MIDDLESEA VALLETTA LIFE ASSURANCE COMPANY LIMITED

Annual Report and Consolidated Financial Statements
31 December 2002

Company Registration Number: C 15722

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2002.

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 a gross premium income of Lm19m was registered, a fall of 14% from the previous year. During 2002 the Company had stopped writing single premium policies for a period of time until a new single premium product was launched, and this was the main reason for the drop in premium income. The life fund has increased by 18% from Lm80.8m to Lm95.4m. The value of in-force business has also increased over the period from Lm9.5m to Lm10.79m. Total assets have increased by 17% from Lm98.4m at 31 December 2001 to Lm115.4m at 31 December 2002. The company incurred significant unrealised investment losses on both the local and on international capital markets. The losses were however lower than those incurred the previous year. Despite these losses, the Group generated a profit after tax of Lm490,312 (2001: 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.

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.)
T. Depasquale (appointed on 1 October 2002)
E. Ellul
Mario Grima DIP.M.S., M.B.A. (Henley), M.I.M.
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. (resigned on 1 October 2002)

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

4 April 2003

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 and the Group as at the end of each financial period and of the profit or loss for that period.

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

?? appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgements and estimates;
?? the financial statements have been drawn up in accordance with International Financial Reporting Standards;
?? the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company and the Group 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 the Group 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 and the Group are properly safeguarded and that fraud and other irregularities will be prevented or detected.

Report of the auditors

To the Members of Middlesea Valletta Life Assurance Company Limited.

We have audited the financial statements on pages 5 to 40. 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 2002 and of the profit, the changes in equity and the cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

4 April 2003

Consolidated profit and loss account
Technical account – long term business

		Group and Company	
		2002	2001
	Notes	**Lm**	Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	**18,987,347**	22,118,579
Outward reinsurance premiums		**(802,832)**	(616,434)
		18,184,515	21,502,145
Investment income	2	**4,196,861**	3,351,270
Share of participating interests' profit before tax	2	**80,454**	38,425
Other technical income, net of reinsurance		**2,415**	2,721
Total technical income		**22,464,245**	24,894,561
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**2,451,994**	1,517,064
- reinsurers' share		**(302,974)**	(75,205)
		2,149,020	1,441,859
Change in the provision for claims			
- gross amount		**106,178**	(3,871)
- reinsurers' share		**(59,142)**	1,856
		47,036	(2,015)
Claims incurred, net of reinsurance		**2,196,056**	1,439,844
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		**11,369,440**	11,604,850
- reinsurers' share		**5,704**	(5,614)
		11,375,144	11,599,236
Technical provision for linked liabilities		**(111,629)**	695,908
Change in other technical provisions, net of reinsurance		**11,263,515**	12,295,144
Bonuses and rebates, net of reinsurance	3	**3,292,088**	3,333,000
Net operating expenses	4	**2,055,166**	2,476,397
Investment expenses and charges	2	**289,915**	193,449
Unrealised losses on investments	2	**2,843,156**	3,400,129
Total technical charges		**21,939,896**	23,137,963
Tax charge attributable to the long term business	7	**(89,880)**	(1,458,030)
Balance on the long term business technical account (page 6)		**434,469**	298,568

Consolidated profit and loss account
Non-technical account

	Notes	Group 2002 Lm	Group 2001 Lm	Company 2002 Lm	Company 2001 Lm
Balance on the long term business technical account (page 5)		**434,469**	298,568	**434,469**	298,568
Investment income	2	**165,664**	109,486	**117,552**	69,388
Unrealised gains on investments	2	**5,871**	15,691	**5,871**	15,691
Share of group undertaking's (profit)/loss before tax	2	**-**	-	**13,575**	(41,278)
Share of participating interests' profit before tax	2	**903**	796	**903**	796
Investment expenses and charges	2	**(15,512)**	(5,036)	**(15,512)**	(5,036)
Other income		**108,528**	108,671	**-**	-
Other charges		**(186,975)**	(232,678)	**(43,910)**	(42,631)
Profit on ordinary activities before tax	5	**512,948**	295,498	**512,948**	295,498
Tax on profit on ordinary activities	7	**(22,636)**	4,755	**(22,636)**	4,755
Profit for the financial year		**490,312**	300,253	**490,312**	300,253
Earnings per share	9	**7c8**	5c6	**7c8**	5c6

Statement of total recognised gains and losses

		2002 Lm	2001 Lm	2002 Lm	2001 Lm
Net fair value losses in revaluation reserve, net of deferred taxation	20	**(42,797)**	(202,852)	**(42,797)**	(202,852)
Increment in value of in-force business	16	**1,290,000**	630,000	**1,290,000**	630,000
Profit for the financial year		**490,312**	300,253	**490,312**	300,253
Total recognised gains		**1,737,515**	727,401	**1,737,515**	727,401

Consolidated balance sheet

	Notes	Group 2002 Lm	Group 2001 Lm	Company 2002 Lm	Company 2001 Lm
ASSETS					
Investments					
Land and buildings – investment property	10	**12,045,743**	10,823,770	**12,045,743**	10,823,770
Investment in group undertaking	11	**-**	-	**204,082**	200,632
Investments in participating interests	12	**1,847,413**	366,193	**1,847,413**	366,193
Other financial investments					
- deposits with banks or credit institutions	13	**9,430,615**	4,836,801	**9,430,615**	4,836,801
- other originated loans and receivables	14	**36,861,979**	31,113,860	**36,491,948**	30,696,262
- available-for-sale	15	**35,425,834**	32,977,886	**35,345,336**	32,895,551
		95,611,584	80,118,510	**95,365,137**	79,819,209
Value of in-force business	16	**10,790,000**	9,500,000	**10,790,000**	9,500,000
Assets held to cover linked liabilities	17	**3,104,079**	3,228,633	**3,104,079**	3,228,633
Reinsurers' share of technical provisions					
Long term business provision	22	**34,933**	40,637	**34,933**	40,637
Claims outstanding		**114,746**	55,604	**114,746**	55,604
		149,679	96,241	**149,679**	96,241
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		**39,992**	2,003	**39,992**	2,003
- intermediaries		**175,704**	235,622	**175,704**	235,622
Debtors arising out of reinsurance operations		**-**	16,000	**-**	16,000
Amounts owed by group undertakings		**821,323**	877,393	**1,192,518**	1,256,701
Indirect taxation		**227,908**	76,123	**227,908**	76,123
Taxation recoverable		**12,812**	219,711	**12,618**	205,315
		1,277,739	1,426,852	**1,648,740**	1,791,764
Other assets					
Tangible assets	18	**463,859**	492,614	**443,460**	477,023
Deferred taxation	23	**1,105,482**	33,855	**1,095,567**	31,809
Cash at bank and in hand		**1,542,269**	1,503,547	**1,412,220**	1,450,250
Clients' bank accounts		**15,086**	13,579	**-**	-
		3,126,696	2,043,595	**2,951,247**	1,959,082
Prepayments and accrued income					
Accrued interest and rent		**1,221,784**	1,898,627	**1,203,772**	1,881,258
Other prepayments and accrued income		**95,207**	120,521	**75,452**	92,589
		1,316,991	2,019,148	**1,279,224**	1,973,847
Total assets		**115,376,768**	98,432,979	**115,288,106**	98,368,776

Consolidated balance sheet

	Notes	Group		Company	
		2002	2001	**2002**	2001
		Lm	Lm	**Lm**	Lm
LIABILITIES					
Capital and reserves					
Called up share capital	19	**6,300,000**	6,300,000	**6,300,000**	6,300,000
Revaluation reserve	20	**(43,957)**	(1,160)	**(43,957)**	(1,160)
Other reserves	21	**8,140,000**	6,850,000	**8,140,000**	6,850,000
Profit and loss account		**3,255,366**	2,765,054	**3,255,366**	2,765,054
Total shareholders' funds		**17,651,409**	15,913,894	**17,651,409**	15,913,894
Technical provisions					
Long term business provision	22	**92,433,732**	77,772,204	**92,433,732**	77,772,204
Claims outstanding		**351,332**	245,154	**351,332**	245,154
		92,785,064	78,017,358	**92,785,064**	78,017,358
Technical provisions for linked liabilities		**2,999,279**	3,110,908	**2,999,279**	3,110,908
Provisions for other risks and charges					
Deferred taxation	23	**52,219**	44,751	**52,017**	63,988
Deposits received from reinsurers		**16,220**	15,905	**16,220**	15,905
Creditors					
Creditors arising out of direct insurance operations		**273,166**	568,524	**273,166**	568,524
Creditors arising out of reinsurance operations		**103,855**	97,523	**103,855**	97,523
Amounts owed to group undertakings		**65,508**	67,408	**-**	-
Current taxation		**1,127,927**	257,187	**1,127,927**	257,187
Other creditors		**14,195**	10,062	**-**	-
		1,584,651	1,000,704	**1,504,948**	923,234
Accruals and deferred income		**287,926**	329,459	**279,169**	323,489
Total liabilities		**115,376,768**	98,432,979	**115,288,106**	98,368,776

The financial statements on pages 5 to 40 were authorised for issue by the Board on 4 April 2003 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 2001		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	20	-	(186,951)	-	-	(186,951)
- transfer to net profit on realisation, net of deferred taxation	20	-	(15,901)	-	-	(15,901)
Increment in value of in-force business	21	-	-	630,000	-	630,000
Net (losses)/gains not recognised in profit and loss account		-	(202,852)	630,000	-	427,148
Issue of share capital	19	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**
Balance at 1 January 2002		6,300,000	(1,160)	6,850,000	2,765,054	15,913,894
Available-for-sale investments						
- net fair value losses, net of deferred taxation	20	-	(43,785)	-	-	(43,785)
- transfer to net profit on realisation, net of deferred taxation	20	-	988	-	-	988
Increment in value of in-force business	21	-	-	1,290,000	-	1,290,000
Net (losses)/gains not recognised in profit and loss account		-	(42,797)	1,290,000	-	1,247,203
Profit for the financial year		-	-	-	490,312	490,312
Balance at 31 December 2002		**6,300,000**	**(43,957)**	**8,140,000**	**3,255,366**	**17,651,409**

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 2001		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	20	-	(177,966)	-	-	(177,966)
- transfer to net profit on realisation, net of deferred taxation	20	-	788	-	-	788
Share of group undertaking's reserves	20	-	(25,674)	-	-	(25,674)
Increment in value of in-force business	21	-	-	630,000	-	630,000
Net (losses)/gains not recognised in profit and loss account		-	(202,852)	630,000	-	427,148
Issue of share capital	19	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**
Balance at 1 January 2002		6,300,000	(1,160)	6,850,000	2,765,054	15,913,894
Available-for-sale investments						
- net fair value losses, net of deferred taxation	20	-	(34,260)	-	-	(34,260)
- transfer to net profit on realisation, net of deferred taxation	20	-	988	-	-	988
Share of group undertaking's reserves	20	-	(9,525)	-	-	(9,525)
Increment in value of in-force business	21	-	-	1,290,000	-	1,290,000
Net (losses)/gains not recognised in profit and loss account		-	(42,797)	1,290,000	-	1,247,203
Profit for the financial year		-	-	-	490,312	490,312
Balance at 31 December 2002		**6,300,000**	**(43,957)**	**8,140,000**	**3,255,366**	**17,651,409**

Cash flow statement

	Notes	Group 2002 Lm	Group 2001 Lm	Company 2002 Lm	Company 2001 Lm
Operating activities					
Cash generated from operations	24	**18,666,731**	20,638,203	**18,645,589**	20,639,782
Taxation		**(37,747)**	(11,799)	**(51,949)**	(11,799)
Net cash from operating activities		**18,628,984**	20,626,404	**18,593,640**	20,627,983
Investing activities					
Purchase of investment property	10	**(1,007,368)**	(6,610,682)	**(1,007,368)**	(6,610,682)
Acquisition of participating interest	12	**(463,388)**	-	**(463,388)**	
(Increase)/decrease in loan to participating interest	12	**(43,349)**	19,750	**(43,349)**	19,750
Purchase of other financial investments	13,14,15	**(22,781,167)**	(26,404,651)	**(22,694,026)**	(26,278,537)
Disposal of other financial investments	13,14,15	**10,477,896**	14,346,338	**10,340,160**	14,238,343
Purchase of assets to cover linked liabilities	17	**(805,830)**	(1,297,149)	**(805,830)**	(1,297,149)
Purchase of tangible fixed assets	18	**(135,495)**	(119,949)	**(127,815)**	(105,007)
Net cash used in investing activities		**(14,758,701)**	(20,066,343)	**(14,801,616)**	(20,033,282)
Financing activities					
Issue of share capital	19	**-**	1,000,000	**-**	1,000,000
Dividends paid		**-**	(500,000)	**-**	(500,000)
Net cash from financing activities		**-**	500,000	**-**	500,000
Movement in cash and cash equivalents		**3,870,283**	1,060,061	**3,792,024**	1,094,701
Cash and cash equivalents at beginning of year		**11,229,822**	10,169,761	**11,162,946**	10,068,245
Cash and cash equivalents at end of year	25	**15,100,105**	11,229,822	**14,954,970**	11,162,946

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 Financial Reporting Standards, the Maltese Insurance Business Act, 1998 and the Maltese Companies Act, 1995.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

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.

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 11.

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 interests is carried in the balance sheet at an amount that reflects the share of the net assets of the group undertaking and the participating interests and in the case of participating interests, is stated net of negative goodwill arising on their acquisition.

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. 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.

9. 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.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities are reported as part of the fair value gain or loss.

10. 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. Changes in fair values are reported in the profit and loss account.

11. Other financial investments

The Group classifies 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. 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.

12. Investment return

Investment return comprises investment income including realised and unrealised investment gains and losses, the amortisation of differences between cost and maturity value of fixed income debt securities carried at amortised cost, and is 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, net of any unrealised gains or losses that have already been recognised in the technical profit and loss account. 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.

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. Intangible – negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of participating interests acquired at the date of acquisition over the cost of the acquisitions. It is amortised at 4% per annum, representing the remaining weighted average useful life of the identifiable depreciable assets, mainly immovable property, of the companies concerned.

18. 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. Currently enacted tax rates are used in the determination of deferred income tax.

18. Deferred taxation - continued

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.

19. 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.

20. 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.

21. Share capital

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

22. 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	
	2002	2001
	Lm	Lm
Direct insurance	**18,852,797**	21,909,091
Reinsurance inwards	**134,550**	209,488
Gross premiums written	**18,987,347**	22,118,579

Direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Non-participating	**1,469,143**	873,374	-	-
Participating	**11,293,159**	10,650,789	**4,948,540**	8,939,114
Linked	**1,071,235**	1,128,244	**70,720**	317,570
	13,833,537	12,652,407	**5,019,260**	9,256,684

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 Lm2,018 to the long term business technical account for the year ended 31 December 2002 (2001: a charge of Lm245,626).

2. Investment return

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Investment income				
Share of group undertaking's (profit)/loss before tax	**-**	-	**13,575**	(41,278)
Share of participating interests' profit before tax	**81,357**	39,221	**81,357**	39,221
Income from land and buildings – investment property	**784,077**	424,751	**784,077**	424,751
Interest receivable from other investments	**2,963,156**	2,635,552	**2,932,780**	2,601,665
Other income from other investments	**597,556**	394,242	**597,556**	394,242
Gains on the realisation of investments	**17,736**	6,211	**-**	-
	4,443,882	3,499,977	**4,409,345**	3,418,601
Unrealised losses on investments				
Fair value gains – investment property	**214,605**	773,532	**214,605**	773,532
Fair value losses – financial investments	**(3,124,253)**	(4,367,733)	**(3,109,428)**	(4,356,702)
	(2,909,648)	(3,594,201)	**(2,894,823)**	(3,583,170)
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	**36,697**	25,110	**36,697**	25,110
Other investment management expenses	**138,975**	105,577	**138,975**	105,577
Losses on the realisation of investments	**129,018**	67,052	**129,018**	67,052
Interest payable	**737**	746	**737**	746
	(305,427)	(198,485)	**(305,427)**	(198,485)
Total investment return	**1,228,807**	(292,709)	**1,209,095**	(363,054)
Apportioned as follows:				
Technical profit and loss account	**1,144,244**	(203,883)	**1,144,244**	(203,883)
Non-technical profit and loss account	**156,926**	120,937	**122,389**	39,561
Revaluation reserve	**(72,363)**	(209,763)	**(57,538)**	(198,732)
	1,228,807	(292,709)	**1,209,095**	(363,054)

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	
	2002	2001
	Lm	Lm
Reversionary bonuses declared in the year, included in the long term business provision	**3,292,088**	3,333,000

4. Net operating expenses

	Group and Company	
	2002	2001
	Lm	Lm
Acquisition costs	**1,584,659**	1,971,621
Administrative expenses	**914,909**	796,621
Reinsurance commissions and profit participation	**(444,402)**	(291,845)
	2,055,166	2,476,397

Total commissions for direct business accounted for in the financial year amounted to Lm1,032,339 (2001: Lm1,181,775).

5. Profit on ordinary activities before tax

The profit on ordinary activities before tax is stated after charging:

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Staff costs (note 6)	**384,444**	375,750	**351,187**	329,547
Auditors' remuneration	**9,000**	9,000	**7,500**	7,500
Actuarial valuation fees	**99,340**	89,586	**99,340**	89,586
Depreciation (note 18)	**164,250**	146,212	**161,378**	145,216
Professional indemnity insurance	**23,999**	21,671	**14,241**	11,229
Exchange differences	**28,815**	20,056	**27,854**	24,409

6. Staff costs

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Salaries	**361,637**	352,932	**330,964**	310,291
Social security costs	**22,807**	22,818	**20,223**	19,256
	384,444	375,750	**351,187**	329,547

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

	Group		Company	
	2002	2001	**2002**	2001
Average number of employees	**49**	44	**45**	39

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	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Group relief	**(7,107)**	-	**(23,377)**	-
Deferred taxation credit/(charge)	**1,064,159**	(1,119,955)	**1,075,729**	(1,141,238)
Current taxation charge	**(1,115,386)**	(299,705)	**(1,115,386)**	(299,705)
Share of group undertaking's taxation	**-**	-	**(600)**	19,237
Share of participating interests' taxation	**(26,733)**	(11,047)	**(26,733)**	(11,047)
Net tax charge	**(85,067)**	(1,430,707)	**(90,367)**	(1,432,753)
Apportioned as follows:				
Technical profit and loss account	**(89,880)**	(1,458,030)	**(89,880)**	(1,458,030)
Non-technical profit and loss account	**(22,636)**	4,755	**(22,636)**	4,755
Revaluation reserve	**27,449**	22,568	**22,149**	20,522
	(85,067)	(1,430,707)	**(90,367)**	(1,432,753)

7. **Taxation** - continued

Tax on profit for the year ended 31 December 2002 differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group and Company **2002**	2001
	Lm	Lm
Profit before tax	**602,828**	1,753,528
Tax on ordinary profit at 35%	**210,990**	613,735
Tax effect of:		
Net (exempt income)/disallowed losses	**(80,641)**	837,337
Other differences	**(17,833)**	2,203
Net tax charged to the profit and loss account	**112,516**	1,453,275

8. Directors' emoluments

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Remuneration	**25,215**	54,833	**25,215**	54,833
Fees	**21,000**	22,500	**19,000**	18,500
	46,215	77,333	**44,215**	73,333

The company has paid insurance premiums of Lm8,128 (2001: Lm6,400) in favour of its directors. Furthermore, provisions have been made (Group: 2002 – Lm22,119 and 2001 – Lm nil; Company: 2002 – Lm22,119 and 2001 – Lm nil) in respect of contracted pension obligations.

9. Earnings per share

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

	Group		Company	
	2002	2001	**2002**	2001
Net profit attributable to shareholders	**Lm 490,312**	Lm 300,253	**Lm 490,312**	Lm 300,253
Weighted average number of ordinary shares in issue	**6,300,000**	5,365,753	**6,300,000**	5,365,753
Earnings per share	**7c8**	5c6	**7c8**	5c6

10. Land and buildings - investment property

	Group and Company Investment property Lm
Year ended 31 December 2002	
Opening net book amount	10,823,770
Additions	1,007,368
Gains from changes in fair value	214,605
Closing net book amount	**12,045,743**
At 31 December 2002	
Cost	10,173,815
Fair value gains	1,871,928
Net book amount	12,045,743
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

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

11. Investment in group undertaking

	Company
	Lm
Year ended 31 December 2002	
Opening net book amount	200,632
Share of group undertaking's profits and reserves	3,450
Closing net book amount	**204,082**
At 31 December 2002	
Cost	199,999
Share of group undertaking's profits and reserves	4,083
Net book amount	204,082
Year ended 31 December 2001	
Opening net book amount	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

The group undertaking at 31 December 2002 is shown below:

Group undertaking	**Registered office**	**Class of shares held**	**Percentage of shares held 2002 & 2001**
Growth Investments Limited	Middle Sea House Floriana, VLT 16	Ordinary shares	100%

12. Investments in participating interests

	Group and Company		
	Participating interests Lm	Loan to participating interest Lm	Total Lm
Year ended 31 December 2002			
Opening net book amount	31,145	335,048	366,193
Additions	463,388	43,349	506,737
Transfer from available-for-sale investments (note 15)	949,860	-	949,860
Share of participating interests' results	24,623	-	24,623
Closing net book amount	**1,469,016**	**378,397**	**1,847,413**
At 31 December 2002			
Cost	1,413,498	378,397	1,791,895
Share of participating interests' results	55,518	-	55,518
Net book amount	1,469,016	378,397	1,847,413
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 interests' results	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 interests' results	30,895	-	30,895
Net book amount	31,145	335,048	366,193

The share of results includes Lm8,416 (2001: Lmnil) representing the amortisation credit of negative goodwill in respect of acquisition of participating interests. Investments in participating interests at 31 December 2002 are stated net of negative goodwill of Lm293,901 (2000: Lm nil). This goodwill arose on the acquisition of an additional interest in Plaza Centres plc on 12 April 2002.

The participating interests at 31 December 2002 are shown below:

Participating interests	**Registered Office**	**Class of shares held**	**Percentage of shares held 2002**	**2001**
Church Wharf Properties Limited	Middle Sea House Floriana, VLT 16	Ordinary shares	50%	50%
Plaza Centres plc	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	22%	-

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

	Group and Company	
	2002	2001
	Lm	Lm
Deposits with banks or credit institutions	**9,430,615**	4,836,801

Maturity of deposits with banks or credit institutions:

	Group and Company	
	2002	2001
	Lm	Lm
Within 3 months	**2,906,599**	3,333,364
Within 1 year but exceeding 3 months	**4,041,786**	15,093
Between 1 and 2 years	**2,007,413**	1,002,497
Between 2 and 5 years	**474,817**	485,847
	9,430,615	4,836,801

The above deposits earn interest as follows:

	Group and Company	
	2002	2001
	Lm	Lm
At floating rates	**1,164,787**	1,324,045
At fixed rates	**8,265,828**	3,512,756
	9,430,615	4,836,801
Weighted average effective interest rate	**4.0%**	4.6%

14. 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 2002						
Opening net book amount	20,980,834	602,955	6,379,332	2,130,177	1,020,562	31,113,860
Additions	1,700,122	-	17,095,756	20,663	124,576	18,941,117
Disposals	(120,000)	-	(12,838,937)	(50,345)	(60,892)	(13,070,174)
Exchange differences	(117,453)	-	-	-	-	(117,453)
Amortisation	(5,882)	511	-	-	-	(5,371)
Closing net book amount	**22,437,621**	**603,466**	**10,636,151**	**2,100,495**	**1,084,246**	**36,861,979**
Year ended 31 December 2001						
Opening net book amount	13,771,946	601,933	5,500,000	2,109,198	731,218	22,714,295
Additions	7,253,235	-	13,249,332	20,979	289,344	20,812,890
Disposals	(74,537)	-	(12,370,000)	-	-	(12,444,537)
Exchange differences	36,083	-	-	-	-	36,083
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

14. **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 2002						
Opening net book amount	20,563,236	602,955	6,379,332	2,130,177	1,020,562	30,696,262
Additions	1,625,969	-	17,095,756	20,663	124,576	18,866,964
Disposals	-	-	(12,838,937)	(50,345)	(60,892)	(12,950,174)
Exchange differences	(115,733)	-	-	-	-	(115,733)
Amortisation	(5,882)	511	-	-	-	(5,371)
Closing net book amount	**22,067,590**	**603,466**	**10,636,151**	**2,100,495**	**1,084,246**	**36,491,948**
Year ended 31 December 2001						
Opening net book amount	13,402,858	601,933	5,500,000	2,109,198	731,218	22,345,207
Additions	7,148,235	-	13,249,332	20,979	289,344	20,707,890
Disposals	(18,047)	-	(12,370,000)	-	-	(12,388,047)
Exchange differences	36,083	-	-	-	-	36,083
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

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

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 Lm1,084,246 as at 31 December 2002 (2001: Lm1,020,562). These bear interest at the rate of 8% per annum.

The above financial assets for the Group and Company include pledged investments amounting to Lm1,173,000 (2001: Lm1,128,000).

Maturity of fixed income debt securities and treasury bills:

	Group	
	2002	2001
	Lm	Lm
Within 3 months	**10,636,151**	6,379,332
Between 1 and 2 years	**65,400**	-
Between 2 years and 5 years	**999,466**	1,042,955
Over 5 years	**21,976,221**	20,540,834
	33,677,238	27,963,121
Weighted average effective interest rate	**5.2%**	6.3%

	Company	
	2002	2001
	Lm	Lm
Within 3 months	**10,636,151**	6,379,332
Between 1 and 2 years	**65,400**	-
Between 2 years and 5 years	**999,466**	1,042,955
Over 5 years	**21,606,190**	20,123,236
	33,307,207	27,545,523
Weighted average effective interest rate	**5.2%**	6.3%

15. 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 2002				
Opening net book amount	18,877,042	906,780	13,194,064	32,977,886
Additions	8,326,776	58,848	7,529,603	15,915,227
Disposals	(6,132,274)	-	(4,300,976)	(10,433,250)
Exchange differences	-	-	57,919	57,919
Amortisation	-	-	(25,646)	(25,646)
Transfer to investments in participating interests (note 12)	(949,860)	-	-	(949,860)
(Losses)/gains from changes in fair value	(2,797,294)	(3,524)	606,949	(2,193,869)
Amount released on realisation of investments	122,659	-	(45,232)	77,427
Closing net book amount	**17,447,049**	**962,104**	**17,016,681**	**35,425,834**
At 31 December 2002				
Cost	21,227,099	844,699	16,198,871	38,270,669
Fair value (losses)/gains	(3,780,050)	117,405	817,810	(2,844,835)
Net book amount	17,447,049	962,104	17,016,681	35,425,834
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	8,258,295	11,971,093
Disposals	(1,202,725)	(22,092)	(1,289,063)	(2,513,880)
Exchange differences	-	-	(21,499)	(21,499)
Amortisation	-	-	(48,034)	(48,034)
(Losses)/gains from changes in fair value	(4,035,035)	(39,056)	178,916	(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	19,870,504	785,851	12,937,971	33,594,326
Fair value (losses)/gains	(993,462)	120,929	256,093	(616,440)
Net book amount	18,877,042	906,780	13,194,064	32,977,886

15. 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 2002				
Opening net book amount	18,804,707	906,780	13,184,064	32,895,551
Additions	8,323,944	58,848	7,519,447	15,902,239
Disposals	(6,132,274)	-	(4,300,976)	(10,433,250)
Exchange differences	-	-	57,919	57,919
Amortisation	-	-	(25,646)	(25,646)
Transfer to investments in participating interests (note 12)	(949,860)	-	-	(949,860)
(Losses)/gains from changes in fair value	(2,782,169)	(3,524)	606,649	(2,179,044)
Amount released on realisation of investments	122,659	-	(45,232)	77,427
Closing net book amount	**17,387,007**	**962,104**	**16,996,225**	**35,345,336**
At 31 December 2002				
Cost	21,152,531	844,699	16,178,954	38,176,184
Fair value (losses)/gains	(3,765,524)	117,405	817,271	(2,830,848)
Net book amount	17,387,007	962,104	16,996,225	35,345,336
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	8,248,534	11,949,979
Disposals	(1,156,400)	(22,092)	(1,289,063)	(2,467,555)
Exchange differences	-	-	(21,499)	(21,499)
Amortisation	-	-	(48,034)	(48,034)
(Losses)/gains from changes in fair value	(4,023,765)	(39,056)	178,677	(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	19,798,768	785,851	12,928,210	33,512,829
Fair value (losses)/gains	(994,061)	120,929	255,854	(617,278)
Net book amount	18,804,707	906,780	13,184,064	32,895,551

Maturity of fixed income debt securities:

	Group		**Company**	
	2002 Lm	2001 Lm	**2002 Lm**	2001 Lm
Within one year	**286,568**	206,682	**286,568**	206,682
Between 1 and 2 years	**493,122**	1,046,886	**493,122**	1,046,886
Between 2 and 5 years	**3,067,705**	1,566,661	**3,067,705**	1,566,661
Over 5 years	**13,169,286**	10,373,835	**13,148,830**	10,363,835
	17,016,681	13,194,064	**16,996,225**	13,184,064
Weighted average effective interest rate	**4.4%**	6.0%	**4.4%**	6.0%

16. Value of in-force business

	Group and Company	
	2002	2001
	Lm	Lm
Net book amount at 1 January	**9,500,000**	8,870,000
Increment in value of in-force business, credited to reserves (note 21)	**1,290,000**	630,000
Net book amount at 31 December	**10,790,000**	9,500,000

17. Assets held to cover linked liabilities

	Group and Company
	Lm
Year ended 31 December 2002	
Opening net book amount	3,228,633
Additions	805,830
Losses from changes in fair value	(930,384)
Closing net book amount	**3,104,079**
At 31 December 2002	
Cost	4,756,387
Fair value losses	(1,652,308)
Net book amount	3,104,079
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

18. Tangible assets

Group	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2002			
Opening net book amount	490,563	2,051	492,614
Additions	135,495	-	135,495
Depreciation charge	(162,199)	(2,051)	(164,250)
Closing net book amount	**463,859**	**-**	**463,859**
At 31 December 2002			
Cost	1,015,593	32,775	1,048,368
Accumulated depreciation	(551,734)	(32,775)	(584,509)
Net book amount	463,859	-	463,859
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

Company	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2002			
Opening net book amount	474,972	2,051	477,023
Additions	127,815	-	127,815
Depreciation charge	(159,327)	(2,051)	(161,378)
Closing net book amount	**443,460**	**-**	**443,460**
At 31 December 2002			
Cost	991,007	32,775	1,023,782
Accumulated depreciation	(547,547)	(32,775)	(580,322)
Net book amount	443,460	-	443,460
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

Fully depreciated assets that were still in use at the year end amounted to Lm242,824 (2001: Lm158,122).

19. Share capital

	Group and Company	
	2002	2001
	Lm	Lm
Authorised		
10,000,000 ordinary shares of Lm1 each	**10,000,000**	10,000,000
Issued and fully paid		
6,300,000 ordinary shares of Lm1 each	**6,300,000**	6,300,000

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.

20. Revaluation reserve

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Balance at 1 January before taxation	**(11,684)**	213,736	**(9,638)**	213,736
Net losses from changes in fair value	**(3,124,253)**	(4,367,733)	**(3,109,428)**	(4,356,702)
Amount released on realisation of investments	**77,427**	34,130	**77,427**	50,819
Share of group undertaking's reserves	**-**	-	**(9,525)**	(25,674)
Apportionment to technical profit and loss account	**2,976,580**	4,108,183	**2,976,580**	4,108,183
Balance at 31 December before taxation	**(81,930)**	(11,684)	**(74,584)**	(9,638)
Deferred taxation	**37,973**	10,524	**30,627**	8,478
Balance at 31 December	**(43,957)**	(1,160)	**(43,957)**	(1,160)

The revaluation reserve is non-distributable.

21. Other reserves

	Group and Company	
	2002	2001
Value of in-force business	**Lm**	Lm
Balance at 1 January	**6,850,000**	6,220,000
Increment in value of in-force business (note 16)	**1,290,000**	630,000
Balance at 31 December	**8,140,000**	6,850,000

The above reserve is non-distributable.

22. Long term business provision

	Group and Company	
	2002	2001
	Lm	Lm
At 1 January (net)	**77,731,567**	62,799,331
Charged to technical profit and loss account	**14,667,232**	14,932,236
At 31 December (net)	**92,398,799**	77,731,567

23. Deferred taxation

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Balance at 1 January	**(10,896)**	1,109,059	**(32,179)**	1,109,059
Movements during the year:				
Revaluation reserve	**27,449**	22,568	**22,149**	20,522
Profit and loss account	**1,036,710**	(1,142,523)	**1,053,580**	(1,161,760)
Balance at 31 December	**1,053,263**	(10,896)	**1,043,550**	(32,179)

Deferred taxation is calculated on all temporary differences under the liability method using a principal tax rate of 35% (2001: 35%). Deferred taxation at the year end comprises:

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Temporary differences attributable to fair value adjustments on investments	**925,365**	(32,032)	**918,019**	(34,078)
Temporary differences attributable to fixed assets	**(52,219)**	(65,974)	**(52,017)**	(63,988)
Temporary differences attributable to tax losses carried forward	**180,117**	87,110	**177,548**	65,887
Balance at 31 December	**1,053,263**	(10,896)	**1,043,550**	(32,179)

23. Deferred taxation - continued

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	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Deferred tax asset	**1,105,482**	33,855	**1,095,567**	31,809
Deferred tax liability	**(52,219)**	(44,751)	**(52,017)**	(63,988)
Balance at 31 December	**1,053,263**	(10,896)	**1,043,550**	(32,179)

Deferred tax assets are recognised on the basis that realisation of the related tax benefit against future taxable income is probable.

24. Note to the cash flow statement

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Profit before tax	**602,828**	1,753,528	**602,828**	1,753,528
Adjustments for:				
Depreciation	**164,250**	146,212	**161,378**	145,216
Amortisation and exchange differences	**90,551**	38,321	**88,831**	38,321
Share of group undertaking's (profit)/loss before tax	**-**	-	**(13,575)**	41,278
Share of participating interests' profit before tax, adjusted for net dividend received	**(51,357)**	(39,221)	**(51,357)**	(39,221)
Unrealised losses on investments	**2,837,285**	3,384,438	**2,837,285**	3,384,438
Realised losses on disposal of investments	**111,282**	61,872	**129,018**	67,052
Increase in technical provisions	**14,602,639**	15,626,129	**14,602,639**	15,626,129
Debtors	**637,264**	(247,219)	**621,573**	(287,694)
Creditors	**(328,011)**	(85,867)	**(333,031)**	(89,265)
Cash generated from operations	**18,666,731**	20,638,203	**18,645,589**	20,639,782

25. Cash and cash equivalents

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

	Group		Company	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
Cash at bank and in hand	**1,542,269**	1,503,547	**1,412,220**	1,450,250
Clients' bank accounts	**15,086**	13,579	**-**	-
Time deposits and treasury bills maturing within three months (notes 13 & 14)	**13,542,750**	9,712,696	**13,542,750**	9,712,696
	15,100,105	11,229,822	**14,954,970**	11,162,946

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	
	2002	2001	**2002**	2001
	Lm	Lm	**Lm**	Lm
At floating rates	**1,328,782**	1,405,509	**1,183,647**	1,338,633
Weighted average effective interest rate	**1.6%**	2.2%	**1.6%**	2.3%

26. 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 2002 and 2001. The Group is potentially exposed to a range of risks that are managed as outlined below.

Credit risk

Financial assets that 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 not significant. 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.

26. 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	Fair value	**Carrying value**	Fair value
	2002	2002	**2002**	2002
	Lm	Lm	**Lm**	Lm
Financial investments				
Other originated loans and receivables	**36,861,979**	39,534,579	**36,491,948**	39,147,742
	2001	2001	**2001**	2001
	Lm	Lm	**Lm**	Lm
Other originated loans and receivables	**31,113,860**	32,743,887	**30,696,262**	32,320,919

At 31 December 2002 and 2001, 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 13, 14, 15 and 25 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.

26. 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.

27. Commitments

Capital commitments

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

	Group and Company	
	2002	2001
	Lm	Lm
Authorised and contracted for	**20,000**	42,000
Authorised but not contracted	**142,000**	138,800
	162,000	180,800

Operating lease commitments – where the company is the lessor

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

	2002	2001
	Lm	Lm
Not later than 1 year	**513,835**	481,883
Later than 1 year and not later than 5 years	**1,456,805**	1,781,424
Later than 5 years	**894,016**	1,027,086
	2,864,656	3,290,393

28. Contingent liabilities

The Company has issued a guarantee of Lm124,810 (2001: Lm124,810) to a third party in favour of its subsidiary, Growth Investments Limited.

The Company has issued further guarantees amounting to Lm693,700 (2001: Lm728,950) in favour of third parties.

29. 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 36% (2001: 28%) of the Company's expenditure comprises acquisition costs paid to Bank of Valletta p.l.c. and administrative costs shared with the Middlesea Group. The Company's major reinsurer is Munchener Ruckversicherungs - Gesellschaft. All transactions with related parties are carried out at arm's length.

30. Statutory information

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