

Stock Market Review



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The Italian job: Final act

Middlesea places Progress Assicurazioni into administration

On February 11 Middlesea Insurance plc issued a company announcement and convened an urgent meeting with stockbrokers and the press. The early morning announcement stated that following a further detailed examination of the preliminary unaudited data for the fourth quarter of 2009 which indicated a marked deterioration in claims at their Italian subsidiary Progress Assicurazioni SpA, it was established that Progress required a further material capital injection in order to continue in business in conformity with Italian regulations. It was further revealed that the board of directors of Middlesea Insurance concluded that a fresh capital injection, over and above the €45 million already injected in 2009, was not feasible.

As a result, Middlesea had informed the Italian Insurance Regulators (ISVAP) that it wished to cease the operations of its Italian subsidiary Progress Assicurazioni SpA. Newly-appointed Middlesea chairman Joseph F X Zahra stated that ISVAP were informed of this decision on February 8 and within 48 hours, the Italian regulator appointed a provisional administrator for Progress with immediate effect.

During the stockbrokers' meeting Mr Zahra explained that Middlesea's Italian subsidiary had suffered "an inexplicable spike in claims despite the closing down of a number of agents".

During 2009, Progress required capital injections on various occasions. In the November 2009 rights issue prospectus, it was revealed that Middlesea Insurance injected €4.9 million into Progress on September 8, 2009, a further €5.5 million on September 28 and €4 million on November 4, 2009. Moreover, the recent €40 million capital raising exercise by Middlesea Insurance plc was mainly intended to provide further funds to Progress.

In fact a total of €26 million was raised for further investment in Progress Assicurazioni SpA: €21 million for purchasing reinsurance cover to protect it from further claims arising with respect to business prior to December 31, 2008 as well as to cover the costs relating to the rightsizing of the operation and a further €5 million as fresh share capital following the cancellation of all existing shares as the accumulated losses at Progress were absorbed as part of its capital restructuring exercise.



An extraordinary general meeting of Middlesea is being convened on March 16 to amend the Memorandum and Articles of Association and change the composition of the board of directors to better reflect the new shareholding structure following the November rights issue.

In the Press Release of February 11, Middlesea announced that the 2009 financial statements will show losses "well beyond" the estimated loss of €41.75 million prepared at the time of the November Rights Issue. On the basis of this estimate, the net asset value per share of the Middlesea Group as at December 31, 2009 was expected to be around €0.681 per share.

However, following the revelation that the losses incurred are "well beyond" €41.75 million and that Middlesea will also be required to write-off its Italian investment from its balance sheet, the net asset value per share is very likely to fall significantly below the level of €0.681.

The overriding message of Middlesea's new chairman was that while shareholders are right to feel angered at recent developments in Italy, one now has to look at the future of the Middlesea Group and understand its current strengths. Mr Zahra emphasised that Middlesea's Malta operations were profitable and there was potential for growth at the management service company IIMS. Furthermore, Middlesea holds 50 per cent of a very valuable asset - Middlesea Valletta Life Assurance Co Ltd.



Middlesea Insurance p.l.c.

The chairman stated that MSV will shortly be announcing its 2009 full-year results which will show a very satisfactory financial performance. He explained that MSV is Malta's leading provider of life insurance, long-term savings and retirement planning with shareholders' equity of close to €100 million and total assets approaching the level of €1 billion.

However he also spoke of the need to change management style within the group since there was a belief that Middlesea still operated within a monopolistic environment. The new chairman also mentioned the need to improve customer services.

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Meanwhile the market price of Middlesea shares has been very volatile since the rights issue announcement and publication of the Prospectus on November 20 revealing material financial losses and ongoing problems with the group's Italian business activities. In fact, during the rights issue period in December last year, the Middlesea share price declined to a low of €0.60. It recovered to touch a high of €1.00 on January 11 and has since traded back down to around €0.75. Around 800,000 shares changed hands over the past three months, indicating a high level of trading activity.

This scenario of price volatility and high trading activity is likely to persist until the full extent of the losses for 2009 and 2010 are ascertained in the months ahead.



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