MIDDLESEA VALLETTA LIFE

Because happiness is a journey, not a destination

contents

chairman and deputy chairman & ceo's statement

We are pleased to report another positive year for Middlesea Valletta Life Assurance Co. Ltd. (MSV Group).

MSV Group registered a profit after tax of Lm2.3 million (€5.36m) for the year ended 31 December 2005, an increase of 27 % over the previous year whilst Business Written increased by 12.6% to Lm39.26 million (€91.45m). For the second consecutive year we experienced a strong demand for savings related products. The increase in Business Written was largely attributable to increased sales of the foreign currency Investment Bond and of the Single Premium Plan, particularly through the Bancassurance operation with Bank of Valletta p.l.c., which remains our most important channel of distribution.

In 2005 we were successful in achieving a very strong investment performance. Investment income increased from Lm10.92 million (€25.44m) in 2004 to Lm26.19 million (€61.01m) in 2005. This was mainly due to the favourable development of equity markets.

The Group's assets increased by 33% from Lm188.25 million (€438.5m) in 2004 to Lm250.2 million (€583m) at the end of 2005, whilst the Life Fund increased by 34% to Lm218.11 million (€508m).

During the year an interim dividend of Lm300,000 (€698,812) was paid whilst the Board recommended the capitalisation of Lm1,400,000 (€3.26m) from the revenue reserves account in April 2006. 1,400,000 fully paid ordinary shares of Lm1 per share were issued by way of a Bonus Share issue, thereby increasing the fully paid up capital from Lm8.60 million (€20.03m) to Lm10 million (€23.29m).

Following the approval by the Annual General Meeting of the increase in the Authorised Share Capital from Lm10 million (€23.29m) to Lm15 million (€34.94m), the Board recommended the issue of a further 1,000,000 ordinary shares of Lm1 each fully paid up, which were subscribed for in cash, thereby further increasing the issued and fully paid up capital from Lm10 million (€23.29m) to Lm11 million (€25.62m).

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

The Board of Directors approved a resolution whereby the following differential rates of reversionary bonuses were declared in respect of with-profits investments held with MSV for the year ending 31 December 2005:

- 3.85% for the Comprehensive Life Plan (Regular and Single Premium Policies);
- 4.25% in respect of its Comprehensive Flexi Plan (Regular and Single Premium Policies);
- 4.5% under the Single Premium Plan; and
- 4.5% under the with-profits option of the Investment Bond.

On the 'Old Series' Endowment and Whole of Life policies, a reversionary bonus of 2.2% of the basic sum assured plus bonuses was declared. Furthermore, the Board also approved a reversionary bonus of 3.45% on those Secure Growth policies which formed part of the portfolio of business transferred from Assicurazioni Generali S.p.A. during 2000.

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

The most important factor that affects bonus rates remains the performance of the underlying investments. The investment strategy of the company is based on a diversified range of assets to help reduce the investment risk. Our asset and currency mix, geographical spread and asset quality mean that we are well placed to capture an upturn in investment markets.

During 2005, MSV Group registered a very strong investment return, which has enabled us to increase the bonus rates to all our with-profits policyholders whilst safeguarding the capital invested. In addition, we were also in a position to declare a terminal bonus on our Comprehensive Life Plan portfolio, and this is in line with the promise made to our policyholders that we may consider such an optional bonus after the end of a policy's tenth year. Despite the declaration of a terminal bonus on our Comprehensive Life Plan portfolio, policyholders should be aware that future terminal bonus rates are likely to remain volatile and to be very dependent on investment performance.

Our bonus philosophy is to achieve a fair, consistent and equitable distribution of investment returns among the different generations and types of with-profits policies over a period of time. In determining the levels of the declared bonus rates, we aim to smoothen returns under our with-profits policies over the full term of such policies. Smoothing entails establishing reserves from certain favourable years to compensate for unfavourable investment returns in other years during the policy term.

Last year we reported that new and revised International Financial Reporting Standards (IFRS) would be introduced as from 1 January 2005, and that considerable work had been undertaken to ensure that we could embrace the technical and regulatory challenges presented by the ever changing statutory and regulatory regime. We successfully adopted IFRS fully in the financial statements for the year under review. The corresponding comparative figures for the previous year were similarly adjusted to the new and revised IFRS.

We believe that good corporate governance and an understanding of the impact of our business operations are important aspects of the way we conduct business. We recognise that our corporate actions and decisions have a significant effect on the society in which we operate, and we are committed to managing this in a responsible and professional manner. We share the same policy of Corporate Social Responsibility of the Middlesea Group. This policy focuses on the management of good corporate performance and is concerned with standards of business conduct, the promotion of good and fair relations with employees, business partners, stakeholders, customers and the community at large. It also encompasses products, services, marketing, as well as social issues, the environment, Maltese heritage and culture.

We are confident that the life insurance market in Malta will continue to offer good prospects for further growth. The average per capita spending on life insurance in Malta is still very low compared to the European average. The recently announced plans to stimulate voluntary pension provision are indeed welcome, as these will certainly lead to an increase in demand for personal retirement plans.

Although Malta remains a significantly under-insured market with considerable room for further growth, our strategy for long-term growth is also focused on external markets, in particular in the Euro-Mediterranean region. Our interest lies in pursuing opportunities that can provide us with sustainable and profitable growth for all stakeholders.

In conclusion, we would like to thank the staff and management of MSV Group for their professional attitude 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

From left to right: Mr V. Cardona, Mr J. Ludbrook, Mr M C. Grech.

From left to right: Mr R. E. D. Chalmers, Mr M. Grima, Mr T. Depasquale, Mr E. Ellul.

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

Formerly: A partner with the offices of Coopers and Lybrand (later PricewaterhouseCoopers) in Malta and in Hong Kong. Managing Partner of Coopers & Lybrand Hong Kong and Chairman of the firm's South East Asia Regional Executive and a member of the International Board of Directors. Upon the merger of Coopers & Lybrand and Price Waterhouse in 1998, he was appointed Chairman, Asia-Pacific, for PricewaterhouseCoopers, until his retirement in 2000.

He was also a member of the PwC Global Management Board. He served as a non-executive director of the Hong Kong Securities and Futures Commission and he was also a member of the Takeovers and Mergers Panel. He was appointed by the Financial Secretary of Hong Kong to sit on the Banking Advisory Committee. Member on the board and Chairman of the Audit Committee of Gasan Mamo Insurance Co Ltd.

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

Mr M.C. Grech
Deputy Chairman & CEO

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

At present: Chairman & 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., Chairman of the Middlesea Group Investment Committee and the Corporate Management Committee.

Mr V. 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 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, Compliance, Remuneration and Risk Management Committees.

Mr T. 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 E. Ellul
B. A. (Hons)
Econ.Dip.Pol.Econ. (Oxon.)
Director

Mr Ellul was Senior Research Officer, Head of Research, General Manager, Deputy Governor, Governor at the Central Bank of Malta, Governor at the Malta Financial Services Centre and Governor of the Malta College of Arts, Science and Technology. He currently is Chairman of Malta Privatisation Unit – MITI, and Director of Malta Government Privatisation p.l.c.

Mr M. Grima
Dip. M.S., M.B.A. (Henley), M.I.M., M.C.M.I.
Director

Mr Grima occupied various executive and managerial positions at Bank of Valletta p.l.c. over the past years. These included Chairmanship of the BOV Purchasing Committee, member of the Bank's Executive Committee and Branch Manager at various bank branches. He was formerly a trustee member of the BOV Employees Foundation and Director of Bank of Valletta p.l.c for six consecutive years.

He is currently the Executive Head Bancassurance at Bank of Valletta p.l.c., a position which he has held since April 1994. He is also a Director of Church Wharf Properties Limited, a subsidiary of Middlesea Valletta Life Assurance Co Ltd.

Mr. J. 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.

management team

From left to right: Mr V. Farrugia, Mr Ray Gibson, Ms P. Brincat, Ms M. Spiteri, Mr D. G. Curmi, Mr Henrik Damato, Ms D. Bezzina, Mr V. Ellul, Mr J. Gauci

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

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 (Henly-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, MSI, FAIQ

general manager's review

Following a successful 2004, the year under review also lived up to our expectations. Business Written increased by 12.6% over 2004 compared with a market growth of 10.6%. During the same year we increased further our share of the individual life market in Malta and this now stands at around 66%. The continued increase in revenue is attributable to our strong multi-channel distribution platform, in particular to our Bancassurance operation with Bank of Valletta p.l.c. and to our strategy to develop products that meet the needs of the community in which we operate. During 2005 we issued 8,572 new contracts which accounts to more than half of the total individual contracts issued during the same year in the market.

Performance and Financial Results

During 2005, Middlesea Valletta Life ("MSV Group") recorded a profit after tax of Lm2.3 million (€5.36m) representing an increase of 27.5% over the restated corresponding figure of Lm1.8 million (€4.18m) recorded in 2004. Business Written (including Investment Contracts Without a Discretionary Participation Feature (DPF) increased by 12.6% from Lm34.88 million (€81.25m) in 2004 to Lm39.26 million (€91.45m) in 2005.

Gross claims incurred increased from Lm3.3 million (€7.69) in 2004 to Lm4.9 million (€11.41m) whilst claims incurred after reinsurance amounted to Lm4.76 million (€11.09m) an increase of 48% over 2004. Claims incurred include maturities, surrenders, mortality and disability claims. This increase in claims is mainly attributable to a higher number of maturities.

Our acquisition costs increased by 6% from Lm2.05 million (€4.78m) in 2004 to Lm2.18 million (€5.08m), despite the higher increase in Business Written, reflecting the better management of acquisition costs. Administrative expenses increased by 13% from Lm1.41 million (€3.28m) in 2004 to Lm1.60 million (€3.73m) in 2005. Once again this increase in administrative expenses was mainly attributable to our continued investment in IT systems aimed at improving our efficiency and reducing longer term costs. Despite these increases, the ratio of Net Operating Expenses to Business Written increased marginally from 8.17% to 8.56%. The weighted average earnings per Lm1.00 (€0.4293) share increased from 23c1 (€0.53) in 2004 to 26c7 (€0.62) in 2005.

MSV Group's contribution towards the results of the Middlesea Group increased from Lm915,100 (€2.13m) in 2004 to Lm1,157,947 million (€2.7m).

Capital and Financial Strength

The Group's Balance Sheet increased by 33% to Lm250.2 million (€583m) whilst Total Equity at the close of 2005 amounted to Lm29.1 million (€67.78m), an increase of 22% over the previous year. The value of in-force business also increased from Lm12.9 million (€30.05m) in 2004 to Lm16.6 million (€m38.67m) in 2005. The value of in-force business reflects the discounted value of projected future transfers to shareholders arising from policies in force at the end of the year after oviding for taxation. During the year an interim dividend of Lm300,000 (€698,812) was paid whilst the Board recommended the capitalization of Lm1,400,000 (€3.26m) from the revenue reserves account, for the purpose of issuing 1,400,000 fully paid ordinary shares of Lm1 (€0.4293) per share by way of a Bonus Share Issue thereby increasing the issued and fully paid up capital from Lm8.60 million (€20.03m) to Lm10 million (€23.29m).

Following the approval by the Annual General Meeting of the increase in the Authorised Share Capital from Lm10 million (€23.29m) to Lm15 million (€34.94m), the Board recommended the issue of a further 1,000,000 ordinary shares of Lm1 each fully paid up which was subscribed for in cash thereby increasing the issued and fully paid up capital from Lm10 million (€23.29m) to Lm11 million (€25.62m).

Investment Performance

In 2005, our results were driven by a very strong investment performance from local and international financial markets and investments. Investment income increased from Lm10.92 million (€25.44m) in 2004 to Lm26.19 million (€61.01m).

Funds invested at the end of 2005 amounted to Lm224.5 million (€523m). This corresponds to an increase of 34% over the figure of Lm167.5 million (€390.17m) in 2004. The value of the life fund (including Investment Contracts Without DPF) increased by 34% from Lm162.94 million (€380m) in 2004 to Lm218.22 million (€508m) in 2005.

Adoption of new and revised International Financial Reporting Standards

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

Description of Our Business

Middlesea Valletta Life Assurance Co. Ltd. is licenced under the Insurance Business Act, 1998 to transact long term insurance business, and under the Investment Services Act, 1994 to transact linked long term (unit-linked) 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 Polices (Insurance Contracts);
- With-profits Policies (Investment Contracts with DPF);
- Linked long term (unit-linked) Policies (Investment Contracts without DPF).

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 or Terminal 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 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.

2005 was once again marked by a strong demand for savings related investment products in particular, single premium policies. In 2005 single premium investments represented 53% of the Business Written. Investors responded positively to the improvement and stabilization in financial markets and this has also led to an increase in demand for linked long term (unit-linked) policies. In 2005 the premium income from unit-linked polices represented 24% of the total portfolio.

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.

Our 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.

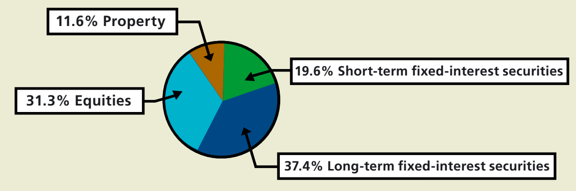
The monies of the with-profits fund are invested in a diversified range of local and foreign assets, within the established strategic allocation, to help reduce the investment risk that arises from holding any single type of asset. The MSV with-profits fund aims to deliver relatively stable long-term 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.

At 31 December 2005 the funds invested were distributed into the following asset classes:



Our Customers

We recognize that our existing and future customers are vital to the future of our business. We are committed to running our business to high ethical, legal and professional standards. Our core operating values are security, integrity, peace of mind, customer focus, continuous improvement and people development. We have implemented measures that enable us to treat customers fairly, openly, honestly and with the utmost courtesy and to ensure, at all times, that the fair treatment of customers is central to our corporate culture. We will shortly be launching our first Customer Charter which will outline our key commitments and the standards of service that our existing and future customers can expect from us.

In 2005, we launched a web-enabled 24x7 Policy Enquiry Tool to all intermediaries which enables all intermediaries to view policies introduced by them on a 24x7 basis.

Our People

We are committed to ensure that our people and intermediaries are adequately trained. We regard life-long learning as a high priority and to this end we provide our people and intermediaries with regular training and development opportunities. We encourage and motivate our people and intermediaries to attain professional qualifications of the Chartered Insurance Institute and other recognized professional bodies.

During 2005 our people attended a specialized training programme in achieving excellence in customer care based on the concept of Neuro Linguistic Programming. The training has been instrumental in helping our people to deliver our core values of professionalism, efficiency, promptness, care, understanding and concern to all our customers.

Furthermore a number of persons achieved very good results in examinations leading to Associate of the Chartered Insurance Institute qualification.

Subsidiaries

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

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

Outlook

During 2005, we continued to demonstrate our resilience in the individual life protection and long-term savings market in Malta. Despite operating in a competitive market, we succeeded in maintaining our market share, which now stands at around 66%. Our strategy is to offer a broad range of products through a multi-distribution platform. The Bancassurance venture with Bank of Valletta p.l.c. remains our most important distribution channel and, during 2005, this source of business continued to register further significant growth. A significant increase in business was also achieved from our established network of authorised intermediaries.

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

We will continue to focus on product innovation to fulfil the three principal life insurance demands of protection, savings and retirement. We will strive to promote and provide value for money protection, savings, and investment products and services that offer peace of mind and the possibility of growth commensurate with an acceptable level of risk and backed by high-quality service. Considerable preparatory work has already been undertaken in relation to planned pension reform in Malta and we are confident that we will be in a position to offer both group and individual pension solutions once the relevant legislation is enacted.

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

David G. Curmi
General Manager

directors' report

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

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 2005, Middlesea Valletta Life Assurance Company Limited (MSV Group) reported a profit after tax of Lm2.3 million representing an increase of 27.5% over the corresponding figure of Lm1.8 million recorded in 2004.

Gross written premiums (including investment contracts without DPF) increased by 12.6% from Lm34.88 million in 2004 to Lm39.26 million in 2005. During 2004, MSV Group continued to experience a strong demand for savings products, and the increase in premium was largely attributable to increased sales of the foreign currency MSV Investment Bond and the MSV Single Premium Plan.

In 2005, MSV Group was successful in achieving a very strong investment performance. Investment return increased from Lm10.92 million in 2004 to Lm26.19 million. The Group's balance sheet increased by 32.9% from Lm188.25 million in 2004 to Lm250.2 million at the end of 2005, whilst the life fund (including investment contracts without DPF) increased by 33.8% from Lm162.94 million in 2004 to Lm218.11 million in 2005.

MSV Group increased the Bonus Rates for 2005 to all with-profits policyholders. In addition, the Group declared a Terminal Bonus on its Comprehensive Life Plan portfolio, and this is in line with the promise made to policyholders that the Group may consider the declaration of a Terminal Bonus after the end of a policy's tenth year. The directors are recommending an increase in the issued share capital of the Company of Lm1 million through a cash injection. This recommendation is to be approved at the forthcoming Annual General Meeting.

MSV Group has a positive outlook on their position in the life insurance market in Malta. The Group aims to continue to deliver a broad and superior range of protection, long-term savings and investment products that meet the needs of our customers.

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 16. During the year an interim dividend of Lm300,000 was paid (2004: Nil). The directors recommend the payment of a final dividend of Lm1,400,000 payable to the shareholders by way of a bonus issue of ordinary shares of Lm1 each (2004: Lm500,000).

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)
M.C. Grech (Deputy Chairman and C.E.O.)
T. Depasquale
E. Ellul BA (Hons) Econ, Dip Pol Econ (Oxon)
M. Grima Dip MS, MBA (Henley), MIM, MCMI
R. Lenhard Dipl Math – resigned 23 September 2005
J.J. Ludbrook BA FIA
J.M. Rizzo ACII, AIMIS, AMIAP, Chartered Insurer

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 are 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 Limited.

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

27 April 2006

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 16 to 68. As described in the statement of directors' responsibilities on page 14, these financial statements are the responsibility of the Company's directors. Our responsibility is to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

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

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of the profit, 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

27 April 2006

profit and loss account
technical account – long term business

	Notes	Year ended 31 December	
		Group and Company	
		2005	**2004**
		Lm	Lm
			(restated)
Earned premiums, net of reinsurance			
Gross premiums written	3	**33,657,413**	29,210,811
Outward reinsurance premiums		**(774,413)**	(680,697)
Net premiums written		**32,883,000**	28,530,114
Investment income	4	**6,762,408**	6,033,625
Unrealised gains on investments	4	**18,758,635**	4,977,486
Other technical income, net of reinsurance	5	**311,792**	285,629
Total technical income		**58,715,835**	39,826,854
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**4,842,797**	3,265,606
- reinsurers' share		**(155,952)**	(72,537)
		4,686,845	3,193,069
Change in the provision for claims			
- gross amount		**76,641**	41,600
- reinsurers' share		**(4,557)**	(6,598)
		72,084	35,002
Claims incurred, net of reinsurance	3	**4,758,929**	3,228,071
Change in other technical provisions, net of reinsurance			
Insurance contracts			
- gross amount		**23,475,510**	15,255,241
- reinsurers' share		**3,502**	1,818
		23,479,012	15,257,059
Investment contracts with DPF – Gross		**24,978,148**	16,681,789
Change in other technical provisions, net of reinsurance		**48,457,160**	31,938,848
Net operating expenses	3	**3,363,478**	2,853,922
Investment expenses and charges	4	**384,566**	396,841
Total technical charges		**56,964,133**	38,417,682
Tax attributable to the long term business	8	**(311,996)**	87,369
Balance on the long term business technical account (page 17)		**1,439,706**	1,496,541

profit and loss account
non-technical account

	Notes	Year ended 31 December			
		Group		Company	
		2005	2004	**2005**	2004
		Lm	Lm	**Lm**	Lm
			(restated)		*(restated)*
Balance on the long term business technical account (page 16)		**1,439,706**	1,496,541	**1,439,706**	1,496,541
Investment income	4	**318,727**	184,339	**275,653**	286,339
Unrealised gains on investments	4	**757,487**	132,352	**692,586**	115,370
Investment expenses and charges	4	**(25,995)**	(8,903)	**(14,681)**	(8,903)
Other income – commission receivable		**371,369**	325,963	**-**	-
Other charges – administrative expenses	3	**(232,697)**	(213,994)	**(42,652)**	(45,697)
Profit before tax		**2,628,597**	1,916,298	**2,350,612**	1,843,650
Income tax expense	8	**(328,166)**	(112,143)	**(250,798)**	(87,369)
Profit for the financial year		**2,300,431**	1,804,155	**2,099,814**	1,756,281
Earnings per share (cents)	10	**26c7**	23c1		

balance sheet

	Notes	Group 2005 Lm	Group 2004 Lm *(restated)*	Company 2005 Lm	Company 2004 Lm *(restated)*
		As at 31 December			
		Group		**Company**	
	Notes	**2005**	2004	**2005**	2004
		Lm	Lm	**Lm**	Lm
ASSETS			*(restated)*		*(restated)*
Intangible assets	12	**17,423,207**	13,580,539	**17,418,480**	13,574,958
Tangible assets - property, plant and equipment	13	**210,826**	185,769	**195,790**	168,289
Investments:					
Land and buildings - investment property	14	**19,971,926**	15,979,008	**19,971,926**	15,979,008
Investment in group undertaking	15	**-**	-	**199,999**	199,999
Investment in associated undertakings	16	**1,948,349**	1,769,963	**1,948,349**	1,769,963
Other investments	17	**202,542,547**	149,760,339	**202,062,432**	149,149,018
Deferred income tax	18	**948,245**	831,027	**948,245**	833,555
Reinsurers' share of technical provisions	23	**127,750**	126,695	**127,750**	126,695
Income tax receivable		**1,367,793**	2,302,214	**1,367,793**	2,302,214
Debtors	19	**1,223,617**	117,445	**1,234,766**	501,730
Prepayments and accrued income	19	**2,117,751**	1,651,181	**2,027,742**	1,587,963
Cash at bank and in hand	20	**2,316,363**	1,948,278	**2,291,404**	1,875,310
Total assets		**250,198,374**	188,252,458	**249,794,676**	188,068,702
EQUITY AND LIABILITIES					
Capital and reserves attributable to shareholders of the Company					
Called up share capital	21	**8,600,000**	8,600,000	**8,600,000**	8,600,000
Other reserves	22	**13,960,000**	10,250,000	**13,960,000**	10,250,000
Profit and loss account		**6,559,618**	5,059,187	**6,250,511**	4,950,697
Total equity		**29,119,618**	23,909,187	**28,810,511**	23,800,697
Technical provisions					
- insurance contracts	23	**123,073,309**	99,522,481	**123,073,309**	99,522,481
- investment contracts with DPF	23	**78,963,807**	53,984,336	**78,963,807**	53,984,336
- investment contracts without DPF	24	**16,528,040**	9,822,940	**16,528,040**	9,822,940
Provision for other risks and charges					
- deferred taxation	18	**682,561**	-	**677,484**	-
Creditors	25	**1,151,212**	481,111	**1,137,214**	469,524
Accruals and deferred income	25	**611,236**	475,778	**604,311**	468,724
Income tax payable		**68,591**	56,625	**-**	-
Total liabilities		**221,078,756**	164,343,271	**220,984,165**	164,268,005
Total equity and liabilities		**250,198,374**	188,252,458	**249,794,676**	188,068,702

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 2004						
As previously stated		6,300,000	37,819	9,250,000	4,559,020	20,146,839
Effect of adopting IAS 28 (revised)	16	-	-	-	(248,592)	(248,592)
Effect of adopting IAS 39 (revised)		-	(37,819)	-	184,549	146,730
Effect of adopting IFRS 4		-	-	-	60,055	60,055
Balance at 1 January 2004 as restated		6,300,000	-	9,250,000	4,555,032	20,105,032
Increment in value of in-force business	22	-	-	1,000,000	-	1,000,000
Net income recognised directly in equity		-	-	1,000,000	-	1,000,000
Profit for the financial year		-	-	-	1,804,155	1,804,155
Total recognised income for 2004		-	-	1,000,000	1,804,155	2,804,155
Issue of share capital	21	1,000,000	-	-	-	1,000,000
Dividends	11, 21	1,300,000	-	-	(1,300,000)	-
Balance at 31 December 2004		**8,600,000**	**-**	**10,250,000**	**5,059,187**	**23,909,187**
Balance at 1 January 2005						
As previously stated		8,600,000	160,190	10,250,000	4,781,796	23,791,986
Effect of adopting IAS 28 (revised)	16, 18	-	-	-	(129,739)	(129,739)
Effect of adopting IAS 39 (revised)	17, 23	-	(160,190)	-	229,069	68,879
Effect of adopting IFRS 4		-	-	-	178,061	178,061
Balance at 1 January 2005 as restated		8,600,000	-	10,250,000	5,059,187	23,909,187
Increment in value of in-force business	22	-	-	3,710,000	-	3,710,000
Net income recognised directly in equity		-	-	3,710,000	-	3,710,000
Profit for the financial year		-	-	-	2,300,431	2,300,431
Total recognised income for 2005		-	-	3,710,000	2,300,431	6,010,431
Dividends	11	-	-	-	(800,000)	(800,000)
Balance at 31 December 2005		**8,600,000**	**-**	**13,960,000**	**6,559,618**	**29,119,618**

statement of changes in equity *- continued*

Company

	Notes	Share capital Lm	Revaluation reserve Lm	Other reserves Lm	Profit and loss account Lm	Total Lm
Balance at 1 January 2004						
As previously stated		6,300,000	37,819	9,250,000	4,559,020	20,146,839
Effect of adopting IAS 27 and 28 (revised)	15, 16	-	-	-	(305,883)	(305,883)
Effect of adopting IAS 39 (revised)		-	(37,819)	-	181,224	143,405
Effect of adopting IFRS 4		-	-	-	60,055	60,055
Balance at 1 January 2004 as restated		6,300,000	-	9,250,000	4,494,416	20,044,416
Increment in value of in-force business	22	-	-	1,000,000	-	1,000,000
Net income recognised directly in equity		-	-	1,000,000	-	1,000,000
Profit for the financial year		-	-	-	1,756,281	1,756,281
Total recognised income for 2004		-	-	1,000,000	1,756,281	2,756,281
Issue of share capital	21	1,000,000	-	-	-	1,000,000
Dividends	11, 21	1,300,000	-	-	(1,300,000)	-
Balance at 31 December 2004		**8,600,000**	**-**	**10,250,000**	**4,950,697**	**23,800,697**
Balance at 1 January 2005						
As previously stated		8,600,000	160,190	10,250,000	4,781,796	23,791,986
Effect of adopting IAS 27 and 28 (revised)	15, 16, 18	-	-	-	(236,303)	(236,303)
Effect of adopting IAS 39 (revised)	17, 23	-	(160,190)	-	227,143	66,953
Effect of adopting IFRS 4		-	-	-	178,061	178,061
Balance at 1 January 2005 as restated		8,600,000	-	10,250,000	4,950,697	23,800,697
Increment in value of in-force business	22	-	-	3,710,000	-	3,710,000
Net income recognised directly in equity		-	-	3,710,000	-	3,710,000
Profit for the financial year		-	-	-	2,099,814	2,099,814
Total recognised income for 2005		-	-	3,710,000	2,099,814	5,809,814
Dividends	11	-	-	-	(800,000)	(800,000)
Balance at 31 December 2005		**8,600,000**	**-**	**13,960,000**	**6,250,511**	**28,810,511**

Unrealised fair value gains attributable to shareholders, net of taxation, amounting to Lm253,888 (2004: Lm104,864) have been credited to the profit and loss account and are not distributable in terms of the Companies Act, 1995.

cash flow statement

		Year ended 31 December			
		Group		Company	
	Notes	**2005 Lm**	2004 Lm *(restated)*	**2005 Lm**	2004 Lm *(restated)*
Operating activities					
Cash generated from operations	26	**30,976,441**	28,958,628	**31,194,198**	28,987,623
Dividends received	4	**1,539,970**	892,474	**1,533,214**	888,819
Interest received		**4,726,478**	4,193,462	**4,722,643**	4,186,595
Interest paid		**-**	(2,231)	**-**	(2,231)
Taxation paid		**(266,949)**	(735,323)	**(204,096)**	(768,912)
Dividends paid		**(800,000)**	-	**(800,000)**	-
Net cash generated from operating activities		**36,175,940**	33,307,010	**36,445,959**	33,291,894
Investing activities					
Purchase of intangible assets	12	**(363,796)**	(327,706)	**(362,861)**	(326,464)
Purchase of tangible assets	13	**(57,579)**	(60,439)	**(55,112)**	(55,654)
Purchase of investment property	14	**(2,438,330)**	(2,170,862)	**(2,438,330)**	(2,170,862)
Purchase of other financial investments	17	**(80,237,980)**	(65,454,291)	**(80,186,980)**	(64,928,136)
Disposal of other financial investments		**47,289,830**	34,475,489	**47,013,418**	33,942,978
Net cash used in investing activities		**(35,807,855)**	(33,537,809)	**(36,029,865)**	(33,538,138)
Financing activities					
Issue of share capital	21	**-**	1,000,000	**-**	1,000,000
Net cash generated from financing activities		**-**	1,000,000	**-**	1,000,000
Movement in cash and cash equivalents		**368,085**	769,201	**416,094**	753,756
Cash and cash equivalents at beginning of year		**1,948,278**	1,179,077	**1,875,310**	1,121,554
Cash and cash equivalents at end of year	20	**2,316,363**	1,948,278	**2,291,404**	1,875,310

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

1. General information

Middlesea Valletta Life Assurance Company Limited (the Company), and its subsidiaries, (together forming the Group) are licensed under the Insurance Business Act, 1998 to transact long term insurance business, and under the Investment Services Act, 1994, to transact linked long term business and other investment services.

The Group offers a range of individual life insurance and investment contracts that can be broadly classified into long term contracts and linked long term contracts. Long term contracts consist mainly of life protection and/or savings contracts. Linked long term contracts are essentially investment contracts that are intended to provide customers with asset management solutions for their savings and retirement needs. Linked long term contracts are more commonly referred to as unit linked contracts.

The following is the current product portfolio of the Group:

- Term contracts – these products are pure insurance contracts where the only obligation of the Group towards the insured is the payment of a death benefit, if the death occurs whilst the policy is in force.
- With profits life contracts – these insurance contracts combine a discretionary participation feature (DPF) where the obligation of the Group towards the insured also includes an annual discretionary investment return (bonus declaration).
- Investment contracts with DPF – these are substantially savings products where the annual investment return is also discretionary (declared bonus rate).
- Unit linked capital guaranteed contracts – this is a unit linked product where the obligation of the Group towards the insured includes a guaranteed element of return and capital.
- Other unit linked investment contracts – these are unit linked products where the obligation of the Group towards the insured is represented by the value of the underlying units.

2. 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 financial statements are prepared under the historical cost convention as modified by the revaluation of investment property, financial assets and financial liabilities at fair value through profit or loss, and the value of in-force business.

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

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

Adoption of new and revised IFRSs

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

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

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

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

- IAS 1, IAS 8, IAS 10, IAS 17, IAS 21, IAS 32 and IAS 33 (all revised 2003) and IAS 36 and IAS 38 (revised 2004) had no material effect on the Group's policies.
- IAS 24 (revised 2003) has affected the identification of related parties and some related party disclosures.

accounting policies - *continued*

2. Basis of preparation - continued

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

- IFRS 4 – The adoption of this Standard resulted in the reclassification of investment contracts without DPF, which were previously not separately classified. This reclassification affected the recognition and measurement of these contracts, which are fair valued by applying the principles of IAS 39 (revised 2004), and the early adoption of the Fair Value option, issued in June 2005. Revenue components, including for example policy fees, and expense items, such as commission payable, are deferred over the term of these contracts. Investment contracts without DPF were previously measured by applying the principles relevant to insurance contracts. IFRS 4 has also affected the disclosures with respect to insurance contracts and investment contracts with DPF issued and reinsurance contracts held. Deferred acquisition costs as at 31 December 2005 amounted to Lm364,226 (2004: Lm274,325) and deferred income amounted to Lm105,518 (2004: Lm96,264) for the Group and the Company.

- IAS 27 and IAS 28 (both revised 2003) have affected the way in which the share of subsidiaries and associates is treated in the Company's and the Group's accounts. Up to 31 December 2004, the Company and the Group applied the equity method of accounting to the share of profits and reserves of its subsidiaries and associates. With effect from 1 January 2005, the directors have adopted the principles of fair value measurement under IAS 39 (Amendment) - the Fair Value option - published in June 2005, in respect of investments in associates. They are designated as financial assets at fair value through profit or loss in the Company's and Group's accounts. This is in accordance with IAS 28 (revised 2003) in so far as investments in associates are attributable to insurance contract holders. Investments in subsidiaries are accounted for at cost in the Company's accounts with effect from 1 January 2005.

- IAS 39 (revised 2004) together with the early adoption of IAS 39 (Amendment) – The Fair Value option – published in June 2005 has affected the categories of financial assets and financial liabilities for recognition and measurement purposes. With effect from 1 January 2005, the Group re-designated its available-for-sale financial instruments, and investments previously recognised as originated loans and receivables as financial assets at fair value through profit or loss on adoption of IAS 39 (revised 2004) and its subsequent amendment issued in June 2005. Investments designated as originated loans and receivables were previously measured at amortised cost. Fair value gains and losses on the remeasurement of available-for-sale instruments were previously recognised in equity in a revaluation reserve to the extent that they were attributed to shareholders. Transaction costs incurred on the acquisition of investments, which were previously included in the initial carrying amount of the investment, are now charged immediately to the profit and loss account. Unrealised fair value gains included in the non-technical account in respect of financial investments amounted to Lm700,322 (Company: Lm635,421) during 2005.

Changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. IAS 8 (revised 2003) was applied to changes in accounting policies under IAS 27 and IAS 28 (both revised 2003), which do not include transitional provisions.

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

The financial effect of the changes in accounting policies is reported in the statement of changes in equity. Further information is disclosed within the respective accounting policies and notes to the financial statements.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods. The Group has not taken the option to early adopt these revisions to the requirements of IFRSs, with the exception of IAS 39 (Amendment) - the Fair Value Option as referred above, and the Group's directors are of the opinion that there are no other requirements that will have a possible impact on the Group's financial statements in the period of initial application.

3. Consolidation

(a) Group undertakings

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

A list of the Group's subsidiaries is set out in Note 15.

(b) Associated undertakings

Interests in associated undertakings that are allocated to the insurance fund are designated as financial assets at fair value through profit or loss. They are accounted for in accordance with the recognition and measurement principles described in accounting policy 13. These are undertakings over which the Group has significant influence, but which it does not control.

A list of the Group's associated undertakings is set out in Note 16.

4. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies have been converted into the functional currency at the rates of exchange ruling on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Translation differences on non-monetary items, mainly arising on equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

5. Insurance and investment contracts with DPF

The Group issues contracts that transfer insurance risk or financial risk or both.

(a) Classification

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain a discretionary participation feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are based on realised and/or unrealised investment returns on underlying assets held by the Group.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus), and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders, also considering the advice of the approved actuary.

(b) Recognition and measurement

Insurance contracts and investment contracts with DPF are classified into three main categories depending on the duration of risk and whether or not the terms and conditions are fixed.

(i) Long term insurance contracts

These contracts insure events associated with human life (for example death or survival) over a long and fixed duration. The guaranteed and fixed element for these contracts relates to the sum assured, i.e. the benefit payable on death or maturity.

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission, and are inclusive of policy fees receivable.

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 liability. Death claims are accounted for when notified. Claims payable include related internal and external claims handling costs.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. For traditional life insurance contracts, the liability is calculated on the basis of a prudent prospective actuarial method, using assumptions regarding mortality, maintenance expenses and investment income, and includes margins for adverse deviations. Additionally, liabilities under unit-linked life insurance contracts reflect the value of assets held within unitised investment pools. The liability is recalculated at each balance sheet date. It 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 above method of calculation satisfies the minimum liability adequacy test required by IFRS 4.

accounting policies - *continued*

(ii) Long term insurance contracts with DPF

These contracts further combine a DPF that entitles the holder to receive a bonus as declared by the Group from the DPF eligible surplus.

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission, and are inclusive of policy fees receivable.

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 liability. Death claims are accounted for when notified. Claims payable include related internal and external claims handling costs.

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

- new reversionary bonuses declared in respect of that year, which are provided within the calculation of the respective liability;
- terminal bonuses paid out to policyholders on maturity and included within claims paid;
- terminal bonuses declared at the Group's discretion and included within the respective liability.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the future cashflows based on bonuses consistent with the bonus policy and prudent rates of future investment return, expenses and mortality, and includes margins for adverse deviations. The liability is recalculated at each balance sheet date. The liability 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 above method of calculation satisfies the minimum liability adequacy test required by IFRS 4.

(iii) Investment contracts with DPF

These contracts do not expose the Group to significant insurance risk. They contain a DPF that entitles the holder to receive a bonus as declared by the Group from the DPF eligible surplus.

Recognition and measurement principles are the same as for insurance contracts with DPF as described above.

(c) Reinsurance contracts held

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

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

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 14.

(d) Investment contracts without DPF

The Group issues investment contracts without DPF.

Premium arising on these contracts is classified as a financial liability – investment contracts without DPF. The fair value of these contracts is dependent on the fair value of underlying financial assets, and they are designated at inception as fair value through profit or loss. The fair value of a unit linked financial liability is determined using the current unit values that reflect the fair values of the financial assets linked to the financial liability multiplied by the number of units attributed to the contract holder at the balance sheet date.

If the investment contract is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender, where applicable. Other benefits payable are also accrued as appropriate.

6. Revenue recognition

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

(a) Rendering of services

Premium recognition is described in accounting policy 5 dealing with insurance contracts and investment contracts with DPF.

Revenue arising from the issue of investment contracts without DPF and other related services offered by the Group, is recognised in the accounting period in which the services are rendered.

Fees include investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. The Group recognises these fees on a straight-line basis over the estimated life of the contract.

The Group charges its customers for management and other related services using the following different approaches:

- Front-end fees are charged to the client on inception. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.

- Regular fees charged to the customer periodically (monthly, quarterly, half yearly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line basis over the billing period.

Other revenue receivable by the Group mainly comprises commission or trailer fees receivable on account of investment or other services provided in an intermediary capacity.

(b) Interest income

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

accounting policies - *continued*

(c) Dividend income

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

(d) Rent receivable

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

7. Investment return

Investment return includes fair value movements, interest income, dividends, rent receivable, and is net of investment expenses, charges and interest.

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, property, plant and equipment and working capital are financed in their entirety from shareholders' funds.

8. Leases

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

9. Intangible assets

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 contracts in force at the year end, after making provision for taxation. In determining this valuation, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned. Gross investment returns assumed vary depending upon the mix of investments held by the Company and expected market conditions. Annual movements in the share of the in-force business valuation are credited or debited to reserves.

Computer software

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

Deferred policy acquisition costs

Commissions that vary with and are related to securing new investment contracts without DPF are capitalised as an intangible asset as deferred acquisition costs (DAC). The DAC is subsequently amortised over the life of the contracts as follows:

- For long term investment contracts with a fixed maturity date, DAC is amortised over the life of the contract.
- For long term investment contracts with no fixed date of maturity, DAC is amortised over a period of 30 years being the assumed average period that such contracts remain in force. This basis is reviewed periodically with reference to the historical experience of surrenders for these contracts.

accounting policies - *continued*

10. Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

11. Investment property

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

12. Investment in group undertakings

In the Company's financial statements, investments in group undertakings are accounted for by the cost method of accounting, less impairment. The dividend income from such investments is included in the profit and loss account in the accounting year in which the Company's rights to receive payment of any dividend is established. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

13. Investments

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

- Financial assets are designated as fair value through profit or loss to eliminate the accounting mismatch that would otherwise arise from measuring insurance assets or liabilities, or recognising the gains and losses on them, on different bases. Financial assets attributable to shareholders are designated as fair value through profit or loss if they are part of a group of investments that is managed on a portfolio basis, and whose performance is evaluated and reported internally on a fair value basis to the Group's Board in accordance with a documented investment strategy. Derivatives are also classified as fair value through profit or loss.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell in the short term, or that it has designated as fair value through profit or loss. They include, inter alia, deposits held with credit institutions.

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

Financial assets at fair value through profit or loss are subsequently re-measured at fair value. Loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise.

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

accounting policies - *continued*

14. Impairment of assets

(a) Impairment of financial assets at amortised cost

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

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

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

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

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

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

(b) Impairment of other non-financial assets

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

15. Offsetting financial instruments

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

16. Deferred income tax

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

Deferred tax assets are recognised only to the extent that future taxable profit will be available such that realisation of the related tax benefit is probable.

17. Cash and cash equivalents

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

18. Share capital

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

19. Dividends

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

1. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not different, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS1 (revised), other than the estimate of the value of in-force business as described below.

The value of in-force business is a projection of future shareholders' profit expected from contracts in force at the year end, appropriately discounted and adjusted for the effect of taxation. This valuation requires the use of assumptions relating to future mortality, persistence, levels of expenses and investment returns over the longer term (see accounting policy 9). Details of key assumptions and sensitivity for this intangible asset are provided in Note 12 to the financial statements.

2. Management of insurance and financial risk

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

2.1 Insurance risk

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

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

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

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, and lack of geographical spread. The Group is largely exposed to insurance risk in one geographical area, Malta.

(a) Frequency and severity of claims

For contracts where death is the insured risk, the most significant factor that could increase the overall frequency of claims are epidemics or widespread changes in lifestyle resulting in earlier or more claims than expected.

At present these risks do not vary significantly in relation to the location of the risk insured by the Group. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts with DPF, the participating nature of the contracts results in a portion of the insurance risk being reduced over the term of policy. Investment contracts with DPF carry negligible insurance risk.

The Group manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and level of insured benefits. Medical selection is also included in the Group's underwriting procedures with premiums varied to reflect the health condition and life expectancy of the applicants.

The Group has reinsurance protection in place to cover all death claims. The type of reinsurance cover and the level of retention for each risk are based on the Group's internal risk management assessment, which takes account of the nature of the risk covered and the sum assured. The reinsurance program is approved by the Board annually. The reinsurance arrangements in place include a mix of treaty, facultative, excess of loss and catastrophe protection, which limits the liability of the Group to any one individual life or event. The Group's reinsurance is placed with listed multinational reinsurance companies whose rating is not less than A.

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality, and the variability in contract holder behaviour. The Group uses appropriate base tables of standard mortality according to the type of contract being written. The Group does not take credit for future lapses in determining the liability for long term contracts.

2.2 Financial risk

The Group is exposed to financial risk through its financial assets, financial liabilities and insurance and reinsurance assets and liabilities. The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its contracts. The most important components of this financial risk are the interest rate risk, equity price risk, currency risk, credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements

(a) Interest rate risk

Insurance and investment contracts with DPF have benefit payments that are fixed and guaranteed at the inception of the contract (for example, sum assured), or as annual discretionary bonuses are declared. The Group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

With the exception of the unit linked capital guaranteed product, the Group does not guarantee a fixed rate of return to its policyholders at the inception of a contract. The declaration of discretionary bonuses is guided by the bonus policy that is approved by the Board of Directors. Once a reversionary bonus is declared, it is guaranteed to be paid in full at maturity or on the prior death of the life assured.

The bonus policy considers historic and current rates of return generated by the Group's investment portfolio as well as the Group's expectations for future investment returns. The impact of interest rate risk is mitigated by the presence of the DPF. These guaranteed benefits increase as discretionary benefits are declared and allocated to contract holders.

In the case of the unit linked capital guaranteed product, the Group has guaranteed a fixed return for the first four years of each contract. This guarantee will expire in 2007. Subsequent to the expiry of the guarantee, the policyholders will receive a return analogous to that being generated by the underlying units. In addition, the Group has also guaranteed any shortfall in the carrying value of the underlying assets on maturity as compared to the initial capital investment. In order to mitigate this risk, the Group has contracted a back to back guarantee with Banque Paribas, which ensures that any shortfall on the guaranteed capital investment return, will be compensated by Banque Paribas. On entering this agreement the Group considered the reputation and credit worthiness of this partner taking into account, amongst other factors, the credit rating as graded by international rating agencies. At the time of issue of the guarantee, the bank had a Fitch rating of AA. The Group monitors this rating regularly. The current rating remains AA.

All insurance and investment contracts with a DPF feature can be surrendered before maturity for a cash surrender value that is always less than actual contract liability. Cash surrender values are determined at the discretion of the Group, and can be varied from time to time. The primary factor affecting the level of cash surrender value is the investment return earned on the assets of the Group. In addition, the cash surrender value is affected by the expenses, tax and the cost of risk benefits (such as life cover) borne by the Group, deductions to provide a return to shareholders, as well as profits and losses arising on other contracts. The expenses include payment of commission, medical report expenses, office administration costs and other expenses incurred in the setting up and maintenance of the contract. At most, the cash surrender value will be the amount of the actual liability reduced by the surrender charge (where applicable). Furthermore, in respect of all contracts with DPF, the Group reserves the right to increase the level of surrender charge and, if necessary, to apply a Market Value Reduction (MVR). An MVR is a deduction which the Group may make on surrender of a contract with DPF. For example, if the underlying investment return, after allowing for expenses, tax, risk benefits, shareholder returns and adjustment for profits or losses on other contracts is less than the return already provided for in the form of reversionary bonuses, the Group may decide to apply an MVR. The MVR serves to protect the interests of remaining investors and the Group, who would otherwise have to subsidise the amount paid on surrendering contracts. The Group does not apply a standard percentage deduction on all contracts but determines the deduction to apply to each individual surrender at the time the surrender is made. The amount depends on a number of factors including the length of time the contract has been in force, and the underlying investment return over the same time period. There will be no MVR at maturity or on death. This means that at maturity or on death the payment of the actual contract liability is guaranteed. The cash surrender value may also be less than the total amount of premiums paid up to the date of surrender. The Group is not required to, and does not, measure the effect of the above embedded derivative at fair value.

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

In general, the Group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. This risk is managed through investment in debt securities having a wide range of maturity dates. Group investment parameters exist to limit exposure to any one particular issuer and any one particular security. Note 17 incorporates interest rate and maturity information with respect to the Group's investments.

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

notes to the financial statements - *continued*

(b) Price risk

The Group's financial assets are susceptible to market price risk arising from uncertainties about future prices of these instruments. The directors manage the risk of price volatility by entering into a diverse range of investments including equities, debt securities and investment properties. The Group has an active Investment Committee that has established a set of investment guidelines that is also approved by the Board of Directors. Investments over prescribed limits are directly approved by the Board. These guidelines provide parameters for investment management, including contracts with external portfolio managers. They include, inter alia, reference to an optimal spread of the investment portfolio, minimum security ratings (e.g. AA foreign-rated bonds), assessment of equity issuers (e.g. market capitalisation exceeding USD3 billion for foreign equities) and maximum exposures by the Group to any one issuer and its connected parties (with the exception of investments in Government paper). These parameters also consider solvency restrictions imposed by the Regulator.

Management structures are in place to monitor all the Group's overall market positions on a frequent basis. These are also reviewed on a monthly basis by the Investment Committee and on a quarterly basis by the Board.

(c) Currency risk

The Group's liabilities are substantially denominated in Maltese Lira. The Group holds assets denominated in currencies other than Maltese Lira, the functional currency. The Group is therefore exposed to currency risk, as the value of assets denominated in other currencies will fluctuate due to changes in exchange rates. The Group holds 27% (2004: 28%) of its total assets in foreign currencies, of which 20% (2004: 19%) is held in Euro, 3% (2004: 4%) in Sterling and 3% (2004: 3%) in US Dollar.

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

a) exposure to Euro is limited through the pegging of the Maltese Lira to the Euro as from 1 May 2005;
b) by establishing guidelines for investing in foreign currency (other than Euro) and hedging currency risk through forward exchange contracts where considered necessary. These guidelines are approved by the Board and a manageable exposure to currency risk is thereby permitted.

(d) Credit risk

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

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

The Group's cash is placed with quality financial institutions. The credit risk in respect of concentration of investments is not considered by directors to be significant in view of the credit standing of the issuers. The Group has in place control structures to assess and monitor credit exposures and risk thresholds. The Group places limits on the level of credit risk undertaken from the main categories of financial instruments. These limits take due consideration of the solvency restrictions imposed by the Regulator. The Group structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparty. The Group has in place internal control structures to assess and monitor credit exposures and risk thresholds.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is monitored on a quarterly basis by reviewing credit grades provided by rating agencies and other publicly available financial information. At the same time that the Board approves the overall reinsurance protection programme for the Group, it ensures that the reinsurers' credit rating is within the parameters set by it. Further detail on the credit rating of the Group's reinsurers, and the guarantor in the context of the unit linked capital guaranteed product, is provided within the section describing interest rate risk above.

It is not normal for credit to be extended to insurance policyholders due to the nature of the Group's business, unless automatic policy loans are advanced up to the surrender value of the contract (see Note 17).

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

At 31 December 2005, the Group had entered into unexpired forward foreign exchange contracts hedging an exposure of USD13,978,347 and STG5,809,406 against an exposure of Euro20,199,655. At 31 December 2004, the Group had entered into unexpired forward foreign exchange contracts hedging an exposure of USD4,261,125 and YEN66,000,000 against on exposure of Euro2,588,026 and STG579,687. The fair value movements associated within these unexpired contracts are recognised in the profit and loss account and amounted to Lm6,243 (2004: Lm20,229).

(e) Liquidity risk

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

3. Other information – technical account

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

(i) Gross premiums written

Gross premium income is made up of:

	Group and Company	
	2005	2004
	Lm	Lm
Direct insurance	**33,507,621**	29,043,915
Reinsurance inwards	**149,792**	166,896
Gross premiums written	**33,657,413**	29,210,811

Direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Non-participating	**1,352,231**	1,235,991	**-**	-
Participating	**13,567,011**	13,185,128	**14,794,744**	9,121,262
Linked	**775,415**	491,426	**3,018,220**	5,010,108
	15,694,657	14,912,545	**17,812,964**	14,131,370

In addition to the above, premium credited to liabilities in Note 24 in relation to linked products classified as investment contracts without DPF was as follows:

	Periodic premiums		Single premiums	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Investment contracts	**569,372**	555,344	**5,038,682**	5,111,367

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 mainly attributable to insurance contracts, amounted to a charge of Lm431,633 to the long term business technical account for the year ended 31 December 2005 (2004: Lm202,848).

(iii) Analysis between insurance and investment contracts

	Group and Company	
	2005	2004
	Lm	Lm
Gross premiums written		
Insurance contracts	**13,355,447**	13,319,090
Investment contracts with DPF	**20,301,966**	15,891,721
	33,657,413	29,210,811
Claims incurred, net of reinsurance		
Insurance contracts	**3,176,025**	2,552,750
Investment contracts with DPF	**1,582,904**	675,321
	4,758,929	3,228,071

notes to the financial statements - *continued*

(iv) Net operating expenses

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Acquisition costs	**2,179,008**	2,053,434	**2,179,008**	2,053,434
Administrative expenses	**1,602,940**	1,415,014	**1,412,895**	1,246,717
Reinsurance commissions	**(185,773)**	(400,532)	**(185,773)**	(400,532)
	3,596,175	3,067,916	**3,406,130**	2,899,619

Allocated to:

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Technical profit and loss account	**3,363,478**	2,853,922	**3,363,478**	2,853,922
Non-technical profit and loss account	**232,697**	213,994	**42,652**	45,697
	3,596,175	3,067,916	**3,406,130**	2,899,619

Total commission for direct business accounted for in the financial year amounted to Lm1,501,391 (2004: Lm1,355,593). Lm897,790 of this charge arose on investment contracts (2004: Lm635,834).

Further detail on administrative expenses is provided in Note 6 to these financial statements.

(v) Bonuses and rebates, net of reinsurance

Reversionary bonuses declared in the year amounted to Lm6,290,015 (2004: Lm4,728,353). Reversionary bonuses declared in 2005 are further analysed as follows:

	Lm
Insurance contracts	3,481,483
Investment contracts with DPF	2,808,532
	6,290,015

notes to the financial statements - *continued*

4. Investment return

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Investment income				
Dividend income from shares in a group undertaking	**-**	-	**-**	120,000
Rent receivable from investment property	**1,045,114**	869,408	**1,045,114**	869,408
Interest receivable from loans and receivables				
- group undertakings	**-**	-	**18,021**	20,115
- other financial investments not at fair value through profit or loss	**883,392**	833,227	**883,392**	833,227
Income from financial assets at fair value through profit or loss				
- interest income	**4,319,053**	3,433,811	**4,294,019**	3,406,827
- dividend income - associates	**132,004**	117,784	**132,004**	117,784
- dividend income - other	**1,407,966**	774,690	**1,401,210**	771,035
- exchange income	**-**	56,073	**-**	56,073
- net fair value gains	**17,255,140**	5,239,744	**17,160,934**	5,215,286
Net fair value gains on investment property	**1,554,588**	3,065	**1,554,588**	3,065
	26,597,257	11,327,802	**26,489,282**	11,412,820
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**84,975**	75,203	**84,975**	75,203
Other investment expenses	**290,028**	330,541	**290,028**	330,541
Exchange losses	**35,558**	-	**24,244**	-
	(410,561)	(405,744)	**(399,247)**	(405,744)
Total investment return	**26,186,696**	10,922,058	**26,090,035**	11,007,076
Apportioned as follows:				
Technical profit and loss account	**25,136,477**	10,614,270	**25,136,477**	10,614,270
Non-technical profit and loss account	**1,050,219**	307,788	**953,558**	392,806
	26,186,696	10,922,058	**26,090,035**	11,007,076

5. Other technical income, net of reinsurance

	Group and Company	
	2005	2004
	Lm	Lm
Commissions receivable	**-**	189,184
Investment management fees	**308,270**	93,246
Other	**3,522**	3,199
	311,792	285,629

6. Profit before tax

Profit before tax is stated after charging:

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Staff costs (Note 7)	**469,129**	431,875	**432,576**	392,481
Auditors' remuneration	**12,850**	9,850	**11,050**	8,150
Actuarial valuation fees	**213,398**	144,426	**213,398**	144,426
Depreciation/amortisation:				
- intangible assets (Note 12)	**231,128**	197,517	**229,339**	195,833
- property, plant and equipment (Note 13)	**32,522**	28,127	**27,611**	23,775
Reimbursement of expenses for back office support services (Note 29)	**369,000**	340,000	**369,000**	340,000

7. Staff costs

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Salaries	**426,460**	391,667	**391,938**	354,614
Social security costs	**26,667**	26,172	**24,636**	23,831
Provision for contracted pension obligations (Note 9)	**16,002**	14,036	**16,002**	14,036
	469,129	431,875	**432,576**	392,481

The average number of persons employed during the year was:

	Group		Company	
	2005	2004	**2005**	2004
Managerial	**11**	12	**10**	11
Technical	**32**	33	**30**	30
Administrative	**3**	3	**3**	3
Average number of employees	**46**	48	**43**	44

notes to the financial statements - *continued*

8. Income tax expense

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Current tax expense/(credit)	**74,819**	(117,748)	**-**	(133,485)
Deferred taxation charge (Note 18)	**565,343**	142,522	**562,794**	133,485
Income tax expense	**640,162**	24,774	**562,794**	-
Apportioned as follows:				
Technical profit and loss account	**311,996**	(87,369)	**311,996**	(87,369)
Non-technical profit and loss account	**328,166**	112,143	**250,798**	87,369
Income tax expense	**640,162**	24,774	**562,794**	-

The tax on the profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Profit before tax	**2,940,593**	1,828,929	**2,662,608**	1,756,281
Tax profit at 35%	**1,029,208**	640,125	**931,913**	614,698
Tax effect of:				
Net impact of tax credits not recognised	**-**	(446,543)	**-**	(445,884)
Property withholding tax at 12%	**(330,971)**	-	**(330,971)**	-
Other differences	**(58,075)**	(168,808)	**(38,148)**	(168,814)
Income tax expense	**640,162**	24,774	**562,794**	-

9. Directors emoluments

	2005	2004
	Lm	Lm
Remuneration	**24,053**	22,550
Fees	**20,540**	23,500
	44,593	46,050

The Company has paid insurance premiums of Lm13,497 during the year (2004: Lm13,497) in respect of insurance cover in favour of its directors. Furthermore, provisions for the year have been made (Group and Company: 2005 – Lm16,002 and 2004 – Lm14,036) in respect of contracted pension obligations.

10. Earnings per share

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

	Group	
	2005	2004
Net profit attributable to shareholders	**2,300,431**	1,804,155
Weighted average number of ordinary shares in issue	**8,600,000**	7,797,260
Earnings per share	**26c7**	23c1

11. Dividends

At the forthcoming Annual General Meeting a final dividend in respect of 2005 of 16c2 per share (2004: 5c8), amounting to a total net dividend of Lm1,400,000, payable through a bonus issue of 1,400,000 ordinary shares of Lm1 each, (2004: Lm500,000) 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 2006.

During the year, the Company declared an interim dividend of Lm300,000 (2004: Lm Nil) equivalent to 3c5 per share. The dividend relating to 2003 was converted to share capital by virtue of a bonus issue as resolved on 16 April 2004 (see Note 21).

12. Intangible assets

Group	Value of in-force business Lm	Computer software Lm	Deferred policy acquisition costs (i) Lm	Total Lm
At 31 December 2003				
Cost or valuation	11,900,000	928,912	194,065	13,022,977
Accumulated amortisation	-	(524,407)	(48,220)	(572,627)
Net book amount	11,900,000	404,505	145,845	12,450,350
Year ended 31 December 2004				
Opening net book amount	11,900,000	404,505	-	12,304,505
Effect of adopting IFRS 4	-	-	145,845	145,845
Opening net book amount as restated	11,900,000	404,505	145,845	12,450,350
Additions	-	170,199	157,507	327,706
Increment in value of in-force business credited to reserves (Note 22)	1,000,000	-	-	1,000,000
Amortisation charge	-	(168,490)	(29,027)	(197,517)
Closing net book amount	12,900,000	406,214	274,325	13,580,539
At 31 December 2004				
Cost or valuation	12,900,000	1,099,111	351,572	14,350,683
Accumulated amortisation	-	(692,897)	(77,247)	(770,144)
Net book amount	12,900,000	406,214	274,325	13,580,539
Year ended 31 December 2005				
Opening net book amount	12,900,000	406,214	-	13,306,214
Effect of adopting IFRS 4	-	-	274,325	274,325
Opening net book amount as restated	12,900,000	406,214	274,325	13,580,539
Additions	-	226,995	136,801	363,796
Increment in value of in-force business credited to reserves (Note 22)	3,710,000	-	-	3,710,000
Amortisation charge	-	(184,228)	(46,900)	(231,128)
Closing net book amount	16,610,000	448,981	364,226	17,423,207
At 31 December 2005				
Cost or valuation	16,610,000	1,326,106	488,373	18,424,479
Accumulated amortisation	-	(877,125)	(124,147)	(1,001,272)
Net book amount	16,610,000	448,981	364,226	17,423,207

Amortisation of Lm123,525 (2004: Lm99,086) is included in acquisition costs, Lm1,824 (2004: Lm16,681) is included in claims paid and Lm105,779 (2004: Lm81,750) is included in administration expenses.

Fully amortised assets as at the financial year end amounted to Lm585,743 (2004: Lm180,127).

(i) This intangible asset relates to investment contracts without DPF only.

12. Intangible assets - continued

Company	Value of in-force business Lm	Computer software Lm	Deferred policy acquisition costs(i) Lm	Total Lm
At 31 December 2003				
Cost or valuation	11,900,000	920,662	194,065	13,014,727
Accumulated amortisation	-	(522,180)	(48,220)	(570,400)
Net book amount	11,900,000	398,482	145,845	12,444,327
Year ended 31 December 2004				
Opening net book amount	11,900,000	398,482	-	12,298,482
Effect of adopting IFRS 4	-	-	145,845	145,845
Opening net book amount as restated	11,900,000	398,482	145,845	12,444,327
Additions	-	168,957	157,507	326,464
Increment in value of in-force business credited to reserves (Note 22)	1,000,000	-	-	1,000,000
Amortisation charge	-	(166,806)	(29,027)	(195,833)
Closing net book amount	12,900,000	400,633	274,325	13,574,958
At 31 December 2004				
Cost or valuation	12,900,000	1,089,619	351,572	14,341,191
Accumulated amortisation	-	(688,986)	(77,247)	(766,233)
Net book amount	12,900,000	400,633	274,325	13,574,958
Year ended 31 December 2005				
Opening net book amount	12,900,000	400,633	-	13,300,633
Effect of adopting IFRS 4	-	-	274,325	274,325
Opening net book amount as restated	12,900,000	400,633	274,325	13,574,958
Additions	-	226,060	136,801	362,861
Increment in value of in-force business credited to reserves (Note 22)	3,710,000	-	-	3,710,000
Amortisation charge	-	(182,439)	(46,900)	(229,339)
Closing net book amount	16,610,000	444,254	364,226	17,418,480
At 31 December 2005				
Cost or valuation	16,610,000	1,315,679	488,373	18,414,052
Accumulated amortisation	-	(871,425)	(124,147)	(995,572)
Net book amount	16,610,000	444,254	364,226	17,418,480

Amortisation of Lm123,525 (2004: Lm99,086) is included in acquisition costs, Lm1,824 (2004: Lm16,681) is included in claims paid and Lm103,990 (2004: Lm80,066) is included in administration expenses.

Fully amortised assets as at the financial year end amounted to Lm585,743 (2004: Lm180,127).

(i) This intangible asset relates to investment contracts without DPF only.

notes to the financial statements - *continued*

12. Intangible assets - continued

Value of in-force business - assumptions, changes in assumptions and sensitivity

Assumptions

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

The valuation assumes a spread of 2% between the weighted average projected investment return and the discount factor applied. The calculation also assumes lapse rates varying from 3% to 5%, and an expense inflation rate of 3.5%.

Changes in assumptions

Changes in current year assumptions, as compared to the 2004 valuation process, did not have a significant impact on the Group's net assets.

Sensitivity analysis

If the assumption on the valuation spread of 2% were reduced by 1%, the after tax value of the value in-force business would increase to Lm17.7 million.

If the assumption on the valuation spread of 2% were increased by 1%, the after tax value of the value in-force business would decrease to Lm15.4 million.

13. Property, plant and equipment

Group	Leasehold improvements Lm	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
At 31 December 2003				
Cost	51,822	303,277	32,775	387,874
Accumulated depreciation	(759)	(200,883)	(32,775)	(234,417)
Net book amount	51,063	102,394	-	153,457
Year ended 31 December 2004				
Opening net book amount	51,063	102,394	-	153,457
Additions	26,053	34,386	-	60,439
Depreciation charge	(1,668)	(26,459)	-	(28,127)
Closing net book amount	75,448	110,321	-	185,769
At 31 December 2004				
Cost	77,875	337,663	32,775	448,313
Accumulated depreciation	(2,427)	(227,342)	(32,775)	(262,544)
Net book amount	75,448	110,321	-	185,769
Year ended 31 December 2005				
Opening net book amount	75,448	110,321	-	185,769
Additions	11,482	46,097	-	57,579
Depreciation charge	(2,165)	(30,357)	-	(32,522)
Closing net book amount	84,765	126,061	-	210,826
At 31 December 2005				
Cost	89,357	383,760	32,775	505,892
Accumulated depreciation	(4,592)	(257,699)	(32,775)	(295,066)
Net book amount	84,765	126,061	-	210,826

Fully depreciated assets that were still in use at the year end amounted to Lm203,830 (2004: Lm187,081).

notes to the financial statements - *continued*

13. Property, plant and equipment - continued

Company

	Leasehold improvements Lm	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
At 31 December 2003				
Cost	51,822	279,960	32,775	364,557
Accumulated depreciation	(759)	(194,613)	(32,775)	(228,147)
Net book amount	51,063	85,347	-	136,410
Year ended 31 December 2004				
Opening net book amount	51,063	85,347	-	136,410
Additions	23,904	31,750	-	55,654
Depreciation charge	(1,651)	(22,124)	-	(23,775)
Closing net book amount	73,316	94,973	-	168,289
At 31 December 2004				
Cost	75,726	311,710	32,775	420,211
Accumulated depreciation	(2,410)	(216,737)	(32,775)	(251,922)
Net book amount	73,316	94,973	-	168,289
Year ended 31 December 2005				
Opening net book amount	73,316	94,973	-	168,289
Additions	11,482	43,630	-	55,112
Depreciation charge	(2,111)	(25,500)	-	(27,611)
Closing net book amount	82,687	113,103	-	195,790
At 31 December 2005				
Cost	87,208	355,340	32,775	475,323
Accumulated depreciation	(4,521)	(242,237)	(32,775)	(279,533)
Net book amount	82,687	113,103	-	195,790

Fully depreciated assets that were still in use at the year end amounted to Lm203,830 (2004: Lm187,081).

14. Investment property

	Group and Company Lm
At 31 December 2003	
Cost	10,973,537
Accumulated fair value gains	2,831,544
Net book amount	13,805,081
Year ended 31 December 2004	
Opening net book amount	13,805,081
Additions	2,170,862
Net fair value gains	3,065
Closing net book amount	15,979,008
At 31 December 2004	
Cost	13,144,399
Accumulated fair value gains	2,834,609
Net book amount	15,979,008
Year ended 31 December 2005	
Opening net book amount	15,979,008
Additions	2,438,330
Net fair value gains	1,554,588
Closing net book amount	19,971,926
At 31 December 2005	
Cost	15,582,729
Accumulated fair value gains	4,389,197
Net book amount	19,971,926

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

15. Investment in group undertaking

	Company Lm
Year ended 31 December 2004	
Opening net book amount as previously stated	257,290
Effect of adopting IAS 27 (revised)	(57,291)
Closing cost and net book amount	199,999
Year ended 31 December 2005	
Opening net book amount as previously stated	306,563
Effect of adopting IAS 27 (revised)	(106,564)
Closing cost and net book amount	199,999

15. Investment in group undertaking - continued

The group undertaking at 31 December is shown below:

Group undertaking	Registered office	Class of shares held	Percentage of shares held 2005 & 2004
Growth Investments Limited	Middle Sea House Floriana, VLT 16	Ordinary shares	100%

16. Investment in associated undertakings

Group and Company

	Lm
Year ended 31 December 2004	
Opening net book amount as previously stated	1,944,189
Effect of adopting IAS 28 (revised)	(248,592)
Opening net book amount as restated	1,695,597
Net fair value gains	74,366
Closing net book amount	1,769,963
At 31 December 2004	
Cost	1,905,804
Accumulated net fair value losses	(135,841)
Net book amount	1,769,963
Year ended 31 December 2005	
Opening net book amount as previously stated	1,776,698
Effect of adopting IAS 28 (revised)	(6,735)
Opening net book amount as restated	1,769,963
Net fair value gains	178,386
Closing net book amount	1,948,349
At 31 December 2005	
Cost	1,905,804
Accumulated net fair value gains	42,545
Net book amount	1,948,349

16. Investment in associated undertakings - continued

The associates at 31 December are shown below:

Associated undertakings	Registered Office	Class of shares held	Percentage of shares held 2005 & 2004
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%

17. Other investments

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

	Group **2005** **Lm**	2004 Lm	Company **2005** **Lm**	2004 Lm
Fair value through profit or loss	**179,931,007**	122,156,529	**179,450,892**	121,545,208
Loans and receivables	**22,611,540**	27,603,810	**22,611,540**	27,603,810
	202,542,547	149,760,339	**202,062,432**	149,149,018

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group **2005** **Lm**	2004 Lm	Company **2005** **Lm**	2004 Lm
Equity securities and collective investment schemes	**68,071,333**	40,961,162	**67,933,130**	40,786,290
Assets held to cover linked liabilities				
- collective investment schemes	**23,800,743**	14,036,573	**23,800,743**	14,036,573
Debt securities – listed fixed interest rate	**88,058,931**	67,158,794	**87,717,019**	66,722,345
Total investments at fair value through profit or loss	**179,931,007**	122,156,529	**179,450,892**	121,545,208

Technical provisions for linked liabilities amounted to Lm23,690,033 as at 31 December 2005 (2004: Lm13,921,735). They are included in the liability for investment contracts with DPF or investment contracts without DPF in accordance with the classification of products.

17. Other investments - continued

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

The above financial assets for the Group and Company include pledged investments amounting to Lm1,934,046 (2004: Lm1,427,095).

At 31 December 2005, the Group and Company had commitments in respect of uncalled share capital in respect of financial assets of Lm489,180 (2004: Lm686,430).

Equity securities and collective investments schemes are considered to be non-current in nature. The maturity of fixed income debt securities is detailed below:

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Within one year	**3,614,861**	1,879,354	**3,614,861**	1,858,245
Between 1 and 2 years	**2,128,760**	2,146,597	**2,128,760**	2,146,597
Between 2 and 5 years	**13,058,333**	8,484,888	**12,990,224**	8,484,888
Over 5 years	**69,256,977**	54,647,955	**68,983,174**	54,232,615
	88,058,931	67,158,794	**87,717,019**	66,722,345
Weighted average effective interest rate at the balance sheet date	**5.09%**	5.24%	**5.09%**	5.24%

notes to the financial statements - *continued*

17. Other investments - continued

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

The movements for the year are summarised as follows:

	Group Lm	Company Lm
Year ended 31 December 2004		
Opening net book amount		
As previously stated:		
- available-for-sale	50,019,827	49,886,395
- originated loans and receivables	30,026,136	29,904,061
- assets held to cover linked liabilities	4,645,221	4,645,221
Investments reclassified as fair value through profit or loss	84,691,184	84,435,677
Effect of adopting IAS 39 (revised)	4,155,489	4,152,164
Opening net book amount as restated	88,846,673	88,587,841
Additions	38,964,944	38,438,789
Disposals (sales and redemptions)	(11,394,638)	(11,203,990)
Net fair value gains	5,739,550	5,722,568
Closing net book amount	122,156,529	121,545,208
At 31 December 2004		
Cost	112,346,197	111,753,186
Accumulated net fair value gains	9,810,332	9,792,022
Net book amount	122,156,529	121,545,208
Balance at 1 January 2005		
Opening net book amount:		
As previously stated:		
- available-for-sale	68,331,996	68,007,964
- originated loans and receivables	35,953,877	35,668,514
- assets held to cover linked liabilities	13,990,045	13,990,045
Investments reclassified as fair value through profit and loss	118,275,918	117,666,523
Effect of adopting IAS 39 (revised)	3,880,611	3,878,685
Opening net book amount as restated	122,156,529	121,545,208
Additions	48,901,079	48,850,079
Disposals (sales and redemptions)	(10,657,046)	(10,409,940)
Net fair value gains	19,530,445	19,465,545
Closing net book amount	179,931,007	179,450,892
At 31 December 2005		
Cost	150,590,230	150,193,325
Accumulated net fair value gains	29,340,777	29,257,567
Net book amount	179,931,007	179,450,892

17. Other investments - continued

(b) Loans and receivables

Analysed by type of investment as follows:

	Group and Company 2005 Lm	2004 Lm
Unlisted fixed income debt securities	**865,079**	867,684
Deposits with banks or credit institutions	**5,175,023**	12,276,742
Treasury bills	**12,182,839**	10,373,147
Loans secured on policies	**1,939,267**	1,647,120
Reinsurance loan	**2,144,388**	2,134,173
Loan to associated undertaking	**304,944**	304,944
	22,611,540	27,603,810

Maturity of deposits with bank or credit institutions:

	Group and Company 2005 Lm	2004 Lm
Within 3 months	**3,705,822**	8,334,648
Within 1 year but exceeding 3 months	**-**	2,470,393
Between 2 and 5 years	**1,469,201**	1,471,701
	5,175,023	12,276,742

The above deposits earn interest as follows:

	Group and Company 2005 Lm	2004 Lm
At floating rates	**1,498,833**	6,214,815
At fixed rates	**3,676,190**	6,061,927
	5,175,023	12,276,742
Weighted average effective interest rate at the balance sheet date	**3.97%**	3.4%

Maturity of fixed income debt securities and treasury bills:

	Group and Company 2005 Lm	2004 Lm
Within one year	**12,182,839**	10,373,147
Between 2 and 5 years	**865,079**	867,684
	13,047,918	11,240,831
Weighted average effective interest rate at the balance sheet date	**2.89%**	3.1%

17. Other investments - continued

(b) Loans and receivables - continued

The movements for the year (excluding deposits) are summarised as follows:

	Group and Company					
	Unlisted fixed income debt securities Lm	Treasury bills Lm	Loans secured on policies Lm	Reinsurance loan Lm	Loans to associated undertaking Lm	Total Lm
Year ended 31 December 2004						
Opening net book amount	316,281	4,007,954	1,444,413	2,118,787	304,944	8,192,379
Additions	550,000	25,402,991	520,970	15,386	-	26,489,347
Disposals (sales and redemptions)	-	(19,037,798)	(318,263)	-	-	(19,356,061)
Currency translation differences	1,403	-	-	-	-	1,403
Closing net book amount	867,684	10,373,147	1,647,120	2,134,173	304,944	15,327,068
Year ended 31 December 2005						
Opening net book amount	867,684	10,373,147	1,647,120	2,134,173	304,944	15,327,068
Additions	-	30,719,293	607,393	10,215	-	31,336,901
Disposals (sales and redemptions)	-	(28,909,601)	(315,246)	-	-	(29,224,847)
Currency translation differences	(2,605)	-	-	-	-	(2,605)
Closing net book amount	865,079	12,182,839	1,939,267	2,144,388	304,944	17,436,517

Loans secured on policies carried interest at the rate of 5.5% per annum at the financial year end (2004: 5.5%). These loans are considered to be substantially non-current in nature.

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

The loan to the associated undertaking is unsecured, has no fixed date of repayment, and bears interest at 4.5% (2004: Nil).

notes to the financial statements - *continued*

18. Deferred income tax

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Balance at 1 January as previously stated	**954,031**	973,549	**956,559**	967,040
Effect of adopting IAS 28 (revised)	**(123,004)**	-	**(123,004)**	-
Balance at 1 January as restated	**831,027**	973,549	**833,555**	967,040
Movement during the year:				
Profit and loss account (Note 8)	**(565,343)**	(142,522)	**(562,794)**	(133,485)
Balance at 31 December (net)	**265,684**	831,027	**270,761**	833,555

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (2004: 35%). The year end balance comprise:

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Temporary differences attributable to investment property	**(1,400,754)**	-	**(1,400,754)**	-
Temporary differences attributable to fair value adjustments on financial investments	**(6,341,073)**	(1,322,754)	**(6,337,649)**	(1,321,730)
Temporary differences attributable to property, plant and equipment	**(61,986)**	(66,393)	**(60,333)**	(64,889)
Temporary differences attributable to unabsorbed tax credits	**8,069,497**	2,220,174	**8,069,497**	2,220,174
Balance at 31 December (net)	**265,684**	831,027	**270,761**	833,555

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

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Deferred tax asset	**948,245**	831,027	**948,245**	833,555
Deferred tax liability	**(682,561)**	-	**(677,484)**	-
	265,684	831,027	**270,761**	833,555

The directors consider that the above temporary differences are substantially non-current in nature.

19. Debtors and prepayments and accrued income

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Debtors				
Debtors arising out of direct insurance operations				
- due from policyholders	**37,960**	20,807	**37,960**	20,807
- due from reinsurers	**-**	12,803	**-**	12,803
- amounts due from group undertakings (Note 29)	**1,185,657**	39,354	**1,196,806**	423,639
- indirect tax	**-**	44,481	**-**	44,481
	1,223,617	117,445	**1,234,766**	501,730
Prepayments and accrued income				
- accrued interest and rent	**1,948,425**	1,527,029	**1,942,485**	1,521,390
- prepayments	**169,326**	124,152	**85,257**	66,573
	2,117,751	1,651,181	**2,027,742**	1,587,963

All of the above receivables are considered to be current in nature.

20. Cash and cash equivalents

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

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Cash at bank and in hand	**2,316,363**	1,948,278	**2,291,404**	1,875,310

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

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
At floating rates	**726,445**	1,441,618	**701,486**	1,368,650
Weighted average effective interest rate at the balance sheet date	**1.2%**	1.1%	**1.2%**	1.1%

21. Share capital

	Group and Company 2005 Lm	2004 Lm
Authorised		
10,000,000 Ordinary shares of Lm1 each	**10,000,000**	10,000,000
Issued and fully paid		
8,600,000 Ordinary shares of Lm1 each	**8,600,000**	8,600,000

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.

22. Other reserves

	Group and Company 2005 Lm	2004 Lm
Value of in-force business		
Balance at 1 January	**10,250,000**	9,250,000
Increment in value of in-force business (Note 12)	**3,710,000**	1,000,000
Balance at 31 December	**13,960,000**	10,250,000

The above reserve is non-distributable.

notes to the financial statements - *continued*

23. Technical provisions – insurance contracts and investment contracts with DPF, including reinsurers' share of technical provisions

(i) Insurance contracts

	Group and Company 2005 Lm	2004 Lm
Gross technical provisions		
- claims outstanding	**432,053**	356,735
- long term business provision	**122,641,256**	99,165,746
	123,073,309	99,522,481
Reinsurers' share of technical provisions		
- claims outstanding	**102,157**	97,600
- long term business provision	**25,593**	29,095
	127,750	126,695
Net technical provisions		
- claims outstanding	**329,896**	259,135
- long term business provision	**122,615,663**	99,136,651
	122,945,559	99,395,786

Movements are as follows:

	Group and Company 2005 Lm Gross	2005 Lm Reinsurance
Year ended 31 December		
At beginning of year as previously stated (technical provisions excluding linked liabilities)	145,596,290	126,695
Effect of adopting IAS 39 (revised)	3,811,732	-
Reclassification as investment contracts with DPF (see (ii) below)	(49,885,541)	-
At beginning of year as restated	99,522,481	126,695
Charge to the profit and loss account	23,550,828	1,055
At end of year	123,073,309	127,750

The above liabilities are substantially non-current in nature.

23. Technical provisions – insurance contracts and investment contracts with DPF, including reinsurers' share of technical provisions - continued

(ii) Investment contracts with DPF

	Group and Company	
	2005	2004
	Lm	Lm
Investment contracts with DPF as reclassified (gross and net)		
- claims outstanding	**1,323**	-
- long term business provision	**78,962,484**	53,984,336
	78,963,807	53,984,336

Movements are as follows:

	2005
	Lm
Year ended 31 December	
At beginning of year as previously stated	
(technical provisions for linked liabilities)	13,921,735
Reclassification from technical provisions as previously reported (see (i) above)	49,885,541
Reclassification as investment contracts without DPF	(9,822,940)
Charge to the profit and loss account	24,979,471
At end of year	78,963,807

The above liabilities are substantially non-current in nature.

Long term contracts – assumptions, changes in assumptions and sensitivity

The technical provisions in respect of long term contracts and linked long term contracts are subject to an annual statutory valuation undertaken by the approved actuary based on data and asset information provided by the Group. The technical provisions are calculated in accordance with the Insurance Business (Insurers' Assets and Liabilities) Regulations, 2004 ('the Regulations').

Different principles and valuation methodologies are adopted depending on the type and generation of products. The key assumptions used in determining the technical provisions in respect of insurance contracts and investment contracts with DPF are:

23. Technical provisions – insurance contracts and investment contracts with DPF, including reinsurers' share of technical provisions - continued

(a) Assumptions

Rate of future investment return

The rate of future investment return (valuation interest rate) is calculated by the approved actuary in accordance with the Regulations.

The calculation of the rate of future investment return is based on a prudent assessment of the yields generated by the long term business assets, which does not include any allowance for capital growth. The weighted average yield is further reduced by certain risk adjustments.

Bonus rates

The expected rates of reversionary and terminal bonuses are determined by the Board in consultation with the approved actuary. Different bonus rates are declared on different generations of contracts depending on the type of product, cost structure, past investment performance and premium rates. Different bonuses are declared to reduce the element of cross-subsidy of products with different characteristics, and to maintain equity between different generations of contract holders. The levels of reversionary bonus rates are effected by measures taken to provide resilience to market conditions, and to provide for future payments of terminal bonuses. These measures are not intended, over the long term, to be a source of profit or loss.

Policy maintenance expenses

The per policy maintenance expense has been determined by reference to the Company's cost base.

Minimum reserve

The minimum reserve on each policy is equal to the current surrender value.

Mortality

The mortality tables used are AM80 for most of the products. A1967-70 is used in respect of older products.

Tax

It has been assumed that tax legislation and rates continue unaltered.

(b) Changes in assumptions

During the year, investment return assumptions were revised downwards in accordance with market interest movements. Revisions were also effected to policy expense expectations. The combined impact of these changes in assumptions, which had the effect of increasing reserves, has been charged against the technical result for the year. It has not been practicable for the Group to quantify the impact of these changes.

(c) Sensitivity analysis

The directors have considered the sensitivity of the key variables underlying the liability for long term contracts. The more sensitive assumption is the rate of future investment return that is driven by market forces. The insurance Regulations ensure a consistent and prudent derivation of this key estimate as described above. The Company's bonus policy is influenced by market conditions, which mitigates the impact of movements in the valuation interest rate on the long term liability and the profit and loss account. The Company's reserving policy considers market conditions over the longer term, which reduces the sensitivity of results to short term market changes.

24. Technical provisions – investment contracts without DPF

	Group and Company	
	2005	2004
	Lm	Lm
Investment contracts without DPF	**16,528,040**	9,822,940

Investments contracts without DPF were previously classified as technical provisions for linked liabilities (see Note 23).

The above liability is considered to be substantially non current in nature.

25. Creditors and accruals and deferred income

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Creditors				
Deposits received from reinsurers	**17,411**	17,125	**17,411**	17,125
Creditors arising out of direct insurance operations	**986,061**	312,828	**986,061**	312,828
Creditors arising out of reinsurance operations	**7,177**	26,754	**7,177**	26,754
Amounts owed to group undertakings (Note 29)	**19,538**	102,951	**15,669**	96,864
Indirect taxation	**110,896**	15,990	**110,896**	15,953
Other creditors	**10,129**	5,463	**-**	-
	1,151,212	481,111	**1,137,214**	469,524
Accruals and deferred income				
Accruals	**213,967**	191,710	**207,044**	184,656
Deferred income	**397,269**	284,068	**397,267**	284,068
	611,236	475,778	**604,311**	468,724
Total liabilities	**1,762,448**	956,889	**1,741,525**	938,248
Current	**1,669,110**	871,014	**1,648,187**	852,373
Non-current	**93,338**	85,875	**93,338**	85,875
	1,762,448	956,889	**1,741,525**	938,248

Deferred income includes front-end fees received from investment contracts without DPF holders as a prepayment for asset management and related services and rental income received in advance. These amounts are non-refundable and are released to income as the services are rendered.

notes to the financial statements - *continued*

26. Note to the cash flow statement

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Profit before tax	**2,940,593**	1,828,929	**2,662,608**	1,756,281
Adjusted for:				
Amortisation (Note 12)	**231,128**	197,517	**229,339**	195,833
Depreciation (Note 13)	**32,522**	28,127	**27,611**	23,775
Adjustments relating to investment return	**(28,302,798)**	(11,099,968)	**(28,194,823)**	(11,064,988)
Technical provisions	**55,234,344**	38,127,929	**55,234,344**	38,127,929
Debtors, prepayments and accrued income	**35,093**	(276,827)	**431,842**	(265,115)
Creditors, accruals and deferred income	**805,559**	152,921	**803,277**	213,908
Cash generated from operations	**30,976,441**	28,958,628	**31,194,198**	28,987,623

27. Commitments

Capital commitments

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

	Group and Company	
	2005	2004
	Lm	Lm
Authorised and contracted for - property, plant and equipment	**-**	25,221
Authorised and contracted for - intangible assets	**-**	25,113
Authorised and not contracted - property, plant and equipment	**160,513**	138,632
Authorised and not contracted - intangible assets	**265,317**	67,579
	425,830	256,545

27. Commitments - continued

Operating lease commitments – where the Company is the lessor

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

	Group and Company	
	2005	2004
	Lm	Lm
Not later than 1 year	**910,732**	694,403
Later than 1 year and not later than 5 years	**2,025,566**	1,759,822
Later than 5 years	**610,994**	1,027,989
	3,547,292	3,482,214

Investment property includes properties valued at Lm3,084,150 (2004: Lm3,063,318) on which the lessees have an option to buy these properties at a pre-determined price and within a pre-determined time. The fair value of these properties does not exceed the pre-determined option price.

28. Contingencies

As at the end of the year the Company had withdrawn a guarantee of Lm124,810 previously given to a third party in favour of its subsidiary, Growth Investments Limited.

29. Related party transactions

In the normal course of business, the Group enters into various transactions with related parties. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operational decisions. These include directors and shareholders. The Company's shareholders are Middlesea Insurance p.l.c. and Bank of Valletta p.l.c. Neither shareholder has effective control of the Group. Munchener Ruckversicherungs – Gesellschaft of Germany was a shareholder until 22 September 2005.

29. Related party transactions - continued

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

(a) Sale of insurance contracts and other services

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Transactions with shareholders:				
Trailer fees receivable	**6,442**	17,946	**6,442**	17,946
Rental income on investment property	**8,760**	9,132	**8,760**	9,132
Transactions with the Company's subsidiary				
Trailer fees receivable	**-**	-	**27,012**	12,355
Interest receivable	**-**	-	**18,021**	20,115

(b) Purchase of products and services

	Group		Company	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Transactions with shareholders:				
Net reinsurance amount paid	**434,688**	212,104	**434,688**	212,104
Acquisition costs payable	**914,703**	872,002	**914,703**	872,002
Reimbursement of expenses for back office support services	**369,000**	340,000	**369,000**	340,000
Purchase of insurance cover	**28,771**	34,948	**28,771**	34,948
Transactions with the Company's subsidiary				
Investment transaction costs	**-**	-	**91,984**	148,853

(c) Investments

	Group and Company	
	2005	2004
	Lm	Lm
Investments with entities related to shareholders	**8,402,899**	5,118,642
Deposits with entities related to shareholders	**2,921,100**	9,258,505
	11,323,999	14,377,147
Investment return, net of expenses and other charges:		
- entities related to shareholders	**(157,859)**	402,004

29. Related party transactions - continued

Further to the above, details of dividend income receivable from associates and the Company's subsidiary are provided in Note 4 to these financial statements.

Year end balances arising from the above transactions:

	Group		**Company**	
	2005	2004	**2005**	2004
	Lm	Lm	**Lm**	Lm
Creditors arising out of direct insurance operations	**130,001**	155,068	**130,001**	155,068
Amounts owed by group undertakings (Note 19)	**1,185,657**	39,354	**1,196,806**	423,639
Amounts owed to group undertakings (Note 25)	**19,538**	102,951	**15,669**	96,864
Loan to associated undertaking (note 17)	**304,944**	304,944	**304,944**	304,944
Reinsurers' share of assets - claims outstanding	**-**	97,600	**-**	97,600
Accruals and deferred income (key management personnel)	**64,308**	48,306	**64,308**	48,306

All the amounts receivable or payable are unsecured and interest free.

Key management personnel comprises the Chief Executive Manager and the General Managers of the companies within the Group. Total remuneration paid by the Group to key management personnel during the year amounted to Lm58,804 (Company Lm53,605). Corresponding figures for 2004 were Lm55,752 and Lm50,537 respectively.

30. Fair values

The fair value of publicly traded investments classified as financial assets through profit or loss is based on quoted market prices at the balance sheet date. The fair value of unquoted equities is established using appropriate valuation techniques. At 31 December 2005 and 2004, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values with the exception of financial liabilities emanating from investment contracts with DPF. It is impracticable to determine the fair value of these contracts due to the lack of a reliable basis to measure the future discretionary return that is a material feature of these contracts.

31. Statutory information

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

32. Comparative information

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