

October 20, 2015

“The Remaking of the Financial Services Industry”
By William Spiegel, Managing Director

PINE BROOK

The Remaking of Financial Services

1.

Re-Regulation

2.

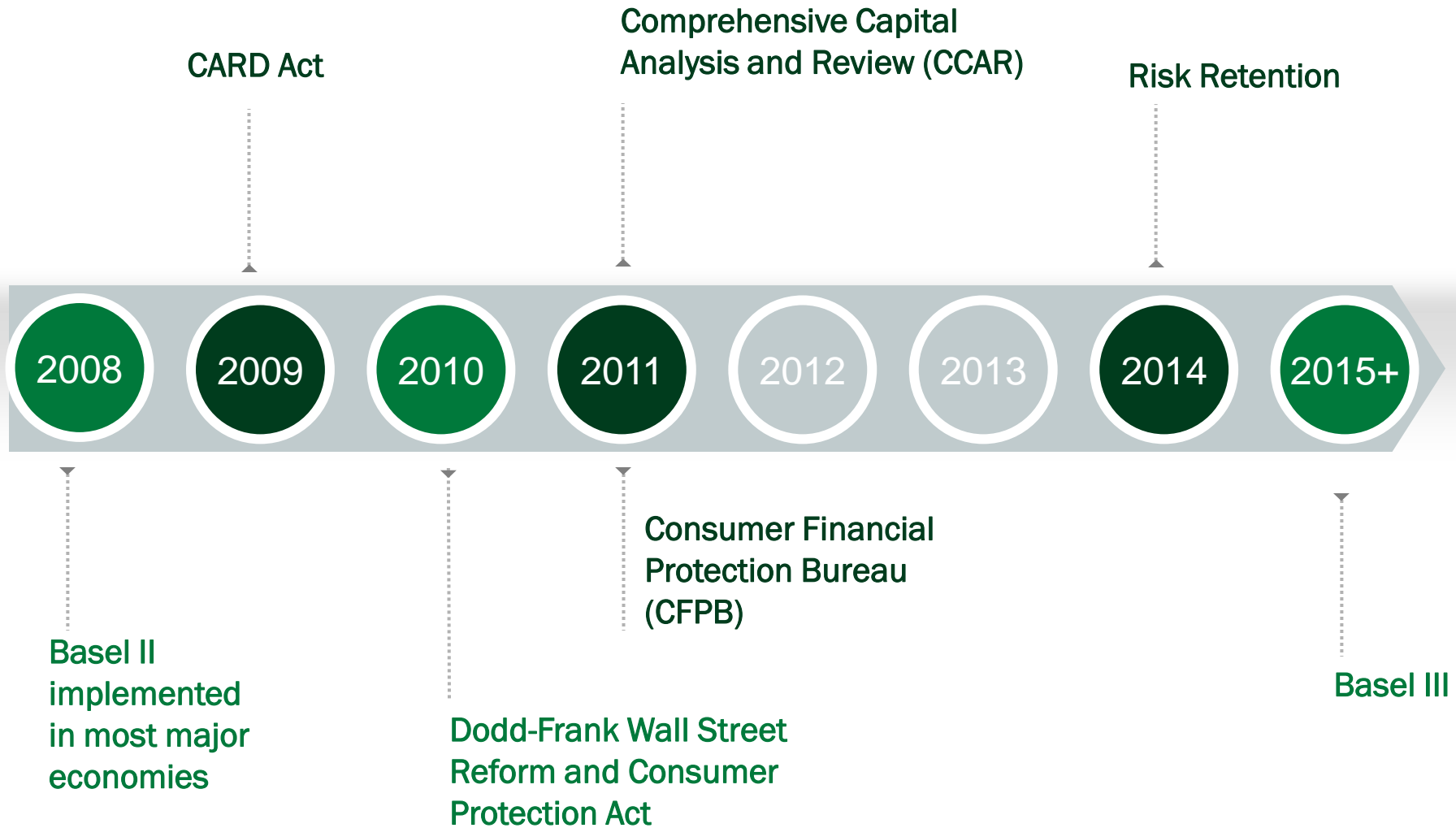
Policy Changes

3.

Data and Technology Revolution

Re-Regulation and Its Impact on Banks

Regulatory Pressure on Banks Has Increased ...



... with the Goal of Reducing Risk in the Banking System

Increased Bank Capital Requirements

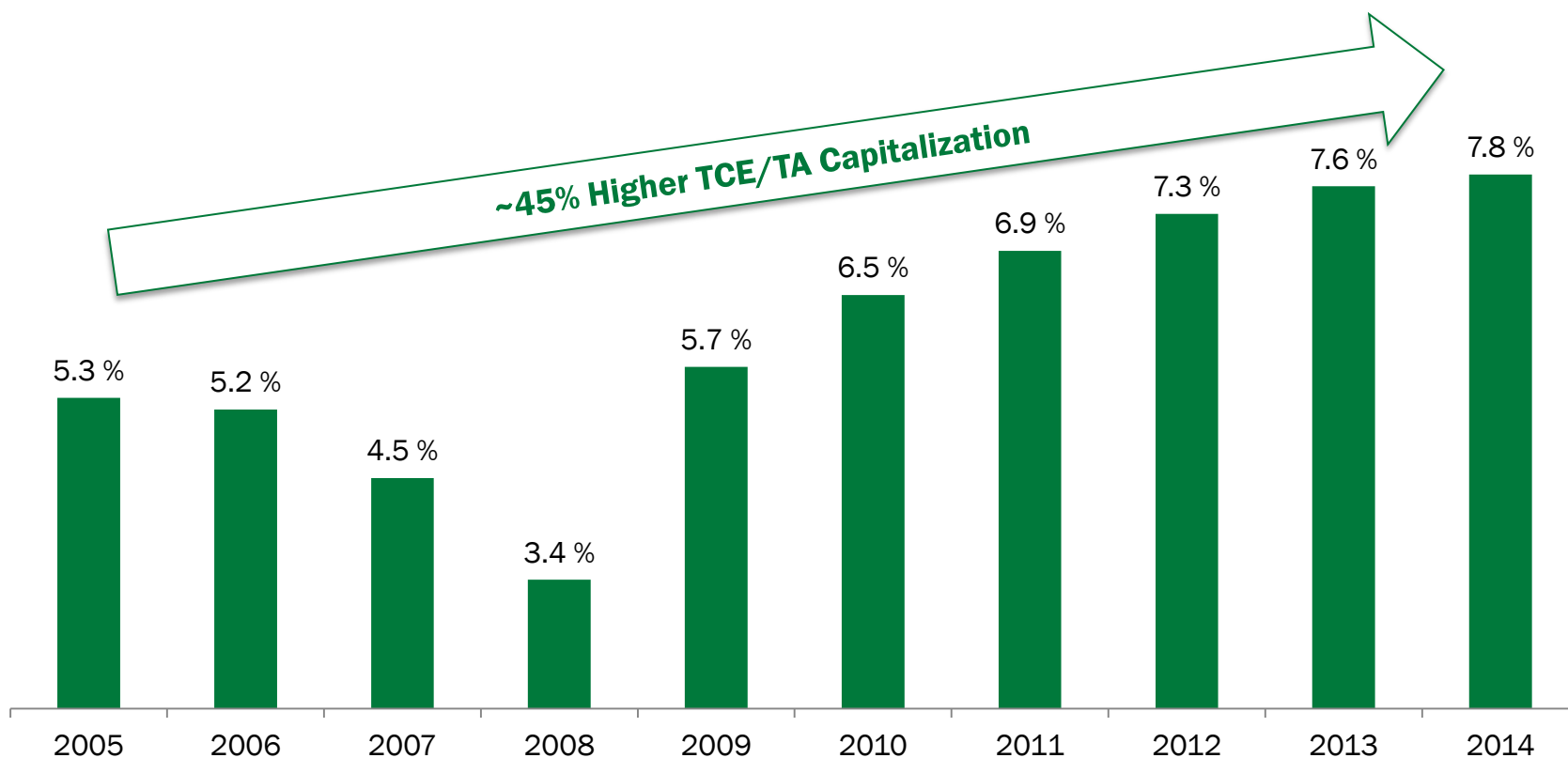
Enhanced Compliance

Reduced Lending to Certain Customers

Increased Bank Capital Requirements

Post re-regulation, bank capitalization has already increased ~45%, and does not fully reflect capital deficiencies that will arise from newly implemented liquidity ratios

Tangible Common Equity to Tangible Assets of Select U.S. Banks¹

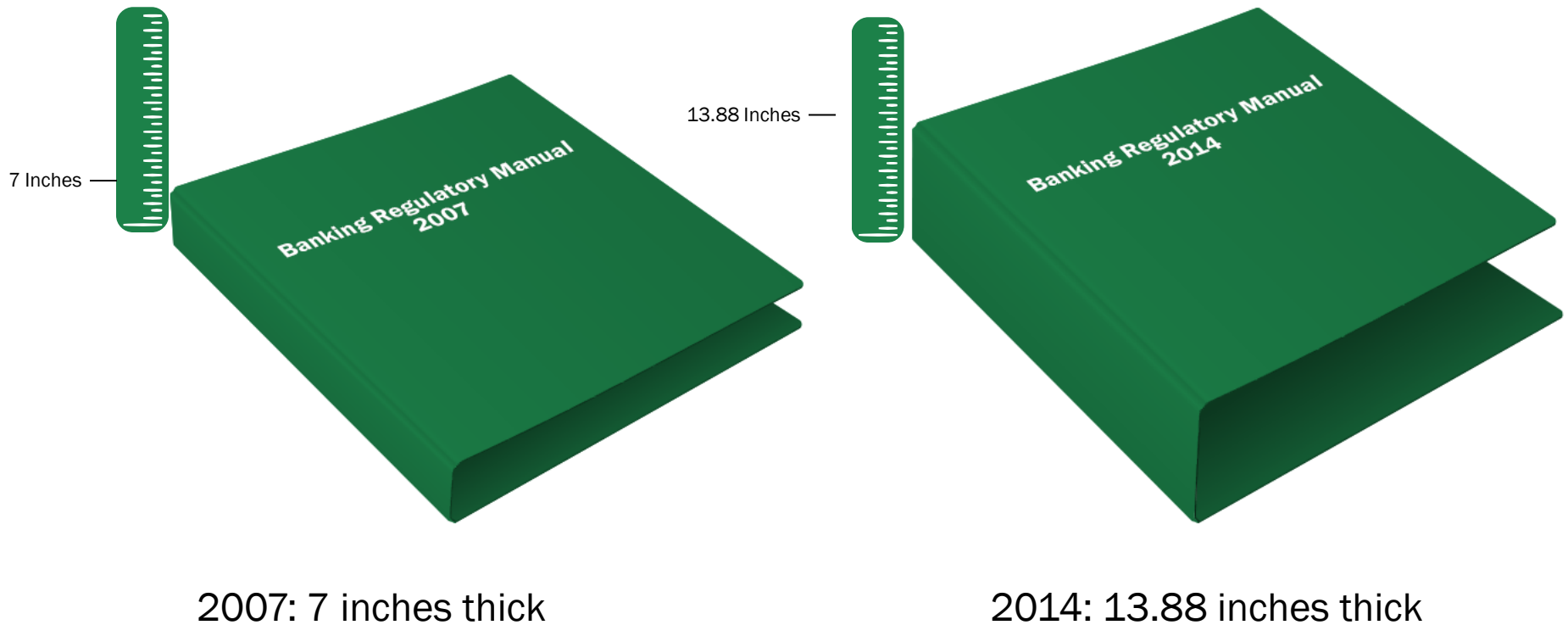


Source: SNL Financial.

1) Includes all banks of asset size greater than \$10.0 billion as of December 31, 2005 or December 31, 2014.

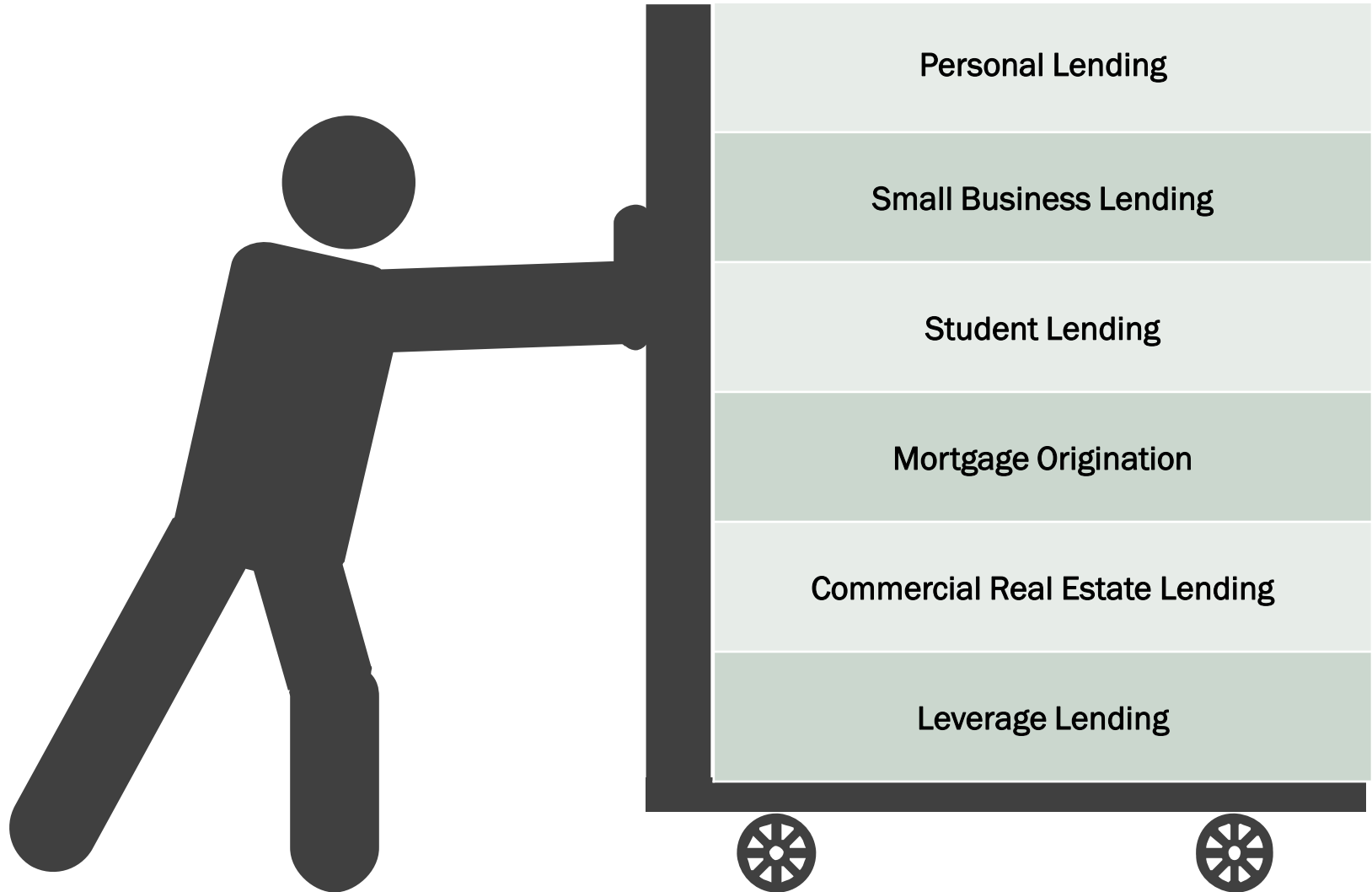
Enhanced Compliance

The size of the banking regulatory manual has doubled from 2007 to 2014



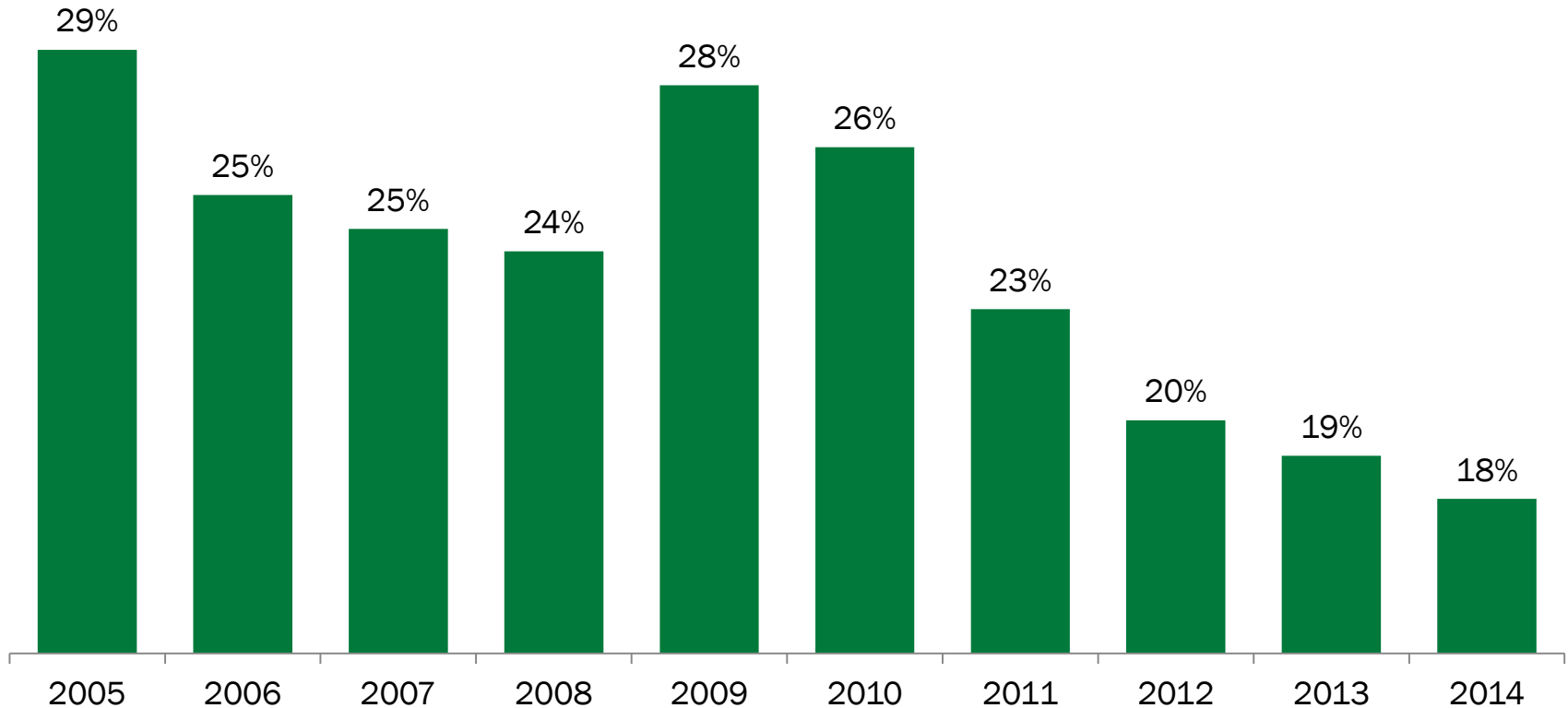
Reduced Lending to Certain Customers ...

Pushing lending out of the banking system



... Such as Small Business Customers

Small Business Loans as a Percent of Banks' Commercial Loans¹



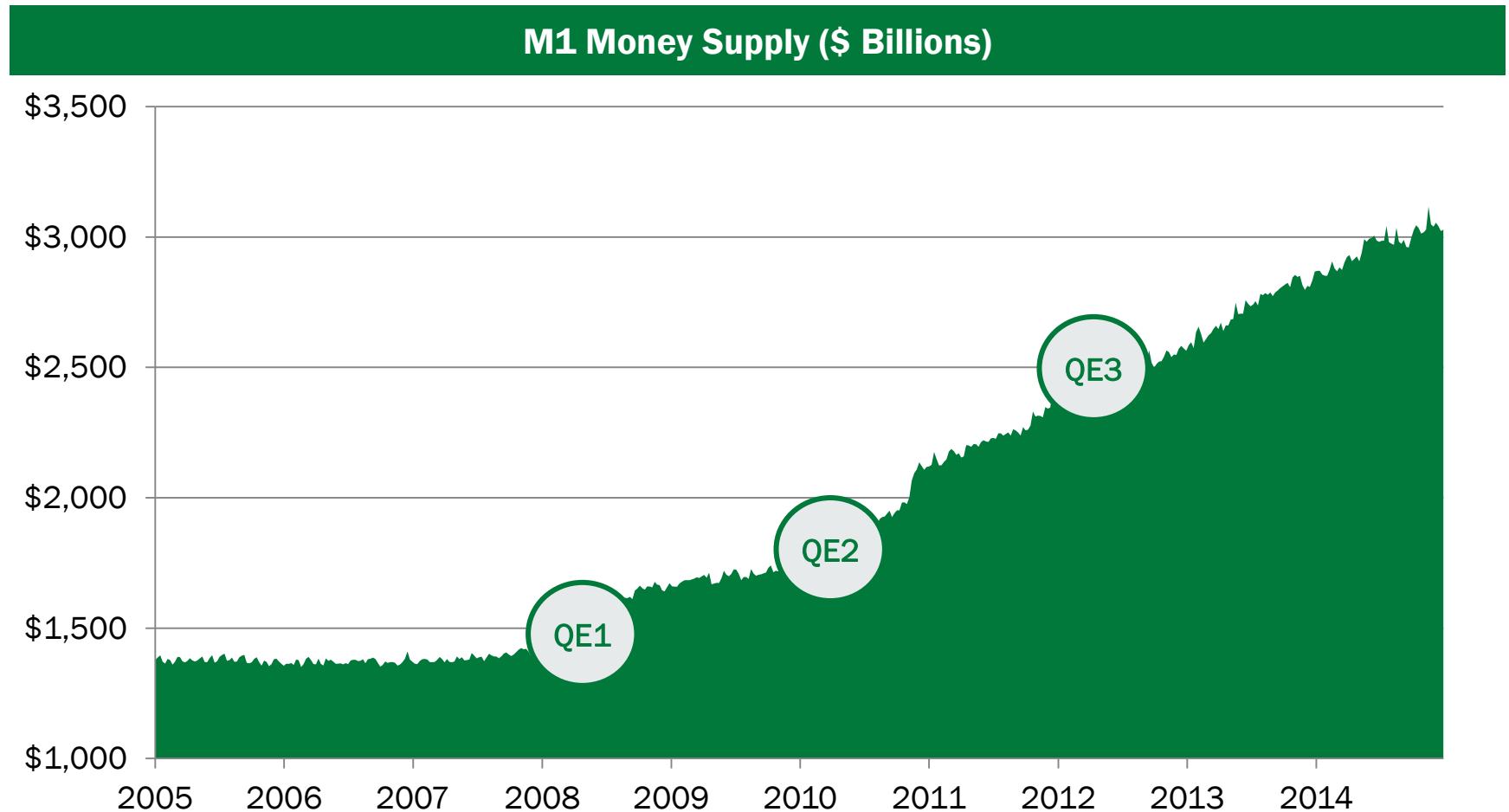
Source: SNL Financial.

1) Estimated by dividing commercial and saving banks annual balance of C&I loans of less than \$1.0 million size by total commercial and savings banks' annual balance of C&I loans.

Policy Changes and the Impact on Insurance

Quantitative Easing Has Created Unprecedented Increases in Money Supply ...

Money supply has increased over \$1.6 trillion since 2005



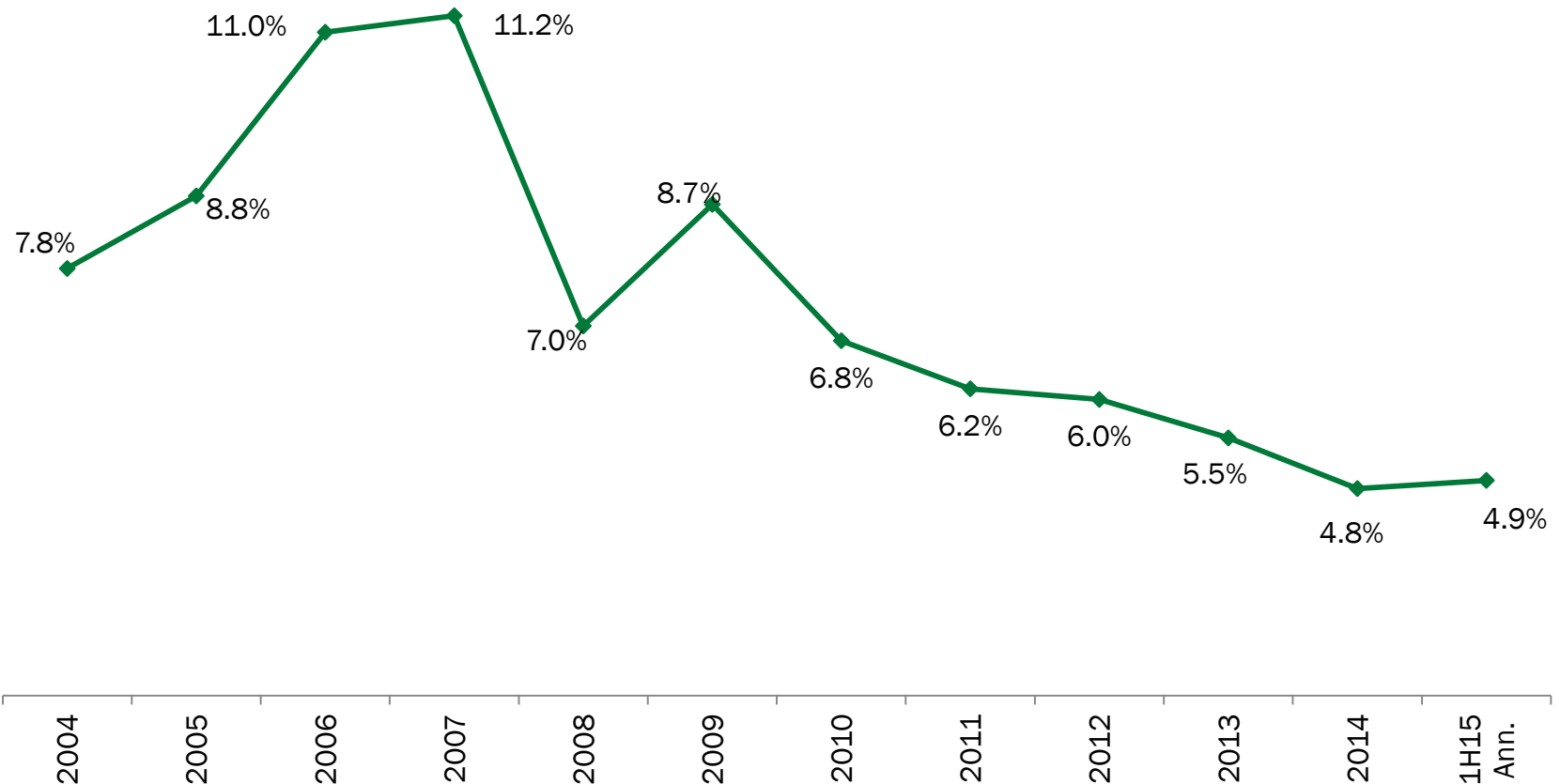
... Leading to Significant Declines in Interest Rates ...

2Yr and 10Yr U.S. Treasury yields have fallen by 84% and 51%



... Reducing Investment Income for Insurance Companies ...

Pre-Tax Net Investment Income as a % of Average Equity for Select P/C (Re)insurers¹



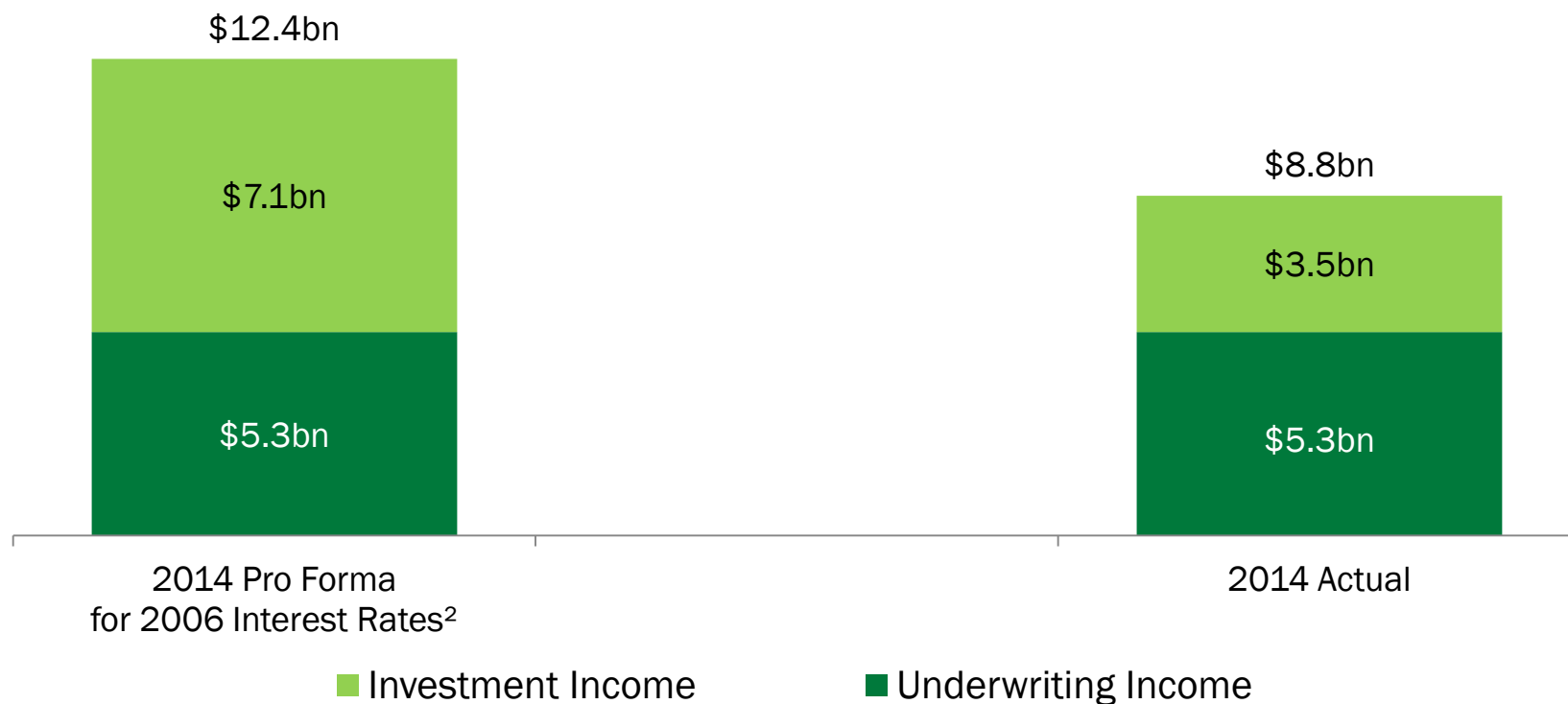
Source: Dowling & Partners Securities, LLC and Pine Brook internal analysis.

1) LRE, ACE, RE, AXS, AHL, ENH, PTP, RNR, VR, and MRH.

... and Their Profitability

Pre-tax income for a select group of insurance companies¹ would be ~\$3.6 billion higher if 2006 investment yields applied

Breakdown of Pre-Tax Income for a Select Group of Insurance Companies¹



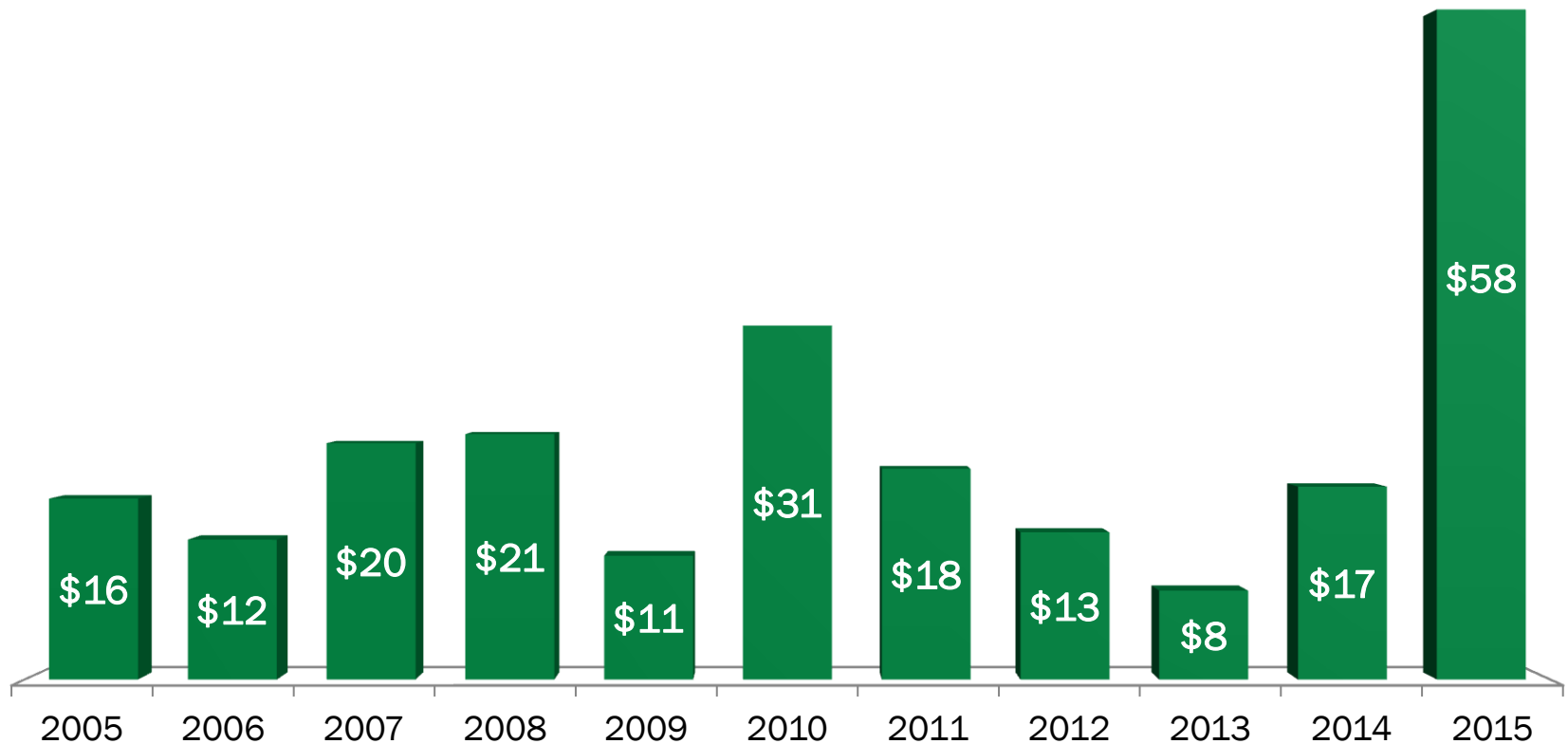
Source: Dowling & Partners Securities, LLC, Pine Brook Internal Analysis.

1) LRE, ACE, RE, AXS, AHL, ENH, PTP, RNR, VR, and MRH.

2) Assumes the 2006 weighted average investment yield multiplied by 2014 shareholders equity.

Insurers' Response Is to Consolidate ...

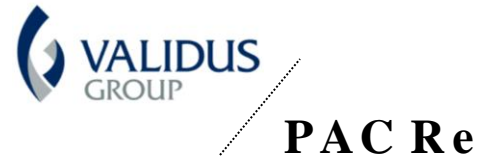
Insurance M&A Deal Value (\$ Billions)¹



Source: SNL Financial.

1) Includes all life and property & casualty transactions involving U.S. targets.

... or Focus on Niche Underwriting and Investment Strategies



The Data and Technology Revolution is Disruptive

The New Playing Field ...

Hundreds of new entrants are disrupting the financial services landscape



Increase Convenience



Improve Efficiency



Expand Access to Capital

... and Disrupting all Aspects of the Value Chain ...

Segment	Key Improvements
Origination	<ul style="list-style-type: none">▪ Better customer selection▪ Enhanced origination
Underwriting	<ul style="list-style-type: none">▪ Algorithmic underwriting▪ Quick decision making
Servicing	<ul style="list-style-type: none">▪ Improved portfolio monitoring▪ Enhanced customer service
Capital	<ul style="list-style-type: none">▪ New funding channels

... However, Existing Companies Can Join the Revolution

Existing companies can acquire or adopt best practice from technology-oriented peers



Investment Opportunities for Pine Brook

The Remaking Is Generating Investment Opportunities

Re-Regulation

Policy Changes

Data Revolution

New Opportunities

Lending
Asset Management
Insurance

Lending Opportunities

Non-Banks Are Winners ...




\$1.6 trillion of lending and \$11 billion of profit may leave the banking system over the next 5 – 10 years

Sector	Est. Amt In Banking System (\$bn)	Est. Amt. Leaving Banking System (\$bn)	Banking Profit Pool at Risk (\$bn)
Personal Lending	\$683	\$209	\$4.6
Small Business Lending	\$177	\$177	\$1.6
Student Lending	\$65	\$65	\$0.7
Mortgage	\$5,488	\$978	\$2.2
Commercial Real Estate	\$1,322	\$118	\$0.8
Leverage Lending	\$57	\$19	\$0.9
Total	\$7,792	\$1,566	\$10.9

... but Billions of Dollars of New Equity Will Be Required

Up to \$300 – \$400 billion of new equity capital may be required to support non-bank lenders

Pine Brook's Lending Investments

Investments	Description
 The logo for Strategic Funding features a stylized graphic of several parallel lines in shades of blue and purple, above the word "STRATEGIC" in a bold, sans-serif font, with "FUNDING" in a smaller font below it.	Direct financier of small businesses
 The logo for The Car Finance Company features the words "THE CAR FINANCE COMPANY" in a bold, sans-serif font, with a green checkmark icon to the right. Below the main text is the tagline "we care about your future, not your past" in a smaller font.	Subprime auto finance company
 The logo for Vida Home Loans features a stylized house icon made of blue lines, followed by the word "VIDA" in a bold, sans-serif font, and "HOMELANS" in a smaller font below it.	Specialty residential mortgage lender in the U.K.

Asset Management Opportunities

The Financial Services Value Chain

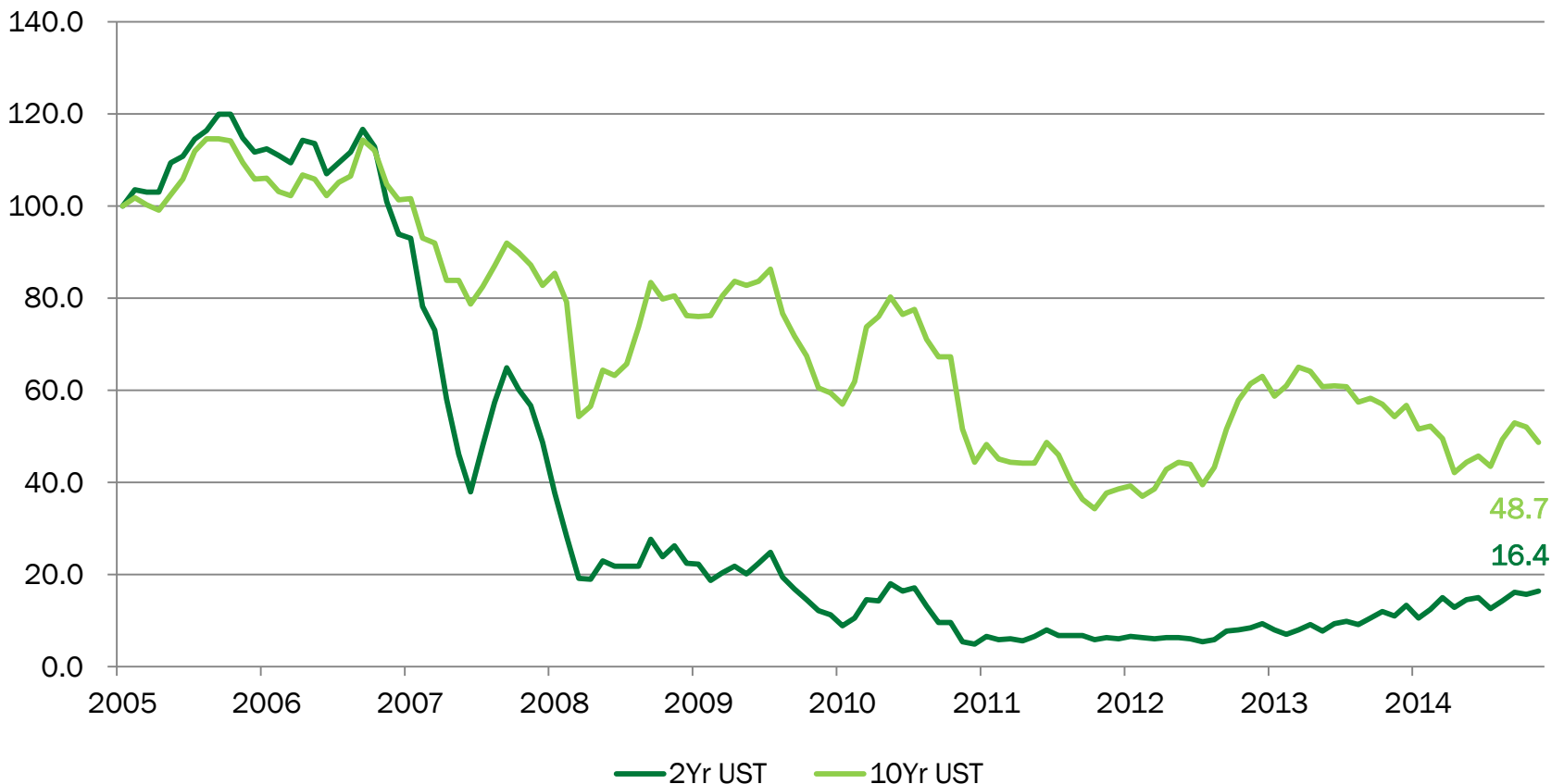
Financial services companies historically owned all four components of the value chain



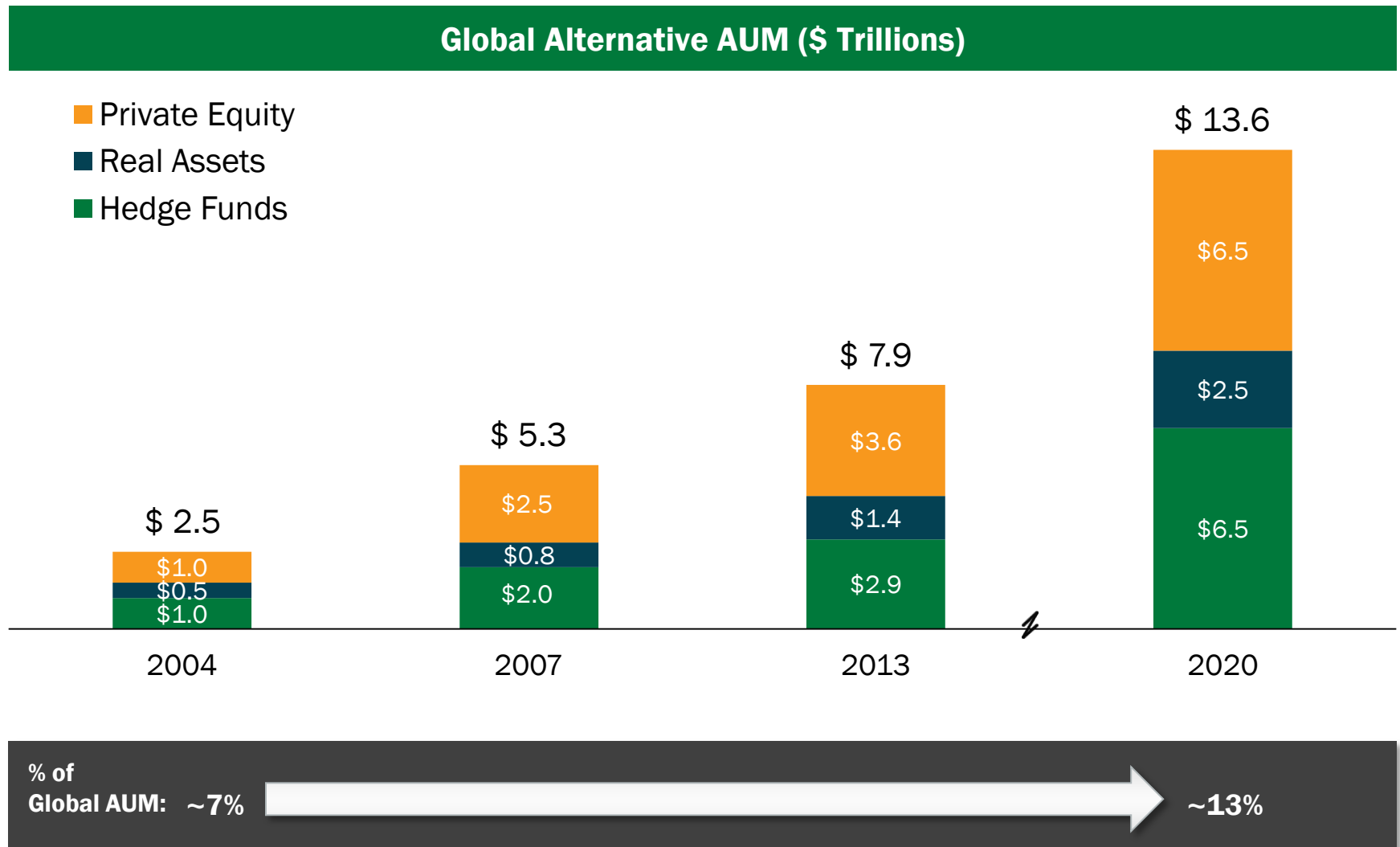
Low Rates Are Leading Investors to Search for Yield...

2Yr and 10Yr U.S. Treasury yields have fallen by 84% and 51%

U.S. Treasury Yields

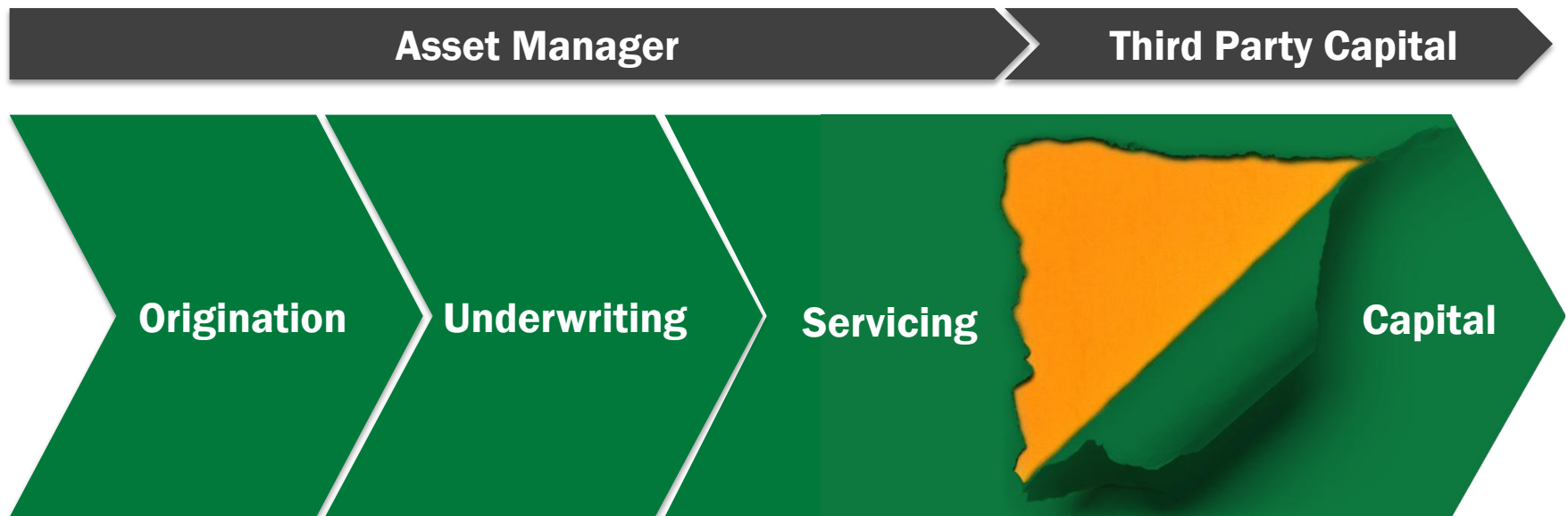


...Leading to an Increase in Allocations to Alternatives...







...And Creating Asset Management Opportunities

Financial services companies are replacing their own capital with third party capital



Pine Brook's Asset Management Investments

Investments	Description
	Asset manager of widebody aircraft
	Provider of services to the insurance asset management chain
	Small business loan originator and distributor
	GP stakes in alternative managers

Insurance Opportunities

The Traditional Insurance Industry Is Under Pressure

Low Interest Rates

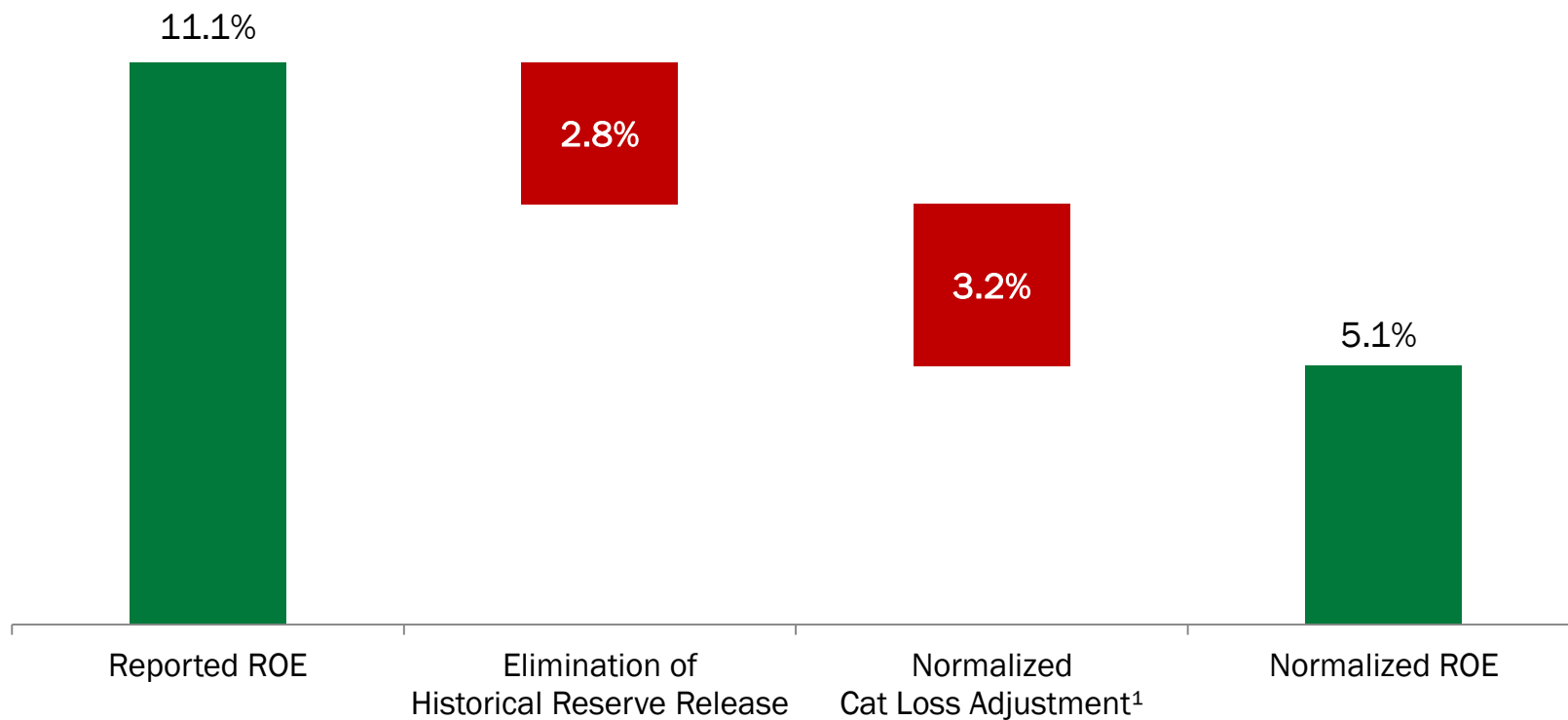
Growth of Alternative Capital

Declining Pricing

(Re)insurance ROEs Are Depressed

Normalized (re)insurance ROEs are ~54% below reported ROEs for 1H2015

Return on Equity Analysis of a Catastrophe Reinsurer







Source: Willis Re, "Reinsurance Market Report", September 2015.

1) Adjusts for a normalized annual catastrophe loss (4.0% vs. the 0.8% experienced in 1H2015).

Insurers Are Reacting Strategically

Consolidating	<ul style="list-style-type: none">▪ Benefits of Scale
Specializing	<ul style="list-style-type: none">▪ Niche underwriting and/or investment strategies
Focusing on Origination and Underwriting	<ul style="list-style-type: none">▪ Emphasis on highest value-add services

Pine Brook's Insurance Investments

Investments	Description
 CBCG Insurance Holdings	Provider of origination and underwriting services to insurers
	P&C insurer focused on niche underwriting and investment strategy
 GLOBAL ATLANTIC FINANCIAL GROUP	Life and annuity consolidator with investment expertise
 THIRD POINT RE	P&C insurer with a focus on investment strategy

Data and Technology Opportunities

Pine Brook's Investments Can Take Advantage of Data and Technology

Old Companies – Legacy Systems



New Companies – New Technologies



Conclusion

The Remaking Has Created Investments for Pine Brook

	Re-Regulation	Policy Changes	Data & Technology
Global Atlantic	✗		
Amedeo		✗	
Strategic Funding	✗	✗	✗
The Car Finance Company	✗		✗
Syndicate		✗	
Fidelis		✗	
Tunbridge	✗	✗	
Clear Blue		✗	✗
Vida Home Loans	✗	✗	✗