

MARKET PERFORMANCE OF FINANCIAL SERVICES STOCKS

In the fourth quarter of 2011, the US stock market increased 11.2% as measured by Standard & Poor's 500. Insurance stocks, as measured by the Nasdaq Insurance Index, and financial services stocks, as measured by the XLF Financial ETF, slightly underperformed the market with respective increases of 10.5% and 10.1%. The average return

for all 152 companies included in this study was 12.8%, better than the Nasdaq Insurance Index, the XLF, and the US equity market. The majority of insurance and financial sector segments outpaced the market as all categories posted positive returns for the quarter, but four categories lagged the S&P 500, as shown in Table 1.

Table 1

	Median Average % Increase <u>9/30/11 - 12/30/11</u>
Financial Guarantors	39.5
Health Insurers	24.5
Insurance Brokers	23.6
Finance Cos.	16.0
Claims Adjusters	14.9
Property and Casualty Reinsurance Cos.	12.8
Life & Annuity Cos.	11.3
Standard & Poors 500	11.2
Primary Property Casualty Underwriting Cos.	10.8
Nasdaq Insurance Index	10.5
XLF (Financial Sector ETF)	10.1
Title Insurers	7.3
Securities Brokers & Asset Management Cos.	6.2
Multi-Line Insurers	5.5

The 4th quarter of 2011 closed positively for the broad market despite continuing economic headwinds and global slowdown fears. Insurance and financials will participate in a broad market recovery and many have started showing not only signs of resilience, but positive potential. Some of the year's previously worst performing sectors were ahead of the pack for the fourth quarter including Financial Guarantors, up 39.5%, and Health Insurers, up 24.5%. Life and Annuity companies, a laggard previously in the year, also edged out the S&P 500 by 0.1% to return 11.3% in the last quarter.

Marsh and McLennan Co. Inc reports that 48% of all U.S property renewals in the fourth quarter experienced rate increases. Montpelier Re Holdings completed the sale of excess and surplus lines subsidiary, Montpelier U.S., to Selective. Selective was the ninth best performing stock, up 35.9%, while Montpelier Re was relatively flat with a 0.4% increase.

Health Insurers increased 24.5% in the quarter. The category also included the best performing stock for the quarter. Delphi Financial Group accepted an offer by Tokio Marine on

December 21st that boosted the stock price to finish up 105.9% over the quarter. Tokio Marine made a cash offer of \$43.875 per class A share and \$52.875 per class B share and will also provide a one-time special dividend of \$1.00 per share to both A and B class shareholders. AFLAC, deriving a large portion of revenues from Japan, benefited from better than expected post-disaster policy sales in the region and the strength of the yen. AFLAC stock increased 23.78%

Financial Guarantors reversed their third quarter losses and became the best performing sub-sector while expected losses related to private mortgage insurance and other private debt defaults continued. The group had a median average increase of 39.5% in the fourth quarter. Two of the ten best performing stocks fell into this segment and none experienced stock price declines. The nation's largest provider of private mortgage insurance, MGIC Investment Corp, reported a fourth year of losses, but the stock was a top performer after experiencing a reduction in delinquent loan rates from 17.7% in Sept 2010 to 15.9% in Sept 2011. That green shoot of positive news boosted the stock up 99.5% to place second in returns for the quarter. MBIA, ranked third, was up 59.4%.

InsWeb Corp, the best performer in the insurance brokerage category, increased 33.4% resulting from the \$65 million sale to Bankrate Inc. of substantially all assets related to insurance. InsWeb will now focus on licensing patents under the new name of Internet Patents Company and will no longer be included in this report.

Affirmative Insurance had the worst performing stock, with a price decline of 66.5%. Revenues suffered severe declines after attempts to increase rates in an effort to improve margins resulted in reductions in policies written. Stock price declines began in June after A.M. Best cut the financial strength ratings for several Affirmative insurance entities and downgraded the issuer credit rating of Affirmative Holdings based on "continued weakening capital position and unfavorable underwriting results". Two board members resigned in September, sparking a NASDAQ noncompliance notice that was resolved in early December.

Despite having the lowest median average return, several members of the multi-line insurers group performed well above the market. The range was from Hartford Financial with a 0.7% gain to

Kemper with a 21.9% gain. Claims adjusters, Crawford & Co., shares regained 14.9% to finish up 81.2% as the top performing stock of the year.

Penn Millers Holdings was merged with an ACE American Insurance Co. unit to become part of ACE Ltd. on Nov. 30th. FPIC Insurance Group was acquired by Doctors Co on Oct 19th. Both transactions had been announced previously and had little effect on the stock prices during the fourth quarter.

The 10 best performing and worst performing financial services stocks are given in Tables 2 and 3, respectively. The performance of other individual stocks and categories is given in Table 4.

Table 2:

Ten Best Performing Financial Services Stocks	
	% Increase <u>9/30/11 - 12/30/11</u>
Delphi Financial Group	105.9
MGIC Investment Corp	99.5
MBIA Inc	59.4
Citizens Inc	51.2
Protective Life Corp	44.3
Employers Holdings	41.8
Phoenix Companies Inc	37.7
QC Holdings	37.7
Selective Insurance Group	35.9
InsWeb Corp	33.4

Table 3:

Ten Worst Performing Financial Services Stocks	
	% Decrease <u>9/30/11 - 12/30/11</u>
Affirmative Insurance	66.5
Kingsway Financial Services	27.8
GAINSCO INC	23.9
Imperial Holdings Inc	21.7
National Security Group Inc	19.6
American Independence Corp	19.0
Federated Investors	13.6
Tower Group Inc	11.8
Investors Heritage Capital	11.6
Och-Ziff Capital	7.9

Table 4

		Market Price <u>9/30/11</u>	Market Price <u>12/30/11</u>	Percent Increase/ - Decrease
<u>Financial Guarantors</u>				
MGIC Investment Corp	MTG	\$1.87	\$3.73	99.47%
MBIA Inc	MBI	\$7.27	\$11.59	59.42%
Assured Guaranty Ltd	AGO	\$10.99	\$13.14	19.56%
Radian Group Inc	RDN	\$2.19	\$2.34	6.85%
Median Average				39.49%
<u>Health Insurers</u>				
Delphi Financial Group	DFG	\$21.52	\$44.30	105.86%
StanCorp Financial Group	SFG	\$27.57	\$36.75	33.30%
Torchmark Corp	TMK	\$34.86	\$43.39	24.47%
Aflac Inc	AFL	\$34.95	\$43.26	23.78%
Unum Group	UNM	\$20.96	\$21.07	0.52%
Median Average				24.47%
<u>Insurance Brokers</u>				
InsWeb Corp	INSW	\$6.10	\$8.14	33.44%
Fortegra Financial Corp	FRF	\$5.25	\$6.68	27.24%
Arthur J Gallagher	AJG	\$26.30	\$33.44	27.15%
Brown & Brown Inc	BRO	\$17.80	\$22.63	27.13%
National Financial Partners	NFP	\$10.94	\$13.52	23.58%
Marsh & McLennan	MMC	\$26.55	\$31.62	19.10%
Willis Group Holdings	WSH	\$34.37	\$38.80	12.89%
Aon Corp	AON	\$41.98	\$46.80	11.48%
Life Partners Holdings	LPHI	\$6.05	\$6.46	6.78%
Median Average				23.58%

Table 4 (cont'd.)

		Market Price 9/30/11	Market Price 12/30/11	Percent Increase/ - Decrease
<u>Finance Cos.</u>				
QC Holdings	QCCO	\$2.92	\$4.02	37.67%
World Acceptance Corp	WRLD	\$55.95	\$73.50	31.37%
Nicholas Financial	NICK	\$9.77	\$12.82	31.22%
Credit Acceptance Corp	CACC	\$64.36	\$82.28	27.84%
Advance America	AEA	\$7.36	\$8.95	21.60%
Asset Acceptance Capital Corp	AACC	\$3.37	\$3.91	16.02%
Portfolio Recovery Associates	PRAA	\$62.22	\$67.52	8.52%
White River Capital	RVR	\$19.37	\$20.25	4.54%
Asta Funding	ASFI	\$8.11	\$7.98	-1.60%
Encore Capital Group	ECPG	\$21.85	\$21.26	-2.70%
Imperial Holdings Inc	IFT	\$2.40	\$1.88	-21.67%
Median Average				16.02%
<u>Claims Adjusters</u>				
Crawford & Co. (B Shares)	CRDB	\$5.36	\$6.16	14.93%
Median Average				14.93%
<u>Property Casualty Reinsurance Cos.</u>				
Validus Holdings Ltd	VR	\$24.92	\$31.50	26.40%
Axis Capital Holdings Ltd	AXS	\$25.94	\$31.96	23.21%
PartnerRe Ltd	PRE	\$52.27	\$64.21	22.84%
Maiden Holdings Ltd	MHLD	\$7.39	\$8.76	18.54%
RenaissanceRe	RNR	\$63.80	\$74.37	16.57%
Aspen Insurance Holdings	AHL	\$23.04	\$26.50	15.02%
Greenlight Capital Re	GLRE	\$20.74	\$23.67	14.13%
Transatlantic Holdings Inc	TRH	\$48.52	\$54.73	12.80%
Endurance Specialty	ENH	\$34.15	\$38.25	12.01%
Platinum	PTP	\$30.75	\$34.11	10.93%
Berkshire Hathaway	BRK.A	\$106,800.00	\$114,755.00	7.45%
Flagstone Reinsurance Holdings	FSR	\$7.75	\$8.29	6.97%
Everest Reinsurance Group Ltd	RE	\$79.38	\$84.09	5.93%
XL Group plc	XL	\$18.80	\$19.77	5.16%

Table 4 (cont'd.)

		Market Price <u>9/30/11</u>	Market Price <u>12/30/11</u>	Percent Increase/ - Decrease
Property Casualty Reinsurance Companies (cont'd.)				
Enstar Group Ltd	ESGR	\$95.23	\$98.20	3.12%
Montpelier Re	MRH	\$17.68	\$17.75	0.40%
Median Average				12.80%

		Market Price <u>9/30/11</u>	Market Price <u>12/30/11</u>	Percent Increase/ - Decrease
Life & Annuity Cos				
Citizens Inc	CIA	\$6.41	\$9.69	51.17%
Protective Life Corp	PL	\$15.63	\$22.56	44.34%
Phoenix Companies Inc	PNX	\$1.22	\$1.68	37.70%
FBL Financial Group Inc	FFG	\$26.62	\$34.02	27.80%
Lincoln National Corp	LNC	\$15.63	\$19.42	24.25%
Presidential Life	PLFE	\$8.22	\$9.99	21.53%
Security National Financial Corp	SNFCA	\$1.36	\$1.63	19.85%
American Equity Investment	AEL	\$8.75	\$10.40	18.86%
Genworth Financial Inc	GNW	\$5.75	\$6.55	13.91%
Metlife Inc	MET	\$28.01	\$31.18	11.32%
Symetra Financial Corp	SYA	\$8.15	\$9.07	11.29%
Principal Financial Group Inc	PFG	\$22.67	\$24.60	8.51%
Prudential Financial	PRU	\$46.86	\$50.12	6.96%
Kansas City Life Insurance	KCLI	\$30.87	\$32.82	6.32%
National Western Life	NWLI	\$135.50	\$136.16	0.49%
UTG Inc	UTGN	\$12.00	\$12.00	0.00%
Primerica Inc	PRI	\$24.56	\$23.24	-5.37%
Investors Heritage Capital	IHRC	\$18.10	\$16.00	-11.60%
American Independence Corp	AMIC	\$4.78	\$3.87	-19.04%
Median Average				11.32%

Table 4 (cont'd.)

		Market Price 9/30/11	Market Price 12/30/11	Percent Increase/ - Decrease
Primary Property Casualty Underwriting Cos				
Employers Holdings	EIG	\$12.76	\$18.09	41.77%
Selective Insurance Group	SIGI	\$13.05	\$17.73	35.86%
Assurance America	ASAM	\$0.16	\$0.21	31.25%
21st Century Holding	TCHC	\$2.32	\$2.96	27.59%
Alterra Cap Holdings	ALTE	\$18.97	\$23.63	24.57%
Homeowners Choice	HCII	\$6.45	\$8.01	24.19%
Travelers Companies Inc	TRV	\$48.73	\$59.17	21.42%
Horace Mann	HMN	\$11.41	\$13.71	20.16%
Meadowbrook Insurance	MIG	\$8.91	\$10.68	19.87%
CNA Financial Corp	CNA	\$22.47	\$26.75	19.05%
American Financial Group Inc	AFG	\$31.07	\$36.89	18.73%
American Safety Insurance	ASI	\$18.40	\$21.75	18.21%
Donegal Group Inc	DGICA	\$12.04	\$14.16	17.61%
Unico American Corp	UNAM	\$10.26	\$12.05	17.45%
Hilltop Holdings Inc	HTH	\$7.21	\$8.45	17.20%
Allied World Assr	AWH	\$53.71	\$62.93	17.17%
Markel Corp	MKL	\$357.13	\$414.67	16.11%
Global Indemnity plc	GBLI	\$17.08	\$19.83	16.10%
WR Berkley Corp	WRB	\$29.69	\$34.39	15.83%
ACE Ltd	ACE	\$60.60	\$70.12	15.71%
Allstate Corp	ALL	\$23.69	\$27.41	15.70%
Cincinnati Financial	CINF	\$26.33	\$30.46	15.69%
Chubb Corp	CB	\$59.99	\$69.22	15.39%
RLI Corp	RLI	\$63.58	\$72.86	14.60%
United F&C Co	UFCS	\$17.69	\$20.18	14.08%
Arch Capital Group Ltd	ACGL	\$32.68	\$37.23	13.92%
OneBeacon Insurance Group	OB	\$13.64	\$15.39	12.83%
National Interstate Corp	NATL	\$21.98	\$24.67	12.24%
EMC Insurance Group Inc	EMCI	\$18.40	\$20.57	11.79%
White Mountains	WTM	\$405.75	\$453.46	11.76%
ProAssurance Corp	PRA	\$72.02	\$79.82	10.83%
First Acceptance Corp	FAC	\$1.23	\$1.36	10.57%
Navigators Group Inc	NAVG	\$43.21	\$47.68	10.34%
Progressive Corp	PGR	\$17.76	\$19.51	9.85%
Erie Indemnity Co	ERIE	\$71.18	\$78.16	9.81%
Loews Corp	L	\$34.55	\$37.65	8.97%

Table 4 (cont'd.)

		Market Price <u>9/30/11</u>	Market Price <u>12/30/11</u>	Percent Increase/ - Decrease
Primary Property Casualty Underwriting Cos (cont'd.)				
Infinity P&C Corp	IPCC	\$52.48	\$56.74	8.12%
Safety Insurance Group Inc	SAFT	\$37.83	\$40.48	7.01%
AmTrust Financial Services	AFSI	\$22.26	\$23.75	6.69%
Eastern Insurance Holdings	EIHI	\$13.15	\$13.98	6.31%
SeaBright Holdings	SBX	\$7.20	\$7.65	6.25%
American International Group Inc	AIG	\$21.95	\$23.20	5.69%
Old Republic International Corp	ORI	\$8.92	\$9.27	3.92%
United Insurance Holdings	UIHC	\$4.25	\$4.40	3.53%
State Auto Financial	STFC	\$13.15	\$13.59	3.35%
Kingstone Companies Inc	KINS	\$3.48	\$3.59	3.16%
Argo Group International	AGII	\$28.37	\$28.96	2.08%
Penn Millers Holding	PMIC	\$20.09	\$20.50	2.04%
Baldwin & Lyons	BWINB	\$21.37	\$21.80	2.01%
HCC Insurance Holdings Inc	HCC	\$27.05	\$27.50	1.66%
FPIC Insurance Group Inc	FPIC	\$41.84	\$42.00	0.38%
Alleghany Corp	Y	\$288.50	\$285.29	-1.11%
Hanover Insurance Group	THG	\$35.50	\$34.95	-1.55%
Harleysville Group	HGIC	\$58.86	\$56.57	-3.89%
Hallmark Financial Services	HALL	\$7.37	\$6.99	-5.16%
Universal Insurance Holdings	UVE	\$3.85	\$3.58	-7.01%
Tower Group Inc	TWGP	\$22.86	\$20.17	-11.77%
National Security Group Inc	NSEC	\$10.88	\$8.75	-19.58%
GAINSCO INC	GANS	\$7.11	\$5.41	-23.91%
Kingsway Financial Services	KFS	\$0.72	\$0.52	-27.78%
Affirmative Insurance	AFFM	\$1.58	\$0.53	-66.46%
Median Average				10.83%

Table 4 (cont'd.)

<u>Title</u>		<u>Market Price</u> <u>9/30/11</u>	<u>Market Price</u> <u>12/30/11</u>	<u>Percent Increase/</u> <u>- Decrease</u>
Stewart Info Services	STC	\$8.84	\$11.55	30.66%
Investors Title Co	ITIC	\$32.59	\$35.77	9.76%
Fidelity National Financial	FNF	\$15.18	\$15.93	4.94%
First American Financial	FAF	\$12.80	\$12.67	-1.02%
Median Average				7.35%

<u>Securities Brokers & Asset Management Cos</u>		<u>Market Price</u> <u>9/30/11</u>	<u>Market Price</u> <u>12/30/11</u>	<u>Percent Increase/</u> <u>- Decrease</u>
Ameriprise	AMP	\$39.36	\$49.64	26.12%
Lazard	LAZ	\$21.10	\$26.11	23.74%
KKR & Co. L.P.	KKR	\$10.40	\$12.83	23.37%
Raymond James Financial	RJF	\$25.96	\$30.96	19.26%
T. Rowe Price	TROW	\$47.77	\$56.95	19.22%
Blackstone Group L.P.	BX	\$11.98	\$14.01	16.94%
Morgan Stanley	MS	\$13.51	\$15.13	11.99%
Jefferies	JEF	\$12.41	\$13.75	10.80%
Eaton Vance	EV	\$22.27	\$23.64	6.15%
Janus	JNS	\$6.00	\$6.31	5.17%
Franklin Resources	BEN	\$95.64	\$96.06	0.44%
Waddell and Reed	WDR	\$25.01	\$24.77	-0.96%
Knight Capital group	KCG	\$12.16	\$11.82	-2.80%
Goldman Sachs	GS	\$94.55	\$90.43	-4.36%
Legg Mason	LM	\$25.71	\$24.05	-6.46%
Och-Ziff Capital	OZM	\$9.13	\$8.41	-7.89%
Federated Investors	FII	\$17.53	\$15.15	-13.58%
Median Average				6.15%