



Middle Sea House courtyard.



Middlesea Insurance p.l.c.

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MIDDLESEA INSURANCE P.L.C.

GROUP MISSION STATEMENT

We are committed to achieve sustainable growth to the benefit of our stakeholders by providing a comprehensive range of high quality insurance services to the communities where we operate and by fostering mutually beneficial relationships with all our customers.

BUSINESS PHILOSOPHY

We put our Customers first and strive to secure their loyalty through top quality service.

We value our Employees and seek to help them achieve their full potential.

We embrace Professionalism and seek Excellence in everything we do.

We do our best to help our Communities be better places in which to live, work and grow.

DIKJARAZZJONI TA' MISSJONI TAL-GRUPP

Ahna impenjati li naslu għal tkabbir sostenibbli għall-benefiċċju ta' l-azzjonisti tagħna billi nipprovdu firxa komprensiva ta' servizzi ta' assigurazzjoni ta' kwalità għolja lill-komunitajiet li noperaw fosthom u billi nrawmu relazzjonijiet li jkunu ta' benefiċċju reċiproku mal-klijenti tagħna kollha.

FILOSOFIJA TAN-NEGOZJU

Ahna nqiegħdu fl-ewwel post lill-Klijenti tagħna u naħdmu biex niżguraw il-lealtà tagħhom bis-saħħa ta' servizz ta' l-oghla kwalità.

Ahna ngħożžu lill-Impjegati tagħna u nippruvaw ngħinuhom jaslu biex jiżviluppaw il-potenzjal kollu tagħhom.

Ahna nhaddnu l-Professjonalizmu u nfittxu l-Eċċellenza f'kulma naghmlu.

Ahna naghmlu l-almu tagħna kollu biex ngħinu lill-Komunitajiet li fosthom ngħixu, naħdmu u nikbru.



EXECUTIVE CHAIRMAN'S STATEMENT

In my report to you last year I stated that future expectations needed to be based on a prudent analytical appreciation. The inherent uncertain nature of insurance business, which is also exposed to cyclical movements in capital markets, presents a continuous challenge in achieving well defined objectives. With this in mind, I am pleased to report a satisfactory overall result for 2006.

PERFORMANCE

The Middlesea Group registered a profit before tax of Lm3.66 million (€8.52m) for the year ended 31 December 2006. This reflected a decrease over last year's profit of Lm6.51 million (€15.16m). Middlesea's previous year's figures had been very favourably impacted by an exceptional net fair value movement in investments of Lm2.2 million (€5.12m) mainly as a result of a sharp rise in the value of domestic equities, against a loss (including currency exchange movements) of Lm0.17 million (€0.40m) in 2006. The other item affecting the comparative results was the favourable run-off in incurred claims of Lm1.1 million (€2.56m) in 2005, compared to Lm0.37 million (€0.86m) in 2006. Other companies within the Group attained encouraging results reflecting a strong and varied operational portfolio and the continued successful implementation of the Group's strategy.

I have always emphasised the importance of continuity to build on a strong balance sheet and this year I can report further strengthening mainly through the enhancement of shareholders' reserves. This, together with future sustainability enabled the Board to recommend the payment of a final dividend of Lm1,125,000 (4.5c per 25c share) which reflects an increase of 29% over 2005 (exclusive of the special dividend paid in that year on the occasion of the 25th Anniversary of Middlesea Insurance p.l.c.).

MIDDLESEA AND ITS INSURANCE SUBSIDIARY

The Group's Gross Written Premium increased by 6.4% to reach Lm36 million (€83.86m). Motor insurance remained the largest contributor representing 72% of total premium written. This was aligned with our policy to achieve a balanced portfolio mix between motor and other classes of business. It was encouraging to note that, complemented by the investment return for the year and following the strengthening of reserves

in the Italian subsidiary, this class of business, once again, produced positive results. In addition to the motor class of business, all other classes, except for liability and health, produced positive net underwriting results. The liability class must be seen in the light of increasing court awards on injuries and also the effect of inflation due to the prolonged period required for the settlement of such claims. These trends were assessed by the Group and resulted in further strengthening of the reserves, which in turn impacted negatively on the results for the year.

On 29 December 2006, Progress Assicurazioni S.p.A. announced an issue of share capital whereby it increased its authorised and issued share capital from €17.6 million to €21.6 million. On 30 April 2007, following the capitalisation of dividend, a bonus issue was announced and thus the authorised and issued share capital further increased to €22.14 million. All issues were fully subscribed. The increases in capital were part of the strategy to retain adequate capital in relation to the projected growth.

The prudent reserving methodology by the Group gave a favourable result, albeit lower than 2005. Our overall selective underwriting and our disciplined approach to pricing, coupled with efficient claims handling and strict cost control, allowed us to achieve the satisfactory technical result of Lm2.58 million (€6.0m) for this year.

ASSOCIATE

The associate of the Group, Middlesea Valletta Life Assurance Company Ltd (MSV), now in its 12th year of operation, contributed positively to the Group's overall result. The Group's share of this year's profit increased from Lm1.16 million (€2.7m) in 2005 to Lm1.49 million (€3.47m). Furthermore, in line with the Group's accounting policy to reflect its share of the increase in the value of in-force business through the reserves of the Group, a further Lm0.88 million (€2.05m) was taken directly to total equity. The Group's share of the value of in-force business (EV) at the end of 2006 was Lm9.18 million (€21.38m). The EV represented the discounted value of projected future transfers to shareholders from policies in force at year end, after making provision for taxation.

On 24 April 2006, following the capitalisation of

EXECUTIVE CHAIRMAN'S STATEMENT

GROSS PREMIUM WRITTEN - GENERAL BUSINESS

2006	Lm35,397,807
2005	Lm33,261,505
2004	Lm35,367,261

dividend, a bonus issue of Lm1.4 million (€3.26m) was declared. Concurrently, there was a further issue of Lm1 million (€2.33m) whereby the issued share capital of the company increased from Lm8.6 million (€20m) to Lm11 million (€25.62m). A further issue of Lm2 million (€4.66m) took place on 15 December 2006 whereupon the issued share capital increased to Lm13 million (€30.28m). On 23 April 2007, following another capitalisation of dividend, the issued share capital was further increased to Lm15 million (€34.94m) following a bonus issue of Lm2 million (€4.66m). Furthermore the authorised share capital was increased to Lm20 million (€46.59m). All issues were fully subscribed. These increases in the issued share capital were aligned with the strategy of retaining an adequate capital base relative to the expected growth and the required solvency margin.

The demand for life assurance and investment related products in Malta increased substantially, as evidenced by the take up of various products offered by MSV. During 2006 the Company launched the 2nd tranche of its Capital Guaranteed products, through the MSV Capital Guaranteed Bond, which product was fully subscribed. In addition to this, MSV continued to experience a strong demand for savings products with the MSV Single Premium Plan being a large contributor to the total business written by the company. This amounted to Lm50.4 million (€117.4m) an increase of 28% over last year.

INVESTMENT MARKETS

The investment portfolio of the Group generated a net total income of Lm4.05 million (€9.43m), a reduction of Lm1.7 million (€3.96m) when compared to 2005. This decrease was the result of the downturn of market values of bonds and equities held by the Group on the Malta Stock Exchange. Whilst an exceptional capital gain of Lm2.2 million (€5.12m) was registered in 2005 on the Group's investments, during 2006 a capital loss (including currency exchange movements) of Lm0.17 million (€0.4m) was recorded.

Financial foreign markets performed positively with equities leading performance, followed by cash. Major equity markets delivered highly satisfactory annual returns despite a strong market correction in late spring. The equity assets benefited from continued strong momentum in the global economy

and major markets recorded double digit returns, the only exception being Japan which experienced a slowdown in its domestic economy. In an environment of rising rates, longer dated bonds performed poorly compared to other major asset classes. Long term yields rose in the first half of the year, dropped in the second half only to start rising again towards the end of the year. On the currency front, the strength of the European economy lent solid support to the Euro and British Pound. In contrast the US Dollar and the Japanese Yen suffered mainly due to growth disappointment.

On the local scene, the equity market continued its extraordinary performance into the first quarter of the year followed by a strong correction throughout the rest of the year. The MSE index suffered a 2.2% loss for the year compared to the 62% gain in 2005. Most Government bonds recorded capital losses due to rising interest rates. The yield spread between long-term bonds and short-dated securities fell by the end of the year resulting in a flat yield curve similar to that of the Euro zone.

GROUP

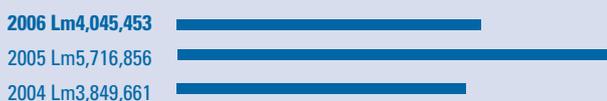
Middlesea's shareholders' funds grew by 9% to Lm33.74 million (€78.59m) as did total Group assets which increased by 9% to Lm118.20 million (€275.3m). The Group's total investments (excluding its share in MSV) amounted to Lm73.4 million (€171m) at the end of 2006. Gross technical reserves remained very strong and increased from last year by over 8% to Lm65.40 million (€152.3m).

The Group's overall business net operating ratio (net of reinsurance but before allocation of investment income) was running at 98%. After taking into consideration investment income it improved to 91%. The return on capital employed was 12.93%, and the ratio of net technical reserves to net premiums written remained unchanged at 181%. The net asset value per 25c share increased to Lm1.35 (Lm1.24 in 2005) and the earnings per share decreased to 12c7 (19c3 in 2005).

BUSINESS DEVELOPMENT AND CORPORATE STRATEGY

Middlesea remained faithful to the values that have defined the Company since its inception. We

INVESTMENT RETURN



EXECUTIVE CHAIRMAN'S STATEMENT

revisited both the Mission Statement and the Business Philosophy to focus on the Group's future direction. These contained the fundamental principles and rules of conduct that governed the Group's relations with the various parties with which it interacted in conducting its business. Such principles were aimed at protecting the interests of the individual parties and stakeholders, and thus constituted an integral part of the strategy of the Group.

We feel that the strategy of the Group to continue moving towards achieving a greater territorial spread, having a better mix of business and varied distribution channels, as well as to diversify into non-risk insurance operations remained our main objectives. The spread was evidenced by the increased business generated outside of Malta. During 2006, 68% of total general business was generated from contracts concluded overseas. Contracts concluded in Italy and Sicily represented 64% of general business. A further spread was achieved in the business generated with new distribution channels opened on the Italian mainland. The Group maintained its presence in Gibraltar and was seeking further growth over the medium term.

The Group sought to expand further in the Italian market via its associate, Middlesea Valletta Life Assurance Co. During 2007 MSV was authorised by the MFSA to carry on long term business under the provisions of freedom to provide services in Italy. The Group remained committed to expanding outside the Maltese shores, whilst at the same time taking cognizance of risks that could emerge from such ventures.

It is our belief that access to distribution remained the key driver of growth. We continued to expand our bancassurance channels within the Group, both locally and overseas. Via our subsidiary, we identified partners that enhanced the mix of business we wrote in an effort to reduce our reliance on the motor liability class of business. Progress' strategy of expanding our distribution network into non-liability motor business registered encouraging results, with the mix towards such business increasing to 30% in 2006.

Substantial investment was made locally in the new IT underwriting system and we considered this implementation as a means of increasing client

satisfaction, becoming the preferred company in our industry. Being "preferred" meant being chosen by clients on the basis of our ability to differentiate ourselves from the competition through the quality of our advice and service, as well as through product innovation and the proximity of our distribution channels to clients.

In the face of continued rating pressure, 2006 saw Middlesea looking at operational reorganisation and business model refinements. Human Resource, IT and Corporate Governance compliance costs registered a combined increase in expenses of 15%. Underlying this was an internal reorganisation that produced enhanced customer service leading to more opportunities for management development.

International Insurance Management Services. (IIMS) continued to face strong competition. IIMS was committed to offering professional management services to international companies including insurers and reinsurers wishing to register and operate from Malta. We believed that there were distinct opportunities in this market and continued with our endeavours to increase the portfolio of clients. The company continued to pursue its policy to invest in the professional development of its most important asset - a professional work force that satisfied clients' expectations. Additions were made to the organisational structure of IIMS in the past year namely the establishment of an equipped Risk Management Unit capable, together with the other departments, of delivering a quality service to clients.

CORPORATE GOVERNANCE

The Board remained committed to maintaining the highest levels of governance and compliance particularly in the light of the increasing demands in this area. We were also acutely aware of the necessity of our business being sustainable and responsive to the needs of customers and the wider community. Members of the Board continued with their active participation on the various Group committees as reported in the "Corporate Governance - Statement of Compliance". The Board believed that the implementation of Corporate Governance guidelines would help to achieve our objective in distinguishing ourselves from the competition.

EXECUTIVE CHAIRMAN'S STATEMENT

NET TECHNICAL RESERVES

	2006 Lm53,027,981
	2005 Lm48,794,311
	2004 Lm47,882,528

CORPORATE SOCIAL RESPONSIBILITY

At Middlesea we recognised that we had a responsibility towards the communities within which we operate. We believed firmly that our corporate behaviour was a reflection of our values. Middlesea therefore supported numerous initiatives of local institutions and NGOs in the areas of social issues, sports, Maltese heritage and culture. The Group's efforts in this area are thoroughly described in the "Corporate Social Responsibility Policy".

SENIOR MANAGEMENT APPOINTMENTS

In the latter part of 2006, the Board considered the restructuring of senior management aimed at a combination of (i) a more effective management structure that tracked all the Group operations, (ii) a smooth transition to eventual management succession, (iii) recognising, motivating, rewarding and retaining key members of senior management and (iv) addressing certain aspects of Corporate Governance in line with the guidelines issued by the Malta Financial Services Authority. As a consequence of this, I assumed the responsibilities of Executive Chairman of Middlesea Insurance p.l.c., and Chairman of the Group's Executive Committee. Accordingly Mr J.M. Rizzo was appointed Chief Operations Officer, Middlesea Insurance p.l.c., Mr S. Gauci - CEO of Progress Assicurazioni S.p.A., Mr D.G. Curmi - CEO Middlesea Valetta Life Assurance Co. Ltd and Ms A.M. Tabone - Group Chief Financial Officer (Ms Tabone also retained her role as General Manager of International Insurance Management Services Ltd). These senior management appointments became effective from January 2007.

These senior appointments would allow a smooth transition for the future development of all the companies within the Middlesea Group. These changes, which fell in line with the Group's strategy, would ensure that an adequate breadth and depth of management skills remained available thus empowering the management team to further develop the Group both in Malta and more importantly, overseas.

I congratulate and wish all the appointees further success in their future career within the Group, thus enhancing the creation of wealth for the benefit of all stakeholders.

OUTLOOK

There were a number of operational challenges in particular the preparation for the adoption of the Euro as Malta's national currency.

Understandably, Solvency II would change the supervisory framework for insurance. The regulatory project was at a crucial phase with the industry responding to quantitative impact studies and key decisions expected on the Framework Directive proposal. Its aims remained the development of a truly risk based supervisory framework founded on sound economic principles. Middlesea would continue to participate through the appropriate fora.

Our medium term strategy remained to seek and identify international partners who offered the required synergy to realise further expansion within the Euro - Med region with a total focus in primary insurance markets. Our commitment to our shareholders was to maximise the value over time of their investment.

As direct insurers, we follow the fortunes of the jurisdictions in which we operate. The past continues to serve us well in our endeavours to meet future challenges and opportunities successfully. I am confident of our collective ability to retain the leading role in the Maltese insurance sector.

In conclusion, I express my gratitude and appreciation for the efforts of the Board of Directors, management and staff for their commitment and contribution to another satisfactory result. It is important to acknowledge that the long term performance of Middlesea depends on motivated management and staff, satisfied customers and the continued support of shareholders.



M. C. GRECH
EXECUTIVE CHAIRMAN

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

2006 Lm3,176,482	
2005 Lm4,817,528	
2004 Lm2,661,329	

STQARRIJA TAÇ-ĊHAIRMAN EŻEKUTTIV

Fir-rapport tiegħi lilkom is-sena l-oħra jien għedt li jehtieg li naghmlu apprezzament analitiku għaqli biex inkunu nistghu nghanid x'riżultati nistennew fil-gejjieni, għax in-natura minnha nfisha incerta tan-negozju ta' assigurazzjoni, li hu wkoll espost għal ċaqliq ċikliku fis-swieq kapitali, jagħmilha diffiċli hafna biex nghanid bi preċiżjoni minn qabel x'riżultati nimmiraw li niksibu. B'dan f'mohħi, jien għandi pjaċir nirrapporta riżultat ġenerali sodisfaċenti għall-2006.

OPERAT

Il-Middlesea Group għamel qligħ ta' Lm3.66 miljuni (€8.52m) qabel il-hlas tat-taxxa għas-sena li għalqet fil-31 ta' Diċembru 2006. Dan juri tnaqqis ta' Lm6.51 miljuni (€15.16m) mis-sena l-oħra. Iċ-ċifri tas-sena ta' qabel tal-Middlesea kienu influwenzati favorevolment hafna b'żieda eċċezzjonali ta' Lm2.2 miljun (€5.12m) fil-valur xieraq nett ta' l-investimenti, l-aktar għax ishma f'kumpaniji lokali żdiedu hafna fil-valur; dan jikkontrasta ma' telf, inkluż ċaqliq fil-kambju tal-munita, ta' Lm0.17 ta' miljun (€0.40m) fl-2006. Haġa oħra li laqtet ir-riżultati komparattivi kien ir-riżultat aħhari favorevoli ta' Lm1.1 miljun (€2.56m) fil-każ ta' *claims* li dahlu fl-2005, imqabbel ma' Lm0.37 miljun (€0.86m) fl-2006. Kumpaniji oħra fil-Grupp kisbu riżultati inkoraġġanti, riżultat ta' portafoll operazzjonali tajjeb u varjat u l-implimentazzjoni kontinwa ta' l-istrategġija tal-Grupp li baqgħet tagħti riżultati tajba.

Jien dejjem enfasizzajt l-importanza tal-kontinwità fil-bini ta' karta bilanċjali soda, u din is-sena nista' nirrapporta aktar tishih, l-aktar minhabba titjib fir-riservi. Dan, flimkien ma' sostenibilità fil-futur, wassal lill-Bord biex jirrikmanda l-hlas ta' dividend finali ta' Lm1,125,000 (4.5ċ għal kull sehem ta' 25ċ). Dan juri żieda ta' 29% fuq l-2005, jekk ma tqis id-dividend speċjali mħallas dik is-sena fl-okkażjoni tal-25 Anniversarju tal-Middlesea Insurance p.l.c.

IL-MIDDLESEA U SUSSIDJARJA TA' L-ASSIGURAZZJONI TAGHHA

Il-Premium Gross Sottoskritt tal-Grupp tela' b'6.4% u lahaq Lm36 miljun (€83.86m). L-assigurazzjoni tal-vetturi baqgħet l-ogħla kontributor u tirrappreżenta 72% tat-total ta' premia sottoskritti. Dan irid jitqies

fil-kwadru tal-politika tagħna li naslu għal tahlita ta' portafoll bilanċjat bejn negozju ta' vetturi u dak ta' klassijiet oħra. Kien inkoraġġanti li wiehed jinnota li, flimkien mal-qligħ fuq investimenti tul is-sena u wara t-tishih tar-riservi fis-sussidjarja Taljana, din il-klassi ta' negozju għal darb'oħra tat riżultati pożittivi. Barra mill-klassi ta' negozju ta' vetturi, il-klassijiet l-oħra kollha, bl-eċċezzjoni tar-responsabbiltà u s-sahha, taw riżultati ta' sottoskriżzjoni netti pożittivi. Il-klassi tar-responsabbiltà trid titqies fid-dawl ta' għotjiet oghla mill-qradi fil-każ ta' leżjonijiet u wkoll fid-dawl ta' l-effett ta' l-inflazzjoni minhabba l-perjodu twil hafna mehtiegħ biex ikunu deċiżi *claims* ta' din ix-xorta. Dawn ix-xejriet kienu valutati mill-Grupp u rriżultaw f'tishih ulterjuri tar-riservi, li min-naħa tagħhom kellhom impatt negattiv fuq ir-riżultati tas-sena.

Fid-29 ta' Diċembru 2006 Progress Assicurazioni S.p.A. habbret il-hruġ ta' kapital ta' ishma li bih ziedet il-kapital ta' ishma awtorizzat u mahruġ tagħha minn €17.6 miljun għal €21.6 miljun. Fit-30 ta' April 2007, wara l-kapitalizzazzjoni tad-dividend, thabbar hruġ ta' bonus u b'hekk il-kapital ta' ishma awtorizzat u mahruġ kompli żdied għal €22.14 miljun. Il-hargiet kienu sottoskritti kollha. Iz-żidiet fil-kapital kienu parti minn strategġija biex jinżamm kapital adegwat relatat mat-tkabbir proġettat.

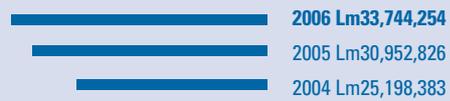
Il-metodu għaqli kif il-Grupp iżomm ir-riżervi wassal għal riżultat favorevoli, anke jekk dan kien inqas minn dak ta' l-2005. Il-mod kif ġeneralment naghzlu liema riskji naċċettaw, u l-metodu dixxiplinat li nużaw fl-ipprezzar, flimkien ma' trattament effiċjenti tal-*claims* u kontroll strett fuq l-ispejjeż, wassluna biex niksibu riżultat tekniku sodisfaċenti ta' Lm2.58 miljuni (€6.0m) għas-sena.

ASSOĊJAT

Il-kumpanija assoċjata tal-Grupp, il-Middlesea Valletta Life Assurance Company Ltd (MSV), li issa ilha topera 12-il sena, ikkontribwixxiet pożittivament għar-riżultat ġenerali tal-Grupp. Is-sehem tal-Grupp mill-profit ta' din is-sena tela' minn Lm1.16 miljun (€2.7m) fl-2005 għal Lm1.49 miljun (€3.47m). Barra minn hekk, biex nimxu mal-politika ta' kontabilità tal-Grupp li tirrifletti sehem miż-żieda fil-valur ta' negozju eżistenti permezz tar-riservi tal-Grupp, Lm0.88 ta' miljun (€2.05m) oħra ittiedu direttament

STQARRIJA TAÇ-ĊHAIRMAN EŻEKUTTIV

SHAREHOLDERS FUNDS



fl-ekwità totali. Is-sehem tal-Grupp fil-valur ta' negozju eżistenti fi tmiem l-2006 kien Lm9.18 miljuni (€21.38m). Il-valur tan-negozju eżistenti jirrappreżenta l-valur skuntat ta' trasferimenti futuri proġettati lill-azzjonisti minn poloz eżistenti fi tmiem is-sena, wara li nahsbu għall-hlas tat-taxxa.

Fl-24 ta' April 2006, wara l-kapitalizzazzjoni tad-dividend, kien dikjarat hruġ ta' bonus ta' Lm1.4 miljun (€3.26m). Fl-istess hin, kien hemm hruġ iehor ta' Lm1 miljun (€2.33m) li bih il-kapital ta' ishma tal-Kumpanija mahruġ żdied minn Lm8.6 miljuni (€20m) għal Lm11-il miljun (€25.62m). Hruġ iehor ta' Lm2 miljuni (€4.66m) sar fil-15 ta' Diċembru 2006 li minhabba fih il-kapital ta' ishma mahruġ żdied għal Lm13-il miljun (€30.28m). Fit-23 ta' April 2007, wara kapitalizzazzjoni ohra ta' dividend, il-kapital ta' ishma mahruġ kompli jżdied għal Lm15-il miljun (€34.94m) wara l-hruġ ta' bonus ta' Lm2 miljuni (€4.66m). Barra minn hekk, il-kapital ta' ishma awtorizzat żdied għal Lm20 miljun (€46.59m). Il-hargiet kienu sottokritt kollha. Dawn iż-żidiet fil-kapital ta' ishma mahruġ kienu allineati ma' l-istrategija li tinzamm bażi kapitali adegwata relatata mat-tkabbir mistenni u mal-margini ta' solvibilità mehtieġa.

F'Malta, id-domanda għal assigurazzjoni tal-hajja u għal prodotti relatati ma' investiment kibret sostanzjalment kif xehed ix-xiri ta' diversi prodotti offriti mill-MSV. Matul l-2006 l-Kumpanija niediet it-tieni *tranche* tal-prodotti tagħha b'Kapital Garantit permezz ta' l-*Euro Capital Guarantee Bond Fund* li nxtara kollu. Barra minn dan, l-MSV baqgħet tirċievi domanda qawwija għal prodotti ta' tiftidil; f'dan il-qasam, l-*MSV Single Premium Plan* kien l-akbar kontributor għan-negozju totali sottokritt mill-Kumpanija. Dan ammonta għal Lm50.4 miljun (€117.4 m), zieda ta' 28% fuq is-sena l-ohra.

SWIEQ TA' INVESTIMENTI

Il-portafoll ta' investimenti tal-Grupp iġġenera dhul totali nett ta' Lm4.05 miljuni (€9.43m), tnaqqis ta' Lm1.7 miljun (€3.96m) meta mqabbel ma' l-2005. It-tnaqqis f'dan id-dhul kien riżultat tax-xerxa 'l isfel tal-valur tas-swieq ta' bonds u ishma li l-Grupp għandu fil-Borża ta' Malta. Filwaqt li fl-2005 kien hemm qligħ kapitali eċċezzjonali ta' Lm2.2 miljuni (€5.12m) fuq l-investimenti tal-Grupp, matul l-2006 kelna telf kapitali ta' Lm0.17 ta' miljun (€0.4m).

Swieq finanzjarji barranin marru tajjeb; fuq quddiem kien hemm l-ishma, warajhom il-flus likwidi. Swieq ewlenin ta' l-ishma taw qligħ annwali sodisfaċenti hafna minkejja korrezzjoni qawwija fis-suq lejn tmiem ir-rebbiegħa. L-ishma ibbenefikaw minn moviment qawwi u sostnut fl-ekonomija globali, u swieq maġġuri waslu għal qligħ b'żewġ ċifri; l-eċċezzjoni wahdanija kien il-Ġappun li ra xerxa 'l isfel fl-ekonomija domestika tiegħu. Fi żmien meta r-rati kienu telgħin, bonds bi skadenza fit-tul marru hażin meta mqabblin ma' klassijiet ohra ewlenin ta' assi. Qligħ minn assi bi skadenza fit-tul tela' fl-ewwel nofs tas-sena, niżel fit-tieni nofs u reġa' beda tiela' lejn tmiem is-sena. Fil-qasam tal-kambju, is-sahha ta' l-ekonomija Ewropea tat appoġġ solidu lill-Euro u lil-Lira Ingliża. B'kuntrast ma' dawn, id-Dollari Amerikan u l-*Yen* Ġappuniz bategħ l-aktar għax l-ekonomija ma kibritx kemm mixtieq.

Fix-xena lokali, is-suq ta' l-ekwitajiet kompli sejjer tajjeb b'mod straordinarju fl-ewwel tliet xhur tas-sena qabel ma għadda għal korrezzjoni qawwija matul il-bqija tas-sena. L-indiċi MSE sofra telf ta' 2.2% matul is-sena, imqabbel ma' qligħ ta' 62% fl-2005. Hafna mill-*bonds* tal-Gvern kellhom telfiet kapitali minhabba rati telgħin ta' mghax. Ir-riżultati mifruxin bejn *bonds* għat-tul u titoli ta' sigurtà b'data ta' skadenza qasira kienu niżlu sa tmiem is-sena u holqu kurva ta' qligħ ċatta li tixbah fil-forma lil dik taz-zona Ewro.

GRUPP

Il-fondi ta' l-azzjonisti tal-Middlesea kibru b'9% għal Lm33.74 miljun (€78.59m) matul l-2006, kif għamlu wkoll l-assi totali tal-Grupp li żdiedu b'9% għal Lm118.20 miljun (€275.3m). L-investimenti totali tal-Grupp (minbarra s-sehem tiegħu fl-MSV) ammontaw għal Lm73.4 miljun (€171m) fi tmiem l-2006. Ir-riservi teknici gross baqgħu sodi hafna u telgħu b'aktar minn 8% għal Lm65.40 miljun (€152.3m).

In-*net operating ratio* tal-Grupp (meta taqta' r-riassigurazzjoni iżda qabel l-allokazzjoni tad-dhul minn investimenti) kienet fil-livell ta' 98%. Wara li tqies id-dhul minn investimenti, din tjiebet għal 91%. Il-kapital imhaddem halla qligħ ta' 12.93%, u l-proporzjon ta' riservi teknici netti mqabbla mal-premia netti baqgħet kif kienet, jiġifieri 181%. Il-valur ta' l-assi nett kull sehem ta' 25c żdied għal

NET ASSET VALUE PER LM0.25 SHARE



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Lm1.35 (Lm1.24 fl-2005) u l-qligh kull sehem niżel għal 12ċ7 (19ċ3 fl-2005).

ŻVILUPP TAN-NEGOZJU U STRATEĠIJA KORPORATTIVA

Il-Middlesea baqgħet thaddan il-valuri li ikkaratterizzaw lill-Kumpanija sa mit-twaqqif tagħha. Ahna harisna mill-ġdid lejn l-Istqarrija ta' Missjoni u l-Filosofija tan-Negozju sabiex niffokaw fuq id-direzzjoni tal-Grupp għall-gejjieni. Dawn għabru fihom il-prinċipji fundamentali u r-regoli ta' mġiba li jgovernaw ir-relazzjonijiet tal-Grupp mad-diversi partijiet li għandu x'jaqsam magħhom fit-tmexxija tan-negozju tiegħu. Dawn il-prinċipji huma mahsubin biex iħarsu l-interessi tal-partijiet individwali u ta' dawk kollha involuti, u li għalhekk jikkostitwixxu parti integrali mill-istrateġija tal-Grupp.

Ahna nħossu li l-istrateġija tal-Grupp li jkompli jishaq biex jikseb firxa territorjali usa', li jkollu tahlita itjeb ta' negozju u toroq ta' distribuzzjoni varjati, u wkoll biex jidiversifika f'operazzjonijiet ta' assigurazzjoni li ma jinvolux riskju, baqgħet l-objettiv ewlieni tagħna. Il-firxa kienet tidher min-negozju akbar iġġenerat barra minn Malta. Matul l-2006, 68% tan-negozju ġenerali kollu kien iġġenerat minn negozju barra minn Malta. Kuntratti magħmula fl-Italja u Sqallija ammontaw għal 64% tan-negozju ġenerali. Firxa ulterjuri ntlahqet f'negozju ġġenerat permezz ta' toroq ta' distribuzzjoni godda miftuhin fit-terraferma Taljana. Il-Grupp żamm il-preżenza tiegħu f'Gibiltà u kien qed ifittex tkabbir fuq medda ta' żmien minn qasir għal medju.

Il-Grupp fittex li jkompli jikber fis-suq Taljan permezz ta' l-assoċjata tiegħu l-Middlesea Valletta Life Assurance Co. Fl-2007 l-MSV kienet awtorizzata mill-MFSA biex tmexxi fl-Italja negozju fit-tul taht id-dispozzjonijiet li jagħtu libertà li tagħti servizzi fl-Italja. Il-Grupp baqa' impenjat li jkompli jespandi lil hinn mix-xtut ta' Malta, waqt li fl-istess hin jagħraf ir-riskji li jistgħu jirriżultaw minn impriżi ta' din ix-xorta.

Ahna nemmnu li l-aċċess għall-mezzi ta' distribuzzjoni jibqa' dejjem iċ-ċavetta ewlenija għat-tkabbir. Ahna komplejna nkabbru l-kanali tal-bankassigurazzjoni tagħna fil-Grupp, kemm lokalment u kemm barra. Ahna bqajna, permezz

tas-sussidarja tagħna, identifikkajna shab li tejbu t-tahlita ta' negozju li konna qed naghmlu fi sforz biex nistrieħu inqas fuq il-klassi tan-negozju tar-responsabbiltà tal-vetturi. Tul is-snin l-istrateġija ta' Progress barra mill-pajjiż li nespandu n-*network* ta' distribuzzjoni tagħna fin-negozju ta' vetturi, iżda mhux f'dak tar-responsabbiltà, halliet riżultati inkoraġġanti, u hekk is-sehem ta dan it-tip ta' negozju tela' għal 30% fl-2006.

Sar investment sostanzjali lokalment fis-sistema ġdida ta' IT biex jinharġu poloz u ahna qisna din l-implimentazzjoni bhala mezz biex inkabbru s-sodisfazzjon tal-klijenti u nsiru l-kumpanija preferuta fl-industrija tagħna. Li tkun "preferut" ifisser li tingħażel mill-klijenti fuq il-bażi tal-hila tagħna li nkunu differenti mill-kompetituri bis-sahha tal-kwalità tal-konsulenza u s-servizz tagħna, u wkoll bis-sahha ta' l-innovazzjoni tal-prodott u kemm il-kanali tad-distribuzzjoni tagħna ikunu qrib tal-klijenti.

Quddiem il-pessjoni kontinwa fil-qasam tar-rati, fl-2006 l-Middlesea dahlet għal riorganizzazzjoni operattiva u rfinar tal-mudell tan-negozju. L-ispejjeż tar-Riżorsi Umani, dawk ta' l-IT, u l-ispejjeż biex nimxu kif iridu l-prinċipji għat-tmexxija tajba ta' korporazzjoni kummerċjali (*Corporate Governance*) żdiedu bi 15%. Isostnu dan kien hemm riorganizzazzjoni interna li pproduċiet servizz ahjar lill-klijenti u wasslet għal aktar opportunitajiet għall-iżvilupp fil-management.

L-International Insurance Management Services (IIMS) baqgħet issib kompetizzjoni qawwija. L-IIMS kienet impenjata li toffri servizzi ta' amministrazzjoni professjonali lil kumpaniji internazzjonali, fosthom assiguratari u riassiguratari li xtaqu jirreġistraw f'Malta u joperaw minn hawn. Ahna emminna li kien hemm opportunitajiet ċari f'dan is-suq u bqajna nippruvaw inkabbru l-portafoll ta' klijenti. Il-kumpanija baqgħet issegwi l-politika tagħha li tinvesti fl-iżvilupp professjonali ta' l-aktar assi importanti tagħha - forza tax-xogħol professjonali li tisboq l-aspettattivi tal-klijenti. Matul is-sena li għaddiet saru żidiet fl-istruttura organizzattiva ta' l-IIMS, jiġifieri t-twaqqif ta' *Risk Management Unit* mghammar sew li jkun jista', flimkien mad-dipartimenti l-oħra, jagħti servizz ta' kwalità lill-klijenti.

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PRINĊIPJI GHAT-TMEXXIJA TAJBA TA' KORPORAZZJONIJIET KUMMERĊJALI (CORPORATE GOVERNANCE)

Il-Bord kien impenjat li jhares u jzomm ma' l-oghla livelli ta' prinċipji li jirregolaw it-tmexxija ta' korporazzjonijiet kummerċjali fid-dawl tad-domanda dejjem tikber f'dan il-qasam. Ahna żammejna dejjem quddiem għajnejna l-htieġa li n-negozju taghna jkun wiehed sostenibbli, u li jwieġeb għall-htieġijiet tal-klijenti taghna u tal-komunità usa' li fiha noperaw. Membri tal-Bord komplew bil-partecipazzjoni taghhom fid-diversi kumitati tal-Grupp kif hu rappurtat fit-taqsima "Governanza Korporativa - Dikjarazzjoni ta' Konformità". Il-Bord jemmen li l-implimentazzjoni tal-linji gwida dwar Governanza Korporativa għandhom jghinuna nilhqu l-objettivi taghna li niddistingwu ruhna mill-kompetituri taghna.

RESPONSABILITÀ SOĊJALI TAL-KUMPAĊIJA

Ahna tal-Middlesea għarafna li kellna responsabbiltà lejn il-komunitajiet li noperaw fosthom. Ahna emminna bis-shih li fl-imġiba tal-Kumpanija taghna jidhru l-valuri taghna. Għalhekk il-Middlesea appoġġjat għadd numeruż ta' inizjattivi ta' istituzzjonijiet u assoċjazzjonijiet lokali fl-oqsma ta' kwistjonijiet soċjali, sports, u wirt u kultura Maltin. L-attivitajiet tal-Grupp f'dan il-qasam huma mfissra sewwa fit-taqsima "Politika ta' Responsabbiltà Soċjali tal-Kumpanija".

HATRIET FL-AMMINISTRAZZJONI EWLENIJA

Lejn tmiem fl-2006 l-Bord qies ir-ristrutturar ta' l-amministrazzjoni ewlenija bil-ħsieb illi niksbu (i) struttura ta' amministrazzjoni aktar effettiva li ssegwi l-operazzjonijiet kollha tal-Grupp, (ii) transizzjoni faċli meta 'il quddiem persuna tiġi biex tiehu post ta' oħra li tirtira mill-hatra taghha fl-amministrazzjoni, (iii) li nagħharfu u napprezzaw, li nimotivaw u li nżommu maghna membri ċentrali ta' l-amministrazzjoni ewlenija, u (iv) li nagħtu l-attenzjoni meħtieġa lil ċerti aspetti ta' tmexxija tal-kumpanija kif iridu l-linji gwida mahruġin mill-Awtorità Maltija għal Servizzi Finanzjarji. Għalhekk jiena hadt fuqi r-responsabbiltajiet ta' *Chairman* Eżekuttiv tal-Middlesea Insurance p.l.c., u *Chairman* tal-Kumitat Eżekuttiv tal-Grupp. Ukoll, is-Sur J.M. Rizzo nħatar *Chief Operations Officer*, Middlesea

Insurance p.l.c., is-Sur S. Gauci - *CEO* ta' Progress Assicurazioni S.p.A., is-Sur D.G. Curmi - *CEO* Middlesea Valletta Life Assurance Co. Ltd u s-Sinjura A.M. Tabone - *Group Chief Financial Officer* (is-Sinjura Tabone baqgħet ukoll *General Manager* ta' l-International Insurance Management Services Ltd).

Dawn il-hatriet fl-amministrazzjoni ewlenija dahlu fis-sehh f'Jannar 2007.

Dawn il-hatriet se jiffalċilitaw l-iżvilupp ġejjieni tal-kumpaniji kollha fil-Middlesea Group. Dawn il-bidliet, li jikkonformaw ma' l-istrategija tal-Grupp, għandhom jiżguraw li jkun hemm biżżejjed hliet amministrattivi adegwati biex il-grupp amministrattiv ikompli jiżviluppa l-Grupp f'Malta u, aktar importanti, barra minn Malta.

Jien nifrah lil dawk kollha li nħatru u nixtiqilhom suċċess aktar fil-karriera futura taghhom fil-Grupp, u hekk itejbu l-holqien tal-ġid għall-benefiċċju ta' dawk kollha involuti.

ASPETTATTIVI GħALL-ĠEJJENI

Kien hemm għadd ta' sfidi operattivi, b'mod partikolari fit-thejija għall-adozzjoni ta' l-Ewro bhala l-munita nazzjonali ta' Malta.

Wiehed jifhem li *Solvency II* se tibdel il-qafas li jissorvelja l-assigurazzjoni. Il-proġett regulatorju kien f'fażi kruċjali u l-industrija kienet qed twieġeb għal studji kwantitattivi ta' impatt u għal deċizzjonijiet importanti mistennija fuq il-proposta tal-*Framework Directive*. L-għanijiet taghha jibqgħu l-iżvilupp ta' qafas ta' sorveljanza bbażat tassew fuq ir-riskju u msejjes fuq prinċipji ekonomiċi sodi. Il-Middlesea se tibqa' tiehu sehem permezz tal-fora addattati.

L-istrategija taghna fuq terminu medju baqgħet dik li nftitxu u nidentifkaw shab internazzjonali li joffru s-sinerġija meħtieġa biex naslu għal aktar espansjoni fir-reġjun Ewro-Mediterran iffokati totalment fuq swieq ta' assicurazzjoni primarja. L-impenn taghna lill-azzjonisti taghna kien li maż-żmien inkabbru kemm jista' jkun il-valur ta' l-investment taghhom.

Bhala assicuraturi diretti, ahna nimxu mal-fortuni tal-ġurizdizzjonijiet li fihom noperaw. L-imġhoddi

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jibqa' jaqdina tajjeb fl-isforzi taghna biex nilqghu b'suċċess l-isfidi u l-opportunitajiet tal-gejjieni. Jiena għandi fiduċja fil-hila kollettiva taghna li nżommu r-rwol ewlieni fis-settur ta' l-assigurazzjoni Malti.

Biex naghlaq, jien irrid nesprimi l-gratitudni u l-apprezzament tiegħi billi nirrikonoxxi l-isforzi tal-Bord tad-Diretturi, il-*management* u l-impjegati għall-kontribut u l-impenn tagħhom li wassal għal riżultat sodisfaċenti iehor. Hu importanti li naghrfu li l-operat tal-Middlesea fuq medda twila ta' żmien jiddependi fuq *management* u impjegati motivati, klijenti sodisfatti u l-appoġġ kontinwu ta' l-azzjonisti.



M. C. GRECH
ĊHAIRMAN EŻEKUTIV



EUROPA CENTRE

In 1953, under the command of Lord Admiral Louis Mountbatten, NATO's Headquarters Allied Forces Mediterranean (HAFMED) were housed in these premises. The flags of the US, England, France, Italy, Greece, Turkey, NATO and Malta used to flutter from the rooftop of the edifice. In 1967, a chapter was closed in Malta's naval history - this building was transformed into Naval Command South (NAVSOUTH) with Admiral Luciano Sotgiu of the Italian Navy taking over the post of Commander Allied Forces Southern Europe. The building, which suffered damage during the War and was reconstructed at the end of the War, commands an excellent view of the Grand Harbour, Valletta and Floriana. It is currently utilised as offices and houses the offices of the Corinthia Group of Companies and the Belgian Embassy, amongst others.

Fl-1953, tabt il-kmand ta' Lord Admiral Louis Mountbatten, il-Headquarters Allied Forces Mediterranean (HAFMED) tan-NATO kien juża dan il-bini. Il-bnadar ta' l-Amerika, l-Ingilterra, Franza, l-Italja, il-Greċja, it-Turkija, in-NATO u Malta kienu jperpru minn fuq il-bejt ta' l-edificċju. Fl-1967 ngbalaq kapittu fl-istorja navali ta' Malta - dan il-bini nbidel u sar in-Naval Command South (NAVSOUTH) filwaqt li l-Ammiral Luciano Sotgiu tal-Flotta Taljana ba l-kariga ta' Commander Allied Forces Southern Europe. Il-binja, li ġarrbet hsara tul il-Gwerra u nbriet mill-ġdid fi tmiem il-Gwerra, taghti veduta eċċellenti tal-Port il-Kbir, il-Belt Valletta u l-Furjana. Bbalissa tintuża bbala ufficċji u fiba bemm l-ufficċji, fost obrajn, tal-Corinthia Group of Companies u ta' l-Ambaxxata Belgjana.





BOARD OF DIRECTORS



MR M.C. GRECH EXECUTIVE CHAIRMAN

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

AT PRESENT: President of Progress Assicurazioni S.p.A.; Deputy Chairman of Middlesea Valletta Life Assurance Co. Ltd; Governor on the Board of the Malta Arbitration Centre; Chairman of Growth Investments Ltd; Chairman and CEO of International Insurance Management Services Ltd and Euro Globe Holdings Ltd; Director of Malta International Training Centre; Director of Midi p.l.c. and of Premium Realty Ltd; Chairman of the Middlesea Group Investment Committee and the Group Executive Committee; Life Vice President - Chartered Insurance Institute U.K.

MR R. E. D. CHALMERS DEPUTY CHAIRMAN M.A. DIV.(EDIN), F.C.A., A.T.I.I., F.C.P.A., M.I.A.

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

a non-executive director of the Hong Kong Securities and Futures Commission and he was also a member of the Takeovers and Mergers Panel. He was appointed by the Financial Secretary of Hong Kong to sit on the Banking Advisory Committee.

AT PRESENT: Chairman of the Board of Bank of Valletta p.l.c., Middlesea Valletta Life Assurance Co Ltd, Valletta Fund Management Ltd and Valletta Fund Services Ltd; Member of the Board of Gasan Group Ltd, Alfred Gera & Sons Ltd, Simonds Farsons Cisk p.l.c. and Global Sources Ltd (a NASDAQ listed company).

MR J.F.X. ZAHRA B.A. (HONS) ECON., M.A. (ECON.), FCIM, MMRS

FORMERLY: Head of Research of the Malta Development Corporation; visiting lecturer at the University of Malta; Secretary to the UNIDO National Committee (Malta); member on the boards of the Central Bank of Malta and the Malta Development Corporation; Chairman of the Financial Services Trade Section and Council Member of the Malta Chamber of Commerce; Chairman of the Bank of Valletta Group, Middlesea Valletta Life Assurance Co. Ltd, BOV Stockbrokers Ltd and Valletta Fund Management Ltd; Deputy Chairman of Middlesea Insurance p.l.c.; Chairman Maltacom p.l.c.; Director Corinthia Hotels International; President, Malta Council for Culture and the Arts.

AT PRESENT: Chairman, National Euro Changeover Committee, National Commission for Higher Education; Managing Director of Market Intelligence Services Co. Ltd, MISCO International Ltd; Chairman of Impetus Europe Consulting Group Ltd; Director, Progress Assicurazioni S.p.A., Multi Risk Indemnity Ltd, Multi Risk Ltd, Multi Risk Benefits Ltd and Medserv Ltd; Visiting lecturer in Managerial Economics at the Università degli Studi di Messina.

MR A. JIMÉNEZ

FORMERLY: Mr A. Jiménez joined Mapfre organisation in 1966 and has held a number of senior management positions in reinsurance activities since 1982.

AT PRESENT: Mr Jiménez currently is Chairman and CEO of Mapfre Re, Compañía de Reaseguros in Madrid (Spain). He is also Chairman and CEO of Mapfre Internacional. Mr Jiménez is a member of the Board and member of the Executive Committee of Mapfre América, Mapfre América Vida and Mapfre S.A., parent company of Mapfre System. Mr Jiménez is also a member of the Board of Shelter Insurance Companies in Missouri (USA).

MR G. BONNICI

FORMERLY: Managing Director of Galdes & Mamo Ltd; Managing Director of Hayes Insurance Agency Ltd; Chairman of the Board of Management of The Union Club.

AT PRESENT: Director and Chairman of Bonnici Insurance Agency Ltd. Also holds directorship of various other subsidiary and/or associated companies.

DR E. CARUANA DEMAJO LL.D.

AT PRESENT: An advocate in civil and commercial practice.

MR G. DEBONO GRECH L.P. F.I.S.M.M. (LUTON), B.A. (LEG.), MAG.JUR. (INT. LAW) DIP. TRIB. ECCL.MELITA

FORMERLY: Director of Malta Drydocks, Malta International Transport, Tug Malta, Smithtug, Valletta. Served for 18 years as G.W.U. representative for the Security Department.

AT PRESENT: Member of the Board of Appeal for promotion at Maltacom, member of the Disciplinary Board at Maltacom, Legal Procurator.



BOARD OF DIRECTORS

MR A. CORSI

FORMERLY: Actuary in the Life Department - Assicurazioni Generali and subsidiaries.

AT PRESENT: Area Manager for Spain, Portugal, USA, Israel, Turkey, Malta and Latin America - Group Insurance Operations, Assicurazioni Generali Head Office.

MR T. DEPASQUALE

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

AT PRESENT: Chief Executive Officer of Bank of Valletta p.l.c.; Director on the Boards of Valletta Fund Management Ltd, Valletta Fund Services Ltd, Board of Middlesea Valletta Life Assurance Co Ltd.

MR V. GALEA SALOMONE B.A. (LUTHER), M.B.A. (HENLEY-BRUNEL)

AT PRESENT: Managing Director of V. J. Salomone Marketing Ltd; Director of V. J. Salomone and holds directorship of various other subsidiary and/or associated companies; President, The Malta Chamber of Commerce and Enterprise; Member of the Malta Council for Economic and Social Development; Director of Malta Enterprise Corporation.

DR J.C. GRECH M.A. (ECON.), DIP. ICEI (A'DAM), PH.D. (GENEVA), F.C.I.B., M.B.I.M., F.M.I.M.

FORMERLY: Chairman Malta Tourism Authority, Chairman of the Malta External Trade Corporation; Deputy Chairman of the Malta Development Corporation; Director on the Board of the Malta Freeport Corporation; Chairman of Bank of Valletta p.l.c., Middlesea Valletta Life Assurance Co. Ltd; Founding President of the Maltese

Australian Chamber of Commerce and the Mediterranean Bank Network; Member of the Advisory Board of the Mediterranean Academy of Diplomatic Studies.

AT PRESENT: Chairman & Managing Director of EMCS Ltd; Chairman of Unipol Insurance Services Limited; Vice-Chairman of FIMBANK. Holds directorships on various other company boards. Dr Grech is also visiting professor at the University of Malta.

MR L. SPITERI M.A. (OXON)

FORMERLY: Member of Parliament; Co-Chairman Malta-EU Joint Parliamentary Committee; Minister of Finance, Minister of Trade & Economic Development; Chairman Public Accounts Committee; Deputy Governor and Chairman of the Board of Directors, Central Bank of Malta; Research Officer Malta Chamber of Commerce; Head of Publications Union Press; Editor Malta News; Deputy Editor It-Torċa; Chairman University Selection Board; Member Malta Broadcasting Authority.

AT PRESENT: Chairman Bortex Group, Roosendaal Hotels Limited; Director Progress Assicurazioni S.p.A.; Chairman VBIE Ltd; Director Miracle Foods Ltd, Pinto Cold Stores Ltd, Medavia Ltd, Tumas Investments p.l.c., Dolmen Properties p.l.c., P. Cutajar Co. Ltd, Żerniq Ltd; Columnist, The Sunday Times and The Times (of Malta).

MR D. SUGRANYES BICKEL (LICENCE EN SCIENCES ECONOMIQUES ET SOCIALES)

FORMERLY: Secretary General of International Christian Union of Business Executives - UNIAPAC (Brussels); General Manager and member of the Board of Corporación Mapfre; Chief Executive and Chairman of Mapfre Caución y Crédito.

AT PRESENT: Vice-Chairman of the Board, Chairman of the Executive Committee and Chief Executive

of Corporación Mapfre, S.A.; member of the Boards of Mapfre-Caja Madrid Holding, Mapfre Caja Salud, Mapfre Re, Mapfre America, Mapfre Asistencia and Mapfre Inmuebles; member of the Board and Executive Committee of Mapfre Mutuallidad, the Group parent company.

DR M. SPARBERG

AT PRESENT: Senior Executive Manager of Munich Re Insurance Company, Munich, responsible for Malta, Italy, France, Belgium and Luxembourg for all classes (property, casualty and marine) of reinsurance business; Vice President of Munich Re, Italy.

DEVELOPMENT HOUSE

Several areas in Floriana, amongst which St Anne's Street, sustained extensive damage during World War II. Most of the buildings looking over the Street, including Development House and Europa Centre, were reconstructed at the end of the War to meet housing demands. The buildings were constructed in accordance with the design for Valletta and the Three Cities submitted by town planning consultants Harrison and Hubbard to the Government of Malta in 1945. Since St Anne's Street leads to the Capital, Harrison and Hubbard recommended that the façades of the buildings ought to conform to the classical canon. Development House currently houses the US Embassy and other offices.

Hafna zoni fil-Furjana, fostbom Triq Sant' Anna, ġarrbu bsarat kbar tul it-Tieni Gwerra Dinjija. Hafna mill-binjiet f'din it-triq, fostbom Development House u l-Europa Centre, inbnew mill-ġdid wara l-Gwerra biex jissodisfaw il-bżonn għal akkomodazzjoni. Il-bini ttella' skond id-disinn sottomess mill-konsulenti għall-ippjanar ta' l-ibliet Harrison and Hubbard lill-Gvern ta' Malta fl-1945. Billi Triq Sant' Anna tagħti għall-belt kapitali, Harrison u Hubbard irrikmandaw li l-faċċati tal-bini kellhom jikkonformaw mal-linja klassika. Development House bbalissa fiba l-Ambaxxata Amerikana u uffičċji obra.





BUSINESS REVIEW



Middlesea Insurance p.l.c.

The Company has maintained its careful underwriting approach throughout the year and has produced positive technical results, albeit less than those achieved in the previous year. The technical results reflect the prudent reserving methodologies in place together with better effective use of underwriting capacity and higher retention policies.

The profit after tax for the year ended 31 December 2006 was Lm2.24 million (€5.2m) compared to the profit generated during 2005 of Lm3.84 million (€8.9m), with the company contributing 32% towards the profits of the Group.

During 2005 the Malta Stock Exchange Index reported an exceptional performance, closing the year with a gain of 62%. As a result the Company generated net fair value gains in its investment portfolio classified as fair value through the profit or loss account of Lm2.12 million (€4.9m). The performance of the local equity markets continued to be very strong during the first quarter of 2006, only to suffer a strong correction throughout the remaining three quarters. At the end of the year the MSE index closed with a loss of 2.2% for the year. Foreign financial markets, overall, performed positively during 2006 with equities leading performance, followed by cash. However within the environment of rising rates, longer dated bonds delivered poor performance compared to other major asset classes. As a result, during 2006 the company incurred net fair value losses on its investment portfolio classified as fair value through the profit or loss account of Lm6,269. This contributed towards the decrease in investment income from Lm4.75 million (€11.1m) for 2005 to Lm2.56 million (€6m) for 2006.

The reserving position of the Company continues to strengthen in relation to the premiums written. The net technical provisions (the reserves for outstanding claims and unearned premiums net of reinsurance share) amounted to Lm14.6 million (€34m) which equated to a net reserve ratio to net premium written of 182% as compared to 169% last year.

Total administrative expenditure, including staff costs, was Lm1.71 million (€4m) reflecting an increase of 18% over 2005. The impact of the implementation of the new IT underwriting system which was

commissioned for testing during 2006 is the main contributor to this increase. Towards the end of the year the Company also launched its new website and a new advertising campaign was initiated. Increase in expenditure was also registered due to increased resources required for strengthening of the compliance and risk management functions of the Company.

TECHNICAL RESULTS

The profit generated by the holding company from its technical underwriting operations was a positive Lm1.56 million (€3.6m). This reflects a decrease from last year's technical profit of Lm3.38 million (€7.9m).

GENERAL BUSINESS

General business comprises, in the main, the continued operations of the underwriting activities of the Company in Malta and Gibraltar for non-life business. The figures also include the results, which have a relatively negligible effect, of the discontinued reinsurance operations now in run-off.

Gross Premium Written by the Company amounted to Lm12.73 million (€29.7m) a decrease of 4% over last year. The decrease, which is mainly attributable to the motor class of business, was a direct result of the Company's strategy to consolidate its position within the local and, more significantly, the Gibraltar market and not to compromise its core underwriting principles for volume.

The Company has contributed 36% to the Group's turnover. Gibraltar contributed Lm1.38 million (€3.2m), being 10.8% of the Company's turnover. The composition of the total portfolio has changed slightly with motor, the largest class of business contributing 53% to the whole. Given the consistency in the retention policy adopted by the Company on its property business, the premium ceded to proportional reinsurance, after movements in unearned premium reserves has remained at a similar level to last year. Relative to premiums written, acquisition costs reduced marginally due to minor changes in business mix from intermediaries and the relative deterioration in performance, whilst commission receivable from reinsurers as a percentage of premium ceded has increased by three percentage points.



From left: Mr Simon Camilleri, Mr Vittorio Laferla, Mr Joseph Avellino, Ms Sandra Sciriba, Mr Simon Anastasi, Mr Mario Cumbo and Mr Patrick Muscat.

The Company's incurred claims, after recovery from reinsurance, stood at Lm5.33 million (€12.4m) reflecting an increase of 10% over Lm4.84 million (€11.3m). The ratio of net claims incurred (after reinsurance), to net earned premiums (after reinsurance), for the whole account increased from 59% to 68%. We are pleased to state, however, that all classes of business, except liability and health, produced profitable technical results. The liability class of business, predominantly the employers' liability section, can be typically classified as a 'long tail' business. This means that these claims will usually take longer than one year to develop, normally as a result of the time it takes for the Company to obtain adequate information on the injury sustained. In addition, settlement of certain of these claims will be dependant on court judgments and certainty as to the timing and value of the total claim will only be obtained through the ultimate settlement of the claim. The Company regularly assesses these implications and during the year strengthened the reserves accordingly. This has had a negative impact on the results for the year produced by this class of business.

The Company's prudent reserving policy over the past years has impacted once again on the results for the year, albeit at a lower level than last year. 2006 has seen a favourable run-off on claims incurred of Lm0.72 million (€1.7m) compared to the favourable run-off last year of Lm0.98 million (€2.3m).

The combined operational ratio for continued operations which is the total technical charges as a percentage of net earned premium equated to 94% as compared to 88% in 2005. The overall rate of return, after allocation of investment income, to premiums written was 10.2% for the local operations and 9.7% for Gibraltar.

LONG TERM

The holding company writes an account of long term business which solely consists of Group Life business. Gross Premium Written increased by 4% to reach Lm0.6 million (€1.4m). The size of this portfolio leads to high volatility in results and a relatively larger number of claims reported, when compared to last year, resulted in an increased gross loss ratio of 20%. This, coupled with reduced returns on the local

equity markets, produced a technical result, after reinsurance, allocation of expenditure and investment income, of Lm0.28 million (€0.7m) as compared to Lm0.4 million (€0.9m) last year.

CONCLUSION

2006 was a challenging year for the Company but we are confident that with our selective underwriting principles and prudent reserving policies the Company will continue to produce satisfactory results. The Company continues to rely on its strong relationships with all its intermediaries and reinsurers. The Company's commitment to give a direct service, by providing online electronic facilities to all its customers and producers, was further evidenced during 2006 with the introduction of online purchase for travel business and online quotes being possible for health business. This service will be further expanded during 2007 to allow for the quoting of motor rates online. The Company will continue to seek expansion in territories where it believes it would be beneficial to the spread of its business and to create adequate opportunities for increasing profits to its shareholders. It will continue to train and develop a professional staff complement which is felt to be one of the key factors for continued success.

J. M. RIZZO
CHIEF OPERATIONS OFFICER

BUSINESS REVIEW



Middlesea Insurance p.l.c.

Il-Kumpanija baqghet tadotta l-metodu kawt taghha fir-rigward tas-sotokrizzjoni u kisbet riżultati tekniċi pożittivi, għalkemm dawn huma flivell inqas minn dawk tas-sena ta' qabel. Ir-riżultati tekniċi jirriflettu l-metodologiji ta' riservar prudenti li qed jintużaw, flimkien ma' użu aktar effettiv tal-kapaċità ta' sottokrizzjoni u ta' żamma oghla ta' parti mir-riskji.

Il-profitt qabel il-hlas tat-taxxa għas-sena li għalqet fil-31 ta' Diċembru 2006 kien Lm2.24 miljuni (€5.2m), mqabbel mal-profitt ta' Lm3.84 miljun (€8.9m) iġġenerat tul l-2005, li għalih il-Kumpanija ikkontribwixxiet 32% għall-profitti tal-Grupp.

Tul l-2005 l-Indiċi tal-Borża ta' Malta rrapporta operat eċċezzjonali u għalaq is-sena bi qligh ta' 62%. Bis-sahha ta' dan il-Kumpanija ġġenerat qligh kalkulat fuq valur ekwu ta' Lm2.12 miljuni (€4.9m) fil-portafoll ta' l-investimenti kklassifikati bhala valur ekwu fil-kont ta' qligh u telf. L-operat tas-swieq lokali ta' ekwitajiet baqa' qawwi hafna tul l-ewwel kwart ta' l-2006, imma kellha ssirlu korrezzjoni qawwija tul it-tliet kwarti l-oħra. Fi tmiem is-sena l-indiċi MSE għalaq b'telf ta' 2.2% għas-sena. B'mod ġenerali, swieq finanżarji barranin marru tajjeb tul l-2006; l-aħjar li marru kienu l-ekwitajiet, u warajhom il-flus likwidi. Madankollu, fl-ambjent ta' rati jogħlew, bonds li jimmaturaw fi żmien itwal marru hażin meta mqabblin ma' klassijiet maġġuri ta' assi. B'riżultat ta' dan, tul l-2006 l-Kumpanija kellha telf nett ta' Lm6,269 fil-valur ekwu tal-portafoll ta' investimenti taghha kklassifikati bhala valur ekwu fil-kont ta' qligh u telf. Dan ikkontribwixxa għal tnaqqis fid-dhul minn investimenti minn Lm4.75 miljuni (€11.1m) fl-2005 għal Lm2.56 miljuni (€6m) fl-2006.

Il-qagħda ta' riservar tal-Kumpanija baqghet tissahhah f'relazzjoni mal-primjums sottokritti. Il-provvedimenti tekniċi netti (ir-riservi għal klejms pendenti u primjums mhux maqluġhin wara li jitnaqqas is-sehem tar-riassigurazzjoni) ammontaw għal Lm14.6 miljun (€34m) li jiġu daqs proporzjon ta' riservi netti mqabbla ma' primjum nett ta' 182% meta mqabbla ma' 169% is-sena l-oħra.

Spejjeż amministrattivi totali, inklużi spejjeż għall-impjegati, kienu Lm1.71miljun (€4m) li jirriflettu zieda

ta' 18% fuq l-2005. L-impatt ta' l-implimentazzjoni tas-sistema ġdida ta' sottokrizzjoni, li kienet ikkummissjonata għall-prova fl-2006, hija l-kontributor ewlieni għal din iż-żieda. Lejn tmiem is-sena l-Kumpanija nediet ukoll il-websajt ġdida taghha u nbdiet kampanja ta' reklamar ġdida. Żieda fin-nefqa kienet irregistrata wkoll minhabba riżorsi akbar mehtieġa għat-tishih tal-funzjonijiet tal-Kumpanija fil-qasam tal-konformità u ta' l-immaniġġjar ta' riskji.

RIŻULTATI TEKNIĊI

Il-profitt ta' Lm1.56 miljun (€3.6m) iġġenerat mill-kumpanija ewlenija mill-operazzjonijiet ta' sottokrizzjoni teknika taghha kien pożittiv. Dan jirrifletti tnaqqis mill-profitt tekniku ta' Lm3.38 miljuni (€7.9m) s-sena l-oħra.

NEGOZJU ĠENERALI

Negozju ġenerali jiġbor fih, b'mod ġenerali, l-operazzjonijiet kontinwanti ta' attivitajiet ta' sottokrizzjoni f'Malta u Ġibiltà għal negozju mhux tal-hajja. Iċ-ċifri jinkludu wkoll ir-riżultati, li għandhom effett relattivament negligibbli, ta' operazzjonijiet ta' riassigurazzjoni li m'għadhomx sejrin u issa qegħdin fil-proċess li jingħalqu.

Primjums Gross miktubin mill-Kumpanija ammontaw għal Lm12.73 miljun (€29.7m), tnaqqis ta' 4% mis-sena l-oħra. It-tnaqqis, li prinċipalment ġej min-negozju tal-klassi tal-vetturi, kien riżultat dirett ta' l-istrateġija tal-Kumpanija li tikkonsolida l-pożizzjoni taghha fis-suq lokali u, b'mod aktar sinifikattiv, fis-suq ta' Ġibiltà, u ma tikkompromettix il-prinċipji ta' sottokrizzjoni bażiċi biex ikollha l-volum.

Il-Kumpanija kkontribwixxiet 36% lin-negozju kollu tal-Grupp. Ġibiltà kkontribwixxiet Lm1.38 miljun (€3.2m), li huma 10.8% min-negozju kollu tal-Kumpanija. Il-kompożizzjoni tal-portafoll totali nbidlet xi ftit; l-akbar klassi ta' negozju, dik tal-vetturi, ikkontribwixxiet 53% tat-total. Meta tqis il-konsistenza tal-politika ta' retenzjoni adottata mill-Kumpanija fil-każ ta' negozju ta' propjetà, il-primjum ċedut tul is-sena lir-riassigurazzjoni proporzjonali, wara ċaqliq f'riservi ta' primjum mhux maqluġh, baqa' flivell simili

BUSINESS REVIEW

ghal dak tas-sena l-oħra. Imqabblin ma' primjums miktubin, spejjeż ta' akkwist naqsu margġinalment minhabba bidliet żgħar hafna fit-tahlita tan-negozju li dahal minn intermedjarji u mid-deterjorament relattiv fl-operat, filwaqt li l-ammont ta' kummissjoni li trid tidhol mir-riassiguraturi bhala perċentwali tal-primjum ċedut telgħet bi tliet punti perċentwali.

Klejms li thallsu mill-kumpanija, wara rkupru mir-riassigurazzjoni, swew Lm5.33 miljuni (€12.4m), zieda ta' 10% fuq l-Lm4.84 miljuni (€11.3m) tas-sena l-oħra. Il-proporzjon ta' telf nett fil-każ ta' kljems li thallsu, (wara riassigurazzjoni), mqabbla ma' primjums maqluġhin netti (wara riassigurazzjoni) telgħet minn 59% għal 68% għall-kont kollu. Izda għandna l-pjaċir ngħidu li l-klassijiet tan-negozju kollha, minbarra dawk tar-responsabbiltà u tas-saħħa, hallew riżultati tekniċi li għamlu qligħ. Il-klassi tan-negozju ta' responsabbiltà, l-aktar it-taqsimu ta' responsabbiltà ta' min ihaddem, tista' tkun tipikament klassifikata bhala negozju li l-klejms tiegħu jiġbdu fit-tul. Dan ifisser li dawn il-klejms ġeneralment jiehdu iżjed minn sena biex jiżviluppaw, normalment b'riżultat taż-żmien meħtieġ biex il-Kumpanija tikseb informazzjoni adegwata fuq il-leżjoni sostnuta. Barra minn hekk, il-hlas ta' xi whud minn dawn il-klejms jiddependi minn deċiżjonijiet tal-qrati u ċ-ċertezza tal-meta jithallsu u tal-valur tal-klejm totali jinkisbu biss meta l-klejm tithallas. Il-Kumpanija tistma' regolarment dawn l-implikazzjonijiet u tul is-sena ssahħet ir-riservi tagħha. Dan kellu impatt negattiv fuq ir-riżultati milhuqin tul is-sena minn din il-klassi ta' negozju.

Il-politika prudenti ta' riservar li kellha l-Kumpanija tul is-sena imghoddija influwenzat mill-ġdid ir-riżultati tas-sena, anke jekk flivell inqas baxx minn dak tas-sena l-oħra. Is-sena 2006 rat tmiem favorevoli ta' klejms fl-ammont ta' Lm0.72 ta' miljun (€1.7m) imqabbel ma' tmiem favorevoli ta' Lm0.98 ta' miljun (€2.3m) is-sena l-oħra.

Il-proporzjon operattiva meħuda flimkien għall-operazzjonijiet kontinwati, li hu r-riżultat ta l-ispejjeż tekniċi bhala persentaġġ ta' primjum maqluġh nett kien 94% meta mqabbel ma' 88% fl-2005. Ir-rata ta' qligħ, wara l-allokazzjoni tad-dhul minn investimenti,

imqabbla ma' primjums sottoskritti kienet 10.2% fil-każ ta' operazzjonijiet lokali u 9.7% fil-każ ta' Ġibiltà.

NEGOZJU GĦAT-TUL

Il-kumpanija ewlenija tikteb kont ta' negozju għat-tul li jikkonsisti biss minn negozju ta' hajja ta' Gruppi. Primjums Gross Sottoskritti telgħu b'4% u laħqu Lm0.6 ta' miljun (€1.4m). Id-daqs ta' dan il-portafoll iwassal għal ċaqliq kbir fir-riżultati, u n-numru relattivament akbar ta' klejms irrappurtati, meta mqabbel mas-sena l-oħra, irriżulta fi proporzjon oghla ta' telf li ammonta għal 20%. Dan, flimkien ma' inqas qligħ mis-swieq ta' ekwitajiet lokali, taw riżultat tekniku ta' Lm0.28 ta' miljun (€0.7m), wara riassigurazzjoni, allokazzjoni ta' nfiq u dhul minn investimenti, meta mqabbel ma' Lm0.4 ta' miljun (€0.9m) is-sena l-oħra.

KONKLUŻJONI

Is-sena 2006 kienet sena ta' sfida għall-Kumpanija iżda ahna fiduċjużi li, bil-prinċipji ta' sottoskrizzjoni selettiva u politika ta' riservar prudenti, il-Kumpanija ser tkompli tagħti riżultati sodisfaċenti. Il-Kumpanija tibqa' tistrieħ fuq ir-relazzjonijiet qawwija tagħha ma' l-intermedjarji u riassiguraturi kollha tagħha. L-impenn tal-Kumpanija li tagħti servizz dirett, billi tipprovdi faċilitajiet elettroniċi fuq l-internet, lil-klijenti u produtturi kollha tagħha, intwera aktar tul l-2006 bl-introduzzjoni tax-xiri fuq l-internet ta' negozju ta' l-ivvjaġġar u kwotazzjonijiet fuq l-internet li saru possibbli fil-każ tan-negozju tas-saħħa. Dan is-servizz ser ikompli jespandi f'territorji li fihom temmen li jkun ta' benefiċċju għat-tixrid tan-negozju tagħha u biex tohloq opportunitajiet adegwati halli tkabbar il-profitti lill-azzjonisti tagħha. Hi ser tkompli tharreg u tiżviluppa grupp ta' staff professjonali li nħossu li hu wiehed mill-fatturi ewlenin tas-suċċess kontinwu tagħha.



J. M. RIZZO
CHIEF OPERATIONS OFFICER

BUSINESS REVIEW



MIDDLESEA VALLETTA LIFE
Assurance Company Limited

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

During 2006, MSV recorded a profit after tax of Lm3 million (€7m) representing an increase of 30% over the corresponding figure of Lm2.3 million (€5.4m) recorded in 2005. This is the highest profit registered by MSV since its establishment in 1994. Business written (including Investment Contracts Without a Discretionary Participation Feature (DPF)) increased by 28% from Lm39.3 million (€91.5m) in 2005 to Lm50.4 million (€117.4m) in 2006.

Funds invested by MSV at the end of 2006 amounted to Lm279.5 million (€651.1m). This corresponds to an increase of 25% over the figure of Lm224.5 million (€522.9m) in 2005. The value of the life fund (including Investment Contracts Without DPF) increased by 22% from Lm218.1 million (€508m) in 2005 to Lm266.5 million (€620.8m) in 2006. The Group's Balance Sheet increased by 23% from Lm250.2 million (€582.8m) in 2005 to Lm308 million (€717.4m) at the end of 2006.

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

Investment income decreased from Lm26.2 million (€61m) in 2005 to Lm13.7 million (€31.9m) in 2006. The decrease is due to a return to more normal investment conditions compared with the exceptional

returns seen in 2005 particularly from the local capital market.

Gross claims incurred increased from Lm4.9 million (€11.5) in 2005 to Lm9 million (€21m) in 2006. Claims incurred after reinsurance amounted to Lm8.7 million (€20.4m) an increase of 84% over 2005. Claims incurred include maturities, surrenders, mortality and disability claims. The increase in claims is mainly attributable to a higher number of maturities.

MSV's acquisition costs increased by 11% from Lm2.2 million (€5.1m) to Lm2.4 million (€5.6m). This increase was due to the higher business written. Administrative expenses increased by 12% from Lm1.6 million (€3.7m) in 2005 to Lm1.8 million (€4.2m) in 2006. This increase was mainly attributable to higher marketing and staff costs.

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

During 2006 shareholders continued to strengthen the financial position of MSV through an injection of new capital of Lm3 million (€7m) thereby increasing the issued and fully paid-up capital to Lm13 million (€30.3m).

Furthermore, during the 2007 Annual General Meeting of MSV, the shareholders approved the payment of a final dividend of Lm2 million (€4.7m), net of tax, by way of a Bonus Issue of ordinary shares of Lm1 each fully paid, thereby increasing the issued and fully paid up capital from Lm13 million (€30.3m) to Lm15 million (€34.9m). Shareholders also approved the increase in the Authorised Share Capital from Lm15 million (€34.9m) to Lm20 million (€46.6m).

The Board of Directors of MSV approved a resolution whereby differential rates of reversionary bonuses were declared in respect of with-profits investments held with MSV for the year ending 31 December 2006. These amounted to 4.05% for the Comprehensive Life Plan (regular and single premium policies), 4.35% in respect of the Comprehensive Flexi Plan (regular and single premium policies), 4.5% under the Single Premium Plan and 4.5% under the with-profits option of the MSV Investment Bond. On the 'Old Series' Endowment and Whole Life policies, a reversionary



From left: Mr Jonathan Kemp, Mr Mark Camilleri, Mr Ray Gibson, Ms Mary Spiteri, Mr Stuart Fairbairn, Ms Pat Brincat, Mr Josef Gauci, Ms Denise Bezzina, Mr Henrik Damato and Mr Victor Farrugia.

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

The Board also approved the declaration of a terminal bonus in respect of Comprehensive Life Plan (single and regular premium) policies that have been in force for more than 10 years. This terminal bonus will be paid on claims payable as a result of death or maturity between 1 January 2007 and the next bonus declaration, at an initial rate of 1.5% for every year after the 10th year of the policy, subject to a maximum of 5%. This terminal bonus will be paid on the value of the Policy Account as at the date of death or maturity.

Having attained a local market share of over 70%, MSV will continue to focus on its overseas development strategy particularly in the Euro-Med Region. MSV is already authorised to carry on business under the freedom of services regime in Italy and is currently developing a suite of products that will enable it to enter the Italian life insurance market.

MSV however still intends to continue to increase its business in the local market through the development of innovative products aimed at creating new demands for life protection and savings and by forging long-term relationships with local intermediaries to continue to enhance its already wide and diversified distribution platform.

MSV will also seek to grow in the local market by taking initiatives that will differentiate it from its competitors. During 2006, MSV has embarked on an ambitious project to develop and implement a new point-of-sale solution. This solution extends the current capabilities of the back-office information system to service distribution points offering simple interfaces to quote and acquire new business propositions. The point-of-sale enhancement integrates the MSV value chain through a straight-through-processing approach reducing expensive manual interventions with secure cost effective electronic means.

The new point-of-sale solution, which will be

launched in the first half of 2007, is a jump into the next generation of information systems extending MSV's reach and enabling further sales distribution through the leverage of technology.

Although the expected reform of the national pension system has been delayed further, MSV went ahead with its plans to ensure that it is well positioned to seize, from a very early stage, the new business opportunities which such a reform will no doubt present. In 2006, MSV set up a new Pensions Unit within its operational structure and a new personal pension product will be launched in 2007.

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

SUBSIDIARY

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

In 2006, Growth Investments registered a profit after tax of Lm94,017 (€219,000) compared with Lm200,602 (€467,277) in the previous year.

DAVID G. CURMI
CHIEF EXECUTIVE OFFICER

BUSINESS REVIEW



MIDDLESEA VALLETTA LIFE
Assurance Company Limited

Matul is-sena 2006 l-MSV Group (MSV) kompli juri s-sahha tiegħu fis-suq tal-protezzjoni individwali u tiffidil għat-tul f'Malta. Minkejja li topera f'suq kompetittiv, l-MSV m'exxielha tkabbar is-sehem tagħha fis-suq tal-hajja individwali minn 67% fl-2005 għal fuq is-70% fl-2006. Huwa ovvj u li l-MSV qed taħsad il-benefiċċji ta' l-istrategija tagħha li tippromwovi u tagħti medda wiesgħa ta' tiffidil li jrendi għall-flus mahruġa, u ta' prodotti u servizzi ta' investment u protezzjoni permezz ta' pjattaforma ta' distribuzzjoni mifruxa permezz ta' hafna toroq. L-impriza tal-bankassigurazzjoni mal-Bank of Valletta p.l.c. tibqa' l-aktar kanal importanti ta' distribuzzjoni għall-MSV, u matul l-2006 din baqgħet tirreġistra aktar tkabbir sinifikanti.

Matul is-sena 2006 l-MSV rreġistrat Lm3 miljuni (€7m) profitt qabel il-hlas tat-taxxa; dan jirrapprezenta zieda ta' 30% fuq iċ-ċifra korrispondenti ta' Lm2.3 miljuni (€5.4m) rreġistrata fl-2005. Dan hu l-oghla profitt rreġistrat mill-MSV sa mit-twaqqif tagħha fl-1994. Negozju sottokritt (inklużi Kuntratti ta' Investment Mingħajr Fattur Diskrezzjonarju ta' Parteċipazzjoni (DPF)) tela' b'28% minn Lm39.3 miljun (€91.5m) fl-2005 għal Lm50.4 miljun (€117.4m) fl-2006.

Fi tmiem l-2006 l-fondi investiti mill-MSV ammontaw għal Lm279.5 miljun (€651.1m). Dan jikkorrispondi għal zieda ta' 25% fuq iċ-ċifra ta' Lm224.5 miljun (€522.9m) fl-2005. Il-valur tal-Fond tal-hajja (inklużi Kuntratti ta' Investment Mingħajr DPF) tela' bi 22% minn Lm218.1 miljun (€508m) fl-2005 għal Lm266.5 miljun (€620.8m) fl-2006. Il-Karta Bilanċjali tal-Grupp kibret bi 23% minn Lm250.2 miljun (€582.8m) fl-2005 għal Lm308 miljuni (€717.4m) fi tmiem l-2006.

L-ekwità totali f'għeluq l-2006 kienet Lm36.9 miljun (€85.9m), zieda ta' 27% fuq is-sena ta' qabel. Il-valur tan-negozju eżistenti tela' wkoll minn Lm16.6 miljun (€38.7m) fl-2005 għal Lm18.4 miljun (€42.8m) fl-2006. Il-valur tan-negozju eżistenti jirrifletti l-valur skuntat tat-trasferimenti futuri proġettati (wara li jsir provvediment għat-taxxa) lill-azzjonisti li jirriżultaw minn poloz li jkunu fis-sehħ fi tmiem is-sena.

Dhul minn investimenti niżel minn Lm26.2 miljun (€61m) fl-2005 għal Lm13.7 miljun (€31.9m) fl-2006. It-tnaqqis ġej minn ritorn għal kondizzjonijiet normali ta' investment meta jitqabblu mar-riżultati eċċezzjonali li kellna fl-2005 partikolarment mis-suq kapitali lokali.

Klejms gross li dahlu telgħu minn Lm4.9 miljuni (€11.5m) fl-2005 għal Lm9 miljuni (€21m) fl-2006. Klejms li dahlu, wara li titqies ir-riassigurazzjoni, ammontaw għal Lm8.7 miljuni (€20.4m), zieda ta' 84% fuq l-2005. Klejms li dahlu jinkludu klejms ta' poloz li laħqu l-maturità, tisrif, imwiet u diżabilità. Iz-zieda fil-klejms ġejja l-aktar minn numru oghla ta' poloz li mmaturaw.

L-ispejjeż ta' l-MSV għall-kisba ta' negozju telgħu bi 11% minn Lm2.2 miljuni (€5.1m) għal Lm2.4 miljun (€5.6m). Din iz-zieda rriżultat minn zieda fin-negozju sottokritt. Spejjeż amministrattivi telgħu bi 12% minn Lm1.6 miljun (€3.7m) fl-2005 għal Lm1.8 miljun (€4.2m) fl-2006. Din iz-zieda rriżultat l-aktar minn spejjeż oghla tal-impjegati u għall-promozzjoni tal-bejgħ.

Id-dhul medju mghabbar għal kull sehem tela' minn 26ċ7 fl-2005 għal 29ċ3 fl-2006.

Matul l-2006 l-azzjonisti komplew isahħu l-qagħda finanzjarja ta' l-MSV billi investew fiha Lm3 miljun (€7m) kapital ġdid u b'hekk ziedu l-kapital mahruġ u mhallas kollu għal Lm13 miljun (€30.3m).

Barra minn hekk, fil-Laqgħa Ġenerali Annwali tal-2007 l-azzjonisti ta' l-MSV approvaw hlas ta' dividend finali ta' Lm2 miljun (€4.7m), netti wara t-taxxa, bhala hrug ta' Bonus ta' ishma ordinarji ta' Lm1 kull wiehed kollha mhallsin permezz ta' kapitalizzazzjoni ta' ammont ekwivalenti mir-riservi tad-dhul li hekk kabbru l-kapital mahruġ u mhallas kollu minn Lm13-il miljun (€30.3m) għal Lm15-il miljun (€34.9m). L-azzjonisti approvaw ukoll iz-zieda fil-Kapital ta' Ishma Awtorizzat minn Lm15-il miljun (€34.9m) għal Lm20 miljun (€46.6m).

Il-Bord tad-Diretturi ta' l-MSV approva riżoluzzjoni li permezz tagħha r-rati differenzjali tal-bonusis riversjonarji kienu dikjarati fir-rigward ta' investimenti with-profits li l-MSV kellha f'għeluq is-sena li għalqet fil-31 ta' Diċembru 2006. Dawn ammontaw għal 4.05% fil-każ tal-Comprehensive Life Plan (poloz bi primjum regolari jew singolu), 4.35% fir-rigward tal-Comprehensive Flexi Plan (poloz bi primjum regolari jew singolu), 4.5% fil-każ tas-Single Premium Plan u 4.5% fil-każ ta' l-għażla with-profits ta' l-MSV Investment Bond. Fuq il-poloż 'Old Series' Endowment u Whole Life kien iddikjarat bonus riversjonarju ta' 2.2% fuq is-somma bażika assigurata u bonusis. Barra minn hekk, il-Bord approva wkoll bonus riversjonarju

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ta' 3.45% fuq dawk il-polo Secure Growth li kienu jiffurmaw parti min-negozju trasferit lill-MSV mill-Assicurazioni Generali S.p.A. fl-2000.

Il-Bord approva wkoll id-dikjarazzjoni ta' bonus terminali fir-rigward tal-polo Comprehensive Life Plan (primjum regolari jew singolu) li ilhom fis-sehh ghal aktar minn 10 snin. Dan il-bonus terminali jithallas fuq klejms pagabbli f'każ ta' mewt jew maturità bejn l-1 ta' Jannar 2007 u d-dikjarazzjoni tal-bonus li tigi wara din id-data, b'rata inizjali ta' 1.5% ghal kull sena wara l-10 sena tal-polza, sugġett ghal massimu ta' 5%. Dan il-bonus terminali jithallas fuq il-valur tal-Kont tal-Polza kif ikun fid-data tal-mewt jew maturità.

Issa li lahqet fuq is-70% tas-sehem tas-suq lokali, l-MSV se tibqa' tiffoka fuq l-istrateġija ta' żvilupp barra mill-pajjiż u partikolarment fir-Reġjun Ewro-Mediterran. L-MSV diġà hija awtorizzata li tmexxi negozju fl-Italja taht ir-reġim tal-libertà tas-servizzi u bhalissa qed tiżviluppa sett ta' prodotti li bihom tkun f'qagħda li tidhol fis-suq Taljan ta' l-assigurazzjoni tal-hajja.

Izda l-MSV xorta wahda bi hsiebha tkompli tkabbar in-negozju tagħha fis-suq lokali bis-sahha ta' l-iżvilupp ta' prodotti innovattivi mahsubin biex johlqu talbiet godda ghal protezzjoni tal-hajja u tiffidil u billi ssawwar relazzjonijiet għat-tul ma' intermedjarji lokali biex tkompli tejjeb il-pjattaforma ta' distribuzzjoni li hi diġà wiesgħa u diversifikata.

L-MSV se tfitteż ukoll li tikber fis-suq lokali billi tiehu inizjattivi li jiddivrenzjawha mill-kompetituri tagħha. Matul l-2006 l-MSV dahlet għal proġett ambizzjuż biex tiżviluppa u timplemanta soluzzjoni ġdida għall-holqien ta' punti ta' bejgħ. Din is-soluzzjoni testendi l-hiliet kurrenti tas-sistema ta' informazzjoni segretarjali biex taqdi punti ta' distribuzzjoni billi toffri interfaces sempliċi halli jikkowtaw u jiksbu proposti ta' negozju ġdid. It-titjib fil-punti tal-bejgħ jintegra l-katina tal-valur ta' l-MSV permezz ta' metodu dirett li jnaqqas l-interventi manwali li fihom hafna spejjeż u floku jdahhal mezz elettronici sikuri u ekonomikament aktar effettivi.

Is-soluzzjoni ġdida ta' punti ta' bejgħ, li se titnieda fl-ewwel nofs ta' l-2007, hija qabza għall-ġenerazzjoni li jmiss ta' sistemi ta' informazzjoni li l-medda li tilhaq l-MSV u jagħti ċans għal distribuzzjoni ulterjuri ta' bejgħ permezz tal-qawwa tat-teknoloġija.

Għalkemm ir-riforma mistennija tas-sistema ta'

pensjonijiet komplietittardja, l-MSV baqgħet għaddejja bil-pjanijiet tagħha li tiżgura li tkun f'pożizzjoni tajba halli tahtaf, minn stadju bikri, opportunitajiet għal negozju ġdid li din ir-riforma żgur li se gġib magħha. Fl-2006 l-MSV waqqfet Pensions Unit ġdida fl-istruttura operattiva tagħha, u prodott ta' pensjoni personali ġdida se jitnieda fl-2007.

Ir-riżultati ta' l-MSV għall-2006 jixhdu s-suċċess ta' l-istrateġija tagħha. Il-konsistenza fir-riżultati li l-MSV kisbet tul is-snin tirrifletti l-benefiċċji miksubin mill-iffokar kostanti fuq l-iżvilupp ta' prodotti u servizzi li huma fost l-offerti ta' l-oghla valur fis-suq f'termini ta' kwalità, riżultati u prezz, u billi timmira li tikseb l-oghla standards ta' eżekuzzjoni fl-attivitatiet u proċessi kummerċjali kollha tagħha. Bis-sahha tal-baži finanzjarja u operattiva b'sahhitha tagħha, l-MSV qieghda f'pożizzjoni tajba li tibqa' tikseb tkabbir konsistenti u li jagħti l-qligh, li tilhaq l-ghanijiet tagħha u li tilqa' għal sfidi u opportunitajiet godda li jistgħu jqumu fil-futur.

SUSSIDJARJA

Growth Investments Ltd (Growth Investments), sussidjarja li hi kollha propjeta' ta' l-MSV Group, hija awtorizzata biex tagħti servizzi ta' investment skond l-Att ta' l-1994 dwar Servizzi ta' Investimenti. Growth Investments hija wkoll ir-rappreżentant ta' Fidelity Funds SICAV f'Malta, alleanza li twaqqfet fl-1997 ma' Fidelity International.

Fis-sena 2006 Growth Investments irreġistrat qligh ta' Lm94,017 (€219,000) wara l-hlas tat-taxxa imqabbel ma' Lm 200,602 (€467,277) fis-sena ta' qabel.



DAVID G. CURMI
CHIEF EXECUTIVE OFFICER





BUSINESS REVIEW



International Insurance Management Services Ltd.



International Insurance Management Services Ltd (IIMS) was entrusted with two principal objectives in 2002. The first was to provide the Middlesea Group with a lean and effective back office operation; the second was to attract business from third party insurance companies seeking insurance management services. This could only be achieved through the restructuring of the Company and the employment and continuous training of a fully professional team. The first objective has been consistently met over the last five years. In its fifth year of operation, IIMS continued to meet its second objective, registering an improvement in the mix of its turnover with a higher percentage than previous years now being generated from non Group insurance companies.

During 2006, whilst retaining its focus of enhancing its services in an efficient and effective manner to its existing portfolio of clients, IIMS continued with its full commitment to attract business from Captive Insurance & Reinsurance companies. Since Malta joined the EU in 2004, the Company has also tapped into the market of third party direct writing insurance companies. The EU Passporting rights allows Maltese registered insurance companies to operate from Malta, and underwrite foreign risks. IIMS offers back office management services to all these companies. With this in mind, management has participated in a number of international conferences and exhibitions which bring together Risk Managers, Insurance Brokers, Captive Insurance owners and the general business community interested in developing alternative risk transfer vehicles, such as Captive Insurance Companies, within the insurance industry.

The financial year 2006 was an active year for IIMS. A number of potential clients visited the Island and held exploratory meetings with the management of IIMS. This has allowed them to gain a better understanding of the Maltese jurisdiction and of the services that IIMS provides. Management also visited a number of potential clients in their own offices. Indeed this financial year marked the first full year of IIMS's services to a direct writing insurance company licensed in Malta with Passporting rights to provide its insurance product in the United Kingdom. Whilst Malta continues to enlarge its portfolio of Captive Insurance Companies, a growing interest has been registered by potential investors seeking to establish their own insurance companies to provide insurance products to the European Community from Malta. This is an area of potential growth and a niche market for Malta and its indigenous insurance manager, IIMS. Potential foreign insurance companies with a small to medium sized portfolio benefit from a professional personalised service in a jurisdiction where the size of the service provider and the Regulatory Authority

is compatible to the size of their projected portfolio. IIMS is committed to provide its existing clients with a professional back office service whilst assisting prospective clients with the decision making process of establishing an insurance or reinsurance company in Malta.

IIMS continued to enhance the services provided to its clients with the employment of a fully qualified Risk Manager entrusted with the setting up of a Risk Management Department. With the introduction of the Corporate Governance Guidelines for Public Interest Companies and the debates and developments on Solvency II, IIMS has in place the necessary knowledge and workforce to provide its clients with services which will be of assistance to the Board of Directors and Management of insurance companies in fulfilling their roles in an effective and cost efficient manner.

The increase of 14% in turnover registered by the company during 2006 over the previous year yielded a total fee income for the year of Lm0.94 million (€2.2m) whilst shareholders' funds strengthened by a further 19% reaching a level of Lm1.18 million (€2.7m). The company's profit after taxation of Lm0.27million (€0.6m) equates to a return of 28.4% on management fees earned during the year. Maintaining a cost efficient service to clients remains a main focus of the management of the Company. Strict cost control, coupled with the continuous search for alternative solutions to assist employees in the execution of their duties in an efficient and diligent manner, is fundamental to the success of this business. During 2006, IIMS commenced a process of identifying additional information technology tools which will continue to enhance the services provided.

IIMS has the necessary professional set up required of an international insurance manager for the provision of back office services to the insurance industry. The Board of Directors together with the management of the Company is committed to enhance the portfolio of clients in pursuance of the objectives set out for this Company; that of providing lean and efficient service to existing clients and achieving a balanced portfolio of clients who opt to purchase the services of International Insurance Management Services Ltd.

A. M. TABONE
GENERAL MANAGER



From left: Mr John Mifsud, Mr Christopher Borg, Ms Karen Xuereb, Mr John Stivala, Mr Bernard Fenech, Ms Elizabeth Carbonaro, Mr Peter Spiteri, Ms Marzena Formosa, Ms Lynne Joslin, Mr James Mallia and Ms Ana Zammit Munro.

L-International Insurance Management Services Ltd (IIMS) fl-2002 kienet inkarigata b'zewġ objettivi. L-ewwel biex tipprowdi lill-Middlesea Group operazzjonijiet amministrattivi effettivi u ekonomici; it-tieni biex tattira negozju minn kumpaniji ta' assigurazzjoni terzi li jkun qed ifittxu servizzi amministrattivi. Dan seta' jsir biss bis-sahha ta' ristrutturazzjoni tal-Kumpanija u bl-impjeg u t-tahriġ kontinwu ta' tim ghal kollox professjonali. L-ewwel objettiv inlahaq b'mod konsistenti matul dawn l-ahhar hames snin. Fil-hames sena ta' l-operat taghha, l-IIMS komplet tilhaq it-tieni objettiv taghha billi rreġistrat titjib fit-tahlita tan-negozju taghha billi perċentwali oghla minn dik tas-snin ta' qabel issa qed tkun iġġenerata minn kumpaniji ta' assigurazzjoni li m'humiex parti mill-Grupp.

Matul is-sena 2006, filwaqt li żammet ruhha ffukata fuq it-titjib tas-servizzi taghha b'mod effiċjenti u effettiv ghall-portafoll eżistenti ta' klijenti, l-IIMS baqgħet kommissa bis-shih li tattira negozju minn kumpaniji ta' Captive Insurance Ó Reinsurance. Mindu Malta nġhaqdet ma' l-UE fl-2004, il-Kumpanija ppruvat ukoll tidhol fis-suq ta' kumpaniji terzi li jagħmlu sottoskrizzjoni diretta. Id-drittijiet ta' EU Passporting jippermettu lil kumpaniji ta' assigurazzjoni rreġistrati Malta li joperaw minn Malta u jissottoskrivu riskji barranin u lil dawn il-kumpaniji, l-IIMS toffri servizzi kompluti ta' amministrazzjoni. Għal dan l-iskop, il-manigment ha sehem f'għadd ta' konferenzi u wirjiet internazzjonali li jgħbru flimkien Risk Managers, Insurance Brokers, propjetarji ta' Captive Insurance u l-komunità tan-negozju generali interessati li jiżviluppaw mezzj alternattivi ta' trasferiment tar-riskju bhall-Kumpanija ta' Captive Insurance fl-Industrija ta' l-Assigurazzjoni.

Is-sena finanzjarja 2006 kienet sena attiva għall-IIMS. Numru ta' klijenti potenzjali żaru l-għira u kellhom laqgħat esploratorji ma' l-amministrazzjoni ta' l-IIMS. Dan tahom okkażjoni li jiksbu għarften ahjar tal-ġurizdizzjoni Maltija u tas-servizzi li tagħti l-IIMS. Il-manigment żar ukoll numru ta' klijenti potenzjali fl-uffiċċji tagħhom stess. Fil-fatt, din is-sena finanzjarja kienet l-ewwel sena shiha li fiha l-IIMS tat servizzi lil kumpaniji ta' assigurazzjoni b'sottoskrizzjoni diretta liċenzjata f'Malta li għandha drittijiet ta' Passporting biex tipprowdi l-prodott assiguratv taghha fir-Renju Unit. Filwaqt li Malta qed tkompli tkabbar il-portafoll ta' Kumpaniji ta' Captive Insurance, kien rreġistrat interess dejjem jikber minn investuri potenzjali li jfittxu li jstabbilixxu l-kumpaniji ta' assigurazzjoni tagħhom stess biex jipprovdur prodotti assiguratv lill-Komunità Ewropea minn hawn Malta. Dan hu qasam ta' tkabbir potenzjali u suq niċċa għal Malta u għall-manigment ta' assigurazzjoni indigenu taghha, l-IIMS. Kumpaniji ta' assigurazzjoni barranin potenzjali b'portafoll minn zġhir sa medju jibbenefikaw minn servizz personalizzat professjonali f'ġurizdizzjoni fejn

id-daqs tal-fornitur tas-servizz u l-Awtorità Regulatorja huma kompatibbli maċ-daqs tal-portafoll proġettat tagħhom. L-IIMS hija kommissa li tagħti lill-klijenti eżistenti taghha servizz professjonali filwaqt li tgħin klijenti prospettivi fil-proċess tat-tehid tad-deċizzjonijiet dwar it-twaqqif ta' kumpanija ta' assigurazzjoni jew riassigurazzjoni f'Malta.

L-IIMS baqgħet ittejjeb is-servizzi li tagħti lill-klijenti billi impjegat Risk Manager kwalifikat għal kollox bl-inkarigu li jwaqqaf Risk Management Department. Bid-dhul tal-Linji Gwida dwar Governanza Korporattiva għal Kumpaniji b'Interess Pubbliku, u bid-dibattiti u żviluppi fuq Solvency II, l-IIMS għandha lesti t-tagħrif u l-forza tax-xogħol meħtieġa biex tagħti lill-klijenti taghha s-servizzi li jkunu ta' għajnuma lill-Bord tad-Diretturi u lill-Manigment ta' kumpaniji ta' assigurazzjoni fit-twertiq tal-funzjonijiet tagħhom b'mod effettiv u effiċjenti.

Iż-żieda ta' 14% fuq is-sena ta' qabel fin-negozju rreġistrat mill-kumpanija matul l-2006 ġenera dhul totali ta' hlasijiet għas-sena li jammonta għal Lm0.94 ta' miljun (€2.2m), filwaqt li l-fondi ta' l-azzjonisti ssahhu b'19% ohra u laħqu l-livell ta' Lm1.18 miljun (€2.7m). Il-profit tal-kumpanija, li laħaq Lm0.27 ta' miljun (€0.6m) wara l-hlas tat-taxxa, hu ugwali għal qligh ta' 28.4% fuq hlasijiet ta' mmanigjar li dahlu matul is-sena. Iż-żamma ta' servizz lill-klijenti li hu effiċjenti meta jitqies ma' l-ispejjeż mahruġa, jibqa' punt fokali ewlieni tal-manigment tal-Kumpanija. Kontroll strett fuq l-ispejjeż, flimkien ma' tiftix kontinwu għal soluzzjonijiet alternattivi li jkunu ta' għajnuma lill-impjegati fl-eżekuzzjoni ta' dmirijietom b'manjera effiċjenti u diligenti, huma fundamentali għas-suċċess ta' dan in-negozju. Matul l-2006 l-IIMS bdiet proċess ta' identifikazzjoni ta' għodod addizzjonali ta' teknoloġija ta' l-informazzjoni li jkomplu jtejbu s-servizzi li jingħataw.

L-IIMS għandha l-organizzazzjoni professjonali neċessarja li jrid ikollu manigment ta' assigurazzjoni internazzjonali biex jagħti servizzi amministrattivi lill-industrija ta' l-assigurazzjoni. Il-Bord tad-Diretturi, flimkien mal-manigment tal-kumpanija, huma kommissi li jtejbu l-portafoll ta' klijenti skond l-obbjettivi mfasslin għal din il-kumpanija: dak li tagħti servizz effettiv u ekonomiku lil klijenti eżistenti, u li tasal li jkollha portafoll bilancjat ta' klijenti li jagħzlu li jixru s-servizzi ta' l-International Insurance Management Services Ltd.

A. M. TABONE
GENERAL MANAGER

BUSINESS REVIEW



The results achieved during 2006 are in line with the company's business plan. This challenging year has been characterised by increased productivity as well as market pressure on pricing levels.

During the year, the company continued to concentrate its activities primarily in the regions of Italy south of and including Lazio and continues to trade in the northern regions of Trentino Alto Adige and Piemonte in non-Motor business. Sales outlets increased from 115 at the end of 2005 to 123 at the end of 2006. 37 of such agencies are based in Sicily, 8 in Sardegna whilst the remaining 78 agencies are located on mainland Italy leading to 70% of the company's distribution network being located outside Sicily. The company's bancassurance agreement with Banca Nuova, a member of the Banca Popolare di Vicenza group concluded in 2005 increased, to an important extent, the company's property turnover.

In the latter part of the year, the board of directors approved a number of enhancements to our business model. These included the extension of the agency network to the North Central regions of Italy in all classes as well as actively pursuing business generated from banks and schemes that can significantly contribute to improving the class mix of business. Consequently, besides striving to improve profitability, the main targets for the next few years will be an improved class and territorial mix.

The enhanced actuarial involvement in the calculation of premium rates and claims reserves continues notwithstanding the important limitations presented by the limited size of the portfolio. The significant strengthening, during 2006, in the underlying assumptions used in the claims reserving model, led to a noticeable increase in claim provisions at the end of the year. This actuarial function is outsourced to an Italian firm of international repute.

The improvement in the composition of the portfolio, between motor liability business and other classes of business remains an important priority for the company. During the year, a one point seven percentage point improvement in this ratio was achieved notwithstanding a 13% increase in turnover during the year.

The company continued to emphasise with its agents the importance of achieving its targeted portfolio composition. Measures introduced in the previous years to link remuneration to achieving this objective continue to assist in improving business mix. Furthermore, the company continued to invest in the professional development of its agents and employees.

Written premium income of Lm23 million (€53.5m) was registered in 2006, an increase of 13% over the 2005 premium income. This increase emanated mainly from motor liability and property class, the latter as a result of the bancassurance agreement mentioned earlier on. The process of developing actuarially based pricing models in collaboration with the company's consultant actuary continues unabated and today motor liability prices are entirely computed actuarially. As a result of these pricing models the company increased its tariffs in November 2006. However the effect of these price changes will only be seen at a later stage.

On a similar note, the enhancement of the company's claims handling processes continued with special emphasis on the efficient settlement of claims and strong reserving criteria. All claim documentation is processed optically using dedicated document management software tailored to the claims process. The whole process allows management to monitor data and take any action which may be required on a timely basis. In addition, the special unit established to deal with claims which have remained unsettled for longer periods continues making inroads in resolving a proportion of such cases out of court to the satisfaction of all parties concerned. Notwithstanding this, significant investment will be made in 2007 to increase the speed of settlement of claims.

In 2006 gross claims incurred increased by 9.8% and amounted to Lm17.1million (€39.8m). The loss ratio increased by 2 percentage points to 70% with the increase emanating from a negative run-off of 2.7% on the previous year reserves primarily due to the enhanced assumptions used in our actuarial models mentioned above. Current year loss ratio has improved from 69.6% to 65.9% when compared to 2005. Protections continue to be maintained to safeguard against inadequate reserving in the years



From left: Rag. Giovanni Ficarra, Sig.ra Nunzia Ciotta, Mr Keith Mallia Milanese and Mr Claud Fenech.

before the company became part of the Middlesea Group.

Progress continues to manage all its claims through its own personnel in its own offices supported by teams of independent professionals. These are located in Palermo, Catania, Naples and Sassari. In addition, whilst a separate structure exists to handle claims emanating from the region of Puglia, a fully fledged settlement office has not yet been opened there since volumes remain below the minimum required to justify such a presence. Acquisition costs equate to 13.7%, an increase of point four of a percentage point over 2005.

Progress continued to make use of the Group's management services. The expense ratio for the year increased slightly by point two of a percentage point to 8%. The management team has recently been strengthened substantially in line with the business plan. Investment income amounted to Lm1.1million (€2.6m) an increase of 15% notwithstanding the continued downward trends in fixed income securities.

The net underwriting profit before tax was Lm0.6million (€1.3m) whilst shareholders' funds increased by 20.7% to Lm11.8million (€27.4m) mainly arising due to an increase in share capital of Lm2.2million (€5m).

S. GAUCI
CHIEF EXECUTIVE OFFICER

BUSINESS REVIEW



Ir-riżultati miksubin minn Progress Assicurazioni matul is-sena 2006 jaqblu mal-pjan tan-negozju tal-kumpanija. Din is-sena, wahda ta' sfida, kienet ikkaratterizzata minn produttività akbar u wkoll minn pressjoni tas-suq fuq il-livelli tal-prezzijiet.

Matul is-sena l-kumpanija baqgħet tikkonċentra l-attivitàjiet tagħha l-aktar fir-reġjunijiet ta' l-Italja mil-Lazio 'l isfel, u għadha tmexxi n-negozju mhux tal-vetturi fir-reġjunijiet tat-tramuntana tat-Trentino Alto Adige u Piemonte. Aġenziji tal-bejgħ telghu minn 115 fi tmiem l-2005 għal 123 fi tmiem l-2006. 37 minn dawn l-aġenziji huma bbażati fi Sqallija, 8 f'Sardinja u t-78 l-oħra huma mxerrda fit-terraferma Taljana b'mod li 70% tal-firxa distributtiva tal-kumpanija qiegħda barra minn Sqallija. Il-ftehim ta' bankassigurazzjoni tal-kumpanija ma' Banca Nuova, membru tal-grupp Banca Popolare di Vicenza, li kien konkluż fl-2005, kabbar b'mod importanti l-kont tal-kumpanija fil-qasam tal-propjetà.

Fl-aħhar parti tas-sena l-Bord tad-Diretturi approva għadd ta' titjib lill-mudell ta' kif inhadmu n-negozju tagħna. Dawn jinkludu l-estensjoni tan-netwerk ta' l-aġenziji għar-reġjunijiet ċentrali tat-Tramuntana ta' l-Italja fil-klassijiet kollha u wkoll it-tmexxija attiva ta' negozju ġġenerat minn banek u skemi li jistgħu jikkontribwixxu b'mod sinifikanti biex tittejjeb it-tahlita ta' klassijiet tan-negozju. B'konsegwenza ta' dan, minbarra li qed nahdmu biex jitjiebu l-profitti, l-għanijiet ewlenin għall-ftit snin li ġejjin għandhom ikunu t-titjib tat-tahlita kemm ta' klassijiet u kemm ta' territorji.

L-involvement attwarjali mtejjeb fil-kalkolu ta' rati ta' primjum u riservi għal klejms jibqa' għaddej minkejja l-limitazzjonijiet importanti pprezentati mid-daqs limitat tal-portafoll. It-tishih sinifikanti, matul l-2006, fl-assunzjonijiet sostenituri użati fil-mudell ta' l-irriservar tal-klejms, wassal għal tkabbir notevoli fil-proveddiment għal klejms fi tmiem is-sena. Din il-funzjoni attwarjali nġhatat barra lil ditta Taljana ta' fama internazzjonali

It-titjib fil-kompożizzjoni tal-portafoll, bejn negozju ta' responsabbiltà ta' vetturi u klassijiet ta' negozju oħrajn, jibqa' prijorità importanti għall-kumpanija. Matul is-sena kien hemm titjib ta' 1.7 punti perċentwali f'din il-proporzjon, minkejja tkabbir ta' 13% fin-negozju matul is-sena.

Il-kumpanija kompliet tenfasizza ma' l-aġenti tagħha l-importanza li tilhaq il-kompożizzjoni tal-portafoll kif iffissata minn qabel. Il-miżuri li ddahhlu fis-snin ta' qabel biex jorbtu r-rimunerazzjoni ma' l-ilhiq ta' dan l-oġġettiv komplew għinu fit-titjib tat-tahlita tan-negozju. Barra minn hekk, il-kumpanija baqgħet tinvesti fl-iżvilupp professjonali ta' l-aġenti u l-impjegati tagħha.

Dhul ta' Lm23 miljun (€53.5m) minn primjums sottoskritti kien irreġistrat fl-2006, zieda ta' 13% fuq id-dhul minn primjums fl-2005. Din iż-żieda għet prinċipalment mill-klassi tar-responsabbiltà ta' vetturi u mill-klassi tal-propjetà; din ta' l-aħhar hija riżultat tal-ftehim ta' bankassigurazzjoni msemmi qabel. Il-proċess ta' żvilupp ta' mudelli ta' pprezzar ibbażati fuq l-attwarji f'kollaborazzjoni ma' l-attwarju konsulent tal-kumpanija jibqa' għaddej bla waqfen, u llum il-prezzijiet tar-responsabbiltà tal-vetturi jinħadmu kollha b'mod attwarjali. B'riżultat ta' dawn il-mudelli ta' pprezzar, il-kumpanija ziedet it-tariffi tagħha f'Novembru 2006. Iżda l-effett ta' dawn il-bidlijiet fil-prezzijiet jidher biss fi stadju futur.

Fuq nota simili, it-titjib tal-proċessi ta' mmanigġjar ta' klejms mill-kumpanija baqa' sejjer b'enfazi speċjali fuq finalizzar effiċjenti ta' klejms u kriterji ta' riservar qawwjin. Id-dokumentazzjoni kollha tal-klejms hi proċessata b'mod ottiku bl-użu ta' softwer manigerjali mfassal apposta għall-proċess tal-klejms. Il-proċess kollu jagħti ċans lill-amministrazzjoni li tikkontrolla l-informazzjoni u tiehu kull azzjoni li tista' tkun meħtieġa fil-waqt propizju. Barra minn hekk, unità speċjali mwaqqfa biex tittratta l-klejms li għamlu żmien aktar twil mhux imħallsin qed ikompli jirnexxilha ssolvi proporzjon minn dawn il-każijiet mingħajr rikors għall-qrati u għas-sodisfazzjon tal-partijiet kollha involuti. Minkejja dan, fl-2007 se jsir investment sinifikanti biex jithaff il-finalizzar tal-klejms.

Fl-2006 klejms gross li dahlu telghu b'9.8% u ammontaw għal Lm17.1 miljun (€39.8m). Il-proporzjon tat-telf għal-primjums telgħet b'żewġ punti perċentwali għal 70%; din iż-żieda għet minn finalizzar negattiv ta' 2.7% fuq ir-riservi tas-sena ta' qabel dovuti primarjament għall-assunzjonijiet imtejba użati fil-mudelli attwarjali tagħna msemmija hawn fuq. Il-proporzjon tal-klejms mal-primjums tjiġbet minn 69.6% għal 65.9% meta mqabbla ma' l-

BUSINESS REVIEW

2005. Baqghu fis-sehh il-mizuri protettivi biex jilqghu ghal riservar inadegwat fis-snin qabel ma l-kumpanija saret parti mill-Middlesea Group.

Progress qed tkompli timmaniġġja l-klejms kollha taghha bin-nies taghha stess fl-uffiċċju taghha, meghjunin minn gruppi ta' nies professjonali indipendenti. Dawn qeghdin Palermo, Katanja, Napli u Sassari. Barra minn hekk, filwaqt li teżisti struttura separata biex timmaniġġja klejms ġejjin mir-regjun tal-Puglia, ghad ma nfetaxx uffiċċju komplut b'kollox ghall-hlas tal-klejms billi l-volumi ghadhom taht il-minimu mehtieg biex jiggustifika preżenza ta' din ix-xorta. Spejjeż ta' akkwisti kienu 13.7%, żieda ta' żero punt erba' punti perċentwali fuq l-2005.

Progress baqghet tuża s-servizzi manigerjali tal-Grupp. Il-proporzjon ta' spejjeż ghas-sena żdied fit b'0.2% ghal 8%. Il-grupp amministrattiv dan l-ahhar issahhah sostanzjalment skond kif jitlob il-pjan tan-negozju. Dhul minn investimenti ammonta ghal Lm1.1 miljun (€2.6m) żieda ta' 15% minkejja x-xejriet 'l isfel kontinwi fit-titoli ta' sigurtà bi dhul fiss.

Il-qligh nett mis-sottoskrizzjoni, qabel il-hlas tat-taxxa, kien Lm0.6 ta' miljun (€1.3m), filwaqt li l-fondi ta' l-azzjonisti telghu b'20.7% ghal Lm11.8 miljun (€27.4m), l-aktar minhabba żieda ta' Lm2.2 miljun (€5m) fil-kapital tal-Kumpanija.



S. GAUCI
CHIEF EXECUTIVE OFFICER

THE MALL

This building is situated opposite the Mall Garden in Floriana which was built in 1656 following instructions of Grand Master Jean Paul Lascaris. The Mall Garden was intended for the Knights of Malta to have a place of recreation and there, the Knights used to play the ball game 'palla a maglio'. Situated in the area known as 'Balzunetta', between the 1940s and 1960s this building housed two dance halls which were popular amongst US and UK servicemen - 'The Palladium' and 'King George V'. The Mall building was demolished in the 1990s and was reconstructed for the Middlesea Group by Demicoli and Associates who ensured that the façade's original architectural features were retained. The Mall is currently utilised as offices, including the Treasury Department, Valletta Fund Management Ltd and Finco Trust Services Ltd.

Dan il-bini qiegħed quddiem il-ġnien tal-Mall fil-Furjana li kien inbena fl-1656 kif ordna l-Granmastru Jean Paul Lascaris. Il-ġnien tal-Mall kien maħsub biex il-Kavallieri ta' Malta jkollhom post għar-rikreazzjoni, u bemm il-Kavallieri kienu jilagħbu logħba tal-ballun imsejba 'palla a maglio'. F'dan il-bini, li qiegħed f'zona magħrufa bbala Balzunetta, bejn l-erbgħinijiet u s-sittinijiet tas-seklu għoxrin kien bemm żewġ swali taż-żfin popolari bafna man-nies tas-servizzi Amerikani u Inġliżi - 'The Palladium' u 'King George V'. Il-binja tal-Mall twaqqgħet fid-disgħinijiet u nbriet mill-ġdid għall-Middlesea Group minn Demicoli and Associates li żguraw li l-karatteristiċi arkitettoniċi oriġinali tal-faċċata jinżammu. Il-Mall bbalissa jintuza bbala uffiċċji, fosthom id-Dipartiment tat-Teżor, il-Valletta Fund Management Ltd u Finco Trust Services Ltd.





HEAD OFFICES, BRANCHES & AGENCIES

MIDDLESEA INSURANCE P.L.C. HEAD OFFICE

Middle Sea House
Floriana, FRN 1442
Tel: (00356) 2124 6262
Fax: (00356) 2124 8195
e-mail: middlesea@middlesea.com
website: www.middlesea.com

CLAIMS & HEALTH DEPARTMENTS

41, Market Street
Floriana, FRN 1442
Tel: (00356) 2124 6262
Fax: (00356) 2124 8195
e-mail: middlesea@middlesea.com

GIBRALTAR BRANCH

Suite 1A, Tisa House
143 Main Street
Gibraltar
Tel: (00350) 76434
Fax: (00350) 76741
e-mail: masbro@gibnet.gi

LOCAL AGENCIES

ALLCARE INSURANCE AGENCY LIMITED

University Roundabout
Msida
Tel: (00356) 2133 0011
Fax: (00356) 2134 7947
e-mail: info@allcare.com.mt

BONNICI INSURANCE AGENCY LIMITED

222, The Strand
Gzira, GZR 1022
Tel: (00356) 2133 9110
Fax: (00356) 2131 0390
e-mail: info@bonniciinsurance.com

ENGLAND INSURANCE AGENCY LIMITED

190, 1st Floor, Marina Street
Pieta, PTA 1904
Tel: (00356) 2125 1015
Fax: (00356) 2124 4507
e-mail: info@england.com.mt

LAFERLA INSURANCE AGENCY LIMITED

Vincenti Buildings
Blk. 13, Flt. 18/19, Strait Street
Valletta, VLT 1453
Tel: (00356) 2122 4405
Fax: (00356) 2124 0811
e-mail: info@laferla.com.mt

MELITA INSURANCE AGENCY LIMITED

High-Rise
16 Triq l-Imradd
Ta' Xbiex, XBX 1150
Tel: (00356) 2131 6027
Fax: (00356) 2131 6032
e-mail: melitains@nextgen.net.mt

UNIPOL INSURANCE AGENCY LIMITED

17 Market Street
Floriana, FRN 1081
Tel: (00356) 2123 6363
Fax: (00356) 2124 1954
e-mail: unipol@unipol2000.com

UNTOURS INSURANCE AGENTS LIMITED

(agents for Non-Motor Insurance)
Old Bakery Street
Valletta, VLT 1450
Tel: (00356) 2125 2563
Fax: (00356) 2124 3796
e-mail: insurance@untours.com.mt

OVERSEAS AGENT

MASCARENHAS INSURANCE AND FINANCE LIMITED

Suite 1A, Tisa House
143 Main Street
Gibraltar
Tel: (00350) 76434
Fax: (00350) 76741
e-mail: masbro@gibnet.gi

PROGRESS ASSICURAZIONI S.p.A. HEAD OFFICE

Piazza Alberico Gentile, 3
90143 - Palermo
Italia

CLAIMS' OFFICES

Piazza Alberico Gentile, 3
90143 - Palermo
Italia

Piazzale G D'Annunzio, 56
80125 - Napoli
Italia

Via F Solimena, 127
80128 - Napoli
Italia

Via Campi Flegrei, 28
80078 - Pozzuoli
Italia

Via Asiago, 5
95100 - Catania
Italia

Via Gio Maria Angioy, 6
07100 - Sassari
Italia

AGENCIES

Sicilia (46 Agencies)
Calabria (19 Agencies)
Sardegna (8 Agencies)
Basilicata (1 Agency)
Campania (39 Agencies)
Puglia (13 Agencies)
Molise (2 Agencies)
Lazio (6 Agencies)
Abruzzo (2 Agencies)
Umbria (2 Agencies)
Piemonte (1 Agency)
Trentino Alto Adige (2 Agencies)

GROUP FINANCIAL HIGHLIGHTS

	2006		2005	
	EURO'000	US\$'000	EURO'000	US\$'000
Gross premiums written:				
General Business	82,455	108,689	77,478	102,129
Life Business	1,393	1,836	1,339	1,766
Total gross premiums	83,848	110,525	78,818	103,895
Group investment return	9,423	12,422	13,317	17,554
Profit for the financial year	7,507	9,895	11,313	14,912
Net Dividend	2,621	3,454	2,912	3,838
Net Dividend per Lm0.25 share	10c	14c	12c	15c
Share Capital	14,559	19,191	14,559	19,191
Net technical reserves:				
General Business	123,132	162,308	113,245	149,276
Life Business	390	514	415	547
Shareholders' Funds	78,603	103,612	72,101	95,041
Net Asset value per Lm0.25 share	€3.14	\$4.14	€2.88	\$3.80
Total number of ordinary shares in issue	25,000,000	25,000,000	25,000,000*	25,000,000*

All figures have been translated at the rate of exchange ruling at 31 December 2006

	2006 Lm	2005 Lm
Gross premiums written		
- General Business	35,397,807	33,261,505
- Life Business	597,956	575,001
General business results	2,303,427	4,136,793
Life business results	281,347	396,830
Investment return	4,045,453	5,716,856
Profit attributable to shareholders	3,176,482	4,817,528
Dividend proposed (net)	1,125,000	1,250,000
Earnings per share	12c7	19c3*
Net asset value per share	1.35	1.24*

*Taking into account share split of 50c shares into shares of 25c each.



WHITEHALL MANSIONS

White Hall Mansions in Ta' Xbiex is a pre-War building. During World War II, the building was utilised as the WRENS' (Women's Royal Naval Service) Headquarters. Following the War, it served as residential apartments. The edifice currently houses various offices, including the British High Commission, the Embassy of the Kingdom of Spain, the Royal Netherlands Embassy, the Embassy of Austria, the Embassy of Portugal and the Embassy of Ireland.

White Hall Mansions f'Ta' Xbiex jaf il-bidu tiegħu għal qabel it-Tieni Gwerra Dinjija, u tulba kien jintuża bbala Headquarters tar-WRENS (Women's Royal Naval Service). Wara l-Gwerra serva bbala appartamenti residenzjali. Il-bini fib diversi uffiċċji, fosthom il-Kummissjoni Għolja Ingliża, l-Ambaxxata tar-Renju ta' Spanja, l-Ambaxxata Rjali Olandiża, l-Ambaxxata ta' l-Awstrija, l-Ambaxxata tal-Portugall u l-Ambaxxata ta' l-Irlanda.



PROFESSIONAL SERVICES

The Group, in addition to its regular staff complement, as at 31 December 2006 utilised the professional services of the following individuals and institutions

LEGAL ADVISORS

Mamo TCV Advocates
Sapiano & Associates (now Aequitas Legal)
Sciriha, Attard Montalto, Galea & Associates
Dr Lorraine Conti LL.D
Studio Legale Associato Inzerillo

AUDITORS

PricewaterhouseCoopers

ACTUARIES

Watson Wyatt Worldwide
Studio Gismondi e Associati

BANKERS

Bank of Valletta p.l.c.
Lombard Bank (Malta) p.l.c.
HSBC Bank (Malta) Ltd
National Westminster Bank
SG Hambros Bank & Trust (Gibraltar) Limited
APS Bank Limited
Banco di Sicilia S.p.A.
Unicredit Banca D'Impresa S.p.A.
Intesa Sanpaolo S.p.A.
Sanpaolo Banco di Napoli S.p.A.
Istituto Sanpaolo di Torino S.p.A.
Banca Nuova S.p.A.

SPONSORING STOCKBROKERS

Bank of Valletta p.l.c.

GROUP COMMITTEES

GROUP INVESTMENT COMMITTEE

Mr Mario C. Grech (Chairman)
Mr Frank Xerri de Caro ACIB
Mr Roderick E. D. Chalmers MA Div (Edin), FCA, ATII, FCPA, MIA
Mr Tonio Depasquale
Dr Reno Borg BA (Hons), MA, LLD
Mr Emanuel Ellul BA (Hons) Econ, Dip Pol Econ
Mr Luigi Lubelli Msc
Mr David G. Curmi ACII Chartered Insurer
Mr Stephen Gauci ACII
Mr Joseph M. Rizzo ACII, AIMS, AMIAP, Chartered Insurer
Ms Anne Marie Tabone BA (Hons) Accty, FIA, CPA
Ms Marzena Formosa MA (Econ), MA (Financial Services)

AUDIT COMMITTEE

Mr Lino Spiteri MA (Oxon) (Chairman)
Mr Roderick E. D. Chalmers
M.A. Div (Edin), FCA, ATII, FCPA, MIA
Mr Domingo Sugranyes Bickel (License en Sciences Economiques et Sociales)
Mr Joseph F.X. Zahra BA (Hons) Econ, MA (Econ), MCIM, MMRS

REMUNERATION COMMITTEE

Dr John C. Grech (Chairman) MA (Econ) Dip. ICEI (A'dam) PHD (Geneva), FCIB, MBIM, FMIM
Dr Michael Sparberg
Mr Frank Xerri de Caro ACIB
Mr Victor Galea Salomone BA (Luther), MBA (Henley-Brunel)

RISK MANAGEMENT COMMITTEE

Mr Joseph F.X. Zahra BA (Hons) Econ, MA (Econ), MCIM, MMRS (Chairman)
Mr George Bonnici
Mr Gaston Debono Grech L.P. FISMM (Luton), BA (Leg), Mag. Jur. (Int. Law) Dip. Trib. Eccl. Melita
Mr David G. Curmi ACII Chartered Insurer
Mr Stephen Gauci ACII
Mr Joseph M. Rizzo ACII, AIMS, AMIAP, Chartered Insurer
Ms Anne Marie Tabone BA (Hons) Accty, FIA, CPA

THE COMPLIANCE & PREVENTION OF MONEY LAUNDERING COMMITTEE

Mr Emanuel Ellul BA (Hons) Econ. Dip. Pol. Econ. (Chairman)
Mr George Bonnici
Dr Evelyn Caruana Demajo LLD
Dr Robert A. Staines LLD
Mr David G. Curmi ACII Chartered Insurer
Mr Stephen Gauci ACII
Mr Joseph M. Rizzo ACII, AIMS, AMIAP, Chartered Insurer
Ms Anne Marie Tabone BA (Hons) Accty, FIA, CPA

SHARE REGISTER INFORMATION

Share Register Information pursuant to the Malta Financial Services Authority Listing Rules

Directors' interests in the share capital of the Company as at 31 December 2006

G. Bonnici	6,510 shares
Dr E. Caruana Demajo	28 shares
G. Debono Grech	12,764 shares
T. Depasquale	1,590 shares
Dr J. C. Grech	10,000 shares
M. C. Grech	5,450 shares
F. Xerri de Caro	58 shares
J.F.X.Zahra	330 shares

Shareholders holding 5% or more of the equity share capital as at 31 December 2006

Münchener Rückversicherungs Gesellschaft	19.90%
HSBC Bank Malta p.l.c. as sub-custodian of BNY Brussels as custodian for Corporación Mapfre	21.00%
Bank of Valletta p.l.c.	21.65%

Shareholding Details

As at 31 December 2006, Middlesea Insurance p.l.c.'s Issued Share Capital was held by 4,483 shareholders. As at 11 May 2007, the Issued Share Capital was held by 4,498 shareholders. The Issued Share Capital consists of one class of ordinary shares with equal voting rights.

Distribution of shares analysed by range

Range of shareholding	As at 31 December 2006		As at 11 May 2007	
	No. of shareholders	shares	No of shareholders	shares
1-500	2,681	463,220	2,682	464,142
501-1000	607	448,945	625	463,483
1001-5000	991	2,247,962	984	2,231,452
5001 and over	204	21,839,873	207	21,840,923

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activities of the Group consist of the business of insurance, including long term business.

REVIEW OF THE BUSINESS

Middlesea Insurance p.l.c. registered a profit before tax of Lm3.7 million for the year ended 31 December 2006, compared to the profit of Lm6.5 million generated last year.

Gross premium written increased by 6.4% to Lm36 million. This increase is attributable to a higher level of business generated by Progress Assicurazioni S.p.A.

Total income from insurance activities fell from Lm5.7 million to Lm4.1 million. This includes the improved results of the associated undertaking involved in long term business (Lm1.5 million compared to Lm1.2 million in 2005). The decrease was due both to reduced investment returns and to an increase in the net combined ratio (before any investment income allocation) from 94% in 2005 to 98% in 2006. Investment income fell reflecting the overall deterioration in both the foreign bond market and the local equity market during 2006 when compared to the exceptionally high performance of 2005. In total, Group investment return fell from Lm5.7 million to Lm4 million. The investment return allocated to the technical account consequently also fell from Lm2.9 million to Lm2 million.

The Group's profit after tax and after deducting minority interest amounted to Lm3.2 million compared to last year's Lm4.8 million.

The Group's total assets increased from Lm108 million to Lm118 million. At the year end investments under management totalled Lm91 million and the Group had net technical reserves of Lm53 million. Group equity increased from Lm32 million in 2005 to Lm35 million at the end of 2006 whilst the net asset value per share attributable to shareholders (restated after the share split that took place during the year) increased from Lm1.24 to Lm1.35 per share.

The Group has a positive outlook on its position in the general business insurance market in Malta. The Group aims to continue to deliver a broad and superior range of products that meet the needs of its customers.

RESULTS AND DIVIDENDS

The consolidated profit and loss account is set out on page 58. The directors recommend the payment of a dividend of 4.5 cents per share totalling Lm1,125,000 (2005 - Lm1,250,000 including a 25th Anniversary Special Dividend of Lm375,000).

DIRECTORS

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

M.C. Grech - Executive Chairman, R.E.D. Chalmers M.A.Div (Edin), F.C.A., A.T.I.L., F.C.P.A., MIA - Deputy Chairman, G. Bonnici, E. Caruana Demajo LL.D., A. Corsi (Degree in Statistics and Actuarial Services, Associate of the Italian Society of Actuaries "Ordine Nazionale degli Attuari"), G. Debono Grech L.P., FISMM, B.A. (Leg), Mag. Jur. (Int. Law), Dip. Trib. Eccl. Melita, T. Depasquale, V. Galea Salomone B.A. (Luther), M.B.A. (Henley-Brunel), J.C. Grech M.A.(Econ.), Dip. ICEI (A'dam), PhD (Geneva), F.C.I.B., M.B.I.M., F.M.I.M., A. Jimenez Herradon, M. Sparberg Dr Jur, L. Spiteri M.A. (Oxon), D. Sugranyes Bickel ("Licence en Sciences Economiques et Sociales"), F. Xerri De Caro A.C.I.B. - resigned 1 January 2007, J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S.

In accordance with the Articles of Association of the Company, all directors retire from office at the Annual General Meeting and are eligible for re-election or re-appointment. Those members who either separately or in aggregate hold not less than 7% of the total voting rights have the right to appoint a director, by letter addressed to the Company, for each and every complete 7% shareholding, so however that those members who hold that percentage separately are required to exercise this right. The remaining directors are elected at the Annual General Meeting.

AUDITORS

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

By order of the Board



M.C. Grech
Executive Chairman

Middle Sea House
Floriana, Malta

26 April 2007

Id-diretturi jipprezentaw ir-rapport tagħhom u d-dikjarazzjonijiet finanzjarji awditjati għas-sena li għalqet fil-31 ta' Diċembru 2006.

ATTIVITAJIET PRINCIPALI

L-attivitajiet prinċipali tal-Grupp jikkonsistu fin-negozju ta' assigurazzjoni, inkluż negozju għat-tul.

HARSA LEJN IN-NEGOZJU

Il-Middlesea Insurance p.l.c. rreġistrat qligħ ta' Lm3.7 miljun, qabel il-hlas tat-taxxa, għas-sena li għalqet fil-31 ta' Diċembru 2006, mqabbel mal-qligħ ta' Lm6.5 miljuni gġenerat is-sena l-oħra.

Prinjums gross sottokritri telghu b'6.4% għal Lm36 miljun. Din iż-żieda għaja mil-livell ta' negozju oghla gġenerat minn Progress Assicurazioni S.p.A.

Id-dhul totali minn attivitajiet ta' assigurazzjoni niżel minn Lm5.7 miljuni għal Lm4.1 miljuni. Dan jinkludu r-riżultati aħjar ta' l-impriza assoċjata involuta f'negozju għat-tul (Lm1.5 miljun imqabbel ma' Lm1.2 miljun fl-2005). It-naqqis għie kemm minn qligħ inqas minn investimenti u kemm minn zieda fil-proporzjon kombinata netta (qabel kull allokkazzjoni ta' dhul minn investimenti) minn 94% fl-2005 għal 98% fl-2006. Dhul minn investimenti niżel, u dan jirrifletti d-deterjorament ġenerali kemm fis-suq barrani tal-bonds u kemm fis-suq lokali tal-ishma tul l-2006 meta mqabbel mar-riżultati għolja eċċezzjonali fl-2005. Fit-total, il-qligħ minn investimenti tal-Grupp niżel minn Lm5.7 miljuni għal Lm4 miljuni. B'konsegwenza, il-qligħ minn investimenti allokat għall-kont tekniku niżel ukoll minn Lm2.9 miljuni għal Lm2 miljuni.

Il-profiti tal-Grupp ammontaw għal Lm3.2 miljuni, wara l-hlas tat-taxxa u wara t-naqqis ta' interess minoritarju, imqabblin ma' Lm4.8 miljuni tas-sena l-oħra.

L-assi totali tal-Grupp telghu minn Lm108 miljuni għal Lm118-il miljun. Fi tmiem is-sena t-total ta' investimenti amministrati kien Lm91 miljun u l-Grupp kellu riservi tekniċi netti ta' Lm53 miljun. L-ekwiżit tal-Grupp telgħet minn Lm32 miljun fl-2005 għal Lm35 miljun fi tmiem l-2006, filwaqt li l-valur ta' l-assi nett għal kull sehem attribwibbli lill-azzjonisti (iddikjarat mill-gdid wara l-qsim ta' l-ishma li sar tul is-sena) tela' minn Lm1.24 għal Lm1.35 għal kull sehem.

Il-Grupp iħares b'mod pożittiv lejn il-pożizzjoni tiegħu fis-suq tan-negozju ta' l-assigurazzjoni ġenerali f'Malta. Il-Grupp għandu l-għan li jkompli jagħti medda wiesgħa u superjuri ta' prodotti li jilhqgħ l-htigiet tal-klijenti tiegħu.

RIŻULTATI U DIVIDENDI

Il-kont ta' qligħ u telf konsolidat hu mnizzel f'paġna 58. Id-diretturi jirikkmandaw il-hlas ta' dividend ta' 4.5 ċenteżmi għal kull sehem li jagħmlu total ta' Lm1,125,000 (2005 - Lm1,250,000, inkluż Dividend Speċjali ta' Lm375,000 fl-okkazzjoni tal-25 Anniversarju).

DIRETTURI

Id-diretturi tal-Kumpanija li kellhom kariga tul is-sena kienu:

M.C. Grech - Chairman Eżekuttiv, R.E.D. Chalmers M.A.Div (Edin), F.C.A., A.T.I.L., F.C.P.A., MIA - Deputat Chairman, G. Bonnici, E. Caruana Demajo LL.D., A. Corsi (Degree in Statistics and Actuarial Services, Associate of the Italian Society of Actuaries "Ordine Nazionale degli Attuari"), G. Debono Grech L.P., FISMM, B.A. (Leg), Mag. Jur. (Int. Law), Dip. Trib. Eccl. Melita, T. Depasquale, V. Galea Salomone B.A. (Luther), M.B.A. (Henley-Brunel), J.C. Grech M.A.(Econ.), Dip. ICEI (A'dam), PhD (Geneva), F.C.I.B., M.B.I.M., F.M.I.M., A. Jimenez Herradon, M. Sparberg Dr Jur, L. Spiteri M.A. (Oxon), D. Sugranyes Bickel ("Licence en Sciences Economiques et Sociales"), F. Xerri De Caro A.C.I.B. - irriżenja 1 Jannar 2007, J.F.X. Zahra B.A. (Hons.) Econ., M.A. (Econ.), M.C.I.M., M.M.R.S.

Skond l-Artikoli ta' Assoċjazzjoni tal-Kumpanija, id-diretturi jirtiraw mill-kariga fil-Laqqha ġenerali Annwali u huma eliġibbli biex jerggħu jkunu eletti jew mahturin. Dawk il-membri li jew separatament jew fl-aggregat ikollhom mhux inqas minn 7% tad-drittijiet totali għall-vot għandhom id-dritt li jaħtur direttur, b'ittra indirizzata lill-Kumpanija, għal kull 7% mill-ishma jew singoli jew kompletati, b'dan iżda li dawk il-membri li jkollhom dik il-perċentwali separatament huma obligati li jeżerċitaw dan id-dritt. Il-bqija tad-diretturi huma eletti fil-Laqqha ġenerali Annwali.

AWDITURI

L-awdituri, PricewaterhouseCoopers, indikaw ir-rieda tagħhom li jibqgħu fil-kariga, u rizzoluzzjoni għall-hatra mill-gdid tagħhom ser titressaq fil-Laqqha ġenerali Annwali.

B'ordni tal-Bord



R.E.D. Chalmers
Deputy Chairman

CORPORATE GOVERNANCE - STATEMENT OF COMPLIANCE

Issuers whose securities are listed on the Malta Stock Exchange are required to include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they adopted the Code of Principles of Good Corporate Governance (the "Principles") included in the MFSA Listing Rules (Listing Rule 8.37). Issuers are also required to state the effective measures taken to ensure compliance throughout the accounting period with the Principles (Listing Rule 8.38). The Issuer's Auditors are to include a report in the Annual Report on the Statement of Compliance. Middlesea Insurance plc (the "Company") adopted the Principles on their introduction. In certain areas, the governance procedures applied within the Company have been amended to implement the recommendations included in the Principles. Having regard also to other recognised models of corporate governance, the Company has in places retained or adopted alternative measures with appropriate explanation.

The Principles were amended with effect from March 2007 and the Company is currently taking the necessary measures in order to comply with the new amendments.

RESPONSIBILITIES OF THE BOARD

The Board acknowledges its statutory mandate to conduct the administration and management of the Company. The Board, in fulfilling this mandate and discharging its duty of stewardship of the Company, assumed responsibility for the following:

- (a) Setting business objectives, goals and the general strategic direction for management with a view to maximise value;
- (b) Reviewing and approving the business plans and targets that are submitted by management and working with management in the implementation of these plans;
- (c) Identifying the principal business risks of the Company and overseeing the implementation within a realisable timeframe and monitoring of appropriate risk management systems;
- (d) Ensuring that effective internal control and management information systems for the Company are in place;
- (e) Participating in the appointment of the Company's executive officers and assessing their performance including monitoring the establishment of appropriate systems for succession planning and for approving the compensation and motivation levels of such executive officers; and
- (f) Ensuring that the Company has in place a policy to enable it to communicate effectively with shareholders, other stakeholders and the public generally.

During 2006, the Board delegated authority and vested accountability for the Company's day to day business to a management team led by the Chairman and CEO. In 2007, co-ordination of management activities was ensured through the operation of a Group Executive Committee led by the Executive Chairman. It brought together the Chief Operating Officer of the Company and the CEOs and Group Chief Financial Officer and General Manager of its subsidiaries and principal associated Company.

COMPOSITION OF THE BOARD

As regulated by the Company's Articles of Association, and consistent with generally accepted practices in Malta, the appointment of directors to the Board was

reserved exclusively to the Company's shareholders. A shareholder holding not less than 7% of voting rights of the issued share capital or a number of shareholders who between them hold not less than 7%, could appoint one Director for every such 7% holding by letter addressed to the Company; eight members of the Board were appointed during the year in terms of this rule. All shares not utilised to make appointments in terms of the above were used to elect a further six directors. All the directors so appointed or elected served on the Board in a non-executive capacity.

Pursuant to the Company's Articles of Association, Mr. Mario C. Grech, as a person holding a senior managerial position in the Company, was appointed at the Annual General Meeting through a separate election open to all shareholders.

The Board's composition, as at December 2006, was a mixture of one executive director and fourteen non-executive directors. Five of the non-executive directors hold positions with shareholders' organisations who have appointed them and who have a business relationship with the Company. Two non-executive directors, one elected by the shareholders in general meeting and the other appointed by a shareholder organisation, have a relationship with the Company through their business concerns. All the directors are of the appropriate calibre, with the necessary skills and experience to assist them in providing leadership, integrity and judgement in directing the Company.

The Regulatory regime requires that, prior to being appointed or elected directors, nominees undergo a screening process by the Malta Financial Services Authority.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the accounting period ending 31 December 2006, Mr Mario C. Grech held the position of Chairman of the Board and CEO of the Company. On 1 January 2007, Mr Grech was appointed Executive Chairman of the Company and continued to be responsible for the insurance operations in Malta assisted by the Chief Operations Officer. Middlesea was satisfied that the Company was compliant with paragraph 2.3 of the Principles (renumbered 2.2 following amendments to the Principles) since it had put in place a balanced management structure comprising, *inter alia*, the Group Executive Committee and certain Board Committees to which the Executive Chairman has to answer.

REMUNERATION OF DIRECTORS

Except in the case of the executive director, none of the Directors are employed with the Company. As in previous years, the Chairman declined receiving a fee. Three directors, namely Mr A. Corsi, Mr A. Jimenez and Mr D. Sugranyes did not receive a fee in accordance with the established policy of the shareholder companies with which they were employed and which appointed them. Fees payable to non-executive directors in respect of 2006 amounted to Lm49,672.

During the period under review, each director received a fee of Lm3,000. No director is entitled to profit sharing, share options or pension benefits. Directors sitting on the Board Committees were entitled to an additional remuneration which did not exceed Lm1,000 per annum. Three directors also sit on the Board of a subsidiary company, registered and operating abroad, and each received remuneration of €10,000 in this respect.

CORPORATE GOVERNANCE - STATEMENT OF COMPLIANCE

Contracted emoluments paid to the executive director amounted to Lm48,416 as disclosed in note 10 to the financial statements. Furthermore, provisions of Lm42,039 were made by the Group in respect of contracted pension obligations. The Company paid an insurance premium of Lm5,613 during the year in respect of insurance cover in favour of its directors.

The Directors' fees are approved in aggregate by shareholders at the Annual General Meeting.

BOARD COMMITTEES

The activities of the Board and of the Company's senior management team were monitored and supported by standing committees designed to assist in specialist activities and in governance issues. The members sitting on the various Group Committees are listed on page 40.

AUDIT COMMITTEE

The Audit Committee's terms of reference, as approved by the Board of Directors, are modelled mainly on the recommendations of the Cadbury Report and its Principles. They include, *inter alia*, the responsibility of reviewing the financial reporting process, the system of internal control and management of financial risks, the effectiveness of the systems of internal control and compliance and the arm's length nature of related party transactions and the audit process.

The Audit Committee is required to meet at least six times a year. During 2006 it met eight times. The external auditors are invited to attend specific meetings of the Audit Committee. They are also entitled to convene a meeting of the committee if they consider that it is necessary. The terms and conditions of new contracts negotiated with related parties (regarding reinsurance and local agents) are reviewed by the Company's Audit Committee.

Internal Audit is an independent appraisal function established within the organisation to examine and evaluate its activities as a service to the Group. The Internal Auditor reports to the Audit Committee and attends its meetings. The mission set by the Audit Committee for the Internal Auditor is to adopt business process risk-based audits, aimed at ensuring adequate controls and also business process efficiency.

REMUNERATION COMMITTEE

The Remuneration Committee concentrated on establishing the remuneration policy for the Group's directors and senior executives, outlined the various elements of their remuneration and disclosed the amount of remuneration paid to directors in 2006. During 2006, the Remuneration Committee met six times and the Chairman and CEO was invited to attend meetings of this Committee, except when his contract was discussed. The Committee was also actively involved in discussing management restructuring and in preparing concrete proposals for discussion by the Board on the subject as well as overviews negotiations with staff unions and the related collective agreements.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee is responsible for setting a Risk Management policy for the Group aligned with the direction and risk appetite of the Boards. This allows for the identification of a Risk Management philosophy and responsibilities thereby creating and

monitoring the environment and the structures for risk management to operate effectively. The Committee is charged with devising a risk management plan and adequate structures to implement the policy referred to earlier. Risk registers have been compiled in which business risks have been identified and prioritised in order to establish recommendations for the level of resources to be committed to manage these risks. This allows for the provision of a direction for the implementation of adequate systems and procedures to mitigate risks and align risk exposure with approved risk appetite. The Committee will ensure the maintenance of up-to-date Risk Registers and related management information. Consideration of urgent and *ad hoc* issues falls within the ambit of the Committee's functions and thus, where appropriate, will refer them to the Board with risk action plans. Adequate training will be provided to management and staff to enable them to contribute to the risk management process. The directors who sit on the Committee have undergone specific in-house training as an introduction to the wide field of Corporate Risk Management. The ethos of the Committee is to disseminate a Risk Management philosophy and risk awareness amongst all Group officials, and promote a proactive approach to the management of risk. During 2006, the Committee met ten times.

GROUP INVESTMENTS COMMITTEE

The Group Investments Committee meets on a regular basis and oversees the investment activities of the Group, setting overall policies and guidelines, scrutinising and approving material transactions and monitoring results. Any investment exceeding Lm500,000 requires approval of the Board of the respective Company making the investment.

COMPLIANCE AND PREVENTION OF MONEY LAUNDERING COMMITTEE

The Board of Directors amalgamated the Compliance Committee and the Prevention of Money Laundering Committee into one Group Committee during September 2006 and met three times. Pursuant to the terms of reference, the Committee will meet at least six times a year, and in conjunction with the Group Compliance Unit that reports to it, is concerned with establishing procedures to ensure compliance with all applicable laws, directives and regulations, and with the prevention, detection and/or resolution of compliance problems. The Group Money Laundering Reporting Officers also report to this Committee.

The Committee ensures adherence to the document entitled "Code of Dealing" addressed to its directors and senior officers as well as the directors and senior officers of its subsidiaries. The aim behind this Code is to ensure compliance with the Principles and the dealing rules contained in Listing Rules 8.45 to 8.55. The Company has in place a system for recording all advance notices received in connection with permitted dealings by directors and senior officers and acknowledgements of such advance notices. Furthermore, the Company reminds all directors and senior officers of their obligation to conform to the Code of Dealing on a yearly basis.

In the case of Progress Assicurazioni S.p.A., a subsidiary company incorporated in Italy, the *Collegio Sindacale* is appointed in terms of applicable Italian law, to act as the Compliance Committee. During the year under review, it was presided by Rag. Ferdinando Barbaro whilst Dott. Nicolo Francesco Rienzi and Dott. Angelo Sillitti acted as *sindaci effettivi*.

CORPORATE GOVERNANCE - STATEMENT OF COMPLIANCE

THE ROLE OF THE BOARD OF DIRECTORS

The activities of the Board of Directors are exercised in a manner designed to ensure that the Board effectively sets policies and supervises the operations of the Company.

Management provide the directors with a report in connection with each Board Meeting. This report sets out the Company's management accounts including key performance indicators since the date of the previous Board meeting; includes a management commentary on the results and on relevant events and decisions, and sets out background information on any matter requiring the approval of the Board.

Apart from setting the strategy and direction of the Company, the Board was actively involved in monitoring progress against budgets and plans and, in approving material or significant transactions.

The Board also monitored closely the key risk management policies and processes employed by the Middlesea Group, which are central to the nature of its operations. These policies and processes deal, inter alia, with issues such as:

- (a) the reinsurance programme maintained by the Group, ensuring the right balance between risk and reward and that the level of risk retention, particularly in the event of catastrophe, is consistent with the Group's resources;
- (b) the quality and creditworthiness of the reinsurance counterparties dealt with, to ensure the effectiveness of the reinsurance programme;
- (c) assessing pricing strategies in relation to the level of risk assumed and to market conditions generally;
- (d) the measures employed to manage foreign currency risks both in relation to assets and to liabilities;
- (e) the measures taken to ensure a balanced mix of investments and application of the Company's policy which focused on security, liquidity and maximisation of returns;
- (f) the internal controls and other disciplines maintained, both within Group companies and within agents and other intermediaries, to ensure the proper conduct in good faith of all operations; and
- (g) the level of capital resources supporting each business activity, to ensure adequate solvency both from a regulatory and business perspective.

The Board has direct access to the external auditors of the Company, who attend at Board meetings at which the Company's financial statements are approved after they have been reviewed by the Audit Committee. Compliance with statutory and regulatory requirements and with continuing listing obligations is also ensured. In addition to the input of the Compliance Committee, the Board is advised directly, as appropriate, by its appointed stock brokers and legal advisors.

Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at the Company's expense.

During the period under review, the Board maintained its practice that when a potential conflict of interest may or is perceived to arise in respect of a Director in connection with any transaction or other matter, this interest is declared and the individual concerned

refrains from taking part in proceedings or decisions relating to the matter. The Board minutes include a record of such declarations and of the action taken by the individual director concerned. As an exception to this rule, in order that the directors may discharge their responsibilities efficiently and effectively, it was agreed that directors appointed by shareholders need not disclose a conflict of interest or potential conflict of interest where this arises due to a conflict or potential conflict between the Company and the shareholder who appointed such director. In such a case, directors are allowed to participate in the discussions provided that they are required to act honestly and in good faith and always in the best interest of the Company. No conflicts of interest were disclosed during 2006.

In 2007, a Policy and Procedures manual regarding conflicts of interest was drawn up. This manual provides a framework and guidelines as to how officials and members of the Company, including Directors, should go about managing conflicts of interest, including identifying, reporting and resolving such conflicts. The manual is being discussed for eventual implementation during the year.

During the 2006 financial year, the Board held seven meetings. Details of attendance can be viewed at the Company Secretariat.

COMMUNICATIONS WITH SHAREHOLDERS

Pursuant to the Company's statutory obligations in terms of the Companies Act and the MFSA Listing Rules, the Annual Report and Financial Statements, the declaration of a dividend, the election of directors, the appointment of the Auditors and the authorisation of the directors to set the auditors' fees, and other special business, are proposed and approved at the Company's Annual General Meeting. The Board of Directors is responsible for developing the agenda for the General Meeting and sending it to the shareholders.

The Company communicates with its shareholders by publishing its results on a six-monthly basis during the year, by way of the Annual Report and Financial Statements, and through periodical Company Announcements to the market in general. The Annual Report, which is designed to serve as an effective means of communication and information on the Company's business, is amplified further in the presentations given to shareholders in the course of the Annual General Meeting.

GOING CONCERN

The Directors are satisfied that, having taken into account the strength of the Group's balance sheet, solvency margins and Group profitability, it is reasonable to assume that the Company and Group have adequate resources to continue operating for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the financial statements.



Lino Spiteri
Chairman Audit Committee



Joseph F. X. Zahra
Member Audit Committee

26 April 2007

GOVERNANZA KORPORATIVA - DIKJARAZZJONI TA' KONFORMITÀ

Dawk li johorġu titoli ta' sigurtà u li huma llistjati fil-Borża ta' Malta huma mehtieġa li jinkludu fir-Rapport Annwali tagħhom Dikjarazzjoni ta' Konformità li tagħti spjegazzjoni ta' safejn adottaw il-Kodiċi ta' Prinċipji ta' Governanza Korporattiva Tajba (il-"Prinċipji") inkluż fir-Regoli ta' Llistjar ta' l-MFSA (Regola ta' Llistjar 8.37). Huma mitlubin ukoll li jgħidu x'inhuma l-miżuri effettivi meħudin biex jiżguraw konformità mal-Prinċipji tul il-perjodu kollu ta' kontabilità (Regola ta' Llistjar 8.38). L-Awdituri għandhom jinkludu rapport fir-Rapport Annwali fuq id-Dikjarazzjoni ta' Konformità. Il-Middlesea Insurance plc (il-"Kumpanija") adottat il-Prinċipji malli dahlu fis-seħħ. F'ċerti oqsma, il-proċeduri ta' governanza applikati fil-Kumpanija kienu emendati biex jimplimentaw ir-rakkomandazzjonijiet inklużi fil-Prinċipji. Waqt li tat kas ukoll ta' mudelli rikonoxxuti oħrajn ta' governanza korporattiva, il-Kumpanija f'xi każi zammet jew adottat miżuri alternattivi u tat spjegazzjoni xierqa.

Il-Prinċipji kienu emendati b'seħħ minn Marzu 2007 u l-Kumpanija bħalissa qed tiehu l-miżuri neċessarji biex tikkonforma ma' l-emendi l-godda.

RESPONSABILTAJIET TAL-BORD

Il-Bord jagħraf il-mandat statutorju tiegħu li jmexxi l-amministrazzjoni u l-immnaniġġjar tal-Kumpanija. Il-Bord, fit-tweġġ ta' dan il-mandat u l-qadi tad-dmir tiegħu ta' amministrazzjoni tal-Kumpanija, assumo responsabbiltà ta' dan li gej:

- Li jiffissa lill-grupp amministrattiv objettivi, għanijiet u direzzjoni strategika ġenerali tan-negozju biex ikabar kemm jista' jkun il-valur;
- Li jirrevedi u japprova l-pjanijiet u l-miri kummerċjali li huma sottomessi mill-grupp amministrattiv u jahdem mal-grupp amministrattiv fl-implimentazzjoni ta' dawn il-pjanijiet;
- Li jidentifika r-riskji prinċipali tan-negozju tal-Kumpanija u jissorvelja l-implimentazzjoni f'qafas ta' żmien li jista' jintlahaq u jikkontrolla sistemi xierqa ta' amministrazzjoni tar-riskju;
- Li jiżgura li l-Kumpanija jkollha kontroll intern effettiv u sistemi ta' informazzjoni amministrattiva;
- Li jiehu sehem fil-hatra ta' l-uffiċjali eżekuttivi tal-Kumpanija u fl-evalwazzjoni ta' l-operat tagħhom, fosthom is-sorveljanza tat-twaqqif ta' sistemi addattati għal ippjanar ta' suċċessuri u għall-approvazzjoni tal-livelli ta' kumpens u motivazzjoni ta' dawn l-uffiċjali eżekuttivi; u
- Li jiżgura li l-Kumpanija għandha politika li biha tista' tikkomunika b'mod effettiv ma' l-azzjonisti, persuni involuti oħrajn u l-pubbliku b'mod ġenerali.

Tul l-2006 l-Bord iddelega l-awtorità, u zamm responsabbli għan-negozju ta' kuljum tal-Kumpanija lil grupp amministrattiv immexxi miċ-Chairman Eżekuttiv u CEO. Fis-sena 2007 l-koordinament ta' hidmiet amministrattivi kien żgurat bis-saħħa ta' l-operazzjoni ta' Kumitat Eżekuttiv tal-Grupp immexxi miċ-Chairman Eżekuttiv. Dan ġab flimkien liċ-Chief Operating Officer tal-Kumpanija u s-CEOs u ċ-Chief Financial Officer tal-Grupp u l-General Manager tas-sussidjarji u tal-Kumpanija prinċipali assoċjata tagħha.

KOMPOŻIZZJONI TAL-BORD

Kif regolat mill-Artikoli ta' Assoċjazzjoni tal-Kumpanija, u konformi mal-prattiki aċċettati b'mod ġenerali f'Malta, il-hatra ta' diretturi għall-Bord kienet riservata esklussivament lill-azzjonisti tal-Kumpanija. Azzjonist

li għandu mhux inqas minn 7% tad-drittijiet għall-vot tal-kapital ta' ishma mahruġ jew għadd ta' azzjonisti li bejniethom għandhom mhux inqas minn 7%, setgħu jaħtru Direttur wiehed għal kull tali pussess ta' 7% b'ittra indirizzata lill-Kumpanija; tmien membri tal-Bord inhatru tul is-sena skond it-termini ta' din ir-regola. L-ishma kollha mhux utillizzati biex jagħmlu hatriet skond dak li ntqal hawn fuq setgħu ntużaw biex jinhatru sitt diretturi oħra. Id-diretturi kollha mahturin jew eletti b'dan il-mod sersev fuq il-Bord f'kapacià mhux eżekuttiva.

Skond l-Artikoli ta' Assoċjazzjoni tal-Kumpanija, is-Sur Mario C. Grech, bħala persuna li tokkupa pożizzjoni manijerjali ewlenija fil-Kumpanija, inhatar fil-Laqgħa Ġenerali Annwali permezz ta' elezzjoni separata miftuha għall-azzjonisti kollha.

Il-kompożizzjoni tal-Bord, kif kienet f'Diċembru 2006, kienet taħlita ta' direttur eżekuttiv wiehed u erbatax-il direttur mhux eżekuttivi. Hamsa mid-diretturi mhux eżekuttivi jokkupaw karigi fl-organizzazzjonijiet ta' l-azzjonisti li hatruhom u li għandhom relazzjoni kummerċjali mal-Kumpanija. Żewġ diretturi mhux eżekuttivi, wiehed elett mill-azzjonisti f'laqgħa ġenerali u l-iehor mahtur minn organizzazzjoni azzjonista, għandhom relazzjoni mal-Kumpanija permezz ta' l-imprizi kummerċjali tagħhom. Id-diretturi kollha huma ta' kalibru idoneu u għandhom il-hiliet u l-esperjenza mehtieġa biex jgħinuhom jagħtu sens ta' tmexxija, integrità u gudizzju fid-direzzjoni tal-Kumpanija.

Ir-reġim Regulatorju jitlob li, qabel jinhatru jew ikunu eletti diretturi, dawk nominati jgħaddu minn proċess ta' skrutinju mill-Awtorità Maltija għal Servizzi Finanzjarji.

CHAIRMAN U UFFIĊJAL EŻEKUTTIV EWLIENI

Tul il-perjodu ta' kontabilità li għalaq fil-31 ta' Diċembru 2006, is-Sur Mario C. Grech kellu l-pożizzjoni ta' Chairman tal-Bord u CEO tal-Kumpanija. Fl-1 ta' Jannar 2007 s-Sur Grech inhatar Chairman Eżekuttiv tal-Kumpanija u baqa' responsabbli għall-operazzjonijiet ta' negożju ta' assigurazzjoni meġġun minn Chief Operations Officer. Il-Middlesea kienet sodisfatta li l-Kumpanija kienet konformi mal-paragrafu 2.3 tal-Prinċipji (numerat 2.2 wara emendi lill-Prinċipji) billi kienet dahhlet struttura amministrattiva bilanċjata li tinkludi, *inter alia*, il-Kumitat Eżekuttiv tal-Grupp u ċerti Kumitati tal-Bord li ċ-Chairman Eżekuttiv irid jagħti kont lilhom.

RIMUNERAZZJONI TA' DIRETTURI

Bl-eċċezzjoni tad-direttur eżekuttiv, hadd mid-Diretturi m'hu impjegat mal-Kumpanija. Bħal fis-snin ta' qabel, iċ-Chairman irrinunza li jirċievi hlas relatat ma' l-uffiċju tiegħu. Tliet diretturi, jiġifieri s-Sur A. Corsi, is-Sur A. Jimenez u s-Sur D. Sigranyes, ma rċevewx hlas skond il-politika stabbilita tal-kumpanija azzjonisti li magħhom huma impjegati u li hatruhom. Hlasijiet pagabbli lil diretturi mhux eżekuttivi fir-rigward tas-sena 2006 ammontaw għal Lm49,672.

Tul il-perjodu li qed ikun ittrattat, kull direttur irċieva hlas ta' Lm3,000. Ebda direttur m'hu intitolat għal qsim fil-profiti, drittijiet għal ishma jew benefiċċji ta' pensjoni. Diretturi li jiffurmaw parti minn Kumitati tal-Bord kienu intitolati għal rimunerazzjoni addizzjonali li ma kinitx taqbeż l-Lm1,000 fis-sena. Tliet diretturi huma membri wkoll tal-Bord ta' kumpanija sussidjarja registrata u operattiva barra minn Malta, u kull wiehed minnhom irċieva rimunerazzjoni ta' €10,000 f'dan ir-rigward.

Salarji kontrattwali mhallsin lid-direttur eżekuttiv ammontaw għal Lm48,416, kif jidher fin-nota 10 tad-

GOVERNANZA KORPORATIVA - DIKJARAZZJONI TA' KONFORMITÀ

dikjarazzjonijiet finanzjarji. Barra minn hekk, il-Grupp ghamel provvedimenti ta' Lm42,039 fir-rigward ta' obbligi ta' pensjoni kkuntrattati. Il-Kumpanija hallset Lm5,613 primjum ghal assigurazzjoni tul is-sena fir-rigward ta' kopertura ta' assigurazzjoni favur id-diretturi taghha.

Il-hlasijiet tad-Diretturi huma approvati bhala total mill-azzjonisti fil-Laqgħa Generali Annwali.

KUMITATI TAL-BORD

L-attivitajiet tal-Bord u ta' l-ogħla grupp amministrattiv tal-Kumpanija kienu kkontrollati u appoġġjati minn kumitati permanenti mahsubin biex jgħinu f'attivitajiet speċjalizzati u fi kwistjonijiet ta' governanza. Il-membri tad-diversi Kumitati tal-Grupp huma mnizzlin fil-paġna 40.

KUMITAT TAL-VERIFIKA

It-termini tal-Kumitat tal-Verifika, kif approvati mill-Bord tad-Diretturi, huma mfasslin prinċipalment fuq ir-rakkomandazzjonijiet tal-Cadbury Report u l-Prinċipji tiegħu. Dawn jinkludu, *inter alia*, ir-responsabbiltà tar-revizjoni tal-proċess ta' l-irrapportar finanzjarju, is-sistema ta' kontroll intern u l-immanigġjar ta' riskji finanzjarji, l-effettività tas-sistemi ta' kontroll intern u konformità, u l-iżgurar ta' nuqqas ta' interess ta' dak li jkun fil-każ ta' transazzjonijiet bejn partijiet relatati u l-proċess tal-verifika.

Il-Kumitat tal-Verifika għandu jiltaqa' mill-inqas sitt darbiet fis-sena. Tul is-sena 2006 ltaqa' tmien darbiet. L-awdituri esterni huma mistednin biex jattendu laqgħat speċifiċi tal-Kumitat tal-Verifika. Huma għandhom ukoll id-dritt isejhu laqgħa tal-kumitat jekk iqisu li hi meħtieġa. It-termini u kondizzjonijiet ta' kuntratti godda negozjati ma' partijiet relatati (fir-rigward ta' riassigurazzjoni u aġenti lokali) huma riveduti mill-Kumitat tal-Verifika tal-Kumpanija.

Awditjar Intern hu funzjoni ta' revizzjoni indipendenti stabbilita fl-organizzazzjoni nnifisha biex teżamina u tivvaluta l-attivitajiet tagħha bhala servizz lill-Grupp. L-Awditur Intern jirrapporta lill-Kumitat tal-Verifika u jattendi l-laqgħat tiegħu. Il-missjoni stabbilita mill-Kumitat tal-Verifika għall-funzjoni ta' l-Awditur Intern hija li jadotta revizzjonijiet tal-proċess kummerċjali bbażat fuq ir-riskju u intiż biex jiżgura kontrolli adegwati u wkoll effiċjenza fil-proċess kummerċjali.

KUMITAT GHAR-RIMUNERAZZJONI

Il-Kumitat għar-Rimunerazzjoni kkonċentra fuq it-twaqqif ta' politika ta' rimunerazzjoni għad-diretturi u uffiċjali eżekuttivi ewlenin tal-Grupp, iddeskriva d-diversi elementi tar-rimunerazzjoni tagħhom u żvela l-ammont ta' rimunerazzjoni mħallsa lid-diretturi fis-sena 2006. Tul l-2006 il-Kumitat għar-Rimunerazzjoni ltaqa' sitt darbiet u ċ-Chairman u CEO kien mistieden jattendi għal-laqgħat ta' dan il-Kumitat, minbarra meta kien qed jiġi diskuss il-kuntratt tiegħu. Il-Kumitat kien ukoll involut attivament fid-diskussjoni tar-ristrutturar tal-manigment u fil-preparazzjoni ta' proposti konkreti għal diskussjoni mill-Bord fuq is-sugġett, kif ukoll fis-sorsveljanza tan-negozjati ma' l-unions ta' l-impjegati u l-ftehim kollettivi.

KUMITAT GHALL-IMMANIĠĠJAR TAR-RISKJI

Il-Kumitat għall-Immanigġjar tar-Riskji hu responsabbli biex jiffissa politika ta' Mmanigġjar tar-Riskji għall-Grupp li tkun taqbel mad-direzzjoni u t-tendenza lejn ir-riskju li jagħtu l-Bordijiet. Dan jippermetti l-identifikazzjoni ta' filosofija u responsabbiltajiet ta' Mmanigġjar tar-Riskji, u

hekk johloq u jikkontrolla l-ambjent u l-istrutturi biex l-Immanigġjar tar-Riskji jkun jista' jopera b' mod effettiv. Il-Kumitat għandu l-inkarigu li jfassal pjan ta' mmanigġjar tar-riskji u strutturi adegwati biex jimplementaw il-politika msemmija qabel. Ingabru registri tar-riskji li fihom kienu identifikati u mqeghdin f'ordni ta' priorità biex ikunu stabbiliti rakkomandazzjonijiet dwar il-livell ta' riżorsi li għandhom ikunu allokati għall-immanigġjar ta' dawn ir-riskji. Dan jippermetti li tinghata direzzjoni għall-implimentazzjoni ta' sistemi u proċeduri adegwati biex jitnaqqsu r-riskji u l-espożizzjoni għar-riskju titlaqqa' mat-tendenza lejn ir-riskju kif approvata. Il-Kumitat se jiżgura li jinżammu Registri ta' Riskji aġġornati u informazzjoni amministrattiva relatata. Il-konsiderazzjoni ta' kwistjonijiet urġenti u *ad hoc* taqa' fl-ambitu tal-funzjonijiet tal-Kumitat u għall-hekk, fejn hu addattat, dan jirreferihom lill-Bord flimkien ma' pjanijiet ta' azzjoni dwar ir-riskju. Tahriġ adegwat se jinghata lill-manigment u lill-impjegati biex ikunu jistgħu jikkontribwixxu għall-proċess ta' l-immanigġjar tar-riskji. Id-diretturi membri tal-Kumitat inghataw tahriġ intern speċifiku bhala introduzzjoni għall-qasam wiesa' ta' l-Immanigġjar tar-Riskji Korporattivi. L-ispiritu tal-Kumitat hu li jifrex filosofija ta' Mmanigġjar tar-Riskji u għarfien tar-riskji fost l-uffiċjali kollha tal-Grupp, u jippromwovi approċċ proattiv għall-immanigġjar tar-riskji. Tul is-sena 2006 l-Kumitat ltaqa' għaxar darbiet.

KUMITAT GHALL-INVESTIMENTI TAL-GRUPP

Il-Kumitat għall-Investimenti tal-Grupp jiltaqa' regolarment u jissorvelja l-attivitajiet tal-Grupp relatati ma' l-investimenti, jiffissa politiki u linji gwida generali, jifli u japprova transazzjonijiet materjali u jikkontrolla r-riżultati. Kull investiment li jaqbeż il-Lm500,000 jehtieg l-approvazzjoni tal-Bord tal-Kumpanija rispettiva li tagħmel l-investiment.

KUMITAT GHALL-KONFORMITÀ U PREVENZJONI TAL-HASIL TAL-FLUS

Il-Bord tad-Diretturi għaqad il-Kumitat għall-Konformità u l-Kumitat għall-Prevenzjoni tal-Hasil tal-Flus f'Kumitat tal-Grupp wiehed f'Settembru 2006 u ltaqa' tliet darbiet. Skond it-termini ta' referenza tiegħu, il-Kumitat għandu jiltaqa' mill-inqas sitt darbiet fis-sena, u flimkien ma' l-Unit għall-Konformità tal-Grupp li jirreferi lilu, għandu f'idejha it-twaqqif ta' proċeduri li jiżguraw konformità mal-liġijiet, direttivi u regolamenti kollha applikabbli, u mal-prevenzjoni, kxif u/jew riżoluzzjoni ta' problemi ta' konformità. L-Uffiċjali tal-Grupp inkarigati dwar Hasil ta' Flus ukoll jirrapurtaw lil dan il-Kumitat.

Il-Kumitat jiżgura konformità mad-dokument imsejjaħ "Code of Dealing" indirizzat lid-diretturi u uffiċjali ewlenin tal-Kumpanija u lid-diretturi u uffiċjali ewlenin tas-sussidjarji tagħha. L-ghan ta' dan il-Kodiċi hu li jiżgura konformità mal-Prinċipji u r-regoli ta' "dealing" li qeghdin fir-Regoli ta' Llistjar 8.45 sa 8.55. Il-Kumpanija diġà għandha sistema biex iżżomm rekord ta' l-avviżi minn qabel kollha li tirċievi f'konnessjoni ma' "dealings" permissi minn diretturi u uffiċjali ewlenin u dikjarazzjonijiet ta' riċevuta ta' avviżi ta' din ix-xorta. Barra minn hekk, il-Kumpanija kull sena tfakkar lid-diretturi u uffiċjali ewlenin kollha bl-obbligu tagħhom li jikkonformaw mal-"Code of Dealing".

Fil-każ ta' Progress Assicurazioni S.p.A., kumpanija sussidjarja inkorporata l-Italja, il-*Collegio Sindacale* jinhatar, skond it-termini tal-liġi Taljana applikabbli, biex jaġixxi ta' Kumitat għall-Konformità. Tul is-sena li qed nittrattaw dan kien immexxi mir-Rag. Ferdinando Barbaro, u Dott. Nicolo Francesco Rienzi u Dott. Angelo Sillitti kienu *sindaci effettivi*.

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IL-FUNZJONI TAL-BORD TAD-DIRETTURI

L-attivitajiet tal-Bord tad-Diretturi huma eżerċitati b'mod imfassal biex jiżgura li l-Bord effettivament jiddeċiedi l-politiċi u jissorvelja l-operazzjonijiet tal-Kumpanija.

F'konnessjoni ma' kull laqgħa tal-Bord, id-diretturi jingħataw rapport mill-manigment. Dan ir-rapport jagħti l-kontinuità manigerjali tal-Kumpanija, fosthom indikaturi prinċipali ta' l-operat, mid-data tal-laqgħa ta' qabel tal-Bord; jinkludi kummentarju mill-manigment fuq ir-riżultati u avvenimenti u deċiżjonijiet rilevanti, u jagħti informazzjoni li tipprovdi sfond għal kull materja li tkun tehtieg l-approvazzjoni tal-Bord.

Barra milli jiddeċiedi l-istrategija u d-direzzjoni tal-Kumpanija, il-Bord kien involut attivament fil-kontroll tal-progress imqabbel mal-baġits u pjanijiet, u fl-approvazzjoni ta' transazzjonijiet materjali jew sinifikanti.

Il-Bord segwa wkoll mill-qrib il-politiċi u proċessi ewlenin ta' mmaniġġjar tar-riskji mhaddmin mill-Middlesea Group li huma centrali għan-natura ta' l-operazzjonijiet tiegħu. Dawn il-politiċi u proċessi jittrattaw, *inter alia*, kwistjonijiet bħal:

- il-programm ta' riassigurazzjoni li għandu l-Grupp b'mod li jkun żgurat bilanċ ekwu bejn riskju u qligħ u li l-livell ta' riskju ritenut, partikolarment fil-każ ta' katastrofi, hu konsistenti mar-riżorsi tal-Kumpanija;
- il-kwalità li jkollhom il-kontropartijiet riassiguraturi, u l-fiduċja li mistennija jkollhom, li magħhom isir in-negozjar biex tkun żgurata l-effettività tal-programm ta' riassigurazzjoni;
- l-evalwazzjoni ta' strateġiji ta' ffissar ta' prezzijiet frelazzjoni mal-livell tar-riskju assunt u, b'mod ġenerali, mal-kondizzjonijiet tas-suq;
- il-miżuri meħudin fl-immaniġġjar ta' riskji f'muniti barranin kemm f'relazzjoni ma' assi u kemm ma' responsabbiltajiet;
- il-miżuri meħudin biex tkun żgurata tahlita bilanċjata ta' investimenti u applikazzjoni tal-politika tal-Kumpanija li hi ffokata fuq sigurtà, likwidità u tkabbir kemm jista' jkun tal-qligħ;
- il-kontrolli interni u dixxiplini oħrajn użati, kemm fil-kumpaniji tal-Grupp u kemm fil-każ ta' aġenti u intermedjarji oħrajn, biex tkun żgurata mgħiba xierqa *in bona fede* fl-operazzjonijiet kollha; u
- il-livell ta' riżorsi kapitali li jsostnu kull attività kummerċjali, biex tkun żgurata solvibilità kemm mill-perspettiva regolatorja u kemm minn dik kummerċjali.

Il-Bord għandu aċċess dirett għall-awdituri esterni tal-Kumpanija, li jattendu l-laqgħat tal-Bord li fihom ikunu approvati d-dikjarazzjonijiet finanzjarji tal-Kumpanija wara li jkun gwew riveduti mill-Kumitat tar-Revizjoni. Hija żgurata wkoll konformità ma' rekwiżiti statutorji u regolatorji u ma' obbligi kontinwi ta' llistjar. Barra milli jirċievi kontribut mill-Kumitat għall-Konformità, il-Bord ikollu l-parir direttament, kif addattat, mill-*istock brokers* u mill-konsulenti legali mahturin tiegħu.

Id-diretturi huma intitolati li jfittxu parir indipendenti kull meta jridu fuq kull aspett tad-dmirijiet u responsabbiltajiet tagħhom, a spejjeż tal-Kumpanija.

Tul il-perjodu li qed ikun ittrattat, il-Bord zamm il-prattika li meta jista' jidher li hemm jew ikun jidher li jista' jkun hemm konflitt potenzjali ta' interess fir-rigward ta' Direttur f'konnessjoni ma' xi transazzjoni jew xi materja oħra, dan l-interess ikun iddikjarat u l-individwu involut ma jhux

sehem fil-proċeduri jew deċiżjonijiet relatati mal-materja. Il-minuti tal-Bord għandhom jinkludu dokumentazzjoni ta' din id-dikjarazzjoni u ta' l-azzjoni meħuda mid-direttur individwali involut. Bħala eċċezzjoni għal din ir-regola, biex id-diretturi jkun jistgħu jaqdu r-responsabbiltajiet tagħhom b'mod effiċjenti u effettiv, kien miftiehem li diretturi mahturin mill-azzjonisti m'hemm għalfejn jiżvelaw konflitt ta' interess jew konflitt potenzjali ta' interess meta dan jinholoq minhabba konflitt jew konflitt potenzjali bejn il-Kumpanija u l-azzjonist li jkun hatar lil dak id-direttur. F'dan il-każ, diretturi jithallew jiehdu sehem fid-diskussjonijiet basta jkun mitlubin jaġixxu b'mod onest u *in bona fede* u dejjem fl-aħjar interess tal-Kumpanija. Ma kienu żvelati ebda konflitti ta' interess tul is-sena 2006.

Tul is-sena 2007 tfassal manwal ta' Politika u Proċeduri rigward konflitti ta' interess. Dan il-manwal jagħti qafas u linji gwida kif uffiċjali u membri tal-Kumpanija, inklużi Diretturi, għandhom jaġixxu biex jittrattaw konflitti ta' interess, fosthom l-identifikazzjoni, l-irrapportar u r-riżoluzzjoni ta' konflitti ta' din ix-xorta. Il-manwal qed ikun diskuss biex eventwalment ikun implimentat tul is-sena.

Tul is-sena finanzjarja 2006, il-Bord iltaqa' seba' darbiet. Dettalji ta' l-attendenza huma aċċessibbli għand is-Segretarjat tal-Kumpanija.

KOMUNIKAZZJONI MA' L-AZZJONISTI

Skond l-obbligi statutorji tal-Kumpanija għat-termini ta' l-Att dwar il-Kumpaniji u r-Regoli ta' Llistjar ta' l-MFSA, ir-Rapport Annwali u d-Dikjarazzjonijiet Finanzjarji, id-dikjarazzjoni ta' dividend, l-elezzjoni ta' diretturi, il-hatra ta' l-Awdituri u l-awtorizzazzjoni tad-diretturi biex jiffissaw il-hlas ta' l-awdituri, u negozju speċjali iehor, huma proposti u approvati fil-Laqgħa Ġenerali Annwali tal-Kumpanija. Il-Bord tad-Diretturi hu responsabbli biex jiżviluppa l-aġenda tal-Laqgħa Ġenerali u jibgħatha lill-azzjonisti.

Il-Kumpanija tikkomunika ma' l-azzjonisti tagħha billi tippubblika r-riżultati tagħha kull sitt xhur tul is-sena, permezz tar-Rapport Annwali u d-Dikjarazzjonijiet Finanzjarji, u permezz ta' tahbiriet perjodiċi tal-Kumpanija lis-suq ġenerali. Ir-Rapport Annwali, li hu maħsub biex iservi ta' mezz effettiv ta' komunikazzjoni u informazzjoni fuq in-negozju tal-Kumpanija, hu amplifikat aktar fil-prezentazzjonijiet mogħtija lill-azzjonisti fil-kors tal-Laqgħa Ġenerali Annwali.

NEGOZJU SEJER TAJJEB

Id-Diretturi huma sodisfatti li, wara li qiesu s-saħħa tal-karta bilanċjali tal-Grupp, il-marġini ta' solvibilità u l-profitabilità tal-Grupp, hu raġonevoli li wiehed jassumi li l-Kumpanija u l-Grupp għandhom riżorsi adegwati biex jibgħu joperaw fil-gejjieni prevedibbli. Għal din ir-raġuni, id-Diretturi adottaw il-baži ta' negozju sejjeb fil-preparazzjoni tad-dikjarazzjonijiet finanzjarji.



Lino Spiteri
Chairman Audit Committee



Joseph F. X. Zahra
Member Audit Committee

26 April 2007

INDEPENDENT AUDITOR'S REPORT ON THE STATEMENT OF COMPLIANCE ON CORPORATE GOVERNANCE

To the members of Middlesea Insurance p.l.c. pursuant to Listing Rule 8.39 issued by the Listing Authority

Listing Rules 8.37 and 8.38 issued by the Listing Authority require the Company's directors to include in their Annual Report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance with those Principles.

Our responsibility, as auditors of the Company, is laid down by Listing Rule 8.39 which requires us to include a report on the Statement of Compliance.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this Statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's Corporate Governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 43 to 45 has been properly prepared in accordance with the requirements of Listing Rules 8.37 and 8.38 issued by the Listing Authority.

PRICEWATERHOUSECOOPERS 

167 Merchants Street
Valletta
Malta

26 April 2007

CORPORATE SOCIAL RESPONSIBILITY POLICY

The Middlesea Group Corporate Social Responsibility (CSR) Policy highlights the Group's corporate behaviour in terms of social, ethical and environmental issues.

CSR is an important guiding principle. The Group firmly believes that an organisation's corporate behaviour is a reflection of its values. CSR is a commitment. The Middlesea Group treats its relationship between business and society as a main concern. It seeks to play an active role in supporting initiatives that aim to support the social fabric.

The Group carries out initiatives to further strengthen its ties with the community of which it forms part. As a listed company, the Group feels it is responsible to contribute to the community and to assist institutions which make large efforts to help members of society who are going through difficult times. The Group has embarked on commitments to support Maltese charitable institutions.

As part of the Group's CSR Policy, the Company's members of staff in 2006 organised initiatives to raise funds for charitable causes.

Middlesea Insurance p.l.c., through its advertising

campaigns, undertakes to promote the beauty and the need for protection of the Maltese environment. The Company's recently launched advertising campaign depicts the splendour of Malta's indigenous plants. The Company is also sponsoring a local website – www.maltawildplants.com – which provides detailed information and striking photography of Maltese plants. In a bid to support the environment, the Group aims to continue reducing its printed documentation. Wherever possible, the Middlesea Group provides documents electronically to its customers.

Members of staff of the Middlesea Group are keen to participate in environmentally-friendly initiatives. The Group's staff and their families participated in the Tree for You (34U) Campaign organised by the Ministry for Rural Affairs and the Environment by planting a number of trees at Ta' Qali National Park to mark the 25th anniversary of Middlesea Insurance p.l.c.

Middlesea Valletta life (MSV) has taken upon itself to sponsor environment workshops organised by The Ministry for Rural Affairs and the Environment as part of its Spring Fair activities during the Earth Garden Festival at Ta' Qali National Park. The workshops promoted environmental awareness by addressing



The Hon. Prime Minister Lawrence Gonzi addressing guests at the Middlesea Insurance 25th Anniversary Exhibition. Seen from left, Executive Chairman Mr Mario C. Grech, and right, Mr Dennis Vella.

CORPORATE SOCIAL RESPONSIBILITY POLICY

various important issues such as biodiversity, waste recycling, climate change and bio-diesel.

MSV aims to promote the importance of living a healthy lifestyle. The Company views sports as essential to living healthily. For this reason, MSV has agreed to offer its support to The Malta Basketball Association and The Malta Tenpin Bowling Association.

The Middlesea Group is committed to support the arts and artistes. The Middlesea Group Conference Room has turned out to be an ideal venue to house art exhibitions. As part of its 25th anniversary activities, Middlesea Insurance p.l.c. organised an exhibition '25 Years - 25 Artists'. The Group has also accepted to provide assistance to artistic events such as the BoV Opera Festival and concerts by international stars.

Training and development is a priority for the Group. The Group's employees are encouraged to further

their studies and obtain professional qualifications. To this end, The Malta International Training Centre (MITC) – a subsidiary company of the Group – was set up to provide specialised insurance courses for students to obtain the reputable Advanced Diploma in Insurance (ACID) of the Chartered Insurance Institute, UK. For further professional development, employees are encouraged to attend various training courses and seminars both locally and overseas.

Funds are not unlimited. However, through careful assessment and prioritisation the Middlesea Group hopes to give a hand where it is needed.



Middlesea Group members of staff during a Dress Down Day held to raise funds for the Malta Hospice Movement.

POLITIKA TA' RESPONSABBILTÀ SOĊJALI KORPORATTIVA

Il-Politika ta' Responsabbiltà Soċjali Korporattiva (CSR) tenfasizza l-imġiba korporattiva tal-Grupp f'termini ta' kwistjonijiet soċjali, etiċi u ambjentali.

Is-CSR hija prinċipju gwida importanti. Il-Grupp jemmen bis-shih li l-imġiba korporattiva ta' l-organizzazzjoni tirrifletti l-valuri tagħha. Is-CSR hija impenn. Il-Middlesea Group jagħti importanza ewlenija lir-relazzjoni bejn in-negozju u s-soċjetà. Hu jfittex li jaqdi funzjoni attiva fl-appoġġ ta' inizjattivi li għandhom l-għan li jsostnu s-struttura soċjali.

Il-Grupp jidhol għal inizjattivi biex isahhah ir-rabtiet li għandu mal-komunità li jifforma parti minnha. Bħala kumpanija llistjata, il-Grupp iħoss li hu responsabbli biex jagħti kontribut lill-komunità u jgħin istituzzjonijiet li jagħmlu sforzi kbar biex jgħinu membri tas-soċjetà li jkunu għaddejnin minn żminijiet diffiċli. Il-Grupp dahal għal impenji biex jappoġġja istituzzjonijiet kartivatevoli Maltin.

Bħala parti mill-Politika CSR tal-Grupp, fis-sena 2006 impjegati tal-Kumpanija organizzaw inizjattivi biex jiġbru fondi għal kawzi karitatevoli.

Il-Middlesea Insurance p.l.c., bis-sahha tal-kampanji ta' riklamar tagħha, dahlet biex tippromwovi s-

sbuhija ta' l-ambjent Malti u l-htieġa tal-harsien tiegħu. Il-kampanja ta' riklamar immedija dan l-aħħar turi l-gmiel tal-pjanti indigeni ta' Malta. Il-Kumpanija qieghda wkoll tisponsorja websajt lokali - www.maltawildplants.com - li tagħti informazzjoni dettaljata u ritratti li jolqtu ta' pjanti Maltin. Biex isostni l-ambjent, il-Grupp jahdem biex inaqqas id-dokumentazzjoni stampata tiegħu. Kull fejn ikun possibbli, il-Middlesea Group jipprovdi dokumenti lill-kljenti tiegħu b'mod elettroniku.

Impjegati tal-Middlesea Group huma herqana li jippartecipaw f'inizjattivi favur ambjent ahjar. L-istaff tal-Grupp u l-familji tagħhom hadu sehem fil-Kampanja Tree for You (34U) organizzata mill-Ministeru għal Affarijiet Rurali u l-Ambjent billi hawlu għadd ta' siġar fil-Park Nazzjonali f'Ta' Qali biex ifakkru l-25 anniversarju mit-twaqqif tal-Middlesea Insurance p.l.c.

Il-Middlesea Valletta Life (MSV) dahlet biex tisponsorja gruppi ta' hidma fuq l-ambjent organizzati mill-Ministeru għal Affarijiet Rurali u l-Ambjent bħala parti mill-Fiera tar-Rebbiegħa waqt l-Earth Garden Festival fil-Park Nazzjonali f'Ta' Qali. Il-gruppi ta' hidma heġġu l-għarfien ambjentali billi indirizzaw diversi kwistjonijiet importanti bħalma huma l-bijodiversità,



Malta International Training Centre graduates.

POLITIKA TA' RESPONSABBILTÀ SOĊJALI KORPORATTIVA

ir-riċiklaġġ ta' l-iskart, il-bidla fil-klima u l-bijo-diżil. L-MSV ghandha l-ghan li tippromwovi l-importanza li wiehed jghix stil ta' hajja b'sahhitha. Il-Kumpanija tqis li l-isport huwa essenzjali biex wiehed jghix b'sahhtu. Ghaldaqstant l-MSV qablet li taghti l-appoġġ taghha lill-Malta Basketball Association u lill-Malta Tenpin Bowling Association.

Il-Middlesea Group hu impenjat li jappoġġja l-arti u l-artisti. Il-Kamra tal-Konferenzi tal-Middlesea Group saret post ideali fejn isiru wirjiet ta' l-arti. Bhala parti mill-attivitajiet fl-okkażjoni tal-25 sena anniversarja, il-Middlesea Insurance p.l.c. organizzat il-wirja '25 Years - 25 Artists'. Il-Grupp aċċetta wkoll li jghin avvenimenti artistici bhalma huma l-BOV Opera Festival u kuncert minn stilel internazzjonali. It-taħriġ u l-iżvilupp ghandhom prijorità għall-Grupp.

L-impjegati tal-Grupp huma inkoraġġiti jkomplu bl-istudji taghhom u jksbu kwalifiki professjonali. Għal dan il-ghan il-Malta International Training Centre (MITC) – kumpanija sussidjarja tal-Grupp – twaqqfet biex taghti korsijiet speċjalizzati ta' assigurazzjoni biex studenti jksbu l-Advanced Diploma in Insurance (ACID), kwalifika maghrufa taċ-Chartered Insurance Institute tar-Renju Unit. Biex ikatru l-iżvilupp professjonali, l-impjegati huma inkuraġġiti jattendu diversi korsijiet u seminars ta' taħriġ kemm lokalment u kemm barra minn Malta.

Għalkemm il-fondi huma limitu, permezz ta' għażla attenta u suġġetta għal ċerti prijoritajiet il-Middlesea Group jittama li jaghti daqqa t'id fejn ikun hemm bżonnu.



Middlesea Group members of staff and their families planted 25 trees at Ta' Qali. The event, which formed part of the Middlesea Insurance p.l.c. 25th Anniversary activities, was held in collaboration with the 34U campaign of the Ministry for Rural Affairs and the Environment.



Professor Joe Bannister presenting a certificate to a graduate during the Malta International Training Centre Graduation Ceremony.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Insurance Business Act, 1998 and the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the Company and Group as at the end of each financial period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

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

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

The directors are responsible for the maintenance and integrity of the Annual Report on the Company's website. Access to information published on the website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of Middlesea Insurance p.l.c.

We have audited the consolidated financial statements of Middlesea Insurance p.l.c. and its subsidiaries (the "Group") and of Middlesea Insurance p.l.c. (the "Company") set out on pages 56 to 111 which comprise the balance sheets as at 31 December 2006 and the profit and loss accounts, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Insurance Business Act, 1998 and the Companies Act, 1995. As described in the statement of directors' responsibilities on page 54, this responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

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

PRICEWATERHOUSECOOPERS 

167 Merchants Street
Valletta
Malta

26 April 2007

PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT - GENERAL BUSINESS

		Year ended 31 December			
	Notes	Group 2006 Lm	2005 Lm	Company 2006 Lm	2005 Lm
Earned premiums, net of reinsurance					
Gross premiums written	3	35,397,807	33,261,505	12,731,883	13,325,105
Outward reinsurance premiums		(6,409,397)	(6,553,006)	(5,012,028)	(5,358,257)
<hr/>					
Net premiums written		28,988,410	26,708,499	7,719,855	7,966,848
<hr/>					
Change in the gross provision for unearned premiums		(1,794,708)	250,565	(102,434)	169,591
Change in the provision for unearned premiums reinsurers' share		438,691	165,334	188,530	105,849
<hr/>					
		(1,356,017)	415,899	86,096	275,440
<hr/>					
Earned premiums, net of reinsurance		27,632,393	27,124,398	7,805,951	8,242,288
Allocated investment return transferred from the non-technical account	5	1,997,775	2,859,056	763,232	1,881,168
<hr/>					
Total technical income		29,630,168	29,983,454	8,569,183	10,123,456
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Claims incurred, net of reinsurance					
Claims paid					
- gross amount		21,063,186	22,281,515	6,446,869	7,220,304
- reinsurers' share		(2,508,838)	(3,876,436)	(1,825,046)	(2,072,355)
<hr/>					
		18,554,348	18,405,079	4,621,823	5,147,949
<hr/>					
Change in the provision for claims					
- gross amount		3,305,767	156,066	635,633	(525,325)
- reinsurers' share		(417,425)	1,476,901	72,759	214,020
<hr/>					
		2,888,342	1,632,967	708,392	(311,305)
<hr/>					
Claims incurred, net of reinsurance		21,442,690	20,038,046	5,330,215	4,836,644
Net operating expenses	4	5,884,051	5,808,615	1,957,728	2,306,608
<hr/>					
Total technical charges		27,326,741	25,846,661	7,287,943	7,143,252
<hr/>					
Balance on the technical account for general business (page 58)		2,303,427	4,136,793	1,281,240	2,980,204

PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT - LONG TERM BUSINESS

Year ended 31 December		
Group and Company		
Notes	2006 Lm	2005 Lm
Earned premiums, net of reinsurance		
	Gross premiums written	575,001
3	597,956	(253,408)
	Outward reinsurance premiums	
	339,043	321,593
Earned premiums, net of reinsurance		
Investment income		
	Income from other investments	130,877
5	56,904	
	395,947	452,470
Total technical income		
Claims incurred, net of reinsurance		
	Claims paid	151,063
	- gross amount	(101,071)
	- reinsurers' share	
	140,979	
	(50,198)	
	90,781	49,992
Change in the provision for claims		
	- gross amount	(112,983)
	- reinsurers' share	89,251
	(21,579)	
	5,395	
	(16,184)	(23,732)
	74,597	26,260
Claims incurred, net of reinsurance		
Change in other technical provisions, net of reinsurance		
	Long term business provision, net of reinsurance	19,141
	- gross amount	(1,393)
	- reinsurers' share	
	16,006	
	(10,511)	
	5,495	17,748
Net operating expenses		
4	34,508	11,632
Total technical charges		
	114,600	55,640
Balance on the technical account for long term business (page 58)		
	281,347	396,830

PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

Year ended 31 December

	Notes	Group 2006 Lm	2005 Lm	Company 2006 Lm	2005 Lm
Balances on technical accounts					
General business (page 56)		2,303,427	4,136,793	1,281,240	2,980,204
Long term business (page 57)		281,347	396,830	281,347	396,830
		2,584,774	4,533,623	1,562,587	3,377,034
Share of profit of associated undertaking involved in long term business	5	1,487,930	1,157,947	-	-
Total income from insurance activities		4,072,704	5,691,570	1,562,587	3,377,034
Other investment income	5	3,131,072	4,994,595	2,784,874	4,863,960
Investment expenses and charges	5	(688,478)	(629,322)	(335,647)	(309,344)
Allocated investment return transferred to the general business technical account	5	(1,997,775)	(2,859,056)	(763,232)	(1,881,168)
Other income	6	593,834	596,703	-	-
Administration expenses	4	(1,454,537)	(1,280,600)	(475,734)	(356,312)
Profit before tax		3,656,820	6,513,890	2,772,848	5,694,170
Income tax expense	9	(434,086)	(1,657,330)	(526,052)	(1,853,141)
Profit for the financial year		3,222,734	4,856,560	2,246,796	3,841,029
Attributable to:					
- shareholders		3,176,482	4,817,528	2,246,796	3,841,029
- minority interests		46,252	39,032	-	-
		3,222,734	4,856,560	2,246,796	3,841,029
Earnings per share attributable to shareholders	11	12c7	19c3		

BALANCE SHEET

As at 31 December

	Notes	Group		Company	
		2006 Lm	2005 Lm	2006 Lm	2005 Lm
ASSETS					
Intangible assets	13	430,097	419,385	342,841	297,884
Property, plant and equipment	14	1,274,114	1,315,510	511,055	472,068
Investment property	15	4,364,335	4,144,992	3,143,980	3,208,158
Investment in group undertakings	16	-	-	9,907,363	7,936,824
Investment in associated undertaking	17	17,364,598	13,496,668	4,117,196	1,917,196
Other investments	18	69,024,665	63,633,233	22,283,858	23,421,422
Deferred income tax	19	1,128,795	968,279	-	-
Reinsurers' share of technical provisions	20	12,360,650	11,499,418	6,389,975	6,269,088
Deferred acquisition costs	21	2,204,198	1,970,344	1,053,245	1,094,142
Insurance and other receivables	22	7,788,125	7,976,926	4,488,841	4,752,079
Income tax receivable		294,775	382,542	-	-
Cash and cash equivalents	23	1,939,735	2,624,084	906,215	1,118,095
Total assets		118,174,087	108,431,381	53,144,569	50,486,956
EQUITY					
Capital and reserves attributable to shareholders					
Share capital	24	6,250,000	6,250,000	6,250,000	6,250,000
Share premium account		1,192,500	1,192,500	1,192,500	1,192,500
Other reserves	25	9,313,631	8,448,685	76,199	143,685
Profit and loss account		16,988,123	15,061,641	9,821,910	8,825,114
		33,744,254	30,952,826	17,340,609	16,411,299
Minority interests		1,258,923	1,036,604	-	-
Total equity		35,003,177	31,989,430	17,340,609	16,411,299
LIABILITIES					
Deferred income tax	19	481,982	742,004	481,982	742,004
Provisions for other liabilities and charges	26	347,499	332,500	-	-
Technical provisions	20	65,388,631	60,293,729	21,037,501	20,305,007
Borrowings	27	7,765,899	6,384,926	7,765,899	6,384,926
Insurance and other payables	28	8,833,236	8,456,509	6,164,917	6,411,437
Income tax payable		353,663	232,283	353,661	232,283
Total liabilities		83,170,910	76,441,951	35,803,960	34,075,657
Total equity and liabilities		118,174,087	108,431,381	53,144,569	50,486,956

The financial statements on pages 56 to 111 were authorised for issue by the Board on 26 April 2007 and were signed on its behalf by:


M.C. Grech
Executive Chairman


R.E.D. Chalmers
Deputy Chairman

STATEMENT OF CHANGES IN EQUITY

Group

		Attributable to shareholders					
	Notes	Share capital Lm	Share premium account Lm	Other reserves Lm	Profit & loss account Lm	Minority interests Lm	Total Lm
Balance at 1 January 2005		6,250,000	1,192,500	6,761,770	10,994,113	4,734,062	29,932,445
Fair value losses on available-for-sale investments, net of tax		25	-	(37,465)	-	-	(37,465)
Share of increase in value of in-force business of associated undertaking		25	-	1,864,300	-	-	1,864,300
Currency translation differences			-	-	-	(55,991)	(55,991)
Other movements		25	-	(139,920)	-	-	(139,920)
Net income/(losses) recognised directly in equity			-	1,686,915	-	(55,991)	1,630,924
Profit for the financial year			-	-	4,817,528	39,032	4,856,560
Total recognised income for the financial year			-	1,686,915	4,817,528	(16,959)	6,487,484
Dividends for 2004		12	-	-	(750,000)	(4,900)	(754,900)
Dilution of minority interest		30	-	-	-	(3,675,599)	(3,675,599)
Balance at 31 December 2005		6,250,000	1,192,500	8,448,685	15,061,641	1,036,604	31,989,430
Balance at 1 January 2006		6,250,000	1,192,500	8,448,685	15,061,641	1,036,604	31,989,430
Fair value losses on available-for-sale investments, net of tax		25	-	(67,486)	-	-	(67,486)
Revaluation surplus on property plant and equipment, net of tax		25	-	57,432	-	6,395	63,827
Share of increase in value of in-force business of associated undertaking		25	-	875,000	-	-	875,000
Net income recognised directly in equity			-	864,946	-	6,395	871,341
Profit for the financial year			-	-	3,176,482	46,252	3,222,734
Total recognised income for the financial year			-	864,946	3,176,482	52,647	4,094,075
Dividends for 2005		12	-	-	(1,250,000)	(49,626)	(1,299,626)
Increase in share capital of subsidiary			-	-	-	219,298	219,298
Balance at 31 December 2006		6,250,000	1,192,500	9,313,631	16,988,123	1,258,923	35,003,177

STATEMENT OF CHANGES IN EQUITY

Company

	Notes	Share capital Lm	Share premium account Lm	Other reserves Lm	Profit & loss account Lm	Total Lm
Balance at 1 January 2005		6,250,000	1,192,500	181,150	5,734,085	13,357,735
Fair value losses on available-for-sale investments, net of tax	25	-	-	(37,465)	-	(37,465)
Net losses recognised directly in equity		-	-	(37,465)	-	(37,465)
Profit for the financial year		-	-	-	3,841,029	3,841,029
Total recognised (losses)/income for the financial year		-	-	(37,465)	3,841,029	3,803,564
Dividends for 2004	12	-	-	-	(750,000)	(750,000)
Balance at 31 December 2005		6,250,000	1,192,500	143,685	8,825,114	16,411,299
Balance at 1 January 2006		6,250,000	1,192,500	143,685	8,825,114	16,411,299
Fair value losses on available-for-sale investments, net of tax	25	-	-	(67,486)	-	(67,486)
Net losses recognised directly in equity		-	-	(67,486)	-	(67,486)
Profit for the financial year		-	-	-	2,246,796	2,246,796
Total recognised (losses)/income for the financial year		-	-	(67,486)	2,246,796	2,179,310
Dividends for 2005	12	-	-	-	(1,250,000)	(1,250,000)
Balance at 31 December 2006		6,250,000	1,192,500	76,199	9,821,910	17,340,609

As at 31 December 2006, unrealised fair value gains, net of taxation, amounting to Lm2,480,842 (2005: Lm2,142,927), have been credited to the profit and loss account and are not distributable in terms of the Companies Act, 1995.

CASH FLOW STATEMENT

Year ended 31 December

	Notes	Group		Company	
		2006 Lm	2005 Lm	2006 Lm	2005 Lm
Operating activities					
Cash generated from operations	29	4,706,663	2,790,005	1,217,747	971,428
Dividends received		576,400	690,629	603,273	830,268
Interest received		2,286,604	1,910,642	678,186	708,396
Interest paid		(269,362)	(179,048)	(262,301)	(171,148)
Tax paid		(648,676)	(860,433)	(324,502)	(174,227)
Net cash generated from operating activities		6,651,629	4,351,795	1,912,403	2,164,717
Investing activities					
Purchase of investment property	15	-	(432)	-	(432)
Disposal of investment property	15	105,700	30,600	105,700	30,600
Increase in investment in group undertaking (Increase)/decrease in investment in associated undertaking	16,30	-	(3,623,399)	(1,568,993)	(3,623,399)
Purchase of financial investments	17	(1,500,000)	260,000	(1,500,000)	260,000
Disposal of financial investments	18	(29,025,096)	(22,576,754)	(7,808,457)	(6,241,690)
Purchase of property, plant and equipment and intangible assets	18	23,121,571	15,722,116	8,748,828	5,128,910
Disposal of property, plant and equipment	13,14	(338,798)	(466,528)	(232,334)	(362,868)
	13,14	-	4,200	-	1,354
Net cash used in investing activities		(7,636,623)	(10,650,197)	(2,255,256)	(4,807,525)
Financing activities					
Bank loans	27	1,380,973	3,499,490	1,380,973	3,499,490
Proceeds from minority interest on issue of shares		219,298	-	-	-
Dividends paid to group shareholders	12	(1,250,000)	(750,000)	(1,250,000)	(750,000)
Dividends paid to minority interests		(49,626)	(4,900)	-	-
Net cash generated from financing activities		300,645	2,744,590	130,973	2,749,490
(Decrease)/increase in cash and cash equivalents		(684,349)	(3,553,812)	(211,880)	106,682
Movement in cash and cash equivalents					
At beginning of year		2,624,084	6,241,623	1,118,095	1,011,413
Net cash (outflow)/inflow		(684,349)	(3,553,812)	(211,880)	106,682
Effect of exchange rate changes		-	(63,727)	-	-
At end of year	23	1,939,735	2,624,084	906,215	1,118,095

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, unless otherwise stated.

1. BASIS OF PREPARATION

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union, 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 property, plant and equipment, investment property, financial assets and financial liabilities at fair value through profit or loss, and the share of associated undertaking's value of in-force business.

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

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

Statement, interpretations and amendments to published standards effective in 2006

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

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Group's accounting periods beginning after 1 January 2006. The Group has not early adopted these revisions to the requirements of IFRSs, and the Group's directors are of the opinion that there are no requirements that will have a possible impact on the Group's financial statements in the period of initial application.

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

2. CONSOLIDATION

(a) *Group undertakings*

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its group (or subsidiary) undertakings drawn up to 31 December each year. Subsidiary undertakings are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. On acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All intercompany transactions between group companies are eliminated. Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests. A list of the Group's subsidiaries is set out in note 16.

(b) *Associated undertakings*

Interests in associated undertakings are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. These are undertakings over which the Group has significant influence, but which it does not control. Equity accounting involves recognising in the profit and loss account the share of the associated undertaking's post-acquisition profits or losses and recognising in reserves its share of post-acquisition movements in reserves. The interest in the associated undertaking is carried in the balance sheet at an amount that reflects the share of the net assets of the associated undertaking. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence

ACCOUNTING POLICIES

2. CONSOLIDATION - CONTINUED

of an impairment of the asset transferred. Where necessary, accounting policies for associated undertakings are changed to ensure consistency with the policies adopted by the Group. A list of the Group's associated undertakings is set out in note 17.

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of the acquisition. Any excess of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the acquisition is recognised immediately in the profit and loss account.

3. SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. In identifying the Group's business segments, the directors are also guided by the Regulations under the Insurance Business Act, 1998 on the disclosure requirements relevant to specified insurance classes of business. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

4. FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

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

Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates; and
- (iii) following the pegging of the Maltese Lira to the Euro, no currency translation difference arises upon translation into the presentation currency.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

5. 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.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	100 years
Leasehold improvements	40 years
Motor vehicles	5 years
Furniture, fittings and equipment	3 - 10 years

ACCOUNTING POLICIES

5. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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.

On transfer of an owner-occupied property to investment property that will be carried at fair value the difference between the carrying amount and the fair value at that date is credited directly to other reserves in shareholders' equity. On subsequent disposal of the investment property, the revaluation surplus included in equity is transferred directly to retained earnings.

6. INVESTMENT PROPERTY

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

7. INTANGIBLE ASSETS

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.

8. SHARE OF ASSOCIATED UNDERTAKING'S VALUE OF IN-FORCE BUSINESS

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

9. INVESTMENTS IN GROUP AND ASSOCIATED UNDERTAKINGS

In the Company's financial statements, investments in group and associated 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.

10. INVESTMENTS

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

- Financial assets at fair value through profit or loss are part of a group of investments that is managed on a portfolio basis and whose performance is evaluated and reported internally on a fair value basis to the Group's Board in accordance with a documented investment strategy. Derivatives are also classified as fair value through profit or loss.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell in the short term or that it has designated as fair value through profit or loss. They include, inter alia, deposits held with credit institutions.
- Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity or (c) financial assets at fair value through profit or loss. They include, inter alia, unlisted equities.

ACCOUNTING POLICIES

10. INVESTMENTS - 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 and available-for-sale investments 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. Any unrealised gain or loss on an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses arising on monetary securities, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit and loss account.

The fair value of 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 Company'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.

11. IMPAIRMENT OF ASSETS

(a) *Impairment of financial assets at amortised cost*

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

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

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

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

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

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

ACCOUNTING POLICIES

11. IMPAIRMENT OF ASSETS - CONTINUED

(b) *Impairment of financial assets carried at fair value*

The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in the profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not subsequently reversed.

(c) *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).

12. 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.

13. 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.

14. SHARE CAPITAL

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

15. INSURANCE CONTRACTS

The Group issues contracts that transfer significant insurance risk and that are classified as insurance contracts.

As a general guideline, the Group defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Insurance contracts - General business

The results for general business are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

- (i) Premiums written relate to business incepted during the year together with any differences between the booked premiums for prior years and those previously accrued, less cancellations.
- (ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.
- (iii) Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned. These are capitalised and shown as deferred acquisition costs (DAC) in the balance sheet. DAC is amortised over the term of the policies as the premium is earned. All other costs are recognised as expenses when incurred.
- (iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) or not enough reported (IBNER) and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.
- (v) Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims. The Group takes all

ACCOUNTING POLICIES

15. INSURANCE CONTRACTS - CONTINUED

Insurance contracts - General business - Continued

reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

- (vi) Provision, in the form of an unexpired risk provision, is made on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before the balance sheet date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

Long term business – Group Life

Group life business consists of annual policies that cover the lives of a group of customers' employees for the year under cover. Premiums, including reinsurance premiums, and claims are accounted for when due for payment. Reinsurance recoveries are accounted for in the same period as the related claim. The long-term business provision is based on the net "unearned premiums" method as adjusted to take into account the premium written. The valuation is carried out in conjunction with the Company's appointed independent actuary. Profits, which accrue as a result of actuarial valuations, are released to the non-technical profit and loss account. Any shortfall between actuarial valuations and the balance on the long-term business provision is appropriated from the non-technical profit and loss account.

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 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 reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within debtors), as well as longer term receivables (classified within 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 11.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that an insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets. These processes are described in accounting policy 11.

Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision as described above). Any DAC written off as a result of this test cannot subsequently be reinstated.

ACCOUNTING POLICIES

16. BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. No borrowing costs have been capitalised. Interest costs are charged against income without restriction.

17. DEFERRED INCOME TAX

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

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

18. PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

19. 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 15 dealing with insurance contracts.

(b) *Interest income*

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

(c) *Dividend income*

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

(d) *Rent receivable*

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

20. INVESTMENT RETURN

Investment return includes fair value movements, interest income, dividends, rental receivable, share of associated undertaking's result, and is net of investment expenses, charges, and interest.

Investment return is initially recorded in the non-technical account, except for income attributed to long term business which is recognised immediately in the long term business technical account. A transfer is made from the non-technical account to the general business technical account of the actual investment return on investments supporting the insurance technical provisions.

21. 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.

22. 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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of affecting the reported amount of assets and liabilities within the next financial year are discussed below.

(a) *Ultimate liability arising from claims made under insurance contracts*

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. In particular, insurance risks including exposure to liability can span over more than one accounting year, and this increases the uncertainty surrounding the estimate for final settlement.

The Group applies conventional statistical or actuarial models in order to determine the ultimate liability of claims. As disclosed in note 2.1, the Bornhuetter-Ferguson Paid model uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The initial loss ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. Details of sensitivity to any potential change in this initial loss ratio is disclosed in note 20 to these financial statements. The Group believes that the liability arising from claims under insurance contracts is adequately reserved as at the financial year end as evidenced by the development table included in note 20.

(b) *Estimate of in-force business of the associated company*

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 8).

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 margin of 2% (2005: 2%) between the weighted average projected investment return and the discount factor applied. The calculation also assumes lapse rates varying from 3% to 5% (2005: 3% to 5%), and an expense inflation rate of 3.6% (2005: 3.5%). Changes in current year assumptions, as compared to the 2005 valuation process, did not have a significant impact on the Group's net assets. If the assumption on the valuation margin of 2% were reduced by 1%, the Group's share of the after tax value of the value of in-force business would increase to Lm9.78 million. If the assumption on the valuation margin of 2% were increased by 1%, the Group's share of the after tax value of the value of in-force business would decrease to Lm8.64 million.

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

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

The terms and conditions of the contracts set out the bases for the determination of the Group's liability should the insured event occur. The risks underwritten include accident and health, motor (including third party liability), marine and transport, fire and other damage to property, liability and group life. Details of gross premiums written as well as the insurance liabilities analysed by class are provided in the note, "Segment Information".

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 are significantly different to the amounts included within technical provisions. This could occur because the frequency or severity of claims and benefits are greater or lower than estimated. Insurance events are fortuitous and the actual number and amount of claims and benefits may vary from year to year from the estimate established using statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - CONTINUED

2.1 INSURANCE RISK - CONTINUED

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 potential variability of the expected outcome.

a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The following are considered by the Group to be the most significant:

- The increasing levels of court awards in cases where damages are suffered as a result of injuries; the divergence of awards that is dependant on the territory of the claim and the jurisdiction of the court; the effect of inflation due to the prolonged period typically required to settle such cases.
- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. In addition, on the acquisition of Progress Assicurazioni S.p.A., the Group had entered into a reinsurance arrangement with Corporacion Mapfre Compania Internacional De Reaseguros S.A., the previous shareholders of the Italian company. In terms of this agreement, Corporacion Mapfre Compania Internacional De Reaseguros S.A. agreed to reimburse the company for the net adverse run-off cost of all risks incepted prior to the date of original acquisition. Recoveries in terms of this arrangement are further disclosed in note 20 to the financial statements.

Underwriting

The underwriting strategy ensures that the risks underwritten are well diversified in terms of type and amount of risk and geography.

The Group follows strict underwriting guidelines and sets limits on the overall retention of risk that it carries. Any risk in excess of this limit is either reinsured under a facultative cover note or is declined. Underwriting limits are in place to enforce appropriate risk selection criteria. In certain circumstances, certain exclusions to risks are included within these guidelines. For example, the Group does not insure US risks unless they are incidental. The Group can impose deductibles to help manage its costs. It also uses its experience and expertise to mitigate the risk of fraudulent claims. Insurance contracts also entitle the Group to pursue third parties for payment of some or all of the costs (i.e. subrogation). A significant portion of the Group's business is underwritten through an agency distribution network. Underwriting authority limits are set for individual agencies or branches, and any contracts through which the Group is committed to cover risks in excess of these authority limits require head office approval.

Reinsurance arrangements

The Group has reinsurance protection in place for all classes of business. The type of reinsurance cover, and the level of retention, is based on the Group's internal risk management assessment which takes into account the risk being covered, the sums assured and the geographical location of the risk. The Boards of the individual insurance companies within the Group approve each reinsurance program on an annual basis. The reinsurance arrangements include a mix of proportional, facultative and non-proportional covers, which limit the liability of the Group to any one individual claim or event. It is generally the Group's policy for reinsurance to be placed with listed multinational reinsurance companies whose credit rating is not less than A.

As referred to earlier, the Group has in place further agreements to cover the net adverse run-off costs of all risks of the Italian subsidiary incepted prior to the date of original acquisition.

Claims handling

The Group has specialised claims units dealing with the mitigation of risks surrounding known claims. These units investigate and adjust all claims. Claims are reviewed individually on a regular basis. Those claims that take more than one year to settle are reviewed regularly, and are adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions and other factors. The Group actively manages and pursues early settlement of claims to reduce its exposure to unpredictable developments.

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - CONTINUED

2.1 INSURANCE RISK - CONTINUED

In the case of the Company, authority limits are set for the settlement of claims through the individual agents. Any claims incurred above these limits are referred to head office for handling. In addition, all claims involving bodily injury are referred to head office irrespective of their amount. In the case of the Italian subsidiary, all claims are managed and settled directly by the company. Agents do not have authority to settle claims.

Concentration of insurance risk

The Group's risks are concentrated across the Euro-Med region. 63% of premium is written in Italy and Sicily, 33% is written in Malta and 4% is written in Gibraltar. The Group further diversifies business underwritten in Italy through a distribution network comprising 123 agencies operating on the Italian mainland, including Puglia, Calabria, Campania, Lazio, Abruzzo, Molise, Piedmont, Sardinia and Trentino, and a further 36 agencies operating in Sicily.

The entry into the Italian and Gibraltar markets was a result of a strategic decision by the Group to diversify risk away from the Maltese Islands, and to increase the potential for growth.

From a Group perspective, compulsory motor liability remains the largest class of business written at 51% of total premium. Other significant insurance business classes include motor comprehensive insurance at 21% and property at 11%. The remaining 17% of premium written is generated across a spread of classes including health, accident, marine and other non-motor liability business. Further information on premiums written, and claims incurred and insurance liabilities by insurance business class is provided in note 3 to these financial statements.

The concentration of motor third party liability is mainly located within the Italian operation where this class (RCA) accounts for 70% of the total business written in Italy. The emphasis of RCA business is consistent with general market trends in Southern Italy and Sicily where RCA is traditionally the predominant type of insurance cover taken out by a policyholder. The subsidiary has adopted various measures to improve the mix of non-RCA business, including:

- setting performance targets for agents driven by an increase in the content of non-RCA business;
- terminating agency agreements that underperform;
- negotiation of contracts with new intermediaries where portfolios are predominantly non-RCA business.

The above measures are further complemented by strong underwriting disciplines, including realignment of the Italian operation's pricing strategy commensurate with the level of risk.

The spread of business underwritten by the local company (including the Gibraltar branch) is more diversified. Comprehensive motor business accounts for 32% of premium written, followed by property at 19% and motor liability at 19%. The remaining 30% of the portfolio is spread across health, accident, marine and non-motor liability business. The current portfolio mix is consistent with local market statistics.

b) Sources of uncertainty in the estimation of future claim payments

Claims on contracts are accounted for on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, the estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where information about the claim event is generally available. Certain classes of business, most notably those exposed to liability, can take several years to develop and are therefore subject to a greater degree of uncertainty than other classes of business which are typically settled in a shorter period of time.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the balance sheet date.

In calculating the estimated cost of unpaid claims, the Group uses a combination of estimation techniques, based partly on known information at year end, partly on statistical analysis of historical experience and partly on actuarial valuations carried out by an independent external actuary (in so far as is relevant to the Italian operation).

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - CONTINUED

2.1 INSURANCE RISK - CONTINUED

The reserve takes into account the estimated cost of the settlement of the claim, based on the information available at each period end. The statistical techniques are based on the statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

The Company has constructed 'chain ladders' that triangulate the settlement of claims by accounting year or underwriting year, depending on the class of business (i.e. covering risks underwritten in Malta or Gibraltar). The 'chain ladders' include the known claims incurred (i.e. the claims paid and claims outstanding in any given year) by underwriting/accounting year, and they demonstrate how each year has progressed in the subsequent years of development. The 'chain ladder' is then projected forward giving greater weighting to recent years. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. In fact, large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

The Italian subsidiary applies multiple actuarial techniques to estimate the ultimate cost of claims for material classes of insurance business (essentially RCA). In addition, an external actuarial assessment on the adequacy of claims reserving is commissioned on an annual basis, in accordance with Italian Regulatory requirements. The choice of selected results depends on an assessment of the technique that is considered to be most appropriate in relation to observed historical developments. The methods used in reserving as at 31 December were the following:

- Loss Development Method Paid (LDM)
- Loss Development Method Paid Inflated Adjusted
- Bornhuetter-Ferguson Paid

The basic LDM involves the analysis of historical claims paid development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims paid data for each accident year that is not fully developed to produce an estimated ultimate claims cost of each accident year. The second method follows through from the basic framework but is adjusted to cater for inflation.

Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums, using an initial loss ratio estimate; the latter is based on the paid claims to date. The initial loss ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The two estimates are combined using a formula that gives more weight to the experience-based estimates as time passes.

The projections given by the various methodologies assist in estimating the range of possible outcomes. The results achieved by the different methodologies are appropriately weighted by the actuary for the purposes of reserving applied in the financial statements.

Note 20 presents the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Group's estimation technique for claims reserving.

2.2 FINANCIAL RISK

The Group is exposed to financial risk through its financial assets, financial liabilities, and insurance and reinsurance assets and liabilities. The most important components of this financial risk are the interest rate risk, equity price risk, currency risk and credit risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

a) Interest rate risk

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

In general, the Group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates. This risk is managed through investment in debt securities having a wide range of maturity dates. Group investment parameters exist to limit exposure to any one particular issuer and any one particular security. Notes 18 and 23 incorporate interest rate and maturity information with respect to the Group's assets.

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - CONTINUED

2.2 FINANCIAL RISK - CONTINUED

The Group has in place loan facilities issued at variable rates which expose it to cash flow interest rate risk. Note 27 incorporates the interest rate and maturity information with respect to these loan facilities.

Liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and contractually non-interest bearing. In those instances where interest is payable (e.g. in the case of damages awarded by the courts), interest is included in the claims cost whilst the investment income earned until the claim is settled is credited to the profit and loss account as it accrues.

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.

b) Price risk

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

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

c) Currency risk

The Company's liabilities are substantially denominated in Maltese Lira 72% (2005: 83%). The Company holds assets denominated in currencies other than Maltese Lira, the functional currency. The Company is therefore exposed to currency risk, as the value of assets denominated in other currencies will fluctuate due to changes in exchange rates. The Company holds 46% (2005: 44%) of its total assets in foreign currencies, of which 34% (2005: 30%) is held in Euro, 6% (2005: 10%) in Sterling and 6% (2005: 4%) in other currencies.

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

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

The Company also operates in Gibraltar creating an additional source of foreign currency risk - STG.

- The operating results of the Group's foreign branches and subsidiaries are translated at average exchange rates prevailing during the period in the financial statements; and
- The investment in foreign branches and subsidiaries is translated into Maltese Lira using the foreign currency exchange rate at the financial statement period-end date.

The other subsidiaries of the Group are not exposed to currency risk as both the assets and liabilities of the subsidiaries are mainly denominated in their functional currency.

d) Credit risk

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

- investments and cash and cash equivalents;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- amounts due from insurance intermediaries.

NOTES TO THE FINANCIAL STATEMENTS

2. MANAGEMENT OF INSURANCE AND FINANCIAL RISK - CONTINUED

2.2 FINANCIAL RISK - CONTINUED

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

The Group structures the levels of credit risk it accepts by limiting as far as possible its exposure to a single counterparty or groups of counterparty. The Group has in place internal control structures to assess and monitor credit exposures and risk thresholds.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is monitored on a quarterly basis by reviewing credit grades provided by rating agencies and other publicly available financial information, thereby ensuring the continuous financial strength of the reinsurer. At the same time that the Board approves the overall reinsurance protection of the Group, it ensures that the reinsurers credit rating is within the parameters set by it.

The Group is exposed to contract holders and intermediaries for insurance premium. Credit agreements are in place in all cases where credit is granted, and in the case of larger risks, premium payment warranties are in place. This limits the liability of the Group towards the insured or any third party if the premium remains unsettled after the credit period granted and allows the Group to cancel the policy *ab initio*. Records are kept of the payment history for significant contract holders and intermediaries with whom regular business is conducted. Credit is not granted to contract holders or intermediaries whose payment history is not satisfactory. Credit risk with respect to debtors is further limited due to the large number of customers comprising the Group's debtor base.

The exposure to individual counterparties is also managed by other mechanisms, such as the right to offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal audit performs regular reviews to assess the degree of compliance with the Group's procedures on credit. Exposures to individual policyholders and groups of policyholders are, as far as practicable, collected within the ongoing monitoring of controls associated with regulatory solvency.

The Group does not enter into derivative contracts, with the exception of forward contracts that are transacted for the purpose of hedging foreign currency exposure as described earlier. All forward contracts are placed with quality financial institutions within the parameters of a hedging policy approved by the Board. At 31 December 2006, the Group had entered into unexpired foreign exchange forward contracts hedging an exposure of USD3,171,800 and STG465,000, against an exposure of Eur3,090,596. At 31 December 2005, the Group had entered into unexpired foreign exchange forward contracts hedging an exposure of USD4,322,525 and STG2,850,000, against an exposure of Eur7,800,000. The fair value movements associated with the unexpired contracts are recognised in the profit and loss account and amount to Lm2,852 (2005: Lm7,077).

Liquidity risk

The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance 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 maturing funds available to meet such calls. Further, the Group invests a majority of its assets in listed investments that can be readily disposed of.

3. SEGMENT INFORMATION

Primary reporting format - Geographical Segments

The Group is organised on a worldwide basis into four geographical segments that are all principally involved in the business of general insurance: Malta, Italy, Gibraltar and London (discontinued):

- Malta - The holding company is incorporated in Malta and is licensed under the Insurance Business Act, 1998, as a composite insurer, to carry on both general and long term business of insurance;
- Italy - The Italian subsidiary carries on general business of insurance in Sicily and on the Italian mainland;
- Gibraltar - The holding company operates through a branch in Gibraltar carrying on general business of insurance; and

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION - CONTINUED

Primary Reporting Format – Geographical Segments - Continued

- London - Up to November 2000, the holding company operated in the UK, as a general business reinsurer, through a branch in London. This branch has since been closed and the Group's international reinsurance acceptance business is close to being fully run-off.

The segment results for the year ended 31 December are as follows:

	Group			
	Gross premiums written		Profit/(loss) before tax	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Malta	11,942,329	12,365,520	2,771,327	5,116,131
Italy	22,665,924	19,936,400	765,238	867,145
Gibraltar	1,380,158	1,492,284	134,640	522,411
London - discontinued	7,352	42,302	(14,385)	8,203
Total for the year	35,995,763	33,836,506	3,656,820	6,513,890

There is no business transacted between the segments other than as disclosed in note 33.

Segment assets and liabilities

Segment assets include all operating assets used by a segment and consist principally of investments, reinsurers' share of technical provisions and debtors, net of provisions. Segment liabilities comprise operating liabilities mainly including technical provisions. Segment liabilities for the London and Gibraltar branch are principally backed by investments and other assets managed from Malta (the home country of the parent company).

The Group's assets and liabilities for segments operating for the year then ended are as follows:

	Assets		Liabilities	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Malta	53,885,430	51,091,263	32,362,230	30,809,391
Italy	59,316,434	52,134,079	47,013,268	42,021,502
Gibraltar	2,987,806	2,657,076	2,987,806	2,657,076
London - discontinued	1,984,417	2,548,963	807,606	953,982
	118,174,087	108,431,381	83,170,910	76,441,951

The assets allocated to the Malta operation include the aggregate investment in the associated undertaking of Lm17,364,598 (2005: Lm13,496,668). This undertaking is involved in underwriting life assurance in Malta.

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION - CONTINUED

Primary reporting format - Geographical Segments - Continued

Other information

	Group 2006			
	Malta Lm	Italy Lm	London Lm	Total Lm
Share of profit of associated undertaking	1,487,930	-	-	1,487,930
Capital expenditure	293,156	45,642	-	338,798
Depreciation and amortisation - tangible and intangible assets	180,826	113,095	589	294,510
Impairment loss on receivables	-	21,185	-	21,185
Other non-cash movements	-	27,429	24,505	51,934

	Group 2005			
	Malta Lm	Italy Lm	London Lm	Total Lm
Share of profit of associated undertaking	1,157,947	-	-	1,157,947
Capital expenditure	305,987	160,541	-	466,528
Depreciation and amortisation - tangible and intangible assets	137,975	87,633	3,400	229,008
Impairment loss on receivables	10,188	-	-	10,188
Write back of impairment loss on receivables	-	(142,977)	-	(142,977)
Other non-cash movements	-	41,040	(22,396)	18,644

Capital expenditure comprises additions to tangible and intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION - CONTINUED

Secondary reporting format - Business Segments

General business

The Group's four geographic segments operate in two main business segments, general business, that is further sub-divided into various insurance business classes, and long-term business as follows:

Gross premiums written and gross premiums earned by class of business

	Group			
	Gross premiums written		Gross premiums earned	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Direct insurance				
Motor (third party liability)	18,446,839	16,915,368	17,735,316	17,364,728
Motor (other classes)	7,554,871	7,261,820	7,288,606	7,105,097
Fire and other damage to property	3,792,399	3,452,935	3,255,568	3,387,946
Other classes	5,596,362	5,581,220	5,316,273	5,604,137
	35,390,471	33,211,343	33,595,763	33,461,908
Reinsurance acceptances				
Fire and other damage to property	7,336	53,362	7,336	53,362
Other classes	-	(3,200)	-	(3,200)
	35,397,807	33,261,505	33,603,099	33,512,070

32% (2005: 35%) of gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta, 64% (2005: 60%) emanate from contracts concluded in or from Italy and 4% (2005: 5%) emanate from contracts concluded in or from Gibraltar.

Gross claims incurred, gross operating expenses and reinsurance balance by class of business

	Group					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2006	2005	2006	2005	2006	2005
	Lm	Lm	Lm	Lm	Lm	Lm
Direct insurance						
Motor (third party liability)	16,433,794	15,339,013	3,100,538	2,940,153	(221,966)	292,057
Motor (other classes)	3,779,901	3,262,640	1,883,975	1,849,179	271,741	455,971
Fire and other damage to property	769,664	1,294,086	1,013,957	986,884	1,327,695	1,033,639
Other classes	3,396,671	2,469,773	1,530,254	1,547,124	(10,507)	661,373
	24,380,030	22,365,512	7,528,724	7,323,340	1,366,963	2,443,040
Reinsurance acceptances						
Motor (other classes)	1,836	13,674	-	2,661	(151)	2,268
Fire and other damage to property	(28,246)	86,619	2,995	10,579	30,165	18,120
Other classes	15,333	(28,224)	-	-	(202)	(3,256)
	24,368,953	22,437,581	7,531,719	7,336,580	1,396,775	2,460,172

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION - CONTINUED

Secondary reporting format - Business Segments - Continued

Gross premiums written and gross premiums earned by class of business

	Company			
	Gross premiums written		Gross premiums earned	
	2006 Lm	2005 Lm	2006 Lm	2005 Lm
Direct insurance				
Motor (third party liability)	2,573,347	2,606,158	2,632,544	2,643,111
Motor (other classes)	4,208,870	4,583,601	4,305,690	4,648,593
Fire and other damage to property	2,562,594	2,597,002	2,521,045	2,667,826
Other classes	3,379,736	3,488,182	3,162,834	3,485,004
	12,724,547	13,274,943	12,622,113	13,444,534
Reinsurance acceptances				
Fire and other damage to property	7,336	53,362	7,336	53,362
Other classes	-	(3,200)	-	(3,200)
	12,731,883	13,325,105	12,629,449	13,494,696

89% (2005: 89%) of gross premiums written for direct general insurance business emanate from contracts concluded in or from Malta. The balance emanates from contracts concluded in or from Gibraltar.

Gross claims incurred, gross operating expenses and reinsurance balance by class of business

	Company					
	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2006 Lm	2005 Lm	2006 Lm	2005 Lm	2006 Lm	2005 Lm
Direct insurance						
Motor (third party liability)	1,441,705	1,385,895	650,313	675,920	100,021	208,653
Motor (other classes)	2,848,535	2,480,845	1,052,508	1,188,780	168,254	339,319
Fire and other damage to property	465,575	886,859	729,264	766,394	1,221,596	959,603
Other classes	2,355,591	1,933,284	889,374	914,220	184,802	545,617
	7,111,406	6,686,883	3,321,459	3,545,314	1,674,673	2,053,192
Reinsurance acceptances						
Motor (other classes)	(3,741)	869	-	16,639	(151)	2,268
Fire and other damage to property	(32,561)	84,058	2,995	15,883	30,165	17,501
Other classes	7,398	(76,831)	-	36,134	(202)	13,750
	7,082,502	6,694,979	3,324,454	3,613,970	1,704,485	2,086,711

The reinsurance balance represents the charge/(credit) to the technical account arising from the aggregate of all items relating to reinsurance outwards.

NOTES TO THE FINANCIAL STATEMENTS

3. SEGMENT INFORMATION - CONTINUED

Secondary reporting format - Business Segments - Continued

Long term business

	Group and Company	
	2006	2005
	Lm	Lm
Gross premiums written		
Direct insurance	592,795	569,481
Reinsurance inwards	5,161	5,520
	597,956	575,001

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

Group segment assets and liabilities

	Motor third party Lm	Motor other Lm	Fire and other damage to property Lm	Other classes Lm	Long-term business Lm	Unallocated Lm	Total Lm
At 31 December 2006							
Assets allocated to business segments	41,960,087	7,708,299	5,547,691	12,181,241	262,469	5,914,142	73,573,929
Assets allocated to shareholders	-	-	-	-	-	44,600,158	44,600,158
Total assets	41,960,087	7,708,299	5,547,691	12,181,241	262,469	50,514,300	118,174,087
Liabilities allocated to business segments	41,300,458	7,065,718	5,974,250	12,602,235	262,469	2,146,391	69,351,521
Liabilities allocated to shareholders	-	-	-	-	-	13,819,389	13,819,389
Total liabilities	41,300,458	7,065,718	5,974,250	12,602,235	262,469	15,965,780	83,170,910
At 31 December 2005							
Assets allocated to business segments	38,919,382	9,030,605	6,217,854	7,894,740	268,042	5,796,465	68,127,088
Assets allocated to shareholders	-	-	-	-	-	40,304,293	40,304,293
Total assets	38,919,382	9,030,605	6,217,854	7,894,740	268,042	46,100,758	108,431,381
Liabilities allocated to business segments	38,302,323	8,412,433	6,606,357	8,410,227	268,042	1,842,356	63,841,738
Liabilities allocated to shareholders	-	-	-	-	-	12,600,213	12,600,213
Total liabilities	38,302,323	8,412,433	6,606,357	8,410,227	268,042	14,442,569	76,441,951

NOTES TO THE FINANCIAL STATEMENTS

4. NET OPERATING EXPENSES

	Group		Company	
	2006 Lm	2005 Lm	2006 Lm	2005 Lm
Acquisition costs	5,739,253	5,614,570	2,608,743	3,013,167
Change in deferred acquisition costs, net of reinsurance	(71,230)	55,760	102,207	78,083
Administrative expenses	3,600,390	3,141,608	1,270,080	1,039,448
Reinsurance commissions and profit participation	(1,895,317)	(1,711,091)	(1,513,060)	(1,456,146)
	7,373,096	7,100,847	2,467,970	2,674,552
Allocated to:				
General business technical account	5,884,051	5,808,615	1,957,728	2,306,608
Long term business technical account	34,508	11,632	34,508	11,632
Non-technical account (administrative expenses)	1,454,537	1,280,600	475,734	356,312
	7,373,096	7,100,847	2,467,970	2,674,552

Total commissions for direct business accounted for in the financial year amounted to Lm5,261,017 (2005: Lm5,328,636) in the Group's technical result and Lm2,424,595 (2005: Lm2,712,224) in the Company's technical result. Administrative expenses mainly comprise staff costs which are analysed in note 8.

Non-technical account

Administrative expenses in the non-technical profit and loss account represent expenditure after appropriate apportionments are made to the general and long term business technical accounts. They include staff costs, premises costs, depreciation charge, directors' fees, auditors' remuneration, professional fees, marketing and promotional costs, and other general office expenditure.

5. INVESTMENT RETURN

	Group		Company	
	2006 Lm	2005 Lm	2006 Lm	2005 Lm
<i>Investment income</i>				
Share of associated undertaking's profit, net of tax	1,487,930	1,157,947	-	-
Gain on sale of shares in associated undertaking	-	168,333	-	221,656
Rental receivable from investment property	208,891	259,448	154,590	203,832
Interest receivable from loans and receivables				
- group undertakings	-	-	19,706	32,898
- other financial assets not at fair value through profit or loss	395,051	297,970	212,621	174,221
Income from financial assets at fair value through profit or loss				
- interest income	1,907,220	1,881,119	461,526	502,789
- dividend income	576,400	285,629	2,008,675	1,735,719
- net fair value gains	-	2,252,869	-	2,145,240
Net fair value gains on investment property	156,336	24,761	41,522	23,139
Exchange differences	56,416	18,102	56,416	18,102
	4,788,244	6,346,178	2,955,056	5,057,596

NOTES TO THE FINANCIAL STATEMENTS

5. INVESTMENT RETURN - CONTINUED

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
<i>Investment expenses and charges</i>				
Direct operating expenses arising from investment property that generated rental income	23,844	24,822	23,844	24,210
Interest expense for financial liabilities that are not at fair value through profit or loss	316,497	210,268	309,436	202,367
Net fair value losses on financial assets at fair value through profit or loss	321,169	254,260	6,269	30,000
Net fair value loss on investment property	9,629	-	-	-
Exchange differences	2,018	59,159	-	-
Other investment expenses	69,634	80,813	51,351	52,767
	742,791	629,322	390,900	309,344
Total investment return	4,045,453	5,716,856	2,564,156	4,748,252
Analysed between:				
Allocated investment return transferred to the general business technical account	1,997,775	2,859,056	763,232	1,881,168
Investment return included in the non-technical account	1,932,749	2,664,164	1,685,995	2,673,448
Investment return included in the long term business technical account	56,904	130,877	56,904	130,877
Allocated investment return against provision for discontinued operations	58,025	62,759	58,025	62,759
	4,045,453	5,716,856	2,564,156	4,748,252

6. OTHER INCOME

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Management fees	516,610	460,641	-	-
Other income	77,224	83,862	-	-
Excess of acquirer's interest in the net fair value of acquiree's assets, liabilities and contingent liabilities over costs (note 30)	-	52,200	-	-
	593,834	596,703	-	-

7. PROFIT BEFORE TAX

Profit before tax is stated after charging/(crediting):

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Staff costs (note 8)	2,140,074	1,955,953	586,304	540,425
Auditors' remuneration	42,700	38,100	18,200	16,400
Depreciation/amortisation:				
- intangible assets (note 13)	135,135	70,052	83,533	19,817
- tangible assets (note 14)	159,375	158,956	64,857	65,136
Impairment loss on receivables	21,185	10,188	-	10,188
Write back of impairment loss on receivables	-	(142,977)	-	-

NOTES TO THE FINANCIAL STATEMENTS

8. STAFF COSTS

	Group		Company	
	2006 Lm	2005 Lm	2006 Lm	2005 Lm
Salaries	1,757,712	1,619,921	530,121	488,271
Social security costs	340,323	298,694	32,161	30,818
Provision for contracted pension obligations (note 10)	42,039	37,338	24,022	21,336
	2,140,074	1,955,953	586,304	540,425

The average number of persons employed during the year was:

	Group		Company	
	2006	2005	2006	2005
Managerial	27	26	14	13
Technical	61	55	34	35
Administrative	59	61	3	3
	147	142	51	51

9. INCOME TAX EXPENSE

	Group		Company	
	2006 Lm	2005 Lm	2006 Lm	2005 Lm
Current tax expense	857,823	844,815	749,736	704,757
Deferred tax charge (note 19)	(423,737)	812,515	(223,684)	1,148,384
Income tax expense	434,086	1,657,330	526,052	1,853,141

The tax on the Group's and Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:-

	Group		Company	
	2006 Lm	2005 Lm	2006 Lm	2005 Lm
Profit before tax	3,656,820	6,513,890	2,772,848	5,694,170
Tax at 35%	1,279,887	2,279,861	970,497	1,992,960
Adjusted for tax effect of:				
Dividends received from untaxed income	-	(245)	(271,425)	(150,385)
Exempt income	(883,505)	(553,225)	(363,916)	(113,240)
Differences arising from Section 15 of the Income Tax Act	(211,543)	(185,083)	-	-
Temporary differences attributable to unrecognised deferred tax	(6,033)	(192,098)	-	(17,885)
Non-deductible expenditure	103,459	168,956	6,579	35,761
Foreign tax payable	70,354	57,223	127,319	66,340
Effect of withholding tax regime on investment property	143,774	145,317	143,774	145,317
Other	(62,307)	(63,376)	(86,776)	(105,727)
Income tax expense	434,086	1,657,330	526,052	1,853,141

NOTES TO THE FINANCIAL STATEMENTS

10. DIRECTORS' EMOLUMENTS

	2006	2005
	Lm	Lm
Contracted emoluments paid to management	48,416	42,578
Directors' fees	49,672	46,702
	98,088	89,280

The executive director is entitled to the use of a company car.

The Company has paid insurance premiums of Lm5,613 during the year (2005: Lm5,976) in respect of insurance cover in favour of its directors. Furthermore, provisions have been made (Group: 2006 - Lm42,039 and 2005 - Lm37,338, Company: 2006 - Lm24,022 and 2005 - Lm21,336) in respect of contracted pension obligations.

11. EARNINGS PER SHARE

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

	Group	
	2006	2005
	Lm	Lm
Net profit attributable to shareholders	3,176,482	4,817,528
Weighted average number of ordinary shares in issue (note 24)	25,000,000	25,000,000
Earnings per share	12c7	19c3

2005 comparative information has been restated to reflect the change in the number of shares in issue following the share split as described in note 24.

12. DIVIDENDS

At the forthcoming Annual General Meeting, a dividend in respect of 2006 of 4.5 cents per share with a nominal value of 25 cents amounting to Lm1,125,000 is to be proposed. The dividend for the year is being declared from the Company's untaxed account. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2007. The dividends declared after the financial year end in respect of 2005 were Lm1,250,000 (10 cents, including a special dividend of 3 cents, per share with a nominal value of 50 cents) and in respect of 2004 were Lm750,000 (6 cents per share with a nominal value of 50 cents). The special dividend was declared on the occasion of the Company's 25th Anniversary.

NOTES TO THE FINANCIAL STATEMENTS

13. INTANGIBLE ASSETS

	Group	Company
	Lm	Lm
<i>Computer software</i>		
At 31 December 2004		
Cost	905,966	413,467
Accumulated amortisation	(764,785)	(397,917)
Net book amount	141,181	15,550
Year ended 31 December 2005		
Opening net book amount	141,181	15,550
Additions	349,559	302,151
Amortisation charge	(70,052)	(19,817)
Currency translation differences	(1,303)	-
Closing net book amount	419,385	297,884
At 31 December 2005		
Cost	1,254,222	715,618
Accumulated amortisation	(834,837)	(417,734)
Net book value	419,385	297,884
Year ended 31 December 2006		
Opening net book amount	419,385	297,884
Additions	145,847	128,490
Amortisation charge	(135,135)	(83,533)
Closing net book amount	430,097	342,841
At 31 December 2006		
Cost	1,400,069	844,108
Accumulated amortisation	(969,972)	(501,267)
Net book value	430,097	342,841

Amortisation expense has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings Lm	Leasehold improvements Lm	Motor vehicles Lm	Furniture, fittings and equipment Lm	Total Lm
At 31 December 2004					
Cost	647,571	485,712	60,722	1,332,522	2,526,527
Accumulated depreciation	(28,730)	(163,424)	(50,855)	(913,120)	(1,156,129)
Net book amount	618,841	322,288	9,867	419,402	1,370,398
Year ended 31 December 2005					
Opening net book amount	618,841	322,288	9,867	419,402	1,370,398
Additions	3,387	15,670	135	97,777	116,969
Disposals	(2,846)	-	(10,700)	(1,393)	(14,939)
Depreciation charge	(7,187)	(12,804)	(4,444)	(134,521)	(158,956)
Depreciation released on disposals	-	-	10,700	1,011	11,711
Currency translation differences	(7,097)	-	(33)	(2,543)	(9,673)
Closing net book amount	605,098	325,154	5,525	379,733	1,315,510
At 31 December 2005					
Cost	641,015	501,382	50,124	1,426,363	2,618,884
Accumulated depreciation	(35,917)	(176,228)	(44,599)	(1,046,630)	(1,303,374)
Net book amount	605,098	325,154	5,525	379,733	1,315,510
Year ended 31 December 2006					
Opening net book amount	605,098	325,154	5,525	379,733	1,315,510
Additions	445	84,110	18,900	89,496	192,951
Revaluation surplus	103,364	-	-	-	103,364
Transfers to investment property (note 15)	(178,336)	-	-	-	(178,336)
Depreciation charge	(4,212)	(14,254)	(6,595)	(134,314)	(159,375)
Closing net book amount	526,359	395,010	17,830	334,915	1,274,114
At 31 December 2006					
Cost	551,087	585,492	69,024	1,515,859	2,721,462
Accumulated depreciation	(24,728)	(190,482)	(51,194)	(1,180,944)	(1,447,348)
Net book amount	526,359	395,010	17,830	334,915	1,274,114

Depreciation expense has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Company

	Freehold land and buildings Lm	Leasehold improvements Lm	Motor vehicles Lm	Furniture, fittings and equipment Lm	Total Lm
At 31 December 2004					
Cost	25,763	463,763	41,378	846,770	1,377,674
Accumulated depreciation	-	(162,670)	(41,378)	(696,757)	(900,805)
Net book amount	25,763	301,093	-	150,013	476,869
Year ended 31 December 2005					
Opening net book amount	25,763	301,093	-	150,013	476,869
Additions	3,385	4,465	-	52,867	60,717
Disposals	-	-	(10,700)	(1,393)	(12,093)
Depreciation charge	(284)	(11,687)	-	(53,165)	(65,136)
Depreciation released on disposals	-	-	10,700	1,011	11,711
Closing net book amount	28,864	293,871	-	149,333	472,068
At 31 December 2005					
Cost	29,148	468,228	30,678	898,244	1,426,298
Accumulated depreciation	(284)	(174,357)	(30,678)	(748,911)	(954,230)
Net book amount	28,864	293,871	-	149,333	472,068
Year ended 31 December 2006					
Opening net book amount	28,864	293,871	-	149,333	472,068
Additions	445	57,315	18,500	27,584	103,844
Depreciation charge	(292)	(12,027)	(3,392)	(49,146)	(64,857)
Closing net book amount	29,017	339,159	15,108	127,771	511,055
At 31 December 2006					
Cost	29,593	525,543	49,178	925,828	1,530,142
Accumulated depreciation	(576)	(186,384)	(34,070)	(798,057)	(1,019,087)
Net book amount	29,017	339,159	15,108	127,771	511,055

Depreciation expense has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

15. INVESTMENT PROPERTY

	Group Lm	Company Lm
At 31 December 2004		
Cost	3,551,359	2,633,795
Accumulated fair value gains	603,742	581,392
	<hr/>	<hr/>
Net book amount	4,155,101	3,215,187
<hr/>		
Year ended 31 December 2005		
Opening net book amount	4,155,101	3,215,187
Additions	432	432
Disposals	(28,423)	(28,423)
Net fair value gains	20,962	20,962
Currency translation differences	(3,080)	-
	<hr/>	<hr/>
Closing net book amount	4,144,992	3,208,158
<hr/>		
At 31 December 2005		
Cost	3,524,631	2,610,147
Accumulated fair value gains	620,361	598,011
	<hr/>	<hr/>
Net book amount	4,144,992	3,208,158
<hr/>		
Year ended 31 December 2006		
Opening net book amount	4,144,992	3,208,158
Transfer from property, plant and equipment at fair value (note 14)	178,336	-
Disposals	(105,302)	(105,302)
Net fair value gains	146,309	41,124
	<hr/>	<hr/>
Closing net book amount	4,364,335	3,143,980
<hr/>		
At 31 December 2006		
Cost	3,605,065	2,512,245
Accumulated fair value gains	759,270	631,735
	<hr/>	<hr/>
Net book amount	4,364,335	3,143,980
<hr/>		

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

If the investment property was stated on the historical cost basis, the amounts would be as follows:

	Group 2006 Lm	2005 Lm	Company 2006 Lm	2005 Lm
Cost	3,501,701	3,524,631	2,512,245	2,610,147
Accumulated depreciation	(167,800)	(151,300)	(136,957)	(126,238)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount	3,333,901	3,373,331	2,375,288	2,483,909
<hr/>				

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN GROUP UNDERTAKINGS

	Company Lm
Year ended 31 December 2005	
Opening net book amount and cost	3,763,814
Additions	4,203,010
Disposals	(30,000)
	<hr/>
Closing net book amount and cost	7,936,824
	<hr/>
Year ended 31 December 2006	
Opening net book amount and cost	7,936,824
Additions	1,970,539
	<hr/>
Closing net book amount and cost	9,907,363
	<hr/>

The principal group undertakings at 31 December are shown below:

Group undertakings	Registered office	Class of shares held	Percentage of shares held	Percentage of shares held
			2006	2005
Church Wharf Properties Limited	Middle Sea House Floriana	Ordinary shares	75%	75%
Euro Globe Holdings Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
International Insurance Management Services Limited	Middle Sea House Floriana	Ordinary shares	100%	100%
Malta International Training Centre Limited	Europa Centre Floriana	Ordinary shares	60%	60%
Progress Assicurazioni S.p.A.	Piazza A. Gentile Palermo	Ordinary shares	90%	90%

The amount of dividends that can be distributed in cash by the insurance subsidiary, Progress Assicurazioni S.p.A., is dependent on the solvency restrictions imposed by the Italian Regulations.

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENT IN ASSOCIATED UNDERTAKING

	Group	Company
	Lm	Lm
At 31 December 2004		
Cost	1,955,540	1,955,540
Accumulated share of associated undertaking's profit and reserves	9,151,534	-
	<hr/>	<hr/>
Net book amount	11,107,074	1,955,540
	<hr/>	<hr/>
Year ended 31 December 2005		
Opening net book amount	11,107,074	1,955,540
Disposal	(229,863)	(38,344)
Share of associated undertaking's profits and reserves	2,619,457	-
	<hr/>	<hr/>
Closing net book amount	13,496,668	1,917,196
	<hr/>	<hr/>
At 31 December 2005		
Cost	1,917,196	1,917,196
Accumulated share of associated undertaking's profits and reserves	11,579,472	-
	<hr/>	<hr/>
Net book amount	13,496,668	1,917,196
	<hr/>	<hr/>
Year ended 31 December 2006		
Opening net book amount	13,496,668	1,917,196
Additions	2,200,000	2,200,000
Share of associated undertaking's profits and reserves	1,667,930	-
	<hr/>	<hr/>
Closing net book amount	17,364,598	4,117,196
	<hr/>	<hr/>
At 31 December 2006		
Cost	4,117,196	4,117,196
Accumulated share of associated undertaking's profits and reserves	13,247,402	-
	<hr/>	<hr/>
Net book amount	17,364,598	4,117,196
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENT IN ASSOCIATED UNDERTAKING - CONTINUED

The associated undertaking at 31 December which is unlisted is shown below:

Associated undertaking	Registered office	Class of shares held	Percentage of shares held 2006	Percentage of shares held 2005
Middlesea Valletta Life Assurance Company Limited	Middle Sea House Floriana	Ordinary shares	50%	50%

A summary of the audited balance sheet at 31 December of Middlesea Valletta Life Assurance Company Limited, which represents a significant investment to the Group, is set out below:

	2006	2005
	Lm	Lm
Investments	279,501,649	224,462,822
Net current assets	4,175,142	5,194,485
Intangible assets	19,459,424	17,423,207
Property, plant and equipment	255,062	210,826
Technical provisions and financial liabilities	(266,967,173)	(218,437,406)
Deferred taxation	431,374	265,684
Shareholders' funds	36,855,478	29,119,618
50% (2005: 50%) thereof relating to Group	18,427,739	14,559,809
Less: Group's share of the profit arising on the sale of investment property to Middlesea Valletta Life Assurance Company Limited	(1,057,804)	(1,057,804)
Amount at which the Group's investment is carried in the balance sheet	17,369,935	13,502,005

The profit after tax earned by Middlesea Valletta Life Assurance Company Limited for the year ended 31 December 2006 was Lm2,985,860 (2005: Lm2,300,431). Total revenue for the year ended 31 December 2006 amounted to Lm40,930,095 (2005: Lm34,337,052).

The amount of dividends that can be distributed in cash by the insurance associate is dependent on the solvency requirements imposed by the MFSA Regulations.

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER INVESTMENTS

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

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Fair value through profit or loss	52,833,519	56,242,474	17,898,595	17,957,999
Available-for-sale	341,002	360,451	170,509	274,333
Loans and receivables	15,850,144	7,030,308	4,214,754	5,189,090
	69,024,665	63,633,233	22,283,858	23,421,422

(a) Investments at fair value through profit or loss

Analysed by type of investment as follows:

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Equity securities, other variable yield securities and units in unit trusts	12,161,823	8,463,037	7,586,698	7,225,908
Debt securities - listed fixed interest rate	40,671,696	47,779,437	10,311,897	10,732,091
Total investments at fair value through profit or loss	52,833,519	56,242,474	17,898,595	17,957,999

Equity securities, other variable yield securities and units in unit trusts are classified as non-current. The maturity of fixed income debt securities is summarised below:

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Within one year	9,831,740	8,512,345	249,663	847,683
Between 1 and 2 years	8,393,426	9,969,526	630,430	765,463
Between 2 and 5 years	12,133,994	19,224,036	3,683,585	4,745,268
Over 5 years	10,312,536	10,073,530	5,748,219	4,373,677
	40,671,696	47,779,437	10,311,897	10,732,091

Weighted average effective interest rate at the balance sheet date

	4.4%	4.2%	4.4%	4.5%
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NOTES TO THE FINANCIAL STATEMENTS

18. OTHER INVESTMENTS - CONTINUED

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

The movements for the year are summarised as follows:

	Group Lm	Company Lm
Year ended 31 December 2005		
Opening net book amount	44,484,795	15,827,546
Additions	17,056,235	2,578,394
Disposals (sale and redemptions)	(7,015,043)	(2,735,360)
Net fair value gains (excluding net realised movements)	2,049,889	2,287,419
Currency translation differences	(333,402)	-
	<hr/>	<hr/>
Closing net book amount	56,242,474	17,957,999
	<hr/>	<hr/>
Year ended 31 December 2006		
Opening net book amount	56,242,474	17,957,999
Additions	10,724,322	5,058,457
Disposals (sale and redemptions)	(13,680,137)	(5,041,605)
Net fair value losses (excluding net realised movements)	(453,140)	(76,256)
	<hr/>	<hr/>
Closing net book amount	52,833,519	17,898,595
	<hr/>	<hr/>

(b) Available-for-sale financial assets

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Unlisted shares	341,002	360,451	170,509	274,333
	<hr/>		<hr/>	

Unlisted shares are classified as non-current. The movements for the year are summarised as follows:

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Year ended 31 December				
Opening net book amount	360,451	412,024	274,333	331,971
Additions	84,375	6,425	-	-
Net fair value losses (note 25)	(103,824)	(57,638)	(103,824)	(57,638)
Currency translation differences	-	(360)	-	-
	<hr/>		<hr/>	
Closing net book amount	341,002	360,451	170,509	274,333
	<hr/>		<hr/>	

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables

Analysed by type of investment as follows:

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Deposits with banks or credit institutions	8,395,248	6,316,648	4,114,754	4,492,260
Treasury bills	7,338,066	596,830	-	596,830
Unlisted fixed income debt securities	116,830	116,830	100,000	100,000
	15,850,144	7,030,308	4,214,754	5,189,090

Maturity of deposits with banks or credit institutions:

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Within 3 months	8,395,248	5,148,915	4,114,754	3,324,527
Within 1 year but exceeding 3 months	-	1,167,733	-	1,167,733
	8,395,248	6,316,648	4,114,754	4,492,260

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables - Continued

The above deposits earn interest as follows:

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
At floating rates	4,890,058	2,819,197	609,564	1,918,956
At fixed rates	3,505,190	3,497,451	3,505,190	2,573,304
	8,395,248	6,316,648	4,114,754	4,492,260
Weighted average effective interest rate at the balance sheet date	3.9%	3.0%	4.1%	3.3%

Maturity of fixed income treasury bills and debt securities:

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Within one year	7,338,066	596,830	-	596,830
Between 1 and 2 years	100,000	-	100,000	-
Between 2 and 5 years	16,830	116,830	-	100,000
	7,454,896	713,660	100,000	696,830
Weighted average effective interest rate at the balance sheet date	3.7%	3.8%	7.5%	3.8%

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER INVESTMENTS - CONTINUED

(c) Loans and receivables - Continued

The movements for the year for treasury bills and unlisted fixed income debt securities are summarised as follows:

Group

	Unlisted fixed income debt securities Lm	Treasury bills Lm	Total Lm
Year ended 31 December 2005			
Opening net book amount	117,032	6,758,404	6,875,436
Additions	-	2,477,579	2,477,579
Disposals (sale and redemptions)	-	(8,566,582)	(8,566,582)
Currency translation differences	(202)	(72,571)	(72,773)
	<hr/>		
Closing net book amount	116,830	596,830	713,660
	<hr/>		
Year ended 31 December 2006			
Opening net book amount	116,830	596,830	713,660
Additions	-	16,137,799	16,137,799
Disposals (sale and redemptions)	-	(9,396,563)	(9,396,563)
	<hr/>		
Closing net book amount	116,830	7,338,066	7,454,896
	<hr/>		

Company

	Unlisted fixed income debt securities Lm	Treasury bills Lm	Total Lm
Year ended 31 December 2005			
Opening net book amount	100,000	643,959	743,959
Additions	-	2,296,830	2,296,830
Disposals (sale and redemptions)	-	(2,343,959)	(2,343,959)
	<hr/>		
Closing net book amount	100,000	596,830	696,830
	<hr/>		
Year ended 31 December 2006			
Opening net book amount	100,000	596,830	696,830
Additions	-	2,750,000	2,750,000
Disposals (sale and redemptions)	-	(3,346,830)	(3,346,830)
	<hr/>		
Closing net book amount	100,000	-	100,000
	<hr/>		

NOTES TO THE FINANCIAL STATEMENTS

19. DEFERRED INCOME TAX

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Balance at 1 January	(226,275)	(1,022,057)	742,004	(386,207)
Movements during the year:				
Profit and loss account (note 9)	(423,737)	812,515	(223,684)	1,148,384
Fair value reserve	3,199	(20,173)	(36,338)	(20,173)
Difference on exchange	-	3,440	-	-
Balance at 31 December (net)	(646,813)	(226,275)	481,982	742,004

Deferred taxation is calculated on temporary differences under the liability method using the principal tax rate within the relevant jurisdiction. The year end balance comprises:

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Temporary differences on property, plant and equipment	62,228	67,994	56,120	44,522
Temporary differences attributable to unrealised capital losses and exchange gains	924,148	962,214	660,492	809,207
Temporary differences attributable to unabsorbed tax losses and allowances carried forward	(902,590)	(625,984)	(198,513)	(75,608)
Temporary differences attributable to insurance technical provisions	(561,339)	(461,509)	-	-
Temporary differences attributable to other provisions	(194,933)	(195,102)	(78,001)	(78,001)
Other temporary differences, including impact of non-deductible expenses and different tax rates	25,673	26,112	41,884	41,884
Balance at 31 December (net)	(646,813)	(226,275)	481,982	742,004

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

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Deferred tax asset	(1,128,795)	(968,279)	-	-
Deferred tax liability	481,982	742,004	481,982	742,004
	(646,813)	(226,275)	481,982	742,004

The deferred income tax assets and liabilities are, principally, recoverable after more than 12 months.

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Gross				
Short-term insurance contracts				
- claims outstanding	51,416,856	48,132,668	15,343,347	14,729,293
- provision for unearned premiums and unexpired risks	13,733,345	11,938,637	5,455,724	5,353,290
Long term business provision - Group Life	238,430	222,424	238,430	222,424
Total technical provisions, gross	65,388,631	60,293,729	21,037,501	20,305,007
Recoverable from reinsurers				
Short-term insurance contracts				
- claims outstanding	9,979,458	9,567,428	4,666,664	4,744,818
- provision for unearned premiums and unexpired risks	2,294,010	1,855,319	1,636,129	1,447,599
Long term business provision - Group Life	87,182	76,671	87,182	76,671
Total reinsurers' share of technical provisions	12,360,650	11,499,418	6,389,975	6,269,088
Net				
Short-term insurance contracts				
- claims outstanding	41,437,398	38,565,240	10,676,683	9,984,475
- provision for unearned premiums and unexpired risks	11,439,335	10,083,318	3,819,595	3,905,691
Long term business provision - Group Life	151,248	145,753	151,248	145,753
Total technical provisions, net	53,027,981	48,794,311	14,647,526	14,035,919

Technical provisions are classified as current liabilities.

The gross claims reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2006 and 2005 are not material.

The technical provisions are largely based on case-by-case estimates supplemented with additional provisions for IBNR, IBNER and unexpired risks in those instances where the ultimate cost determined by estimation techniques is higher. IBNR and IBNER included in claims outstanding for the Group amounted to Lm5,707,603 (2005: Lm5,206,022).

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

As described in note 2.1, the Bornhuetter-Ferguson Paid model is applied when calculating the ultimate cost of claims reserves for the Italian subsidiary. A key variable used in applying this model is the initial loss ratio estimate. This estimate is determined by an external actuary and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claim inflation. A change of 2.5% in this ratio, would effect the technical provisions by approximately Lm214,650.

The development tables below give an indication of the time it takes to settle certain claims. This is attributable to certain classes of business taking several years to develop (as mentioned in note 2.1) and also to the length of time it takes certain classes to be resolved in court.

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Group's estimate of total claims incurred for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. The accident-year basis is considered to be the most appropriate for the business written by the Group. The Company and its Italian subsidiary operate in different markets and separate consideration was made for the development of their respective insurance liabilities. Development trends were not found to be materially dissimilar and are reported in aggregate below, on a net basis:

	2001	2002	2003	2004	2005	2006	Total
	Lm	Lm	Lm	Lm	Lm	Lm	Lm
Estimate of the ultimate claims costs:							
- at end of accident year	11,923,035	19,165,751	20,706,962	22,792,483	20,638,392	20,953,659	
- one year later	11,826,101	20,172,077	20,765,684	22,828,334	21,530,395	-	
- two years later	11,518,670	18,886,037	19,729,707	22,178,195	-	-	
- three years later	11,045,271	19,067,431	19,237,483	-	-	-	
- four years later	10,768,688	18,849,643	-	-	-	-	
- five years later	10,930,494	-	-	-	-	-	
Current estimates of cumulative claims	10,930,494	18,849,643	19,237,483	22,178,195	21,530,395	20,953,659	113,679,869
Cumulative payments to date	(9,435,401)	(16,221,078)	(15,633,794)	(16,005,904)	(13,058,195)	(6,454,268)	(76,808,640)
Liability recognised in the balance sheet	1,495,093	2,628,565	3,603,689	6,172,291	8,472,200	14,499,391	36,871,229
Liability in respect of prior years							4,566,169
Total reserve included in the balance sheet							41,437,398

The Group continues to benefit from reinsurance programmes that were purchased in prior years and includes proportional cover supplemented by excess of loss reinsurance cover. The reinsurers' share of claims liabilities is estimated net of the provision for known and expected incidents of insolvency of reinsurers.

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are offset against the amounts due to the same reinsurers for premium ceded under the respective treaties. The balances due from/to reinsurers are disclosed within receivables and payables in notes 22 and 28.

Recoveries on claims outstanding from reinsurers include an amount of Lm2,009,780 (2005: Lm1,993,476) that is recoverable from Corporacion Mapfre Compania Internacional De Reaseguros S.A. under arrangements entered into upon the acquisition of Progress Assicurazioni S.p.A. on 29 September 2000. In terms of these arrangements, Corporacion Mapfre Compania Internacional De Reaseguros S.A. agreed to meet the run-off cost of all risks incepted prior to the date of original acquisition.

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

Long term business provision

The balance on the long term business provision has been certified by the company's appointed actuary as being sufficient to meet liabilities at 31 December 2006. The net assets representing this long term business provision, which are included under the respective headings in the Group's overall balance sheet, are as follows:

	2006	2005
	Lm	Lm
Investments	1,673,235	1,289,585
Insurance and other receivables	402,541	407,060
Cash at bank and in hand	11,783	26,595
Claims outstanding	(16,279)	(32,464)
Insurance and other payables	(1,920,032)	(1,545,023)
	<hr/>	<hr/>
Long term business provision, net of reinsurance	151,248	145,753
	<hr/>	<hr/>

Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustments expenses

	Group		
	Year ended 2006		
	Gross	Reinsurance	Net
	Lm	Lm	Lm
Total at beginning of year	48,132,668	(9,567,428)	38,565,240
Claims settled during the year	(21,204,165)	2,559,036	(18,645,129)
Increase/(decrease) in liabilities			
- arising from current year claims	23,865,953	(1,981,908)	21,884,045
- arising from prior year claims	622,400	(989,158)	(366,758)
	<hr/>	<hr/>	<hr/>
At year end	51,416,856	(9,979,458)	41,437,398
	<hr/>	<hr/>	<hr/>

	Group		
	Year ended 2005		
	Gross	Reinsurance	Net
	Lm	Lm	Lm
Total at beginning of year	48,461,267	(11,282,485)	37,178,782
Claims settled during the year	(22,432,578)	3,977,506	(18,455,072)
Increase/(decrease) in liabilities			
- arising from current year claims	23,657,910	(2,414,843)	21,243,067
- arising from prior year claims	(1,155,746)	76,256	(1,079,490)
- difference on exchange	(398,185)	76,138	(322,047)
	<hr/>	<hr/>	<hr/>
At year end	48,132,668	(9,567,428)	38,565,240
	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(a) Claims and loss adjustments expenses - Continued

	Company Year ended 2006		
	Gross Lm	Reinsurance Lm	Net Lm
Total at beginning of year	14,729,293	(4,744,818)	9,984,475
Claims settled during the year	(6,587,848)	1,875,244	(4,712,604)
Increase/(decrease) in liabilities			
- arising from current year claims	7,898,428	(1,772,296)	6,126,132
- arising from prior year claims	(696,526)	(24,794)	(721,320)
At year end	15,343,347	(4,666,664)	10,676,683

	Company Year ended 2005		
	Gross Lm	Reinsurance Lm	Net Lm
Total at beginning of year	15,367,599	(5,048,095)	10,319,504
Claims settled during the year	(7,371,367)	2,173,426	(5,197,941)
Increase/(decrease) in liabilities			
- arising from current year claims	7,996,417	(2,153,490)	5,842,927
- arising from prior year claims	(1,263,356)	283,341	(980,015)
At year end	14,729,293	(4,744,818)	9,984,475

The Group continuously monitors closely the development in insurance liabilities in order to ascertain the adequacy of its claims reserves. Movements in reserves in respect of claims occurring in previous years arise when these claims are actually settled and/or when reserves are revised to reflect new information that emerges. The impact of these movements for the year, net of reinsurance, was to increase profit by Lm366,758.

(b) Provision for unearned premiums and unexpired risks

The movements for the year are summarised as follows:

	Group Year ended 2006		
	Gross Lm	Reinsurance Lm	Net Lm
At beginning of year	11,938,637	(1,855,319)	10,083,318
Net charge/(credit) to profit and loss	1,794,708	(438,691)	1,356,017
At end of year	13,733,345	(2,294,010)	11,439,335

NOTES TO THE FINANCIAL STATEMENTS

20. INSURANCE LIABILITIES AND REINSURANCE ASSETS - CONTINUED

(b) Provision for unearned premiums and unexpired risks - Continued

	Group Year ended 2005		
	Gross Lm	Reinsurance Lm	Net Lm
At beginning of year	12,269,938	(1,694,199)	10,575,739
Net credit to profit and loss	(250,565)	(165,334)	(415,899)
Currency translation differences	(80,736)	4,214	(76,522)
At end of year	11,938,637	(1,855,319)	10,083,318

	Company Year ended 2006		
	Gross Lm	Reinsurance Lm	Net Lm
At beginning of year	5,353,290	(1,447,599)	3,905,691
Net charge/(credit) to profit and loss	102,434	(188,530)	(86,096)
At end of year	5,455,724	(1,636,129)	3,819,595

	Company Year ended 2005		
	Gross Lm	Reinsurance Lm	Net Lm
At beginning of year	5,522,881	(1,341,750)	4,181,131
Net credit to profit and loss	(169,591)	(105,849)	(275,440)
At end of year	5,353,290	(1,447,599)	3,905,691

21. DEFERRED ACQUISITION COSTS

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Year ended 31 December				
Opening net book amount	1,970,344	1,938,767	1,094,142	1,109,308
Net amount credited/(charged) to the profit and loss	233,854	41,502	(40,897)	(15,166)
Currency translation differences	-	(9,925)	-	-
Closing net book amount	2,204,198	1,970,344	1,053,245	1,094,142

Deferred acquisition costs are all classified as current assets.

NOTES TO THE FINANCIAL STATEMENTS

22. INSURANCE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
<i>Receivables arising from direct insurance operations:</i>				
- due from policyholders	33,674	73,807	33,674	73,807
- due from agents, brokers and intermediaries	5,237,488	4,895,344	2,944,459	2,915,901
- due from reinsurers	1,284,554	1,361,597	263,048	249,358
<i>Receivables arising from reinsurance operations:</i>				
- due from reinsurers	67,941	154,264	67,941	154,264
<i>Deposits with ceding undertakings</i>	66,960	66,551	66,960	66,551
<i>Other loans and receivables:</i>				
- prepayments	607,803	747,629	551,478	705,702
- accrued interest and rent	1,035,565	1,071,518	281,388	222,695
- loan to third parties	90,297	162,297	-	-
- other debtors	73,575	132,466	-	-
- receivables from group undertakings	-	-	133,419	72,187
- receivable from associated undertaking	-	-	-	6,723
- loans to related parties	-	-	365,102	503,519
<i>Provision for impairment of receivables</i>	(709,732)	(688,547)	(218,628)	(218,628)
	7,788,125	7,976,926	4,488,841	4,752,079
Current portion	7,769,828	7,886,626	4,488,841	4,752,079
Non-current portion	18,297	90,300	-	-

Loans to related parties are unsecured, interest bearing, and have no fixed date of repayment. The effective interest rate at 31 December 2006 of the loan of Lm365,102 (2005: Lm503,519) was 4.5% (2005: 5.3%). The loan to third parties is secured by a hypothecated property, bears interest at 6.5% (2005: 6.5%) per annum and is repayable over the next two years.

23. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
	1,939,735	2,624,084	906,215	1,118,095
Cash at bank and in hand				
Deposits held with banks, included in cash at bank and in hand, earn interest as follows:				
	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
At floating rates	1,823,088	2,415,379	873,509	935,026
At fixed rates	25,102	10,000	-	-
	1,848,190	2,425,379	873,509	935,026
Weighted average effective interest rate at the balance sheet date	2.2%	1.9%	2.5%	1.7%

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE CAPITAL

	Group and Company	
	2006	2005
	Lm	Lm
Authorised		
60,000,000 ordinary shares of 25 cents each (2005: 30,000,000 ordinary share of 50 cents each)	15,000,000	15,000,000
Issued and fully paid		
25,000,000 ordinary shares of 25 cents each (2005: 12,500,000 ordinary shares of 50 cents each)	6,250,000	6,250,000

By virtue of an ordinary resolution approved during the Annual General Meeting held on 16 June 2006, it was resolved to split the 50c shares into shares of 25c each. Accordingly, the authorised share capital was increased to 60,000,000 ordinary shares of 25c each and the issued and fully paid share capital was increased to 25,000,000 ordinary shares of 25c each.

25. OTHER RESERVES

Group

	Value of in-force business Lm	Available- for-sale investments Lm	Land and buildings revaluation Lm	Total Lm
Balance at 1 January 2005	6,579,000	182,770	-	6,761,770
Revaluation – gross (note 18)	-	(57,638)	-	(57,638)
Revaluation – tax (note 19)	-	20,173	-	20,173
Share of increase in value of in-force business of associated undertaking	1,864,300	-	-	1,864,300
Other movements	(138,300)	(1,620)	-	(139,920)
Balance at 31 December 2005	8,305,000	143,685	-	8,448,685
Balance at 1 January 2006	8,305,000	143,685	-	8,448,685
Revaluation – gross (notes 14 and 18)	-	(103,824)	93,008	(10,816)
Revaluation – tax (note 19)	-	36,338	(35,576)	762
Share of increase in value of in-force business of associated undertaking	875,000	-	-	875,000
Balance at 31 December 2006	9,180,000	76,199	57,432	9,313,631

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

25. OTHER RESERVES - CONTINUED

Company

	Available- for-sale investments Lm
Balance at 1 January 2005	181,150
Revaluation – gross (note 18)	(57,638)
Revaluation – tax (note 19)	20,173
	<hr/>
Balance at 31 December 2005	143,685
	<hr/>
Balance at 1 January 2006	143,685
Revaluation – gross (note 18)	(103,824)
Revaluation – tax (note 19)	36,338
	<hr/>
Balance at 31 December 2006	76,199
	<hr/>

The above reserves are not distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

26. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Group	
	2006	2005
	Lm	Lm
Provision for severance indemnity	347,499	332,500
<hr/>		
<i>Provision for severance indemnity</i>		
	Group	
	2006	2005
	Lm	Lm
At 1 January	332,500	336,770
Profit and loss account	27,429	41,040
Payments	(12,430)	(41,280)
Currency translation differences	-	(4,030)
	<hr/>	
Balance at 31 December	347,499	332,500
	<hr/>	

The above represents a provision for the legal obligation to pay a severance indemnity to personnel upon termination of their contract of employment. The obligation arises under Italian legislation and the provision is determined on the basis of length of service and remuneration for each employee whose contract of service is governed by Italian law. These liabilities are all non-current in nature.

27. BORROWINGS

	Group and Company	
	2006	2005
	Lm	Lm
Bank loans	7,765,899	6,384,926
	<hr/>	

The borrowings are secured by a special hypothec on investments. The carrying amounts of borrowings approximate their fair value.

NOTES TO THE FINANCIAL STATEMENTS

27. BORROWINGS - CONTINUED

Maturity of long term borrowings:

	Group and Company	
	2006	2005
	Lm	Lm
Within 1 year	164,207	164,207
Between 1 and 2 years	164,207	394,956
Between 2 and 5 years	3,339,551	3,377,114
More than 5 years	4,097,934	2,448,649
	7,765,899	6,384,926

The interest rate exposure of the borrowings of the Group and the Company was as follows:-

	Group and Company	
	2006	2005
	Lm	Lm
At floating rates	7,765,899	6,384,926
Weighted average effective interest rate at the balance sheet date	4.8%	3.4%

As at 31 December 2005 the Group had undrawn borrowing facilities of Lm200,000. The Group cancelled this facility during 2006.

28. INSURANCE AND OTHER PAYABLES

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Deposits received from reinsurers	1,816,502	1,705,653	1,462,253	1,488,744
Creditors arising out of direct insurance operations	1,669,876	1,354,985	810,371	725,722
Creditors arising out of reinsurance operations	476,515	487,371	476,515	487,371
Amounts owed to associated undertaking	1,361,093	1,402,003	1,089,275	1,146,504
Social security and other tax payables	211,492	244,813	159,138	159,074
Accruals and deferred income	3,297,758	3,261,684	2,167,365	2,404,022
	8,833,236	8,456,509	6,164,917	6,411,437

All trade and other payables are classified as current.

NOTES TO THE FINANCIAL STATEMENTS

29. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2006 Lm	2005 Lm	2006 Lm	2005 Lm
Profit before tax	3,656,820	6,513,890	2,772,848	5,694,170
Adjusted for:				
Depreciation (note 14)	159,375	158,956	64,857	65,136
Bad and doubtful debts	-	(132,789)	-	10,188
Provision for severance indemnity (note 26)	27,429	41,040	-	-
Amortisation (note 13)	135,135	70,052	83,533	19,817
Goodwill (note 30)	-	(52,200)	-	-
Profit on sale of tangible fixed assets	-	(972)	-	(972)
Adjustments relating to investment return	(3,793,542)	(5,737,593)	(2,341,245)	(4,795,065)
Movements in:				
Insurance and other receivables	204,468	214,656	278,905	122,902
Deferred acquisition costs	(233,854)	(41,502)	40,897	15,166
Reinsurers' share of technical provisions	(861,232)	1,472,186	(120,887)	196,033
Technical provisions	5,094,902	(161,839)	732,494	(788,756)
Insurance and other payables	317,162	446,120	(293,655)	432,809
Cash generated from operations	4,706,663	2,790,005	1,217,747	971,428

30. BUSINESS COMBINATION

During the previous year, the Group increased its shareholding in its subsidiary, Progress Assicurazioni S.p.A., from 51% to 90%. Details of the consideration paid and goodwill are as follows:

	2005 Lm
Purchase consideration	3,612,320
Direct costs relating to the increase in shareholding	11,079
Total purchase consideration	3,623,399
Fair value of net assets acquired	(3,675,599)
Excess of acquirer's interest in the net fair value of the acquiree's assets, liabilities and contingent liabilities over cost	(52,200)

The fair value of the shares issued during 2005 was based on the net asset value of the company after taking into account consolidation adjustments to align accounting policies with those of the Group. The excess of the acquirer's interest in the net fair value of the acquiree's assets, liabilities and contingent liabilities over cost is included within other income.

NOTES TO THE FINANCIAL STATEMENTS

31. COMMITMENTS

Capital commitments

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Authorised and not contracted for - property, plant and equipment	219,255	347,670	113,250	174,725
Authorised and not contracted for - intangible assets	200,925	304,995	72,200	251,850

Operating lease commitments - where the company is a lessor

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

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Not later than 1 year	154,044	176,449	118,044	140,449
Later than 1 year and not later than 5 years	370,207	428,513	327,107	349,413
Later than 5 years	95,857	154,944	95,857	154,944
	620,108	759,906	541,008	644,806

Investment property includes properties valued at Lm1,444,124 (2005: Lm1,536,900) 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.

32. CONTINGENCIES

The Company has given guarantees to third parties amounting to Lm57,343 (2005: Lm25,000) not arising under contracts of insurance.

33. 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 who hold a substantial amount of the votes able to cast at general meetings.

NOTES TO THE FINANCIAL STATEMENTS

33. RELATED PARTY TRANSACTIONS - CONTINUED

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

	2006	2005
	Lm	Lm
<i>(a) Sales of insurance contracts and other services</i>		
Sale of insurance contracts		
- subsidiaries	15,159	11,674
- associate	38,664	28,648
- shareholders represented on the Board	164,554	448,557
Recoveries on claims outstanding from Corporacion Mapfre Compania Internacional De Reaseguros S.A. under reinsurance arrangements entered into upon the acquisition of Progress Assicurazioni S.p.A.	(16,304)	1,739
Reimbursement of expenses for back-office services provided		
- associate	406,000	369,000
Investment income		
- subsidiaries (dividends/interest receivable)	845,993	1,106,603
- associate (dividends)	700,000	405,000
- shareholders represented on the Board (dividends/interest receivable)	94,306	58,464
<i>(b) Purchases of products and services</i>		
Reinsurance premium ceded to shareholders (represented on the Board)	4,038,108	4,140,747
Acquisition costs payable to intermediaries where directors of the company are shareholders in companies that act as insurance agents	366,733	424,087
Reimbursement of expenses payable for back-office services		
- subsidiaries	328,000	314,000
Interest payable on borrowings		
- shareholder represented on the Board (acting as banker)	201,010	93,822
Rental income payable to associate	9,806	8,760

Key management personnel comprises the Chief Executive Officer and the General Managers of the companies within the Group during the year. Total remuneration paid by the Group to key management personnel during the year amount to Lm147,559 (Company: Lm74,295). Corresponding figures for 2005 were Lm137,151 and Lm65,306 respectively.

NOTES TO THE FINANCIAL STATEMENTS

33. RELATED PARTY TRANSACTIONS - CONTINUED

Year end balances arising from the above transactions:

	Group		Company	
	2006	2005	2006	2005
	Lm	Lm	Lm	Lm
Debtors arising out of direct insurance operations:				
- intermediaries	546,236	631,443	358,054	334,132
Creditors arising out of direct insurance operations	499,270	405,556	300,164	343,208
Amounts owed by subsidiary undertakings	-	-	498,521	575,706
Amounts owed to participating undertaking	1,361,093	1,402,003	1,089,275	1,139,781
Reinsurers share of technical provisions	4,534,566	4,490,450	2,110,997	2,069,778
Investments in related parties	1,693,756	1,782,475	1,533,916	1,622,203
Accruals and deferred income (key management personnel)	192,091	150,052	109,766	85,744

All balances above have arisen in the course of the Group's normal operations.

34. 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, with the exception of investments in group undertakings and the associate, is established using valuation techniques.

Equity accounting in the holding Company's accounts is no longer permitted under IAS 27 and IAS 28 (both revised 2003). Consequently, as from 1 January 2005, the investments in unlisted group undertakings and associates are valued at cost in the Company's accounts. Had equity accounting been applied, the carrying amount of these investments would have increased by Lm16.4 million (2005: Lm14.5 million). This has no impact on the Group's balance sheet.

At 31 December 2006 and 2005, the carrying amount of the Group's and Company's other financial assets and liabilities approximated their fair values.

35. STATUTORY INFORMATION

Middlesea Insurance p.l.c. is a public limited company and is incorporated in Malta.



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