an Extraordinary Resolution passed on 17 June 2005, 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 16 September 2006, whichever is the earlier. Since this authority was granted, the Company has not purchased any of its own shares.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2005.

Principal activities

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

Review of the business

Middlesea Insurance p.l.c. registered a profit before tax for the year of Lm6,513,890, an increase of 79% over last year's profit of Lm3,635,942 (restated). A significant improvement was registered in the holding company's operations, with general business results increasing from Lm1,060,766 in 2004 to Lm2,980,204 in 2005, an increase of 181%. Long term business also increased by 127% from Lm175,077 to Lm396,830.

Positive results were also achieved from the subsidiary and associated companies with the Italian subsidiary contributing a pre-tax profit of Lm867,145, and the investment in the life assurance company contributing Lm1,157,947 to the Group. The operation of Gibraltar contributed Lm522,411 to the pre tax profit of the Group.

The Group's profit after tax and after deducting minority interests amounted to Lm4,817,528, an increase of 81% as compared to last year's figures.

The Group balance sheet continues to strengthen with total investments under management at the end of the year of Lm81m and total net technical reserves of Lm49m. Shareholders' funds as at the end of the year were Lm31m, which equates to Lm2.48 per share.

Results and dividends

The consolidated profit and loss account is set out on page 56. The directors recommend the payment of a dividend of 7 cents per share totalling Lm875,000 (2004 - Lm750,000). In addition, on the occasion of Middlesea's 25th Anniversary, a special dividend of 3 cents per share amounting to Lm375,000 is being recommended.

Directors

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

M.C. Grech - Chairman and C.E.O., R.E.D. Chalmers M.A.Div (Edin), F.C.A., A.T.I.L., 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 - appointed 1 February 2005, 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 - appointed 17 June 2005, M. Sparberg Dr Jur, L. Spiteri M.A. (Oxon), D. Sugranyes Bickel ("Licence en Sciences Economiques et Sociales"), F. Xerri De Caro A.C.I.B., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. - appointed 17 June 2005, H. Attard Montalto - resigned 17 June 2005, J. Camilleri M.A. (Human Resources Leadership) - resigned 1 May 2005, M. Grima Dip. M.S., M.B.A. (Henley), M.I.M., M.C.M.I. - resigned 1 February 2005.

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

Auditors

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

By order of the Board

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

Middle Sea House
Floriana, Malta

28 April 2006

Id-diretturi jipprezentaw ir-rapport taghhom u d-dikjarazzjonijiet finanzjarji awditjati ghas-sena li ghalqet fil-31 ta' Diċembru 2005.

Attivitajiet prinċipali

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

Analizi tan-negozju

Il-Middlesea Insurance p.l.c. rreġistrat profitt ta' Lm6,513,890 ghal din is-sena qabel il-hlas tat-taxxa, zieda ta' 79% fuq il-profitt tas-sena l-oħra li kien Lm3,635,942 (ikkalkulat mill-ġdid). Titjib sinifikanti kien rreġistrat fl-operazzjonijiet tal-kumpanija ewlenija bir-riżultati minn negożju ġenerali jitlghu minn Lm1,060,766 fl-2004 ghal Lm2,980,204 fl-2005, zieda ta' 181%. Negożju ghat-tul tela' wkoll b'127% minn Lm175,077 ghal Lm396,830.

Riżultati pożittivi ntlahqu wkoll mill-kumpaniji sussidjarji u assoċjati; il-kumpanija sussidjarja Taljana kkontribwiet profitt ta' Lm867,145 qabel il-hlas tat-taxxa u l-investimenti fil-kumpanija ta' l-assigurazzjoni tal-hajja kkontribwew Lm1,157,947 lill-Grupp. L-operazzjoni ta' Giblta kkontribwiet Lm522,411 ghall-profitti tal-Grupp qabel il-hlas tat-taxxa.

Il-profitti tal-Grupp wara l-hlas tat-taxxa u wara li tnaqqsu interessi minoritarji ammontaw ghal Lm4,817,528, zieda ta' 81% meta mqabblin maċ-ċifri tas-sena l-oħra.

Il-karta bilanċjali tal-Grupp baqgħet tissahħah bl-investimenti totali ta' Lm81 miljun immanġġjati kif kienu fl-aħhar tas-sena u r-riservi tekniċi netti totali ta' Lm49 miljun. Il-fondi ta' l-azzjonisti fi tmiem is-sena kienu Lm31 miljun, li huma ekwivalenti ghal Lm2.48 ghal kull sehem.

Riżultati u dividendi

Il-kont konsolidat ta' qligh u telf qiegħed f'paġna 56. Id-diretturi jirrikmandaw il-hlas ta' dividend ta' 7ċ ghal kull sehem li b'kollox jammonta ghal Lm875,000 (2004 - Lm750,000). Barra minn hekk, fl-okkażjoni tal-25 Anniversarju tal-Middlesea, qed ikun irakkmandat dividend speċjali ta' 3ċ ghal kull sehem li jammonta ghal Lm375,000.

Diretturi

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

M.C. Grech - Chairman u C.E.O., R.E.D. Chalmers M.A.Div (Edin), F.C.A., A.T.I.L., 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 - mahtur 1 ta' Frar 2005, 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 - mahtur 17 ta' Ġunju 2005, M. Sparberg Dr Jur, L. Spiteri M.A. (Oxon), D. Sugranyes Bickel ("Licence en Sciences Economiques et Sociales"), F. Xerri De Caro A.C.I.B., J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S. - mahtur 17 ta' Ġunju 2005, H. Attard Montalto - irriżenja 17 ta' Ġunju 2005, J. Camilleri M.A. (Human Resources Leadership) - irriżenja 1 ta' Meju 2005, M. Grima Dip. M.S., M.B.A. (Henley), M.I.M., M.C.M.I. - irriżenja 1 ta' Frar 2005.

Skond l-Artikli ta' Assocjazzjoni tal-Kumpanija, id-diretturi kollha jirtiraw mill-kariga fil-Laqqha Ġenerali Annwali u huma eliġibbli biex jerggħu jkun eletti jew mahturin mill-ġdid. Dawk il-membri li jew separatament jew fl-aggregat ikollhom mhux inqas minn 7% tad-drittijiet għall-vot totali għandhom id-dritt jahtru direttur, b'ittra indirizzata lill-Kumpanija, għal kull sehem shih ta' 7%, iżda dawk il-membri li għandhom dik il-perċentwali separatament għandhom jeżerċitaw dan id-dritt. Il-bqija tad-diretturi huma eletti fil-Laqqha Ġenerali Annwali.

Awdituri

L-awdituri, PricewaterhouseCoopers, indikaw ir-rieda taghhom li jibqgħu fil-kariga u riżoluzzjoni biex jinhatru mill-ġdid se tkun proposta fil-Laqqha Ġenerali Annwali.

B'ordni tal-Bord



R.E.D. Chalmers
Deputy Chairman

CORPORATE GOVERNANCE - STATEMENT OF COMPLIANCE

An Issuer whose securities are listed on the Malta Stock Exchange should include in its Annual Report a Statement of Compliance providing an explanation of the extent to which it adopted the Code of Principles of Good Corporate Governance (the "Principles") included in the MFSA Listing Rules. (Listing Rule 8.26). Listed Companies are also required to state the effective measures taken to ensure compliance with the Principles (Listing Rule 8.27). The Auditors, in the Annual Report, are to include a report on the Statement of Compliance. Middlesea Insurance plc (the "Company") adopted the Principles on their introduction. In certain areas, the governance procedures applied within the Company have been amended to implement the recommendations included in the Principles. Having regard also to other recognised models of corporate governance, the Company has in places retained or adopted alternative measures with appropriate explanation.

Responsibilities of the Board

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

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

The Board delegated authority and vested accountability for the Company's day to day business with a management team led by the Chairman and Chief Executive Officer (CEO).

Co-ordination of management activities was ensured through the operation of a Corporate Management Committee led by the Chairman and CEO. It brought together the General Managers of the Company and of its subsidiaries and principal associated company, together with one non-executive Director from each company.

Composition of the Board

As regulated by the Company's Articles of Association, and consistent with generally accepted practices in Malta, the appointment of directors to the Board was reserved exclusively to the Company's shareholders. A shareholder holding not less than 7% of voting rights of the issued share capital or a number of shareholders who between them hold not less than 7%, could appoint one Director for every such 7% holding by letter addressed to the Company; eight members of the Board were appointed during the year in terms of this rule. All shares not utilised to make appointments in terms of the above could be used, leading to the election of a further six directors. All the directors so appointed or elected served on the Board in a non-executive capacity.

Pursuant to the Company's Articles of Association, Mr. Mario C. Grech, as a person holding a senior managerial position in the Company, was appointed at the Annual General Meeting through a separate election open to all shareholders. Mr Grech held the position of Chairman of the Board and CEO of the Company. Middlesea was satisfied that the Company was compliant with paragraph 2.3 of the Principles since it had put in place a balanced management structure comprising, inter alia, the Corporate Management Committee and certain Board Committees to which the CEO has to answer.

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

Remuneration of directors

As in previous years, the Chairman declined receiving a fee. Three foreign directors 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 2005 amounted to Lm46,702. Contracted emoluments paid to the executive director amounted to Lm42,578, as disclosed in note 10 to the financial statements. Furthermore, provisions of Lm37,338 were made by the Group in respect of contracted pension obligations. The Company paid an insurance premium of Lm5,976 during the year in respect of insurance cover in favour of its directors.

Board Committees

The activities of the Board and of the Company's senior management team were monitored and supported by standing committees designed to assist in specialist activities and in governance issues. The members sitting on the various Group Committees are listed on page 38.

CORPORATE GOVERNANCE - STATEMENT OF COMPLIANCE

Group Investments Committee

The Group Investments Committee meets monthly and oversees the investment activities of the Group, setting overall policies and guidelines, scrutinising and approving material transactions and monitoring results. Any investment exceeding Lm500,000 requires approval of the respective Board.

Audit Committee

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

The Audit Committee is required to meet at least four times a year. During 2005 it met seven times. The external auditors are invited to attend specific meetings of the Audit Committee and are entitled to convene a meeting of the committee if they consider that it is necessary. The terms and conditions of new contracts negotiated with related parties are reviewed by the Company's Audit Committee. The Company is in the process of strengthening its procedures regarding related party transactions.

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

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

Remuneration Committee

The Remuneration Committee concentrated on establishing the remuneration policy for the Group's directors and senior executives, outlined the various elements of their remuneration and disclosed the amount of remuneration paid to directors in 2005. The Remuneration Committee meets at least four times a year. The CEO is normally invited to attend meetings of this Committee, except when his own remuneration is discussed.

Compliance Committee

The Compliance Committee meets at least four times a year, and in conjunction with the group Compliance Unit that reports to it, is concerned with establishing procedures to ensure compliance with all applicable laws, directives and regulations, and with the prevention, detection and/or resolution of compliance problems.

The Compliance Committee 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 contained in Listing Rules 8.34 to 8.44. The Company has in place a system for recording all advance notices received in connection with permitted dealings by directors and senior officers and acknowledgements of such advance notices. Furthermore, the Company reminds all directors and senior officers of their obligation to conform with the Code of Dealing on a yearly basis.

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

Corporate Management Committee

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

Risk Management Committee

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

CORPORATE GOVERNANCE - STATEMENT OF COMPLIANCE

The role of the Board

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

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

Apart from setting the strategy and direction of the Company, the Board was actively involved in monitoring progress against budgets and plans 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, ensuring the right balance between risk and reward and that the level of risk retention, particularly in the event of catastrophe, is consistent with the Company's resources
- (b) the quality and creditworthiness of the reinsurance counterparties dealt with, to ensure the effectiveness of the reinsurance programme
- (c) assessing pricing strategies in relation to the level of risk assumed and to market conditions generally
- (d) the measures employed to manage foreign currency risks both in relation to assets and to liabilities
- (e) the measures taken to ensure a balanced mix of investments and application of the Company's policy which focussed on security, liquidity and maximisation of returns.
- (f) the internal controls and other disciplines maintained, both within Group companies and within agents and other intermediaries, to ensure the proper conduct in good faith of all operations; and
- (g) the level of capital resources supporting each business activity, to ensure adequate solvency both from a regulatory and business perspective.

The Board has direct access to the external auditors of the Company, who attend at Board meetings at which the Company's financial statements are approved after they have been reviewed by the Audit Committee. Compliance with statutory and regulatory requirements and with continuing listing obligations is also ensured. In addition to the input of the Compliance Committee, the Board is advised directly, as appropriate, by its appointed stock brokers 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.

It is the practice of the Board 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, the interest is declared and the individual concerned refrains from taking part in proceedings or decisions relating to the matter. The Board minutes include a record of such declaration and of the action taken by the individual director concerned.

During the 2005 financial year, the Board held seven meetings.

Communications with Shareholders

Pursuant to the Company's statutory obligations in terms of the Companies Act and the 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 way of the Annual Report and Financial Statements, by publishing its results on a six-monthly basis during the year, and through periodical Company announcements to the market in general. The Annual Report is designed to serve as an effective means of communication and information on the Company's business. The Report is amplified further in the presentations given to shareholders in the course of the Annual General Meeting.

Going Concern

The directors are satisfied that, having taken into account the strength of the Group's balance sheet, solvency margins and Group profitability, it is reasonable to assume that the Company and Group have adequate resources to continue operating for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the financial statements.

GOVERNANZA KORPORATIVA - DIKJARAZZJONI TA' KONFORMITÀ

Min johroġ titoli ta' sigurtà li huma kkwotati fil-Borża ta' Malta għandu jinkludi fir-Rapport Annwali Dikjarazzjoni ta' Konformità li tagħti spjegazzjoni ta' safejn hu jkun adotta l-kodiċi ta' Prinċipji ta' Governanza Korporattiva Tajba (il-"Prinċipji") li hemm fir-Regoli ta' Llistjar ta' l-MFSA (Regola ta' Llistjar 8.26). Kumpaniji Llistjati huma wkoll mitluba jiddikjaraw il-miżuri effettivi meħudin biex jiżguraw konformità mal-Prinċipji (Regola ta' Llistjar 8.27). L-Awdituri, fir-Rapport Annwali, għandhom jinkludu rapport for id-Dikjarazzjoni ta' Konformità. Il-Middlesea Insurance plc ("il-Kumpanija") adottat il-Prinċipji malli ddahhlu fis-seħh. F'ċerti oqsma, il-proċeduri ta' governanza applikati fil-Kumpanija kienu emendati biex jimplimentaw ir-rakkomandazzjonijiet li hemm fil-Prinċipji. Billi harset ukoll lejn mudelli rikonoxxuti oħra ta' governanza korporattiva, il-Kumpanija f'xi każijiet adottat miżuri alternattivi u tat spjegazzjoni xierqa għalix għamlet dan.

Responsabbiltajiet tal-Bord

Il-Bord hu konxju tal-mandat statutorju tiegħu li jmexxi l-amministrazzjoni u l-manigment tal-Kumpanija. Il-Bord, fl-esekuzzjoni ta' dan il-mandat u l-qadi tad-dmir tiegħu ta' amministratur tal-Kumpanija, assuma responsabbiltà għal dan li ġej:

- Li jiffissa objettivi, għanijiet u d-direzzjoni strateġika ġenerali ta' l-immaniġġjar bil-għan li jkabbar kemm jista' jkun il-valur tan-negozju;
- Li jifli u japprova l-pjanijiet u miri tan-negozju li huma sottomessi mill-manigment u jahdem mal-manigment fl-implimentazzjoni ta' dawn il-pjanijiet;
- Li jidentifika r-riskji tan-negozju ewlenin tal-Kumpanija u jissorvelja l-implimentazzjoni f'tul ta' żmien raġonevoli u jikkontrolla s-sistemi addattati għall-immaniġġjar ta' riskji;
- Li jiżgura li l-Kumpanija jkollha kontroll intern effettiv u sistemi ta' informazzjoni manigerjali;
- Li jipparteċipa fil-hatra ta' l-uffiċjali eżekuttivi tal-Kumpanija u jkejjel l-operat tagħhom inkluż il-kontroll fuq l-istallazzjoni ta' sistemi addattati għal ippjanar ta' suċċessjoni u għall-approvazzjoni tal-livelli ta' kumpens u motivazzjoni ta' dawn l-uffiċjali eżekuttivi; u
- Li jiżgura li l-Kumpanija jkollha politika li tagħmilha kapaċi li tikkomunika b'mod effettiv ma' l-azzjonisti, nies involuti oħra u l-pubbliku b'mod ġenerali.

Il-Bord iddelega l-awtorità u vesta l-kontabilità għat-tmexxija tan-negozju ta' kuljum tal-Kumpanija fi grupp ta' manigment immexxi miċ-Chairman u CEO.

Il-koordinament ta' l-attivitajiet tal-manigment kien assikurat bis-saħha ta' l-operazzjoni ta' Kumitat għal Manigment Korporattiv immexxi miċ-Chairman u CEO. Dan għabar flimkien lill-Maniġers Ġenerali tal-Kumpanija u tas-sussidjarji u l-kumpanija assoċjata prinċipali, flimkien ma' Direttur non-Eżekuttiv wiehed minn kull kumpanija.

Kompożizzjoni tal-Bord

Kif regolat mill-Artikoli ta' Assoċjazzjoni tal-Kumpanija, u konsistenti mal-prassi ġeneralment aċċettata f'Malta, il-hatra ta' diretturi għall-Bord kienet riservata esklussivament għall-azzjonisti tal-Kumpanija. Azzjonista li jkollu mhux inqas minn 7% tad-drittijiet għall-vot tal-kapital ta' ishma mahruġ jew għadd ta' azzjonisti li bejniethom ikollhom mhux inqas minn 7%, jistgħu jaħru Direttur wiehed għal kull tali 7% li jippossiedu b'ittra indirizzata lill-Kumpanija; tmien membri tal-Bord inhatri tul is-sena skond it-termini ta' din ir-regola. L-ishma kollha mhux uttilizzati biex jaħru lil xi hadd skond it-termini ta' hawn fuq jistgħu jintużaw, u hekk jitilgħu sitt diretturi oħra. Id-diretturi kollha mahturin b'dan il-mod jew eletti servew fuq il-Bord f'kapaċità mhux eżekuttiva.

Skond l-Artikoli ta' Assoċjazzjoni tal-Kumpanija, is-Sur Mario C. Grech, bħala persuna li għandha pożizzjoni manigerjali għolja fil-Kumpanija, inhatar fil-Laqgħa Ġenerali Annwali permezz ta' elezzjoni separata miftuha għall-azzjonisti kollha. Is-Sur Grech kellu l-pożizzjoni ta' Chairman tal-Bord u CEO tal-Kumpanija. Il-Middlesea kienet sodisfatta li l-Kumpanija kienet konformi mal-paragrafu 2.3 tal-Prinċipji billi hi kienet dahhlet struttura ta' manigment bilancjata li kienet thaddan, fost hwejjeġ oħra, Kumitat għal Manigment Korporattiv u ċerti Kumitati tal-Bord li s-CEO jirrispondi għalihom.

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

Remunerazzjoni ta' diretturi

Kif sar fis-snin ta' qabel, iċ-Chairman irrifjuta li jithallas onorarju. Tliet diretturi barranin ma rċevewx onorarju, skond il-politika stabbilita tal-kumpanija azzjonisti li huma impjegati magħhom u li hatruhom. Hlasijiet pagabbli lil diretturi mhux eżekuttivi għall-2005 ammontaw għal Lm46,702. Hlasijiet kontrattwali mhallsin lid-direttur eżekuttiv ammontaw għal Lm42,578, kif turi nota 10 li hemm mad-dikjarazzjonijiet finanzjarji. Barra minn hekk, provvedimenti ta' Lm37,338 saru mill-Grupp fir-rigward ta' obbligi kontrattwali ta' pensjoni. Il-Kumpanija tul is-sena hallset Lm5,976 primjum għal kopertura ta' assigurazzjoni favur id-diretturi tagħha.

Kumitati tal-Bord

L-attivitajiet tal-Bord u tal-grupp ta' manigment għoli tal-Kumpanija kien ikkontrollat u appoġġjat minn kumitati permanenti mahsubin biex jgħinu f'attivitajiet speċjalizzati u kwistjonijiet ta' governanza. Lista tal-membri tad-diversi Kumitati tal-Grupp qiegħda f'paġna 38.

Kumitat għall-Investimenti tal-Grupp

Il-Kumitat għall-Investimenti tal-Grupp jiltaqa' kull xahar u jissorvelja l-attivitajiet ta' investimenti tal-Grupp, jiffissa l-politiki u l-linji gwida ġenerali, jifli u japprova transazzjonijiet materjali u jikkontrolla r-rizultati. Kull investiment li jaqbeż il-Lm500,000 jehtieg l-approvazzjoni tal-Bord rispettiv.

GOVERNANZA KORPORATIVA - DIKJARAZZJONI TA' KONFORMITÀ

Kumitat tal-Verifika

It-termini ta' referenza tal-Kumitat tal-Verifika, kif approvati mill-Bord tad-Diretturi, huma mfasstin l-aktar fuq ir-rakkomandazzjonijiet tar-Rapport Cadbury u l-Prinċipji tiegħu. Huma jinkludu, fost hwejjeġ oħra, ir-responsabbiltà tar-reviżjoni tal-proċess ta' l-irrapurtar finanzjarju, is-sistema ta' kontroll intern u l-immaniġġjar ta' riskji finanzjarji, l-effettività tas-sistemi ta' kontroll intern u l-konformità u n-natura tad-distakk ta' transazzjonijiet ma' partijiet relatati, il-proċess tal-verifika, u l-proċess tal-Kumpanija għall-kontroll tal-konformità mal-liġijiet u regolamenti u mal-qofol tagħha stess ta' mġiba tan-negozju.

Il-Kumitat tal-Verifika hu mitlub li jiltaqa' mill-inqas erba' darbiet fis-sena. Tul l-2005 ltaqa' seba' darbiet. L-awdituri esterni huma mistiedna jattendu laqgħat speċifiċi tal-Kumitat tal-Verifika u għandhom id-dritt li jsejhu laqgħa tal-kumitat jekk iqsu li hi meħtieġa. Termini u kundizzjonijiet ta' kuntratti godda ma' partijiet relatati huma miflija mill-kumitat. Il-Kumpanija qiegħda fil-proċess li ssahhah il-proċeduri tagħha fir-rigward ta' transazzjonijiet ta' partijiet relatati.

Verifika Interna hija funzjoni ta' valutazzjoni indipendenti stabbilita f'organizzazzjoni biex teżamina u tevalwa l-attivitajiet bhala servizz lill-Grupp. Il-viżjoni mfassla mill-Kumitat tal-Verifika għall-Verifika Interna hija li jadotta verifiki tal-proċess kummerċjali bbażati fuq ir-riskju, mahsubin biex jiżguraw kontrolli adegwati u wkoll effiċjenza fil-proċess tan-negozju.

L-Awditir Intern jirrapporta direttament lill-Kumitat tal-Verifika u jattendi l-laqgħat tal-Kumitat.

Kumitat għar-Rimunerazzjoni

Il-Kumitat għar-Rimunerazzjoni kkonċentra fuq it-twaqqif ta' politika rimunerattiva għad-diretturi u eżekuttivi għolja tal-Grupp, elenka l-elementi varji għar-rimunerazzjoni tagħhom u żvela l-ammont ta' rimunerazzjoni mhallas lid-diretturi fl-2005. Il-Kumitat għar-Rimunerazzjoni jiltaqa' mill-inqas erba' darbiet fis-sena. Is-CEO normalment ikun mistieden jattendi l-laqgħat ta' dan il-Kumitat, minbarra meta tkun diskussa r-rimunerazzjoni tiegħu stess.

Kumitat għall-Konformità

Il-Kumitat għall-Konformità jiltaqa' mill-inqas erba' darbiet fis-sena, u, flimkien ma' l-Unità għall-Konformità tal-Grupp li tgħaddil u r-rapporti tagħha, għandu x'jaqsam mal-provvediment ta' proċeduri biex tkun żgurata l-konformità mal-liġijiet, direttivi u regolamenti, u mal-prevenzjoni, kxif u/jew riżoluzzjoni ta' problemi ta' konformità.

Il-Kumitat għall-Konformità jiżgura aderenza mad-dokument imsejjah "*Code of Dealing*" indirizzat lid-diretturi u uffiċjali għolja tagħha u wkoll lid-diretturi u uffiċjali għolja tas-sussidjarji tagħha. L-għan ta' dan il-Kodiċi hu li jiżgura konformità mal-Prinċipji u mar-regoli ta' negozju li hemm fir-Regoli ta' Llistjar 8.34 sa 8.44. Il-Kumpanija għandha sistema biex tirkordja kull avviż minn qabel f'konnessjoni ma' negozju li diretturi u uffiċjali għolja għandhom permess jagħmlu u li dawn l-avviżi waslulhom. Barra minn hekk, il-Kumpanija tfakkar kull sena lid-diretturi u uffiċjali għolja fl-obbligu tagħhom li jikkonformaw mal- "*Code of Dealing*".

Fil-każ ta' Progress Assicurazioni SpA, kumpanija inkorporata l-Italja, il-*Collegio Sindacale* hu mahtur skond it-termini tal-liġi Taljana applikabbli biex jaġixxi bhala l-Kumitat għall-Konformità. Tul is-sena dan kien presjedut mir-Rag. Ferdinando Barbaro, u Dott. Nicolo Francesco Rienzi u Dott. Angelo Sillitti kienu *sindaci effettivi*.

Kumitat għall-Maniġment Korporattiv

Il-Kumitat għall-Maniġment Korporattiv jiltaqa' kull xahar. Hu għandu delega mill-Bord tad-Diretturi ta' kull Kumpanija fil-Grupp b'responsabbiltà għall- (a) koordinament u superviżjoni ġenerali f'materji operattivi u amministrattivi tal-kumpaniji individwali u tal-grupp b'mod ġenerali; għall- (b) l-implimentazzjoni ta' pjanijiet u objettivi strateġiċi, u għall- (c) adozzjoni ta' deċiżjonijiet fil-parametri ta' fakultajiet li jistgħu jkunu stabbiliti mill-Bordijiet.

Kumitat għall-Immaniġġjar tar-Riskji

Il-Kumitat għall-Immaniġġjar tar-Riskji, li jiltaqa' kull tliet xhur, hu responsabbli bies jiffissa l-politika ta' Mmaniġġjar tar-Riskji għall-Grupp li tkun allineata mad-direzzjoni u ma' kif il-Bordijiet iharsu lejn it-tehdid ta' riskju. 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 jopera b'mod effettiv. Il-Kumitat għandu l-inkarigu li jfassal pjan ta' mmaniġġjar tar-riskji u strutturi adegwati biex jimplementa l-politika msemmija qabel. Reġistri ta' riskji kienu kompilati li fihom riskji ta' negozji kienu identifikati u mqegħdin f'lista ta' prijoritajiet biex ikunu stabbiliti rakkomandazzjonijiet fuq il-livell ta' riżorsi meħtieġa biex dawn ir-riskji jkunu mmaniġġjati. Dan jippermetti li tingħata direzzjoni għall-implimentazzjoni ta' sistemi u proċeduri adegwati biex jitnaqqas il-livell tar-riskji u l-espozizzjoni għar-riskji tkun allineata ma' kif il-Kumitat ikun approva li r-riskju jkun ikklassifikat. Il-Kumitat għandu jiżgura li jinżammu aġġornati Reġistri ta' Riskji u informazzjoni ta' mmaniġġjar relatata. Konsiderazzjoni ta' kwistjonijiet urġenti u *ad hoc* taqa' fl-ambitu tal-funzjonijiet tal-Kumitat u għalhekk, meta hu addattat, dan jirreferihom lill-Bord bi pjanijiet ta' azzjoni għat-tehdid tar-riskju. Tahriġ adegwat se jingħata lill-manigment u lill-impjegati biex ikunu kapaċi jikkontribwixxu għall-proċess ta' mmaniġġjar tar-riskji. Id-diretturi li qegħdin fil-Kumitat ingħataw tahriġ intern speċifiku bhala introduzzjoni għall-qasam wiesa' ta' Mmaniġġjar Korporattiv tar-Riskji. L-etos tal-Kumitat hu li jxerred il-filosofija ta' l-Immaniġġjar tar-Riskji u l-għarfien tar-riskji fost l-uffiċjali kollha tal-Grupp, u jppromwovi approċċ proattiv għall-immaniġġjar tar-riskji.

GOVERNANZA KORPORATIVA - DIKJARAZZJONI TA' KONFORMITÀ

Il-funzjoni tal-Bord

L-attivitajiet tal-Bord tad-Diretturi huma eżerċitati b'mod imfassal biex jiżgura li l-Bord b'mod effettiv jistabbilixxi l-politika u jissorvelja l-operazzjonijiet tal-Kumpanija.

F'konnessjoni ma' kull laqgħa tal-Bord, id-diretturi jingħataw rapport mill-manigment. Dan ir-rapport jiddeskrivi l-kontijiet tal-manigment tal-Kumpanija mid-data tal-laqgħa ta' qabel tal-Bord, jinkludi kummentarju mill-manigment fuq ir-riżultati u fuq avvenimenti u deċiżjonijiet rilevanti, u jagħti informazzjoni li toffri sfond fuq kull materja li tkun tehtieg l-approvazzjoni tal-Bord.

Minbarra li jistabbilixxi l-istrategġija u d-direzzjoni tal-Kumpanija, il-Bord kien involut attivament fl-ikkontrollar tal-progress fid-dawl tal-baġits u pjanijiet deċiżi, u fl-approvazzjoni ta' transazzjonijiet materjali jew sinifikanti.

Il-Bord ikkontrolla wkoll mill-qrib il-politiki u proċessi ta' mmanigġjar tar-riskji ewlenin imhaddmin mill-Grupp Middlesea, li huma centrali għan-natura ta' l-operazzjonijiet tiegħu. Dawn il-politiki u proċessi għandhom x'jaqsmu, fost affarijiet oħra, ma' kwistjonijiet bħal:

- (a) il-programm ta' riassigurazzjoni li għandu l-Grupp, billi jiżgura l-bilanċ korrett bejn riskju u premju u li l-livell ta' ritenzjoni ta' riskji, partikolarment f'każ ta' katastrofi, hu konsistenti mar-riżorsi tal-Kumpanija
- (b) il-kwalità u l-livell ta' kredibilità tal-kontrapartijiet ta' riassigurazzjoni li magħhom isir negozju, biex jiżgura l-effettività tal-programm ta' riassigurazzjoni
- (c) valutazzjoni ta' strategġiji ta' pprezzar f'relazzjoni mal-livell ta' riskju meħud u tal-kondizzjonijiet tas-suq b'mod ġenerali
- (d) il-miżuri mhaddmin biex ikunu mmanigġjati riskji ta' munita barranija f'relazzjoni kemm ma' assi u kemm ma' passivi
- (e) il-miżuri meħudin biex tkun żgurata taħlita bilanċjata ta' investimenti u l-applikazzjoni tal-politika tal-Kumpanija li kienet iffukata fuq sigurtà, likwidità u l-ogħla livell possibbli ta' qligħ.
- (f) il-kontrolli interni u dixxiplini oħra mhaddmin, kemm fil-kumpaniji tal-Grupp u kemm fil-każ ta' aġenti u intermedjarji, biex tkun żgurata l-imġiba xierqa *bona fide* ta' l-operazzjonijiet kollha; u
- (g) il-livell ta' riżorsi kapitali li jsostnu kull attività tan-negozju, biex tkun żgurata solvibilità adegwata minn perspettiva regolatorja u kummerċjali.

Il-Bord għandu aċċess dirett għall-awdituri esterni tal-Kumpanija, li jattendu l-laqgħat tal-Bord li fihom id-dikjarazzjonijiet finanzjarji tal-Kumpanija huma approvati wara li jkun għaddew mill-Kumitat tal-Verifika. Hija żgurata wkoll konformità ma' rekwiżiti statutorji u regolatorji u ma' obbligi permanenti ta' llistjar. Barra mill-kontribut tal-Kumitat tal-Verifika, il-Bord jingħata pariri diretti, kif ikun mehtieg, mill-*istockbrokers* u mill-konsulenti legali.

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

Hija l-prassi tal-Bord li meta jista' jkun hemm, jew meta jidher li jista' jkun hemm, konflikt potenzjali ta' interess firrigward ta' Direttur f'konnessjoni ma' xi transazzjoni jew xi materja oħra, l-interess jiġi dikjarat u l-individwu involut ma jibqax jiehdu sehem fil-proċeduri jew deċiżjonijiet relatati mal-materja. Il-minuti tal-Bord jinkludu rekord ta' dix-xorta ta' dikjarazzjonijiet u ta' l-azzjoni meħuda mid-direttur individwali involut.

Tul is-sena finanzjarja 2005 l-Boord kellu seba' laqgħat. Komunikazzjonijiet ma' l-Azzjonisti

Skond l-obbligi statutorji tal-Kumpanija għat-termini ta' l-Att dwar Kumpaniji u r-Regoli ta' l-listjar ta' l-MFSA, ir-Rapport Annwali u d-Dikjarazzjonijiet Finanzjarji, id-dikjarazzjoni ta' dividend, l-elezzjoni ta' diretturi, il-hatra ta' Awdituri u l-awtorizzazzjoni tad-diretturi biex jistabbilixxu l-hlasijiet ta' l-awdituri, u negozju speċjali iehor, huma proposti u approvati fil-Laqgħa ġenerali Annwali tal-Kumpanija. Il-Bord tad-Diretturi hu responsabbli biex jiżviluppa l-aġenda għal-Laqgħa ġenerali u jibgħatha lill-azzjonisti.

Il-Kumpanija tikkomunika ma' l-azzjonisti tagħha permezz tar-Rapport Annwali u d-Dikjarazzjonijiet Finanzjarji, billi tippublika r-riżultati tagħha kull sitt xhur tul is-sena, u permezz ta' taħbiriet perjodiċi tal-Kumpanija lis-suq ġenerali. Ir-Rapport Annwali hu mahsub biex iservi ta' mezz effettiv ta' komunikazzjoni u informazzjoni fuq in-negozju tal-Kumpanija. Ir-Rapport hu amplifikat aktar fil-preżentazzjonijiet mogħtija lill-azzjonisti fil-kors tal-Laqgħa ġenerali Annwali.

Negozju Sejjer Tajjeb

Id-diretturi huma sodisfatti li, wara li qisu s-sahha tal-karta bilanċjali tal-Grupp, il-margini ta' solvibilità u l-profitabilità tal-Grupp, huwa raġonevoli li wiehed jassumi li l-Kumpanija u l-Grupp għandhom riżorsi adegwati biex ikomplu joperaw fil-futur li jista' jkun previst. Għal din ir-raġuni, id-Diretturi adottaw il-baži ta' "*Going Concern*" meta ġew biex ihejju d-dikjarazzjonijiet finanzjarji.

REPORT OF THE AUDITORS ON THE STATEMENT OF COMPLIANCE ON CORPORATE GOVERNANCE

To the members of Middlesea Insurance plc pursuant to Listing Rule 8.28 issued by the Listing Authority.

Listing Rules 8.26 and 8.27 issued by the Listing Authority require the Company's directors to include in their Annual Report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance with those Principles.

Our responsibility, as auditors of the company, is laid down by Listing Rule 8.28 which requires us to include a report on the Statement of Compliance.

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

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

In our opinion, the Statement of Compliance set out on pages 41 to 43 has been properly prepared in accordance with the requirements of Listing Rules 8.26 and 8.27 issued by the Listing Authority.

PRICEWATERHOUSECOOPERS 

167 Merchants Street
Valletta
Malta

28 April 2006

CORPORATE SOCIAL RESPONSIBILITY POLICY

The European Union's 2001 Green Paper on CSR, and the 2002 Communication on the subject, set out a definition of social responsibility in a European context to promote models of good practice in European enterprises. The UK financial services sector has already taken steps to address these important issues. At the Middlesea Group we believe that the Maltese financial services sector ought to follow suit. As a leader in the provision of insurance services the Middlesea Group, since its establishment, has always felt that it is in a position to promote the practice of CSR in the Maltese financial services sector.

The concept of CSR is based on being good corporate citizens. The Group believes it should live the values that it aspires to for all its customers and shareholders. The Group does not equate CSR with philanthropy. It treats it as part of a broader view of its relationship between business and society. The Group respects its responsibilities to its shareholders and the community.

The Middlesea Group Corporate Social Responsibility (CSR) Policy focuses on the management of good corporate performance. It is concerned with standards of business conduct, the promotion of good and fair relations with employees, business partners, shareholders, customers and the community at large. It is also concerned with products and services, marketing, as well as with social issues, the environment and Maltese heritage and culture.

We believe that profitability and legal compliance are an important part of the foundations of a successful business. On their own, however, these objectives are insufficient, particularly in a world of changing societal expectations. While some view CSR as an add-on to business, within the Middlesea Group, we see it as central to our activities. We regard the very business of doing business in a responsible way as the core of our corporate social responsibility.

The Middlesea Group considers that serious and committed implementation of CSR principles offers numerous advantages. These include occupying a unique position in the marketplace, protecting reputation and building credibility and trust with customers, shareholders and employees. If the importance of good corporate citizenship is understood, then advantage may also be gained from delivering best practice in areas of social, environmental and ethical concern.

At the Middlesea Group, CSR is practised in various ways. In 2005 Middlesea Group made donations to various community initiatives and charitable causes. In addition, the Group's members of staff have organised initiatives such as dress-down days to raise funds and they participate in a payroll giving scheme, whereby they donate directly to a charity through their salary.

The Group has also committed itself to implement its CSR policy through training and career development, the provision of health insurance and maternity conditions for its female workforce, health check-ups for staff and through the financial engagement in community, social, cultural and educational activities. The rationale is that improving the impact of business on society is also beneficial to the business itself.

We believe that the quality of our employees is the key to our success and that they are a source of competitive advantage. It is important that we attract, motivate and retain high quality people who are willing and able to respond to the challenges the Group faces.

Keeping our workforce motivated in turn serves to improve customer service. Training and development is a priority. The Group's training centre - Malta International Training Centre (MITC) - offers training in insurance and financial services both to our employees and others working in the sector or interested in doing so. In addition, members of staff are encouraged to participate in training programmes, and to attend courses and seminars both locally and overseas. We believe that, thereby, we are developing our senior managers of the future. Furthermore, specific training is undertaken in various aspects of business conduct such as prevention of money laundering and compliance.

CORPORATE SOCIAL RESPONSIBILITY POLICY

Middlesea Group is committed to the principle of equal opportunities in employment. We believe in the recognition of individuals' ability and the absence of discrimination. Our current employee list is composed of 58% female and 42% male employees. Flexible working hours and part-time work has been identified as a means to increase equal opportunities within the Group. Retaining female staff post-maternity leave and as their children grow, is fundamental to our business. The Group also collaborates with The Eden Foundation, among other institutions providing work training and experience for persons with special needs.

Quality customer service is essential. To this end, in 2005 the Group organised customer-care training for all its Management and staff. The Group firmly believes that treating customers fairly should be at the heart of employees' relationships with customers.

CSR is firmly on the business agenda of the Group. The Group believes that a responsible business is one which keeps a clear eye on its external environment. It must develop its own values, its own ethics, its own policies and all these must live in its actions. The core of CSR is ethical behaviour. A competitive market environment need not be a barrier to good practice.

POLITIKA KORPORATTIVA TA' RESPONSABILITÀ SOĊJALI

Il-Green Paper ta' l-2001 ta' l-Unjoni Ewropea fuq il-Politika Korporattiva ta' Responsabbiltà Soċjali (PKRS), u l-Komunikazzjoni tas-sena 2002 fuq is-sugġett, taw definizzjoni tar-responsabbiltà soċjali f'kuntest Ewropew biex iheggu l-użu ta' mudelli ta' prassi tajba f'intrapriži Ewropej. Is-settur tas-servizzi finanzjarji tar-Renju Unit diġà ha passi biex jindirizza dawn il-kwistjonijiet importanti. Fil-Grupp Middlesea ahna nemmnu li s-settur tas-servizzi finanzjarji ghandu jsegwi dan l-eżempju. Bhala kumpanija fuq quddiemnett fil-provvediment ta' servizzi ta' assigurazzjoni, il-Grupp Middlesea sa mit-twaqqif tiegħu, dejjem hass li kien f'qagħda li jipprovwovi l-prattika tal- PKRS fis-settur Malti tas-servizzi finanzjarji.

Il-kunċett tal-PKRS hu bbażat fuq il-kunċett li nkunu ċittadini korporattivi tajbin. Il-Grupp jemmen li għandu jgħix il-valuri li jaspira għalihom għall-klijenti u azzjonisti kollha tiegħu. Il-Grupp ma jqisx li l-PKRS hija filantropija. Hu jitttrattaha bhala parti minn veduta usa' tar-relazzjoni li għandu bejn in-negozju u s-soċjetà. Il-Grupp jirrispetta r-responsabbiltajiet tiegħu lejn l-azzjonisti tiegħu u lejn il-komunità.

Il-Politika Korporattiva ta' Responsabbiltà Soċjali tal-Grupp Middlesea tiffoka fuq l-immaniġġjar ta' operat korporattiv tajjeb. Hi għandha x'taqsam ma' standards ta' mġiba fin-negozju, il-promozzjoni ta' relazzjonijiet tajbin u ġusti ma' l-impjegati, shab fin-negozju, azzjonisti, klijenti u l-komunità b'mod ġenerali. Għandu x'jaqşam ukoll ma' prodotti u servizzi, promozzjoni tal-bejgħ u strateġija korporattiva, u wkoll ma' kwistjonijiet soċjali, ma' l-ambjent u l-wirt patrimonju u kulturali ta' Malta..

Ahna nemmnu li l-profitabilità u l-konformità legali huma parti importanti mill-pedamenti ta' negozju li jagħmel suċċess. Izda wahedhom dawn l-oġettivi m'humiex biżżejjed, partikolarment f'dinja ta' laspettattivi dejjem jinbidlu tas-soċjetà. Filwaqt li whud iqisu l-PKRS bhala zieda ohra man-negozju, fil-Grupp Middlesea Group ahna narawha li hi ċentrali għall-hidmiet tagħna. Ahna nqisu l-istess negozju li mmexxu b'mod responsabbli bhala l-qofol tar-responsabbiltà soċjali korporattiva tagħna.

Il-Grupp Middlesea jqis li implimentazzjoni serja u kommissa tal-prinċipji tal-PKRS toffri vantaġġi numerużi. Dawn jinkludu l-qagħda ta' pożizzjoni unika fis-suq, il-protezzjoni tal-fama, u l-bini ta' kredibilità u fiduċja mal-klijenti, azzjonisti u impjegati. Jekk l-importanza ta' ċittadinanza korporattiva tajba tintfieh, allura jista' wkoll jinkiseb vantaġġ mill-provvediment ta' prassi tajba f'oqsma ta' interess soċjali, ambjentali u etiku.

Fil-Grupp Middlesea l-PKRS hi pprattikata b'diversi modi. Fl-2005 l-Grupp Middlesea ta donazzjonijiet lil diversi inizjattivi komunitarji u kawżi karitattevoli. Barra minn hekk, il-membri ta' l-istaff organizzaw inizjattivi bhala dress-down days biex jiġbru fondi u huma pparteċipaw fi skema ta' għotja mill-paga li permezz tagħha jagħmlu donazzjoni diretta lil opra ta' karità mis-salarju tagħhom.

Il-Grupp impenja ruhu wkoll li jimplementa l-politika PKRS tiegħu permezz tat-taħriġ u l-iżvilupp tal-karrieri, il-provvediment ta' assigurazzjoni tal-hajja u kondizzjonijiet addattati għall-forza femminili tax-xogħol tiegħu f'kazijiet ta' maternità, kontrolli ta' l-istat tas-saħħa ta' l-impjegati u permezz ta' impenn finanzjarju f'attivitajiet komunitarji, soċjali, kulturali u edukattivi. Il-hsieb li jriegi dan kollu hu li t-titjib ta' l-impatt tan-negozju fuq is-soċjetà jhalli wkoll benefiċċji lin-negozju nnifsu. Ahna nemmnu li l-kwalità ta' l-impjegati tagħna hija ċ-ċavetta tas-suċċess tagħna, u li huma għajn ta' vantaġġ kompetittiv. Hu importanti li niġbdu lejna, nimmotivaw u nżommu magħna nies ta' kwalità għolja li huma lesti u kapaċi jirrispondu għall-isfidi li għandu l-Grupp.

Il-motivazzjoni kontinwa tal-forza tax-xogħol tagħna, min-naha tagħha, isservi biex itejjeb is-servizz lill-klijenti. It-taħriġ u l-iżvilupp huma prijorità. Iċ-ċentru ta' taħriġ tal-Grupp - il-Malta International Training Centre (MITC) - joffri taħriġ fis-servizzi assigurativi u finanzjarji kemm lill-impjegati tagħna u kemm lil oħrajn li jaħdmu fis-settur jew li huma interessati li jagħmlu dan. Barra minn hekk, membri ta' l-istaff huma inkoraġġiti jiehdu sehem fi programmi ta' taħriġ u jattendu korsijiet u seminars kemm lokalment u kemm barra l-pajjiż. Ahna nemmnu li b'hekk qed niżviluppaw il-manigiers għolja tagħna tal-ġejjieni. Barra minn dan, taħriġ speċifiku jingħata f'diversi aspetti ta' mġiba fin-negozju bhala fil-każ ta' hasil ta' flus u konformità.

POLITIKA KORPORATTIVA TA' RESPONSABBILITÀ SOĊJALI

Il-Grupp Middlesea hu kommess għall-prinċipju ta' opportunitajiet indaqs fl-impjegati. Ahna nemmnu fl-għarfien tal-hila ta' l-individwi u fin-nuqqas ta' diskriminazzjoni. Il-lista kurrenti ta' impjegati tagħna hi magħmula minn 58% impjegati nisa u 42% irġiel. Sigħat ta' xogħol flessibbli u xogħol part-time kienu identifikatai bhala mezz biex inkatru l-opportunitajiet indaqs fil-Grupp. Iz-żamma magħna ta' impjegati nisa wara li jiehdu l-frank tal-maternità u waqt li wliedhom ikunu qed jikbru hu fundamentali għan-negozju tagħna. Il-Grupp jikkollabora wkoll ma' The Eden Foundation, fost istituzzjonijiet oħra billi jagħti taħriġ u esperjenza fix-xogħol lil persuni b'bzonnijiet speċjali.

Servizz ta' kwalità lill-klijenti hu essenzjali. Għal dan il-għan, fl-2005 l-Grupp organizza taħriġ fuq it-ttrattament mal-klijenti għall-membri kollha tal-manigment u staff. Il-Grupp jemmen bis-shih li t-ttrattament ġust tal-klijenti għandu jkun fil-qalba tar-relazzjonijiet ta' l-impjegati mal-klijenti.

Il-PKRS issa hija parti integrali mill-aġenda tal-Grupp. Il-Grupp jemmen li negozju responsabbli hu wiehed li jzomm ċar quddiemu l-ambjent estern tiegħu. Hu għandu jiżviluppa l-valuri tiegħu nnifsu, l-etika tiegħu nnifsu, il-politiki tiegħu nnifsu, u dawn kollha jridu jidhru preżenti fl-azzjonijiet tiegħu. Il-qofol tal-PKRS hu mgħiba etika. Ambjent tas-suq kompetittiv m'hemmx għalfejn jostakola l-prassi tajba.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

REPORT OF THE AUDITORS ON THE FINANCIAL STATEMENTS

We have audited the financial statements on pages 54 to 109. As described in the statement of directors' responsibilities on page 52, these financial statements are the responsibility of the Company's directors. Our responsibility is to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

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

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of the profit, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been properly prepared in accordance with the Insurance Business Act, 1998 and the Companies Act, 1995.

PRICEWATERHOUSECOOPERS 

167 Merchants Street
Valletta
Malta

28 April 2006

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT - GENERAL BUSINESS

		Year ended 31 December			
		Group		Company	
Notes		2005 Lm	2004 Lm (restated)	2005 Lm	2004 Lm (restated)
Earned premiums, net of reinsurance					
	Gross premiums written	33,261,505	35,367,261	13,325,105	13,714,061
	Outward reinsurance premiums	(6,553,006)	(6,155,636)	(5,358,257)	(4,794,198)
	Net premiums written	26,708,499	29,211,625	7,966,848	8,919,863
	Change in the gross provision for unearned premiums	250,565	297,447	169,591	4,783
	Change in the provision for unearned premiums reinsurers' share	165,334	(141,615)	105,849	(46,804)
		415,899	155,832	275,440	(42,021)
	Earned premiums, net of reinsurance	27,124,398	29,367,457	8,242,288	8,877,842
	Allocated investment return transferred from the non-technical account	2,859,056	1,931,559	1,881,168	916,701
	Total technical income	29,983,454	31,299,016	10,123,456	9,794,543
	Claims incurred, net of reinsurance				
	Claims paid	22,281,515	23,076,730	7,220,304	8,647,251
	- gross amount	(3,876,436)	(5,767,235)	(2,072,355)	(2,450,758)
	- reinsurers' share				
		18,405,079	17,309,495	5,147,949	6,196,493
	Change in the provision for claims	156,066	3,163,989	(525,325)	(349,204)
	- gross amount	1,476,901	2,310,834	214,020	424,936
	- reinsurers' share				
		1,632,967	5,474,823	(311,305)	75,732
	Claims incurred, net of reinsurance	20,038,046	22,784,318	4,836,644	6,272,225
	Net operating expenses	5,808,615	6,150,897	2,306,608	2,461,552
	Total technical charges	25,846,661	28,935,215	7,143,252	8,733,777
	Balance on the technical account for general business (page 56)	4,136,793	2,363,801	2,980,204	1,060,766

PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT - LONG TERM BUSINESS

		Year ended 31 December	
		Group and Company	
		2005	2004
		Lm	Lm
		<i>(restated)</i>	
Notes			
	Earned premiums, net of reinsurance		
	Gross premiums written	3 575,001	571,377
	Outward reinsurance premiums	(253,408)	(277,175)
	Earned premiums, net of reinsurance	321,593	294,202
	Investment income		
	Income from other investments	5 130,877	67,672
	Total technical income	452,470	361,874
	Claims incurred, net of reinsurance		
	Claims paid		
	- gross amount	151,063	275,861
	- reinsurers' share	(101,071)	(160,986)
		49,992	114,875
	Change in the provision for claims		
	- gross amount	(112,983)	101,090
	- reinsurers' share	89,251	(79,173)
		(23,732)	21,917
	Claims incurred, net of reinsurance	26,260	136,792
	Change in other technical provisions, net of reinsurance		
	Long term business provision, net of reinsurance		
	- gross amount	19,141	(17,899)
	- reinsurers' share	(1,393)	(17,886)
		17,748	(35,785)
	Net operating expenses	4 11,632	85,790
	Total technical charges	55,640	186,797
	Balance on the technical account for long term business (page 56)	396,830	175,077

PROFIT AND LOSS ACCOUNT

NON-TECHNICAL ACCOUNT

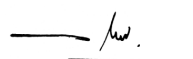
		Year ended 31 December			
		Group		Company	
Notes		2005 Lm	2004 Lm (restated)	2005 Lm	2004 Lm (restated)
Balances on technical accounts					
	General business (page 54)	4,136,793	2,363,801	2,980,204	1,060,766
	Long term business (page 55)	396,830	175,077	396,830	175,077
		4,533,623	2,538,878	3,377,034	1,235,843
	Share of associated undertaking's profit involved in long term business	5 1,157,947	915,100	-	-
	Total income from insurance activities	5,691,570	3,453,978	3,377,034	1,235,843
	Other investment income	5 5,168,263	3,083,522	5,037,628	2,249,134
	Investment expenses and charges	5 (802,990)	(291,564)	(483,012)	(235,325)
	Allocated investment return transferred to the general business technical account	5 (2,859,056)	(1,931,559)	(1,881,168)	(916,701)
	Other income	6 596,703	491,224	-	-
	Administration expenses	4 (1,280,600)	(1,169,659)	(356,312)	(327,384)
	Profit before tax	6,513,890	3,635,942	5,694,170	2,005,567
	Income tax expense	9 (1,657,330)	(673,739)	(1,853,141)	(263,972)
	Profit for the financial year	4,856,560	2,962,203	3,841,029	1,741,595
	Attributable to:				
	- shareholders	4,817,528	2,661,329	3,841,029	1,741,595
	- minority interests	39,032	300,874	-	-
		4,856,560	2,962,203	3,841,029	1,741,595
	Earnings per share attributable to shareholders	11 38c5	21c3		

BALANCE SHEET

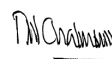
As at 31 December

	Notes	Group		Company	
		2005 Lm	2004 Lm <i>(restated)</i>	2005 Lm	2004 Lm <i>(restated)</i>
ASSETS					
Intangible assets	13	419,385	141,181	297,884	15,550
Property, plant and equipment	14	1,315,510	1,370,398	472,068	476,869
Investment property	15	4,144,992	4,155,101	3,208,158	3,215,187
Investment in group undertakings	16	-	-	7,936,824	3,763,814
Investment in associated undertaking	17	13,496,668	11,107,074	1,917,196	1,955,540
Other investments	18	63,633,233	55,053,772	23,421,422	20,029,270
Deferred income tax	19	968,279	1,240,743	-	604,893
Reinsurers' share of technical provisions	20	11,499,418	13,051,960	6,269,088	6,465,121
Deferred acquisition costs	21	1,970,344	1,938,767	1,094,142	1,109,308
Insurance and other receivables	22	7,976,926	7,829,347	4,752,079	4,883,657
Income tax receivable		382,542	164,033	-	-
Cash and cash equivalents	23	2,624,084	6,241,623	1,118,095	1,011,413
Total assets		108,431,381	102,293,999	50,486,956	43,530,622
EQUITY					
Capital and reserves attributable to shareholders					
Share capital	24	6,250,000	6,250,000	6,250,000	6,250,000
Share premium account		1,192,500	1,192,500	1,192,500	1,192,500
Other reserves	25	8,448,685	6,761,770	143,685	181,150
Profit and loss account		15,061,641	10,994,113	8,825,114	5,734,085
		30,952,826	25,198,383	16,411,299	13,357,735
Minority interests		1,036,604	4,734,062	-	-
Total equity		31,989,430	29,932,445	16,411,299	13,357,735
LIABILITIES					
Deferred income tax	19	742,004	218,686	742,004	218,686
Provisions for other liabilities and charges	26	332,500	336,770	-	-
Technical provisions	20	60,293,729	60,934,488	20,305,007	21,093,763
Borrowings	27	6,384,926	2,885,436	6,384,926	2,885,436
Insurance and other payables	28	8,456,509	6,812,076	6,411,437	4,800,904
Income tax payable		232,283	1,174,098	232,283	1,174,098
Total liabilities		76,441,951	72,361,554	34,075,657	30,172,887
Total equity and liabilities		108,431,381	102,293,999	50,486,956	43,530,622

The financial statements on pages 54 to 109 were authorised for issue by the Board on 28 April 2006 and were signed on its behalf by:



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



R.E.D. Chalmers
Deputy Chairman

STATEMENT OF CHANGES IN EQUITY

Group

	Notes	Attributable to shareholders					Total Lm
		Share capital Lm	Share premium account Lm	Other reserves Lm	Profit & loss account Lm	Minority interests Lm	
Balance at 1 January 2004							
As previously stated		6,250,000	1,192,500	5,828,948	8,587,400	3,709,670	25,568,518
Effect of adopting cost model under IAS 27 (revised)	17	-	-	163,199	(126,776)	-	36,423
Effect of adopting IAS 39 (revised)	17,18,19	-	-	382,795	(22,712)	54,221	414,304
Effect of adopting fair value accounting under IAS 40	15,19	-	-	-	489,239	11,488	500,727
Effect of adopting IFRS 4		-	-	-	30,633	-	30,633
Balance at 1 January 2004 as restated		6,250,000	1,192,500	6,374,942	8,957,784	3,775,379	26,550,605
Fair value losses on available-for- sale investments, net of tax	25	-	-	(123,172)	-	-	(123,172)
Share of increase in value of in-force business of associated undertaking	25	-	-	510,000	-	-	510,000
Currency translation differences		-	-	-	-	36,045	36,045
Net income recognised directly in equity		-	-	386,828	-	36,045	422,873
Profit for the financial year		-	-	-	2,661,329	300,874	2,962,203
Total recognised income for the financial year		-	-	386,828	2,661,329	336,919	3,385,076
Dividends for 2003	12	-	-	-	(625,000)	(4,900)	(629,900)
Increase in subsidiary's share capital		-	-	-	-	626,664	626,664
Balance at 31 December 2004		6,250,000	1,192,500	6,761,770	10,994,113	4,734,062	29,932,445
Balance at 1 January 2005							
As previously stated		6,250,000	1,192,500	7,085,446	9,545,791	4,623,454	28,697,191
Effect of adopting cost model under IAS 27 (revised)	17	-	-	136,000	(66,167)	-	69,833
Effect of adopting IAS 39 (revised)	17,18,19	-	-	(459,676)	869,866	97,793	507,983
Effect of adopting fair value accounting under IAS 40	15,19	-	-	-	545,156	12,815	557,971
Effect of adopting IFRS 4		-	-	-	99,467	-	99,467
Balance at 1 January 2005 as restated		6,250,000	1,192,500	6,761,770	10,994,113	4,734,062	29,932,445
Fair value losses on available-for- sale investments, net of tax	25	-	-	(37,465)	-	-	(37,465)
Share of increase in value of in-force business of associated undertaking	25	-	-	1,864,300	-	-	1,864,300
Currency translation differences		-	-	-	-	(55,991)	(55,991)
Other movements	25	-	-	(139,920)	-	-	(139,920)
Net income/(losses) recognised directly in equity		-	-	1,686,915	-	(55,991)	1,630,924
Profit for the financial year		-	-	-	4,817,528	39,032	4,856,560
Total recognised income for the financial year		-	-	1,686,915	4,817,528	(16,959)	6,487,484
Dividends for 2004	12	-	-	-	(750,000)	(4,900)	(754,900)
Dilution of minority interest	30	-	-	-	-	(3,675,599)	(3,675,599)
Balance at 31 December 2005		6,250,000	1,192,500	8,448,685	15,061,641	1,036,604	31,989,430

STATEMENT OF CHANGES IN EQUITY

Company

	Notes	Share capital Lm	Share premium account Lm	Other reserves Lm	Profit & loss account Lm	Total Lm
Balance at 1 January 2004						
As previously stated		6,250,000	1,192,500	5,828,948	8,587,400	21,858,848
Effect of adopting cost model under IAS 27 and IAS 28 (both revised)	16,17	-	-	(5,736,827)	(4,406,478)	(10,143,305)
Effect of adopting IAS 39 (revised)	18,19	-	-	212,201	(39,969)	172,232
Effect of adopting fair value accounting under IAS 40	15,19	-	-	-	476,537	476,537
Balance at 1 January 2004 as restated		6,250,000	1,192,500	304,322	4,617,490	12,364,312
Fair value losses on available-for-sale investments, net of tax	25	-	-	(123,172)	-	(123,172)
Net losses recognised directly in equity		-	-	(123,172)	-	(123,172)
Profit for the financial year		-	-	-	1,741,595	1,741,595
Total recognised income for the financial year		-	-	(123,172)	1,741,595	1,618,423
Dividends for 2003	12	-	-	-	(625,000)	(625,000)
Balance at 31 December 2004		6,250,000	1,192,500	181,150	5,734,085	13,357,735
Balance at 1 January 2005						
As previously stated		6,250,000	1,192,500	7,085,446	9,545,791	24,073,737
Effect of adopting cost model under IAS 27 and IAS 28 (both revised)	16,17	-	-	(6,553,493)	(4,919,946)	(11,473,439)
Effect of adopting IAS 39 (revised)	18,19	-	-	(350,803)	570,446	219,643
Effect of adopting fair value accounting under IAS 40	15,19	-	-	-	529,128	529,128
Effect of adopting IFRS 4		-	-	-	8,666	8,666
Balance at 1 January 2005 as restated		6,250,000	1,192,500	181,150	5,734,085	13,357,735
Fair value losses on available-for-sale investments, net of tax	25	-	-	(37,465)	-	(37,465)
Net losses recognised directly in equity		-	-	(37,465)	-	(37,465)
Profit for the financial year		-	-	-	3,841,029	3,841,029
Total recognised income for the financial year		-	-	(37,465)	3,841,029	3,803,564
Dividends for 2004	12	-	-	-	(750,000)	(750,000)
Balance at 31 December 2005		6,250,000	1,192,500	143,685	8,825,114	16,411,299

Unrealised fair value gains, net of taxation, amounting to Lm2,561,749 at 31 December 2005, have been credited to the profit and loss account and are not distributable in terms of the Companies Act, 1995 (2004: Lm608,968).

CASH FLOW STATEMENT

		Year ended 31 December			
		Group		Company	
		2005	2004	2005	2004
		Lm	Lm	Lm	Lm
	Notes				
Operating activities					
Cash generated from operations	29	2,790,005	6,032,460	971,428	1,508,230
Dividends received		690,629	203,698	830,268	194,563
Interest received		1,910,642	1,855,992	708,396	715,961
Interest paid		(179,048)	(129,155)	(171,148)	(118,802)
Tax paid		(860,433)	(459,739)	(174,227)	(74,790)
Net cash generated from operating activities		4,351,795	7,503,256	2,164,717	2,225,162
Investing activities					
Purchase of investment property	15	(432)	(12,676)	(432)	(12,676)
Disposal of investment property	15	30,600	-	30,600	-
Increase in investment in group undertaking	16,30	(3,623,399)	-	(3,623,399)	(652,242)
Disposal of investment in group undertaking	16	-	-	-	45,080
Increase in investment in associated undertaking	17	-	(510,000)	-	(510,000)
Decrease in investment in associated undertaking	17	260,000	-	260,000	-
Purchase of financial investments	18	(22,576,754)	(18,623,003)	(6,241,690)	(9,394,836)
Disposal of financial investments	18	15,722,116	13,994,599	5,128,910	8,084,384
Purchase of property, plant and equipment and intangible assets	13,14	(466,528)	(297,539)	(362,868)	(64,987)
Disposal of property, plant and equipment and intangible assets	13,14	4,200	10,754	1,354	10,754
Net cash used in investing activities		(10,650,197)	(5,437,865)	(4,807,525)	(2,494,523)
Financing activities					
Bank loans	27	3,499,490	651,006	3,499,490	651,006
Proceeds from minority interest on issue of shares		-	626,664	-	-
Dividends paid to group shareholders	12	(750,000)	(625,000)	(750,000)	(625,000)
Dividends paid to minority interests		(4,900)	(4,900)	-	-
Net cash generated from financing activities		2,744,590	647,770	2,749,490	26,006
(Decrease)/increase in cash and cash equivalents		(3,553,812)	2,713,161	106,682	(243,355)
Movement in cash and cash equivalents					
At beginning of year		6,241,623	3,501,728	1,011,413	1,254,768
Net cash (outflow)/inflow		(3,553,812)	2,713,161	106,682	(243,355)
Effect of exchange rate changes		(63,727)	26,734	-	-
At end of year	23	2,624,084	6,241,623	1,118,095	1,011,413

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 EU, the Insurance Business Act, 1998 and the Companies Act, 1995.

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment property, financial assets and financial liabilities 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 now 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.

Adoption of new and revised IFRSs

In 2005, the Group adopted the following new and revised IFRSs (effective 1 January 2005) which are relevant to its operations. The financial statements have been amended to comply with the relevant requirements.

IAS 1 (revised 2003) Presentation of Financial Statements
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events after the Balance Sheet Date
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003) Related Party Disclosures
IAS 27 (revised 2003) Consolidated and Separate Financial Statements
IAS 28 (revised 2003) Investments in Associates
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003) Earnings per Share
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets
IAS 39 (revised 2004) Financial Instruments: Recognition and Measurement together with the early adoption of IAS 39 (Amendment) - The Fair Value Option - published in June 2005
IFRS 3 (issued 2004) Business Combinations
IFRS 4 (issued 2004) Insurance Contracts

The Group continues to apply the same accounting policies for the recognition and measurement of rights and obligations arising from insurance contracts (including related deferred acquisition costs) that it issues and reinsurance contracts that it holds. The Group developed its accounting policies for insurance contracts before the adoption of IFRS 4. In the absence of a specific standard for insurance contracts, the directors used their judgement in developing a set of accounting policies for the recognition and measurement of rights and obligations arising from insurance contracts issued and reinsurance contracts held that provides the most useful information to users of the Group's financial statements. In making their judgement, the directors primarily considered the requirements of the Regulations issued under the Insurance Business Act, 1998.

The adoption of the following standards did not result in substantial changes to the Group's accounting policies:

- IAS 1 (revised 2003) has principally affected the presentation of minority interest.
- IAS 8, IAS 10, IAS 17, IAS 21, IAS 32 and IAS 33 (all revised 2003) and IAS 36 and IAS 38 (revised 2004) had no material effect on the Group's policies.
- IAS 24 (revised 2003) has affected the identification of related parties and some related party disclosures.
- IFRS 4 has affected the disclosures with respect to insurance contracts issued and reinsurance contracts held. Furthermore, IFRS 4 prohibits provisions for possible claims under contracts that are not in existence at the reporting date. Consequently the Company no longer recognises the equalisation provision regulated by the Insurance Business Act, 1998 within its financial statements.

The adoption of the following standards has resulted in a significant change to the Group's accounting policies:

- IAS 27 and IAS 28 (both revised 2003) have affected the way in which the share of subsidiaries and associates is treated in the Company's accounts. Up to 31 December 2004, the Company applied the equity method of accounting to the share of profits and reserves of its subsidiaries and associates. With effect from 1 January 2005 the directors have adopted the cost model in respect of investments in subsidiaries and associates.

The impact on the profit and loss account of the Company is a reduced profit of Lm976,499. This had no impact on the results of the Group.

ACCOUNTING POLICIES

1. Basis of preparation - continued

- IAS 39 (revised 2004) together with the early adoption of IAS 39 (Amendment) - The Fair Value Option - published in June 2005 has affected the categories of financial assets and financial liabilities for recognition and measurement purposes. With effect from 1 January 2005, the Group re-designated its listed available-for-sale financial instruments, held-to-maturity securities, and listed investments previously recognised as originated loans and receivables, as financial assets at fair value through profit or loss on adoption of IAS 39 (revised 2004) and its subsequent amendment issued in June 2005. Held-to-maturity securities and investments designated as originated loans and receivables were previously measured at amortised cost. Fair value gains and losses on the re-measurement of listed available-for-sale instruments were previously recognised in equity in a revaluation reserve. Transaction costs incurred on the acquisition of investments designated as fair value through profit or loss were previously included in the initial carrying amount of the investment and are now charged immediately to the profit and loss account.

The changes in accounting policies made on the adoption of IAS 39 (revised) mainly resulted in all fair value movements being recognised through the profit and loss account. Following the adoption of IAS 39 (revised), all fair value movements are being recognised in the profit and loss account as disclosed in note 5.

The following voluntary change to accounting policies is primarily driven by the Group's consistent application of fair value accounting, as far as practicable within the current regulatory framework:

- On 1 January 2005, the Group adopted the fair value model for investment property under IAS 40 (revised 2003). Investment property was previously measured at cost less accumulated depreciation and any impairment losses. Following the adoption of the fair value model for investment property, fair value movements are being recognised in the profit and loss account as disclosed in note 5.

Changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. IAS 8 (revised 2003) was applied to changes in accounting policies under:

- IAS 27 and IAS 28 (both revised 2003), which do not include transitional provisions;
- Voluntary changes under IAS 40 (revised 2003).

As a consequence, changes to accounting policies were applied retrospectively. The financial effect of the changes in accounting policies is reported in the statement of changes in equity. Further information is disclosed within the respective accounting policies and notes to the financial statements.

In accordance with the transitional provisions of IFRS 4, the disclosure requirements have only been applied to the comparative information about accounting policies, recognised assets, liabilities, income and expense.

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, that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods. The Group has not taken the option to early adopt these revisions to the requirements of IFRSs, with the exception of IAS 39 (Amendment) - the Fair Value Option as referred above, and the Group's directors are of the opinion that there are no other 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. Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests. A 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, but which it does not control. Equity accounting involves recognising in the profit and loss the share of the associated undertaking's post-acquisition profits or losses and recognising in reserves its share of post-acquisition movements in reserves. The interest in the associated undertaking is carried in the balance sheet at an amount that reflects the share of the net assets of the associated undertaking. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

2. Consolidation - continued

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of the acquisition. Any excess of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the acquisition is recognised immediately in the profit and loss account.

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 are 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 consolidated financial statements are presented in Maltese Lira, which is the Group's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies have been converted into the functional currency at the rates of exchange ruling at 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. Translation differences on non-monetary items mainly arising on equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

The Group has investments in securities denominated in foreign currencies, and in a foreign operation whose net assets are exposed to foreign currency translation risk. Until 1 May 2005, currency exposure was mitigated primarily by holding a large part of these investments in a manner that reflected the basket of currencies determining the value of the Maltese lira (before this was pegged to the Euro). The ineffective portion of investments hedged in this manner was recognised in the profit and loss account.

Group companies

The results and financial position of all Group entities (none of which has a currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised as a separate component of equity, except as indicated below.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. The ineffective portion of investments hedged in the manner described above is recognised in the profit and loss account. When a foreign operation is sold, exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

5. Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost 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

ACCOUNTING POLICIES

5. Property, plant and equipment - continued

The assets' residual values and useful lives are reviewed at each balance sheet date 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.

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

6. Investment property

Freehold and leasehold properties treated as investments principally comprise office and other commercial buildings that are held for long-term rental yields and that are not occupied by the Group. Investment property is carried at fair value, representing the open market value determined annually by external valuers. Changes in fair values are reported in the profit and loss account.

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 consulting actuaries. The valuation represents the discounted value of projected future transfers to shareholders from policies in force at the year end, after making provision for taxation. In determining this valuation, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned. Gross investment returns assumed vary depending upon the mix of investments held by the company and expected market conditions. Annual movements in the share of the in-force business valuation are credited or debited to reserves and are included in the balance sheet of the group as part of the investment 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. 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. Investments

The Group classifies its investments 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 in accordance with a documented investment strategy. 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 intends to sell in the short term or that it has designated as fair value through profit or loss. They include, inter alia, deposits held with credit institutions.
- 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. A 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, 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.

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.

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 debtors;
- (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; and
- (iv) 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.

(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 includes cash in hand and deposits held at call with banks, which are held for operational purposes, and bank overdrafts.

14. Share capital

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

ACCOUNTING POLICIES

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

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 actuaries. 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.

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

15. Insurance contracts - continued

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. Deferred income tax

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

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) *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.

(c) *Dividend income*

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

(d) *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 fair value movements, interest income, dividends, 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 as evidenced by the development table included in note 20.

(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% between the weighted average projected investment return and the discount factor applied. The calculation also assumes lapse rates varying from 3% to 5%, and an expense inflation rate of 3.5%. Changes in current year assumptions, as compared to the 2004 valuation process, did not have a significant impact on the Group's net assets. If the assumption on the valuation margin of 2% were reduced by 1%, the Group's share of the after tax value of the value of in-force business would increase to Lm8.85m. If the assumption on the valuation margin of 2% were increased by 1%, the Group's share of the after tax value of the value of in-force business would decrease to Lm7.7m.

2. Management of insurance and financial 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".

NOTES TO THE FINANCIAL STATEMENTS

2. Management of insurance and financial risk - continued

2.1 Insurance risk - continued

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

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

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

a) Frequency and severity of claims

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

- The increasing levels of court awards in cases where damages are suffered as a result of injuries; the divergence of awards that is dependant on the territory of the claim and the jurisdiction of the court; the effect of inflation due to the prolonged period typically required to settle such cases.
- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. In addition, on the acquisition of Progress Assicurazioni S.p.A., the Group had entered into a reinsurance arrangement with Corporacion Mapfre Compania Internacional De Reaseguros S.A., the previous shareholders of the Italian company. In terms of this agreement, Corporacion Mapfre Compania Internacional De Reaseguros S.A. agreed to reimburse the company for the net adverse run-off cost of all risks incepted prior to the date of acquisition. Recoveries in terms of this arrangement are further disclosed in note 20 to the financial statements.

Underwriting

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Management of insurance and financial risk - continued

2.1 Insurance risk - continued

Reinsurance arrangements

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

As referred to earlier, the Group has in place further agreements to cover the net adverse run-off costs of all risks of the Italian subsidiary inception prior to the date of acquisition.

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. 59% of premium is written in Italy and Sicily, 37% is written in Malta and 4% is written in Gibraltar. The Group further diversifies business underwritten in Italy through a distribution network comprising 78 agencies operating on the Italian mainland, including Puglia, Calabria, Campania, Lazio, Abruzzo, Piedmont, Sardinia and Trentino, and a further 37 agencies operating in Sicily.

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 51% of total premium. Other significant insurance business classes include motor comprehensive insurance at 22% and property at 11%. The remaining 16% of premium written is generated across a spread of classes including health, accident, marine and other non-motor liability 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 72% of the total business written in Italy. The emphasis of RCA business is consistent with general market trends in Southern Italy and Sicily where RCA is traditionally the predominant type of insurance cover taken out by a policyholder. The subsidiary has adopted 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;
- negotiation of contracts with new agencies where portfolios are predominantly non-RCA 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Management of insurance and financial risk - continued

2.1 Insurance risk - continued

Concentration of insurance risk - continued

The spread of business underwritten by the local company (including the Gibraltar branch) is more diversified. Comprehensive motor business accounts for 34% of premium written, followed by property at 20% and motor liability at 19%. The remaining 27% of the portfolio is spread across health, accident marine and non motor liability business. The current portfolio mix is consistent with local market statistics.

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, a provision for reported claims not yet paid and a provision for unexpired risks 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). In addition, 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:

- 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Management of insurance and financial risk - continued

2.1 Insurance risk - continued

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

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 payments.

2.2 Financial risk

The Group is exposed to financial risk through its financial assets, financial liabilities, and insurance and reinsurance assets and liabilities. The most important components of this financial risk are the interest rate risk, equity price risk, currency risk and credit 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.

a) Interest rate risk

The Group matches its insurance liabilities with a portfolio of equity and debt securities. 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. This risk is managed through investment in debt securities having a wide range of maturity dates. Group investment parameters exist to limit exposure to any one particular issuer and any one particular security. Note 18 incorporates interest rate and maturity information with respect to the Group's assets.

The Group has in place loan facilities issued at variable rates which expose it to cash flow interest rate risk. Note 27 incorporates the interest rate and maturity information with respect to these loan facilities.

Liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and 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 accruing during the period until the claim is settled is credited to the profit and loss account.

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.

b) Price risk

The Group's financial assets are susceptible to market price risk arising from uncertainties about future prices of these instruments. The directors manage the risk of price volatility by entering into a diverse range of investments including equities, debt securities and investment properties. 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 (e.g. AA foreign-rated bonds), assessment of equity issuers (e.g. market capitalisation exceeding USD 3 billion for foreign equities) 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. These are also reviewed on a monthly basis by the Investment Committee and on a quarterly basis by the Board.

NOTES TO THE FINANCIAL STATEMENTS

2. Management of insurance and financial risk - continued

2.2 Financial risk - continued

c) Currency risk

The Company's liabilities are substantially denominated in Maltese Lira 75% (2004: 83%). The Company holds assets denominated in currencies other than Maltese Lira, the functional currency. The Company is therefore exposed to currency risk, as the value of assets denominated in other currencies will fluctuate due to changes in exchange rates. The Company holds 44% (2004: 38%) of its total assets in foreign currencies, of which 30% (2004: 24%) is held in Euro, 10% (2004: 10%) in Sterling and 4% (2004: 4%) in other currencies.

The Company's exposure to exchange risk is limited as follows:

- a) exposure to Euro is limited through the pegging of the Maltese Lira to the Euro as from 1 May 2005
- b) establishing guidelines for investing in foreign currency (other than Euro) 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 other subsidiaries of the group are not exposed to currency risk as both the assets and liabilities of the subsidiaries are denominated in their functional currency.

The Group also operates in Italy and Gibraltar creating two additional sources of foreign currency risk - Euro and STG. The exposure to the net investment in the Italian subsidiary is limited through the pegging of the Maltese Lira to the Euro as from 1 May 2005 as referred to above.

- The operating results of the Group's foreign branches and subsidiaries are translated at average exchange rates prevailing during the period in the financial statements; and
- The investment in foreign branches and subsidiaries is translated into Maltese Lira using the foreign currency exchange rate at the financial statement period-end date. The Group has chosen to partially hedge this exposure (refer to accounting policy 4).

d) Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. 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

The Group's cash is placed with quality financial institutions. The credit risk in respect of concentration of investments is not considered by directors to be significant in view of the credit standing of the issuers. The Group has in place control structures to assess and monitor credit exposures and risk thresholds. The Group places limits on the level of credit risk undertaken from the main categories of financial instruments. These limits take due consideration of the solvency restrictions imposed by the relevant Regulations.

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 counterparty. The Group has in place internal control structures to assess and monitor credit exposures and risk thresholds.

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 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*. Records are kept of the payment history

NOTES TO THE FINANCIAL STATEMENTS

2. Management of insurance and financial risk - continued

2.2 Financial risk - continued

d) Credit risk - continued

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. Exposures to individual policyholders and groups of policyholders are, as far as practicable, collected within the ongoing monitoring of controls associated with regulatory solvency.

The Group does not trade in 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 traded with quality financial institutions within the parameters of a hedging policy approved by the Board. At 31 December 2005, the Group had entered into unexpired foreign exchange forward contracts hedging an exposure of USD4,322,525 and STG2,850,000, against an exposure of Euro7,800,000. The fair value movements associated with the unexpired contracts are recognised in the profit and loss account and amount to Lm7,077.

Liquidity risk

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 local company also has an overdraft facility in place which to date has never been availed of (see note 27).

3. Segment information

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:

- 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		Profit/(loss) before tax	
	2005	2004	2005	2004
	Lm	Lm	Lm	Lm
Malta	12,365,520	12,607,294	5,116,131	2,626,903
Italy	19,936,400	21,655,063	867,145	1,120,599
Gibraltar	1,492,284	1,602,805	522,411	18,513
London - discontinued	42,302	73,476	8,203	(130,073)
	33,836,506	35,938,638	6,513,890	3,635,942

There is no business transacted between the segments other than as disclosed in note 33.

NOTES TO THE FINANCIAL STATEMENTS

3. Segment information - continued

Primary reporting format - geographical segments - continued

Segment assets and liabilities

Segment assets include all operating assets used by a segment and consist principally of investments, reinsurers' share of technical provisions and debtors, net of provisions. Segment liabilities comprise operating liabilities, 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	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Malta	51,091,263	46,189,116	30,809,391	26,934,694
Italy	52,134,079	51,438,904	42,021,502	41,805,117
Gibraltar	2,657,076	2,513,279	2,657,076	2,513,279
London - discontinued	2,548,963	2,152,700	953,982	1,108,464
	108,431,381	102,293,999	76,441,951	72,361,554

The assets allocated to the Malta operation include the aggregate investment in the associated undertaking of Lm13,496,668 (2004: Lm11,107,074). This undertaking is involved in underwriting life assurance in Malta.

Other information

	Group 2005			
	Malta Lm	Italy Lm	London Lm	Total Lm
Share of profit of associated undertaking	1,157,947	-	-	1,157,947
Capital expenditure	305,987	160,541	-	466,528
Depreciation and amortisation - tangible and intangible assets	137,975	87,633	3,400	229,008
Impairment loss on receivables	10,188	-	-	10,188
Write back of impairment loss on receivables	-	(142,977)	-	(142,977)
Other non-cash movements	-	41,040	(22,396)	18,644

	Group 2004			
	Malta Lm	Italy Lm	London Lm	Total Lm
Share of profit of associated undertaking	915,100	-	-	915,100
Capital expenditure	109,415	151,690	-	261,105
Depreciation and amortisation - tangible and intangible assets	83,967	81,961	6,987	172,915
Impairment loss on receivables	86,079	-	-	86,079
Write back of impairment loss on receivables	-	(59,858)	-	(59,858)
Other non-cash movements	9,239	43,236	(38,394)	14,081

Capital expenditure comprises additions to tangible and intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

3. Segment information - continued

Secondary reporting format - business segments

General business

The Group's four geographic segments operate in two main business segments, general business, that is further subdivided 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	
	2005	2004	2005	2004
	Lm	Lm	Lm	Lm
Direct insurance				
Motor (third party liability)	16,915,368	18,646,952	17,364,728	19,115,401
Motor (other classes)	7,261,820	7,409,495	7,105,097	7,357,053
Fire and other damage to property	3,452,935	3,553,852	3,387,946	3,500,736
Other classes	5,581,220	5,688,301	5,604,137	5,622,857
	33,211,343	35,298,600	33,461,908	35,596,047
Reinsurance acceptances				
Fire and other damage to property	53,362	69,089	53,362	69,089
Other classes	(3,200)	(428)	(3,200)	(428)
	33,261,505	35,367,261	33,512,070	35,664,708

35% (2004: 34%) of gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta, 60% (2004: 61%) emanate from contracts concluded in or from Italy and 5% (2004: 5%) emanate from contracts concluded in or from Gibraltar.

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

	Group					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2005	2004	2005	2004	2005	2004
	Lm	Lm	Lm	Lm	Lm	Lm
Direct insurance						
Motor (third party liability)	15,339,013	17,585,794	2,940,153	3,191,377	292,057	(507,083)
Motor (other classes)	3,262,640	3,908,019	1,849,179	1,832,554	455,971	308,416
Fire and other						
damage to property	1,294,086	890,442	986,884	958,528	1,033,639	1,627,641
Other classes	2,469,773	3,693,551	1,547,124	1,632,624	661,373	(126,232)
	22,365,512	26,077,806	7,323,340	7,615,083	2,443,040	1,302,742
Reinsurance acceptances						
Motor (other classes)	13,674	4,970	2,661	-	2,268	(3,980)
Fire and other						
damage to property	86,619	141,913	10,579	69,548	18,120	7,986
Other classes	(28,224)	16,030	-	192	(3,256)	176
	22,437,581	26,240,719	7,336,580	7,684,823	2,460,172	1,306,924

NOTES TO THE FINANCIAL STATEMENTS

3. Segment information - continued

Secondary reporting format - business segments - continued

Gross premiums written and gross premiums earned by class of business

	Company			
	Gross premiums written		Gross premiums earned	
	2005	2004	2005	2004
	Lm	Lm	Lm	Lm
Direct insurance				
Motor (third party liability)	2,606,158	2,606,437	2,643,111	2,587,425
Motor (other classes)	4,583,601	4,888,547	4,648,593	4,852,887
Fire and other damage to property	2,597,002	2,725,949	2,667,826	2,745,306
Other classes	3,488,182	3,422,604	3,485,004	3,462,702
	13,274,943	13,643,537	13,444,534	13,648,320
Reinsurance acceptances				
Fire and other damage to property	53,362	69,089	53,362	69,089
Other classes	(3,200)	1,435	(3,200)	1,435
	13,325,105	13,714,061	13,494,696	13,718,844

89% (2004: 88%) of gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta. The balance emanates from contracts concluded in or from Gibraltar.

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

	Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2005	2004	2005	2004	2005	2004
	Lm	Lm	Lm	Lm	Lm	Lm
Direct insurance						
Motor (third party liability)	1,385,895	1,708,920	675,920	637,355	208,653	93,838
Motor (other classes)	2,480,845	3,211,892	1,188,780	1,195,402	339,319	175,086
Fire and other damage to property	886,859	631,456	766,394	726,207	959,603	1,429,264
Other classes	1,933,284	2,607,076	914,220	948,805	545,617	(4,203)
	6,686,883	8,159,344	3,545,314	3,507,769	2,053,192	1,693,985
Reinsurance acceptances						
Motor (other classes)	869	(9,279)	16,639	-	2,268	(3,980)
Fire and other damage to property	84,058	139,548	15,883	69,548	17,501	8,502
Other classes	(76,831)	8,434	36,134	732	13,750	176
	6,694,979	8,298,047	3,613,970	3,578,049	2,086,711	1,698,683

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

NOTES TO THE FINANCIAL STATEMENTS

3. Segment information - continued

Secondary reporting format - business segments - continued

Long term business

	Group and Company	
	2005	2004
	£m	£m
Gross premiums written		
Direct insurance	569,481	564,713
Reinsurance inwards	5,520	6,664
	575,001	571,377

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.

Group segment assets and liabilities

	Motor third party £m	Motor other £m	Fire and other damage to property £m	Other classes £m	Long term business £m	Unallocated £m	Total £m
At 31 December 2004							
Assets allocated to business segments	39,660,958	8,939,272	6,477,767	7,551,484	361,885	5,611,909	68,603,275
Assets allocated to shareholders	-	-	-	-	-	33,690,724	33,690,724
Total assets	39,660,958	8,939,272	6,477,767	7,551,484	361,885	39,302,633	102,293,999
Liabilities allocated to business segments	39,027,563	8,374,524	6,616,933	8,013,195	361,885	2,175,327	64,569,427
Liabilities allocated to shareholders	-	-	-	-	-	7,792,127	7,792,127
Total liabilities	39,027,563	8,374,524	6,616,933	8,013,195	361,885	9,967,454	72,361,554
At 31 December 2005							
Assets allocated to business segments	38,919,382	9,030,605	6,217,854	7,894,740	268,042	5,796,465	68,127,088
Assets allocated to shareholders	-	-	-	-	-	40,304,293	40,304,293
Total assets	38,919,382	9,030,605	6,217,854	7,894,740	268,042	46,100,758	108,431,381
Liabilities allocated to business segments	38,302,323	8,412,433	6,606,357	8,410,227	268,042	1,842,356	63,841,738
Liabilities allocated to shareholders	-	-	-	-	-	12,600,213	12,600,213
Total liabilities	38,302,323	8,412,433	6,606,357	8,410,227	268,042	14,442,569	76,441,951

NOTES TO THE FINANCIAL STATEMENTS

4. Net operating expenses

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Acquisition costs	5,614,570	5,811,353	3,013,167	2,949,572
Change in deferred acquisition costs, net of reinsurance	55,760	(49,027)	78,083	(5,576)
Administrative expenses	3,141,608	3,022,119	1,039,448	1,002,196
Reinsurance commissions and profit participation	(1,711,091)	(1,378,099)	(1,456,146)	(1,071,466)
	7,100,847	7,406,346	2,674,552	2,874,726
Allocated to:				
General business technical account	5,808,615	6,150,897	2,306,608	2,461,552
Long term business technical account	11,632	85,790	11,632	85,790
Non-technical account (administrative expenses)	1,280,600	1,169,659	356,312	327,384
	7,100,847	7,406,346	2,674,552	2,874,726

Total commissions for direct business accounted for in the financial year amounted to Lm5,328,636 (2004: Lm5,578,298) in the Group's technical result and Lm2,712,224 (2004: Lm2,715,980) in the Company's technical result. Administrative expenses mainly comprise staff costs which are analysed in Note 8.

Non-technical account (administrative expenses)

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	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Investment income				
Share of associated undertaking's profit, net of tax	1,157,947	915,100	-	-
Gain on sale of shares in associated undertaking	168,333	-	221,656	-
Rental receivable from investment property	259,448	216,012	203,832	162,640
Interest receivable from loans and receivables				
- group undertakings	-	-	32,898	18,799
- other financial assets not at fair value through profit or loss	297,970	258,025	174,221	117,977
Income from financial assets at fair value through profit or loss				
- interest income	1,881,119	1,657,895	502,789	542,150
- dividend income	285,629	203,698	1,735,719	857,558
- net fair value gains	2,444,639	880,308	2,337,010	682,426
Net fair value gains on investment property	24,761	10,187	23,139	10,187
	6,519,846	4,141,225	5,231,264	2,391,737

NOTES TO THE FINANCIAL STATEMENTS

5. Investment return - continued

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	24,822	13,521	24,210	15,743
Interest expense for financial liabilities that are not at fair value through profit or loss	210,268	121,094	202,367	110,740
Net fair value losses	254,260	53,096	30,000	-
Exchange differences	232,827	11,864	173,668	49,440
Other investment expenses	80,813	91,989	52,767	59,402
	802,990	291,564	483,012	235,325
Total investment return	5,716,856	3,849,661	4,748,252	2,156,412
Analysed between:				
Investment return transferred to the general business technical account	2,859,056	1,931,559	1,881,168	916,701
Investment return included in the non-technical account	2,664,164	1,775,499	2,673,448	1,097,108
Investment return included in the long term business technical account	130,877	67,672	130,877	67,672
Allocated investment return against provision for discontinued operations	62,759	74,931	62,759	74,931
	5,716,856	3,849,661	4,748,252	2,156,412

6. Other income

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Management fees	460,641	405,647	-	-
Other income	83,862	85,577	-	-
Excess of acquirer's interest in the net fair value of acquiree's assets, liabilities and contingent liabilities over costs (note 30)	52,200	-	-	-
	596,703	491,224	-	-

7. Profit before tax

Profit before tax is stated after charging/(crediting):

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Staff costs (note 8)	1,955,953	1,849,348	540,425	494,515
Auditors' remuneration	52,800	49,100	16,400	13,250
Amortisation of goodwill	-	9,239	-	9,239
Depreciation/amortisation:				
- intangible assets (note 13)	70,052	49,104	19,817	8,782
- tangible assets (note 14)	158,956	123,811	65,136	55,271
Impairment loss on receivables	10,188	86,079	10,188	86,079
Write back of impairment loss on receivables	(142,977)	(59,858)	-	-

NOTES TO THE FINANCIAL STATEMENTS

8. Staff costs

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Salaries	1,619,921	1,543,420	488,271	450,021
Social security costs	298,694	273,160	30,818	25,769
Provision for contracted pension obligations (note 10)	37,338	32,768	21,336	18,725
	1,955,953	1,849,348	540,425	494,515

The average number of persons employed during the year was:

	Group		Company	
	2005	2004	2005	2004
Managerial	26	26	13	13
Technical	55	55	35	35
Administrative	61	59	3	3
	142	140	51	51

9. Income tax expense

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Current tax expense	844,815	503,450	704,757	7,750
Deferred tax charge (note 19)	812,515	170,289	1,148,384	256,222
Income tax expense	1,657,330	673,739	1,853,141	263,972

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

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Profit before tax	6,513,890	3,635,942	5,694,170	2,005,567
Tax at 35%	2,279,861	1,272,580	1,992,960	701,949
Adjusted for tax effect of:				
Dividends received from untaxed income	(245)	(248)	(150,385)	(232,756)
Exempt income	(553,225)	(578,477)	(113,240)	(218,463)
Differences arising from				
Section 15 of the Income Tax Act	(185,083)	(162,667)	-	-
Temporary differences attributable to				
unrecognised deferred tax	(192,098)	40,928	(17,885)	-
Non-deductible expenditure	168,956	57,730	35,761	5,626
Foreign tax payable	57,223	7,750	66,340	7,750
Other	81,941	36,143	39,590	(134)
Income tax expense	1,657,330	673,739	1,853,141	263,972

NOTES TO THE FINANCIAL STATEMENTS

10. Directors' emoluments

	2005 Lm	2004 Lm
Contracted emoluments paid to management	42,578	38,669
Directors' fees	46,702	37,500
	89,280	76,169

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

The Company has paid insurance premiums of Lm5,976 during the year (2004: Lm5,976) in respect of insurance cover in favour of its directors. Furthermore, provisions have been made (Group: 2005 - Lm37,338 and 2004 - Lm32,768, Company: 2005 - Lm21,336 and 2004 - Lm18,725) in respect of contracted pension obligations.

11. Earnings per share

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

	Group	
	2005 Lm	2004 Lm
Net profit attributable to shareholders	4,817,528	2,661,329
Weighted average number of ordinary shares in issue	12,500,000	12,500,000
Earnings per share	38c5	21c3

12. Dividends

At the forthcoming Annual General Meeting, a dividend in respect of 2005 of 7 cents per share amounting to Lm875,000 is to be proposed. In addition, on the occasion of Middlesea's 25th Anniversary, a special dividend of 3 cents per share amounting to Lm375,000 is being recommended. The dividend for the year is being declared from the Company's untaxed account. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2006. The dividends declared after the financial year end in respect of 2004 were Lm750,000 (6c per share) and in respect of 2003 were Lm625,000 (5c per share).

NOTES TO THE FINANCIAL STATEMENTS

13. Intangible assets

	Group Lm	Company Lm
Computer software		
At 31 December 2003		
Cost	832,863	405,193
Accumulated amortisation	(715,681)	(389,135)
Net book amount	117,182	16,058
Year ended 31 December 2004		
Opening net book value	117,182	16,058
Additions	72,533	8,274
Amortisation charge	(49,104)	(8,782)
Currency translation differences	570	-
Closing net book amount	141,181	15,550
At 31 December 2004		
Cost	905,966	413,467
Accumulated amortisation	(764,785)	(397,917)
Net book amount	141,181	15,550
Year ended 31 December 2005		
Opening net book amount	141,181	15,550
Additions	349,559	302,151
Amortisation charge	(70,052)	(19,817)
Currency translation differences	(1,303)	-
Closing net book amount	419,385	297,884
At 31 December 2005		
Cost	1,254,222	715,618
Accumulated amortisation	(834,837)	(417,734)
Net book value	419,385	297,884

Amortisation of Lm70,052 (2004: Lm49,104) for Group and Lm19,817 (2004: Lm8,782) for Company is included in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

14. Property, plant and equipment

Group

	Freehold land and buildings Lm	Leasehold improvements Lm	Motor vehicles Lm	Furniture, fittings and equipment Lm	Total Lm
At 31 December 2003					
Cost	617,871	474,604	102,063	1,153,658	2,348,196
Accumulated depreciation	(21,743)	(151,221)	(92,797)	(817,456)	(1,083,217)
Net book amount	596,128	323,383	9,266	336,202	1,264,979
Year ended 31 December 2004					
Opening net book amount	596,128	323,383	9,266	336,202	1,264,979
Additions	25,763	11,108	5,600	182,535	225,006
Disposals	-	-	(46,969)	(4,455)	(51,424)
Depreciation charge	(6,987)	(12,203)	(4,694)	(99,927)	(123,811)
Depreciation released on disposals	-	-	46,636	4,263	50,899
Currency translation differences	3,937	-	28	784	4,749
Closing net book amount	618,841	322,288	9,867	419,402	1,370,398
At 31 December 2004					
Cost	647,571	485,712	60,722	1,332,522	2,526,527
Accumulated depreciation	(28,730)	(163,424)	(50,855)	(913,120)	(1,156,129)
Net book amount	618,841	322,288	9,867	419,402	1,370,398
Year ended 31 December 2005					
Opening net book amount	618,841	322,288	9,867	419,402	1,370,398
Additions	3,387	15,670	135	97,777	116,969
Disposals	(2,846)	-	(10,700)	(1,393)	(14,939)
Depreciation charge	(7,187)	(12,804)	(4,444)	(134,521)	(158,956)
Depreciation released on disposals	-	-	10,700	1,011	11,711
Currency translation differences	(7,097)	-	(33)	(2,543)	(9,673)
Closing net book amount	605,098	325,154	5,525	379,733	1,315,510
At 31 December 2005					
Cost	641,015	501,382	50,124	1,426,363	2,618,884
Accumulated depreciation	(35,917)	(176,228)	(44,599)	(1,046,630)	(1,303,374)
Net book amount	605,098	325,154	5,525	379,733	1,315,510

Depreciation expense has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

14. Property, plant and equipment - continued

Company

	Freehold land and buildings Lm	Leasehold improvements Lm	Motor vehicles Lm	Furniture, fittings and equipment Lm	Total Lm
At 31 December 2003					
Cost	-	460,679	88,347	823,359	1,372,385
Accumulated depreciation	-	(151,098)	(87,812)	(657,523)	(896,433)
Net book amount	-	309,581	535	165,836	475,952
Year ended 31 December 2004					
Opening net book amount	-	309,581	535	165,836	475,952
Additions	25,763	3,084	-	27,866	56,713
Disposals	-	-	(46,969)	(4,455)	(51,424)
Depreciation charge	-	(11,572)	(202)	(43,497)	(55,271)
Depreciation released on disposals	-	-	46,636	4,263	50,899
Closing net book amount	25,763	301,093	-	150,013	476,869
At 31 December 2004					
Cost	25,763	463,763	41,378	846,770	1,377,674
Accumulated depreciation	-	(162,670)	(41,378)	(696,757)	(900,805)
Net book amount	25,763	301,093	-	150,013	476,869
Year ended 31 December 2005					
Opening net book amount	25,763	301,093	-	150,013	476,869
Additions	3,385	4,465	-	52,867	60,717
Disposals	-	-	(10,700)	(1,393)	(12,093)
Depreciation charge	(284)	(11,687)	-	(53,165)	(65,136)
Depreciation released on disposals	-	-	10,700	1,011	11,711
Closing net book amount	28,864	293,871	-	149,333	472,068
At 31 December 2005					
Cost	29,148	468,228	30,678	898,244	1,426,298
Accumulated depreciation	(284)	(174,357)	(30,678)	(748,911)	(954,230)
Net book amount	28,864	293,871	-	149,333	472,068

Depreciation expense has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

15. Investment property

	Group Lm	Company Lm
At 31 December 2003		
Cost	3,536,995	2,621,119
Accumulated fair value gains	593,555	571,205
Net book amount	4,130,550	3,192,324
Year ended 31 December 2004		
Opening net book amount		
As previously reported	3,537,551	2,637,773
Effect of adopting fair value accounting under IAS 40	592,999	554,551
As restated	4,130,550	3,192,324
Additions	12,676	12,676
Net fair value gains	10,187	10,187
Currency translation differences	1,688	-
Closing net book amount	4,155,101	3,215,187
At 31 December 2004		
Cost	3,551,359	2,633,795
Accumulated fair value gains	603,742	581,392
Net book amount	4,155,101	3,215,187
Year ended 31 December 2005		
Opening net book amount		
As previously stated	3,516,008	2,619,385
Effect of adopting fair value accounting under IAS 40	639,093	595,802
As restated	4,155,101	3,215,187
Additions	432	432
Disposals	(28,423)	(28,423)
Net fair value gains	20,962	20,962
Currency translation differences	(3,080)	-
Closing net book amount	4,144,992	3,208,158
At 31 December 2005		
Cost	3,524,631	2,610,147
Accumulated fair value gains	620,361	598,011
Net book amount	4,144,992	3,208,158

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

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

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Cost	3,524,631	3,551,359	2,610,147	2,633,795
Accumulated depreciation	(151,300)	(128,617)	(126,238)	(107,676)
Net book amount	3,373,331	3,422,742	2,483,909	2,526,119

NOTES TO THE FINANCIAL STATEMENTS

16. Investments in group undertakings

	Company Lm
Year ended 31 December 2004	
Opening net book amount and cost	
As previously stated	5,057,505
Effect of adopting IAS 27 (revised)	(1,900,853)
As restated	3,156,652
Additions	652,242
Disposals	(45,080)
Closing net book amount and cost	<u>3,763,814</u>
Year ended 31 December 2005	
Opening net book amount and cost	
As previously stated	6,281,482
Effect of adopting IAS 27 (revised)	(2,517,668)
As restated	3,763,814
Additions	4,203,010
Disposals	(30,000)
Closing net book amount and cost	<u>7,936,824</u>

The principal group undertakings at 31 December are shown below:

Group undertakings	Registered office	Class of shares held	Percentage of shares held 2005	Percentage of shares held 2004
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75%	75.5%
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Euro Globe Services Limited	Middle Sea House Floriana	Ordinary shares	-	100%
International Insurance Management Services Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Malta International Training Centre Limited	Europa Centre Floriana	Ordinary shares	60%	60%
Progress Assicurazioni S.p.A.	Piazza A. Gentile Palermo	Ordinary shares	90%	51%

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 Lm	Company Lm
At 31 December 2003		
Cost	782,540	782,540
Accumulated share of associated undertaking's profit and reserves	8,384,334	-
	<u>9,166,874</u>	<u>782,540</u>
Year ended 31 December 2004		
Opening net book amount		
As previously stated	9,024,992	9,024,992
Effect of adopting cost model under IAS 28 (revised)	36,423	(8,242,452)
Effect of adopting IAS 39 (revised)	74,826	-
Effect of adopting IFRS 4	30,633	-
As restated	9,166,874	782,540
Additions	1,173,000	1,173,000
Share of associated undertaking's profits and reserves	767,200	-
	<u>11,107,074</u>	<u>1,955,540</u>
At 31 December 2004		
Cost	1,955,540	1,955,540
Accumulated share of associated undertaking's profits and reserves	9,151,534	-
Net book amount	<u>11,107,074</u>	<u>1,955,540</u>
Year ended 31 December 2005		
Opening net book amount		
As previously stated	10,911,311	10,911,311
Effect of adopting cost model under IAS 28 (revised)	69,833	(8,955,771)
Effect of adopting IAS 39 (revised)	35,128	-
Effect of adopting IFRS 4	90,802	-
As restated	11,107,074	1,955,540
Disposal	(229,863)	(38,344)
Share of associated undertaking's profits and reserves	2,619,457	-
	<u>13,496,668</u>	<u>1,917,196</u>
At 31 December 2005		
Cost	1,917,196	1,917,196
Accumulated share of associated undertaking's profits and reserves	11,579,472	-
Net book amount	<u>13,496,668</u>	<u>1,917,196</u>

NOTES TO THE FINANCIAL STATEMENTS

17. Investment in associated undertaking - continued

The associated undertaking at 31 December which is unlisted is shown below:

Associated undertaking	Registered office	Class of shares held	Percentage of shares held 2005	Percentage of shares held 2004
Middlesea Valletta Life Assurance Company Limited	Middle Sea House Floriana	Ordinary shares	50%	51%

Middlesea Insurance p.l.c. is entitled in terms of the Articles of Association of Middlesea Valletta Life Assurance Company Limited to elect four out of eight directors and no shareholder is in a position to exercise a dominant influence on the financial and operating policies of this company. In 2004, Middlesea Valletta Life Assurance Company Limited was excluded from consolidation in terms of Section 170(4)(a) of the Companies Act, 1995 and was accounted for as an associated undertaking.

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:

	2005 Lm	2004 Lm
Investments	224,462,822	167,509,310
Net current assets	5,194,485	5,005,604
Intangible assets	17,423,207	13,580,539
Property, plant and equipment	210,826	185,769
Technical provisions and financial liabilities	(218,437,406)	(163,203,062)
Deferred taxation	265,684	831,027
Shareholders' funds	29,119,618	23,909,187
50% (2004: 51%) thereof relating to Group	14,559,809	12,193,685
Less: Group's share of the profit arising on the sale of investment property to Middlesea Valletta Life Assurance Company Limited	(1,057,804)	(1,078,960)
Amount at which the Group's investment is carried in the balance sheet	13,502,005	11,114,725

The profit after tax earned by Middlesea Valletta Life Assurance Company Limited for the year ended 31 December 2005 was Lm2,300,431 (2004: Lm1,804,155) and the Company had total revenue for the year ended 31 December 2005 of Lm33,965,683 (2004: Lm29,493,241).

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

NOTES TO THE FINANCIAL STATEMENTS

18. Other investments

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

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Fair value through profit or loss	56,242,474	44,484,795	17,957,999	15,827,546
Available-for-sale	360,451	412,024	274,333	331,971
Loans and receivables	7,030,308	10,156,953	5,189,090	3,869,753
	63,633,233	55,053,772	23,421,422	20,029,270

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Equity securities, other variable yield securities and units in unit trusts	8,463,037	6,867,181	7,225,908	5,112,929
Debt securities - listed fixed interest rate	47,779,437	37,617,614	10,732,091	10,714,617
Total investments at fair value through profit or loss	56,242,474	44,484,795	17,957,999	15,827,546

Equity securities, other variable yield securities and units in unit trusts are classified as non-current. The maturity of fixed income debt securities is summarised below:

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Within one year	8,512,345	4,325,757	847,683	756,798
Between 1 and 2 years	9,969,526	8,728,358	765,463	859,255
Between 2 and 5 years	19,224,036	19,105,932	4,745,268	4,752,025
Over 5 years	10,073,530	5,457,567	4,373,677	4,346,539
	47,779,437	37,617,614	10,732,091	10,714,617
Weighted average effective interest rate at the balance sheet date	4.2%	3.7%	4.5%	4.7%

NOTES TO THE FINANCIAL STATEMENTS

18. Other investments - continued

(a) Investments at fair value through profit or loss - continued

The movements for the year are summarised as follows:

	Group Lm	Company Lm
Year ended 31 December 2004		
Opening net book amount		
As previously classified and stated:		
- held-to-maturity	3,695,668	-
- available-for-sale	32,000,411	11,176,479
- originated loans and receivables	3,546,569	3,096,568
	<hr/>	<hr/>
Investments reclassified as fair value through profit or loss	39,242,648	14,273,047
Effect of adopting IAS 39 (revised)	487,755	172,232
	<hr/>	<hr/>
As restated	39,730,403	14,445,279
Additions	17,758,349	4,683,980
Disposals (sale and redemptions)	(13,933,442)	(3,916,317)
Net fair value gains (excluding net realised gains)	767,199	614,604
Currency translation differences	162,286	-
	<hr/>	<hr/>
Closing net book amount	44,484,795	15,827,546
	<hr/>	<hr/>
Year ended 31 December 2005		
Opening net book amount		
As previously classified and stated:		
- held-to-maturity	3,759,205	-
- available-for-sale	35,874,980	11,904,011
- originated loans and receivables	4,316,746	3,766,745
	<hr/>	<hr/>
Investments reclassified as fair value through profit or loss	43,950,931	15,670,756
Effect of adopting IAS 39 (revised)	533,864	156,790
	<hr/>	<hr/>
	44,484,795	15,827,546
	<hr/>	<hr/>
Additions	17,056,235	2,578,394
Disposals (sale and redemptions)	(7,015,043)	(2,735,360)
Net fair value gains (excluding net realised gains)	2,049,889	2,287,419
Currency translation differences	(333,402)	-
	<hr/>	<hr/>
Closing net book amount	56,242,474	17,957,999
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

18. Other investments - continued

(b) Available-for-sale financial assets

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Unlisted shares	360,451	412,024	274,333	331,971

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

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Year ended 31 December				
Opening net book amount	412,024	501,323	331,971	421,467
Additions	6,425	100,000	-	100,000
Net fair value losses (note 25)	(57,638)	(189,496)	(57,638)	(189,496)
Currency translation differences	(360)	197	-	-
Closing net book amount	360,451	412,024	274,333	331,971

(c) Loans and receivables

Analysed by type of investment as follows:

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Deposits with banks or credit institutions	6,316,648	3,281,517	4,492,260	3,125,794
Treasury bills	596,830	6,758,404	596,830	643,959
Unlisted fixed income debt securities	116,830	117,032	100,000	100,000
	7,030,308	10,156,953	5,189,090	3,869,753

Maturity of deposits with banks or credit institutions:

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Within 3 months	5,148,915	2,202,835	3,324,527	2,047,112
Within 1 year but exceeding 3 months	1,167,733	1,078,682	1,167,733	1,078,682
	6,316,648	3,281,517	4,492,260	3,125,794

NOTES TO THE FINANCIAL STATEMENTS

18. Other investments - continued

(c) Loans and receivables - continued

The above deposits earn interest as follows:

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
At floating rates	2,819,197	1,711,058	1,918,956	1,595,326
At fixed rates	3,497,451	1,570,459	2,573,304	1,530,468
	6,316,648	3,281,517	4,492,260	3,125,794

Weighted average effective interest rate at the balance sheet date

3.0%	3.2%	3.3%	3.2%
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Maturity of fixed income treasury bills and debt securities:

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Within one year	596,830	6,758,404	596,830	643,959
Between 2 and 5 years	116,830	117,032	100,000	100,000
	713,660	6,875,436	696,830	743,959

Weighted average effective interest rate at the balance sheet date

3.8%	1.2%	3.8%	4.5%
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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 Lm	Treasury bills Lm	Total Lm
Year ended 31 December 2004			
Opening net book amount	116,920	1,647,886	1,764,806
Additions	-	9,481,403	9,481,403
Disposals (sale and redemptions)	-	(4,370,885)	(4,370,885)
Currency translation differences	112	-	112
Closing net book amount	117,032	6,758,404	6,875,436
Year ended 31 December 2005			
Opening net book amount	117,032	6,758,404	6,875,436
Additions	-	2,477,579	2,477,579
Disposals (sale and redemptions)	-	(8,566,582)	(8,566,582)
Currency translation differences	(202)	(72,571)	(72,773)
Closing net book amount	116,830	596,830	713,660

Company

	Unlisted fixed income debt securities Lm	Treasury bills Lm	Total Lm
Year ended 31 December 2004			
Opening net book amount	100,000	1,549,235	1,649,235
Additions	-	3,192,959	3,192,959
Disposals (sale and redemptions)	-	(4,098,235)	(4,098,235)
Closing net book amount	100,000	643,959	743,959
Year ended 31 December 2005			
Opening net book amount	100,000	643,959	743,959
Additions	-	2,296,830	2,296,830
Disposals (sale and redemptions)	-	(2,343,959)	(2,343,959)
Closing net book amount	100,000	596,830	696,830

NOTES TO THE FINANCIAL STATEMENTS

19. Deferred income tax

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Balance at 1 January				
As previously stated	(1,168,854)	(1,364,519)	(394,694)	(654,119)
Effect of adopting IAS 39 (revised)	61,009	148,277	(62,853)	-
Effect of adopting fair value accounting under IAS 40	81,122	92,272	66,674	78,014
Effect of adopting IFRS 4	4,666	-	4,666	-
Balance at 1 January as restated	(1,022,057)	(1,123,970)	(386,207)	(576,105)
Movements during the year:				
Profit and loss account (note 9)	812,515	170,289	1,148,384	256,222
Fair value reserve (note 25)	(20,173)	(66,324)	(20,173)	(66,324)
Difference on exchange	3,440	(2,052)	-	-
Balance at 31 December (net)	(226,275)	(1,022,057)	742,004	(386,207)

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	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Temporary differences on property, plant and equipment	67,994	45,473	44,522	21,216
Temporary differences attributable to unrealised capital losses and exchange gains	962,214	190,340	809,207	(64,460)
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	(625,984)	(699,686)	(75,608)	(304,099)
Temporary differences attributable to insurance technical provisions	(461,509)	(316,851)	-	-
Temporary differences attributable to other provisions	(195,102)	(278,392)	(78,001)	(80,744)
Other temporary differences, including impact of non-deductible expenses and different tax rates	26,112	37,059	41,884	41,880
Balance at 31 December (net)	(226,275)	(1,022,057)	742,004	(386,207)

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	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Deferred tax asset	(968,279)	(1,240,743)	-	(604,893)
Deferred tax liability	742,004	218,686	742,004	218,686
	(226,275)	(1,022,057)	742,004	(386,207)

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

NOTES TO THE FINANCIAL STATEMENTS

20. Insurance liabilities and reinsurance assets

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Gross				
Short term insurance contracts				
- claims outstanding	48,132,668	48,461,267	14,729,293	15,367,599
- provision for unearned premiums	11,938,637	12,269,938	5,353,290	5,522,881
Long term business provision - Group Life	222,424	203,283	222,424	203,283
Total technical provisions, gross	60,293,729	60,934,488	20,305,007	21,093,763
Recoverable from reinsurers				
Short term insurance contracts				
- claims outstanding	9,567,428	11,282,485	4,744,818	5,048,095
- provision for unearned premiums	1,855,319	1,694,199	1,447,599	1,341,750
Long term business provision - Group Life	76,671	75,276	76,671	75,276
Total reinsurers' share of insurance liabilities	11,499,418	13,051,960	6,269,088	6,465,121
Net				
Short term insurance contracts				
- claims outstanding	38,565,240	37,178,782	9,984,475	10,319,504
- provision for unearned premiums	10,083,318	10,575,739	3,905,691	4,181,131
Long term business provision - Group Life	145,753	128,007	145,753	128,007
Total technical provisions, net	48,794,311	47,882,528	14,035,919	14,628,642

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 2005 and 2004 are not material.

The technical provisions are largely based on case-by-case estimates supplemented with additional provisions for IBNR and unexpired risks in those instances where the ultimate cost determined by estimation techniques is higher. IBNR included in claims outstanding for the Group amounted to Lm5,206,022 (2004: Lm6,334,406).

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 effect the technical provisions by approximately Lm440,000.

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. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. 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. Development trends were however found to be similar and are reported in aggregate below, on a net basis:

	2001 Lm	2002 Lm	2003 Lm	2004 Lm	2005 Lm	Total Lm
Estimate of the ultimate claims costs:						
- at end of accident year	11,923,035	19,165,751	20,706,962	22,792,483	20,638,392	
- one year later	11,826,101	20,172,077	20,765,684	22,828,334	-	
- two years later	11,518,670	18,886,037	19,729,707	-	-	
- three years later	11,045,271	19,067,431	-	-	-	
- four years later	10,768,688	-	-	-	-	
Current estimates of cumulative claims	10,768,688	19,067,431	19,729,707	22,828,334	20,638,392	93,032,552
Cumulative payments to date	(9,022,393)	(15,439,772)	(14,569,867)	(13,827,681)	(6,835,984)	(59,695,697)
Liability recognised in the balance sheet	1,746,295	3,627,659	5,159,840	9,000,653	13,802,408	33,336,855
Liability in respect of prior years						5,228,385
Total reserve included in the balance sheet						<u>38,565,240</u>

The Group continues to benefit from reinsurance programmes that were purchased in prior years and includes proportional cover supplemented by excess of loss reinsurance cover. The reinsurers' share of claims liabilities is estimated net of the provision for known and expected incidents of insolvency of reinsurers.

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are offset against the amounts due to the same reinsurers for premium ceded under the respective treaties. The balances due from/to reinsurers are disclosed within receivables and payables in notes 22 and 28.

Recoveries on claims outstanding from reinsurers include an amount of Lm1,993,476 (2004: Lm2,019,379) that is recoverable from Corporacion Mapfre Compania Internacional De Reaseguros S.A. under arrangements entered into upon the acquisition of a 51% shareholding in Mapfre Progress S.p.A. on 29 September 2000. In terms of these arrangements, Corporacion Mapfre Compania Internacional De Reaseguros S.A. agreed to meet the run-off cost of all risks incepted prior to the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

20. Insurance liabilities and reinsurance assets - continued

Long term business provision

The balance on the long term business provision has been certified by approved actuaries as being sufficient to meet liabilities at 31 December 2005. 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:

	2005 Lm	2004 Lm
Investments	1,289,585	1,005,781
Insurance and other receivables	407,060	192,699
Cash at bank and in hand	26,595	17,411
Claims outstanding	(32,464)	(56,196)
Insurance and other payables	(1,545,023)	(1,031,688)
Long term business provision, net of reinsurance	145,753	128,007

Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustments expenses

	Group Year ended 2005		
	Gross Lm	Reinsurance Lm	Net Lm
At beginning of year	48,461,267	(11,282,485)	37,178,782
Claims settled during the year	(22,432,578)	3,977,506	(18,455,072)
Increase/(decrease) in liabilities			
- arising from current year claims	23,657,910	(2,414,843)	21,243,067
- arising from prior year claims	(1,155,746)	76,256	(1,079,490)
- difference on exchange	(398,185)	76,138	(322,047)
At end of year	48,132,668	(9,567,428)	38,565,240

	Company Year ended 2005		
	Gross Lm	Reinsurance Lm	Net Lm
At beginning of year	15,367,599	(5,048,095)	10,319,504
Claims settled during the year	(7,371,367)	2,173,426	(5,197,941)
Increase/(decrease) in liabilities			
- arising from current year claims	7,996,417	(2,153,490)	5,842,927
- arising from prior year claims	(1,263,356)	283,341	(980,015)
At end of year	14,729,293	(4,744,818)	9,984,475

NOTES TO THE FINANCIAL STATEMENTS

20. Insurance liabilities and reinsurance assets - continued

Movements in insurance liabilities and reinsurance assets - continued

The Group continuously closely monitors 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. When these movements favourably impact results, this is indicative that prudent reserving had been applied when the respective claims were originally notified. The impact of these movements for the year, net of reinsurance, was to increase profit by Lm1,079,490. 78% of this movement is attributable to the motor class of business.

(b) Provision for unearned premiums

The movements for the year are summarised as follows:

	Group Year ended 2005		
	Gross Lm	Reinsurance Lm	Net Lm
At beginning of year	12,269,938	(1,694,199)	10,575,739
Net credit to profit and loss	(250,565)	(165,334)	(415,899)
Currency translation differences	(80,736)	4,214	(76,522)
At end of year	11,938,637	(1,855,319)	10,083,318

	Company Year ended 2005		
	Gross Lm	Reinsurance Lm	Net Lm
At beginning of year	5,522,881	(1,341,750)	4,181,131
Net credit to profit and loss	(169,591)	(105,849)	(275,440)
At end of year	5,353,290	(1,447,599)	3,905,691

21. Deferred acquisition costs

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Year ended 31 December				
Opening net book amount	1,938,767	2,037,770	1,109,308	1,146,848
Net amount charged/(credited) to the profit and loss	41,502	(104,887)	(15,166)	(37,540)
Currency translation differences	(9,925)	5,884	-	-
Closing net book amount	1,970,344	1,938,767	1,094,142	1,109,308

Deferred acquisition costs are all classified as current assets.

NOTES TO THE FINANCIAL STATEMENTS

22. Insurance and other receivables

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
<i>Receivables arising from direct insurance operations:</i>				
- due from policyholders	73,807	102,121	73,807	102,121
- due from agents, brokers and intermediaries	4,895,344	4,953,431	2,915,901	2,413,619
- due from reinsurers	1,361,597	1,172,785	249,358	429,942
<i>Receivables arising from reinsurance operations:</i>				
- due from reinsurers	154,264	225,832	154,264	225,832
<i>Deposits with ceding undertakings</i>	66,551	118,121	66,551	118,172
<i>Other loans and receivables</i>				
- prepayments	747,629	962,262	705,702	909,314
- accrued interest and rent	1,071,518	798,443	222,695	210,434
- loan to third parties	162,297	262,300	-	-
- other debtors	132,466	80,835	-	-
- receivables from group undertakings	-	-	72,187	61,907
- receivable from associated undertaking	-	-	6,723	98,682
- loans to related parties (note 33)	-	-	503,519	540,098
<i>Provision for impairment of receivables</i>	(688,547)	(846,783)	(218,628)	(226,464)
	7,976,926	7,829,347	4,752,079	4,883,657
Current portion	7,886,626	7,567,047	4,752,079	4,883,657
Non-current portion	90,300	262,300	-	-

Loans to related parties are unsecured, interest bearing, and have no fixed date of repayment. The effective interest rate at 31 December 2005 of the loan of Lm503,519 was 5.3%. The loan to third parties is secured by a hypothecated property, bears interest at 6.5% per annum and is repayable over the next eleven years.

NOTES TO THE FINANCIAL STATEMENTS

23. Cash and cash equivalents

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

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Cash at bank and in hand	2,624,084	6,241,623	1,118,095	1,011,413

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

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
At floating rates	2,415,379	6,094,600	935,026	902,752
At fixed rates	10,000	10,964	-	-
	2,425,379	6,105,564	935,026	902,752

Weighted average effective interest rate at the balance sheet date

1.9%	1.9%	1.7%	1.5%
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24. Share capital

	Group and Company	
	2005 Lm	2004 Lm
Authorised 30,000,000 ordinary shares of 50 cents each	15,000,000	15,000,000
Issued and fully paid 12,500,000 ordinary shares of 50 cents each	6,250,000	6,250,000

NOTES TO THE FINANCIAL STATEMENTS

25. Other reserves

Group

	Value of in-force business Lm	Translation reserve Lm	Available- for-sale investments Lm	Total Lm
Balance at 1 January 2004				
As previously stated	4,717,500	147,450	963,998	5,828,948
Effect of adopting IAS 27 (revised)	-	-	163,199	163,199
Effect of adopting IAS 39 (revised)	-	(147,450)	530,245	382,795
Reclassification	1,351,500	-	(1,351,500)	-
As restated	6,069,000	-	305,942	6,374,942
Revaluation - gross (note 18)	-	-	(189,496)	(189,496)
Revaluation - tax (note 19)	-	-	66,324	66,324
Share of increase in value of in-force business of associated company	510,000	-	-	510,000
Balance at 31 December 2004	6,579,000	-	182,770	6,761,770
Balance at 1 January 2005				
As previously stated	5,227,500	-	1,857,946	7,085,446
Effect of adopting IAS 27 (revised)	-	-	136,000	136,000
Effect of adopting IAS 39 (revised)	-	-	(459,676)	(459,676)
Reclassification	1,351,500	-	(1,351,500)	-
As restated	6,579,000	-	182,770	6,761,770
Revaluation - gross (note 18)	-	-	(57,638)	(57,638)
Revaluation - tax (note 19)	-	-	20,173	20,173
Share of increase in value of in-force business of associated company	1,864,300	-	-	1,864,300
Other movement	(138,300)	-	(1,620)	(139,920)
Balance at 31 December 2005	8,305,000	-	143,685	8,448,685

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

25. Other reserves - continued

Company

	Value of in-force business Lm	Translation reserve Lm	Available- for-sale investments Lm	Total Lm
Balance at 1 January 2004				
As previously stated	4,717,500	147,450	963,998	5,828,948
Effect of adopting IAS 27 and 28 (both revised)	(4,717,500)	-	(1,019,327)	(5,736,827)
Effect of adopting IAS 39 (revised)	-	(147,450)	359,651	212,201
As restated	-	-	304,322	304,322
Revaluation - gross (note 18)	-	-	(189,496)	(189,496)
Revaluation - tax (note 19)	-	-	66,324	66,324
Balance at 31 December 2004	-	-	181,150	181,150
Balance at 1 January 2005				
As previously stated	5,227,500	-	1,857,946	7,085,446
Effect of adopting IAS 27 and 28 (both revised)	(5,227,500)	-	(1,325,993)	(6,553,493)
Effect of adopting IAS 39 (revised)	-	-	(350,803)	(350,803)
As restated	-	-	181,150	181,150
Revaluation - gross (note 18)	-	-	(57,638)	(57,638)
Revaluation - tax (note 19)	-	-	20,173	20,173
Balance at 31 December 2005	-	-	143,685	143,685

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

26. Provisions for other liabilities and charges

	Group	
	2005 Lm	2004 Lm
Provision for severance indemnity	332,500	336,770

Provision for severance indemnity

	Group	
	2005 Lm	2004 Lm
At 1 January	336,770	311,009
Profit and loss account	41,040	43,236
Payments	(41,280)	(19,529)
Currency translation differences	(4,030)	2,054
Balance at 31 December	332,500	336,770

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.

Analysis of provision:

	2005 Lm	2004 Lm
Current	-	12,973
Non-current	332,500	323,797
	332,500	336,770

27. Borrowings

	Group and Company	
	2005 Lm	2004 Lm
Bank loans	6,384,926	2,885,436

The borrowings are secured by a special hypothec on investments. The carrying amounts of borrowings approximate their fair value.

NOTES TO THE FINANCIAL STATEMENTS

27. Borrowings - continued

Maturity of long term borrowings:

	Group and Company	
	2005	2004
	Lm	Lm
Within 1 year	164,207	97,417
Between 1 and 2 years	394,956	166,196
Between 2 and 5 years	3,377,114	1,998,588
More than 5 years	2,448,649	623,235
	6,384,926	2,885,436

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

	Group and Company	
	2005	2004
	Lm	Lm
At floating rates	6,384,926	2,829,568
At fixed rates	-	55,868
	6,384,926	2,885,436
Weighted average effective interest rate at the balance sheet date	3.4%	3.3%

The Group has the following undrawn borrowing facilities:

	2005	2004
	Lm	Lm
Floating rate and expiring within one year	200,000	200,000

28. Insurance and other payables

	Group		Company	
	2005	2004	2005	2004
	Lm	Lm	Lm	Lm
Deposits received from reinsurers	1,705,653	1,459,612	1,488,744	1,278,478
Creditors arising out of direct insurance operations	1,354,985	1,638,106	725,722	888,910
Creditors arising out of reinsurance operations	487,371	537,221	487,371	537,221
Amounts owed to associated undertakings (note 33)	1,402,003	241,041	1,146,504	-
Social security and other tax payables	244,813	212,924	159,074	148,412
Accruals and deferred income	3,261,684	2,723,172	2,404,022	1,947,883
	8,456,509	6,812,076	6,411,437	4,800,904

All trade and other payables are classified as current.

NOTES TO THE FINANCIAL STATEMENTS

29. Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2005	2004	2005	2004
	Lm	Lm	Lm	Lm
Profit before tax	6,513,890	3,635,942	5,694,170	2,005,567
Adjusted for:				
Depreciation (note 14)	158,956	123,811	65,136	55,271
Provision for loss on discontinuing operation	-	7,752	-	7,752
Bad and doubtful debts	(132,789)	26,221	10,188	86,079
Provision for severance indemnity (note 26)	41,040	43,236	-	-
Amortisation	70,052	58,343	19,817	18,021
Goodwill (note 30)	(52,200)	-	-	-
Profit on sale of tangible fixed assets	(972)	(10,229)	(972)	(10,229)
Adjustments relating to investment return	(5,737,593)	(3,790,611)	(4,795,065)	(2,120,369)
Movements in:				
Insurance and other receivables	214,656	1,200,837	122,902	1,091,106
Deferred acquisition costs	(41,502)	104,887	15,166	37,540
Reinsurers' share of technical provisions	1,472,186	2,355,377	196,033	374,683
Technical provisions	(161,839)	2,949,639	(788,756)	(270,796)
Insurance and other payables	446,120	(672,745)	432,809	233,605
Cash generated from operations	2,790,005	6,032,460	971,428	1,508,230

30. Business combination

On 1 August 2005, the Group increased its shareholding in its subsidiary, Progress Assicurazioni S.p.A., from 51% to 90%. Details of the consideration paid and goodwill are as follows:

	Lm
Purchase consideration	3,612,320
Direct costs relating to the increase in shareholding	11,079
Total purchase consideration	3,623,399
Fair value of net assets acquired	(3,675,599)
Excess of acquirer's interest in the net fair value of the acquiree's assets, liabilities and contingent liabilities over cost	(52,200)

The fair value of the shares issued was based on the net asset value of the company after taking into account consolidation adjustments to align accounting policies with those of the Group. The excess of the acquirer's interest in the net fair value of the acquiree's assets, liabilities and contingent liabilities over cost is included within other income.

NOTES TO THE FINANCIAL STATEMENTS

31. Commitments

Capital commitments

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Authorised and not contracted for - property, plant and equipment	347,670	243,921	174,725	156,630
Authorised and not contracted for - intangible assets	304,995	354,052	251,850	348,000

Operating lease commitments - where the company is a lessor

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

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Not later than 1 year	176,449	175,967	140,449	139,967
Later than 1 year and not later than 5 years	428,513	503,471	349,413	388,371
Later than 5 years	154,944	232,005	154,944	232,005
	759,906	911,443	644,806	760,343

Investment property includes properties valued at Lm1,536,900 (2004: Lm1,525,000) 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.

32. Contingencies

The Company has given guarantees to third parties amounting to Lm25,000 (2004: Lm25,000) not arising under contracts of insurance.

33. Related party transactions

In the normal course of business, the Group enters into various transactions with related parties. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operational decisions. These include directors and shareholders who hold a substantial amount of the votes able to be cast at general meetings.

NOTES TO THE FINANCIAL STATEMENTS

33. Related party transactions - continued

Relevant particulars of related party transactions, all of which have been carried out on an arms length basis, are as follows:

	2005	2004
	Lm	Lm
<i>(a) Sales of insurance contracts and other services</i>		
Sale of insurance contracts		
- subsidiaries	11,674	9,660
- associate	28,648	37,830
- shareholders represented on the Board	448,557	574,129
Recoveries on claims outstanding from Corporacion Mapfre Compania Internacional De Reaseguros S.A. under reinsurance arrangements entered into upon the acquisition of a 51% shareholding in Mapfre Progress S.p.A.	1,739	389,746
Reimbursement of expenses for back-office services provided		
- associate	369,000	340,000
Investment income		
- subsidiaries (dividends/interest receivable)	1,106,603	40,791
- associate (dividends)	405,000	663,000
- shareholders represented on the Board (dividends/interest receivable)	58,464	50,958
<i>(b) Purchases of products and services</i>		
Reinsurance premium ceded to shareholders (represented on the Board)	4,140,747	3,751,353
Acquisition costs payable to intermediaries where directors of the company are shareholders in companies that act as insurance agents	424,087	409,681
Reimbursement of expenses payable for back-office services		
- subsidiaries	314,000	267,899
Interest payable on borrowings		
- shareholder represented on the Board (acting as banker)	93,822	31,017
Rental income payable to associate	8,760	8,760

Key management personnel comprises the Chief Executive Manager and the General Managers of the companies within the Group. Total remuneration paid by the Group to key management personnel during the year amount to Lm137,151 (Company: Lm65,306). Corresponding figures for 2004 were Lm123,231 and Lm60,390 respectively.

NOTES TO THE FINANCIAL STATEMENTS

33. Related party transactions - continued

Year end balances arising from the above transactions:

	Group		Company	
	2005 Lm	2004 Lm	2005 Lm	2004 Lm
Debtors arising out of direct insurance operations:				
- intermediaries	631,443	308,478	334,132	266,954
Creditors arising out of direct insurance operations	405,556	313,099	343,208	245,662
Amounts owed by subsidiary undertakings	-	-	575,706	602,005
Amounts owed (to)/by participating undertakings	(1,402,003)	(241,041)	(1,139,781)	98,682
Reinsurers share of technical provisions	4,490,450	4,634,002	2,069,778	2,174,894
Investments in related parties	1,782,475	1,519,978	1,622,203	1,383,003
Accruals and deferred income (key management personnel)	150,052	112,714	85,744	64,408

All balances above have arisen in the course of the Group's normal operations. All the amounts receivable are unsecured, interest free and are due within 12 months from the balance sheet date.

34. 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 Lm14.5m. This has no impact on the Group's balance sheet.

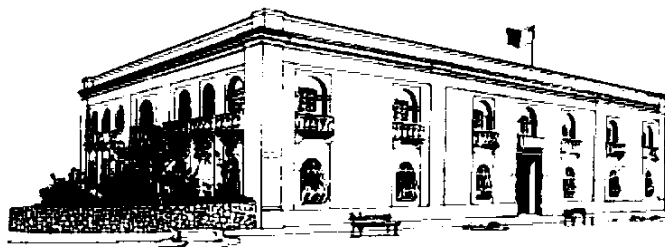
At 31 December 2005 and 2004, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values.

35. Statutory information

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

36. Comparative information

Where necessary, comparative financial information has been re-classified to conform with the current year's disclosure for the purpose of fairer presentation.



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