MIDDLE SEA VALLETTA LIFE ASSURANCE COMPANY LIMITED

Annual Report and Consolidated Financial Statements
31 December 2001

Company Registration Number: C 15722

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Company Registration Number: C 15722

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2001.

Principal activities

The Company is licensed to carry on long term business of insurance under the Maltese Insurance Business Act, 1998. The Group is also authorised to provide investment services in terms of the Investment Services Act, 1994.

Review of the business

During the year under review, gross premiums written by Middle Sea Valletta increased by 9% from Lm20.2 million to Lm22.1 million, whilst the life fund increased by 22% from Lm66.5 million to Lm80.8 million. The value of in-force business also increased over the period from Lm8.9 million to Lm9.5 million. Total assets have increased by 19% from Lm82.5 million in December 2000 to Lm98.4 million at 31 December 2001. Despite significant unrealised investment losses, both on local and international capital markets, the Group managed to maintain last year's profit levels and generated a profit for the year of Lm300,253. The directors expect that the present level of activity will be sustained in the foreseeable future.

Results and dividends

The consolidated profit and loss account is set out on page 6. The directors do not recommend the payment of dividend. During 2000, an interim dividend of Lm500,000 was paid.

Directors

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

J. F. X. Zahra B.A. (Hons) Econ., M.A. Econ. M.C.I.M., M.M.R.S. (Chairman)
M.C. Grech (Deputy Chairman and C.E.O.)
E. Ellul
Mario Grima DIP.M.S., M.B.A. (Henley), M.I.M.(appointed on 30 June 2001)
R. Lenhard Dipl. Math
J. M. Rizzo A.C.I.I., A.I.D.P.M., A.M.I.A.P.
N. Silby B.Sc., F.I.A.
F. Xerri De Caro A.C.I.B.
J.V. Gatt B.A. (Hons) Econ., A.C.I.B. (resigned on 30 June 2001)

Directors' report – continued

Directors – continued

According to the Company's Articles of Association those members or group of members holding at least 10% of the total voting rights have the right to appoint a director. Every member or group of members holding at least an additional 13% of the total voting rights are entitled to appoint an additional director for every 13% holding.

Unless appointed for a longer or shorter period, or unless they resign or are earlier removed, directors hold office for a period of one year, provided that no appointment may be made for a period exceeding three years.

Actuaries

The Company's approved actuary is Mr. Martin Muir, M.A., F.I.A., a partner of Watson Wyatt Partners.

Auditors

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

On behalf of the board

J. F. X. Zahra
Chairman

M. C. Grech
Deputy Chairman and C.E.O.

Middle Sea House
Floriana,
Malta

3 April 2002

Statement of directors' responsibilities

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

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

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

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

Report of the auditors

To the Members of Middle Sea Valletta Life Assurance Company Limited.

We have audited the financial statements on pages 5 to 41. As described in the statement of directors' responsibilities on page 3, these financial statements are the responsibility of the Company's directors. Our responsibility is to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

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

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit, the changes in equity and the cash flows for the year then ended in accordance with International Accounting Standards and have been properly prepared in accordance with the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

3 April 2002

Consolidated profit and loss account
Technical account – long term business

		Group and Company	
		2001	2000
	Notes	**Lm**	Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	**22,118,579**	20,211,562
Outward reinsurance premiums		**(616,434)**	(530,245)
		21,502,145	19,681,317
Investment income	2	**3,351,270**	2,904,318
Share of participating interest's profit before tax	2	**38,425**	29,669
Other technical income, net of reinsurance		**2,721**	2,470
Total technical income		**24,894,561**	22,617,774
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**1,517,064**	1,152,267
- reinsurers' share		**(75,205)**	(98,471)
		1,441,859	1,053,796
Change in the provision for claims			
- gross amount		**(3,871)**	5,295
- reinsurers' share		**1,856**	7,675
		(2,015)	12,970
		1,439,844	1,066,766
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		**11,604,850**	13,149,671
- reinsurers' share		**(5,614)**	1,082
		11,599,236	13,150,753
Technical provision for linked liabilities		**695,908**	2,182,478
		12,295,144	15,333,231
Bonuses and rebates, net of reinsurance	3	**3,333,000**	2,931,000
Net operating expenses	4	**2,476,397**	2,197,104
Investment expenses and charges	2	**193,449**	194,106
Unrealised losses on investments	2	**3,400,129**	795,482
Total technical charges		**23,137,963**	22,517,689
Tax charge attributable to the long term business	7	**(1,458,030)**	(57,101)
Balance on the long term business technical account (page 6)		**298,568**	42,984

Consolidated profit and loss account
Non-technical account

	Notes	Group 2001 Lm	Group 2000 Lm	Company 2001 Lm	Company 2000 Lm
Balance on the long term business technical account (page 5)		**298,568**	42,984	**298,568**	42,984
Investment income	2	**109,486**	248,175	**69,388**	212,871
Unrealised gains on investments	2	**15,691**	-	**15,691**	-
Share of group undertaking's (loss)/profit before tax	2	**-**	-	**(41,278)**	195,103
Share of participating interest's profit before tax	2	**796**	1,547	**796**	1,547
Investment expenses and charges	2	**(5,036)**	(10,117)	**(5,036)**	(10,117)
Other income		**108,671**	285,659	**-**	-
Other charges		**(232,678)**	(164,974)	**(42,631)**	(39,114)
Profit on ordinary activities before tax	5	**295,498**	403,274	**295,498**	403,274
Tax on profit on ordinary activities	7	**4,755**	(94,109)	**4,755**	(94,109)
Profit for the financial year		**300,253**	309,165	**300,253**	309,165
Earnings per share	9	**5c6**	6c	**5c6**	6c

Statement of total recognised gains and losses

		2001 Lm	2000 Lm	2001 Lm	2000 Lm
Net fair value losses in revaluation reserve, net of deferred taxation	21	**(202,852)**	(464,477)	**(202,852)**	(464,477)
Increment in value of in-force business	17	**630,000**	1,820,000	**630,000**	1,820,000
Profit for the financial year		**300,253**	309,165	**300,253**	309,165
Total recognised gains		**727,401**	1,664,688	**727,401**	1,664,688
Cumulative effect of adopting IAS 39 on 1 January 2001 on shareholders' funds	21	**(85,556)**	-	**(85,556)**	-

Consolidated balance sheet

	Notes	Group 2001 Lm	Group 2000 Lm	Company 2001 Lm	Company 2000 Lm
ASSETS					
Investments					
Land and buildings – investment property	11	**10,823,770**	3,439,556	**10,823,770**	3,439,556
Investment in group undertaking	12	**-**	-	**200,632**	265,587
Investment in participating interest	13	**366,193**	357,769	**366,193**	357,769
Other financial investments					
- deposits with banks or credit institutions	14	**4,836,801**	9,531,499	**4,836,801**	9,531,499
- other originated loans and receivables	15	**31,113,860**	24,110,520	**30,696,262**	23,724,192
- available-for-sale	16	**32,977,886**	27,451,251	**32,895,551**	27,315,985
		80,118,510	64,890,595	**79,819,209**	64,634,588
Value of in-force business	17	**9,500,000**	8,870,000	**9,500,000**	8,870,000
Assets held to cover linked liabilities	18	**3,228,633**	2,404,042	**3,228,633**	2,404,042
Reinsurers' share of technical provisions					
Long term business provision	23	**40,637**	35,023	**40,637**	35,023
Claims outstanding		**55,604**	57,460	**55,604**	57,460
		96,241	92,483	**96,241**	92,483
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		**2,003**	74,989	**2,003**	74,989
- intermediaries		**235,622**	284,020	**235,622**	284,020
Debtors arising out of reinsurance operations		**16,000**	48,960	**16,000**	48,960
Amounts owed by group undertakings		**877,393**	708,095	**1,256,701**	1,072,791
Taxation recoverable		**219,711**	236,034	**205,315**	236,034
		1,350,729	1,352,098	**1,715,641**	1,716,794
Other assets					
Tangible assets	19	**492,614**	518,877	**477,023**	517,232
Deferred taxation	24	**33,855**	1,109,059	**31,809**	1,109,059
Cash at bank and in hand		**1,503,547**	1,638,183	**1,450,250**	1,539,764
Clients' bank accounts		**13,579**	3,097	**-**	-
		2,043,595	3,269,216	**1,959,082**	3,166,055
Prepayments and accrued income					
Accrued interest and rent		**1,898,627**	1,457,535	**1,881,258**	1,440,614
Other prepayments and accrued income		**196,644**	150,480	**168,712**	96,227
		2,095,271	1,608,015	**2,049,970**	1,536,841
Total assets		**98,432,979**	82,486,449	**98,368,776**	82,420,803

Consolidated balance sheet

	Notes	Group 2001 Lm	Group 2000 Lm	Company 2001 Lm	Company 2000 Lm
LIABILITIES					
Capital and reserves					
Called up share capital	20	**6,300,000**	5,300,000	**6,300,000**	5,300,000
Revaluation reserve	21	**(1,160)**	298,901	**(1,160)**	298,901
Other reserves	22	**6,850,000**	6,220,000	**6,850,000**	6,220,000
Profit and loss account		**2,765,054**	2,453,148	**2,765,054**	2,453,148
Total shareholders' funds		**15,913,894**	14,272,049	**15,913,894**	14,272,049
Technical provisions					
Long term business provision	23	**77,772,204**	64,145,023	**77,772,204**	64,145,023
Claims outstanding		**245,154**	249,025	**245,154**	249,025
		78,017,358	64,394,048	**78,017,358**	64,394,048
Technical provisions for linked liabilities		**3,110,908**	2,415,000	**3,110,908**	2,415,000
Provisions for other risks and charges					
Deferred taxation	24	**44,751**	-	**63,988**	-
Deposits received from reinsurers		**15,905**	15,252	**15,905**	15,252
Creditors					
Creditors arising out of direct insurance operations		**568,524**	525,528	**568,524**	525,528
Creditors arising out of reinsurance operations		**97,523**	85,865	**97,523**	85,865
Amounts owed to group undertakings		**67,408**	9,070	**-**	-
Amounts owed to shareholders		**-**	245,000	**-**	245,000
Current taxation		**257,187**	48,861	**257,187**	-
Other creditors		**10,062**	4,557	**-**	-
		1,000,704	918,881	**923,234**	856,393
Accruals and deferred income		**329,459**	471,219	**323,489**	468,061
Total liabilities		**98,432,979**	82,486,449	**98,368,776**	82,420,803

The financial statements on pages 5 to 41 were authorised for issue by the Board on 3 April 2002 and were signed on its behalf by:

J.F.X. Zahra
Chairman

M.C. Grech
Deputy Chairman and C.E.O.

Statement of changes in equity

Group	Notes	**Share capital Lm**	**Revaluation reserve Lm**	**Other reserves Lm**	**Profit and loss account Lm**	**Total Lm**
Balance at 1 January 2000		4,650,000	763,378	4,400,000	3,093,983	12,907,361
Net fair value losses, net of deferred taxation	21	-	(391,217)	-	-	(391,217)
Transfer to net profit on realisation of investments, net of deferred taxation	21	-	(73,260)	-	-	(73,260)
Increment in value of in-force business	22	-	-	1,820,000	-	1,820,000
Net (losses)/gains not recognised in profit and loss account		-	(464,477)	1,820,000	-	1,355,523
Issue of share capital	20	650,000	-	-	-	650,000
Dividends for 1999	10	-	-	-	(450,000)	(450,000)
Dividends for 2000	10	-	-	-	(500,000)	(500,000)
Profit for the financial year		-	-	-	309,165	309,165
Balance at 31 December 2000		**5,300,000**	**298,901**	**6,220,000**	**2,453,148**	**14,272,049**
Balance at 1 January 2001:						
- as previously reported		5,300,000	298,901	6,220,000	2,453,148	14,272,049
- effect of adopting IAS 40	21	-	(11,653)	-	11,653	-
- effect of adopting IAS 39	21	-	(85,556)	-	-	(85,556)
- as restated		5,300,000	201,692	6,220,000	2,464,801	14,186,493
Available-for-sale investments						
- net fair value losses, net of deferred taxation	21	-	(186,951)	-	-	(186,951)
- transfer to net profit on realisation, net of deferred taxation	21	-	(15,901)	-	-	(15,901)
Increment in value of in-force business	22	-	-	630,000	-	630,000
Net (losses)/gains not recognised in profit and loss account		-	(202,852)	630,000	-	427,148
Issue of share capital	20	1,000,000	-	-	-	1,000,000
Profit for the financial year		-	-	-	300,253	300,253
Balance at 31 December 2001		**6,300,000**	**(1,160)**	**6,850,000**	**2,765,054**	**15,913,894**

Statement of changes in equity

Company	Notes	Share capital Lm	Revaluation reserve Lm	Other reserves Lm	Profit and loss account Lm	Total Lm
Balance at 1 January 2000		4,650,000	763,378	4,400,000	3,093,983	12,907,361
Net fair value losses, net of deferred taxation	21	-	(383,477)	-	-	(383,477)
Transfer to net profit on realisation of investments, net of deferred taxation	21	-	(56,645)	-	-	(56,645)
Share of group undertaking's reserves	21	-	(24,355)	-	-	(24,355)
Increment in value of in-force business	22	-	-	1,820,000	-	1,820,000
Net (losses)/gains not recognised in profit and loss account		-	(464,477)	1,820,000	-	1,355,523
Issue of share capital	20	650,000	-	-	-	650,000
Dividends for 1999	10	-	-	-	(450,000)	(450,000)
Dividends for 2000	10	-	-	-	(500,000)	(500,000)
Profit for the financial year		-	-	-	309,165	309,165
Balance at 31 December 2000		**5,300,000**	**298,901**	**6,220,000**	**2,453,148**	**14,272,049**
Balance at 1 January 2001:						
- as previously reported		5,300,000	298,901	6,220,000	2,453,148	14,272,049
- effect of adopting IAS 40	21	-	(11,653)	-	11,653	-
- effect of adopting IAS 39	21	-	(85,556)	-	-	(85,556)
- as restated		5,300,000	201,692	6,220,000	2,464,801	14,186,493
Available-for-sale investments						
- net fair value losses, net of deferred taxation	21	-	(177,966)	-	-	(177,966)
- transfer to net profit on realisation, net of deferred taxation	21	-	788	-	-	788
Share of group undertaking's reserves	21	-	(25,674)	-	-	(25,674)
Increment in value of in-force business	22	-	-	630,000	-	630,000
Net (losses)/gains not recognised in profit and loss account		-	(202,852)	630,000	-	427,148
Issue of share capital	20	1,000,000	-	-	-	1,000,000
Profit for the financial year		-	-	-	300,253	300,253
Balance at 31 December 2001		**6,300,000**	**(1,160)**	**6,850,000**	**2,765,054**	**15,913,894**

Cash flow statement

	Notes	Group		Company	
		2001	2000	**2001**	2000
		Lm	Lm	**Lm**	Lm
Operating activities					
Cash generated from operations	25	**20,652,787**	20,177,319	**20,654,366**	20,452,312
Taxation		**(11,799)**	(5,476)	**(11,799)**	9,134
Net cash from operating activities		**20,640,988**	20,171,843	**20,642,567**	20,461,446
Investing activities					
Purchase of investment property	11	**(6,610,682)**	(668,164)	**(6,610,682)**	(668,164)
Repayment of loan to participating interest	13	**19,750**	-	**19,750**	-
Purchase of other financial investments	14,15,16	**(26,419,235)**	(27,786,540)	**(26,293,121)**	(27,591,441)
Disposal of other financial investments	14,15,16	**14,346,338**	18,654,447	**14,238,343**	18,588,385
Purchase of assets to cover linked liabilities	18	**(1,297,149)**	(2,428,294)	**(1,297,149)**	(2,428,294)
Purchase of tangible fixed assets	19	**(119,949)**	(167,013)	**(105,007)**	(165,469)
Net cash used in investing activities		**(20,080,927)**	(12,395,564)	**(20,047,866)**	(12,264,983)
Financing activities					
Issue of share capital	20	**1,000,000**	-	**1,000,000**	-
Bank loan		**-**	(3,000,000)	**-**	(3,000,000)
Dividends paid	10	**(500,000)**	(450,000)	**(500,000)**	(450,000)
Net cash from/(used in) financing activities		**500,000**	(3,450,000)	**500,000**	(3,450,000)
Movement in cash and cash equivalents		**1,060,061**	4,362,279	**1,094,701**	4,746,463
Cash and cash equivalents at beginning of year		**10,169,761**	5,843,482	**10,068,245**	5,321,782
Cash and cash equivalents at end of year	26	**11,229,822**	10,169,761	**11,162,946**	10,068,245

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1. Basis of preparation

These financial statements are prepared in accordance with International Accounting Standards, the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

The financial statements are prepared under the historical cost convention, as modified to include the fair valuation of investment property, available-for-sale investments, and the value of in-force business.

In 2001, the Group adopted IAS 40 – Investment Property and IAS 39 – Financial Instruments: Recognition and Measurement. The financial effect of adopting IAS 40 and IAS 39 is reported in the statement of changes in shareholders' equity and in the long term business provision. Further information is disclosed in the accounting policies for land and buildings and other financial investments, and in notes 12, 15, 21 and 23 to these financial statements.

2. Form and content of the financial statements

The Maltese Insurance Business Act, 1998 governs the form and content of the financial statements. The Company has followed regulations issued in terms of this Act in the preparation of these financial statements.

3. Consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interests.

A listing of the Group's principal subsidiaries is set out in note 12.

4. Investments in group undertakings and participating interests

Investments in group undertakings and participating interests are accounted for by the equity method of accounting. Investments in participating interests are interests over which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control.

Equity accounting involves recognising in the income statement the share of the group undertakings' and participating interests' profit or loss for the year. The interest in the group undertaking and the participating interest is carried in the balance sheet at an amount that reflects the share of the net assets of the group undertaking and the participating interest and includes goodwill on the acquisition.

A listing of the Group's principal participating interests is shown in note 13.

5. Premiums

Premiums, including reinsurance premiums, comprise the amounts receivable and payable for the financial year. Unit linked premiums are accounted for when units are created.

6. Claims

Maturity claims are charged against revenue when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long term business provision and/or the technical provision for linked liabilities. Death claims and all other claims are accounted for when notified.

Claims payable include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

7. Bonuses

Bonuses charged to the long term business technical account in a given year comprise:

(a) new reversionary bonuses declared in respect of that year, and in respect of which a constructive obligation is deemed to exist, which are provided within the calculation of the long term business provision;

(b) terminal bonuses paid out to policyholders on maturity and included within claims paid.

8. Investment return

Investment return comprises investment income including realised and unrealised investment gains and losses and the amortisation of differences between cost and maturity value of fixed income debt securities carried at amortised cost, net of investment expenses, charges and interest.

Dividends are recorded on the date when the shareholder's right to receive payment is established. Interest, rents and expenses are accounted for on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original purchase price or amortised value. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or if they have been previously valued, their valuation at the last balance sheet date.

The investment return is apportioned between the technical and non-technical profit and loss accounts on a basis which takes into account that technical provisions are fully backed by investments and that the value of in-force business, fixed assets and working capital are financed in their entirety from shareholders' funds.

9. Leases

Assets leased out under operating leases are included in investments in land and buildings. Rental income is recognised in the profit and loss account over the period of the lease to which it relates.

10. Foreign currencies

Transactions in foreign currencies have been converted into Maltese lira at the rates of exchange ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies have been translated into Maltese lira at the rates of exchange ruling at the balance sheet date. All resulting differences are taken to the profit and loss account.

11. Land and buildings - investment property

Freehold and leasehold properties treated as investments principally comprise office and other commercial buildings that are held for long-term rental yields and that are not occupied by the Group. Investment property is treated as a long term investment and is carried at fair value, representing open market value determined annually by external valuers. Maintenance expenses and repairs are recognised as an expense.

Under IAS 40 – Investment Property, which the Group adopted on 1 January 2001, changes in fair values are recorded in the profit and loss account. Previously, the Group had recorded such fair value changes, net of deferred income taxes, in the revaluation reserve in shareholders' equity except for unrealised gains or losses attributed to policyholders that were taken to the technical account. On the adoption of IAS 40, the difference between the original cost and fair value as at 1 January 2001, which was previously recognised as a revaluation reserve directly in equity, was credited to retained earnings (net of deferred taxation). On the subsequent disposal of investment property, this amount is kept in retained earnings and is not transferred to the profit and loss account. IAS 40 has been applied prospectively in line with the option provided by the transitional provisions of this Standard and, therefore, comparative financial information has not been restated. The financial effect of adopting IAS 40 is displayed in note 21.

12. Other financial investments

At 1 January 2001, the Group adopted IAS 39 – Financial Instruments: Recognition and Measurement and classified its investments into the following categories:

(a) Originated loans and receivables are financial assets created by the Group by providing money to debtors, other than those that are originated with the intent to be sold immediately or in the short term. They include, inter alia, securities acquired at original issuance, i.e. directly from the issuer.

(b) Available-for-sale investments include 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.

The directors determine the appropriate classification of investments at the time of purchase and re-evaluate such designation on a regular basis.

12. Other financial investments – continued

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. All investments are initially recorded at cost (which includes transaction costs). Available-for-sale investments are subsequently re-measured at fair value. Originated loans and receivables are carried at amortised cost using the effective yield method, less any provision for impairment. Deposits with banks or credit institutions are stated at face value. The fair value of quoted shares and securities and units in unit trusts classified as available for sale is based on quoted market prices at the balance sheet date. Unquoted equities are stated at a directors' valuation, in most cases by reference to the net asset backing of the investee. Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are initially recognised in equity in a fair value reserve, and to the extent that they are attributable to policyholders, are subsequently allocated to the technical profit and loss account. When the investments are disposed or impaired, the related accumulated fair value adjustments in the revaluation reserve are included in the profit and loss account as gains and losses from investment securities.

Prior to the adoption of IAS 39, the Group had recorded all its investments at fair value. On the adoption of IAS 39 at 1 January 2001, the cumulative fair value adjustments in respect of originated loans and receivables were eliminated from the revaluation reserve to the extent to which they related to shareholders' equity, and were adjusted against the long term provision to the extent that they had previously been credited to policyholders in the technical account. IAS 39 has been applied prospectively in accordance with the requirements of this Standard and, therefore, comparative financial information has not been restated. The financial effect of adopting IAS 39 is displayed in notes 15, 21 and 23.

13. Assets held to cover linked liabilities

These are investments held for the benefit of policyholders under unit linked life insurances and are accounted for at fair value. Unrealised gains and losses are matched by corresponding changes in the technical provision for linked liabilities in the technical account.

14. Value of in-force business

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

15. Long term business provision

The long term business provision is determined by the Company's approved actuary following his annual investigation of the financial condition of the Company's long term business as required under the Maltese Insurance Business Act, 1998. The provision is initially calculated in accordance with the relevant legislation governing the determination of liabilities for the purposes of statutory solvency. The calculation uses a prospective valuation method and makes explicit provision for vested reversionary bonuses. Provision is also made, implicitly or explicitly, for future reversionary bonuses. The valuation is then adjusted for certain items, including the removal of certain contingency and other reserves.

In addition, adjustment is made to the long term business provision so as to measure the liabilities on a basis consistent with the adoption of an amortised cost valuation basis for certain corresponding categories of assets.

16. Tangible assets

Tangible fixed assets comprising furniture, fittings and equipment and motor vehicles are initially stated at cost, and are subsequently shown at cost less depreciation. 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:

	%
Furniture, fittings and equipment	10 - 33.3
Motor vehicles	20

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.

17. Deferred taxation

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.

Deferred tax arising on the re-measurement of available-for-sale investments attributable to shareholders is charged or credited directly to equity, whereas deferred tax arising on the revaluation of investments attributable to policyholders is charged or credited to the technical profit and loss account. Deferred income tax related to fair value re-measurement of investment property is allocated between the technical and non-technical account in a similar manner.

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

18. Debtors

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.

19. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, clients' bank accounts, deposits held at call with banks and time deposits or treasury bills maturing within three months.

20. Share capital

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

21. Borrowing costs

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

Notes to the financial statements

1. Segmental analysis

In the opinion of the directors, the Group primarily operates in a single business segment being that of long term insurance business.

(i) Gross premiums written

Gross premium income is made up of:

	Group and Company	
	2001	2000
	Lm	Lm
Direct insurance	**21,909,091**	19,959,046
Reinsurance inwards	**209,488**	252,516
Gross premiums written	**22,118,579**	20,211,562

Direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Non-participating	**873,374**	804,342	-	-
Participating	**10,650,789**	9,615,346	**8,939,114**	7,074,961
Linked	**1,128,244**	1,106,284	**317,570**	1,358,113
	12,652,407	11,525,972	**9,256,684**	8,433,074

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

(ii) Reinsurance balance

The reinsurance balance, which represents the aggregate of all items relating to reinsurance outwards, amounted to a charge of Lm245,626 to the long term business technical account for the year ended 31 December 2001 (2000: a charge of Lm153,118).

2. Investment return

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Investment income				
Share of group undertaking's (loss)/profit before tax	**-**	-	**(41,278)**	195,103
Share of participating interest's profit before tax	**39,221**	31,216	**39,221**	31,216
Income from land and buildings – investment property	**424,751**	137,498	**424,751**	137,498
Interest receivable from other investments	**2,635,552**	2,073,708	**2,601,665**	2,048,894
Other income from other investments	**394,242**	332,256	**394,242**	335,219
Gains on the realisation of investments	**6,211**	609,031	**-**	595,578
	3,499,977	3,183,709	**3,418,601**	3,343,508
Unrealised losses on investments				
Fair value gains – investment property	**773,532**	544,122	**773,532**	544,122
Fair value losses – financial investments	**(4,367,733)**	(1,750,905)	**(4,356,702)**	(1,743,165)
	(3,594,201)	(1,206,783)	**(3,583,170)**	(1,199,043)
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**25,110**	11,694	**25,110**	11,694
Other investment management expenses	**105,577**	102,753	**105,577**	102,753
Losses on the realisation of investments	**67,052**	-	**67,052**	-
Interest payable	**746**	89,776	**746**	89,776
	(198,485)	(204,223)	**(198,485)**	(204,223)
Total investment return	**(292,709)**	1,772,703	**(363,054)**	1,940,242
Apportioned as follows:				
Technical profit and loss account	**(203,883)**	1,944,399	**(203,883)**	1,944,399
Non-technical profit and loss account	**120,937**	239,605	**39,561**	399,404
Revaluation reserve	**(209,763)**	(411,301)	**(198,732)**	(403,561)
	(292,709)	1,772,703	**(363,054)**	1,940,242

3. Bonuses and rebates, net of reinsurance

The following amounts have been included in the long term business technical account in respect of policyholder bonuses:

	Group and Company	
	2001	2000
	Lm	Lm
Reversionary bonuses declared in the year, included in the long term business provision	**3,333,000**	2,931,000

4. Net operating expenses

	Group and Company	
	2001	2000
	Lm	Lm
Acquisition costs	**1,971,621**	1,798,515
Administrative expenses	**796,621**	686,002
Reinsurance commissions and profit participation	**(291,845)**	(287,413)
	2,476,397	2,197,104

Total commissions for direct business accounted for in the financial year amounted to Lm1,181,775 (2000: Lm1,275,874).

5. Profit on ordinary activities before tax

The profit on ordinary activities before tax is stated after charging/(crediting):

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Staff costs (note 6)	**375,750**	325,319	**329,547**	312,598
Auditors' remuneration	**9,000**	9,000	**7,500**	7,500
Actuarial fees	**89,586**	65,467	**89,586**	65,467
Depreciation (note 19)	**146,212**	85,407	**145,216**	85,226
Professional indemnity insurance	**21,671**	12,984	**11,229**	6,980
Exchange differences	**20,056**	(6,477)	**24,409**	(6,558)

6. Staff costs

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Salaries	**352,932**	305,006	**310,291**	293,014
Social security costs	**22,818**	20,313	**19,256**	19,584
	375,750	325,319	**329,547**	312,598

Average number of persons employed by the Group and Company during the year:

	Group		Company	
	2001	2000	**2001**	2000
Average number of employees	**44**	41	**39**	40

The above employee information for the Company also includes the cost of employees that are recharged to its subsidiary by way of a management charge.

7. Taxation

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Group relief	**-**	91,854	-	91,854
Deferred taxation charge	**(1,119,955)**	(259,662)	**(1,141,238)**	(259,662)
Current taxation (charge)/credit	**(299,705)**	50,274	**(299,705)**	113,745
Share of group undertaking's taxation	**-**	-	**19,237**	(63,471)
Share of participating interest's taxation	**(11,047)**	(8,745)	**(11,047)**	(8,745)
	(1,430,707)	(126,279)	**(1,432,753)**	(126,279)
Apportioned as follows:				
Technical profit and loss account	**(1,458,030)**	(57,101)	**(1,458,030)**	(57,101)
Non-technical profit and loss account	**4,755**	(94,109)	**4,755**	(94,109)
Revaluation reserve	**22,568**	24,931	**20,522**	24,931
	(1,430,707)	(126,279)	**(1,432,753)**	(126,279)

7. Taxation - continued

Tax on profit for the year ended 31 December 2001 differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group and Company	
	2001	2000
	Lm	Lm
Profit before tax	**1,753,528**	460,375
Tax on ordinary profit at 35%	**613,735**	161,131
Tax effect of:		
Disallowed losses	**837,337**	84,686
Other differences, including adjustment to temporary differences on fixed assets	**2,203**	(94,607)
Net tax charged to the profit and loss account	**1,453,275**	151,210

8. Directors' emoluments

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Remuneration	**54,833**	15,960	**54,833**	15,960
Fees	**22,500**	17,050	**18,500**	16,192
	77,333	33,010	**73,333**	32,152

9. Earnings per share

Earnings per share is based on the profit attributable to the shareholders of Middle Sea Valletta Life Assurance Company Limited divided by the weighted average number of shares in issue during the year.

	Group		Company	
	2001	2000	**2001**	2000
Net profit attributable to shareholders	**Lm 300,253**	Lm 309,165	**Lm 300,253**	Lm 309,165
Weighted average number of ordinary shares in issue	**5,365,753**	5,117,077	**5,365,753**	5,117,077
Earnings per share	**5c6**	6c	**5c6**	6c

10. Dividends

At the forthcoming Annual General Meeting, no dividend is to be proposed in respect of the financial year ended 31 December 2001. An interim dividend of Lm500,000 was declared in 2000 (9c4 per share). The dividend declared after the financial year end in respect of 1999 was Lm450,000 (9c7 per share).

11. Land and buildings - investment property

	Group and Company Investment property Lm
Year ended 31 December 2001	
Opening net book amount	3,439,556
Additions	6,610,682
Gains from changes in fair value	773,532
Closing net book amount	**10,823,770**
At 31 December 2001	
Cost	9,166,447
Fair value gains	1,657,323
Net book amount	10,823,770
Year ended 31 December 2000	
Opening net book amount	2,227,270
Additions	668,164
Gains from changes in fair value	544,122
Closing net book amount	3,439,556
At 31 December 2000	
Cost	2,555,765
Fair value gains	883,791
Net book amount	3,439,556

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

12. Investment in group undertaking

The Group has adopted IAS 39 with effect from 1 January 2001. The effect of the change in accounting policy on the investment in the group undertaking is shown below. In accordance with the transitional provisions of IAS 39, the comparative financial information for the year ended 31 December 2000 has not been restated.

	Company Lm
Year ended 31 December 2001	
Opening net book amount:	
- as previously reported	265,587
- effect of adopting IAS 39	(17,240)
- as restated	248,347
Share of group undertaking's profits and reserves	(47,715)
Closing net book amount	**200,632**
At 31 December 2001	
Cost	199,999
Share of group undertaking's profits and reserves	633
Net book amount	200,632
Year ended 31 December 2000	
Opening net book amount	353,310
Share of group undertaking's profits and reserves	(87,723)
Closing net book amount	265,587
At 31 December 2000	
Cost	199,999
Share of group undertaking's profits and reserves	65,588
Net book amount	265,587

The group undertaking at 31 December 2001 is shown below:

Group undertaking	**Registered office**	**Class of shares held**	**Percentage of shares held 2001 & 2000**
Growth Investments Limited	Middle Sea House Floriana, VLT 16	Ordinary shares	100%

13. Investment in participating interest

	Group and Company		
	Participating interest Lm	Loan to participating interest Lm	Total Lm
Year ended 31 December 2001			
Opening net book amount	2,971	354,798	357,769
Repayment of loan	-	(19,750)	(19,750)
Share of participating interest's profits	28,174	-	28,174
Closing net book amount	**31,145**	**335,048**	**366,193**
At 31 December 2001			
Cost	250	335,048	335,298
Share of participating interest's profits	30,895	-	30,895
Net book amount	31,145	335,048	366,193
Year ended 31 December 2000			
Opening net book amount	250	-	250
Additions	-	354,798	354,798
Share of participating interest's profits	2,721	-	2,721
Closing net book amount	2,971	354,798	357,769
At 31 December 2000			
Cost	250	354,798	355,048
Share of participating interest's profits	2,721	-	2,721
Net book amount	2,971	354,798	357,769

The participating interest at 31 December 2001 is shown below:

Participating interest	**Registered office**	**Class of shares held**	**Percentage of shares held 2001 & 2000**
Church Wharf Properties Limited	Middle Sea House Floriana, VLT 16	Ordinary shares	50%

14. Other financial investments – deposits with banks or credit institutions

	Group and Company	
	2001	2000
	Lm	Lm
Deposits with banks or credit institutions	**4,836,801**	9,531,499

Maturity of deposits with banks or credit institutions:

	Group and Company	
	2001	2000
	Lm	Lm
Within 3 months	**3,333,364**	3,028,481
Within 1 year but exceeding 3 months	**-**	3,000,000
Between 1 and 2 years	**15,093**	2,485,180
Between 2 and 5 years	**1,488,344**	1,017,838
	4,836,801	9,531,499

The above deposits earn interest as follows:

	Group and Company	
	2001	2000
	Lm	Lm
At floating rates	**1,324,045**	2,137,275
At fixed rates	**3,512,756**	7,394,224
	4,836,801	9,531,499
Weighted average effective interest rate	**4.6%**	5.3%

15. Other financial investments – originated loans and receivables

Group

	Quoted debt securities and other fixed income securities Lm	Unquoted debt securities Lm	Treasury bills Lm	Long term reinsurance loan Lm	Other loans Lm	Total Lm
Year ended 31 December 2001 at amortised cost						
Opening net book amount						
- as previously reported	15,165,104	605,000	5,500,000	2,109,198	731,218	24,110,520
- effect of adopting IAS 39	(1,393,158)	(3,067)	-	-	-	(1,396,225)
- as restated	13,771,946	601,933	5,500,000	2,109,198	731,218	22,714,295
Additions	7,289,318	-	13,249,332	20,979	289,344	20,848,973
Disposals	(74,537)	-	(12,370,000)	-	-	(12,444,537)
Amortisation	(5,893)	1,022	-	-	-	(4,871)
Closing net book amount	**20,980,834**	**602,955**	**6,379,332**	**2,130,177**	**1,020,562**	**31,113,860**
Year ended 31 December 2000 at fair value						
Opening net book amount	16,498,881	100,000	-	2,059,016	467,750	19,125,647
Additions	2,217,181	501,933	10,418,000	50,182	263,468	13,450,764
Disposals	(2,721,438)	-	(4,918,000)	-	-	(7,639,438)
(Losses)/gains from changes in fair value	(380,196)	3,067	-	-	-	(377,129)
Amount released on realisation of investments	(449,324)	-	-	-	-	(449,324)
Closing net book amount	15,165,104	605,000	5,500,000	2,109,198	731,218	24,110,520
At 31 December 2000 at fair value						
Cost	13,771,946	601,933	5,500,000	2,109,198	731,218	22,714,295
Fair value gains	1,393,158	3,067	-	-	-	1,396,225
Net book amount	15,165,104	605,000	5,500,000	2,109,198	731,218	24,110,520

15. Other financial investments – originated loans and receivables – continued

Company

	Quoted debt securities and other fixed income securities Lm	Unquoted debt securities Lm	Treasury bills Lm	Long term reinsurance loan Lm	Other loans Lm	Total Lm
Year ended 31 December 2001 at amortised cost						
Opening net book amount						
- as previously reported	14,778,776	605,000	5,500,000	2,109,198	731,218	23,724,192
- effect of adopting IAS 39	(1,375,918)	(3,067)	-	-	-	(1,378,985)
- as restated	13,402,858	601,933	5,500,000	2,109,198	731,218	22,345,207
Additions	7,184,318	-	13,249,332	20,979	289,344	20,743,973
Disposals	(18,047)	-	(12,370,000)	-	-	(12,388,047)
Amortisation	(5,893)	1,022	-	-	-	(4,871)
Closing net book amount	**20,563,236**	**602,955**	**6,379,332**	**2,130,177**	**1,020,562**	**30,696,262**
Year ended 31 December 2000 at fair value						
Opening net book amount	16,256,021	100,000	-	2,059,016	467,750	18,882,787
Additions	2,068,093	501,933	10,418,000	50,182	263,468	13,301,676
Disposals	(2,721,438)	-	(4,918,000)	-	-	(7,639,438)
(Losses)/gains from changes in fair value	(374,576)	3,067	-	-	-	(371,509)
Amount released on realisation of investments	(449,324)	-	-	-	-	(449,324)
Closing net book amount	14,778,776	605,000	5,500,000	2,109,198	731,218	23,724,192
At 31 December 2000 at fair value						
Cost	13,402,858	601,933	5,500,000	2,109,198	731,218	22,345,207
Fair value gains	1,375,918	3,067	-	-	-	1,378,985
Net book amount	14,778,776	605,000	5,500,000	2,109,198	731,218	23,724,192

15. Other financial investments – originated loans and receivables - continued

The Group has changed the accounting policy for securities classified as originated loans and receivables in accordance with IAS 39 as from 1 January 2001. IAS 39 requires originated loans and receivables to be measured at amortised cost. Previously, the Group had accounted for all its securities at fair value. The effect of the change in accounting policy for these investments on the carrying amount at 1 January 2001 is shown above. In accordance with the transitional provisions of IAS 39, the comparative financial information for the year ended 31 December 2000 was not restated.

The long term reinsurance loan bears interest at 8% per annum and is not subject to fixed terms of repayment.

Loans secured on policies, included in other loans, amounted to Lm1,020,562 as at 31 December 2001 (2000: Lm731,218).

The above financial assets for the Group and Company include pledged investments amounting to Lm1,128,000 (2000: nil).

Maturity of fixed income debt securities and treasury bills:

	Group	
	2001	2000
	Lm	Lm
Within one year	**6,379,332**	5,500,000
Between 1 and 2 years	**65,400**	-
Between 2 years and 5 years	**977,555**	65,596
Over 5 years	**20,540,834**	15,704,508
	27,963,121	21,270,104
Weighted average effective interest rate	**6.3%**	5.7%

	Company	
	2001	2000
	Lm	Lm
Within one year	**6,379,332**	5,500,000
Between 1 and 2 years	**65,400**	-
Between 2 years and 5 years	**977,555**	65,596
Over 5 years	**20,123,236**	15,318,180
	27,545,523	20,883,776
Weighted average effective interest rate	**6.3%**	5.7%

16. Other financial investments – available-for-sale

Group	Quoted shares, other variable yield securities and units in unit trusts Lm	Unquoted shares and securities Lm	Quoted debt securities and other fixed income securities Lm	Total Lm
Year ended 31 December 2001				
Opening net book amount	20,540,797	775,680	6,134,774	27,451,251
Additions	3,520,550	192,248	8,236,796	11,949,594
Disposals	(1,202,725)	(22,092)	(1,289,063)	(2,513,880)
Amortisation	(48,034)	-	-	(48,034)
(Losses)/gains from changes in fair value	(3,987,001)	(39,056)	130,882	(3,895,175)
Amount released on realisation of investments	53,455	-	(19,325)	34,130
Closing net book amount	**18,877,042**	**906,780**	**13,194,064**	**32,977,886**
At 31 December 2001				
Cost	19,822,470	785,851	12,986,005	33,594,326
Fair value (losses)/gains	(945,428)	120,929	208,059	(616,440)
Net book amount	18,877,042	906,780	13,194,064	32,977,886
Year ended 31 December 2000				
Opening net book amount	17,071,306	627,252	5,265,043	22,963,601
Additions	13,357,087	106,459	1,458,158	14,921,704
Disposals	(7,906,583)	-	(594,547)	(8,501,130)
(Losses)/gains from changes in fair value	(1,241,430)	41,969	75,051	(1,124,410)
Amount released on realisation of investments	(739,583)	-	(68,931)	(808,514)
Closing net book amount	20,540,797	775,680	6,134,774	27,451,251
At 31 December 2000				
Cost	17,552,679	615,695	6,038,272	24,206,646
Fair value gains	2,988,118	159,985	96,502	3,244,605
Net book amount	20,540,797	775,680	6,134,774	27,451,251

16. Other financial investments – available-for-sale - continued

Company	Quoted shares, other variable yield securities and units in unit trusts Lm	Unquoted shares and securities Lm	Quoted debt securities and other fixed income securities Lm	Total Lm
Year ended 31 December 2001				
Opening net book amount	20,405,531	775,680	6,134,774	27,315,985
Additions	3,509,197	192,248	8,227,035	11,928,480
Disposals	(1,156,400)	(22,092)	(1,289,063)	(2,467,555)
Amortisation	(48,034)	-	-	(48,034)
(Losses)/gains from changes in fair value	(3,975,731)	(39,056)	130,643	(3,884,144)
Amount released on realisation of investments	70,144	-	(19,325)	50,819
Closing net book amount	**18,804,707**	**906,780**	**13,184,064**	**32,895,551**
At 31 December 2001				
Cost	19,750,734	785,851	12,976,244	33,512,829
Fair value (losses)/gains	(946,027)	120,929	207,820	(617,278)
Net book amount	18,804,707	906,780	13,184,064	32,895,551
Year ended 31 December 2000				
Opening net book amount	16,910,707	627,252	5,265,043	22,803,002
Additions	13,311,076	106,459	1,458,158	14,875,693
Disposals	(7,853,974)	-	(594,547)	(8,448,521)
(Losses)/gains from changes in fair value	(1,239,310)	41,969	75,051	(1,122,290)
Amount released on realisation of investments	(722,968)	-	(68,931)	(791,899)
Closing net book amount	20,405,531	775,680	6,134,774	27,315,985
At 31 December 2000				
Cost	17,445,971	615,695	6,038,272	24,099,938
Fair value gains	2,959,560	159,985	96,502	3,216,047
Net book amount	20,405,531	775,680	6,134,774	27,315,985

Maturity of fixed income debt securities:

	Group		**Company**	
	2001 Lm	2000 Lm	**2001 Lm**	2000 Lm
Within one year	**206,682**	101,668	**206,682**	101,668
Between 1 and 2 years	**1,046,886**	209,126	**1,046,886**	209,126
Between 2 and 5 years	**1,566,661**	1,176,067	**1,566,661**	1,176,067
Over 5 years	**10,373,835**	4,647,913	**10,363,835**	4,647,913
	13,194,064	6,134,774	**13,184,064**	6,134,774
Weighted average effective interest rate	**6.0%**	6.2%	**6.0%**	6.2%

17. Value of in-force business

	Group and Company	
	2001	2000
	Lm	Lm
Net book amount at 1 January	**8,870,000**	7,050,000
Increment in value of in-force business, credited to reserves (note 22)	**630,000**	1,820,000
Net book amount at 31 December	**9,500,000**	8,870,000

18. Assets held to cover linked liabilities

	Group and Company
	Lm
Year ended 31 December 2001	
Opening net book amount	2,404,042
Additions	1,297,149
Losses from changes in fair value	(472,558)
Closing net book amount	**3,228,633**
At 31 December 2001	
Cost	3,950,557
Fair value losses	(721,924)
Net book amount	3,228,633
Year ended 31 December 2000	
Opening net book amount	225,114
Additions	2,428,294
Losses from changes in fair value	(249,366)
Closing net book amount	2,404,042
At 31 December 2000	
Cost	2,653,408
Fair value losses	(249,366)
Net book amount	2,404,042

19. Tangible assets

Group	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2001			
Opening net book amount	513,731	5,146	518,877
Additions	119,949	-	119,949
Depreciation charge	(143,117)	(3,095)	(146,212)
Closing net book amount	**490,563**	**2,051**	**492,614**
At 31 December 2001			
Cost	880,098	32,775	912,873
Accumulated depreciation	(389,535)	(30,724)	(420,259)
Net book amount	490,563	2,051	492,614
At 31 December 2000			
Cost	760,149	32,775	792,924
Accumulated depreciation	(246,418)	(27,629)	(274,047)
Net book amount	513,731	5,146	518,877

Company	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2001			
Opening net book amount	512,086	5,146	517,232
Additions	105,007	-	105,007
Depreciation charge	(142,121)	(3,095)	(145,216)
Closing net book amount	**474,972**	**2,051**	**477,023**
At 31 December 2001			
Cost	863,192	32,775	895,967
Accumulated depreciation	(388,220)	(30,724)	(418,944)
Net book amount	474,972	2,051	477,023
At 31 December 2000			
Cost	758,185	32,775	790,960
Accumulated depreciation	(246,099)	(27,629)	(273,728)
Net book amount	512,086	5,146	517,232

20. Share capital

	Group and Company	
	2001	2000
	Lm	Lm
Authorised		
10,000,000 ordinary shares of Lm1 each	**10,000,000**	10,000,000
Issued and fully paid		
6,300,000 (2000: 5,300,000 ordinary shares of Lm1 each)	**6,300,000**	5,300,000

By virtue of a resolution dated 7 December 2001, the Company's shareholders approved an allotment of 1,000,000 ordinary shares of Lm1 each for a cash consideration of Lm1 per share.

On 12 April 2000 the shareholders had resolved that an interim dividend of Lm650,000 would be applied to an equivalent increase in the Company's issued share capital. For this purpose they authorised the Board to issue 650,000 new shares with a nominal value of Lm1 each to be allotted pro-rata to existing shareholders and to be paid up from the interim dividend due to them.

21. Revaluation reserve

On the adoption of IAS 40 as at 1 January 2001, fair value changes on investment property, net of deferred income taxes, were credited to retained earnings. In addition, securities classified as originated loans and receivables have been re-measured at amortised cost upon the adoption of IAS 39 as at the beginning of the financial year.

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Balance at 1 January before taxation:				
- as previously reported	**317,220**	806,628	**317,220**	806,628
- effect of adopting IAS 40	**(17,928)**	-	**(17,928)**	-
- effect of adopting IAS 39	**(85,556)**	-	**(85,556)**	-
- as restated	**213,736**	806,628	**213,736**	806,628
Net losses from changes in fair value	**(4,367,733)**	(1,206,783)	**(4,356,702)**	(1,199,043)
Amount released on realisation of investments	**34,130**	(1,257,838)	**50,819**	(1,241,223)
Share of group undertaking's reserves	**-**	-	**(25,674)**	(24,355)
Apportionment to technical profit and loss account	**4,108,183**	1,975,213	**4,108,183**	1,975,213
Balance at 31 December before taxation	**(11,684)**	317,220	**(9,638)**	317,220
Deferred taxation	**10,524**	(18,319)	**8,478**	(18,319)
Balance at 31 December	**(1,160)**	298,901	**(1,160)**	298,901

The revaluation reserve is non-distributable.

22. Other reserves

	Group and Company	
	2001	2000
Value of in-force business	**Lm**	Lm
Balance at 1 January	**6,220,000**	4,400,000
Increment in value of in-force business (note 17)	**630,000**	1,820,000
Balance at 31 December	**6,850,000**	6,220,000

The above reserve is non distributable.

23. Long term business provision

On the adoption of IAS 39 at 1 January 2001, securities classified as originated loans and receivables have been re-measured at amortised cost. The cumulative fair value adjustments as at 1 January 2001 were adjusted against the long term business provision to the extent that they had previously been credited to policyholders in the technical account.

	Group and Company	
	2001	2000
	Lm	Lm
At 1 January (net):		
- as previously reported	**64,110,000**	45,963,478
- effect of adopting IAS 39	**(1,310,669)**	-
- as restated	**62,799,331**	45,963,478
Impact of portfolio transfer	**-**	2,064,769
Charged to technical profit and loss account	**14,932,236**	16,081,753
At 31 December (net)	**77,731,567**	64,110,000

24. Deferred taxation

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Balance at 1 January	**1,109,059**	1,368,721	**1,109,059**	1,368,721
Movements during the year:				
Revaluation reserve	**22,568**	24,931	**20,522**	24,931
Profit and loss account	**(1,142,523)**	(284,593)	**(1,161,760)**	(284,593)
Balance at 31 December	**(10,896)**	1,109,059	**(32,179)**	1,109,059

24. **Deferred taxation** - continued

Deferred taxation is calculated on all temporary differences under the liability method using a principal tax rate of 35% (2000: 35%). Deferred taxation at the year end comprises:

	Group		**Company**	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Temporary differences attributable to fair value adjustments on investments	**(32,032)**	(369,791)	**(34,078)**	(369,791)
Temporary differences attributable to fixed assets	**(65,974)**	(81,181)	**(63,988)**	(81,181)
Temporary differences attributable to tax losses carried forward	**87,110**	1,560,031	**65,887**	1,560,031
Balance at 31 December	**(10,896)**	1,109,059	**(32,179)**	1,109,059

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

	Group		**Company**	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Deferred tax asset	**33,855**	1,109,059	**31,809**	1,109,059
Deferred tax liability	**(44,751)**	-	**(63,988)**	-
Balance at 31 December	**(10,896)**	1,109,059	**(32,179)**	1,109,059

Deferred tax assets are recognised on the basis of expectation of future taxable income.

25. Note to the cash flow statement

Reconciliation of profit before tax to cash generated from operations:

	Group		**Company**	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Profit before tax	**1,753,528**	460,375	**1,753,528**	460,375
Adjustments for:				
Depreciation	**146,212**	85,407	**145,216**	85,226
Amortisation	**52,905**	-	**52,905**	-
Share of group undertaking's loss/(profit) before tax, adjusted for net dividend received	**-**	-	**41,278**	(103)
Share of participating interest's profit before tax, adjusted for net dividend received	**(39,221)**	(11,466)	**(39,221)**	(11,466)
Unrealised losses on investments	**3,384,439**	795,482	**3,384,439**	795,482
Realised losses/(gains) on disposal of investments	**61,872**	(609,031)	**67,052**	(595,578)
Increase in technical provisions	**15,626,129**	20,341,970	**15,626,129**	20,341,970
Debtors	**(247,210)**	(653,534)	**(287,695)**	(779,103)
Creditors	**(85,867)**	(231,884)	**(89,265)**	155,509
Cash generated from operations	**20,652,787**	20,177,319	**20,654,366**	20,452,312

26. Cash and cash equivalents

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

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
Cash at bank and in hand	**1,503,547**	1,638,183	**1,450,250**	1,539,764
Clients' bank accounts	**13,579**	3,097	-	-
Time deposits and treasury bills maturing within three months (notes 14 & 15)	**9,712,696**	8,528,481	**9,712,696**	8,528,481
	11,229,822	10,169,761	**11,162,946**	10,068,245

The use of clients' bank accounts is restricted in terms of the Investment Services Act, 1994.

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

	Group		Company	
	2001	2000	**2001**	2000
	Lm	Lm	**Lm**	Lm
At floating rates	**1,405,509**	1,548,508	**1,338,633**	1,446,992
Weighted average effective interest rate	**2.2%**	2.7%	**2.3%**	2.8%

27. Financial instruments

The nature of the Group's operations implies that financial instruments are extensively used in the course of its activities. The Group did not make use of derivative financial instruments during the years ended 31 December 2001 and 2000. The Group is potentially exposed to a range of risks that are managed as outlined below.

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of cash at bank, debtors and investments. The Group's cash is placed with quality financial institutions. Credit risk with respect to debts is limited. The direct insurance debtor base is constituted by a large number of customers. Other debtors comprise reputable institutions and group undertakings. Credit risk in respect of concentration of investments is not considered by the directors to be significant in view of the credit standing of the issuer. The Group has in place internal control structures to assess and monitor credit exposures and risk thresholds. The Group places limits on the level of credit risk undertaken from the main categories of financial instruments.

27. Financial instruments - continued

Liquidity risk

The Group's liquidity risk is considered to be relatively insignificant by the directors in view of the nature of its main financial assets and liabilities. Listed securities are considered to be realisable as they are listed either on the Malta Stock Exchange or on a recognised foreign stock exchange.

Market risk

The Group's financial assets are susceptible to market price risk arising from uncertainties about future prices of these instruments. The directors manage this risk by reviewing on a regular basis market value fluctuations arising on the Group's investments.

Fair values

The fair value of publicly traded available-for-sale securities is based on quoted market bid prices at the balance sheet date. Unquoted equities are stated at a directors' valuation, in most cases by reference to the net asset backing of the investee. The following table summarises the carrying amounts and fair values of the main financial assets and liabilities not presented on the Group and Company balance sheet at their fair value.

	Group		**Company**	
	Carrying value 2001 Lm	Fair Value 2001 Lm	**Carrying value 2001 Lm**	Fair value 2001 Lm
Financial investments				
Other originated loans and receivables	**31,113,860**	32,743,887	**30,696,262**	32,320,919

At 31 December 2001 and 2000, the carrying amounts of other financial assets and liabilities approximated their fair values.

Interest rate risk

The Group's income and operating flows are substantially independent of changes in market interest rates. Notes 14, 15, 16 and 26 incorporate interest rate and maturity information with respect to the Group's assets. Up to the balance sheet date, the Group did not have any hedging policy with respect to interest rate risk as exposure to such risk was not deemed to be significant by the directors.

27. Financial instruments – continued

Currency risk

Investments denominated in foreign currency are held in a mix of currencies that reflects, in the main part, their respective weighting in the Maltese Lira basket.

28. Commitments

Capital commitments

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

	Group and Company	
	2001	2000
	Lm	Lm
Authorised and contracted for	**42,000**	20,000
Authorised but not contracted	**138,800**	158,300
	180,800	178,300

Operating lease commitments – where the company is the lessor

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

	2001	2000
	Lm	Lm
Not later than 1 year	**481,883**	259,902
Later than 1 year and not later than 5 years	**1,781,424**	1,412,003
Later than 5 years	**1,027,086**	127,100
	3,290,393	1,799,005

29. Contingent liabilities

The Company has issued a guarantee of Lm124,810 (2000: Lm124,810) to a third party in favour of its subsidiary, Growth Investments Limited.

The Company has issued further guarantees amounting to Lm728,950 (2000: Lm889,000) in favour of third parties.

30. Related party transactions

The Company's shareholders are Middlesea Insurance p.l.c., Bank of Valletta p.l.c. and Munchener Ruckversicherungs - Gesellschaft of Germany. Approximately 28% (2000: 35%) of the Company's expenditure comprises acquisition costs paid to Bank of Valletta p.l.c. and administrative costs shared with the Middlesea Group. Further, the Company purchased investment property from Middlesea Insurance p.l.c. for a consideration of Lm2,803,750. The Company's major reinsurer is Munchener Ruckversicherungs - Gesellschaft. All transactions with related parties are carried out at arm’s length.

31. Statutory information

Middle Sea Valletta Life Assurance Company Limited is a limited liability company and is incorporated in Malta.

32. Comparative information

The Group has adopted IAS 40 and IAS 39 with effect from 1 January 2001. The comparative financial information for the Group’s investments has been re-classified to conform with the current year’s disclosure for the purpose of fairer presentation. The re-classification was made on the basis of management’s intention as at 31 December 2000.