

Stock Market Review



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# Middlesea Insurance returns to profits

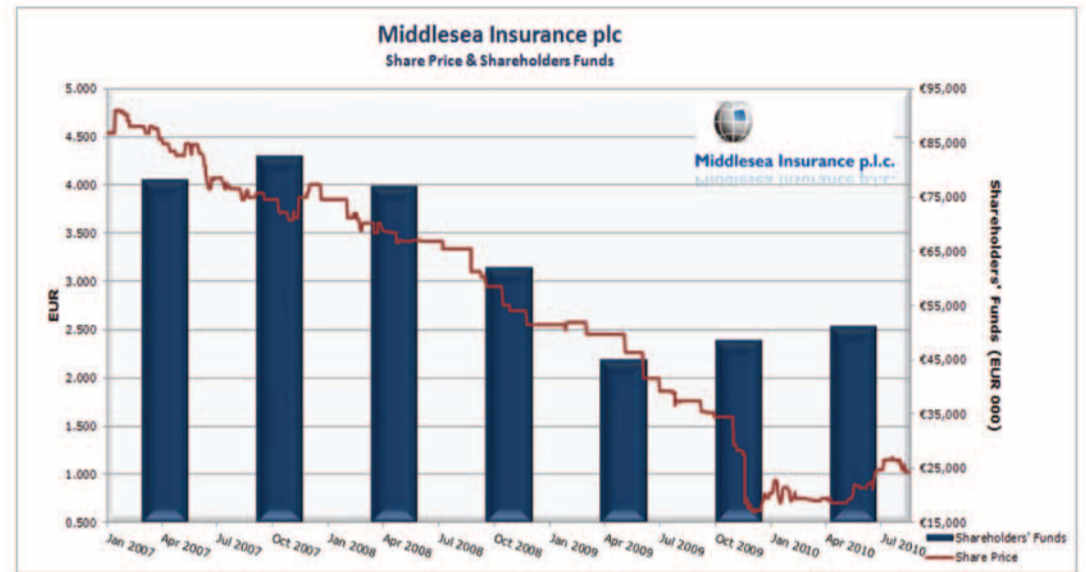
The 2010 half-year results published by Middlesea Insurance plc on August 12 must have been welcome news for shareholders as the financial statements show that the group returned to a profitable position after it rid itself of the Italian subsidiary which had brought the company to its knees.

The Middlesea Group registered a profit before tax of €3.4 million during the first half of the year, a significant improvement when compared to the €0.9 million registered in the same period in 2009 before accounting for the impairment of the Italian investment.

In the 2010 half-year report Middlesea noted that the comparative financial results for 2009 had been restated to reflect the write-off of the investment in the Italian company Progress Assicurazioni SpA. The impairment recorded in the June 2009 results amounted to €19.4 million resulting in an overall loss for the group of €19 million in the first half of 2009.

It is once again very evident from the 2010 interim results how important Middlesea Valletta Life Assurance is to the Middlesea Group. The share of profits from MSV contributed 66 per cent of the total income from insurance activities and 77 per cent of pre-tax profits of the group. The strong turnaround in the performance of MSV from a loss of €0.3 million in the first half of last year to a profit of €2.6 million during the first six months of 2010 was aided by the improved sentiment in the international financial markets.

However the life subsidiary also experienced a 48 per cent growth in premiums written from €50.11 million in the first half of 2009 to €74.19 million in the six months to June 30, 2010, with total assets increasing by seven per cent during the first half of the year from €999 million as at the end of 2009 to €1.066 billion at June 30, 2010. The overall profitability of MSV amounted to €5.22 million with MSI accounting for its 50 per cent share of this profit in the June 2010 half-year report. The other 50 per cent belongs to Bank of Valletta plc.



Shareholders' Funds vs Share Price (2007-2010)

While the performance of MSV improved in the first half of 2010, the same cannot be said of the general insurance activities of Middlesea. The financial statements show that the technical profits of Middlesea declined by 13.2 per cent to €1.3 million despite a 3.2 per cent increase in premiums written. The combined operational ratio for general business deteriorated to 97.40 per cent (a level of 100 per cent denotes a break-even position).

The other subsidiary of the Middlesea Group, International Insurance Management Services, also posted a positive contribution to the group's results following a slight improvement in fee income to €1 million recognised as 'other income' in the Middlesea Group accounts. The pre-tax profit contribution of IIMS to the Middlesea Group amounted to €0.26 million, up from €0.24 million last year. The immediate focus of IIMS is to target non-group clients given the increased frequency of captive insurance companies relocating to Malta.

Group administrative expenses rose by a significant 32.1 per cent to €1.7 million during the first half of the year with no details of this increase given by the directors in the half-year report. Meanwhile, MSV reported that its cost base declined from €2.6 million in the

first half of 2009 to €2.42 million in the six months to June 30, 2010.

Notwithstanding the uncertainty on the performance of financial markets (especially in view of the recent volatility in financial markets in relation to the eurozone debt crisis) and its inevitable impact on the financial performance of the entire Middlesea Group, the directors explained that the Middlesea Group is looking forward to the second half of the year with cautious optimism as it seeks to consolidate further as the leading provider in the local insurance market. Following the decision to place the Italian subsidiary Progress Assicurazioni SpA into administration, Middlesea has re-focused its strategy on the local market.

There was a rather muted reaction to the results on the secondary market of the Malta Stock Exchange with few trades effected following the publication of the results in comparison to the high activity in previous months. The share price managed to regain the €1.10 level on August 23.

Middlesea's share price has been very volatile in recent months but rallied by 36.8 per cent since the start of the year following the announcement on May 17 that the group posted a profit during the first quarter of 2010. The equity had climbed to a high of €1.17 on July 20 and although this is well

below the share price levels of previous years, the movement in the total equity position of the group in recent years should not be overlooked. Total shareholders' funds of the Middlesea Group peaked at €78.3 million in June 2007 and have since fallen to €51.4 million despite the capital injection of €40 million in December 2009 as a result of the rights issue at a price of €0.60 per share.

The decline in shareholders' funds in the past three years represents an actual loss of €66.9 million for shareholders and the downturn in the share price since June 2007 reflects this unfortunate situation. Middlesea's total equity as at June 30, 2010, of €51.42 million translates into a net asset value per share of €0.559.

Shareholders are now looking forward to the company recommencing the payment of dividends. Middlesea had stopped distributing dividends in 2008 (in respect of the 2007 financial year) when the situation in Italy had started to deteriorate rapidly. In the 2010 half-year report the MSI directors stated that the group is compliant with regulatory solvency requirements both for the long-term business activities and for their general business activities and this should help in the decision making on the resumption of dividends to shareholders.

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