

The Perspective of a Leading Insurance M&A Advisory Firm

Recent Noteworthy Transactions

(\$s in millions)

PROPERTY / CASUALTY DEALS

Target	Buyer	Value	Price to SAP:	
			Surplus	Op. Inc.
Odyssey Re Holding	Fairfax Fin'l Holdings	\$3,779	1.1x*	10.7x*
Producers AG Ins. Group	CUNA Mutual Ins.	\$57	1.5x	N/A

*GAAP multiples

AGENT / BROKER DEALS

Target	Buyer	Value	Price to:	
			Revenue	
HSBC Ins. Brokers Ltd.	Marsh & McLennan Companies	\$218	0.9**	

**PSCO Estimate

LIFE / HEALTH DEALS

Target	Buyer	Value	Price to SAP:	
			Surplus	Op. Inc.
Clear One Health Plans	PacificSource Hlth Plans	\$46	1.1x	N/A

2010: A Bigger Year for M&A?

2009 was a slow year in insurance brokerage M&A, notwithstanding a flurry of activity in the fourth quarter. According to SNL Financial, there were 168 brokerage transactions in 2009, which marked the lowest number in over a decade. Consistent with the overall market, Brown & Brown acquired 11 agencies with \$27mm of annualized revenue in 2009, compared with 45 agencies with annualized revenue of \$120mm in 2008. BB&T had a similar experience. The traditionally acquisitive bank completed only one agency transaction with annualized revenue of \$23mm in 2009, compared with 11 acquisitions with annualized revenue of \$212mm in 2008.

Although 2009 was a slow year for agency transactions, there were some meaningful developments within the space. Marsh & McLennan Agency LLC, a division that Marsh & McLennan Companies formed in order to participate in the continuing brokerage industry consolidation, hit its stride making two mid-market agency acquisitions in the fourth quarter. In November, Marsh & McLennan Agency LLC announced the acquisition of Houston, TX-based Insurance Alliance, a brokerage with annualized revenue of \$15mm that focuses on commercial p&c, and employee benefits. A month later, Marsh & McLennan Agency announced the acquisition of Paramus, NJ-based NIA Group, a brokerage operation with annualized revenue of \$62mm that offers both personal and commercial lines. Ascension Insurance also bucked the trend, announcing 6 brokerage transactions in 2009, compared to 4 transactions in 2008.

In contrast to insurance distribution, there was a healthy amount of M&A activity in the p&c carrier space. Renewal rights transactions were fairly common. The Hanover Insurance Group acquired the renewal rights to \$490mm of non-specialty commercial lines business from OneBeacon. Hanover agreed to pay \$23.3mm plus 10% of premium renewed above \$200mm. The transaction will provide Hanover with expanded niche product offerings while strengthening its expansion into the western states, while allowing OneBeacon to focus on specialty commercial products which will make up roughly two thirds of the company's total premium volume going forward. In a separate transaction, Tower Group acquired the renewal rights for Aequicap Financial Group's workers' compensation program. The transaction represents approximately \$40mm of premium composed of low to moderate hazard workers' compensation policies in Florida. In another workers' compensation transaction, GNW-Evergreen acquired the renewal rights to Employers Direct workers' compensation policies. Alleghany had acquired Employers Direct for \$192.5mm in 2007.

Distressed insurance carrier, AIG, sold a number of subsidiaries in order to raise cash throughout the year. The insurance conglomerate completed 16 deals in 2009, and signed definitive agreements for another 7 transactions that have not yet closed. Recent announcements include the sale of AIG United Guaranty Mortgage Insurance Company of Canada to an investor group led by Ontario Teachers'

Insurance Carrier Stocks

PROPERTY / CASUALTY CO.'s

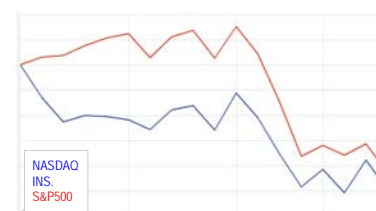
Median Price to Earnings (ttm):	9.4x
Median Price to Book (mrq):	0.9x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm):	12.1x
Median Price to Book (mrq):	0.7x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm):	17.1x
Median Price to Book (mrq):	0.7x



Insurance Broker Stocks

Price 1/29/10 to TTM 9/30/09

	Revenue	Earnings	EBITDA	EBITDA/Revenue %
Maximum	2.5x	39.3x	8.6x	35.0%
Minimum	1.1x	10.5x	5.4x	12.6%
Median	1.4x	18.8x	7.4x	18.3%

2010: A Bigger Year For M&A? cont'd.

Pension Plan Board, the sale of EMI Mortgage to Harel Insurance Investments & Financial Services, and the sale of Nan Shan Life Insurance Company to Primus Financial Holdings and China Strategic Holdings. Recently, there is speculation that AIG may sell American Life Ins Co. to MetLife for \$14B or \$15B. That would be its largest divestiture since the government bailout in 2008. Meanwhile, Kingsway Financial, hampered by poor results, has been selling assets to raise cash. The company sold Zephyr Insurance to an investor group, and sold Avalon Risk Management to the company's management team, backed by Fund Management Group. Avalon specializes in providing surety and p&c insurance to the logistics industry. Just recently, Kingsway sold JEVCO Insurance Company to The Westaim Corp at a slight discount to book value. JEVCO specializes in providing coverage for motorcycles, ATVs, snowmobiles and other specialty class vehicles.

Following Phenix Mutual's affiliation with Motorists Insurance Group, Grain Dealers' affiliation with Main Street America, and Southern Mutual's affiliation with Donegal Mutual, there were more mutual transactions to close out 2009. Ixonia Mutual merged with Watertown Mutual, and Wisconsin Mutual merged Hamburg Stark Mutual into its operations. Then, in January 2010, Austin Mutual announced an affiliation agreement with Cooperative Mutual. It is expected that the mutual affiliations will continue throughout 2010 as carriers continue to see pressure on rates, and the economy remains slow. In this difficult environment, many carriers, both mutual and stock, may determine that they will be in better shape if they partner with someone in order to benefit from greater scale, and a stronger capital base.

Deal Notes

Marsh & McLennan Companies, through their reinsurance brokerage subsidiary, Guy Carpenter & Company, acquired Rattner Mackenzie Limited from HCC Insurance Holdings for \$42.5mm in Marsh common stock. Rattner Mackenzie is an international specialty reinsurance broker with locations in Bermuda, London, and New York. The reinsurance specialist placed over \$500mm of premium in 2008 on behalf of HCC as well as third party clients. Guy Carpenter was the world's leading reinsurance broker before the transaction. This transaction will allow Guy Carpenter to expand their specialty reinsurance capabilities, and allow HCC to focus on their core underwriting business. Additionally, the deal should provide for a long term partnership between HCC and Marsh McLennan & Companies.

Valuation Questions? Contact our Research Department 1.800.742.4279

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SOME OF OUR TRANSACTIONS...



Phenix Mutual Fire Insurance Company

has agreed to affiliate with

The Motorists Insurance Group

PhiloSmith acted as exclusive financial advisor to Phenix Mutual Fire Insurance Company



Heath XS, LLC

has been acquired by

Hallmark Financial Services, Inc.

PhiloSmith acted as exclusive financial advisor to Heath XS, LLC



The Hanover Insurance Group, Inc.

has acquired

AIX Holdings, Inc.

PhiloSmith acted as exclusive financial advisor to The Hanover Insurance Group, Inc.



The assets of Longhorn General Agency, Inc. & Longhorn Insurance Services, Inc.

have been acquired by

NALICO General Agency, Inc. a subsidiary of NLASCO

PhiloSmith acted as exclusive financial advisor to Longhorn General Agency



Republic Companies, Inc.

has acquired

Southern States General Agency, Inc. a subsidiary of Unitrin, Inc.

PhiloSmith acted as exclusive financial advisor to Republic Companies, Inc.



Four Corners Insurance Services, Inc.

has been acquired by

Republic Companies, Inc.

PhiloSmith acted as exclusive financial advisor to Four Corners Insurance Services, Inc.



Professionals Direct, Inc.

has been acquired by

The Hanover Insurance Group

PhiloSmith acted as exclusive financial advisor to Professionals Direct, Inc.



Texas General Agency, Inc.

and their affiliates

Gulf States Insurance Co., TGA Special Risk, Inc., & Pan American Acceptance Corporation

have agreed to be acquired by

Hallmark Financial Services, Inc.

PhiloSmith acted as exclusive financial advisor to Texas General Agency, Inc.



D.E. Love Associates

a subsidiary of

Direct Response Corporation

has been acquired by

National Penn Bank

Philo Smith & Co. acted as exclusive financial advisor to Direct Response Corporation



GMAC Insurance Holdings, Inc.

and its subsidiary

Motors Insurance Corporation

have agreed to acquire

MEEMIC Insurance Company

a subsidiary of

ProAssurance Corporation

PhiloSmith acted as exclusive financial advisor to GMAC Insurance Holdings, Inc.



Beecher & Carlson Risk Management, Inc.

a subsidiary of

American Re Corporation

has been acquired by

Risk Strategy Partners, Inc.

Philo Smith & Co. acted as exclusive financial advisor to Munch-American Global Services, Inc.



Capital City Holdings Company, Inc., Davis-Garvin Holdings, Inc. & affiliates

have agreed to be acquired by

North Pointe Holdings Corporation

PhiloSmith acted as exclusive financial advisor to Capital City Holdings Company, Inc.



Andrews & Murray Associates, Inc.

has been acquired by

Neighborhood Insurance Connecticut, LLC

Philo Smith & Co. acted as exclusive financial advisor to Andrews & Murray Associates, Inc.



Allianz of America, Inc. and Fireman's Fund Insurance Co.

have agreed to sell

Fireman's Fund Direct to Response Insurance Group

Philo Smith & Co. acted as financial advisor to Allianz of America and Fireman's Fund Insurance Co.



Unitrin, Inc.

has agreed to acquire

Merastar Insurance Company

PhiloSmith acted as exclusive financial advisor to Unitrin, Inc.



Future Planning Associates, Inc.

has been acquired by

U.S.I. Holdings Corporation

Philo Smith & Co. acted as exclusive financial advisor to Future Planning Associates, Inc.



Legion Insurance Company (in Liquidation)

has sold its subsidiary

Professional Risk Management Services, Inc.

to

Transatlantic Holdings, Inc.

PhiloSmith acted as exclusive financial advisor to Legion Insurance Company (in Liquidation)



Response Insurance Group

has acquired

Worldwide Insurance Company and Worldwide Direct Auto Insurance Company subsidiaries of Great American Insurance Company

Philo Smith & Co. acted as exclusive financial advisor to Response Insurance Group



Patrons Mutual Group of Connecticut

has affiliated with

State Auto Mutual Insurance Company

PhiloSmith acted as exclusive financial advisor to State Auto Mutual Insurance Company



Harleysville Mutual Insurance Company

has agreed to merge with

Penn Mutual Insurance Company

Philo Smith & Co. acted as exclusive financial advisor to Harleysville Mutual Insurance Company

PHILOSMITH

Advising Insurance Companies Since 1962