



**MIDDLESEA INSURANCE p.l.c.**

**CONDENSED FINANCIAL STATEMENTS**

**For the half year ended 30 June 2008**

MIDDLESEA INSURANCE p.l.c.

Condensed Consolidated Profit and Loss Account  
 Non-technical account  
 for the half year ended 30 June 2008

	Group	
	2008	2007
	€	€
Balance on the general business technical account	(699,255)	3,713,703
Balance on the long term business technical account	89,604	124,300
	(609,651)	3,838,003
Share of associated undertaking's profit involved in long term business	409,498	915,024
Total income from insurance activities	(200,153)	4,753,027
Other investment income	3,874,665	3,818,887
Investment expenses and charges (inc. Fair Value Movements)	(6,887,227)	(834,812)
Allocated investment return transferred to the general business technical account	1,678,951	(2,637,128)
Other income	768,976	763,722
Administration expenses	(1,343,355)	(1,362,154)
<b>Profit / (Loss) before tax</b>	<b>(2,108,143)</b>	<b>4,501,542</b>
Income tax expense	496,213	(1,658,900)
<b>Profit / (Loss) for the financial year</b>	<b>(1,611,930)</b>	<b>2,842,642</b>
<b>Attributable to:</b>		
- shareholders	(1,561,451)	2,708,297
- minority interests	(50,479)	134,345
	(1,611,930)	2,842,642
<b>Earnings per share attributable to shareholders</b>	<b>(6c2)</b>	<b>10c8</b>

**MIDDLESEA INSURANCE p.l.c.**

**Condensed Consolidated Balance Sheet  
as at 30 June 2008**

	Group	
	2008	2007
	€	€
<b>ASSETS</b>		
Intangible assets	1,091,744	1,065,292
Property, plant and equipment	5,775,597	5,951,733
Investment property	10,938,134	10,924,531
Investment in associated undertakings	42,047,404	43,078,132
Other investments	173,684,538	170,154,805
Deferred income tax	3,991,595	3,300,519
Reinsurers' share of technical provisions	32,439,986	28,899,264
Deferred acquisition costs	8,094,705	6,977,289
Insurance and other receivables	26,549,762	20,591,337
Income tax receivables	960,983	37,426
Cash and cash equivalents	8,244,557	9,899,495
<b>Total assets</b>	<b>313,819,005</b>	<b>300,879,823</b>
<b>EQUITY</b>		
Capital and reserves attributable to shareholders	77,177,414	82,589,900
Minority interests	3,191,390	3,242,611
<b>Total equity</b>	<b>80,368,804</b>	<b>85,832,511</b>
<b>LIABILITIES</b>		
Deferred income tax	683,163	1,200,492
Provisions for other liabilities and charges	931,363	883,827
Technical provisions	187,270,755	173,879,462
Borrowings	16,285,254	16,380,878
Insurance and other payables	27,910,880	22,210,978
Income tax payable	368,786	491,675
<b>Total liabilities</b>	<b>233,450,201</b>	<b>215,047,312</b>
<b>Total equity and liabilities</b>	<b>313,819,005</b>	<b>300,879,823</b>

These condensed financial statements were approved by the Board on 7 August 2008 and were signed on its behalf by:

  
 M.C. Grech  
 Executive Chairman

  
 R.E.D. Chalmers  
 Deputy Chairman

MIDDLESEA INSURANCE p.Lc.

Condensed Consolidated Cash Flow Statement  
for the half year ended 30 June 2008

	Group 2008	2007
	€	€
Net cash generated from operating activities	8,430,401	14,275,730
Net cash used in investing activities	(9,988,974)	(10,675,327)
Net cash generated from financing activities	(96,365)	(199,644)
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(1,654,938)</b>	<b>3,400,759</b>
<b>Movement in cash and cash equivalents</b>		
At beginning of year	9,899,495	4,518,367
Net cash (outflow)/inflow	(1,654,938)	3,400,759
Effect of exchange rate changes	-	-
At 30 June	<b>8,244,557</b>	<b>7,919,126</b>

**MIDDLESEA INSURANCE p.Lc.**  
**Condensed Consolidated Statement of Changes in Equity**  
**for the half year ended 30 June 2008**

GROUP	Attributable to Shareholders					Total Euro
	Share Capital Euro	Share Premium account Euro	Other Reserves Euro	Profit & Loss Account Euro	Minority Interest Euro	
<b>Balance as at 1 January 2007</b>	<b>14,558,584</b>	<b>2,777,778</b>	<b>21,694,923</b>	<b>39,571,682</b>	<b>2,932,502</b>	<b>81,535,469</b>
Share of increase in value of in-force business of associated undertaking	-	-	(361,053)	-	-	(361,053)
Net income recognised directly in equity	-	-	(361,053)	-	-	(361,053)
Profit for the financial year	-	-	-	2,708,297	134,345	2,842,642
Total recognised income for the financial year	-	-	(361,053)	2,708,297	134,345	2,481,589
Dividends for 2006	-	-	-	(2,620,545)	(61,353)	(2,681,898)
Increase in share capital of subsidiary	-	-	-	-	54,202	54,202
<b>Balance as at 30 June 2007</b>	<b>14,558,584</b>	<b>2,777,778</b>	<b>21,333,870</b>	<b>39,659,434</b>	<b>3,059,696</b>	<b>81,389,362</b>
<b>Balance at 1 January 2008</b>	<b>14,558,584</b>	<b>2,777,778</b>	<b>21,551,830</b>	<b>43,701,708</b>	<b>3,242,611</b>	<b>85,832,511</b>
Share of increase in value of in-force business of associated undertaking	-	-	(648,533)	-	-	(648,533)
Net expense recognised directly in equity	-	-	(648,533)	-	-	(648,533)
Profit for the financial year	-	-	-	(1,561,451)	(50,479)	(1,611,930)
Total recognised (expense)/income for the financial year	-	-	(648,533)	(1,561,451)	(50,479)	(2,260,463)
Dividends for 2007	-	-	-	(3,202,502)	(122,512)	(3,325,014)
Increase in share capital of subsidiary	-	-	-	-	121,770	121,770
Renominalisation of Capital	441,416	-	-	(441,416)	-	-
<b>Balance as at 30 June 2008</b>	<b>15,000,000</b>	<b>2,777,778</b>	<b>20,903,297</b>	<b>38,496,339</b>	<b>3,191,390</b>	<b>80,368,804</b>

**MIDDLESEA INSURANCE p.l.c.**

**Condensed Financial Statements  
for the six months ended 30 June 2008**

**Segmental information**

The Group is organised into four geographic segments: Malta, Italy, Gibraltar and London. These segments, which are based on internal management accounts, are all principally involved in the business of general insurance

	Gross written premiums		Profit/(loss) before taxation	
	2008	2007	2008	2007
	€	€	€	€
Malta	18,626,550	17,314,055	(1,412,554)	1,992,625
Italy	44,768,462	33,639,507	(742,229)	2,348,942
Gibraltar	1,389,949	1,583,604	49,749	147,883
London	(5,620)	14,842	(3,109)	12,092
	<b>64,779,341</b>	<b>52,552,008</b>	<b>(2,108,143)</b>	<b>4,501,542</b>

**Statement pursuant to Listing Rule 9.44k.3 issued by the Listing Authority**

We confirm that to the best of our knowledge:

- the condensed interim financial statements for the Group give a true and fair view of the financial position as at 30 June 2008, financial performance and cash flows for the period then ended, in accordance with accounting standards adopted for use in the EU for interim financial statements (adopted *IAS 34 'Interim Financial Reporting'*) for the Group; and
- the interim Directors' report includes a fair review of the information required in terms of Listing rule 9.44.2.

  
M.C. Grech  
Executive Chairman

  
R.E.D. Chalmers  
Deputy Chariman

## MIDDLESEA INSURANCE p.l.c.

### Review of Group Operations

#### Half Yearly Financial Statements - 30<sup>th</sup> June 2008

*These condensed financial statements are being published in accordance with Chapters 8 and 9 of the Listing Rules of the Listing Authority – Malta Financial Services Authority and the Prevention of Financial Markets Abuse Act 2005. These statements have been extracted from the Group's unaudited financial statements as approved by the Board on 7 August 2008, and have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting. The accounting policies used in the preparation of the financial statements for the six months ended 30 June 2008 are consistent with those used in the annual financial statements as at 31 December 2007. Related party transactions with other members of the Middlesea Group are of a similar nature to the prior period.*

#### Review of performance for the half year

- **Gross Premium written** increased by 23.3% from €52.55 million in 2007 to €64.78 million as at 30<sup>th</sup> June 2008.
- The **Combined Operational Ratio** for General Business, (the total technical charges as a percentage of net earned premium) improved from 97.94% in 2007 to 96.04%.
- **Return from Investments** (which includes the unrealised capital movements) for the six months to 30<sup>th</sup> June 2008 reduced sharply to a loss of €3.01 million, as compared with an income of €2.98 million in 2007.
- The **annualized rate of return for insurance business**, before allocation of investment return, to premiums written decreased from 4.64% in 2007 to 3.59% as at June 2008.
- The investment in the associate **Middlesea Valletta Life Assurance Co. Ltd** contributed a profit of €0.41 million after taxation towards the results of the Group, compared with €0.91 million last year.
- The Group registered a **loss after taxation** for the 6 months ended 30<sup>th</sup> June 2008 of €1.61 million, compared with a profit after taxation of €2.84 million for the same period last year.
- **Gross Technical Reserves** at 30<sup>th</sup> June 2008 increased to €187.27 million, an increase of 7.7% over the 31<sup>st</sup> December reserves of €173.88 million. Net of reinsurers' share, technical provisions stand at €154.87 million, an increase of 6.8% over the 31<sup>st</sup> December 2007 provisions of €144.98 million.
- **Total assets** increased by 4.3% and totalled €313.82 million as at 30<sup>th</sup> June 2008, as compared to the total assets of €300.88 million at 31<sup>st</sup> December 2007.

## **Report on Group Performance**

Technical results before allocation of investment returns totalled €1.16 million at June 2008, compared with the June 2007 result of €1.22million. However, the satisfactory technical performance generated by the Middlesea Group for the half year to 30<sup>th</sup> June 2008 was outweighed by the very significant negative fair value movements experienced in the investment portfolio. The capital market turmoil experienced during the first six months of 2008 on the international and Maltese stock exchanges, as expected, had a significant impact on the half year 2008 results of the Middlesea Group. The Group registered a loss after taxation for the period of €1.61 million, as compared to a profit of €2.84 million in the first half of 2007. In line with the Group's accounting policies, fair value movements in the equity and bond portfolios are taken directly to the Profit and Loss account. As a result the sharp downturn in financial markets had a direct strong impact on the Group's performance. The fair value losses on the investment portfolio for the first six month period of 2008 amounted to €5.9 million, as compared to a marginal gain of €0.16 million recorded in the previous year.

Middlesea Insurance plc registered an increase in turnover of 5.8% during this reporting period, when compared with the 2007 business written in Malta and Gibraltar. The technical results reflect the prudent underwriting strategy adopted by the company. Before the impact of the negative investment return, Middlesea Insurance plc registered a technical result of €1.44 million, as compared to €0.99 million in 2007. Further strengthening was registered in the gross technical reserves of the company, which increased by 8.5% during the six month period to €52.98 million.

The Group's subsidiary in Italy, Progress Assicurazioni S.p.a., has continued to pursue its strategy of growth in the Italian market, with total premium written for the half year totalling €44.77million, an increase of 33.3% compared to the first six months of 2007. The contribution of this entity towards the result after tax of the Group also reflected the negative impact of the international capital markets. These factors led to a loss of €0.52 million from January to June 2008, against a profit of €1.28 million for the comparable period a year earlier.

The turbulence in the financial markets during the first six months of 2008, noted in the interim statement issued in May 2008, has, as expected, had an adverse effect on investors' risk appetite. This in turn, impacted sales of savings and investment products by life insurance companies. This has been the experience of the associate company, Middlesea Valletta Life Assurance Co. Ltd, which has registered a decrease in business written. Total business written during the reporting period amounted to €59.7 million, during the reporting period, as compared to €67.6 million for 2007. With an investment portfolio in excess of €670 million, the investment return of this company has also reflected the negative performance experienced in the financial markets. The contribution towards the Group's result for the six months up to 30<sup>th</sup> June 2008 remains positive at €0.41 million, as compared with €0.9 million for the same period last year.

The Group's gross technical reserves reflect an increase of 7.7% over the reserves at 31<sup>st</sup> December 2007, and totalled €187.27 million at end June. Shareholders' funds amounted to €77.2 million, a reduction of €5.4 million from December 2007. This reduction results from the Group's loss for the period, together with the distribution of dividends of €3.2 million approved by the shareholders during the Annual General Meeting held in June 2008.

## **Outlook**

The core operations of the Middlesea Group's insurance businesses continued to register positive results during the first six months of 2008. The growth in insurance premiums underwritten by the Group, together with a positive technical result, present a satisfactory result overall. Notwithstanding the generally defensive strategies adopted in the allocation of the investment portfolios, the turbulence in the international financial markets, which began in mid summer 2007 and increased significantly during 2008, has had a major impact on the results of the Group for the half year, and has outweighed the positive technical performance achieved. This led to a loss for the period being reported for the first time, following a 27 year history of positive results for the Middlesea Group. The domestic and overseas economic and financial scenarios are expected to continue to present the Middlesea Group, and the insurance industry generally, with challenges during the rest of 2008. Whilst the Group is confident that it has the necessary measures in place to maintain the positive technical performance of its insurance portfolio during the second half of the year, Group results will inevitably continue to be influenced by the turbulence in the financial markets. The Group notes with cautious optimism international suggestions that the financial markets may stabilize over the coming months, after taking further buffeting in July and early August.

The Board of Directors do not propose to pay an interim dividend for the half year ended 30 June 2008 (2007 – nil)