

# PROSPECTUS

20 NOVEMBER 2009

2.68 FOR 1 RIGHTS ISSUE OF  
67,000,000 NEW ORDINARY SHARES  
OF A NOMINAL VALUE OF €0.60 EACH  
BY MIDDLESEA INSURANCE P.L.C.  
AT A SHARE ISSUE PRICE OF €0.60 PER SHARE

MANAGER & REGISTRAR



LEGAL COUNSEL



SPONSOR



**Middlesea Insurance p.l.c.**

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This document is a Summary Note issued in accordance with the provisions of Chapter 6 of the Listing Rules issued by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

This Summary Note is issued pursuant to the requirements of Listing Rule 6.4.1 of the Listing Rules and contains information about Middlesea Insurance p.l.c. for which application has been made for admission to trading of its securities on the Malta Stock Exchange. This Summary Note should be read in conjunction with the Registration Document and Securities Note.

This document is dated 20 November 2009

## Summary Note

IN RESPECT OF A RIGHTS ISSUE OF 67,000,000 NEW ORDINARY SHARES  
of a nominal value of €0.60 each  
by



### Middlesea Insurance p.l.c.

**AT A SHARE ISSUE PRICE OF €0.60 PER SHARE  
ISIN: MT0000050105**

Subject to the terms and conditions contained in the Prospectus, the New Ordinary Shares are being offered for subscription by way of rights to Eligible Shareholders on the following basis:

**2.68 New Ordinary Shares at €0.60 per share for every 1 Existing Ordinary Share held and registered in their name at close of business on 12 November 2009 (the "Record Date").**

(Any fractional entitlement shall be rounded to the nearest whole share)

Manager & Registrar



Sponsor



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## IMPORTANT INFORMATION

**THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS AND CONTAINS INFORMATION ON MIDDLESEA INSURANCE P.L.C., ITS SUBSIDIARIES, ASSOCIATED UNDERTAKING AND BUSINESS OF THE GROUP. THE INFORMATION IS BEING MADE AVAILABLE IN CONNECTION WITH A RIGHTS ISSUE BY MIDDLESEA INSURANCE P.L.C. OF 67,000,000 NEW ORDINARY SHARES. THE SHARES HAVE A NOMINAL VALUE OF €0.60 PER SHARE AND ARE BEING ISSUED AT A SHARE ISSUE PRICE OF €0.60 PER SHARE.**

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORISED BY THE COMPANY OR ITS DIRECTORS, TO ISSUE ANY ADVERTISEMENT OR TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE SALE OF THE SECURITIES OTHER THAN THOSE CONTAINED IN THE PROSPECTUS AND IN THE DOCUMENTS REFERRED TO HEREIN IN CONNECTION WITH THE RIGHTS ISSUE HEREBY MADE, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE COMPANY, ITS DIRECTORS OR ADVISORS. THE ADVISORS ENGAGED BY THE COMPANY FOR THE PURPOSE OF THIS RIGHTS ISSUE ARE ACTING EXCLUSIVELY FOR THE COMPANY.

**THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THE PROSPECTUS.**

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (OTHER THAN MALTA) WHICH HAS IMPLEMENTED DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 4 NOVEMBER 2003 ON THE PROSPECTUS TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING OR WHICH, PENDING SUCH IMPLEMENTATION, APPLIES ARTICLE 3.2 OF SAID DIRECTIVE, THE SECURITIES CAN ONLY BE OFFERED TO "QUALIFIED INVESTORS" (AS DEFINED IN SAID DIRECTIVE) AS WELL AS IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE COMPANY OF A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE SAID DIRECTIVE.

A COPY OF THIS DOCUMENT HAS BEEN SUBMITTED TO THE LISTING AUTHORITY IN SATISFACTION OF THE LISTING RULES, THE MALTA STOCK EXCHANGE IN SATISFACTION OF THE MALTA STOCK EXCHANGE BYE-LAWS, AND HAS BEEN DULY FILED WITH THE REGISTRAR OF COMPANIES IN ACCORDANCE WITH THE ACT. APPLICATION HAS BEEN MADE TO THE LISTING AUTHORITY FOR THE SECURITIES TO BE CONSIDERED AS ADMISSABLE TO LISTING ON A REGULATED MARKET IN MALTA. APPLICATION HAS ALSO BEEN MADE TO THE COUNCIL OF THE MALTA STOCK EXCHANGE, AS A REGULATED MARKET, FOR SECURITIES TO BE ADMITTED TO THE OFFICIAL LIST FOLLOWING CONDITIONAL ALLOCATION OF SECURITIES TAKING PLACE UPON RECEIPT OF APPLICATIONS FROM INVESTORS. DEALINGS IN THE NEW ORDINARY SHARES ARE EXPECTED TO COMMENCE ON THE MALTA STOCK EXCHANGE ON 29 DECEMBER 2009.

ALL THE ADVISORS TO THE COMPANY NAMED UNDER THE HEADING "ADVISORS" IN SECTION 1.3 OF THIS SUMMARY NOTE HAVE ACTED AND ARE ACTING EXCLUSIVELY FOR THE COMPANY IN RELATION TO THIS RIGHTS ISSUE AND HAVE NO CONTRACTUAL, FIDUCIARY OR OTHER OBLIGATION TOWARDS ANY OTHER PERSON AND WILL ACCORDINGLY NOT BE RESPONSIBLE TO ANY INVESTOR OR ANY OTHER PERSON WHOMSOEVER IN RELATION TO THE TRANSACTIONS PROPOSED IN THE PROSPECTUS.

THE VALUE OF INVESTMENTS CAN RISE OR FALL AND PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. IF YOU NEED ADVICE, YOU SHOULD CONSULT A LICENSED STOCKBROKER OR AN INVESTMENT ADVISOR LICENSED UNDER THE INVESTMENT SERVICES ACT, CHAP. 370 OF THE LAWS OF MALTA.

**THIS DOCUMENT AND ALL AGREEMENTS, ACCEPTANCES AND CONTRACTS RESULTING THEREFROM SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF MALTA, AND ANY PERSON ACQUIRING ANY SECURITIES PURSUANT TO THE PROSPECTUS SHALL SUBMIT TO THE JURISDICTION OF THE MALTESE COURTS, WITHOUT LIMITING IN ANY MANNER THE RIGHT OF THE COMPANY TO BRING ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR IN CONNECTION WITH ANY PURCHASE OF SHARES OR AGREEMENT RESULTING HEREFROM OR THE PROSPECTUS AS A WHOLE IN ANY OTHER COMPETENT JURISDICTION.**

**STATEMENTS MADE IN THIS DOCUMENT ARE, EXCEPT WHERE OTHERWISE STATED, BASED ON THE LAW AND PRACTICE CURRENTLY IN FORCE IN MALTA AND ARE SUBJECT TO CHANGES THEREIN. THIS DOCUMENT SHOULD BE READ IN CONJUNCTION WITH THE REGISTRATION DOCUMENT CONTAINING INFORMATION ABOUT THE GROUP.**

## WARNINGS

THIS SUMMARY NOTE HAS TO BE READ AS AN INTRODUCTION TO THE PROSPECTUS DATED 20 NOVEMBER 2009 WRITTEN IN ENGLISH AND COMPOSED OF THE FOLLOWING PARTS:

- SUMMARY NOTE
- REGISTRATION DOCUMENT
- SECURITIES NOTE

THIS SUMMARY NOTE IS ALSO BEING PUBLISHED IN THE MALTESE LANGUAGE. IN THE EVENT OF ANY DISCREPANCY BETWEEN THE ENGLISH TEXT AND THE MALTESE TEXT, THE ENGLISH TEXT WILL PREVAIL.

ANY DECISION TO INVEST IN THE NEW ORDINARY SHARES HAS TO BE BASED ON AN EXHAUSTIVE ANALYSIS BY THE INVESTOR OF THE PROSPECTUS AS A WHOLE.

THE DIRECTORS HAVE TABLED THIS SUMMARY NOTE AND APPLIED FOR ITS NOTIFICATION AND ASSUME RESPONSIBILITY FOR ITS CONTENT, BUT ONLY IF THE SUMMARY NOTE IS MISLEADING, INACCURATE OR INCONSISTENT WHEN READ TOGETHER WITH THE OTHER PARTS OF THE PROSPECTUS.

## DEFINITIONS

Save as otherwise defined in this Summary Note, the capitalised terms used herein shall bear the same meaning as that attributed thereto in the Registration Document and Securities Note:

<b>Act</b>	The Companies Act, Chap. 386 of the Laws of Malta;
<b>Business Day</b>	Any day between Monday and Friday (both days included) on which commercial banks in Malta settle payments and are open for normal banking business;
<b>Associated Undertaking or MSV</b>	<p>Middlesea Valletta Life Assurance Company Limited, a limited liability company registered under the Laws of Malta with company registration number C15722 and with registered office at Middle Sea House, Floriana FRN1442, Malta;</p> <p>Unless the context otherwise requires, any reference to the Associated Undertaking or MSV includes Middle Sea Valletta Life Assurance Company Limited and its fully owned subsidiary company, Growth Investments Limited a limited liability company registered under the Laws of Malta with company registration number C21821 and with registered office at Middle Sea House, Floriana FRN1442, Malta. The company is regulated by the Malta Financial Services Authority;</p>
<b>Collecting Agents</b>	The Licensed Members of the Malta Stock Exchange and investment services providers authorised to conduct investment services business by the Malta Financial Services Authority whose names and addresses are set out in Annex A of the Securities Note;
<b>Company or Issuer or MSI</b>	Middlesea Insurance p.l.c., a public limited liability company registered under the Laws of Malta with company registration number C5553 and with registered office at Middle Sea House, Floriana FRN1442, Malta. The company is regulated by the Malta Financial Services Authority;
<b>Directors or Board</b>	The directors of the Company whose names are set out in Section 1 under the heading "Identity of Directors, Executive Management, Advisors and Auditors";
<b>Eligible Shareholders</b>	MSI's Shareholders on the register of the Central Securities Depository at the Malta Stock Exchange as at the Record Date and upon transfer of their entitlement to a third party, their transferee/s;
<b>Euro or €</b>	The lawful currency of the Republic of Malta as from 1 January 2008;
<b>Form of Acceptance, Authority and Election</b>	The Form, substantially in the form set out in Annex B of the Securities Note, issued to Eligible shareholders by the Company in respect of the rights to subscribe for New Ordinary Shares, pursuant to the Rights Issue and pursuant to which Eligible Shareholders shall be entitled to and commit to accept in part, or in full their Proportionate Entitlements and/or apply for Excess Shares or otherwise renounce to their rights in favour of third parties;
<b>ISVAP</b>	Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo (Institute for the supervision of private insurance and public interest) - is an entity with legal personality under Italian public law established, for the exercise of supervisory functions in respect of insurance and reinsurance as well as all others who are subject to the discipline of private insurance, including agents and insurance brokers in Italy;
<b>Lapsed Rights</b>	Rights to New Ordinary Shares not validly taken up by 14:00 hrs on 14 December 2009;
<b>Listing Authority</b>	Such person or body appointed by the Minister of Finance for the purposes of article 11 of the Financial Markets Act, Chap. 345 of the Laws of Malta;
<b>Listing Rules</b>	The listing rules issued by the Listing Authority from time to time;
<b>Malta Financial Services Authority or MFSA</b>	The Malta Financial Services Authority established in terms of the Malta Financial Services Authority Act (Chap. 330 of the Laws of Malta);
<b>Malta Stock Exchange or MSE</b>	The Malta Stock Exchange p.l.c. as originally constituted by the Financial Markets Act, Chap. 345 of the Laws of Malta with registered office at Garrison Chapel, Castille Place, Valletta VLT1063, Malta and bearing company registration number C42525;
<b>Manager and Registrar</b>	Bank of Valletta p.l.c., a public limited liability company registered under the Laws of Malta with company registration number C2833 and with registered office at 58, Zachary Street, Valletta VLT1130, Malta;
<b>Middlesea Group, Middlesea, Middlesea Insurance or Group</b>	The Company, the Subsidiaries and the Associated Undertaking;

<b>New Ordinary Shares</b>	67,000,000 New Ordinary Shares to be issued pursuant to the Rights Issue;
<b>Offer</b>	The invitation to subscribe for rights to the New Ordinary Shares as contained in the Securities Note;
<b>Offer Period</b>	The period between 08:30 hrs on 30 November 2009 and 14:00 hrs on 14 December 2009 (both dates inclusive) during which the rights to the New Ordinary Shares are on offer for subscription;
<b>Ordinary Shares or Shares</b>	The ordinary shares of a nominal value of €0.60 each in the capital of the Company;
<b>Overseas Shareholders</b>	Eligible Shareholders with registered address in, or who are citizens in, or residents of, countries other than Malta;
<b>Proportionate Entitlement</b>	The entitlement of each Eligible Shareholder to subscribe for and be allotted 2.68 New Shares multiplied by the number of Shares registered in the name of such Eligible Shareholder on the Record Date;
<b>Prospectus</b>	This document together with the Registration Document and Securities Note all dated 20 November 2009 in connection with the offer of Securities by the Company;
<b>Record Date</b>	12 November 2009;
<b>RCA</b>	'Responsabilità Civile Auto' - motor third party liability insurance;
<b>Registration Document</b>	The Registration Document issued by the Company dated 20 November 2009, forming part of the Prospectus;
<b>Rights Issue or Issue</b>	The proposed issue by way of rights to the New Ordinary Shares to Eligible Shareholders as described in the Securities Note;
<b>Securities Note</b>	The Securities Note issued by the Company dated 20 November 2009, forming part of the Prospectus;
<b>Shareholders or Ordinary Shareholders</b>	Holders of Ordinary Shares of the Company;
<b>Share Issue Price</b>	The price of €0.60 per Share;
<b>Sponsor</b>	Charts Investment Management Service Limited; a private limited liability company registered under the Laws of Malta with company registration number C7944 and with registered office at Valletta Waterfront – Vault 17, Pinto Wharf, Floriana FRN1913, Malta;
<b>Subsidiaries</b>	Each of: <ul style="list-style-type: none"> <li>(a) Church Wharf Properties Limited, a limited liability company registered under the Laws of Malta with company registration number C25653 and with registered office at Middle Sea House, Floriana FRN1442, Malta;</li> <li>(b) Euro Globe Holdings Limited, a limited liability company registered under the Laws of Malta with company registration number C30503 and with registered office at Middle Sea House, Floriana FRN1442, Malta;</li> <li>(c) EuroMed Risk Solutions Limited, a limited liability company registered under the Laws of Malta with company registration number C37185 and with registered office at Development House, 4<sup>th</sup> Floor, St Anne Street, Floriana FRN9010, Malta;</li> <li>(d) International Insurance Management Services Limited ("IIMS"), a limited liability company registered under the Laws of Malta with company registration number C23610 and with registered office at Development House, 4<sup>th</sup> Floor, St Anne Street, Floriana FRN9010, Malta. The company is regulated by the Malta Financial Services Authority;</li> <li>(e) Progress Assicurazioni S.p.A. ("Progress"), a limited liability company registered under the Laws of Italy with company registration number C.F./P/IVA: 00675700827 and with registered office at Piazza Alberico Gentile 3, 90143 - Palermo, Sicily, Italy. The company is regulated by the Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo ("ISVAP");</li> </ul>
<b>Summary Note</b>	This document in its entirety.

## 1. IDENTITY OF DIRECTORS, EXECUTIVE MANAGEMENT, ADVISORS AND AUDITORS

### 1.1 DIRECTORS AND COMPANY SECRETARY

The Directors of the Company, whose names are set out under the heading “Directors” below, are the persons responsible for the information contained in the Prospectus. Having taken all reasonable care to ensure that such is the case, the information contained in the Prospectus is, to the best of the Directors’ knowledge, in accordance with the facts and contains no omission likely to affect its import.

#### Directors

Mario C. Grech	Executive Chairman
Roderick E.D. Chalmers	Deputy Chairman
George Bonnici	Non-executive Director
Evelyn Caruana Demajo	Non-executive Director
Tonio Depasquale	Non-executive Director
Gaston Debono Grech	Non-executive Director
Javier Fernández-Cid Plañiol	Non-executive Director
John C. Grech	Non-executive Director
Andres Jiménez	Non-executive Director
Victor Galea Salomone	Non-executive Director
Michael Sparberg	Non-executive Director
Lino Spiteri	Non-executive Director
Joseph F.X. Zahra	Non-executive Director

#### Company Secretary

Carlo Farrugia

### 1.2 GROUP EXECUTIVE MANAGEMENT

Mario C. Grech	Executive Chairman
David G. Curmi	Chief Executive Officer – MSV
Stephen Gauci	Chief Executive Officer – Progress
Anne Marie Tabone	Group Chief Financial Officer & General Manager IIMS

### 1.3 ADVISORS

#### Legal Counsel

Mamo TCV Advocates  
Palazzo Pietro Stiges, 90 Strait Street, Valletta, VLT 1436, Malta

#### Sponsor

Charts Investment Management Service Limited  
Valletta Waterfront - Vault 17, Pinto Wharf, Floriana, FRN 1913, Malta

#### Manager & Registrar

Bank of Valletta p.l.c.  
BOV Centre, Cannon Road, St Venera, SVR 9030, Malta

### 1.4 AUDITORS

PricewaterhouseCoopers  
167, Merchants Street, Valletta, VLT 1174, Malta

PricewaterhouseCoopers is a firm of Certified Public Accountants holding a practicing certificate to act as auditors in terms of the Accountancy Profession Act, 1979 (Chap. 281, Laws of Malta).

## 2. OFFER STATISTICS AND EXPECTED TIMETABLE OF PRINCIPLE EVENTS

<b>Issuer</b>	Middlesea Insurance p.l.c. (registration no. C5553);
<b>Amount</b>	67,000,000 New Ordinary Shares;
<b>Form</b>	The New Ordinary Shares will be issued in fully registered and dematerialised form and will be represented in uncertified form by the appropriate entry in the electronic register maintained on behalf of the Issuer at the Central Securities Depository of the Malta Stock Exchange;

<b>Currency</b>	Euro;
<b>Ratio</b>	2.68 New Ordinary Shares for every one Existing Share as at the Record Date;
<b>Nominal Value</b>	€0.60;
<b>Share Issue Price</b>	€0.60;
<b>Record Date</b>	12 November 2009;
<b>Offer Period</b>	The period between 08:30 hrs on 30 November 2009 and 14:00 hrs on 14 December 2009 during which the rights to New Ordinary Shares are on offer;
<b>Lapsed Rights</b>	Rights to New Ordinary Shares not taken up by the closing of the Offer Period;
<b>Admission to Listing (expected)</b>	28 December 2009;
<b>Commencement of Dealings in the New Ordinary Shares (expected)</b>	29 December 2009;
<b>Law &amp; Jurisdiction</b>	This Rights Issue is governed by and must be construed in accordance with the Laws of Malta. The Maltese courts shall have exclusive jurisdiction to settle any disputes arising out of or in connection with the Rights Issue.

### 3. KEY INFORMATION

#### 3.1 CAPITALISATION AND INDEBTEDNESS

The following table sets forth the capitalisation and indebtedness of the Company as at 30 September 2009 on an actual basis, as well as adjusted for the issuance of 67,000,000 New Shares at the Share Issue Price of €0.60 and the subordinated loan.

##### Balance Sheet (Unaudited) As at 30 September 2009

	<b>Actual €'000</b>	<b>Adjusted €'000</b>
<b>EQUITY</b>		
Capital and reserves attributable to shareholders	<b>40,127</b>	79,827
Minority interests	<b>10</b>	10
	<b>-----</b>	<b>-----</b>
	<b>40,137</b>	79,837
	<b>-----</b>	<b>-----</b>
<b>INDEBTEDNESS</b>		
Borrowings	<b>16,285</b>	24,785
	<b>-----</b>	<b>-----</b>
<b>Total capitalisation and indebtedness</b>	<b>56,422</b>	104,622
	<b>=====</b>	<b>=====</b>

In addition to the above, the Company has given guarantees to third parties amounting to €175,775 not arising under contracts of insurance.

#### 3.2 REASONS FOR THE OFFER AND USE OF PROCEEDS

The losses incurred at Progress in the course of 2008 and 2009 (discussed in detail in the Registration Document) have significantly eroded the Group's capital base from €85.8 million at 31 December 2007 to €40.1 million at 30 September 2009.

The amount of €39.7 million, being the proceeds of the Rights Issue less Issue expenses, shall be applied exclusively to reinstate the capital resources, and the regulatory and statutory requirements of the Group. It is currently envisaged that the proceeds will be applied through equity injections in the following entities:

- An amount of €10 million will be retained by the Issuer to increase its capital base;
- An amount of €3.7 million will be invested by the Issuer into Middlesea Valletta Life Assurance Co. Ltd to enhance its capital base;
- An amount of €26 million will be invested in Progress Assicurazioni S.p.A. to rebuild its capital base. Progress will utilise part of the said proceeds, estimated at €21 million, to cover costs relating to the rightsizing of the operation and reinsurance cover protecting it from adverse runoff on claims that occurred prior to 31 December 2008.

The exact application of the net proceeds from the Rights Issue may change solely to meet the exact regulatory demands and solvency requirements of the Group. These changes are not expected to be materially different to what is currently contemplated.

In addition to the funds raised through the Rights Issue detailed in this document, Progress has initiated discussions with credit institutions to raise further funds of €8.5 million through a subordinated loan in order to return to a position where it satisfies its statutory and regulatory capital requirements which are currently not being met. As detailed in 3.3.6 below, this subordinated loan is subject to regulatory approval in Malta and Italy. In the event that Progress is not successful in securing the subordinated loan, the Company will dispose of assets in a manner that will not impinge on its statutory and regulatory capital requirements and thereby replace the amount that would otherwise have been raised through the subordinated loan.

### **3.3 RISK FACTORS**

**Potential investors should thoroughly review the following specific risk factors in addition to the other information contained in the Prospectus before deciding to purchase the offered securities. Any of these risks could have a material adverse effect on the assets, financial position and earnings of the Middlesea Group. Any of these risks could cause the share price of the Company to fall and investors could lose part or all of their investment.**

**This document includes statements that are, or may be deemed to be, “forward-looking statements”. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and should therefore not be construed as such.**

#### **RISKS RELATED TO THE BUSINESS**

##### **3.3.1 Insurance Risk**

**MSI, MSV and Progress are engaged in insurance activities, which are subject to various risks as outlined below. If any of these risks is not managed properly, this could have a material adverse effect on the assets, financial condition and results of operations across the Middlesea Group, impacting on the Issuer, on MSV and on Progress.**

###### **a) *Non-life business conducted by MSI and Progress***

**The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is fortuitous.**

**The terms and conditions of the contracts set out the bases for the determination of the Group’s liability should the insured event occur. The risks underwritten include accident and health, motor (including third party liability), marine and transport, fire and other damage to property and liability.**

**For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments are significantly different to the amounts included within technical provisions. This could occur because the frequency or severity of claims and benefits are greater or lower than estimated. Insurance events are fortuitous and the actual number and amount of claims and benefits may vary from year to year from the estimate established using statistical techniques.**

**Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.**

###### **(i) *Frequency and severity of claims***

**The frequency and severity of claims can be affected by several factors. The following are considered by the Group to be the most significant:**

- **The increasing levels of court awards in cases where damages are suffered as a result of injuries; the divergence of awards that is dependant on the territory of the claim and the jurisdiction of the court; the effect of inflation due to the prolonged period typically required to settle such cases.**
- **The concentration of motor third party liability insurance mainly located within the Italian operation, in particular in Campania and Sicily.**
- **The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.**
- **The increase in the number of reported claims as a result of the introduction of the obligatory direct indemnification system (CARD) in Italy.**

**The introduction of the obligatory direct indemnification system in the Italian market has exposed Progress to claims from injured parties being indemnified for property damage and minor bodily injuries (defined as up to 9% disability) even if they are only covered by third party risk. The Italian operation is entitled to recover from the insurers of the driver at fault an amount that is determined in accordance with a stipulated formula. This system can have an important impact on the fault experience in relation to its premium rates payable. In addition, the system of recovery from other insurance companies exposes the operation to potential variability especially given the relatively small portfolio of business compared to the whole Italian market.**

*(ii) Sources of uncertainty in the estimation of future claim payments*

The Group is liable for all insured events that occur during the term of a contract, even if the loss is discovered after the end of the contract term. As a result, the estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where information about the claim event is generally available. Certain classes of business, most notably those exposed to liability, can take several years to develop and are therefore subject to a greater degree of uncertainty than other classes of business which are typically settled in a shorter period of time.

The assumptions used in conventional statistical or actuarial models used in the estimation of claims reserves may differ from actual future results. In particular, the model used for determining Progress's technical reserves is influenced by estimated loss ratios adjusted for premium rate changes, anticipated market experience and historical claims inflation.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established.

*b) Life business conducted in the main by MSV*

Life Business is conducted by the Group in the main through its associated undertaking, MSV. Group life operations are also conducted by MSI.

*(i) Frequency and severity of claims*

For contracts where death is the insured risk, the most significant factor that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts with a discretionary participation feature (DPF), the participating nature of the contracts results in a portion of the insurance risk being reduced over the term of policy. Investment contracts with DPF carry negligible insurance risk.

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality, and the variability in contract holder behaviour.

*(ii) Actual results could deviate from the actuarial and other assumptions made in calculating the actuarial reserves in the life insurance businesses and in computing the value of in-force business*

The assumptions used in calculating actuarial reserves and the value of in-force business may differ from actual future results. Changes in these assumptions or incorrect assumptions may lead to an increase of the actuarial reserves for the life insurance business and to changes in the value of in-force business.

*c) Reinsurance*

The lack of available reinsurance protection or the availability of reinsurance protection at increased costs and/or the inability/untimely payment by the reinsurers, could have a material adverse effect on the earnings of MSI, Progress and MSV.

*d) Distribution channels*

The Group's insurance businesses distribute their products through a combination of direct sales and of third part distributors that include tied insurance intermediaries, insurance brokers and agents.

The Group may accordingly be exposed to the risk of distributors seeking to terminate their business relationship, which could lead to a loss of business. The Group may also be exposed to the risk of distributors improperly applying the policies of the Group, eg. with regards to the acceptance of risk and the handling of claims, leading to inadequate pricing and to losses.

Progress has recently concluded an exercise leading to the termination of the representation contracts of a large number of agents. This process may expose this subsidiary to the risk of litigation and to termination payments that are higher than the amounts currently envisaged by the company.

*e) Market competition*

The insurance markets in Malta, Gibraltar and Italy are highly competitive, with several factors affecting the Middlesea Group's ability to sell its products, including price and yields offered, financial strength, range of product lines and product quality, brand strength and name recognition, investment management performance and historical bonus levels. In some of its markets the Group faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates or claims-paying ratios.

### 3.3.2 Market Risks

#### a) *Interest rate fluctuations may have a negative impact on the earnings of the Middlesea Group*

The Middlesea Group is exposed to market risk, which is the danger of losses resulting from changes in market parameters. Accordingly, interest rate fluctuations in the Euro zone significantly influence the value of the Group's financial assets.

#### b) *Market risks may reduce the value of the equity portfolio and negatively influence the financial and earnings position of the Middlesea Group*

The Middlesea Group has an equity portfolio, including shares held through funds. The share assets of the Middlesea Group include investments in companies whose shares are listed primarily on European stock exchanges, including the Malta Stock Exchange. Share values on European stock exchanges and the Malta Stock Exchange were subject to strong fluctuations and a significant downward trend during 2008 and the first quarter of 2009, but have since partially recovered. Should the equity markets move downwards, or continue to fluctuate to a similar or greater degree, this could lead to considerable valuation changes with an effect on the annual results and on shareholders' equity.

#### c) *The Issuer's businesses are inherently subject to the impact of adverse economic conditions*

In all markets in which Middlesea Group operates, its businesses are susceptible to general economic conditions, which can change the level of demand for Middlesea's products. The recent uncertain trends in international economic and investment climates which have adversely affected the Issuer's business and profitability could be repeated.

#### d) *Asset-Liability Matching*

The market risks exposures noted above can further expose the Middlesea Group to the risk of mismatch between the value of investments and that of technical provisions (Asset-Liability Matching). The Group seeks to match the term, nature and currency of both assets and liabilities. Market risks could impact on the value and liquidity of assets without a corresponding impact on the matching liabilities.

### 3.3.3 Credit Risk

The Middlesea Group is exposed to counterparty default risk. Third parties that owe the Middlesea Group money, securities or other assets, may no longer be in a position to fulfill their obligations to the Middlesea Group.

### 3.3.4 Operational Risks

The Middlesea Group, like any other organisation in the financial service sector, is exposed to a number of risks falling under this category, as highlighted hereunder.

#### a) *Key succession planning*

The loss of specialised employees occupying key critical posts within the different business units making up the Group could result in a loss of know-how.

#### b) *External fraud risk*

The Middlesea Group is exposed to the risk of damages arising as a result of illicit manipulation. Such manipulation, if not countered by effective control, would lead to financial losses.

#### c) *The Middlesea Group depends to a great extent on the support of complex IT systems, which could be considerably impaired by internal and external factors*

The Middlesea Group is dependent on the functioning of an efficient IT system (hardware and software). The partial or complete failure of the Middlesea Group's IT systems, accompanied by a breakdown in back-up resources, could lead to a significant disruption of business processes, a temporary shutdown of business operations, to claims for damages and/or a loss of customers.

#### d) *Compliance risks*

Regulatory conditions for the Middlesea Group can change; non-compliance with regulatory requirements could result in the imposition of sanctions or can have other adverse effects.

### 3.3.5 Contagion Risks

Contagion risks are a combination of risks which a parent company may sustain as a result of the actions / circumstances / risks affecting any of its' subsidiaries, and vice-versa.

Progress Assicurazioni S.p.A. is currently experiencing a very challenging period under circumstances that are explained in Sections

5 and 6 of this document and which has led to the Group as a whole incurring material losses. This subsidiary has presented the Issuer with a series of challenges such as the need to raise capital in order to continue servicing the considerably reduced business of Progress and at the same time comply with statutory and regulatory requirements which at the moment are not being met.

The raising of new capital by the Group and the subordinated loan, described in Section 3.3.6 below, will enable Progress and the Group to return to a position where they satisfy their statutory and regulatory capital requirements.

Steps have been taken to bring these problems to a closure, terminating the representation of a large number of agents, re-sizing the scale of the company's operations and acquiring substantial reinsurance cover to minimise the impact that Progress could have on the future operations of the Group. With respect to 2009, in particular until all policies relating to closed agencies expire, the Group remains exposed to the risk of further losses beyond those reflected in its forecast results for the year ending 31 December 2009, up to the level of the reinsurance treaties entered into.

### **3.3.6 Future funding risk**

In addition to the €40.2 million new capital being raised by the Company of which €26 million will be injected as capital in Progress, further funding of €8.5 million will be required by Progress to return to a position where it satisfies its own and consequently the Company's statutory and regulatory capital requirements which are currently not being met. Progress has initiated discussions with credit institutions for the issuance of the said subordinated loan which will be subject to regulatory approval in Malta and Italy. In the event that Progress is not successful in securing the subordinated loan, the Company will dispose of assets in a manner that will not impinge on its statutory and regulatory capital requirements and thereby replace the amount that would otherwise have been raised through the subordinated loan.

The Directors are of the view that, after having made due and careful enquiry and taking into account the net proceeds of the Rights Issue, the subordinated loan and available facilities, the working capital available to the Company will be sufficient for its present requirements, that is, for at least twelve months from the date of the Prospectus.

Should the Company need to raise further funds in the future, either to undertake new investment proposals or to meet unexpected losses, there is no guarantee that the prevailing market conditions will be conducive to such financing, or that shareholder support would be forthcoming.

## **RISKS RELATED TO THE SHARES**

### **3.3.7 Trading and Liquidity of the Securities**

- a) The price at which the New Ordinary Shares will trade and the price which the Eligible Shareholders may realise for their New Ordinary Shares will be influenced by a large number of factors, including the Issuer's proposed operations, the ability to implement successfully its intended restructuring and development plans and general economic conditions.
- b) Eligible Shareholders need to be aware that failure to take up their rights under the Rights Issue will entail a dilution of their percentage ownership of the Issuer's Ordinary Shares.

### **3.3.8 Shares in Public Hands**

In terms of the Listing Rules, an Issuer must have at least twenty-five percent (25%) of its listed share capital in the hands of the public. Should a substantial number of Eligible Shareholders falling under the definition of 'public' opt not to take up their entitlement as set out in Section 5.1 of the Securities Note, the number of Shares in public hands subsequent to the Rights Issue could fall below the 25% threshold. In such an eventuality the Issuer would be in breach of the said Listing Rules, which could possibly lead to the delisting of the Company from the Official List of the Malta Stock Exchange. Exceptionally, the Listing Authority may accept a lower percentage of Shares in the hands of the public provided that the market continues to operate properly.

The delisting of the Company would have adverse effects on the marketability and transferability of the Shares and on the fiscal impacts on Share transfers.

### **3.3.9 Right to Dividend**

The Directors of the Company are not obliged to recommend the payment of a dividend on a yearly basis. As a result, holding Shares in the Company does not guarantee payment of a dividend.

### **3.3.10 Value**

The value of investments can rise or fall, and past performance is not necessarily indicative of future performance. If in need of advice, you should consult a licensed stockbroker or an investment adviser licensed under the Investment Services Act, Chap. 370 of the Laws of Malta.

## 4. INFORMATION ABOUT THE COMPANY

### 4.1 HISTORICAL DEVELOPMENT

#### 4.1.1 Introduction

Legal Name of Company	Middlesea Insurance p.l.c.
Registered Address	Middle Sea House, Floriana FRN1442, Malta
Place of Registration and Domicile	Malta
Registration Number	C5553
Date of Registration	29 June 1981
Legal Form	The Company is lawfully existing and registered as a public limited company in terms of the Act
Telephone No.	+356 21 246262
Fax No.	+356 21 248195
Email Address	middlesea@middlesea.com
Website	www.middlesea.com

#### 4.1.2 Important Events in the Development of the Company

Middlesea Insurance p.l.c. was registered as Middle Sea Insurance Company Limited under the Commercial Partnerships Ordinance 1962 on 29 June 1981. The Company began trading on 1 July 1981 on the strength of a licence issued under the Insurance Business Act 1981. At the time, Middlesea was Malta's only locally registered insurance company and from its inception transacted business in all classes of insurance and reinsurance.

In 1991 Middlesea established a subsidiary company – International Insurance Management Services Ltd – specialising in risk management, insurance and reinsurance company formation and management (including captives).

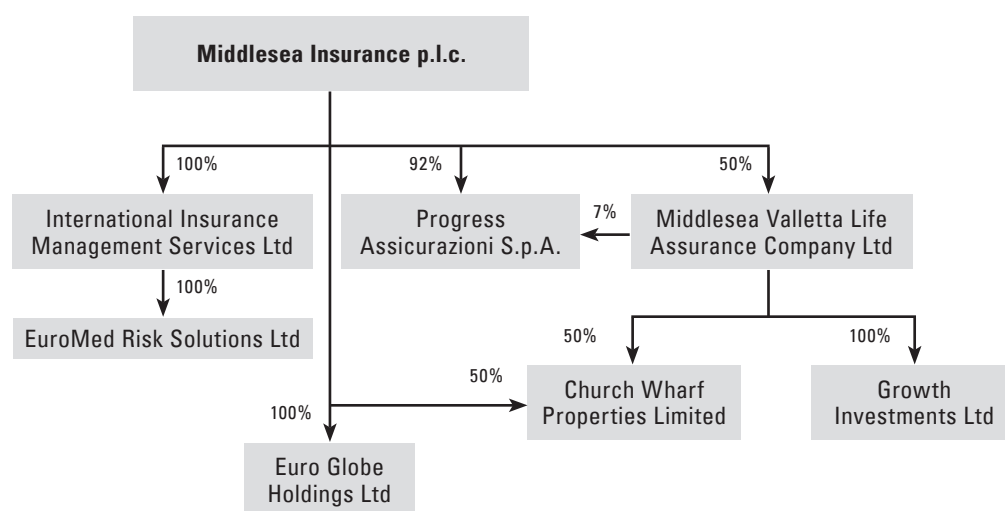
Middlesea Valletta Life Assurance Company Limited was established in 1994 and commenced operations on 2 September. This specialist life assurance company introduced the concept of bancassurance in Malta. It was also directed at the enhancement and enlargement of the local life assurance industry based on a European model.

The entry of Middlesea Insurance into foreign countries as a direct insurer was launched in 2000 with the opening of an office in Gibraltar following the issue of a licence from the Financial Services Commission of Gibraltar and the signing of an agreement with Mascarenhas Insurance and Finance Ltd who were appointed representative agents for Middlesea Insurance. Furthermore, an agreement with the Spanish company Corporacion Mapfre Compania Internacional de Reaseguros S.A. was signed on 28 September 2000. Through this agreement, Middlesea acquired a 51% shareholding in Progress Assicurazioni S.p.A. and commenced direct insurance operations in the Italian market.

Middlesea Insurance acquired a further 41% of the shares in Progress Assicurazioni S.p.A. through subsequent transfers and issues of new shares, while a 7% shareholding in Progress is currently owned by Middlesea Valletta Life Assurance Company Limited.

### 4.2 ORGANISATIONAL STRUCTURE

The diagram below indicates the structure of the Group as at 30 September 2009.



As can be seen from the above, the Issuer is the parent company of the Middlesea Group. The major shareholders of MSI are listed in Section 9.1 below. A description and further details on each company are set out below.

## 4.3 BUSINESS OVERVIEW

### 4.3.1 Principal Activities

#### *Principal Activities of the Company*

Middlesea Insurance p.l.c. is a company authorised under the Insurance Business Act, Chap. 403 of the Laws of Malta, to carry on both long term and general business and is regulated by the Malta Financial Services Authority.

The Company conducts its operations primarily in Malta, and operates through an appointed agent in Gibraltar.

The Company's general business operations comprise all the non-life classes of business underwritten in Malta and Gibraltar, including Motor, Home, Health, Yacht & Pleasure Craft, Professional Indemnity and Asset and Liability Protection. The Company's long term business includes the provision of Group Life protection to its corporate customers.

#### *Principal Activities of the Company's Subsidiaries and Associate Undertaking*

Progress Assicurazioni S.p.A. is the group company dedicated to the Italian non-life market. The company offers a variety of insurance products and services in Italy including Motor, Home, Business and Professional Indemnity. This company is in the course of being restructured as amplified upon later on in this document.

Progress is a company registered and licensed in Italy, and is accordingly regulated by ISVAP.

Middlesea Valletta Life Assurance Company Limited is a company licensed to carry on long term business of insurance under the Insurance Business Act, Chap. 403 of the Laws of Malta. It is principally engaged in the provision of individual life insurance, savings and investment products and retirement planning schemes. Growth Investments Limited (a subsidiary company of MSV) is authorised to provide investment services in terms of the Investment Services Act, Chap. 370 of the Laws of Malta. The company is the exclusive representative of Fidelity International in Malta and an authorised distributor of Schroders investment funds.

International Insurance Management Services Ltd provides insurance management services to the insurance entities within the Group and international clients that set up their insurance/reinsurance company in Malta. IIMS is licensed in terms of the Insurance Intermediaries Act, Chap. 487 of the Laws of Malta, and is regulated by the Malta Financial Services Authority.

EuroMed Risk Solutions Limited was set up in 2005 to complement the services provided by International Insurance Management Services Ltd to companies which are not licensed insurance or reinsurance companies. Services provided include accounting, company secretarial and administration of companies. EuroMed Risk Solutions Limited commenced operations in 2008.

Euro Globe Holdings Ltd deals in various investments including property, equities and fixed income securities.

Church Wharf Properties Ltd is a property company jointly owned by the Company and MSV.

### 4.3.2 Principal Markets

The Group is organised on a worldwide basis into four geographical segments that are all principally involved in the business of general insurance: Malta, Italy (where the Group's business is in the course of being materially reduced), Gibraltar and London (discontinued). Gross premiums written for the year ended 31 December are as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Malta	<b>31,121</b>	29,608	27,818
Italy (in the course of being materially reduced)	<b>86,056</b>	71,396	52,798
Gibraltar	<b>2,842</b>	3,179	3,215
London – discontinued	<b>28</b>	19	17
	<b>120,047</b>	104,202	83,848

As can be seen from the above table, the Italian operations conducted by Progress have in the past three years constituted a material proportion of the consolidated premium income of the Group. Following the re-sizing of Progress' operation in line with the measures undertaken to address the losses sustained by this subsidiary, its written premium is expected to reduce to circa €26 million in 2010.

The Group's four geographical segments operate in two main business segments, general business, that is further sub-divided into various insurance business classes, and long-term business. Gross premiums written for the year ended 31 December are as follows:

	<b>2008</b> <b>€'000</b>	<b>2007</b> <b>€'000</b>	<b>2006</b> <b>€'000</b>
<b>General Business</b>			
Motor (third party liability)	<b>69,863</b>	57,311	42,970
Motor (other classes)	<b>22,813</b>	20,545	17,598
Fire and other damage to property	<b>8,281</b>	9,315	8,851
Accident & health	<b>12,981</b>	11,035	8,676
Other classes	<b>4,427</b>	4,526	4,360
	<b>118,365</b>	102,732	82,455
<b>Long-term Business</b>			
Direct insurance	<b>1,670</b>	1,459	1,381
Reinsurance inwards	<b>12</b>	11	12
	<b>1,682</b>	1,470	1,393
	<b>120,047</b>	104,202	83,848

#### 4.3.3 Distribution network

The Middlesea Group sells insurance products through its own offices and via a network of agents and intermediaries in Malta and overseas. The Group's offices and distribution network are listed in Annex A of the Registration Document are shown following the termination of 116 agency contracts by Progress described in further detail below.

#### 4.4 INVESTMENTS IN GROUP UNDERTAKINGS

##### Progress Assicurazioni S.p.A.

On 29 December 2006, Progress Assicurazioni S.p.A. ("Progress") announced an issue of share capital whereby it increased its authorised and issued share capital from €17.6 million to €21.6 million. On 30 April 2007, following a bonus issue, the authorised and issued share capital further increased to €22.1 million. The said issues were fully subscribed and thus the Company retained its shareholding in this unlisted Italian company at 89.98% of issued share capital.

On 27 December 2007, Progress Assicurazioni S.p.A. announced an issue of share capital to increase its authorised and issued share capital by €2.2 million to €24.3 million. The Company subscribed for its 89.98% share of issued share capital amounting to €2 million. On 22 April 2008, following a bonus issue the authorised and issued share capital further increased to €25.6 million.

As a result of the financial loss incurred by Progress in 2008, the issued share capital was adversely affected and reduced to €17.6 million. The Annual General Meeting of Progress held on 30 April 2009 approved certain changes in order to cover the loss incurred in the financial year 2008 including (i) the utilisation of €6.1 million from existing reserves and (ii) a reduction in the nominal share value to €0.0069 (from €0.01). This resulted in a total reduction of €8 million in the total value of the issued shares. Furthermore the AGM approved a new capital injection of €1.96 million which was fully subscribed. As a result of the foregoing the total authorised and issued share capital of the company as at 30 April 2009 reached €19.6 million.

The loss registered by Progress during the first six months of 2009 has further 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 took place following an Extraordinary General Meeting of Progress held on 8 September 2009. Further injections in respect of future capital increases of €5.5 million and €4 million were effected on 30 September and 4 November respectively to meet the further losses sustained by Progress in the third quarter of 2009.

It is expected that a further capital investment will be made in Progress towards the end of 2009 out of the proceeds of the Rights Issue and that a subordinated loan as detailed in Section 3.3.6 will also be required for Progress to return to a position where it meets its statutory and regulatory capital requirements.

##### Middlesea Valletta Life Assurance Company Limited

On 24 April 2006, a bonus issue of €3.26 million was declared by Middlesea Valletta Life Assurance Company Limited following the capitalisation of dividend. Concurrently, there was a further issue of €2.33 million whereby the issued share capital of the company was increased to €25.62 million. A further issue of €4.66 million took place on 15 December 2006 whereupon the issued share capital increased to €30.28 million. The said issues were fully subscribed. On 23 April 2007, following another capitalisation of dividend and the issuance of a bonus issue, the issued share capital was further increased to €34.94 million. Furthermore the authorised share capital was increased to €46.59 million. During 2008, MSV further strengthened its issued and paid-up capital to €39.75 million through a bonus share issue whilst the authorised share capital was increased from €46.59 million to €50 million. On 30 April 2009 the issued share capital of MSV was increased to €41.75 million following a bonus issue of €2 million after a capitalisation of dividend.

A further increase in the issued share capital of MSV of €2.5 million was effected on 31 August 2009 through a fresh issue of shares which was fully subscribed. As a consequence the issued share capital of MSV increased from €41.75 million to €44.25 million. On 31 August 2009, the authorised share capital was increased from €50 million to €60 million.

## 5. OPERATING AND FINANCIAL REVIEW

The financial information about the Issuer is included in the consolidated annual report & audited financial statements for each of the financial years ended 31 December 2006, 2007 and 2008, and in the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2009 and nine months ended 30 September 2009. The said statements have been published and are available at the Issuer's registered office.

The following information is extracted from the Company's consolidated annual report & audited financial statements for the financial years ended 31 December 2006, 2007 and 2008, and the unaudited consolidated interim financial statements for the six-months ended 30 June 2009 and the nine months ended 30 September 2009.

### Consolidated Profit and Loss Account Non-Technical Accounts For the financial years ended 31 December

	<b>2008</b> <b>€'000</b>	<b>2007</b> <b>€'000</b>	<b>2006</b> <b>€'000</b>
Balance on the general business technical account	<b>(27,705)</b>	6,572	5,366
Balance on the long term business technical account	<b>307</b>	383	655
	<b>(27,398)</b>	6,955	6,021
Share of associated undertaking's profit involved in long term business	<b>958</b>	2,627	3,466
Total (loss)/income from insurance activities	<b>(26,440)</b>	9,582	9,487
Other investment income	<b>3,480</b>	7,191	7,293
Investment expenses and charges	<b>(8,775)</b>	(1,438)	(1,604)
Allocated investment expense/(return) transferred to the general business technical account	<b>3,073</b>	(4,623)	(4,654)
Other Income	<b>1,819</b>	1,457	1,383
Administrative expenses	<b>(2,956)</b>	(2,852)	(3,388)
<b>(Loss)/Profit before tax</b>	<b>(29,799)</b>	9,317	8,517
Income tax credit/(expense)	<b>9,207</b>	(2,408)	(1,011)
<b>(Loss)/Profit for the financial year</b>	<b>(20,592)</b>	6,909	7,506
Attributable to:			
- shareholders	<b>(18,690)</b>	6,750	7,399
- minority interests	<b>(1,902)</b>	159	107
	<b>(20,592)</b>	6,909	7,506
<b>(Loss)/earnings per share attributable to shareholders</b>	<b>(74c8)</b>	27c0	29c6

### Balance Sheet (Extracts) As at 31 December

	<b>2008</b> <b>€'000</b>	<b>2007</b> <b>€'000</b>	<b>2006</b> <b>€'000</b>
<b>Total assets</b>	<b>315,975</b>	300,879	275,272
Capital and reserves attributable to shareholders	<b>62,123</b>	82,590	78,603
Minority interests	<b>1,656</b>	3,243	2,933
<b>Equity</b>	<b>63,779</b>	85,833	81,536
<b>Total liabilities</b>	<b>252,196</b>	215,046	193,736
<b>Total equity and liabilities</b>	<b>315,975</b>	300,879	275,272

In 2008, the Middlesea Group registered a loss after tax of €20.59 million compared to the 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 result.

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 20.5% was recorded, with premiums reaching €86 million. Middlesea Insurance p.l.c. also recorded a marginal increase of 3.6%, with total premium income reaching €34 million, compared to the €32.8 million achieved during 2007.

Total investment income for the Group decreased from a positive return of €8.47 million during 2007 to a loss 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 loss 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. Middlesea Insurance p.l.c. had no direct exposure to any of the sub-prime or other “toxic” assets that were among the root causes of the crisis.

Middlesea Insurance p.l.c.’s result on non-life business 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 group life 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 slight deterioration in the loss ratio was registered, primarily in the motor class of business, which accounts for the reduced profits. The claims reserves put in place by the Company however remain adequate as is evidenced by the favourable run-off of €3.45 million (2007 – favourable run-off of €3.26 million) generated during the year.

During 2008 the Italian subsidiary of the Group, Progress Assicurazioni S.p.A., registered a loss after taxation as consolidated in MSI’s 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, reflecting a deterioration in the quality of the business underwritten by the company. In addition, the introduction of the mandatory Direct Indemnification system in Italy (“Convenzione tra Assicuratori per Risarcimento Diretto - CARD”) during the early part of 2007 negatively impacted the 2008 technical results. These adverse developments were incurred at a point when the company was expanding its operations on the Italian mainland, compounding their effect on the company’s results.

The deterioration in the loss ratio incurred by Progress resulted in an increase in the company’s 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 included the resizing of the portfolio, focusing on the geographical and business mix together with ensuring adequate pricing.

In spite of these measures, Progress continued to report material negative results in the course of 2009, including an exceptional incidence of late claims. This necessitated a further increase in claims reserves, which contributed to an overall loss that impacted the Group’s results negatively by €29.4 million during the nine months of 2009. The effect of this loss on the Group’s results up to 30 September 2009 is illustrated below:

**Consolidated Profit and Loss Accounts - Unaudited  
Non-Technical Accounts  
For the period ended**

	<b>30 Sept. 2009 €'000</b>	<b>30 June 2009 €'000</b>	<b>30 June 2008 €'000</b>
Balance on the general business technical account	<b>(24,547)</b>	(17,219)	(699)
Balance on the long term business technical account	<b>511</b>	263	90
	<b>(24,036)</b>	(16,956)	(609)
Share of associated undertaking’s (loss)/profit involved in long term business	<b>2,418</b>	(317)	409
Total expense from insurance activities	<b>(21,618)</b>	(17,273)	(200)
Other investment income	<b>7,830</b>	3,891	3,875
Investment expenses and charges	<b>(749)</b>	(1,117)	(6,887)
Allocated investment expense/(return) transferred to the general business technical account	<b>(6,817)</b>	(2,698)	1,679
Other Income	<b>1,477</b>	986	769
Administrative expenses	<b>(2,321)</b>	(1,510)	(1,344)
<b>Loss before tax</b>	<b>(22,198)</b>	(17,721)	(2,108)
Income tax (expense)/credit	<b>(2,333)</b>	(1,281)	496
<b>Loss for the financial period</b>	<b>(24,531)</b>	(19,002)	(1,612)
Attributable to:			
- shareholders	<b>(22,698)</b>	(17,167)	(1,562)
- minority interests	<b>(1,833)</b>	(1,835)	(50)
	<b>(24,531)</b>	(19,002)	(1,612)
<b>Loss per share attributable to shareholders</b>	<b>(90c8)</b>	(68c7)	(6c2)

The extent of the losses incurred at Progress has placed an unprecedented strain on the capital resources of the Group. In the course of 2008 and the first nine months of 2009, Progress' losses as reflected in the consolidated results of the Group cumulatively amounted to €48.4 million, eroding 56% of the Group's total equity as at 1 January 2008 and resulting in both the Group and Progress not satisfying their statutory and regulatory capital requirements as at the date of this Prospectus. A series of urgent and decisive measures have been adopted by the Group to resolve the situation at this Subsidiary. These measures are of fundamental significance to the Group and its shareholders, and are described in a subsequent section of this Prospectus together with further details of the circumstances impacting this company.

On a positive note, the Maltese operations of the Group have maintained a profitable performance during 2009.

The insurance business underwritten in Malta and Gibraltar registered a satisfactory technical result before allocation of investment income of €1.26 million. Total premium underwritten by the Company during the period amounted to €27.15 million, consistent with the €27.18 million written over the comparative period last year. The profit earned from insurance operations, after allocation of investment income, amounted to €3.78 million, a significant improvement from the loss of €1.50 million registered as at September 2008. A further increase was registered in the gross technical reserves of the Company, which increased by 7% during the nine month period to €54.36 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 €3.62 million, as compared to a loss of €3.5 million as at September 2008.

Middlesea Valletta Life Assurance Co Ltd registered a profit after taxation of €4.85 million. Following a difficult first quarter, the period since March has seen a marked improvement in sentiment in the investment markets, which improvement has benefited the Associate Undertaking's portfolio. Total shareholders' funds of MSV stood at €98.8 million at September 2009.

International Insurance Management Services Ltd ("IIMS"), also registered positive results in the first nine months of 2009. Consolidated fee income increased from €1.31 million last year to €1.48 million this year, and the company contributed €0.32 million to the pre-tax results of the Group compared to €0.37 million last year. IIMS's third party non-group client base now contributes 22% of fee income based on IIMS's consolidated accounts, and this percentage is set to increase in coming years. The Subsidiary actively pursues insurance/reinsurance companies and captives that are considering setting up and operating from Malta, and negotiations with prospective new clients are at an advanced stage.

## **6. ADDRESSING THE PROBLEMS AT PROGRESS ASSICURAZIONI S.P.A.**

The Group's business priority over the last fifteen months has been that of bringing to a close the losses being incurred at Progress. The remedial steps taken can be classified into three categories, namely:

- Improving the operations of the company;
- Ceasing all loss-making activities;
- Acquiring further reinsurance cover to bring closure to the past.

### **Improving the operations of the company**

A series of measures have been taken to enforce stricter control over the company's operations and to improve its profitability. These measures have included:

- The removal of certain members of management, the strengthening of the management team and the reorganisation of managerial functions;
- The revision of underwriting guidelines accompanied by a curtailment of certain classes of business, in particular the cancellation of motor-cycle business except when related to non-RCA business;
- The implementation of RCA tariff increases in two stages;
- The restructuring of the company's claims management structures, including the engagement of external claims handling experts and fraud investigators.

### **Addressing all loss-making activities**

The measures taken above have been accompanied by a series of radical cuts in the levels of business conducted by this company, rightsizing its operations by terminating all agents that have contributed to the difficulties of the company.

Out of a total of 164 agencies in operation at the end of 2008, the company had terminated 116 contracts at the end of September 2009, shrinking its distribution network to 52 agencies that over the years have consistently reported favourable results. In 2008 these remaining 52 agencies within Progress' portfolio contributed premiums of €22 million and a surplus before investment income and reinsurance of €2 million. In the first nine months of 2009 they contributed €16 million in premium income and a deficit of €1.4 million before investment income and reinsurance. Continuous monitoring of the performance of the agents has led to the commencement of the process for the closure of an additional 13 agencies, which closures are expected to be finalised by the end of the current financial year.

The significance of the measures taken is better illustrated by the following unaudited data:

	<b>2009</b>	<b>2008</b>
	<b>To 30 Sept.</b>	<b>Full year</b>
<b>Premium income written</b>		
Discontinued business (€'000)	<b>34,413</b>	64,195
Retained agents (€'000)	<b>16,152</b>	21,861
	-----	-----
	<b>50,565</b>	86,056
	=====	=====
<b>Claims ratios</b>		
Discontinued business (%)	<b>177</b>	120
Retained agents (%)	<b>87</b>	67
	=====	=====
<b>Underwriting results<sup>1</sup></b>		
Discontinued business (€'000)	<b>(40,991)</b>	(25,692)
Retained agents (€'000)	<b>(1,449)</b>	1,992
	-----	-----
	<b>(42,440)</b>	(23,700)
	=====	=====

<sup>1</sup> Before reinsurance and investment income

The above measures will lead to the cessation of business with agencies that in 2008 contributed premium income of €64.2 million, amounting to 75% of the premium income of Progress and to 54% of the consolidated non-life premium income of the Middlesea Group as a whole. This source of premium income, however, incurred underwriting losses of €25.7 million in 2008 and of €41 million in the first nine months of 2009. In the absence of this business, the results of the Group both in 2008 and in 2009 would have been materially improved.

The scaling back of Progress's operations therefore represents a major change in the operations of the Group and its extent bears testimony to the determined steps being taken to bring this Subsidiary's losses to a closure. Except for the short term impact of unexpired premiums relating to closed agencies, Progress has been resized to a company with an annual premium income of circa €26 million. Moreover, the company is currently negotiating a quota share reinsurance treaty on its portfolio for 2010, in addition to its normal reinsurance cover. This quota share reinsurance will further reduce the future impact of this Subsidiary on the consolidated results of the Middlesea Group.

It is the intention of the Middlesea Group to reduce the activities of this Subsidiary in a responsible manner in the interest of its employees, agents and policyholders. The focus of the Group will be that of minimising and controlling risk at this Subsidiary.

The discontinuation of loss-making business described above comes at a cost in terms of termination payments due to agents in line with contractual arrangements and standard practice in Italy. Termination costs appertaining to closures decided upon during 2009 are estimated at €6.9 million, and are included in the forecast result for 2009.

#### **Acquiring further reinsurance cover to bring closure on the past**

While the steps outlined above should serve to avoid the incidence of future losses in Progress, the Group remains exposed to the risks associated with policies underwritten in the past. To bring these risks to a closure to the largest extent possible, and to help determine the ultimate costs thereof, the Group has accordingly entered into the following reinsurance treaties with a leading international reinsurer:

- Stop loss reinsurance treaties on all RCA unexpired risks existing at 31 December 2008 and on RCA policies underwritten in 2009, covering portfolio losses in excess of 105% of premiums up to an upper limit of 130%. These treaties were entered into before 30 June 2009.

As this point in time, where discontinued loss making agencies are concerned, the Group is still exposed to residual risks largely in relation to business written this year. The practical result of this treaty is that the Group's exposure to such risk is limited to losses incurred up to a loss ratio of 105%. The Group would also be at risk should such losses exceed 130% of premiums.

- Adverse Development Cover ("ADC") for losses occurring on all RCA policies underwritten in the years 2001 to 2008. The treaty provides cover for unfavourable run-offs over the amounts provided for by the company at 30 June 2009, up to a limit of €40 million, at a premium cost of €14 million.

This premium cost of €14 million is material. It includes the expense of managing the settlement process on certain claims, which will be assumed by the reinsurer, thus enabling Progress to accelerate the rightsizing of its administrative functions in the course of the coming months. More importantly, it passes a large part of the remaining risks associated with the Progress portfolio to a larger company, recognising that these risks have grown to a level that goes beyond the financial capabilities of the Middlesea Group. These treaties also provide certainty with respect to the past, such that an investor subscribing to the Rights Issue is sheltered to a large extent from the risk of residual liabilities related to past underwriting at this Subsidiary.

The loss registered by Progress during the first nine months of 2009 is expected to increase by a further €17.7 million in the last quarter of the year, to cover the termination cost of agency contracts, the adverse development cover reinsurance noted above, and to cover 2009 motor claims falling outside the Stop Loss Treaty.

These losses inevitably impact on the capital position of the company. In accordance with the prevailing regulatory requirements, an injection of €4.9 million of additional capital was effected on 8 September 2009, while a further €5.5 and €4 million were invested on 28 September and 4 November 2009 respectively. An additional injection of capital will be made in Progress Assicurazioni S.p.A. prior to 31 December 2009, from the proceeds of the Rights Issue and from the subordinated loan required as per Section 3.3.6 to enable the company to return to a position where it satisfies its regulatory capital requirements.

## 7. 2009 FORECAST AND TREND INFORMATION

### 7.1 FORECAST FOR THE CURRENT FINANCIAL YEAR

The core operations of Middlesea Group's local insurance businesses continued to register positive results during the first nine months of 2009. The stability in insurance premiums underwritten by the local operations, together with a technical profit, present a satisfactory result overall. This stability is forecast to persist in the last quarter of 2009.

Against this, as already explained in this document, continued costs are expected to be incurred at Progress to attain certainty and to bring the losses at this Subsidiary to a closure. These costs, amounting to €20.9 million, will cover the agents' contract terminations and the adverse development cover discussed in Section 6 above. These additional costs together with the technical losses sustained by Progress, are forecasted to result in a material loss for this subsidiary at the end of 2009.

In view of the above, the Group is forecasting a loss of €41.75 million for the full year, as detailed below (see also Annex B of the registration document for further information, including an Accountants' Report drawn up by the reporting accountants, PricewaterhouseCoopers):

#### Consolidated Profit and Loss Account - Unaudited Non-Technical Accounts For the period ended

	<b>31 Dec 2009 Forecast €'000</b>	<b>30 Sep 2009 Actual €'000</b>
Balance on the general business technical account	<b>(40,198)</b>	(24,547)
Balance on the long term business technical account	<b>504</b>	511
	-----	-----
	<b>(39,694)</b>	(24,036)
Share of associated undertaking's profit involved in long term business	<b>1,997</b>	2,418
	-----	-----
Total expense from insurance activities	<b>(37,697)</b>	(21,618)
Other investment income	<b>10,152</b>	7,830
Investment expenses and charges	<b>(968)</b>	(749)
Allocated investment return transferred to the general business technical account	<b>(8,615)</b>	(6,817)
Other income	<b>2,001</b>	1,477
Administrative expenses	<b>(3,199)</b>	(2,321)
	-----	-----
<b>Loss before tax</b>	<b>(38,326)</b>	(22,198)
Income tax expense	<b>(3,424)</b>	(2,333)
	-----	-----
<b>Loss for the financial year/period</b>	<b>(41,750)</b>	(24,531)
	=====	=====

It should be emphasised, as already stated in the Section on Risk factors, that insurance is a highly volatile business. The forecast set out above may be impacted, positively or negatively, by unforeseen events such as material movements in the value of investments; or by the incidence of claims to a level that differs materially from expectations.

### 7.2 GROUP STRATEGY AND TREND INFORMATION

Having taken action to address the problems at Progress, the Group is confident of its prospects for profitable growth, capitalising on the opportunities that present themselves across the range of its operations.

The Group will primarily focus on a strategy to strengthen its position in Malta, by consolidating its participation in a market which has potential space for substantial growth. It will be guided by a philosophy of underwriting discipline and prudence.

Going forward the strategic objectives of the Group are to:

- Maintain its position as leader in the insurance market in Malta.
- Achieve above average profitability, with the available equity, in terms of return on equity and annual growth in earnings per share.
- Finance growth from self-generated profits.
- Create new demands for insurance by developing new products that meet the needs of its present and future customers.
- Continue to diversify its distribution footprint to enhance its reach and access to its customers in Malta.
- Adopt an investment strategy that seeks to preserve capital value whilst maintaining liquidity and maximising returns.
- Maintain highest standards of Corporate Governance.
- Provide its customers with security, prosperity and peace of mind.
- Seek opportunities for sustainable growth.

To help attain these objectives, to maximise business flexibility and to ensure that the management of each Group company is better able to give undivided attention to the operations of the company concerned, the Board will be looking to streamline the structure of the Middlesea organisation. A prime objective will be that of separating the holding company and insurance operator roles currently played by the Issuer into two separate companies. For this purpose a new holding company will be created whose sole purpose will be that of owning the shares held in the operating businesses of the Group and whose board could focus on the strategic direction and oversight of all Subsidiaries and Associated Undertakings. Such restructuring would be subject to regulatory approval.

It is the intention of the Middlesea Group to reduce the activities of Progress in a responsible manner in the interest of its employees, agents and policyholders. The focus of the Group will be that of minimising and controlling risk at this Subsidiary.

The following is a brief overview of the current trends and prospects of the Group with respect to each of the principal businesses to which it remains fully committed moving ahead.

**Middlesea Insurance p.l.c. – General business and group life operations**

Middlesea Insurance enjoys a 23% market share on non-life business<sup>1</sup> within the Maltese market, enjoying an annual premium income in the region of €33 million.

The immediate outlook for growth within this market is inevitably impacted by the subdued economic environment. Premium income within the motor sector in particular is being affected by the reduction in motor vehicle values brought about by lower registration taxes and second hand car imports.

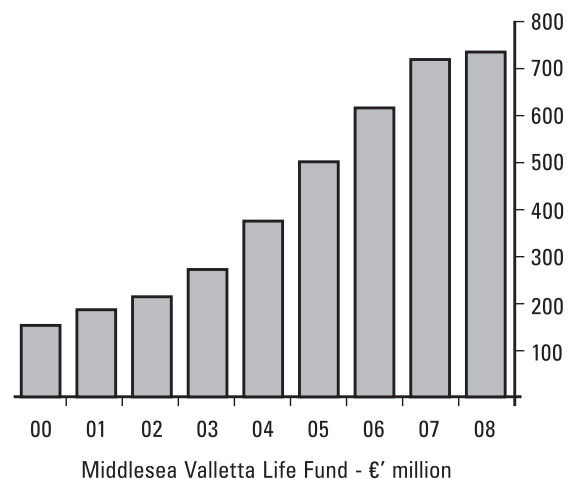
In this scenario, growth in profitability is being pursued through more disciplined underwriting and through better leveraging of IT resources. Work is at an advanced stage on new software that is being implemented across the Company’s offices and agency network. This software will enhance the efficiency of the underwriting process; further facilitate communications between the Company and its agents; and above all provide all underwriters with a common view of a prospective customer, ensuring full consistency in the acceptance and pricing of risk.

Looking to the longer term, the potential for market growth remains encouraging. Non-life premiums within the Maltese islands currently account for circa 2.3% of GDP, compared to an EU average of 3.3%. With the exception of motor business, Malta tends to be under-insured, particularly in the liability and accident and health areas. The last mentioned category in particular offers scope for significant growth as the popularity of private health insurance continues to increase.

**Middlesea Valletta Life Assurance Company Limited - Individual life assurance**

The individual life assurance market in Malta has grown by 18% per annum between 2000 and 2007.

With a 2008 market share of 62%<sup>1</sup>, MSV has benefited from this growth in the market. Between 2000 and 2008, the life funds administered by the company grew from €155 million to €742 million. The company enjoyed a premium income of €110 million in 2008, and is forecasting premiums of €96.6 million in 2009. A reduction in premiums was recorded in late 2008 and 2009 as the global financial crisis discouraged new investment, but the market is again set to grow strongly moving ahead.



This future growth is expected to be fuelled, amongst other things, by the continued increase in home ownership and in related borrowings. Demographical and social changes impacting the Maltese islands are also expected to enhance the company’s prospects.

The ratio of individuals over the age of 60 to the total population in the Maltese islands currently stands at 19%. This ratio is expected to increase steadily in future years, reaching 31.2% by 2050. Life expectancy is growing, as is the quality of life typically enjoyed by senior citizens. In contrast to the growing expectations that are thus created, the state pension is perceived to be declining in real terms; while a diminishing number of workers will in future be supporting a growing number of benefit dependants.

Recently enacted increases in the pensionable age will help address the ensuing financial burdens falling on the State, but these are only part of the solutions required. Government has indicated that further reforms will be enacted, and that these may include new forms of encouraging private savings, possibly through fiscal incentives.

Besides the added demand for savings products, the demand for life risk coverage is also increasing, creating an environment that favours life assurance.

Currently only circa 30% of the working population in Malta have some form of life insurance protection, mainly as collateral against bank borrowings. Most families have no insurance against the risk of death of the main breadwinner, a risk that in the vast majority of cases can be insured for a relatively small outlay. The company is witnessing a gradual change in attitudes in this area, brought about by added awareness of the benefits of life assurance and possibly stimulated by the diminishing reliability of the extended family safety net that may have served as a reliable substitute in the past.

<sup>1</sup> Statistics issued by the Malta Insurance Association – *The information extracted from the National Statistics Office has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by the Malta Insurance Association, no facts have been omitted which would render the reproduced information inaccurate or misleading.*

## **International Insurance Management Services Limited**

The future growth of this business is tied to the continued development of Malta as an attractive base for international business, including captive insurance companies or companies wishing to use Malta as a base for operating with the European Union, utilising the passporting rights available to Malta registered insurance companies.

To date, thirty four companies together with ten cells within three Protected Cell Companies have been established, operating in both the life and non-life market. This accelerating trend offers added opportunities to IIMS.

IIMS currently provides insurance management services to four clients originating from the UK, Italy and Germany. It is finalising contracts with two companies that are in the process of establishing their insurance operations in Malta, and is at an advanced negotiation stage with an additional two clients. Should the negotiations not translate into signed contracts, there will be no negative impact on the Issuer.

## **8. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES**

### **8.1 GENERAL**

The Company's governance principally lies in its Board of Directors, responsible for the general governance of the Company and to set its strategic aims, for its proper administration and management and for the general supervision of its affairs.

Since 2006, the Board delegated its authority and vested accountability for the Company's day-to-day business to a high level management team led by the Executive Chairman. Consequently the co-ordination of management activities is ensured through the continued operation of the Group Executive Management Committee (GEMC) that is led by the Executive Chairman. The GEMC brings together the Chief Executive Officers, General Manager and Group Chief Financial Officer of all the companies within the Group as indicated in Section 1.2 of this Summary Note.

### **8.2 BOARD OF DIRECTORS**

The Board of Directors is composed of one executive director and twelve non-executive directors and is responsible for the setting of strategy, overall direction and oversight of the Company, as well as the establishment of policy guidelines for the management of the Company, including responsibility for the appointment of all executive officers and other key members of management.

The appointment of Board Directors is reserved exclusively to the Company's shareholders in accordance with the Company's Articles of Association. In accordance with Article 97 (2), a shareholder holding 7% or more voting rights or a number of shareholders who together hold 7% or more, could appoint one Director for every such 7% holding through a letter addressed to the Company. A shareholder who alone holds enough shares to appoint up to three Directors may solely do so directly as stated above and may not use his shareholding to elect Directors at the Annual General Meeting. Pursuant to Article 97 (6) of the Company's Articles of Association, Mr Mario C. Grech was appointed as a Director at the Annual General Meeting through a separate resolution approved by shareholders.

### **8.3 SENIOR MANAGEMENT**

As at the date of the Prospectus the senior management of the Group is composed of the following:

#### **Middlesea Insurance p.l.c.**

Mario C. Grech	Chief Executive Officer
Simon Anastasi	Chief Officer Personal Lines (joined in 2006)
Joseph Avellino	Chief Underwriter (joined in 1998)
Patrick Muscat	Chief Officer Claims (joined in 2000)

#### **Progress Assicurazioni S.p.A.**

Stephen Gauci	Chief Executive Officer (joined in 1988)
Francesco Ambruso	Administrative/Accounts Manager (joined in 2009)
Simon Camilleri	Chief Officer (joined in 1983)
Keith Mallia Milanese	Assistant General Manager (joined in 2003)

#### **Middlesea Valletta Life Assurance Company Limited**

David G. Curmi	Chief Executive Officer (joined in 2001)
Mark Camilleri	Chief Life Underwriter (joined in 1982)
Victor Farrugia	Chief Officer (joined in 2002)
Jonathan Kemp	Life Actuary (joined in 2006)

#### **Growth Investments Limited**

David G. Curmi	Chief Executive Officer (joined in 2002)
Stuart Fairbairn	General Manager (joined in 2006)

## International Insurance Management Services Limited

Mario C. Grech	Chief Executive Officer
Anne Marie Tabone	Group Chief Financial Officer & General Manager (joined in 1986)
Christopher Borg	Internal Auditor Group (joined in 2004)
Elizabeth Carbonaro	Chief Officer Group Finance (joined in 2000)
Carlo Farrugia	Compliance Officer (joined in 2007)
Bernard Fenech	Chief Officer Group IT (joined in 1990)
Marzena Formosa	Chief Officer Group Investments (joined in 1996)
John Mifsud	Risk Management Officer (joined in 2006)

### 8.4 INTERESTS OF DIRECTORS AND SENIOR MANAGEMENT

Directors' interest in the share capital of the Company as at 12 November 2009:

George Bonnici	6,510 shares
Evelyn Caruana Demajo	28 shares
Gaston Debono Grech	12,764 shares
Tonio Depasquale	1,590 shares
John C. Grech	10,000 shares
Mario C. Grech	5,450 shares
Joseph F.X. Zahra	330 shares

No other Director holds any interest in the share capital of the Company.

Five of the non-executive directors hold positions with shareholders' organisations that appointed them and with whom they have a business relationship with the Company, namely Roderick E.D. Chalmers, Tonio Depasquale, Javier Fernández-Cid Plañiol, Andres Jiménez and Michael Sparberg.

George Bonnici who was elected by the shareholders at the general meeting and John C. Grech who was appointed by a shareholder organisation, have a relationship with the Company through their business concerns.

Senior management's interest in the share capital of the Company as at 12 November 2009:

Carlo Farrugia	4,604 shares
Victor Farrugia	1,196 shares
John Mifsud	200 shares
Anne Marie Tabone	2,000 shares

No other member of Senior Management holds any interest in the share capital of the Company.

Save for the matters disclosed under the heading "Interests of Directors and Senior Management", there are no potential conflicts of interests between any duties to the Company of the persons referred under Section 1.1 and 1.2 and their private interests and/or other duties.

### 8.5 EMPLOYEES

The average number of persons employed by the Group is as follows:

Year ended 31 December	2008	2007	2006
Key management personnel	14	10	3
Managerial	23	25	32
Technical	110	106	93
Administrative	23	21	19
	-----	-----	-----
	170	162	147
	=====	=====	=====

As at the date of the Registration Document, the average number of persons employed by the Group has not changed from the position as at 31 December 2008.

### 8.6 CORPORATE GOVERNANCE

The Issuer is in compliance with the code of principles of good corporate governance as contained in the listing rules.

## 9. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### 9.1 INTEREST OF MAJOR SHAREHOLDERS

The following hold in excess of 5% of the Company's ordinary shares as at 12 November 2009:

Bank of Valletta p.l.c.	5,411,430 shares	21.6%
Mapfre Internacional S.A.	5,250,000 shares	21.0%
Munich RE	4,975,000 shares	19.9%

To the extent known to the Issuer, the Company is not controlled, directly or indirectly, by any of the shareholders.

### 9.2 SUPPORT OF RIGHTS ISSUE BY THE MAJOR SHAREHOLDERS

The Issuer has obtained a firm commitment from the major shareholders (in aggregate holding 62.5% of issued share capital as detailed above), that they shall support the Rights Issue and accept the offer for their Proportionate Entitlement.

In addition, each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. have confirmed their willingness to further support the Rights Issue by entering into Subscription Agreements with the Company whereby they have committed to subscribe to any New Ordinary Shares not taken up by Eligible Shareholders as part of their Proportionate Entitlement. Accordingly, they shall be treated as Qualifying Shareholders (as defined in section 12 of the Summary Note) for the purpose of the Allocation Policy as set out in Section 12.1.8 of the Summary Note and shall participate with all other Qualifying Shareholders in the event of an over-subscription of Excess Shares. They have further agreed that in the event of them taking up any Excess Shares Mapfre Internacional S.A. will subscribe to additional New Ordinary Shares such that its shareholding in the Company, after the issuance of all the New Ordinary Shares, will be equal to that of Bank of Valletta p.l.c.

In view of the commitments undertaken by each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. to subscribe for their respective Proportionate Entitlements and to apply for an additional 25,094,368 Excess Shares, the Rights Issue shall, following the closing of the Offer Period, be fully subscribed. (See section 13 of the Summary Note forming part of this Prospectus).

### 9.3 RELATED PARTY TRANSACTIONS

In the normal course of business, the Group enters into various transactions with related parties. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operational decisions. These include directors and shareholders who hold a substantial amount of the votes able to cast at general meetings.

Relevant particulars of related party transactions, all of which have been carried out on an arms length basis, are as follows:

	<b>30 Sep 2009 Unaudited €'000</b>	<b>31 Dec 2008 Audited €'000</b>	<b>31 Dec 2007 Audited €'000</b>	<b>31 Dec 2006 Audited €'000</b>
Sales of insurance contracts and other services	<b>3,617</b>	5,432	6,496	5,238
Purchases of products and services	<b>10,881</b>	14,612	12,961	11,515

Key management personnel comprises the Chief Executive Officers, General Manager, Assistant General Managers, Chief Officers and Chief Underwriters. Total remuneration paid by the Group to key management personnel during the nine month period ended 30 September 2009 amounted to €0.63 million (FY 2008 - €0.72 million, FY 2007 - €0.57 million).

Year end balances arising from the above transactions:

	<b>30 Sep 2009 Unaudited €'000</b>	<b>31 Dec 2008 Audited €'000</b>	<b>31 Dec 2007 Audited €'000</b>	<b>31 Dec 2006 Audited €'000</b>
Debtors arising out of direct insurance operations:				
- intermediaries	<b>1,206</b>	1,991	1,471	1,272
Creditors arising out of direct insurance operations	<b>2,780</b>	1,330	1,557	1,163
Amounts owed to associated undertaking	<b>1,946</b>	1,947	2,946	3,170
Reinsurers' share of technical provisions	<b>12,253</b>	8,914	10,752	10,563
Investments in related parties	<b>8,604</b>	3,205	9,653	3,945
Accruals and deferred income (key management personnel)	<b>748</b>	720	664	447

All balances above have arisen in the course of the Group's normal operations.

Full details on related party transactions for the three financial years ended 31 December 2006, 2007 and 2008, and for the nine month period ended 30 September 2009 are included in the Registration Document.

## 10. FINANCIAL INFORMATION

### 10.1 HISTORICAL FINANCIAL INFORMATION

Full historical financial information for the three financial years ended 31 December 2006, 2007 and 2008 are set out in the financial statements of the Group as audited by PricewaterhouseCoopers. The latest audited financial information available in respect of the Group relates to the financial year ended 31 December 2008 and was approved for issuance by the Board of Directors on 27 April 2009.

The unaudited interim financial information of the Group for the six months ended 30 June 2009 and for the nine months ended 30 September 2009 are available for public inspection.

### 10.2 LEGAL AND ARBITRATION PROCEEDINGS

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the period covering twelve months prior to the date of the Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Company or the Group.

### 10.3 SIGNIFICANT CHANGE IN THE COMPANY'S FINANCIAL OR TRADING POSITION

Save as otherwise disclosed in Sections 6 and 7 of the Summary Note, there has been no significant change in the financial or trading position of the Company or the Group which has occurred since 30 September 2009, being the date of the last unaudited interim financial information.

## 11. INFORMATION CONCERNING THE NEW ORDINARY SHARES

### 11.1 DESCRIPTION AND TYPE OF SHARES

Each New Ordinary Share forms part of the duly authorised issue by way of rights of 67,000,000 New Ordinary Shares. The Shares are ordinary shares in the Company having a nominal value of €0.60 each share. The 67,000,000 Shares on offer constitute 268% of the entire issued share capital of the Company. The Issuer's ISIN number is MT0000050105.

### 11.2 RIGHTS ATTACHED TO THE SHARES

The Shares form part of one class of ordinary shares in the Company and shall accordingly have the same rights and entitlements. The following are highlights of the rights attaching to the Shares:

<b>Dividends</b>	The Shares shall carry the right to participate in any distribution of dividend declared by the Company <i>pari passu</i> with all other shares in the same class;
<b>Form</b>	Ordinary shares;
<b>Currency of Shares</b>	Euro;
<b>Voting Rights</b>	Each Share shall be entitled to one vote at meetings of Shareholders;
<b>Capital Distribution</b>	The Shares shall carry the right for the holders thereof to participate in any distribution of capital made whether on a winding up or otherwise, <i>pari passu</i> with all other shares of the same class;
<b>Transferability</b>	The Shares are freely transferable and once admitted to the Official List of the MSE shall be transferable in accordance with the rules and regulations of the MSE applicable from time to time;
<b>Pre-Emption</b>	In accordance with article 88 of the Act and article 7(2) of the Company's Articles of Association, should shares of the Company be proposed for allotment for consideration in cash, those shares must be offered on a pre-emptive basis to Shareholders in proportion to the share capital held by them. A copy of any offer of subscription on a pre-emptive basis indicating the period within which this right must be exercised must be delivered to the Registrar of Companies. The right of pre-emption must be exercised in accordance with the terms and conditions set out in the Articles of Association of the Company.
<b>Other</b>	The Shares are not redeemable and not convertible into any other form of security;

## **Mandatory Takeover Bids, Squeeze-Out and Sell-Out Rules**

Chapter 18 of the Listing Rules, implementing the relevant provisions of *Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004* regulates the acquisition by a person or persons acting in concert of the control of a company and provides specific rules on takeover bids, squeeze-out rules and sell-out rules. The Shareholders of the Company may be protected by the said Listing Rules in the event that the Company is subject to a Takeover Bid (as defined therein). The Listing Rules may be viewed on the official website of the Listing Authority – [www.mfsa.com.mt](http://www.mfsa.com.mt)

### **11.3 AUTHORISATIONS**

In virtue of the authority granted to the Board of Directors to issue up to a maximum amount of 67 million Ordinary Shares of the authorised share capital of the Company, the Rights Issue has been authorised by means of a resolution of the Board of Directors adopted on 20 November 2009.

The Malta Financial Services Authority, Insurance Unit has authorised the increase in the share capital of the Issuer further to the Rights Issue by means of a letter dated 28 October 2009.

The Listing Authority has authorised the New Ordinary Shares to be admitted to Listing on 16 November 2009.

Application has been made to the Malta Stock Exchange for the New Ordinary Shares to be issued pursuant to this Prospectus to be listed and traded on the Official List of the Malta Stock Exchange and for dealings to commence once the New Ordinary Shares are authorised as admissible to listing by the Listing Authority. The expected date of issue and allotment and listing on the Malta Stock Exchange of the New Ordinary Shares is 28 December 2009.

### **11.4 DILUTION**

The market capitalisation of Middlesea Insurance p.l.c. as at 12 November 2009 was €31.25 million, or €1.25 per Share, based on 25,000,000 issued Shares of a nominal value of €0.60 each. After giving effect to the sale of all 67,000,000 New Ordinary Shares at a Share Issue Price of €0.60, the market capitalisation of the Company as at 12 November 2009 would have been €70,950,000, after deducting €500,000 in estimated issue expenses. This represents an adjusted market capitalisation per Share of €0.77, resulting in a decrease of 38% or €0.48 per Share to Eligible Shareholders who do not exercise their subscription rights in full.

## **12. TERMS AND CONDITIONS OF THE OFFER**

### **12.1 CONDITIONS**

The rights to New Ordinary Shares will be offered to Eligible Shareholders on the basis and on the terms and conditions as set out in the Securities Note.

All shareholders registered as shareholders of the Issuer as at the Record Date on the Central Securities Depository of the Malta Stock Exchange are Eligible Shareholders.

The Issuer's Eligible Shareholders will be entitled to acquire two point six eight (2.68) New Ordinary Shares at €0.60 per share for every one Ordinary Share registered in their name on the Record Date (the "Offer Ratio"). Each Eligible Shareholder shall accordingly be entitled to accept the Offer for such number of New Shares (subject to rounding) by multiplying the number of Ordinary Shares registered in his/her name by 2.68 (the "Proportionate Entitlement"). Any fractional entitlement shall be rounded to the nearest whole share, that is, rounded up from 0.5 upwards and rounded down if below 0.5.

None of the New Ordinary Shares are being made available to the public other than pursuant to the Rights Issue.

It is the responsibility of Eligible Shareholders wishing to apply for the New Ordinary Shares to inform themselves as to the legal requirements of so applying including any requirements relating to exchange control (including any applicable external transaction requirements) in Malta and in the countries of their nationality, residence or domicile.

If the Form of Acceptance, Authority and Election is signed on behalf of another party or on behalf of a body of persons, the person signing will be deemed to have bound his principal, or the relative body of persons and will be deemed also to have given the confirmations, warranties and undertakings contained in the Securities Note on their behalf. Such person may be requested to submit the relative power of attorney/resolution or a copy thereof duly certified by a lawyer or notary public if so required by the Registrar.

In the case of the Form of Acceptance, Authority and Election issued to joint Eligible Shareholders, reference to the Eligible Shareholder in the Securities Note is a reference to each Eligible Shareholder, and liability thereof is joint and several.

Bank of Valletta p.l.c. and Mapfre Internacional S.A. shall not be required to submit a Form of Acceptance, Authority and Election and in lieu thereof they have signed and executed conditional Subscription Agreements with the Company pursuant to which each of them has bound itself in advance to participate in the Rights Issue, both at the level of their Proportionate Entitlement as well as to subscribe for any Excess Shares. (See also Section 13 below).

### **12.1.1 Territories outside Malta**

**It is the responsibility of any person outside Malta wishing to take advantage of the Form of Acceptance, Authority and Election to satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any required governmental or other consents, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.**

### **12.1.2 Notices**

This Prospectus and accompanying documentation will be mailed to the Eligible Shareholders at their registered addresses as held by the Central Securities Depository of the Malta Stock Exchange (as at the Record Date) by 12 November 2009 and for all Eligible Shareholders residing in Malta it shall be deemed to have been served at the expiration of three (3) calendar days after such mailing.

Overseas shareholders will be served by registered post.

Save where the context requires otherwise, terms defined in the Prospectus bear the same meaning when used in the Form of Acceptance, Authority and Election and in any other document issued pursuant to the Prospectus.

### **12.1.3 Form of Acceptance, Authority and Election**

The Form of Acceptance, Authority and Election will be despatched to Eligible Shareholders by 21 November 2009. The Eligible Shareholders shall return the Form of Acceptance, Authority and Election directly to the Registrar or any of the Collecting Agents (as listed in Annex A of the Securities Note). The Form of Acceptance, Authority and Election must reach the Registrar before the closing of the Offer Period.

The Form of Acceptance, Authority and Election details the number of New Ordinary Shares which constitutes that Shareholder's Proportionate Entitlement. It is then supplemented by instructions as to the possibility that an Eligible Shareholder might want to:

- a) Subscribe for the Proportionate Entitlement in full; or
- b) Subscribe for the Proportionate Entitlement in part; or
- c) Subscribe for the Proportionate Entitlement in full and commit to subscribe for shares in excess of his Proportionate Entitlement ("Excess Shares"); or
- d) transfer part or all of those rights to a third party/ies.

The Forms of Acceptance, Authority and Election, once duly completed and executed by the Eligible Shareholder shall constitute a binding contract between the Company and the Eligible Shareholder whereby the Eligible Shareholder shall be bound to subscribe for and acquire the number of shares forming part of the Rights Issue as are indicated in the Form of Acceptance, Authority and Election and to effect payment therefor and the Company shall be bound, subject to the allocation policy with respect to the allocation of Excess Shares amongst Eligible Shareholders, to allot to Eligible Shareholders their respective Proportionate Entitlements and any Excess Shares to which they may become entitled pursuant to the allocation policy described in the Securities Note. All Forms of Acceptance, Authority and Election duly completed, signed and executed must be returned by the Collecting Agents to the Registrar by the end of the Offer Period together with relevant evidence of full payment made to the Registrar Account for the amount of New Ordinary Shares subscribed for.

### **12.1.4 Payment Methods**

Payment for the New Ordinary Shares, including payment for Excess Shares, may be made by bank draft or bankers' cheque, or personal cheque made payable to the Registrar.

### **12.1.5 Offer Period**

Eligible Shareholders will be entitled to take up all or part of their rights from 08:30 hrs on 30 November 2009 until 14:00 on 14 December 2009.

### **12.1.6 Right to Reject**

Subject to all other terms and conditions set out in this Prospectus, the Issuer reserves the right to reject, in whole or in part, a Form of Acceptance, Authority and Election. The Issuer also reserves its rights to refuse any Form of Acceptance, Authority and Election which in the opinion of the Issuer is not properly completed in all respects in accordance with the Instructions or is not accompanied by the required documents and/or payments. The Form of Acceptance, Authority and Election will be accepted in original only; photocopies/facsimile copies will not be accepted.

### **12.1.7 Right to Revoke the Offer**

Subject to all other terms and conditions set out in this Prospectus, the Issuer reserves the right to revoke the Issue at any time before the closing of the Offer Period.

The circumstances in which such revocation might occur are expected to be exceptional, for example in the case of extraordinary injection of capital not connected to this Rights Issue or where a significant change in market conditions occurs.

Suspension of dealing in the New Ordinary Shares might occur in accordance with the provisions of the Listing Rules.

### **12.1.8 Allocation Policy**

The Issuer shall allocate the New Shares on the basis of the following policy:

1. First, it shall satisfy the acceptance of the Proportionate Entitlement of all Eligible Shareholders;
2. In the event that following the allocations made pursuant to paragraph 1 above there still remain unallocated New Shares, the Company shall then allocate such unallocated New Shares to those Eligible Shareholders who would have committed to subscribe for Excess Shares ("Qualifying Shareholder");
3. In the event that the demand for Excess Shares is greater than the number of unallocated New Shares available for allocation, then each application for Excess Shares shall be scaled down.

4. The scaling down shall be conducted as follows:
  - (a) First, so as to allot to each Qualifying Shareholder such number of Excess Shares not exceeding the lower of (i) the percentage of shares held by such Qualifying Shareholder out of the total issued share capital of the Company immediately prior to the Rights Issue as a proportion of the total percentage that all Qualifying Shareholders represent of the issued share capital of the Company; or (ii) the number of Excess Shares indicated in a Subscription Agreement or a Form of Acceptance, Authority and Election; and
  - (b) in the event that after such allocation there still remains Excess Shares unallocated such remaining Excess Shares shall again be allocated to Each Qualifying Shareholder by repeating the process set out in paragraph (4)(a) above until the earlier of (i) the outstanding demand for New Shares is satisfied in full; or (ii) the number of Excess Shares available has all been fully allocated.
5. The Company has entered into two Subscription Agreements, one with Bank of Valletta p.l.c. and the other with Mapfre Internacional S.A. pursuant to which each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. have agreed, subject to the satisfaction of certain conditions, to take up their Proportionate Entitlement and in aggregate up to 25,094,368 Excess Shares This should ensure that even in the event that none of the Eligible Shareholders, other than the Major Shareholders detailed in Section 13 below, were to subscribe for their Proportionate Entitlement, and provided that the conditions set out in the Subscription Agreements are satisfied, the Rights Issue would be fully subscribed. (See Section 13 below).

### 12.1.9 Announcement of the Acceptance of Rights

In accordance with the Listing Rules, within four (4) working days from the closing of the Offer Period, the Issuer shall announce the results of the Offer by means of a Company Announcement.

## 12.2 ACTION REQUIRED TO SUBSCRIBE TO THE RIGHTS ISSUE

### 12.2.1 General

Each Form of Acceptance, Authority and Election will set out:

- (i) the holding of the Ordinary Shares on which an Eligible Shareholder's entitlement to New Ordinary Shares has been based;
- (ii) the Proportionate Entitlement of each Eligible Shareholder in respect of such Shares;
- (iii) instructions regarding acceptances and payment, splitting, transfers and payments and applications for Excess Shares and payment.

The minimum number of New Ordinary Shares an Eligible Shareholder may take up is one.

### 12.2.2 Procedure for Acceptance and Payment

Save for Bank of Valletta p.l.c. and Mapfre Internacional S.A. whose commitments result from their respective Subscription Agreements, Eligible Shareholders wishing to participate in the Rights Issue shall be required to submit a Form of Acceptance, Authority and Election. Bank of Valletta p.l.c. and Mapfre Internacional S.A. shall be entitled to participate in the Rights Issue on the basis and under the terms of their respective Subscription Agreements.

- a) *Eligible Shareholders who wish to accept their Proportionate Entitlement in full*  
Eligible Shareholders who wish to take up all of their entitlements need only to verify the information contained in Panels A and B of the Form of Acceptance, Authority and Election, sign the Form and deliver same to the Registrar or any of the Collecting Agents (listed in Annex A of the Securities Note) together with proof of payment for their acceptance of the Proportionate Entitlement (in cleared funds). Delivery of the Forms of Acceptance, Authority and Election together with proof of payment (in cleared funds) to the Registrar must be made as soon as possible, in any event so as to be received by the Registrar by not later than 14:00 hrs on 14 December 2009.
- b) *Eligible Shareholders wishing to apply for Excess Shares*  
Eligible Shareholders, accepting their Proportionate Entitlement in full may also indicate in Panel C of the Form of Acceptance, Authority and Election any number of New Ordinary Shares which they wish to subscribe to and acquire at the Share Issue Price in excess of their Proportionate Entitlement – the Excess Shares. Duly completed Forms of Acceptance, Authority and Election must be delivered to any of the Collecting Agents (listed in Annex A of the Securities Note) together with proof of payment for both their acceptance of the Proportionate Entitlement and the application for Excess Shares. Delivery of the Forms of Acceptance, Authority and Election together with proof of payment (in cleared funds) to the Registrar must be made as soon as possible, in any event so as to be received by the Registrar by not later than 14:00 hrs on 14 December 2009. Any application for Excess Shares cannot exceed the number of New Shares contemplated by the Rights Issue less the pro-rata entitlement of the Major Shareholders.

ONLY SHAREHOLDERS ACCEPTING THEIR PROPORTIONATE ENTITLEMENT IN FULL SHALL BE ELIGIBLE TO APPLY FOR EXCESS SHARES.

- c) *Eligible Shareholders who wish to accept the Proportionate Entitlement in part*  
Eligible Shareholders who wish to take up only some but not all of their rights should complete Panel D of the Form of Acceptance, Authority and Election but indicating the number of New Shares they wish to accept as part of their Proportionate Entitlement in Box 1 of Panel D and by inserting the corresponding cash consideration for the New Shares accepted in Box 2 of Panel D and then return it to the Registrar or any of the Collecting Agents. Delivery of the Form of Acceptance, Authority and Election together with proof of payment (in cleared funds) to the Registrar or any of the Collecting Agents (listed in Annex A of the Securities Note) must be made as soon as possible, in any event so as to be received by the Registrar by not later than 14:00 hrs on 14 December 2009.
- d) *Eligible Shareholders who wish to transfer their rights*  
Eligible Shareholders may wish to transfer all or part of their Proportionate Entitlement to a third party or third parties. In such cases the Eligible Shareholder may do so by completing the Panel E of the Form of Acceptance, Authority and Election indicating the name, I.D. Card number (or in the case of a company the company registration number); address and contact person in whose favour such Eligible Shareholder is renouncing his rights and entitlements under the Rights Issue. The person or persons in whose favour the Rights have been renounced shall be required to complete, sign and execute the Form of Acceptance, Authority and Election signifying his consent to acquire and exercise the rights renounced in his favour. Delivery of the Forms of Acceptance, Authority and Election duly completed, signed and executed by the persons in whose favour such rights and entitlements are renounced together with proof of payment (in

cleared funds) to the Registrar or any of the Collecting Agents shall be made as soon as possible and in any event so as to be received by the Registrar by not later than 14:00 hrs on 14 December 2009.

The Issuer reserves the right to refuse to register any renunciation of the rights and entitlements to this Rights Issue in favour of any person in respect of which the Issuer believes such renunciation may violate applicable legal or regulatory requirements.

*e) Payment*

All payments must be made in Euro.

*f) Issuer's discretion as to the validity of acceptances*

If the Forms of Acceptance, Authority and Election and proof of payment of cleared funds do not reach the Registrar by 14:00 hrs on 14 December 2009, the Provisional Allotment will be deemed to have been declined and will lapse and it will be treated in accordance with the provisions detailed at Section 12.3 below. The Issuer may, with the agreement of the Registrar, but shall not be obliged, to treat as valid Forms of Acceptance, Authority and Election accompanied by proof of payment received later than 14:00 hrs on 14 December 2009.

## **12.3 PROCEDURE IN RESPECT OF RIGHTS NOT TAKEN UP (LAPSED RIGHTS)**

### **12.3.1 Lapsed Rights**

If an entitlement to New Ordinary Shares is not validly taken up by 14:00 hrs on 14 December 2009, in accordance with the procedure laid down in the Securities Note for acceptance and payment of rights, then that provisional allotment to the particular Eligible Shareholder will be deemed to have been renounced and will lapse (Lapsed Rights).

Any New Ordinary Shares which are not taken up by Eligible Shareholders during the Offer period will be allotted to those Eligible Shareholders who have subscribed for New Ordinary Shares in excess of their entitlement as detailed in Section 12.2.2 (b) above in accordance with the Allocation Policy set out in Section 12.1.8 above. Any amounts received for New Ordinary Shares, which remain unallocated shall be refunded to the Eligible Shareholders within five (5) working days after the allocation of the New Shares.

## **12.4 OVERSEAS SHAREHOLDERS**

**THE OFFER OF NEW ORDINARY SHARES UNDER THE RIGHTS ISSUE TO PERSONS RESIDENT IN, OR WHO ARE CITIZENS OF, OR WHO HAVE A REGISTERED ADDRESS IN, COUNTRIES OTHER THAN MALTA MAY BE AFFECTED BY THE LAW OF THE RELEVANT JURISDICTION. THOSE PERSONS SHOULD CONSULT THEIR PROFESSIONAL ADVISORS (INCLUDING TAX ADVISORS) AS TO WHETHER THEY REQUIRE ANY GOVERNMENTAL OR OTHER CONSENTS OR NEED TO OBSERVE ANY OTHER FORMALITIES TO ENABLE THEM TO TAKE UP THEIR RIGHTS.**

This Section sets out the restrictions applicable to Eligible Shareholders who have registered addresses outside Malta and/or who are citizens or residents of countries other than Malta.

Any person (including, without limitation, nominees and trustees) outside Malta wishing to take up his rights under the Rights Issue must satisfy himself as to full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories.

**The comments set out in this Section are intended as a general guide only and any Eligible Shareholder who is in doubt as to his position should consult his independent professional advisor without delay.**

Forms of Acceptance Authority and Election will not be sent to Eligible Shareholders with registered addresses in the United States of America or territories outside Malta, **except where in the absolute discretion of the Issuer** it is satisfied that such action would not result in a contravention of any applicable legal or regulatory requirement in the relevant jurisdiction. In these circumstances the New Ordinary Shares provisionally allotted to such Eligible Shareholders will be offered as if they were Lapsed Rights, in accordance with the provisions of Section 12.3 of the Summary Note.

Accordingly, receipt of this document and/or a Form of Acceptance, Authority and Election will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or a Form of Acceptance, Authority and Election will be sent for information only and should not be copied or redistributed. No person receiving a copy of this document and/or a Form of Acceptance, Authority and Election in any territory other than Malta, may treat the same as constituting an invitation or offer to him, nor should he in any event deal with the Form of Acceptance, Authority and Election **unless, in the relevant territory, such an invitation or offer could lawfully be made to him or the Form of Acceptance, Authority and Election could lawfully be used or dealt with without contravention of any unfulfilled registration or other legal or regulatory requirements.**

The provisions of this Section 12.4 will apply generally to Overseas Shareholders who do not or are unable to take up New Ordinary Shares provisionally allotted to them on the basis that such action would result in a contravention of applicable legal or regulatory requirements in the relevant jurisdiction.

### 13. COMMITMENTS BY MAJOR SHAREHOLDERS

The Issuer has obtained a firm commitment from the Major Shareholders (in aggregate holding 62.5% of issued share capital as at the Record Date), that they shall support the Rights Issue and accept the offer for their Proportionate Entitlement.

The following are Major Shareholders holding in excess of 5% of the Company's ordinary shares, that have committed to take up their Proportionate Entitlement:

Bank of Valletta p.l.c.	5,411,430 shares	21.6%
Mapfre Internacional S.A.	5,250,000 shares	21.0%
Munich RE	4,975,000 shares	19.9%

In addition, each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. have confirmed their willingness to further support the Rights Issue by entering into Subscription Agreements with the Company whereby they have committed to subscribe to any New Ordinary Shares not taken up by Eligible Shareholders as part of their Proportionate Entitlement. Accordingly, they shall be treated as Qualifying Shareholders for the purpose of the Allocation Policy as set out in Section 12.1.8 of the Summary Note and shall participate with all other Qualifying Shareholders in the event of an over-subscription of Excess Shares. They have further agreed that in the event of them taking up any Excess Shares, Mapfre Internacional S.A. will subscribe to additional New Ordinary Shares such that its shareholding in the Company, after the issuance of all the New Ordinary Shares, will be equal to that of Bank of Valletta p.l.c.

In view of the commitments undertaken by each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. to subscribe for their respective Proportionate Entitlements and to apply for an additional 25,094,368 Excess Shares, the Rights Issue shall, following the closing of the Offer Period, be fully subscribed.

The commitments of each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. were entered into subject to the satisfaction of a number of conditions precedent. Those conditions include that:

- (a) the Company has obtained all necessary consents, exemptions, approvals or no-objections for the allocation of Excess Shares for each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. so that they may each lawfully acquire and hold more than 25 per cent of the total issued share capital of the Company;
- (b) the Company has notified the Insurance Regulator that each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. may as a result of the exercise of their pre-emptive rights and subscription for Excess Shares exceed the qualifying shareholding of 33 per cent of the issued share capital of the Company, and that the Insurance Regulator has duly consented thereto in writing according to law;
- (c) the Subscriber has obtained the exemption of the Listing Authority in terms of Listing Rule 18.21.4; and
- (d) that the Group has in place adequate Adverse Development Re-Insurance cover in connection with Progress Assicurazioni S.p.A. concerning claims that pre-date 31 December 2008;

Each of the above conditions have been satisfied. Accordingly, the subscription commitments of each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. have become unconditional.

### 14. ADDITIONAL INFORMATION

#### 14.1 SHARE CAPITAL

##### 14.1.1 Authorised and issued share capital

As at the date of this Registration Document, the authorised share capital of the Company is €36,000,000 divided into 60,000,000 ordinary shares of a nominal value of €0.60 each share. The issued share capital of the Company is fifteen million euro (€15,000,000) divided into twenty five million (25,000,000) ordinary shares all having a nominal value of sixty cents (€0.60) which has been fully paid up.

#### 14.2 MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum and Articles of Association of the Company is registered with the Registry of Companies at the Malta Financial Services Authority. The objects of the Company are included in Clause 3 of the said Memorandum. The principal object is to carry on all kinds of insurance and assurance business, reinsurance and reassurance business in all forms and branches in Malta and other parts of the world and to do all acts usual to be done in the prosecution of such business whether now known or hereafter to be devised.

The Memorandum and Articles of Association of the Company regulates matters customarily dealt with therein, including matters such as voting rights and restrictions thereof, and the appointment and powers of directors. A copy of the Memorandum and Articles of Association of the Company may be inspected during the lifetime of the Prospectus at the registered office of the Company and at the Registry of Companies during the lifetime of the Company.

## 15. DOCUMENTS ON DISPLAY

For the duration period of the Prospectus the following documents shall be available for inspection at the registered address of the Company at Middle Sea House, Floriana FRN1442, Malta:

- i. Memorandum and Articles of Association of the Company;
- ii. The Audited Financial Statements of the Group for each of the financial years ended 31 December 2006, 2007 and 2008;
- iii. The Audited Financial Statements of each of the Subsidiaries and Associate Undertaking for each of the financial years ended 31 December 2006, 2007 and 2008;
- iv. The Unaudited Financial Information of the Group for the six months ended 30 June 2009 and for the nine months ended 30 September 2009;
- v. 2009 Forecast and Accountants' Report.

This document is a Registration Document issued in accordance with the provisions of Chapter 6 of the Listing Rules issued by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporated by reference and publication of such prospectuses and dissemination of advertisements.

This Registration Document is issued pursuant to the requirements of Listing Rule 6.4.2 of the Listing Rules and contains information about Middlesea Insurance p.l.c. for which application has been made for admission to trading of its Securities on the Malta Stock Exchange. This Registration Document should be read in conjunction with the most updated Securities Note issued from time to time.

This document is dated 20 November 2009

## Registration Document

issued by



**Middlesea Insurance p.l.c.**

Manager & Registrar



Sponsor



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## IMPORTANT INFORMATION

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS AND CONTAINS INFORMATION ON MIDDLESEA INSURANCE P.L.C., ITS SUBSIDIARIES, ASSOCIATED UNDERTAKING AND BUSINESS OF THE GROUP AND INCLUDES INFORMATION GIVEN IN COMPLIANCE WITH THE LISTING RULES OF THE LISTING AUTHORITY FOR THE PURPOSE OF GIVING INFORMATION WITH REGARD TO THE COMPANY.

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORISED BY THE COMPANY OR ITS DIRECTORS TO ISSUE ANY ADVERTISEMENT OR TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE SALE OF SECURITIES OF THE COMPANY OTHER THAN THOSE CONTAINED IN THIS REGISTRATION DOCUMENT AND IN THE DOCUMENTS REFERRED TO HEREIN, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE COMPANY OR ITS DIRECTORS OR ADVISORS.

**THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THE PROSPECTUS.**

A COPY OF THIS DOCUMENT HAS BEEN REGISTERED WITH THE LISTING AUTHORITY IN SATISFACTION OF THE LISTING RULES, THE MALTA STOCK EXCHANGE IN SATISFACTION OF THE MALTA STOCK EXCHANGE BYE-LAWS AND HAS BEEN DULY FILED WITH THE REGISTRAR OF COMPANIES, IN ACCORDANCE WITH THE ACT. APPLICATION HAS BEEN MADE TO THE LISTING AUTHORITY FOR ITS SECURITIES TO BE CONSIDERED AS ADMISSABLE TO LISTING ON A REGULATED MARKET. IN ADDITION, APPLICATION HAS ALSO BEEN MADE TO THE MALTA STOCK EXCHANGE, AS A REGULATED MARKET, FOR THE COMPANY'S SECURITIES TO BE ADMITTED TO THE OFFICIAL LIST.

THE VALUE OF INVESTMENTS CAN RISE OR FALL AND PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. IF YOU NEED ADVICE YOU SHOULD CONSULT A LICENSED STOCKBROKER OR AN INVESTMENT ADVISOR LICENSED UNDER THE INVESTMENT SERVICES ACT, CHAP. 370 OF THE LAWS OF MALTA.

THIS DOCUMENT AND ALL AGREEMENTS, ACCEPTANCES AND CONTRACTS RESULTING THEREFROM SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF MALTA AND ANY PERSON ACQUIRING ANY SECURITIES PURSUANT TO THE PROSPECTUS SHALL SUBMIT TO THE JURISDICTION OF THE MALTESE COURTS, WITHOUT LIMITING IN ANY MANNER THE RIGHT OF THE COMPANY TO BRING ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR IN CONNECTION WITH ANY PURCHASE OF SECURITIES OR AGREEMENT RESULTING HEREFROM OR THE PROSPECTUS AS A WHOLE IN ANY OTHER COMPETENT JURISDICTION.

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (OTHER THAN MALTA) WHICH HAS IMPLEMENTED DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 4 NOVEMBER 2003 ON THE PROSPECTUS TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING OR WHICH, PENDING SUCH IMPLEMENTATION, APPLIES ARTICLE 3.2 OF SAID DIRECTIVE, THE SECURITIES CAN ONLY BE OFFERED TO "QUALIFIED INVESTORS" (AS DEFINED IN SAID DIRECTIVE) AS WELL AS IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE ISSUER OF A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE SAID DIRECTIVE.

ALL THE ADVISORS TO THE COMPANY NAMED UNDER THE HEADING "ADVISORS" IN SECTION 2.3 OF THIS REGISTRATION DOCUMENT HAVE ACTED AND ARE ACTING EXCLUSIVELY FOR THE COMPANY IN RELATION TO THIS RIGHTS ISSUE AND HAVE NO CONTRACTUAL, FIDUCIARY OR OTHER OBLIGATION TOWARDS ANY OTHER PERSON AND WILL ACCORDINGLY NOT BE RESPONSIBLE TO ANY INVESTOR OR ANY OTHER PERSON WHOMSOEVER IN RELATION TO THE TRANSACTIONS PROPOSED IN THE PROSPECTUS.

STATEMENTS MADE IN THIS DOCUMENT ARE, EXCEPT WHERE OTHERWISE STATED, BASED ON THE LAW AND PRACTICE CURRENTLY IN FORCE IN MALTA AND ARE SUBJECT TO CHANGES THEREIN. THIS DOCUMENT SHOULD BE READ IN CONJUNCTION WITH THE SECURITIES NOTE CONTAINING INFORMATION ABOUT THE OFFERING AND THE SECURITIES.

## DEFINITIONS

In this document the following words and expressions shall bear the following meanings except where the context otherwise requires:

<b>Act</b>	The Companies Act, Chap. 386 of the Laws of Malta;
<b>Associated Undertaking or MSV</b>	Middlesea Valletta Life Assurance Company Limited, a limited liability company registered under the Laws of Malta with company registration number C15722 and with registered office at Middle Sea House, Floriana FRN1442, Malta. The company is regulated by the Malta Financial Services Authority;  Unless the context otherwise requires, any reference to the Associated Undertaking or MSV includes Middle Sea Valletta Life Assurance Company Limited and its fully owned subsidiary company, Growth Investments Limited, a limited liability company registered under the Laws of Malta with company registration number C21821 and with registered office at Middle Sea House, Floriana FRN1442, Malta. The company is regulated by the Malta Financial Services Authority;
<b>Company or Issuer or MSI</b>	Middlesea Insurance p.l.c., a public limited liability company registered under the Laws of Malta with company registration number C5553 and with registered office at Middle Sea House, Floriana FRN1442, Malta. The company is regulated by the Malta Financial Services Authority;
<b>Directors or Board</b>	The directors of the Company whose names are set out in Section 2 under the heading "Identity of Directors, Executive Management, Advisors and Auditors";
<b>Euro or €</b>	The lawful currency of the Republic of Malta as from 1 January 2008;
<b>ISVAP</b>	Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo (Institute for the supervision of private insurance and public interest) - is an entity with legal personality under Italian public law established, for the exercise of supervisory functions in respect of insurance and reinsurance as well as all others who are subject to the discipline of private insurance, including agents and insurance brokers in Italy;
<b>Listing Authority</b>	Such person or body appointed by the Minister of Finance for the purposes of article 11 of the Financial Markets Act, Chap. 345 of the Laws of Malta;
<b>Listing Rules</b>	The listing rules issued by the Listing Authority from time to time;
<b>Malta Financial Services Authority or MFSA</b>	The Malta Financial Services Authority established in terms of the Malta Financial Services Authority Act (Chap. 330 of the Laws of Malta);
<b>Malta Stock Exchange or MSE</b>	The Malta Stock Exchange p.l.c. as originally constituted by the Financial Markets Act, Chap. 345 of the Laws of Malta with registered office at Garrison Chapel, Castille Place, Valletta VLT1063, Malta and bearing company registration number C42525;
<b>Middlesea Group, Middlesea, Middlesea Insurance or Group</b>	The Company, the Subsidiaries and the Associated Undertaking;
<b>Prospectus</b>	This document together with the Securities Note and the Summary Note all dated 20 November 2009 in connection with the offer of Securities by the Company;
<b>RCA</b>	'Responsabilità Civile Auto' - motor third party liability insurance;
<b>Registration Document</b>	This document in its entirety;
<b>Rights Issue</b>	The proposed issue by way of rights to the New Ordinary Shares to Eligible Shareholders as described in the Securities Note;
<b>Securities Note</b>	The Securities Note issued by the Company dated 20 November 2009, forming part of the Prospectus;

## Subsidiaries

Each of:

- (a) Church Wharf Properties Limited, a limited liability company registered under the Laws of Malta with company registration number C25653 and with registered office at Middle Sea House, Floriana FRN1442, Malta;
- (b) Euro Globe Holdings Limited, a limited liability company registered under the Laws of Malta with company registration number C30503 and with registered office at Middle Sea House, Floriana FRN1442, Malta;
- (c) EuroMed Risk Solutions Limited, a limited liability company registered under the Laws of Malta with company registration number C37185 and with registered office at Development House, 4<sup>th</sup> Floor, St Anne Street, Floriana FRN9010, Malta;
- (d) International Insurance Management Services Limited ("IIMS"), a limited liability company registered under the Laws of Malta with company registration number C23610 and with registered office at Development House, 4<sup>th</sup> Floor, St Anne Street, Floriana FRN9010, Malta. The company is regulated by the Malta Financial Services Authority;
- (e) Progress Assicurazioni S.p.A. ("Progress"), a limited liability company registered under the Laws of Italy with company registration number C.F./P/IVA: 00675700827 and with registered office at Piazza Alberico Gentile 3, 90143 - Palermo, Sicily, Italy. The company is regulated by the Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo ("ISVAP");

## Summary Note

The Summary Note issued by the Company dated 20 November 2009, forming part of the Prospectus.

## 1. RISK FACTORS

Potential investors should thoroughly review the following specific risk factors in addition to the other information contained in the Prospectus before deciding to purchase the offered securities. Any of these risks could have a material adverse effect on the assets, financial position and earnings of the Middlesea Group. Any of these risks could cause the share price of the Company to fall and investors could lose part or all of their investment. The risks described below may not be the only risks to which the Group is exposed. The Company considers the following risks to be the most significant for potential investors, but the risks described do not necessarily comprise all those associated with an investment in the offered securities. Other risks of which the Company is currently not aware or which the Company currently considers immaterial may also adversely affect the Middlesea Group's business operations and have material adverse effects on its assets, financial position and earnings. The order of presentation of the risk factors set forth below does not indicate the likelihood that these risks will occur or the extent of the economic effects of the risks.

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places throughout this Registration Document and include statements regarding the intentions, beliefs or current expectations of the Company and/or the Directors concerning, amongst other things, the Company's strategy and business plans, results of operations, financial condition, liquidity and prospects of the Company and the markets in which the Group operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and should therefore not be construed as such.

### 1.1 RISKS RELATED TO THE BUSINESS

#### 1.1.1 Insurance Risk

MSI, MSV and Progress are engaged in insurance activities, which are subject to various risks as outlined below. If any of these risks is not managed properly, this could have a material adverse effect on the assets, financial condition and results of operations across the Middlesea Group, impacting on the Issuer, on MSV and on Progress.

##### *a) Non-life business conducted by MSI and Progress*

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is fortuitous.

The terms and conditions of the contracts set out the bases for the determination of the Group's liability should the insured event occur. The risks underwritten include accident and health, motor (including third party liability), marine and transport, fire and other damage to property and liability.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments are significantly different to the amounts included within technical provisions. This could occur because the frequency or severity of claims and benefits are greater or lower than estimated. Insurance events are fortuitous and the actual number and amount of claims and benefits may vary from year to year from the estimate established using statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.

##### *(i) Frequency and severity of claims*

The frequency and severity of claims can be affected by several factors. The following are considered by the Group to be the most significant:

- The increasing levels of court awards in cases where damages are suffered as a result of injuries; the divergence of awards that is dependant on the territory of the claim and the jurisdiction of the court; the effect of inflation due to the prolonged period typically required to settle such cases.
- The concentration of motor third party liability insurance mainly located within the Italian operation, in particular in Campania and Sicily.
- The risk of a single event that can extensively affect a multiple of individual risks to which the Group is exposed.
- The increase in the number of reported claims as a result of the introduction of the obligatory direct indemnification system (CARD) in Italy.

The introduction of the obligatory direct indemnification system in the Italian market has exposed Progress to claims from injured parties being indemnified for property damage and minor bodily injuries (defined as up to 9% disability) even if they are only covered by third party risk. The Italian operation is entitled to recover from the insurers of the driver at fault an amount that is determined in accordance with a stipulated formula. This system

can have an important impact on the fault experience in relation to its premium rates payable. In addition, the system of recovery from other insurance companies exposes the operation to potential variability especially given the relatively small portfolio of business compared to the whole Italian market.

*(ii) Sources of uncertainty in the estimation of future claim payments*

The Group is liable for all insured events that occur during the term of a contract, even if the loss is discovered after the end of the contract term. As a result, the estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is generally available. Certain classes of business, most notably those exposed to liability, can take several years to develop and are therefore subject to a greater degree of uncertainty than other classes of business which are typically settled in a shorter period of time.

The assumptions used in conventional statistical or actuarial models used in the estimation of claims reserves may differ from actual future results. In particular, the model used for determining Progress's technical reserves is influenced by estimated loss ratios adjusted for premium rate changes, anticipated market experience and historical claims inflation.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established.

**b) Life business conducted in the main by MSV**

Life Business is conducted by the Group in the main through its Associated Undertaking, MSV. Group life operations are also conducted by MSI.

*(i) Frequency and severity of claims*

For contracts where death is the insured risk, the most significant factor that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected.

At present these risks do not vary significantly in relation to the location of the risk insured by the Group. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts with a discretionary participation feature (DPF), the participating nature of the contracts results in a portion of the insurance risk being reduced over the term of policy. Investment contracts with DPF carry negligible insurance risk.

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality, and the variability in contract holder behaviour.

*(ii) Actual results could deviate from the actuarial and other assumptions made in calculating the actuarial reserves in the life insurance businesses and in computing the value of in-force business*

The assumptions used in calculating actuarial reserves and the value of in-force business may differ from actual future results. Actuarial reserves are calculated and the associated value of in-force business is based on recognised actuarial methods and assumptions. These assumptions include estimates of long-term developments in interest rates, financial investment yields, the allocation of financial investments between shares, interest-bearing securities and other categories, participations in profits, mortality and morbidity rates, lapse rates as well as future costs. Changes in these assumptions or incorrect assumptions may lead to an increase of the actuarial reserves for the life insurance business and to changes in the value of in-force business.

**c) Reinsurance**

The lack of available reinsurance protection or the availability of reinsurance protection at increased costs and/or the inability/untimely payment by the reinsurers, could have a material adverse effect on the earnings of MSI, Progress and MSV.

The Middlesea Group has a policy of transferring that portion of assumed risks deemed by management to be adequate, to reinsurance companies. However, this transfer of risk to reinsurers does not relieve the Middlesea Group of its obligations to the policyholder. For that reason, the Group is exposed to the risk of a reinsurer being unable to pay.

Various factors applying to the global reinsurance market may from time to time result in higher premiums sought by reinsurers for the acceptance of risk on their part. This will inevitably have a negative impact on the assets, financial position and earnings for the Group. Such negative impacts may also occur should the Group be unable to cede certain risks to reinsurance companies at an economical cost, retaining larger proportions of risks for its' own account thus increasing its' exposure to uncertainty on the probability of occurrence.

**d) Distribution channels**

The Group's insurance businesses distribute their products through a combination of direct sales and of third party distributors that include tied insurance intermediaries, insurance brokers and agents.

The Group may accordingly be exposed to the risk of distributors seeking to terminate their business relationship, which could lead to a loss of business. The Group may also be exposed to the risk of distributors improperly applying the policies of the Group, eg. with regards to the acceptance of risk and the handling of claims, leading to inadequate pricing and to losses.

Progress has recently concluded an exercise leading to the termination of the representation contracts of a large number of agents. This process may expose this subsidiary to the risk of litigation and to termination payments that are higher than the amounts currently envisaged by the company.

**e) Market competition**

The insurance markets in Malta, Gibraltar and Italy are highly competitive, with several factors affecting the Middlesea Group's ability to sell its products, including price and yields offered, financial strength, range of product lines and product quality, brand strength and name recognition, investment management performance and historical bonus levels. In some of its markets the Group faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates or claims-paying ratios.

**1.1.2 Market Risks**

**a) Interest rate fluctuations may have a negative impact on the earnings of the Middlesea Group**

The Middlesea Group is exposed to market risk, which is the danger of losses resulting from changes in market parameters. The market risk parameter of primary relevance to the Middlesea Group is interest rates. Putting aside the capital assets for the account and risk of policyholders, a large portion of the capital assets of the insurance business of the Middlesea Group consists of interest-bearing securities. As of 30 June 2009, a significant portion of capital assets consisted of securities whose interest rate was fixed for the life of the investment. A large portion of the securities is denominated in euro. Accordingly, interest rate fluctuations in the euro zone significantly influence the value of the Group's financial assets.

Interest rate fluctuations result in the following risks:

- **Write-downs.** Book value depends on changes in the interest rate level; if interest rates rise, the market value of these securities falls.
- **Attractiveness of products.** The sales success of fund- and index-linked products also depends on the volatility of capital markets. Fluctuations in the capital markets, in particular in interest rates, influence the attractiveness of these products.
- **Reinvestment.** Upon the maturity of higher-interest securities, a lower interest level at the time of reinvestment in interest-bearing securities will lead to a decline in net earnings.

Interest rate fluctuations may have a material adverse effect on the financial and earnings position of the Middlesea Group.

**b) Market risks may reduce the value of the equity portfolio and negatively influence the financial and earnings position of the Middlesea Group**

The Middlesea Group has an equity portfolio, including shares held through funds. The share assets of the Middlesea Group include investments in companies whose shares are listed primarily on European stock exchanges, including the Malta Stock Exchange. Share values on European stock exchanges and the Malta Stock Exchange were subject to strong fluctuations and a significant downward trend during 2008 and the first quarter of 2009, but have since partially recovered. Should the equity markets move downwards, or continue to fluctuate to a similar or greater degree, this could lead to considerable valuation changes with an effect on the annual results and on shareholders' equity.

**c) The Issuer's businesses are inherently subject to the impact of adverse economic conditions**

In all markets in which Middlesea Group operates, its businesses are susceptible to general economic conditions, which can change the level of demand for Middlesea's products. The recent uncertain trends in international economic and investment climates which have adversely affected the Issuer's business and profitability could be repeated. This adverse effect would be felt principally through reductions in premium levels, higher lapse ratios, reduced investment returns and credit defaults in fixed interest corporate bonds, which may continue to affect the business unless conditions improve.

**d) Asset-Liability Matching**

The market risks exposures noted above can further expose the Middlesea Group to the risk of mismatch between the value of investments and that of technical provisions (Asset-Liability Matching). The Group seeks to match the term,

nature and currency of both assets and liabilities. Market risks could impact on the value and liquidity of assets without a corresponding impact on the matching liabilities.

### 1.1.3 Credit Risk

The Middlesea Group is exposed to counterparty default risk.

Third parties that owe the Middlesea Group money, securities or other assets, may no longer be in a position to fulfill their obligations to the Middlesea Group. These include issuers of securities held by the Group, reinsurers, customers and trading counterparties. Due to insolvency, a lack of liquidity, an economic downturn or a decline in real estate values, business management errors or other reasons, these parties may no longer be in a position to satisfy their obligations towards the Middlesea Group.

### 1.1.4 Operational Risks

The Middlesea Group, like any other organisation in the financial service sector, is exposed to a number of risks falling under this category, as highlighted hereunder.

#### a) *Key succession planning*

The loss of specialised employees occupying key critical posts within the different business units making up the Group could result in a loss of know-how.

The financial results of the Middlesea Group are to a significant degree dependent on the existing market and insurance knowledge of its management. The loss of executives or of employees in key positions could materially adversely affect the assets, financial position and earnings of the Group if it is not possible to fill the vacant positions with equally qualified executives within an appropriate time period.

#### b) *External fraud risk*

The Middlesea Group is exposed to the risk of damages arising as a result of illicit manipulation. Such manipulation, if not countered by effective control, would lead to financial losses.

#### c) *The Middlesea Group depends to a great extent on the support of complex IT systems, which could be considerably impaired by internal and external factors*

The Middlesea Group is dependent on the functioning of an efficient IT system (hardware and software). IT systems are susceptible to a number of risks, such as computer viruses, hackers, or damage to critical IT hardware. The partial or complete failure of the Middlesea Group's IT systems, accompanied by a breakdown in back-up resources, could lead to a significant disruption of business processes, a temporary shutdown of business operations, to claims for damages and/or a loss of customers. Should such events or similar events occur and lead to damages or lost revenues, there could be a material adverse effect on the Group's assets, financial position and earnings.

#### d) *Compliance risks*

Regulatory conditions for the Middlesea Group can change; non-compliance with regulatory requirements could result in the imposition of sanctions or can have other adverse effects.

The Middlesea Group is subject to insurance regulations within and outside of Malta. Among other things, such regulations include rules concerning:

- equity capital of insurance companies and insurance groups;
- admissibility of assets to cover technical provisions;
- licenses of the various Group companies of the Middlesea Group; and
- marketing activities and the sale of insurance contracts.

New regulations on solvency ("Solvency II") are currently being discussed at EU level by insurance companies operating in the EU. The work on Level 2 implementing measures is still ongoing and hence the effects of these framework conditions cannot be definitely assessed as yet. Changes to the general legal framework can require restructurings and increase the capital requirement for the Company, and accordingly cause higher costs or reduce the income prospects of the Middlesea Group. This could have a material adverse effect on the assets, financial position and earnings of the Group.

The violation of regulatory requirements in a country could lead to the risk that the regulatory authority in the affected country could issue injunctions effecting, or impose fines on, the respective Group company and its managers. Such injunctions could have detrimental effects on the ongoing business activity of the respective company and in the most extreme case could lead to the termination of further business activity of the Group in the affected country or as a whole. In addition, the imposition of fines could have a material adverse effect on the assets, financial position and earnings of the Group.

Moreover, the violation of regulatory requirements could lead to intensified supervision of the company concerned and,

accordingly, to an increase in administrative expenses. The imposition of any public regulatory orders or fines against a Group company could lead to a loss of confidence among customers and business partners, and could also materially adversely affect the financial position and earnings of the Group.

### 1.1.5 Contagion Risks

Contagion risks are a combination of risks which a parent company may sustain as a result of the actions / circumstances / risks affecting any of its' subsidiaries, and vice-versa.

Progress Assicurazioni S.p.A. is currently experiencing a very challenging period under circumstances that are explained in Sections 5 and 6 of this document and which has led to the Group as a whole incurring material losses. This subsidiary has presented the Issuer with a series of challenges such as the need to raise capital in order to continue servicing the considerably reduced business of Progress and at the same time comply with statutory and regulatory requirements which at the moment are not being met.

The raising of new capital by the Group and the subordinated loan, described in Section 1.1.6 below, will enable Progress and the Group to return to a position where they satisfy their statutory and regulatory capital requirements.

Steps have been taken to bring these problems to a closure, terminating the representation of a large number of agents, re-sizing the scale of the company's operations and acquiring substantial reinsurance cover to minimise the impact that Progress could have on the future operations of the Group. With respect to 2009, in particular until all policies relating to closed agencies expire, the Group remains exposed to the risk of further losses beyond those reflected in its forecast results for the year ending 31 December 2009, up to the level of the reinsurance treaties entered into.

### 1.1.6 Future funding risk

In addition to the €40.2 million new capital being raised by the Company of which €26 million will be injected as capital in Progress, further funding of €8.5 million will be required by Progress to return to a position where it satisfies its own and consequently the Company's statutory and regulatory capital requirements which are currently not being met. Progress has initiated discussions with credit institutions for the issuance of the said subordinated loan which will be subject to regulatory approval in Malta and Italy. In the event that Progress is not successful in securing the subordinated loan, the Company will dispose of assets in a manner that will not impinge on its statutory and regulatory capital requirements and thereby replace the amount that would otherwise have been raised through the subordinated loan.

The Directors are of the view that, after having made due and careful enquiry and taking into account the net proceeds of the Rights Issue, the subordinated loan and available facilities, the working capital available to the company will be sufficient for its present requirements, that is, for at least 12 months from the date of the Prospectus.

Should the Company need to raise further funds in the future, either to undertake new investment proposals or to meet unexpected losses, there is no guarantee that the prevailing market conditions will be conducive to such financing, or that shareholder support would be forthcoming.

## 2. IDENTITY OF DIRECTORS, EXECUTIVE MANAGEMENT, ADVISORS AND AUDITORS

### 2.1 DIRECTORS AND COMPANY SECRETARY

The Directors of the Company, whose names are set out under the heading "Directors" below, are the persons responsible for the information contained in the Prospectus. Having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the Director's knowledge, in accordance with the facts and contains no omission likely to affect its import.

#### Directors

Mario C. Grech	Executive Chairman
Roderick E.D. Chalmers	Deputy Chairman
George Bonnici	Non-executive Director
Evelyn Caruana Demajo	Non-executive Director
Tonio Depasquale	Non-executive Director
Gaston Debono Grech	Non-executive Director
Javier Fernández-Cid Plañiol	Non-executive Director
John C. Grech	Non-executive Director
Andres Jiménez	Non-executive Director
Victor Galea Salomone	Non-executive Director
Michael Sparberg	Non-executive Director
Lino Spiteri	Non-executive Director
Joseph F.X. Zahra	Non-executive Director

#### Company Secretary

Carlo Farrugia

## 2.2 GROUP EXECUTIVE MANAGEMENT

Mario C. Grech	Executive Chairman
David G. Curmi	Chief Executive Officer - MSV
Stephen Gauci	Chief Executive Officer – Progress
Anne Marie Tabone	Group Chief Financial Officer & General Manager IIMS

## 2.3 ADVISORS

### Legal Counsel

Mamo TCV Advocates  
Palazzo Pietro Stiges, 90 Strait Street, Valletta, VLT 1436, Malta

### Sponsor

Charts Investment Management Service Limited  
Valletta Waterfront - Vault 17, Pinto Wharf, Floriana, FRN 1913, Malta

### Manager & Registrar

Bank of Valletta p.l.c.  
BOV Centre, Cannon Road, St Venera, SVR 9030, Malta

## 2.4 AUDITORS

PricewaterhouseCoopers  
167, Merchants Street, Valletta, VLT 1174, Malta

PricewaterhouseCoopers is a firm of Certified Public Accountants holding a practicing certificate to act as auditors in terms of the Accountancy Profession Act, 1979 (Chap. 281, Laws of Malta).

## 3. INFORMATION ABOUT THE COMPANY

### 3.1 HISTORICAL DEVELOPMENT

#### 3.1.1 Introduction

Legal Name of Company	Middlesea Insurance p.l.c.
Registered Address	Middle Sea House, Floriana FRN1442, Malta
Place of Registration and Domicile	Malta
Registration Number	C5553
Date of Registration	29 June 1981
Legal Form	The Company is lawfully existing and registered as a public limited company in terms of the Act
Telephone No.	+356 21 246262
Fax No.	+356 21 248195
Email Address	middlesea@middlesea.com
Website	www.middlesea.com

#### 3.1.2 Important Events in the Development of the Company

Middlesea Insurance p.l.c. was registered as Middle Sea Insurance Company Limited under the Commercial Partnerships Ordinance 1962 on 29 June 1981. The Company began trading on 1 July 1981 on the strength of a licence issued under the Insurance Business Act 1981. At the time, Middlesea was Malta's only locally registered insurance company and from its inception transacted business in all classes of insurance and reinsurance.

The Company's second year of operations saw Middlesea Insurance going into underwriting international reinsurance. Local reinsurance business continued to play a major role in the Company's business and progress was made in the direct underwriting of long-term business (life assurance) and support to the market in certain specialised large risks which required additional underwriting capacity. In 1983 a contact office was opened in London to take advantage of the available opportunities. A branch office was subsequently opened on 1 January 1988.

Middlesea Insurance commenced writing Life Business in January 1983.

In 1991 Middlesea established a subsidiary company – International Insurance Management Services Ltd – specialising in risk management, insurance and reinsurance company formation and management (including captives).

In 1993 active preparations were being made for the admission of the Company to a listing on the Malta Stock Exchange and for the formation of a joint bancassurance venture in life assurance business together with Bank of Valletta Limited and Munich RE (also known by its legal name Münchener Rückversicherungs-Gesellschaft).

Following a restructuring and increase of the Company's capital, on 28 September 1994 Middlesea shares were traded for the first time on the Malta Stock Exchange. This was a milestone in the history of the Stock Exchange - Middlesea was the first non-banking institution to be quoted on the Exchange.

Middlesea Valletta Life Assurance Company Limited was established in 1994 and commenced operations on 2 September. This specialist life assurance company introduced the concept of bancassurance in Malta. It was also directed at the enhancement and enlargement of the local life assurance industry based on a European model.

A wholly-owned subsidiary of Middlesea Valletta Life Assurance Company Limited, Growth Investments Ltd, was set up in 1997. The company was established to market collective investment funds locally, to act as a financial intermediary for securities listed on the Malta Stock Exchange and as the exclusive representative in Malta of Fidelity Funds SICAV.

These years saw an increase in the number of agencies underwriting business under the Middlesea brand. In quite a number of cases this was the result of a number of UK-based insurance companies withdrawing from overseas markets such as Malta allowing MSI to offer underwriting facilities. At the same time, the Company was consolidating its position as the leading local provider of insurance and reinsurance services.

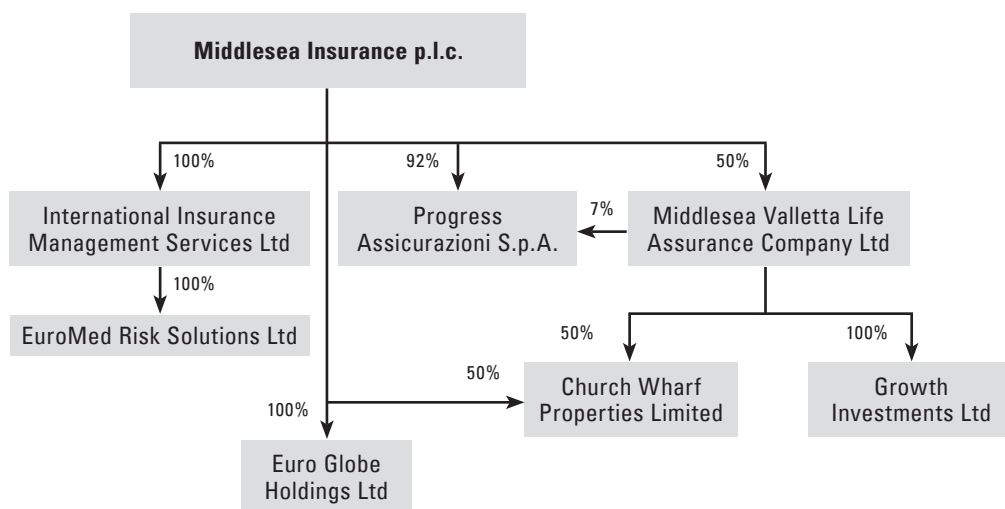
This was also a time when the international reinsurance situation was subjected to pricing pressures and highly competitive market conditions. The London Branch registered a negative result and, with the future looking rather gloomy, the situation was being continually monitored to assess the feasibility of retaining this involvement. The recurrence of claims following natural catastrophes compounded the problem further. Eventually the decision was taken to close the branch, which ceased operating on 1 November 2000.

The entry of Middlesea Insurance into foreign countries as a direct insurer was launched in 2000 with the opening of an office in Gibraltar following the issue of a licence from the Financial Services Commission of Gibraltar and the signing of an agreement with Mascarenhas Insurance and Finance Ltd who were appointed representative agents for Middlesea Insurance. Furthermore, an agreement with the Spanish company Corporacion Mapfre Compania Internacional de Reaseguros S.A. was signed on 28 September 2000. Through this agreement, Middlesea acquired a 51% shareholding in Progress Assicurazioni S.p.A. and commenced direct insurance operations in the Italian market.

Middlesea Insurance acquired a further 41% of the shares in Progress Assicurazioni S.p.A. through subsequent transfers and issues of new shares, while a 7% shareholding in Progress is currently owned by Middlesea Valletta Life Assurance Company Limited.

### 3.2 ORGANISATIONAL STRUCTURE

The diagram below indicates the structure of the Group as at 30 September 2009.



As can be seen from the above, the Issuer is the parent company of the Middlesea Group. The major shareholders of MSI are listed in Section 11.1 below. A description and further details on each company are set out below.

### 3.3 BUSINESS OVERVIEW

#### 3.3.1 Principal Activities

##### **Principal Activities of the Company**

Middlesea Insurance p.l.c. is a company authorised under the Insurance Business Act, Chap. 403 of the Laws of Malta, to carry on both long term and general business and is regulated by the Malta Financial Services Authority.

The Company conducts its operations primarily in Malta, and operates through an appointed agent in Gibraltar.

The Company's general business operations comprise all the non-life classes of business underwritten in Malta and Gibraltar, including Motor, Home, Health, Yacht & Pleasure Craft, Professional Indemnity and Asset and Liability Protection. The Company's long term business includes the provision of Group Life protection to its corporate customers.

### **Principal Activities of the Company's Subsidiaries and Associate Undertaking**

Progress Assicurazioni S.p.A. is the group company dedicated to the Italian non-life market. The company offers a variety of insurance products and services in Italy including Motor, Home, Business and Professional Indemnity. This company is in the course of being restructured as amplified upon later on in this document.

Progress is a company registered and licensed in Italy, and is accordingly regulated by ISVAP.

Middlesea Valletta Life Assurance Company Limited is a company licensed to carry on long term business of insurance under the Insurance Business Act, Chap. 403 of the Laws of Malta. It is principally engaged in the provision of individual life insurance, savings and investment products and retirement planning schemes. Growth Investments Limited (a subsidiary company of MSV) is authorised to provide investment services in terms of the Investment Services Act, Chap. 370 of the Laws of Malta. The company is the exclusive representative of Fidelity International in Malta and an authorised distributor of Schrodgers investment funds.

International Insurance Management Services Ltd provides insurance management services to the insurance entities within the Group and international clients that set up their insurance/reinsurance company in Malta. IIMS is licensed in terms of the Insurance Intermediaries Act, Chap. 487 of the Laws of Malta, and is regulated by the Malta Financial Services Authority.

EuroMed Risk Solutions Limited was set up in 2005 to complement the services provided by International Insurance Management Services Ltd to companies which are not licensed insurance or reinsurance companies. Services provided include accounting, company secretarial and administration of companies. EuroMed Risk Solutions Limited commenced operations in 2008.

Euro Globe Holdings Ltd deals in various investments including property, equities and fixed income securities.

Church Wharf Properties Ltd is a property company jointly owned by the Company and MSV.

### **3.3.2 Principal Markets**

The Group is organised on a worldwide basis into four geographical segments that are all principally involved in the business of general insurance: Malta, Italy (where the Group's business is in the course of being materially reduced), Gibraltar and London (discontinued). Gross premiums written for the year ended 31 December are as follows:

	<b>2008</b> <b>€'000</b>	<b>2007</b> <b>€'000</b>	<b>2006</b> <b>€'000</b>
Malta	<b>31,121</b>	29,608	27,818
Italy (in the course of being materially reduced)	<b>86,056</b>	71,396	52,798
Gibraltar	<b>2,842</b>	3,179	3,215
London – discontinued	<b>28</b>	19	17
	<b>120,047</b>	104,202	83,848

As can be seen from the above table, the Italian operations conducted by Progress have in the past three years constituted a material proportion of the consolidated premium income of the Group. Following the re-sizing of Progress' operation in line with the measures undertaken to address the losses sustained by this subsidiary, its written premium is expected to reduce to circa €26 million in 2010.

The Group's four geographical segments operate in two main business segments, general business, that is further sub-divided into various insurance business classes, and long-term business. Gross premiums written for the year ended 31 December are as follows:

	<b>2008</b> <b>€'000</b>	<b>2007</b> <b>€'000</b>	<b>2006</b> <b>€'000</b>
<b>General Business</b>			
Motor (third party liability)	<b>69,863</b>	57,311	42,970
Motor (other classes)	<b>22,813</b>	20,545	17,598
Fire and other damage to property	<b>8,281</b>	9,315	8,851
Accident & health	<b>12,981</b>	11,035	8,676
Other classes	<b>4,427</b>	4,526	4,360
	<b>118,365</b>	102,732	82,455
<b>Long-term Business</b>			
Direct insurance	<b>1,670</b>	1,459	1,381
Reinsurance inwards	<b>12</b>	11	12
	<b>1,682</b>	1,470	1,393
	<b>120,047</b>	104,202	83,848

### 3.3.3 Distribution network

The Middlesea Group sells insurance products through its own offices and via a network of agents and intermediaries in Malta and overseas. The Group's offices and distribution network are listed in Annex A and are shown following the termination of 116 agency contracts by Progress described further in Section 6 below.

## 4. INVESTMENTS IN GROUP UNDERTAKINGS

### **Progress Assicurazioni S.p.A.**

On 29 December 2006, Progress Assicurazioni S.p.A. ("Progress") announced an issue of share capital whereby it increased its authorised and issued share capital from €17.6 million to €21.6 million. On 30 April 2007, following a bonus issue, the authorised and issued share capital further increased to €22.1 million. The said issues were fully subscribed and thus the Company retained its shareholding in this unlisted Italian company at 89.98% of issued share capital.

On 27 December 2007, Progress Assicurazioni S.p.A. announced an issue of share capital to increase its authorised and issued share capital by €2.2 million to €24.3 million. The Company subscribed for its 89.98% share of issued share capital amounting to €2 million. On 22 April 2008, following a bonus issue the authorised and issued share capital further increased to €25.6 million.

As a result of the financial loss incurred by Progress in 2008, the issued share capital was adversely affected and reduced to €17.6 million. The Annual General Meeting of Progress held on 30 April 2009 approved certain changes in order to cover the loss incurred in the financial year 2008 including (i) the utilisation of €6.1 million from existing reserves and (ii) a reduction in the nominal share value to €0.0069 (from €0.01). This resulted in a total reduction of €8 million in the total value of the issued shares. Furthermore the AGM approved a new capital injection of €1.96 million which was fully subscribed. As a result of the foregoing the total authorised and issued share capital of the company as at 30 April 2009 reached €19.6 million.

The loss registered by Progress during the first six months of 2009 has further 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 took place following an Extraordinary General Meeting of Progress held on 8 September 2009. Further injections in respect of future capital increases of €5.5 million and €4 million were effected on 28 September and 4 November respectively to meet the further losses sustained by Progress in the third quarter of 2009.

It is expected that a further capital investment will be made in Progress towards the end of 2009 out of the proceeds of the Rights Issue and that a subordinated loan as detailed in Section 1.1.6 will also be required for Progress to return to a position where it meets its statutory and regulatory capital requirements.

### **Middlesea Valletta Life Assurance Company Limited**

On 24 April 2006, a bonus issue of €3.26 million was declared by Middlesea Valletta Life Assurance Company Limited following the capitalisation of dividend. Concurrently, there was a further issue of €2.33 million whereby the issued share capital of the company was increased to €25.62 million. A further issue of €4.66 million took place on 15 December 2006 whereupon the issued share capital increased to €30.28 million. The said issues were fully subscribed. On 23 April 2007, following another capitalisation of dividend and the issuance of a bonus issue, the issued share capital was further increased to €34.94 million. Furthermore the authorised share capital was increased to €46.59 million. During 2008, MSV further strengthened its issued and paid-up capital to €39.75 million through a bonus share issue whilst the authorised share capital was increased from €46.59 million to €50 million. On 30 April 2009 the issued share capital of MSV was increased to €41.75 million following a bonus issue of €2 million after a capitalisation of dividend.

A further increase in the issued share capital of MSV of €2.5 million was effected on 31 August 2009 through a fresh issue of shares which was fully subscribed. As a consequence the issued share capital of MSV increased from €41.75 million to €44.25 million. On 31 August 2009, the authorised share capital was increased from €50 million to €60 million.

## 5. OPERATING AND FINANCIAL REVIEW

The financial information about the Issuer is included in the consolidated annual report & audited financial statements for each of the financial years ended 31 December 2006, 2007 and 2008, and in the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2009 and nine months ended 30 September 2009. The said statements have been published and are available at the Issuer's registered office.

The following information is extracted from the Company's consolidated annual report & audited financial statements for the financial years ended 31 December 2006, 2007 and 2008, and the unaudited consolidated interim financial statements for the six months ended 30 June 2009 and the nine months ended 30 September 2009.

**Consolidated Profit and Loss Account  
Technical Account – General Business (Extract)  
For the financial years ended 31 December**

	<b>2008</b> <b>€'000</b>	<b>2007</b> <b>€'000</b>	<b>2006</b> <b>€'000</b>
<b>Gross premiums written</b>	<b>118,365</b>	102,732	82,455
Earned premiums, net of reinsurance	<b>93,711</b>	77,356	64,366
Allocated investment return transferred from the non-technical account	-	4,623	4,654
<b>Total technical income</b>	<b>93,711</b>	81,979	69,020
Claims incurred, net of reinsurance	<b>97,186</b>	58,752	49,948
Net operating expenses	<b>21,157</b>	16,655	13,706
Allocated investment expenses and charges	<b>3,073</b>	-	-
<b>Total technical charges</b>	<b>121,416</b>	75,407	63,654
<b>Balance on the technical account for general business</b>	<b>(27,705)</b>	6,572	5,366

**Consolidated Profit and Loss Account  
Technical Account – Long Term Business (Extract)  
For the financial years ended 31 December**

	<b>2008</b> <b>€'000</b>	<b>2007</b> <b>€'000</b>	<b>2006</b> <b>€'000</b>
<b>Gross premiums written</b>	<b>1,682</b>	1,470	1,393
Earned premiums, net of reinsurance	<b>1,035</b>	858	789
Investment income	<b>9</b>	90	133
<b>Total technical income</b>	<b>1,044</b>	948	922
Claims incurred, net of reinsurance	<b>391</b>	273	174
Change in other technical provisions, net of reinsurance	<b>107</b>	47	13
Net operating expenses	<b>239</b>	245	80
<b>Total technical charges</b>	<b>737</b>	565	267
<b>Balance on the technical account for long term business</b>	<b>307</b>	383	655

**Consolidated Profit and Loss Account**  
**Non-Technical Account**  
**For the financial years ended 31 December**

	<b>2008</b> <b>€'000</b>	<b>2007</b> <b>€'000</b>	<b>2006</b> <b>€'000</b>
Balance on the general business technical account	<b>(27,705)</b>	6,572	5,366
Balance on the long term business technical account	<b>307</b>	383	655
	<b>(27,398)</b>	6,955	6,021
Share of associated undertaking's profit involved in long term business	<b>958</b>	2,627	3,466
Total (loss)/income from insurance activities	<b>(26,440)</b>	9,582	9,487
Other investment income	<b>3,480</b>	7,191	7,293
Investment expenses and charges	<b>(8,775)</b>	(1,438)	(1,604)
Allocated investment expense/(return) transferred to the general business technical account	<b>3,073</b>	(4,623)	(4,654)
Other Income	<b>1,819</b>	1,457	1,383
Administrative expenses	<b>(2,956)</b>	(2,852)	(3,388)
<b>(Loss)/Profit before tax</b>	<b>(29,799)</b>	9,317	8,517
Income tax credit/(expense)	<b>9,207</b>	(2,408)	(1,011)
<b>(Loss)/Profit for the financial year</b>	<b>(20,592)</b>	6,909	7,506
Attributable to:			
- shareholders	<b>(18,690)</b>	6,750	7,399
- minority interests	<b>(1,902)</b>	159	107
	<b>(20,592)</b>	6,909	7,506
<b>(Loss)/earnings per share attributable to shareholders</b>	<b>(74c8)</b>	27c0	29c6
<b>Balance Sheet (Extracts)</b> <b>As at 31 December</b>			
	<b>2008</b> <b>€'000</b>	<b>2007</b> <b>€'000</b>	<b>2006</b> <b>€'000</b>
<b>ASSETS</b>			
Intangible assets	<b>1,030</b>	1,065	1,002
Property, plant and equipment	<b>9,719</b>	5,952	2,968
Investment property	<b>10,978</b>	10,926	10,166
Investment in associated undertaking	<b>41,734</b>	43,077	40,449
Other investments	<b>168,286</b>	170,155	160,785
Deferred income tax	<b>13,223</b>	3,301	2,629
Reinsurers' share of technical provisions	<b>29,360</b>	28,899	28,793
Deferred acquisition costs	<b>7,446</b>	6,977	5,134
Insurance and other receivables	<b>25,203</b>	20,591	18,141
Income tax receivables	<b>2,635</b>	37	687
Cash and cash equivalents	<b>6,361</b>	9,899	4,518
<b>Total assets</b>	<b>315,975</b>	300,879	275,272
<b>EQUITY</b>			
Capital and reserves attributable to shareholders	<b>62,123</b>	82,590	78,603
Minority interests	<b>1,656</b>	3,243	2,933
	<b>63,779</b>	85,833	81,536
<b>LIABILITIES</b>			
Deferred income tax	<b>1,525</b>	1,201	1,123
Provisions for other liabilities and charges	<b>912</b>	884	809
Technical provisions	<b>210,883</b>	173,879	152,314
Borrowings	<b>16,285</b>	16,381	18,090
Insurance and other payables	<b>22,574</b>	22,209	20,576
Income tax payable	<b>17</b>	492	824
<b>Total liabilities</b>	<b>252,196</b>	215,046	193,736
<b>Total equity and liabilities</b>	<b>315,975</b>	300,879	275,272

In 2008, the Middlesea Group registered a loss after tax of €20.59 million compared to the 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 result.

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 20.5% was recorded, with premiums reaching €86 million. Middlesea Insurance p.l.c. also recorded a marginal increase of 3.6%, with total premium income reaching €34 million, compared to the €32.8 million achieved during 2007.

Total investment income for the Group decreased from a positive return of €8.47 million during 2007 to a loss 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 loss 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. Middlesea Insurance p.l.c. had no direct exposure to any of the sub-prime or other "toxic" assets that were among the root causes of the crisis.

Middlesea Insurance p.l.c.'s result on non-life business 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 group life 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 slight deterioration in the loss ratio was registered, primarily in the motor class of business, which accounts for the reduced profits. The claims reserves put in place by the Company however remain adequate as is evidenced by the favourable run-off of €3.45 million (2007 – favourable run-off of €3.26 million) generated during the year.

During 2008 the Italian subsidiary of the Group, Progress Assicurazioni S.p.A., registered a loss after taxation as consolidated in MSI's results of €19.1 million. This was due to a number of reasons including the weak state of the Italian insurance market and the marked deterioration in the loss ratio on the obligatory third party motor business ("RCA") by 24 percentage points, reflecting a deterioration in the quality of the business underwritten by the company. In addition, the introduction of the mandatory Direct Indemnification system in Italy ("Convenzione tra Assicuratori per Risarcimento Diretto - CARD") during the early part of 2007 negatively impacted the 2008 technical results. These adverse developments were incurred at a point when the company was expanding its operations on the Italian mainland, compounding their effect on the company's results.

The deterioration in the loss ratio incurred by Progress resulted in an increase in the company's 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 included the re-sizing of the portfolio, focusing on the geographical and business mix together with ensuring adequate pricing.

In spite of these measures, Progress continued to report material negative results in the course of 2009, including an exceptional incidence of late claims. This necessitated a further increase in claims reserves, which contributed to an overall loss that impacted the Group's results negatively by €29.4 million during the first nine months of 2009. The effect of this loss on the Group's results up to 30 September is illustrated below:

#### Consolidated Profit and Loss Account - Unaudited Non-Technical Account For the period ended

	<b>30 Sept. 2009 €'000</b>	<b>30 June 2009 €'000</b>	<b>30 June 2008 €'000</b>
Balance on the general business technical account	<b>(24,547)</b>	(17,219)	(699)
Balance on the long term business technical account	<b>511</b>	263	90
	<b>(24,036)</b>	(16,956)	(609)
Share of associated undertaking's (loss)/profit involved in long term business	<b>2,418</b>	(317)	409
Total expense from insurance activities	<b>(21,618)</b>	(17,273)	(200)
Other investment income	<b>7,830</b>	3,891	3,875
Investment expenses and charges	<b>(749)</b>	(1,117)	(6,887)
Allocated investment expense/(return) transferred to the general business technical account	<b>(6,817)</b>	(2,698)	1,679
Other Income	<b>1,477</b>	986	769
Administrative expenses	<b>(2,321)</b>	(1,510)	(1,344)
<b>Loss before tax</b>	<b>(22,198)</b>	(17,721)	(2,108)
Income tax (expense)/credit	<b>(2,333)</b>	(1,281)	496
<b>Loss for the financial period</b>	<b>(24,531)</b>	(19,002)	(1,612)
Attributable to:			
- shareholders	<b>(22,698)</b>	(17,167)	(1,562)
- minority interests	<b>(1,833)</b>	(1,835)	(50)
	<b>(24,531)</b>	(19,002)	(1,612)
<b>Loss per share attributable to shareholders</b>	<b>(90c8)</b>	(68c7)	(6c2)

The extent of the losses incurred at Progress has placed an unprecedented strain on the capital resources of the Group. In the course of 2008 and the first nine months of 2009, Progress' losses as reflected in the consolidated results of the Group cumulatively amounted to €48.4 million, eroding 56% of the Group's total equity as at 1 January 2008 and resulting in both the Group and Progress not satisfying their statutory and regulatory capital requirements as at the date of this Prospectus. A series of urgent and decisive measures have been adopted by the Group to resolve the situation at this Subsidiary. These measures are of fundamental significance to the Group and its shareholders, and are described in a subsequent section of this Prospectus together with further details of the circumstances impacting this company.

On a positive note, the Maltese operations of the Group have maintained a profitable performance during 2009.

The insurance business underwritten in Malta and Gibraltar registered a satisfactory technical result before allocation of investment income of €1.26 million. Total premium underwritten by the Company during the period amounted to €27.15 million, consistent with the €27.18 million written over the comparative period last year. The profit earned from insurance operations, after allocation of investment income, amounted to €3.78 million, a significant improvement from the loss of €1.50 million registered as at September 2008. A further increase was registered in the gross technical reserves of the Company, which increased by 7% during the nine month period to €54.36 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 €3.62 million, as compared to a loss of €3.5 million as at September 2008.

Middlesea Valletta Life Assurance Co Ltd registered a profit after taxation of €4.85 million. Following a difficult first quarter, the period since March has seen a marked improvement in sentiment in the investment markets, which improvement has benefited the Associate Undertaking's portfolio. Total shareholders' funds of MSV stood at €98.8 million at September 2009.

International Insurance Management Services Ltd ("IIMS"), also registered positive results in the first nine months of 2009. Consolidated fee income increased from €1.31 million last year to €1.48 million this year, and the company contributed €0.32 million to the pre-tax results of the Group compared to €0.37 million last year. IIMS's third party non-group client base now contributes 22% of fee income based on IIMS's consolidated accounts, and this percentage is set to increase in coming years. The Subsidiary actively pursues insurance/reinsurance companies and captives that are considering setting up and operating from Malta, and negotiations with prospective new clients are at an advanced stage.

## **6. ADDRESSING THE PROBLEMS AT PROGRESS ASSICURAZIONI S.P.A.**

The Group's business priority over the last fifteen months has been that of bringing to a close the losses being incurred at Progress. The remedial steps taken can be classified into three categories, namely:

- Improving the operations of the company;
- Ceasing all loss-making activities;
- Acquiring further reinsurance cover to bring closure to the past.

### **Improving the operations of the company**

A series of measures have been taken to enforce stricter control over the company's operations and to improve its profitability. These measures have included:

- The removal of certain members of management, the strengthening of the management team and the reorganisation of managerial functions;
- The revision of underwriting guidelines accompanied by a curtailment of certain classes of business, in particular the cancellation of motor-cycle business except when related to non-RCA business;
- The implementation of RCA tariff increases in two stages;
- The restructuring of the company's claims management structures, including the engagement of external claims handling experts and fraud investigators.

### **Addressing all loss-making activities**

The measures taken above have been accompanied by a series of radical cuts in the levels of business conducted by this company, rightsizing its operations by terminating all agents that have contributed to the difficulties of the company.

Out of a total of 164 agencies in operation at the end of 2008, the company had terminated 116 contracts at the end of September 2009, shrinking its distribution network to 52 agencies that over the years have consistently reported favourable results. In 2008 these remaining 52 agencies within Progress' portfolio contributed premiums of €22 million and a surplus before investment income and reinsurance of €2 million. In the first nine months of 2009 they contributed €16 million in premium income and a deficit of €1.4 million before investment income and reinsurance. Continuous monitoring of the performance of the agents has led to the commencement of the process for the closure of an additional 13 agencies, which closures are expected to be finalised by the end of the current financial year.

The significance of the measures taken is better illustrated by the following unaudited data:

	<b>2009</b>	<b>2008</b>
	<b>To 30 Sept.</b>	<b>Full year</b>
<b>Premium income written</b>		
Discontinued business (€'000)	<b>34,413</b>	64,195
Retained agents (€'000)	<b>16,152</b>	21,861
	-----	-----
	<b>50,565</b>	86,056
	=====	=====
<b>Claims ratios</b>		
Discontinued business (%)	<b>177</b>	120
Retained agents (%)	<b>87</b>	67
	-----	-----
<b>Underwriting results<sup>1</sup></b>		
Discontinued business (€'000)	<b>(40,991)</b>	(25,692)
Retained agents (€'000)	<b>(1,449)</b>	1,992
	-----	-----
	<b>(42,440)</b>	(23,700)
	=====	=====

<sup>1</sup> Before reinsurance and investment income

The above measures will lead to the cessation of business with agencies that in 2008 contributed premium income of €64.2 million, amounting to 75% of the premium income of Progress and to 54% of the consolidated non-life premium income of the Middlesea Group as a whole. This source of premium income, however, incurred underwriting losses of €25.7 million in 2008 and of €41 million in the first nine months of 2009. In the absence of this business, the results of the Group both in 2008 and in 2009 would have been materially improved.

The scaling back of Progress's operations therefore represents a major change in the operations of the Group and its extent bears testimony to the determined steps being taken to bring this Subsidiary's losses to a closure. Except for the short term impact of unexpired premiums relating to closed agencies, Progress has been re-sized to a company with an annual premium income of circa €26 million. Moreover, the company is currently negotiating a quota share reinsurance treaty on its portfolio for 2010, in addition to its normal reinsurance cover. This quota share reinsurance will further reduce the future impact of this Subsidiary on the consolidated results of the Middlesea Group.

It is the intention of the Middlesea Group to reduce the activities of this Subsidiary in a responsible manner in the interest of its employees, agents and policyholders. The focus of the Group will be that of minimising and controlling risk at this Subsidiary.

The discontinuation of loss-making business described above comes at a cost in terms of termination payments due to agents in line with contractual arrangements and standard practice in Italy. Termination costs appertaining to closures decided upon during 2009 are estimated at €6.9 million, and are included in the forecast result for 2009.

#### **Acquiring further reinsurance cover to bring closure on the past**

While the steps outlined above should serve to avoid the incidence of future losses in Progress, the Group remains exposed to the risks associated with policies underwritten in the past. To bring these risks to a closure to the largest extent possible, and to help determine the ultimate costs thereof, the Group has accordingly entered into the following reinsurance treaties with a leading international reinsurer:

- Stop loss reinsurance treaties on all RCA unexpired risks existing at 31 December 2008 and on RCA policies underwritten in 2009, covering portfolio losses in excess of 105% of premiums up to an upper limit of 130%. These treaties were entered into before 30 June 2009.

At this point in time, where discontinued loss making agencies are concerned, the Group is still exposed to residual risks largely in relation to business written this year. The practical result of this treaty is that the Group's exposure to such risk is limited to losses incurred up to a loss ratio of 105%. The Group would also be at risk should such losses exceed 130% of premiums.

- Adverse Development Cover ("ADC") for losses occurring on all RCA policies underwritten in the years 2001 to 2008. The treaty provides cover for unfavourable run-offs over the amounts provided for by the company at 30 June 2009, up to a limit of €40 million, at a premium cost of €14 million.

This premium cost of €14 million is material. It includes the expense of managing the settlement process on certain claims, which will be assumed by the reinsurer, thus enabling Progress to accelerate the rightsizing of its administrative functions in the course of the coming months. More importantly, it passes a large part of the remaining risks associated with the Progress portfolio to a larger company, recognising that these risks have grown to a level that goes beyond the financial capabilities of the Middlesea Group. These treaties also provide certainty with respect to the past, such that an investor subscribing to the Rights Issue is sheltered to a large extent from the risk of residual liabilities related to past underwriting at this Subsidiary.

The loss registered by Progress during the first nine months of 2009 is expected to increase by a further €17.7 million in the last quarter of the year, to cover the termination cost of agency contracts, the adverse development cover reinsurance noted above, and to cover 2009 motor claims falling outside the Stop Loss Treaty.

These losses inevitably impact on the capital position of the company. In accordance with the prevailing regulatory requirements, an injection of €4.9 million of additional capital was effected on 8 September 2009, while a further €5.5 and €4 million were invested on 28 September and 4

November 2009 respectively. An additional injection of capital will be made in Progress Assicurazioni S.p.A. prior to 31 December 2009, from the proceeds of the Rights Issue, and from the subordinated loan required as per Section 1.1.6 to enable the company to return to a position where it satisfies its regulatory capital requirements.

## 7. CAPITAL RESOURCES AND USE OF PROCEEDS FROM THE RIGHTS ISSUE

The operations of the Middlesea Group are financed principally through shareholders' funds, including its share capital and its internally generated profits that have been retained over the years.

Shareholders' funds have to provide for the operational needs of the Group, and must meet its statutory and regulatory capital requirements. Regulatory requirements go beyond operational needs and are designed to ensure that the Group always maintains a level of prudential capital commensurate with the scale of the business, for the added protection of policyholders.

As a business active in insurance operations, the Group generates substantial cash inflows that are in large part matched by technical charges. The Group carries substantial financial investments in its balance sheet, matching its technical liabilities, and its operations are in large part constrained not by cash flow considerations but by regulatory solvency constraints. The Group's solvency capabilities are in turn mainly impacted by capital flows (including capital increases and dividends) and by the incidence of profits or losses.

The capital base of the Middlesea Group has in the past been maintained at a level higher than the regulatory minimum, and this has been to the particular benefit of its policyholders. The losses incurred at Progress in the course of 2008 and 2009 net of the overall positive performance of the other Group companies have eroded the Group's equity by 53% from the December 2007 level as detailed below:

	<b>30 Sep 2009 Unaudited €'million</b>	<b>31 Dec 2008 Audited €'million</b>	<b>31 Dec 2007 Audited €'million</b>
Share capital	15.0	15.0	14.6
Reserves	25.1	48.8	71.2
	-----	-----	-----
<b>Shareholders' funds</b>	<b>40.1</b>	<b>63.8</b>	<b>85.8</b>
	=====	=====	=====
Attributable to:			
- Shareholders	40.1	62.1	82.6
- Minority interests	-	1.7	3.2
	-----	-----	-----
	<b>40.1</b>	<b>63.8</b>	<b>85.8</b>
	=====	=====	=====

The Rights Issue will serve to reinstate the capital resources of the Group to their level at 31 December 2007. While the precise application of the funds will depend on the Group's regulatory needs as determined closer to the financial year end, it is currently envisaged that the proceeds will be applied as follows through equity injections:

	<b>Rights Issue €'million</b>	<b>Agency terminations €'million</b>	<b>ADC Treaty €'million</b>	<b>Capital building €'million</b>
To be applied within:				
Progress Assicurazioni S.p.A.	<b>26.0</b>	6.9	14	5.1
Middlesea Valletta Life Assurance Co. Ltd	<b>3.7</b>	-	-	3.7
Middlesea Insurance p.l.c.	<b>10.0</b>	-	-	10.0
	-----	-----	-----	-----
	<b>39.7</b>	<b>6.9</b>	<b>14</b>	<b>18.8</b>
	=====	=====	=====	=====

Following both the capital injection as detailed above and the sanctioning of the subordinated loan outlined in Section 1.1.6 of the Registration Document and provided that forecast results are met, the Middlesea Group is projected to meet its statutory and regulatory capital requirements. As Progress' outstanding claims liabilities are settled and the portfolio is re-sized the Group's statutory and regulatory capital requirements are expected to be materially reduced.

The exact application of the net proceeds from the Rights Issue may change solely to meet the exact regulatory demands and solvency requirements of the Group. These changes are not expected to be materially different to what is currently contemplated.

## 8. 2009 FORECAST AND TREND INFORMATION

### 8.1 FORECAST FOR THE CURRENT FINANCIAL YEAR

The core operations of Middlesea Group's local insurance businesses continued to register positive results during the first nine months of 2009. The stability in insurance premiums underwritten by the local operations, together with a technical profit, present a satisfactory result overall. This stability is forecast to persist in the last quarter of 2009.

Against this, as already explained in this document, continued costs are expected to be incurred at Progress to attain certainty and to bring the losses at this Subsidiary to a closure. These costs, amounting to €20.9 million, will cover the agents' contract terminations and the adverse development cover discussed in Section 6 above. These additional costs, together with the technical losses sustained by Progress are forecasted to result in a material loss for this Subsidiary at the end of 2009.

In view of the above, the Group is forecasting a loss of €41.75 million for the full year, as detailed below (see also Annex B for further information, including an Accountants' Report drawn up by the reporting accountants, PricewaterhouseCoopers):

#### Consolidated Profit and Loss Account - Unaudited Non-Technical Account For the period ended

	<b>31 Dec 2009 Forecast €'000</b>	30 Sep 2009 Actual €'000
Balance on the general business technical account	<b>(40,198)</b>	(24,547)
Balance on the long term business technical account	<b>504</b>	511
	-----	-----
	<b>(39,694)</b>	(24,036)
Share of associated undertaking's profit involved in long term business	<b>1,997</b>	2,418
	-----	-----
Total expense from insurance activities	<b>(37,697)</b>	(21,618)
Other investment income	<b>10,152</b>	7,830
Investment expenses and charges	<b>(968)</b>	(749)
Allocated investment return transferred to the general business technical account	<b>(8,615)</b>	(6,817)
Other Income	<b>2,001</b>	1,477
Administrative expenses	<b>(3,199)</b>	(2,321)
	-----	-----
<b>Loss before tax</b>	<b>(38,326)</b>	(22,198)
Income tax expense	<b>(3,424)</b>	(2,333)
	-----	-----
<b>Loss for the financial year/period</b>	<b>(41,750)</b>	(24,531)
	=====	=====

It should be emphasised, as already stated in Section 1 – Risk factors, that insurance is a highly volatile business. The forecast set out above may be impacted, positively or negatively, by unforeseen events such as material movements in the value of investments; or by the incidence of claims to a level that differs materially from expectations.

### 8.2 GROUP STRATEGY AND TREND INFORMATION

Having taken action to address the problems at Progress, the Group is reasonably confident of its prospects for profitable growth, capitalising on the opportunities that present themselves across the range of its operations.

The Group will primarily focus on a strategy to strengthen its position in Malta, by consolidating its participation in a market which has potential space for substantial growth. It will be guided by a philosophy of underwriting discipline and prudence.

Going forward the strategic objectives of the Group are to:

- Maintain its position as leader in the insurance market in Malta.
- Achieve above average profitability, with the available equity, in terms of return on equity and annual growth in earnings per share.
- Finance growth from self-generated profits.
- Create new demands for insurance by developing new products that meet the needs of its present and future customers.
- Continue to diversify its distribution footprint to enhance its reach and access to its customers in Malta.
- Adopt an investment strategy that seeks to preserve capital value whilst maintaining liquidity and maximising returns.
- Maintain high standards of Corporate Governance.
- Provide its customers with security, prosperity and peace of mind.
- Seek opportunities for sustainable growth.

To help attain these objectives, to maximise business flexibility and to ensure that the management of each Group company is better able to give undivided attention to the operations of the company concerned, the Board will be looking to streamline the structure of the Middlesea organisation. A prime objective will be that of separating the holding company and insurance operator roles currently played by the Issuer into

two separate companies. For this purpose a new holding company will be created whose sole purpose will be that of owning the shares held in the operating businesses of the Group and whose board could focus on the strategic direction and oversight of all Subsidiaries and Associated Undertakings. Such restructuring would be subject to regulatory approval.

It is the intention of the Middlesea Group to reduce the activities of Progress in a responsible manner in the interest of its employees, agents and policyholders. The focus of the Group will be that of minimising and controlling risk at this Subsidiary.

The following is a brief overview of the current trends and prospects of the Group with respect to each of the principal businesses to which it remains fully committed moving ahead.

### **Middlesea Insurance p.l.c. – General business and group life operations**

Middlesea Insurance enjoys a 23% market share on non-life business<sup>1</sup> within the Maltese market, enjoying an annual premium income in the region of €33 million.

The immediate outlook for growth within this market is inevitably impacted by the subdued economic environment. Premium income within the motor sector in particular is being affected by the reduction in motor vehicle values brought about by lower registration taxes and second hand car imports.

In this scenario, growth in profitability is being pursued through more disciplined underwriting and through better leveraging of IT resources. Work is at an advanced stage on new software that is being implemented across the Company's offices and agency network. This software will enhance the efficiency of the underwriting process; further facilitate communications between the Company and its agents; and above all provide all underwriters with a common view of a prospective customer, ensuring full consistency in the acceptance and pricing of risk.

Looking to the longer term, the potential for market growth remains encouraging. Non-life premiums within the Maltese islands currently account for circa 2.3% of GDP, compared to an EU average of 3.3%. With the exception of motor business, Malta tends to be under-insured, particularly in the liability and accident and health areas. The last mentioned category in particular offers scope for significant growth as the popularity of private health insurance continues to increase.

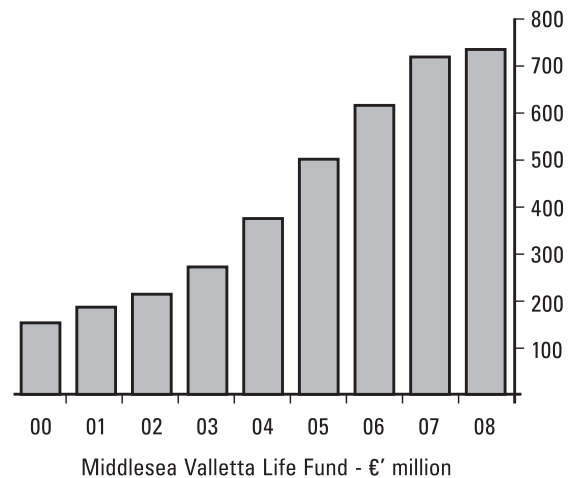
### **Middlesea Valletta Life Assurance Company Limited – Individual life assurance**

The individual life assurance market in Malta has grown by 18% per annum between 2000 and 2007.

With a 2008 market share of 62%<sup>1</sup>, MSV has benefited from this growth in the market. Between 2000 and 2008, the life funds administered by the company grew from €155 million to €742 million. The company enjoyed a premium income of €110 million in 2008, and is forecasting premiums of €96.6 million in 2009. A reduction in premiums was recorded in late 2008 and 2009 as the global financial crisis discouraged new investment, but the market is again set to grow strongly moving ahead.

This future growth is expected to be fuelled, amongst other things, by the continued increase in home ownership and in related borrowings. Demographical and social changes impacting the Maltese islands are also expected to enhance the company's prospects.

The ratio of individuals over the age of 60 to the total population in the Maltese islands currently stands at 19%. This ratio is expected to increase steadily in future years, reaching 31.2% by 2050. Life expectancy is growing, as is the quality of life typically enjoyed by senior citizens. In contrast to the growing expectations that are thus created, the state pension is perceived to be declining in real terms; while a diminishing number of workers will in future be supporting a growing number of benefit dependants.



Recently enacted increases in the pensionable age will help address the ensuing financial burdens falling on the State, but these are only part of the solutions required. Government has indicated that further reforms will be enacted, and that these may include new forms of encouraging private savings, possibly through fiscal incentives.

Besides the added demand for savings products, the demand for life risk coverage is also increasing, creating an environment that favours life assurance.

Currently only circa 30% of the working population in Malta have some form of life insurance protection, mainly as collateral against bank borrowings. Most families have no insurance against the risk of death of the main breadwinner, a risk that in the vast majority of cases can be insured for a relatively small outlay. The company is witnessing a gradual change in attitudes in this area, brought about by added awareness of the benefits of life assurance and possibly stimulated by the diminishing reliability of the extended family safety net that may have served as a reliable substitute in the past.

### **International Insurance Management Services Limited**

The future growth of this business is tied to the continued development of Malta as an attractive base for international business, including captive insurance companies or companies wishing to use Malta as a base for operating with the European Union, utilising the passporting rights available to Malta registered insurance companies.

<sup>1</sup> Statistics issued by the Malta Insurance Association – *The information extracted from the National Statistics Office has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by the Malta Insurance Association, no facts have been omitted which would render the reproduced information inaccurate or misleading.*

To date, thirty four companies together with ten cells within three Protected Cell Companies have been established, operating in both the life and non-life market. This accelerating trend offers added opportunities to IIMS.

IIMS currently provides insurance management services to four clients originating from the UK, Italy and Germany. It is finalising contracts with two companies that are in the process of establishing their insurance operations in Malta, and is at an advanced negotiation stage with an additional two clients. Should the negotiations not translate into signed contracts, there will be no negative impact on the Issuer.

## **9. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES**

### **9.1 GENERAL**

The Company's governance principally lies in its Board of Directors, responsible for the general governance of the Company and to set its strategic aims, for its proper administration and management and for the general supervision of its affairs.

Since 2006, the Board delegated its authority and vested accountability for the Company's day-to-day business to a high level management team led by the Executive Chairman. Consequently the co-ordination of management activities is ensured through the continued operation of the Group Executive Management Committee (GEMC) that is led by the Executive Chairman. The GEMC brings together the Chief Executive Officers, General Manager and Group Chief Financial Officer of all the companies within the Group.

None of the Directors and members of the senior management of the Company included under Section 9.2, 9.3 and 9.4 below have been:

- a) convicted in relation to fraud or fraudulent conduct in the last five years;
- b) made bankrupt or associated with any liquidation or insolvency caused by action of creditors;
- c) the subject of any official public incrimination or sanction by any statutory or regulatory authority; or
- d) disqualified by a court from acting as director or manager in the last five years.

The business address of all Directors and members of senior management of the Company is the registered office of the Company.

### **9.2 BOARD OF DIRECTORS**

The Board of Directors is composed of one executive director and twelve non-executive directors and is responsible for the setting of strategy, overall direction and oversight of the Company, as well as the establishment of policy guidelines for the management of the Company, including responsibility for the appointment of all executive officers and other key members of management.

The appointment of Board Directors is reserved exclusively to the Company's shareholders in accordance with the Company's Articles of Association. In accordance with Article 97 (2), a shareholder holding 7% or more voting rights or a number of shareholders who together hold 7% or more, could appoint one Director for every such 7% holding through a letter addressed to the Company. A shareholder who alone holds enough shares to appoint up to three Directors may solely do so directly as stated above and may not use his shareholding to elect Directors at the Annual General Meeting. Pursuant to Article 97 (6) of the Company's Articles of Association, Mr Mario C. Grech was appointed as a Director at the Annual General Meeting through a separate resolution approved by shareholders.

#### **9.2.1 Curriculum Vitae of the Directors and Company Secretary**

##### **Mario C. Grech, Executive Chairman, Maltese (Director since 1984)**

FORMERLY: Managing Director of the Mediterranean Insurance Brokers Group, Director on the Board of Mediterranean Survey Bureau, Governor of the Malta International Business Authority, Chairman of the Malta Green Card Bureau, Governor on the Board of the Malta Financial Services Centre and member of the Protection & Compensation Fund Board, Director of Plaza Centre p.l.c., Director of Malta International Training Centre, Governor on the Board of Malta College of Arts, Science and Technology; President of the Malta Insurance Association.

AT PRESENT: President of Progress Assicurazioni S.p.A., Deputy Chairman of Middlesea Valletta Life Assurance Co. Ltd., Governor on the Board of the Malta Arbitration Centre, Chairman of Growth Investments Ltd., Chairman and CEO of International Insurance Management Services Ltd., and Euro Globe Holdings Ltd., Director of Midi p.l.c. and of Premium Realty Ltd, Chairman of the Middlesea Group Investments Committee and the Group Executive Management Committee; Life Vice President - Chartered Insurance Institute U.K. He is also Chairman of Church Wharf Properties Limited and EuroMed Risk Solutions Limited.

##### **Roderick E.D. Chalmers, Deputy Chairman, Maltese (Director since 2004)**

FORMERLY: A partner with the offices of Coopers and Lybrand (later PricewaterhouseCoopers) in Malta and in Hong Kong. Managing Partner of Coopers & Lybrand Hong Kong and Chairman of the firm's South East Asia Regional Executive and a member of the International Board of Directors. Upon the merger of Coopers & Lybrand and Price Waterhouse in 1998, he was appointed Chairman, Asia-Pacific, for PricewaterhouseCoopers, until his retirement in 2000. He was also a member of the PwC Global Management Board. He served as a non-executive director of the Hong Kong Securities and Futures Commission and he was also a member of the Takeovers and Mergers Panel. He was appointed by the Financial Secretary of Hong Kong to sit on the Banking Advisory Committee.

AT PRESENT: Chairman of Bank of Valletta Group p.l.c., Middlesea Valletta Life Assurance Ltd, Valletta Fund Management Ltd and Valletta Fund Services Ltd. Member of the Board of Gasan Group Ltd, Alfred Gera & Sons Ltd, Simonds Farsons Cisk p.l.c. and Global Sources Ltd, a NASDAQ listed company.

##### **George Bonnici, Non-executive Director, Maltese (Director since 2001)**

FORMERLY: Managing Director of Galdes & Mamo Ltd, Director and Chairman of Bonnici Insurance Agency Ltd., Managing Director of Hayes Insurance Agency Ltd, Chairman of the Board of Management of The Union Club.

AT PRESENT: Mr Bonnici holds directorship of various subsidiary and/or associated companies.

**Evelyn Caruana Demajo, Non-executive Director, Maltese (Director since 2000)**

FORMERLY: Graduated in Law (LL.D.) from the University of Malta in 1986 and was awarded a warrant to practice in the Superior Court in 1987.

AT PRESENT: She is an Advocate in private, civil and commercial practice. She has served as a Director on the Board of Middlesea Insurance since 2000. She has also served on the Malta Psychology Profession Board since 2006.

**Gaston Debono Grech, Non-executive Director, Maltese (Director between 1985-94, since 2002)**

FORMERLY: Director of Malta Drydocks, Malta International Transport, Tug Malta, Smithtug, Valletta. Served for 18 years as G.W.U. representative for the Security Department.

AT PRESENT: Member of the Board of Appeal for promotion at GO p.l.c, member of its disciplinary Board. He is also a Legal Procurator.

**Tonio Depasquale, Non-executive Director, Maltese (Director since 2004)**

FORMERLY: General Manager of Valletta Investment Bank Ltd, Chairman of BOV Stockbrokers Ltd and Director on the Board of Bank of Valletta International Ltd.

AT PRESENT: Chief Executive Officer of Bank of Valletta Group p.l.c., Director on the Board of Valletta Fund Management Ltd, Director on the Board of Valletta Fund Services Ltd, Chairman of the Malta Bankers' Association, Governor of Finance Malta, Director on the Board of Middlesea Valletta Life Assurance Company Ltd, Director on the Board of Midi p.l.c., Director on the Board of VISET Malta p.l.c.

**Javier Fernández-Cid Plañol, Non-executive Director, Spanish (Director since 2008)**

FORMERLY: Holding a law degree from the Complutense University of Madrid. He has developed his career in the MAPFRE Group with different management positions in Spain and abroad, notably in Belgium and the US.

AT PRESENT: Managing Director of MAPFRE INTERNACIONAL. He is also a member of the Board of Directors of the following MAPFRE Group companies: MAPFRE RE, MAPFRE ASISTENCIA, MAPFRE USA, The Commerce Insurance Group (Massachusetts, USA) and MAPFRE GENEL SIGORTA (Istanbul, Turkey).

**John C. Grech, Non-executive Director, Maltese (Director between 1992-96, since 1999)**

FORMERLY: Chairman Malta Tourism Authority, Chairman of the Malta External Trade Corporation, Deputy Chairman of the Malta Development Corporation, Director on the Board of the Malta Freeport Corporation, Chairman of Bank of Valletta Group of Companies, Chairman of Middlesea Valletta Life Assurance Co. Ltd., Founding President of the Maltese Australian Chamber of Commerce, Founding President of the Mediterranean Bank Network.

AT PRESENT: Chairman & Managing Director of EMCS Investments Ltd, Chairman of MelitaUnipol Insurance Agency Ltd, Chairman of MelitaUnipol Financial Ltd, Vice-Chairman of FIMBANK p.l.c. Holds directorships on various other company boards. Dr Grech is also visiting professor at the University of Malta and teaches Economic Diplomacy at the Mediterranean Academy for Diplomatic Studies.

**Andres Jiménez, Non-executive Director, Spanish (Director since 2003)**

FORMERLY: Mr Jimenez joined Mapfre organisation in 1966 and has held a number of senior management positions in insurance and reinsurance activities since 1982.

AT PRESENT: Mr Jimenez is responsible for the international operations of the Mapfre Group. He is Chairman of Mapfre Re, Compania de Reaseguros in Madrid (Spain). He is also Chairman and CEO of Mapfre Internacional and Mapfre America and Chairman of THE COMMERCE GROUP in the USA. Mr Jimenez is a member of the Board and a member of the Executive Committee of Mapfre S.A., parent company of Mapfre System, and member of the Board of trustees of FUNDACION MAPFRE.

**Victor Galea Salomone, Non-executive Director, Maltese (Director since 2005)**

FORMERLY: President, The Malta Chamber of Commerce and Enterprise, Member of the Malta Council for Economic and Social Development, Director of Malta Enterprise Corporation.

AT PRESENT: Managing Director of V. J. Salomone Marketing Ltd, Director of V.J. Salomone Ltd and holds directorship of various other group subsidiaries and/or associated companies.

**Michael Sparberg, Non-executive Director, German (Director since 2001)**

AT PRESENT: Senior Executive Manager of Munich Re Insurance Company, Munich, responsible for Malta, Italy, France, Belgium, Luxembourg and The Netherlands for all classes (property, casualty and marine) of reinsurance business. Vice President of Munich Re, Italy.

**Lino Spiteri, Non-executive Director, Maltese (Director since 1999)**

FORMERLY: Member of Parliament, Co-Chairman Malta-EU Joint Parliamentary Committee; Minister of Finance, Minister of Trade & Economic Development; Chairman Public Accounts Committee; Deputy Governor and Chairman of the Board of Directors, Central Bank of Malta; Research Officer Malta Chamber of Commerce; Head of Publications Union Press, Editor Malta News, Executive Editor It-Torca; Chairman University Selection Board; Member Malta Broadcasting Authority.

AT PRESENT: Chairman Bortex Ltd, Roosendaal Hotels Limited; Chairman VBIE Ltd., Miracle Foods Ltd, Pinto Cold Stores Ltd; Director Bray Insurance Ltd, Bray 2008 Malta Ltd; Celsius Global Funds SICAV p.l.c.; Dolmen Properties Ltd; Elektra Ltd; Medavia Ltd; Munich Re of Malta p.l.c.; Progress Assicurazioni S.p.A.; RCI Insurance Ltd; RCI Life Ltd; Tumas Investments p.l.c.; Zerniq Ltd. Columnist, The Sunday Times and The Times of Malta.

**Joseph F.X. Zahra, Non-executive Director, Maltese (Director since 1998)**

FORMERLY: Head of Research of the Malta Development Corporation, visiting lecturer at the University of Malta, Secretary to the UNIDO National Committee (Malta), member on the Boards of the Central Bank of Malta and the Malta Development Corporation, Chairman of the Financial Services Trade Section and Council Member of the Malta Chamber of Commerce, Chairman of the Bank of Valletta Group, Chairman of Middlesea Valletta Life Assurance Co. Ltd, Chairman of BOV Stockbrokers Ltd and Valletta Fund Management Ltd, Deputy Chairman of Middlesea Insurance

p.l.c., Chairman, Maltacom p.l.c., Chairman, National Euro Changeover Committee, Chairman, National Commission for Higher Education, Director Corinthia Hotels International and President, Malta Council for Culture and the Arts.

AT PRESENT: Managing Director of Market Intelligence Services Co. Ltd; MISCO International Ltd; Chairman of Impetus Europe Consulting Group Ltd; Director, Progress Assicurazioni S.p.A.; Chairman, Multi Risk Indemnity Ltd; Chairman, Multi Risk Ltd; Director, Multi Risk Benefits Ltd; Director Medserv p.l.c.; Director, Nemea Bank p.l.c.; Chairman, C.Fino & Sons Ltd; Director, Power Image Services Ltd (Cyprus). Visiting lecturer in Managerial Economics at the Università degli Studi di Messina.

#### **Carlo Farrugia, Company Secretary, Maltese (Company Secretary since 2007)**

FORMERLY: Holds a Diploma in General Management and a Masters in Translation and Interpretation from the University of Malta. Worked at the Central Bank of Malta and Malta Financial Services Authority.

AT PRESENT: Company Secretary and Compliance Officer of the companies and committees within the Middlesea Group. Published the Dictionary for Financial Services and is also involved in the Olympic Movement.

### **9.3 GROUP EXECUTIVE MANAGEMENT**

As at the date of the Registration Document, the executive management of the Group is composed of the following:

#### **Mario C. Grech, Executive Chairman, Maltese**

A detailed curriculum vitae of Mr Grech is included in Section 9.2.1 above.

#### **David G. Curmi, Chief Executive Officer – MSV, Maltese**

FORMERLY: Managing Director of Citadel Insurance Services Ltd. and Citadel Insurance p.l.c., Director of Medpoint Insurance Brokers Ltd., Director of Mediterranean Survey Bureau Ltd., President of the Malta Insurance Association, Honorary Secretary of the Malta Chamber of Commerce, Governor of Finance Malta.

AT PRESENT: Chief Executive Officer of Middlesea Valletta Life Assurance Co. Ltd., Chief Executive Officer and Director of Growth Investments Ltd., Director of International Insurance Management Services Ltd., Director of EuroMed Risk Solutions Ltd., Director of Premium Realty Ltd., Member of the Middlesea Group Executive Management Committee, Council Member of the Malta Insurance Association, Director of the Protection and Compensation Fund, Chairman of L.B. Factors Ltd., Associate of the Chartered Insurance Institute of the United Kingdom and a Chartered Insurer.

#### **Stephen Gauci, Chief Executive Officer – Progress Assicurazioni S.p.A., Maltese**

FORMERLY: Started insurance career with Middlesea in 1983 occupying a number of different roles within the Company.

AT PRESENT: Direttore Generale of Progress Assicurazioni S.p.A., member of the Middlesea Group's Executive Management Committee, Director of International Insurance Management Services Ltd, Director of EuroMed Risk Solutions Ltd., associate of the Chartered Insurance Institute of the United Kingdom and a Chartered Insurer.

#### **Anne Marie Tabone, Group Chief Financial Officer & General Manager IIMS, Maltese**

FORMERLY: Joined Middlesea in 1986 and since then she has occupied various roles within the Group.

AT PRESENT: General Manager of International Insurance Management Services Ltd (IIMS), Group Chief Financial Officer of Middlesea Group, member of the Middlesea Group's Executive Management Committee, Director of Plaza Centre p.l.c. and Director of Church Wharf Properties Ltd. Holds a Bachelors degree in Accountancy and is a Certified Public Accountant.

### **9.4 SENIOR MANAGEMENT**

As at the date of this Registration Document the senior management of the Group is composed of the following:

#### **Middlesea Insurance p.l.c.**

Mario C. Grech	Chief Executive Officer
Simon Anastasi	Chief Officer Personal Lines (joined in 2006)
Joseph Avellino	Chief Underwriter (joined in 1998)
Patrick Muscat	Chief Officer Claims (joined in 2000)

#### **Progress Assicurazioni S.p.A.**

Stephen Gauci	Chief Executive Officer (joined in 1988)
Francesco Ambruso	Administrative/Accounts Manager (joined in 2009)
Simon Camilleri	Chief Officer (joined in 1983)
Keith Mallia Milanese	Assistant General Manager (joined in 2003)

#### **Middlesea Valletta Life Assurance Company Limited**

David G. Curmi	Chief Executive Officer (joined in 2001)
Mark Camilleri	Chief Life Underwriter (joined in 1982)
Victor Farrugia	Chief Officer (joined in 2002)
Jonathan Kemp	Life Actuary (joined in 2006)

#### **Growth Investments Limited**

David G. Curmi	Chief Executive Officer (joined in 2002)
Stuart Fairbairn	General Manager (joined in 2006)

## International Insurance Management Services Limited

Mario C. Grech	Chief Executive Officer
Anne Marie Tabone	Group Chief Financial Officer & General Manager (joined in 1986)
Christopher Borg	Internal Auditor Group (joined in 2004)
Elizabeth Carbonaro	Chief Officer Group Finance (joined in 2000)
Carlo Farrugia	Compliance Officer (joined in 2007)
Bernard Fenech	Chief Officer Group IT (joined in 1990)
Marzena Formosa	Chief Officer Group Investments (joined in 1996)
John Mifsud	Risk Management Officer (joined in 2006)

### 9.5 INTERESTS OF DIRECTORS AND SENIOR MANAGEMENT

Directors' interest in the share capital of the Company as at 12 November 2009:

George Bonnici	6,510 shares
Evelyn Caruana Demajo	28 shares
Gaston Debono Grech	12,764 shares
Tonio Depasquale	1,590 shares
John C. Grech	10,000 shares
Mario C. Grech	5,450 shares
Joseph F.X. Zahra	330 shares

No other Director holds any interest in the share capital of the Company.

Five of the non-executive directors hold positions with shareholders' organisations that appointed them and with whom they have a business relationship with the Company, namely Roderick E.D. Chalmers, Tonio Depasquale, Javier Fernández-Cid Plañiol, Andres Jiménez and Michael Sparberg.

George Bonnici who was elected by the shareholders at the general meeting and John C. Grech who was appointed by a shareholder organisation, have a relationship with the Company through their business concerns.

Senior management's interest in the share capital of the Company as at 12 November 2009:

Carlo Farrugia	4,604 shares
Victor Farrugia	1,196 shares
John Mifsud	200 shares
Anne Marie Tabone	2,000 shares

No other member of Senior Management holds any interest in the share capital of the Company.

Save for the matters disclosed under the heading "Interests of Directors and Senior Management", there are no potential conflicts of interests between any duties to the Company of the persons referred to above under the headings "Board of Directors" and "Group Executive Management Committee" and their private interests and/or other duties.

### 9.6 REMUNERATION OF DIRECTORS, EXECUTIVE MANAGEMENT AND SENIOR MANAGEMENT

All Directors on the Board of Middlesea Insurance p.l.c. are non-executive directors with the exception of the Executive Chairman. During the year ended 31 December 2008 the Chairman declined receiving a director's fee. Three directors, namely Mr A. Corsi (who did not present himself for nomination at the AGM held on 26 June 2009 and ceased to be a Director on the same date), Mr A. Jimenez and Mr Fernández-Cid Plañiol, did not receive a fee in accordance with the established policy of the shareholder companies with which they were employed and which appointed them. Fees payable to Non-executive Directors in respect of 2008 amounted in total to €119,005 (2007: €110,945). The amount of €19,124 (2007: €11,064) were paid as Committee fees in total and €99,881 (2007: €99,881) were paid as other directors' fees as follows:

George Bonnici	€8,922
Evelyn Caruana Demajo	€8,432
Roderick E. D. Chalmers	€19,317
Gaston Debono Grech	€8,502
Tonio Depasquale	€8,922
John C. Grech	€8,595
Victor Galea Salomone	€8,293
Michael Sparberg	€9,387
Lino Spiteri	€19,317
Joseph F. X. Zahra	€19,317

Non-executive Directors were entitled to a fee in 2008 of €6,988 (2007: €6,988) each as directors of the Company. Non-executive directors are not entitled to profit sharing, share options or pension benefits. Three directors also sit on the Board of a subsidiary company, registered and operating in Italy, and each received remuneration of €10,000 (2007: €10,000) annually in this respect that is included within the amounts listed above. Directors sitting on the Group Board Committees were also entitled to committee fees which did not exceed €2,330 per annum and which are included within the amounts listed above.

Contracted emoluments paid in 2008 to the Executive Chairman amounted to €124,149 (2007: €113,995). Furthermore, provisions of €55,956 (2007: €55,956) were made by the Group in respect of his contracted pension obligations. The Company paid an insurance premium of €8,638 (2007: €14,356) during the year in respect of insurance cover in favour of its Directors. The Directors' fees are approved in aggregate by shareholders at the Annual General Meeting.

The members of Executive and Senior Management are employed under a definite or an indefinite contract of service. Senior executives are remunerated by way of salary. There are no benefits upon termination of employment of the Directors or Senior Management of the Company, other than as detailed in the above paragraph.

## 9.7 EMPLOYEES

The average number of persons employed by the Group is as follows:

Year ended 31 December	2008	2007	2006
Key management personnel	14	10	3
Managerial	23	25	32
Technical	110	106	93
Administrative	23	21	19
	-----	-----	-----
	170	162	147
	=====	=====	=====

As at the date of the Registration Document, the average number of persons employed by the Group has not changed from the position as at 31 December 2008.

## 10. BOARD PRACTICES

### 10.1 CORPORATE GOVERNANCE

The Issuer is in compliance with the Code of Principles of Good Corporate Governance as contained in the Listing Rules.

### 10.2 BOARD COMMITTEES

The Directors have established the following board committees:

- Audit Committee
- Compliance & Prevention of Money Laundering Committee
- Investments Committee
- Remuneration Committee
- Risk Management Committee

#### **Audit Committee**

The Audit Committee's terms of reference, as approved by the Board of Directors, of each respective company are modelled mainly on the recommendations of the Cadbury Report and its Principles. These include, *inter alia*, the monitoring of the financial reporting process, the monitoring of the effectiveness of the company's internal control, internal audit and risk management systems, the monitoring of the statutory audit of the annual and consolidated accounts, the review and monitoring of the independence of the statutory auditor and audit firm, the reviewing of actuarial reports, the management of financial risks, the compliance and the arm's length nature of related party transactions and the audit process.

The Audit Committee is composed of Lino Spiteri, Roderick E. D. Chalmers, Javier Fernández-Cid Plañol and Joseph F. X. Zahra. The said members are Non-executive Directors of the Company and all have the required competence in accounting and/or auditing.

#### **Compliance and the Prevention of Money Laundering Committee**

The Compliance and the Prevention of Money Laundering Committee is concerned with establishing procedures to ensure compliance with all applicable laws, directives, rules and regulations, and with the prevention, detection and/or resolution of compliance problems. The Company Secretariat and Compliance Unit is responsible for compliance issues for Group Companies and third party clients and reports to the Group Compliance and Prevention of Money Laundering Committee.

The Compliance and the Prevention of Money Laundering Committee is composed of Emanuel Ellul (Chairman), George Bonnici, Evelyn Caruana Demajo, Robert A. Staines, David G. Curmi, Stephen Gauci and Anne Marie Tabone.

#### **Investments Committee**

The Investments Committee, which includes top executive members, meets on a regular basis and oversees the investment activities of the Group, executes the policies and guidelines, scrutinises and approves material transactions and monitors results. Any investment exceeding €1,164,686 requires the approval of the Board of the respective Company making the investment.

The Investments Committee is composed of Mario C. Grech (Chairman), Roderick E. D. Chalmers, Tonio Depasquale, Lino Spiteri, Reno Borg, Emanuel Ellul, David G. Curmi, Stephen Gauci, Anne Marie Tabone and Marzena Formosa.

### **Remuneration Committee**

The Remuneration Committee is composed of John C. Grech (Chairman), Victor Galea Salomone and Michael Sparberg who are all Non-executive Directors of the Company. The Company Secretary, Carlo Farrugia, was appointed to act as secretary to the Remuneration Committee.

The Remuneration Committee concentrates on recommending the remuneration policy for the Group's directors and key management personnel, outlining the appropriate packages of their remuneration. The Committee is actively involved in discussing management restructuring, performance related schemes, negotiations with staff unions, collective agreements and in preparing concrete proposals for discussion by the Board.

### **Risk Management Committee**

The Risk Management Committee is composed of Non-executive directors and is responsible for setting a Risk Management policy for the Group aligned with the direction and risk appetite of the respective Boards of the Group companies. This allows for the identification of a Risk Management philosophy and responsibilities, thereby creating and monitoring the environment and the structures for risk management to operate effectively.

The Committee is charged with devising a risk management plan and adequate structures to implement the policy in respect of each Group company. Risk registers have been compiled in which business risks have been identified and prioritised in order to establish recommendations for the level of resources to be committed to manage these risks. This allows for the provision of a direction for the implementation of adequate systems and procedures to mitigate risks within certain imponderables and align risk exposure with approved risk appetite. The Committee ensures the maintenance of up-to-date Risk Registers and related management information. Consideration of urgent and ad hoc issues falls within the ambit of the Committee's functions and thus, where appropriate, will refer them to the Board with risk action plans.

The Risk Management Committee is composed of Joseph F.X. Zahra (Chairman), George Bonnici, Gaston Debono Grech, David G. Curmi, Stephen Gauci and Anne Marie Tabone.

## **11. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **11.1 INTEREST OF MAJOR SHAREHOLDERS**

The following hold in excess of 5% of the Company's ordinary shares as at 12 November 2009:

Bank of Valletta p.l.c.	5,411,430 shares	21.6%
Mapfre Internacional S.A.	5,250,000 shares	21.0%
Munich RE	4,975,000 shares	19.9%

To the extent known to the Issuer, the Company is not controlled, directly or indirectly, by any of the shareholders.

### **11.2 SUPPORT OF RIGHTS ISSUE BY THE MAJOR SHAREHOLDERS**

The Issuer has obtained a firm commitment from the major shareholders (in aggregate holding 62.5% of issued share capital as detailed above), that they shall support the Rights Issue and accept the offer for their Proportionate Entitlement.

In addition, each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. have confirmed their willingness to further support the Rights Issue by entering into Subscription Agreements with the Company whereby they have committed to subscribe to any New Ordinary Shares not taken up by Eligible Shareholders as part of their Proportionate Entitlement.

Accordingly, they shall be treated as Qualifying Shareholders (as defined in section 5 of the Securities Note) for the purpose of the Allocation Policy as set out in Section 5.1.8 of the Securities Note and shall participate with all other Qualifying Shareholders in the event of an over-subscription of Excess Shares. They have further agreed that in the event of them taking up any Excess Shares Mapfre Internacional S.A. will subscribe to additional New Ordinary Shares such that its shareholding in the Company, after the issuance of all the New Ordinary Shares, will be equal to that of Bank of Valletta p.l.c.

In view of the commitments undertaken by each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. to subscribe for their respective Proportionate Entitlements and to apply for an additional 25,094,368 Excess Shares, the Rights Issue shall, following the closing of the Offer Period, be fully subscribed. (See section 6 of the Securities Note forming part of this Prospectus).

### 11.3 RELATED PARTY TRANSACTIONS

In the normal course of business, the Group enters into various transactions with related parties. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operational decisions. These include directors and shareholders who hold a substantial amount of the votes able to cast at general meetings.

Relevant particulars of related party transactions, all of which have been carried out on an arms length basis, are as follows:

	<b>30 Sep 2009 Unaudited €'000</b>	<b>31 Dec 2008 Audited €'000</b>	<b>31 Dec 2007 Audited €'000</b>	<b>31 Dec 2006 Audited €'000</b>
<b><i>Sales of insurance contracts and other services</i></b>				
Sale of insurance contracts				
- subsidiaries	<b>48</b>	44	42	35
- associate	<b>79</b>	104	97	90
- shareholders represented on the Board	<b>864</b>	1,332	990	383
Recoveries on claims outstanding from Mapfre Internacional under reinsurance arrangements entered into upon the acquisition of Progress Assicurazioni S.p.A.	<b>125</b>	305	422	(38)
Reimbursement of expenses for back-office services provided				
- associate	<b>889</b>	1,132	1,077	946
Investment income				
- subsidiaries (dividends/interest receivable)	<b>475</b>	1,317	1,273	1,971
- associate (dividends)	<b>1,000</b>	1,125	2,329	1,631
- shareholders represented on the Board (dividends/interest receivable)	<b>137</b>	73	266	220

#### ***Purchases of products and services***

Reinsurance premium ceded to shareholders (represented on the Board)	<b>9,030</b>	11,886	10,142	9,406
Acquisition costs payable to intermediaries where directors of the company are shareholders in companies that act as insurance agents	<b>795</b>	1,057	1,246	854
Reimbursement of expenses payable for back-office services				
- subsidiaries	<b>639</b>	836	839	764
Interest payable on borrowings				
- shareholder represented on the Board (acting as banker)	<b>401</b>	810	711	468
Rental income payable to associate	<b>16</b>	23	23	23

Key management personnel comprises the Chief Executive Officers, General Manager, Assistant General Managers, Chief Officers and Chief Underwriters. Total remuneration paid by the Group to key management personnel during the nine month period ended 30 September 2009 amounted to €0.63 million (FY 2008 - €0.72 million, FY 2007 - €0.57 million).

Balances arising from the above transactions:

	<b>30 Sep 2009 Unaudited €'000</b>	<b>31 Dec 2008 Audited €'000</b>	<b>31 Dec 2007 Audited €'000</b>	<b>31 Dec 2006 Audited €'000</b>
Debtors arising out of direct insurance operations:				
- intermediaries	<b>1,206</b>	1,991	1,471	1,272
Creditors arising out of direct insurance operations	<b>2,780</b>	1,330	1,557	1,163
Amounts owed to associated undertaking	<b>1,946</b>	1,947	2,946	3,170
Reinsurers share of technical provisions	<b>12,253</b>	8,914	10,752	10,563
Investments in related parties	<b>8,604</b>	3,205	9,653	3,945
Accruals and deferred income (key management personnel)	<b>748</b>	720	664	447

All balances above have arisen in the course of the Group's normal operations.

## 12. FINANCIAL INFORMATION

### 12.1 HISTORICAL FINANCIAL INFORMATION

Full historical financial information for the three financial years ended 31 December 2006, 2007 and 2008 are set out in the consolidated financial statements of the Group as audited by PricewaterhouseCoopers. The latest audited financial information available in respect of the Group relates to the financial year ended 31 December 2008 and was approved for issuance by the Board of Directors on 27 April 2009.

The unaudited interim financial information of the Group for the six months ended 30 June 2009 and for the nine months ended 30 September 2009 are available for public inspection.

### 12.2 LEGAL AND ARBITRATION PROCEEDINGS

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the period covering twelve months prior to the date of this Registration Document which may have, or have had in the recent past, significant effects on the financial position or profitability of the Company or the Group.

### 12.3 SIGNIFICANT CHANGE IN THE COMPANY'S FINANCIAL OR TRADING POSITION

Save as otherwise disclosed in Sections 6 and 8 of this Registration Document, there has been no significant change in the financial or trading position of the Company or the Group which has occurred since 30 September 2009, being the date of the last unaudited interim financial information.

### 12.4 DIVIDEND POLICY

All ordinary shares of the Company carry the same dividend rights. Whether dividends will be distributed for any given financial year and the particular amount and timing of the distribution of dividends is subject to a proposal for the distribution of profits by the Board of Directors. This proposal is subsequently presented to the annual general meeting for approval. Future distributions of dividends by the Company will depend on its profitability, its financial condition and on other factors, including its cash requirements, future prospects as well as tax, regulatory and other legal conditions.

The following table sets forth the dividends per share paid by the Company over the last three financial years. The said dividends were paid out of the untaxed account of the Company.

	€
<b>For the year ended 31 December</b>	
2008	nil
2007	0.13
2006	0.10

## 13. MATERIAL CONTRACTS

The Company has not entered into contracts of a material nature which were not in the ordinary course of the Company's business.

## 14. ADDITIONAL INFORMATION

### 14.1 SHARE CAPITAL

#### 14.1.1 Authorised and issued share capital

As at the date of this Registration Document, the authorised share capital of the Company is €36,000,000 divided into 60,000,000 ordinary shares of a nominal value of €0.60 each share. The issued share capital of the Company is fifteen million euro (€15,000,000) divided into twenty five million (25,000,000) ordinary shares all having a nominal value of sixty cents (€0.60) which has been fully paid up.

#### 14.1.2 History of share capital

At 31 December 2005, the authorised and issued share capital of the Company amounted to 30,000,000 and 12,500,000 ordinary shares respectively of Lm0.50 (€1.165) each share. By virtue of an ordinary resolution approved during the Annual General Meeting held on 16 June 2006, it was resolved to split the Lm0.50 (€1.165) shares into shares of Lm0.25 (€0.583) each. Accordingly, the authorised share capital was increased to 60,000,000 ordinary shares of Lm0.25 (€0.583) each and the issued and fully paid share capital was increased to 25,000,000 ordinary shares of Lm0.25 (€0.583) each.

During the Annual General Meeting of the Company held on 25 June 2008, the issued and paid up value of the 25,000,000 ordinary shares was increased from €0.583 each share up to the nominal and paid up value of €0.60 each at a consideration of €0.44 million paid up from the retained profits of the Company.

### 14.2 MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum and Articles of Association of the Company is registered with the Registry of Companies at the Malta Financial Services Authority. The objects of the Company are included in Clause 3 of the said Memorandum. The principal object is to carry on all kinds of insurance and assurance business, reinsurance and reassurance business in all forms and branches in Malta and other parts of the world and to do all acts usual to be done in the prosecution of such business whether now known or hereafter to be devised.

The Memorandum and Articles of Association of the Company regulates matters customarily dealt with therein, including matters such as voting rights and restrictions thereof, and the appointment and powers of directors. A copy of the Memorandum and Articles of Association of the Company may be inspected during the lifetime of the Prospectus at the registered office of the Company and at the Registry of Companies during the lifetime of the Company.

#### **14.2.1 Voting rights and restrictions**

All shares currently in issue and of which the Shares form part are entitled to vote in any meeting of shareholders. There are currently no restrictions on voting.

#### **14.2.2 Appointment of directors**

Any member or number of members who in the aggregate hold not less than 7% of the total voting rights shall be entitled to nominate a fit and proper person for appointment as a director of the Company for each and every complete 7% of such rights.

For the purpose of enabling members to make nominations, the Company shall grant a period of at least fourteen (14) days to Members to nominate candidates for appointment as directors. Such notice may be given by the publication of an advertisement in at least two (2) daily local newspapers. All such nominations shall on pain of disqualification be made on the form to be prescribed by the Directors from time to time and shall reach the Company not less than fourteen (14) days prior to the date of the General Meeting convened for such election.

In the event that there are either less nominations than there are vacancies on the board or if there are as many nominations as there are vacancies on the board, then each person so nominated shall be automatically appointed a director.

In the event that there are more nominations submitted in accordance with the Articles of Association of the Company, then an election shall take place in accordance with the provisions of the Articles.

Unless they resign or are removed, directors shall hold office up until the end of the annual general meeting next following their appointment.

#### **14.2.3 Powers of directors**

The Directors are vested with the management of the Company, and their powers of management and administration emanate directly from the Memorandum and Articles of Association and the law. The Directors are empowered to act on behalf of the Company and in this respect have the authority to enter into contracts, sue and be sued in representation of the Company. In terms of the Memorandum and Articles of Association they may do all such things that are not by the Memorandum and Articles of Association reserved for the Company in general meeting. Directors may not vote on any proposal, issue, arrangement or contract in which they have a material interest.

The maximum limit of aggregate emoluments of the Directors is, in terms of the Memorandum and Articles of Association, to be established by the shareholders in general meeting. Within that limit the Directors shall have the power to vote remuneration to themselves or any number of their body. Any increases in the maximum limit of Directors' aggregate emoluments have to be approved by the general meeting.

In terms of the Memorandum and Articles of Association, the Board of Directors may exercise all the powers of the Company to borrow money and give security therefor, subject to the limit established in the Memorandum and Articles of Association. The shareholders in general meeting have the over-riding authority to change, amend, restrict and or otherwise modify such limit and the Directors' borrowing powers.

The Directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any committee of Directors or other committee appointed by the Company, or general meetings of the Company or in connection with the business of the Company.

In terms of the articles of association, every Director, managing director, agent or secretary, and in general each officer of the Company is indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings related to the Company's business or affairs, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted.

There are no provisions in the Company's Memorandum and Articles of Association regulating the retirement or non-retirement of Directors over an age limit.

#### **14.2.4 Proceedings of directors**

The directors are required to meet together for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting are decided by a majority of votes. In case of an equality of votes the Chairman has a second or casting vote.

The quorum for a board of directors meeting shall be one half of the number of directors for the time being constituting the Board plus one.

The directors may delegate any of their powers to Committees consisting of such Member or Members of their body as they think fit. Any Committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the directors. Save as aforesaid the meetings and proceedings of a Committee consisting of three or more Members shall be governed by the provisions of the Articles regulating the proceedings and meetings of directors.

The directors may from time to time appoint one of their body to the office of Managing Director or to hold such other Office in relation to the management of the business of the Company as they may decide, for such period and on such terms as they think fit, and, subject to the terms of any service contract entered into in any particular case and without prejudice to any claim for damages or compensation such director may have for breach of any such service contract, may revoke such appointment.

#### **14.2.5 Changes to rights of shareholders**

Subject to the provision of the Act and of the Articles, the rights attached to any class of share in the Company may be varied with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

#### **14.2.6 Annual general meetings**

The Directors of the Company may convene an extraordinary general meeting whenever they think fit. If at any time there are not in Malta sufficient Directors capable of acting to form a quorum for a meeting of the Directors, any two Members of the Company may convene an extraordinary general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors.

A general meeting of the Company shall be deemed not to have been duly convened unless at least 14 (fourteen) days notice shall have been given in writing to all shareholders entitled to receive such notice.

No business shall be transacted at any general meeting unless a quorum of shareholders is present, in person or by proxy, at the time when the meeting proceeds to business; save as otherwise provided in the articles of association, shareholders holding in the aggregate not less than 50% of the nominal value of the issued share capital entitled to attend and vote at the meeting, shall constitute a quorum.

### **15. STATEMENT BY EXPERTS**

Save for the Accountants' Report on the forecast consolidated income statement for the year ending 31 December 2009 (included in Annex B below), this Registration Document does not contain any statement or report attributed to any person as an expert.

The Accountants' Report on the forecast consolidated income statement for the year ending 31 December 2009 has been included in the form and context in which it appears with the authorisation of PricewaterhouseCoopers of 167, Merchants Street, Valletta, Malta who have given and have not withdrawn their consent to its inclusion herein.

The foregoing experts do not have any beneficial interest in the Issuer.

The Issuer confirms that the Accountants' Report dated 20 November 2009 has been accurately reproduced in this Registration Document and that there are no facts of which the Issuer is aware that have been omitted and which would render the reproduced information inaccurate or misleading.

### **16. DOCUMENTS ON DISPLAY**

For the duration period of this Registration Document the following documents shall be available for inspection at the registered address of the Company at Middle Sea House, Floriana FRN1442, Malta:

- i. Memorandum and Articles of Association of the Company;
- ii. The Audited Financial Statements of the Group for each of the financial years ended 31 December 2006, 2007 and 2008;
- iii. The Audited Financial Statements of each of the Subsidiaries and Associate Undertaking for each of the financial years ended 31 December 2006, 2007 and 2008;
- iv. The Unaudited Financial Information of the Group for the six months ended 30 June 2009 and for the nine months ended 30 September 2009;
- v. 2009 Forecast and Accountants' Report.

## ANNEX A – OPERATING OFFICES AND DISTRIBUTION NETWORK

### HEAD OFFICES

#### MIDDLESEA INSURANCE P.L.C.

Middle Sea House  
Floriana, FRN 1442  
Tel: (00356) 2124 6262  
Fax: (00356) 2124 8195  
e-mail: middlesea@middlesea.com  
website: www.middlesea.com

#### MIDDLESEA VALLETTA LIFE ASSURANCE CO. LTD

Middle Sea House  
Floriana FRN 1442  
Tel: (00356) 2122 6411  
Fax: (00356) 2122 6429  
e-mail: info@msvlife.com  
website: www.msvlife.com

#### INTERNATIONAL INSURANCE MANAGEMENT SERVICES LTD

Development House, 4th Floor,  
St Anne's Street  
Floriana FRN 9010  
Tel: (00356) 2124 6262  
Fax: (00356) 2124 8774  
e-mail: iims@middlesea.com

#### MSI CLAIMS DEPARTMENT

41, Market Street  
Floriana, FRN 1442  
Tel: (00356) 2124 6262  
Fax: (00356) 2124 8195  
e-mail: middlesea@middlesea.com

#### GIBRALTAR BRANCH

Suite 1A, Tisa House  
143 Main Street  
Gibraltar  
Tel: (00350) 76434  
Fax: (00350) 76741  
e-mail: masbro@gibnet.gi

### LOCAL AGENCIES

#### ALLCARE INSURANCE AGENCY LIMITED

University Roundabout  
Msida  
Tel: (00356) 2133 0011  
Fax: (00356) 2134 7947  
e-mail: info@allcare.com.mt

#### BONNICI INSURANCE AGENCY LIMITED

222, The Strand  
Gzira, GZR 1022  
Tel: (00356) 2133 9110  
Fax: (00356) 2131 0390  
e-mail: info@bonniciinsurance.com

#### ENGLAND INSURANCE AGENCY LIMITED

190, 1st Floor, Marina Street  
Pieta, PTA 1904  
Tel: (00356) 2125 1015  
Fax: (00356) 2124 4507  
e-mail: info@england.com.mt

#### LAFERLA INSURANCE AGENCY LIMITED

Vincenti Buildings  
Blk. 13, Flt. 18/19, Strait Street  
Valletta, VLT 1453  
Tel: (00356) 2122 4405  
Fax: (00356) 2124 0811  
e-mail: info@lafferla.com.mt

#### MELITAUNIPOL INSURANCE AGENCY LIMITED

17 Market Street  
Floriana, FRN 1081  
Tel: (00356) 2206 7000 / 2123 6363  
Fax: (00356) 2124 1954  
e-mail: agency@melitaunipol.com

#### MILLENNIUM INSURANCE AGENCY LTD

(agents for Motor insurance)  
14/12 Vincenti Buildings  
Strait Street  
Valletta VLT 1432  
Tel: (00356) 2123 6355 / 2123 6253  
Fax: (00356) 2123 6640  
e-mail: millennium@millennium-insurance.com

### OVERSEAS AGENT

#### MASCARENHAS INSURANCE AND FINANCE LIMITED

Suite 1A, Tisa House  
143 Main Street  
Gibraltar  
Tel: (00350) 76434  
Fax: (00350) 76741  
e-mail: masbro@gibnet.gi

### HEAD OFFICES, BRANCHES AND AGENCIES

#### PROGRESS ASSICURAZIONI S.p.A.

##### Head Office

Piazza Alberico Gentile, 3  
90143 - Palermo  
Sicily  
Italy

Piazza Alberico Gentile, 3  
90143 - Palermo  
Sicily  
Italy

Via Asiago, 53  
95100 - Catania  
Sicily  
Italy

Piazza G D'Annunzio, 56  
80125 - Naples  
Italy

Via F Solimena, 127  
80128 - Naples  
Italy

Via Campi Flegrei, 28  
80078 - Pozzuoli  
Italy

Via Gio Maria Angioy, 6  
07100 - Sassari  
Sardinia  
Italy

### AGENCIES

Sicilia (20)  
Calabria (10)  
Sardegna (3)  
Basilicata (1)  
Campania (9)  
Puglia (4)  
Molise (1)  
Lazio (2)  
Toscana (1)  
Trentino Alto Adige (1)

### Claims' Offices

## ANNEX B – 2009 FORECAST AND ACCOUNTANTS' REPORT

### Forecast Consolidated Income Statement

	<b>Forecast</b>
	<b>2009</b>
	<b>€'000</b>
<b>Balance on the technical accounts</b>	
General business - annual	(40,198)
Long Term business	504
	-----
	(39,694)
Share of associated undertaking's profit involved in long term business	1,997
	-----
Total expense from insurance activities	(37,697)
Other investment income	10,152
Investment expenses and charges	(968)
Allocated investment return transferred to the general business technical account	(8,615)
Other income	2,001
Administrative expenses	(3,199)
	-----
<b>LOSS BEFORE TAXATION</b>	(38,326)
Income Tax Expense	(3,424)
	-----
<b>LOSS AFTER TAXATION</b>	(41,750)
	=====

# SUMMARY OF SIGNIFICANT ASSUMPTIONS AND ACCOUNTING POLICIES

## 1 Introduction

The forecast consolidated income statement of Middlesea Insurance p.l.c. ("the Issuer") for the year ending 31 December 2009 has been prepared to provide financial information for the purposes of inclusion in the Prospectus of Middlesea Insurance p.l.c. dated 20 November 2009. The forecast consolidated income statement, set out on page 66, and the assumptions below are the sole responsibility of the Directors of the Issuer. The forecast consolidated income statement for the year ending 31 December 2009 is based on the following unaudited financial information:

- management accounts of the Middlesea Group for the period between 1 January 2009 and 30 June 2009 adjusted to reflect the unaudited results for the three months ended 30 September 2009
- forecast financial information for the Middlesea Group for the remaining period of the year

In the case of Progress Assicurazioni S.p.A. only, the results for the six months ended 30 June 2009 were subject to an audit in Italy under Generally Accepted Accounting Principles in Italy.

The entities forming part of the Middlesea Group principally comprise the Issuer and its main subsidiaries, Progress Assicurazioni S.p.A. and International Insurance Management Services Ltd. Middlesea Valletta Life Assurance Company Limited is an associate company in which the Middlesea Group holds a direct interest of 50%.

Forecast financial information is based on budgets prepared by management on the basis of its expectations. These expectations are based, inter alia, on the actual level of activity in the first six months of 2009, on past performance, on current economic and market conditions and on management's experience. Events and circumstances frequently do not occur as expected and therefore actual results may differ materially from those included in the forecast consolidated financial statements. This is particularly relevant in the insurance industry due to the inherent nature of the business. Attention is drawn, in particular, to the risk factors set out in the Prospectus, which describe the primary risks associated with the business to which the forecast consolidated financial statements relate.

The directors of the Issuer have exercised due care and diligence in adopting these assumptions. The forecast financial information was formally approved on 20 November 2009 and the stated assumptions reflect the judgements made by the directors at that date. The assumptions that the directors believe are significant to the forecast consolidated financial statements are set out below.

## 2 Significant accounting policies

The significant accounting policies of Middlesea Insurance p.l.c. are set out in the audited consolidated financial statements for the year ended 31 December 2008. Where applicable, in so far as they relate to recognition and measurement criteria, they have been consistently applied in the preparation of the forecast consolidated financial statements. In 2009 the entities constituting the Middlesea Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the accounting period beginning on 1 January 2009. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

## 3 Basis of preparation and principal assumptions

The principal assumptions relating to the environment in which the Issuer operates, and the factors which are exclusively outside the influence of the directors and which underlie the projected financial information are the following:

- there will be no material adverse events originating from market and economic conditions including spending levels, exchange rate movements, employment and job growth, beyond those already reflected in the forecast;
- the Middlesea Group will continue to enjoy the confidence of, inter alia, its policyholders, reinsurers and bankers;
- the basis and rates of taxation will not change materially throughout the period covered by the forecast, except as already reflected in the forecast;
- the rate of inflation will not exceed that experienced in the last few years.

The principal assumptions relating to the environment in which the Issuer operates, and the factors which the Directors can influence and which underlie the forecast consolidated financial statements are the following:

### *Premium income*

Premium income for Middlesea Insurance p.l.c. as an entity ("MSI") is based on actual earned premium for the period January to June 2009 and for July 2009 and on forecast premium for the period August to December 2009. Forecast premium for the last five months of the year is based on an extrapolation of the actual premium earned in the first six months of 2009, adjusted for known large individual transactions occurring after July. Forecasts are based on premium income written directly by MSI in Malta or through its agents in Malta and in Gibraltar and are compiled on a class by class basis.

Forecast premium income for Progress Assicurazioni S.p.A. (Progress) is linked to the company's plans of significantly reducing its agency network. This process was started in late 2008 and has seen the number of agencies linked to the company fall from 164 to 52. Accordingly, for agents closed prior to June 2009 forecast premium is based on the actual earned premium for the period January to June 2009, on the release of unearned premium to the profit and loss account with the passage of time and on the premium that will be earned from the completion of policies written on a non annual basis. For agents closed after June 2009 forecast premium is based on the same criteria but also includes an estimate of premium earned between July 2009 and the date on which the agency was closed, which estimate is based on an extrapolation of premium written in the first six months of 2009. Closed agents are expected to continue to write business for between one and two months following them being in receipt of the company's notification of closure. Forecast premium income for agents that will be retained as part of

the company's network is based on actual earned premium from January to June 2009 and on an estimate based on extrapolation of the results for the first six months of the year for the period July to December 2009. It is expected that the company's remaining agents will place more focus on non-RCA business.

#### *Unearned premium reserve and Unexpired risks provision*

For MSI, the unearned premium reserve ("UPR"), and the reinsurers' share thereof, is calculated on the one twelfths method. Deferred acquisition costs are also computed on the same basis.

For Progress, the UPR is projected on the basis of the average UPR compared to premium written between 2006 and 2008. The reinsurers' share of the UPR is the same as the proportion between the reinsurers' share and total UPR as at June 2009. Deferred acquisition costs are computed in the same proportion as UPR.

The UPR in Progress also includes an unexpired risks provision, net of reinsurance, computed in accordance with Italian regulations, for that business written in or before 2009 which is expected to be unprofitable.

#### *Commissions*

Commissions payable by MSI are based on the average rates paid in the first six months of 2009 for business written directly and on the commission structure currently in force for business written through agents. Profit commissions are calculated on the expected overall results of agents.

For Progress business, commissions are based on the current amounts payable for both RCA and non RCA business.

#### *Claims*

For MSI, loss ratios for the period January to June 2009 are based on actual results reported in the company's management accounts for that period. Loss ratios for the period from July to December 2009 are based on the weighted average loss ratios incurred between January 2005 and June 2009. Loss ratios are individually identified for business written directly, through agents or from Gibraltar and for every class of business. Certain adjustments to loss ratios were made to factor in the impact of new schemes underwritten and to eliminate the impact of a small number of one-off losses. Loss ratios used include the impact of run-off which has generally been favourable.

For Progress, claims incurred are determined by reference to actual results and forecast loss ratios. These loss ratios are projected on the basis of the average loss experience registered by the company between January 2007 and June 2009 for RCA (i.e. following the introduction of the CARD system of claims settlement) and for the past five years for non-RCA business. Separate analysis has been made of the results produced during this period by agents who have now been closed and those who remain active and the projected combined loss ratio reflects the respective trends observed on the performance of these agents. In addition, claims incurred include provisions for claims that have not been reported (IBNR) and claims that have not been enough reported (IBNER). The IBNR/IBNER reserves as a percentage of claims incurred is similar to that as at 30 June 2009. The forecast claims for the last six months do not take into account any favourable or unfavourable movement on claims reserves in respect of previous occurrence years in light of the fact that the company has purchased a reinsurance agreement to protect against adverse development of prior year claims ('Adverse Development Cover').

Claims handling costs for MSI are based on the average of the previous three years' costs. For Progress, claims handling costs are determined using the average cost of claims handled in 2008 multiplied by the number of projected claims in 2009. In addition, the cost of claims handling outsourced to a specialist firm is also taken into account. No run-off on previous years' reserved positions is projected.

#### *Reinsurance*

Reinsurance premiums payable, reinsurance recoveries and reinsurance commissions receivable are based on the reinsurance treaties currently in place.

Reinsurance premiums payable and recoveries at Progress level are impacted by the stop loss reinsurance treaties entered into during 2009. No run-off on losses occurring in the years from 2001 to 2008 has been projected on the basis of the Adverse Development Cover purchased that provides cover for any unfavourable run-off of €40m in excess of €110m. The quoted premium for this protection (including the claims handling costs of the reinsurer) is €14m.

#### *Investment income*

The Group experienced a negative investment return in 2008 in line with international financial market experience that is expected to be recovered over the next years. The Group investment return reflects the actual return earned until July 2009. Interest income and dividend income have been accrued on the same basis. However, no additional movements in equity prices, interest rates and exchange rates have however been assumed until the end of the year.

Fair value movements on investment property held by MSI as at 31 December 2009 are based on recent valuations obtained from an independent architect. No further revaluation surpluses are assumed on the property held by Progress.

The Forecast Consolidated Income Statement reflects the share of profit of the company's associate, Middlesea Valletta Life Assurance Company Limited, for the year ended 31 December 2009 which is expected to amount to €2m. The amount recognised reflects 50% of the profit after tax projected by the associate for the year then ended. The profit reported by the associate considered a combination of actual results that were determined at the time of the preparation of the projections, including investment income and administrative expenditure, extrapolated to the end of the year and actuarial expectations for key components of the associate's technical account based on an internal valuation model.

#### *Management expenses*

Expenses for 2009 are not expected to change significantly except for an increase in agents' termination costs at Progress level. As part of its remedial action, Progress is restructuring its agency network and to date has terminated 116 out of its 164 agencies on the basis of their net underwriting result, the mix between classes of business, the growth pattern and potential for the future as well as the economic viability of the portfolio. The closure of these 116 agencies, in most cases, has triggered an indemnity agreement that is projected at €6.9m for the year ending 31 December 2009.

#### *Taxation*

MSI's tax charge is based on the current tax legislation in Malta.

No additional tax credits have been recognised in Progress during 2009 notwithstanding the company's forecast losses. Furthermore, that portion of the opening deferred tax asset of Progress relating to unutilised tax losses that is not expected to reverse over the next five years, in accordance with Italian tax legislation, has been released.

#### **4. Conclusion**

The directors of Middlesea Insurance p.l.c. believe that the assumptions on which the forecast is based are reasonable. The directors further believe that, in the absence of unforeseen circumstances outside their control, the proceeds of the Rights Issue, together with the subordinated loan under negotiation and available facilities, will cause the working capital available to the Issuer to be sufficient for the carrying out of its business.

Approved by the Board of Directors on 20 November 2009 and signed on its behalf by:



Mario C. Grech  
Executive Chairman



Lino Spiteri  
Director

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The Directors  
Middlesea Insurance p.l.c.  
Middle Sea House  
Floriana

20 November 2009

Dear Sirs

**Independent Accountants' Report on the Forecast Consolidated Income Statement of Middlesea Insurance p.l.c. for the year ending 31 December 2009**

We report on the Forecast Consolidated Income Statement of Middlesea Insurance p.l.c. ("the Issuer") for the year ending 31 December 2009. The Forecast Consolidated Income Statement, the basis of preparation and the material assumptions upon which it is based, are set out on pages 66 to 69 of the Prospectus issued by Middlesea Insurance p.l.c. dated 20 November 2009.

This report is required in terms of rule 9.19 of the Listing Rules issued by the Listing Authority of the Malta Financial Services Authority and is given for the purpose of complying with that Regulation and for no other purpose.

**Directors' responsibilities for the Forecast Consolidated Income Statement**

It is the responsibility of the Directors of the Issuer to prepare the Forecast Consolidated Income Statement and the assumptions upon which it is based, as set out on pages 66 to 69, in accordance with the requirements of the Listing Rules issued by the Listing Authority of the Malta Financial Services Authority and EU Regulation EC 809/2004.

**Accountants' responsibility**

It is our responsibility to express an opinion as required by Listing Rule 9.19 issued by the Listing Authority of the Malta Financial Services Authority and Annex IV item 9.2 of EU Regulation EC 809/2004 as to the proper compilation of the Forecast Consolidated Income Statement, on the basis of the Directors' assumptions, in so far as the application of the underlying accounting policies and the accuracy of calculations are concerned.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed, to the fullest extent permitted by law, we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with the Listing Rules, consenting to its inclusion in the Prospectus.

**Basis of preparation of the Forecast Consolidated Income Statement**

The Forecast Consolidated Income Statement for the year ending 31 December 2009 has been prepared on the basis stated on pages 67 to 69 of the Prospectus. It is based on the Issuer's unaudited management accounts for the six months ended 30 June 2009, adjusted to reflect the Issuer's unaudited results for the three months ended 30 September 2009, and on a forecast for the remaining period of the year. In the case of Progress Assicurazioni S.p.A. only, the results for the six months ended 30 June 2009 were subject to an audit in Italy in terms of Generally Accepted Accounting Principles in Italy.

## **Basis of opinion**

We have examined the basis of compilation and the accounting policies of the accompanying Forecast Consolidated Income Statement of Middlesea Insurance p.l.c. in accordance with International Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits and Reviews of Historical Financial Information". Our work included evaluating the basis on which the historical financial information included in the Forecast Consolidated Income Statement has been prepared and considering whether the Forecast Consolidated Income Statement has been accurately computed based upon the disclosed Directors' assumptions and the accounting policies of the Issuer. With respect to the Group's share of the profit of its associate company, Middlesea Valletta Life Assurance Company Limited (MSV), our work was limited to ascertaining that the profit attributable to Middlesea Insurance p.l.c. has been properly calculated. This profit was derived from MSV's own forecast income statement for the year ending 31 December 2009, based upon the company's unaudited management accounts and on assumptions applied by MSV's directors, which we have not examined.

The assumptions upon which the Forecast Consolidated Income Statement is based are solely the responsibility of the Directors and accordingly we express no opinion on the validity of these assumptions.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Forecast Consolidated Income Statement has been properly compiled on the basis stated, in so far as the application of the underlying accounting policies and accuracy of calculations are concerned.

## **Opinion**

In our opinion, the Forecast Consolidated Income Statement has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of Middlesea Insurance p.l.c.

Since the Forecast Consolidated Income Statement and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual results reported will correspond to those shown in the Forecast Consolidated Income Statement and differences may be material. This is particularly relevant in the insurance industry due to the inherent nature of the business.

We draw attention to the fact that the Forecast Consolidated Income Statement assumes that the Issuer and its subsidiaries will continue to operate on a going concern basis and will return to satisfying statutory and regulatory capital requirements in Malta and in Italy. This assumption is dependent upon the generation of sufficient additional funds by the Issuer and its subsidiaries and on forecast results being met. The additional funds will mainly be obtained through a rights issue of €40.2 million as set out in the Issuer's prospectus dated 20 November 2009. The Issuer's major shareholders have committed to take up their rights in full and in addition two of these shareholders have also committed to take up any remaining shares should not all shareholders exercise their rights. Further required funds will be sought by way of a subordinated loan of €8.5 million to be taken by Progress Assicurazioni S.p.A. and which is still to be negotiated.

We further draw your attention to the fact that the Forecast Consolidated Income Statement is not intended to, and does not, provide all the information and disclosures necessary to present a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU.

Yours faithfully



Simon Flynn  
Partner



This document is a Securities Note issued in accordance with the provisions of Chapter 6 of the Listing Rules issued by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

This Securities Note is issued pursuant to the requirements of Listing Rule 6.4.3 of the Listing Rules and contains information about securities issued by Middlesea Insurance p.l.c. for which application has been made for admission to trading of its securities on the Malta Stock Exchange. This Securities Note should be read in conjunction with the most updated Registration Document issued by the Company from time to time.

This document is dated 20 November 2009

### **Securities Note**

IN RESPECT OF A RIGHTS ISSUE OF 67,000,000 NEW ORDINARY SHARES  
of a nominal value of €0.60 each  
by



## **Middlesea Insurance p.l.c.**

**AT A SHARE ISSUE PRICE OF €0.60 PER SHARE**  
**ISIN: MT0000050105**

Subject to the terms and conditions contained in this document, the New Ordinary Shares are being offered for subscription by way of rights to Eligible Shareholders on the following basis:

**2.68 New Ordinary Shares at €0.60 per share for every 1 Existing Ordinary Share held and registered in their name at close of business on 12 November 2009 (the "Record Date").**

(Any fractional entitlement shall be rounded to the nearest whole share)

Manager & Registrar



Sponsor



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## IMPORTANT INFORMATION

**THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS AND CONTAINS INFORMATION ON MIDDLESEA INSURANCE P.L.C., ITS SUBSIDIARIES, ASSOCIATED UNDERTAKING AND BUSINESS OF THE GROUP. THE INFORMATION IS BEING MADE AVAILABLE IN CONNECTION WITH A RIGHTS ISSUE BY MIDDLESEA INSURANCE P.L.C. OF 67,000,000 NEW ORDINARY SHARES. THE SHARES HAVE A NOMINAL VALUE OF €0.60 PER SHARE AND ARE BEING ISSUED AT A SHARE ISSUE PRICE OF €0.60 PER SHARE.**

THIS DOCUMENT INCLUDES INFORMATION GIVEN IN COMPLIANCE WITH THE LISTING RULES FOR THE PURPOSE OF GIVING INFORMATION WITH REGARD TO THE OFFER OF SECURITIES ISSUED BY THE COMPANY, AS WELL AS IN COMPLIANCE WITH THE COMPANIES ACT, CHAP. 386 OF THE LAWS OF MALTA, AND COMMISSION REGULATION (EC) NO. 809/2004 OF 29 APRIL 2004 IMPLEMENTING DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL AS REGARDS INFORMATION CONTAINED IN PROSPECTUSES AS WELL AS THE FORMAT, INCORPORATION BY REFERENCE AND PUBLICATION OF SUCH PROSPECTUSES AND DISSEMINATION OF ADVERTISEMENTS.

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORISED BY THE COMPANY OR ITS DIRECTORS, TO ISSUE ANY ADVERTISEMENT OR TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE SALE OF THE SECURITIES OTHER THAN THOSE CONTAINED IN THE PROSPECTUS AND IN THE DOCUMENTS REFERRED TO HEREIN IN CONNECTION WITH THE RIGHTS ISSUE HEREBY MADE, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE COMPANY, ITS DIRECTORS OR ADVISORS. THE ADVISORS ENGAGED BY THE COMPANY FOR THE PURPOSE OF THIS RIGHTS ISSUE ARE ACTING EXCLUSIVELY FOR THE COMPANY.

**THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THE PROSPECTUS.**

THIS PROSPECTUS DOES NOT CONSTITUTE, AND MAY NOT BE USED FOR THE PURPOSES OF, AN OFFER OR INVITATION TO SUBSCRIBE FOR THE SECURITIES BY ANY PERSON IN ANY JURISDICTION (I) IN WHICH SUCH OFFER OR INVITATION IS NOT AUTHORISED OR (II) IN WHICH THE PERSON MAKING SUCH OFFER OR INVITATION IS NOT QUALIFIED TO DO SO OR (III) TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR INVITATION.

IT IS THE RESPONSIBILITY OF ANY PERSONS IN POSSESSION OF THIS DOCUMENT AND ANY PERSONS WISHING TO APPLY FOR ANY SECURITIES ISSUED BY THE COMPANY TO INFORM THEMSELVES OF, AND TO OBSERVE AND COMPLY WITH, ALL APPLICABLE LAWS AND REGULATIONS OF ANY RELEVANT JURISDICTION. PROSPECTIVE APPLICANTS FOR ANY SECURITIES THAT MAY BE ISSUED BY THE COMPANY SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS OF APPLYING FOR ANY SUCH SECURITIES AND ANY APPLICABLE EXCHANGE CONTROL REQUIREMENTS AND TAXES IN THE COUNTRIES OF THEIR NATIONALITY, RESIDENCE OR DOMICILE.

SAVE FOR THE OFFERING IN THE REPUBLIC OF MALTA, NO ACTION HAS BEEN OR WILL BE TAKEN BY THE COMPANY THAT WOULD PERMIT A PUBLIC OFFERING OF THE SECURITIES OR THE DISTRIBUTION OF THE PROSPECTUS (OR ANY PART THEREOF) OR ANY OFFERING MATERIAL IN ANY COUNTRY OR JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED.

THE ATTENTION OF OVERSEAS SHAREHOLDERS IS DRAWN TO SECTION 5.4 OF THIS SECURITIES NOTE.

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (OTHER THAN MALTA) WHICH HAS IMPLEMENTED DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 4 NOVEMBER 2003 ON THE PROSPECTUS TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING OR WHICH, PENDING SUCH IMPLEMENTATION, APPLIES ARTICLE 3.2 OF SAID DIRECTIVE, THE SECURITIES CAN ONLY BE OFFERED TO "QUALIFIED INVESTORS" (AS DEFINED IN SAID DIRECTIVE) AS WELL AS IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE COMPANY OF A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE SAID DIRECTIVE.

THE SECURITIES HAVE NOT BEEN NOR WILL THEY BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT, 1933 AS AMENDED, OR UNDER ANY FEDERAL OR STATE SECURITIES LAW AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES OF AMERICA, ITS TERRITORIES OR POSSESSIONS, OR ANY AREA SUBJECT TO ITS JURISDICTION (THE "U.S.") OR TO OR FOR THE BENEFIT OF, DIRECTLY OR INDIRECTLY, ANY U.S. PERSON (AS DEFINED IN REGULATION "S" OF THE SAID ACT). FURTHERMORE THE COMPANY WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT, 1940 AS AMENDED AND INVESTORS WILL NOT BE ENTITLED TO THE BENEFITS SET OUT THEREIN.

A COPY OF THIS DOCUMENT HAS BEEN SUBMITTED TO THE LISTING AUTHORITY IN SATISFACTION OF THE LISTING RULES, THE MALTA STOCK EXCHANGE IN SATISFACTION OF THE MALTA STOCK EXCHANGE BYE-LAWS, AND HAS BEEN DULY FILED WITH THE REGISTRAR OF COMPANIES IN ACCORDANCE WITH THE ACT. APPLICATION HAS BEEN MADE TO THE LISTING AUTHORITY FOR THE SECURITIES TO BE CONSIDERED AS ADMISSABLE TO LISTING ON A REGULATED MARKET IN MALTA. APPLICATION HAS ALSO BEEN MADE TO THE COUNCIL OF THE MALTA STOCK EXCHANGE, AS A REGULATED MARKET, FOR SECURITIES TO BE ADMITTED TO THE OFFICIAL LIST FOLLOWING CONDITIONAL ALLOCATION OF SECURITIES TAKING PLACE UPON RECEIPT OF APPLICATIONS FROM INVESTORS. DEALINGS IN THE NEW ORDINARY SHARES ARE EXPECTED TO COMMENCE ON THE MALTA STOCK EXCHANGE ON 29 DECEMBER 2009.

THE CONTENTS OF THE COMPANY'S WEBSITE OR ANY WEBSITE DIRECTLY OR INDIRECTLY LINKED TO THE COMPANY'S WEBSITE DO NOT FORM PART OF THIS DOCUMENT. ACCORDINGLY NO RELIANCE OUGHT TO BE MADE BY ANY INVESTOR ON ANY INFORMATION OR OTHER DATA CONTAINED IN SUCH WEBSITES AS THE BASIS FOR A DECISION TO INVEST IN ANY FINANCIAL INSTRUMENTS AND SECURITIES ISSUED BY THE COMPANY.

THE VALUE OF INVESTMENTS CAN RISE OR FALL AND PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. IF YOU NEED ADVICE, YOU SHOULD CONSULT A LICENSED STOCKBROKER OR AN INVESTMENT ADVISOR LICENSED UNDER THE INVESTMENT SERVICES ACT, CHAP. 370 OF THE LAWS OF MALTA.

**THIS DOCUMENT AND ALL AGREEMENTS, ACCEPTANCES AND CONTRACTS RESULTING THEREFROM SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF MALTA, AND ANY PERSON ACQUIRING ANY SECURITIES PURSUANT TO THE PROSPECTUS SHALL SUBMIT TO THE JURISDICTION OF THE MALTESE COURTS, WITHOUT LIMITING IN ANY MANNER THE RIGHT OF THE COMPANY TO BRING ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR IN CONNECTION WITH ANY PURCHASE OF SHARES OR AGREEMENT RESULTING HEREFROM OR THE PROSPECTUS AS A WHOLE IN ANY OTHER COMPETENT JURISDICTION.**

**STATEMENTS MADE IN THIS DOCUMENT ARE, EXCEPT WHERE OTHERWISE STATED, BASED ON THE LAW AND PRACTICE CURRENTLY IN FORCE IN MALTA AND ARE SUBJECT TO CHANGES THEREIN. THIS DOCUMENT SHOULD BE READ IN CONJUNCTION WITH THE REGISTRATION DOCUMENT CONTAINING INFORMATION ABOUT THE GROUP.**

## DEFINITIONS

Save as otherwise defined in this Securities Note, the capitalised terms used herein shall bear the same meaning as that attributed thereto in the Registration Document.

<b>Act</b>	The Companies Act, Chap. 386 of the Laws of Malta;
<b>Associated Undertaking or MSV</b>	<p>Middlesea Valletta Life Assurance Company Limited, a limited liability company registered under the Laws of Malta with company registration number C15722 and with registered office at Middle Sea House, Floriana FRN1442, Malta. The company is regulated by the Malta Financial Services Authority;</p> <p>Unless the context otherwise requires, any reference to the Associated Undertaking or MSV includes Middle Sea Valletta Life Assurance Company Limited and its fully owned subsidiary company, Growth Investments Limited, a limited liability company registered under the Laws of Malta with company registration number C21821 and with registered office at Middle Sea House, Floriana FRN1442, Malta. The company is regulated by the Malta Financial Services Authority;</p>
<b>Business Day</b>	Any day between Monday and Friday (both days included) on which commercial banks in Malta settle payments and are open for normal banking business;
<b>Collecting Agents</b>	The Licensed Members of the Malta Stock Exchange and investment services providers authorised to conduct investment services business by the Malta Financial Services Authority whose names and addresses are set out in Annex A of the Securities Note;
<b>Company or Issuer or MSI</b>	Middlesea Insurance p.l.c., a public limited liability company registered under the Laws of Malta with company registration number C5553 and with registered office at Middle Sea House, Floriana FRN1442, Malta. The company is regulated by the Malta Financial Services Authority;
<b>Directors or Board</b>	The directors of the Company whose names are set out in Section 2 of the Registration Document under the heading "Identity of Directors, Executive Management, Advisors and Auditors";
<b>Eligible Shareholders</b>	MSI's Shareholders on the register of the Central Securities Depository at the Malta Stock Exchange as at the Record Date and upon transfer of their entitlement to a third party, their transferee/s;
<b>Euro or €</b>	The lawful currency of the Republic of Malta as from 1 January 2008;
<b>Form of Acceptance, Authority and Election</b>	The Form, substantially in the form set out in Annex B of this Document, issued to Eligible Shareholders by the Company in respect of the rights to subscribe for New Ordinary Shares, pursuant to the Rights Issue and pursuant to which Eligible Shareholders shall be entitled to and commit to accept in part or in full their Proportionate Entitlements and/or apply for Excess Shares or otherwise renounce to their rights in favour of third parties;
<b>ISVAP</b>	Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo (Institute for the supervision of private insurance and public interest) - is an entity with legal personality under Italian public law established, for the exercise of supervisory functions in respect of insurance and reinsurance as well as all others who are subject to the discipline of private insurance, including agents and insurance brokers in Italy;
<b>Lapsed Rights</b>	Rights to New Ordinary Shares not validly taken up by 14:00 hrs on 14 December 2009;
<b>Listing Authority</b>	Such person or body appointed by the Minister of Finance for the purposes of article 11 of the Financial Markets Act, Chap. 345 of the Laws of Malta;
<b>Listing Rules</b>	The listing rules issued by the Listing Authority from time to time;
<b>Malta Financial Services Authority or MFSA</b>	The Malta Financial Services Authority established in terms of the Malta Financial Services Authority Act (Chap. 330 of the Laws of Malta);

<b>Malta Stock Exchange or MSE</b>	The Malta Stock Exchange p.l.c. as originally constituted by the Financial Markets Act, Chap. 345 of the Laws of Malta with registered office at Garrison Chapel, Castille Place, Valletta VLT1063, Malta and bearing company registration number C42525;
<b>Manager and Registrar</b>	Bank of Valletta p.l.c., a public limited liability company registered under the Laws of Malta with company registration number C2833 and with registered office at 58, Zachary Street, Valletta VLT1130, Malta;
<b>Middlesea Group or Group</b>	The Company, the Subsidiaries and the Associated Undertaking;
<b>New Ordinary Shares</b>	67,000,000 New Ordinary Shares to be issued pursuant to the Rights Issue;
<b>Offer</b>	The invitation to subscribe for rights to the New Ordinary Shares as contained in this Securities Note;
<b>Offer Period</b>	The period between 08:30 hrs on 30 November 2009 and 14:00 hrs on 14 December 2009 (both dates inclusive) during which the rights to the New Ordinary Shares are on offer for subscription;
<b>Ordinary Shares or Shares</b>	The ordinary shares of a nominal value of €0.60 each in the capital of the Company;
<b>Overseas Shareholders</b>	Eligible Shareholders with registered address in, or who are citizens in, or residents of, countries other than Malta;
<b>Proportionate Entitlement</b>	The entitlement of each Eligible Shareholder to subscribe for and be allotted 2.68 New Shares multiplied by the number of Shares registered in the name of such Eligible Shareholder on the Record Date;
<b>Prospectus</b>	This document together with the Registration Document and the Summary Note all dated 20 November 2009 in connection with the Rights Issue;
<b>Record Date</b>	12 November 2009;
<b>Registration Document</b>	The Registration Document issued by the Company dated 20 November 2009, forming part of the Prospectus;
<b>Rights Issue or Issue</b>	The proposed issue by way of rights to the New Ordinary Shares to Eligible Shareholders as described in the Securities Note;
<b>Securities Note</b>	This document in its entirety;
<b>Shareholders or Ordinary Shareholders</b>	Holders of Ordinary Shares of the Company;
<b>Share Issue Price</b>	The price of €0.60 per Share;
<b>Sponsor</b>	Charts Investment Management Service Limited, a private limited liability company registered under the Laws of Malta with company registration number C7944 and with registered office at Valletta Waterfront – Vault 17, Pinto Wharf, Floriana FRN1913, Malta;

## Subsidiaries

Each of:

- (a) Church Wharf Properties Limited, a limited liability company registered under the Laws of Malta with company registration number C25653 and with registered office at Middle Sea House, Floriana FRN1442, Malta;
- (b) Euro Globe Holdings Limited, a limited liability company registered under the Laws of Malta with company registration number C30503 and with registered office at Middle Sea House, Floriana FRN1442, Malta;
- (c) EuroMed Risk Solutions Limited, a limited liability company registered under the Laws of Malta with company registration number C37185 and with registered office at Development House, 4<sup>th</sup> Floor, St Anne Street, Floriana FRN9010, Malta;
- (d) International Insurance Management Services Limited (“IIMS”), a limited liability company registered under the Laws of Malta with company registration number C23610 and with registered office at Development House, 4<sup>th</sup> Floor, St Anne Street, Floriana FRN9010, Malta. The company is regulated by the Malta Financial Services Authority;
- (e) Progress Assicurazioni S.p.A. (“Progress”), a limited liability company registered under the Laws of Italy with company registration number C.F./P/IVA: 00675700827 and with registered office at Piazza Alberico Gentile, 3, 90143 - Palermo, Sicily, Italy. The company is regulated by the Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo (“ISVAP”);

## Summary Note

The Summary Note issued by the Company dated 20 November 2009, forming part of the Prospectus.

# 1. RISKS FACTORS

An investment in the Shares involves certain risks, including those set out below in this section. In deciding whether to make an investment in the Shares, prospective investors are advised to carefully consider, with their own independent financial and other (including tax, accounting, credit, legal and regulatory) professional advisors, the following risk factors (not listed in order of priority) and other investment considerations, together with all the other information contained in the Prospectus.

## 1.1 RISKS RELATED TO THE SHARES

### a) Trading and liquidity of the securities

The price at which the New Ordinary Shares will trade and the price which the Eligible Shareholders may realise for their New Ordinary Shares will be influenced by a large number of factors, some specific to the Issuer, its proposed operations, the ability to implement successfully its intended restructuring and development plans, and some which are peculiar to the business sectors in which the Group operates, the performance of the Group's operations, large purchases or sales of the shares, liquidity (or absence of liquidity) in the Shares, currency fluctuations, legislative or regulatory changes relating to the business of the Group and general economic conditions.

In any event, stock markets (including the Maltese stock market) have from time to time experienced substantial price and volume fluctuations, which in addition to general economic and political conditions, could adversely affect the market price of the Shares of the Issuer. To optimise returns shareholders might need to hold the Ordinary Shares on a long term basis.

Eligible Shareholders also need to be aware that failure to take up their rights under the Rights Issue will entail a dilution of their percentage ownership of the Issuer's Ordinary Shares.

### b) Requirement for further funding

In addition to the €40.2 million new capital being raised by the Company, of which €26 million will be injected as capital in Progress, further funding of €8.5 million will be required by Progress to return to a position where it satisfies its own and consequently the Company's statutory and regulatory capital requirements which are currently not being met. Progress has initiated discussion with credit institutions for the issuance of the said subordinated loan which will be subject to regulatory approval in Malta and Italy. In the event that Progress is not successful in securing the subordinated loan, the Company will dispose of assets in a manner that will not impinge on its statutory and regulatory capital requirements and thereby replace the amount that would otherwise have been raised through the subordinated loan.

The Directors are of the view that, after having made due and careful enquiry and taking into account the net proceeds of the Rights Issue, the subordinated loan and available facilities, the working capital available to the Company will be sufficient for its present requirements, that is, for at least twelve months from the date of the Prospectus.

Should the Company need to raise further funds in the future, either to undertake new investment proposals or to meet unexpected losses, there is no guarantee that the prevailing market conditions will be conducive to such financing, or that shareholder support would be forthcoming.

### c) Shares in public hands

In terms of the Listing Rules, an Issuer must have at least twenty-five percent (25%) of its listed share capital in the hands of the public, and such persons shall include, without limitation, persons who are not related to, or dependants of, any of the Directors or Substantial Shareholders of the Company, any member of its Group, holders in employee share schemes or pension funds or persons with a right to nominate a person to the Board of Directors.

Should a substantial number of Eligible Shareholders falling under the definition of 'public' detailed above opt not to take up their entitlement as set out in Section 5.1 of the Securities Note, the number of Shares in public hands subsequent to the Rights Issue could fall below the 25% threshold. In such an eventuality the Issuer would be in breach of the said Listing Rules, which could possibly lead to the delisting of the Company from the Official List of the Malta Stock Exchange. Exceptionally, the Listing Authority may accept a lower percentage of Shares in the hands of the public provided that the market continues to operate properly.

The delisting of the Company would have adverse effects on the marketability and transferability of the Shares and on the fiscal impacts on Share transfers.

### d) Right to dividend

The Directors of the Company are not obliged to recommend the payment of a dividend on a yearly basis. As a result, holding Shares in the Company does not guarantee payment of a dividend.

The payment of dividends will depend on the Company's ability to generate earnings and cash flows. Payment of future dividends, if any, shall be at the discretion of the Company's Board of Directors after taking into account various factors, including financial condition, operating results, available cash and current and anticipated cash needs.

e) **Value**

**The value of investments can rise or fall, and past performance is not necessarily indicative of future performance. If in need of advice, you should consult a licensed stockbroker or an investment adviser licensed under the Investment Services Act, Chap. 370 of the Laws of Malta.**

**INVESTORS SHOULD CONSULT THE REGISTRATION DOCUMENT FOR RISK FACTORS RELATING TO THE COMPANY AND ITS BUSINESS. AN INFORMED INVESTMENT DECISION CAN ONLY BE MADE BY INVESTORS AFTER THEY HAVE READ AND FULLY UNDERSTOOD THE RISK FACTORS ASSOCIATED WITH AN INVESTMENT IN THE SECURITIES ISSUED BY THE COMPANY AND THE INHERENT RISKS ASSOCIATED WITH THE COMPANY'S BUSINESS.**

## **2. PERSONS RESPONSIBLE**

This document includes information compiled in compliance with the Listing Rules for the purpose of providing Eligible Shareholders with information about the New Ordinary Shares to be issued by way of Rights Issue by the Issuer. Each and all of the Directors whose names appear in Section 2.1 of the Registration Document accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the importance of such information. The Directors hereby accept responsibility accordingly.

## **3. KEY INFORMATION**

### **3.1 OFFER STATISTICS AND EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

<b>Issuer</b>	Middlesea Insurance p.l.c. (registration no. C5553);
<b>Amount</b>	67,000,000 New Ordinary Shares;
<b>Form</b>	The New Ordinary Shares will be issued in fully registered and dematerialised form and will be represented in uncertified form by the appropriate entry in the electronic register maintained on behalf of the Issuer at the Central Securities Depository of the Malta Stock Exchange;
<b>Currency</b>	Euro;
<b>Ratio</b>	2.68 New Ordinary Shares for every one Existing Share as at the Record Date;
<b>Nominal Value</b>	€0.60;
<b>Share Issue Price</b>	€0.60;
<b>Record Date</b>	12 November 2009;
<b>Offer Period</b>	The period between 08:30 hrs on 30 November 2009 and 14:00 hrs on 14 December 2009 during which the rights to New Ordinary Shares are on offer;
<b>Lapsed Rights</b>	Rights to New Ordinary Shares not taken up by the closing of the Offer Period;
<b>Admission to Listing (expected)</b>	28 December 2009;
<b>Commencement of Dealings in the New Ordinary Shares (expected)</b>	29 December 2009;
<b>Law and Jurisdiction</b>	This Rights Issue is governed by and must be construed in accordance with the Laws of Malta. The Maltese courts shall have exclusive jurisdiction to settle any disputes arising out of or in connection with the Rights Issue.

### 3.2 WORKING CAPITAL STATEMENT

The Board of Directors of Middlesea Insurance p.l.c. is of the opinion that the working capital available to the Company is sufficient for the Company's business requirements over the coming twelve months of operations.

### 3.3 CAPITALISATION AND INDEBTEDNESS

The following table sets forth the capitalisation and indebtedness of the Company as at 30 September 2009 on an actual basis, as well as adjusted for the issuance of 67,000,000 New Shares at the Share Issue Price of €0.60 and the subordinated loan.

#### Balance Sheet (unaudited) As at 30 September 2009

	Actual €'000	Adjusted €'000
<b>EQUITY</b>		
Capital and reserves attributable to shareholders	40,127	79,827
Minority interests	10	10
	-----	-----
	40,137	79,837
	-----	-----
<b>INDEBTEDNESS</b>		
Borrowings	16,285	24,785
	-----	-----
<b>Total capitalisation and indebtedness</b>	<b>56,422</b>	<b>104,622</b>
	=====	=====

In addition to the above, the Company has given guarantees to third parties amounting to €175,775 not arising under contracts of insurance.

### 3.4 INTEREST OF NATURAL AND LEGAL PERSONS IN THE RIGHTS ISSUE

Information on the interest of any natural and legal person involved in the Issue is detailed hereunder.

Directors' interest in the share capital of the Company as at 12 November 2009:

George Bonnici	6,510 shares
Evelyn Caruana Demajo	28 shares
Gaston Debono Grech	12,764 shares
Tonio Depasquale	1,590 shares
John C. Grech	10,000 shares
Mario C. Grech	5,450 shares
Joseph F.X. Zahra	330 shares

All other Directors do not hold interest in the share capital of the Company.

Five of the non-executive directors hold positions with shareholders' organisations that appointed them and with whom they have a business relationship with the Company, namely Roderick E.D. Chalmers, Tonio Depasquale, Javier Fernández-Cid Plañiol, Andres Jiménez and Michael Sparberg.

George Bonnici who was elected by the shareholders at the general meeting and John C. Grech who was appointed by a shareholder organisation, have a relationship with the Company through their business concerns.

The following hold in excess of 5% of the Company's ordinary shares as at 12 November 2009:

Bank of Valletta p.l.c.	5,411,430 shares	21.6%
Mapfre Internacional S.A.	5,250,000 shares	21.0%
Munich RE	4,975,000 shares	19.9%

### 3.5 REASONS FOR THE OFFER AND USE OF PROCEEDS

The losses incurred at Progress in the course of 2008 and 2009 (discussed in detail in the Registration Document) have significantly eroded the Group's capital base from €85.8 million at 31 December 2007 to €40.1 million at 30 September 2009.

The amount of €39.7 million, being the proceeds of the Rights Issue less Issue expenses, shall be applied exclusively to reinstate the capital resources, and the regulatory and statutory requirements of the Group. It is currently envisaged that the proceeds will be applied through equity injections in the following entities:

- An amount of €10 million will be retained by the Issuer to increase its capital base;
- An amount of €3.7 million will be invested by the Issuer into Middlesea Valletta Life Assurance Co. Ltd to enhance its capital base;
- An amount of €26 million will be invested in Progress Assicurazioni S.p.A. to rebuild its capital base. Progress will utilise part of the said proceeds, estimated at €21 million, to cover costs relating to the rightsizing of the operation and reinsurance cover protecting it from adverse run-off on claims that occurred prior to 31 December 2008.

The exact application of the net proceeds from the Rights Issue may change solely to meet the exact regulatory demands and solvency requirements of the Group. These changes are not expected to be materially different to what is currently contemplated.

In addition to the funds raised through the Rights Issue detailed in this document, Progress has initiated discussions with credit institutions to raise further funds of €8.5 million through a subordinated loan in order to return to a position where it satisfies its statutory and regulatory capital requirements which are currently not being met. As detailed in 1.1(b) above, this subordinated loan is subject to regulatory approval in Malta and Italy. In the event that Progress is not successful in securing the subordinated loan, the Company will dispose of assets in a manner that will not impinge on its statutory and regulatory capital requirements and thereby replace the amount that would otherwise have been raised through the subordinated loan.

### 3.6 ESTIMATED EXPENSES AND PROCEEDS OF THE RIGHTS ISSUE

The Rights Issue will involve expenses including professional fees, publicity, advertising, printing, listing, registration, sponsor, selling commission, management and registrar fees and other miscellaneous costs incurred in connection with this Rights Issue. Such expenses are estimated not to exceed €500,000 and shall be borne by the Issuer. No expenses will be specifically charged to any Eligible Shareholder who subscribes to the New Ordinary Shares. The amount of the expenses will be deducted from the proceeds of the Rights Issue, which accordingly will bring the net proceeds from the Rights Issue to circa €39,700,000.

## 4. INFORMATION CONCERNING THE NEW ORDINARY SHARES

### 4.1 DESCRIPTION AND TYPE OF SHARES

Each New Ordinary Share forms part of the duly authorised issue by way of rights of 67,000,000 New Ordinary Shares. The Shares are ordinary shares in the Company having a nominal value of €0.60 each share. The 67,000,000 Shares on offer constitute 268% of the entire issued share capital of the Company. The Issuer's ISIN number is MT0000050105.

### 4.2 APPLICABLE LAWS

The New Ordinary Shares are issued in accordance with the requirements of the Listing Rules, the Insurance Business Act Chap. 403 of the Laws of Malta, the Companies Act Chap. 386 of the Laws of Malta, and Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council.

### 4.3 REGISTRATION, DENOMINATION, FORM AND TITLE

The Issuer will not issue share certificates representing the fully paid up New Ordinary Shares as the New Ordinary Shares will be represented in uncertificated form by the appropriate entry in the electronic register of the Issuer's members maintained on behalf of the Issuer at the Central Securities Depository of the Malta Stock Exchange. There will be entered into such electronic register the names and addresses of the holders of the New Ordinary Shares and the number of New Ordinary Shares held by them. It is expected that the Malta Stock Exchange will issue the "Council Notice" on 28 December 2009 and such date shall constitute the date of issue, allotment as well as listing of the New Ordinary Shares. It is also expected that the Malta Stock Exchange will issue registration advices to each shareholder immediately thereafter.

Any shareholder in whose name the New Ordinary Shares are registered may (to the fullest extent permitted by the applicable laws) be deemed and treated at all times and for all purposes as the owner of the New Ordinary Shares. Title to the New Ordinary Shares is transferred in accordance with the provisions of Section 4.6 of this Securities Note.

### 4.4 RIGHTS ATTACHED TO THE SHARES

The Shares form part of one class of ordinary shares in the Company and shall accordingly have the same rights and entitlements. The following are highlights of the rights attaching to the Shares:

<b>Dividends</b>	The Shares shall carry the right to participate in any distribution of dividend declared by the Company <i>pari passu</i> with all other shares in the same class;
<b>Form</b>	Ordinary shares;
<b>Currency of Shares</b>	Euro;
<b>Voting Rights</b>	Each Share shall be entitled to one vote at meetings of Shareholders;
<b>Capital Distribution</b>	The Shares shall carry the right for the holders thereof to participate in any distribution of capital made whether on a winding up or otherwise, <i>pari passu</i> with all other shares of the same class;
<b>Transferability</b>	The Shares are freely transferable and once admitted to the Official List of the MSE shall be transferable in accordance with the rules and regulations of the MSE applicable from time to time;

## **Pre-Emption**

In accordance with article 88 of the Act and article 7(2) of the Company's articles of association, should shares of the Company be proposed for allotment for consideration in cash, those shares must be offered on a pre-emptive basis to Shareholders in proportion to the share capital held by them. A copy of any offer of subscription on a pre-emptive basis indicating the period within which this right must be exercised must be delivered to the Registrar of Companies. The right of pre-emption must be exercised in accordance with the terms and conditions set out in the articles of association of the Company.

## **Other**

The Shares are not redeemable and not convertible into any other form of security;

## **Mandatory Takeover Bids, Squeeze-Out and Sell-Out Rules**

Chapter 18 of the Listing Rules, implementing the relevant provisions of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 regulates the acquisition by a person or persons acting in concert of the control of a company and provides specific rules on takeover bids, squeeze-out rules and sell-out rules. The shareholders of the Company may be protected by the said Listing Rules in the event that the Company is subject to a Takeover Bid (as defined therein). The Listing Rules may be viewed on the official website of the Listing Authority - [www.mfsa.com.mt](http://www.mfsa.com.mt)

## **4.5 AUTHORISATIONS**

In virtue of the authority granted to the Board of Directors to issue up to a maximum amount of 67 million Ordinary Shares of the authorised share capital of the Company, the Rights Issue has been authorised by means of a resolution of the Board of Directors adopted on 20 November 2009.

The Malta Financial Services Authority, has authorised the increase in the share capital of the Issuer further to the Rights Issue by means of a letter dated 28 October 2009.

The Listing Authority has authorised the New Ordinary Shares to be admitted to Listing on 16 November 2009

Application has been made to the Malta Stock Exchange for the New Ordinary Shares to be issued pursuant to this Prospectus to be listed and traded on the Official List of the Malta Stock Exchange and for dealings to commence once the New Ordinary Shares are authorised as admissible to listing by the Listing Authority. The expected date of issue and allotment and listing on the Malta Stock Exchange of the New Ordinary Shares is 28 December 2009.

## **4.6 TRANSFERABILITY OF THE NEW ORDINARY SHARES**

The New Ordinary Shares are freely transferable and dealings on the Malta Stock Exchange are expected to commence on 29 December 2009. The New Ordinary Shares shall be transferable in accordance with the rules and regulations of the Malta Stock Exchange applicable from time to time.

Any person becoming entitled to New Ordinary Shares in consequence of the death of the holder may, upon producing such evidence of his title as may be required by the Issuer and the Malta Stock Exchange, elect either to be registered himself as holder or to have someone else nominated by him registered as the transferee thereof. All transfers and transmissions are subject in all cases to any pledge (duly constituted) in respect of any New Ordinary Shares and to any applicable laws and regulations.

## **4.7 DILUTION**

The market capitalisation of Middlesea Insurance p.l.c. as at 12 November 2009 was €31.25 million, or €1.25 per Share, based on 25,000,000 issued Shares of a nominal value of €0.60 each. After giving effect to the sale of all 67,000,000 New Ordinary Shares at a Share Issue Price of €0.60, the market capitalisation of the Company as at 12 November 2009 would have been €70,950,000, after deducting €500,000 in estimated issue expenses. This represents an adjusted market capitalisation per Share of €0.77, resulting in a decrease of 38% or €0.48 per Share to Eligible Shareholders who do not exercise their subscription rights in full.

## **4.8 TAXATION**

**Investors and prospective investors are urged to seek professional advice as regards both Maltese and any foreign tax legislation which may be applicable to them in respect of the Securities, including their acquisition, holding and disposal as well as any income/gains derived therefrom or made on their disposal. The following is a summary of the anticipated tax treatment applicable to investors in so far as taxation in Malta is concerned. This information does not constitute legal or tax advice and does not purport to be exhaustive.**

**The information below is based on an interpretation of tax law and practice relative to the applicable legislation, as known to the Company at the date of the Prospectus, in respect of a subject on which no official guidelines exist. Investors are reminded that tax law and practice and their interpretation as well as the levels of tax on the subject matter referred to in the preceding Section, may change from time to time.**

**This information is being given solely for the general information of investors. The precise implications for investors will depend, among other things, on their particular circumstances and on the classification of the Securities from a Maltese tax perspective, and professional advice in this respect should be sought accordingly.**

#### **4.8.1 Taxation Status of the Company**

The Company is subject to tax in Malta on taxable profits at the standard corporate tax rate which currently stands at 35%.

#### **4.8.2 Taxation on Dividends Paid to the Company's Shareholders**

Dividends distributed to Shareholders resident in Malta, other than companies, from untaxed profits are subject to 15% withholding tax which may be treated as a final tax at the option of the recipient Shareholders. The Company will deduct this 15% withholding tax from the amount of the dividend and will remit such withholding tax to the Commissioner of Inland Revenue, when distributing out of untaxed profits.

All other dividends distributed to any Shareholders are not subject to any further tax.

Under Malta's full imputation system of taxation, a person is subject to tax, where applicable, on the net dividend grossed up by the tax paid by the distributing company on the profits out of which the dividend is distributed. A shareholder is normally entitled to claim a refund of the difference between the tax payable on the grossed up dividend and the tax paid by the company distributing the dividend.

#### **4.8.3 Tax on Capital Gains on Shares**

In accordance with current legislation, if and for as long as the Shares are listed on the Malta Stock Exchange, no tax on capital gains is payable in Malta on any transfer of these shares.

#### **4.8.4 Duty on Documents and Transfers on Shares**

In accordance with current legislation, if and for as long as the Shares are listed on the Malta Stock Exchange, no duty on documents and transfers (stamp duty) is payable in Malta on any transfer of these Shares.

**The information above does not constitute legal or tax advice, and is based on tax law and practice applicable at the date of this Document. Investors are reminded that tax law and practice may change from time to time.**

**THE INFORMATION ABOVE IS BASED ON TAX LAW AND PRACTICE APPLICABLE AT THE DATE OF THIS PROSPECTUS. PROSPECTIVE INVESTORS ARE CAUTIONED THAT TAX LAW AND PRACTICE AND THE LEVELS OF TAX RELATING TO THE COMPANY, AND ITS SHAREHOLDERS MAY CHANGE FROM TIME TO TIME. PROSPECTIVE INVESTORS ARE THEREFORE URGED TO SEEK PROFESSIONAL ADVICE AS REGARDS BOTH MALTESE AND ANY FOREIGN TAX LEGISLATION APPLICABLE TO THE ACQUISITION, HOLDING AND DISPOSAL OF SECURITIES, AS WELL AS DIVIDEND AND INTEREST PAYMENTS MADE BY THE COMPANY ON THE SECURITIES RESPECTIVELY. THIS INFORMATION, WHICH DOES NOT CONSTITUTE LEGAL OR TAX ADVICE, REFERS ONLY TO INVESTORS WHO DO NOT DEAL IN SECURITIES IN THE COURSE OF THEIR NORMAL TRADING ACTIVITY.**

## **5. TERMS AND CONDITIONS OF THE OFFER**

### **5.1 CONDITIONS**

The rights to New Ordinary Shares will be offered to Eligible Shareholders on the basis and on the terms and conditions as set out in this Securities Note.

All shareholders registered as shareholders of the Issuer as at the Record Date on the Central Securities Depository of the Malta Stock Exchange are Eligible Shareholders.

The Issuer's Eligible Shareholders will be entitled to acquire two point six eight (2.68) New Ordinary Shares at €0.60 per share for every one Ordinary Share registered in their name on the Record Date (the "Offer Ratio"). Each Eligible Shareholder shall accordingly be entitled to accept the Offer for such number of New Shares (subject to rounding) as result by multiplying the number of Ordinary Shares registered in his/her name by 2.68 (the "Proportionate Entitlement"). Any fractional entitlement shall be rounded to the nearest whole share, that is, rounded up from 0.5 upwards and rounded down if below 0.5.

None of the New Ordinary Shares are being made available to the public other than pursuant to the Rights Issue.

It is the responsibility of Eligible Shareholders wishing to apply for the New Ordinary Shares to inform themselves as to the legal requirements of so applying including any requirements relating to exchange control (including any applicable external transaction requirements) in Malta and in the countries of their nationality, residence or domicile.

If the Form of Acceptance, Authority and Election is signed on behalf of another party or on behalf of a body of persons, the person signing will be deemed to have bound his principal, or the relative body of persons and will be deemed also to have given the confirmations, warranties and undertakings contained in this Securities Note on their behalf. Such person may be requested to submit the relative power of attorney/resolution or a copy thereof duly certified by a lawyer or notary public if so required by the Registrar.

In the case of the Form of Acceptance, Authority and Election issued to joint Eligible Shareholders, reference to the Eligible Shareholder in this Securities Note is a reference to each Eligible Shareholder, and liability thereof is joint and several.

Bank of Valletta p.l.c. and Mapfre Internacional S.A. shall not be required to submit a Form of Acceptance, Authority and Election and in lieu thereof they have signed and executed conditional Subscription Agreements with the Company pursuant to which each of them has bound itself in advance to participate in the Rights Issue, both at the level of their Proportionate Entitlement as well as to subscribe for any Excess Shares. (See also Section 6 below).

### **5.1.1 Territories outside Malta**

**It is the responsibility of any person outside Malta wishing to take advantage of the Form of Acceptance, Authority and Election to satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any required governmental or other consents, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.**

### **5.1.2 Notices**

The Summary Note forming part of this Prospectus will be mailed to the Eligible Shareholders at their registered addresses as held by the Central Securities Depository of the Malta Stock Exchange (as at the Record Date) by 21 November 2009 and for all Eligible Shareholders residing in Malta it shall be deemed to have been served at the expiration of three (3) calendar days after such mailing.

Overseas shareholders will be served by registered post.

Save where the context requires otherwise, terms defined in the Prospectus bear the same meaning when used in the Form of Acceptance, Authority and Election and in any other document issued pursuant to the Prospectus.

### **5.1.3 Form of Acceptance, Authority and Election**

Form of Acceptance, Authority and Election will be despatched to Eligible Shareholders by 21 November 2009. The Eligible Shareholders shall return the Form of Acceptance, Authority and Election directly to the Registrar or any of the Collecting Agents (as listed in Annex A). The Form of Acceptance, Authority and Election must reach the Registrar before the closing of the Offer Period.

The Form of Acceptance, Authority and Election details the number of New Ordinary Shares which constitutes that Shareholder's Proportionate Entitlement. It is then supplemented by instructions as to the possibility that an Eligible Shareholder might want to:

- a) Subscribe for the Proportionate Entitlement in full; or
- b) Subscribe for the Proportionate Entitlement in part; or
- c) Subscribe for the Proportionate Entitlement in full and commit to subscribe for shares in excess of his Proportionate Entitlement ("Excess Shares"); or
- d) Transfer part or all of those rights to a third party/ies.

The Forms of Acceptance, Authority and Election, once duly completed and executed by the Eligible Shareholder shall constitute a binding contract between the Company and the Eligible Shareholder whereby the Eligible Shareholder shall be bound to subscribe for and acquire the number of shares forming part of the Rights Issue as are indicated in the Form of Acceptance, Authority and Election and to effect payment therefor and the Company shall be bound, subject to the allocation policy with respect to the allocation of Excess Shares amongst Eligible Shareholders, to allot to Eligible Shareholders their respective Proportionate Entitlements and any Excess Shares to which they may become entitled pursuant to the allocation policy described in this Securities Note. All Forms of Acceptance, Authority and Election duly completed, signed and executed must be returned by the Collecting Agents to the Registrar by the end of the Offer Period together with relevant evidence of full payment made to the Registrar Account for the amount of New Ordinary Shares subscribed for.

### **5.1.4 Payment Methods**

Payment for the New Ordinary Shares, including payment for Excess Shares, may be made by bank draft or bankers' cheque, or personal cheque made payable to the Registrar.

### **5.1.5 Offer Period**

Eligible Shareholders will be entitled to take up all or part of their rights from 08:30 hrs on 30 November 2009 until 14:00 hrs on 14 December 2009.

### **5.1.6 Right to Reject**

Subject to all other terms and conditions set out in this Prospectus, the Issuer reserves the right to reject, in whole or in part, a Form of Acceptance, Authority and Election. The Issuer also reserves its rights to refuse any Form of Acceptance, Authority and Election which in the opinion of the Issuer is not properly completed in all respects in accordance with the Instructions or is not accompanied by the required documents and/or payments. The Form of Acceptance, Authority and Election will be accepted in original only; photocopies/facsimile copies will not be accepted.

### **5.1.7 Right to Revoke the Offer**

Subject to all other terms and conditions set out in this Prospectus, the Issuer reserves the right to revoke the Issue at any time before the closing of the Offer Period.

The circumstances in which such revocation might occur are expected to be exceptional, for example in the case of extraordinary injection of capital not connected to this Rights Issue or where a significant change in market conditions occurs.

Suspension of dealing in the New Ordinary Shares might occur in accordance with the provisions of the Listing Rules.

### **5.1.8 Allocation Policy**

The Issuer shall allocate the New Shares on the basis of the following policy:

1. First, it shall satisfy the acceptance of the Proportionate Entitlement of all Eligible Shareholders.
2. In the event that following the allocations made pursuant to paragraph 1 above there still remain unallocated New Shares, the Company shall then allocate such unallocated New Shares to those Eligible Shareholders who would have committed to subscribe for Excess Shares ("Qualifying Shareholder").

3. In the event that the demand for Excess Shares is greater than the number of unallocated New Shares available for allocation, then each application for Excess Shares shall be scaled down.
4. The scaling down shall be conducted as follows:
  - (a) First, so as to allot to each Qualifying Shareholder such number of Excess Shares not exceeding the lower of (i) the percentage of shares held by such Qualifying Shareholder out of the total issued share capital of the Company immediately prior to the Rights Issue as a proportion of the total percentage that all Qualifying Shareholders represent of the issued share capital of the Company; or (ii) the number of Excess Shares indicated in a Subscription Agreement or a Form of Acceptance, Authority and Election; and
  - (b) in the event that after such allocation there still remains Excess Shares unallocated such remaining Excess Shares shall again be allocated to Each Qualifying Shareholder by repeating the process set out in paragraph (4)(a) above until the earlier of (i) the outstanding demand for New Shares is satisfied in full; or (ii) the number of Excess Shares available has all been fully allocated.
5. The Company has entered into two Subscription Agreements, one with Bank of Valletta p.l.c. and the other with Mapfre Internacional S.A. pursuant to which each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. have agreed, subject to the satisfaction of certain conditions, to take up their Proportionate Entitlement and in aggregate up to 25,094,368 Excess Shares. This should ensure that even in the event that none of the Eligible Shareholders, other than the Major Shareholders detailed in Section 6 below, were to subscribe for their Proportionate Entitlement, and provided that the conditions set out in the Subscription Agreements are satisfied, the Rights Issue would be fully subscribed. (See Section 6 below).

### 5.1.9 Announcement of the Acceptance of Rights

In accordance with the Listing Rules, within four (4) working days from the closing of the Offer Period, the Issuer shall announce the results of the Offer by means of a Company Announcement.

## 5.2 ACTION REQUIRED TO SUBSCRIBE TO THE RIGHTS ISSUE

### 5.2.1 General

Each Form of Acceptance, Authority and Election will set out:

- (i) the holding of the Ordinary Shares on which an Eligible Shareholder's entitlement to New Ordinary Shares has been based;
- (ii) the Proportionate Entitlement of each Eligible Shareholder in respect of such Shares;
- (iii) instructions regarding acceptances and payment, splitting, transfers and payments and applications for Excess Shares and payment.

The minimum number of New Ordinary Shares an Eligible Shareholder may take up is one.

### 5.2.2 Procedure for Acceptance and Payment

Save for Bank of Valletta p.l.c. and Mapfre Internacional S.A. whose commitments result from their respective Subscription Agreements, Eligible Shareholders wishing to participate in the Rights Issue shall be required to submit a Form of Acceptance, Authority and Election. Bank of Valletta p.l.c. and Mapfre Internacional S.A. shall be entitled to participate in the Rights Issue on the basis and under the terms of their respective Subscription Agreements.

- a) *Eligible Shareholders who wish to accept their Proportionate Entitlement in full*  
Eligible Shareholders who wish to take up all of their entitlements need only verify that the information contained in Panels A and B of the Form of Acceptance, Authority and Election, sign the Form and deliver same to the Registrar or any of the Collecting Agents (listed in Annex A) together with proof of payment for their acceptance of the Proportionate Entitlement (in cleared funds). Delivery of the Forms of Acceptance, Authority and Election together with proof of payment (in cleared funds) to the Registrar must be made as soon as possible, in any event so as to be received by the Registrar by not later than 14:00 hrs on 14 December 2009.
- b) *Eligible Shareholders wishing to apply for Excess Shares*  
Eligible Shareholders, accepting their Proportionate Entitlement in full may also indicate in Panel C of the Form of Acceptance, Authority and Election any number of New Ordinary Shares which they wish to subscribe to and acquire at the Share Issue Price in excess of their Proportionate Entitlement – the Excess Shares. Duly completed Forms of Acceptance, Authority and Election must be delivered to any of the Collecting Agents (listed in Annex A) together with proof of payment for both their acceptance of the Proportionate Entitlement and the application for Excess Shares. Delivery of the Forms of Acceptance, Authority and Election together with proof of payment (in cleared funds) to the Registrar must be made as soon as possible, in any event so as to be received by the Registrar by not later than 14:00 hrs on 14 December 2009. Any application for Excess Shares cannot exceed the number of New Shares contemplated by the Rights Issue less the pro-rata entitlement of the Major Shareholders.

ONLY SHAREHOLDERS ACCEPTING THEIR PROPORTIONATE ENTITLEMENT IN FULL SHALL BE ELIGIBLE TO APPLY FOR EXCESS SHARES.

- c) *Eligible Shareholders who wish to accept the Proportionate Entitlement in part*  
Eligible Shareholders who wish to take up only some but not all of their rights should complete Panel D of the Form of Acceptance, Authority and Election but indicating the number of New Shares they wish to accept as part of their Proportionate Entitlement in Box 1 of Panel D and by inserting the corresponding cash consideration for the New Shares accepted in Box 2 of Panel D and then return it to the Registrar or any of the Collecting Agents. Delivery of the Form of Acceptance, Authority and Election together with proof of payment (in cleared funds) to the Registrar or any of the Collecting Agents (listed in Annex A) must be made as soon as possible, in any event so as to be received by the Registrar by not later than 14:00 hrs on 14 December 2009.

- d) *Eligible Shareholders who wish to transfer their rights*  
Eligible Shareholders may wish to transfer all or part of their Proportionate Entitlement to a third party or third parties. In such cases the Eligible Shareholder may do so by completing the Panel E of Form of Acceptance, Authority and Election indicating the name, I.D. Card number (or in the case of a company the company registration number), address and contact person in whose favour such Eligible Shareholder is renouncing his rights and entitlements under the Rights Issue. The person or persons in whose favour the Rights have been renounced shall be required to complete, sign and execute the Form of Acceptance, Authority and Election signifying his consent to acquire and exercise the rights renounced in his favour. Delivery of the Forms of Acceptance, Authority and Election duly completed, signed and executed by the persons in whose favour such rights and entitlements are renounced together with proof of payment (in cleared funds) to the Registrar or any of the Collecting Agents shall be made as soon as possible and in any event so as to be received by the Registrar by not later than 14:00 hrs on 14 December 2009.

The Issuer reserves the right to refuse to register any renunciation of the rights and entitlements to this Rights Issue in favour of any person in respect of which the Issuer believes such renunciation may violate applicable legal or regulatory requirements.

- e) *Payment*  
All payments must be made in Euro.

- f) *Issuer's discretion as to the validity of acceptances*  
If the Forms of Acceptance, Authority and Election and proof of payment of cleared funds do not reach the Registrar by 14:00 hrs on 14 December 2009, the Provisional Allotment will be deemed to have been declined and will lapse and it will be treated in accordance with the provisions detailed at Section 5.3 below. The Issuer may, with the agreement of the Registrar, but shall not be obliged, to treat as valid Forms of Acceptance, Authority and Election accompanied by proof of payment received later than 14:00 hrs on 14 December 2009.

### 5.3 PROCEDURE IN RESPECT OF RIGHTS NOT TAKEN UP (LAPSED RIGHTS)

#### 5.3.1 Lapsed Rights

If an entitlement to New Ordinary Shares is not validly taken up by 14:00 hrs on 14 December 2009, in accordance with the procedure laid down in this Securities Note for acceptance and payment of rights, then that provisional allotment to the particular Eligible Shareholder will be deemed to have been renounced and will lapse (Lapsed Rights).

Any New Ordinary Shares which are not taken up by Eligible Shareholders during the Offer period will be allotted to those Eligible Shareholders who have subscribed for New Ordinary Shares in excess of their entitlement as detailed in Section 5.2.2 (b) above in accordance with the allocation policy set out in Section 5.1.8 above. Any amounts received for New Ordinary Shares which remain unallocated shall be refunded to the Eligible Shareholders within five (5) working days after the allocation of the New Shares.

### 5.4 OVERSEAS SHAREHOLDERS

**THE OFFER OF NEW ORDINARY SHARES UNDER THE RIGHTS ISSUE TO PERSONS RESIDENT IN, OR WHO ARE CITIZENS OF, OR WHO HAVE A REGISTERED ADDRESS IN, COUNTRIES OTHER THAN MALTA MAY BE AFFECTED BY THE LAW OF THE RELEVANT JURISDICTION. THOSE PERSONS SHOULD CONSULT THEIR PROFESSIONAL ADVISORS (INCLUDING TAX ADVISORS) AS TO WHETHER THEY REQUIRE ANY GOVERNMENTAL OR OTHER CONSENTS OR NEED TO OBSERVE ANY OTHER FORMALITIES TO ENABLE THEM TO TAKE UP THEIR RIGHTS.**

This Section sets out the restrictions applicable to Eligible Shareholders who have registered addresses outside Malta and/or who are citizens or residents of countries other than Malta.

Any person (including, without limitation, nominees and trustees) outside Malta wishing to take up his rights under the Rights Issue must satisfy himself as to full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories.

**The comments set out in this Section are intended as a general guide only and any Eligible Shareholder who is in doubt as to his position should consult his independent professional advisor without delay.**

Forms of Acceptance, Authority and Election will not be sent to Eligible Shareholders with registered addresses in the United States of America or territories outside Malta, **except where in the absolute discretion of the Issuer** it is satisfied that such action would not result in a contravention of any applicable legal or regulatory requirement in the relevant jurisdiction. In these circumstances the New Ordinary Shares provisionally allotted to such Eligible Shareholders will be offered as if they were Lapsed Rights, in accordance with the provisions of Section 5.3 of this Securities Note.

Accordingly, receipt of this document and/or a Form of Acceptance, Authority and Election will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or a Form of Acceptance, Authority and Election will be sent for information only and should not be copied or redistributed. No person receiving a copy of this document and/or a Form of Acceptance, Authority and Election in any territory other than Malta, may treat the same as constituting an invitation or offer to him, nor should he in any event deal with the Form of Acceptance, Authority and Election **unless, in the relevant territory, such an invitation or offer could lawfully be made to him or the Form of Acceptance, Authority and Election could lawfully be used or dealt with without contravention of any unfulfilled registration or other legal or regulatory requirements.**

The provisions of this Section 5.4 will apply generally to Overseas Shareholders who do not or are unable to take up New Ordinary Shares provisionally allotted to them on the basis that such action would result in a contravention of applicable legal or regulatory requirements in the relevant jurisdiction.

## 6. COMMITMENTS BY MAJOR SHAREHOLDERS

The Issuer has obtained a firm commitment from the Major Shareholders (in aggregate holding 62.5% of issued share capital as at the Record Date), that they shall support the Rights Issue and accept the offer for their Proportionate Entitlement.

The following are Major Shareholders holding in excess of 5% of the Company's ordinary shares, that have committed to take up their Proportionate Entitlement:

Bank of Valletta p.l.c.	5,411,430 shares	21.6%
Mapfre Internacional S.A.	5,250,000 shares	21.0%
Munich RE	4,975,000 shares	19.9%

In addition, each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. have confirmed their willingness to further support the Rights Issue by entering into Subscription Agreements with the Company whereby they have committed to subscribe to any New Ordinary Shares not taken up by Eligible Shareholders as part of their Proportionate Entitlement. Accordingly, they shall be treated as Qualifying Shareholders for the purpose of the Allocation Policy as set out in Section 5.1.8 of this Securities Note and shall participate with all other Qualifying Shareholders in the event of an over-subscription of Excess Shares. They have further agreed that in the event of them taking up any Excess Shares, Mapfre Internacional S.A. will subscribe to additional New Ordinary Shares such that its shareholding in the Company, after the issuance of all the New Ordinary Shares, will be equal to that of Bank of Valletta p.l.c.

In view of the commitments undertaken by each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. to subscribe for their respective Proportionate Entitlements and to apply for an additional 25,094,368 Excess Shares, the Rights Issue shall, following the closing of the Offer Period, be fully subscribed.

The commitments of each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. were entered into subject to the satisfaction of a number of conditions precedent. Those conditions include that:

- (a) the Company has obtained all necessary consents, exemptions, approvals or no-objections for the allocation of Excess Shares for each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. so that they may each lawfully acquire and hold more than 25 per cent of the total issued share capital of the Company;
- (b) the Company has notified the Insurance Regulator that each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. may as a result of the exercise of their pre-emptive rights and subscription for Excess Shares exceed the qualifying shareholding of 33 per cent of the issued share capital of the Company, and that the Insurance Regulator has duly consented thereto in writing according to law;
- (c) the Subscriber has obtained the exemption of the Listing Authority in terms of Listing Rule 18.21.4; and
- (d) that the Group has in place adequate Adverse Development Re-Insurance cover in connection with Progress Assicurazioni S.p.A. concerning claims that pre-date 31 December 2008.

Each of the above conditions have been satisfied. Accordingly, the subscription commitments of each of Bank of Valletta p.l.c. and Mapfre Internacional S.A. have become unconditional.

## 7. REPRESENTATIONS AND WARRANTIES OF ELIGIBLE SHAREHOLDERS

By completing and delivering the Form of Acceptance, Authority and Election or its attachments the Eligible Shareholders:

- (a) agree to have had the opportunity to read the Prospectus and to be deemed to have had notice of all information and representations concerning the Issuer and the issue of the New Ordinary Shares contained therein;
- (b) confirm that in completing the Form of Acceptance, Authority and Election no reliance was placed on any information or representation in relation to the Issuer or the issue of the New Ordinary Shares other than those contained in the Prospectus and accordingly agree that no person responsible solely or jointly for the Prospectus or any part thereof will have any liability for any such other information or representation;
- (c) agree to provide the Registrar and/or the Issuer, as the case may be, with any information which they may request in connection with the Forms of Acceptance, Authority and Election;
- (d) warrant, in connection with the Forms of Acceptance Authority and Election, to have observed all applicable laws, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with the Form of Acceptance, Authority and Election in any territory and that they have not taken any action which will or may result in the Issuer or the Registrar acting in breach of the regulatory or legal requirements of any territory in connection with the issue of the New Ordinary Shares or the Form of Acceptance, Authority and Election;
- (e) warrant that all applicable exchange control or other such regulations (including those relating to external transactions) have been duly and fully complied with;
- (f) represent that the Eligible Shareholder is not a U.S. person (as such term is defined in Regulation "S" under the Securities Act of 1933 of the United States of America, as amended) as well as not to be accepting the invitation set out in the Prospectus from within the United States of America, its territories or its possessions, or any area subject to its jurisdiction (the "United States") or on behalf or for the account of anyone within the United States or anyone who is a U.S. person;
- (g) agree that Charts Investment Management Service Limited in its capacity as Sponsor will not treat the Eligible Shareholders as its customer by virtue of Eligible Shareholders completing the Form of Acceptance, Authority and Election to subscribe for the New Ordinary Shares and that Charts Investment Management Service Limited, in its capacity as Sponsor, will not provide any investment services to the Eligible Shareholders;

- (h) agree that all documents in connection with the issue of the New Ordinary Shares will be mailed at the Eligible Shareholders' own risk and may be sent at the address (or, in the case of joint Forms of Acceptance, Authority and Election, the address of the first named Eligible Shareholder) as set out in the Form of Acceptance, Authority and Election;
- (i) the Eligible Shareholder is aware that for the purposes of the Prevention of Money Laundering and Funding of Terrorism Regulations, 2003 as subsequently amended, all appointed Collecting Agents are under a duty to communicate, upon request, all information about clients as is mentioned in Articles 1.2(d) and 2.4 of the "Code of Conduct for Members of the Malta Stock Exchange" appended as Appendix IV to Chapter 3 of the Malta Stock Exchange Bye-Laws. Such information shall be held and controlled by the Malta Stock Exchange in terms of the Data Protection Act (Chap. 440, Laws of Malta) for the purposes and within the terms of the Malta Stock Exchange Data Protection Policy as published from time to time.

## **8. DOCUMENTS ON DISPLAY**

For the duration period of the Prospectus the following documents shall be available for inspection at the registered address of the Company at Middle Sea House, Floriana FRN1442, Malta:

- i. Memorandum and Articles of Association of the Company;
- ii. The Audited Financial Statements of the Group for each of the financial years ended 31 December 2006, 2007 and 2008;
- iii. The Audited Financial Statements of each of the Subsidiaries and Associate Undertaking for each of the financial years ended 31 December 2006, 2007 and 2008;
- iv. The Unaudited Financial Information of the Group for the six months ended 30 June 2009 and for the nine months ended 30 September 2009;
- v. 2009 Forecast and Accountants' Report.

## ANNEX A – COLLECTING AGENTS

### MEMBER OF THE MALTA STOCK EXCHANGE

<b>Atlas Investment Services Ltd</b> Abate Rigord Street, Ta Xbiex XBX1121	Tel: 2132 2590	Fax: 2326 5691
<b>Bank of Valletta p.l.c.</b> BOV Centre, Cannon Road, Santa Venera SVR9030	Tel: 2131 2020	Fax: 2275 1733
<b>Calamatta Cuschieri &amp; Co. Ltd</b> 5th Floor, Valletta Buildings, South Street, Valletta VLT1103	Tel: 2568 8688	Fax: 2568 8256
<b>Charts Investment Management Service Ltd</b> Valletta Waterfront – Vault 17, Pinto Wharf, Floriana FRN1913	Tel: 2122 4106	Fax: 2124 1101
<b>Curmi &amp; Partners Ltd</b> Finance House, Princess Elizabeth Street, Ta Xbiex XBX1102	Tel: 2134 7331	Fax: 2134 7333
<b>Financial Planning Services Ltd</b> 4, Marina Court, G. Cali Street, Ta' Xbiex XBX1421	Tel: 2134 4255	Fax: 2134 1202
<b>FINCO Treasury Management Ltd</b> Level 5, The Mall Complex, The Mall, Floriana FRN1470	Tel: 2122 0002	Fax: 2124 3280
<b>GlobalCapital Financial Management Ltd</b> 120, The Strand, Gzira GZR1027	Tel: 2134 2342	Fax: 2133 3100
<b>Hogg Capital Investments Ltd</b> Regent House, Level 3, Suite 33, Bisazza Street, Sliema SLM1641	Tel: 2132 2872	Fax: 2134 2760
<b>HSBC Stockbrokers (Malta) Ltd</b> 233, Republic Street, Valletta VLT1116	Tel: 2597 2241	Fax: 2597 2494
<b>Lombard Bank Malta Ltd</b> 59, Republic Street, Valletta VLT1117	Tel: 2558 1114	Fax: 2558 1815
<b>Rizzo, Farrugia &amp; Co. (Stockbrokers) Ltd</b> Airways House, Third Floor, High Street, Sliema SLM1549	Tel: 2258 3000	Fax: 2258 3001

## INVESTMENT SERVICE PROVIDERS

<b>All Invest Company Limited</b> Rosewall Building, Level 2, Triq-Villabate, M'scala By-pass Zabbar	Tel: 2166 7886	Fax: 2182 1933
<b>APS Bank Ltd</b> 17, Republic Street, Valletta	Tel: 2559 3400	Fax: 2559 3167
<b>Crystal Finance Investments Ltd</b> 6, Freedom Square, Valletta	Tel: 2122 6190	Fax: 2122 6188
<b>D. B. R. Investments Ltd</b> Deber, Nigret Road, Zurrieq	Tel: 2164 7763	Fax: 2164 7765
<b>Epic Financial Services Ltd</b> Burmarrad Road, Burmarrad	Tel: 2157 2010	Fax: 2157 1998
<b>Growth Investments Ltd</b> Middlesea House, Floriana	Tel: 2123 4582	Fax: 2124 9811
<b>HSBC Bank Malta p.l.c.</b> 233, Republic Street Valletta	Tel: 2597 2209	Fax: 2597 2475
<b>Island Financial Services Ltd</b> Insurance House, Salvu Psaila Street, Birkirkara, BKR 9078	Tel: 2385 5555	Fax: 2385 5238
<b>Jesmond Mizzi Financial Services Ltd</b> 67, Flat 3, South Street, Valletta	Tel: 2122 4410	Fax: 2122 3810
<b>Joseph Scicluna Investment Services Ltd</b> Level 3, Bellavista Court, Gorg Borg Olivier Street, Gozo	Tel: 2156 5707	Fax: 2156 5706
<b>Lombard Bank Malta p.l.c.</b> 67, Republic Street, Valletta, VLT 1117	Tel: 2124 8411	Fax: 2558 1150
<b>MFSP Financial Management</b> 220 Immaculate Conception Str., Msida	Tel: 2132 2426	Fax: 2133 2190
<b>Mercieca Financial Investments Services Ltd</b> Mercieca, J.F. Kennedy Square, Victoria, VLT 2580, Gozo	Tel: 2155 3892	Fax: 2155 3892
<b>Michael Grech Financial Investment Services Ltd</b> No 1 Mican Court, J.F.Kennedy Square, Victoria, Gozo	Tel: 2155 4492	Fax: 2155 9199
<b>MZ Investment Services Ltd</b> PO Box 24 or 55, MZ house, St. Rita Street Rabat RBT1523	Tel: 2145 3739	Fax: 2145 3407
<b>MPM Capital Investments Ltd</b> Cornerline, Dun Karm Street, B'Kara, BKR 9039	Tel: 2149 3250	Fax: 2149 3077
<b>W&amp;J Coppini Investment Services Ltd</b> 144, Tower Road, Sliema, SLM 1604	Tel: 2134 5412	Fax: 2134 4972



Middlesea Insurance p.l.c.

Registered address: Middle Sea House, Floriana FRN 1442, Malta.  
Postal address: P.O. Box 337, Marsa MRS 1000, Malta.  
Tel: (+356) 2124 6262 - Fax: (+356) 2124 8195  
E-mail: middlesea@middlesea.com  
Website: www.middlesea.com

## FORM OF ACCEPTANCE, AUTHORITY AND ELECTION

# Invitation for Subscription by Middlesea Insurance p.l.c. of

**67,000,000 Ordinary Shares of a nominal value of €0.60 per share**

### NOTICES – PLEASE READ CAREFULLY:

1. Shareholders and persons interested in this issue are advised to carefully read all official documentation made available, by the Issuer, prior to making any decision in connection with this issue.
2. If you have any questions as to how to fill in this Form, please contact the investment adviser of your choice.
3. The value of your investment may go down as well as up, and past performance is not necessarily indicative of future performance.
4. **Any person signing this form acknowledges a full and complete understanding to the terms of issue of the New Shares as set out in the Prospectus dated 20 November 2009 and that this form constitutes an acceptance of the invitation to subscribe for shares made by way of a Rights Issue by Middlesea Insurance p.l.c. and further understands that this acceptance form constitutes a valid and enforceable agreement between the Company and the person on whose behalf it is signed and executed.**
5. Kindly return this Form, duly completed and signed by hand to the Registrar or any Collecting Agent listed in the Prospectus, during normal office hours as soon as possible, but in any event so as to arrive not later than **14:00 hours on 14 December 2009**;
6. Middlesea Insurance p.l.c. (C-5553) is authorised by the Malta Financial Services Authority to carry on both Long Term and General Business under the Insurance Business Act, 1998.



Registered address: Middle Sea House, Floriana FRN 1442, Malta.  
 Postal address: P.O. Box 337, Marsa MRS 1000, Malta.  
 Tel: (+356) 2124 6262 - Fax: (+356) 2124 8195  
 E-mail: middlesea@middlesea.com  
 Website: www.middlesea.com

**Middlesea Insurance p.l.c.**

**67,000,000 MIDDLESEA INSURANCE P.L.C. NEW SHARES**  
**FORM OF ACCEPTANCE, AUTHORITY AND ELECTION**

Please read the notes overleaf before completing this Form. Mark 'X' if applicable

**A. ELIGIBLE SHAREHOLDER DETAILS (see note 6)**

	APPLICATION NUMBER
	MSE A/C NUMBER
	I.D./COMPANY NUMBER

**B. PROPORTIONATE ENTITLEMENT**

**(i) I/WE ACCEPT AND ELECT THE INVITATION TO SUBSCRIBE FOR OUR PROPORTIONATE ENTITLEMENT OF NEW SHARES TO BE ISSUED BY MIDDLESEA INSURANCE P.L.C. AS INDICATED IN BOX 2 BELOW FOR A CASH CONSIDERATION AS INDICATED IN BOX 3 BELOW**

Box 1	Registered holding of Ordinary Shares as at close of business on 12 November 2009 (the "Record Date")	
Box 2	AMOUNT PAYABLE @€0.60 PER SHARE €	Total number of New Shares entitled for - <b>THE PROPORTIONATE ENTITLEMENT</b> Box 3

**(ii) DIVIDEND MANDATE (SEE NOTE 9 & 11) (completion of this field is mandatory)**

BANK	BRANCH	ACCOUNT NUMBER
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**C. EXCESS SHARES (see note 8)**

In addition to the acceptance of the invitation to subscribe for the Proportionate Entitlement, I/we hereby apply for subscription of further New Shares as indicated hereunder at the Share Issue Price and agree to pay the cash consideration indicated in Box 2 hereunder

TOTAL NUMBER OF EXCESS SHARES IN FIGURES Box 1	TOTAL NUMBER OF EXCESS SHARES IN WORDS	AMOUNT PAYABLE @€0.60 PER SHARE €
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**I/we understand and agree that I/we shall only be eligible to apply for any Excess Shares if I/we have accepted the invitation to subscribe for the Proportionate Entitlement in full and this application for Excess Shares shall not be otherwise entertained**

**D. PARTIAL ACCEPTANCE OF PROPORTIONATE ENTITLEMENT**

**I/WE ACCEPT AND ELECT THE INVITATION TO PARTIALLY SUBSCRIBE FOR OUR PROPORTIONATE ENTITLEMENT OF NEW SHARES TO BE ISSUED BY MIDDLESEA INSURANCE P.L.C. FOR THE NUMBER OF NEW SHARES AS INDICATED IN BOX 1 BELOW FOR A CASH CONSIDERATION AS INDICATED IN BOX 2 BELOW**

TOTAL NUMBER OF SHARES IN FIGURES Box 1	TOTAL NUMBER OF SHARES IN WORDS	AMOUNT PAYABLE @€0.60 PER SHARE €
--	---------------------------------	--------------------------------------

**E. TRANSFER OF PROPORTIONATE ENTITLEMENT AND/OR EXCESS SHARES (see note 3 to 8)**

Please transfer part/all of my Proportionate Entitlement to purchase and acquire Middlesea Insurance p.l.c. New Shares:

TOTAL NUMBER OF SHARES IN FIGURES Box 1	TOTAL NUMBER OF SHARES IN WORDS	AMOUNT PAYABLE @€0.60 PER SHARE €
--	---------------------------------	--------------------------------------

Please transfer my right to purchase and acquire Middlesea Insurance p.l.c. New Shares in excess of my Proportionate Entitlement:

TOTAL NUMBER OF EXCESS SHARES IN FIGURES Box 3	TOTAL NUMBER OF EXCESS SHARES IN WORDS	AMOUNT PAYABLE @€0.60 PER SHARE €
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**(i) DETAILS OF TRANSFEREE/S**

Non-Resident <input type="checkbox"/>	Minor (under 18) <input type="checkbox"/>	Body Corporate / Body of Persons <input type="checkbox"/>	CIS Prescribed Fund <input type="checkbox"/>
TITLE		FULL NAME & SURNAME / REGISTERED NAME	
ADDRESS			POSTCODE
MSE A/C NO (if applicable)	ID CARD / PASSPORT / COMPANY REG. NO	TEL. NO	MOBILE NO.

**(ii) ADDITIONAL (JOINT) TRANSFEREE/S (please use an additional form if space is not sufficient)**

TITLE		ID CARD / PASSPORT NO
TITLE		ID CARD / PASSPORT NO

**(iii) MINOR'S PARENTS / LEGAL GUARDIAN/S (to be completed ONLY if the Transferee is a minor)**

TITLE		ID CARD / PASSPORT NO
TITLE		ID CARD / PASSPORT NO

**(iv) DIVIDEND MANDATE (SEE NOTE 9 & 11) (completion of this field is mandatory)**

BANK	BRANCH	ACCOUNT NUMBER
------	--------	----------------

**DECLARATION BY TRANSFEREE/S**

**I/WE AGREE TO ACQUIRE:**

**By way of transfer of the Proportionate Entitlement in New Middlesea Insurance p.l.c. Shares:**

TOTAL NUMBER OF SHARES IN FIGURES Box 1	TOTAL NUMBER OF SHARES IN WORDS	AMOUNT PAYABLE @€0.60 PER SHARE € Box 2
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**By way of transfer of New Middlesea Insurance p.l.c. Shares in excess of the Proportionate Entitlement:**

TOTAL NUMBER OF EXCESS SHARES IN FIGURES Box 3	TOTAL NUMBER OF EXCESS SHARES IN WORDS	AMOUNT PAYABLE @€0.60 PER SHARE € Box 4
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Signature/s of Transferee/s

(Both parents or legal guardian/s are/is to sign if Transferee/s is a minor) (All parties to sign in the case of a joint Application)

Date

**DECLARATION BY QUALIFYING SHAREHOLDER**

I/We have fully understood the instructions for completing this form, and am/are making this Acceptance solely on the basis of the Prospectus dated 20 November 2009. Furthermore, I/we confirm that this is the only Acceptance, Authority and Election Form I/we am/are submitting on my/our behalf or on behalf of the company or other entity I/we represent.

Signature/s of Qualifying Shareholder

(Both parents or legal guardian/s are/is to sign if Qualifying Shareholder is a minor) (All parties to sign in the case of joint Acceptance)

Date

**NOTES ON HOW TO COMPLETE THIS FORM OF ACCEPTANCE, AUTHORITY AND ELECTION AND OTHER INFORMATION**

The following notes are to be read in conjunction with the Prospectus dated 20 November 2009.

1. This **Form of Acceptance, Authority and Election** is governed by the Terms and Conditions contained in the Prospectus dated 20 November 2009.
2. The Acceptance, Authority and Election Form is to be completed in BLOCK CHARACTERS.
3. Transferee/s are to insert full personal details in Panel E. In the case of a transfer to joint Transferees (including husband and wife) full details of all Transferees – including ID Card Numbers – must be given in Panels E (i) and E (ii) **but the Transferee whose name appears in panel E (i) shall, for all intents and purposes, be deemed to be the registered holder of the New Shares. Dividends will be issued in the name of such Transferee (vide note 4 below).**
4. **TRANSFEREE/S WHO HOLD SECURITIES ON THE MALTA STOCK EXCHANGE ARE TO INDICATE THEIR MSE ACCOUNT IN PANEL E (i). TRANSFEREES ARE TO NOTE THAT ANY SECURITIES ALLOTTED TO THEM WILL BE RECORDED BY THE MALTA STOCK EXCHANGE IN THE MSE ACCOUNT NUMBER QUOTED ON THIS FORM EVEN IF THE DETAILS OF SUCH MSE ACCOUNT NUMBER, AS HELD BY THE MALTA STOCK EXCHANGE, DIFFER FROM ANY OR ALL OF THE DETAILS APPEARING OVERLEAF.**
5. In the case of a body corporate, the name of the entity, exactly as registered, and the registration number are to be inserted in Panel E (i). Forms must be signed by duly authorised representatives indicating the capacity in which they are signing. The relative Box in Panel E must be marked appropriately.
6. In the case of a Qualifying Shareholder/s and Transferee/s (if applicable) who is a minor, a Public Registry birth certificate must be attached to the Acceptance, Authority and Election Form. (The birth certificate is not required if the minor already holds securities which are listed on the Malta Stock Exchange [MSE]). The form must be signed by both parents or by the legal guardian/s (Dividends and any refund will be made payable to the parent/s legal guardian/s until such time as the Company is notified that the minor has attained the age of 18). The address to be inserted in Panel E (i) is to be that of the parents / legal guardian/s. The relative box in Panel E must be marked appropriately.
7. Transferee/s who is/are Non-Resident in Malta for tax purposes, must indicate their passport number in Panel E (i) and the relative box must also be marked appropriately.
8. The right of Transferees or Qualifying Shareholders to acquire Excess Shares shall be subject to the allocation policy in the Prospectus and in particular shall depend on the Proportionate Entitlement of the Qualifying Shareholder who is seeking to subscribe for or has transferred his right to acquire all or part of the Excess Shares.
9. Acceptance, Authority and Election Forms must be accompanied by payment for the corresponding amount in Euro of the New Shares applied for. Payment may be made by cheque payable to **The Registrar – MSI Rights Issue 2009**. In the event that cheques accompanying Acceptance Forms are not honoured on their first presentation, the Company and the Registrar reserve the right to invalidate the relative Form.
10. Qualifying Shareholder/s and Transferee/s (if applicable) shall receive any dividends payable to them by the Company directly in a bank account held locally in Euro and is to be indicated in Panel B (ii) and Panel E (iv) as applicable (completion of these fields is mandatory).
11. First date for acceptance of Rights will be 08.30am on 30 November 2009 and the latest date for acceptance will be 02.00pm on 14 December 2009. Any Acceptances received by the Registrar after the subscription lists close will be rejected. The Issuer reserves the right to refuse any Application which appears to be in breach of the Rights Issue as contained in the Prospectus dated 20 November 2009.
12. Completed Acceptance Forms are to be delivered to the Registrar or any Collecting Agent listed in the Prospectus, during normal office hours. Remittances by post are made at the risk of the Qualifying Shareholder/s and Transferee/s (if applicable) and the Issuer disclaims all responsibility for any such remittances not received by the closing of the subscription lists.
13. By completing and delivering this Form you (as the Qualifying Shareholder/s and Transferee/s (if applicable)) shall acknowledge that the Issuer and the MSE may process the personal data that the Qualifying Shareholder/s and Transferee/s (if applicable) provide in the Acceptance Form, for all purposes necessary and subsequent to the Rights Issue applied for in accordance with the Data Protection Act, Chap 440 of the laws of Malta.

Middlesea Insurance p.l.c. (C.5553) is authorised by the Malta Financial Services Authority to carry on both Long Term and General Business under the Insurance Business Act, 1998.



**MIDDLESEA INSURANCE P.L.C.**

**ISSUER**

Middlesea Insurance p.l.c.  
Middle Sea House, Floriana FRN 1442, Malta. Tel: 2124 6262 Fax: 2124 8195

**LEGAL COUNSEL**

Mamo TCV Advocates  
Palazzo Pietro Stiges, 90 Strait Street, Valletta, VLT 1436, Malta

**SPONSOR**

Charts Investment Management Service Limited  
Valletta Waterfront - Vault 17, Pinto Wharf, Floriana, FRN 1913, Malta

**MANAGER & REGISTRAR**

Bank of Valletta p.l.c.  
BOV Centre, Cannon Road, St Venera, SVR 9030, Malta

**AUDITORS**

PricewaterhouseCoopers  
167, Merchants Street, Valletta, VLT 1174, Malta