MIDDLESEA VALLETTA LIFE
Assurance Company Limited

2006

ANNUAL REPORT and ACCOUNTS

MIDDLESEA VALLETTA LIFE

Because happiness is a journey, not a destination.

contents

chairman and deputy chairman's statement

We are pleased to be able to report on another positive year for MSV Group (MSV), now in its 12th year of operation. Ever since its establishment in 1994, MSV achieved consistent growth and profitability, and has maintained its position as the leader in the individual protection and long-term savings market in Malta.

Results for the Year

During 2006, MSV reported a profit after tax of Lm2.99 million (€7m) representing an increase of 30% over the previous year. This was the highest profit registered by MSV since its establishment in 1994.

Business Written increased by 28% to Lm50.36 million (€117.3m). For the second consecutive year MSV experienced a strong demand for savings related products. The increase in Business Written was largely attributable to increased sales of the MSV Investment Bond, the MSV Single Premium Plan and the MSV Capital Guaranteed Bond, particularly through the Bancassurance operations with Bank of Valletta p.l.c., which remains our most important channel of distribution.

MSV's assets increased by 23% from Lm250.2 million (€582.8m) in 2005 to Lm308 million (€717.4m) at the end of 2006, whilst the Life Fund (including investment contracts without DPF) increased by 22% from Lm218 million (€508m) in 2005 to Lm267 million (€622m) in 2006.

The weighted average earnings per Lm1.00 share increased from 26c7 in 2005 to 29c3 in 2006.

Investment Markets

In 2006 Investment Income decreased from Lm26.19 million (€61m) in 2005 to Lm13.66 million (€31.8m). This decrease was the result of the downturn in the market values of bonds and equities held by MSV on the Malta Stock Exchange (MSE). The satisfactory performance of the foreign financial markets was not enough to compensate for the sharply lower return from of the local equity market in 2006. Overall the MSE Index suffered a 2.2% loss for the year, compared to a 62% gain in 2005. At the same time, most of the Government bonds recorded capital losses due to rising interest rates. The yield spread between long-term bonds and short-dated securities fell by the end of the year, resulting in a flat yield curve similar to that of the Euro zone.

Capital Strength and Solvency

On 24 April 2006, following the capitalisation of dividend, a bonus issue of Lm1.4 million (€3.26m) was declared. Concurrently, there

chairman and deputy chairman's statement
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was a further share issue of Lm1 million (€2.33m), whereby the issued share capital of the company increased from Lm8.6 million (€20m) to Lm11 million (€25.62m). A further issue of Lm2 million (€4.66m) took place on 15 December 2006, whereupon the issued share capital increased to Lm13 million (€30.28m). On 23 April 2007, following another capitalization of dividend, the issued share capital was further increased to Lm15 million (€34.94m), following a bonus issue of Lm2 million (€4.66m).

Furthermore, the authorised share capital was increased to Lm20 million (€46.59). All issues were fully subscribed by the two shareholders, namely Bank of Valletta p.l.c. and Middlesea Insurance p.l.c.

The increases in the issued share capital of MSV were part of our strategic plan to align the capital of MSV with its future business expectations, so as to ensure an adequate capital base relative to expected growth and the required statutory solvency margin.

Total shareholders' funds at the close of 2006 amounted to Lm 36.9 million (€85.9m), an increase of 27% over the previous year.

2006 Bonus Declaration

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 2006:

- 4.05% for the Comprehensive Life Plan (Regular and Single Premium Policies);
- 4.35% 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 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 between 1 January 2007 and the next bonus declaration, 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 2006, MSV registered a satisfactory investment return despite the sharp correction of the local equity market in the second half of the year. This satisfactory investment performance enabled us to increase the bonus rates in respect of certain generations of our with-profits policies whilst safeguarding the capital of our policyholders. 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 commitment 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.

Senior management appointments

In the latter part of 2006, the Middlesea Group considered the restructuring of senior management aimed at a combination of (i) a more effective management structure that tracked all the operations of the Middlesea Group, (ii) a smooth transition to eventual management succession, (iii) recognizing, motivating, rewarding and retaining key members of senior management, and (iv) addressing certain aspects of Corporate Governance in line with the guidelines issued by the Malta Financial Services Authority.

As a consequence of this restructuring, Mr. Mario C. Grech assumed the responsibilities of Executive Chairman of Middlesea Insurance p.l.c., Chairman of the Executive Committee of the Middlesea Group and Deputy Chairman of MSV. At the same time, Mr. David G. Curmi was appointed CEO of MSV, Mr. Victor Farrugia, Chief Officer Business Development and Mr. Mark Camilleri, Chief Life Underwriter.

We would like to congratulate the appointees, and wish them further success in their future career with MSV.

chairman and deputy chairman's statement
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MSV in the Community

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.

During 2006, MSV sponsored environment workshops organised by The Ministry of Rural Affairs and the Environment as part of its Spring Fair activities during the Earth Garden Festival held at Ta'Qali National Park. The workshops promoted environmental awareness by addressing various important issues such as biodiversity, waste recycling, climate change and bio-diesel.

MSV also aims to promote the importance of a healthy lifestyle and during 2006 MSV offered its support to a number of national sports associations.

Outlook

Although we are confident that the life insurance market in Malta will continue to offer good prospects for further growth our strategy for long-term growth is focused on external markets, in particular in the Euro-Mediterranean region. Our interest lies in seeking opportunities that can provide us with sustainable and profitable growth. In this regard, we are actively engaged in developing our first product which we intend to distribute in the Italian market under the EU freedom to provide services regulations.

We have a number of important operational challenges ahead of us, in particular the preparation for the adoption of the Euro as Malta's national currency and the development of a state-of-the-art point of sale system that is set to change the manner in which we process the intake of new business through the bancassurance and other channels of distribution, but which should lead to a significantly improved business performance.

In conclusion, we would like to express our gratitude and appreciation to the board of directors, management and staff, for their commitment and contribution to another satisfactory result, to our intermediaries for their continued support and, in particular, to our many policyholders who have chosen to place their trust in MSV.

R.E.D. Chalmers
Chairman

M.C. Grech
Deputy Chairman

the board of directors

From left to right: Mr R. E. D. Chalmers, Mr M C. Grech, Mr T. Depasquale, Mr E. Ellul, Mr M. Grima, Mr J. Ludbrook, Mr V. J. Cardona.

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.

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

Mr M.C. Grech
Deputy Chairman

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

At present: President of Progress Assicurazioni S.p.A., Executive Chairman of Middlesea Insurance p.l.c., Governor on the Board of the Malta Arbitration Centre; Chairman of Growth Investments Ltd., Chairman and CEO of International Insurance Management Services Ltd., and Euroglobe Holdings Ltd., Director of Malta International Training Centre, Director of Midi p.l.c. and of Premium Realty Ltd, and Chairman of the Middlesea Group Investment Committee and the Group Executive Committee; Life Vice President - Chartered Insurance Institute U.K.

Mr T. Depasquale
Director

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

At Present: Chief Executive Officer of

Bank of Valletta p.l.c., Director on the Board of Valletta Fund Management Ltd, Director on the Board of Valletta Fund Services Ltd, Director on the Board of Middlesea Insurance p.l.c.

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, Governor of the Malta College of Arts, Science and Technology and Director of Malta Government Privatisation plc. Currently he is Chairman of Malta Privatisation Unit – Ministry for Investment, Industry and IT.

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 founder member of the BOV Employees Foundation and Director of Bank of Valletta p.l.c. for six consecutive years.

He previously occupied the position of Executive Head Bancassurance and is currently the Executive Head Operational & Market Risk, a position which he has held since February 2007. 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 U.K. and Ireland. More recently he assumed responsibility for such business in Africa and Australasia, and is a member of several international committees and working groups within Munich Re. For a period he was the Reporting Actuary for Great Lakes, a London market reinsurer and member of the Munich Re Group. He has travelled widely and has spoken on behalf of Munich Re in many of its international markets. Mr Ludbrook has been a Fellow of the Institute of Actuaries since 1979.

Mr 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.

At present the Executive Head Company Secretary acting as Company Secretary and Board Secretary to the Bank of Valletta p.l.c and of the Bank of Valletta Group companies namely BOV Investments Ltd, Cotswold Developments Limited, Valletta Fund Management Limited and Valletta Fund Services Limted. He is also the Secretary to Bank of Valletta p.l.c's Audit, Compliance, Remuneration and Risk Management Committees.

management team

From left to right: Mr J. Kemp, Mr M. Camilleri, Mr R. Gibson, Ms M. Spiteri, Mr S. Fairbairn, Ms P. Brincat, Mr J. Gauci, Ms D. Bezzina, Mr H. Damato, Mr V. Farrugia

Chief Executive Officer	Mr David G. Curmi, ACII, Chartered Insurer
Chief Officer	Mr Victor Farrugia, FCII, BSc, MA (Fin.Serv.)
Chief Life Underwriter	Mr Mark Camilleri, FCII, DMU (AMS), Chartered Insurer
Life Actuary	Mr Jonathan Philip Kemp, BSc, FIA
Pensions Consultant	Mr Stuart John Fairbairn, BA (Hons) Econ., Cert. PFS
Executive Heads	Ms Denise Bezzina, ACII, Chartered Insurer Mr Ray Gibson
Senior Executive Manager	Mr Henrik Damato, BA (Hons) Accty., FIA, CPA, MSI, FAIQ
Senior Executives	Ms Patricia Brincat Mr Josef Gauci, BSc (Hons) Ms Mary Spiteri

GROWTH
INVESTMENTS LTD

In 1997 Growth Investments Limited, a wholly owned subsidiary of Middlesea Valletta Life Assurance Company Ltd, forged a relationship with Fidelity International.

As the exclusive representative of Fidelity Funds and Fidelity Multimanager SICAV in Malta, Growth Investments offers its customers an extensive choice from a range of equity, bond, cash, asset allocation funds and multi-manager funds from the award-winning Fidelity range. In 2006, Fidelity was voted winner of The Best Overall Investment Manager award by Standard & Poors.

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 and Malta Government securities.

Growth Investments Limited is committed to applying new ideas and modern technology to achieve the best results for its customers.

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 *(as at December 2006)*

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 BA (Hons) Mgmt
	Mr Peter Perotti ACIB *Resigned with effect from October 26, 2006.*
Company Secretary	Mr Evander Borg FCII, MBA (Henley-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

During 2006, the demand for individual life assurance and investment related products in Malta increased substantially, as evidenced by a growth in the market of around 21% and a corresponding high take up of the various products offered by MSV leading to a growth in our own portfolio of 28% over 2005.

CEO's review

Performance and Financial Results

During 2006, MSV Group ("MSV") continued to demonstrate its strength in the individual protection and long-term savings market in Malta. Despite operating in a competitive market, MSV succeeded in increasing its share of the individual life market, from 67% in 2005 to over 70% in 2006. We are clearly reaping the benefits of our strategy to promote and provide a broad range of value for money savings, investment and protection products and services through a multi-channel distribution platform. The bancassurance venture with Bank of Valletta p.l.c. remains our most important distribution channel and, during 2006, this continued to register further significant growth.

During 2006, MSV recorded a profit after tax of Lm2.99 million (€7m) representing an increase of 30% over the corresponding figure of Lm2.3 million (€5.4m) recorded in 2005. This is the highest profit registered by MSV since its establishment in 1994. Business written (including Investment Contracts Without a Discretionary Participation Feature (DPF)) increased by 28% from Lm39.27 million (€91.5m) in 2005 to Lm50.36 million (€117.3m) in 2006.

Gross claims incurred increased from Lm 4.9 million (€11.4) in 2005 to Lm9.0 million (€21.0m) in 2006. Claims incurred after reinsurance amounted to Lm 8.7 million (€20.3m) an increase of 84% over 2005. Claims incurred include maturities, surrenders, mortality and disability claims. The increase in claims is mainly attributable to a higher number of maturities.

Our acquisition costs increased by 11% from Lm2.18 million (€5.1m) to Lm2.41 million (€m5.6m). This increase was due to the higher Business written. Administrative expenses increased by 12% from Lm1.6 million (€3.7m) in 2005 to Lm1.8 million (€4.2m) in 2006. The increase in administrative expenses was mainly attributable to higher staff costs and marketing and advertising costs.

The weighted average earnings per Lm1.00 share increased from 26c7 in 2005 to 29c3 in 2006.

MSV's contribution towards the results of the Middlesea Group increased from Lm1.16 million (€2.7m) in 2005 to Lm1.49 million (€3.5m) in 2006.

Capital and Financial Strength

The Group's Balance Sheet increased by 23% from Lm250.2 million (€582.8m) in 2005 to Lm308 million (€717.4m) at the end of 2006.

Total equity at the close of 2006 amounted to Lm36.9 million (€85.9m), an increase of 27% over the previous year. The value of in-force business also increased from Lm16.6 million (€38.7m) in 2005 to Lm18.4 million (€42.8m) in 2006. The value of in-force business reflects the discounted value of projected future transfers (after providing for taxation) to shareholders arising from policies in force at the end of the year.

During 2006 shareholders continued to strengthen the financial position of MSV through an injection of new capital of Lm3,000,000 (€7m) thereby increasing the issued and fully paid-up capital to Lm13,000,000 (€30.3m). Furthermore, the Annual General Meeting of MSV approved payment of a final dividend of Lm2,000,000 (€4.7m), net of tax, by way of a Bonus Issue of ordinary shares of Lm1 each fully paid through capitalization of an equivalent amount from the revenue reserves thereby increasing the issued and fully paid up capital from Lm13 million (€30.3m) to Lm15 million (€34.9m).

Shareholders also approved the increase in the Authorised Share Capital from Lm15 million (€35m) to Lm20 million (€46.6m).

Investment Performance

Investment income decreased from Lm26.19 million (€61m) in 2005 to Lm13.66 million (€31.8m) in 2006. The decrease is due to a return to more normal investment conditions compared with the exceptional returns seen in 2005 particularly from the local capital market.

Funds invested by MSV at the end of 2006 amounted to Lm 279.5 million (€651.1m). This corresponds to an increase of 25% over the figure of Lm224.5 million (€522.9m) in 2005. The value of the life fund (including Investment Contracts Without DPF) increased by 22% from Lm218.1 million (€508m) in 2005 to Lm266.5 million (€620.8m) in 2006.

Business Development

MSV is licensed under the Insurance Business Act, 1998 to transact long-term insurance 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 Policies (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. During 2006, the demand for individual life assurance and investment related products in Malta increased substantially, as evidenced by a growth in the market of around 21% and a corresponding high take up of the various products offered by MSV leading to a growth in our own portfolio of 28% over 2005. During 2006 we launched the 2nd tranche of the MSV Capital Guaranteed Bond, which was fully subscribed well within the subscription period. In addition, we continued to experience a strong demand for savings products with the MSV Single Premium Plan being the largest contributor to the total business written.

Investors responded positively to the improvements made to the MSV Investment Bond and this has also led to an increase in demand for linked long-term (unit-linked) single premium investments. In 2006 deposits received from unit-linked policies represented 27% of our total portfolio.

In 2006 single premium investments represented 66% of the total Business written.

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 the investment strategy, within 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 in Malta that yield a satisfactory level of rental income or capital appreciation, and to

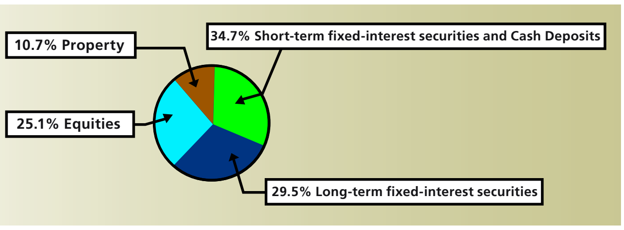
CEO's review - continued

investments in international property funds.

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 2006 the funds invested were distributed into the following asset classes:



Pensions Unit
Although the expected reform of the national pension system has been delayed further, we went ahead with our plans to ensure that we are well positioned to seize, from a very early stage, the new business opportunities which such a reform will no doubt present. In 2006, we set up a new Pensions Unit within our operational structure and we will launch a new version of the MSV Retirement Plan towards the end of 2007.

Information Technology
During 2006 we continued with our substantial investment in our I.T. systems. We embarked on an ambitious project to develop and implement a new point-of-sale solution. This solution extends our current capabilities of the back-office information system to service distribution points offering simple interfaces to quote and acquire new business propositions. The point-of-sale enhancement integrates the MSV value chain through a straight-through-processing approach reducing expensive manual interventions with secure cost effective electronic means.

The new point-of-sale solution, which will be launched in the first half of 2007, is a jump into the next generation of information systems extending our reach and enabling further sales distribution through the leverage of technology.

Our People
We are committed to ensure that our people and tied insurance intermediaries are adequately trained. We regard life-long learning as a high priority and to this end we provide our people and tied 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.

We are indeed pleased to note that a good number of our staff and tied intermediaries continue to achieve very good results in examinations leading to qualifications of the Chartered Insurance Institute of the United Kingdom and of other recognized professional bodies.

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 representative of Fidelity Funds SICAV in Malta, an alliance that was established in 1997 with Fidelity International.

In 2006, Growth Investments registered a profit after tax of Lm94,017 (€219,210) compared with Lm200,602 (€467,277) in the previous year.

Outlook
Having attained a local market share of over 70%, we will continue to focus on our overseas development strategy particularly in the Euro-Med Region. During 2007 MSV was authorised to carry on business under the freedom of services regime in Italy and we are currently developing a suite of products that will enable us to enter the Italian life insurance market.

At the same time we will continue to grow our business in the local market through the development of innovative products aimed at creating new demands for life protection and savings and by forging long-term relationships with local intermediaries to continue to enhance our already wide and diversified distribution platform.

We will also seek further growth in the local market by taking initiatives that will differentiate us from our competitors.

Our results for 2006 are evidence of the success of our strategies. The consistency in performance which we have achieved over the years reflects the benefits gained by constantly focusing on developing products and services which rank among the highest value offerings in the market in terms of quality, performance and price and by aiming to achieve the highest standards of execution in all our business activities and processes. With a strong financial and operation base, we are well positioned to continue to achieve consistent and profitable growth, to realize our goals and to take on new challenges and opportunities that may arise in the future.

I would like to sincerely thank our many loyal customers for the trust that they have shown in MSV. As a leading provider of long-term protection and savings policies we seek to earn the lifetime loyalty of all our customers by providing them with a very positive experience throughout their relationship with us. Our success and reputation depends not only on the quality of our products and client service but also on the manner in which we conduct our business. Honesty, integrity, openness, high ethical standards and confidence are the cornerstones of the foundation on which we conduct our business.

David G. Curmi
Chief Executive Officer

directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2006.

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 2006, Middlesea Valletta Life Assurance Company Limited (MSV Group) reported a profit after tax of Lm2.99 million (€7m) representing an increase of 29.8% over the corresponding figure of Lm2.3 million (€5.4m) recorded in 2005.

Gross written premiums (including investment contracts without DPF) increased by 28% from Lm39.26 million (€91.45m) in 2005 to Lm50.36 million (€117.31m) in 2006. During 2006, MSV Group continued to experience a strong demand for savings products, and the increase in premium was largely attributable to increased sales of the MSV Single Premium Plan and to the launch of the Euro Capital Guarantee Bond Fund.

Investment income decreased from Lm26.19 million (€61m) in 2005 to Lm13.66 million (€31.8m) in 2006. This decrease was due to a return to more normal investment conditions compared to the exceptional returns earned in 2005.

The Group's balance sheet increased by 23% from Lm250.2 million (€582.8m) in 2005 to Lm308 million (€717.4m) at the end of 2006, whilst the life fund (including investment contracts without DPF) increased by 22% from Lm218 million (€508m) in 2005 to Lm267 million (€622m) in 2006. The value of in-force business also increased from Lm16.6 million (€38.7m) in 2005 to Lm18.4 million (€42.8m) in 2006. The value of in-force business reflects the discounted value of projected future transfers (after providing for taxation) to shareholders arising from policies in force at the end of the year.

MSV Group increased the Bonus Rates for 2006 to all with-profits policyholders. In addition, the Group declared a Terminal Bonus on its Comprehensive Life Plan portfolio 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.

During the year the shareholders continued strengthening the balance sheet of the company through a capital injection of Lm3 million (€7m).

MSV Group has a positive outlook on its 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 its customers.

Results and dividends

The consolidated profit and loss account is set out on page 18. The directors recommend the payment of a final dividend of Lm2 million (€4.66m) payable to the shareholders by way of a bonus issue of ordinary shares of Lm1 (€2.33)each (2005: Lm1.4 million (€3.26m)).

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)
T. Depasquale
E. Ellul BA (Hons) Econ, Dip Pol Econ (Oxon)
M. Grima Dip MS, MBA (Henley), MIM, MCMI
J.J. Ludbrook BA FIA
J.M. Rizzo ACII, AIMIS, AMIAP, Chartered Insurer – resigned 27 April 2006

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

Middle Sea House, Floriana FRN 1442, Malta
23 April 2007

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.

independent auditor's report

To the Shareholders of Middlesea Valletta Life Assurance Company Limited

We have audited the consolidated financial statements of Middlesea Valletta Life Assurance Company Limited and its subsidiary (the "Group") and of Middlesea Valletta Life Assurance Company Limited (the "Company") set out on pages 18 to 66 which comprise the balance sheets as at 31 December 2006 and the profit and loss accounts, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Insurance Business Act, 1998 and the Companies Act, 1995. As described in the statement of directors' responsibilities on page 16, this responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Insurance Business Act, 1998 and the Companies Act, 1995.

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

23 April 2007

consolidated profit and loss account
technical account – long-term business

	Notes	Year ended 31 December	
		Group and Company	
		2006	2005
		Lm	Lm
Earned premiums, net of reinsurance			
Gross premiums written	3	**39,779,786**	33,657,413
Outward reinsurance premiums		**(780,266)**	(774,413)
Net premiums written		**38,999,520**	32,883,000
Investment income	4	**11,318,401**	6,762,408
Unrealised gains on investments	4	**2,085,733**	18,758,635
Other technical income, net of reinsurance	5	**800,255**	311,792
Total technical income		**53,203,909**	58,715,835
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**8,746,664**	4,842,797
- reinsurers' share		**(60,576)**	(155,952)
		8,686,088	4,686,845
Change in the provision for claims			
- gross amount		**254,472**	76,641
- reinsurers' share		**(194,543)**	(4,557)
		59,929	72,084
Claims incurred, net of reinsurance	3	**8,746,017**	4,758,929
Change in other technical provisions, net of reinsurance			
Insurance contracts			
- gross amount		**11,231,325**	23,475,510
- reinsurers' share		**5,658**	3,502
		11,236,983	23,479,012
Investment contracts with DPF – gross		**27,059,222**	24,978,148
Change in other technical provisions, net of reinsurance		**38,296,205**	48,457,160
Net operating expenses	3	**3,651,655**	3,363,478
Investment expenses and charges	4	**376,190**	384,566
Total technical charges		**51,070,067**	56,964,133
Tax attributable to the long-term business	8	**433,279**	(311,996)
Balance on the long-term business technical account (page 19)		**2,567,121**	1,439,706

consolidated profit and loss account
non-technical account

		Year ended 31 December			
		Group		Company	
	Notes	**2006**	2005	**2006**	2005
		Lm	Lm	**Lm**	Lm
Balance on the long-term business technical account (page 18)		**2,567,121**	1,439,706	**2,567,121**	1,439,706
Investment income	4	**579,143**	318,727	**650,035**	275,653
Unrealised capital gains	4	**69,379**	757,487	**74,756**	692,586
Investment expenses and charges	4	**(19,957)**	(25,995)	**(12,776)**	(14,681)
Other income – commission receivable		**357,701**	371,369	**-**	-
Other charges – administrative expenses	3	**(283,440)**	(232,697)	**(55,600)**	(42,652)
Profit before tax		**3,269,947**	2,628,597	**3,223,536**	2,350,612
Income tax expense	8	**(284,087)**	(328,166)	**(262,693)**	(250,798)
Profit for the financial year		**2,985,860**	2,300,431	**2,960,843**	2,099,814
Earnings per share (cents)	10	**29c3**	26c7		

consolidated balance sheet

		As at 31 December			
		Group		Company	
	Notes	**2006 Lm**	2005 Lm	**2006 Lm**	2005 Lm
ASSETS					
Intangible assets	12	**19,459,424**	17,423,207	**19,431,263**	17,418,480
Tangible assets - property, plant and equipment	13	**255,062**	210,826	**241,747**	195,790
Investments:					
Land and buildings - investment property	14	**21,202,117**	19,971,926	**21,202,117**	19,971,926
Investment in group undertaking	15	**-**	-	**199,999**	199,999
Investment in associated undertakings	16	**1,865,237**	1,948,349	**1,865,237**	1,948,349
Other investments	17	**256,434,295**	202,542,547	**255,939,704**	202,062,432
Deferred income tax	18	**1,950,458**	948,245	**1,950,458**	948,245
Reinsurers' share of technical provisions	23	**316,635**	127,750	**316,635**	127,750
Income tax receivable		**1,522,848**	1,367,793	**1,522,848**	1,367,793
Debtors	19	**1,151,343**	1,223,617	**1,236,660**	1,234,766
Prepayments and accrued income	19	**2,254,624**	2,117,751	**2,160,770**	2,027,742
Cash at bank and in hand	20	**1,556,295**	2,316,363	**1,525,434**	2,291,404
Total assets		**307,968,338**	250,198,374	**307,592,872**	249,794,676
EQUITY AND LIABILITIES					
Capital and reserves attributable to shareholders of the Company					
Called up share capital	21	**13,000,000**	8,600,000	**13,000,000**	8,600,000
Other reserves	22	**15,710,000**	13,960,000	**15,710,000**	13,960,000
Profit and loss account		**8,145,478**	6,559,618	**7,811,354**	6,250,511
Total equity		**36,855,478**	29,119,618	**36,521,354**	28,810,511
Technical provisions					
- insurance contracts	23	**134,438,739**	123,073,309	**134,438,739**	123,073,309
- investment contracts with DPF	23	**106,143,396**	78,963,807	**106,143,396**	78,963,807
- investment contracts without DPF	24	**26,701,673**	16,528,040	**26,701,673**	16,528,040
Provision for other risks and charges					
- deferred taxation	18	**1,519,084**	682,561	**1,509,111**	677,484
Creditors	25	**1,667,916**	1,151,212	**1,641,885**	1,137,214
Accruals and deferred income	25	**641,131**	611,236	**636,714**	604,311
Income tax payable		**921**	68,591	**-**	-
Total liabilities		**271,112,860**	221,078,756	**271,071,518**	220,984,165
Total equity and liabilities		**307,968,338**	250,198,374	**307,592,872**	249,794,676

The financial statements on pages 18 to 66 were authorised for issue by the Board on 23 April 2007 and were signed on its behalf by:

R.E.D. Chalmers
Chairman

M.C. Grech
Deputy Chairman

D. G. Curmi
CEO

statement of changes in equity

Group	Notes	Share capital Lm	Other reserves Lm	Profit and loss account Lm	Total Lm
Balance at 1 January 2005		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**
Balance at 1 January 2006		8,600,000	13,960,000	6,559,618	29,119,618
Increment in value of in-force business	22	-	1,750,000	-	1,750,000
Net income recognised directly in equity		-	1,750,000	-	1,750,000
Profit for the financial year		-	-	2,985,860	2,985,860
Total recognised income for 2006		-	1,750,000	2,985,860	4,735,860
Increase in share capital	21	3,000,000	-	-	3,000,000
Dividends	11	1,400,000	-	(1,400,000)	-
Balance at 31 December 2006		**13,000,000**	**15,710,000**	**8,145,478**	**36,855,478**

statement of changes in equity - continued

Company

	Notes	Share capital Lm	Other reserves Lm	Profit and loss account Lm	Total Lm
Balance at 1 January 2005		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**
Balance at 1 January 2006		8,600,000	13,960,000	6,250,511	28,810,511
Increment in value of in-force business	22	-	1,750,000	-	1,750,000
Net income recognised directly in equity		-	1,750,000	-	1,750,000
Profit for the financial year		-	-	2,960,843	2,960,843
Total recognised income for 2006		-	1,750,000	2,960,843	4,710,843
Increase in share capital	21	3,000,000	-	-	3,000,000
Dividends	11	1,400,000	-	(1,400,000)	-
Balance at 31 December 2006		**13,000,000**	**15,710,000**	**7,811,354**	**36,521,354**

Unrealised fair value gains attributable to shareholders, net of taxation, amounting to Lm967 (2005: Lm253,888) have been credited to the profit and loss account.

consolidated cash flow statement

	Notes	Group 2006 Lm	Group 2005 Lm	Company 2006 Lm	Company 2005 Lm
		Year ended 31 December			
Operating activities					
Cash generated from operations	26	**38,732,123**	30,976,441	**38,522,015**	31,194,198
Dividends received	4	**3,152,621**	1,539,970	**3,246,173**	1,533,214
Interest received		**5,968,863**	4,726,478	**5,949,558**	4,722,643
Taxation paid		**(239,223)**	(266,949)	**(155,055)**	(204,096)
Dividends paid		**-**	(800,000)	**-**	(800,000)
Net cash generated from operating activities		**47,614,384**	36,175,940	**47,562,691**	36,445,959
Investing activities					
Purchase of intangible assets	12	**(617,153)**	(363,796)	**(600,883)**	(362,861)
Purchase of tangible assets	13	**(82,645)**	(57,579)	**(79,322)**	(55,112)
Purchase of investment property	14	**(117,345)**	(2,438,330)	**(117,345)**	(2,438,330)
Purchase of other financial investments	17	**(163,934,669)**	(80,237,980)	**(163,913,924)**	(80,186,980)
Disposal of intangible assets		**-**	-	**9,700**	-
Disposal of tangible assets		**1,800**	-	**1,800**	-
Disposal of investment property		**104,400**	-	**104,400**	-
Disposal of associated undertaking		**139,688**	-	**139,688**	-
Disposal of other financial investments		**113,131,472**	47,289,830	**113,127,225**	47,013,418
Net cash used in investing activities		**(51,374,452)**	(35,807,855)	**(51,328,661)**	(36,029,865)
Financing activities					
Issue of share capital	21	**3,000,000**	-	**3,000,000**	-
Net cash generated from financing activities		**3,000,000**	-	**3,000,000**	-
Movement in cash and cash equivalents		**(760,068)**	368,085	**(765,970)**	416,094
Cash and cash equivalents at beginning of year		**2,316,363**	1,948,278	**2,291,404**	1,875,310
Cash and cash equivalents at end of year	20	**1,556,295**	2,316,363	**1,525,434**	2,291,404

accounting policies

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

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.

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 – these are unit linked products 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 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.

Statement, interpretations and amendments to published standards effective in 2006

In 2006 the Group adopted new standards, amendments and interpretations to existing Standards that are mandatory for the Group's accounting period beginning on 1 January 2006. The adoption of these revisions to the requirements of IFRSs did not result in substantial changes to the Group's accounting policies.

2. Basis of preparation - continued

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 after 1 January 2006. The Group has not early adopted these revisions to the requirements of IFRSs, and the Group's directors are of the opinion that there are no requirements that will have a possible impact on the Group's financial statements in the period of initial application.

The Group has considered the requirements of IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 requires the disclosure of qualitative and quantitative information about exposure to market risks arising from financial instruments, including specified minimum disclosures such as sensitivity analysis to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that certain additional disclosures would be necessary upon application of these requirements.

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.

accounting policies - continued

5. Insurance and investment contracts

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 Group's approved actuary following his annual investigation of the financial condition of the Group'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.

(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.

5. **Insurance and investment contracts** - continued

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 Group's approved actuary following his annual investigation of the financial condition of the Group'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. Additionally liabilities under unit-linked life insurance contracts reflect the value of assets held within unitised investment pools.

(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.

5. Insurance and investment contracts - continued

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.

(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 intangible assets, 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.

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.

accounting policies - continued

10. Property, plant and equipment - continued

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.

13. Investments - continued

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.

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

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

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

14. Impairment of assets - continued

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.

notes to the financial statements

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 difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (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.

2. Management of insurance and financial risk - continued

2.1 Insurance risk - continued

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 wide spread 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, 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 products, 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 is declared, it is guaranteed to be paid in full at maturity or on the prior death of the life assured.

2. Management of insurance and financial risk - continued

2.2 Financial risk - continued

(a) Interest rate risk - continued

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 products, the Group has guaranteed a fixed return for certain periods of each contract. 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 international financial service providers, which ensures that any shortfall on the guaranteed capital investment return, will be compensated by these providers. On entering this agreement the Group considered the reputation and credit worthiness of these partners taking into account, amongst other factors, the credit rating as graded by international rating agencies. The Group monitors this rating regularly.

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.

2. Management of insurance and financial risk - continued

2.2 Financial risk - 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, assessment of equity issuers and maximum exposures by the Group to any one issuer and its connected parties (with the exception of investments in Government paper). These parameters also consider solvency restrictions imposed by the 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 25% (2005: 27%) of its total assets in foreign currencies, of which 18% (2005: 20%) is held in Euro, 2% (2005: 3%) in Sterling and 4% (2005: 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;
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.

2. Management of insurance and financial risk - continued

2.2 Financial risk - continued

(d) Credit risk - continued

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

At 31 December 2006, the Group had entered into unexpired forward foreign exchange contracts hedging an exposure of USD5,593,550 and STG1,978,000 against an exposure of Euro7,252,361. 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. The fair value movements associated within these unexpired contracts are recognised in the profit and loss account and amounted to Lm29,841 (2005: Lm6,243).

(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	
	2006	2005
	Lm	Lm
Direct insurance	**39,637,983**	33,507,621
Reinsurance inwards	**141,803**	149,792
Gross premiums written	**39,779,786**	33,657,413

Direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Non-participating	**1,539,592**	1,352,231	**-**	-
Participating	**13,999,490**	13,567,011	**20,846,110**	14,794,744
Linked	**935,683**	775,415	**2,317,108**	3,018,220
	16,474,765	15,694,657	**23,163,218**	17,812,964

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	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Investment contracts	**629,532**	569,372	**9,955,465**	5,038,682

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.

3. Other information – technical account - continued

(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 Lm256,643 to the long-term business technical account for the year ended 31 December 2006 (2005: Lm431,633).

(iii) Analysis between insurance and investment contracts

	Group and Company	
	2006	2005
	Lm	Lm
Gross premiums written		
Insurance contracts	**13,646,208**	13,355,447
Investment contracts with DPF	**26,133,578**	20,301,966
	39,779,786	33,657,413
Claims incurred, net of reinsurance		
Insurance contracts	**2,987,360**	3,176,025
Investment contracts with DPF	**5,758,657**	1,582,904
	8,746,017	4,758,929

3. Other information – technical account - continued

(iv) Net operating expenses

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Acquisition costs	**2,411,070**	2,179,008	**2,411,070**	2,179,008
Administrative expenses	**1,798,187**	1,602,940	**1,570,347**	1,412,895
Reinsurance commissions	**(274,162)**	(185,773)	**(274,162)**	(185,773)
	3,935,095	3,596,175	**3,707,255**	3,406,130

Allocated to:

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Technical profit and loss account	**3,651,655**	3,363,478	**3,651,655**	3,363,478
Non-technical profit and loss account	**283,440**	232,697	**55,600**	42,652
	3,935,095	3,596,175	**3,707,255**	3,406,130

Total commission for direct business accounted for in the financial year amounted to Lm1,673,413 (2005: Lm1,501,391). Lm928,329 of this charge arose on investment contracts (2005: Lm897,790).

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 Lm8,315,252 (2005: Lm6,290,015). Reversionary bonuses declared in 2006 are further analysed as follows:

	2006	2005
	Lm	Lm
Insurance contracts	**4,459,815**	3,481,483
Investment contracts with DPF	**3,855,437**	2,808,532
	8,315,252	6,290,015

4. Investment return

	Group 2006 Lm	Group 2005 Lm	Company 2006 Lm	Company 2005 Lm
Investment income				
Dividend income from shares in a group undertaking	**-**	-	**106,154**	-
Rent receivable from investment property	**1,176,558**	1,045,114	**1,176,558**	1,045,114
Interest receivable from loans and receivables				
- group undertakings	**-**	-	**-**	18,021
- other financial investments not at fair value through profit or loss	**1,616,264**	883,392	**1,614,483**	883,392
Income from financial assets at fair value through profit or loss				
- interest income	**4,452,142**	4,319,053	**4,434,618**	4,294,019
- dividend income - associates	**125,655**	132,004	**125,655**	132,004
- dividend income - other	**3,026,966**	1,407,966	**3,014,364**	1,401,210
- net fair value gains	**2,437,825**	17,255,140	**2,439,847**	17,160,934
Net fair value gains on investment property	**1,217,246**	1,554,588	**1,217,246**	1,554,588
	14,052,656	26,597,257	**14,128,925**	26,489,282
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**126,567**	84,975	**126,567**	84,975
Other investment expenses	**210,387**	290,028	**210,319**	290,028
Exchange losses	**59,193**	35,558	**52,080**	24,244
	(396,147)	(410,561)	**(388,966)**	(399,247)
Total investment return	**13,656,509**	26,186,696	**13,739,959**	26,090,035
Apportioned as follows:				
Technical profit and loss account	**13,027,944**	25,136,477	**13,027,944**	25,136,477
Non-technical profit and loss account	**628,565**	1,050,219	**712,015**	953,558
	13,656,509	26,186,696	**13,739,959**	26,090,035

5. Other technical income, net of reinsurance

	Group and Company 2006 Lm	Group and Company 2005 Lm
Commissions receivable	**234,385**	-
Investment management fees	**558,223**	308,270
Other	**7,647**	3,522
	800,255	311,792

notes to the financial statements - continued

6. Profit before tax

Profit before tax is stated after charging:

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Staff costs (Note 7)	**586,925**	469,129	**541,763**	432,576
Auditors' remuneration	**15,400**	14,600	**12,500**	13,000
Actuarial valuation fees	**196,356**	213,398	**196,356**	213,398
Depreciation/amortisation:				
- intangible assets (Note 12)	**330,936**	231,128	**328,400**	229,339
- property, plant and equipment (Note 13)	**38,409**	32,522	**33,365**	27,611
Reimbursement of expenses for back office support services (Note 28)	**406,000**	369,000	**406,000**	369,000

7. Staff costs

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Salaries	**539,648**	426,460	**497,140**	391,938
Social security costs	**29,260**	26,667	**26,606**	24,636
Provision for contracted pension obligations (Note 9)	**18,017**	16,002	**18,017**	16,002
	586,925	469,129	**541,763**	432,576

The average number of persons employed during the year was:

	Group		Company	
	2006	2005	**2006**	2005
Managerial	**12**	11	**11**	10
Technical	**34**	32	**31**	30
Administrative	**3**	3	**3**	3
Average number of employees	**49**	46	**45**	43

8. Income tax

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Current tax expense	**16,498**	74,819	**-**	-
Deferred taxation (credit)/charge (Note 18)	**(165,690)**	565,343	**(170,586)**	562,794
Income tax (credit)/expense	**(149,192)**	640,162	**(170,586)**	562,794
Apportioned as follows:				
Technical profit and loss account	**(433,279)**	311,996	**(433,279)**	311,996
Non-technical profit and loss account	**284,087**	328,166	**262,693**	250,798
Income tax (credit)/expense	**(149,192)**	640,162	**(170,586)**	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	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Profit before tax	**2,836,668**	2,940,593	**2,790,257**	2,662,608
Tax profit at 35%	**992,834**	1,029,208	**976,590**	931,913
Tax effect of:				
Net impact of tax credits not recognised	**(844,899)**	-	**(850,030)**	-
Property withholding tax at 12%	**(245,411)**	(330,971)	**(245,411)**	(330,971)
Other differences	**(51,716)**	(58,075)	**(51,735)**	(38,148)
Income tax (credit)/expense	**(149,192)**	640,162	**(170,586)**	562,794

notes to the financial statements - continued

9. Directors' emoluments

	2006	2005
	Lm	Lm
Remuneration	31,970	24,053
Fees	14,000	20,540
	45,970	44,593

The Company has paid insurance premiums of Lm13,603 during the year (2005: Lm13,497) in respect of insurance cover in favour of its directors. Furthermore, provisions for the year have been made (Group and Company: 2006 – Lm18,017 and 2005 – Lm16,002) 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	
	2006	2005
Net profit attributable to shareholders	2,985,860	2,300,431
Weighted average number of ordinary shares in issue	10,201,096	8,600,000
Earnings per share	29c3	26c7

11. Dividends

At the forthcoming Annual General Meeting a dividend in respect of 2006 of 15c4 per share, amounting to a total dividend of Lm2,000,000 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 2007. The final dividends declared in respect of 2005 and 2004 were Lm1,400,000 (16c2 per share) and Lm500,000 (5c8 per share) respectively. In addition the company paid an interim dividend of Lm300,000 during 2005 (3c5 per share).

12. Intangible assets

Group	Value of in-force business Lm	Computer software Lm	Deferred policy acquisition costs (i) Lm	Total Lm
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
Opening net book amount	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
Year ended 31 December 2006				
Opening net book amount	16,610,000	448,981	364,226	17,423,207
Additions	-	259,095	358,058	617,153
Increment in value of in-force business credited to reserves (Note 22)	1,750,000	-	-	1,750,000
Amortisation charge	-	(163,961)	(166,975)	(330,936)
Closing net book amount	18,360,000	544,115	555,309	19,459,424
At 31 December 2006				
Cost or valuation	18,360,000	1,585,201	846,431	20,791,632
Accumulated amortisation	-	(1,041,086)	(291,122)	(1,332,208)
Net book amount	18,360,000	544,115	555,309	19,459,424

Amortisation of Lm204,103 (2005: Lm123,525) is included in acquisition costs, Lm Nil (2005: Lm1,824) is included in claims paid and Lm126,833 (2005: Lm105,779) is included in administration expenses.

Fully amortised assets as at the financial year end amounted to Lm608,866 (2005: Lm585,743).

(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 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
Opening net book amount	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
Year ended 31 December 2006				
Opening net book amount	16,610,000	444,254	364,226	17,418,480
Additions	-	242,825	358,058	600,883
Disposals	-	(72,638)	-	(72,638)
Increment in value of in-force business credited to reserves (Note 22)	1,750,000	-	-	1,750,000
Amortisation charge	-	(161,425)	(166,975)	(328,400)
Amortisation released on disposals	-	62,938	-	62,938
Closing net book amount	18,360,000	515,954	555,309	19,431,263
At 31 December 2006				
Cost or valuation	18,360,000	1,485,866	846,431	20,692,297
Accumulated amortisation	-	(969,912)	(291,122)	(1,261,034)
Net book amount	18,360,000	515,954	555,309	19,431,263

Amortisation of Lm204,103 (2005: Lm123,525) is included in acquisition costs, Lm Nil (2005: Lm1,824) is included in claims paid and Lm124,297 (2005: Lm103,990) is included in administration expenses.

Fully amortised assets as at the financial year end amounted to Lm608,866 (2005: Lm585,743).

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

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% (2005: 2%) between the weighted average projected investment return and the discount factor applied. The calculation also assumes lapse rates varying from 3% to 5% (2005: 3% to 5%), and an expense inflation rate of 3.6% (2005: 3.5%).

Changes in assumptions

Changes in current year assumptions, as compared to the 2005 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 Lm19.56 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 Lm17.28 million.

13. Property, plant and equipment

Group

	Leasehold improvements Lm	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
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
Year ended 31 December 2006				
Opening net book amount	84,765	126,061	-	210,826
Additions	18,092	46,053	18,500	82,645
Disposals	-	-	(17,302)	(17,302)
Depreciation charge	(2,474)	(32,620)	(3,315)	(38,409)
Depreciation released on disposals	-	-	17,302	17,302
Closing net book amount	100,383	139,494	15,185	255,062
At 31 December 2006				
Cost	107,449	429,813	33,973	571,235
Accumulated depreciation	(7,066)	(290,319)	(18,788)	(316,173)
Net book amount	100,383	139,494	15,185	255,062

Fully depreciated assets that were still in use at the year end amounted to Lm206,729 (2005: Lm203,830).

13. **Property, plant and equipment** - continued

Company

	Leasehold improvements Lm	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
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
Year ended 31 December 2006				
Opening net book amount	82,687	113,103	-	195,790
Additions	18,092	42,730	18,500	79,322
Disposals	-	-	(17,302)	(17,302)
Depreciation charge	(2,420)	(27,630)	(3,315)	(33,365)
Depreciation released on disposals	-	-	17,302	17,302
Closing net book amount	98,359	128,203	15,185	241,747
At 31 December 2006				
Cost	105,300	398,070	33,973	537,343
Accumulated depreciation	(6,941)	(269,867)	(18,788)	(295,596)
Net book amount	98,359	128,203	15,185	241,747

Fully depreciated assets that were still in use at the year end amounted to Lm206,729 (2005: Lm203,830).

14. Investment property

	Group and Company
	Lm
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
Year ended 31 December 2006	
Opening net book amount	19,971,926
Additions	117,345
Disposals	(104,400)
Net fair value gains	1,217,246
Closing net book amount	21,202,117
At 31 December 2006	
Cost	15,602,890
Accumulated fair value gains	5,599,227
Net book amount	21,202,117

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

notes to the financial statements - continued

15. Investment in group undertaking

	Company
	Lm
Year ended 31 December 2005	
Opening and closing net book amount	199,999
Year ended 31 December 2006	
Opening and closing net book amount	199,999

The group undertaking at 31 December is shown below:

Group undertaking	Registered office	Class of shares held	Percentage of shares held 2006 & 2005
Growth Investments Limited	Middle Sea House Floriana, FRN 1442	Ordinary shares	100%

16. Investment in associated undertakings

Group and Company

	Lm
Year ended 31 December 2005	
Opening net book amount	1,769,963
Net fair value gains	178,386
Closing cost and 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
Year ended 31 December 2006	
Opening net book amount	1,948,349
Disposals	(136,000)
Net fair value gains	52,888
Closing cost and net book amount	1,865,237
At 31 December 2006	
Cost	1,769,804
Accumulated net fair value gains	95,433
Net book amount	1,865,237

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 2006	2005
Church Wharf Properties Limited	Middle Sea House Floriana, FRN 1442	Ordinary shares	**50%**	50%
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	**28.09%**	30.2%

17. Other investments

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

	Group		Company	
	2006 Lm	2005 Lm	**2006 Lm**	2005 Lm
Fair value through profit or loss	**189,373,028**	179,931,007	**188,878,437**	179,450,892
Loans and receivables	**67,061,267**	22,611,540	**67,061,267**	22,611,540
	256,434,295	202,542,547	**255,939,704**	202,062,432

(a) *Investments at fair value through profit or loss*

Analysed by type of investment as follows:

	Group		Company	
	2006 Lm	2005 Lm	**2006 Lm**	2005 Lm
Equity securities and collective investment schemes	**68,093,968**	68,071,333	**67,936,721**	67,933,130
Assets held to cover linked liabilities - collective investment schemes	**36,067,918**	23,800,743	**36,067,918**	23,800,743
Debt securities – listed fixed interest rate	**85,211,142**	88,058,931	**84,873,798**	87,717,019
Total investments at fair value through profit or loss	**189,373,028**	179,931,007	**188,878,437**	179,450,892

Technical provisions for linked liabilities amounted to Lm36,091,102 as at 31 December 2006 (2005: Lm23,690,033). They are included in the liability for insurance contracts, investment contracts with DPF and investment contracts without DPF in accordance with the classification of products.

The above financial assets for the Group and Company include pledged investments amounting to Lm1,549,380 (2005: Lm1,934,046).

17. Other investments - continued

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

At 31 December 2006, the Group and Company had commitments in respect of uncalled share capital in respect of financial assets of Lm122,357 (2005: Lm489,180).

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	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Within one year	**4,113,031**	3,614,861	**4,113,031**	3,614,861
Between 1 and 2 years	**2,123,472**	2,128,760	**2,123,472**	2,128,760
Between 2 and 5 years	**13,659,148**	13,058,333	**13,592,399**	12,990,224
Over 5 years	**65,315,491**	69,256,977	**65,044,896**	68,983,174
	85,211,142	88,058,931	**84,873,798**	87,717,019
Weighted average effective interest rate at the balance sheet date	**5.30%**	5.09%	**5.30%**	5.09%

The movements for the year are summarised as follows:

	Group	Company
	Lm	Lm
Balance at 1 January 2005		
Opening net book amount	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
Balance at 1 January 2006		
Opening net book amount	179,931,007	179,450,892
Additions	40,205,091	40,184,346
Disposals (sales and redemptions)	(32,488,756)	(32,487,863)
Net fair value gains	1,725,686	1,731,062
Closing net book amount	189,373,028	188,878,437
At 31 December 2006		
Cost	160,650,042	160,233,285
Accumulated net fair value gains	28,722,986	28,645,152
Net book amount	189,373,028	188,878,437

17. Other investments - continued

(b) Loans and receivables

Analysed by type of investment as follows:

	Group and Company	
	2006	2005
	Lm	Lm
Unlisted fixed income debt securities	**715,079**	865,079
Deposits with banks or credit institutions	**42,059,450**	5,175,023
Treasury bills	**19,168,558**	12,182,839
Loans secured on policies	**2,626,747**	1,939,267
Reinsurance loan	**2,161,991**	2,144,388
Loan to associated undertaking (Note 28)	**329,442**	304,944
	67,061,267	22,611,540

Maturity of deposits with bank or credit institutions:

	Group and Company	
	2006	2005
	Lm	Lm
Within 3 months	**40,590,342**	3,705,822
Within 1 year but exceeding 3 months	**15,000**	-
Between 2 and 5 years	**1,454,108**	1,469,201
	42,059,450	5,175,023

The above deposits earn interest as follows:

	Group and Company	
	2006	2005
	Lm	Lm
At floating rates	**734,335**	1,498,833
At fixed rates	**41,325,115**	3,676,190
	42,059,450	5,175,023
Weighted average effective interest rate at the balance sheet date	**3.84%**	3.97%

Maturity of fixed income debt securities and treasury bills:

	Group and Company	
	2006	2005
	Lm	Lm
Within one year	**19,168,558**	12,182,839
Between 2 and 5 years	**715,079**	865,079
	19,883,637	13,047,918
Weighted average effective interest rate at the balance sheet date	**3.76%**	2.89%

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	Loan to associated undertaking Lm	Total Lm
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
Year ended 31 December 2006						
Opening net book amount	865,079	12,182,839	1,939,267	2,144,388	304,944	17,436,517
Additions	-	85,958,155	844,895	17,603	24,498	86,845,151
Disposals (sales and redemptions)	(150,000)	(78,972,436)	(157,415)	-	-	(79,279,851)
Closing net book amount	715,079	19,168,558	2,626,747	2,161,991	329,442	25,001,817

Loans secured on policies carried interest at the rate of 5.5% per annum at the financial year end (2005: 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% (2005: 4.5%).

18. Deferred income tax

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Balance at 1 January	**265,684**	831,027	**270,761**	833,555
Movement during the year:				
Profit and loss account (Note 8)	**165,690**	(565,343)	**170,586**	(562,794)
Balance at 31 December (net)	**431,374**	265,684	**441,347**	270,761

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (2005: 35%). The year end balance comprises:

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Temporary differences attributable to investment property	**(1,827,455)**	(1,400,754)	**(1,827,455)**	(1,400,754)
Temporary differences attributable to fair value adjustments on financial investments	**(2,869,979)**	(6,341,073)	**(2,866,674)**	(6,337,649)
Temporary differences attributable to property, plant and equipment	**(79,420)**	(61,986)	**(72,752)**	(60,333)
Temporary differences attributable to unabsorbed tax credits	**5,208,228**	8,069,497	**5,208,228**	8,069,497
Balance at 31 December (net)	**431,374**	265,684	**441,347**	270,761

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	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Deferred tax asset	**1,950,458**	948,245	**1,950,458**	948,245
Deferred tax liability	**(1,519,084)**	(682,561)	**(1,509,111)**	(677,484)
	431,374	265,684	**441,347**	270,761

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

notes to the financial statements - continued

19. Debtors and prepayments and accrued income

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Debtors				
Debtors arising out of direct insurance operations				
- due from policyholders	**-**	37,960	**-**	37,960
- due from reinsurers	**12,751**	-	**12,751**	-
- amounts due from group undertakings (Note 28)	**1,138,592**	1,185,657	**1,223,909**	1,196,806
	1,151,343	1,223,617	**1,236,660**	1,234,766
Prepayments and accrued income				
- accrued interest and rent	**2,059,137**	1,948,425	**2,053,258**	1,942,485
- prepayments	**195,487**	169,326	**107,512**	85,257
	2,254,624	2,117,751	**2,160,770**	2,027,742

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	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Cash at bank and in hand	**1,556,295**	2,316,363	**1,525,434**	2,291,404

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

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
At floating rates	**699,919**	726,445	**699,058**	701,486
Weighted average effective interest rate at the balance sheet date	**1.6%**	1.2%	**1.6%**	1.2%

notes to the financial statements - continued

21. Share capital

	Group and Company 2006 Lm	2005 Lm
Authorised		
15,000,000 (2005: 10,000,000) Ordinary shares of Lm1 each	**15,000,000**	10,000,000
Issued and fully paid		
13,000,000 (2005: 8,600,000) Ordinary shares of Lm1 each	**13,000,000**	8,600,000

During the Annual General Meeting of the Company held on 24 April 2006, the authorised share capital of the Company was increased to Lm15,000,000.

On the same date the Company's shareholders approved a bonus issue of 1,400,000 ordinary shares at a nominal value of Lm1 each. In addition the Company's shareholders approved an allotment of 1,000,000 ordinary shares for a cash consideration of Lm1 per share.

On 15 December 2006, the Company's shareholders approved an allotment of 2,000,000 ordinary shares for a cash consideration of Lm1 per share.

22. Other reserves

	Group and Company 2006 Lm	2005 Lm
Value of in-force business		
Balance at 1 January	**13,960,000**	10,250,000
Increment in value of in-force business (Note 12)	**1,750,000**	3,710,000
Balance at 31 December	**15,710,000**	13,960,000

The above reserve is non-distributable.

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

(i) Insurance contracts

	Group and Company	
	2006	2005
	Lm	Lm
Gross technical provisions		
- claims outstanding	**566,158**	432,053
- long-term business provision	**133,872,581**	122,641,256
	134,438,739	123,073,309
Reinsurers' share of technical provisions		
- claims outstanding	**296,700**	102,157
- long-term business provision	**19,935**	25,593
	316,635	127,750
Net technical provisions		
- claims outstanding	**269,458**	329,896
- long-term business provision	**133,852,646**	122,615,663
	134,122,104	122,945,559

Movements are as follows:

	Group and Company	
	2006	2006
	Lm	Lm
	Gross	Reinsurance
Year ended 31 December		
At beginning of year	123,073,309	127,750
Charge to the profit and loss account	11,365,430	188,885
At end of year	134,438,739	316,635

	Group and Company	
	2005	2005
	Lm	Lm
	Gross	Reinsurance
Year ended 31 December		
At beginning of year	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.

notes to the financial statements - continued

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	
	2006	2005
	Lm	Lm
Investment contracts with DPF (gross and net)		
- claims outstanding	**121,690**	1,323
- long-term business provision	**106,021,706**	78,962,484
	106,143,396	78,963,807

Movements are as follows:

	2006	2005
	Lm	Lm
Year ended 31 December		
At beginning of year	**78,963,807**	53,984,336
Charge to the profit and loss account	**27,179,589**	24,979,471
At end of year	**106,143,396**	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 in 2006 were AM80. In 2005, the mortality tables used were AM80 for most of the products and AM1967/70 for older products.

Tax

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

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

(b) Changes in assumptions

In accordance with normal practice, during the year, investment return assumptions were revised to reflect market interest movements. Revisions were also effected to policy expense expectations. The combined impact of these changes in assumptions has been charged against the technical result for the year.

In addition mortality assumptions in respect of protection and other small classes of business were reduced from 100% A67/70 to 100% AM80. This has led to a reduction in reserves of 1%. The majority of this saving will be used to fund future bonuses.

(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 also 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	
	2006	2005
	Lm	Lm
Long-term business provision	**26,673,500**	16,528,040
Claims outstanding	**28,173**	-
	26,701,673	16,528,040

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

25. Creditors and accruals and deferred income

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Creditors				
Deposits received from reinsurers	**17,411**	17,411	**17,411**	17,411
Creditors arising out of direct insurance operations	**1,487,922**	986,061	**1,487,922**	986,061
Creditors arising out of reinsurance operations	**7,177**	7,177	**7,177**	7,177
Amounts owed to group undertakings (Note 28)	**16,279**	19,538	**-**	15,669
Indirect taxation	**129,375**	110,896	**129,375**	110,896
Other creditors	**9,752**	10,129	**-**	-
	1,667,916	1,151,212	**1,641,885**	1,137,214
Accruals and deferred income				
Accruals	**337,804**	213,967	**333,387**	207,044
Deferred income	**303,327**	397,269	**303,327**	397,267
	641,131	611,236	**636,714**	604,311
Total liabilities	**2,309,047**	1,762,448	**2,278,599**	1,741,525
Current	**2,209,192**	1,669,110	**2,178,744**	1,648,187
Non-current	**99,855**	93,338	**99,855**	93,338
	2,309,047	1,762,448	**2,278,599**	1,741,525

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.

26. Note to the cash flow statement

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Profit before tax	**2,836,668**	2,940,593	**2,790,257**	2,662,608
Adjusted for:				
Amortisation (Note 12)	**330,936**	231,128	**328,400**	229,339
Depreciation (Note 13)	**38,409**	32,522	**33,365**	27,611
Adjustments relating to investment return	**(13,583,400)**	(28,302,798)	**(13,659,669)**	(28,194,823)
Profit on sale of tangible asset	**(1,800)**	-	**(1,800)**	-
Technical provisions	**48,529,767**	55,234,344	**48,529,767**	55,234,344
Debtors, prepayments and accrued income	**34,944**	35,093	**(35,379)**	431,842
Creditors, accruals and deferred income	**546,599**	805,559	**537,074**	803,277
Cash generated from operations	**38,732,123**	30,976,441	**38,522,015**	31,194,198

27. Commitments

Capital commitments

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

	Group and Company	
	2006	2005
	Lm	Lm
Authorised and not contracted - property, plant and equipment	**84,240**	160,513
Authorised and not contracted - intangible assets	**218,630**	265,317
	302,870	425,830

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	
	2006	2005
	Lm	Lm
Not later than 1 year	**730,358**	910,732
Later than 1 year and not later than 5 years	**1,615,389**	2,025,566
Later than 5 years	**384,845**	610,994
	2,730,592	3,547,292

Investment property includes properties valued at Lm2,534,250 (2005: Lm3,084,150) 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. 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.

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

(a) Sale of insurance contracts and other services

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Transactions with shareholders:				
Trailer fees receivable	**19,150**	6,442	**19,150**	6,442
Rental income on investment property	**8,760**	8,760	**8,760**	8,760
Transactions with the Company's subsidiary				
Trailer fees receivable	**-**	-	**50,216**	27,012
Interest receivable	**-**	-	**-**	18,021

(b) Purchase of products and services

	Group		Company	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Transactions with shareholders:				
Net reinsurance amount paid	**-**	434,688	**-**	434,688
Acquisition costs payable	**1,311,732**	914,703	**1,311,732**	914,703
Reimbursement of expenses for back office support services	**406,000**	369,000	**406,000**	369,000
Purchase of insurance cover	**40,297**	28,771	**40,297**	28,771
Transactions with the Company's subsidiary				
Investment transaction costs	**-**	-	**72,856**	91,984

(c) Investments

	Group and Company	
	2006	2005
	Lm	Lm
Investments with entities related to shareholders	**8,732,328**	8,402,899
Deposits with entities related to shareholders	**17,118,208**	2,921,100
	25,850,536	11,323,999
Investment return, net of expenses and other charges:		
- entities related to shareholders	**955,143**	(157,859)

notes to the financial statements - continued

28. Related party transactions - continued

(c) Investments - 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	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Creditors arising out of direct insurance operations	**-**	130,001	**-**	130,001
Amounts owed by group undertakings (Note 19)	**1,138,592**	1,185,657	**1,223,909**	1,196,806
Amounts owed to group undertakings (Note 25)	**16,279**	19,538	**-**	15,669
Loan to associated undertaking (Note 17)	**329,442**	304,944	**329,442**	304,944
Accruals and deferred income (Key management personnel)	**82,325**	64,308	**82,325**	64,308

All the amounts receivable or payable are unsecured and interest free except for the loan to the associated undertaking which bears interest at 4.5%.

Key management personnel comprises the Chief Executive Officer 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 Lm68,062 (Company Lm62,822). Corresponding figures for 2005 were Lm58,804 and Lm53,605 respectively.

29. 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 2006 and 2005, 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.

30. Statutory information

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

COM 3101088

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So much more to life

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