



Middlesea Insurance p.l.c.

CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE 2009

Interim Directors' Report

The consolidated Group Results for the six months to 30th June 2009 report a loss before taxation of €17.7 million and have been materially impacted by the negative results registered by the Italian subsidiary Progress Assicurazioni S.p.A. As reported in the Chairman's report for 2008 and subsequent Company announcements issued on the 15th May and 19th August 2009, the severe challenges of the Italian market have persisted during the first six months of 2009. The operations of Middlesea Insurance p.l.c. performed positively during the first half of the year, and registered a profit before tax and Group company dividends of €1.28 million. International Insurance Management Services Ltd continued to perform well, reporting a pre tax profit of €0.24 million. Our associate life assurance group, Middlesea Valletta Life Assurance Co Ltd reported a pre tax profit of €0.5 million, which profit moved to a minor loss of €0.32 million on a consolidated basis, following a disproportionate tax charge. However, the positive contributions from the domestic operations have been outweighed by the very unsatisfactory results from Progress, and overall the Group is reporting a loss before taxation of €17.7 million for the period.

Report on Group Performance

The operations of Middlesea Insurance p.l.c (the holding company) maintained focus on business underwritten in Malta and Gibraltar, and registered a satisfactory technical result before allocation of investment income of €0.77 million. The prudent underwriting strategy adopted by the company, together with total focus on adequacy of technical reserves, yielded the positive technical performance. Total premium underwritten by the company during the period amounted to €18.8 million, a reduction of 1.7% over the comparative period last year. Total income from insurance operations, after allocation of investment income, amounted to €1.53 million, a significant improvement from the loss of €0.14 million registered as at June 2008. Further strengthening was registered in the gross technical reserves of the company, which increased by 9.8% during the six month period to €55.7 million. The significant improvement on the company's investment income, together with the positive technical performance, yielded a total profit from operations (excluding any Group dividend income) of €1.28 million, as compared to a loss of €1.54 million as at June 2008.

Middlesea Valletta Life Assurance Co Ltd (MSVLA) registered a profit before taxation of €0.5 million. However, the results for the period have been impacted by a disproportionately high taxation charge of €1.1 million, arising from the somewhat anomalous taxation treatment of capital gains and losses. Following a difficult first quarter, the period since March has seen an improvement in sentiment in the investment markets, which improvement has benefited the MSVLA portfolio. Such improvement largely impacts the policyholders' funds rather than the emerging profits to shareholders. The improvement of such performance in favour of policyholders resulted in an increase in the long term technical business provision of €34 million, whilst the technical provisions for linked liabilities also increased by €1.28 million. Total shareholders' funds of MSVLA stood at €90 million at June 2009, and shareholders have already committed to subscribe to a further increase in capital of €2.5 million, to further strengthen the capital base of the company in order to accommodate the continuing growth of its operations.

The operations of the Italian subsidiary, Progress Assicurazioni S.p.A. (Progress) have persisted in negative territory, and contributed a loss of €19.4 million to the Group results for the half year. The further strengthening of technical reserves resulted in an unfavourable movement on prior year's claims of €16.6 million, and this contributed to 86% of the consolidated loss for the period. As reported during the Annual General Meeting held in June 2009, the whole Italian motor liability market is going through a negative cycle, in part due to the impact of the introduction of the Convenzione tra Assicuratori per Risarcimento Diretto (CARD), but also due to increased claims costs and frequency. Progress, which is predominantly a motor liability insurer, along with the rest of the Italian market, is suffering from these negative trends.

During 2008 and 2009, a number of actions directed at improving the situation of Progress have been undertaken, and these included a management restructuring, curtailment of certain classes of business, implementation of premium rate increases, termination of poorly performing agencies, and the engagement of external claims handling experts. Furthermore, the reinsurance programmes of Progress continued to be evaluated, and these have been further strengthened with the purchase of additional cover for losses occurring during 2009. Through to June 2009, a total of 43 agency agreements were terminated, with further agencies being terminated on an ongoing basis. These measures have impacted the premium income written by Progress, which has fallen from €44.8 million last year to €37.1 million at the end of June 2009.

The Board of Directors have determined that the level of business undertaken by Progress should be significantly curtailed, and the company is in discussion with the relevant Regulatory authorities in this regard. As reported during the Annual General Meeting, given the nature of the insurance business, the impact of the corrective measures undertaken do not have a direct and immediate impact on results; however the Board of Directors

remains totally focused on the continuous implementation of the necessary corrective measures, and these efforts will be on-going.

The loss registered by Progress during the first six months of 2009 has also negatively impacted the level of shareholders' funds of the company, and in accordance with the prevailing regulatory requirements, an injection of €4.9 million of capital will take place following an Extraordinary General Meeting of Progress scheduled for the beginning of September 2009.

The Group's subsidiary providing insurance management services to the Group and international clients, International Insurance Management Services, has registered positive results. Fee income increased from €0.77 million last year to €0.98 million this year, and the company contributed €0.24 million to the pre-tax results of the Group compared to the €0.17 million last year. IIMS's international client base now contributes 23% of its revenue. The subsidiary actively pursues insurance/reinsurance companies and captives that favourably consider setting up and operating from Malta.

Overall the Group registered a total gross premium written of €56.7 million during the first half year of 2009. This turnover level represents a reduction of 12.4% over the comparative period of 2008, and results mainly from the measures being undertaken in the subsidiary Progress Assicurazioni S.p.A. The improved sentiment and tone in the world capital markets, witnessed during the second half of the period under review, together with the cautious implementation of the revised investment strategy, resulted in a net positive investment income for the Group of €2.77 million, a marked improvement from the net loss of €3 million registered in 2008. The gross technical reserves increased by 8.5% during the period to the level of €228.7 million as at June 2009, resulting mainly from the further strengthening of technical reserves undertaken in the subsidiary in Italy.

The total assets of the Group increased by 2.1% during the period, with total assets now amounting to €322.5 million. The reported Group loss for the period has however resulted in a decrease in shareholders' funds, which reduced by 27% to €45.2 million. The Board of Directors believes that given the present circumstances and the Group's future plans, it would be appropriate to strengthen the Group balance sheet through the raising of additional capital. Discussions are ongoing with major shareholders and Regulators in this regard, and further information will be provided to all shareholders via a Company Announcement and a Special Meeting immediately there are more specific developments to report.

Outlook

The core operations of Middlesea's local insurance businesses continued to register positive results during the first six months of 2009. The stability in insurance premiums underwritten by the local operations, together with a positive technical result, present a satisfactory result overall. The consistent strategy of Middlesea Insurance p.l.c. to adopt a strict underwriting policy and strength in its reserving, thus focusing on the underwriting results rather than turnover, remain the important elements of how the company continues to do business. The associate company Middlesea Valletta remains wholly committed to delivering on its commitments to the policyholders through a prudent investment strategy. As noted above, the shareholders of MSVLA, namely Bank of Valletta p.l.c. and Middlesea Insurance p.l.c. have agreed to inject further capital of €2.5 million, and will continue to strengthen the MSVLA balance sheet as business grows. As at 30th June 2009, shareholders' equity in MSVLA amounted to €90 million. The operations of the Italian subsidiary remain the biggest challenge for the Group during the remainder of 2009. The implementation of the measures detailed above in curtailing the operations are vital and are directed at contributing to the future stabilization of the results of the operation. The Board of Directors continues to monitor this subsidiary closely, and is committed to implement further measures as deemed appropriate following discussions with the relevant Regulators. As referred to above, the Board is also actively reviewing the balance sheet position of the Group, in order to continue to maintain, as has always been the case, the strength of its shareholders' funds, which provide it with the necessary capital to sustain the growth of its local operations, and provide stability for its Italian subsidiary.

The financial year 2009 is expected to continue to present a challenge for the Middlesea Group results, since the companies forming the Group follow the fortunes of the countries in which they operate. The Italian market is the dominant factor which has outweighed the positive contributions of the other Group companies operating in Malta. The prospect of a return to profitability, together with the enhancement of the Group balance sheet, remain the priority tasks of the Board over the immediate future.

The Board of Directors do not propose to pay an interim dividend for the half year ended 30th June 2009 (2008 – nil)

By Order of the Board
25th August 2009.

Condensed Consolidated Balance Sheet as at 30 June 2009

	Group	
	June 2009	December 2008
	€'000	€'000
ASSETS		
Intangible assets	1,032	1,030
Property, plant and equipment	9,396	9,719
Investment property	10,982	10,978
Investment in associated undertaking	41,677	41,734
Other investments	160,681	168,286
Deferred income tax	12,351	13,223
Reinsurers' share of technical provisions	35,712	29,360
Deferred acquisition costs	7,490	7,446
Insurance and other receivables	33,215	25,203
Income tax receivables	2,265	2,635
Cash and cash equivalents	7,656	6,361
Total assets	322,457	315,975
EQUITY		
Capital and reserves attributable to shareholders	45,204	62,123
Minority interests	8	1,656
Total equity	45,212	63,779
LIABILITIES		
Deferred income tax	1,651	1,525
Provisions for other liabilities and charges	799	912
Technical provisions	228,748	210,883
Borrowings	16,285	16,285
Insurance and other payables	29,729	22,574
Income tax payable	33	17
Total liabilities	277,245	252,196
Total equity and liabilities	322,457	315,975

These condensed financial statements were approved by the Board on 25 August 2009 and were signed on its behalf by:


M.C. Grech
Executive Chairman


R.E.D. Chalmers
Deputy Chairman

Condensed Consolidated Profit and Loss Account Non-technical account for the half year ended 30 June 2009

	Group	
	6 months to 30 June 2009	6 months to 30 June 2008
	€'000	€'000
Balance on the general business technical account	(17,219)	(699)
Balance on the long term business technical account	263	90
	(16,956)	(609)
Share of associated undertaking's (loss)/profit involved in long term business	(317)	409
Total expense from insurance activities	(17,273)	(200)
Other investment income	3,891	3,875
Investment expenses and charges	(1,117)	(6,887)
Allocated investment (return)/expense transferred to the general business technical account	(2,698)	1,679
Other income	986	769
Administration expenses	(1,510)	(1,344)
Loss before tax	(17,721)	(2,108)
Income tax (expense)/credit	(1,281)	496
Loss for the financial period	(19,002)	(1,612)
Attributable to:		
- shareholders	(17,167)	(1,562)
- minority interests	(1,835)	(50)
	(19,002)	(1,612)
Loss per share attributable to shareholders	(68c7)	(6c2)



Middlesea Insurance p.l.c.

CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE 2009

Condensed Consolidated Statement of Comprehensive Income for the half year ended 30 June 2009

	Group	
	6 months to 30 June 2009	6 months to 30 June 2008
	€'000	€'000
Loss for the period	(19,002)	(1,612)
Other comprehensive income/(expense)		
Fair value loss on available-for-sale investments, net of tax	(2)	-
Share of increase/(decrease) in value of in-force business of associated undertaking	250	(649)
Other comprehensive income/(expense) for the period	248	(649)
Total comprehensive expense for the period	(18,754)	(2,261)
Total comprehensive expense attributable to:		
- shareholders	(16,919)	(2,211)
- minority interests	(1,835)	(50)
	(18,754)	(2,261)

Condensed Consolidated Statement of Changes in Equity for the half year ended 30 June 2009

	Attributable to Shareholders						
	Share		Profit & Loss		Minority		Total
	Share Capital	Premium account	Other Reserves	Loss Account	Total	Interest	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance as at 1 January 2008	14,559	2,778	21,551	43,702	82,590	3,243	85,833
Loss for the financial period	-	-	-	(1,562)	(1,562)	(50)	(1,612)
Other comprehensive expense							
Share of decrease in value of in-force business of associated undertaking	-	-	(649)	-	(649)	-	(649)
Total comprehensive expense for the financial period	-	-	(649)	(1,562)	(2,211)	(50)	(2,261)
Dividends for 2007	-	-	-	(3,203)	(3,203)	(123)	(3,326)
Increase in share capital of subsidiary	-	-	-	-	-	122	122
Renominalisation of share capital	441	-	-	(441)	-	-	-
Balance as at 30 June 2008	15,000	2,778	20,902	38,496	77,176	3,192	80,368
Balance at 1 January 2009	15,000	2,778	22,976	21,369	62,123	1,656	63,779
Loss for the financial period	-	-	-	(17,167)	(17,167)	(1,835)	(19,002)
Other comprehensive income/(expense)							
Fair value losses on available-for-sale investments, net of tax	-	-	(2)	-	(2)	-	(2)
Share of increase in value of in-force business of associated undertaking	-	-	250	-	250	-	250
Total comprehensive income/(expense) for the financial period	-	-	248	(17,167)	(16,919)	(1,835)	(18,754)
Dividends for 2008	-	-	-	-	-	(9)	(9)
Increase in share capital of subsidiary	-	-	-	-	-	196	196
Balance as at 30 June 2009	15,000	2,778	23,224	4,202	45,204	8	45,212

Condensed Consolidated Cash Flow Statement for the half year ended 30 June 2009

	Group	
	6 months to 30 June 2009	6 months to 30 June 2008
	€'000	€'000
Net cash (used in)/generated from operating activities	(6,165)	8,430
Net cash generated from/(used in) investing activities	7,272	(9,989)
Net cash generated from/(used in) financing activities	188	(96)
Increase/(Decrease) in cash and cash equivalents	1,295	(1,655)
Movement in cash and cash equivalents		
At beginning of year	6,361	9,899
Net cash inflow/(outflow)	1,295	(1,655)
At end of period	7,656	8,244

Basis of preparation

These condensed financial statements are being published in accordance with Chapters 8 and 9 of the Listing Rules issued by the Listing Authority and in terms of 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 25 August 2009, and have been prepared in accordance with accounting standards adopted for use in the EU for interim financial statements (adopted IAS34, Interim Financial Reporting). They do not include all the information required for full annual financial statements, and should be read in conjunction with the financial statements for the year ended 31 December 2008.

Except as described below, the accounting policies applied in these condensed interim financial statements are the same as those applied by the group in its financial statements as at and for the year ended 31 December 2008:

- The group applies revised IAS1, Presentation of Financial Statements ('IAS 1'), which became effective as of 1 January 2009. The revised standard aims to improve users' ability to analyse and compare information given in financial statements. The adoption of the revised standard has no effect on the results reported in the interim financial statements. It does however result in certain presentation changes in the primary statements including:
 - The presentation of all items of income and expenditure in two financial statements, the 'Profit and Loss Account' and 'Statement of Comprehensive Income'; and
 - The adoption of revised titles for the financial statements.

As required by the adopted IAS 34, Interim Financial Reporting, these interim financial statements include comparative statements of financial position information at the previous financial year end and comparative income statements and statements of comprehensive income information for comparable interim periods of the immediately preceding financial year.

The 'Statements of Comprehensive Income' reports all changes in equity arising from transactions with non-owners. This comprises all items of income and expense that are not recognized in profit or loss as required or permitted by the adopted accounting standards and includes gains and losses on re-measuring available-for-sale financial assets and changes in revaluation surplus and related tax effect.

Related party transactions with other members of the Middlesea Group were at a similar level to the comparable period.

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		Loss before taxation	
	2009	2008	2009	2008
	€'000	€'000	€'000	€'000
Malta	18,408	18,627	1,156	(1,413)
Italy	37,061	44,768	(18,693)	(742)
Gibraltar	1,269	1,390	(183)	50
London	9	(6)	(1)	(3)
	56,747	64,779	(17,721)	(2,108)

Other information

The interim directors' report forms an integral part of these financial statements and contains other relevant information on these financial statements

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 2009, 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 9.44k.2.

M.C. Grech
Executive Chairman

R.E.D. Chalmers
Deputy Chairman