ANNUAL REPORT AND ACCOUNTS

2004

MIDDLESEA VALLETTA LIFE
Assurance Company Limited

contents

Chairman & Chief Executive Officer's Statement

2004 marked the tenth anniversary of Middlesea Valletta Life Assurance Co. Ltd (MSV). Once again, 2004 saw a steady performance in all areas of MSV's operations and the Company continued to consolidate its position as the leader in the Maltese life insurance and long-term savings market.

MSV registered a profit after tax of Lm1.52 million (¤3.5m) for the year ended 31 December 2004, an increase of 17% over the previous year. Gross written premiums increased from Lm21.86 million (¤50.3m) in 2003 to Lm34.88 million (¤80.3m) in 2004. This significant increase in revenue is attributed to a strong demand for insurance related savings policies.

2004 was characterised by an improvement and stabilisation in world markets, leading to a gradual return of investor confidence. Investment returns of MSV increased from Lm10.27 million (¤23.6m) in 2003 to Lm11.83 million (¤27.2m) in 2004.

MSV's total assets increased by 30% from Lm142.06 million (¤326.9m) in 2003 to Lm184.23 million (¤424m) in 2004, whilst the long-term business provision increased by 32% from Lm120.8 million (¤278m) in 2003 to Lm159.1 million (¤366.2m) in 2004.

During 2004 the financial stability of the Company was strengthened by a further increase in the issued and paid-up share capital, which was increased from Lm6.3 million (¤14.5m) to Lm8.6 million (¤19.8m). Part of this increase came from the conversion of the 2003 dividend to share capital by virtue of a bonus issue. The weighted average earnings per Lm1.00 share increased from 17c1 in 2003 to 19c5.

The Board has recommended a dividend of 5c8 per share net of tax, amounting to a total net dividend of Lm500,000.

The Board of Directors approved a resolution whereby the following Reversionary Bonuses were declared on policyholders' with-profits investments held with MSV for the year ending 31 December 2004:

Comprehensive Life Policies, 3.75% (Single and Regular Premium Policies)

Comprehensive Flexi Plan, 4.00% (Single and Regular Premium Policies)

MSV Single Premium Plan, 4.10%

MSV Investment Bond, 4.10% on the with-profits option of the product.

On the 'Old Series' Endowment and Whole of Life policies, a Reversionary Bonus of 2.00% of the basic sum assured plus bonuses was declared. Although no Terminal Bonus has been declared for policies on claims arising out of death or maturity during 2005, any Terminal Bonus declared on the 'Old Series' policies accumulated over previous years to date, shall remain payable on such claims occurring in 2005. Furthermore, the Board also approved a Reversionary Bonus of 3.25% on the Secure Growth policies that formed part of the portfolio of business transferred from Assicurazioni Generali S.p.A.

The most important factor that affects bonus rates on with-profits investments is the underlying investment performance of the funds invested. The investment strategy of MSV is to hold a diversified range of assets to help reduce the investment risk that arises from holding any single type of asset. Our asset and currency mix, geographical spread and asset quality mean that we are well placed to capture an upturn in investment markets. During 2004 MSV registered an improvement in investment returns which has enabled us to increase the bonus rates to our with-profits policyholders whilst safeguarding the capital invested.

In determining the levels of the declared bonus rates, we aim to smoothen returns under our with-profits policies over the term of the policy. Smoothening holds back part of the profits in some years, so that returns to policyholders can be higher than would otherwise be the case in other years when investment returns are lower. Notwithstanding the prudent investment policy adopted by MSV, past performance is no guarantee for the future, and, in the light of uncertainties that surround the capital markets the investment return may fluctuate positively as well as negatively.

Fluctuations in investment returns impinge directly on the rates of bonuses declared by MSV. Reversionary Bonus rates are therefore likely to vary over the lifetime of a policy.

During 2004 we have experienced a strong demand for savings products. With-profits policies are valuable investment instruments because in addition to the lump sum at maturity, they can provide life insurance protection which is rarely available with other forms of regular savings plans. The popularity of with-profits investments in Malta can also be attributed to the favourable tax treatment of these policies, since with-profits policyholders are not liable to pay any personal or capital gains tax on bonuses declared by the Company since an Exit Tax is paid by the Company on surrenders and maturities. Similarly, dependants will not be liable to any tax if they receive payment under a with-profits policy by virtue of the premature death of the life assured.

New accounting and reporting standards will be introduced as from 1 January 2005. These new requirements will represent a substantial change in how we report our financial position and performance. Considerable work has been undertaken by the Company to ensure that we can embrace the technical and regulatory challenges which these changes will bring about.

During 2004 we have continued to increase our market share in the domestic life assurance market, particularly in the area of linked-long term business where the Company had hitherto not been a major player in the market. Our bancassurance operation with Bank of Valletta p.l.c. continues to be our dominant sales channel, and we are now reaping the benefits of the investment that we have made in our IT systems in order to ensure that we can service customers at bank branch level. A significant increase in business was also achieved from our established network of authorised intermediaries. The increase in business from this source underlines the importance which our company has always given to a multi-distribution capability to meet customer demand.

Despite the fact that MSV already has a significant share of the Maltese life insurance market, we are confident that the local market still offers a number of opportunities particularly in the areas of life assurance protection and pension provision. MSV is well-positioned to play an important role in the forthcoming reform of the Maltese pension system, particularly in the creation and provision of individual and occupational pension arrangements.

The nature of our business places us at the heart of community life. We recognise that our corporate actions and decisions have a significant impact on the society in which we operate and we are committed to managing this impact in a very responsible manner. Above and beyond, our role as a provider of financial protection and financial services, we participate actively in community life by supporting various cultural, environmental and charitable initiatives. We regard these initiatives as a natural extension of our business.

2004 has been a year of considerable progress in our business development. Our strategy is to continue to offer our customers value for money savings, investment and protection products.

In conclusion, we would like to thank the staff and management of MSV for their commitment and dedication, our intermediaries for their continued support and in particular our policyholders for their trust in the Company.

R. E. D. Chalmers
Chairman

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

The Board of Directors

The Board of Directors (from left to right):
Mr E. Ellul, Mr V. Cardona, Mr J. Ludbrook, Mr M. C. Grech, Mr R. E. D. Chalmers,
Mr R. Lenhard, Mr T. Depasquale, Mr M. Grima, Mr J. Rizzo.

Mr R. E. D. Chalmers M.A. Div.(Edin), F.C.A., A.T.I.I., F.C.P.A., M.I.A. - Chairman
Mr Chalmers was a partner with the offices of Coopers and Lybrand (later PricewaterhouseCoopers) in Malta and in Hong Kong. Managing Partner of Coopers & Lybrand Hong Kong and Chairman of the firm's South East Asia Regional Executive and a member of the International Board of Directors. Upon the merger of Coopers & Lybrand and Price Waterhouse in 1998, he was appointed Chairman, Asia-Pacific, for PricewaterhouseCoopers, until his retirement in 2000. He was also a member of the PwC Global Management Board. He served as a non-executive director of the Hong Kong Securities and Futures Commission and he was also a member of the Takeovers and Mergers Panel. He was appointed by the Financial Secretary of Hong Kong to sit on the Banking Advisory Committee. Member on the board and Chairman of the Audit Committee of Gasan Mamo Insurance Co Ltd.

Mr Chalmers is currently Chairman of Bank of Valletta Group p.l.c., Middlesea Valletta Life Assurance Company Ltd and Valletta Fund Management Ltd. Member of the Board of Middlesea Insurance p.l.c., Gasan Group Ltd, Alfred Gera & Sons Ltd, and Global Sources Ltd, a NASDAQ listed company.

Mr M.C. Grech - Deputy Chairman and Chief Executive Officer
Mr Grech was 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 Centres p.l.c.

Mr Grech is Chairman and Chief Executive Officer of Middlesea Insurance p.l.c., President of Progress Assicurazioni S.p.A., 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 Victor J. Cardona ACIB, B.A. (Hons) Econ., CSA - Company Secretary
Mr Cardona occupied various executive positions at Bank of Valletta p.l.c over the past years. These included the Bank's Investment Promotion and Research Department, Nostro and Vostro Accounts, Forward Contracts, Foreign Currency Section and Investment Portfolio. He also performed managerial duties at three of the Bank's branches. Following the listing of Bank of Valletta's shares on the Malta Stock Exchange, Mr Cardona was nominated the Group's first Executive Compliance Officer.

Mr Cardona currently is the Executive Head Company Secretary and is the Company Secretary and Board Secretary of Bank of Valletta p.l.c and of the Bank of Valletta Group companies namely BOV Stockbrokers Limited, Cotswold Developments Limited and Valletta Fund Management Limited. He is also the Secretary to Bank of Valletta p.l.c's Audit and Remuneration Committees and is a member of the Compliance Committee.

Mr Tonio Depasquale - Director
Mr Depasquale was Chairman of Malta Bankers' Association, Director on the Board of Bank of Valletta International Ltd and General Manager of Valletta Investment Bank Ltd.

He currently is 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 Insurance p.l.c. and Director on the Board of Valletta Waterfront.

Mr Emanuel Ellul B. A. (Hons) Econ.Dip.Pol.Econ. (Oxon.) - Director
Mr Ellul previously was Senior Research Officer, Head of Research, General Manager, Deputy Governor, Governor at the Central Bank of Malta and Governor at the Malta Financial Services Centre. He currently is Chairman of Malta Privatisation Unit - MITI, Director of Malta Government Privatisation p.l.c., and Governor of The Malta College of Arts, Science and Technology.

Mr M. Grima Dip. M.S., M.B.A. (Henley), M.I.M., M.C.M.I. - Director
Mr Grima was formerly a trustee member of the BOV Employees Foundation and Director of Bank of Valletta p.l.c. He currently is Executive Head Bancassurance, Bank of Valletta p.l.c.

Mr Rudolf Lenhard, Dip. Math - Director
Mr Lenhard was General Manager of Munich Re's Life reinsurance operations in Mexico and Central America. This was followed by a further delegation to the Munich Re UK Life Branch, London. He was then promoted to Deputy Member of the Executive Management, with regional responsibilities for Southern and Western Europe and Latin America.

He currently is head of International Life Reinsurance, broadening his regional responsibilities to include Northern Europe, Asia, North Africa, and the Middle East. He is also responsible for Life client services worldwide, internal training, and knowledge management.

Mr. Jonathan Ludbrook B.A. F.I.A. - Director

Mr Ludbrook has worked for Munich Re U.K. Life Branch since 1982, having previously been employed by a U.K. life insurer. After a period of 5 years as Appointed Actuary for the U.K. Branch, he was appointed Managing Director in 1995 with full responsibility for the development of life and health reinsurance business in UK and Ireland. More recently he assumed responsibility for such business in Africa and Australasia, and is a member of several international committees and working groups within Munich Re. For a period he was the Reporting Actuary for Great Lakes, a London market reinsurer and member of the Munich Re Group. He has travelled widely and has spoken on behalf of Munich Re in many of its international markets. Mr Ludbrook has been a Fellow of the Institute of Actuaries since 1979.

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

Mr Rizzo has been employed with Middlesea Insurance p.l.c. since 1982 and currently occupies the position of General Manager. He currently is a Director of Growth Investments Ltd, MSB Valletta Co. Ltd, Euroglobe Holdings Ltd, International Insurance Management Services Ltd, and member of the Executive Board of the Malta International Training Centre. He is also a member on various insurance market committees.

Management Team

1. Mr M. Camilleri
2. Mr J. Gauci
3. Ms D. Bezzina
4. Mr D. G. Curmi
5. Mr V. Ellul
6. Ms P. Brincat
7. Ms M. Spiteri
8. Mr V. Farrugia

In absentia

Mr R. Gibson

Chief Executive Officer:	Mr Mario C. Grech
General Manager:	Mr David G. Curmi ACII, Chartered Insurer
Assistant General Manager:	Mr Mark Camilleri FCII, DMU (AMS), Chartered Insurer
Senior Executive Managers:	Ms Denise Bezzina ACII
	Mr Vince Ellul
	Mr Victor Farrugia, FCII, BSc, MA (Fin.Serv.)
	Mr Ray Gibson
Senior Executives:	Ms Patricia Brincat
	Ms Mary Spiteri
	Mr Josef Gauci BSc (Hons)

General Manager's Review

Overview

The year under review has once again been characterised by positive encouraging results in all areas of operation of Middlesea Valletta Life ("MSV Group"). The significant increase in revenue was attributable to our strategy of product innovation as well as to our strong multi-distribution platform. Bancassurance remains an important distribution channel for MSV Group with sales through the Bank of Valletta branch network increasing significantly during 2004. Sales of the new Investment Bond exceeded expectations whilst during the same year, in conjunction with BNP Paribas, we launched our first capital guaranteed product, the MSV Capital Guaranteed Bond which is a linked long term contract of insurance.

Performance and Financial Results

During 2004, MSV Group registered a profit after tax of Lm1.52 million (¤3.5m) representing a 17% increase over the corresponding figure of Lm1.3 million (¤2.99m) recorded in 2003. Gross written premiums increased significantly by 60% from Lm21.86 million (¤50.3m) to Lm34.88 million (¤80.3m) in 2004.

Gross claims incurred increased to Lm3.4million (¤7.8m). Claims incurred after reinsurance of Lm3.3million (¤7.6m) include maturities, surrenders and mortality and disability claims.

Acquisition costs increased by 29% from Lm1.7 million (¤3.9m) in 2003 to Lm 2.2 million (¤5.1m) essentially reflecting the growth in the gross written premiums. Administrative expenses increased by 10% to Lm1.2 million (¤2.8m). This was mainly attributable to our continued investment in IT systems aimed at improving our efficiency and reducing our longer term costs. Despite these increases, the ratio of net operating costs to premium income improved from 10.7% in 2003 to 8.6% in 2004.

The value of in-force business also increased over the period from Lm11.9 million (¤27.4m) to Lm12.9 million (¤29.7m). 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.

Capital and Financial Strength

Shareholders' funds at the close of 2004 amounted to Lm23.8 million (¤54.8m), an increase of 18% over the previous year.

During 2004 our shareholders have continued to show their commitment towards strengthening the financial stability of the Company by increasing the issued and paid-up share capital from Lm6.3million (¤14.5m) to Lm8.6 million (¤19.8m). The weighted average earnings per Lm1.00 share increased from 17c1 in 2003 to 19c5 in 2004.

The increase in the issued and paid-up share capital of the Company will enable us to ensure that we will have the financial resources required to implement our ongoing business strategy, meet the expectations of our policyholders and strengthen the solvency position of the Group.

Investment Performance

Investment return increased to Lm11.8million (¤27.2m) in 2004, also as a result of unrealised gains of Lm5.98million (¤13.8m) from investments in both the local and international capital markets.

Funds invested by MSV Group as at the end of 2004 increased by 31% to Lm163.6million (¤376.5m). The value of the life fund increased by 32% from Lm120.8 million (¤278m) to Lm159.1 million (¤366.2m) and total assets also grew by 30% to Lm184.2 million (¤424m).

Description of our Business

We are a leading provider of financial protection in Malta. We offer a broad range of individual life insurance and savings-related products that can be classified into protection, with-profits and linked-long term (unit-linked) policies.

Middlesea Valletta Life Assurance Company Limited					
	Financial Highlights				
	Group				
	2004	2003	2002	2001	2000
	Lm	Lm	Lm	Lm	Lm
Profit after tax	1,522,776	1,303,654	490,312	300,253	309,165
Gross written premiums	34,877,522	21,861,901	18,987,347	22,118,579	20,211,562
Funds Invested	163,635,434	124,493,915	98,715,663	83,347,143	67,294,637
Life Fund	159,132,195	120,842,241	95,398,078	80,842,475	66,525,000
Total Assets	184,227,262	142,061,316	115,364,526	98,432,979	82,486,449
Shareholders funds	23,791,986	20,146,839	17,651,409	15,913,894	14,272,049
Value of in-force business	12,900,000	11,900,000	10,790,000	9,500,000	8,870,000
Investment Return (Including unrealised capital gains/losses)	11,827,232	10,275,313	1,228,807	(292,709)	1,772,703
Unrealised gains/(losses)	5,987,893	5,255,806	(2,909,648)	(3,594,201)	(1,206,783)
Share Capital	8,600,000	6,300,000	6,300,000	6,300,000	5,300,000
Earnings per share	19c5	17c1	7c8	5c6	6c
MSV contribution to MSI results - before tax	819,258	680,077	250,843	124,631	189,750
MSV contribution to MSI results - after tax	769,959	659,264	242,251	130,566	146,214

A large segment of our business consists of with-profits investments and around 80% of our actuarial liabilities are represented by with-profits investments. Policyholders' premiums in respect of with-profits investments are paid into a with-profits fund which is part of the Company's long term insurance business fund. The premiums are invested in a range of assets as described below and policyholders receive a share of the total investment performance arising from these investments in the form of Reversionary Bonuses (Regular Bonuses) or Terminal Bonuses (Final Bonuses). These bonuses are credited to with-profits contracts that remain in the fund as recommended by the appointed actuary of the Company and approved by its Board of Directors. Once declared, Reversionary Bonuses (Regular Bonuses) are guaranteed to be paid in full at maturity or on prior death. However, should the policy be surrendered, the Company may not pay the Reversionary Bonuses in full but will apply the cash surrender penalties to the policy account which will include Reversionary Bonuses declared up to the date of surrender. A Terminal Bonus, if declared, is payable only on policies that become claims by maturity or death, but not by surrender. Terminal Bonuses are likely to be highly volatile and very dependent on the investment performance of the Company. Terminal Bonuses are paid at the discretion of the Company.

2004 was marked by a strong demand for savings related investment products in particular, single premium policies. In 2004 single premium investments represented 55% of the gross written premiums of the Company. Investors responded positively to the improvement and stabilisation in financial markets and this has also led to an increase in demand for unit-linked policies. In 2004 the premium income from unit-linked policies represented 32% of the total portfolio, a significant increase from 6% in 2003.

Investment Strategy

The most important factor that affects returns to our policyholders on with-profits investments is the underlying investment performance of the funds invested, hence the investment strategy. The investment guidelines are established by the Board, in consultation with the external actuaries, and the execution of investments in adherence to the established guidelines is delegated to the Group Investment Committee.

The investment strategy aims to preserve the long-term capital value of the investments while seeking to maximise the rate of return on the capital invested, having regard to:

- the nature and term of the with-profits liabilities and the management of cashflows;
- regulatory solvency requirements;
- advice from our external actuaries;
- advice from the appointed professional asset managers;
- the quality of individual assets;
- the short-term and long-term expected returns in different asset classes;
- the volatility of different asset classes.

The monies of the with-profits fund are invested in a diversified range of local and foreign assets, within the established strategic allocation, to help reduce the investment risk that arises from holding any single type of asset. The MSV with-profits fund aims to deliver relatively stable long-term capital growth or income. The fund invests in a mix of assets consisting of cash and short-term fixed interest securities (deposits, treasury bills, short-dated government and corporate bonds), long-term fixed interest securities (long-dated government and corporate bonds), equities and property.

The same asset distribution of the MSV with-profits fund is also applied to shareholders funds which are managed together with the MSV with-profits fund.

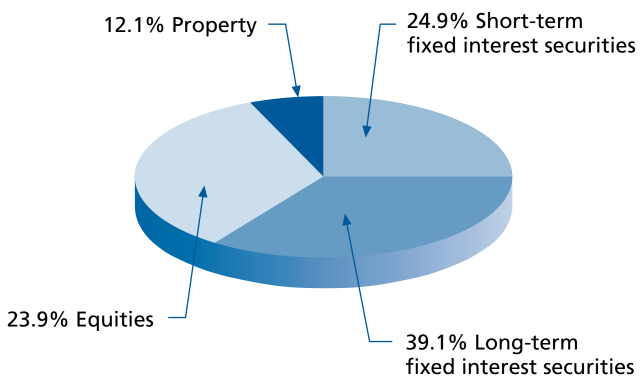
Investment returns are benchmarked against appropriate indices, taking into consideration the levels of risk inherent in each asset class. Maximum exposures to investments in any one counterparty as well as minimum requirements regarding the quality of individual investments are specified in the investment guidelines. We do not currently make use of derivatives to hedge against investment

exposures. Property investments are restricted to prime properties that yield a satisfactory level of rental income or capital appreciation.

We engage the services of professional international asset managers to manage parts of our foreign assets on a discretionary basis. Investment management agreements set out the investment strategy and guidelines for all our external asset managers. The relationship with external asset managers is managed through the Group Investment Committee.

We review our investment strategy on a regular basis but at least once a year.

As at 31 December 2004 the funds invested were distributed into the following asset classes:



2004 Bonus Declaration

The Board of Directors 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 2004. These amounted to 3.75% for the Comprehensive Life Plan (Regular and Single Premium Policies), 4% in respect of Comprehensive Flexi Plan (Regular and Single Premium Policies), 4.1% under the Single Premium Plan and 4.1% under the with-profits option of the Investment Bond. On the ‘Old Series’ Endowment and Whole of Life policies, a Reversionary Bonus of 2.0% of the basic sum assured plus bonuses was declared.

Different bonus rates are declared by the Board of Directors every year, in consultation with our appointed actuary, on different categories of policies depending on the type of product, cost structure, past investment performance, premium rates etc. Different bonuses are declared to reduce the element of cross-subsidy of products with different characteristics and to maintain equity between different generations of policyholders.

The Board also approved a reversionary bonus of 3.25% on Secure Growth Policies which form part of the portfolio of business transferred from Assicurazioni Generali S.p.A. in 2000.

Although no terminal bonus was declared for policies on claims arising out of death or maturity during 2005, any terminal bonuses declared on MSV’s ‘Old Series’ policies accumulated over prior years remained payable on any such claims during 2005.

In determining the amount of bonus to be declared in 2004, the Board took into consideration the relatively satisfactory investment returns achieved during 2004. With-profits policies are designed to protect policyholders from volatility in investment markets by smoothening performance over time. Smoothening holds back part of the profits in the good years so that returns to policyholders can be higher than would otherwise be the case in other years when investment returns are lower. Internationally, life insurance companies have been reducing bonus rates to reflect the actual investment returns being earned. Unsustainable bonus rates would only serve to harm the financial strength of the Life Fund and potentially limit returns which could be earned by policyholders in the future.

Subsidiaries

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

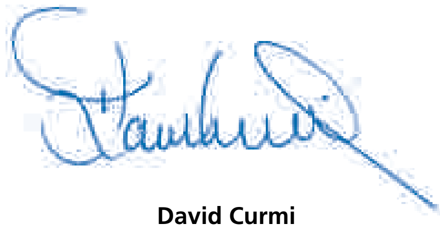
In 2004 Growth Investments registered a profit after tax of Lm111,445 (¤256,491) compared with Lm46,842 (¤107,807) in 2003. Notwithstanding the improvement and stabilisation in world markets leading to a gradual return of investor confidence, during 2004 investors were slow to return to equities. Assuming the global economic outlook remains positive, Growth Investments is confident that the momentum gathered towards the end of 2004 will continue well into 2005 and beyond.

Outlook

We are committed to continue to focus on product innovation to fulfil the evolving demands of our customers. Our strategy is to offer our customers value for money savings, investment and protection products and services, to provide high standards of service and to nurture the customer's relationship with us.

In November 2004 Government published the "Pensions – Adequate and Sustainable" White Paper which was aimed at promoting a national discussion and consultation on the pension reform in Malta. We are following very closely developments that are likely to take place in this sector. We feel that MSV is well-positioned to take on the challenges which this reform will bring particularly in the second and third pillar pension provision.

Having established ourselves as the leading provider of life insurance and long-term savings products in the Maltese insurance market, we are now seeking opportunities for overseas expansion, particularly in the Euro-Med region. Considerable progress has already been made in the preparatory work for the establishment of a life assurance branch operation in Italy.



David Curmi
ACII, Chartered Insurer
General Manager

Growth Investments Limited

Growth Investments Limited, a wholly owned subsidiary of Middlesea Valletta Life Assurance Company Ltd, in 1997 forged a relationship with Fidelity Investments - the world's leading fund management organisation.

As the exclusive representative of Fidelity Funds SICAV in Malta, Growth Investments offers its customers an extensive choice from a range of equity, bond, cash and asset allocation funds from the award-winning Fidelity Funds range. It is committed to applying new ideas and modern technology to achieve the best results for its customers.

Growth Investments Limited also provides back-office services to its parent company in connection with Linked Long-Term Contracts of Insurance, acts as a financial intermediary for securities listed on the Malta Stock Exchange and as a selling agent for primary listings of local corporate securities. It is also an authorised Treasury Agent for primary issues of Malta Government securities.

The Company is authorised to provide investment services in term of the Investment Services Act 1994 and is licensed, regulated and supervised by the Malta Financial Services Authority.

Board of Directors

Chairman	Mr Mario C. Grech
Directors	Mr David G. Curmi ACII Chartered Insurer
	Mr Tony Meilaq CPAA, FIMgt
	Dr Henry Mizzi LL.M. (Cantab.), LL.D.
	Mr Joseph Rizzo ACII, AIMIS, AMIAP, Chartered Insurer
	Mr Franco Xuereb
	Mr Peter Perotti ACIB
Company Secretary	Mr Evander Borg FCII, MBA (Henely-Brunel), FRSA

Management Team

Chief Executive Officer

Mr David G. Curmi
ACII Chartered Insurer

Senior Executive Manager

Mr Henrik Damato
BA (Hons) Accty., FIA, CPA

Professional Services

Legal Advisors

Mamo TCV Advocates
Abela, Stafrace & Associates
Sapiano & Associates

Auditors

PricewaterhouseCoopers

Actuaries

Watson Wyatt LLP

Bankers

Bank of Valletta p.l.c.
HSBC Bank (Malta) p.l.c.
APS Bank Ltd

Investment Managers

Merill Lynch Investment Managers Ltd
Generali Portfolio Management Ltd
Credit Suisse Private Banking
MEAG MUNICH ERIGO Asset Management GmBH

Investment Consultant

Zerniq Ltd

Investment Committee

M.C. Grech (Chairman)

R. Borg B.A. (Hons), M.A., LLD

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

D.G. Curmi ACII, Chartered Insurer

T. Depasquale

E. Ellul B.A. (Hons) Econ., Dip. Pol. Econ. (Oxon)

M. Formosa M.A. (Econ), M.A. (Financial Services)

S. Gauci ACII, Chartered Insurer

L. Grech M.A. (Oxon)
(Resigned 18th June 2004)

L. Lubelli MSc

J.M. Rizzo ACII, AIMIS, AMIAP. Chartered Insurer

A.M. Tabone B.A. (Hons) Accty, FIA, CPA

F. Xerri de Caro ACIB.

J.F.X. Zahra B.A. (Hons) Econ, M.A. (Econ), FCIM, MMRS
(Resigned 12th November 2004)

Corporate Governance

The Board of Middlesea Valletta Life (MSV) attaches a high priority to sound corporate governance, reflecting both the company's status as a leading Maltese financial institution and its ownership by listed public companies. The Board of MSV has accordingly ratified the establishment of a number of standing Group committees which are intended to assist the activities of the Board and of senior management in specialist areas and in governance issues. The committees, which by mutual agreement also cater for the governance of the Middlesea Group, and their functions, are reported upon below.

Investments Committee

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

Audit Committee

The Audit Committee's terms of reference, as approved by the Board, 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 core of business conduct.

The Audit Committee is required to meet at least four times a year. During 2004 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.

An internal audit function, also organised in conjunction with the Middlesea Group, was set up in May 2004. Internal Audit is an independent appraisal function established within the organisation to examine and evaluate its activities as a service to the company. 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 MSV's directors and senior executives, outlined the various elements of their remuneration and disclosed the amount of remuneration paid to directors in 2004. 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 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.

Corporate Management Committee

The Corporate Management Committee met eight times during 2004. It is delegated by the Board of Directors of MSV and its subsidiary company with responsibility for (a) the overall coordination and supervision of the performance in operative and administrative matters of the individual company and the group as a whole; (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 MSV aligned with the direction and risk appetite of the Board. 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; indeed, the directors who sit on the Committee will be undergoing specific in-house training as an introduction to the wide field of Corporate Risk Management. This training will also be made available to all Directors. The ethos of the Committee is to disseminate a Risk Management philosophy and risk awareness amongst all MSV officials, and promote a proactive approach to the management of risk.

Prevention of Money Laundering Committee

This Committee serves as an internal forum for the respective Money Laundering Reporting Officers of MSV and its subsidiary company to discuss issues relating to the prevention of money laundering. The Chairman of the Committee submits a report periodically to the Board on the activities of the Committee. The Committee meets at least four times a year or as required.

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The Company is licensed to carry on long term business of insurance under the Insurance Business Act, 1998. The Group is also authorised to provide investment services in terms of the Investment Services Act, 1994.

Review of the business

During 2004, Middlesea Valletta Life Assurance Co. Ltd. (MSV Group) reported a profit after tax of Lm1.52 million representing a healthy increase over the corresponding figure of Lm1.3 million recorded in 2003.

Gross written premiums increased by 60% over 2003 from Lm21.86 million to Lm34.88 million in 2004. During 2004 MSV Group experienced a strong demand for savings products and the increase in revenue was largely attributable to increased sales of the MSV Investment Bond, and to the launch of the first capital guaranteed product known as the MSV Capital Guaranteed Bond.

2004 was characterised by an improvement and stabilisation in world markets leading to a gradual return of investor confidence. Investment income increased from Lm10.27 million in 2003 to Lm11.83 million in 2004. The Group's balance sheet total increased by 30% from Lm142.06 million in 2003 to Lm184.23 million at the end of 2004. The long term business provision increased by 32% from Lm120.84 million in 2003 to Lm159.13 million in 2004.

MSV Group is committed to continue to focus on product innovation. MSV's strategy is to offer its customers innovative products that are competitively priced, that offer the highest long term returns commensurate with an acceptable level of risk, and which are backed by a high-quality customer service.

Compliance with Standard Licence Conditions under the Investment Services Act, 1994

The directors note that the Company is finalising the implementation of a Disaster Recovery and Business Continuity Plan as required by the Standard Licence Condition 3.7(1). The directors are not aware of any other issues concerning compliance with Standard Licence Conditions.

Results and dividends

The consolidated profit and loss account is set out on page 25. The directors recommend the payment of a dividend of Lm500,000 (2003: Lm1,300,000).

Directors

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

R.E.D. Chalmers MA Div (Edin), FCA., ATII, FCPA, MIA (Chairman) – appointed 2 December 2004

M.C. Grech (Deputy Chairman and C.E.O.)

J.F.X. Zahra BA (Hons) Econ, MA Econ, FCIM, MMRS (Chairman) – resigned 15 November 2004

T. Depasquale

E. Ellul BA (Hons) Econ, Dip Pol Econ (Oxon)

M. Grima Dip MS, MBA (Henley), MIM, MCMI

R. Lenhard Dip Math

J.J. Ludbrook BA FIA – appointed 9 December 2004

J.M. Rizzo ACII, AIMIS, AMIAP, Chartered Insurer

N. Silby BSc FIA – resigned 1 October 2004

According to the Company's Articles of Association those members or group of members holding at least 10% of the total voting rights have the right to appoint a director. Every member or group of members holding at least an additional 13% of the total voting rights is entitled to appoint an additional director for every 13% holding.

Unless appointed for a longer or shorter period, or unless they resign or are earlier removed, directors hold office for a period of one year, provided that no appointment may be made for a period exceeding three years.

Actuaries

The Company's approved actuary is Mr. Nigel Silby BSc FIA, a partner of Watson Wyatt Partners.

Auditors

The auditors PricewaterhouseCoopers have indicated their willingness to continue in office.

On behalf of the board

R.E.D. Chalmers
Chairman

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

Middle Sea House
Floriana
Malta

22 April 2005

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;
- 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

To the Members of Middlesea Valletta Life Assurance Company Limited.

We have audited the financial statements on pages 24 to 55. As described in the statement of directors' responsibilities on page 22, 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 2004 and of the profit, the changes in equity and the cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Insurance Business Act, 1998 and the Companies Act, 1995.

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

22 April 2005

Profit and loss account
Technical account – long term business

	Notes	Group and Company 2004 Lm	2003 Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	**34,877,522**	21,861,901
Outward reinsurance premiums		**(680,697)**	(544,307)
		34,196,825	21,317,594
Investment income	2	**5,753,825**	4,892,329
Share of participating interests' profit before tax	2	**150,642**	125,916
Unrealised gains on investments	2	**5,850,465**	5,128,046
Other technical income, net of reinsurance		**202,287**	7,375
Total technical income		**46,154,044**	31,471,260
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**3,316,237**	2,500,435
- reinsurers' share		**(72,537)**	(249,165)
		3,243,700	2,251,270
Change in the provision for claims			
- gross amount		**41,600**	(36,197)
- reinsurers' share		**(6,598)**	23,744
		35,002	(12,453)
Claims incurred, net of reinsurance		**3,278,702**	2,238,817
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		**24,421,048**	19,897,873
- reinsurers' share		**1,818**	4,020
	23	**24,422,866**	19,901,893
Technical provision for linked liabilities		**9,138,735**	1,783,721
Change in other technical provisions, net of reinsurance		**33,561,601**	21,685,614
Bonuses and rebates, net of reinsurance	3, 23	**4,728,353**	3,758,549
Net operating expenses	4	**2,992,307**	2,348,513
Investment expenses and charges	2	**239,459**	179,899
Total technical charges		**44,800,422**	30,211,392
Tax attributable to the long term business	7	**(14,374)**	(61,545)
Balance on the long term business technical account (page 25)		**1,339,248**	1,198,323

Profit and loss account
Non-technical account

	Notes	Group 2004 Lm	Group 2003 Lm	Company 2004 Lm	Company 2003 Lm
Balance on the long term business technical account (page 24)		**1,339,248**	1,198,323	**1,339,248**	1,198,323
Investment income	2	**176,483**	186,805	**160,203**	125,669
Unrealised gains on investments	2	**73**	24,190	**73**	24,190
Share of group undertaking's profit before tax	2	**-**	-	**173,420**	53,871
Share of participating interests' profit before tax	2	**3,651**	3,256	**3,651**	3,256
Investment expenses and charges	2	**(5,803)**	(8,900)	**(5,803)**	(8,900)
Other income		**325,963**	141,152	**-**	-
Other charges		**(214,526)**	(195,131)	**(45,703)**	(46,714)
Profit on ordinary activities before tax	5	**1,625,089**	1,349,695	**1,625,089**	1,349,695
Tax on profit on ordinary activities	7	**(102,313)**	(46,041)	**(102,313)**	(46,041)
Profit for the financial year		**1,522,776**	1,303,654	**1,522,776**	1,303,654
Earnings per share (cents)	9	**19c5**	17c1	**19c5**	17c1

Balance sheet

	Notes	Group 2004 Lm	Group 2003 Lm	Company 2004 Lm	Company 2003 Lm
ASSETS					
Investments					
Land and buildings – investment property	11	**15,979,008**	13,805,081	**15,979,008**	13,805,081
Investment in group undertaking	12	**-**	-	**306,563**	257,290
Investments in participating interests	13	**2,081,642**	2,249,133	**2,081,642**	2,249,133
Other financial investments					
- deposits with banks or credit institutions	14	**12,276,742**	15,861,082	**12,276,742**	15,861,082
- other originated loans and receivables	15	**50,976,001**	37,913,571	**50,690,638**	37,457,111
- available-for-sale	16	**68,331,996**	50,019,827	**68,007,964**	49,886,395
		149,645,389	119,848,694	**149,342,557**	119,516,092
Value of in-force business	17	**12,900,000**	11,900,000	**12,900,000**	11,900,000
Assets held to cover linked liabilities	18	**13,990,045**	4,645,221	**13,990,045**	4,645,221
Reinsurers' share of technical provisions					
Long term business provision	23	**29,095**	30,913	**29,095**	30,913
Claims outstanding		**97,600**	91,002	**97,600**	91,002
		126,695	121,915	**126,695**	121,915
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		**20,807**	18,727	**20,807**	18,727
- intermediaries		**12,803**	182,457	**12,803**	182,457
Amounts owed by group undertakings		**39,354**	670,685	**423,639**	1,038,108
Indirect taxation		**44,481**	164,769	**44,481**	164,769
Taxation recoverable		**2,302,214**	178,073	**2,302,214**	178,073
		2,419,659	1,214,711	**2,803,944**	1,582,134
Other assets					
Tangible assets	19	**591,983**	557,964	**568,921**	534,892
Deferred taxation	24	**954,031**	973,549	**956,559**	967,040
Cash at bank and in hand	26	**1,948,278**	1,179,077	**1,875,310**	1,121,554
		3,494,292	2,710,590	**3,400,790**	2,623,486
Prepayments and accrued income					
Accrued interest and rent		**1,527,029**	1,511,554	**1,521,398**	1,508,945
Other prepayments and accrued income		**124,153**	108,631	**66,566**	75,885
		1,651,182	1,620,185	**1,587,964**	1,584,830
Total assets		**184,227,262**	142,061,316	**184,151,995**	141,973,678

Balance sheet

	Notes	Group 2004 Lm	Group 2003 Lm	Company 2004 Lm	Company 2003 Lm
LIABILITIES					
Capital and reserves					
Called up share capital	20	**8,600,000**	6,300,000	**8,600,000**	6,300,000
Revaluation reserve	21	**160,190**	37,819	**160,190**	37,819
Other reserves	22	**10,250,000**	9,250,000	**10,250,000**	9,250,000
Profit and loss account		**4,781,796**	4,559,020	**4,781,796**	4,559,020
		23,791,986	20,146,839	**23,791,986**	20,146,839
Technical provisions					
Long term business provision	23	**145,239,555**	116,090,154	**145,239,555**	116,090,154
Claims outstanding		**356,735**	315,135	**356,735**	315,135
		145,596,290	116,405,289	**145,596,290**	116,405,289
Technical provisions for linked liabilities		**13,921,735**	4,783,000	**13,921,735**	4,783,000
Deposits received from reinsurers		**17,125**	16,220	**17,125**	16,220
Creditors					
Creditors arising out of direct insurance operations		**312,828**	175,166	**312,828**	175,166
Creditors arising out of reinsurance operations		**26,754**	112,615	**26,754**	112,615
Amounts owed to group undertakings		**102,951**	71,340	**96,864**	-
Current taxation		**56,625**	7,317	**-**	-
Other creditors		**5,501**	3,608	**-**	-
		504,659	370,046	**436,446**	287,781
Accruals and deferred income		**395,467**	339,922	**388,413**	334,549
Total liabilities		**184,227,262**	142,061,316	**184,151,995**	141,973,678

The financial statements on pages 24 to 55 were authorised for issue by the Board on 22 April 2005 and were signed on its behalf by:

R.E.D. Chalmers
Chairman

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

Statement of changes in equity

Group	Notes	Share capital Lm	Revaluation reserve Lm	Other reserves Lm	Profit and loss account Lm	Total Lm
Balance at 1 January 2003		6,300,000	(43,957)	8,140,000	3,255,366	17,651,409
Available-for-sale investments						
- net fair value gains, net of deferred taxation	21, 24	-	79,583	-	-	79,583
- transfer to net profit on realisation, net of deferred taxation	21, 24	-	2,193	-	-	2,193
Increment in value of in-force business	22	-	-	1,110,000	-	1,110,000
Net gains not recognised in profit and loss account		-	81,776	1,110,000	-	1,191,776
Profit for the financial year		-	-	-	1,303,654	1,303,654
Balance at 31 December 2003		**6,300,000**	**37,819**	**9,250,000**	**4,559,020**	**20,146,839**
Balance at 1 January 2004		6,300,000	37,819	9,250,000	4,559,020	20,146,839
Available-for-sale investments						
- net fair value gains, net of deferred taxation	21, 24	-	121,700	-	-	121,700
- transfer to net profit on realisation, net of deferred taxation	21, 24	-	671	-	-	671
Increment in value of in-force business	22	-	-	1,000,000	-	1,000,000
Net gains not recognised in profit and loss account		-	122,371	1,000,000	-	1,122,371
Issue of share capital	20	1,000,000	-	-	-	1,000,000
Dividends relating to 2003	10, 20	1,300,000	-	-	(1,300,000)	-
Profit for the financial year		-	-	-	1,522,776	1,522,776
Balance at 31 December 2004		**8,600,000**	**160,190**	**10,250,000**	**4,781,796**	**23,791,986**

Statement of changes in equity

Company	Notes	Share capital Lm	Revaluation reserve Lm	Other reserves Lm	Profit and loss account Lm	Total Lm
Balance at 1 January 2003		6,300,000	(43,957)	8,140,000	3,255,366	17,651,409
Available-for-sale investments						
- net fair value gains, net of deferred taxation	21, 24	-	72,766	-	-	72,766
- transfer to net profit on realisation, net of deferred taxation	21, 24	-	2,647	-	-	2,647
Share of group undertaking's reserves	21	-	6,363	-	-	6,363
Increment in value of in-force business	22	-	-	1,110,000	-	1,110,000
Net gains not recognised in profit and loss account		-	81,776	1,110,000	-	1,191,776
Profit for the financial year		-	-	-	1,303,654	1,303,654
Balance at 31 December 2003		**6,300,000**	**37,819**	**9,250,000**	**4,559,020**	**20,146,839**
Balance at 1 January 2004		6,300,000	37,819	9,250,000	4,559,020	20,146,839
Available-for-sale investments						
- net fair value gains, net of deferred taxation	21, 24	-	106,811	-	-	106,811
- transfer to net profit on realisation, net of deferred taxation	21, 24	-	(268)	-	-	(268)
Share of group undertaking's reserves	21	-	15,828	-	-	15,828
Increment in value of in-force business	22	-	-	1,000,000	-	1,000,000
Net gains not recognised in profit and loss account		-	122,371	1,000,000	-	1,122,371
Issue of share capital	20	1,000,000	-	-	-	1,000,000
Dividends relating to 2003	20, 10	1,300,000	-	-	(1,300,000)	-
Profit for the financial year		-	-	-	1,522,776	1,522,776
Balance at 31 December 2004		**8,600,000**	**160,190**	**10,250,000**	**4,781,796**	**23,791,986**

Cash flow statement

	Notes	Group		Company	
		2004 Lm	2003 Lm	**2004 Lm**	2003 Lm
Operating activities					
Cash generated from operations	25	**34,116,351**	21,786,037	**34,092,806**	21,759,125
Taxation paid		**(777,340)**	(1,293,267)	**(768,912)**	(1,293,382)
Net cash generated from operating activities		**33,339,011**	20,492,770	**33,323,894**	20,465,743
Investing activities					
Purchase of investment property	11	**(2,170,862)**	(799,722)	**(2,170,862)**	(799,722)
Increase in investment in participating interest	13	-	(492,306)	-	(492,306)
Decrease in loan to participating interest	13	-	73,453	-	73,453
Purchase of other financial investments	14,15,16	**(31,804,377)**	(31,746,212)	**(31,278,222)**	(31,629,326)
Disposal of other financial investments	14,15,16	**17,858,680**	9,749,211	**17,634,556**	9,393,356
Purchase of assets to cover linked liabilities	18	**(8,431,369)**	(975,014)	**(8,431,369)**	(975,014)
Purchase of tangible fixed assets	19	**(230,636)**	(268,417)	**(224,610)**	(261,436)
Net cash used in investing activities		**(24,778,564)**	(24,459,007)	**(24,470,507)**	(24,690,995)
Financing activities					
Issue of share capital	20	**1,000,000**	-	**1,000,000**	-
Net cash generated from financing activities		**1,000,000**	-	**1,000,000**	-
Movement in cash and cash equivalents		9,560,447	(3,966,237)	9,853,387	(4,225,252)
Cash and cash equivalents at beginning of year		11,121,626	15,087,863	10,729,718	14,954,970
Cash and cash equivalents at end of year	26	20,682,073	11,121,626	20,583,105	10,729,718

Accounting policies

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

1. Basis of preparation

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

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

The financial statements are prepared under the historical cost convention, as modified to include the fair valuation of investment property, available-for-sale investments, and the value of in-force business.

2. Form and content of the financial statements

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

3. Consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions between group companies are eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests.

A listing of the Group's principal subsidiaries is set out in note 12.

4. Investments in group undertakings and participating interests

Investments in group undertakings and participating interests are accounted for by the equity method of accounting. Investments in participating interests are interests over which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control.

Equity accounting involves recognising in the income statement the share of the group undertakings' and participating interests' profit or loss for the year. The interest in the group undertaking and the participating interests is carried in the balance sheet at an amount that reflects the share of the net assets of the group undertaking and the participating interests and, in the case of participating interests, is stated net of negative goodwill arising on their acquisition.

5. Premiums

Premiums, including reinsurance premiums, comprise the amounts receivable and payable for the financial year. Unit linked premiums are accounted for when units are created.

6. Claims

Maturity claims are charged against revenue when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long term business provision and/or the technical provision for linked liabilities. Death claims and all other claims are accounted for when notified.

Claims payable include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

Accounting policies

7. Bonuses

Bonuses charged to the long term business technical account in a given year comprise:

a. new reversionary bonuses declared in respect of that year, and in respect of which a constructive obligation is deemed to exist, which are provided within the calculation of the long term business provision;

b. terminal bonuses paid out to policyholders on maturity and included within claims paid.

8. Leases

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

9. Foreign currencies

Transactions in foreign currencies have been converted into Maltese lira at the rates of exchange ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies have been translated into Maltese lira at the rates of exchange ruling at the balance sheet date.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities are reported as part of the fair value gain or loss.

10. Land and buildings - investment property

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

11. Other financial investments

The Group classifies its investments into the following categories:

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

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

The directors determine the appropriate classification of investments at the time of purchase and re-evaluate such designation on a regular basis. All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. All investments are initially recorded at cost (which includes transaction costs). Available-for-sale investments are subsequently re-measured at fair value. Originated loans and receivables are carried at amortised cost using the effective yield method, less any provision for impairment. Deposits with banks or credit institutions are stated at face value. The fair value of quoted shares and securities and units in unit trusts classified as available-for-sale is based on quoted market prices at the balance sheet date. Unquoted equities are stated at a directors' valuation, in most cases by reference to the net asset backing of the investee. Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are initially recognised in equity in a fair value reserve, and to the extent that they are attributable to policyholders, are subsequently allocated to the technical profit and loss account. When the investments are disposed or impaired, the related accumulated fair value adjustments in the revaluation reserve are included in the profit and loss account as gains and losses from investment securities.

Accounting policies

12. Investment return

Investment return comprises investment income including realised and unrealised investment gains and losses, the amortisation of differences between cost and maturity value of fixed income debt securities carried at amortised cost, and is net of investment expenses, charges and interest.

Dividends are recorded on the date when the shareholder's right to receive payment is established. Interest, rents and expenses are accounted for on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original purchase price or amortised value, net of any unrealised gains or losses that have already been recognised in the technical profit and loss account. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or if they have been previously valued, their valuation at the last balance sheet date.

The investment return is apportioned between the technical and non-technical profit and loss account on a basis which takes into account that technical provisions are fully backed by investments and that the value of in-force business, fixed assets and working capital are financed in their entirety from shareholders' funds.

13. Assets held to cover linked liabilities

These are investments held for the benefit of policyholders under unit linked life insurances and are accounted for at fair value. Unrealised gains and losses are matched by corresponding changes in the technical provision for linked liabilities in the technical account.

14. Value of in-force business

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

15. Technical provisions

The long term business provision is determined by the Company's approved actuary following his annual investigation of the financial condition of the Company's long term business as required under the Insurance Business Act, 1998. The provision is initially calculated in accordance with the relevant legislation governing the determination of liabilities for the purposes of statutory solvency. The calculation uses a prospective valuation method and makes explicit provision for vested reversionary bonuses. Provision is also made, implicitly or explicitly, for future reversionary bonuses. The valuation is then adjusted for certain items, including the removal of certain contingency and other reserves. In addition, adjustment is made to the long term business provision so as to measure the liabilities on a basis consistent with the adoption of an amortised cost valuation basis for certain corresponding categories of assets.

Unit-linked liabilities are determined as the value of units attaching to individual policies as at the valuation date.

16. Tangible assets

Tangible fixed assets comprising buildings and leasehold improvements, furniture, fittings and equipment and motor vehicles are initially stated at cost, and are subsequently shown at cost less depreciation. Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

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

Gains and losses on disposal of tangible fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profits.

Accounting policies

17. Intangible asset – negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of participating interests acquired at the date of acquisition over the cost of the acquisitions. It is amortised at 4% per annum, representing the remaining weighted average useful life of the identifiable depreciable assets, mainly immovable property, of the company concerned.

18. Deferred taxation

Deferred income tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in the determination of deferred income tax. The principal temporary differences arise on the revaluation of investments and unutilised tax losses and allowances.

Deferred tax arising on the re-measurement of available-for-sale investments attributable to shareholders is charged or credited directly to equity, whereas deferred tax arising on the revaluation of investments attributable to policyholders is charged or credited to the technical profit and loss account. Deferred income tax related to fair value re-measurement of investment property is allocated between the technical and non-technical account in a similar manner.

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.

19. Debtors

Debtors are carried at original amount less provision made for impairment of these receivables. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the carrying amount and the recoverable amount.

20. Cash and cash equivalents

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

21. Dividends

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

22. Borrowing costs

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

Notes to the financial statements

1. Segmental analysis

In the opinion of the directors, the Group primarily operates in a single business segment being that of long term insurance business.

(i) Gross premiums written

Gross premium income is made up of:

	Group and Company	
	2004	2003
	Lm	Lm
Direct insurance	**34,710,626**	21,685,948
Reinsurance inwards	**166,896**	175,953
Gross premiums written	**34,877,522**	21,861,901

Direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2004	2003	**2004**	2003
	Lm	Lm	**Lm**	Lm
Non-participating	**1,235,991**	1,066,035	**-**	-
Participating	**13,185,128**	12,570,402	**9,121,262**	6,615,355
Linked	**1,046,770**	963,953	**10,121,475**	470,203
	15,467,889	14,600,390	**19,242,737**	7,085,558

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

(ii) Reinsurance balance

The reinsurance balance, which represents the aggregate of all items relating to reinsurance outwards, amounted to a charge of Lm202,849 to the long term business technical account for the year ended 31 December 2004 (2003: a credit of Lm112,109).

Notes to the financial statements

2. Investment return

	Group 2004 Lm	Group 2003 Lm	Company 2004 Lm	Company 2003 Lm
Investment income				
Share of group undertaking's profit before tax	**-**	-	**173,420**	53,871
Share of participating interests' profit before tax	**154,293**	129,172	**154,293**	129,172
Income from land and buildings - investment property	**869,408**	671,971	**869,408**	671,971
Interest receivable from other investments	**4,102,111**	3,932,464	**4,092,802**	3,906,725
Other income from other investments	**811,645**	404,998	**811,645**	404,998
Gains on the realisation of investments	**147,144**	69,701	**140,173**	34,304
	6,084,601	5,208,306	**6,241,741**	5,201,041
Unrealised gains on investments				
Fair value gains – investment property (Note 11)	**3,065**	959,616	**3,065**	959,616
Fair value gains – financial investments (Notes 16, 18)	**5,984,828**	4,296,190	**5,965,140**	4,285,798
	5,987,893	5,255,806	**5,968,205**	5,245,414
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**75,203**	43,237	**75,203**	43,237
Other investment management expenses	**169,267**	139,624	**169,267**	139,624
Losses on the realisation of investments	**-**	5,208	**-**	5,208
Interest payable	**792**	730	**792**	730
	(245,262)	(188,799)	**(245,262)**	(188,799)
Total investment return	**11,827,232**	10,275,313	**11,964,684**	10,257,656
Apportioned as follows:				
Technical profit and loss account	**11,515,473**	9,966,392	**11,515,473**	9,966,392
Non-technical profit and loss account	**174,404**	205,351	**331,544**	198,086
Revaluation reserve	**137,355**	103,570	**117,667**	93,178
	11,827,232	10,275,313	**11,964,684**	10,257,656

3. Bonuses and rebates, net of reinsurance

The following amounts have been included in the long term business technical account in respect of policyholder bonuses:

	Group and Company 2004 Lm	Group and Company 2003 Lm
Reversionary bonuses declared in the year, included in the long term business provision	**4,728,353**	3,758,549

Notes to the financial statements

4. Net operating expenses

	Group and Company 2004 Lm	Group and Company 2003 Lm
Acquisition costs	**2,191,639**	1,696,440
Administrative expenses	**1,201,199**	1,087,088
Reinsurance commissions and profit participation	**(400,531)**	(435,015)
	2,992,307	2,348,513

Total commissions for direct business accounted for in the financial year amounted to Lm1,496,071 (2003: Lm1,166,068).

5. Profit on ordinary activities before tax

The profit on ordinary activities before tax is stated after charging/(crediting):

	Group		Company	
	2004 Lm	2003 Lm	**2004 Lm**	2003 Lm
Staff costs (Note 6)	**417,839**	383,234	**378,445**	344,102
Auditors' remuneration	**9,850**	9,200	**8,150**	7,600
Actuarial valuation fees	**144,426**	129,254	**144,426**	129,254
Depreciation (Note 19)	**196,617**	174,312	**190,581**	170,004
Professional indemnity insurance	**8,558**	14,187	**3,000**	6,770
Exchange differences	**22,832**	(79,661)	**23,964**	(79,538)

6. Staff costs

	Group		Company	
	2004 Lm	2003 Lm	**2004 Lm**	2003 Lm
Salaries	**391,667**	359,114	**354,614**	322,374
Social security costs	**26,172**	24,120	**23,831**	21,728
	417,839	383,234	**378,445**	344,102

Average number of persons employed by the Group and Company during the year:

	Group		Company	
	2004	2003	**2004**	2003
Average number of employees	**48**	45	**44**	41

Notes to the financial statements

7. Taxation

	Group		Company	
	2004	2003	**2004**	2003
	Lm	Lm	**Lm**	Lm
Deferred taxation charge (Note 24)	**(19,518)**	(79,714)	**(10,481)**	(76,510)
Current taxation	**73,004**	(7,396)	**88,741**	-
Share of group undertaking's taxation	**-**	-	**(19,975)**	(7,026)
Share of participating interests' taxation	**(185,453)**	(46,914)	**(185,453)**	(46,914)
Net tax charge	**(131,967)**	(134,024)	**(127,168)**	(130,450)
Apportioned as follows:				
Technical profit and loss account	**(14,374)**	(61,545)	**(14,374)**	(61,545)
Non-technical profit and loss account	**(102,313)**	(46,041)	**(102,313)**	(46,041)
Revaluation reserve	**(15,280)**	(26,438)	**(10,481)**	(22,864)
	(131,967)	(134,024)	**(127,168)**	(130,450)

Tax on profit for the year ended 31 December 2004 differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group and Company	
	2004	2003
	Lm	Lm
Profit before tax	**1,639,463**	1,411,240
Tax on ordinary profit at 35%	**573,812**	493,934
Tax effect of:		
Net exempt income	**(493,848)**	(581,699)
Changes in tax legislation	**-**	195,505
Other differences	**36,723**	(154)
Net tax charged to the profit and loss account	**116,687**	107,586

Notes to the financial statements

8. Directors' emoluments

	Group		Company	
	2004 **Lm**	2003 Lm	**2004** **Lm**	2003 Lm
Remuneration	**24,550**	23,884	**24,550**	23,884
Fees	**21,500**	21,000	**18,500**	19,000
	46,050	44,884	**43,050**	42,884

The Company has paid insurance premiums of Lm13,497 (2003: Lm12,681) in favour of its directors. Furthermore, provisions have been made (Group: 2004 – Lm14,036 and 2003 – Lm12,150; Company: 2004 – Lm14,036 and 2003 – Lm12,150) in respect of contracted pension obligations.

9. Earnings per share

Earnings per share is based on the net profit attributable to the shareholders of Middlesea Valletta Life Assurance Company Limited divided by the weighted average number of shares in issue during the year.

The weighted average number of ordinary shares for 2003 was adjusted for the bonus issue that occurred on 16 April 2004 (see Note 20).

	Group		Company	
	2004	2003	**2004**	2003
Net profit attributable to shareholders	**Lm1,522,776**	Lm1,303,654	**Lm1,522,776**	Lm1,303,654
Weighted average number of ordinary shares in issue	**7,797,260**	7,600,000	**7,797,260**	7,600,000
Earnings per share	**19c5**	17c1	**19c5**	17c1

10. Dividends

At the forthcoming Annual General Meeting a dividend in respect of 2004 of 5c8 (2003: 20c6) per share, amounting to a total net dividend of Lm500,000 (2003: Lm1,300,000), is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2005. The dividend relating to 2003 was converted to share capital by virtue of a bonus issue as resolved on 16 April 2004 (see Note 20).

Notes to the financial statements

11. Land and buildings - investment property

	Group and Company Lm
Year ended 31 December 2004	
Opening net book amount	13,805,081
Additions	2,170,862
Gains from changes in fair value	3,065
Closing net book amount	**15,979,008**
At 31 December 2004	
Cost	13,144,399
Fair value gains	2,834,609
Net book amount	15,979,008
Year ended 31 December 2003	
Opening net book amount	12,045,743
Additions	799,722
Gains from changes in fair value	959,616
Closing net book amount	13,805,081
At 31 December 2003	
Cost	10,973,537
Fair value gains	2,831,544
Net book amount	13,805,081

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

Notes to the financial statements

12. Investment in group undertaking

	Company Lm
Year ended 31 December 2004	
Opening net book amount	257,290
Share of group undertaking's profits and reserves	49,273
Closing net book amount	**306,563**
At 31 December 2004	
Cost	199,999
Share of group undertaking's profits and reserves	106,564
Net book amount	306,563
Year ended 31 December 2003	
Opening net book amount	204,082
Share of group undertaking's profits and reserves	53,208
Closing net book amount	257,290
At 31 December 2003	
Cost	199,999
Share of group undertaking's profits and reserves	57,291
Net book amount	257,290

The group undertaking at 31 December 2004 is shown below:

Group undertaking	Registered office	Class of shares held	Percentage of shares held 2004 & 2003
Growth Investments Limited	Middle Sea House Floriana, VLT 16	Ordinary shares	100%

Notes to the financial statements

13. Investments in participating interests

	Group and Company		
	Participating interests Lm	Loan to participating interest Lm	Total Lm
Year ended 31 December 2004			
Opening net book amount	1,944,189	304,944	2,249,133
Share of participating interests' results	(167,491)	-	(167,491)
Closing net book amount	**1,776,698**	**304,944**	**2,081,642**
At 31 December 2004			
Cost	1,905,804	304,944	2,210,748
Share of participating interests' results	(129,106)	-	(129,106)
Net book amount	1,776,698	304,944	2,081,642
Year ended 31 December 2003			
Opening net book amount	1,469,016	378,397	1,847,413
Additions	492,306	-	492,306
Disposals	-	(73,453)	(73,453)
Share of participating interests' results	(17,133)	-	(17,133)
Closing net book amount	1,944,189	304,944	2,249,133
At 31 December 2003			
Cost	1,905,804	304,944	2,210,748
Share of participating interests' results	38,385	-	38,385
Net book amount	1,944,189	304,944	2,249,133

The share of results includes Lm15,606 (2003: Lm13,880) representing the amortisation credit of negative goodwill in respect of the acquisition of participating interests. Investments in participating interests at 31 December 2004 are stated net of negative goodwill of Lm394,537, which arose on the acquisition of additional interests in Plaza Centres p.l.c..

The participating interests at 31 December 2004 are shown below:

Participating interests	**Registered office**	**Class of shares held**	**Percentage of shares held 2004 & 2003**
Church Wharf Properties Limited	Middle Sea House Floriana, VLT 16	Ordinary shares	50%
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	30.2%

Notes to the financial statements

14. Other financial investments – deposits with banks or credit institutions

	Group and Company	
	2004	2003
	Lm	Lm
Deposits with banks or credit institutions	**12,276,742**	15,861,082

The above financial assets for the Group and Company include pledged investments amounting to Lm686,430 (2003: Lm943,152).

Maturity of deposits with banks or credit institutions:

	Group and Company	
	2004	2003
	Lm	Lm
Within 3 months	**8,334,648**	5,934,595
Within 1 year but exceeding 3 months	**2,470,393**	4,011,306
Between 1 and 2 years	**-**	4,453,118
Between 2 and 5 years	**1,471,701**	-
Over 5 years	**-**	1,462,063
	12,276,742	15,861,082

The above deposits earn interest as follows:

	Group and Company	
	2004	2003
	Lm	Lm
At floating rates	**6,214,815**	5,934,726
At fixed rates	**6,061,927**	9,926,356
	12,276,742	15,861,082
Weighted average effective interest rate	**3.4%**	3.4%

Notes to the financial statements

15. Other financial investments – other originated loans and receivables

Group

	Quoted debt securities and other fixed income securities Lm	Unquoted debt securities Lm	Treasury bills Lm	Long term reinsurance loan Lm	Other loans Lm	Total Lm
Year ended 31 December 2004						
Opening net book amount	30,026,136	316,281	4,007,954	2,118,787	1,444,413	37,913,571
Additions	6,635,732	550,000	25,402,991	15,386	520,970	33,125,079
Disposals	(618,997)	-	(19,037,798)	-	(318,263)	(19,975,058)
Exchange differences	(60,701)	1,403	-	-	-	(59,298)
Amortisation	(28,293)	-	-	-	-	(28,293)
Closing net book amount	**35,953,877**	**867,684**	**10,373,147**	**2,134,173**	**1,647,120**	**50,976,001**
Year ended 31 December 2003						
Opening net book amount	22,437,621	603,466	10,636,151	2,100,495	1,084,246	36,861,979
Additions	7,641,625	215,018	33,328,803	18,292	499,375	41,703,113
Disposals	(410,715)	-	(39,957,000)	-	(139,208)	(40,506,923)
Transfer from unquoted debt securities	503,466	(503,466)	-	-	-	-
Exchange differences	(125,494)	1,263	-	-	-	(124,231)
Amortisation	(20,367)	-	-	-	-	(20,367)
Closing net book amount	30,026,136	316,281	4,007,954	2,118,787	1,444,413	37,913,571

Company

	Quoted debt securities and other fixed income securities Lm	Unquoted debt securities Lm	Treasury bills Lm	Long term reinsurance loan Lm	Other loans Lm	Total Lm
Year ended 31 December 2004						
Opening net book amount	29,904,061	316,281	3,673,569	2,118,787	1,444,413	37,457,111
Additions	6,353,250	550,000	25,402,991	15,386	520,970	32,842,597
Disposals	(500,582)	-	(18,703,413)	-	(318,263)	(19,522,258)
Exchange differences	(60,114)	1,403	-	-	-	(58,711)
Amortisation	(28,101)	-	-	-	-	(28,101)
Closing net book amount	**35,668,514**	**867,684**	**10,373,147**	**2,134,173**	**1,647,120**	**50,690,638**
Year ended 31 December 2003						
Opening net book amount	22,067,590	603,466	10,636,151	2,100,495	1,084,246	36,491,948
Additions	7,589,825	215,018	32,865,418	18,292	499,375	41,187,928
Disposals	(113,115)	-	(39,828,000)	-	(139,208)	(40,080,323)
Transfer from unquoted debt securities	503,466	(503,466)	-	-	-	-
Exchange differences	(123,338)	1,263	-	-	-	(122,075)
Amortisation	(20,367)	-	-	-	-	(20,367)
Closing net book amount	29,904,061	316,281	3,673,569	2,118,787	1,444,413	37,457,111

Notes to the financial statements

15. Other financial investments – other originated loans and receivables - continued

The long term reinsurance loan bears interest at 8% per annum and is not subject to fixed terms of repayment.

Loans secured on policies, included in other loans, amounted to Lm1,647,120 as at 31 December 2004 (2003: Lm1,444,413). At the financial year end, they carried interest at the rate of 5.5% per annum (2003: 5.5%).

The above financial assets for the Group and Company include pledged investments amounting to Lm1,128,000 (2003: Lm1,128,000).

Maturity of fixed income debt securities and treasury bills:

	Group	
	2004	2003
	Lm	Lm
Within 3 months	**10,399,147**	4,007,954
Within 1 year but exceeding 3 months	**144,100**	-
Between 1 and 2 years	**847,399**	153,100
Between 2 years and 5 years	**4,262,375**	1,546,323
Over 5 years	**31,541,687**	28,642,994
	47,194,708	34,350,371
Weighted average effective interest rate	**4.8%**	5.6%

	Company	
	2004	2003
	Lm	Lm
Within 3 months	**10,373,147**	3,673,569
Within 1 year but exceeding 3 months	**144,100**	-
Between 1 and 2 years	**847,399**	153,100
Between 2 years and 5 years	**4,262,375**	1,546,323
Over 5 years	**31,282,324**	28,520,919
	46,909,345	33,893,911
Weighted average effective interest rate	**4.8%**	5.6%

Notes to the financial statements

16. Other financial investments – available-for-sale

Group	Quoted shares, other variable yield securities and units in unit trusts Lm	Unquoted shares and securities Lm	Quoted debt securities and other fixed income securities Lm	Total Lm
Year ended 31 December 2004				
Opening net book amount	23,776,893	2,549,874	23,693,060	50,019,827
Additions	14,236,622	1,127,324	8,718,343	24,082,289
Disposals	(5,610,078)	-	(5,127,222)	(10,737,300)
Exchange differences	-	-	19,355	19,355
Amortisation	-	-	(97,261)	(97,261)
Gains from changes in fair value	4,952,735	(17,211)	135,849	5,071,373
Amount released on realisation of investments	(1,853)	-	(24,434)	(26,287)
Closing net book amount	**37,354,319**	**3,659,987**	**27,317,690**	**68,331,996**
At 31 December 2004				
Cost	33,743,776	2,599,420	25,856,925	62,200,121
Fair value gains	3,610,543	1,060,567	1,460,765	6,131,875
Net book amount	37,354,319	3,659,987	27,317,690	68,331,996
Year ended 31 December 2003				
Opening net book amount	17,447,049	962,104	17,016,681	35,425,834
Additions	7,995,696	652,760	11,320,975	19,969,431
Disposals	(4,130,926)	-	(5,200,335)	(9,331,261)
Exchange differences	-	-	76,123	76,123
Amortisation	-	-	(51,924)	(51,924)
Transfer from unquoted shares and securities	25,363	(25,363)	-	-
Gains from changes in fair value	2,131,585	960,373	638,104	3,730,062
Amount released on realisation of investments	308,126	-	(106,564)	201,562
Closing net book amount	23,776,893	2,549,874	23,693,060	50,019,827
At 31 December 2003				
Cost	25,117,232	1,472,096	22,343,710	48,933,038
Fair value (losses)/gains	(1,340,339)	1,077,778	1,349,350	1,086,789
Net book amount	23,776,893	2,549,874	23,693,060	50,019,827

Notes to the financial statements

16. Other financial investments – available-for-sale - continued

Company	Quoted shares, other variable yield securities and units in unit trusts Lm	Unquoted shares and securities Lm	Quoted debt securities and other fixed income securities Lm	Total Lm
Year ended 31 December 2004				
Opening net book amount	23,654,064	2,549,874	23,682,457	49,886,395
Additions	14,134,586	1,127,324	8,576,706	23,838,616
Disposals	(5,538,721)	-	(5,125,840)	(10,664,561)
Exchange differences	-	-	19,298	19,298
Amortisation	-	-	(96,243)	(96,243)
Gains from changes in fair value	4,932,327	(17,211)	136,569	5,051,685
Amount released on realisation of investments	(2,809)	-	(24,417)	(27,226)
Closing net book amount	**37,179,447**	**3,659,987**	**27,168,530**	**68,007,964**
At 31 December 2004				
Cost	33,586,121	2,599,420	25,707,125	61,892,666
Fair value gains	3,593,326	1,060,567	1,461,405	6,115,298
Net book amount	37,179,447	3,659,987	27,168,530	68,007,964
Year ended 31 December 2003				
Opening net book amount	17,387,007	962,104	16,996,225	35,345,336
Additions	7,930,618	652,760	11,320,967	19,904,345
Disposals	(4,118,256)	-	(5,190,597)	(9,308,853)
Transfer from unquoted shares and securities	25,363	(25,363)	-	-
Exchange differences	-	-	75,804	75,804
Amortisation	-	-	(51,924)	(51,924)
Gains from changes in fair value	2,121,290	960,373	638,007	3,719,670
Amount released on realisation of investments	308,042	-	(106,025)	202,017
Closing net book amount	23,654,064	2,549,874	23,682,457	49,886,395
At 31 December 2003				
Cost	24,990,256	1,472,096	22,333,204	48,795,556
Fair value (losses)/gains	(1,336,192)	1,077,778	1,349,253	1,090,839
Net book amount	23,654,064	2,549,874	23,682,457	49,886,395

As at 31 December 2004, the Group and the Company had commitments in respect of the uncalled share capital of available-for-sale investments of Lm686,430 (2003: Lm936,900).

Notes to the financial statements

16. Other financial investments – available-for-sale - continued

Maturity of fixed income debt securities:

	Group 2004 Lm	Group 2003 Lm	Company 2004 Lm	Company 2003 Lm
Within one year	**1,740,174**	268,600	**1,719,065**	268,600
Between 1 and 2 years	**1,253,964**	1,576,284	**1,253,964**	1,576,284
Between 2 and 5 years	**5,031,130**	4,253,515	**5,031,130**	4,253,515
Over 5 years	**19,292,422**	17,594,661	**19,164,371**	17,584,058
	27,317,690	23,693,060	**27,168,530**	23,682,457
Weighted average effective interest rate	**5.0%**	4.9%	**5.0%**	4.9%

17. Value of in-force business

	Group and Company 2004 Lm	Group and Company 2003 Lm
Net book amount at 1 January	**11,900,000**	10,790,000
Increment in value of in-force business, credited to reserves (Note 22)	**1,000,000**	1,110,000
Net book amount at 31 December	**12,900,000**	11,900,000

18. Assets held to cover linked liabilities

	Group and Company Lm
Year ended 31 December 2004	
Opening net book amount	4,645,221
Additions	8,431,369
Gains from changes in fair value	913,455
Closing net book amount	**13,990,045**
At 31 December 2004	
Cost	14,162,770
Fair value losses	(172,725)
Net book amount	13,990,045
Year ended 31 December 2003	
Opening net book amount	3,104,079
Additions	975,014
Gains from changes in fair value	566,128
Closing net book amount	4,645,221
At 31 December 2003	
Cost	5,731,401
Fair value losses	(1,086,180)
Net book amount	4,645,221

Notes to the financial statements

19. Tangible assets

Group

	Leasehold improvements Lm	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2004				
Opening net book amount	51,063	506,901	-	557,964
Additions	26,053	204,583	-	230,636
Depreciation charge	(1,668)	(194,949)	-	(196,617)
Closing net book amount	**75,448**	**516,535**	**-**	**591,983**
At 31 December 2004				
Cost	77,875	1,436,771	32,775	1,547,421
Accumulated depreciation	(2,427)	(920,236)	(32,775)	(955,438)
Net book amount	75,448	516,535	-	591,983
At 31 December 2003				
Cost	51,822	1,232,188	32,775	1,316,785
Accumulated depreciation	(759)	(725,287)	(32,775)	(758,821)
Net book amount	51,063	506,901	-	557,964

Company

	Leasehold improvements Lm	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2004				
Opening net book amount	51,063	483,829	-	534,892
Additions	23,904	200,706	-	224,610
Depreciation charge	(1,651)	(188,930)	-	(190,581)
Closing net book amount	**73,316**	**495,605**	**-**	**568,921**
At 31 December 2004				
Cost	75,726	1,401,327	32,775	1,509,828
Accumulated depreciation	(2,410)	(905,722)	(32,775)	(940,907)
Net book amount	73,316	495,605	-	568,921
At 31 December 2003				
Cost	51,822	1,200,621	32,775	1,285,218
Accumulated depreciation	(759)	(716,792)	(32,775)	(750,326)
Net book amount	51,063	483,829	-	534,892

Fully depreciated assets that were still in use at the year end amounted to Lm367,198 (2003: Lm315,521).

Notes to the financial statements

20. Share capital

	Group and Company	
	2004	2003
	Lm	Lm
Authorised		
10,000,000 ordinary shares of Lm1 each	**10,000,000**	10,000,000
Issued and fully paid		
8,600,000 (2003: 6,300,000) ordinary shares of Lm1 each	**8,600,000**	6,300,000

On 16 April 2004 the Company's shareholders approved a bonus issue of 1,300,000 ordinary shares at a nominal value of Lm1 each.

On 20 October 2004, the Company's shareholders approved an allotment of 1,000,000 ordinary shares of Lm1 each for a cash consideration of Lm1 per share.

21. Revaluation reserve

	Group		Company	
	2004	2003	**2004**	2003
	Lm	Lm	**Lm**	Lm
Balance at 1 January before taxation	**26,284**	(81,930)	**30,056**	(74,584)
Net gains from changes in fair value	**5,984,828**	4,296,190	**5,965,140**	4,285,798
Amount released on realisation of investments	**(26,287)**	201,562	**(27,226)**	202,017
Share of group undertaking's reserves	**-**	-	**15,828**	6,363
Apportionment to technical profit and loss account	**(5,820,890)**	(4,389,538)	**(5,820,890)**	(4,389,538)
Balance at 31 December before taxation	**163,935**	26,284	**162,908**	30,056
Deferred taxation	**(3,745)**	11,535	**(2,718)**	7,763
Balance at 31 December	**160,190**	37,819	**160,190**	37,819

The revaluation reserve is non-distributable.

22. Other reserves

	Group and Company	
	2004	2003
Value of in-force business	**Lm**	Lm
Balance at 1 January	**9,250,000**	8,140,000
Increment in value of in-force business (Note 17)	**1,000,000**	1,110,000
Balance at 31 December	**10,250,000**	9,250,000

The above reserve is non-distributable.

Notes to the financial statements

23. Long term business provision

	Group and Company	
	2004	2003
	Lm	Lm
At 1 January (net)	**116,059,241**	92,398,799
Charged to technical profit and loss account	**29,151,219**	23,660,442
At 31 December (net)	**145,210,460**	116,059,241

24. Deferred taxation

	Group		Company	
	2004	2003	**2004**	2003
	Lm	Lm	**Lm**	Lm
Balance at 1 January	**973,549**	1,053,263	**967,040**	1,043,550
Movements during the year:				
Revaluation reserve (Notes 7, 21)	**(15,280)**	(26,438)	**(10,481)**	(22,864)
Profit and loss account (Note 7)	**(4,238)**	(53,276)	**-**	(53,646)
Balance at 31 December	**954,031**	973,549	**956,559**	967,040

Deferred taxation is calculated on all temporary differences under the liability method using a principal tax rate of 35% (2003: 35%). Deferred taxation at the year end comprises:

	Group		Company	
	2004	2003	**2004**	2003
	Lm	Lm	**Lm**	Lm
Temporary differences attributable to fair value adjustments on investments	**(1,350,105)**	(619,210)	**(1,349,081)**	(622,982)
Temporary differences attributable to fixed assets	**(66,393)**	(55,034)	**(64,889)**	(53,734)
Temporary differences attributable to tax losses and allowances carried forward	**2,370,529**	1,647,793	**2,370,529**	1,643,756
Balance at 31 December	**954,031**	973,549	**956,559**	967,040

Notes to the financial statements

24. Deferred taxation - continued

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off a tax asset against a tax liability. The following amounts determined after appropriate offsetting are shown in the balance sheet.

	Group		Company	
	2004 Lm	2003 Lm	**2004 Lm**	2003 Lm
Deferred tax asset	**954,031**	973,549	**956,559**	967,040

Deferred tax assets are recognised on the basis that realisation of the related tax benefit against future taxable income is probable.

25. Note to the cash flow statement

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2004 Lm	2003 Lm	**2004 Lm**	2003 Lm
Profit before tax	**1,639,463**	1,411,240	**1,639,463**	1,411,240
Adjustments for:				
Depreciation (Note 19)	**196,617**	174,312	**190,581**	170,004
Amortisation and exchange differences	**149,891**	106,067	**148,151**	104,680
Share of group undertaking's profit before tax, adjusted for net dividend received	**-**	-	**(95,420)**	(53,871)
Share of participating interests' profit before tax, adjusted for net dividend received	**(88,328)**	(15,901)	**(88,328)**	(15,901)
Unrealised gains on investments	**(5,850,538)**	(5,152,236)	**(5,850,538)**	(5,152,236)
Realised gains on disposal of investments	**(147,144)**	(64,493)	**(140,173)**	(29,096)
Increase in technical provisions	**38,324,956**	25,431,710	**38,324,956**	25,431,710
Debtors	**(250,321)**	(74,905)	**(239,320)**	(73,545)
Creditors	**141,755**	(29,757)	**203,434**	(33,860)
Cash generated from operations	**34,116,351**	21,786,037	**34,092,806**	21,759,125

Notes to the financial statements

26. Cash and cash equivalents

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

	Group		Company	
	2004	2003	**2004**	2003
	Lm	Lm	**Lm**	Lm
Cash at bank and in hand	**1,948,278**	1,179,077	**1,875,310**	1,121,554
Time deposits and treasury bills maturing within three months (Notes 14 & 15)	**18,733,795**	9,942,549	**18,707,795**	9,608,164
	20,682,073	11,121,626	**20,583,105**	10,729,718

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

	Group		Company	
	2004	2003	**2004**	2003
	Lm	Lm	**Lm**	Lm
At floating rates	**1,441,618**	842,604	**1,368,650**	785,081
Weighted average effective interest rate	**1.1%**	1.3%	**1.1%**	1.3%

27. Financial instruments

The nature of the Group's operations implies that financial instruments are extensively used in the course of its activities. The Group is potentially exposed to a range of risks that are managed as outlined below.

Credit risk

Financial assets that potentially subject the Group to concentrations of credit risk consist principally of cash at bank, debtors and investments. The Group's cash is placed with quality financial institutions. Credit risk with respect to debts is not significant. The direct insurance debtor base is constituted by a large number of customers. Other debtors comprise reputable institutions and group undertakings. Credit risk in respect of concentration of investments is not considered by the directors to be significant in view of the credit standing of the issuer. The Group has in place internal control structures to assess and monitor credit exposures and risk thresholds. The Group places limits on the level of credit risk undertaken from the main categories of financial instruments.

Liquidity risk

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

Notes to the financial statements

27. **Financial instruments** - continued

Market risk

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

Fair values

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

	Group		**Company**	
	Carrying value 2004 Lm	**Fair value 2004 Lm**	**Carrying value 2004 Lm**	**Fair value 2004 Lm**
Financial investments				
Other originated loans and receivables	**50,976,001**	**54,888,037**	**50,690,638**	**54,600,941**
	2003 Lm	2003 Lm	2003 Lm	2003 Lm
Other originated loans and receivables	37,913,571	42,038,443	37,457,111	41,578,658

At 31 December 2004 and 2003, the carrying amounts of other financial assets and liabilities approximated their fair values.

Interest rate risk

The Group's income and operating flows are substantially independent of changes in market interest rates. Notes 14, 15, 16 and 26 incorporate interest rate and maturity information with respect to the Group's assets. Up to the balance sheet date, the Group did not have any hedging policy with respect to interest rate risk as exposure to such risk was not deemed to be significant by the directors.

Currency risk

Investments denominated in foreign currency are held in a mix of currencies that reflects, in the main part, their respective weighting in the Maltese Lira basket. As at 31 December 2004, unexpired forward foreign exchange contracts amounting to Lm1,480,678 (2003: Lm833,767) were entered into for the purpose of hedging exposures in security investments denominated in currencies beyond the composition of the Maltese Lira basket. The fair value movements that were recognised in the profit and loss account on such forward foreign exchange contracts amounted to a gain of Lm20,229 (2003: Lm11,718).

Notes to the financial statements

28. Commitments

Capital commitments

Commitments for capital expenditure not provided for in these financial statements are as follows:

	Group and Company	
	2004	2003
	Lm	Lm
Authorised and contracted for	**50,334**	100,868
Authorised but not contracted	**206,211**	421,624
	256,545	522,492

Operating lease commitments – where the Company is the lessor

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

	2004	2003
	Lm	Lm
Not later than 1 year	**694,403**	571,284
Later than 1 year and not later than 5 years	**1,759,822**	1,274,264
Later than 5 years	**1,027,989**	772,341
	3,482,214	2,617,889

29. Contingent liabilities

The Company has issued a guarantee of Lm124,810 (2003: Lm124,810) to a third party in favour of its subsidiary, Growth Investments Limited.

30. Related party transactions

The Company's shareholders are Middlesea Insurance p.l.c., Bank of Valletta p.l.c. and Munchener Ruckversicherungs - Gesellschaft of Germany. Approximately 46% (2003: 32%) of the Company's expenditure comprises acquisition costs paid to Bank of Valletta p.l.c. and administrative costs shared with the Middlesea Group. The Company's major reinsurer is Munchener Ruckversicherungs - Gesellschaft. All transactions with related parties are carried out at arm's length. Also, during the year, Corporacion Mapfre, a shareholder of Middlesea Insurance p.l.c., sold 10% of its shareholding in Progress Assicurazioni SpA to Middlesea Valletta Life Assurance Company Limited. The transaction was concluded for a consideration of Lm938,100, determined by reference to the net asset value of the company. Progress Assicurazioni SpA is a subsidiary of Middlesea Insurance p.l.c..

31. Statutory information

Middlesea Valletta Life Assurance Company Limited is a limited liability company and is incorporated in Malta.

MIDDLESEA VALLETTA LIFE

Assurance Company Limited

So much more to life

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