

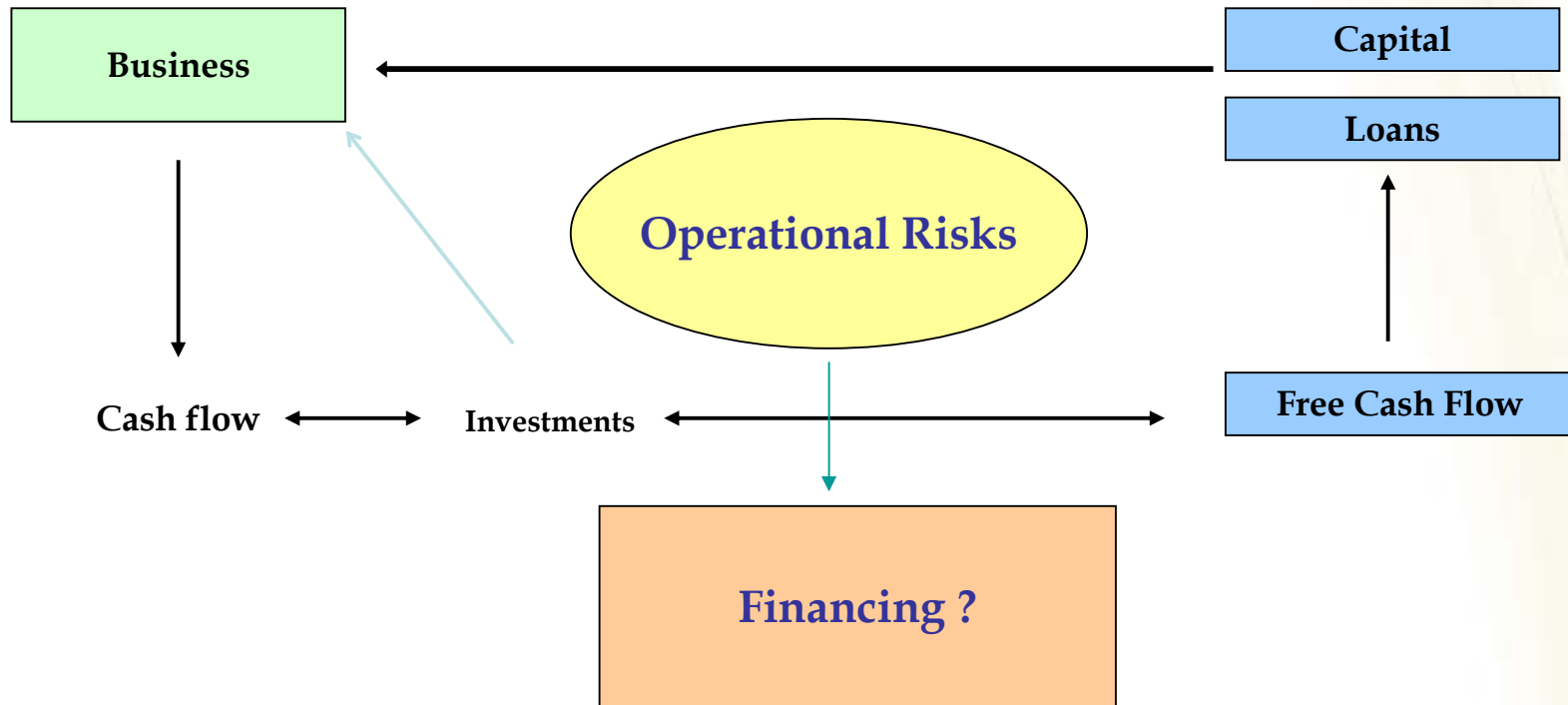
CAPTIVE REINSURERS
as
financial tools for RM in turbulent period

May 27th, 2008

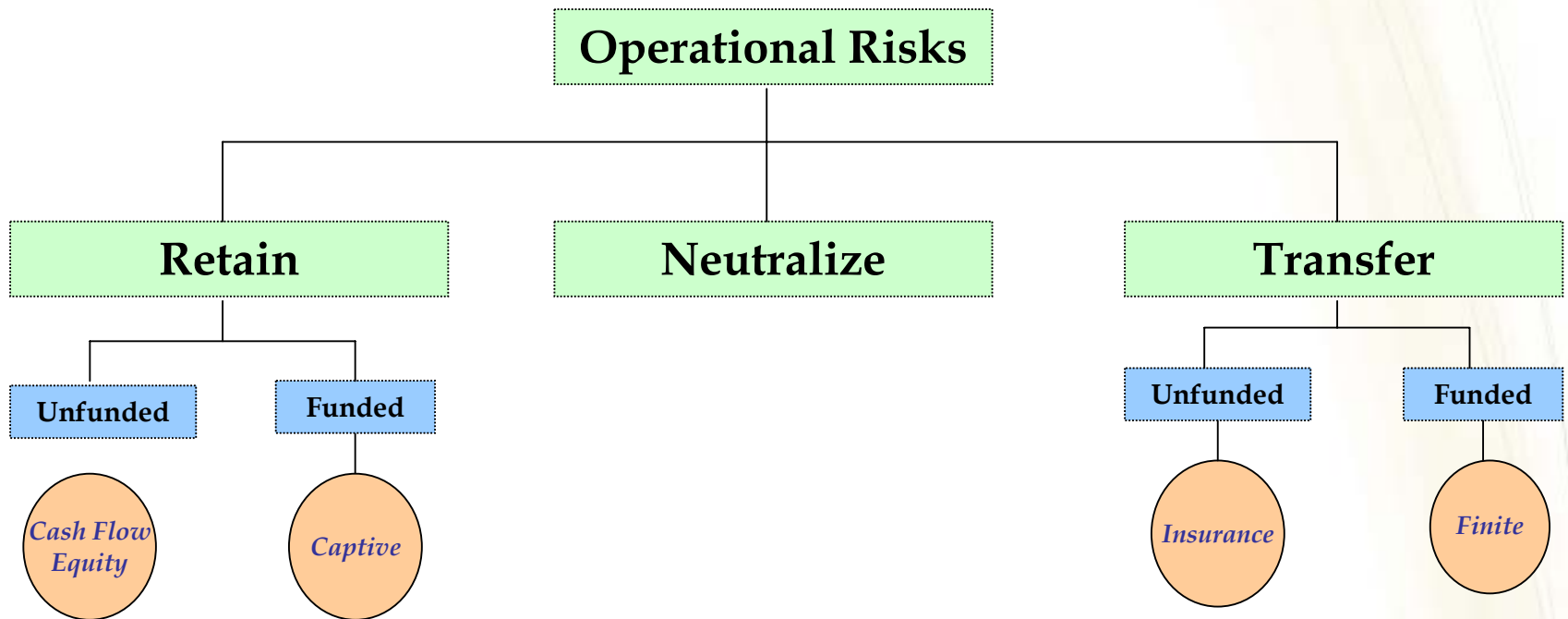
Guidelines

- ✓ Risk Financing Approach
- ✓ Risk Financing Alternative
- ✓ Risk Tolerance Level
- ✓ Risk Financing Tools
- ✓ Captive Reinsurers : retention Optimization Tool
- ✓ Captive Reinsurers Flows
- ✓ Captive Reinsurers : Major advantages & benefits
- ✓ Creating Value through two EU Captive Domiciles
- ✓ Conclusion

Risk Financing Approach



Risk Financing Alternative



Risk Tolerance Level

What ?

- Measuring the sensitivity of financial ratios following the occurrence of losses.

How ?

- Conservative business plan relies on historical figures taken from annual reports.

Why ? Conclusions serve to :

- Illustrate the potential effects that unexpected losses may produce on a zero-growth business plan of a Group. By showing the impacts on its financial ratios, it simultaneously exposes Group potential risk retention level.

Risk Tolerance Level

| Events M Euros | Years años | Coverage of fixed payments (X) | | Debt Coverage (%) | | Profitability (%) | | Capital Structure (%) | | Free Operating cash flow |
|-------------------|---------------|-----------------------------------|-------------------------|-------------------|--------------|-----------------------------|--------------------------|-----------------------------|--------------------------|--------------------------------|
| | | EBIT int. Coverage | EBITDA int. Coverage | CF / Debt | FCF / Debt | Pretax return on capital | Operating inc./ Sales | LT Debt / Capitalization | Debt / Capitalization | |
| 0 | 2007 | 15,7 | 22,6 | 50,7% | 22,6% | 13,5% | 8,6% | 8,5% | 19,9% | 35,1 |
| | 2008 | 15,8 | 22,8 | 51,1% | 23,0% | 13,4% | 8,6% | 8,3% | 19,6% | |
| 5 | 2007 | 14,4 | 21,3 | 48,5% | 20,5% | 12,8% | 8,1% | 8,5% | 19,9% | 31,5 |
| | 2008 | 15,8 | 22,8 | 51,0% | 23,0% | 13,4% | 8,6% | 8,3% | 19,6% | |
| 10 | 2007 | 13,6 | 20,5 | 47,1% | 19,1% | 12,3% | 7,8% | 8,5% | 19,9% | 28,0 |
| | 2008 | 15,8 | 22,8 | 50,9% | 22,9% | 13,4% | 8,6% | 8,3% | 19,7% | |
| 15 | 2007 | 12,5 | 19,4 | 45,4% | 17,3% | 11,7% | 7,4% | 8,5% | 20,0% | 22,1 |
| | 2008 | 15,8 | 22,8 | 50,9% | 22,8% | 13,4% | 8,6% | 8,3% | 19,7% | |
| 20 | 2007 | 11,4 | 18,3 | 43,6% | 15,6% | 11,1% | 7,0% | 8,5% | 20,0% | 18,2 |
| | 2008 | 15,8 | 22,8 | 50,8% | 22,8% | 13,4% | 8,6% | 8,4% | 19,7% | |

Risk Financing Tools

Risk Retention

- ✓ Cash Flow
- ✓ Reserves
- ✓ Dedicated fund
- ✓ Rent-a-captive
- ✓ Captive

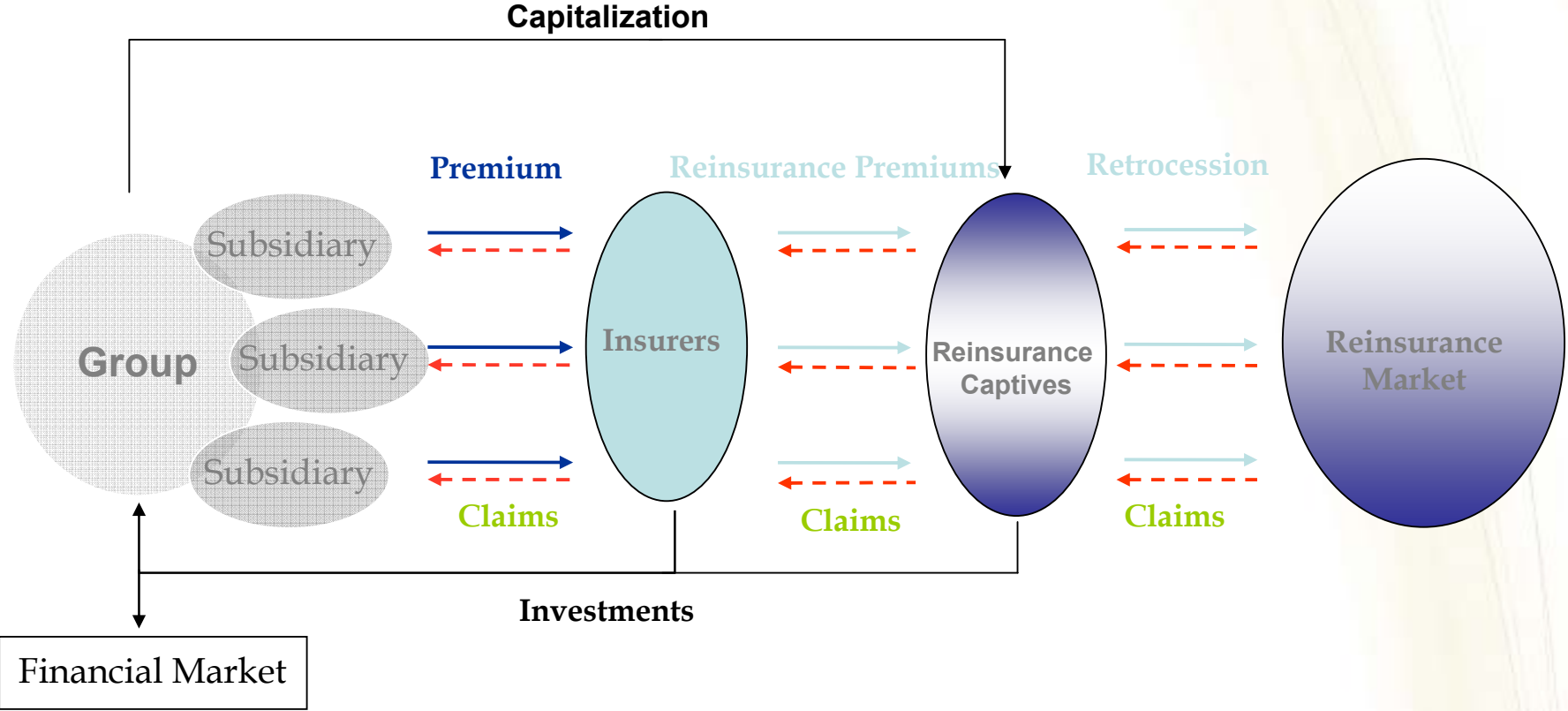
Risk Transfer

- ✓ Insurance & Reinsurance
- ✓ Banks
- ✓ Financial Markets
- ✓ Capital Markets

Captive Reinsurers Retention Optimization Tool

- *The 2005/68/EU directive gives a legal definition for the « captive »*
- *A captive is a licensed reinsurance company*
- *The purpose of this company is to underwrite shareholder's risks*
- *The captive may have the obligation to put sufficient reserves aside*

Captive Reinsurers Flows



Captive Reinsurers : Major advantages

➤ *Profits resulting out of underwriting and investment policy*

- Accumulation of underwriting profits where the premium volume exceeds the claim amounts
- Accumulation of investment revenues received on retained premiums

➤ *Direct access to the reinsurance market*

- Substantial decrease in premiums resulting out of the own retention of the company
- Improved insurance conditions and risk pricing

➤ *Stable long term insurance cost*

- A reinsurance company offers an alternative in a volatile insurance market

Captive Reinsurers : Major benefits

➤ *Stabilization & Reduction of insurance costs (protecting P&L)*

As the captive has to set up reserves, it increases its retention ability, year by year. The level of retention allows the company to strongly influence the insurance rates negotiations, with both insurance and reinsurance markets.

➤ *Covering non-insurable risks (protecting P&L)*

Many risks are not transferred, due mainly to two reasons:

- the market does not exist
- the cover offered by the market is too expensive

➤ *Providing customers with insurance (increasing Operating Results)*

It allows the parent company of a captive to sell insurance to his clients, eg:

- Long term warranty,
- Credit insurance,
- Personal accident...

Creating Value through Captive Reinsurance ?

**Concrete Cases of Cumulated Wealth
with captive in 2 domiciles or no captive**

- ✓ *Luxembourg*
- ✓ *Ireland*
- ✓ *No Captive*

Creating Value through Captive Reinsurance?

Common Assumptions

- ✓ *Capital : EUR 1.500.000*
 - ✓ *Annual Premiums : EUR 5.000.000*
 - ✓ *Overheads Fees : EUR 100.000*
 - ✓ *Financial Return : 4%*
-
- *Scenario 1 : No claim*
 - *Scenario 2 : A claim of EUR 20.000.000*

Creating Value through Captive Reinsurance ?

Results in Luxembourg - Scenario 1

| | Luxembourg - Reinsurance Captive - - Scenario 1 | | | | | Total |
|---------------------------|---|------------|------------|------------|------------|------------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |
| Paid Capital | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 |
| Retained Earnings | 0 | 0 | 0 | 0 | 0 | 0 |
| Equalization Reserve | 4 817 031 | 9 850 409 | 15 085 363 | 20 529 715 | 26 191 841 | 26 191 841 |
| Equity & Cumulated Wealth | 6 317 031 | 11 350 409 | 16 585 363 | 22 029 715 | 27 691 841 | 27 691 841 |

Creating Value through Captive Reinsurance ?

Results in Ireland - Scenario 1

| | Ireland - Reinsurance Captive - - Scenario 1 | | | | | Total |
|---------------------------|--|------------|------------|------------|------------|------------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |
| Paid Capital | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 |
| Retained Earnings | 4 214 902 | 8 619 683 | 13 179 226 | 17 898 840 | 22 784 143 | 22 784 143 |
| Equalization Reserve | - | - | - | - | - | - |
| Equity & Cumulated Wealth | 5 714 902 | 10 119 683 | 14 679 226 | 19 398 840 | 24 284 143 | 24 284 143 |

Creating Value through Captive Reinsurance ?

Results in Group (Without Captive) - Scenario 1

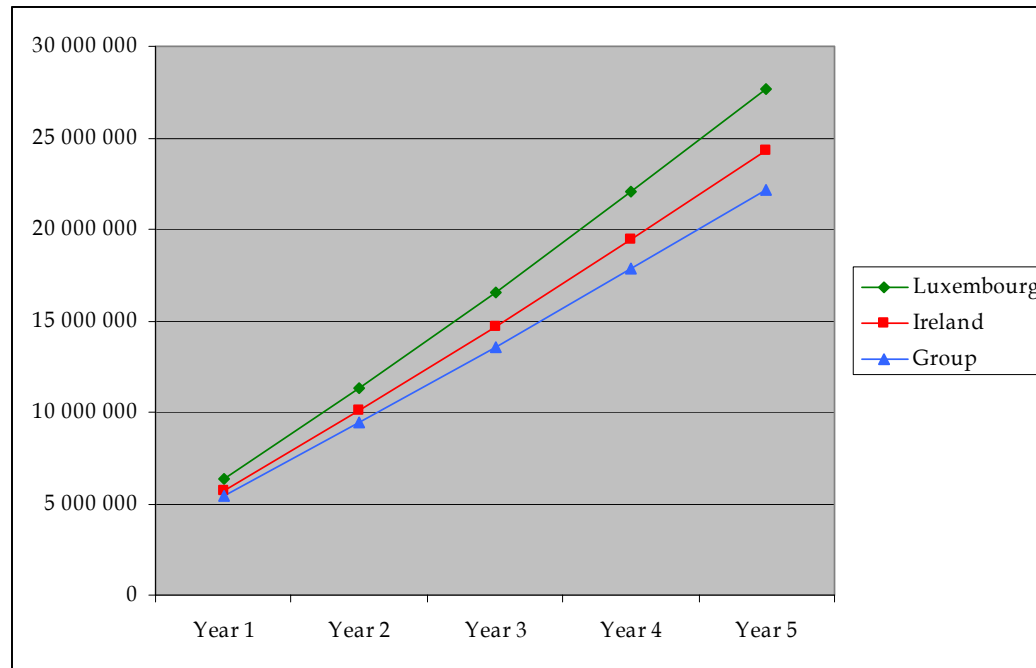
| Equivalent Capital | Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------|-----------------------|------------------|------------------|------------------|------------------|------------------|
| | Paid Capital | 1 500 000 | 1 542 000 | 1 585 176 | 1 629 561 | 1 675 189 |
| | Financial Return (4%) | 60 000 | 61 680 | 63 407 | 65 182 | 67 008 |
| | Total | 1 560 000 | 1 603 680 | 1 648 583 | 1 694 743 | 1 742 196 |
| | Income Taxes | -18 000 | -18 504 | -19 022 | -19 555 | -20 102 |
| | Total A | 1 542 000 | 1 585 176 | 1 629 561 | 1 675 189 | 1 722 094 |

| Equivalent Investment Premiums | Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------------------|------------------------|------------------|-------------------|-------------------|-------------------|------------------|
| | Carried Forward | - | 3 869 320 | 7 846 981 | 11 936 016 | 16 139 545 |
| | Cost of Premiums | 5 315 000 | 5 315 000 | 5 315 000 | 5 315 000 | 5 315 000 |
| | Financial Return (4%) | 212 600 | 367 373 | 526 479 | 690 041 | 858 182 |
| | Taxable Results | 5 527 600 | 5 682 373 | 5 841 479 | 6 005 041 | 6 173 182 |
| | Income Taxes | -1 658 280 | -1 704 712 | -1 752 444 | -1 801 512 | -1 851 955 |
| Total B | 3 869 320 | 7 846 981 | 11 936 016 | 16 139 545 | 20 460 772 | |

| | |
|--------------------------|-------------------|
| Cumulated Results | 22 182 866 |
|--------------------------|-------------------|

Creating Value through Captive Reinsurance ?

Comparative Results - Scenario 1



Creating Value through Captive Reinsurance ?

Results in Luxembourg - Scenario 2

| | Luxembourg - Reinsurance Captive - - Scenario 2 | | | | | Total |
|---------------------------|---|------------|------------|------------|-----------|-----------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |
| Paid Capital | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 |
| Retained Earnings | 0 | 0 | 0 | 0 | 0 | 0 |
| Equalization Reserve | 4 817 031 | 9 850 409 | 15 085 363 | 20 529 715 | 6 043 066 | 6 043 066 |
| Equity & Cumulated Wealth | 6 317 031 | 11 350 409 | 16 585 363 | 22 029 715 | 7 543 066 | 7 543 066 |

Creating Value through Captive Reinsurance ?

Results in Ireland - Scenario 2

| | Ireland - Reinsurance Captive - - Scenario 2 | | | | | Total |
|---------------------------|--|------------|------------|------------|-----------|-----------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |
| Paid Capital | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 | 1 500 000 |
| Retained Earnings | 4 214 902 | 8 619 683 | 13 179 226 | 17 898 840 | 3 333 269 | 3 333 269 |
| Equalization Reserve | - | - | - | - | - | - |
| Equity & Cumulated Wealth | 5 714 902 | 10 119 683 | 14 679 226 | 19 398 840 | 4 833 269 | 4 833 269 |

Creating Value through Captive Reinsurance ?

Results in Group (Without Captive) - Scenario 2

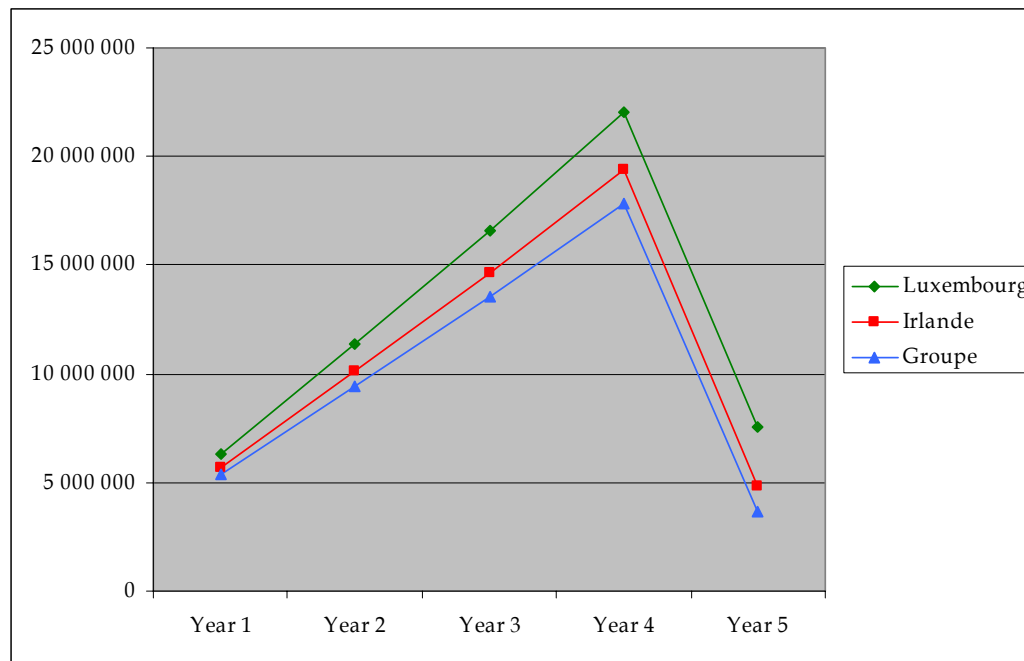
| Equivalent Capital | Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------|-----------------------|------------------|------------------|------------------|------------------|------------------|
| | Paid Capital | 1 500 000 | 1 542 000 | 1 585 176 | 1 629 561 | 1 675 189 |
| | Financial Return (4%) | 60 000 | 61 680 | 63 407 | 65 182 | 67 008 |
| | Total | 1 560 000 | 1 603 680 | 1 648 583 | 1 694 743 | 1 742 196 |
| | Income Taxes | -18 000 | -18 504 | -19 022 | -19 555 | -20 102 |
| | Total A | 1 542 000 | 1 585 176 | 1 629 561 | 1 675 189 | 1 722 094 |

| Equivalent Investment Premiums | Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------------------|------------------------|------------------|------------------|-------------------|-------------------|--------------------|
| | Carried Forward | - | 3 869 320 | 7 846 981 | 11 936 016 | 16 139 545 |
| | Cost of Premiums | 5 315 000 | 5 315 000 | 5 315 000 | 5 315 000 | 5 315 000 |
| | Claims | 0 | 0 | 0 | 0 | -20 000 000 |
| | Financial Return (4%) | 212 600 | 367 373 | 526 479 | 690 041 | 458 182 |
| | Taxable Results | 5 527 600 | 5 682 373 | 5 841 479 | 6 005 041 | -14 226 818 |
| | Income Taxes | -1 658 280 | -1 704 712 | -1 752 444 | -1 801 512 | 0 |
| | Total B | 3 869 320 | 7 846 981 | 11 936 016 | 16 139 545 | 1 912 727 |

| | |
|--------------------------|------------------|
| Cumulated Results | 3 634 821 |
|--------------------------|------------------|

Creating Value through Captive Reinsurance ?

Comparative Results - Scenario 2



CONCLUSION

Captive Reinsurers in this turbulent period are adequate tools :

- ✓ Risk financing alternative (set aside reserves to finance risks)
- ✓ Reinsurance Directive 2005/68/EC
- ✓ Solvency II
- ✓ Added value