

An Insight into the World of Insurance Mergers and Acquisitions

Recent Noteworthy Transactions

(\$s in millions)

PROPERTY / CASUALTY DEALS

Target	Buyer	Value	Price to GAAP:	
			Equity	Op. Earn.
Commerce Group, Inc.	MAPFRE SA	\$2,200	1.6x	6.6x
Midland Company	Munich Reinsurance Co.	\$1,304	2.0x	9.7x
North Pointe Hldgs. Corp.	QBE Holdings, Inc.	\$146	1.5x	11.8x
RTW	Rockhill Holding Co.	\$68	1.2x	30.4x

AGENT / BROKER DEALS

Target	Buyer	Value	Price to:	
			Revenue	Op. Earn.
The Combined Group, Inc.	Brown & Brown	\$24	1.9x	
Midlands Management Corp.	PMA Capital Corp.	\$45	1.5x	

LIFE DEALS

Target	Buyer	Value	Price to GAAP:	
			Equity	Op Earn.
Combined Insurance Co.	ACE Limited	\$2,400	2.0x	N/A

Fundamentals Driving Deals

For property casualty insurers, the ever softening market driven by excess capital is spurring M&A activity not seen since the late 1990's. Industry capacity, which can be measured by the ratio of premium to policyholder surplus, appears to be approaching 0.8 according to ISO statistics. In other words, there is now only about 80 cents of premium being generated for every \$1 of surplus, down from about \$1.30 of premium for every \$1 of surplus back in the hard market of 2003. The effect is simple: the demand for returns forces carriers to use their excess surplus for buy-backs, dividends, or for the purchase of entities that will bolster the otherwise elusive top-line growth. Like the carriers, the soft market has the brokers between the proverbial rock and a hard place as well. To appease Wall Street, they must grow through acquisition since organic growth is close to impossible.

Starting on the carrier side, two foreign buyers made headlines with sizable deals for American targets. In October, German-based reinsurer, Munich Re, which is the 2nd largest reinsurer in the world, agreed to pay \$1.3 billion for manufactured housing insurance specialist Midland. The purchase price of \$65 a share is a 55% premium over Midland's share price in the beginning of 2007 and 2.0x September 30th GAAP book value. Of note, Midland posted 3Q revenue growth of over 14% while Munich Re's revenue was essentially flat. Meanwhile, less than two weeks after the Midland announcement, the largest writer of personal auto insurance in the tumultuous Massachusetts market, Commerce Group, agreed to sell to Spanish insurer MAPFRE SA for \$2.3 billion (1.6x Sept. 30th GAAP book value). MAPFRE's uncontested offer (MAPFRE required a no-shop provision) constituted a 22.6% premium to Commerce's prior 30 day average stock price and, like the Midland deal, was aided by the historically weak US dollar. Although over 70% of Commerce's written premium during the first 9 months of 2007 was Massachusetts personal auto, MAPFRE says it will use Commerce as its US insurance platform.

After about a 12 month hiatus, QBE jumped back into the acquisition mode with its agreement to buy specialty insurer North Pointe for \$16 a share (\$146 million) on January 3rd, a 50% premium over NPTE's prior day share price and 21.2x trailing twelve month earnings through 3Q '07. North Pointe went public at \$12/share in September '05. This is the Australian insurer's fifth US deal since 2006 as it continues to actively build out its US specialty insurance platform.

The much awaited consolidation by and among Bermudian insurers has yet to start in earnest although ACE announced two deals in late '07. ACE agreed to pay \$2.4 million for AON's last remaining underwriting company, Combined Insurance, which

Insurance Carrier Stocks

PROPERTY / CASUALTY CO.'s

Median Price to Earnings (ttm):	8.0x
Median Price to Book (mrq):	1.2x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm):	10.5x
Median Price to Book (mrq):	1.0x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm):	9.7x
Median Price to Book (mrq):	1.3x



INDEX PERFORMANCE

NASDAQ Ins. YE '07:	-0.8%
S&P 500 Return YE '07:	3.5%

Insurance Broker Stocks

Price 1/4/08 to TTM 9/30/07

	Revenue	Earnings	EBITDA	EBITDA/Revenue %
Maximum	3.4x	32.0x	11.5x	40.3%
Minimum	1.1x	11.2x	7.2x	12.8%
Median	1.5x	16.3x	8.4x	16.4%

Fundamentals Driving Deals cont'd.

underwrites and markets specialty individual accident and supplemental health insurance products. Less than a week after that announcement, ACE agreed to acquire the assets of the high-end personal lines business (yachts and fine art) of the troubled Atlantic Mutual.

On the broker side, after the wave of big private equity sponsored buyouts of USI, HUB, and Alliant, the public brokers have been on a tear. It appears Brown & Brown's acquired revenue in 2007 will be more than double that of 2006. B&B announced 4 deals just in December. AJ Gallagher's acquired revenue through the 3rd quarter of 2007 was \$54.7 million which eclipsed its acquired revenue for all of 2006. In the 4th quarter AJG announced 10 more deals, 5 just in December. Hilb Rogal & Hobbs, however, appear to take the prize with acquired revenue topping \$150 million in 2007. That is approximately 3 times the amount of their acquired revenue in '06 and '05 combined.

Arguably, the busy fourth quarter can be attributed to the fact that the future of capital gains taxes is weighing heavily on the minds of privately held agents and brokers. The days of the 15% rate appear short lived. At the end of 2010, the rate will revert back to 39.6% unless new legislation is passed. Will the rate increase before then? With Democrats controlling the legislature and possibly the Presidency, it is reasonable that it will. The real question is how much.

Deal Notes

Northeast Bancorp Bucking the Trend

Unlike some of its larger brethren that are selling their insurance operations, ME-based Northeast Bank is on a roll, completing six agency acquisitions in the past year. On November 30th, the bank completed its purchase of Spence & Mathews for \$4.3 million (\$3 million in cash / \$1.3 million in 7 yr. seller note). The firm, with 16 employees operating two branches, represents fourteen carriers and generates \$10 million in premium. Based on our estimate of revenue in the range of \$1.3 to \$1.5 million, Spence & Mathews appears to be a sizable deal for the bank. Northeast Bancorp's insurance commissions during fiscal year 2007 ending in June were \$2.3 million.

SOME OF OUR TRANSACTIONS.....



State Auto Mutual Insurance Co.

has agreed to affiliate with

Patrons Mutual Group of Connecticut

PhiloSmith acted as exclusive financial advisor to State Auto Mutual Insurance Co.



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.



Professionals Direct, Inc.

has been acquired by

The Hanover Insurance Group

PhiloSmith acted as exclusive financial advisor to Professionals Direct, 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.



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)



Unitrin, Inc.

has agreed to acquire

Merastar Insurance Company

PhiloSmith acted as exclusive financial advisor to Unitrin, Inc.



State Auto Mutual Insurance Co.

has agreed to acquire

Beacon Insurance Group

PhiloSmith acted as exclusive financial advisor to State Auto Mutual Insurance Co.



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



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.



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.



HI Holdings, Inc.
and its subsidiary
Zephyr Insurance Company

agree to be acquired by

Kingsway Financial Services, Inc.

Philo Smith & Co. acted as exclusive financial advisor to HI Holdings, 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




Future Planning Associates, Inc.

has been acquired by

U.S.I. Holdings Corporation

July 2004

Philo Smith & Co. acted as exclusive financial advisor to Future Planning Associates, 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 Munich-American Global Services, 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.



GuideOne Insurance Group

has agreed to sell

GuideOne Life Insurance
Company
to
Kansas City Life
Insurance Company

Philo Smith & Co. initiated this transaction and acted as exclusive financial advisor to GuideOne Insurance Group



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.



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



Virginia Mutual Insurance Company

has agreed to affiliate with

Alfa Mutual Insurance Company

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