ATLAS INSURANCE
ANNUAL REPORT
06

Atlas
Insurance

Atlas Insurance PCC Limited

Annual Report &
Audited Financial Statements
2006

Atlas
Insurance

Contents

Chairman's Statement

It is gratifying to report that following a year where operating conditions were substantially harder than was the case in the preceding year, the results for 2006, while in no way comparable to the exceptional 2005, still show substantial profits. The Company registered a 2006 profit before tax of Lm1,317,365 (2005: Lm2,168,612), and a net profit after tax of Lm867,454 (2005: Lm1,411,743).

This was achieved despite a slow national economy, with factors in each area of the company's business that negatively impacted on the overall result. These included a substantial diminution in fair values on investments arising from falls on the local equity market, the weakening in U.S. dollar currency based investments, the heavy impact on the Technical account of an unusual incidence of large losses during the second half of the year, and a substantial increase in operating costs . The Company nevertheless registered a slight increase in gross written premium to maintain the important market share held in 2005, a positive gross loss ratio and a very acceptable overall level of profitability.

Following these continued excellent results, the Company continued to strengthen its capital base and by virtue of a shareholders' resolution dated 27th September 2006, the company increased its authorized share capital to Lm8,000,000. On the 4th April 2007 the shareholders increased the paid up share capital of the company by a further Lm500,000 to Lm3,000,000.

Following the lead of the Malta Financial Services Authority proposing new legislation in this direction, in 2006, the directors identified the opportunity to access the European market in a controlled manner by entering a new and growing international niche market. The Company applied to the Malta Financial Services Authority to convert its Insurance Business Act, 1998 license to that of a Protected Cell Company in accordance with the Insurance Business Act (Cell Companies Carrying on Business of Insurance) Regulations, 2004. The application to convert was approved and a license issued by the Authority on 1 November 2006. I am happy to report that even at an early stage in 2007, barely six months after the initial granting of the licence, a number of very interesting proposals have been received and are being actively followed up.

The Company's success is due in no small part to the unstinting and cheerful contribution and support of each and every member of the Company's line and management staff, to whom the shareholders, the members of my Board and I myself are very much indebted.

I am personally deeply grateful to my colleagues, the members of the Board of Directors, the various board committees, and the Company's senior management group, all of whom continue to make the fullest contribution to the ongoing success of Atlas Insurance PCC Limited. Without their input, this ongoing success would be difficult to maintain.

Walter G Camilleri
Chairman

CEO's Report

In the year under review, although returning less profits then in the previous year, results were nonetheless still very satisfactory. During 2006 Atlas Insurance PCC Ltd suffered an unusual frequency of large retained claims and this, together with increased competition following very good results achieved by most market players in the previous years coupled with a diminution of investment returns were the main factors for the reduced profits. Gross premium income increased slightly in line with the market thereby retaining our overall market share of 16%.

An "austerity" Government Budget for 2006, while improving the National finances, had the effect of cooling down the economy but forced the business community into Economy mode, and in the absence of visible growth, the business community has been actively re-trenching and seeking savings on expenditure.

Within the technical account, loss experience, which was relatively stable for the first half of the year, was severely impacted by a number of relatively large losses during the second half of 2006 with the effect that overall Gross loss ratio increased to a still acceptable 44% in contrast to the overall 37% achieved in the previous year. A positive claims run-off in both years contributed in achieving these satisfactory loss ratios.

Whilst Investment income was satisfactory, fair values on Investments were affected by the fall on dollar based instruments and by the drop in local equity market, both of which effectively reversed the substantial fair value gains made in the previous year.

Rising operating and employment costs, together with a planned increase in promotion and advertising spend all affected the Company's Profit and Loss account with Profit before Tax reduced to Lm1,317,365. While this is considerably less than the Lm2,168,612 registered in 2005, the reduced profits at 52% of paid up capital remain more than acceptable.

Whilst the solvency ratio at year end was substantially greater than the figure required by the Malta Financial Services Authority regulations, the need to further strengthen the Company's balance sheet in the early years of an Insurance company's life remains. In consequence of this and also bearing in mind the arrival of a more risk based Solvency II regime, an increase in the Authorised Share Capital to Lm8,000,000 was confirmed by a shareholders' resolution dated 27th September 2006, and the Paid Up Capital further increased to Lm3,000,000 as at 4th April 2007.

Existing economic conditions have further softened the already soft and limited Maltese insurance market, and, given the ever-increasing level of broker activity on the commercial side of the business, the Board of Directors has authorized an expansion program focused partly on expansion in the local market, and partly on the possibility of creating a new revenue stream from overseas.

A new regional office was opened in Paola in November 2006 and has shown early encouraging trends, attracting new walk-in business and improving renewal statistics from existing clients in the area.

In an entirely new direction, Atlas was authorized by the Malta Financial Services to convert itself into a Protected Cell Company in accordance with the Insurance Business Act (Cell Companies Carrying on Business of Insurance) Regulations, 2004 in November 2006. It is heartening to report that even at this early stage important contacts have been made and a number of interesting approaches have been received and are being actively pursued.

The production of creditable results in what has been a particularly difficult period reflects the dedication and input of the Atlas management team and of every member of the Company's sales and support staff.

Michael Gatt
Managing Director and CEO

Board Members and Board Committees

Board of Directors
Walter G Camilleri (Chairman)
Richard Clough FCA
Catherine Calleja BA (Hons) ACII (Company Secretary)
Albert Formosa
John Formosa
Michael Gatt (Managing)
Bryan Gera DBA
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 FCA
Henry C de Gabriele FCIB
Michael Gatt
Robert von Brockdorff

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

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

Protected Cells
John Bonett
Catherine Calleja BA(Hons) ACII
Mark Camilleri
Michael Gatt
David Mifsud FCII
Matthew von Brockdorff FCII

Risk Management
Catherine Calleja BA(Hons) ACII
Martin Gauci
Ian Stafrace ACII
Matthew von Brockdorff FCII

New Paola Regional Office

Offices, Branches and Agencies

Head Office
47-50 Ta' Xbiex Seafront
Ta' Xbiex XBX 1021

Finance and Compliance/Branch Office
Abate Rigord Street
Ta' Xbiex XBX 1121

Paola Regional Office
Valletta Road
Paola PLA 1517

Rabat Branch
45 Vjal il-Ħaddiem
Rabat RBT 1769

Rausi Insurance Agency Limited
28 GB Buildings
Triq il-Watar
Ta' Xbiex XBX 1301

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

Corporate Social Responsibility Statement

The Atlas Group of Companies has recently formulated a set of guiding principles which reflects a growing concern to give back something to society as well as a belief that it is the Group's duty to take on commitments which go beyond common regulatory or compliance requirements. Many factors have influenced this trend internationally and this is summarized succinctly in the EU Green Paper 'Promoting a European Framework for Corporate Social Responsibility'.

Atlas is conscious of the importance of being a listening organization and aware of the concerns and expectations of staff members, consumers, public authorities and investors. Indeed social criteria are increasingly influencing the purchasing decisions of individuals and institutions both as consumers and investors. In addition, stakeholders are becoming ever more concerned about the damage caused by economic activity to the environment.

Corporate Social Responsibility principles must be at the forefront of most of Company decisions and the Group strongly believes in the principles brought forward in the EU March 2006 CSR Communication by the European Commission which aims to make Europe a pole of excellence on CSR. Awareness of social responsibility permeates all areas of the business including but of course not restricted to Advertising and Communications, Socially responsible Investment, Human Resources Management including the promotion of equality and diversity in the workplace as well as a strong health and safety culture, the contribution to environmental initiatives promoting sustainable development and other environment friendly projects as well as the participation in the participation in various Social and Cultural initiatives.

The involvement of staff in most corporate social responsibility initiatives is central. The retention of skilled employees requires the investment into more than simply the skills for the job but into fulfilment and training of the whole person – including the encouragement of various sporting and social events. A long term view of career development at Atlas and an investment in internal as well as external comprehensive training programmes will ensure career paths for our promising staff and develop our managers of the future.

During 2006 various CSR initiatives were started or continued including raising money for the Albania Mission, St Rita home, a refurbishment of the Razzett tal-Hbiberija Pottery Room, outings for St Patrick's boys as well as a major donation to the Eden Foundation. Staff were also involved in cleanups at the Ghadira Nature Reserve. Atlas is also proud to be taking part in the ETC Bridging the Gap scheme which provides employment for persons with disabilities.

Financial Statements

Atlas Insurance

Corporate Governance - Statement of Compliance

The board of directors of Atlas Insurance PCC Limited ensures that the Company adopts principles of good corporate governance in accordance with recognised models to ensure accountability and transparency and the safeguarding of the interests of the various stakeholders of the Company.

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. Appointed 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 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 board and executive committees to assist in specialised areas.

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 and its various intermediaries through the internal audit function. The internal auditor reports directly to this committee and attends relevant meetings. The audit committee is also actively involved in the appointment and monitoring of the external auditors as well as the approval of the financial statements 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 Intermediaries Act, 2006 following the repealing of the Insurance Brokers and Other Intermediaries Act, 1998. The committee is chaired by the Group Financial Controller and Compliance Officer, Mr Mark Camilleri. It meets on a regular basis to review new directives under the abovementioned legislation as well as to ensure that group companies continue to comply with current obligations. During 2006 extensive work was done related to training and compliance with the new requirements of the Intermediaries Act for group companies as well as intermediaries.

Risk Management Committee

During 2006 a core group was set up to set direction for the new risk management function within the organisation. The committee focused on training and information gathering during the year as well as setting up of the related Roles and Responsibilities of the Board of Directors, the Risk Management Committee, Business Units, Individuals and the Internal Audit Function.

Protected Cells Committee

This committee has been set up by the board to analyse and propose new cell applications to the board of directors as well as to monitor and report on the performance of the cells. The committee is made up of the directors of Ark Insurance Management (Malta) Limited, a licensed insurance manager and a sister company to Atlas Insurance PCC Limited as well as Mr John P Bonett.

The board has strongly supported new corporate governance initiatives during 2006 and has taken various steps to provide backing for the various committees.

Relations with Shareholders

The level of disclosure to shareholders within the group has been far beyond statutory requirements under the Companies Act. Atlas Insurance PCC 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 2006.

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

The board of directors reports that, following the exceptional results for 2005, and despite a downturn in fair value on investments arising from local equity market value diminutions and the weakening in U.S. dollar currency based investments, coupled with the heavy impact on the Technical account of an unusual number of large losses during the year under review, Atlas Insurance PCC Limited registered a 2006 net profit before tax of Lm1,317,365 (2005: Lm2,168,612), and a net profit after tax of Lm867,454 (2005: Lm1,411,743).

In recognition of the continued excellent results, the directors proposed a further increase of the Company's paid up share capital in order to further strengthen the Company's core equity. In consequence by an extraordinary shareholders' resolution dated 27 September 2006, the Company increased its authorised share capital to Lm 8,000,000, and by shareholders' resolution dated 4 April 2007 the paid up share capital of the Company was increased by Lm500,000 to Lm3,000,000.

During the year, the directors identified the opportunity to access the European market in a controlled manner by entering a new and growing international niche market and the Company applied to the Malta Financial Services Authority to convert its Insurance Business Act, 1998 license to that of a Protected Cell Company in accordance with the Insurance Business Act (Cell Companies Carrying on Business of Insurance) Regulations, 2004. The application to convert was approved and a license issued by the Authority on 1 November 2006.

Results and dividends

The profit and loss account is set out on pages 16 and 17. An interim ordinary dividend of Lm300,000 (2005: Lm570,000) and preference dividends of Lm6,000 (2005: Lm6,000) were declared during the year. The directors recommend the payment of a final net dividend of Lm270,000 (2005: Lm300,000).

Directors' Report - continued

Directors

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

Walter 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 – resigned 18 July 2006

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 reappointment will be proposed at the Annual General Meeting.

On behalf of the board

Walter Camilleri
Chairman

Michael Gatt
Managing Director

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

6 June 2007

Atlas Insurance

Statement of Directors' Responsibilities

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

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

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

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

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

Independent Auditor's Report

To the Shareholders of Atlas Insurance PCC Limited

We have audited the financial statements of Atlas Insurance PCC Limited on pages 16 to 48 which comprise the balance sheet as at 31 December 2006 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995. As described in the statement of directors' responsibilities on page 14, this responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

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

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta
6 June 2007

Profit and Loss Account
Technical Account – General Business

	Notes	Year ended 31 December 2006 Lm	2005 Lm
Earned premiums, net of reinsurance			
Gross premiums written	3	**7,086,886**	7,025,838
Outward reinsurance premiums		**(2,925,968)**	(2,927,630)
Net premiums written		**4,160,918**	4,098,208
Change in the provision for unearned premiums			
- gross amount	21	**(208,522)**	113,751
- reinsurers' share	21	**13,246**	(1,783,267)
		(195,276)	(1,669,516)
Earned premiums, net of reinsurance		**3,965,642**	2,428,692
Allocated investment return transferred from the non-technical account	5	**191,612**	559,552
Total technical income		**4,157,254**	2,988,244
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**3,180,166**	2,259,970
- reinsurers' share	21	**(655,723)**	(3,132,475)
		2,524,443	(872,505)
Change in the provision for claims			
- gross amount	21	**(130,336)**	394,327
- reinsurers' share	21	**(325,239)**	1,163,024
		(455,575)	1,557,351
Claims incurred, net of reinsurance		**2,068,868**	684,846
Net operating expenses	3,4,6	**749,148**	134,155
Total technical charges		**2,818,016**	819,001
Balance on the technical account for general business (page 17)		**1,339,238**	2,169,243

Profit and Loss Account
Non-Technical Account

	Notes	Year ended 31 December 2006 Lm	2005 Lm
Balance on technical account – general business (page 16)		**1,339,238**	2,169,243
Investment income	5	**361,405**	634,418
Investment expenses and charges	5	**(156,950)**	(41,681)
Allocated investment return transferred to the general business technical account	5	**(191,612)**	(559,552)
Administration expenses	6	**(34,716)**	(33,816)
Profit before tax		**1,317,365**	2,168,612
Tax expense	8	**(449,911)**	(756,869)
Profit for the financial year		**867,454**	1,411,743
Earnings per share	10	**0.34**	0.70

Balance Sheet

	Notes	As at 31 December 2006 Lm	2005 Lm
ASSETS			
Tangible assets:			
- land, buildings and improvements	12	**1,159,476**	937,806
- plant and equipment	12	**296,927**	278,155
Investments:			
- land and buildings	13	**165,000**	125,000
- investment in subsidiary undertaking	14	**500**	500
- other financial investments	15	**8,400,530**	8,294,387
Reinsurers' share of technical provisions	21	**1,775,799**	1,437,314
Deferred acquisition costs	17	**292,372**	289,173
Debtors:			
- debtors arising out of direct insurance operations	18	**1,164,028**	1,250,938
- other debtors	18	**55,476**	92,283
Prepayments and accrued income	18	**138,408**	217,080
Taxation recoverable		**49,152**	-
Cash and cash equivalents	25	**123,565**	457,121
Total assets		**13,621,233**	13,379,757
EQUITY			
Capital and reserves			
Share capital	19	**2,500,000**	2,500,000
Profit and loss account	20	**1,625,739**	1,092,644
Other reserves	20	**221,664**	104,813
Total equity		**4,347,403**	3,697,457
LIABILITIES			
Technical provisions	21	**8,027,476**	7,949,290
Provisions for other risks:			
- deferred taxation	16	**63,686**	108,339
Creditors:			
- interest bearing borrowings	22	**192,940**	-
- creditors arising out of direct insurance operations	23	**206,480**	257,735
- creditors arising out of reinsurance operations	23	**225,393**	331,189
- other creditors	23	**98,297**	131,679
Current taxation		**-**	428,060
Accruals and deferred income	23	**459,558**	476,008
Total liabilities		**9,273,830**	9,682,300
Total equity and liabilities		**13,621,233**	13,379,757

The financial statements on pages 16 to 48 were authorised for issue by the board on 6 June 2007 and were signed on its behalf by:

Walter Camilleri
Chairman

Michael Gatt
Managing Director

Statement of Changes in Equity

	Notes	Share capital Lm	Other reserves Lm	Profit and loss account Lm	Total Lm
Balance at 1 January 2005		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**
Balance at 1 January 2006		2,500,000	104,813	1,092,644	3,697,457
Revaluation surplus on freehold and other property, net of tax	20	-	88,492	-	88,492
Net income recognised directly in equity		-	88,492	-	88,492
Profit for the financial year		-	-	867,454	867,454
Transfer of fair value gains, net of deferred tax, on investment property	20	-	28,359	(28,359)	-
Total recognised income for 2006		-	116,851	839,095	955,946
Dividends	11	-	-	(306,000)	(306,000)
Balance at 31 December 2006		**2,500,000**	**221,664**	**1,625,739**	**4,347,403**

Cash Flow Statement

	Notes	**Year ended 31 December** **2006** **Lm**	2005 Lm
Operating activities			
Cash generated from operations	24	**1,029,315**	881,950
Tax paid		**(993,736)**	(192,765)
Interest paid		**(6,305)**	(4,590)
Net cash from operating activities		**29,274**	684,595
Investing activities			
Purchase of property, plant and equipment		**(251,570)**	(176,091)
Disposal of property, plant and equipment		**1,800**	-
Investment in subsidiary undertaking		**-**	(500)
Net cash used in investing activities		**(249,770)**	(176,591)
Financing activities			
Dividends paid		**(306,000)**	(576,000)
Issue of share capital		**-**	500,000
Net cash used in financing activities		**(306,000)**	(76,000)
Movement in cash and cash equivalents		**(526,496)**	432,004
Cash and cash equivalents at beginning of year		**457,121**	25,117
Cash and cash equivalents at end of year	25	**(69,375)**	457,121

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, and the revaluation of freehold and other property.

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

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

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

2. 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.

2. Revenue recognition - continued

(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.

6. Tangible assets – Property, plant and equipment - continued

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.

7. Investments - continued

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.

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.

9. Impairment of assets - continued

(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.

14. Insurance contracts - classification - continued

(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.

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.

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, i.e. 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 PCC 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.

Since obtaining its license to convert to a protected cell company in November 2006 the Company did not underwrite any risks situated outside of Malta through its cellular operation.

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 2006 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 inserts 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.

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

2.1.1. Frequency and severity of claims - continued

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 places its reinsurance programme 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 PCC 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 specialised 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 and technical experts who are regularly utilised in the Company's quest for sound and equitable claim 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.

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

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

(ii) 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 class) and similar cases plus the Company will note 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.

2.2.1. Interest-rate risk - continued

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 2006 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 2005 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.

2.2.4. Currency risk - continued

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.

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**	
	2006	2005	**2006**	2005
	Lm	Lm	**Lm**	Lm
Direct insurance				
Motor (third party liability)	**830,617**	812,168	**786,197**	825,948
Motor (other classes)	**2,491,852**	2,502,804	**2,358,590**	2,545,269
Fire and other damage to property	**2,206,931**	2,412,576	**2,225,980**	2,403,702
Other classes	**1,557,486**	1,298,290	**1,507,597**	1,364,670
	7,086,886	7,025,838	**6,878,364**	7,139,589

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**
	2006	**2006**	**2006**
	Lm	**Lm**	**Lm**
Direct insurance			
Motor (third party liability)	**435,739**	**181,896**	**45,880**
Motor (other classes)	**1,307,217**	**545,691**	**137,637**
Fire and other damage to property	**599,323**	**622,560**	**511,219**
Other classes	**707,551**	**412,626**	**223,399**
	3,049,830	**1,762,773**	**918,135**

	Gross claim 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

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

4. Net operating expenses

	2006 Lm	2005 Lm
Acquisition costs	**955,433**	977,371
Change in deferred acquisition costs (Note 17)	**(3,199)**	11,295
Administrative expenses	**841,091**	687,504
Reinsurance commissions earned	**(1,013,625)**	(1,494,168)
Other net technical income	**(30,552)**	(47,847)
	749,148	134,155

Total commissions accounted for in the financial period in the Company's technical result amounted to Lm651,563 (2005: Lm662,493).

5. Investment return

	2006 Lm	2005 Lm
Investment income		
Interest receivable from financial assets that are not at fair value through profit or loss	**119,912**	142,513
Income from financial assets at fair value through profit or loss:		
- interest income	**160,522**	91,997
- dividend income	**41,340**	24,097
- net fair value gains (Note 15)	**-**	372,862
Fair value gains on investment property	**40,000**	-
Rental income	**7,200**	3,290
Exchange differences	**(7,569)**	(341)
	361,405	634,418
Investment expenses and charges		
Interest expense and charges for financial liabilities that are not at fair value through profit or loss	**6,305**	4,590
Net fair value losses on financial assets at fair value through profit or loss (Note 15)	**116,060**	-
Investment expenses	**34,585**	37,091
	156,950	41,681
Total investment return	**204,455**	592,737
Allocated as follows:		
Allocated investment return transferred to the general business Technical account	**191,612**	559,552
Investment return included in the non-technical account	**12,843**	33,185
	204,455	592,737

6. Expenses by nature

	2006 Lm	2005 Lm
Staff costs and directors' fees	**674,576**	618,488
Commissions payable	**651,563**	662,493
Change in deferred acquisition costs	**(3,199)**	11,295
Commissions earned	**(1,013,625)**	(1,494,168)
Depreciation of property, plant and equipment (Note 12)	**120,997**	125,028
Auditors' remuneration	**9,200**	9,200
Other expenses	**344,352**	235,635
Total operating expenses and administration expenses	**783,864**	167,971

7. Staff costs

	2006 Lm	2005 Lm
Salaries (including directors' salaries)	**823,933**	752,877
Social security costs	**50,042**	45,377
	873,975	798,254
Inter-company payroll charge	**(49,091)**	(33,600)
	824,884	764,654

The average number of persons employed during the year was:

	2006	2005
Directors	**5**	5
Managerial	**10**	10
Managerial – part time	**2**	3
Clerical	**62**	58
Clerical – part time	**14**	7
	93	83

8. Tax expense

	2006 Lm	2005 Lm
Current income tax expense	**516,524**	652,171
Deferred income tax (credit)/charge (Note 16)	**(66,613)**	112,259
Overprovision in previous years	**-**	(7,561)
	449,911	756,869

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

	2006 Lm	2005 Lm
Profit before income tax	**1,317,365**	2,168,612
Tax on profit at 35%	**461,078**	759,014
Tax effect of:		
Differences due to the application of Flat Rate Foreign Tax Credit	**(16,837)**	(12,452)
Movement in deferred tax determined on the basis applicable to tax rules	**(9,200)**	5,467
Income subject to reduced rates of tax	**(1,049)**	(881)
Expenses not deductible for tax purposes	**13,655**	11,864
Other movements	**2,264**	1,418
Overprovision in previous years	**-**	(7,561)
Tax charge	**449,911**	756,869

Atlas Insurance

9. Directors' emoluments

	2006	2005
	Lm	Lm
Directors' fees	**9,700**	8,800
Salaries and other emoluments	**100,445**	103,638
	110,145	112,438
Recharged to group undertakings	**(1,392)**	(1,392)
	108,753	111,046

During the year, benefits in kind valued at Lm1,730 (2005: Lm2,316) 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.

	2006	2005
Net profit attributable to shareholders (Lm)	**861,454**	1,405,743
Weighted average number of ordinary shares in issue	**2,497,000**	1,999,740
Earnings per share (Lm)	**0.34**	0.70

11. Dividends declared

At the forthcoming Annual General Meeting a dividend in respect of 2006 of 10c8 per share, amounting to a total net dividend of Lm270,000, is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2007.

	2006	2005
	Lm	Lm
To the ordinary shareholders:		
Gross	**461,539**	876,923
Tax at source at 35%	**(161,539)**	(306,923)
Net	**300,000**	570,000
Dividends per ordinary share	**0.12**	0.29
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	**306,000**	576,000

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 2005				
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
Year ended 31 December 2006				
Opening net book amount	852,600	85,206	278,155	1,215,961
Additions	106,476	26,842	118,252	251,570
Revaluation surplus	110,452	-	-	110,452
Disposals	-	-	(5,000)	(5,000)
Depreciation charge	(8,700)	(13,400)	(98,897)	(120,997)
Depreciation released on disposal	-	-	4,417	4,417
Closing net book amount	**1,060,828**	**98,648**	**296,927**	**1,456,403**
At 31 December 2006				
Cost or revaluation	1,060,828	164,326	925,590	2,150,744
Accumulated depreciation	-	(65,678)	(628,663)	(694,341)
Net book amount	**1,060,828**	**98,648**	**296,927**	**1,456,403**

In 2006 the Company commissioned an independent professionally qualified valuer to value the land and buildings, including investment property. The valuation was based on a free and open market valuation and consideration was given to the specific location of the property, the facilities included therein, the size of the site and the availability of similar properties in the area.

The directors reviewed this valuation and the basis on which it was drawn up, and the property was accordingly revalued at the year end, with the revaluation surplus on tangible assets – land and buildings, net of deferred taxation, being credited in the revaluation reserve.

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2006 Lm	2005 Lm
Cost	**976,476**	870,000
Accumulated depreciation	**(26,100)**	(17,400)
Net book amount	**950,376**	852,600

13. Land and buildings – investment property

	2006 Lm	2005 Lm
At 1 January	**125,000**	125,000
Fair value gains	**40,000**	-
At 31 December	**165,000**	125,000

The fair value of the investment property was established in 2006 based on an independent professional valuation as described in Note 13.

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

	2006 Lm	2005 Lm
Cost	**125,000**	125,000
Accumulated depreciation	**(3,750)**	(2,500)
Net book amount	**121,250**	122,500

14. Investment in subsidiary undertaking

	2006 Lm	2005 Lm
Year ended 31 December		
At beginning of year	**500**	-
Additions	**-**	500
At end of year	**500**	500

The subsidiary undertaking at 31 December 2006 and 2005 is shown below:

Name of subsidiary undertaking	Registered office	Class of shares	Percentage of shares held 2006	2005
Stuart Properties Limited	48-50, Ta' Xbiex Seafront, Ta' Xbiex	Ordinary 'A' shares	33.3%	33.3%

During 2005, 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 PCC 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 PCC Limited is in a position to govern the financial and operating policies of the Company.

In terms of a resolution dated 15 March 2007 Atlas Insurance PCC Limited increased its interest in the company to 45.8% of shares issued. These represent 50% of the voting shares.

15. Investments

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

	2006 Lm	2005 Lm
Fair value through profit or loss	**6,184,503**	4,312,486
Loans and receivables	**2,216,027**	3,981,901
	8,400,530	8,294,387

(a) Investment at fair value through profit or loss

	2006 Lm	2005 Lm
At 31 December		
Equity securities and units in unit trusts	**2,823,457**	2,029,126
Debt securities – listed fixed interest rate	**3,361,046**	2,283,360
	6,184,503	4,312,486

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

Maturity of fixed income debt securities:

	2006 Lm	2005 Lm
Within 1 year	**4,483**	-
Between 1 and 2 years	**226,003**	115,656
Between 2 and 5 years	**701,588**	406,425
Over 5 years	**2,428,972**	1,761,279
	3,361,046	2,283,360
Weighted average effective interest rate	**5.11%**	5.06%

The movements for the year are summarised as follows:

	2006 Lm	2005 Lm
Year ended 31 December		
At beginning of year	**4,312,486**	1,359,073
Additions	**2,741,744**	3,630,651
Disposals	**(753,667)**	(1,050,100)
Net fair value (losses)/gains (Note 5)	**(116,060)**	372,862
At end of year	**6,184,503**	4,312,486
As at 31 December		
Cost	**6,002,198**	3,948,243
Accumulated net fair value gains	**182,305**	364,243
	6,184,503	4,312,486

(b) Loans and receivables

	2006 Lm	2005 Lm
At 31 December		
Deposits with banks or financial institutions	**2,165,349**	3,968,089
Loan to subsidiary company	**50,678**	13,812
	2,216,027	3,981,901

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

15. Investments - continued

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

	2006 Lm	2005 Lm
Year ended 31 December		
Additions	**299,342**	-
Accretion of discount	**2,752**	-
Disposals	**(302,094)**	-
At end of year	-	-

Maturity of deposits with banks or financial institutions:

	2006 Lm	2005 Lm
Within 3 months	**1,004,201**	715,745
Within 1 year but exceeding 3 months	**1,161,148**	3,252,344
	2,165,349	3,968,089

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

	2006 Lm	2005 Lm
At fixed rates	**2,165,349**	3,968,089
Weighted average effective interest rate	**3.55%**	3.40%

At 31 December 2006, the above financial assets included pledged investments amounting to Lm200,000 (2005: Lm206,100) in terms of the Insurance Business (Insurers' Assets and Liabilities) Regulations, 2004, and Lm55,862 (2005: Lm54,236) which have been pledged as security against a bank overdraft facility (Note 22).

16. Deferred income tax

	2006 Lm	2005 Lm
Year ended 31 December		
At beginning of year	**(108,339)**	3,920
Charged to equity (Note 20)	**(21,960)**	-
Credited/(charged) to profit and loss account (Note 8)	**66,613**	(112,259)
At end of year	**(63,686)**	(108,339)

Net deferred tax liability amounting to Lm63,686 (2005: 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% (2005: 35%) with the exception of investment property and freehold and other property, for which deferred income taxes are calculated using a principal tax rate of 12% of the carrying amount (2005: 12%).

The balance at 31 December represents temporary differences on:

	2006 Lm	2005 Lm
Land and buildings – tangible assets	**(21,960)**	-
Land and buildings – investment property	**(12,600)**	(7,800)
Financial investments at fair value through profit or loss	**(40,386)**	(114,396)
Fixed assets	**760**	3,357
Provisions	**10,500**	10,500
	(63,686)	(108,339)

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

	2006 Lm	2005 Lm
Year ended 31 December		
At beginning of year	**289,173**	300,468
Net amount credited/(charged) to profit and loss account (Note 4)	**3,199**	(11,295)
At end of year	**292,372**	289,173
Current portion	**292,372**	289,173

18. Debtors and prepayments and accrued income

	2006 Lm	2005 Lm
Debtors arising from direct insurance operations		
Due from policyholders	**542,512**	538,969
Due from agents, brokers and intermediaries	**594,207**	696,604
Due from reinsurers	**27,309**	15,365
	1,164,028	1,250,938
Other debtors		
Receivable from group undertakings	**42,649**	72,326
Receivable from related parties	**9,323**	7,979
Other debtors	**3,504**	11,978
	55,476	92,283
Prepayments and accrued income		
Prepayments	**14,477**	99,375
Accrued interest	**123,931**	117,705
	138,408	217,080
Total debtors and prepayments and accrued income	**1,357,912**	1,560,301
Current portion	**1,357,912**	1,560,301

Debtors are presented net of an allowance for impairment of Lm30,000 (2005: Lm30,000).

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

19. Share capital

	2006 Lm	2005 Lm
Authorised share capital:		
'A' ordinary voting shares of Lm1 each	**7,997,000**	4,997,000
'B' cumulative preference shares of Lm1 each	**3,000**	3,000
	8,000,000	5,000,000

19. *Share capital* - *continued*

	2006 Lm	2005 Lm
Issued and fully paid share capital:		
'A' ordinary voting shares of Lm1 each	**2,497,000**	2,497,000
'B' cumulative preference shares of Lm1 each	**3,000**	3,000
	2,500,000	2,500,000

By virtue of an extraordinary resolution dated 27 September 2006, the shareholders approved to substitute the memorandum and articles of the company. These reflect an increase of Lm3,000,000 in authorised share capital, from Lm5,000,000 to Lm8,000,000. Also, in terms of a shareholders' resolution dated 4 April 2007 the paid up share capital was increased by Lm500,000 to Lm3,000,000.

20. Reserves

	Revaluation reserve Lm	General reserve Lm	Investment property reserve Lm	Total Lm
Balance at 1 January and 31 December 2005	**-**	**86,522**	**18,291**	**104,813**
Balance at 1 January 2006	-	86,522	18,291	104,813
Revaluation of freehold and other property net of deferred tax movements	88,492	-	-	88,492
Transfer of fair value gains, net of deferred tax on investment property	-	-	28,359	28,359
Balance at 31 December 2006	**88,492**	**86,522**	**46,650**	**221,664**

	2006 Lm	2005 Lm
Profit and loss account	**1,625,739**	1,092,644

Revaluation reserve represents the revaluation surplus on freehold and other property, net of deferred tax. Investment property reserve represents 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

	2006 Lm	2005 Lm
Gross technical provisions		
Claims reported and loss adjustment expenses	**4,598,787**	4,724,870
Claims incurred but not reported	**627,198**	631,451
Unearned premiums	**2,801,491**	2,592,969
Total insurance liabilities, gross	**8,027,476**	7,949,290
Reinsurers' share of technical provisions		
Claims reported and loss adjustment expenses	**783,855**	491,387
Claims incurred but not reported	**93,046**	60,275
Unearned premiums	**898,898**	885,652
Total reinsurers' share of insurance liabilities	**1,775,799**	1,437,314
Net technical provisions		
Claims reported and loss adjustment expenses	**3,814,932**	4,233,483
Claims incurred but not reported	**534,152**	571,176
Unearned premiums	**1,902,593**	1,707,317
	6,251,677	6,511,976
Current portion	**6,251,677**	6,511,976

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.

Unearned premium reserves are formulated on a 365ths 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 changes required in the assumptions used to estimate the ultimate cost of claims.

21. Technical provisions and reinsurance assets - continued

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	2006	Total
Estimate of ultimate claims costs:	Lm	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	3,928,466	
- one year later	2,145,884	2,108,114	3,838,491	2,635,129	2,439,753		
- two years later	2,121,671	2,075,944	3,563,894	2,272,617			
- three years later	2,113,834	2,060,985	3,412,154				
- four years later	2,094,278	2,032,435					
- five years later	2,058,430						
Current estimate of cumulative claims	2,058,430	2,032,435	3,412,154	2,272,617	2,439,753	3,928,466	16,143,855
Cumulative payments to date	(1,992,742)	(1,835,034)	(3,163,597)	(1,973,978)	(1,716,521)	(1,598,154)	(12,280,026)
Liability recognised in the balance sheet	65,688	197,401	248,557	298,639	723,232	2,330,312	3,863,829
Reserve in respect of prior years							1,362,156
Total reserve included in balance sheet							5,225,985

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

It is pertinent to note that the result, net of reinsurance, would not represent the true consistencies 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. This does not provide sufficient historical data for progression table purposes.

(a) Claims and loss adjustment expenses

	Year ended 31 December 2006		
	Gross Lm	Reinsurance Lm	Net Lm
Notified claims still outstanding	4,724,870	(491,387)	4,233,483
Incurred but not reported	631,451	(60,275)	571,176
Total at beginning of year	5,356,321	(551,662)	4,804,659
Increase in liabilities	2,889,615	(980,962)	1,908,653
- arising from current year claims	3,928,466	(1,135,465)	2,793,001
- arising from prior year claims	(1,038,851)	154,503	(884,348)
Claims settled during the year	(3,019,951)	655,723	(2,364,228)
Total at the end of year	**5,225,985**	**(876,901)**	**4,349,084**

21. Technical provisions and reinsurance assets - continued

	Year ended 31 December 2006		
	Gross	Reinsurance	Net
	Lm	Lm	Lm
Notified claims still outstanding	4,598,787	(783,855)	3,814,932
Incurred but not reported	627,198	(93,046)	534,152
Total at the end of year	**5,225,985**	**(876,901)**	**4,349,084**

	Year ended 31 December 2005		
	Gross	Reinsurance	Net
	Lm	Lm	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 in liabilities	2,499,331	(1,969,451)	529,880
- arising from current year claims	2,776,488	(1,969,451)	807,037
- 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

(b) Unearned premiums

	Year ended 31 December 2006		
	Gross	Reinsurance	Net
	Lm	Lm	Lm
At beginning of year	2,592,969	(885,652)	1,707,317
Net charge/(credit) to profit and loss	208,522	(13,246)	195,276
At the end of year	**2,801,491**	**(898,898)**	**1,902,593**

	Year ended 31 December 2005		
	Gross	Reinsurance	Net
	Lm	Lm	Lm
At beginning of year	2,706,720	(2,668,919)	37,801
Net (credit)/charge to profit and loss	(113,751)	1,783,267	1,669,516
At the end of year	2,592,969	(885,652)	1,707,317

22. Borrowings

	2006 Lm	2005 Lm
Bank balance overdrawn (Note 25)	**192,940**	-

The balance was subject to floating rates of interest which stood at 6% as at 31 December 2006.

The Company has the following undrawn borrowing facilities:

	2006 Lm	2005 Lm
Floating rate and expiring within one year	-	65,300

Bank borrowings are secured by a cash pledge.

23. Other creditors and accruals and deferred income

	2006 Lm	2005 Lm
Creditors arising out of direct insurance operations	**206,480**	257,735
Creditors arising out of reinsurance operations	**225,393**	331,189
Other creditors		
Amounts due to group undertakings	-	56,877
Other creditors	**98,297**	74,802
	98,297	131,679
Accruals and deferred income		
Accrued expenses and deferred income	**459,558**	476,008
Total other creditors and accruals and deferred income	**989,728**	1,196,611
Current portion	**989,728**	1,196,611

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

24. Cash generated from operations

	2006 Lm	2005 Lm
Insurance premiums received	**7,173,796**	6,888,486
Reinsurance premium paid	**(3,083,019)**	(4,103,218)
Claims paid	**(3,180,166)**	(2,259,970)
Reinsurance claims received	**655,723**	3,135,765
Commission and other income	**1,129,596**	1,008,849
Cash paid to employees, related parties and other suppliers for services and goods	**(1,887,648)**	(1,463,125)
Interest received	**395,913**	118,399
Dividends received	**41,340**	24,097
Rental Income	**7,200**	-
Net (purchase)/disposal of operating assets		
- loans and receivables	**1,765,874**	113,218
- financial assets at fair value through profit or loss	**(1,988,077)**	(2,580,551)
Cash generated from operations	**1,030,532**	881,950

25. Cash and cash equivalents

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

	2006 Lm	2005 Lm
Cash at bank and in hand	**123,565**	457,121
Bank balance overdrawn	**(192,940)**	-
	(69,375)	457,121

The effective interest rate on bank balances was 1.5% (2005: 1.5%).

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:

	2006 Lm	2005 Lm
Income		
Payroll costs charged	**49,091**	33,600
Charge for use of office premises	**24,692**	21,175
Expenditure		
Commissions	**38,711**	38,419
Group health policy	**5,000**	3,312

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 2006, the Company acquired locally listed securities of Lm100,000 at cost from the holding company and Lm472,820 at cost from fellow subsidiary undertakings.

27. Commitments

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

	2006 Lm	2005 Lm
Authorised but not contracted	**450,000**	-

28. Contingent liabilities

As at 31 December 2006, the Company had issued special bank guarantees of Lm21,458 (2005: Lm2,892) in favour of third parties.

29. 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 2006 and 2005, the carrying amount of the Company's other financial assets and liabilities approximate their fair value.

30. Statutory information

Atlas Insurance PCC Limited is a limited liability company and is incorporated in Malta. The immediate parent company of Atlas Insurance PCC 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.

31. 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.

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