Atlas Insurance
Annual Report & Audited Financial Statements 2005

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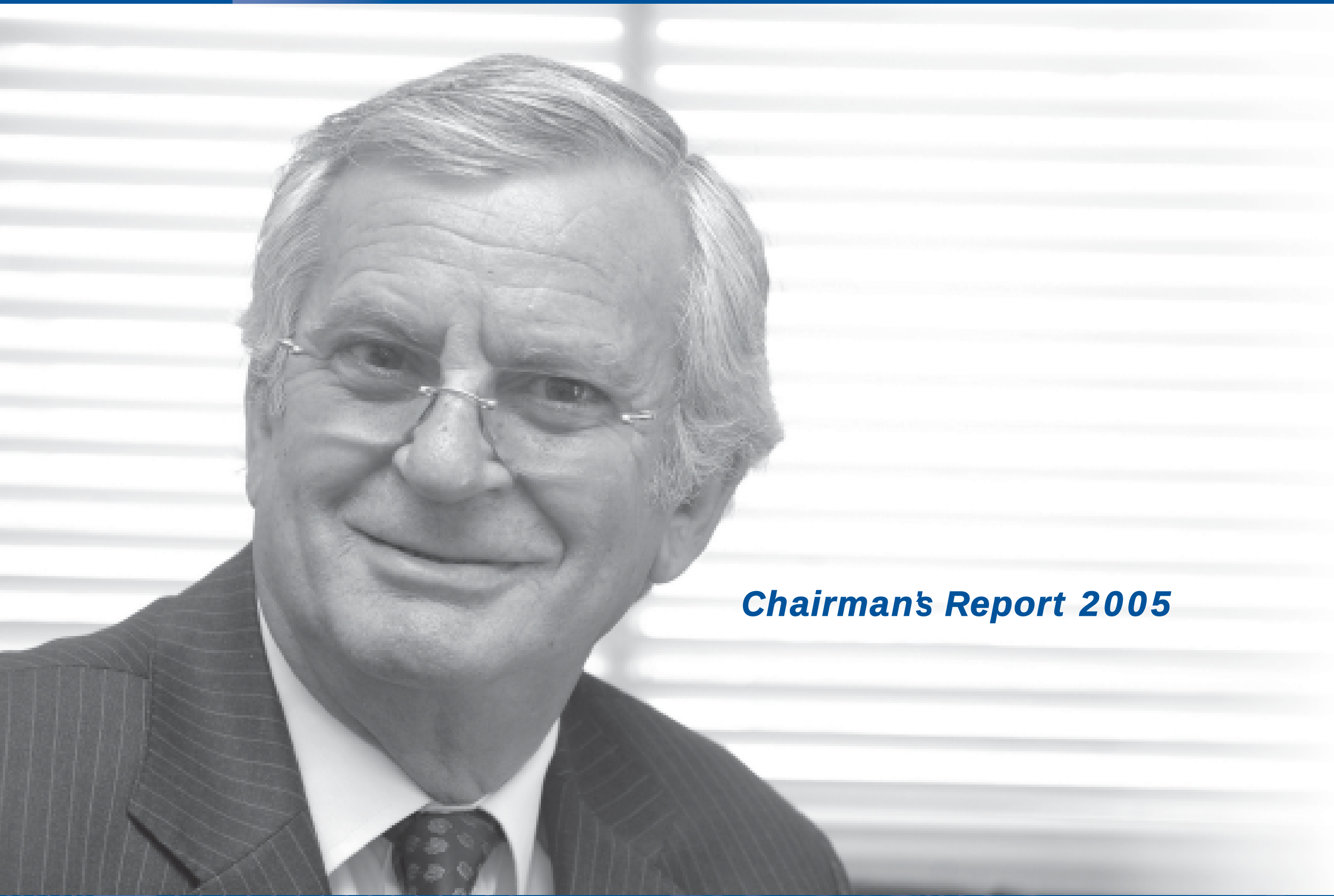


Chairman's Report 2005

In April 2004, Atlas Insurance Limited was authorised by the Malta Financial Services Authority to upgrade its previous Agency operating licence to that of a Direct Writing Insurance Company. During 2005, the Company's first full year as an independent risk carrier, the existing portfolio of business was consolidated and an open market reinsurance program negotiated to replace the pre-existing reinsurance arrangement with the previous overseas principal as from 1 July 2005.

Gross written premium for the year increased by 7% to Lm7.03m (€ 16.37m) and registering a gross claims loss ratio of 37% (2004 – 45%), reducing to 28% after reinsurance.

This favourable outturn is indicative of the Company's sound underwriting policies and firm claims control, coupled with favourable claims progression as a result of the Company's well established prudent reserving policies. Stock market results were also positive, with strong growth in local equities, helping to return an aggregate performance return on investment portfolio of Lm 634,418 (€ 1.47m). In considering the relatively young investment portfolio of the Company, a 4.9% in unrealised capital growth on investment portfolio combined with a weighted average of 3.63% realised investment income consolidates the performance for the year.

In complying with current International Financial Reporting Standards, and specifically IAS 39 guidelines, the board has restated the designation of the individual components of the Company's investment portfolio, thus causing the restatement of the 2004 accounts.

The net profit before tax stood at Lm2.17m (€ 5.05m) a substantial increase over profits registered in 2004 when, prior to the granting of the MFSA Licence, the Company operated for the first four months as an underwriting agency, and with minimal risk retention under the reinsurance treaty for the following eight months of the year returning *minimal revenue in comparison to the current year's figures.*

The strong performance in 2005 resulted in substantial balance sheet growth, with shareholder funds increasing from Lm2.36m (€5.50m) in 2004 to Lm3.70m (€8.61m) as at 31 December 2005. The shareholders had resolved to increase authorised share capital to Lm 5 million (€11.65m) by a resolution dated 27 December 2005. Furthermore the Company's solvency was further strengthened by means of an interim dividend of Lm500,000 (€1.16m) out of 2005 profits declared on 27 December 2005, paid to and reinvested by the ordinary shareholders of the Company so that the paid-up capital was increased to Lm2.50m (€5.82m). In addition, the Directors are recommending a Final Dividend of Lm300,000 (€698,820) net of tax, the equivalent of 12 cents net of tax per Lm1 share.

The conversion from an agency operation to a fully fledged, open market direct insurance company, while continuing to provide the excellent service to the public that has made Atlas, over the years, one of Malta's leading insurance offices, has been a tremendous challenge. The setting up of new reporting and accounting systems, the re-writing in-house, and on schedule, of completely new IT systems to meet new requirements, were all substantial tasks, cheerfully met and efficiently carried out.

No part of this excellent result would have been possible without the tremendous contribution made by every single member of our staff, and their efforts fully justify the Company's policy of employing and motivating the best staff through ongoing management training, vertical development of the individual teams, and encouragement of regular team strengthening social activities.

Over the years, Atlas has been a regular supporter of various local causes, and during 2005, in addition to the substantial donations to various charities, staff participated in a number of charity events including refurbishment works with various charitable institutions around Malta. Atlas has also sponsored various cultural events during the year.

We are confident that Atlas Insurance Limited will maintain its momentum and record of successful insurance trading and customer satisfaction for the foreseeable future. We are, however, also very conscious of the limitations imposed by the very fact of the small size of the Maltese Market, and that substantial growth will be difficult to achieve. We are therefore looking to areas away from Malta to achieve this growth, and to this end we are actively taking initiatives to move into the affiliated insurance market.

Atlas is fortunate in the mix of directors on a board that comprises working executive directors, prominent active businessmen, and a core of non-executive experienced insurance practitioners.

This diversity of knowledge and experience has been of inestimable value and I am deeply grateful for the contribution by each member and for the support they have given the Company.

I am also deeply grateful to Michael Gatt, who has taken over the Managing Directorship of Atlas at a critical point in our development, and under whose direction Atlas Insurance has achieved record profitability in 2005.

Walter G Camilleri
Chairman

Board Members and Board Committees

Board of Directors
Walter G Camilleri (Chairman)
Richard Clough ACA
Catherine Calleja BA (Hons) ACII (Company Secretary)
Albert Formosa
John Formosa
Michael Gatt (Managing)
Bryan Gera DBA
Michael Keating
Brian Valenzia
Matthew von Brockdorff FCII
Robert von Brockdorff

Audit Committee
Walter G Camilleri
Albert Formosa
Bryan Gera DBA
Robert von Brockdorff

Investments Committee
John P Bonett
Mark Camilleri
Walter G Camilleri
Richard Clough ACA
Henry C de Gabriele FCIB
Michael Gatt
Robert von Brockdorff

Remuneration Committee
Walter G Camilleri
Richard Clough ACA
Albert Formosa
Bryan Gera DBA
Robert von Brockdorff

Group Compliance Committee
John Bonett
Mark Camilleri
Catherine Calleja BA(Hons) ACII
Michelle Lundquist ACII

Offices, Branches and Agency

Head Office
47-50 Ta' Xbiex Seafront
Ta' Xbiex MSD 11

Finance and Compliance/Branch Office
Abate Rigord Street
Ta' Xbiex MSD 12

Rabat Branch
45 Vjal il-Ħaddiem
Rabat RBT 04

Rausi Insurance Agency Limited
28 GB Buildings
Triq il-Watar
Ta' Xbiex MSD 12

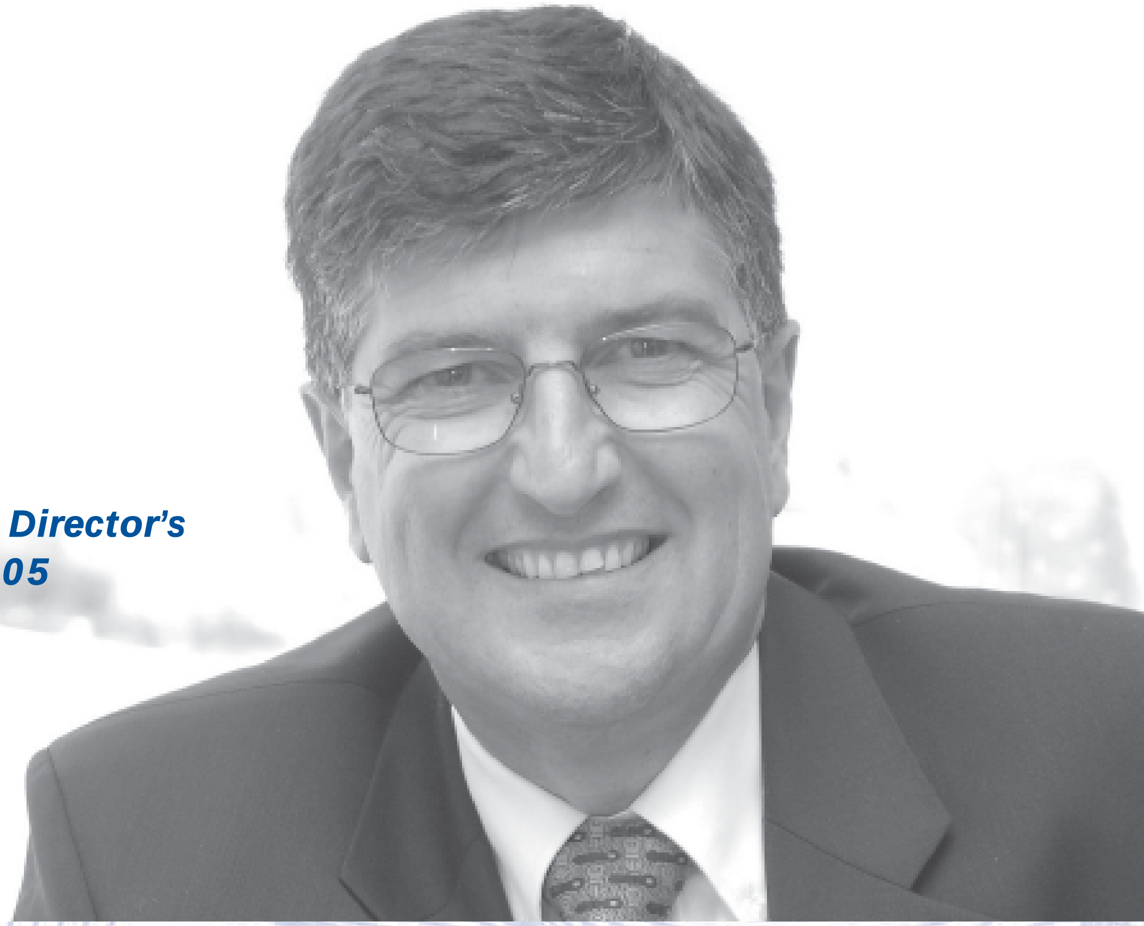
Professional Services

Legal Advisors
Jos A Schembri & Associates
Prof J M Ganado & Associates
Cefai and Associates
Zammit McKeon & Zammit

Auditors
PricewaterhouseCoopers

Bankers
HSBC Bank Malta plc
Bank of Valletta plc
Lombard Bank Malta plc
APS Bank Ltd
Volksbank Malta Limited

Investment Consultants
Atlas Investment Services Limited



Managing Director's Report 2005

Atlas Insurance Limited was licensed to operate as an insurance company on 29 April 2004 and therefore the 2005 financial year was its first full year as an insurer as opposed to the previous agency years writing business for AXA Insurance plc.

The Company registered very satisfactory performance both in its underwriting results as well as on its investment portfolio taking full advantage of the favourable local investment market conditions experienced throughout 2005. Overall results were further strengthened by a positive claims progression performance on run-off business where safeguards in place protect the Company against the unlikely event of inadequate prior year reserving.

Atlas Insurance's direct premium income, a legacy of the Company's past agency activity, coupled with its strong relationships with brokers and tied agents, contributed to substantial Gross Written Premium growth, reaching Lm7.03m (€16.36m) for the year, an increase of 7% over 2004, increasing our share of the General Business market to 16%. The appointment of an important first agent since being granted a licence to transact general insurance business by the Malta Financial Services Authority towards the end of 2004 was a major factor in the achievement of this growth.

The gross loss ratio across all classes of business stood at 37% whilst the net loss ratio after reinsurance recoveries was 28%.

Atlas Insurance Ltd. recorded a profit of Lm2.17m (€5.06m) and Lm1.41m (€3.29m) after tax for the year ended 31 December 2005. This represents an increase of slightly over Lm1.10m (€2.56m) on the previous year's after tax profit. The excellent underwriting results experienced across all classes of business written reflect the Company's ongoing strategy of ensuring the acquisition of good quality business, and maintaining the present balanced portfolio with current non-

motor premium generating over half of the Gross Premium Income.

The slight increase in management and administrative costs is mainly due to the increased administrative and regulatory burdens related to the operation of Atlas as an insurance company. Whilst continuously monitoring such costs, it is accepted that it would be difficult, if not impossible, to maintain progress and overall service to policyholders without ongoing commitment to investment in human resources and computer hardware.

Increased direct costs are due mainly to the acquisition of the important new Underwriting agency, and a drive to further increase business production from the Company's already strong intermediary connections.

The excellent first full year results are indicative of sound underwriting philosophy and claim handling, and, not less, of a choice of suitable and sound reinsurance protection. The composition of the panel of major international reinsurers that backs our programme and a careful mix of proportional and non proportional treaties, is an indication of the acceptance by our reinsurers of the soundness of the Company's ongoing prudent approach.

With the full support and dedication of the staff, the outlook for the future is one of confidence, always subject however to the essential prudence especially required in the formative years of a new general business insurer. Management is well aware of the unpredictability of today's world, and is committed to measured growth and a search for new areas of development and expansion for the benefit of all stakeholders.

Michael Gatt
Managing Director

Corporate Governance Statement

In order to safeguard the interests of the various stakeholders of the Company, Atlas Insurance Limited has adopted various principles of good corporate governance in accordance with recognised models.

The Board of Directors

As per the Memorandum and Articles of Association of the Company, the board of directors of the Company has been selected to include persons nominated by Atlas Holdings Limited, the holding company of the group which represents the shareholders, but also independent non executive directors. Mr Walter Camilleri chairs the board while Mr Michael Gatt is the Managing Director.

The non executive directors bring together a mix of insurance, financial and management experience which add the diversity of knowledge, experience and judgement which is so important for the effective running of an insurance company in today's changing and competitive climate. The full list of directors is listed on page 6.

The board of directors meets once a month and is involved in the strategic planning process as well as the regular reviewing of management performance. Monthly management reports to the board of directors include detailed financial information as well as non financial key performance indicators. Information sessions on various topical issues are held for board members on a regular basis.

Board Committees

The main board has appointed various committees to assist in specialised areas. Members of these committees are listed on page 6.

Audit Committee

The audit committee meets once a quarter to review and assess the effectiveness of the internal control systems in various functional areas in the Company through the internal audit function. Mr Martin Gauci, the internal auditor, reports directly to this committee and attends its meetings. During 2005, the internal auditor carried out internal audits of two functional areas and made various recommendations for business efficiency improvements. The internal audit function has also led to a major exercise throughout the organisation documenting various business processes.

The audit committee is also actively involved in the appointment and monitoring of the external auditors and the liaison between the external and internal audit functions.

Remuneration Committee

Through this committee, the board actively considers schemes to retain, motivate, and recruit where necessary, high quality executive directors and members of the senior management team. No director is involved in deciding his or her own remuneration. Executive directors' remuneration is linked to corporate and individual performance.

Investments Committee

The board of directors has appointed an investments committee which meets on a monthly basis. Committee members include Mr Henry C de Gabriele, ex-Governor of the Central Bank of Malta and Mr John P Bonett, ex-Regulator of the Insurance Unit of the Malta Financial Services Authority, who both have extensive experience in the field. This committee meets on a monthly basis together with Mr Jean P Gaffiero, the advisor to the committee and Managing Director of Atlas Investment Services Limited, and operates under an investments strategy approved by the main board.

Group Compliance Committee

This committee is a group committee which oversees compliance issues affecting group companies regulated by the Insurance Business Act, 1998 and the Insurance Brokers and Other Intermediaries Act, 1998. Mr Mark Camilleri, Group Financial Controller and Compliance Officer, chairs the committee. The committee meets on a regular basis to review new directives under the above-mentioned legislation as well as to ensure that group companies continue to comply with current obligations. During 2005, training sessions were held for both finance and non accounts executives highlighting relevant issues and providing key areas of importance regarding obligations under the Acts.

The board of directors was actively involved in setting the terms of reference for a risk management committee which is taking over the responsibility for business continuity planning and well as the wider risk management function. The audit committee will also be responsible for related party transactions during 2006. The board has strongly supported corporate governance initiatives and has taken various steps to provide strong human resources backing for the various committees including the recruitment of support staff for these committees during 2005.

Relations with Shareholders

The level of disclosure to shareholders within the group has been far beyond statutory requirements under the Companies Act. Atlas Insurance Limited is fully owned by Atlas Holdings Limited and Annual General Meetings for shareholders of the Group are held formally each year. Besides the statutory business of the Annual General Meeting as laid down in the memorandum and articles of the company, results and reports for all group companies are presented.

Directors' Report

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

Principal activities

The principal activities of the Company are that of an insurance company licensed in terms of section 7 of the Insurance Business Act, 1998 by the Malta Financial Services Authority to write general business in Malta.

Review of the business

Atlas Insurance Limited registered a net profit before tax for the year of Lm2,168,612 (2004: Lm461,319), and a net profit after tax of Lm1,411,743 (2004: Lm292,917).

Half way through the year the reinsurance treaty in place with AXA Insurance plc was replaced on its expiration as of the 30 June 2005 with a mix of proportional and non-proportional treaties placed with renowned reinsurers giving rise to an effective security to cover the insurance risks arising from the Company's operation. This year's excellent result is the product of very positive claims' loss ratios, a favourable run-off of claims' reserve progressions, and an adequate return on the Company's investment portfolio.

By a shareholders' resolution dated 27 December 2005, the authorised share capital has been increased to Lm5,000,000 and the paid up share capital was increased by Lm500,000 to Lm2,500,000 fully paid. The directors had been prudent in proposing to the shareholders an increase of the company's paid up share capital to Lm2,500,000 out of current year dividends to strengthen the Company's equity further.

Results and dividends

The profit and loss account is set out on pages 16 and 17. An interim ordinary dividend of Lm570,000 (2004: Lm582,000) and preference dividends of Lm6,000 (2004: Lm6,000) were declared during the year. The directors recommend the payment of a final net dividend of Lm300,000 (2004: Nil).

Directors' Report - continued

Directors

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

Walter G Camilleri – Chairman
Michael Gatt – Managing Director
Robert von Brockdorff
Matthew von Brockdorff
Catherine Calleja
Brian Valenzia
Albert Formosa
John Formosa
Bryan Gera
Richard Clough
Michael Keating

In accordance with the Articles of Association, the present directors remain in office.

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.

On behalf of the board

Walter G Camilleri
Chairman

Michael Gatt
Managing Director

Registered office
47-50 Ta' Xbiex Seafront
Ta' Xbiex
Malta

27 June 2006

Statement of Directors' Responsibilities

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

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

- *appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgements and estimates;*
- *the financial statements have been drawn up in accordance with International Financial Reporting Standards;*
- *the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.*

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Maltese Insurance Business Act, 1998 and with the Maltese Companies Act, 1995. They are also responsible for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the Company are properly safeguarded and that fraud and other irregularities will be prevented or detected.

Report of the Auditors

To the Members of Atlas Insurance Limited

We have audited the financial statements on pages 16 to 52. As described in the statement of directors' responsibilities on page 14, these financial statements are the responsibility of the Company's directors. Our responsibility is to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

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

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2005 and of its profit, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

27 June 2006

Profit and Loss Account
Technical Account – General Business

	Notes	Year ended 31 December 2005 Lm	2004 Lm (restated)
Earned premiums, net of reinsurance			
Gross premiums written:			
Portfolio transfer	29	**-**	2,908,118
Written	3	**7,025,838**	3,640,444
Gross premiums written		**7,025,838**	6,548,562
Outward reinsurance premiums:			
Portfolio transfer	29	**-**	(2,861,651)
Written		**(2,927,630)**	(3,605,301)
Outward reinsurance premiums		**(2,927,630)**	(6,466,952)
Net premiums written		**4,098,208**	81,610
Change in the provision for unearned premiums			
- gross amount	21	**113,751**	(2,706,720)
- reinsurers' share	21	**(1,783,267)**	2,668,919
		(1,669,516)	(37,801)
Earned premiums, net of reinsurance		**2,428,692**	43,809
Allocated investment return transferred from the non-technical account	5	**559,552**	149,226
Total technical income		**2,988,244**	193,035
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**2,259,970**	1,880,137
- reinsurers' share	21	**(3,132,475)**	(671,858)
		(872,505)	1,208,279
Change in the provision for claims			
- gross amount	21	**394,327**	(476,055)
- reinsurers' share	21	**1,163,024**	(965,538)
		1,557,351	(1,441,593)
Claims incurred, net of reinsurance		**684,846**	(233,314)
Net operating expenses	3,4,6	**134,155**	274,501
Total technical charges		**819,001**	41,187
Balance on the technical account for general business (page 17)		**2,169,243**	151,848

Profit and Loss Account
Non-Technical Account

	Notes	Year ended 31 December 2005 Lm	2004 Lm (restated)
Balance on technical account – general business (page 16)		**2,169,243**	151,848
Agency commission and other income	6	-	885,201
Direct agency operating costs - commission	6	-	(197,028)
Total net income from insurance activities		**2,169,243**	840,021
Investment income	5	**634,418**	169,243
Investment expenses and charges	5	**(41,681)**	(17,746)
Allocated investment return transferred to the general business technical account	5	**(559,552)**	(149,226)
Administration expenses	6	**(33,816)**	(380,973)
Profit before tax		**2,168,612**	461,319
Tax expense	8	**(756,869)**	(168,402)
Profit for the financial year		**1,411,743**	292,917
Earnings per share	10	**0.70**	0.20

Balance Sheet

	Notes	As at 31 December 2005 Lm	2004 Lm (restated)
ASSETS			
Tangible assets:			
- land, buildings and improvements	12	**937,806**	920,196
- plant and equipment	12	**278,155**	244,702
Investments:			
- land and buildings	13	**125,000**	125,000
- investment in subsidiary undertaking	14	**500**	-
- other financial investments	15	**8,294,387**	5,454,192
Deferred taxation	16	**-**	3,920
Reinsurers' share of technical provisions	21	**1,437,314**	4,383,605
Deferred acquisition costs	17	**289,173**	300,468
Debtors:			
- debtors arising out of direct insurance operations	18	**1,250,938**	1,113,586
- other debtors	18	**92,283**	78,530
Prepayments and accrued income	18	**217,080**	114,722
Taxation recoverable		**-**	23,785
Cash at bank and in hand		**457,121**	135,257
Total assets		**13,379,757**	12,897,963
EQUITY			
Capital and reserves			
Share capital	19	**2,500,000**	2,000,000
Profit and loss account	20	**1,092,644**	256,901
Other reserves	20	**104,813**	104,813
Total equity		**3,697,457**	2,361,714
LIABILITIES			
Technical provisions	21	**7,949,290**	7,668,714
Provisions for other risks:			
- deferred taxation	16	**108,339**	-
Creditors:			
- interest bearing borrowings	22	**-**	110,140
- creditors arising out of direct insurance operations	23	**257,735**	303,460
- creditors arising out of reinsurance operations	23	**331,189**	1,461,052
- other creditors	23	**131,679**	81,398
Current taxation		**428,060**	-
Accruals and deferred income	23	**476,008**	911,485
Total liabilities		**9,682,300**	10,536,249
Total equity and liabilities		**13,379,757**	12,897,963

The financial statements on pages 16 to 52 were authorised for issue by the board on 27 June 2006 and were signed on its behalf by:

Walter G Camilleri
Chairman

Michael Gatt
Managing Director

Atlas Insurance

Statement of Changes in Equity

	Notes	Share capital Lm	Other reserves Lm	Profit and loss account Lm	Total Lm
Balance at 1 January 2004		253,000	97,146	559,651	909,797
Profit for the financial year		-	-	292,917	292,917
Total recognised income for 2004		-	-	292,917	292,917
Transfer of fair value gains, net of deferred tax, on investment property		-	7,667	(7,667)	-
Issue of share capital	19	1,747,000	-	-	1,747,000
Dividends	11	-	-	(588,000)	(588,000)
Balance at 31 December 2004		**2,000,000**	**104,813**	**256,901**	**2,361,714**
Balance at 1 January 2005 as previously stated		2,000,000	121,471	239,790	2,361,261
Effect of adopting IAS 39 (revised)	15	-	(16,658)	17,111	453
Balance at 1 January 2005 as restated		**2,000,000**	**104,813**	**256,901**	**2,361,714**
Profit for the financial year		-	-	1,411,743	1,411,743
Total recognised income for 2005		-	-	1,411,743	1,411,743
Issue of share capital	19	500,000	-	-	500,000
Dividends	11	-	-	(576,000)	(576,000)
Balance at 31 December 2005		**2,500,000**	**104,813**	**1,092,644**	**3,697,457**

Cash Flow Statement

	Notes	2005 Lm	2004 Lm (restated)
		Year ended 31 December	
Operating activities			
Cash generated from/(used in) operations	24	**881,950**	(531,572)
Tax Paid		**(192,765)**	(216,954)
Interest paid		**(4,590)**	(3,535)
Net cash from/(used in) operating activities		**684,594**	(752,061)
Investing activities			
Purchase of property, plant and equipment		**(176,091)**	(86,236)
Investment in subsidiary undertaking		**(500)**	-
Net cash used in investing activities		**(176,591)**	(86,236)
Financing activities			
Dividends paid		**(576,000)**	(6,000)
Issue of share capital		**500,000**	-
Net cash used in financing activities		**(76,000)**	(6,000)
Movement in cash and cash equivalents		**432,004**	(844,297)
Cash and cash equivalents at beginning of year		**25,117**	869,297
Cash and cash equivalents at end of year	25	**457,121**	25,117

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 (IFRSs) and with the requirements of the Insurance Business Act, 1998 and the Companies Act, 1995.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires directors to exercise their judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of Land and buildings - investment property and financial assets at fair value through profit or loss.

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

Adoption of new and revised IFRSs

In 2005, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2005.

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

The adoption of new and revised IFRSs did not result in substantial changes to the Company's accounting policies with the exception of the following:

- *IAS 39 (revised) has affected the categories of financial assets for recognition and measurement purposes. With effect from 1 January 2005, the Company re-designated its available-for-sale financial instruments and listed investments previously recognised as originated loans, as financial assets at fair value through profit or loss on adoption of IAS 39 (revised). Investments designated as originated loans were previously measured at amortised cost. Transaction costs incurred on the acquisition of investments designated as fair value through profit or loss were previously included in the initial carrying amount of the investment and are now charged immediately to the profit and loss account.*

- *IFRS 4 has affected the disclosures with respect to insurance contracts issued and reinsurance contracts held. Furthermore, IFRS 4 prohibits provisions for possible claims under contracts that are not in existence at the reporting date.*

Changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. As a consequence, changes to accounting policies were applied retrospectively. The financial effect of the changes in accounting policies is reported in the statement of changes in equity. Further information is disclosed within the respective accounting policies and notes to the financial statements.

1. Basis of preparation - *continued*

In accordance with the transitional provisions of IFRS 4, the disclosure requirements have only been applied to the comparative information for the disclosures required about accounting policies, recognised assets, liabilities, income and expenses.

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 Company's accounting periods beginning on or after 1 January 2006 or later periods. The Company has not taken the option to early adopt these revisions to the requirements of IFRSs and the Company's directors are of the opinion that there are no other requirements that will have a possible impact on the Company's financial statements in the period of initial application.

2. 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 14 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 an insurance receivable is impaired, the Company 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) Rental income

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

3. Investment return

Investment return comprises investment income including fair value movements, interest income, dividends and rental income, and is net of investment expenses, charges and interest. Dividends are recorded on the date when the shareholder's right to receive income is established. Interest and expenses are accounted for on an accruals basis.

Investment return is initially recorded in the non-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.

4. Foreign currencies

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

5. Land and buildings – Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Company, is classified as investment property. Investment property comprises freehold buildings.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by the directors after seeking professional advice.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. Changes in fair values are recorded in the profit and loss account.

6. Tangible assets – Property, plant and equipment

Tangible fixed assets comprising plant and machinery, computer equipment and furniture and fittings are initially recorded at cost. Property is subsequently shown at fair value, based on valuations by the directors after seeking due professional advice, less subsequent depreciation. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the balance sheet date. All other tangible fixed assets are stated at historical cost less depreciation.

Increases in the carrying amount arising on revaluation are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the profit and loss account.

Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

	%
Buildings	*1*
Improvement to leasehold premises	*10*
Furniture, equipment and motor vehicles	*10 - $33^1/3$*

Freehold land is not depreciated.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of tangible fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of a revalued asset, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

7. Investments

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

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise all securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, if so designated by the directors. These financial assets are managed and their performance is evaluated and reported on a fair value basis to the Company's key management personnel in accordance with a documented investment strategy.

(b) Loans and receivables

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 Company 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 or financial institutions.

All purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase and sell the asset. 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 have been transferred and the company has also transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried 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 fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise.

The fair values of quoted investments and units in unit trusts are based on quoted market prices at the balance sheet date. If the market for an investment is not active, the company establishes fair value by using valuation techniques. Equity securities for which the fair value cannot be measured reliably are recognised at cost less impairment.

On disposal, the difference between the net disposal proceeds and the carrying amount is included in the net profit or loss for the period.

8. Investments in subsidiaries

Investments in subsidiary undertakings, are accounted for at cost. The results of subsidiary undertakings are reflected in the Company's financial statements only to the extent of dividends receivable.

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.

9. Impairment of assets

(a) Impairment of financial assets carried at amortised cost

The Company 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 have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

***9. Impairment of assets** - continued*

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

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract, such as 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 Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company 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 assessed individually for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

(b) Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and 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).

10. Operating leases

Assets leased out under operating leases are included as investment property in the balance sheet. Rental income is recognised on a straight-line basis over the lease term.

11. Debtors

Trade debtors are carried at anticipated realisable value. An estimate is made for doubtful debtors based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

12. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts, and time deposits or treasury bills maturing within three months. In the balance sheet, bank overdrafts are included in borrowings.

13. 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 income 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.

14. Insurance contracts - classification

The Company issues contracts that transfer significant insurance risk and that are classified as insurance contracts. As a general guideline, the Company 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 direct business are determined on an annual basis whereby the incurred cost of claims, commissions 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 thus 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 are 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 provision for outstanding claims, including provisions for claims incurred but not reported ("IBNR") 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 Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company 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 likely that the final outcome will prove to be different from the original liability established. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the company and statistical analyses for the claims incurred but not reported. The Company does not discount its liabilities for unpaid claims.

The estimation of claims 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 more information about the claim event is generally available.

(vi) Provision in the form of an unexpired risk provision will be made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

***14. Insurance contracts - classification** - continued*

Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the company 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 Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company will reduce the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account. The Company 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 9.

Receivables and payables related to insurance contracts

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

The Company assesses its reinsurance assets and its receivables related to insurance contracts for impairment on a regular basis. If there is objective evidence that the reinsurance asset or the insurance receivable is impaired, the Company will reduce the carrying amount to its recoverable amount and recognises that impairment loss in the profit and loss account. The Company gathers the objective evidence that a reinsurance asset or insurance receivable 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 9.

15. Provisions

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

16. Borrowing costs

Interest costs are charged against income without restriction. No borrowing costs have been capitalised.

17. Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Notes to The Financial Statements

1. Critical accounting estimates and judgments in applying accounting policies

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate.

Provision is made as and when claims are notified for the estimated cost of claims. This estimate will include expenses to be incurred in settling the claim. All provisions for claims incurred but not settled by balance sheet date are carried forward to the following financial period. Given the uncertainty in establishing claims provisions, it is possible that the final outcome may prove to be different from the original liability estimated.

In reporting claims incurred and balance sheet provisions the Company takes all reasonable steps to curtail any future deviations in establishing its liabilities by ensuring that it has appropriate information regarding its claims exposures and related future liabilities from the outset, the results of which are elaborated in the claims cost progression tables disclosed in Note 21.

The Company believes that the liability arising from claims under insurance contracts is adequately reserved as at the financial year end.

2. Management of insurance and financial risk

2.1. Insurance risk

The Company issues contracts that transfer the insurance risk of the Company's clients. This section summarises these risks and how the company manages them.

The risk under any one insurance contract is the uncertainty of whether the insured will sustain the contingency insured against. If that happens, then further uncertainty lies in how many times this can happen and how much it will cost. That is, the uncertainty lies in both the frequency and severity of resultant claims.

Insurance risk is by its nature random and unpredictable. Consequently the Company writes portfolios of risk with the intention of taking refuge within the theory of probability (large numbers) and thus being able to correctly construct pricing of its insurance contracts.

The risk the Company faces however remains that actual claims incurred exceed the amounts of such provisions since the frequency and severity incurred exceed the estimated ones.

Insurance events, due to their random nature, can vary in severity and frequency from year to year. However the larger the portfolio involved, the lower the deviation from estimates which is why the Company endeavours to acquire growth in areas of insurance risk which it deems attractive.

Another method used to mitigate random deviations is that of diversification in portfolio characteristics. Atlas Insurance Limited is not unduly dependant on one class or sector of business and in fact is deemed to be privileged with a balanced mix of various classes of Motor, Liability, Marine, Miscellaneous Accident, Property and Travel and Personal Accident. Likewise the Company's portfolio is evenly spread between personal lines and commercial lines business.

The Company has a rather even geographical spread of property risks within the Maltese isles and is well spread among the various sectors of commerce e.g. tourism; manufacture; services and it is not unduly dependent on one sector alone.

Once again this diversification ensures that the type and amount of risks presented are spread out without there being undue concentrations in one area alone.

2.1.1. Frequency and severity of claims

Motor and liability

The danger here is that the frequency and severity of claims be seriously affected by:

(i) the long lifetime which motor and other liability claims tend to have and which can lead to:

(a) negative effects of inflation on claim amounts;
(b) increased court awards arising from increased sensitivity of courts to the plight of accident victims spurred also by EU directives and 'pro-victim' court/ legislative tendencies in other EU jurisdictions; and
(c) increased responsibilities of employers and business owners in the light of health and safety and consumer legislation; and

(ii) the latent effect of disease claims on the employers liability and products liability portfolio.

Property

From the property point of view, climatic changes give rise to the more frequent and severe extreme weather events e.g. flash floods and their consequences.

Miscellaneous accident, and personal accident and travel

The nature of claims on Money, Glass, Goods in Transit and Fidelity relate very much to the prevalence of crime in Malta and the 2005 year shows no extraordinary sustained phenomenon experienced in this regard.

Marine

The marine account is mainly based on cargo business which tends to produce regular patterns of claim frequency though years of increased frequency can arise owing to particular localised problems. The hull portfolio is affected by weather patterns and crime patterns.

The Company manages all the above via:

(a) underwriting strategy,
(b) adequate reinsurance arrangements and
(c) proactive claims handling

(a) Underwriting strategy

The Company follows strict risk acceptance selection processes and only accepts risks that possess characteristics which the Company feels will lead to low or average frequency and severity of losses. This criteria applies across all classes and for this purpose the company uses underwriting guidelines and sets limits on the overall retention of the risks it writes.

The Company will insert certain exclusions in its contracts to enforce underwriting criteria. For example, in the context of liability exposures, the Company applies asbestos liabilities exclusions on all liability policies.

The Company closely scrutinises the business activities of its client base to determine any undue exposure to long-term industrial disease claims and to assist in this process and that of analysing other potential exposures, the Company views several property, accident and liability risks first hand via its policy of risk surveying (in-house and external).

The Company also has a regular renewal analysis and reserves the right to reassess each contract based on its claims experience and any other changes in material information. The majority of the marine cargo account is based on open covers. Thorough controls on each marine open cover are carried out regularly ensuring that performance is acceptable.

2.1.1. Frequency and severity of claims *- continued*

Malta's storm and flood exposure is localised in particular areas of flash flood exposure. With the Company's pre-risk survey strategy (see 3 above) and with the added knowledge of flood-prone areas, the Company filters the incoming new business portfolio or alternatively manages the risk of storm.

The Company, as a standard, applies limits on all motor and liability policies. The only areas of unlimited liability left are on Motor EU use (in line with legislation).

The Company's internal underwriting authority limits mean that authority to bind is delegated in a controlled manner. The Company's agencies and branches likewise follow and are subject to specific underwriting limitations beyond which they must seek head office approval.

(b) Reinsurance

The Company's reinsurance arrangements shifted from a simple and extensive proportional protection from its former principal AXA Insurance plc to "open market" conventional arrangements on 1 July 2005.

The programme is placed with overseas reinsurers who all meet the financial approval of the local regulator. It is generally the company's policy for reinsurance to be placed in the Lloyd's market or with listed multinational reinsurance companies whose credit rating is not less than A.

The portfolio programme is a mix of proportional and non proportional protection which also includes inter alia "stop loss protection" which protects the company from unexpected adverse development of claims transferred in 2004 and 2005 from AXA Insurance plc to Atlas Insurance Limited.

The Company's decision on the type of reinsurance obtained, the level of retention and the width of cover are recommended by the Company's own technical personnel in collaboration with overseas consultants and the board of directors approves the reinsurance programme on an annual basis.

(c) Claims techniques

Claims are handled and reserved on a claim by claim basis.

The Company employs in-house specialist claims personnel. In addition to having in place authority levels for its staff to negotiate claims, it also employs a panel of external loss adjusters/ technical experts who are regularly utilised in the Company's quest for sound and equitable claims handling. Active interaction with the Company's sole insurance agent (which works within the strict bounds of a limited claims settling authority) also ensures total control and consistency of reserving policies and claim handling.

The Company has a policy of analysing claims progressions and thus determines if reserving policies adopted in the past have been successful. This procedure has pre-dated the setting up of the Company as an underwriter and the Company in fact tracks claims which were incurred in years during which the Company formerly acted as an agent for overseas principals.

The Company actively pursues early settlement of all claims to reduce exposure to unpredictable developments and equally the Company maintains a proactive system that ensures that timely action is taken on all claims and reviews are carried out when required. This is particularly important in the context of motor and liability claims.

In the context of reserving active use is made of a panel of legal advisors and full acquaintance is made with courtroom developments by our specialist claims team headed by the claims director.

2.1.2. Sources of uncertainty in estimation of future claims payments

Owing to the fact that liability claims are normally payable on a claims occurrence basis, a claim is payable if the accident occurred in the year of insurance even if the loss is discovered long afterwards. Therefore not only can known liability claims take longer to be settled owing to lengthy court proceedings and the like, but claims can take long to be registered and are therefore also very much in need of an IBNR (incurred but not reported) claims provision in that known claims outstanding provisions must be adequately increased by a provision every year for IBNR.

***2.1.2. Sources of uncertainty in estimation of future claims payments** - continued*

Therefore when estimating the cost due to be paid in future the Company looks at:

(i) the monetary provision for the future payment of claims for bodily injuries to employees or third party victims of accidents. This is based on the accepted basis of:

(a) loss of future earnings as a result of disability percentages along with estimated rehabilitation expenses;
(b) an element of direct damages; and
(c) costs of settlement including legal and other fees and court expenses; and

(b) to the above provision for known reported claims, the Company adds an IBNR provision with particular emphasis on the motor and liability class.

The Company also makes a provision for the unexpired period of cover of policies running at the time of the balance sheet date.

Like all claims, large claims are assessed on a case by case basis and accurately analysed and Atlas will take pessimistic scenarios based on legal precedent (of particular relevance to motor and liability classes) and similar cases while noting current trends.

The Company takes care to ensure it is in possession of knowledge on all bodily injury claims notified and carries out active reviews of the larger/ more serious bodily injury cases on motor and liability classes.

IBNR percentages are taken as a factor on outstanding claims provision and are arrived at on the basis of historical analyses of different classes' performance vis a vis actual IBNR experienced over a five-year period.

Uncertainty on the estimation of claim payments on property classes is considerably lower than that on motor and liability classes. The same can be said of personal accident, travel and miscellaneous accident.

Uncertainty in general is reduced by ensuring thorough knowledge of the circumstances and extent of losses reported; and through the use of medical and loss assessors and adjusters to ensure correct reserving.

While under the marine class doubt on value of claims can be influenced by the influx of late notifications on insured export claims, the Company actually insures very few export consignments so this factor does not affect its IBNR provision. Indeed a high degree of certainty on marine claims is achieved via collection of survey evidence and value documentation.

2.2. Financial risk

As with other insurance operations the Company is exposed to financial risk through its financial assets and liabilities, reinsurance assets and insurance liabilities. This risk arises in that the proceeds from its financial assets would not be sufficient to fund the obligations arising from its insurance contracts and investing activity.

The Company sees its risk exposure arising specifically on open positions in interest rate, equity price risk, currency risk and credit risk, which are all subject to market movements.

The Company's investment strategy reflects its profile of liabilities to ensure that sufficient assets of appropriate nature, term and liquidity enable it to meet the liabilities as they become due.

2.2.1. Interest-rate risk

Interest rate risk is the risk of fluctuations in the value of financial instruments and in the Company's net interest income as a result of changes in the market interest rates. This risk arises from holding assets and liabilities, with different maturity dates creating changes in the level of interest rates, and resulting in asset and liability value fluctuations. Maturity information and interest rate exposure are disclosed in Notes 15, 22 and 25.

Insurance liabilities

The Company's insurance liabilities constituting net technical provisions are matched with an investment portfolio mix of equities and debt securities. These liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

The Company maintains a high level of bank term deposits in order that it may mitigate the cash outflows arising from the portfolio transfer of technical provisions acquired from AXA Insurance plc's operations in Malta. Substantial cash flows arising from the Company's operational events are also temporarily parked in short-term bank deposits until such time that suitable investment opportunities are identified.

Borrowings and other creditors

Bank and other borrowing facilities are not commonly availed of and the directors traditionally sanction the use of such facilities for short-term operational cash flow bridging as and when the requirement arises.

2.2.2. Credit risk

The Company is exposed to credit risk, that risk of loss due to a counterparty being unable to pay amounts in full when due. The following are the areas where credit risk is identified:

(i) reinsurers' share of insurance technical provisions;
(ii) amounts due from reinsurers in respect of claims already paid;
(iii) amounts due from insurance contract holders;
(iv) amounts due from insurance intermediaries; and
(v) counterparty debt securities and equity securities.

Limits of authority and segregation of duties in the granting of credit are in place to maintain objectivity, independence and control over new and existing lending exposures.

The credit risk management team assesses the creditworthiness of all reinsurers, intermediaries and customers by using credit grade references provided by rating agencies, and other publicly available financial information. Where this information is not available, detailed analysis is carried out by investigating both financial strength and market repute.

Routine reviews of payment history and the status of any ongoing negotiations with counterparties is carried out by the credit risk management in order to detect any deterioration in the creditworthiness of individual counterparties.

While reinsurance is used to manage insurance risk, this does not discharge the Company's liability as primary insurer. The creditworthiness of reinsurers is considered by the directors on an ongoing basis by reviewing their financial strength within the terms of their credit ratings as stated in Note 2.1.1 (b).

The investment committee takes account of the credit risk inherent in the Company's investment portfolio by adopting similar cautious practices in identifying investment opportunities and monitoring portfolio performance. The investment instruments acquired are highly rated by the internationally-renowned credit rating agencies like Moody's and Standard and Poors. The policy adopted by the investment committee is that of directing most of the funds available for investment to A-rated securities and deposits. There are certain instances whereby the committee may opt for placing these funds in B-rated securities only once the circumstances of such an opportunity are fully assessed and are beneficial to the performance of the investment portfolio.

2.2.3. Liquidity risk

Liquidity risk is the risk that the Company might be unable to meet its obligations relating to calls on its available cash resources mainly on claims arising from insurance policies. This risk is controlled by the board in its established liquidity profile policy thus ensuring the maturity of its assets in anticipation of the obligations arising from its liabilities, while also causing sufficient cash supply to meet unexpected levels of demand.

In its financial control policy the Company ensures that there are adequate cash funds available for it to meet its operational obligations. There are sufficient assets stated in the balance sheet as on 31 December 2005 structured to mature in time for the Company to meet its liability obligations maturing both in the short term and also in the long term. The position during 2004 was not materially different in this regard.

2.2.4. Currency risk

Currency risk relates to the risk of fluctuations in the value of financial instruments and assets and liabilities due to changes in exchange rates. The Company may experience losses arising from a decrease in values of its assets held in foreign currency or an increase in value of its technical reserves denominated in foreign currencies.

As the Company's technical reserves are wholly denominated in Maltese Lira due to the fact that all insurance policies are written in Maltese Lira, funds covering such liabilities are largely invested in Maltese Lira instruments. The board of directors implements a policy of currency matching rules thus minimising the Company's exposure to such risk. Owing to the limited opportunities available for investment in Maltese Lira instruments, the board has also transmitted this policy to the investments committee, although allowance is given to the committee to function within a certain degree of flexibility. This flexibility is limited to the extent of not compromising the Company's financial strength in matching its liabilities, namely its insurance technical provisions.

Since the Maltese Lira entered the Exchange Rate Mechanism II (ERM II) effective from 2 May 2005 with the anticipation that the currency changeover is scheduled for the 1 January 2008, the investment committee has recognised the fact that financial instruments held in Euro currency do not constitute any material exchange risk. Prior to ERM II the committee's policy was to mitigate currency fluctuations by causing a mix of currencies which principally reflected their respective weighting in the Maltese Lira foreign currency basket, thus limiting exposure to loss on exchange.

3. Segmental analysis

General business

The classifications below are based on Legal Notice 103 of 2000 of the Insurance Business Act (Cap 403) on Insurance Business (Companies Accounts) Regulations, 2000.

Gross premiums written and gross premiums earned by class of business:

	Gross premium written		Gross premium earned	
	2005	2004	2005	2004
	Lm	Lm	Lm	Lm
Direct insurance				
Motor (third party liability)	**812,168**	785,828	**825,948**	443,476
Motor (other classes)	**2,502,804**	2,422,969	**2,545,269**	1,367,382
Fire and other damage to property	**2,412,576**	2,095,540	**2,403,702**	1,144,794
Other classes	**1,298,290**	1,244,225	**1,364,670**	886,190
	7,025,838	6,548,562	**7,139,589**	3,841,842

All gross premiums written on general insurance business emanate from contracts concluded in Malta.

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

	Gross claims incurred	Gross operating expenses	Reinsurance balance
	2005	2005	2005
	Lm	Lm	Lm
Direct insurance			
Motor (third party liability)	**459,715**	**192,292**	**107,369**
Motor (other classes)	**1,381,198**	**592,572**	**324,885**
Fire and other damage to property	**493,894**	**542,050**	**502,207**
Other classes	**319,490**	**301,409**	**312,817**
	2,654,297	**1,628,323**	**1,247,278**

	Gross claims incurred	Gross operating expenses	Reinsurance balance
	2004	2004	2004
	Lm	Lm	Lm
Direct insurance			
Motor (third party liability)	224,941	138,220	48,694
Motor (other classes)	693,565	426,157	150,114
Fire and other damage to property	213,273	624,520	487,900
Other classes	272,303	248,200	311,333
	1,404,082	1,437,097	998,041

The reinsurance balance represents the credit to the technical account from the aggregate of all items relating to reinsurance outwards.

4. Net operating expenses

	2005 Lm	2004 Lm
Acquisition costs	977,371	481,198
Change in deferred acquisition costs (Note 17)	11,295	604,574
Administrative expenses	687,504	351,325
Reinsurance commissions earned	(1,494,168)	(1,162,596)
Other net technical income	(47,847)	-
	134,155	274,501

Total commissions accounted for in the financial period in the Company's technical result amounted to Lm662,493 (2004: Lm274,385).

5. Investment return

	2005 Lm	2004 Lm (restated)
Investment income		
Interest receivable from financial assets that are not at fair value through profit or loss	142,513	99,706
Income from financial assets at fair value through profit or loss:		
- interest income	91,997	14,433
- dividend income	24,097	2,533
- net fair value gains (Note 15)	372,862	24,146
Other interest receivable	-	14,500
Fair value gains on investment property	-	10,000
Rental income	3,290	3,925
Exchange differences	(341)	-
	634,418	169,243
Investment expenses and charges		
Interest expense and charges for financial liabilities that are not at fair value through profit or loss	4,590	3,535
Investment expenses	37,091	14,211
	41,681	17,746
Total investment return	592,737	151,497
Allocated as follows:		
Allocated investment return transferred to the general business technical account	559,552	149,226
Investment return included in the non-technical account	33,185	2,271
	592,737	151,497

6. Expenses by nature

	2005 Lm	2004 Lm
Staff costs and directors' fees	**618,488**	578,073
Commissions payable	**662,493**	471,413
Change in deferred acquisition costs	**11,295**	604,574
Commissions earned	**(1,494,168)**	(2,047,797)
Depreciation of property, plant and equipment (Note 12)	**125,028**	108,194
Auditors' remuneration	**9,200**	9,200
Other expenses	**235,635**	243,644
Total operating expenses and administration expenses	**167,971**	(32,699)

7. Staff costs

	2005 Lm	2004 Lm
Salaries (including directors' salaries)	**752,877**	710,282
Social security costs	**45,377**	42,181
	798,254	752,463
Inter-company payroll charge	**(33,600)**	(23,173)
	764,654	729,290

The average number of persons employed during the year was:

	2005	2004
Directors	**5**	6
Managerial	**10**	13
Managerial – part time	**3**	-
Clerical	**58**	56
Clerical – part time	**7**	3
	83	78

8. Tax expense

	2005 Lm	2004 Lm (restated)
Current income tax expense	**652,171**	162,772
Deferred income tax charge (Note 16)	**112,259**	5,188
(Over)/under-provision in previous years	**(7,561)**	442
	756,869	168,402

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

	2005 Lm	2004 Lm (restated)
Profit before income tax	**2,168,612**	461,319
Tax on profit at 35%	**759,014**	161,462
Tax effect of:		
Differences due to the application of Flat Rate Foreign Tax Credit	**(12,452)**	(3,361)
Movement in deferred tax determined on the basis applicable to tax rules	**5,467**	(1,167)
Income subject to reduced rates of tax	**(881)**	(1,213)
Expenses not deductible for tax purposes	**11,864**	10,948
Other movements	**1,418**	1,291
(Over)/under-provision in previous years	**(7,561)**	442
Tax charge	**756,869**	168,402

9. Directors' emoluments

	2005 Lm	2004 Lm
Directors' fees	**8,800**	5,200
Salaries and other emoluments	**103,638**	133,966
	112,438	139,166

During the year, benefits in kind valued at Lm2,316 (2004: Lm4,112) were provided to the directors.

10. 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.

	2005	2004
Net profit attributable to shareholders (Lm)	**1,405,743**	287,162
Weighted average number of ordinary shares in issue	**1,999,740**	1,423,675
Earnings per share (Lm)	**0.70**	0.20

11. Dividends declared

At the forthcoming Annual General Meeting a dividend in respect of 2005 of 12c per share, amounting to a total net dividend of Lm300,000, is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2006.

	2005 Lm	2004 Lm
To the ordinary shareholders:		
Gross	**876,923**	895,385
Tax at source at 35%	**(306,923)**	(313,385)
Net	**570,000**	582,000
Dividends per ordinary share	**0.29**	1.71
To the preference shareholders:		
Gross	**9,231**	9,231
Tax at source at 35%	**(3,231)**	(3,231)
Net	**6,000**	6,000
Dividends per preference share	**2.00**	2.00
Total dividends	**576,000**	588,000

12. Property, plant and equipment

	Land and buildings Lm	Improvements to leasehold premises Lm	Furniture, equipment and motor vehicles Lm	Total Lm
At 1 January 2004				
Cost	-	69,304	618,191	687,495
Accumulated depreciation	-	(32,281)	(338,358)	(370,639)
Net book amount	-	37,023	279,833	316,856
Year ended 31 December 2004				
Opening net book amount	-	37,023	279,833	316,856
Additions	870,000	30,514	55,722	956,236
Depreciation charge	(8,700)	(8,641)	(90,853)	(108,194)
Closing net book amount	**861,300**	**58,896**	**244,702**	**1,164,898**
At 31 December 2004				
Cost	870,000	99,818	673,913	1,643,731
Accumulated depreciation	(8,700)	(40,922)	(429,211)	(478,833)
Net book amount	**861,300**	**58,896**	**244,702**	**1,164,898**
Year ended 31 December 2005				
Opening net book amount	861,300	58,896	244,702	1,164,898
Additions	-	37,666	138,425	176,091
Depreciation charge	(8,700)	(11,356)	(104,972)	(125,028)
Closing net book amount	852,600	85,206	278,155	1,215,961
At 31 December 2005				
Cost	870,000	137,484	812,338	1,819,822
Accumulated depreciation	(17,400)	(52,278)	(534,183)	(603,861)
Net book amount	852,600	85,206	278,155	1,215,961

13. Land and buildings – investment property

	2005 Lm	2004 Lm
At 1 January	**125,000**	55,000
Additions	-	60,000
Fair value gains	-	10,000
At 31 December	**125,000**	125,000

The fair value of the investment property, comprising open market value, had been established in 2004 by an independent professionally qualified valuer. The directors believe that the fair value of the investment property as at 31 December 2005 approximates the carrying amount.

14. Investment in subsidiary undertaking

	2005 Lm
Year ended 31 December	
At beginning of year	-
Additions	500
At end of year	500

The subsidiary undertaking at 31 December 2005 is shown below:

Name of subsidiary undertaking	Registered office	Class of shares	Percentage of shares held 2005
Stuart Properties Limited	48-50, Ta' Xbiex Seafront, Ta' Xbiex	Ordinary 'A' shares Ordinary 'B' shares	50%

During the year, the company invested Lm500 in Stuart Properties Limited to obtain 33.3% of the shares issued, representing 50% of the voting shares. In terms of the Memorandum of Association, Atlas Insurance is entitled to appoint two directors out of a board of four directors.

As ordinary 'A' shareholders, Atlas Insurance Limited is entitled to elect the Chairman of the Board who shall be entitled to a casting vote in the case of a tie on the board of directors. General meetings are chaired by the Chairman of the Board who is entitled to a casting vote in case of a tie during general meetings.

Accordingly, such investment is being considered as a subsidiary since Atlas Insurance Limited is in a position to govern the financial and operating policies of the Company.

15. Investments

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

	2005 Lm	2004 Lm (restated)
Fair value through profit or loss	**4,312,486**	1,359,073
Loans and receivables	**3,981,901**	4,095,119
	8,294,387	5,454,192

(a) Investment at fair value through profit or loss

	2005 Lm	2004 Lm (restated)
At 31 December		
Equity securities and units in unit trusts	**2,029,126**	326,434
Debt securities – listed fixed interest rate	**2,283,360**	1,032,639
	4,312,486	1,359,073

Equity securities and units in unit trusts are classified as non-current.

15. Investments - continued

Maturity of fixed income debt securities:

	2005 Lm	2004 Lm (restated)
Within 1 year	-	55,000
Between 1 and 2 years	115,656	18,350
Between 2 and 5 years	406,425	187,237
Over 5 years	1,761,279	772,052
	2,283,360	1,032,639
Weighted average effective interest rate	5.06%	4.31%

The movements for the year are summarised as follows:

	2005 Lm	2004 Lm (restated)
Year ended 31 December		
At beginning of year as previously classified and stated:		
- available-for-sale	1,267,475	-
- originated loans: fixed debt quoted income securities	90,900	-
Investments reclassified as fair value through profit or loss	1,358,375	-
Effect of adopting fair value accounting under IAS 39 (revised)	698	-
As restated	1,359,073	-
Additions	3,630,651	1,356,508
Disposals	(1,050,100)	(21,581)
Net fair value gains	372,862	24,146
At end of year	4,312,486	1,359,073
As at 31 December		
Cost	3,948,243	1,334,927
Accumulated net fair value gains	364,243	24,146
	4,312,486	1,359,073

(b) Loans and receivables

	2005 Lm	2004 Lm
At 31 December		
Deposits with banks or financial institutions	3,968,089	4,095,119
Loan to subsidiary company	13,812	-
	3,981,901	4,095,119

15. Investments - continued

The loan to subsidiary company is classified as non-current.

The movements of the treasury bills for the year are summarised as follows:

	2005	2004
	Lm	Lm
Year ended 31 December		
Additions	**-**	1,244,241
Accretion of discount	**-**	8,759
Disposals	**-**	(1,253,000)
At end of year	**-**	-

Maturity of deposits with banks or financial institutions:

	2005	2004
	Lm	Lm
Within 3 months	**715,745**	52,754
Within 1 year but exceeding 3 months	**3,252,344**	4,042,365
	3,968,089	4,095,119

The deposits with banks or financial institutions earn interest as follows:

	2005	2004
	Lm	Lm
At fixed rates	**3,968,089**	4,095,119
Weighted average effective interest rate	**3.40%**	3.05%

At 31 December 2005, the above financial assets included pledged investments amounting to Lm206,100 (2004: Lm200,000) in terms of the Insurance Business (Insurers' Assets and Liabilities) Regulations, 2004, and Lm54,236 (2004: Lm52,754) which have been pledged as security against a bank overdraft facility (Note 22).

16. Deferred income tax

	2005 Lm	2004 Lm (restated)
Year ended 31 December		
At beginning of year	**3,920**	9,108
Charged to profit and loss account (Note 8)	**(112,259)**	(5,188)
At end of year	**(108,339)**	3,920

Net deferred tax liability amounting to Lm108,339 is not expected to fall due within 12 months.

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2004: 35%) with the exception of investment property, for which deferred income taxes are calculated using a principal tax rate of 12% of the carrying amount (2004: 35% of capital gain). The deferred tax on the fair value gain was affected by measures announced in the recent Government Budget, relevant to the taxation of capital gains on land and buildings.

The balance at 31 December represents temporary differences on:

	2005 Lm	2004 Lm (restated)
Land and buildings – investment property	**(7,800)**	(2,333)
Financial investments at fair value through profit or loss	**(114,396)**	(2,405)
Fixed assets	**3,357**	(1,842)
Provisions	**10,500**	10,500
	(108,339)	3,920

Deferred income taxes and liabilities are offset when there is a legally enforceable right to set-off under the Malta Income Tax regime.

17. Deferred acquisition costs

	2005 Lm	2004 Lm
Year ended 31 December		
At beginning of year	**300,468**	-
Arising on portfolio transfer (Note 29)	**-**	905,042
Net amount credited to profit and loss account (Note 4)	**(11,295)**	(604,574)
At end of year	**289,173**	300,468
Current portion	**289,173**	300,468

18. Debtors and prepayments and accrued income

	2005 Lm	2004 Lm
Debtors arising from direct insurance operations		
Due from policyholders	**538,969**	567,436
Due from agents, brokers and intermediaries	**696,604**	530,402
Due from reinsurers	**15,365**	15,748
	1,250,938	1,113,586
Other debtors:		
Receivable from group undertakings	**72,326**	56,596
Receivable from related parties	**7,979**	6,737
Receivable from directors	**-**	-
Other debtors	**11,978**	15,197
	92,283	78,530
Prepayments and accrued income		
Prepayments	**99,375**	28,869
Accrued interest	**117,705**	85,853
	217,080	114,722
Total debtors and prepayments and accrued income	**1,560,301**	1,306,838
Current portion	**1,560,301**	1,306,838

Debtors are presented net of an allowance for impairment of Lm30,000 (2004: Lm30,000).

Receivables from group undertakings, related parties and directors are unsecured, interest free and repayable on demand.

19. Share capital

	2005 Lm	2004 Lm
Authorised share capital:		
'A' ordinary voting shares of Lm1 each	**4,997,000**	2,497,000
'B' cumulative preference shares of Lm1 each	**3,000**	3,000
	5,000,000	2,500,000
Issued and fully paid share capital:		
'A' ordinary voting shares of Lm1 each	**2,497,000**	1,997,000
'B' cumulative preference shares of Lm1 each	**3,000**	3,000
	2,500,000	2,000,000

By virtue of an extraordinary resolution dated 27 December 2005, the shareholders approved an increase of Lm2,500,000 in authorised share capital, from Lm2,500,000 to Lm5,000,000, and an increase in issued share capital of Lm500,000 from Lm2,000,000 to Lm2,500,000. The increase was made through the issue of 500,000 Ordinary 'A' shares of Lm1 each, all of which were subscribed and fully paid up.

20. Reserves

	Profit and loss account Lm	General reserve Lm	Other reserves Lm	Total Lm
Balance at 1 January 2004	559,651	86,522	10,624	656,797
Profit for the financial year	292,917	-	-	292,917
Transfer of fair value gains, net of deferred tax, on investment property	(7,667)	-	7,667	-
Dividends declared	(588,000)	-	-	(588,000)
Balance at 31 December 2004	**256,901**	**86,522**	**18,291**	**361,714**
Balance at 1 January 2005				
- as previously reported	239,790	86,522	34,949	361,261
- effect of adopting IAS 39 (revised)	17,111	-	(16,658)	453
- as restated	256,901	86,522	18,291	361,714
Profit for the financial year	1,411,743	-	-	1,411,743
Dividends declared	(576,000)	-	-	(576,000)
Balance at 31 December 2005	**1,092,644**	**86,522**	**18,291**	**1,197,457**

Other reserves represent the difference between the original cost and the fair value of investment property, net of deferred tax. The directors consider other reserves to be non-distributable.

The profit and loss account balance represents the amount available for dividend distribution to the ordinary shareholders except any amount that is not distributable in terms of the solvency capital requirements under the Insurance Business (Insurers' Assets and Liabilities), Regulations 2000 and any amount that is not distributable under the Companies Act, 1995, as it represents unrealised profits.

21. Technical provisions and reinsurance assets

	2005 Lm	2004 Lm
Gross technical provisions		
Claims reported and loss adjustment expenses	**4,724,870**	4,382,186
Claims incurred but not reported	**631,451**	579,808
Unearned premiums	**2,592,969**	2,706,720
Total insurance liabilities, gross	**7,949,290**	7,668,714
Reinsurers' share of technical provisions		
Claims reported and loss adjustment expenses	**491,387**	1,535,080
Claims incurred but not reported	**60,275**	179,606
Unearned premiums	**885,652**	2,668,919
Total reinsurers' share of insurance liabilities	**1,437,314**	4,383,605
Net technical provisions		
Claims reported and loss adjustment expenses	**4,233,483**	2,847,106
Claims incurred but not reported	**571,176**	400,202
Unearned premiums	**1,707,317**	37,801
	6,511,976	3,285,109
Current portion	**6,511,976**	3,285,109

The Company recognises liabilities arising from its operations, and specifically identifies those arising from premium written and claims incurred, while also establishing recoverability from reinsurers.

The Company uses various techniques in estimating liabilities arising from claims. A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. 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 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 more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until several years after the event. In calculating the estimate cost of unpaid claims the company uses statistical analyses of historical experience in order to identify the IBNR component to be added to its known claims reserves. The basic assumption that the development pattern of the current claims will be consistent with past experience is also complemented with allowance 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.

***21. Technical provisions and reinsurance assets** - continued*

Unearned premium reserves are formulated on a 365^{ths} time apportionment basis of calculation. This method of calculation proves to be most accurate in identifying arising liabilities at the time of Balance Sheet reporting. These liabilities are reflective of that amount of premium remaining unearned on an individual policy basis, aggregated to determine the Company's total liability at any point in time.

Provision is also made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

The risk and claim profile of the Company do not indicate any conditions or variables that are likely to impact significantly upon the Company's cash flow. During the year there were no significant changes required in the assumptions used to estimate the ultimate cost of claims.

The reasonableness of the estimation processes on claims is monitored using claims' cost progression tables. These are reproduced below:

Accident year	**2001**	**2002**	**2003**	**2004**	**2005**	**Total**
Estimate of ultimate claims costs:	**Lm**	**Lm**	**Lm**	**Lm**	**Lm**	**Lm**
- at end of reporting year	2,337,712	2,110,122	4,062,787	2,652,137	2,776,488	
- one year later	2,145,884	2,108,114	3,838,491	2,635,129		
- two years later	2,121,671	2,075,944	3,563,894			
- three years later	2,113,834	2,060,985				
- four years later	2,094,278					
Current estimate of cumulative claims	2,094,278	2,060,985	3,563,894	2,635,129	2,776,488	13,130,774
Cumulative payments to date	(1,973,078)	(1,821,864)	(2,983,850)	(1,833,945)	(1,069,925)	(9,682,662)
Liability recognised in the balance sheet	121,200	239,121	580,044	801,184	1,706,563	3,448,112
Reserve in respect of prior years						1,908,209
Total reserve included in balance sheet						5,356,321

The above claims costs progression table is only produced showing the result gross of reinsurance.

It is pertinent to note that the net result, net of reinsurance, would not represent the true consistence of the progressions. Claims occurring from 2001 till end of April 2004 occurred when the Company still operated as an agent for AXA Insurance plc and therefore no reinsurance applied.

Furthermore from 1 May 2004 till 30 June 2005 the Company was protected by the former principal AXA Insurance plc under a close-to-100% quota share arrangement and therefore the net reserves are misleading. It is only claims occurring since July 2005 which have been protected by the Company's open market reinsurance arrangements but indeed the above does not map any progression whatsoever for such claims since the exercise ends on 31 December 2005.

Atlas Insurance

21. Technical provisions and reinsurance assets - *continued*

(a) Claims and loss adjustment expenses

	Year ended 31 December 2005		
	Claims Lm	Reinsurance Lm	Net Lm
Notified claims still outstanding	4,382,186	1,535,080	2,847,106
Incurred but not reported	579,808	179,606	400,202
Total at beginning of year	4,961,994	1,714,686	3,247,308
Increase/(decrease) in liabilities	2,499,331	1,969,451	529,880
- arising from current year claims	2,776,488	1,969,451	529,880
- arising from prior year claims	(277,157)	-	(277,157)
Claims settled during the year	(2,105,004)	(3,132,475)	1,027,471
Total at the end of year	5,356,321	551,662	4,804,659
Notified claims still outstanding	4,724,870	491,387	4,233,483
Incurred but not reported	631,451	60,275	571,176
Total at the end of year	5,356,321	551,662	4,804,659

	Year ended 31 December 2004		
	Claims Lm	Reinsurance Lm	Net Lm
Notified claims still outstanding	4,772,142	667,607	4,104,535
Incurred but not reported	665,907	81,542	584,365
Total at beginning of year	5,438,049	749,149	4,688,900
Increase/(decrease) in liabilities	1,247,824	1,640,819	(392,995)
- arising from current year claims	2,652,137	1,640,819	1,011,318
- arising from prior year claims	(1,404,313)	-	(1,404,313)
Claims settled during the year	(1,723,879)	(675,282)	(1,048,597)
Total at the end of year	4,961,994	1,714,686	3,247,308
Notified claims still outstanding	4,382,186	1,535,080	2,847,106
Incurred but not reported	579,808	179,606	400,202
Total at the end of year	4,961,994	1,714,686	3,247,308

21. Technical provisions and reinsurance assets *- continued*

(b) Unearned premiums

The movements for the year are summarised as follows:

	Gross Lm
Year ended 31 December 2004	
At beginning of year	-
Net charge to profit and loss	2,706,720
At end of year	2,706,720
Year ended 31 December 2005	
At beginning of year	2,706,720
Net charge to profit and loss	(113,751)
At end of year	2,592,969

22. Borrowings

	2005 **Lm**	2004 Lm
Bank balance overdrawn	**-**	110,140

The balance was subject to floating rates of interest which stood at 5.25% as at 31 December 2004.

The company has the following undrawn borrowing facilities:

	2005 **Lm**	2004 Lm
Floating rate and expiring within one year	**65,300**	62,500

Bank borrowings are secured by a special hypothec on investments.

23. Other creditors and accruals and deferred income

	2005 Lm	2004 Lm
Creditors arising out of direct insurance operations	**257,735**	303,460
Creditors arising out of reinsurance operations	**331,189**	1,461,052
Other creditors		
Amounts due to group undertakings	**56,877**	33,390
Other creditors	**74,802**	48,008
	131,679	81,398
Accruals and deferred income		
Accrued expenses and deferred income	**476,008**	911,485
Total other creditors and accruals and deferred income	**1,196,611**	2,757,395
Current portion	**1,196,611**	2,757,395

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

24. Cash generated from/(used in) operations

	2005 Lm	2004 Lm (restated)
Insurance premiums received	**6,888,486**	3,614,568
Reinsurance premium paid	**(4,103,218)**	(3,197,741)
Claims paid	**(2,259,970)**	(1,880,137)
Reinsurance claims received	**3,135,765**	671,858
Commission and other income	**1,008,849**	1,990,516
Cash paid to employees, related parties and other suppliers for services and goods	**(1,463,125)**	(1,165,246)
Interest received	**118,399**	38,064
Dividends received	**24,097**	2,533
Transfer of insurance portfolio	**-**	4,720,438
Net purchase/(disposal) of operating assets		
- loans and receivables	**113,218**	(3,991,498)
- financial assets at fair value through profit or loss	**(2,580,551)**	(1,334,927)
Cash generated from/(used in) operations	**881,950**	(531,572)

24. Cash generated from/(used in) operations - continued

During the year ended 31 December 2004, the major non-cash transactions for the Company related to:

	Lm
Acquisition of tangible assets – land and buildings from the parent company (Note 12)	870,000
Acquisition of land and buildings – investment property from a group undertaking (Note 13)	60,000
Acquisition of other financial assets – available-for-sale from the parent company and from group undertakings (Note 15)	94,862
Dividends declared (Note 11)	582,000
	1,606,862
Allotment of share capital to existing shareholders through capitalisation of amounts due to shareholders (Note 19)	1,747,000

There were no major non-cash transactions during the year ended 31 December 2005.

25. Cash and cash equivalents

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

	2005	2004
	Lm	Lm
Cash at bank and in hand	457,121	135,257
Bank balance overdrawn	-	(110,140)
	457,121	25,117

The effective interest rate on bank balances was 1.5% (2004: 1%).

26. Related party transactions

All companies forming part of the Atlas Group of Companies are considered by the directors to be related parties since these companies are ultimately owned and controlled by Atlas Holdings Limited.

The following transactions were carried out by the Company with related parties:

	2005	2004
	Lm	Lm
Income		
Payroll costs charged	33,600	23,173
Charge for use of office premises	21,175	8,172
Expenditure		
Commissions	8,574	2,181
Group health policy	3,312	3,705

Year end balances owed by or to group undertakings and other related parties are disclosed in Notes 18 and 23 to these financial statements respectively.

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 9 to these financial statements.

During the year ended 31 December 2005, the Company acquired locally listed securities of Lm114,960 at cost from the holding company and Lm164,940 at cost from fellow subsidiary undertakings.

27. Commitments

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

	2005 Lm	2004 Lm
Authorised but not contracted	-	23,000

28. Contingent liabilities

As at 31 December 2005, the Company had issued special bank guarantees of Lm2,892 (2004: Lm2,892) in favour of third parties.

29. Transfer of general business of insurance

Upon approval of the application made to the Malta Financial Services Authority in accordance with section 33 of the Insurance Business Act, 1998, AXA Insurance plc transferred to Atlas Insurance Limited its Malta insurance portfolio.

The transfer of business took place on 29 April 2004. As a result of the transfer, Atlas Insurance Agency Limited changed its name to Atlas Insurance Limited and assumed all rights and obligations, including claims and liabilities of AXA Insurance plc with respect to policies of insurance written by AXA Insurance plc in Malta up to date of the portfolio transfer. Atlas Insurance Limited is also now authorised to carry on business of general insurance in accordance with section 7 of the Insurance Business Act, 1998.

The consideration receivable in connection with the portfolio transfer was as follows:

	2004 Lm
Net premium	46,467
Net claims outstanding	4,688,901
Net deferred commissions	(14,930)
	4,720,438

30. Fair value estimation

The fair value of publicly traded investments classified as financial assets at fair value through profit or loss is based on quoted market prices at the balance sheet date. At 31 December 2005 and 2004, the carrying amount of the Company's other financial assets and liabilities approximate their fair value.

31. Statutory information

Atlas Insurance Limited is a limited liability company and is incorporated in Malta.

The immediate parent company of Atlas Insurance Limited is Atlas Holdings Limited, a company registered in Malta, with its registered address at 47-50, Ta' Xbiex Seafront, Ta' Xbiex, which prepares consolidated financial statements.

32. Comparative information

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