MIDDLESEA VALLETTA LIFE

Assurance Company Limited

2007

ANNUAL REPORT and ACCOUNTS

Contents

Chairman and Deputy Chairman's Statement

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Once again we are pleased to be able to report on another positive year for MSV Group ("MSV"), notwithstanding some headwind due to the high volatility in the local and international capital markets experienced towards the end of 2007. The achievement of these results has been possible due to our strong business fundamentals and the prudence that we seek to exercise in our investment operations. During 2007, MSV continued to experience an increased demand for its wide range of life insurance, savings and investment-related products. This has lead to an increase in the Business Written as well as in the profit before tax.

Results for the Year

During 2007, MSV registered a profit before tax of Lm3.11 million (€7.24m), representing an increase of 10% over the previous year. Whilst MSV registered an increase in the pre-tax profit, a higher incidence of income tax expense reduced this improvement, resulting in a profit after tax of Lm2.26 million (€5.26m) compared to Lm2.99 million (€6.96m) recorded in 2006. The reduction of 24% in the after tax profit is due to the fact that the 2006 change was stated net of a tax credit adjustment relating to prior years. Business Written increased by 16% from Lm50.36 million (€117.32m) in 2006 to Lm58.35 million (€135.91m) in 2007, whilst the company's Total Assets increased by 16% from Lm307.97 million (€717.37m) at the end of 2006 to Lm357.29 million (€832.25m) as at 31st December 2007.

The weighted average earnings per Lm1.00 (€0.4293) share reduced from Lm0.293 (€0.683) in 2006 to Lm0.157 (€0.366) in 2007.

Investment Markets

Investment Income decreased from Lm13.66 million (€31.82m) in 2006 to Lm11.39 million (€26.53m) in 2007. 2007 was an extremely difficult year, marked by high volatility in the capital markets. The continuous negative news from the sub-prime market coupled with large write-offs by financial institutions fuelled uncertainty in the equity, bond and money markets, despite the intervention of several Central Banks. The US, together with other major economies entered into a weakening phase of their business cycle. Notwithstanding growing inflationary pressures due to rising food, commodity and energy prices, a number of central banks, with the notable exception of the European Central Bank, began to cut interest rates. US bonds delivered a weaker performance that reflected rising short-term rates and inflationary pressures. Equities produced mixed returns across different markets and sectors, resulting in some very heavy losses for the financial sector. The emerging markets were the best performers in this negative scenario.

The local equity market also registered a weak performance, with the Malta Stock Exchange index rising by just 1.3%. The yield curve of local government bonds followed the same patterns as the Euro counterparts, with the end of year yields rising above opening yields - thus resulting in capital bond portfolio losses.

Our investment results were further adversely affected by exchange losses from depreciation of the US$ and £STG. On the other hand, MSV's investment portfolio of high quality assets did not suffer any direct losses related to the subprime market crisis.

In this market environment, MSV's long-term investment strategy, based on preserving capital security whilst maintaining liquidity and maximising returns proved to be appropriate. The investment strategy of MSV is to hold a diversified range of quality assets, in an attempt to help reduce the investment risk that arises from holding any single type of asset. The asset and currency mix, geographical spread, asset quality and defensive structure of our investment portfolio means that we are well placed to capture an upturn in investment markets.

As a provider of life insurance, long-term savings and investment-related products, MSV must attempt to maximise investment returns, and at the same time minimise risk to policyholders and shareholders. One of the primary risk control measures for investment strategies is Asset/Liability Matching. This considers the risks related to the term, nature and currency of both assets and liabilities. At MSV we review our investment strategy on a regular basis, due to the evolving investment markets that constantly affect the returns that we make from our investment portfolio.

During 2007, MSV participated in an investment strategy review undertaken by the Middlesea Group. Watson Wyatt Worldwide were commissioned to assist MSV in formulating its new investment strategy with the objectives of quantifying MSV's risk appetite, of aligning MSV's risk appetite with that of the Middlesea Group, and of determining the optimal asset allocation. This important review is expected to be completed towards the end of 2008.

Capital Strength and Solvency

The Annual General Meeting approved the payment of a final dividend of Lm2.06m (€4.81m) net of tax, which dividend has been reinvested by shareholders, partly as consideration for the re-nominalisation of shares to the new nominal and paid up value of €2.50 each share (necessitated by the conversion to Euro), and partly as consideration for a new issue of 900,000 ordinary shares of €2.50 per share. Consequently, the issued and fully paid up capital of MSV has been increased from €35m to €39.75m. The new issue was fully subscribed by the two shareholders, namely Bank of Valletta p.l.c. and Middlesea Insurance p.l.c. Shareholders also approved the increase in the Authorised Share Capital from €46.6m to €50m. Total equity at the close of 2007 amounted to Lm39.11 million (€91.1m), an increase of 6% over the previous year. The shareholders of MSV are committed to continue to strengthen the financial position of the company, in order to sustain its business strategy of future growth both in Malta and overseas.

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 2007:

- 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 final (terminal) bonus in respect of Comprehensive Life Plan (Single and Regular Premium) policies that have been in force for more than 10 years. This final (terminal) bonus will be paid on claims payable as a result of death or maturity between 1 January 2008 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 final (terminal) bonus will be paid on the value of the Policy Account as at the date of death or maturity.

Our bonus philosophy is to achieve a fair, consistent and equitable distribution of investment returns among the different generations and types of with-profits investments over a period of time. Our prudent smoothing policy enabled the Board to maintain regular (reversionary) bonuses at the same level of 2006. Smoothing entails establishing reserves from certain favourable years to compensate for unfavourable investment returns in certain other years during the policy term so that bonuses declared in any one year do not reflect underlying investment returns in that year alone.

In addition, we were also in a position to declare a final (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 final (terminal) bonus rates are likely to remain volatile, and to be very dependent on investment performance.

MSV in the Community

MSV shares the same policy of Corporate Social Responsibility (CSR) of the Middlesea Group. CSR has become a priority for the Group and whenever possible it is willing to provide assistance to improve social and environmental issues. For the Middlesea Group, CSR is much more than a responsibility. The Middlesea Group believes that CSR should become a source of social progress, as business applies its resources to activities that benefit society. In the area of National Heritage, during 2007, MSV renewed its benefactorship of Fondazzjoni Patrimonju Malti, and agreed to co-sponsor Palazzo Falson 360°, a publication featuring the newly restored palace in Mdina. In the field of Education, in 2007 MSV co-sponsored the European Conference organized by the National Institute for Professional Insurance Education and sponsored the Chevening Scholarships, and in a bid to support the promotion of Health and Research, MSV continued to sponsor the Gozo Melanoma Project and supported the National Survey on Pensioners. It also gave its assistance to the Malta Diabetes Association where MSV embarked on a public awareness campaign together with one of its medical advisors through the publication of medical related articles. During 2007, MSV was active in the support of the Arts through sponsorships of various art exhibitions of young but promising artists, and was a co-sponsor of the Bank of Valletta Opera Festival. In the area of sports MSV renewed its commitment to assist the Malta Ten Pin Bowling Association and the Malta Basketball Academy, and support to the Community was extended by renewing MSV's commitment to, among others, The Malta Community Chest Fund, Caritas Malta's Children's Project and Community Outreach Programme.

Outlook

MSV continues to be the leader in the provision of life insurance, savings and investment-related products in Malta. Despite MSV's high local market share, which now stands at over 60%, we are confident that the Maltese life insurance market still offers potential for further growth, particularly since Malta still has one of the lowest life insurance penetration rates in Europe. This clearly indicates that there is scope for the life insurance sector in Malta to converge to EU levels.

Going forward, MSV's main challenge will be to market its services outside Malta. In this regard, MSV continued with preparations for its expansion plans in the Italian Life market, and in 2007 was authorised by the Malta Financial Services Authority to carry on long term insurance business under the provisions of the freedom of services in Italy. These plans should come to fruition in the short to medium term.

MSV will continue to face future challenges that arise continually due to market forces, regulatory and statutory requirements and other factors with professionalism and objectivity. Whilst we are satisfied with the development of our core life insurance operations, it is necessary to emphasize caution due to the turbulence in the international financial markets, which increased in the first quarter of 2008. Such turbulence could impact negatively on MSV's investment performance in 2008. The uncertainties for the immediate future are likely to persist for some time, and the economic scenario in the financial sector is likely to present a bigger challenge in 2008.

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 year, to our intermediaries for their continued support and, in particular, to our many policyholders who have chosen to place their trust in MSV.

MSV will continue to face future challenges that arise continually due to market forces, regulatory and statutory requirements and other factors with professionalism and objectivity.

R.E.D. Chalmers
Chairman

M.C. Grech
Deputy Chairman

Board of Directors

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, Executive Chairman of Mediterranean Insurance Training Centre and Director of Malta International Training Centre, CEO of Progress Associazioni S.p.A., 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 Midi p.l.c. and of Premium Realty Ltd, and Chairman of the Middlesea Group Investment Committee and the Group Executive Management Committee; Hon. Member of Malta Institute of Management and Life Vice President - Chartered Insurance Institute U.K.

Mr 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.

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

Formerly: 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.

At Present: 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

Formerly: 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.

At Present: 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, an associate of Middlesea Valletta Life Assurance Co. Ltd.

Mr J. Ludbrook

B.A. F.I.A.
Director

Mr Ludbrook has worked for Munich Re since 1982, having previously been employed by a U.K. Life insurer. After a period of 5 years as the Appointed Actuary he became Managing Director for the U.K. Branch with full responsibility for the development of life and health reinsurance business in U.K. and Ireland. His responsibilities were later increased to include life business in Africa and Australasia. More recently he has additionally assumed responsibility for two of the key initiatives of Munich Re's global life strategy. One focused globally and the other in Asia. He has been the Reporting Actuary for Great Lakes, a London market reinsurer and member of the Munich Re Group. 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

Formerly: 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

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

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 terms of the Investment Services Act, 1994 and is licensed, regulated and supervised by the Malta Financial Services Authority.

GROWTH
INVESTMENTS LTD

Board of Directors *(as at December 2007)*

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 Franco Xuereb BA (Hons) Mgmt
Company Secretary	Mr Carlo Farrugia Dip. Gen. Mgmt (Maastrich), Ma Trans. & Inter.

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, (CII)

Chief Executive Officer's Review

During 2007, the demand for individual life assurance and savings related products in Malta continued to increase substantially, as evidenced by a growth in the market of over 30% and a corresponding high take up of the various products offered by MSV leading to a growth in our own portfolio of 16% over 2006.

Performance and Financial Results

During 2007, MSV Group ("MSV") delivered another satisfactory performance in challenging circumstances. Through a combination of a strong brand, financial strength, product breadth and distribution reach, we maintained our position as the market leader in the individual protection and long term savings market in Malta. Whilst in 2007 total Business Written increased by 16%, Gross Premiums in respect of with-profits investments increased by 24%. Our bancassurance partnership with Bank of Valletta p.l.c. continued to perform strongly and remains our most important channel of distribution.

During 2007, MSV reported a pre-tax profit of Lm3.11 million (€7.24m) representing an increase of 10% over the previous year. The profit after tax amounted to Lm2.26 million (€5.26m) compared to Lm2.99 million (€6.96m) recorded in 2006. The reduction of 24% in the after tax profit was a direct result of the increased provision for taxation for the financial year 2007.

Business Written increased by 16% from Lm50.36 million (€117.3m) in 2006 to Lm58.35 million (€135.91m) in 2007. For the second consecutive year we experienced a strong demand for savings-related products. The increase in Business Written was mainly attributable to increased sales of the MSV Single Premium Plan.

Gross claims incurred increased from Lm9 million (€21.0m) in 2006 to Lm14.77 million (€34.41m) in 2007 whilst claims incurred after reinsurance recoveries amounted to Lm14.5 million (€33.77m) compared with Lm8.75 million (€20.37m). Claims incurred include maturities, surrenders, mortality and disability claims. The increase in claims incurred is mainly due to a higher number of policies which matured in 2007.

Our acquisition costs increased by 13% from Lm2.41 million (€5.6m) to Lm 2.73 million (€6.36m), whilst the average acquisition costs reduced from 4.79% in 2006 to 4.67% in 2007 due to the increase in the Business Written.

Despite the increase in the Business Written during 2007, administrative expenses remained constant at Lm1.8 million (€4.2m).

The weighted average earnings per Lm1.00 (€2.33c) share reduced from 29c3 (€0.683) in 2006 to 15c7 (€0.366) in 2007.

MSV's contribution towards the results of the Middlesea Group reduced from Lm1.49 million (€3.5m) in 2006 to Lm1.13 million (€2.63m) in 2007 as a result of the lower after-tax profit.

Capital and Financial Strength

Our balance sheet increased by 16% from Lm308 million (€717.4m) in 2006 to Lm357 million (€832.25m) at the end of 2007.

Total equity at the close of 2007 amounted to Lm39.11 million (€91.1m), an increase of 6% over the previous year.

In 2007 the value of in-force business has remained constant at Lm18.4 million (€42.8m). 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.

The Annual General Meeting approved the payment of a final dividend of Lm2.06 million (€4.81m) net of tax, which dividend has been reinvested by shareholders partly as consideration for the re-nominalisation of shares to the new nominal and paid up value of €2.50 each share, necessitated by the conversion to Euro, and partly as consideration for a new share issue of 900,000 ordinary shares of €2.50 per share. Consequently, the issued and fully paid up capital of MSV has been increased from €35m to €39.75m. Shareholders also approved the increase in the Authorised Share Capital from €46.6 million to €50 million.

Investment Performance

2007 was indeed a very turbulent year for financial markets. Although at the end of 2007 most indices closed in positive territory, international equity markets had a negative fourth quarter. On the local scene, during 2007, the Malta Stock Exchange Index registered a mere 1.3% increase whilst Government bond yields decreased in line with the decrease in the Central Bank intervention rate in preparation for the adoption of the Euro.

This downturn in the capital markets particularly in the second half of 2007 has led to a decrease in the Investment Income from Lm13.66 million (€31.81m) in 2006 to Lm11.39 million (€26.54m) in 2007. Notwithstanding the lower Investment Income, our prudent investment strategy and conservatively oriented and diversified investment portfolio demonstrated a strong resilience to the turbulence in the financial markets.

Funds invested by MSV at the end of 2007 amounted to Lm326.72 million (€761.04m). This corresponds to an increase of 17% over the figure of Lm279.5 million (€651.1m) in 2006. The value of the Life Fund (including investment contracts without Discretionary Participation Feature) increased by 17% from Lm267 million (€621m) in 2006 to Lm313 million (€728m) in 2007.

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 external consultants, 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 maximize 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 and consultants;
- advice from the appointed professional asset managers;
- the quality of individual assets;
- asset / liability matching;
- 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.

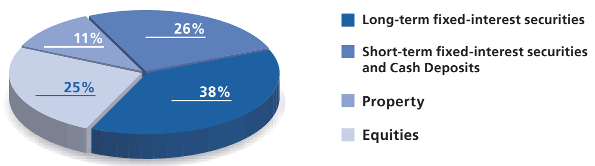
To date, the same asset distribution of the MSV with-profits fund is also applied to shareholders funds which are managed together with the MSV with-profits fund.

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. The use of derivatives is restricted to efficient portfolio management. Property investments are restricted to prime properties in Malta that yield a satisfactory level of rental income or capital appreciation, and to 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.

Towards the end of 2006, we embarked on a detailed review of our investment strategy in conjunction with external consultants. This review, which was divided into four stages, is nearing completion and we plan to implement our new investment strategy during the second half of 2008.

At 31 December 2007 the funds invested were distributed into the following asset classes:



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 Polices (Insurance Contracts);
- With-profits Policies (Investment Contracts with DPF);
- Linked long term (unit-linked) Policies (Investment Contracts without DPF).

A large segment of our business consists of with-profits investments and around 80% of our actuarial liabilities are represented by with-profits investments.

During 2007, the demand for individual life assurance and savings-related products in Malta continued to increase substantially, as evidenced by a growth in the market of over 30% and a corresponding high take-up of the various products offered by MSV leading to a growth in our own portfolio of 15% over 2006.

We continued to experience a strong demand for our with-profits savings products with the MSV Single Premium Plan being the largest contributor to the total Business Written. In 2007, single premium investments represented 69% of the total Business Written compared with 66% in 2006.

Investors also responded positively to the improvements made to our suite of linked long term (unit-linked) products. This has also led to an increase in demand for linked long term (unit-linked) investments and in 2007, deposits received from unit-linked polices (including Investment Contracts without DPF) represented 22% of our total portfolio.

Following the success that we had with the launch of two tranches of the MSV Capital Guaranteed Bond in 2004 and 2006, during 2007 we launched the 3rd tranche of the MSV Capital Guaranteed Bond Tranche 2017.

Our People

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

Furthermore, we ensure that all our intermediaries follow and comply with all the relevant regulations relating to the selling and marketing of life insurance and financial products. We do this by providing regular product and sales training to our authorised intermediaries to ensure that we provide high standards of service and deliver a positive experience throughout the customers' relationship with us.

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 recognised 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 2007, Growth Investments registered a profit after tax of Lm76,021 (€177,081) compared with Lm94,017 (€219,001) in the previous year.

Achievements and Outlook

During 2007 MSV attained a number of important achievements. Firstly we successfully changed all systems, applications and procedures to be Euro compliant in preparation for the adoption of the Euro as Malta's legal currency, achieving a smooth transition to the new currency. Simultaneously, a new point-of-sale solution was rolled out to all Bank of Valletta branches towards the end of 2007. This new point-of-sale 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. Following the successful roll-out to the branch network of Bank of Valletta, we intend to provide this new point-of-sale solution, a jump into the next generation of information systems, to other leading tied insurance intermediaries of MSV.

Significant progress has been achieved in our plans to enter the Italian life market. After being authorised to carry on long term business in Italy under the freedom of services regime, consultants were appointed in Italy to assist us in developing a small range of life and long term savings policies for distribution in the Italian market.

We will continue to grow our business in the local market through the development of innovative products and the enhancement of existing products aimed at creating prosperity and peace of mind for our customers. We are also committed to continue to diversify our distribution footprint to provide ease of access to our customers.

During 2007, MSV was the first insurance company to launch and implement a "Customer Charter – Treating Customers Fairly". This Charter outlines our key service commitments to our customers and intermediaries and demonstrates the importance which we give to our customers.

Whilst challenging times are clearly ahead, our consistent performance and strong financial and operational base put us firmly on track to realise further growth, higher profitability and to take on new challenges and opportunities that may arise in the future.

David G. Curmi
C.E.O.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2007.

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 2007, Middlesea Valletta Life Assurance Company Limited ("MSV Group") reported a profit after tax of Lm2.25 million as compared to Lm2.98 million recorded in 2006.

Gross written premiums (including investment contracts without DPF) increased by 15% from Lm50.36 million in 2006 to Lm58.34 million in 2007. During 2007, 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.

Investment income decreased from Lm13.66 million in 2006 to Lm11.39 million in 2007. This decrease was mainly due to the negative returns on both the local and foreign markets.

The Group's balance sheet increased by 16% from Lm308 million in 2006 to Lm357 million at the end of 2007, whilst the life fund (including investment contracts without DPF) increased by 17% from Lm267 million in 2006 to Lm313 million in 2007. The value of in-force business has remained constant at Lm18.4 million. 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 maintained the same level of Regular Bonus rates for all with-profits policyholders. In addition, the Group declared a Final Bonus on its Comprehensive Life Plan portfolio in line with the promise made to policyholders that the Group may consider the declaration of a Final Bonus after the end of a policy's tenth year.

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 Lm2,064,678 payable to the shareholders (2006: Lm2,000,000).

Directors

The directors of the Company who held office during the year were:
R.E.D. Chalmers MA Div (Edin), FCA., ATII, FCPA, MIA (Chairman)
M.C. Grech (Deputy Chairman)
T. Depasquale
E. Ellul BA (Hons) Econ, Dip Pol Econ (Oxon)
M. Grima Dip MS, MBA (Henley), MIM, MCMI
J.J. Ludbrook BA FIA

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

D.G. Curmi
C.E.O.

Middle Sea House
Floriana,
Malta

22 April 2008

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

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

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 70 which comprise the balance sheets as at 31 December 2007 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 judgement, 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 2007, and of their financial performance and their 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

22 April 2008

Profit and Loss Account
Technical Accounts - Long Term Business

	Notes	Year ended 31 December	
		Group and Company	
		2007	2006
		Lm	Lm
Earned premiums, net of reinsurance			
Gross premiums written	3	**49,569,377**	39,779,786
Outward reinsurance premiums		**(732,976)**	(780,266)
Net premiums written		**48,836,401**	38,999,520
Investment income	4	**12,193,444**	11,318,401
Unrealised gains on investments	4	**-**	2,085,733
Other technical income, net of reinsurance	5	**568,627**	800,255
Total technical income		**61,598,472**	53,203,909
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**14,996,437**	8,746,664
- reinsurers' share		**(453,214)**	(60,576)
		14,543,223	8,686,088
Change in the provision for claims			
- gross amount		**(222,570)**	254,472
- reinsurers' share		**178,139**	(194,543)
		(44,431)	59,929
Claims incurred, net of reinsurance	3	**14,498,792**	8,746,017
Change in other technical provisions, net of reinsurance			
Insurance contracts			
- gross amount		**9,646,775**	11,231,325
- reinsurers' share		**814**	5,658
		9,647,589	11,236,983
Investment contracts with DPF – gross		**29,624,958**	27,059,222
Change in other technical provisions, net of reinsurance		**39,272,547**	38,296,205
Net operating expenses	3	**3,955,633**	3,651,655
Unrealised losses on investments	4	**978,187**	-
Investment expenses and charges	4	**535,046**	376,190
Total technical charges		**59,240,205**	51,070,067
Tax attributable to the long term business	8	**(605,003)**	433,279
Balance on the long term business technical account (page 19)		**1,753,264**	2,567,121

	Notes	Group 2007 Lm	Group 2006 Lm	Company 2007 Lm	Company 2006 Lm
		Year ended 31 December			
Balance on the long-term business technical account (page 18)		**1,753,264**	2,567,121	**1,753,264**	2,567,121
Investment income	4	**822,730**	579,143	**888,698**	650,035
Unrealised capital (losses) / gains	4	**(78,194)**	69,379	**(76,557)**	74,756
Investment expenses and charges	4	**(33,100)**	(19,957)	**(25,679)**	(12,776)
Other income – commission receivable		**358,650**	357,701	**-**	-
Other charges – administrative expenses	3	**(320,345)**	(283,440)	**(55,825)**	(55,600)
Profit before tax		**2,503,005**	3,269,947	**2,483,901**	3,223,536
Income tax expense	8	**(245,320)**	(284,087)	**(240,239)**	(262,693)
Profit for the financial year		**2,257,685**	2,985,860	**2,243,662**	2,960,843
Earnings per share (cents)	10	**15c7**	29c3		

Balance Sheets

	Notes	Group 2007 Lm	Group 2006 Lm	Company 2007 Lm	Company 2006 Lm
		As at 31 December			
ASSETS					
Intangible assets	12	**19,706,881**	19,459,424	**19,674,127**	19,431,263
Tangible assets - property, plant and equipment	13	**288,227**	255,062	**273,822**	241,747
Investments:					
- land and buildings - investment property	14	**21,925,473**	21,202,117	**21,925,473**	21,202,117
- investment in group undertaking	15	**-**	-	**199,999**	199,999
- investment in associated undertakings	16	**1,775,272**	1,865,237	**1,775,272**	1,865,237
- other investments	17	**303,015,181**	256,434,295	**302,530,279**	255,939,704
Deferred income tax	18	**1,247,066**	1,950,458	**1,247,066**	1,950,458
Reinsurers' share of technical provisions	23	**137,682**	316,635	**137,682**	316,635
Income tax receivable		**1,846,447**	1,522,848	**1,818,762**	1,522,848
Debtors	19	**1,148,088**	1,151,343	**1,308,156**	1,236,660
Prepayments and accrued income	19	**3,744,405**	2,254,624	**3,634,979**	2,160,770
Cash at bank and in hand	20	**2,451,408**	1,556,295	**2,380,051**	1,525,434
Total assets		**357,286,130**	307,968,338	**356,905,668**	307,592,872
EQUITY AND LIABILITIES					
Capital and reserves attributable to shareholders of the Company					
Called up share capital	21	**15,000,000**	13,000,000	**15,000,000**	13,000,000
Other reserves	22	**15,710,000**	15,710,000	**15,710,000**	15,710,000
Profit and loss account		**8,403,163**	8,145,478	**8,055,016**	7,811,354
Total equity		**39,113,163**	36,855,478	**38,765,016**	36,521,354
Technical provisions					
- insurance contracts	23	**143,771,757**	134,438,739	**143,771,757**	134,438,739
- investment contracts with DPF	23	**135,859,541**	106,143,396	**135,859,541**	106,143,396
- investment contracts without DPF	24	**33,436,176**	26,701,673	**33,436,176**	26,701,673
Provision for other risks					
- deferred income tax	18	**1,612,609**	1,519,084	**1,600,561**	1,509,111
Creditors	25	**2,645,364**	1,667,916	**2,630,085**	1,641,885
Accruals and deferred income	25	**847,520**	641,131	**842,532**	636,714
Income tax payable		**-**	921	**-**	-
Total liabilities		**318,172,967**	271,112,860	**318,140,652**	271,071,518
Total equity and liabilities		**357,286,130**	307,968,338	**356,905,668**	307,592,872

The financial statements on pages 18 to 70 were authorised for issue by the Board on 22 April 2008 and were signed on its behalf by

R.E.D. Chalmers
Chairman

M.C. Grech
Deputy Chairman

D. G. Curmi
CEO

Group	Notes	Share capital Lm	Other reserves Lm	Profit and loss account Lm	Total Lm
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		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**
Balance at 1 January 2007		13,000,000	15,710,000	8,145,478	36,855,478
Profit for the financial year		-	-	2,257,685	2,257,685
Total recognised income for 2007		-	-	2,257,685	2,257,685
Dividends	11	2,000,000	-	(2,000,000)	-
Balance at 31 December 2007		**15,000,000**	**15,710,000**	**8,403,163**	**39,113,163**

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 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		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**
Balance at 1 January 2007		13,000,000	15,710,000	7,811,354	36,521,354
Profit for the financial year		-	-	2,243,662	2,243,662
Total recognised income for 2007		-	-	2,243,662	2,243,662
Dividends	11	2,000,000	-	(2,000,000)	-
Balance at 31 December 2007		**15,000,000**	**15,710,000**	**8,055,016**	**38,765,016**

Unrealised fair value losses attributable to shareholders, net of taxation, amounting to Lm115,592 (2006: gain of Lm967) have been taken to the profit and loss account.

	Notes	Group 2007 Lm	Group 2006 Lm	Company 2007 Lm	Company 2006 Lm
		Year ended 31 December			
Operating activities					
Cash generated from operations	26	**40,226,110**	38,732,123	**40,071,224**	38,522,015
Dividends received	4	**3,001,332**	3,152,621	**3,087,083**	3,246,173
Interest received		**7,626,922**	5,968,863	**7,607,137**	5,949,558
Taxation paid		**(377,926)**	(239,223)	**(346,314)**	(155,055)
Net cash generated from operating activities		**50,476,438**	47,614,384	**50,419,130**	47,562,691
Investing activities					
Purchase of intangible assets	12	**(608,528)**	(617,153)	**(597,955)**	(600,883)
Purchase of tangible assets	13	**(79,969)**	(82,645)	**(73,516)**	(79,322)
Purchase of investment property	14	**(174,044)**	(117,345)	**(174,044)**	(117,345)
Purchase of other financial investments	17	**(142,013,642)**	(163,934,669)	**(141,907,275)**	(163,913,924)
Disposal of intangible assets		**-**	-	**-**	9,700
Disposal of tangible assets		**800**	1,800	**800**	1,800
Disposal of investment property		**484,759**	104,400	**484,759**	104,400
Disposal of associated undertaking		**-**	139,688	**-**	139,688
Redemption of other financial investments on maturity		**84,904,012**	82,232,039	**84,904,012**	82,232,039
Disposal of other financial investments		**7,905,287**	30,899,433	**7,798,706**	30,895,186
Net cash used in investing activities		**(49,581,325)**	(51,374,452)	**(49,564,513)**	(51,328,661)
Financing activities					
Issue of share capital		**-**	3,000,000	**-**	3,000,000
Net cash generated from financing activities		**-**	3,000,000	**-**	3,000,000
Movement in cash and cash equivalents		**895,113**	(760,068)	**854,617**	(765,970)
Cash and cash equivalents at beginning of year		**1,556,295**	2,316,363	**1,525,434**	2,291,404
Cash and cash equivalents at end of year	20	**2,451,408**	1,556,295	**2,380,051**	1,525,434

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.

Standards, interpretations and amendments to published standards effective in 2007

In 2007 the Group adopted new standards, amendments and interpretations to existing Standards that are mandatory for the Group's accounting period beginning on 1 January 2007. The adoption of these revisions to the requirements of IFRSs did not result in substantial changes to the Group's accounting policies. IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, introduce new disclosures relating to the financial instruments and capital, but do not have any impact on the classification and measurement of the Group's financial instruments and capital.

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 2007. 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.

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 presentation currency.

Transactions and balances

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

5. Insurance and investment contracts

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.

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.

5. Insurance and investment contracts - continued

(b) Recognition and Measurement - continued

(ii) Long term insurance contracts with DPF - continued

Bonuses charged to the long term business technical account in a given year comprise:
(i) new reversionary bonuses declared in respect of that year, which are provided within the calculation of the respective liability;
(ii) terminal bonuses paid out to policyholders on maturity and included within claims paid;
(iii) 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.

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) Dividend income

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

(c) Other net fair value gains or losses from financial assets at fair value through profit or loss

Other gains or losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are presented in the profit and loss account within 'Net fair value gains or losses on financial assets at fair value through profit or loss' in the period in which they arise.

(d) Interest income

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

(e) Rent receivable

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

7. Investment return

Investment return includes dividend income, other net fair value movements, gains on financial assets at fair value through profit or loss (including interest income from financial assets as fair value through profit or loss), interest income from financial assets not classified as fair value through profit or loss and rent receivable, and is net of investment expenses, charges and interest payable.

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

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

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

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

10. Property, plant and equipment - continued

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. Financial assets

The Group classifies its financial assets 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 financial assets were acquired. The directors determine the appropriate classification of financial assets at the time of purchase and re-evaluate such designation at every reporting date.

- Financial assets are designated at 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 has designated as fair value through profit or loss. They include, inter alia, income tax receivable, debtors, prepayments and accrued income, and cash and cash equivalents in the balance sheet as well as other financial investments classified as loans and receivables within Note 17.

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

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

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

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.

13. Financial assets - continued

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.

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

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

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

(b) Impairment of other non-financial assets

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

15. Offsetting financial instruments

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

16. Deferred income tax

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

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

17. Cash and cash equivalents

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

18. Share capital

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

19. Dividends

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

1. Critical accounting estimates and judgements in applying accounting policies

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

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

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

2. Management of insurance and financial risk

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

2.1 Insurance risk

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

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

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

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

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.

2. Management of insurance and financial risk - continued

2.1 Insurance risk - continued

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 risks through its financial assets, financial liabilities and insurance and reinsurance assets and liabilities. In particular, the key risk is that in the long term, the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The components of financial risks for the Group are the interest rate risk, equity price risk, currency risk, credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

Market risk

(a) Cash flow and fair value interest rate risk

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

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

In the case of the unit linked capital guaranteed 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.

2. Management of insurance and financial risk - continued

2.2 Financial risk - continued

(a) Cash flow and fair value interest rate risk - continued

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 diversified portfolio of assets which includes equity, debt securities and property. The return from debt and cash based securities is subject to 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. Assets/liabilities issued at variable rates expose the Group to cash flow interest risk. Assets/liabilities issued at fixed rates expose the Group to fair value interest rate risk. 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 (with the exception of investment in Government paper). Periodic reports are prepared at portfolio, legal entity and asset class level that are circulated to the Group's key management personnel. Note 17 incorporates maturity information with respect to the Group's and Company's investments.

The total assets and liabilities subject to interest rate risk are the following:

	Group		**Company**	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Assets at floating interest rates	**13,969,895**	21,788,630	**13,898,537**	21,757,769
Assets at fixed interest rates	**168,637,817**	136,011,973	**168,316,880**	135,674,260
	182,607,712	157,800,603	**182,215,417**	157,432,029
Liabilities	**267,139,825**	230,456,750	**267,139,825**	230,456,750

Interest rate risk in relation to linked liabilities for contracts that also combine a discretionary feature have been excluded as the directors consider the exposure to be insignificant.

2. Management of insurance and financial risk - continued

2.2 Financial risk - continued

Sensitivity analysis – interest rate risk

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.

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

The interest rate sensitivity has been based on a model of Euro swap rates (being the most relevant rate to use given the composition of the Group's investments). The sensitivities chosen aim to reflect 1 in 10 year events.

At 31 December 2007, if interest rates at that date would have been 90 basis points lower with all other variables held constant, pre-tax profit for the year would have been Lm0.7m (2006: Lm0.4m) higher. An increase of 90 basis points, with all other variables held constant, would have resulted in pre-tax profits being Lm0.5m (2006: Lm0.3m) lower. The above sensitivity considers the impact of changes in interest rates on liabilities and fixed income and floating interest rate assets.

(b) Equity price risk

The Group's financial assets are susceptible to the risk of decreases in value due to changes in the prices of equities. The directors manage the risk of price volatility by entering into a diverse range of investments including equities and collective investment schemes. In addition the Group's investments are spread geographically in a diverse number of different Zone A and EEA countries. 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. Reports are prepared at portfolio, legal entity and asset class level that are circulated to the Group's key management personnel. These are also reviewed on a monthly basis by the Investment Committee and on a quarterly basis by the Board.

The total assets subject to equity price risk are the following:

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Assets subject to equity price risk	**77,427,561**	64,087,896	**77,263,597**	63,931,018

In the case of assets held to cover unit-linked liabilities the exposure is carried by the contract holder. In the case of capital guaranteed products any shortfalls guaranteed upon maturity are mitigated by a back to back guarantee with international financial service providers as further referred in 2.2 (a).

2. Management of insurance and financial risk - continued

2.2 Financial risk - continued

Sensitivity analysis – equity price risk

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

The sensitivity for equity price risk is derived based on global equity returns, assuming that currency exposures are hedged. Given the investment strategy of the Group and Company a 10% positive or negative movement in equity prices is considered to be an appropriate benchmark for sensitivity purposes.

An increase and a decrease of 10% in equity prices, with all other variables held constant, would result in a positive impact of Lm1.1m (2006: Lm0.9m) and a negative impact of Lm1.2m (2006: Lm0.9m) respectively, on the pre-tax profit for the year. The above sensitivity includes the impact of changes in equity returns on liabilities and assets.

(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's exposure to exchange risk is limited as follows:

(i) no exposure exists to the Euro due to the fixing of the Irrevocably Fixed Conversion Rate at Euro1 = Lm 0.4293 and upon joining the Eurozone as from 1 January 2008;

(ii) 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.

At 31 December 2007, foreign currency exposure (other than Euro) amounted to Lm16.3 million (2006: Lm16.4 million). Lm2.8m was hedged as at the financial year end (2006: Lm3.1m) leaving an unhedged exposure of Lm13.5m (2006: Lm13.3 million).

Based on the above, management considers the potential impact on profit or loss of a defined currency shift that is reasonably possible at the balance sheet date to be immaterial.

(d) Credit risk

Credit risk is the risk of decreases in value when counterparties are not capable of fulfilling their obligations or when changes in their credit status takes place.

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 forward foreign exchange contracts.

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

2. Management of insurance and financial risk - continued

2.2 Financial risk - continued

(d) Credit risk - continued

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.

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

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 for the Group, it ensures that the reinsurers' credit rating (either Standard & Poors or equivalent) is within the parameters set by it.

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.

The total assets bearing credit risk are the following:

	Group		**Company**	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Fair value through profit or loss				
- Debt securities	**121,825,911**	104,379,700	**121,505,317**	104,042,356
- Forward foreign exchange contracts	**117,178**	34,173	**117,178**	34,173
	121,943,089	104,413,873	**121,622,495**	104,076,529
Loans and receivables				
- Unlisted fixed income debt securities	**635,079**	715,079	**635,079**	715,079
- Deposits with banks or credit institutions	**48,234,312**	42,059,450	**48,234,312**	42,059,450
- Loan to associated undertaking	**300,442**	329,442	**300,442**	329,442
	49,169,833	43,103,971	**49,169,833**	43,103,971
Reinsurers' share of technical provisions	**137,682**	316,635	**137,682**	316,635
Insurance and other receivables	**4,028,651**	2,937,459	**4,182,298**	3,019,234
Income tax receivable	**1,846,447**	1,522,848	**1,818,762**	1,522,848
Cash at bank and in hand	**2,451,408**	1,556,295	**2,380,051**	1,525,434
Total exposure	**179,577,110**	153,851,081	**179,311,121**	153,564,651

2. Management of insurance and financial risk - continued

2.2 Financial risk - continued

(d) Credit risk - continued

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

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
AAA	**12,890,146**	13,699,491	**12,865,179**	13,673,491
AA	**5,759,601**	13,158,384	**5,759,601**	13,158,384
A	**151,693,685**	105,502,333	**151,329,769**	105,190,945
Not rated	**9,233,678**	21,490,873	**9,356,572**	21,541,831
	179,577,110	153,851,081	**179,311,121**	153,564,651

The Group has no receivables that are past due or impaired. The Group does not hold any collateral as security.

(e) Liquidity risk

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

The Group is exposed to daily calls on its available cash resources mainly from claims 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.

The following table indicates the expected timing of cash flows arising from the maturity of the Group's liabilities. The expected cashflows do not consider the impact of early surrenders.

At 31 December 2007	Expected Cash Flows (Undiscounted)						
	0 – 5 years	6 – 10 years	11 – 15 years	16 – 20 years	21 - 25 years	< 25 years	Total
				Lm million			
Technical provisions - Insurance contracts and investment contracts with DPF	14	67	124	150	111	64	530
Creditors	3	-	-	-	-	-	3
	17	67	124	150	111	64	533

2. Management of insurance and financial risk - continued

2.2 Financial risk - continued

(e) Liquidity risk - continued

Expected Cash Flows (Undiscounted)

At 31 December 2006

	0 – 5 years	6 – 10 years	11 – 15 years	16 – 20 years	21 - 25 years	< 25 years	Total
				Lm million			
Technical provisions - Insurance contracts and investment contracts with DPF	12	56	104	126	93	54	445
Creditors	2	-	-	-	-	-	2
	14	56	104	126	93	54	447

Expected cashflows on unit linked liabilities have not been included as the directors consider that there is limited exposure to liquidity risk given that these are principally backed by unit linked assets.

2.3 Capital management

The Group's objectives when managing capital are:

- to comply with the capital and solvency requirements required by the regulatory authorities of the insurance and investments markets where the Group operates.
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

The Insurance Business Act, 1998 stipulates the minimum solvency requirement that the Company is required to hold. The Company carries out admissibility tests on assets held to cover technical reserves and maintains an adequate cover, throughout the year, for its minimum solvency margin. As at 31st December 2007, the Company held net assets of Lm38,765,016 (2006: Lm36,521,354). Other than the Intangible Asset representing the Value of in-force business, all assets held by the Company were fully admissible for solvency purposes.

The Group was compliant with the above insurance business solvency requirements and with the regulatory capital requirements as stipulated under the Investment Services Rule issued by the Malta Financial Services Authority, throughout the financial period.

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	
	2007	2006
	Lm	Lm
Direct insurance	**49,421,226**	39,637,983
Reinsurance inwards	**148,151**	141,803
Gross premiums written	**49,569,377**	39,779,786

Direct insurance is further analysed between:

	Periodic Premiums		Single Premiums	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Non-participating	**2,145,220**	1,539,592	**-**	-
Participating	**14,021,977**	13,999,490	**29,152,416**	20,846,110
Linked	**1,084,283**	935,683	**3,017,330**	2,317,108
	17,251,480	16,474,765	**32,169,746**	23,163,218

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	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Investment contracts	**676,588**	629,532	**8,099,567**	9,955,465

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

(ii) Reinsurance balance

The reinsurance balance, which represents the aggregate of all items relating to reinsurance outwards mainly attributable to insurance contracts, amounted to a charge of Lm182,095 to the long term business technical account for the year ended 31 December 2007 (2006: Lm256,643).

3. Other information – technical account - continued

(iii) Analysis between insurance and investment contracts

	Group and Company	
	2007	2006
	Lm	Lm
Gross premiums written		
Insurance contracts	**13,810,616**	13,646,208
Investment contracts with DPF	**35,758,761**	26,133,578
	49,569,377	39,779,786
Claims incurred, net of reinsurance		
Insurance contracts	**4,615,549**	2,987,360
Investment contracts with DPF	**9,883,243**	5,758,657
	14,498,792	8,746,017

(iv) Net operating expenses

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Acquisition costs	**2,732,075**	2,411,070	**2,732,075**	2,411,070
Administrative expenses	**1,819,709**	1,798,187	**1,555,189**	1,570,347
Reinsurance commissions	**(275,806)**	(274,162)	**(275,806)**	(274,162)
	4,275,978	3,935,095	**4,011,458**	3,707,255

Allocated to:

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Technical profit and loss account	**3,955,633**	3,651,655	**3,955,633**	3,651,655
Non-technical profit and loss account	**320,345**	283,440	**55,825**	55,600
	4,275,978	3,935,095	**4,011,458**	3,707,255

Total commission for direct business accounted for in the financial year amounted to Lm1,944,114 (2006: Lm1,673,413). Lm1,047,736 of this charge arose on investment contracts (2006: Lm928,329).

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

3. Other information – technical account - continued

(v) Bonuses and rebates, net of reinsurance

Reversionary bonuses declared in the year amounted to Lm10,331,140 (2006: Lm8,315,252). Reversionary bonuses declared in 2007 are further analysed as follows:

	Group and Company	
	2007	2006
	Lm	Lm
Insurance contracts	**5,081,610**	4,459,815
Investment contracts with DPF	**5,249,530**	3,855,437
	10,331,140	8,315,252

4. Investment return

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Investment income				
Dividend income from shares in a group undertaking	**-**	-	**95,385**	106,154
Rent receivable from investment property	**1,255,822**	1,176,558	**1,255,822**	1,176,558
Interest receivable from loans and receivables	**2,163,854**	933,048	**2,161,344**	931,267
Income from financial assets at fair value through profit or loss				
- dividend income - associates	**127,093**	125,655	**127,093**	125,655
- dividend income - other	**2,874,239**	3,026,966	**2,864,605**	3,014,364
- other net fair value gains	**4,088,573**	7,573,183	**4,072,937**	7,557,681
Net fair value gains on investment property	**1,450,212**	1,217,246	**1,450,212**	1,217,246
	11,959,793	14,052,656	**12,027,398**	14,128,925
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**140,357**	126,567	**140,357**	126,567
Other investment expenses	**236,477**	210,387	**236,477**	210,319
Exchange losses	**191,312**	59,193	**183,891**	52,080
	(568,146)	(396,147)	**(560,725)**	(388,966)
Total investment return	**11,391,647**	13,656,509	**11,466,673**	13,739,959
Apportioned as follows:				
Technical profit and loss account	**10,680,211**	13,027,944	**10,680,211**	13,027,944
Non-technical profit and loss account	**711,436**	628,565	**786,462**	712,015
	11,391,647	13,656,509	**11,466,673**	13,739,959

5. Other technical income, net of reinsurance

	Group and Company	
	2007	2006
	Lm	Lm
Commissions receivable	**193,185**	234,385
Investment management fees	**373,562**	558,223
Other	**1,880**	7,647
	568,627	800,255

6. Profit before tax

Profit before tax is stated after charging:

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Staff costs (Note 7)	**638,958**	586,925	**590,565**	541,763
Auditor's remuneration	**16,200**	15,400	**14,200**	13,500
Actuarial valuation fees	**139,500**	196,356	**139,500**	196,356
Depreciation/amortisation:				
- intangible assets (Note 12)	**361,071**	330,936	**355,091**	328,400
- property, plant and equipment (Note 13)	**46,804**	38,409	**41,441**	33,365
Reimbursement of expenses for back office support services (Note 28)	**462,500**	406,000	**462,500**	406,000

7. Staff costs

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Salaries	**589,178**	539,648	**543,743**	497,140
Social security costs	**31,763**	29,260	**28,805**	26,606
Provision for contracted pension obligations (Note 9)	**18,017**	18,017	**18,017**	18,017
	638,958	586,925	**590,565**	541,763

The average number of persons employed during the year was:

	Group		Company	
	2007	2006	**2007**	2006
Key management personnel	**5**	2	**5**	2
Managerial	**7**	10	**6**	9
Technical	**37**	34	**34**	31
Administrative	**3**	3	**3**	3
Average number of employees	**52**	49	**48**	45

8. Income tax

	Group 2007 Lm	Group 2006 Lm	Company 2007 Lm	Company 2006 Lm
Current tax expense	**53,406**	16,498	**50,400**	-
Deferred taxation charge/(credit) (Note 18)	**796,917**	(165,690)	**794,842**	(170,586)
Income tax expense/(credit)	**850,323**	(149,192)	**845,242**	(170,586)
Apportioned as follows:				
Technical profit and loss account	**605,003**	(433,279)	**605,003**	(433,279)
Non-technical profit and loss account	**245,320**	284,087	**240,239**	262,693
Income tax expense/(credit)	**850,323**	(149,192)	**845,242**	(170,586)

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

	Group 2007 Lm	Group 2006 Lm	Company 2007 Lm	Company 2006 Lm
Profit before tax	**3,108,008**	2,836,668	**3,088,904**	2,790,257
Tax profit at 35%	**1,087,803**	992,834	**1,081,116**	976,590
Tax effect of:				
Net impact of tax credits not recognised	**22,106**	(844,899)	**18,382**	(850,030)
Property withholding tax at 12%	**(271,879)**	(245,411)	**(271,879)**	(245,411)
Income subject to flat rate foreign tax credit	**(5,639)**	-	**-**	-
Other differences	**17,932**	(51,716)	**17,623**	(51,735)
Income tax expense/(credit)	**850,323**	(149,192)	**845,242**	(170,586)

9. Directors' emoluments

	Group and Company	
	2007	2006
	Lm	Lm
Remuneration	**30,220**	31,970
Fees	**13,000**	14,000
	43,220	45,970

The Company has paid insurance premiums of Lm13,731 during the year (2006: Lm13,603) in respect of insurance cover in favour of its directors. Furthermore, provisions for the year have been made (Group and Company: 2007 – Lm18,017 and 2006 – Lm18,017) 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	
	2007	2006
Net profit attributable to shareholders	**2,257,685**	2,985,860
Weighted average number of ordinary shares in issue	**14,342,466**	10,201,096
Earnings per share	**15c7**	29c3

11. Dividends

At the forthcoming Annual General Meeting a dividend in respect of 2007 of 13c8 per share, amounting to a total dividend of Lm2,064,678 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 2008. The final dividends declared in respect of 2006 and 2005 were Lm2,000,000 (15c4 per share) and Lm1,400,000 (16c2 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 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	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
Year ended 31 December 2007				
Opening net book amount	18,360,000	544,115	555,309	19,459,424
Additions	-	322,751	285,777	608,528
Amortisation charge	-	(210,071)	(151,000)	(361,071)
Closing net book amount	**18,360,000**	**656,795**	**690,086**	**19,706,881**
At 31 December 2007				
Cost or valuation	18,360,000	1,907,952	1,132,208	21,400,160
Accumulated amortisation	-	(1,251,157)	(442,122)	(1,693,279)
Net book amount	**18,360,000**	**656,795**	**690,086**	**19,706,881**

Amortisation of Lm197,941 (2006: Lm204,103) is included in acquisition costs and Lm163,130 (2006: Lm126,833) is included in administration expenses.

Fully amortised assets as at the financial year end amounted to Lm722,361 (2006: Lm608,866).

(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 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	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
Year ended 31 December 2007				
Opening net book amount	18,360,000	515,954	555,309	19,431,263
Additions	-	312,178	285,777	597,955
Amortisation charge	-	(204,091)	(151,000)	(355,091)
Closing net book amount	**18,360,000**	**624,041**	**690,086**	**19,674,127**
At 31 December 2007				
Cost or valuation	18,360,000	1,798,044	1,132,208	21,290,252
Accumulated amortisation	-	(1,174,003)	(442,122)	(1,616,125)
Net book amount	**18,360,000**	**624,041**	**690,086**	**19,674,127**

Amortisation of Lm197,941 (2006: Lm204,103) is included in acquisition costs and Lm157,150 (2006: Lm124,297) is included in administration expenses.

Fully amortised assets as at the financial year end amounted to Lm714,940 (2006: Lm608,866).

(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% (2006: 2%) between the weighted average projected investment return and the discount factor applied. The calculation also assumed lapse rates varying from 2% to 10% pa (2006: 3% to 5% pa), and an expense inflation rate of 3.6% pa (2006: 3.6% pa).

Changes in assumptions

Changes in current year assumptions, as compared to the 2006 valuation process, did not have a significant impact on the Group's net assets.

Sensitivity analysis

If the assumed spread between weighted average projected investment return and discount rate were reduced by 1%, the after tax value of in-force business would increase to Lm19.57m (2006: Lm19.56m).

If the assumed spread between weighted average projected investment return and discount rate were increased by 1%, the after tax value of in-force business would decrease to Lm17.27m (2006: Lm17.28m).

13. Property, plant and equipment

Group	Leasehold improvements Lm	Furniture fittings & equipment Lm	Motor vehicles Lm	Total Lm
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
Year ended 31 December 2007				
Opening net book amount	100,383	139,494	15,185	255,062
Additions	1,232	78,737	-	79,969
Disposals	-	-	(15,473)	(15,473)
Depreciation charge	(2,712)	(40,392)	(3,700)	(46,804)
Depreciation released on disposals	-	-	15,473	15,473
Closing net book amount	**98,903**	**177,839**	**11,485**	**288,227**
At 31 December 2007				
Cost	108,681	508,550	18,500	635,731
Accumulated depreciation	(9,778)	(330,711)	(7,015)	(347,504)
Net book amount	**98,903**	**177,839**	**11,485**	**288,227**

Fully depreciated assets that were still in use at the year end amounted to Lm166,969 (2006: Lm164,390).

13. Property, plant and equipment - continued

Company

	Leasehold improvements Lm	Furniture fittings & equipment Lm	Motor vehicles Lm	Total Lm
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
Year ended 31 December 2007				
Opening net book amount	98,359	128,203	15,185	241,747
Additions	1,232	72,284	-	73,516
Disposals	-	-	(15,473)	(15,473)
Depreciation charge	(2,658)	(35,083)	(3,700)	(41,441)
Depreciation released on disposals	-	-	15,473	15,473
Closing net book amount	**96,933**	**165,404**	**11,485**	**273,822**
At 31 December 2007				
Cost	106,532	470,354	18,500	595,386
Accumulated depreciation	(9,599)	(304,950)	(7,015)	(321,564)
Net book amount	**96,933**	**165,404**	**11,485**	**273,822**

Fully depreciated assets that were still in use at the year end amounted to Lm156,097 (2006: Lm158,912).

14. Investment property

	Group and Company
	Lm
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
Year ended 31 December 2007	
Opening net book amount	21,202,117
Additions	174,044
Disposals	(484,759)
Net fair value gains	1,034,071
Closing net book amount	**21,925,473**
At 31 December 2007	
Cost	15,343,320
Accumulated fair value gains	6,582,153
Net book amount	**21,925,473**

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

15. Investment in group undertaking

	Company Lm
Year ended 31 December 2006	
Opening and closing net book amount	199,999
Year ended 31 December 2007	
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 2007 & 2006
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 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
Year ended 31 December 2007	
Opening net book amount	1,865,237
Net fair value losses	(89,965)
Closing cost and net book amount	**1,775,272**
At 31 December 2007	
Cost	1,769,804
Accumulated net fair value gains	5,468
Net book amount	**1,775,272**

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 2007	2006
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%**	28.09%

17. Other investments

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

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Fair value through profit or loss	**248,651,700**	208,541,586	**248,166,798**	208,046,995
Loans and receivables	**54,363,481**	47,892,709	**54,363,481**	47,892,709
	303,015,181	256,434,295	**302,530,279**	255,939,704

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Equity securities and units in unit trusts	**81,394,473**	68,059,795	**81,230,165**	67,902,548
Forward foreign exchange contracts	**117,178**	34,173	**117,178**	34,173
Debt securities	**121,825,911**	104,379,700	**121,505,317**	104,042,356
Assets held to cover linked liabilities				
- collective investment schemes	**45,314,138**	36,067,918	**45,314,138**	36,067,918
Total investments at fair value through profit or loss	**248,651,700**	208,541,586	**248,166,798**	208,046,995

Technical provisions for linked liabilities amounted to Lm45,407,372 as at 31 December 2007 (2006: Lm36,091,102). 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.

17. Other investments - continued

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

The above financial assets for the Group and Company include pledged investments amounting to Lm Nil (2006: Lm1,549,380).

At 31 December 2007, the Group and Company had commitments in respect of uncalled share capital in respect of financial assets of Lm84,375 (2006: Lm122,357).

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**	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Within one year	**10,474,582**	23,281,589	**10,474,582**	23,281,589
Between 1 and 2 years	**5,602,554**	2,123,472	**5,602,554**	2,123,472
Between 2 and 5 years	**22,441,550**	13,659,148	**22,321,964**	13,592,399
Over 5 years	**83,307,225**	65,315,491	**83,106,217**	65,044,896
	121,825,911	104,379,700	**121,505,317**	104,042,356

17. Other investments - continued

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

The movements for the year are summarised as follows:

	Group Lm	Company Lm
Balance at 1 January 2006		
Opening net book amount	192,113,846	191,633,731
Additions	126,163,246	126,142,501
Disposals – sales	(29,159,204)	(29,158,311)
Disposals – redemptions	(82,301,988)	(82,301,988)
Net fair value gains	1,725,686	1,731,062
Closing net book amount	208,541,586	208,046,995
At 31 December 2006		
Cost	179,818,600	179,401,843
Accumulated net fair value gains	28,722,986	28,645,152
Net book amount	208,541,586	208,046,995
Balance at 1 January 2007		
Opening net book amount	208,541,586	208,046,995
Additions	134,988,001	134,881,633
Disposals – sales	(7,394,641)	(7,280,222)
Disposals – redemptions	(84,946,463)	(84,946,463)
Net fair value losses	(2,536,783)	(2,535,145)
Closing net book amount	**248,651,700**	**248,166,798**
At 31 December 2007		
Cost	222,485,546	222,070,277
Accumulated net fair value gains	26,166,154	26,096,521
Net book amount	**248,651,700**	**248,166,798**

17. Other investments - continued

(b) Loans and receivables

Analysed by type of investment as follows:

	Group and Company 2007 Lm	2006 Lm
Unlisted fixed income debt securities	**635,079**	715,079
Deposits with banks or credit institutions	**48,234,312**	42,059,450
Loans secured on policies	**3,020,140**	2,626,747
Reinsurance loan	**2,173,508**	2,161,991
Loan to associated undertaking	**300,442**	329,442
	54,363,481	47,892,709

Maturity of deposits with banks or credit institutions:

	Group and Company 2007 Lm	2006 Lm
Within 3 months	**46,765,110**	40,590,342
Within 1 year but exceeding 3 months	**15,093**	15,000
Between 2 and 5 years	**1,454,109**	1,454,108
	48,234,312	42,059,450

The above deposits earn interest as follows:

	Group and Company 2007 Lm	2006 Lm
At floating rates	**2,645,835**	734,335
At fixed rates	**45,588,477**	41,325,115
	48,234,312	42,059,450

Maturity of fixed income debt securities:

	Group and Company 2007 Lm	2006 Lm
Between 2 and 5 years	**635,079**	715,079

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	Loans secured on policies Lm	Reinsurance loan Lm	Loan to associated undertaking Lm	Total Lm
Year ended 31 December 2006					
Opening net book amount	865,079	1,939,267	2,144,388	304,944	5,253,678
Additions	-	844,895	17,603	24,498	886,996
Disposals (sales and redemptions)	(150,000)	(157,415)	-	-	(307,415)
Closing net book amount	715,079	2,626,747	2,161,991	329,442	5,833,259
Year ended 31 December 2007					
Opening net book amount	715,079	2,626,747	2,161,991	329,442	5,833,259
Additions	-	839,262	11,517	-	850,779
Disposals (sales and redemptions)	(80,000)	(445,869)	-	(29,000)	(554,869)
Closing net book amount	**635,079**	**3,020,140**	**2,173,508**	**300,442**	**6,129,169**

18. Deferred income tax

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Balance at 1 January	**431,374**	265,684	**441,347**	270,761
Movement during the year:				
Profit and loss account (Note 8)	**(796,917)**	165,690	**(794,842)**	170,586
Balance at 31 December (net)	**(365,543)**	431,374	**(353,495)**	441,347

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (2006: 35%). The year end balance comprise:

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Temporary differences attributable to investment property	**(1,958,103)**	(1,827,455)	**(1,958,103)**	(1,827,455)
Temporary differences attributable to fair value adjustments on financial investments	**(3,365,777)**	(2,869,979)	**(3,358,197)**	(2,866,674)
Temporary differences attributable to property, plant and equipment	**(95,806)**	(79,420)	**(91,338)**	(72,752)
Temporary differences attributable to unabsorbed tax credits	**5,054,143**	5,208,228	**5,054,143**	5,208,228
Balance at 31 December (net)	**(365,543)**	431,374	**(353,495)**	441,347

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	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Deferred tax asset	**1,247,066**	1,950,458	**1,247,066**	1,950,458
Deferred tax liability	**(1,612,609)**	(1,519,084)	**(1,600,561)**	(1,509,111)
	(365,543)	431,374	**(353,495)**	441,347

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

19. Debtors and prepayments and accrued income

	Group 2007 Lm	Group 2006 Lm	Company 2007 Lm	Company 2006 Lm
Debtors				
Debtors arising out of direct insurance operations				
- due from policyholders	**31,079**	-	**31,079**	-
- due from reinsurers	**12,751**	12,751	**12,751**	12,751
- amounts due from group undertakings (Note 28)	**1,104,258**	1,138,592	**1,264,326**	1,223,909
	1,148,088	1,151,343	**1,308,156**	1,236,660
Prepayments and accrued income				
- accrued interest and rent	**2,994,288**	2,059,137	**2,989,185**	2,053,258
- prepayments	**750,117**	195,487	**645,794**	107,512
	3,744,405	2,254,624	**3,634,979**	2,160,770

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 2007 Lm	Group 2006 Lm	Company 2007 Lm	Company 2006 Lm
Cash at bank and in hand	**2,451,408**	1,556,295	**2,380,051**	1,525,434

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

	Group 2007 Lm	Group 2006 Lm	Company 2007 Lm	Company 2006 Lm
At floating rates	**1,743,906**	699,919	**1,672,549**	699,058

21. Share capital

	Group and Company 2007 Lm	2006 Lm
Authorised		
20,000,000 (2006: 15,000,000) Ordinary shares of Lm1 each	**20,000,000**	15,000,000
Issued and fully paid		
15,000,000 (2006: 13,000,000) Ordinary shares of Lm1 each	**15,000,000**	13,000,000

During the Annual General Meeting of the Company held on 23 April 2007, the authorised share capital of the Company was increased to Lm20,000,000.

On the same date the Company's shareholders approved a bonus issue of 2,000,000 ordinary shares at a nominal value of Lm1 each.

22. Other reserves

	Group and Company 2007 Lm	2006 Lm
Value of in-force business		
Balance at 1 January	**15,710,000**	13,960,000
Increment in value of in-force business (Note 12)	**-**	1,750,000
Balance at 31 December	**15,710,000**	15,710,000

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	
	2007	2006
	Lm	Lm
Gross technical provisions		
- claims outstanding	**252,401**	566,158
- long-term business provision	**143,519,356**	133,872,581
	143,771,757	134,438,739
Reinsurers' share of technical provisions		
- claims outstanding	**118,561**	296,700
- long-term business provision	**19,121**	19,935
	137,682	316,635
Net technical provisions		
- claims outstanding	**133,840**	269,458
- long-term business provision	**143,500,235**	133,852,646
	143,634,075	134,122,104

Movements are as follows:

	Group and Company	
	2007	2007
	Lm	Lm
	Gross	Reinsurance
Year ended 31 December		
At beginning of year	134,438,739	316,635
Charge to the profit and loss account	9,333,018	(178,953)
At end of year	143,771,757	137,682

	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

The above liabilities are substantially non-current in nature.

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

(ii) Investment contracts with DPF

	Group and Company	
	2007	2006
	Lm	Lm
Investment contracts with DPF (gross and net)		
- claims outstanding	**212,877**	121,690
- long-term business provision	**135,646,664**	106,021,706
	135,859,541	106,143,396

Movements are as follows:

	2007	2006
	Lm	Lm
Year ended 31 December		
At beginning of year	**106,143,396**	78,963,807
Charge to the profit and loss account	**29,716,145**	27,179,589
At end of year	**135,859,541**	106,143,396

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, 2007 ('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 2007 and 2006 were AM80.

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.

(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. Sensitivity analysis for interest rate risk and equity price risk has been disclosed in Note 2. 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	
	2007	2006
	Lm	Lm
Long-term business provision	**33,400,297**	26,673,500
Claims outstanding	**35,879**	28,173
	33,436,176	26,701,673

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

25. Creditors and accruals and deferred income

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Creditors				
Deposits received from reinsurers	**17,689**	17,411	**17,689**	17,411
Creditors arising out of direct insurance operations	**2,531,172**	1,487,922	**2,531,172**	1,487,922
Creditors arising out of reinsurance operations	**7,177**	7,177	**7,177**	7,177
Amounts owed to group undertakings (Note 28)	**4,083**	16,279	**-**	-
Indirect taxation	**78,914**	129,375	**74,047**	129,375
Other creditors	**6,329**	9,752	**-**	-
	2,645,364	1,667,916	**2,630,085**	1,641,885
Accruals and deferred income				
Accruals	**440,298**	337,804	**435,310**	333,387
Deferred income	**407,222**	303,327	**407,222**	303,327
	847,520	641,131	**842,532**	636,714
Total liabilities	**3,492,884**	2,309,047	**3,472,617**	2,278,599
Current	**3,391,747**	2,209,192	**3,371,480**	2,178,744
Non-current	**101,137**	99,855	**101,137**	99,855
	3,492,884	2,309,047	**3,472,617**	2,278,599

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	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Profit before tax	**3,108,008**	2,836,668	**3,088,904**	2,790,257
Adjusted for:				
Amortisation (Note 12)	**361,071**	330,936	**355,091**	328,400
Depreciation (Note 13)	**46,804**	38,409	**41,441**	33,365
Adjustments relating to investment return	**(9,492,022)**	(13,583,400)	**(9,567,463)**	(13,659,669)
Profit on sale of tangible asset	**(800)**	(1,800)	**(800)**	(1,800)
Technical provisions	**45,962,619**	48,529,767	**45,962,619**	48,529,767
Debtors, prepayments and accrued income	**(943,409)**	34,944	**(1,002,586)**	(35,379)
Creditors, accruals and deferred income	**1,183,839**	546,599	**1,194,018**	537,074
Cash generated from operations	**40,226,110**	38,732,123	**40,071,224**	38,522,015

27. Commitments

Capital commitments

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

	Group and Company	
	2007	2006
	Lm	Lm
Authorised and not contracted - property, plant and equipment	**16,400**	84,240
Authorised and not contracted - intangible assets	**123,000**	218,630
	139,400	302,870

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	
	2007	2006
	Lm	Lm
Not later than 1 year	**671,472**	730,358
Later than 1 year and not later than 5 years	**1,434,300**	1,615,389
Later than 5 years	**169,360**	384,845
	2,275,132	2,730,592

Investment property includes properties valued at Lm2,544,500 (2006: Lm2,534,250) 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.

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

(a) Sale of insurance contracts and other services

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Transactions with shareholders:				
Trailer fees receivable	**20,179**	19,150	**20,179**	19,150
Rental income on investment property	**37,908**	33,955	**37,908**	33,955
Transactions with the Company's subsidiary:				
Trailer fees receivable	**-**	-	**70,866**	50,216

(b) Purchase of products and services

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Transactions with shareholders:				
Acquisition costs payable	**1,475,336**	1,311,732	**1,475,336**	1,311,732
Reimbursement of expenses for back office support services	**462,500**	406,000	**462,500**	406,000
Purchase of insurance cover	**40,496**	40,297	**40,496**	40,297
Bank charges	**14,012**	13,626	**9,402**	8,386
Transactions with the Company's subsidiary:				
Investment transaction costs	**-**	-	**71,339**	72,856

(c) Investments

	Group and Company	
	2007	2006
	Lm	Lm
Investments with entities related to shareholders	**8,344,967**	8,732,328
Deposits with entities related to shareholders	**43,030,289**	17,118,208
	51,375,256	25,850,536
Investment return, net of expenses and other charges:		
- entities related to shareholders	**2,182,420**	955,143

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.

28. Related party transactions - continued

(c) Investments - continued

Year end balances arising from the above transactions:

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm**	Lm
Creditors arising out of direct insurance operations	**130,674**	128,469	**130,674**	128,469
Amounts owed by group undertakings (Note 19)	**1,104,258**	1,138,592	**1,264,326**	1,223,909
Amounts owed to group undertakings (Note 25)	**4,083**	16,279	**-**	-
Loan to associated undertaking (Note 17)	**300,442**	329,442	**300,442**	329,442
Accruals and deferred income (Key management personnel)	**18,017**	82,325	**18,017**	82,325

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%.

The Group restructured the composition of the senior management during 2007. Following this restructuring, key management personnel now comprises the Chief Executive Officer, Chief Officers, Chief Underwriters, Actuary and Pensions' Consultant. Total remuneration paid by the Group to key management personnel during the year amount to Lm188,251 (Company: Lm183,562). The key management personnel up to 2006 comprised the Chief Executive Officer and the General Manager of the companies within the Group. Total remuneration paid by the Group during 2006 to key management personnel were Lm68,062 (Company: Lm62,822).

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 2007 and 2006, 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.