

MIDDLESEA VALLETTA LIFE
ASSURANCE COMPANY LIMITED

Annual Report and Consolidated Financial Statements
31 December 2003

MIDDLESEA VALLETTA LIFE ASSURANCE COMPANY LIMITED
Annual Report and Consolidated Financial Statements for the year ended 31 December 2003

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Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2003.

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 increased by 15% from Lm19 million to Lm21.9 million. Investment income increased from Lm1.2 million to Lm10.3 million, mainly as a result of unrealised gains of Lm5.2 million made on investments both locally and internationally. The Group had incurred unrealised losses of Lm2.9 million last year. The profit after taxation registered by the Group increased from Lm0.5 million to Lm1.3 million with earnings per share growing from 7c8 to 20c7.

The Group's balance sheet also registered growth. Total assets increased by 23% to Lm142 million whilst shareholders' funds now total Lm20.1 million, 14% more than last year. The long term business provision increased by 26% to Lm116 million.

The directors expect that the present level of activity will be sustained in the foreseeable future.

Compliance with Standard Licence Conditions under the Investment Services Act, 1994

The directors note that the Company is in the process of preparing for the implementation of a Disaster Recovery and Business Continuity Plan as required by the Standard Licence Condition 3.7(1). The directors are not aware of any other issues concerning compliance with Standard Licence Conditions.

Results and dividends

The consolidated profit and loss account is set out on page 6. The directors recommend the payment of a net dividend of Lm1,300,000 (2002: Nil) equivalent to a net dividend of 20c6 per share (2002: Nil).

Directors' report – continued

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
E. Ellul B.A. (Hons) Econ. DP. Pol.Econ. (Oxon)
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.

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 indicated 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

16 April 2004

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 2003 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

16 April 2004

Consolidated profit and loss account Technical account – long term business

	Notes	Group and Company 2003 Lm	2002 Lm
Earned premiums, net of reinsurance			
Gross premiums written	1	21,861,901	18,987,347
Outward reinsurance premiums		(544,307)	(802,832)
		21,317,594	18,184,515
Investment income	2	4,892,329	4,196,861
Share of participating interests' profit before tax	2	125,916	80,454
Unrealised gains on investments	2	5,128,046	-
Other technical income, net of reinsurance		7,375	2,415
Total technical income		31,471,260	22,464,245
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		2,500,435	2,451,994
- reinsurers' share		(249,165)	(302,974)
		2,251,270	2,149,020
Change in the provision for claims			
- gross amount		(36,197)	106,178
- reinsurers' share		23,744	(59,142)
		(12,453)	47,036
Claims incurred, net of reinsurance		2,238,817	2,196,056
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		19,897,873	11,369,440
- reinsurers' share		4,020	5,704
	23	19,901,893	11,375,144
Technical provision for linked liabilities		1,783,721	(111,629)
Change in other technical provisions, net of reinsurance		21,685,614	11,263,515
Bonuses and rebates, net of reinsurance	3, 23	3,758,549	3,292,088
Net operating expenses	4	2,348,513	2,055,166
Investment expenses and charges	2	179,899	289,915
Unrealised losses on investments	2	-	2,843,156
Total technical charges		30,211,392	21,939,896
Tax charge attributable to the long term business	7	(61,545)	(89,880)
Balance on the long term business technical account (page 6)		1,198,323	434,469

Consolidated profit and loss account
Non-technical account

	Notes	Group		Company	
		2003 Lm	2002 Lm	2003 Lm	2002 Lm
Balance on the long term business technical account (page 5)		1,198,323	434,469	1,198,323	434,469
Investment income	2	186,805	165,664	125,669	117,552
Unrealised gains on investments	2	24,190	5,871	24,190	5,871
Share of group undertaking's profit before tax	2	-	-	53,871	13,575
Share of participating interests' profit before tax	2	3,256	903	3,256	903
Investment expenses and charges	2	(8,900)	(15,512)	(8,900)	(15,512)
Other income		141,152	108,528	-	-
Other charges		(195,131)	(186,975)	(46,714)	(43,910)
Profit on ordinary activities before tax	5	1,349,695	512,948	1,349,695	512,948
Tax on profit on ordinary activities	7	(46,041)	(22,636)	(46,041)	(22,636)
Profit for the financial year		1,303,654	490,312	1,303,654	490,312
Earnings per share (cents)	9	20c7	7c8	20c7	7c8

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Consolidated balance sheet

	Notes	Group		Company	
		2003 Lm	2002 Lm	2003 Lm	2002 Lm
ASSETS					
Investments					
Land and buildings – investment property	11	13,805,081	12,045,743	13,805,081	12,045,743
Investment in group undertaking	12	-	-	257,290	204,082
Investments in participating interests	13	2,249,133	1,847,413	2,249,133	1,847,413
Other financial investments					
- deposits with banks or credit institutions	14	15,861,082	9,430,615	15,861,082	9,430,615
- other originated loans and receivables	15	37,913,571	36,861,979	37,457,111	36,491,948
- available-for-sale	16	50,019,827	35,425,834	49,886,395	35,345,336
		119,848,694	95,611,584	119,516,092	95,365,137
Value of in-force business	17	11,900,000	10,790,000	11,900,000	10,790,000
Assets held to cover linked liabilities	18	4,645,221	3,104,079	4,645,221	3,104,079
Reinsurers' share of technical provisions					
Long term business provision	23	30,913	34,933	30,913	34,933
Claims outstanding		91,002	114,746	91,002	114,746
		121,915	149,679	121,915	149,679
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		18,727	39,992	18,727	39,992
- intermediaries		182,457	175,704	182,457	175,704
Amounts owed by group undertakings		670,685	821,323	1,038,108	1,192,518
Indirect taxation		164,769	227,908	164,769	227,908
Taxation recoverable		178,073	12,812	178,073	12,618
		1,214,711	1,277,739	1,582,134	1,648,740
Other assets					
Tangible assets	19	557,964	463,859	534,892	443,460
Deferred taxation	24	973,549	1,105,482	967,040	1,095,567
Cash at bank and in hand	26	1,179,077	1,545,113	1,121,554	1,412,220
		2,710,590	3,114,454	2,623,486	2,951,247
Prepayments and accrued income					
Accrued interest and rent		1,511,554	1,221,784	1,508,945	1,203,772
Other prepayments and accrued income		108,631	95,207	75,885	75,452
		1,620,185	1,316,991	1,584,830	1,279,224
Total assets		142,061,316	115,364,526	141,973,678	115,288,106

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Consolidated balance sheet

	Notes	Group		Company	
		2003 Lm	2002 Lm	2003 Lm	2002 Lm
LIABILITIES					
Capital and reserves					
Called up share capital	20	6,300,000	6,300,000	6,300,000	6,300,000
Revaluation reserve	21	37,819	(43,957)	37,819	(43,957)
Other reserves	22	9,250,000	8,140,000	9,250,000	8,140,000
Profit and loss account		4,559,020	3,255,366	4,559,020	3,255,366
Total shareholders' funds		20,146,839	17,651,409	20,146,839	17,651,409
Technical provisions					
Long term business provision	23	116,090,154	92,433,732	116,090,154	92,433,732
Claims outstanding		315,135	351,332	315,135	351,332
		116,405,289	92,785,064	116,405,289	92,785,064
Technical provisions for linked liabilities		4,783,000	2,999,279	4,783,000	2,999,279
Provisions for other risks and charges					
Deferred taxation	24	-	52,219	-	52,017
Deposits received from reinsurers		16,220	16,220	16,220	16,220
Creditors					
Creditors arising out of direct insurance operations		175,166	273,166	175,166	273,166
Creditors arising out of reinsurance operations		112,615	103,855	112,615	103,855
Amounts owed to group undertakings		71,340	65,508	-	-
Current taxation		7,317	1,127,927	-	1,127,927
Other creditors		3,608	1,953	-	-
		370,046	1,572,409	287,781	1,504,948
Accruals and deferred income		339,922	287,926	334,549	279,169
Total liabilities		142,061,316	115,364,526	141,973,678	115,288,106

The financial statements on pages 5 to 40 were authorised for issue by the Board on 16 April 2004 and were signed on its behalf by:

J.F.X. Zahra
Chairman

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

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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 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	21	-	(43,785)	-	-	(43,785)
- transfer to net profit on realisation, net of deferred taxation	21	-	988	-	-	988
Increment in value of in-force business	22	-	-	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
Balance at 1 January 2003		6,300,000	(43,957)	8,140,000	3,255,366	17,651,409
Available-for-sale investments						
- net fair value gains, net of deferred taxation	21	-	79,583	-	-	79,583
- transfer to net profit on realisation, net of deferred taxation	21	-	2,193	-	-	2,193
Increment in value of in-force business	22	-	-	1,110,000	-	1,110,000
Net gains not recognised in profit and loss account		-	81,776	1,110,000	-	1,191,776
Profit for the financial year		-	-	-	1,303,654	1,303,654
Balance at 31 December 2003		6,300,000	37,819	9,250,000	4,559,020	20,146,839

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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 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	21	-	(34,260)	-	-	(34,260)
- transfer to net profit on realisation, net of deferred taxation	21	-	988	-	-	988
Share of group undertaking's reserves	21	-	(9,525)	-	-	(9,525)
Increment in value of in-force business	22	-	-	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
Balance at 1 January 2003		6,300,000	(43,957)	8,140,000	3,255,366	17,651,409
Available-for-sale investments						
- net fair value gains, net of deferred taxation	21	-	72,766	-	-	72,766
- transfer to net profit on realisation, net of deferred taxation	21	-	2,647	-	-	2,647
Share of group undertaking's reserves	21	-	6,363	-	-	6,363
Increment in value of in-force business	22	-	-	1,110,000	-	1,110,000
Net gains not recognised in profit and loss account		-	81,776	1,110,000	-	1,191,776
Profit for the financial year		-	-	-	1,303,654	1,303,654
Balance at 31 December 2003		6,300,000	37,819	9,250,000	4,559,020	20,146,839

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Cash flow statement

	Notes	Group		Company	
		2003 Lm	2002 Lm	2003 Lm	2002 Lm
Operating activities					
Cash generated from operations	25	21,786,037	18,654,489	21,759,125	18,645,589
Taxation paid		(1,293,267)	(37,747)	(1,293,382)	(51,949)
Net cash from operating activities		20,492,770	18,616,742	20,465,743	18,593,640
Investing activities					
Purchase of investment property	11	(799,722)	(1,007,368)	(799,722)	(1,007,368)
Increase in investment in participating interest	13	(492,306)	(463,388)	(492,306)	(463,388)
Decrease/(increase) in loan to participating interest	13	73,453	(43,349)	73,453	(43,349)
Purchase of other financial investments	14,15,16	(31,746,212)	(22,781,167)	(31,629,326)	(22,694,026)
Disposal of other financial investments	14,15,16	9,749,211	10,477,896	9,393,356	10,340,160
Purchase of assets to cover linked liabilities	18	(975,014)	(805,830)	(975,014)	(805,830)
Purchase of tangible fixed assets	19	(268,417)	(135,495)	(261,436)	(127,815)
Net cash used in investing activities		(24,459,007)	(14,758,701)	(24,690,995)	(14,801,616)
Movement in cash and cash equivalents		(3,966,237)	3,858,041	(4,225,252)	3,792,024
Cash and cash equivalents at beginning of year		15,087,863	11,229,822	14,954,970	11,162,946
Cash and cash equivalents at end of year	26	11,121,626	15,087,863	10,729,718	14,954,970

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 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 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 account 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 company 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, 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	
	2003	2002
	Lm	Lm
Direct insurance	21,685,948	18,852,797
Reinsurance inwards	175,953	134,550
Gross premiums written	21,861,901	18,987,347

Direct insurance is further analysed between:

	Periodic premiums		Single premiums	
	2003	2002	2003	2002
	Lm	Lm	Lm	Lm
Non-participating	1,744,063	1,469,143	-	-
Participating	11,892,374	11,293,159	6,615,355	4,948,540
Linked	963,953	1,071,235	470,203	70,720
	14,600,390	13,833,537	7,085,558	5,019,260

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 credit of Lm112,109 to the long term business technical account for the year ended 31 December 2003 (2002: a charge of Lm2,018).

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2. Investment return

	Group		Company	
	2003 Lm	2002 Lm	2003 Lm	2002 Lm
Investment income				
Share of group undertaking's profit before tax	-	-	53,871	13,575
Share of participating interests' profit before tax	129,172	81,357	129,172	81,357
Income from land and buildings – investment property	671,971	784,077	671,971	784,077
Interest receivable from other investments	3,764,294	2,963,156	3,738,555	3,063,677
Other income from other investments	573,168	597,556	573,168	466,659
Gains on the realisation of investments	69,701	17,736	34,304	-
	5,208,306	4,443,882	5,201,041	4,409,345
Unrealised gains/(losses) on investments				
Fair value gains – investment property (Note 11)	959,616	214,605	959,616	214,605
Fair value gains/(losses) – financial investments (Notes 16, 18)	4,296,190	(3,124,253)	4,285,798	(3,109,428)
	5,255,806	(2,909,648)	5,245,414	(2,894,823)
Investment expenses and charges				
Direct operating expenses arising from investment property that generated rental income	43,237	36,697	43,237	36,697
Other investment management expenses	139,624	138,975	139,624	138,975
Losses on the realisation of investments	5,208	129,018	5,208	129,018
Interest payable	730	737	730	737
	(188,799)	(305,427)	(188,799)	(305,427)
Total investment return	10,275,313	1,228,807	10,257,656	1,209,095
Apportioned as follows:				
Technical profit and loss account	9,966,392	1,144,244	9,966,392	1,144,244
Non-technical profit and loss account	205,351	156,926	198,086	122,389
Revaluation reserve	103,570	(72,363)	93,178	(57,538)
	10,275,313	1,228,807	10,257,656	1,209,095

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	
	2003	2002
	Lm	Lm
Reversionary bonuses declared in the year, included in the long term business provision	3,758,549	3,292,088

4. Net operating expenses

	Group and Company	
	2003	2002
	Lm	Lm
Acquisition costs	1,696,440	1,584,659
Administrative expenses	1,087,088	914,909
Reinsurance commissions and profit participation	(435,015)	(444,402)
	2,348,513	2,055,166

Total commissions for direct business accounted for in the financial year amounted to Lm1,166,068 (2002: Lm1,032,339).

5. Profit on ordinary activities before tax

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

	Group		Company	
	2003	2002	2003	2002
	Lm	Lm	Lm	Lm
Staff costs (Note 6)	383,234	384,444	344,102	351,187
Auditors' remuneration	9,200	9,200	7,600	7,600
Actuarial valuation fees	129,254	99,340	129,254	99,340
Depreciation (Note 19)	174,312	164,250	170,004	161,378
Professional indemnity insurance	14,187	15,758	6,770	6,000
Exchange differences	(79,661)	28,815	(79,538)	27,854

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6. Staff costs

	Group		Company	
	2003	2002	2003	2002
	Lm	Lm	Lm	Lm
Salaries	359,114	361,637	322,374	330,964
Social security costs	24,120	22,807	21,728	20,223
	383,234	384,444	344,102	351,187

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

	Group		Company	
	2003	2002	2003	2002
Average number of employees	45	45	41	41

7. Taxation

	Group		Company	
	2003	2002	2003	2002
	Lm	Lm	Lm	Lm
Group relief	-	(7,107)	-	(23,377)
Deferred taxation (charge)/credit (Note 24)	(79,714)	1,064,159	(76,510)	1,075,729
Current taxation charge	(7,396)	(1,115,386)	-	(1,115,386)
Share of group undertaking's taxation	-	-	(7,026)	(600)
Share of participating interests' taxation	(46,914)	(26,733)	(46,914)	(26,733)
Net tax charge	(134,024)	(85,067)	(130,450)	(90,367)
Apportioned as follows:				
Technical profit and loss account	(61,545)	(89,880)	(61,545)	(89,880)
Non-technical profit and loss account	(46,041)	(22,636)	(46,041)	(22,636)
Revaluation reserve	(26,438)	27,449	(22,864)	22,149
	(134,024)	(85,067)	(130,450)	(90,367)

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7. Taxation - continued

Tax on profit for the year ended 31 December 2003 differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group and Company	
	2003	2002
	Lm	Lm
Profit before tax	1,411,240	602,828
Tax on ordinary profit at 35%	493,934	210,990
Tax effect of:		
Net exempt income	(581,699)	(80,641)
Proposed changes in tax legislation	195,505	-
Other differences	(154)	(17,833)
Net tax charged to the profit and loss account	107,586	112,516

8. Directors' emoluments

	Group		Company	
	2003	2002	2003	2002
	Lm	Lm	Lm	Lm
Remuneration	23,884	25,215	23,884	25,215
Fees	21,000	21,000	19,000	19,000
	44,884	46,215	42,884	44,215

The Company has paid insurance premiums of Lm10,681 (2002: Lm8,128) in favour of its directors. Furthermore, provisions have been made (Group: 2003 – Lm12,150 and 2002 – Lm22,119; Company: 2003 – Lm12,150 and 2002 – Lm22,119) 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	
	2003	2002	2003	2002
Net profit attributable to shareholders	Lm1,303,654	Lm490,312	Lm1,303,654	Lm490,312
Weighted average number of ordinary shares in issue	6,300,000	6,300,000	6,300,000	6,300,000
Earnings per share	20c7	7c8	20c7	7c8

10. Dividends

At the forthcoming Annual General Meeting a net dividend in respect of 2003 of 20c6 per share, amounting to a total net dividend of Lm1,300,000, is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2004.

11. Land and buildings - investment property

	Group and Company Lm
Year ended 31 December 2003	
Opening net book amount	12,045,743
Additions	799,722
Gains from changes in fair value	959,616
	13,805,081
Closing net book amount	
 At 31 December 2003	
Cost	10,973,537
Fair value gains	2,831,544
	13,805,081
 Year ended 31 December 2002	
Opening net book amount	10,823,770
Additions	1,007,368
Gains from changes in fair value	214,605
	12,045,743
Closing net book amount	
 At 31 December 2002	
Cost	10,173,815
Fair value gains	1,871,928
	12,045,743

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

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12. Investment in group undertaking

	Company Lm
Year ended 31 December 2003	
Opening net book amount	204,082
Share of group undertaking's profits and reserves	53,208
	257,290
Closing net book amount	257,290
 At 31 December 2003	
Cost	199,999
Share of group undertaking's profits and reserves	57,291
	257,290
Net book amount	257,290
 Year ended 31 December 2002	
Opening net book amount	200,632
Share of group undertaking's profits and reserves	3,450
	204,082
Closing net book amount	204,082
 At 31 December 2002	
Cost	199,999
Share of group undertaking's profits and reserves	4,083
	204,082
Net book amount	204,082

The group undertaking at 31 December 2003 is shown below:

Group undertaking	Registered office	Class of shares held	Percentage of shares held 2003 & 2002
Growth Investments Limited	Middle Sea House Floriana, VLT 16	Ordinary shares	100%

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13. Investments in participating interests

	Group and Company		
	Participating interests Lm	Loan to participating interest Lm	Total Lm
Year ended 31 December 2003			
Opening net book amount	1,469,016	378,397	1,847,413
Additions	492,306	-	492,306
Disposals	-	(73,453)	(73,453)
Share of participating interests' results	(17,133)	-	(17,133)
Closing net book amount	1,944,189	304,944	2,249,133
At 31 December 2003			
Cost	1,905,804	304,944	2,210,748
Share of participating interests' results	38,385	-	38,385
Net book amount	1,944,189	304,944	2,249,133
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 16)	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

The share of results includes Lm13,880 (2002: Lm8,416) representing the amortisation credit of negative goodwill in respect of the acquisition of participating interests. Investments in participating interests at 31 December 2003 are stated net of negative goodwill of Lm436,342 (2002: Lm293,901). This goodwill arose on the acquisition of additional interest in Plaza Centres p.l.c. on 12 April 2002 and 15 July 2003.

The participating interests at 31 December 2003 are shown below:

Participating interests	Registered office	Class of shares held	Percentage of shares held	
			2003	2002
Church Wharf Properties Limited	Middle Sea House Floriana, VLT 16	Ordinary shares	50%	50%
Plaza Centres p.l.c.	The Plaza Commercial Centre Bisazza Street Sliema	Ordinary shares	30.2%	22%

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

	Group and Company	
	2003	2002
	Lm	Lm
Deposits with banks or credit institutions	15,861,082	9,430,615

The above financial assets for the Group and Company include pledged investments amounting to Lm943,152 (2002: Nil).

Maturity of deposits with banks or credit institutions:

	Group and Company	
	2003	2002
	Lm	Lm
Within 3 months	5,934,595	2,906,599
Within 1 year but exceeding 3 months	4,011,306	4,041,786
Between 1 and 2 years	4,453,118	2,007,413
Between 2 and 5 years	-	474,817
Over 5 years	1,462,063	-
	15,861,082	9,430,615

The above deposits earn interest as follows:

	Group and Company	
	2003	2002
	Lm	Lm
At floating rates	5,934,726	1,164,787
At fixed rates	9,926,356	8,265,828
	15,861,082	9,430,615
Weighted average effective interest rate	3.4%	4.0%

15. Other financial investments – other 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 2003						
Opening net book amount	22,437,621	603,466	10,636,151	2,100,495	1,084,246	36,861,979
Additions	7,641,625	215,018	33,328,803	18,292	499,375	41,703,113
Disposals	(410,715)	-	(39,957,000)	-	(139,208)	(40,506,923)
Transfer from unquoted debt securities	503,466	(503,466)	-	-	-	-
Exchange differences	(125,494)	1,263	-	-	-	(124,231)
Amortisation	(20,367)	-	-	-	-	(20,367)
Closing net book amount	30,026,136	316,281	4,007,954	2,118,787	1,444,413	37,913,571
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

15. Other financial investments – other 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 2003						
Opening net book amount	22,067,590	603,466	10,636,151	2,100,495	1,084,246	36,491,948
Additions	7,589,825	215,018	32,865,418	18,292	499,375	41,187,928
Disposals	(113,115)	-	(39,828,000)	-	(139,208)	(40,080,323)
Transfer from unquoted debt securities	503,466	(503,466)	-	-	-	-
Exchange differences	(123,338)	1,263	-	-	-	(122,075)
Amortisation	(20,367)	-	-	-	-	(20,367)
Closing net book amount	29,904,061	316,281	3,673,569	2,118,787	1,444,413	37,457,111
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

15. Other financial investments – other 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 Lm1,444,413 as at 31 December 2003 (2002: Lm1,084,246). At the financial year end, they carried interest at the rate of 5.5% per annum (2002: 8%).

The above financial assets for the Group and Company include pledged investments amounting to Lm1,128,000 (2002: Lm1,173,000).

Maturity of fixed income debt securities and treasury bills:

	Group	
	2003	2002
	Lm	Lm
Within 3 months	4,007,954	10,636,151
Between 1 and 2 years	153,100	65,400
Between 2 years and 5 years	1,546,323	999,466
Over 5 years	28,642,994	21,976,221
	34,350,371	33,677,238
<hr/>		
Weighted average effective interest rate	5.6%	5.2%

	Company	
	2003	2002
	Lm	Lm
Within 3 months	3,673,569	10,636,151
Between 1 and 2 years	153,100	65,400
Between 2 years and 5 years	1,546,323	999,466
Over 5 years	28,520,919	21,606,190
	33,893,911	33,307,207
<hr/>		
Weighted average effective interest rate	5.6%	5.2%

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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 2003				
Opening net book amount	17,447,049	962,104	17,016,681	35,425,834
Additions	7,995,696	652,760	11,320,975	19,969,431
Disposals	(4,130,926)	-	(5,200,335)	(9,331,261)
Exchange differences	-	-	76,123	76,123
Amortisation	-	-	(51,924)	(51,924)
Transfer from unquoted shares and securities	25,363	(25,363)	-	-
Gains from changes in fair value	2,131,585	960,373	638,104	3,730,062
Amount released on realisation of investments	308,126	-	(106,564)	201,562
Closing net book amount	23,776,893	2,549,874	23,693,060	50,019,827
At 31 December 2003				
Cost	25,117,232	1,472,096	22,343,710	48,933,038
Fair value (losses)/gains	(1,340,339)	1,077,778	1,349,350	1,086,789
Net book amount	23,776,893	2,549,874	23,693,060	50,019,827
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 interest (Note 13)	(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

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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 2003				
Opening net book amount	17,387,007	962,104	16,996,225	35,345,336
Additions	7,930,618	652,760	11,320,967	19,904,345
Disposals	(4,118,256)	-	(5,190,597)	(9,308,853)
Transfer from unquoted shares and securities	25,363	(25,363)	-	-
Exchange differences	-	-	75,804	75,804
Amortisation	-	-	(51,924)	(51,924)
Gains from changes in fair value	2,121,290	960,373	638,007	3,719,670
Amount released on realisation of investments	308,042	-	(106,025)	202,017
Closing net book amount	23,654,064	2,549,874	23,682,457	49,886,395
At 31 December 2003				
Cost	24,990,256	1,472,096	22,333,204	48,795,556
Fair value (losses)/gains	(1,336,192)	1,077,778	1,349,253	1,090,839
Net book amount	23,654,064	2,549,874	23,682,457	49,886,395
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 13)	(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

As at 31 December 2003, the Group and the Company had commitments in respect of the uncalled share capital of available-for-sale investments of Lm936,900 (2002: Lm692,700).

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

Maturity of fixed income debt securities:

	Group		Company	
	2003 Lm	2002 Lm	2003 Lm	2002 Lm
Within one year	268,600	286,568	268,600	286,568
Between 1 and 2 years	1,576,284	493,122	1,576,284	493,122
Between 2 and 5 years	4,253,515	3,067,705	4,253,515	3,067,705
Over 5 years	17,594,661	13,169,286	17,584,058	13,148,830
	23,693,060	17,016,681	23,682,457	16,996,225
Weighted average effective interest rate	4.9%	4.4%	4.9%	4.4%

17. Value of in-force business

	Group and Company	
	2003 Lm	2002 Lm
Net book amount at 1 January	10,790,000	9,500,000
Increment in value of in-force business, credited to reserves (Note 22)	1,110,000	1,290,000
Net book amount at 31 December	11,900,000	10,790,000

18. Assets held to cover linked liabilities

	Group and Company Lm
Year ended 31 December 2003	
Opening net book amount	3,104,079
Additions	975,014
Gains from changes in fair value	566,128
Closing net book amount	4,645,221
At 31 December 2003	
Cost	5,731,401
Fair value losses	(1,086,180)
Net book amount	4,645,221
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

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18. Assets held to cover linked liabilities – continued

During the year, the Company launched a new product called the MSV Investment Bond, which gives investors the facility to invest in a portfolio managed by MSV. Lm147,721 of assets held to cover linked liabilities are included within available-for-sale investments (Note 16).

19. Tangible assets

Group	Buildings & leasehold improvements Lm	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2003				
Opening net book amount	-	463,859	-	463,859
Additions	51,822	216,595	-	268,417
Depreciation charge	(759)	(173,553)	-	(174,312)
Closing net book amount	51,063	506,901	-	557,964
At 31 December 2003				
Cost	51,822	1,232,188	32,775	1,316,785
Accumulated depreciation	(759)	(725,287)	(32,775)	(758,821)
Net book amount	51,063	506,901	-	557,964
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
Company				
Company	Buildings & leasehold improvements Lm	Furniture, fittings & equipment Lm	Motor vehicles Lm	Total Lm
Year ended 31 December 2003				
Opening net book amount	-	443,460	-	443,460
Additions	51,822	209,614	-	261,436
Depreciation charge	(759)	(169,245)	-	(170,004)
Closing net book amount	51,063	483,829	-	534,892
At 31 December 2003				
Cost	51,822	1,200,621	32,775	1,285,218
Accumulated depreciation	(759)	(716,792)	(32,775)	(750,326)
Net book amount	51,063	483,829	-	534,892
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

Fully depreciated assets that were still in use at the year end amounted to Lm315,521 (2002: Lm242,824).

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20. Share capital

	Group and Company	
	2003	2002
	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

21. Revaluation reserve

	Group		Company	
	2003	2002	2003	2002
	Lm	Lm	Lm	Lm
Balance at 1 January before taxation	(81,930)	(11,684)	(74,584)	(9,638)
Net gains/(losses) from changes in fair value	4,296,190	(3,124,253)	4,285,798	(3,109,428)
Amount released on realisation of investments	201,562	77,427	202,017	77,427
Share of group undertaking's reserves	-	-	6,363	(9,525)
Apportionment to technical profit and loss account	(4,389,538)	2,976,580	(4,389,538)	2,976,580
Balance at 31 December before taxation	26,284	(81,930)	30,056	(74,584)
Deferred taxation	11,535	37,973	7,763	30,627
Balance at 31 December	37,819	(43,957)	37,819	(43,957)

The revaluation reserve is non-distributable.

22. Other reserves

	Group and Company	
	2003	2002
	Lm	Lm
Value of in-force business		
Balance at 1 January	8,140,000	6,850,000
Increment in value of in-force business (Note 17)	1,110,000	1,290,000
Balance at 31 December	9,250,000	8,140,000

The above reserve is non-distributable.

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23. Long term business provision

	Group and Company	
	2003	2002
	Lm	Lm
At 1 January (net)	92,398,799	77,731,567
Charged to technical profit and loss account	23,660,442	14,667,232
At 31 December (net)	116,059,241	92,398,799

24. Deferred taxation

	Group		Company	
	2003	2002	2003	2002
	Lm	Lm	Lm	Lm
Balance at 1 January	1,053,263	(10,896)	1,043,550	(32,179)
Movements during the year:				
Revaluation reserve (Notes 7, 21)	(26,438)	27,449	(22,864)	22,149
Profit and loss account (Note 7)	(53,276)	1,036,710	(53,646)	1,053,580
Balance at 31 December	973,549	1,053,263	967,040	1,043,550

Deferred taxation is calculated on all temporary differences under the liability method using a principal tax rate of 35% (2002: 35%). Deferred taxation at the year end comprises:

	Group		Company	
	2003	2002	2003	2002
	Lm	Lm	Lm	Lm
Temporary differences attributable to fair value adjustments on investments	(619,210)	925,365	(622,982)	918,019
Temporary differences attributable to fixed assets	(55,034)	(52,219)	(53,734)	(52,017)
Temporary differences attributable to tax losses carried forward	1,647,793	180,117	1,643,756	177,548
Balance at 31 December	973,549	1,053,263	967,040	1,043,550

24. 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	
	2003 Lm	2002 Lm	2003 Lm	2002 Lm
Deferred tax asset	973,549	1,105,482	967,040	1,095,567
Deferred tax liability	-	(52,219)	-	(52,017)
Balance at 31 December	973,549	1,053,263	967,040	1,043,550

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

25. Note to the cash flow statement

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2003 Lm	2002 Lm	2003 Lm	2002 Lm
Profit before tax	1,411,240	602,828	1,411,240	602,828
Adjustments for:				
Depreciation (Note 19)	174,312	164,250	170,004	161,378
Amortisation and exchange differences	106,067	90,551	104,680	88,831
Share of group undertaking's profit before tax	-	-	(53,871)	(13,575)
Share of participating interests' profit before tax, adjusted for net dividend received	(15,901)	(51,357)	(15,901)	(51,357)
Unrealised (gains)/losses on investments	(5,152,236)	2,837,285	(5,152,236)	2,837,285
Realised (gains)/losses on disposal of investments	(64,493)	111,282	(29,096)	129,018
Increase in technical provisions	25,431,710	14,602,639	25,431,710	14,602,639
Debtors	(74,905)	637,264	(73,545)	621,573
Creditors	(29,757)	(340,253)	(33,860)	(333,031)
Cash generated from operations	21,786,037	18,654,489	21,759,125	18,645,589

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	
	2003 Lm	2002 Lm	2003 Lm	2002 Lm
Cash at bank and in hand	1,179,077	1,545,113	1,121,554	1,412,220
Time deposits and treasury bills maturing within three months (Notes 14 & 15)	9,942,549	13,542,750	9,608,164	13,542,750
	11,121,626	15,087,863	10,729,718	14,954,970

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

	Group		Company	
	2003 Lm	2002 Lm	2003 Lm	2002 Lm
At floating rates	842,604	1,328,782	785,081	1,183,647
Weighted average effective interest rate	1.3%	1.6%	1.3%	1.6%

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 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.

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 2003 Lm	Fair value 2003 Lm	Carrying value 2003 Lm	Fair value 2003 Lm
Financial investments				
Other originated loans and receivables	37,913,571	42,038,443	37,457,111	41,578,658
	2002 Lm	2002 Lm	2002 Lm	2002 Lm
Other originated loans and receivables	36,861,979	39,534,579	36,491,948	39,147,742

At 31 December 2003 and 2002, 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. As at 31 December 2003, unexpired forward foreign exchange contracts amounting to Lm833,767 were entered into for the purpose of hedging exposures in security investments denominated in currencies beyond the composition of the Maltese Lira basket. The fair value movements that were recognised in the profit and loss account on such forward foreign exchange contracts amounted to a gain of Lm11,718.

28. Commitments

Capital commitments

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

	Group and Company	
	2003	2002
	Lm	Lm
Authorised and contracted for	100,868	20,000
Authorised but not contracted	421,624	142,000
	522,492	162,000

Operating lease commitments – where the Company is the lessor

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

	2003	2002
	Lm	Lm
Not later than 1 year	571,284	513,835
Later than 1 year and not later than 5 years	1,274,264	1,456,805
Later than 5 years	772,341	894,016
	2,617,889	2,864,656

29. Contingent liabilities

The Company has issued a guarantee of Lm124,810 (2002: Lm124,810) to a third party in favour of its subsidiary, Growth Investments Limited.

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 32% (2002: 36%) 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.

31. Statutory information

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

32. Comparative information

Certain comparative information has been reclassified to conform with the current year's disclosure for the purpose of fairer presentation.