

The Perspective of a Leading Insurance M&A Advisory Firm

Recent Noteworthy Transactions

(\$s in millions)

PROPERTY / CASUALTY DEALS

Target	Buyer	Value	Price to GAAP:	
			Equity	Op. Earn.
Hartford Steam Boiler	Munich Re	\$666	1.1x	4.0x
Employers Security Hldg.	Eastern Insurance Hldg.	\$12	1.9x	8.0x

AGENT / BROKER DEALS

Target	Buyer	Value	Price to:	
			Revenue	
Signal Holdings	Assurant Inc.	\$250		0.8x
AIS Management Corp.	Mercury General Corp.	\$155		1.6x*
Fullerton & Co.	Brown & Brown	\$17		1.9x
Fisher Benefits	VIST Financial	\$2		1.8x
3 Black / White Entities	SeaBright Insurance Holdings	\$2		1.2x

*PhiloSmith Estimate

LIFE / HEALTH DEALS

Target	Buyer	Value	Price to SAP:	
			Equity	Op Earn.
AIG Life Ins of Canada	BMO Financial Group	\$308	1.0x	6.3x
Florida Health Care Plan	Blue Cross Blue Shield	\$85	1.2x	5.7x
National Health Ins Co.	Southwest Ins Partners	\$21	1.2x	NA
Ozark National Life Ins.	Citizens Inc.	\$8	4.0x	26.7x

WHERE IS M&A HEADED?

There are plenty of opinions out there about what 2009 will bring for insurance M&A. Some are solid, some self-serving, some dubious. In this market, with this much uncertainty, you can only be certain of one thing: no one knows for sure because it is not clear where rates, taxes, the credit markets, or the stock market are headed. Nor is there clarity about balance sheets and rating agency actions yet to come. Before making any predictions, let's look at the last four months....an interesting time for sure.

Since last September the S&P 500 has fallen over 36% and AIG, the world's largest commercial insurer, has lost roughly \$54 billion in market value (greater than the current market value of Travelers, Allstate and Progressive combined). Between property and investment losses, the P&C industry has been drained of about 15% to 20% of its capital. The life sector hasn't fared well either. Its surplus hit in '08 will probably be over 20%. However, in the midst of the calamity, while some properties were pulled from the market, plenty of deals did happen.

In fact, some might say that the Hartford Steamboiler deal *had* to happen, although some disagree. HSB is a fine company owned by a stressed seller, in a distressed market. The sales price reflects it. In its effort to raise cash, AIG agreed to sell HSB to Munich Re for \$666 million, or just 1.1x GAAP book value. In 2000 AIG paid 3.0x book value for HSB (\$1.2 billion). It's tough to sell a large company, even a very sound one, when many potential buyers who might have the financial wherewithal to complete a large transaction opt to hunker down and wait out a financial storm.

From a buyer's perspective, smaller deals, like smaller bets, are easier to make in such a climate. And there were plenty made in the late 3rd and 4th quarter. Unitrin inked a deal with the direct to consumer auto company, Direct Response with \$152 million in writings (TTM 6/08), for \$220 million. It should be a nice addition to its Unitrin Direct operation and it complements the Company's \$47 million acquisition of Merastar in 2007, another call-center based operation that markets both auto and homeowners'. Plans to combine the units will boost economies of scale while premiums for Unitrin's direct business should top \$400 million in 2009.

State Auto Mutual wasn't seeking economies of scale through consolidation. Rather, by agreeing to purchase specialty commercial insurer, Rockhill Insurance Group, State Auto is acquiring a niche E&S platform company that will significantly

Insurance Carrier Stocks

PROPERTY / CASUALTY CO.'s

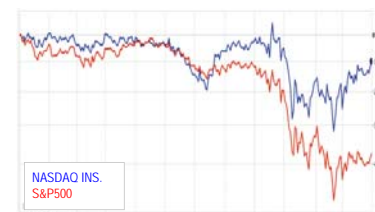
Median Price to Earnings (ttm): 10.8x
Median Price to Book (mrq): 1.0x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm): 11.1x
Median Price to Book (mrq): 0.8x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm): 8.7x
Median Price to Book (mrq): 0.6x



INDEX PERFORMANCE

NASDAQ Ins. YE '08: -11.7%
S&P 500 Return YE '08: -38.5%

Insurance Broker Stocks

Price 1/9/09 to TTM 9/30/08

	Revenue	Earnings	EBITDA	EBITDA/Revenue %
Maximum	3.1x	17.8x	9.7x	35.8%
Minimum	1.0x	13.1x	5.5x	10.4%
Median	1.5x	17.2x	8.6x	17.7%

WHERE IS M&A HEADED? cont'd.

broaden its product offering. It appears that the private equity backers of Rockhill will do quite well on their investment. Rough estimations indicate that they probably at least doubled their money (on an unlevered basis) since their investment 3 years ago. Speaking of private equity, Torus Insurance Holdings, which is backed by the private equity firm First Reserve, bought Praetorian Specialty Insurance Company from QBE. Torus is focused on writing large, energy related risks and has assembled an experienced team of insurance executives to do so.

The hunt for specialty, niche underwriters continues as insurance carriers buy more MGUs / program administrators. Hallmark Financial purchased 80% of excess transportation writer Heath XS for \$15 million. Heath XS is Hallmark's third MGU purchase in three years. Meanwhile, Argo Group purchased Insight Insurance, a professional liability program writer on an admitted basis for accountants, architects, engineers and insurance agents. According to its website, Insight will begin transitioning its \$40+ million book of business from Everest over to Argo in March.

Rumors of a hardening market in the wake of heavy CAT and investment losses abound but the hard evidence is still elusive. Tax rates and credit markets aside, if the market hardens M&A activity will taper down. However, acquisitions of stock will shift to acquisitions of books (renewal rights) and non-core subsidiaries while mutual companies, facing capital constraints, rating pressure and higher reinsurance costs may consider affiliations. History tends to repeat itself, especially in insurance M&A.

Deal Notes

SeaBright Insurance Holdings adds to Fee business

SeaBright Insurance Holdings' subsidiary, PointSure Insurance Services, acquired three Black / White entities for \$1.7mm. The Black / White entities produce \$15mm in premiums and \$1.4mm in commission revenue. These entities are managing general agencies and wholesalers that provide business owner's policies, general and auto liability coverages to small and middle market clients through over 20 insurance markets. This acquisition is consistent with SeaBright's strategy of growing its fee revenue during the ongoing soft market in order to improve the Company's overall profitability. Currently, PointSure derives 11% of its revenue from placing premium with other carriers. Management plans to grow this fee revenue both organically and through further acquisitions.

SOME OF OUR TRANSACTIONS...



Heath XS, LLC
has been acquired by
Hallmark Financial Services, Inc.

PhiloSmith acted as exclusive financial advisor to Heath XS, LLC.




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

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

D.E. LOVE ASSOCIATES
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 Munich-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)



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.



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



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.



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

PHILOSMITH

Advising Insurance Companies Since 1962