GIBRALTAR INSURANCE FORUM

Capital Markets Update

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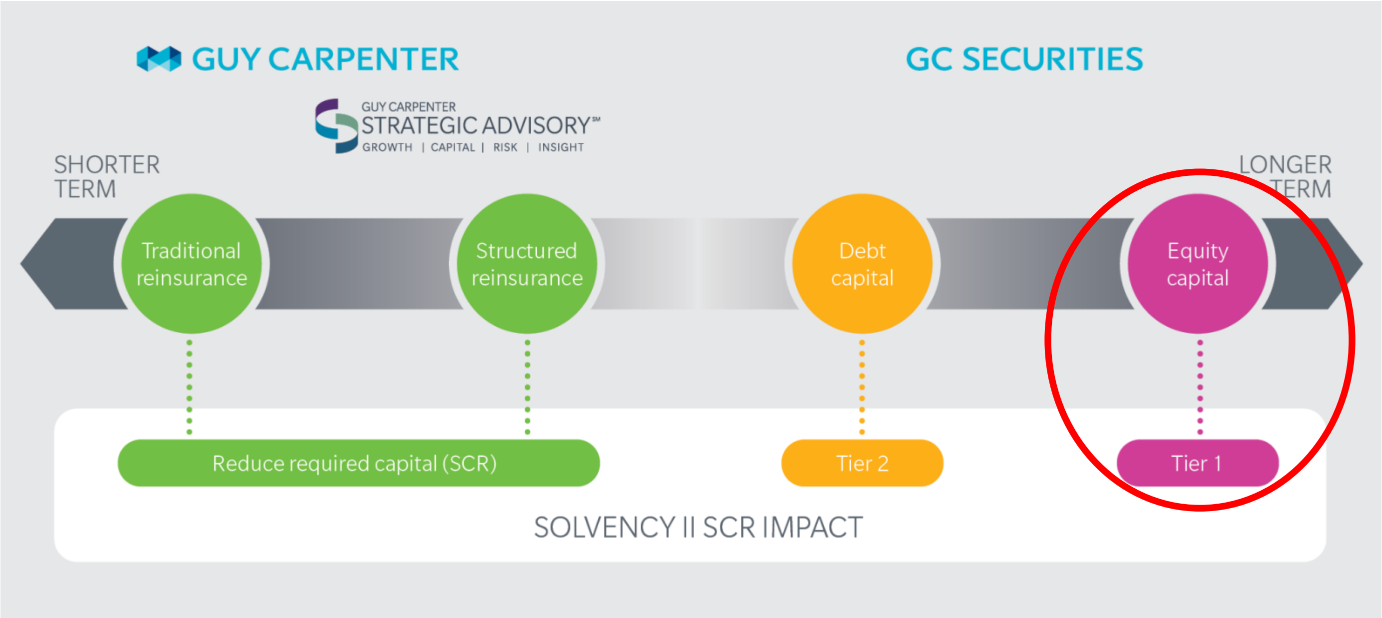
Capital markets – debt and equity



UK / Gibraltar Motor Insurer Valuations

Company	Market Cap	Book [1]	Price / Book
Direct line	£4,976m	£2,105m	2.4x
Hastings Group[2]	£1,157m	£226m	5.1x
eSure	£1,119m	£160m	7.0x
Admiral	£5,236m	£473m	11.1x

- There is a large range in book multiples

1) When referring to Book/Equity we mean tangible net asset value (TNAV) representing net assets less goodwill and intangibles
2) Hastings group book has been adjusted to include its term loan which has been raised outside the EEA and used as regulatory capital

Valuations as at 29/04/2016
Source: Bloomberg, company accounts

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- There is a large range in book multiples
- The main method for determining book multiples is with the bond pricing formula

$$\frac{Price}{Book} = \frac{Return\ on\ Equity^{1}}{Cost\ of\ Equity\ (less\ growth)}$$

1) When referring to Book/Equity we mean tangible net asset value (TNAV) representing net assets less goodwill and intangibles. RoE refers to future expected RoE (in theory all future years discounted to present)
2) Hastings group book has been adjusted to include its term loan which has been raised outside the EEA and used as regulatory capital

Valuations as at 29/04/2016
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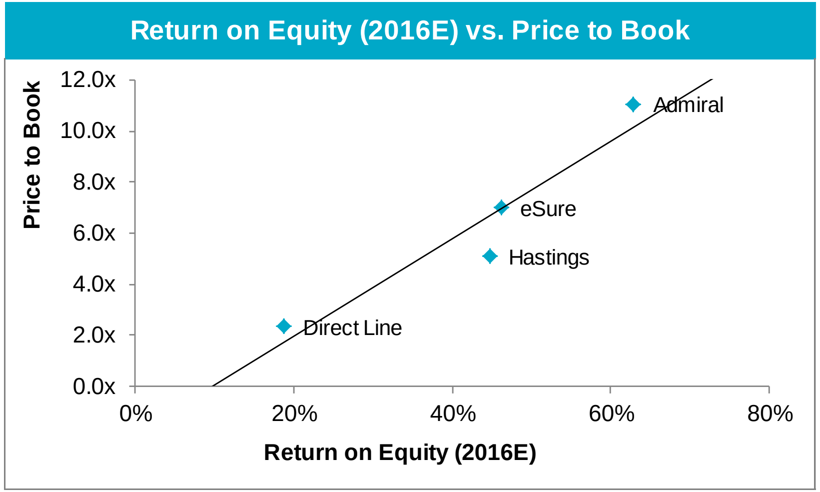
Price to Book regressions



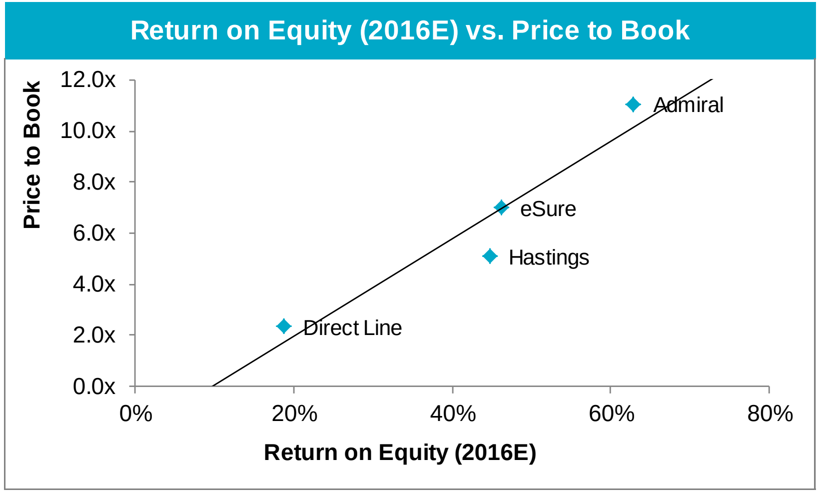
Company	Return on equity	Price to book	Cost of equity - g
Direct Line	19%	2.4x	7.9%
Hastings	45%	5.1x	8.7%
eSure	46%	7.0x	6.6%
Admiral	63%	11.1x	5.7%

- These valuations are in line with their return on equities

$$\frac{Price}{Book} \propto \frac{Return}{Equity}$$

Valuations as at 29/04/2016
Source: Bloomberg, company accounts

Price to Book regressions



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2 Different sources of income

1 Different capital structures

Valuations as at 29/04/2016
Source: Bloomberg, company accounts

Adjusted capital structures

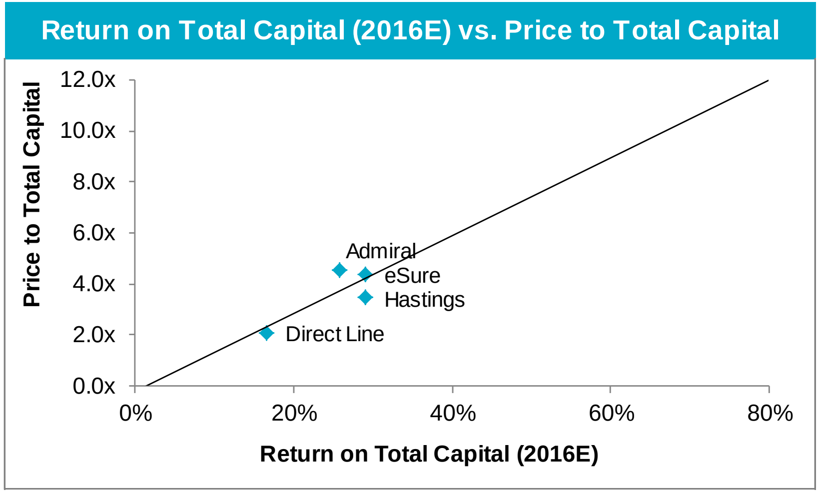
- Capital structures have been adjusted[1] to represent:

Direct Line; 20% debt

eSure; 43% debt

Hastings; 50% QS

Admiral; 75% QS/Coinsurance & 15% debt



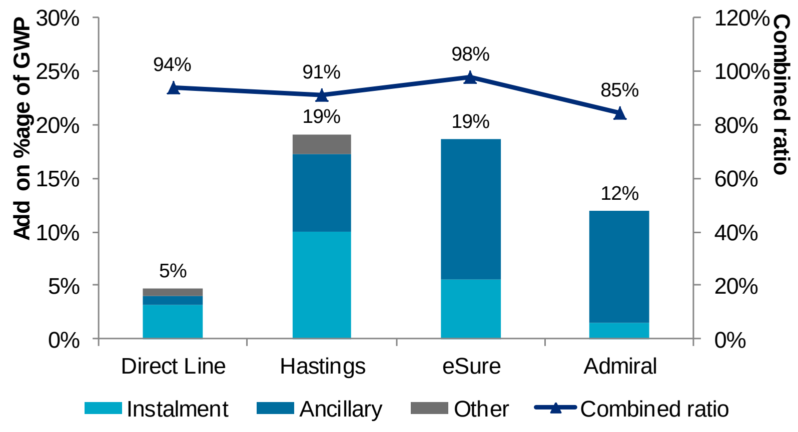
Company	Return on capital	Price to capital	Cost of capital - g
Direct Line	16%	2.1x	7.9%
Hastings	29%	3.5x	8.4%
eSure	29%	4.4x	6.6%
Admiral	26%	4.5x	5.7%

- Normalising capital structure brings the multiples more in line
- Still some difference in return on capital due to the source of income

1. Quota share assumed to cost 3% of ceded premiums with a capital ratio of 50% of ceded premiums
Valuations as at 29/04/2016
Source: Bloomberg, company accounts

Source of income

Add on income[1] as %age of GWP and combined ratio performance



Company	Return on capital
Direct Line	16%
Hastings	29%
eSure	29%
Admiral	26%

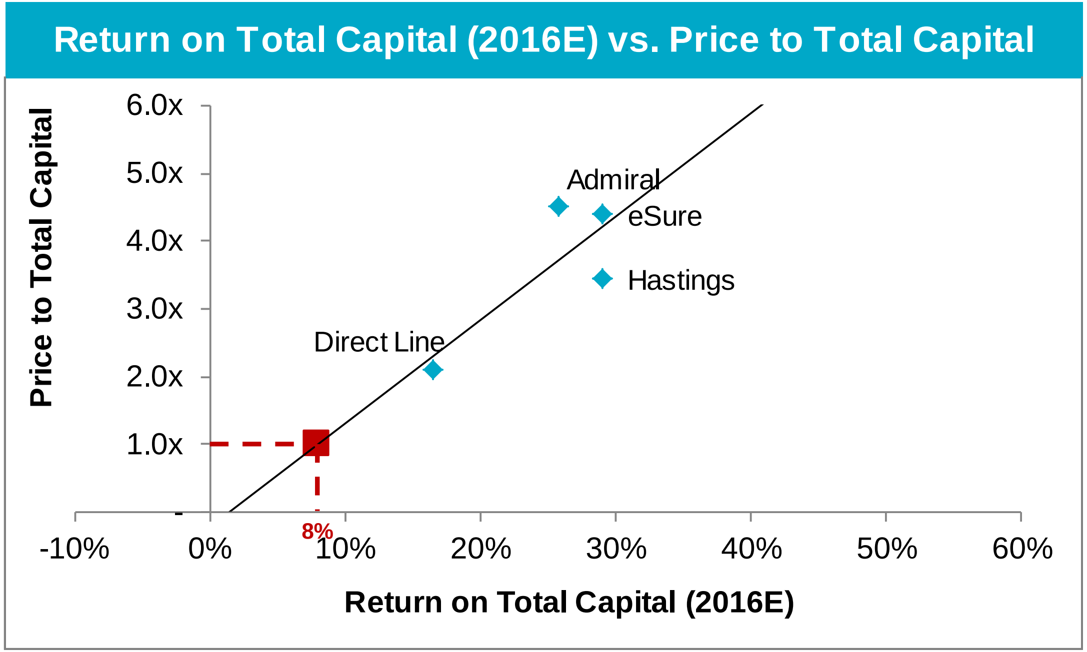
- Direct Line have significantly less add on income per £ of GWP than its peers

1. Add on income does not include price comparison income. For eSure, this would represent an additional 22% of income at a margin of 20%. For Admiral, this would be an additional 6% of income at a margin of -3%

Valuations as at 29/04/2016

Source: Bloomberg, company accounts

What does this mean for the Gibraltar market?



- Listed insurers therefore need to exceed c8.0% to receive a premium valuation to book

Source: Bloomberg and company accounts

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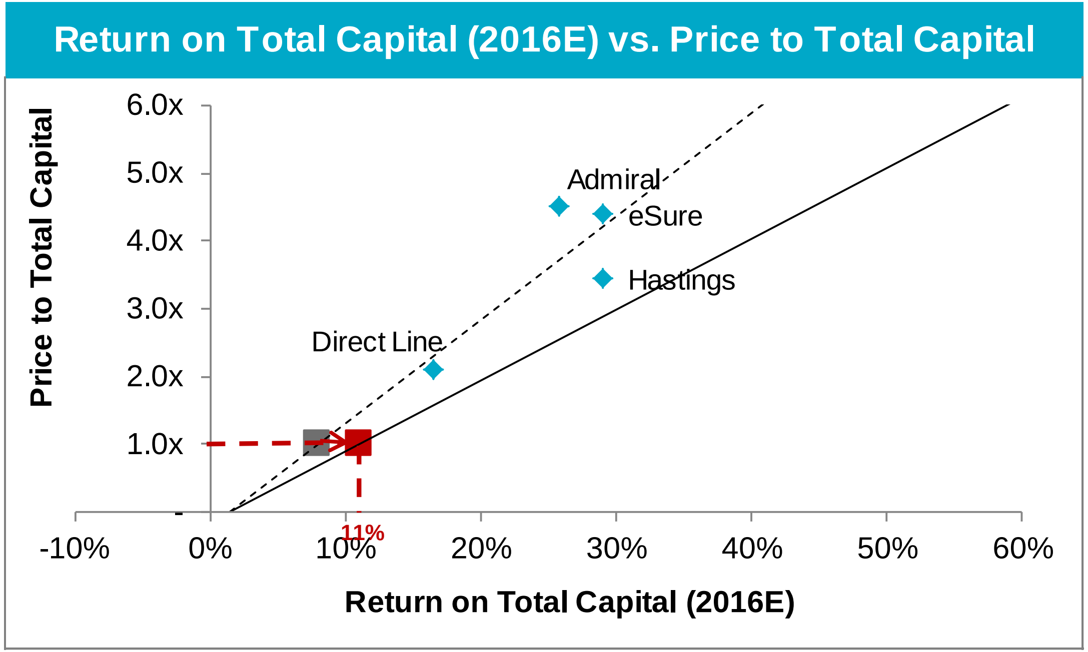

- Listed insurers therefore need to exceed c8.0% to receive a premium valuation to book
- Private companies will have a higher cost of capital due to illiquidity moving this to c11% [1]

Source: Bloomberg and company accounts

1) The private company 'valuation' line is illustrative and in reality depends on a number of factors

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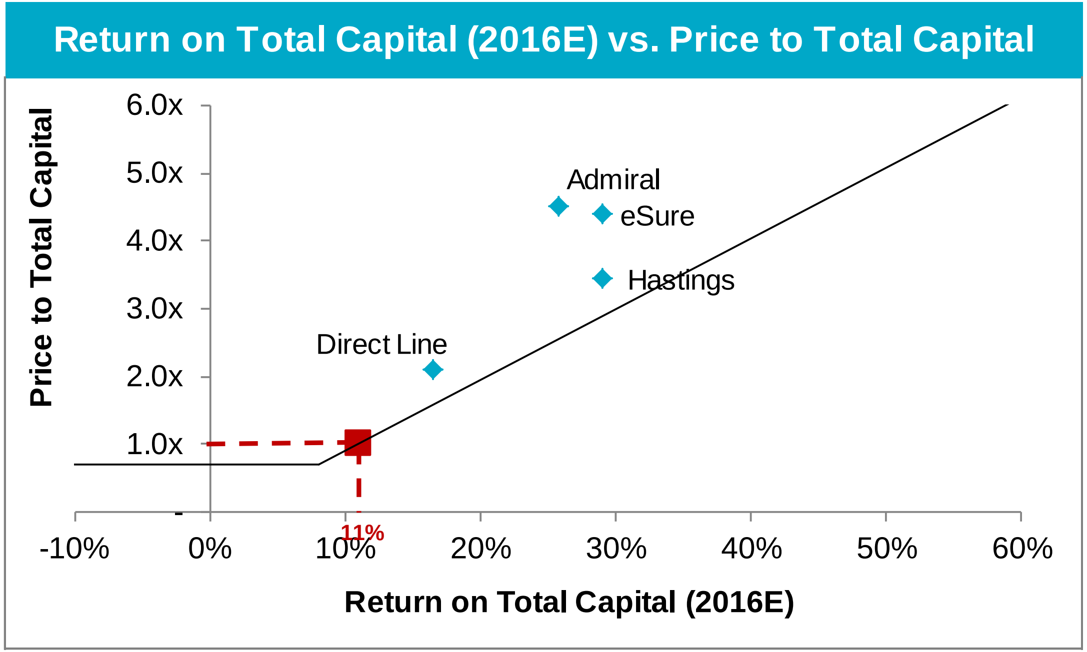

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- In reality, a floor to valuations exists at c0.7x book (due to run-off valuation)

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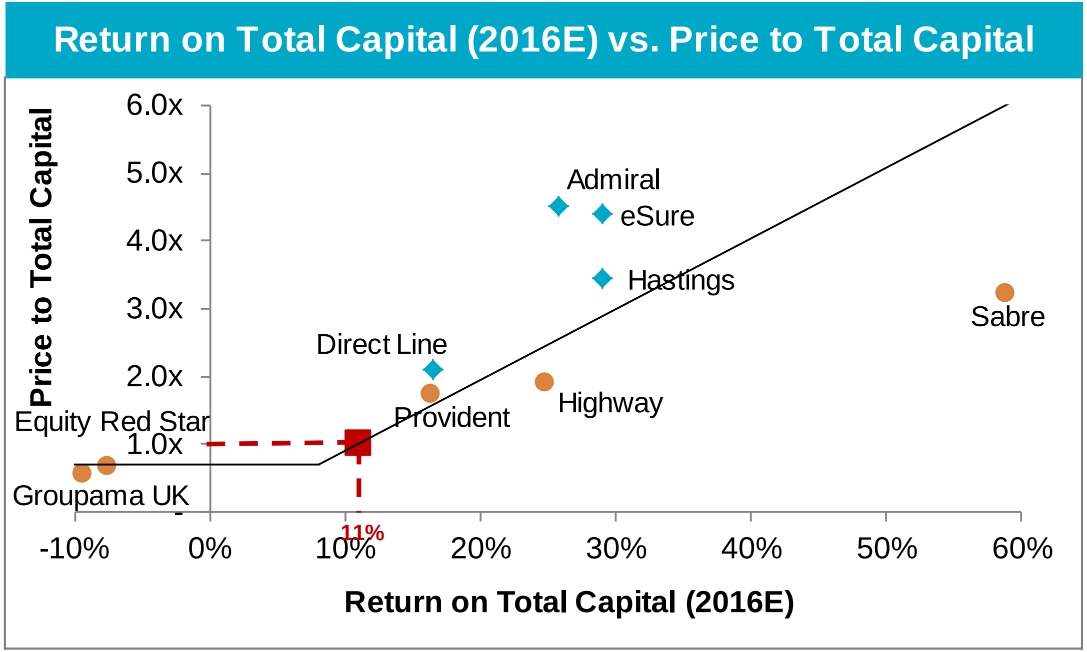
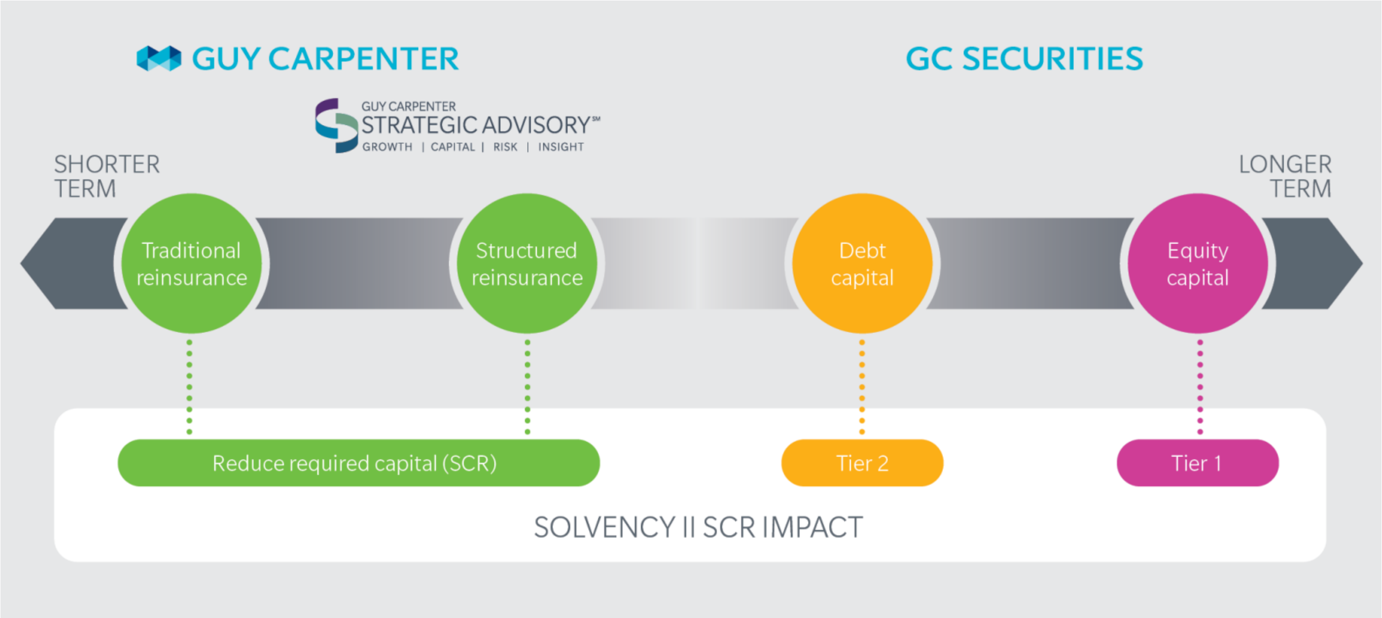


- Listed insurers therefore need to exceed c8.0% to receive a premium valuation to book
- Private companies will have a higher cost of capital due to illiquidity moving this to c11%[1]
- In reality, a floor to valuations exists at c0.7x book (due to run-off valuation)
- Recent M&A transactions largely fit in with this theory

Source: Bloomberg and company accounts   1) The private company 'valuation' line is illustrative and in reality depends on a number of factors

Capital markets – debt and equity



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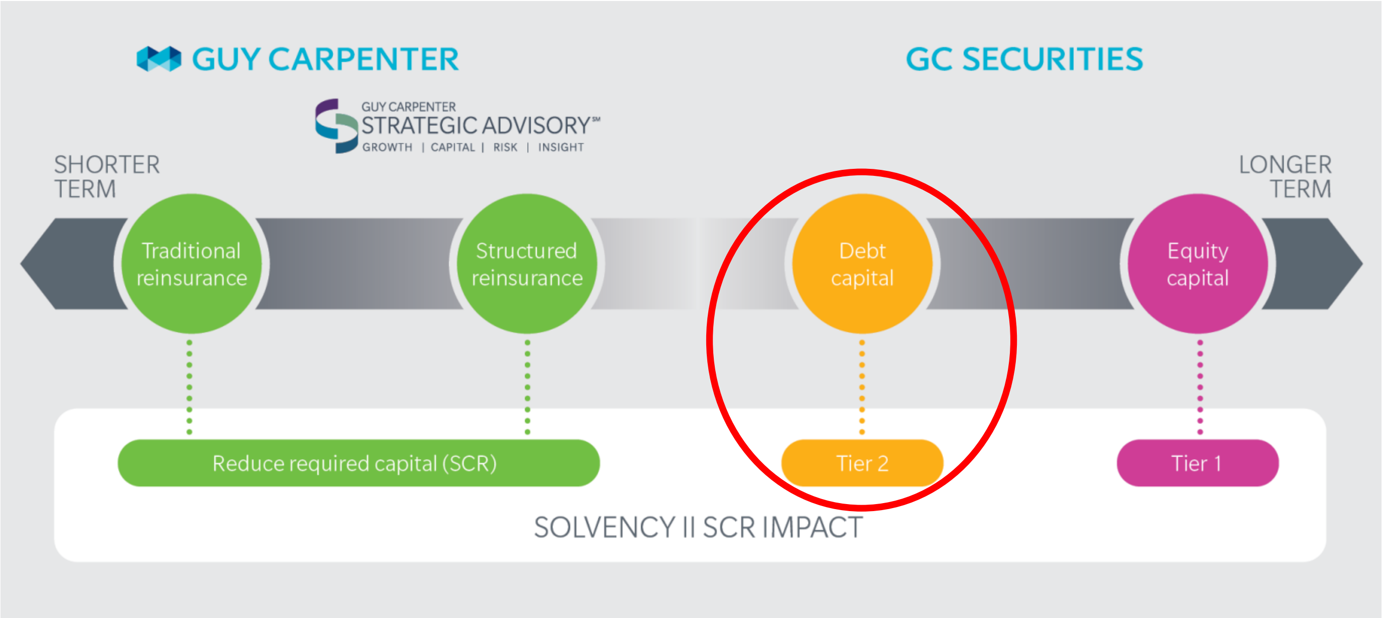

Subordinated debt update

Market developments

- Deal activity for private issuance across the EU relatively subdued but increasing:
    - some relaxation of lending criteria
    - creativity in deal structuring (eg quota share support with sub debt option based on SCR)

- 2014/15 issuance
    - approximately €250m of private funding provided to around 10 issuers across the EU
    - public markets remain active (>€15bn raised by issuers including Admiral, esure, Scor, Groupama, Allianz, CIS)

Motivations for issuance

- Supporting growth / acquisitions
- Refinancing / improving capital efficiency
- Meeting solvency requirements / providing a capital buffer

Subordinated debt update

Summary of key features

Private subordinated debt placement	
Issuer profile	Small to medium sized EU (re)insurer
Minimum / maximum issuance	€5m / €50m + (via syndication)
Cost (Coupon)	Spread of c.6% to 9% (subject to credit analysis)
Debt characteristics	Coupons tax deductible. No equity dilution
Structure / duration	Tier 2 subordinated notes / minimum 10 years (callable after 5 years)
Credit rating	Not required, but recognised in rating models
Issuance process	Standardised, requiring limited management time

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