ARMOUR

2019 IAIR Insurance Resolution Workshop

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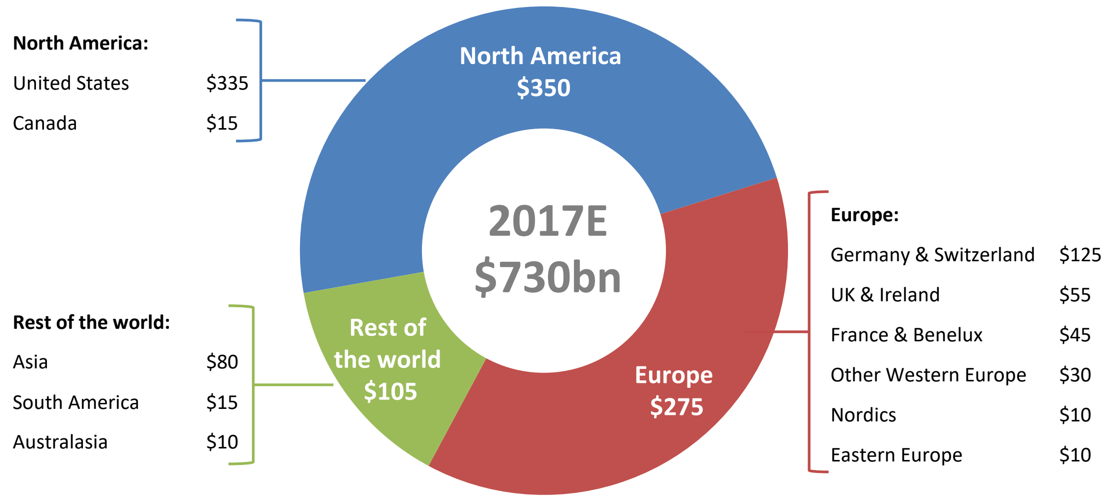
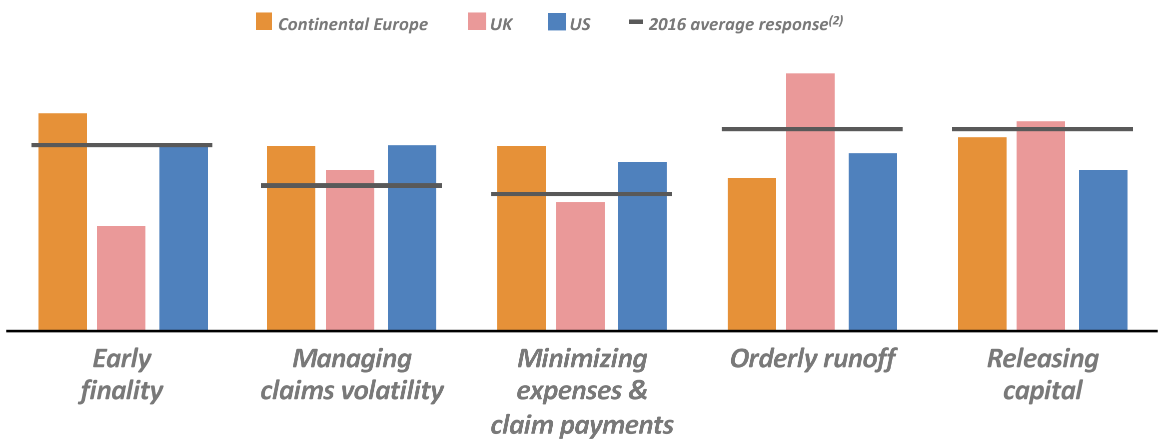
February 2019

Property & Casualty Legacy Market – Global Trends

Global P&C Runoff Reserve Estimates(1) (US$ Billions)



2017 PWC Survey: What are the key objectives for run-off business?(1)



(1) Per PWC Global Insurance Run-off Survey 2018.
(2) The 2016 Survey did not include US respondents.

Value Creation – A Multi-Stage Process

Run-off specialists generate profits by focusing on several value creation strategies. In effect, run-off specialists use their unique knowledge of the discontinued business marketplace to exploit a competitive advantage

Value Creation Strategies

- ✓ Maximize the discount to stated book value for which a run-off operation can be acquired
- ✓ Minimize insurance liabilities relative to held claims reserves and maximize reinsurance assets
- ✓ Develop expense efficiencies in claims infrastructure
- ✓ Optimize investment returns

Considerations for Divesting Discontinued Operations

- Refocus management's attention on core operations
- Remove discontinued businesses that may be negatively affecting credit rating or cost of capital
- Redeploy capital for more attractive opportunities
- Achieve finality and reduce uncertainty
- Reduce excess exposure to a specific line of business or credit exposure
- Assess a buyer's creditworthiness and reputation to fairly adjudicate claims
- Reduce costly infrastructure in geographic regions where core operations are no longer located

Hybrid Strategies May Drive Higher Overall Value

Recent transformations in the evolution of the run-off market is the acquisition by a run-off specialist of a "live" business that is immediately place into liquidation while renewing only that portion of the business that is profitable (a "Hybrid Strategy").

Often, Hybrid Strategy transactions are completed where:

- The entity is trading at a significant discount to its book value
- Sellers have engaged in an extensive auction process only to discover that few buyers exist that are willing to acquire the company
- The company is faced with material financial difficulties that could result in rating pressures, regulatory intervention, or missing long-term viability of the business

Source: 2015 Conning, Inc. Research Report – "Run-off: The New Specialty Insurer".

Types of Reinsurance and Risk Transfer Mechanism

	Reinsurance		Full Liability Transfer Mechanism				
	Retrospective		Novation	Commutation	Novation Plus Commutation		
	Loss Portfolio Transfer	Adverse Development Cover	Part VII Business Transfers	Schemes of Arrangement	Regulation 68	LIMA	Insurance Business Transfer
Liability Limits	Aggregate limit	Aggregate limit	No limit	No limit	No limit	No limit	No limit
Transfer of Loss Reserves	Yes	No	Yes	Yes	Yes	Yes	Yes
Legal Finality	No	No	Yes	Yes	Yes	Yes	Yes
Geographies	Global	Global	Europe	U.K.	Rhode Island	Vermont	Oklahoma
Legal Act Authorizing Transfer	NA	NA	Financial Services and Markets Act of 2000	Part 26 Companies Act of 2006	Voluntary Restructuring of Solvent Insurers Act of 2010	Legacy Insurance Management Act of 2014	The Insurance Business Transfer Act of 2018
Limitations	No finality; liabilities and credit risk retained by cedant	No finality; liabilities and credit risk retained by cedant	Slow - requires regulatory and court approval	Slow - requires regulatory and court approval	Slow and untested, only one successful transfer to date	Slow, untested and individual policyholders can opt-out	Slow and untested, requires regulatory and court approval

Source: 2015 Conning, Inc. Research Report – "Run-off: The New Specialty Insurer".

Overview of Armour

Armour specializes in the Global P&C Legacy Insurance marketplace with a focus across portfolios of run-off businesses or 'back-year' liabilities of live businesses

$2.0bn
Committed Capital Under Management

$4.2bn
Reserves Under Management

360,000
Claims Under Management

20+
Completed transactions

Solutions Offered

- **Retrospective financial (re)insurance (Loss Portfolio Transfer):** ground-up reinsurance providing immediate economic finality (LPT)
- **Purchase of a legal entity (company or branch of a company):** creates both economic and legal finality with an experienced and well-capitalized acquirer
- **Business outsourcing:** claims handling and management, third parties management, commutation negotiations, recoveries, etc. (Target Subsections)

Armour takes on both the financial and operational liabilities of claims, providing a solution that offers:

- **Significant capital relief:** Free up capital from legacy years to utilize in the future business
- **Security:** Reinsurance is fully collateralized providing 100% regulatory relief
- **Policyholder protection:** Armour is happy to sign up to Insurers service level standards to ensure policyholders are not impacted
- **Expense ratio reduction (People/Office/IT):** Armour operationally services the portfolio (Service Agreement) allowing for significant reduction in ongoing expense ratio through a one time removal of back year related expenses
- **Remove volatility / stock overhang:** and uncertainty from the claim development, pay-out patterns and interest rate risks, including unreported losses; potentially reduces negative overhang for public company stock prices
- **Reduces reliance on reinsurer(s):** enables focus on future and ongoing businesses, and removes the need to report and rely on reinsurance

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I. Presenter's Perspective

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Firm Perspective

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For over a century, Boenning & Scattergood has been providing owners, boards of directors, and executives independent advice and superior transaction execution.

- Full service investment banking and securities firm with comprehensive M&A and capital formation capabilities.
- Independent, privately-held firm with a culture of putting clients' needs first.
- Regional, national, and global network of private and public institutional investors and capital sources.
- Offices throughout the Mid-Atlantic region and Midwest.
- Focused on serving the unique needs of the insurance industry.
- Fully licensed registered broker dealer firm and member FINRA/SIPC.

Personal Perspective

Team Member	Professional Experience and Background

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Tony leads the firm's insurance practice and has over 30 years of experience with the property/casualty and life segments. His merger & acquisition transaction experience includes approximately $2 billion in transaction value and he has assisted in raising in excess of $1 billion in debt and junior capital. Prior to joining Boenning & Scattergood, Mr. Latini was Managing Director of Curtis Financial Group’s financial services industry group. He has also held positions at Berwind Financial L.P., Evans & Company, Inc. and CoreStates Financial Corp. Tony received his Bachelor of Science degree in Economics with a concentration in Finance from the Wharton School of the University of Pennsylvania. He holds the Chartered Financial Analyst designation and the FINRA Series 7, 24, 63, and 79 licenses.

Case Study – Overview

April 2018

CAPITOL INSURANCE

has been acquired by

Glacier Capital Holdings, LLC

Boenning initiated this transaction and served as exclusive financial advisor to Capitol Insurance Company

Client:	**Capitol Insurance Company**
Industry:	Insurance
Transaction Type:	Mergers & Acquisitions
Role:	Sell-Side Advisor

Key Deal Points:

- Headquartered in Lafayette Hill, PA, Capitol Insurance Company ("Capitol") is a Pennsylvania domiciled insurance company that since 1990 focused exclusively on offering personal motor vehicle insurance at the Commonwealth's mandated minimum policy limits ($15,000/$5,000/$5,000).
- Capitol wrote ~$20 million in premiums, had an asset base of $15 million and served roughly 13,000 policy holders.
- Due to deteriorating conditions in the auto insurance market between 2015 and 2017, Capitol faced severe capital needs.
- Glacier Capital Holdings, LLC ("Glacier") purchased Capitol and invested capital to achieve appropriate statutory surplus and support growth initiatives.
- Glacier brings additional operations expertise, distribution capabilities, and capital to support Capitol's growth.
- Boenning initiated this transaction and served as exclusive financial advisor to Capitol Insurance Company.

Case Study – Balance Sheet

April 2018

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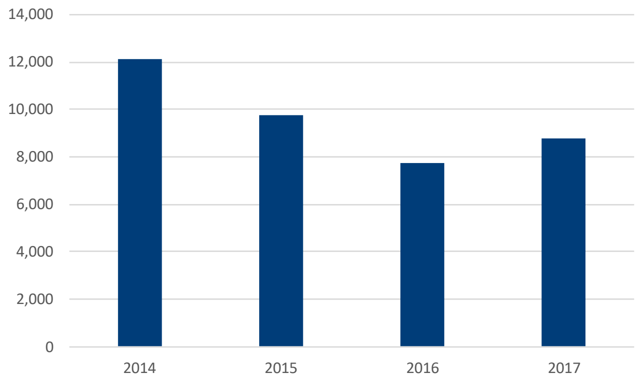
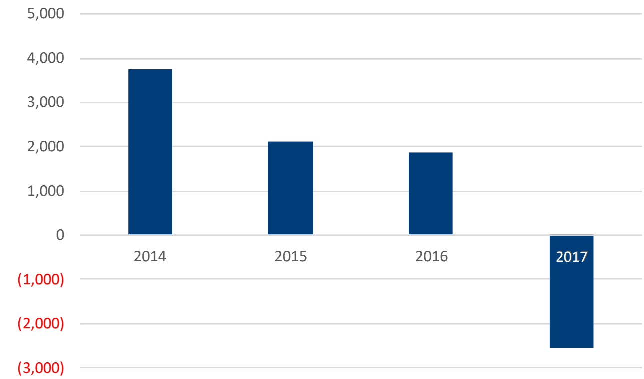
Net Premiums Written ($000s)



Capital & Surplus ($000s)



Balance Sheet

		2014		2015		2016		2017
Period Ended		12/31/2014		12/31/2015		12/31/2016		12/31/2017
$000 unless otherwise noted								
Balance Sheet								
Total Cash and Investments	$	9,263	$	9,081	$	9,255	$	7,478
Total Assets		19,116		14,762		14,289		12,202
Loss Reserves		5,895		6,764		6,856		8,410
Loss Adjustment Expense Reserves		599		546		593		769
Total Loss and LAE Reserves		6,494		7,310		7,448		9,179
Unearned Premium Reserve		3,052		1,933		1,908		1,844
Total Liabilities		15,377		12,652		12,436		14,766
Surplus Notes		1,750		1,750		1,750		1,475
Capital and Surplus		3,739		2,110		1,853		(2,564)
C&S / Assets		19.56		14.29		12.97		(21.01)
Reserves / Equity	$	173.68	$	346.44	$	402.03		NA

Sources: S&P Market Intelligence.

Business Opportunity

- Established low limits auto company (almost 30 years of experience)
- Strong agent relationships
- Conservative reserve strengthening (actuarial incentives and department proceedings)
- The opportunity for a potential acquirer to obtain a "turn key" company with an established distribution channel, premium volume and highly regarded IT systems / infrastructure
- Owing to strong rate increases (~31% in some cases), run rate earnings on the Company's premium volume (almost $20 million) exceed $1 million in pre-tax income
- Additional opportunities from established joint ventures
- Attractive "build v. buy" economics
- Expedited insurance department approval enhances transaction benefits

Successful Process

- Capitol was successful in finding a buyer, which is a better strategic alternative to the regulators seizing control of the Company's operations and liquidating.
- Glacier Capital Holdings, LLC ("Glacier") purchased Capitol and invested capital to achieve appropriate statutory surplus and support growth initiatives.
- Capitol's sale mitigated the risk to the policyholders who were vulnerable to losing their policies, which would cause them to seek new policies in an increasingly difficult nonstandard auto market.
- The sale of Capitol also provided stability to the employees who most likely would have seen layoffs in the event of the regulators seizing control of the Company, looking to salvage the Company's assets and create liquidity.
- The positive effect of the sale on the community is much greater than those whom the Company employs, as the local economy is stimulated by Capitol's presence in the area.
- The positive impact of the sale is not only limited to Capitol, Glacier benefits from the sale as it is an opportunity for growth, to benefit from merger synergies, as well as create new jobs and improve their technology.
- The regulator benefits in that they do not have to spend the resources and time to salvage the Company.
    - The regulator conducts due diligence to ensure that the sale has an overall positive impact to the policyholders, stakeholders, and the two companies.

Stakeholders Subject to Insolvencies

- Policyholders
- Community
- Employees
- Insurance Department
- Other insurance companies/guarantee funds
- Owners/stockholders
- Debt holders and other creditors

Possible Alternate Solutions

- Sale/Merger
- Renewal rights transaction
- Equity infusion/Recapitalization
- Debt relief
- Other

Potential Benefits

- "Win-win" concept in which all parties benefit from the sale of a failing insurance company.
- Provide stability to policyholders who are at risk of losing their policies.
- Provide sustainability to the company's corporate structure and ensure that jobs are preserved.
- Enhancement to a community who may be economically dependent on the local company.
- The acquirer achieves inorganic growth through the purchase of a company who may simply need more capital or different management practices.
- The M&A alternative enhances most / all parties (relative to liquidation in which policyholders might be made whole but others do not benefit).
- Regulators avoid the problems, distraction, and hard costs of a liquidation
- Buyer obtains a platform for growth
- Owners might lose value but they avoid regulatory investigation and possible litigation

Observations and Advice

- Similar to/not different than healthy M&A or capital markets activity
- Stay current on knowledge of market (seek free advice from investment bankers)
  - There have been situations that could be avoided if the parties involved were simply informed on the market.
- In many cases, management improvement is needed to correct the course of a failing insurance company.
  - One of the benefits of M&A that should be highlighted is the improvement in a company's management and corporate structure.
- Understand the market opportunity and the state of the M&A market.
  - Do you have a saleable asset and what is the market for that asset?
  - Regulators and advisors can make fact-based decisions.

Advice

- **Pitfalls to Avoid**
  - Timing
  - Department coordination with Investment Banker
  - Motivation of regulator determined
  - Important – in M&A or capital raising it is essential that everyone is pulling in the same direction.
  - Avoid conflicts

- **Step by step instructions**
  - Goals reiterated
  - Determine if the Company is getting worse and if delay is a problem
  - Assess / meeting to discuss
  - Enable a process and timetable
  - Regular reporting and communication
  - Status reports
  - “Fast track approval” induces buyers
  - Be prepared to adapt if market forces dictate