

**MIDDLESEA VALLETTA LIFE  
ASSURANCE COMPANY LIMITED**

**Annual Report and Consolidated Financial Statements  
31 December 2008**

MIDDLESEA VALLETTA LIFE ASSURANCE COMPANY LIMITED  
Annual Report and Consolidated Financial Statements - 31 December 2008

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## **Directors' report**

The directors present their report and the audited financial statements for the year ended 31 December 2008.

### **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 2008, Middlesea Valletta Life Assurance Co. Ltd. ("MSV Group" and "Group") registered a profit after tax of €1.92 million for the year ended 31 December 2008 compared to the profit after tax of €5.3 million recorded in 2007.

Gross written premiums (including investment contracts without DPF) decreased by 19% from €135.91 million in 2007 to €109.70 million in 2008. This decrease in business written emanated from lower unit-linked business volumes as policyholders showed a marked preference for savings and investment products that are safer, such as with-profits investments.

Net investment income decreased from €26.54 million in 2007 to a loss of €31.77 million in 2008. During 2008, the insurance industry internationally has suffered from steeply falling stock market valuations and dramatically widening bond spreads. The direct impact of the crisis on MSV Group was contained due to the fact that the Group holds a defensively positioned and widely diversified investment portfolio of quality assets. The MSV Group had no direct exposure to any of the toxic assets that were one of the root causes of the crisis.

The MSV Group's Balance Sheet increased marginally from €832.25 million at the end of 2007 to €843.02 million at the end of 2008, whilst the Life Fund (including investment contracts without DPF) increased by 2% from €728.93 million in 2007 to €742.28 million in 2008. The value-of-in-force business has reduced by 7% from €42.77 million in 2007 to €39.75 million in 2008 mainly due to the poor investment returns. 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 MSV Group results for the year have to be seen in the context of the unprecedented financial turmoil that occurred during 2008. The Group's core insurance operations and investment portfolio displayed resilience in the face of the very adverse market conditions and the Group was therefore in a position to register a post-tax profit despite having had to absorb fair value mark-downs of €63.92 million on an investment portfolio of over €777 million.

## **Directors' report – continued**

The Board of Directors of MSV Group approved a resolution whereby differential rates of Regular Bonuses were declared in respect of with-profits plans held with MSV Group for the year ending 31 December 2008. These amounted to 3.65% for the Comprehensive Life Plan (regular and single premium policies), 3.75% in respect of the Comprehensive Flexi Plan (regular and single premium policies), 3.8% under the Single Premium Plan and 3.8% under the with-profits option of the MSV Investment Bond. On the 'Old Series' Endowment and Whole Life policies, a Regular Bonus of 2.2% of the basic sum assured plus bonuses was declared. Finally, the Board also approved a Regular Bonus of 3.45% on those Secure Growth policies which formed part of the portfolio of business transferred to MSV Group from Assicurazioni Generali S.p.A. during 2000. Notwithstanding the prudent investment policy adopted by MSV, past performance is no guarantee for the future. Although with-profits investments have generally provided policyholders with satisfactory returns when compared with other similar investment products, in the light of the current volatility in the capital markets, investment returns could fluctuate further. Fair value movements and lower investment returns impinge directly on the rates of bonuses declared by MSV. Regular Bonuses are therefore expected to vary over the lifetime of the policy.

Through the combination of a strong brand, financial strength, product breadth, distribution reach, in particular the successful bancassurance partnership with Bank of Valletta p.l.c., MSV Group remains well poised to maintain its position as the leader in the individual protection and long term savings market in Malta. Whilst challenging times are clearly with us, the consistent performance and strong financial and operational base of MSV Group put it firmly on track to take on new challenges and opportunities that may arise in the future in Malta as well as overseas.

## **Results and dividends**

The consolidated profit and loss accounts are set out on page 7. The directors recommend the payment of a final dividend of €2,000,000 payable to the shareholders (2007: €4,809,406). The shareholders have undertaken to re-invest the dividend in the Company and a resolution to increase the issued paid-up share capital of the Company by €2,000,000 will be put forward at the forthcoming Annual General Meeting.

## **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.

## Directors' report – continued

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.

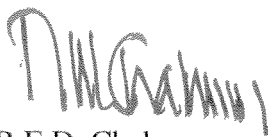
## Actuaries

The Company's approved actuary is Mr. Scott Robinson FIA, a partner of Watson Wyatt Limited.

## Auditors

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

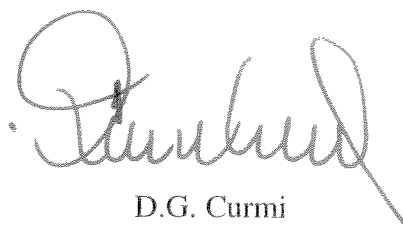
On behalf of the board



R.E.D. Chalmers  
Chairman



M.C. Grech  
Deputy Chairman



D.G. Curmi  
C.E.O.

Middle Sea House  
Floriana,  
Malta

20 April 2009

## **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 Group and the parent Company 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 as adopted by the EU;
- 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 Group and the parent Company 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 Group and the parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report**

To the Shareholders of Middlesea Valletta Life Assurance Company Limited

We have audited the financial statements of Middlesea Valletta Life Assurance Company Limited and its subsidiary (the "Group") and of Middlesea Valletta Life Assurance Company Limited (the "parent Company") on pages 7 to 67 which comprise the balance sheets as at 31 December 2008 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 (IFRSs) as adopted by the EU and the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995. As described in the statement of directors' responsibilities on page 4, 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.

## Independent auditor's report - continued

### Opinion

In our opinion the financial statements



- give a true and fair view of the financial position of the Group and the parent Company as at 31 December 2008, and the Group's and parent Company's financial performance and their cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

### Report on Other Legal and Regulatory Requirements

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

- the information given in the directors' report is not consistent with the financial statements.
- adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- the financial statements are not in agreement with the accounting records and returns.
- we have not received all the information and explanations we require for our audit.
- certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

  
**PRICEWATERHOUSECOOPERS**   
167 Merchants Street  
Valletta  
Malta

  
Simon Flynn  
Partner

20 April 2009



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**Consolidated profit and loss accounts**  
**Technical account – long term business**

		Year ended 31 December	
		Group and Company	
	Notes	2008 €'000	2007 €'000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	104,825	115,466
Outward reinsurance premiums		(3,001)	(1,707)
<b>Net premiums written</b>		<b>101,824</b>	<b>113,759</b>
<b>Investment income</b>	4	<b>27,956</b>	<b>28,403</b>
<b>Other technical income, net of reinsurance</b>	5	<b>792</b>	<b>1,325</b>
<b>Total technical income</b>		<b>130,572</b>	<b>143,487</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
- gross amount		27,790	34,932
- reinsurers' share		(525)	(1,056)
		<b>27,265</b>	<b>33,876</b>
Change in the provision for claims			
- gross amount		591	(518)
- reinsurers' share		(151)	415
		<b>440</b>	<b>(103)</b>
<b>Claims incurred, net of reinsurance</b>	3	<b>27,705</b>	<b>33,773</b>
<b>Change in other technical provisions, net of reinsurance</b>			
Insurance contracts			
- gross amount		(3,563)	22,471
- reinsurers' share		5	2
		<b>(3,558)</b>	<b>22,473</b>
Investment contracts with DPF – gross		<b>36,159</b>	<b>69,008</b>
<b>Change in other technical provisions, net of reinsurance</b>		<b>32,601</b>	<b>91,481</b>
<b>Net operating expenses</b>	3	<b>8,021</b>	<b>9,214</b>
<b>Unrealised losses on investments</b>	4	<b>57,272</b>	<b>2,279</b>
<b>Investment expenses and charges</b>	4	<b>1,113</b>	<b>1,246</b>
<b>Total technical charges</b>		<b>126,712</b>	<b>137,993</b>
<b>Tax attributable to the long term business</b>	8	<b>(1,175)</b>	<b>(1,409)</b>
<b>Balance on the long term business technical account (page 8)</b>		<b>2,685</b>	<b>4,085</b>

**Consolidated profit and loss accounts**  
**Non-technical account**

		Year ended 31 December			
Notes		Group		Company	
		2008 €'000	2007 €'000	2008 €'000	2007 €'000
	<b>Balance on the long term business technical account (page 7)</b>	<b>2,685</b>	4,085	<b>2,685</b>	4,085
	Investment income	<b>1,827</b>	1,916	<b>1,945</b>	2,070
	Unrealised capital losses	<b>(3,141)</b>	(182)	<b>(3,005)</b>	(178)
	Investment expenses and charges	<b>(31)</b>	(77)	<b>(31)</b>	(60)
	Other income – commission receivable	<b>635</b>	835	-	-
	Other charges – administrative expenses	<b>(775)</b>	(746)	<b>(170)</b>	(130)
	<b>Profit before tax</b>	<b>1,200</b>	5,831	<b>1,424</b>	5,787
	Tax income/(expense)	<b>723</b>	(572)	<b>667</b>	(560)
	<b>Profit for the financial year</b>	<b>1,923</b>	5,259	<b>2,091</b>	5,227
	<b>Earnings per share (cents)</b>	<b>12c3</b>	36c7		

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## Consolidated balance sheets

		As at 31 December			
	Notes	Group		Company	
		2008 €'000	2007 €'000	2008 €'000	2007 €'000
<b>ASSETS</b>					
Intangible assets	12	42,796	45,905	42,728	45,828
Tangible assets - property, plant and equipment	13	881	671	854	638
Investments:					
Land and buildings - investment property	14	53,813	51,073	53,813	51,073
Investment in group undertaking	15	-	-	466	466
Investment in associated undertakings	16	5,377	4,135	5,377	4,135
Other investments	17	717,532	705,836	716,541	704,706
Deferred income tax	18	3,962	2,905	3,962	2,905
Reinsurers' share of technical provisions	23	467	321	467	321
Income tax receivable		2,060	4,301	1,978	4,237
Debtors	19	2,005	2,674	2,468	3,047
Prepayments and accrued income	19	8,676	8,722	8,518	8,467
Cash at bank and in hand	20	5,449	5,710	5,107	5,544
<b>Total assets</b>		<b>843,018</b>	<b>832,253</b>	<b>842,279</b>	<b>831,367</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves attributable to shareholders of the Company</b>					
Called up share capital	21	39,750	34,941	39,750	34,941
Other reserves	22	33,576	36,594	33,576	36,594
Profit and loss account		16,689	19,575	16,046	18,764
<b>Total equity</b>		<b>90,015</b>	<b>91,110</b>	<b>89,372</b>	<b>90,299</b>
Technical provisions					
- insurance contracts	23	331,626	334,898	331,626	334,898
- investment contracts with DPF	23	352,927	316,468	352,927	316,468
- investment contracts without DPF	24	58,193	77,885	58,193	77,885
Provision for other risks and charges					
- deferred income tax	18	4,068	3,757	4,065	3,728
Creditors	25	4,391	6,162	4,309	6,126
Accruals and deferred income	25	1,798	1,973	1,787	1,963
<b>Total liabilities</b>		<b>753,003</b>	<b>741,143</b>	<b>752,907</b>	<b>741,068</b>
<b>Total equity and liabilities</b>		<b>843,018</b>	<b>832,253</b>	<b>842,279</b>	<b>831,367</b>

The financial statements on pages 7 to 67 were authorised for issue by the Board on 20 April 2009 and were signed on its behalf by:

  
R.E.D. Chalmers  
Chairman

  
M.C. Grech  
Deputy Chairman

  
D.G. Curmi  
C.E.O.

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## Statements of changes in equity

Group	Notes	Share capital €'000	Other reserves €'000	Profit and loss account €'000	Total €'000
Balance at 1 January 2007		30,282	36,594	18,975	85,851
Profit for the financial year		-	-	5,259	5,259
Total recognised income for 2007		-	-	5,259	5,259
Dividends	11	4,659	-	(4,659)	-
<b>Balance at 31 December 2007</b>		<b>34,941</b>	<b>36,594</b>	<b>19,575</b>	<b>91,110</b>
Balance at 1 January 2008		34,941	36,594	19,575	91,110
Decrease in value of in-force business	22	-	(3,018)	-	(3,018)
Net expense recognised directly in equity		-	(3,018)	-	(3,018)
Profit for the financial year		-	-	1,923	1,923
Total recognised (expense)/income for 2008		-	(3,018)	1,923	(1,095)
Dividends	11	4,809	-	(4,809)	-
<b>Balance at 31 December 2008</b>		<b>39,750</b>	<b>33,576</b>	<b>16,689</b>	<b>90,015</b>

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**Statements of changes in equity - continued**

Company	Notes	Share capital €'000	Other reserves €'000	Profit and loss account €'000	Total €'000
Balance at 1 January 2007		30,282	36,594	18,196	85,072
Profit for the financial year		-	-	5,227	5,227
Total recognised income for 2007		-	-	5,227	5,227
Dividends	11	4,659	-	(4,659)	-
<b>Balance at 31 December 2007</b>		<b>34,941</b>	<b>36,594</b>	<b>18,764</b>	<b>90,299</b>
Balance at 1 January 2008		34,941	36,594	18,764	90,299
Decrease in value of in-force business	22	-	(3,018)	-	(3,018)
Net expense recognised directly in equity		-	(3,018)	-	(3,018)
Profit for the financial year		-	-	2,091	2,091
Total recognised (expense)/income for 2008		-	(3,018)	2,091	(927)
Dividends	11	4,809	-	(4,809)	-
<b>Balance at 31 December 2008</b>		<b>39,750</b>	<b>33,576</b>	<b>16,046</b>	<b>89,372</b>

## Cash flow statements

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## 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 as adopted by the EU, the Insurance Business Act, 1998 and the Companies Act, 1995.

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment property, financial assets and financial liabilities at fair value through profit or loss, and the 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 2008*

In 2008, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2008. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

### *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 but are mandatory for the Group's accounting periods beginning after 1 January 2008. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that there are no requirements that will have a possible significant 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.



### 3. Consolidation - continued

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 undertakings 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 euro, which is the Group's presentation currency.

Malta adopted the euro as its national currency on 1 January 2008. This date fell within the Group's financial reporting period. On this date the Group's functional currency was changed from Maltese lira to euro. Consequently, the results and financial position of the Group were translated at the Irrevocably Fixed Conversion Rate of €1:Lm0.429300 as at that date.

As the Group converted its presentation currency from Maltese lira to euro, all comparative information was converted using the Irrevocably Fixed Conversion Rate noted above.

#### *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.

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

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.

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.

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

(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.

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

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.

**6. Revenue recognition - continued**

(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.

## 9. Intangible assets - continued

### *Computer software*

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

### *Deferred policy acquisition costs*

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

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

## 10. Property, plant and equipment

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

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

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

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

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

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

## **11. Investment property**

Freehold and leasehold properties treated as investments principally comprise office and other commercial buildings that are held for long term rental yields and that are not occupied by the Group. Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets. These valuations are reviewed annually by an independent valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. 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 as fair value through profit or loss to eliminate the accounting mismatch that would otherwise arise from measuring insurance assets or liabilities, or recognising the gains and losses on them, on different bases. Financial assets attributable to shareholders are designated as fair value through profit or loss if they are part of a Group of investments that is managed on a portfolio basis, and whose performance is evaluated and reported internally on a fair value basis to the Group's Board in accordance with a documented investment strategy. Derivatives are also classified as fair value through profit or loss.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group 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.



### 13. Financial assets - continued

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.

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:

#### 14. Impairment of assets - continued

- (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. Current and deferred tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax is not accounted for if it 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. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**17. Cash and cash equivalents**

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

**18. Share capital**

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

**19. Dividends**

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

## Notes to the financial statements

### 1. Critical accounting estimates and judgments in applying accounting policies

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

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised), other than the estimate of the value of in-force business as described below.

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

### 2. Management of risk

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

#### 2.1 Insurance risk

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

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

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

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

## **2. Management of risk - continued**

### **2.1 Insurance risk - continued**

#### *Frequency and severity of claims*

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

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

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

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

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

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

## 2. Management of risk - continued

### 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 positive 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 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 (with the exception of some contracts that have been in force more than a certain number of years), the Group reserves the right to increase the level of surrender charge and, if necessary, to apply a Market Value Reduction (MVR). A 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.

## 2. Management of risk - continued

### 2.2 Financial risk - continued

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

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

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Assets at floating interest rates	<b>58,494</b>	32,541	<b>58,153</b>	32,375
Assets at fixed interest rates	<b>472,992</b>	392,820	<b>472,214</b>	392,073
	<b>531,486</b>	425,361	<b>530,367</b>	424,448
Liabilities	<b>661,912</b>	622,268	<b>661,912</b>	622,268

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.

#### *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, given the long term nature of the portfolio.

At 31 December 2008, 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 €1m (2007: €1.6m) higher. An increase of 90 basis points, with all other variables held constant, would have resulted in pre-tax profits being €0.9m (2007: €1.2m) lower. The above sensitivity considers the impact of changes in interest rates on liabilities and fixed income and floating interest rate assets.



## 2. Management of risk - continued

### 2.2 Financial risk - continued

#### *(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:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Assets subject to equity price risk	<b>99,175</b>	180,358	<b>98,962</b>	179,976

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).

#### *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.

## **2. Management of risk - continued**

### **2.2 Financial risk - continued**

#### *(b) Equity price risk - continued*

An increase and a decrease in 10% in equity prices, with all other variables held constant, would result in a positive impact of €0.5m (2007: €2.6m) and a negative impact of €0.5m (2007: €2.8m) 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 euro. The Group holds assets denominated in currencies other than euro, 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 by establishing guidelines for investing in foreign currency 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 2008, foreign currency exposure amounted to €20.7m (2007: €37.9m). €5.1m was hedged as at the financial year end (2007: €6.5m) leaving an unhedged exposure of €15.6m (2007: €31.4m).

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.

## 2. Management of risk - continued

### 2.2 Financial risk - continued

#### *(d) Credit risk – continued*

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.

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	
	2008	2007	2008	2007
	€'000	€'000	€'000	€'000
<b>Fair value through profit or loss</b>				
- Debt securities	349,073	283,778	348,295	283,031
- Forward foreign exchange contracts	273	273	273	273
	<b>349,346</b>	<b>284,051</b>	<b>348,568</b>	<b>283,304</b>

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**2. Management of risk - continued**

**2.2 Financial risk - continued**

*(d) Credit risk - continued*

Total assets bearing credit risk - continued

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>Loans and receivables</b>				
- Unlisted fixed income debt securities	<b>780</b>	1,479	<b>780</b>	1,479
- Deposits with banks or credit	<b>150,681</b>	112,356	<b>150,681</b>	112,356
- Loan to associated undertaking	<b>-</b>	700	<b>-</b>	700
	<b>151,461</b>	114,535	<b>151,461</b>	114,535
Reinsurers' share of technical provisions	<b>467</b>	321	<b>467</b>	321
Insurance and other receivables	<b>8,930</b>	9,384	<b>8,810</b>	9,742
Income tax receivable	<b>2,060</b>	4,301	<b>1,978</b>	4,237
Cash at bank and in hand	<b>5,449</b>	5,710	<b>5,107</b>	5,544
Total exposure	<b>517,713</b>	418,302	<b>516,391</b>	417,683

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

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
AAA	<b>38,853</b>	30,026	<b>38,791</b>	29,968
AA	<b>4,775</b>	13,416	<b>4,775</b>	13,416
A	<b>445,047</b>	353,351	<b>444,028</b>	352,504
BBB	<b>112</b>	-	<b>112</b>	-
Not rated	<b>28,926</b>	21,509	<b>28,685</b>	21,795
	<b>517,713</b>	418,302	<b>516,391</b>	417,683

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

## 2. Management of risk - continued

### 2.2 Financial risk - continued

#### (e) Liquidity risk - continued

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 cash flows do not consider the impact of early surrenders.

At 31 December 2008	Expected cash flows (undiscounted)						Total
	0 – 5 years	6 – 10 years	11 – 15 years	16 – 20 years	21 – 25 years	25> years	
	€ million						
Technical provision - Insurance contracts and investment contracts with DPF	71	163	292	318	202	114	1,160
Creditors	6	-	-	-	-	-	6
	77	163	292	318	202	114	1,166

At 31 December 2007	Expected cash flows (undiscounted)						Total
	0 – 5 years	6 – 10 years	11 – 15 years	16 – 20 years	21 – 25 years	25> years	
	€ million						
Technical provision - Insurance contracts and investment contracts with DPF	33	156	289	349	259	149	1,235
Creditors	7	-	-	-	-	-	7
	40	156	289	349	259	149	1,242

Expected cash flows 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. Management of risk - continued**

### **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 2008, the Company held net assets of €89.37m (2007: €90.3m). 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:

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Direct insurance	<b>104,498</b>	115,120
Reinsurance inwards	<b>327</b>	346
Gross premiums written	<b>104,825</b>	115,466

Direct insurance is further analysed between:

	<b>Periodic premiums</b>		<b>Single premiums</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Non-participating	<b>5,454</b>	4,997	-	-
Participating	<b>31,282</b>	32,662	<b>63,612</b>	67,907
Linked	<b>2,805</b>	2,526	<b>1,345</b>	7,028
	<b>39,541</b>	40,185	<b>64,957</b>	74,935

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:

	<b>Periodic premiums</b>		<b>Single premiums</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Investment contracts	<b>1,777</b>	1,576	<b>3,095</b>	18,867

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 €1.2m to the long term business technical account for the year ended 31 December 2008 (2007: €0.42m).

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**3. Other information – technical account - continued**

*(iii) Analysis between insurance and investment contracts*

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
<b>Gross premiums written</b>		
Insurance contracts	32,555	32,170
Investment contracts with DPF	72,270	83,296
	<b>104,825</b>	<b>115,466</b>
<b>Claims incurred, net of reinsurance</b>		
Insurance contracts	11,271	10,751
Investment contracts with DPF	16,434	23,022
	<b>27,705</b>	<b>33,773</b>

*(iv) Net operating expenses*

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Acquisition costs	5,752	6,363	5,752	6,363
Administrative expenses	4,084	4,239	3,479	3,623
Reinsurance commissions	(1,040)	(642)	(1,040)	(642)
	<b>8,796</b>	<b>9,960</b>	<b>8,191</b>	<b>9,344</b>

*Allocated to:*

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Technical profit and loss account	8,021	9,214	8,021	9,214
Non-technical profit and loss account	775	746	170	130
	<b>8,796</b>	<b>9,960</b>	<b>8,191</b>	<b>9,344</b>

Total commission for direct business accounted for in the financial year amounted to €3.92m (2007: €4.53m). €2.74m of this charge arose on investment contracts (2007: €3.03m).

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



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**3. Other information – technical account - continued**

*(v) Bonuses and rebates, net of reinsurance*

An amount of €5.09m (2007: €24.07m) had been provided for as reversionary bonuses within technical provisions. Provision for reversionary bonuses for 2008 and 2007 is further analysed as follows:

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Insurance contracts	<b>1,017</b>	11,837
Investment contracts with DPF	<b>4,070</b>	12,228
	<b>5,087</b>	24,065

**4. Investment return**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Dividend income from shares in a group undertaking	-	-	<b>179</b>	222
Rent receivable from investment property	<b>3,016</b>	2,925	<b>3,016</b>	2,925
Interest receivable from loans and receivables	<b>5,958</b>	5,040	<b>5,952</b>	5,035
Income from financial assets at fair value through profit or loss				
- dividend income - associates	<b>303</b>	296	<b>303</b>	296
- dividend income - other	<b>3,907</b>	6,695	<b>3,893</b>	6,673
- other net fair value (losses)/gains	<b>(46,398)</b>	9,079	<b>(46,303)</b>	9,059
Net fair value gains on investment property	<b>2,585</b>	3,378	<b>2,585</b>	3,378
Direct operating expenses arising from investment property that generated rental income	<b>(280)</b>	(240)	<b>(280)</b>	(240)
Other investment expenses	<b>(865)</b>	(638)	<b>(865)</b>	(638)
<b>Total investment return</b>	<b>(31,774)</b>	26,535	<b>(31,520)</b>	26,710
Apportioned as follows:				
Technical profit and loss account	<b>(30,429)</b>	24,878	<b>(30,429)</b>	24,878
Non-technical profit and loss account	<b>(1,345)</b>	1,657	<b>(1,091)</b>	1,832
	<b>(31,774)</b>	26,535	<b>(31,520)</b>	26,710

In accordance with IAS 39, fair value movements on financial assets at fair value through profit or loss include nominal interest income for the Group of €17.53m (Company: €17.49m) and realised and unrealised capital losses on investments of €63.92m (Company: €63.79m). Corresponding figures for 2007 were €13.99m (Company: €13.95m) and €4.91m (Company: €4.89m) respectively.

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**5. Other technical income, net of reinsurance**

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Commissions receivable	130	450
Investment management fees	657	870
Other	5	5
	<b>792</b>	<b>1,325</b>

**6. Profit before tax**

Profit before tax is stated after charging:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Staff costs (Note 7)	1,657	1,488	1,549	1,376
Actuarial valuation fees	151	130	151	130
Depreciation/amortisation:				
- intangible assets (Note 12)	751	841	731	827
- property, plant and equipment (Note 13)	117	109	105	97
Reimbursement of expenses for back office support services (Note 28)	1,133	1,077	1,133	1,077

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2008 and 2007 relate to the following

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Annual statutory audit	38	38	33	33
Other assurance services	7	11	7	11
Tax advisory and compliance services	2	2	2	2
	<b>47</b>	<b>51</b>	<b>42</b>	<b>46</b>

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**7. Staff costs**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Salaries	<b>1,540</b>	1,372	<b>1,438</b>	1,267
Social security costs	<b>75</b>	74	<b>69</b>	67
Provision for contracted pension obligations (Note 9)	<b>42</b>	42	<b>42</b>	42
	<b>1,657</b>	1,488	<b>1,549</b>	1,376

The average number of persons employed during the year was:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Key management personnel	<b>5</b>	5	<b>5</b>	5
Managerial	<b>11</b>	7	<b>10</b>	6
Technical	<b>32</b>	37	<b>29</b>	34
Administrative	<b>3</b>	3	<b>3</b>	3
Average number of employees	<b>51</b>	52	<b>47</b>	48

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**8. Tax expense**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Current tax expense	<b>1,198</b>	124	<b>1,228</b>	118
Deferred taxation (credit)/charge (Note 18)	<b>(746)</b>	1,857	<b>(720)</b>	1,851
<b>Tax expense</b>	<b>452</b>	1,981	<b>508</b>	1,969
Apportioned as follows:				
Technical profit and loss account	<b>1,175</b>	1,409	<b>1,175</b>	1,409
Non-technical profit and loss account	<b>(723)</b>	572	<b>(667)</b>	560
<b>Tax expense</b>	<b>452</b>	1,981	<b>508</b>	1,969

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

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Profit before tax	<b>2,375</b>	7,240	<b>2,599</b>	7,196
Tax profit at 35%	<b>831</b>	2,534	<b>910</b>	2,519
Tax effect of:				
Net impact of tax credits not recognised	<b>500</b>	51	<b>500</b>	43
Property withholding tax at 12%	<b>(306)</b>	(633)	<b>(306)</b>	(633)
Income subject to flat rate foreign tax credit	<b>(584)</b>	(13)	<b>(584)</b>	-
Net exempt income and expenses	<b>86</b>	-	<b>65</b>	-
Other differences	<b>(75)</b>	42	<b>(77)</b>	40
<b>Tax expense</b>	<b>452</b>	1,981	<b>508</b>	1,969

**9. Directors' emoluments**

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Remuneration	<b>74</b>	70
Fees	<b>30</b>	30
	<b>104</b>	100

The Company has paid insurance premiums of €27,000 during the year (2007: €32,000) in respect of insurance cover in favour of its directors. Furthermore, provisions for the year have been made (Group and Company: 2008 – €42,000 and 2007 – €42,000) 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.

	<b>Group</b>	
	<b>2008</b>	2007
	<b>€'000</b>	€'000
Net profit attributable to shareholders	<b>1,923</b>	5,259
Weighted average number of ordinary shares in issue	<b>15,645,205</b>	14,342,466
Earnings per share	<b>12c3</b>	36c7

## 11. Dividends

At the forthcoming Annual General Meeting a dividend in respect of 2008 of 12c6 per share, amounting to a total dividend of €2m 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 2009. The final dividends declared in respect of 2007 and 2006 were €4.8m (32c1 per share) and €4.7m (35c8 per share) respectively.

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## 12. Intangible assets

Group	Value of in-force business €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
<b>At 31 December 2006</b>				
Cost or valuation	42,767	3,692	1,972	48,431
Accumulated amortisation	-	(2,425)	(678)	(3,103)
Net book amount	42,767	1,267	1,294	45,328
<b>Year ended 31 December 2007</b>				
Opening net book amount	42,767	1,267	1,294	45,328
Additions	-	752	666	1,418
Amortisation charge	-	(489)	(352)	(841)
Closing net book amount	42,767	1,530	1,608	45,905
<b>At 31 December 2007</b>				
Cost or valuation	42,767	4,444	2,638	49,849
Accumulated amortisation	-	(2,914)	(1,030)	(3,944)
Net book amount	42,767	1,530	1,608	45,905
<b>Year ended 31 December 2008</b>				
Opening net book amount	42,767	1,530	1,608	45,905
Decrease in value of in-force business debited to reserves (Note 22)	(3,018)	-	-	(3,018)
Additions	-	505	155	660
Amortisation charge	-	(568)	(183)	(751)
Closing net book amount	39,749	1,467	1,580	42,796
<b>At 31 December 2008</b>				
Cost or valuation	39,749	4,949	2,793	47,491
Accumulated amortisation	-	(3,482)	(1,213)	(4,695)
Net book amount	39,749	1,467	1,580	42,796

Amortisation of €0.31m (2007: €0.46m) is included in acquisition costs and €0.44m (2007: €0.39m) is included in administration expenses.

Fully amortised assets as at the financial year end amounted to €2.02m (2007: €1.68m).

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

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**12. Intangible assets - continued**

Company	Value of in-force business €'000	Computer software €'000	Deferred policy acquisition costs (i) €'000	Total €'000
<b>At 31 December 2006</b>				
Cost or valuation	42,767	3,461	1,972	48,200
Accumulated amortisation	-	(2,260)	(678)	(2,938)
Net book amount	42,767	1,201	1,294	45,262
<b>Year ended 31 December 2007</b>				
Opening net book amount	42,767	1,201	1,294	45,262
Additions	-	727	666	1,393
Amortisation charge	-	(475)	(352)	(827)
Closing net book amount	42,767	1,453	1,608	45,828
<b>At 31 December 2007</b>				
Cost or valuation	42,767	4,188	2,638	49,593
Accumulated amortisation	-	(2,735)	(1,030)	(3,765)
Net book amount	42,767	1,453	1,608	45,828
<b>Year ended 31 December 2008</b>				
Opening net book amount	42,767	1,453	1,608	45,828
Decrease in value of in-force business debited to reserves (Note 22)	(3,018)	-	-	(3,018)
Additions	-	494	155	649
Amortisation charge	-	(548)	(183)	(731)
Closing net book amount	39,749	1,399	1,580	42,728
<b>At 31 December 2008</b>				
Cost or valuation	39,749	4,682	2,793	47,224
Accumulated amortisation	-	(3,283)	(1,213)	(4,496)
Net book amount	39,749	1,399	1,580	42,728

Amortisation of €0.3m (2007: €0.46m) is included in acquisition costs and €0.42m (2007: €0.37m) is included in administration expenses.

Fully amortised assets as at the financial year end amounted to €2m (2007: €1.67m).

(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% (2007: 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 (2007: 2% to 10% pa), and an expense inflation rate of 3.5% pa (2007: 3.6% pa).

### *Changes in assumptions*

Changes in current year assumptions, as compared to the 2007 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 €42.40 million (2007: €45.59 million).

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 €37.38 million (2007: €40.23 million).



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**13. Property, plant and equipment**

Group	Leasehold improvements €'000	Furniture, fittings & equipment €'000	Motor vehicles €'000	Total €'000
<b>At 31 December 2006</b>				
Cost	251	1,001	78	1,330
Accumulated depreciation	(17)	(676)	(43)	(736)
Net book amount	234	325	35	594
<b>Year ended 31 December 2007</b>				
Opening net book amount	234	325	35	594
Additions	3	183	-	186
Disposals	-	-	(36)	(36)
Depreciation charge	(6)	(94)	(9)	(109)
Depreciation released on disposals	-	-	36	36
Closing net book amount	231	414	26	671
<b>At 31 December 2007</b>				
Cost	254	1,184	42	1,480
Accumulated depreciation	(23)	(770)	(16)	(809)
Net book amount	231	414	26	671
<b>Year ended 31 December 2008</b>				
Opening net book amount	231	414	26	671
Additions	-	327	-	327
Depreciation charge	(6)	(102)	(9)	(117)
Closing net book amount	225	639	17	881
<b>At 31 December 2008</b>				
Cost	254	1,511	42	1,807
Accumulated depreciation	(29)	(872)	(25)	(926)
Net book amount	225	639	17	881

Fully depreciated assets that were still in use at the year end amounted to €0.4m (2007: €0.39m).

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

<b>Company</b>	<b>Leasehold improvements €'000</b>	<b>Furniture, fittings &amp; equipment €'000</b>	<b>Motor vehicles €'000</b>	<b>Total €'000</b>
<b>At 31 December 2006</b>				
Cost	245	928	78	1,251
Accumulated depreciation	(16)	(628)	(43)	(687)
Net book amount	229	300	35	564
<b>Year ended 31 December 2007</b>				
Opening net book amount	229	300	35	564
Additions	3	168	-	171
Disposals	-	-	(36)	(36)
Depreciation charge	(6)	(82)	(9)	(97)
Depreciation released on disposals	-	-	36	36
Closing net book amount	226	386	26	638
<b>At 31 December 2007</b>				
Cost	248	1,096	42	1,386
Accumulated depreciation	(22)	(710)	(16)	(748)
Net book amount	226	386	26	638
<b>Year ended 31 December 2008</b>				
Opening net book amount	226	386	26	638
Additions	-	321	-	321
Depreciation charge	(6)	(90)	(9)	(105)
Closing net book amount	220	617	17	854
<b>At 31 December 2008</b>				
Cost	248	1,417	42	1,707
Accumulated depreciation	(28)	(800)	(25)	(853)
Net book amount	220	617	17	854

Fully depreciated assets that were still in use at the year end amounted to €0.37m (2007: €0.36m).

#### 14. Investment property

	<b>Group and Company</b> €'000
<b>At 31 December 2006</b>	
Cost	36,465
Accumulated fair value gains	12,923
Net book amount	<u>49,388</u>
<b>Year ended 31 December 2007</b>	
Opening net book amount	49,388
Additions	405
Disposal	(1,129)
Net fair value gains	2,409
Closing net book amount	<u>51,073</u>
<b>At 31 December 2007</b>	
Cost	35,741
Accumulated fair value gains	15,332
Net book amount	<u>51,073</u>
<b>Year ended 31 December 2008</b>	
Opening net book amount	51,073
Additions	2,055
Disposals	(1,354)
Net fair value gains	2,039
Closing net book amount	<u>53,813</u>
<b>At 31 December 2008</b>	
Cost	36,442
Accumulated fair value gains	17,371
Net book amount	<u>53,813</u>

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

	<b>Company</b> €'000
<b>Year ended 31 December 2007</b>	
Opening and closing net book amount	<u>466</u>
<b>Year ended 31 December 2008</b>	
Opening and closing net book amount	<u>466</u>

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**15. Investment in group undertaking - continued**

The group undertaking at 31 December is shown below:

Group undertaking	Registered office	Class of shares held	Percentage of shares held 2008 & 2007
Growth Investments Limited	Middle Sea House Floriana, FRN 1442	Ordinary shares	100%

**16. Investment in associated undertakings**

	Group and Company €'000
<b>Year ended 31 December 2007</b>	
Opening net book amount	4,345
Net fair value losses	(210)
Closing cost and net book amount	4,135
<b>At 31 December 2007</b>	
Cost	4,122
Accumulated net fair value gains	13
Net book amount	4,135
<b>Year ended 31 December 2008</b>	
Opening net book amount	4,135
Additions	794
Net fair value gains	448
Closing cost and net book amount	5,377
<b>At 31 December 2008</b>	
Cost	4,916
Accumulated net fair value gains	461
Net book amount	5,377

Additions during 2008 include an amount of €0.7m that relates to a capitalisation of a loan due by an associated undertaking.

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**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	
			2008	2007
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	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Fair value through profit or loss	552,076	579,203	551,085	578,073
Loans and receivables	165,456	126,633	165,456	126,633
	<b>717,532</b>	<b>705,836</b>	<b>716,541</b>	<b>704,706</b>

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

Analysed by type of investment as follows:

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Equity securities and units in unit trusts	123,855	189,598	123,642	189,215
Forward foreign exchange contracts	273	273	273	273
Debt securities	349,073	283,778	348,295	283,031
Assets held to cover linked liabilities - collective investment schemes	78,875	105,554	78,875	105,554
Total investments at fair value through profit or loss	<b>552,076</b>	<b>579,203</b>	<b>551,085</b>	<b>578,073</b>

Technical provisions for linked liabilities amounted to €79m as at 31 December 2008 (2007: €105.77m). 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*

At 31 December 2008, the Group and Company had commitments in respect of uncalled share capital in respect of financial assets of €0.2m (2007: €0.2m).

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

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Within one year	<b>59,950</b>	24,399	<b>59,890</b>	24,399
Between 1 and 2 years	<b>8,102</b>	13,050	<b>8,102</b>	13,050
Between 2 and 5 years	<b>62,089</b>	52,275	<b>61,803</b>	51,996
Over 5 years	<b>218,932</b>	194,054	<b>218,500</b>	193,586
	<b>349,073</b>	283,778	<b>348,295</b>	283,031

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**17. Other investments - continued**

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

The movements for the year are summarised as follows:

	<b>Group €'000</b>	<b>Company €'000</b>
<b>Balance at 1 January 2007</b>		
Opening net book amount	485,771	484,619
Additions	314,437	314,190
Disposals – sales	(17,224)	(16,959)
Disposals – redemptions	(197,872)	(197,872)
Net fair value losses	(5,909)	(5,905)
Closing net book amount	<b>579,203</b>	<b>578,073</b>
<b>At 31 December 2007</b>		
Cost	518,252	517,284
Accumulated net fair value gains	60,951	60,789
Net book amount	<b>579,203</b>	<b>578,073</b>
<b>Balance at 1 January 2008</b>		
Opening net book amount	579,203	578,073
Additions	1,194,494	1,194,229
Disposals - sales	(1,135,831)	(1,135,563)
Disposals - redemptions	(1,975)	(1,975)
Net fair value losses	(83,815)	(83,679)
Closing net book amount	<b>552,076</b>	<b>551,085</b>
<b>At 31 December 2008</b>		
Cost	575,850	574,886
Accumulated net fair value losses	(23,774)	(23,801)
Net book amount	<b>552,076</b>	<b>551,085</b>

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**17. Other investments - continued**

*(b) Loans and receivables*

Analysed by type of investment as follows:

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Unlisted fixed income debt securities	780	1,479
Deposits with banks or credit institutions	150,681	112,356
Loans secured on policies	8,904	7,035
Reinsurance loan	5,091	5,063
Loan to associated undertaking	-	700
	<b>165,456</b>	<b>126,633</b>

Maturity of deposits with bank or credit institutions:

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Within 3 months	147,259	108,934
Within 1 year but exceeding 3 months	3,387	35
Between 2 and 5 years	35	3,387
	<b>150,681</b>	<b>112,356</b>

The above deposits earn interest as follows:

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
At floating rates	3,096	6,163
At fixed rates	147,585	106,193
	<b>150,681</b>	<b>112,356</b>

Maturity of fixed income debt securities:

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Within one year	780	-
Between 2 and 5 years	-	1,479
	<b>780</b>	<b>1,479</b>



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**17. Other investments - continued**

*(b) Loans and receivables - continued*

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

<b>Group and Company</b>	Unlisted fixed income debt securities €'000	Loans secured on policies €'000	Reinsurance loan €'000	Loan to associated undertaking €'000	Total €'000
<b>Year ended 31 December 2007</b>					
Opening net book amount	1,665	6,119	5,036	767	13,587
Additions	-	1,955	27	-	1,982
Disposals (sales and redemptions)	(186)	(1,039)	-	(67)	(1,292)
Closing net book amount	<b>1,479</b>	<b>7,035</b>	<b>5,063</b>	<b>700</b>	<b>14,277</b>
<b>Year ended 31 December 2008</b>					
Opening net book amount	1,479	7,035	5,063	700	14,277
Additions	-	2,402	28	-	2,430
Disposals (sales and redemptions)	(699)	(533)	-	(700)	(1,932)
Closing net book amount	<b>780</b>	<b>8,904</b>	<b>5,091</b>	<b>-</b>	<b>14,775</b>

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**18. Deferred income tax**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Balance at 1 January	(852)	1,005	(823)	1,028
Movement during the year:				
Profit and loss account (Note 8)	746	(1,857)	720	(1,851)
<b>Balance at 31 December (net)</b>	<b>(106)</b>	<b>(852)</b>	<b>(103)</b>	<b>(823)</b>

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 35% (2007: 35%). The year end balance comprise:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Temporary differences attributable to investment property	(5,009)	(4,561)	(5,009)	(4,561)
Temporary differences attributable to fair value adjustments on financial investments	4,946	(7,841)	4,937	(7,822)
Temporary differences attributable to property, plant and equipment	(326)	(223)	(314)	(213)
Temporary differences attributable to unabsorbed tax credits	283	11,773	283	11,773
<b>Balance at 31 December (net)</b>	<b>(106)</b>	<b>(852)</b>	<b>(103)</b>	<b>(823)</b>

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.

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Deferred tax asset	3,962	2,905	3,962	2,905
Deferred tax liability	(4,068)	(3,757)	(4,065)	(3,728)
	<b>(106)</b>	<b>(852)</b>	<b>(103)</b>	<b>(823)</b>

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

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**19. Debtors and prepayments and accrued income**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Debtors</b>				
Debtors arising out of direct insurance operations				
- due from policyholders	-	72	-	72
- due from reinsurers	30	30	30	30
- amounts due from group undertakings (Note 28)	1,975	2,572	2,438	2,945
	<b>2,005</b>	<b>2,674</b>	<b>2,468</b>	<b>3,047</b>
<b>Prepayments and accrued income</b>				
- accrued interest and rent	7,786	6,975	7,774	6,963
- prepayments	890	1,747	744	1,504
	<b>8,676</b>	<b>8,722</b>	<b>8,518</b>	<b>8,467</b>

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:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Cash at bank and in hand	5,449	5,710	5,107	5,544

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

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
At floating rates	4,106	4,062	3,765	3,896

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**21. Share capital**

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
<b>Authorised</b>		
20,000,000 (2007: 20,000,000 at €2.329373) Ordinary shares of €2.50 each	<b>50,000</b>	46,587
<b>Issued and fully paid</b>		
15,900,000 (2007: 15,000,000 at €2.329373) Ordinary shares of €2.50 each	<b>39,750</b>	34,941

Following Malta's adoption of the euro as its National Currency on 1 January 2008, the Company's functional currency was changed from Maltese lira to euro. Consequently the results and financial position were translated at the irrevocable fixed conversion rate of €1: Lm0.429300 as at that date.

During the Annual General Meeting of the Company held on 22 April 2008 the issued and paid up value of the 15,000,000 Ordinary shares was increased from €2.329273 each share up to the nominal and paid up value of €2.50 each at a consideration of €2.56m paid up through the capitalisation of dividends.

On the same date the Company's shareholders approved a bonus issue of 900,000 ordinary shares at a nominal value of €2.50 each.

**22. Other reserves**

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
<b>Value of in-force business</b>		
Balance at 1 January	<b>36,594</b>	36,594
Decrease in value of in-force business (Note 12)	<b>(3,018)</b>	-
Balance at 31 December	<b>33,576</b>	36,594

The above reserve is non-distributable.

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

(i) Insurance contracts

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Gross technical provisions		
- claims outstanding	<b>879</b>	588
- long term business provision	<b>330,747</b>	334,310
	<b>331,626</b>	334,898
Reinsurers' share of technical provisions		
- claims outstanding	<b>427</b>	276
- long term business provision	<b>40</b>	45
	<b>467</b>	321
Net technical provisions		
- claims outstanding	<b>452</b>	312
- long term business provision	<b>330,707</b>	334,265
	<b>331,159</b>	334,577

Movements are as follows:

	<b>Group and Company</b>	
	<b>2008</b>	<b>2008</b>
	<b>€'000</b>	<b>€'000</b>
	<b>Gross</b>	<b>Reinsurance</b>
<b>Year ended 31 December</b>		
At beginning of year	334,898	321
Charge to the profit and loss account	(3,272)	146
At end of year	<b>331,626</b>	<b>467</b>

	<b>Group and Company</b>	
	<b>2007</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
	<b>Gross</b>	<b>Reinsurance</b>
<b>Year ended 31 December</b>		
At beginning of year	313,158	738
Charge to the profit and loss account	21,740	(417)
At end of year	<b>334,898</b>	<b>321</b>

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

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Investment contracts with DPF (gross and net)		
- claims outstanding	796	496
- long term business provision	352,131	315,972
	<b>352,927</b>	<b>316,468</b>

Movements are as follows:

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
<b>Year ended 31 December</b>		
At beginning of year	316,468	247,248
Charge to the profit and loss account	36,459	69,220
At end of year	<b>352,927</b>	<b>316,468</b>

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 information provided by the Group. The technical provisions are calculated in accordance with the Insurance Business (Insurers' Assets and Liabilities) Regulations, 2008 ('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 2008 and 2007 were AM80.

**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**

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Long term business provision	<b>58,071</b>	77,801
Claims outstanding	<b>122</b>	84
	<b>58,193</b>	77,885

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



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**25. Creditors and accruals and deferred income**

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Creditors</b>				
Deposits received from reinsurers	42	41	42	41
Creditors arising out of direct insurance operations	4,093	5,896	4,093	5,896
Creditors arising out of reinsurance operations	17	17	17	17
Amounts owed to group undertakings (Note 28)	70	10	-	-
Indirect taxation	160	184	157	172
Other creditors	9	14	-	-
	<b>4,391</b>	<b>6,162</b>	<b>4,309</b>	<b>6,126</b>
<b>Accruals and deferred income</b>				
Accruals	1,284	1,024	1,273	1,014
Deferred income	514	949	514	949
	<b>1,798</b>	<b>1,973</b>	<b>1,787</b>	<b>1,963</b>
<b>Total liabilities</b>	<b>6,189</b>	<b>8,135</b>	<b>6,096</b>	<b>8,089</b>
<b>Current</b>	<b>5,919</b>	<b>7,899</b>	<b>5,826</b>	<b>7,853</b>
<b>Non-current</b>	<b>270</b>	<b>236</b>	<b>270</b>	<b>236</b>
	<b>6,189</b>	<b>8,135</b>	<b>6,096</b>	<b>8,089</b>

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.

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**26. Note to the cash flow statement**

Reconciliation of profit before tax to cash generated from operations:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Profit before tax	<b>2,375</b>	7,240	<b>2,599</b>	7,196
Adjusted for:				
Amortisation (Note 12)	<b>751</b>	841	<b>731</b>	827
Depreciation (Note 13)	<b>117</b>	109	<b>105</b>	97
Adjustments relating to investment return	<b>55,509</b>	(22,110)	<b>55,256</b>	(22,286)
Profit on sale of tangible asset	<b>-</b>	(2)	<b>-</b>	(2)
Technical provisions	<b>13,349</b>	107,064	<b>13,349</b>	107,064
Debtors, prepayments and accrued income	<b>2,774</b>	(2,198)	<b>2,587</b>	(2,335)
Creditors, accruals and deferred income	<b>(1,946)</b>	2,758	<b>(1,993)</b>	2,780
<b>Cash generated from operations</b>	<b>72,929</b>	93,702	<b>72,634</b>	93,341

**27. Commitments**

**Capital commitments**

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

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Authorised and not contracted:				
- property, plant and equipment	<b>92</b>	38	<b>84</b>	38
- intangible assets	<b>585</b>	287	<b>577</b>	287
	<b>677</b>	325	<b>661</b>	325

**27. Commitments - continued**

**Operating lease commitments – where the Company is the lessor**

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

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Not later than 1 year	<b>2,137</b>	1,564
Later than 1 year and not later than 5 years	<b>2,552</b>	3,341
Later than 5 years	<b>119</b>	395
	<b>4,808</b>	5,300

Investment property includes properties valued at €5.95m (2007: €5.93m) 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

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Transactions with shareholders:				
Trailer fees receivable	<b>50</b>	47	<b>50</b>	47
Rental income on investment property	<b>138</b>	88	<b>138</b>	88
Transactions with the Company's subsidiary				
Trailer fees receivable	-	-	<b>166</b>	165

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**28. Related party transactions - continued**

(b) Purchase of products and services

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Transactions with shareholders:				
Acquisition costs payable	<b>2,811</b>	3,437	<b>2,811</b>	3,437
Reimbursement of expenses for back office support services	<b>1,133</b>	1,077	<b>1,133</b>	1,077
Purchase of insurance cover	<b>102</b>	94	<b>102</b>	94
Bank charges	<b>29</b>	33	<b>21</b>	22
Transactions with the Company's subsidiary				
Investment transaction costs	-	-	<b>41</b>	166

(c) Investments

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Investments with entities related to shareholders	<b>11,988</b>	19,439
Deposits with entities related to shareholders	<b>142,144</b>	100,234
	<b>154,132</b>	119,673
Investment return, net of expenses and other charges:		
- entities related to shareholders	<b>5,232</b>	5,084

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

Year end balances arising from the above transactions:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Creditors arising out of direct insurance operations	<b>270</b>	304	<b>270</b>	304
Amounts owed by group undertakings (Note 19)	<b>1,975</b>	2,572	<b>2,438</b>	2,945
Amounts owed to group undertakings (Note 25)	<b>70</b>	10	-	-
Loan to associated undertaking (Note 17)	-	700	-	700
Accruals and deferred income (Key management personnel)	<b>84</b>	42	<b>84</b>	42

**28. Related party transactions - continued**

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

Total remuneration paid by the Group to key management personnel during the year amount to €0.46m (Company: €0.45m). Corresponding figures for 2007 were €0.44m and €0.43m respectively.

**29. Fair values**

The fair value of publicly traded investments classified as financial assets through profit or loss is based on quoted market prices at the balance sheet date. The fair value of unquoted equities is established using appropriate valuation techniques. At 31 December 2008 and 2007, 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.

**31. Comparative information**

In view of the change in the company's presentation currency from Maltese lira to euro, all comparative information in these financial statements has been converted into euro using the Irrevocably Fixed Conversion Rate of €1:Lm0.429300.

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with the current year's presentation format for the purpose of fairer presentation.