Over-capitalization

Company B3

In July 2005, Predyct Anaalytics advised Company B-3

- We thought they were over-capitalized by as much as $3 to $4 billion.
  - Total free surplus at that time was about $6 billion

- We suggested to either engage a share repurchase for up to $3 to $4 billion or make an extraordinary dividend, or both

- A corollary recommendation was to issue of a junior subordinated debt to bolster the capital structure

- This recommendation was made for several reasons: 1) To bolster shareholder value and 2) Because company B-3 was more than 50% owned by five investor groups. This concentration of ownership would make Company B-3 vulnerable to being acquired with its own capital.

Base Case Capital Requirements For Company B-3 assessed by Predyct Enterprise Risk Model (ERM)

Risk Category	2004	2005	2005 (w/o New Business Risk)
New business	$894.10	$1,012.90	$0.00
Old business	$328.40	$362.20	$362.20
Equity	$559.00	$609.10	$609.10
Credit	$556.60	$172.30	$172.30
ALM	$546.10	$585.10	$655.40
Foreign Exchange	$2.10	$5.60	$5.60
Aggregated Risk	$2,886.30	$2,747.10	$1,804.50
Diversification Benefit	$1,539.10	$1,264.30	$714.10
Net Risk	$1,347.20	$1,482.70	$1,090.50
Net Risk (from the row above)	$1,347.20	$1,482.70	$1,090.50
Operating Risk		$254.40	$254.40
Catastrophe Risk		$295.90	$295.90
Company Aggregate Risk		$2,033.00	$1,640.80
Diversification Benefit		$499.80	$482.60
Company Net Risk *		**$1,533.20**	**$1,158.20**
Actual Capital	$5,200.00	$6,000.00	$6,000.00

* Also defined as required economic capital @ 99.65% VaR.

Key Observations

- Assessed **net risk** of $1,533 including Catastrophe, E&O, D&O and New Business Risk
- Risk reduced to $1,158 without New Business Risk

Company B-3 did not agree with our analysis in January 2006

Yet, on June 14, 2007, Company B-3 announced a recapitalization in which it will:

- Pay a $2 special dividend on Sept. 14 to shareholders of record as of Aug. 31.
  - 724 million shares @ $2 / share = $1.44 billion

- Buy back up to 100 million shares over the next 24 months, on top of 8.3 million shares it was already authorized by its board to purchase. Company B-3 has 724 million shares outstanding.
  - 100 million shares x $20 / share = $2 billion

- Sell "hybrid debt securities" to be further explained in a regulatory filing.

The recapitalization is worth approximately $3.44 billion or about 21% of B-3's market capitalization of $16.6 billion on June 13, 2007 or 57% of its book capital of $6 billion prior to the dividend and share repurchase. Coincidence?