



Middlesea Insurance p.l.c.

CONDENSED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

Review of the business

In 2008, Middlesea Insurance p.l.c. ("MSI Group" and "Group") registered a loss after tax of €20.59 million compared to profit after tax of €6.91 million recorded in 2007. The unprecedented world financial crisis and its effect on the performance of the investment portfolio together with the technical performance of the Italian subsidiary, Progress Assicurazioni S.p.A., led to this adverse turnaround in the financial results of the Group.

During 2008 the Italian subsidiary of the Group, Progress Assicurazioni S.p.A. (Progress), registered a loss after taxation as consolidated in the Group results of €19.1 million. This was due to a number of reasons including the marked deterioration in the loss ratio on the obligatory third party motor business ('RCA') by 24 percentage points. The Italian market generally also suffered deterioration in loss experience on this business. In addition, the introduction of the mandatory Direct Indemnification system in Italy ("CARD") during the early part of 2007 negatively impacted the 2008 technical results. Progress also undertook an intensive exercise of reviewing all technical provisions and during 2008 strengthened further its technical provisions by 28% to €160 million. The company has put into place an action plan to address the new challenges in the Italian market. This includes pruning of the portfolio, focus on the geographical and business mix, together with ensuring adequate pricing.

Middlesea Insurance p.l.c.'s (MSI) technical general business result before allocation of investment income was a profit of €1.48 million compared to the profit of €2.4 million generated during 2007, whilst its technical long term business generated a profit (before allocation of investment income) of €0.298 million consistent with the €0.293 million generated during 2007. Whilst the overall technical result remains satisfactory, a marginal deterioration in the loss ratio was registered, primarily in the motor class of business, which accounts for the reduced profits. The case reserves put in place by the Company however remain solid as is evidenced by the favourable run-off of €3.45 million (2007 – favourable run-off of €3.255) generated during the year.

Total investment income for the Group decreased from a positive return of €8.47 million during 2007 to a negative return of €4.33 million during 2008. The overall Group results were adversely affected by the performance of both the local and foreign equity markets, with net capital losses of €12.2 million registered during 2008 compared to the

€1.1 million registered during 2007. This has had a significant impact on the results for the year and has contributed directly to the loss incurred. Given the overall cautious investment policy adopted, the Group was able to contain the direct impact of the global financial crisis. The MSI Group had no direct exposure to any of the sub-prime or other "toxic" assets that were among the root causes of the crisis.

During 2008 the Group registered an overall increase in turnover, with gross written premiums increasing by 15% from €104.2 million in 2007 to €120 million in 2008. In addition income generated from insurance management services also increased by 39% from €1.31 million to €1.82 million. Premium increases arose principally from the Italian operation where an increase of 20% was recorded with premiums reaching €86 million. Middlesea Insurance p.l.c. also recorded a marginal increase of 3.6%, with total premium generated from both the general business and group life business reaching €34 million compared to the €32.8 million achieved during 2007.

The Group's net technical reserves at the end of 2008 were strengthened by 25% to the level of €181.52 million (2007 - €144.98 million). The net technical reserves as a percentage of net written premium showed a robust ratio of 177% (2007 – 167%). Included within these reserves are provisions in respect of IBNR, IBNER and unexpired risk, which were increased from €16.1 million in 2007 to €26.33 million in 2008.

The negative financial results directly impacted the total equity of the Group as reported in its Balance Sheet. Total equity reduced from €85.83 million to €63.78 million, reflecting a net asset value per share attributable to the shareholders of €2.48 as compared to €3.30 at the end of 2007.

The Group's outlook on its Maltese operations, subject to macroeconomic developments, remains cautiously optimistic, especially given its leading position in the general business insurance market in Malta. The Group aims to continue to deliver a broad and superior range of products that meet the needs of its customers. Whilst acknowledging that 2008 was a very negative year for its Italian operation, the Group is guardedly confident that the remedial measures introduced in this operation should contribute positively towards the performance of this company from 2009.

Notes to the Condensed Financial Statements for the financial year ended 31 December 2008

1 Middlesea Insurance p.l.c is authorised by the Malta Financial Services Authority to carry on long term and general business of insurance under the Insurance Business Act, 1998.

2 Basis of preparation

These condensed financial statements are being published in accordance with Section 20 of the Insurance Business Act and with the Malta Financial Services Authority Listing rule 9.35. These statements have been extracted from the Group's audited financial statements as approved by the Board on 27 April 2009. The statutory financial statements for the financial year ended 31 December 2008 are prepared in accordance with International Financial Reporting Standards as adopted for use by the EU, the Insurance Business Act, 1998 and the Companies Act, 1995.

All comparative financial information has been converted into Euro using the irrevocably Euro Conversion Rate of €1 = Lm0.429300

3 The Board of Directors do not recommend the payment of a final dividend (2007 - € 3,202,888).

4 The audited financial statements of the Group for the year ended 31 December 2008 are exhibited at Middle Sea House, Floriana. These financial statements are available to the public from the Company's Head Office, its Gibraltar Branch, its agents and the Registrar of Companies.

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Middlesea Insurance p.l.c.

CONDENSED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

Condensed Consolidated Profit and Loss Account - Non-Technical Account for the financial year ended 31 December 2008


	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Balance on the general business technical account	(27,705)	6,572	(1,410)	3,745
Balance on the long term business technical account	307	383	307	383
	(27,398)	6,955	(1,103)	4,128
Share of associated undertaking's profit involved in long term business	958	2,627	-	-
Total (loss)/income from insurance activities	(26,440)	9,582	(1,103)	4,128
Other investment income	3,480	7,191	5,210	6,510
Investment expenses and charges	(8,775)	(1,438)	(9,390)	(1,303)
Allocated investment expense/(return) transferred to the general business technical account	3,073	(4,623)	2,886	(1,344)
Other income	1,819	1,457	-	-
Administration expenses	(2,956)	(2,852)	(1,068)	(1,026)
(Loss)/Profit before tax	(29,799)	9,317	(3,465)	6,965
Income tax credit/(expense)	9,207	(2,408)	(160)	(1,706)
(Loss)/Profit for the financial year	(20,592)	6,909	(3,625)	5,259
Attributable to:				
- shareholders	(18,690)	6,750	(3,625)	5,259
- minority interests	(1,902)	159	-	-
	(20,592)	6,909	(3,625)	5,259
(Loss)/earnings per share attributable to shareholders	(74c8)	27c0		

Condensed Consolidated Balance Sheet as at 31 December 2008

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
ASSETS				
Intangible assets	1,030	1,065	607	656
Property, plant and equipment	9,719	5,952	1,100	1,126
Investment property	10,978	10,926	8,367	7,721
Investment in group undertakings	-	-	24,865	25,475
Investment in associated undertaking	41,734	43,077	13,044	11,919
Other investments	168,286	170,155	40,897	48,967
Deferred income tax	13,223	3,301	1,667	-
Reinsurers' share of technical provisions	29,360	28,899	13,645	13,685
Deferred acquisition costs	7,446	6,977	2,583	2,576
Insurance and other receivables	25,203	20,591	9,494	9,011
Income tax receivables	2,635	37	259	-
Cash and cash equivalents	6,361	9,899	3,418	3,076
Total assets	315,975	300,879	119,946	124,212
EQUITY				
Capital and reserves attributable to shareholders	62,123	82,590	36,160	42,887
Minority interests	1,656	3,243	-	-
Total equity	63,779	85,833	36,160	42,887
LIABILITIES				
Deferred income tax	1,525	1,201	1,525	1,201
Provisions for other liabilities and charges	912	884	-	-
Technical provisions	210,883	173,879	50,739	48,796
Borrowings	16,285	16,381	16,285	16,381
Insurance and other payables	22,574	22,209	15,237	14,755
Income tax payable	17	492	-	192
Total liabilities	252,196	215,046	83,786	81,325
Total equity and liabilities	315,975	300,879	119,946	124,212

These condensed financial statements were approved by the Board on 27 April 2009 and were signed on its behalf by:


M.C. Grech
Executive Chairman


R.E.D. Chalmers
Deputy Chairman



Middlesea Insurance p.l.c.

CONDENSED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

Condensed Statement of Changes in Equity for the financial year ended 31 December 2008

GROUP	Attributable to Shareholders					Total €'000
	Share Capital €'000	Share Premium Account €'000	Other Reserves €'000	Profit & Loss Account €'000	Minority Interest €'000	
Balance as at 1 January 2007	14,559	2,778	21,695	39,572	2,933	81,537
Fair value losses on available-for-sale investments, net of tax	-	-	(131)	-	-	(131)
Release on disposal of subsidiary undertaking	-	-	(13)	-	-	(13)
Net expense recognised directly in equity	-	-	(144)	-	-	(144)
Profit for the financial year	-	-	-	6,750	159	6,909
Total recognised (expense)/income for the financial year	-	-	(144)	6,750	159	6,765
Dividends for 2006	-	-	-	(2,620)	(61)	(2,681)
Increase in share capital of subsidiary	-	-	-	-	276	276
Disposal of subsidiary	-	-	-	-	(64)	(64)
Balance as at 31 December 2007	14,559	2,778	21,551	43,702	3,243	85,833
Balance at 1 January 2008	14,559	2,778	21,551	43,702	3,243	85,833
Fair value gains on available-for-sale investments, net of tax	-	-	100	-	-	100
Revaluation of property, plant and equipment, net of tax	-	-	2,834	-	316	3,150
Share of decrease in value of in-force business of associated undertaking	-	-	(1,509)	-	-	(1,509)
Net gains recognised directly in equity	-	-	1,425	-	316	1,741
Loss for the financial year	-	-	-	(18,690)	(1,902)	(20,592)
Total recognised income/(expense) for the financial year	-	-	1,425	(18,690)	(1,586)	(18,851)
Dividends for 2007	-	-	-	(3,202)	(123)	(3,325)
Increase in share capital of subsidiary	-	-	-	-	122	122
Renominalisation of share capital	441	-	-	(441)	-	-
Balance as at 31 December 2008	15,000	2,778	22,976	21,369	1,656	63,779
COMPANY						
Balance as at 1 January 2007	14,559	2,778	177	22,878		40,392
Fair value losses on available-for-sale investments, net of tax	-	-	(131)	-	-	(131)
Release on disposal of subsidiary undertaking	-	-	(13)	-	-	(13)
Net expense recognised directly in equity	-	-	(144)	-	-	(144)
Profit for the financial year	-	-	-	5,259		5,259
Total recognised (expense)/income for the financial year	-	-	(144)	5,259		5,115
Dividends for 2006	-	-	-	(2,620)		(2,620)
Balance as at 31 December 2007	14,559	2,778	33	25,517		42,887
Balance at 1 January 2008	14,559	2,778	33	25,517		42,887
Fair value gains on available-for-sale investments, net of tax	-	-	100	-		100
Net income recognised directly in equity	-	-	100	-		100
Loss for the financial year	-	-	-	(3,625)		(3,625)
Total recognised income/(expense) for the financial year	-	-	100	(3,625)		(3,525)
Dividends for 2007	-	-	-	(3,202)		(3,202)
Renominalisation of share capital	441	-	-	(441)		-
Balance as at 31 December 2008	15,000	2,778	133	18,249		36,160



Middlesea Insurance p.l.c.

CONDENSED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

Condensed Consolidated Cash Flow Statement for the financial year ended 31 December 2008

	Group		Company	
	2008 €'000	2007 €'000	2008 €'000	2007 €'000
Net cash generated from operating activities	10,687	24,132	2,199	4,991
Net cash (used in) / generated from investing activities	(10,927)	(14,637)	1,441	303
Net cash used in financing activities	(3,298)	(4,114)	(3,298)	(4,329)
(Decrease)/increase in cash and cash equivalents	(3,538)	5,381	342	965
Movement in cash and cash equivalents				
At beginning of year	9,899	4,518	3,076	2,111
Net cash (outflow)/inflow	(3,538)	5,381	342	965
At end of year	6,361	9,899	3,418	3,076

Statement pursuant to subarticle C of Article 1 of the Third Schedule of the Insurance Business (Companies Accounts) Regulations, 2000

The statutory financial statements of Middlesea Insurance p.l.c. for the financial year ended 31 December 2008 were approved by the Board of Directors on 27 April 2009. On the same date, the Independent Auditor, PricewaterhouseCoopers, expressed an unqualified opinion on these financial statements.

Notice to all shareholders:

For the purpose of section 126 of the Companies Act 1995, it is hereby notified that 22 May 2009 is the date of reference to establish which shareholders are entitled to receive notice of and will be entitled to attend and vote at the Annual General Meeting of the Company scheduled for Friday 26 June 2009.

Carlo Farrugia
Company Secretary

THE MIDDLESEA GROUP



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The Middlesea Group is composed of Middlesea Insurance p.l.c., International Insurance Management Services Ltd and Progress Assicurazioni SpA. Middlesea Valletta Life Assurance Co. Ltd (MSV) is an associate company of Middlesea Insurance p.l.c. Growth Investments Ltd is a subsidiary of MSV. All the Companies are licensed by the respective regulatory authorities in Malta and Italy. Euro Globe Holdings Ltd, Church Wharf Properties Ltd and EuroMed Risk Solutions Ltd also form part of the Group.

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