

An Insight into the World of Insurance Mergers and Acquisitions

Recent Noteworthy Transactions

(\$s in millions)

PROPERTY / CASUALTY DEALS

Target	Buyer	Value	Equity*	Op. Earn.	Price to GAAP:
Alfa Corp	Alfa Mutual Group	\$648.5	1.7x	13.4x	
James River Group	D.E. Shaw & Co.	\$575.0	2.6x	15.1x	
Employers Direct Corp.	Alleghany Corp.	\$192.5	1.5x	N/A	
Professionals Direct, Inc.	Hanover Insurance Group	\$23.2	1.8x	15.4x	

* Tangible

AGENT / BROKER DEALS

Target	Buyer	Value	Equity	Op Earn.	Price to:
Deep South Holdings	North American Ins. Leaders	\$175.0		3.3x	Revenue
Kelly Insurance Agency	Summit Financial Group, Inc.	\$6.2		1.6x	

LIFE DEALS

Target	Buyer	Value	Equity	Op Earn.	Price to GAAP:
ML Life Ins. & Merrill Lynch Life Ins.	AEGON N.V.	\$1,300.0	2.1x	10.5x	

Steady Action in Changing Times

As has been the case for some time now, the lack of organic growth is driving continued aggressive buying among fully capitalized underwriters and commission hungry brokers. In addition to volume, the breadth of recent action has been noteworthy with deals ranging from workers' compensation companies and large brokers to highly specialized underwriters. And, the private equity players continue to actively buy... and sell.

Preceding ISO's release of 1st half P&C results showing that written premium growth was flat over last year and surplus was up over 5% to a record \$513 billion, plenty of deals were cut. And, many of those deals involved workers' compensation companies. In fact, although only a handful of deals involving workers' compensation underwriters occurred from 1998 through 1Q 2007, six deals involving workers' comp companies have been announced just since May. Of note, Alleghany paid \$192.5 million for the CA-based direct comp writer, Employers Direct. The company was founded just five years ago by industry veteran, Jim Little, with the private equity backing of Securitas / Golden Gate Capital. It was his third start-up company. The initial capital was \$55 million. Meanwhile, another CA-based comp company, CompWest, which was just started in 2004 with the private equity backing of StonePoint Capital, agreed to sell to MI-based Accident Fund. CompWest wrote over \$100 million in premium in '06, up from \$40 million in '05. Also, newcomer Rockhill Insurance announced it will buy publicly traded comp writer RTW for \$67.6 million, or \$12.45 a share, while WR Berkley announced it will takeout American Mining, an AL-based comp writer focused on mining companies.

Outside the workers' comp arena, Bermuda-based private equity / hedge fund giant, DE Shaw agreed to buy specialty writer James River Group for \$575 million, or \$34.50 a share. James River went public less than two years earlier at \$18.00 per share. Other specialty underwriters recently acquired include the publicly traded professional liability underwriter specializing in attorneys, Professionals Direct, Inc., which was bought by The Hanover Insurance Group, Inc. for \$23.2 million. Also, livestock mortality underwriter, ALS Group, was acquired by Hiscox for \$55 million.

There has been plenty of speculation that we'll see consolidation or significant stock buy-backs among Bermuda companies. It certainly makes sense given the plethora of capital and dearth of premium growth. According to AM Best, equity capital in Bermuda grew over 24% in 2006 as net written premium grew less than 3%. The stage is certainly set, things should start to unfold soon.

Insurance Carrier Stocks

PROPERTY / CASUALTY CO.'s

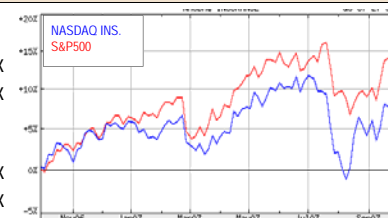
Median Price to Earnings (ttm):	9.1x
Median Price to Book (mrq):	1.3x

LIFE & HEALTH COMPANIES

Median Price to Earnings (ttm):	11.8x
Median Price to Book (mrq):	1.2x

MULTI-LINE COMPANIES

Median Price to Earnings (ttm):	10.3x
Median Price to Book (mrq):	1.4x



INDEX PERFORMANCE

NASDAQ Ins. YTD 9/21/07:	2.6%
S&P 500 Return YTD 9/21/07:	7.6%

Insurance Broker Stocks

Price (9/27/07) to TTM (2Q'07)

	Revenue	Earnings	EBITDA	EBITDA/Revenue %
Maximum	4.0x	40.2x	14.1x	40.1%
Minimum	1.1x	13.0x	6.8x	12.9%
Median	1.8x	18.8x	10.0x	16.4%

Steady Action in Changing Times cont'd.

On the distribution side, prominent private equity player Blackstone purchased private equity backed Alliant Insurance Services for \$1.1 billion. That was the third \$1 billion plus deal in the brokerage space in just six months. Meanwhile, Bank of America joined the list of banks shedding their insurance operations. B of A sold its northeast focused, \$66 million revenue agency to the acquisitive HRH (7 deals YTD '07). It appears that CT-based Webster Bank is following suit having announced that it is reviewing strategic alternatives for its insurance operation. Apparently, its cross-sell initiatives have not been as successful as they had hoped.

In addition to the larger brokers buying the smaller brokers, underwriting companies continue to buy distribution. Transactions earlier this year included Markel's purchase of Black/White's social service program operation, Axis' acquisition of AON's subsidiary, Media/Professional Insurance Inc., and Meadowbrook's \$23 million buy-out of program manager, U.S. Specialty Underwriters. More recently, TX-based Republic Companies purchased Southern States General Agency while Endurance Specialty agreed to buy crop insurance provider ARMtech, which included a thinly capitalized insurance company. As rates continue to soften and organic growth continues to evaporate, watch for carriers buying up select distribution to secure top and bottom-line growth and expertise.


Meanwhile, privately owned brokers ponder the future of the 15% capital gains tax and wonder if it will last with a new administration following the '08 election.

Deal Notes

The Hanover Insurance Group, Inc. buys Professionals Direct, Inc.

On September 14, The Hanover Insurance Group, Inc. acquired Professionals Direct, Inc. for \$23.2 million in cash. The purchase price was \$69.61 per share, which represented a 178% increase from its \$25 share price at the beginning of 2007. It also equated to 1.8x tangible book value and 15.4x operating earnings. Professionals Direct was formed in 1996 in Michigan, and provides professional liability insurance to lawyers and law firms in various states, with 34% of 2006 earned premium coming from Michigan. PhiloSmith was the exclusive advisor for Professionals Direct, Inc.

SOME OF OUR TRANSACTIONS.....



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

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




Financial Industries Corporation

has merged with

InterContinental Life Corporation

Philo Smith & Co. acted as exclusive advisor to Financial Industries Corporation



State Automobile Mutual Insurance
Company

has merged with

Meridian Mutual Insurance

and acquired

Meridian Insurance Group, Inc.

Philo Smith & Co. acted as exclusive advisor to State Automobile 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




GMAC Insurance
Holdings Inc.

has agreed to acquire

National Alliance
Insurance Company

Philo Smith & Co. acted as exclusive financial advisor to GMAC Insurance Holdings Inc.



Swiss Re Life and Health America

has acquired

Royal Maccabees Life Insurance
Company
from
Royal & SunAlliance Group

Philo Smith & Co. initiated this transaction and acted as exclusive advisor to Swiss Re Life and Health America



United Fire & Casualty Company

has acquired

American Indemnity Financial
Corporation

Philo Smith & Co. initiated this transaction and acted as exclusive financial advisor to American Indemnity Financial Corporation



Guardian Royal Exchange plc

*has exchanged its
Canadian operations for*

The Netherlands
Insurance Company
a subsidiary of ING Group

Philo Smith & Co. initiated this transaction and acted as financial advisor to Guardian Royal Exchange



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