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The Insurance and Financial Review



January 2007

Review and Outlook – Auto Insurance

Company Progress Reports

- **Hallmark Financial**
- **James River Group**
- **Presidential Life**

Statistical Summary

The Insurance and Financial Review is intended to provide information about the insurance business and other financial services businesses to executives and professionals in those businesses and their professional advisers. The statements contained in this publication are based on information from sources considered reliable or are opinion. They are not intended to be complete, and the publisher cannot assume responsibility for their accuracy. This publication is not intended as investment advice and should not be construed as giving investment advice. No statement herein constitutes or shall be construed to constitute an offer to sell or dispose of any securities, or a solicitation of an offer to buy securities. Philo Smith Capital Corporation, its affiliates or accounts controlled by it or its affiliates, or officers and employees of Philo Smith Capital Corporation or of its affiliates, may have a position in the securities of companies mentioned and may make purchases or sales of such securities from time to time.

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January 2007

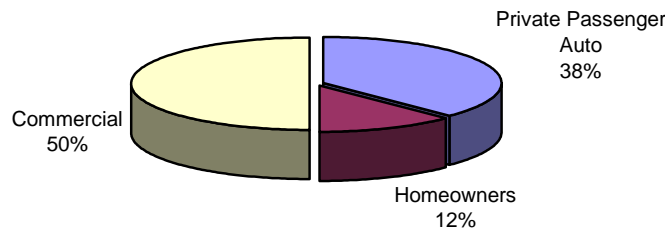
Auto Insurance

Private Passenger Auto Vital to the P/C Industry

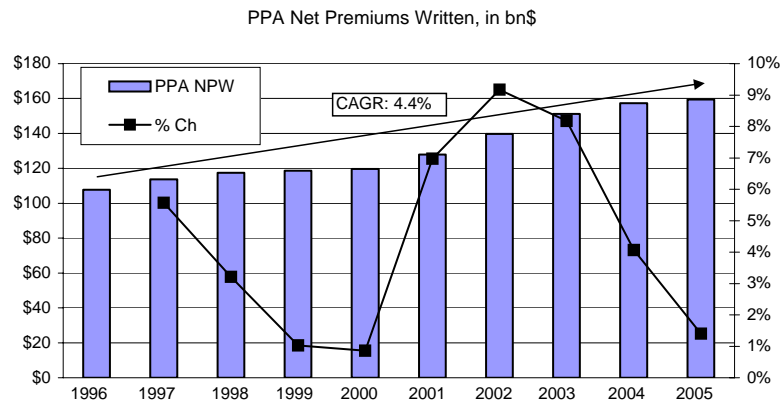
The private passenger auto insurance segment (PPA) is a vital component of the overall domestic property casualty insurance market. Auto insurance generates more premiums and touches more consumers than any other line. PPA generated \$160 billion in net premiums written in 2005, and made up 38% of the overall P/C market.

PPA net premium growth over the last ten years has lagged the overall industry. Net premiums written for the PPA segment have seen a CAGR of 4.4% since 1996, compared with 5.3% for the P/C industry overall.

Private Passenger Auto Net Premiums Written,
as % of the P/C Sector, 2005



Source: A.M. Best



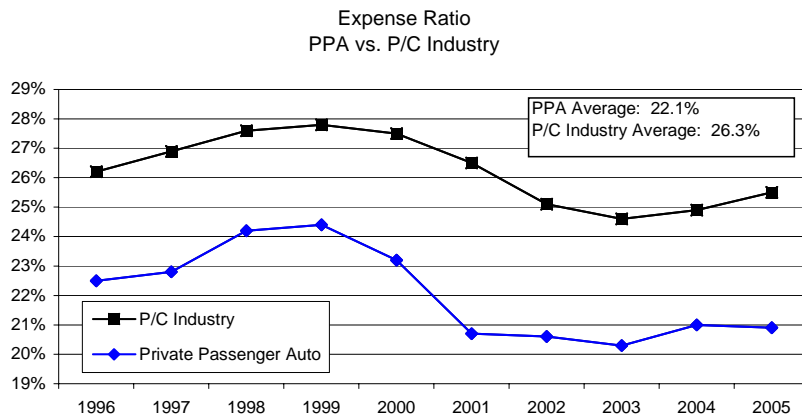
Source: A.M. Best

PPA: A Profit Juggernaut of the Overall P/C Industry

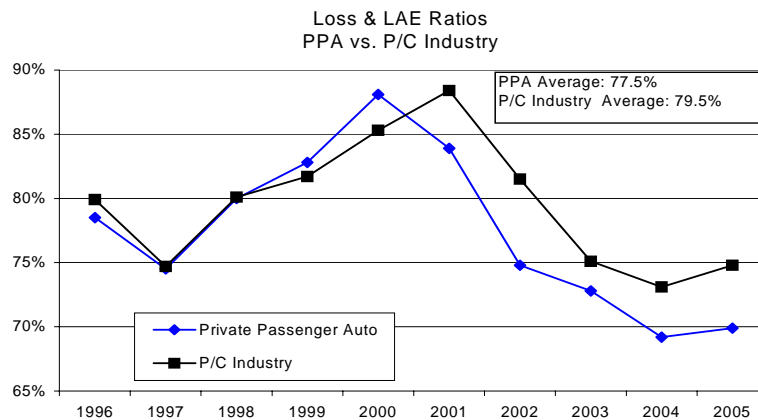
Loss, expense and combined ratios for the PPA sector have outperformed those of the P/C industry. However, as premium growth has slowed and competition increased, companies are increasingly turning to high-touch strategies to win and retain business. Advertising expenditures are at a record high among PPA writers and are driving increases in the industry expense ratio. In 2005, PPA insurance industry advertising expenses increased 27% over the prior year;

year over year increases in advertising spend were 25%, 10%, and 2% in 2004, 2003, and 2002, respectively. GEICO leads the auto industry in advertising expenditures (\$500 million was budgeted for 2006) and a number of its competitors (including Allstate and State Farm) have increased their advertising budgets and investments in technology to retain market share.

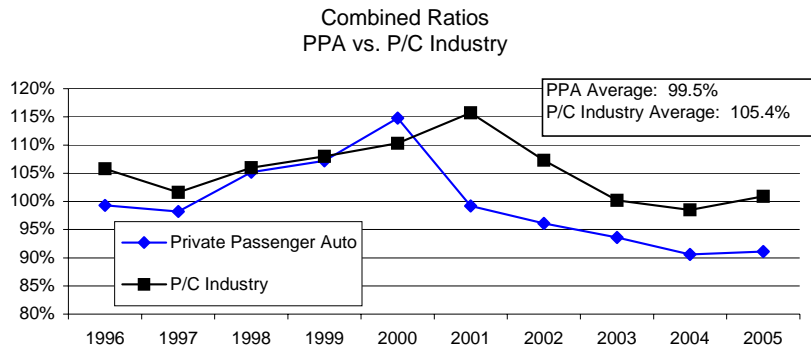
The industry saw an increase in loss ratios owing to the five storms that hit the Southeast in 2005. 674,000 claims were made for vehicles that were either damaged or destroyed by the storms, costing the industry approximately \$3.2 billion. The states contributing the highest number of auto claims for the 2005 CAT year were Florida, Louisiana, and Mississippi, with claims totaling 296,000, 225,000 and 107,500 respectively.



Source: A.M. Best



Source: A.M. Best



Source: A. M. Best

3Q Profit Comparisons Strong Owing to the 2005 Hurricane Season

Recently reported results for most PPA insurers were strong, with combined ratios improving an average of 2 points in the first nine months of 2006 versus the comparable period of 2005. However, after adjusting operating metrics for the impact of last year’s catastrophic activity, combined ratios were relatively flat with the prior period. (Below is a representative sample of adjusted combined ratios for some of the companies that reported CAT-related adjustments within their releases).

	YTD Combined Ratios excl CAT		'06 vs. '05 Better/(Worse)	YTD Reported Combined Ratios		'06 vs. '05 Better/(Worse)
	2006	2005		2006	2005	
Geico (BRK-A)	87.1%	85.9%	-1.2%	87.7%	87.8%	0.1%
Allstate ¹	86.3%	88.8%	2.5%	86.7%	91.4%	4.7%
Progressive	86.4%	85.0%	-1.4%	86.4%	87.2%	0.8%
Average	86.6%	86.6%	0.0%	86.9%	88.8%	1.9%

¹ Auto only

2005 CAT Losses Did Not Impact 2006 Premium Pricing

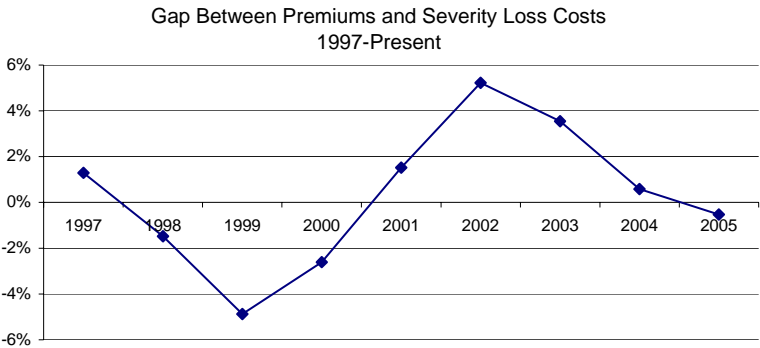
Consumer spending on auto insurance was estimated to have risen just 0.5% in 2006, according to estimates by the Insurance Information Institute. This is the smallest year-over-year increase in six years, and a deceleration from the 2.5% increase seen in 2005. The average cost for auto insurance nationwide in 2006 was expected to be \$867, an increase of only \$4 per vehicle from 2005.

While some catastrophe prone states may see some increases in pricing, the 2005 CAT season put little pressure on rate increases for 2006 and 2007. Numerous insurers (large and small) announced cuts in premium rates in the second half of 2006 that have become effective as of 1/1/07.

Rising Loss Ratios Coupled With Flat Premiums Suggest Profitability May Be Coming Under Pressure

To quantify the potential impact that flat auto insurance expenditures (premium proxy) will have on industry profitability, we have measured the gap between annual changes in premiums and severity loss costs over the last ten years. Our loss cost severity index calculates the year over year change in auto physical damage (PD) and bodily injury (BI) severity. Note: our loss cost severity index is based on the simplified assumption that 50% of loss costs are BI related and 50% are PD related. A positive value on the chart below indicates that premiums exceed loss costs.

From 2001 to 2004, changes in premiums exceeded loss costs, a favorable trend for the industry. In 2005, the severity lost cost index increased 2.8%, while auto insurance premium expenditures increased 2.3%, meaning for the first time in five years, loss costs exceeded premium increases.



Source: III

While insurers are beginning to experience varying degrees of margin compression, near-term financial health will likely remain strong as insurers benefit from the “cushion” created from 2001 through 2004. Additionally, loss frequency trends remain favorable as a result of stricter licensing requirements for teenagers, stiffer drunk driving laws and penalties, aggressive fraud prevention efforts, and higher deductibles. Although we have seen frequency claims for the industry decline, for the purpose of the exercise above, we have not incorporated these into our loss cost index. As such, we note that loss cost trends could be exaggerated (as could be the pressure on profitability).

Several Initiatives Underway to Overcome Challenges: Pricing Discipline Will Be Very Important

Given the short-tail nature of their business, auto insurers have a limited opportunity to earn investment income and profitability is largely driven by underwriting. PPA insurers’ ability to segment risk and charge commensurate

premiums is critical to achieving underwriting success. Increasingly sophisticated segmentation is a trend that continues to be facilitated by improvements in carriers' technological and data warehousing capabilities. We have seen a trend in "pure premium modeling," using more sophisticated modeling techniques with heavy reliance on external data. Credit scoring has become widely used in segmentation. However, a number of states regulate the use of credit scoring and the technique has received poor media and public perception. Oregon voters recently defeated a measure to ban the use of credit scores by auto insurers for use in setting premium rates – a favorable trend for segmentation and the industry going forward.

Improved segmentation is spurring an interest by more traditional insurance carriers for non-standard markets that may have previously not been on their radar screens. As standard lines writers start to take on more non-standard auto business, we expect to see loss ratios trending higher (as least initially), as new businesses tends to have higher loss ratios than seasoned businesses. We expect that this will be particularly true, given the risks that are inherent to the non-standard markets. However, given that there is opportunity for better pricing in the non-standard markets, we would expect a meaningful offset on a longer-term basis. Going forward, pricing discipline will be that much more important.

Industry Valuation: Attractive Time to Gain Exposure to the Sector Based On Historic Valuations

We have defined our universe of PPA stocks to include: (i) companies that rank among the Top 10 writers of PPA and are publicly traded; and (ii) select public companies not among the Top 10 writers of PPA but that have more than half of their premiums derived from PPA. We note that several companies in our universe (most noticeably AIG and St Paul Travelers) derive a small portion of their business from PPA. We have included them in the valuation discussion that follows not only because they are important players in the PPA industry, but also because they allow a valuation comparison between "pure play" and "multi-line" PPA writers.

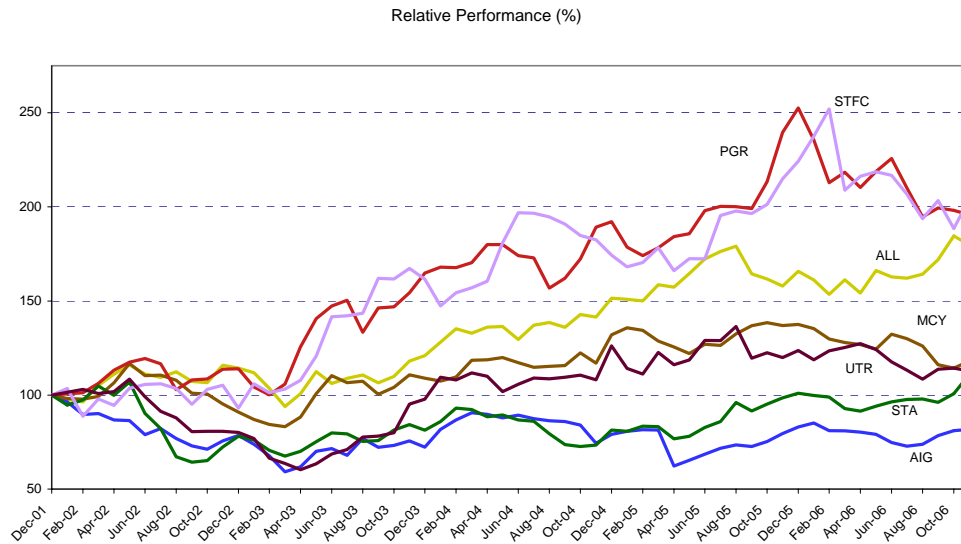
Total Auto, Top Writers, United States - 2005, in \$ 000s

Rank		2005 Direct Premiums Written	2005 Market Share	% of Company Premiums
1	State Farm Group	\$29,621,055	15.5	62.5
2	Allstate Ins Group	\$18,757,710	9.8	68.4
3	Progressive Insurance Group	\$13,992,947	7.3	97.9
4	Berkshire Hathaway	\$10,459,551	5.5	78.4
5	Nationwide Group	\$8,625,374	4.5	56.2
6	Farmers Ins Group	\$8,286,332	4.3	57.2
7	USAA Group	\$5,698,446	3.0	67.2
8	Amer Intl Group	\$5,542,521	2.9	19.4
9	Liberty Mutual Ins Grp	\$5,498,840	2.9	33.8
10	St. Paul Travelers Group	\$5,404,374	2.8	25.5
	Mercury General Grp	\$2,640,397	1.4	89.9
	Unitrin	\$1,382,970	0.7	70.4
	State Auto Group	\$1,361,100	0.7	50.7
	Top 25 Companies	\$143,959,201	75.3	52.8

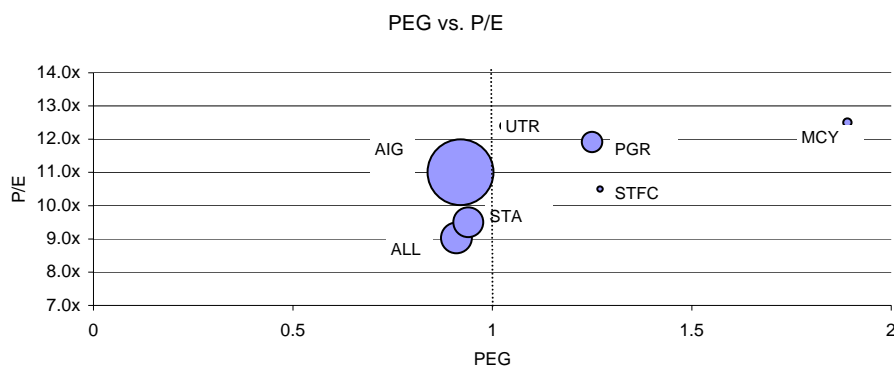
Source: A.M. Best

Highlighted stocks are included in the PSCO auto universe

The price performance of the PPA stocks has been fairly strong since 2001 (a time of market exuberance). A closer look at relative stock performance over the last five years shows that companies that derive a majority of their business from PPA outperformed their multi-line peers. The strongest price performance has been seen by STFC and PGR, who have outperformed their peers by 61 and 52 percentage points, respectively. The laggards, based on stock performance, have been AIG and STA.



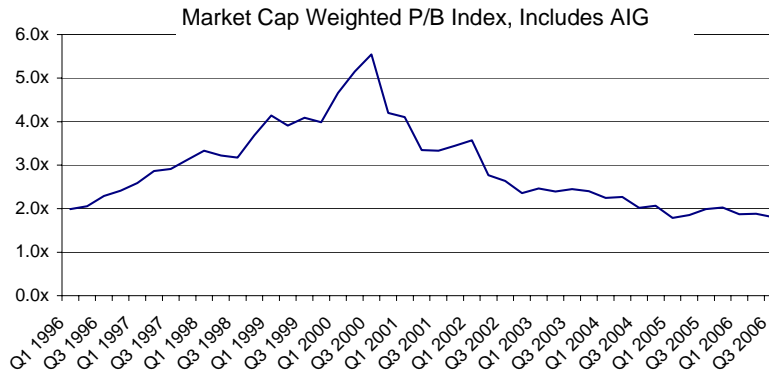
The companies in the PPA universe currently trade just slightly below their peers in the property/casualty universe, based on multiples of P/E. The property casualty sector is currently trading at a P/E of 11.5x, whereas on the basis of P/E, our group of PPA stocks is trading at 11.0x average. Based on this metric, ALL, STA and STFC trade at the low end of their peer group, at 9.0x, 9.5x and 10.5x respectively, and when PEG is considered, ALL appears to be the most undervalued of the PPA writers that derive a majority of their premiums from auto business.



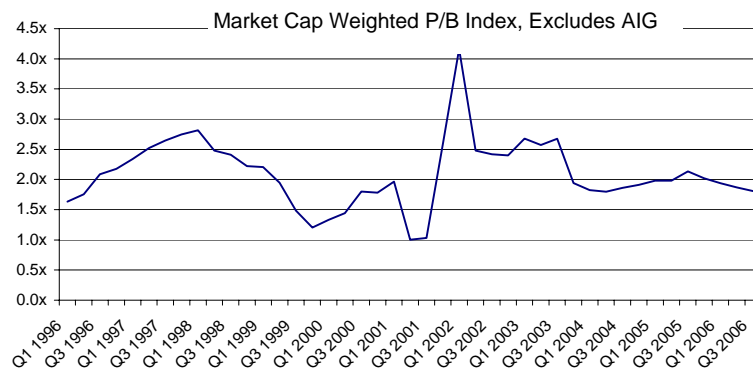
Source: A.M. Best

Since insurance stocks tend to trade on a P/B basis, we examined PPA industry P/B multiples over the last 10 years. Based on a market-capitalization weighted index, our universe of PPA stocks is trading at a historic low price to book multiple. Excluding AIG (which not only dominates the index but which also has had trading affected by events unrelated to the PPA market), the sector price to book multiple is still below historic averages. Since it's difficult to catch a bottom or top, we believe this is an attractive time to gain exposure to the sector.

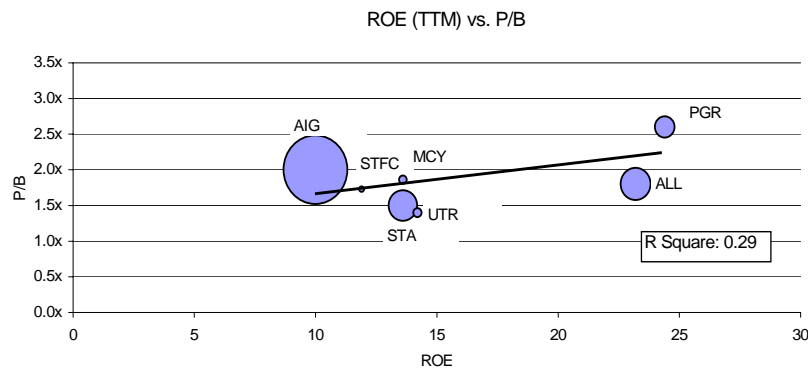
The information that follows is designed to place current valuations in perspective in the aggregate and on a company specific basis. Note that a P/B-ROE regression analysis again points to ALL as being undervalued. An R square of 0.29 is actually a sizable value given that the data are cross-sectional and therefore not subject to trend.



Source: Capital IQ



Source: Capital IQ



Our stance on the group remains positive. The PPA industry has managed to overcome many challenges over the past decade. While profitability is potentially under pressure in the near term, a number of initiatives should enable the group to overcome these challenges with strong pricing discipline. While we do not predict the macro trends, we believe that the current valuations of PPA stocks will prove attractive based on strong underlying fundamentals.

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Hallmark Financial Services

(Ticker: HALL)

Price (Dec. 14, 2006)	\$9.80	P/E	2006e 8.4x
52 Week Range:	\$6.56 - \$15.00	Market Cap:	\$203.4 mm
3 Month Volume (avg):	39,478.5	Shares Out:	20.8 mm

e= Philo Smith & Co. estimates

Stock Price Performance



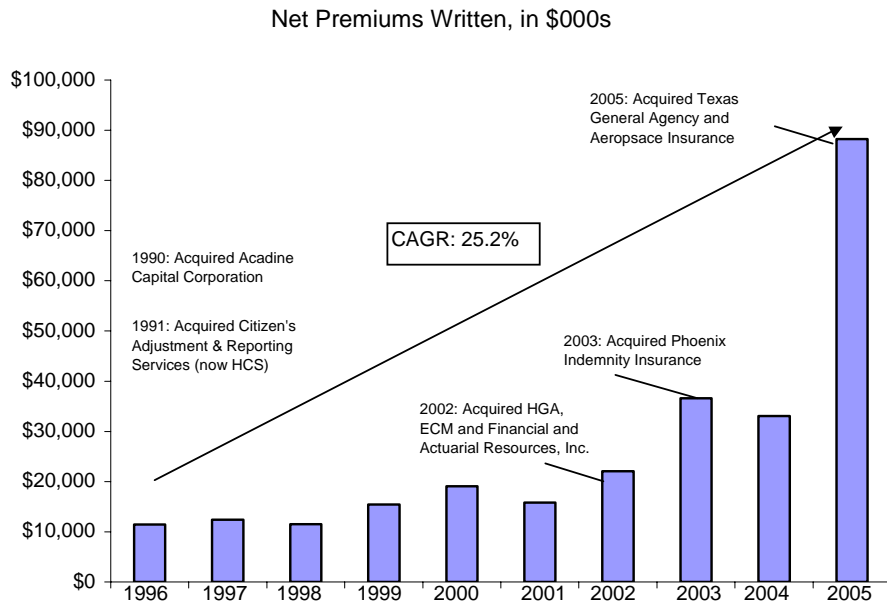
- **Hallmark Financial Services (HALL) has come a long way in the past ten years.** HALL started out as a non-standard personal auto company writing business exclusively in Texas. The company was formed in 1987, and by the late 1990s, net premiums written were about \$15 million. HALL has come a long way in the past ten years, and is now a very different company. The company has evolved into a diversified, property/casualty underwriting and agency business with a strong presence in the southwestern and northwestern U.S. Its general aviation arm reaches 44 states.

Today, the company operates through four operating units: Hallmark General Agency, Texas General Agency, Phoenix, and Aerospace.

The HGA Operating Unit primarily handles standard commercial insurance, while the TGA Operating Unit focuses on excess and surplus lines commercial insurance. The Phoenix Operating Unit mainly handles non-standard personal auto insurance, and the Aerospace Operating Unit specializes in general aviation insurance.

Net premiums written totaled \$88 million at the end of 2005. Net premiums written for the company have seen a strong CAGR of 25.2% since 1996. In 2005, the company saw premiums more than double year-over-year, owing to increases in the retention of written premiums within the Commercial Lines segment.

Despite rapid growth, HALL is disciplined in its unwillingness to trade growth for profitability. For example, starting in 2003, HALL cancelled unprofitable agents and programs, shifted marketing focus from annual term premium financed policies to six-month direct bill policies, and implemented targeted rate increases.



Source: Hallmark Financial Services

- Hallmark has been opportunistic with acquisitions.** Acquisitions have been an integral part of Hallmark's growth strategy. The company has made eight acquisitions in ten years, which has helped fuel growth. While the companies acquired may be very different from one another, they share the fact that they are established MGAs that bring with them specialized underwriting expertise but limited risk retention.

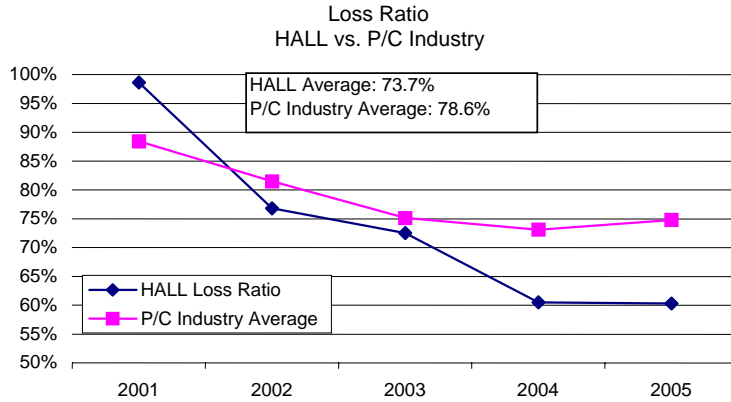
HALL presents an interesting vertical integration proposition to the acquired companies. The company uses its A- rating and its existing

capital to retain more of the business written, so that it is able to recapture profits that are currently being shared with third parties.

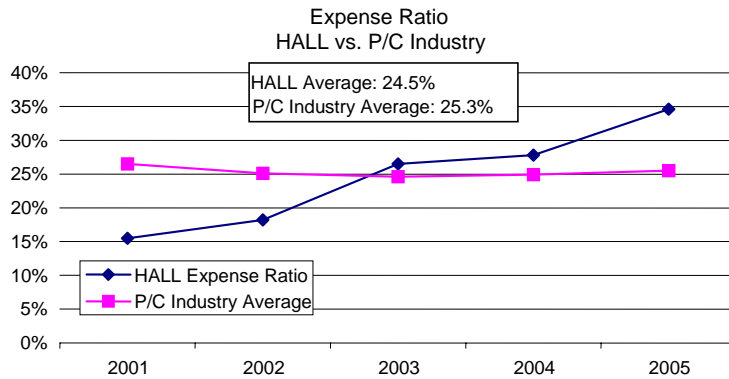
In 2005 alone, HALL acquired two insurance operations: (i) Texas General Agency, Inc. and certain wholly owned affiliates including Gulf States Insurance Company; and (ii) Aerospace Insurance Managers. Both were established businesses with underwriting expertise but limited retention of the business written. Consistent with its strategy HALL is retaining an increased portion of the business that had been placed with outside carriers. The recent acquisitions have contributed as much as 34% to HALL's net premiums written year-to-date. The TGA segment added net premiums written of \$42.5 million for the nine months of 2006, while the Aerospace acquisition, also effective, January 1, 2006, contributed net premiums written of \$6.8 million year-to-date. (The company began to retain Aerospace premiums starting July 1, 2006).

A timeline of the company's acquisitions include: Acadine Capital Corporation in 1990, Citizen's Adjustment & Reporting Services in 1991, HGA, ECM, Financial and Actuarial Resources, Inc. in 2002, Phoenix Indemnity Insurance in 2003, and Texas General Agency and Aerospace Insurance Managers in 2005.

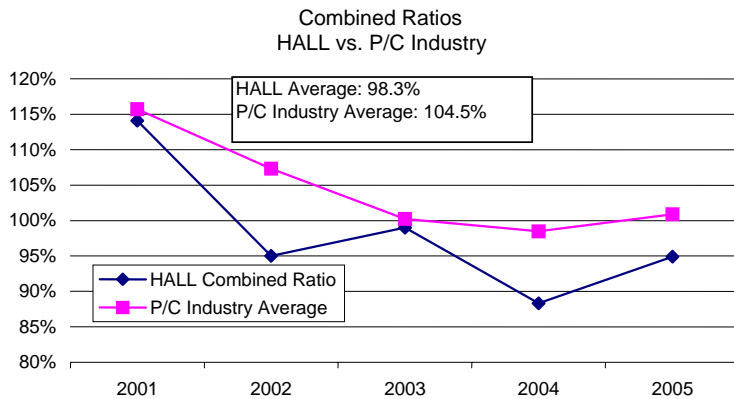
- **Hallmark's subsidiaries are wholly owned, however, each has a separate specialty focus, and is run separately.** The company's Chairman and CEO, Mark Schwarz, takes a Warren Buffet approach towards acquisitions, keeping the businesses acquired in a portfolio. Each entity is run with its own management, claims and underwriting staff. This structure helps keep the company's expense ratio more transparent, and also supports the company's portfolio approach towards companies acquired.
- **Despite its focus on niche markets that are typically considered "tough businesses", Hallmark has outperformed its peers in the past ten years.** Hallmark places and retains coverage for niche markets which include commercial trucking, non-standard auto, and general aviation (with a focus on small aircraft owned by high net worth individuals). In spite of this specialized focus, loss and combined ratios for the company have outperformed those of the P/C industry. (The loss and combined ratios are for all business written – whether the business has been retained or placed with outside writers.)



Note: Ratios reflect all business written – whether retained or placed with outside writers.



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- **The company has benefited from capital infusion.** During the second quarter of 2005, HALL completed a capital plan that raised

\$45 million through a shareholder rights offering, and \$30 million through the private placement of trust preferred securities.

These capital enhancements helped contribute to the company's current pooled A.M. Best rating of A-, effective January 1, 2006.

- **HALL is well positioned to see further growth within niche businesses.** Management has made impressive strides over the past ten years in building its business. Armed with an opportunistic growth and acquisition strategy, disciplined underwriting, and a deep bench of talent, we believe HALL is well positioned to further benefit from its niche portfolio approach.

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James River Group

(Ticker: JRVR)

Price (Dec 14, 2006)	\$31.23	P/E	2007e 13.0x
52 Week Range:	\$19.25 - \$34.48	Market Cap:	\$471.6 mm
3 Month Volume (avg):	21,560	Shares Out:	15.1 mm

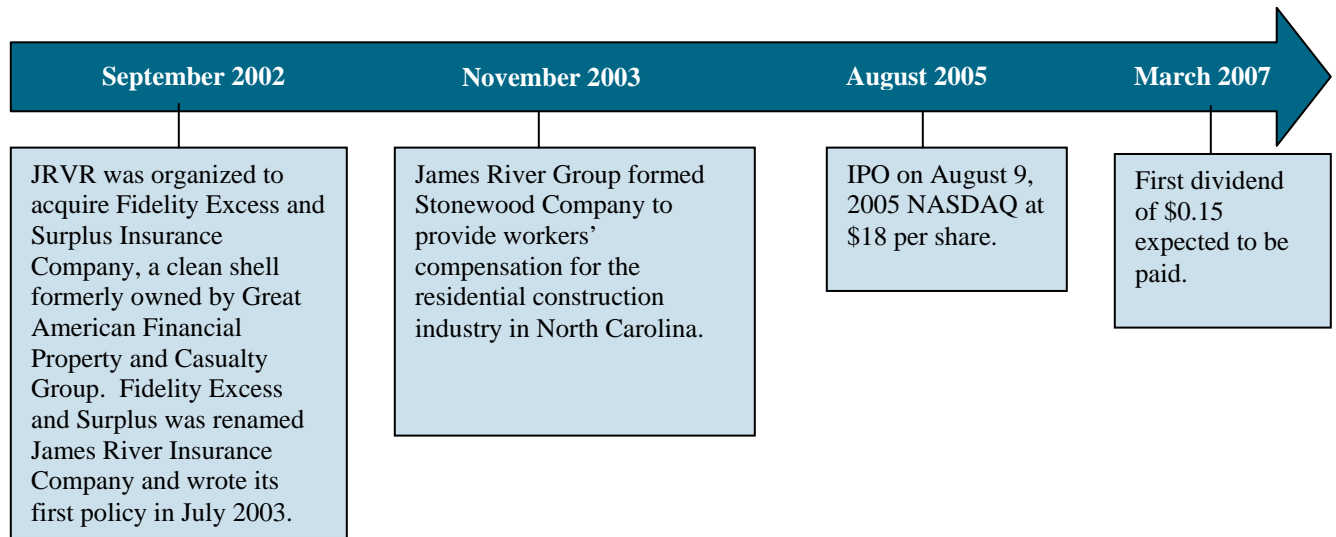
e= Philo Smith & Co. estimates

Stock Price Performance



- **James River Group (JRVR) is a relatively young company with no legacy issues.** James River Group was formed in 2002 to capitalize on favorable market conditions following 9/11. Like many other start-ups around the same time, the company was backed by private equity firms (Trident Funds and HRWCP 1), and a management team with strong industry experience. Today,

Trident Funds maintains a 19.6% share of ownership of the company, and HRWCP 1 owns 16.8%.



- **An experienced managed team with a proven track record.**

JRVR benefits from the combined business experience of its management team. CEO and President (J. Adam Abrams), 5 of the company's directors, and a number of the managers in the E&S business, were previously with Front Royal Inc., another E&S company with a similar focus. Abrams was CEO of Front Royal until it was sold to Argonaut in 2001 for \$165 million (1.8x book). Abrams helped build Front Royal since its inception in 1992, to written premiums of \$147.1 million at the time of sale. Prior to founding Front Royal, Abrams founded and served as President of a commercial property development company.

Michael Oakes, the CFO of JRVR, has extensive experience in the investment banking business. Ken Mitchell has been President and CEO of Stonewood Insurance Management Company since 2003. Prior to Stonewood, he was President and CEO of North Carolina workers' compensation company, Builders Mutual Insurance Company.

Management has a vested interest in seeing the company succeed. The CEO and CFO have invested \$5mm in the company, which includes amounts they invested prior to the IPO. They currently own 3.5% and 1%, respectively, of the company's stock.

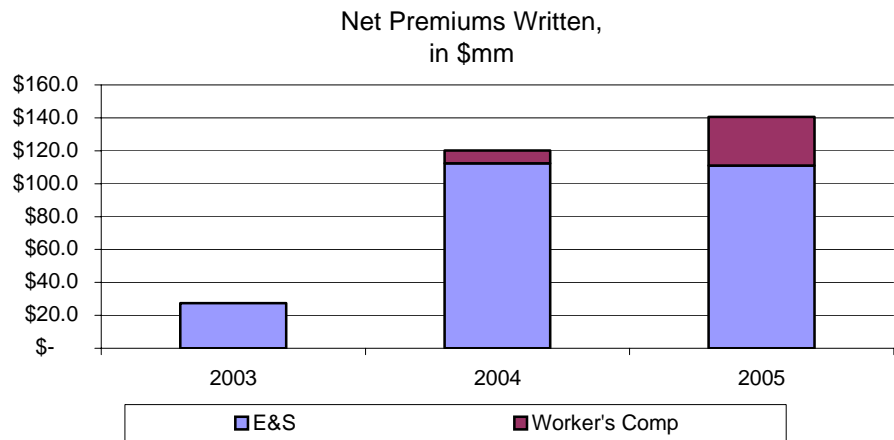
- **The vast majority of JRVR's business today is excess and surplus lines.** In 2005, 88% of JRVR's direct premiums written and 90% of JRVR's pre-tax income came from its E&S business. The company started with seven E&S underwriting divisions at inception, and is now at thirteen. While the operating history is

not long, direct premiums written have increased at a CAGR of 154% since 2002, helped by favorable conditions in the E&S market.

Excess & Surplus Lines Segment

<i>in \$mm</i>	2005 GWP	Description
Manufacturers and Contractors	\$37.6	Cover manufacturers of consumer goods, industrial equip.
Excess Casualty	\$30.9	Excess liab coverage for manufacturers, contractors, distributors
General Casualty	\$30.0	Generic surplus lines premises risks (e.g. apartments and restaurants)
Allied Health	\$29.5	Healthcare and social service apart from physicians & hospitals
Professional Liability	\$23.0	E&O for non-medical professionals
Excess Property	\$20.1	Catastrophe exposed excess
Primary Property	\$12.4	Moderate hazard, avoiding catastrophe exposure
Energy Casualty	\$12.2	Energy related risks (e.g. oilfield service contractors)
Healthcare	\$5.1	Non-std doctors (e.g. physicians who attended non-U.S. med schools)
Environmental	\$4.1	Environmental contractors and consultants
Life Sciences	\$2.3	Nutrition products, biologic and medical device-related liability
Small Business	\$0.2	Small, premises liability commercial accts
Sports and Entertainment	\$0.0	Premises and event liability for sports and entertainment

Source: James River Group, Inc.



Source: James River Group, Inc.

The company has maintained its focus on the small to middle market E&S lines segment with an average premium of \$21,000. Small to middle market risks are less price sensitive than large, high-premium policies in the E&S market, and this translates into solid profit opportunity for JRVR. JRVR benefited from hard market conditions and consequent E&S market growth through the later half of 2004. Overall market softening in 2005 (not including coastal property risk) did not have a marked impact on JRVR, given its small to middle market focus.

- **Distribution is a competitive advantage in the company's strategy to compete based on service, rather than price in the**

surplus lines market. JRVR has been able to leverage many relationships that were previously established by its management, both from Front Royal as well as other companies. While these contacts have enabled JRVR to get its foot in the door, the company's service levels have enabled them to win and retain business. The company has also benefited from the growing number of relationships it has with brokers. In 2005, the company marketed through 209 retail and wholesale brokers.

Distribution is well diversified.

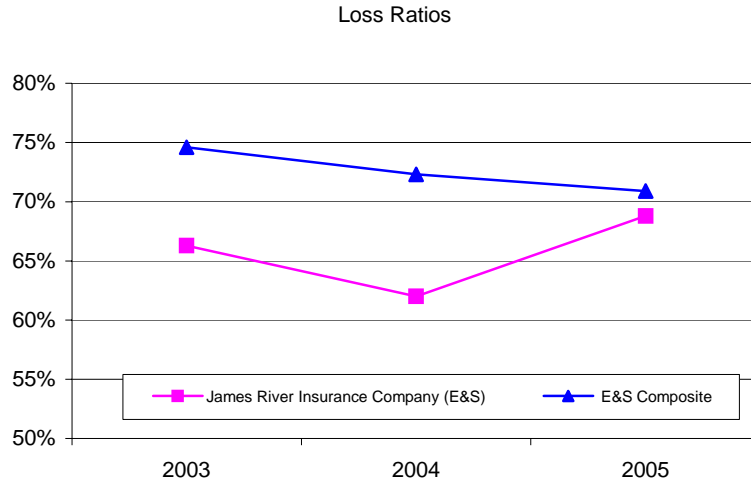
In 2005, James River Insurance Group's largest broker, CRC Insurance Services, produced \$46.7 mm, or 22.5% of direct premiums written. However, no other broker contributed more than 10% of total direct premiums written in the year. In 2005, the company had 60 broker offices that produced at least \$1 million in direct written premiums.

Competes on service.

The company's concentration on hard to place risks and its high level of service (including responsiveness to quotes) permits it to manage its commission expense at competitive levels. In 2005, JRVR's E&S segment paid an average commission to producers of 14.1% of direct premiums written, lower than the 17.5% that some competitors pay.¹

- **Hands-on approach to enforce strict underwriting, risk management, and pricing.** James River Group places a great emphasis on individually underwriting risks. Every policy is written by an in-house underwriter, with no underwriting or claims authority extended to brokers, agents or third parties. A substantial portion of the underwriters' compensation is tied to the profits produced by policies they underwrite, a further incentive to carefully scrutinize each risk. In 2005, the company received 87,970 submissions, quoted 32,040 policies, and bound 8,909 policies. The policy to submission ratio stood at 10.1%. Loss ratios for the past two years have, on average, been 6.9 percentage points better than the industry average.

¹ Part of this has to do with its business mix.

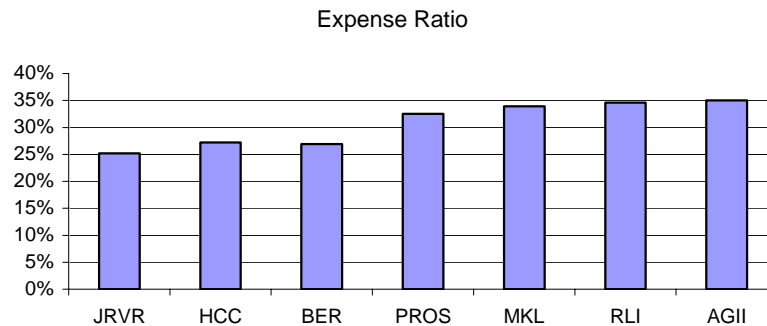


Note: E&S Composite is AM Best's Composite of 120 Companies

Repositioning of book post 2005 hurricanes. Following the hurricanes of 2005, which led to after tax costs of \$13.8mm for 2005, the company has taken some actions to reposition its book. The company purchased more reinsurance in both its primary and excess property books. The company also increased its catastrophic reinsurance coverage. Effective November 2005, JRVR also revised its primary property underwriting guidelines, with the objective of moving its primary property geographic exposure further away from the coastline.

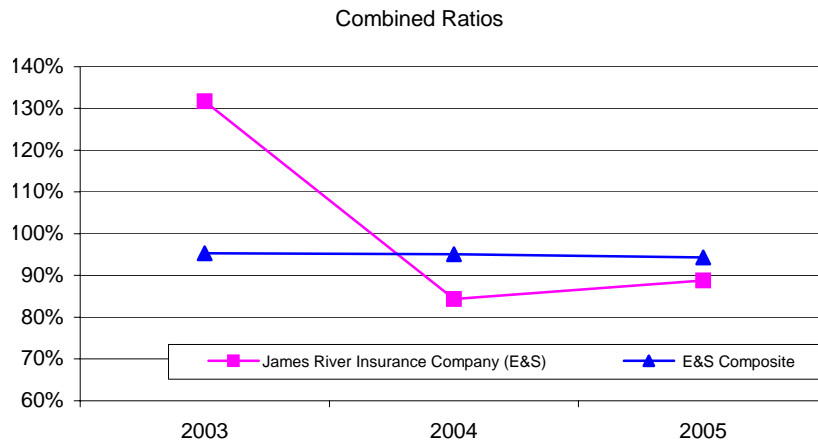
- **Disciplined underwriting and expense control has translated into profitable underwriting results.** Combined ratios for the past two years have, on average, been 8 percentage points better than the industry average.

The private equity culture and “paperless” environment have also allowed the company to keep administrative costs low.



Source: James River Group

** Results are for 3Q06*



Note: E&S Composite is AM Best's Composite of 120 Companies

- Worker's Compensation operations are similarly focused on underwriting discipline and expense management, generating a combined ratio of 96.9%.** Stonewood Insurance focuses on providing worker's comp to the residential construction market (carpentry, roofing, painting) in North Carolina. The company also plans to enter the state of Virginia in 2007. JRVR decided to enter this business when it was approached by an exceptional management team with a compelling opportunity to underwrite business in an underserved market.

Distribution and service are very important to this segment. Stonewood Insurance does not rely heavily on one single agent. At the end of 2005, the company had 143 independent agents marketing its products. The top producer, SIA Group, produced 11% of direct written premiums.

In 2005, about 65% of the worker's compensation applications were made through the Internet, an attractive option for insureds, as this provides pricing indications within 24 hours. Out of the 5,384 submissions that the company received, 2,780 policies were quoted, and 1,328 policies bound, for a policy to submission ratio of 24.7%.

- **Company has consistently met financial objectives and was on track to do so again in 2006.** For 2006, the company's goals included gross written premium growth of 20-30%, a combined ratio of 80-90%, and ROE of 15% or greater. The company is on track to make these numbers. Through the first nine months of 2006, gross written premiums totaled \$216.2 mm, combined ratios stood at 83.9%, and ROE stood at 17.3%.

As a result of well-publicized insolvencies and the often long-tail nature of the business, the E&S market was historically viewed in a somewhat negative light by the public. Recent studies of the Excess and Surplus lines market (including PSCO's September R&O) refute this view and maintain that surplus lines financial performance and solvency rates are at least on par with admitted carriers. With an A- rating (well capitalized), committed and proven management, attractive target markets, strong underwriting control, and expense discipline, JRVR is well positioned to capitalize on opportunities in its target markets as well as expand into new markets.

PHILOSMITH

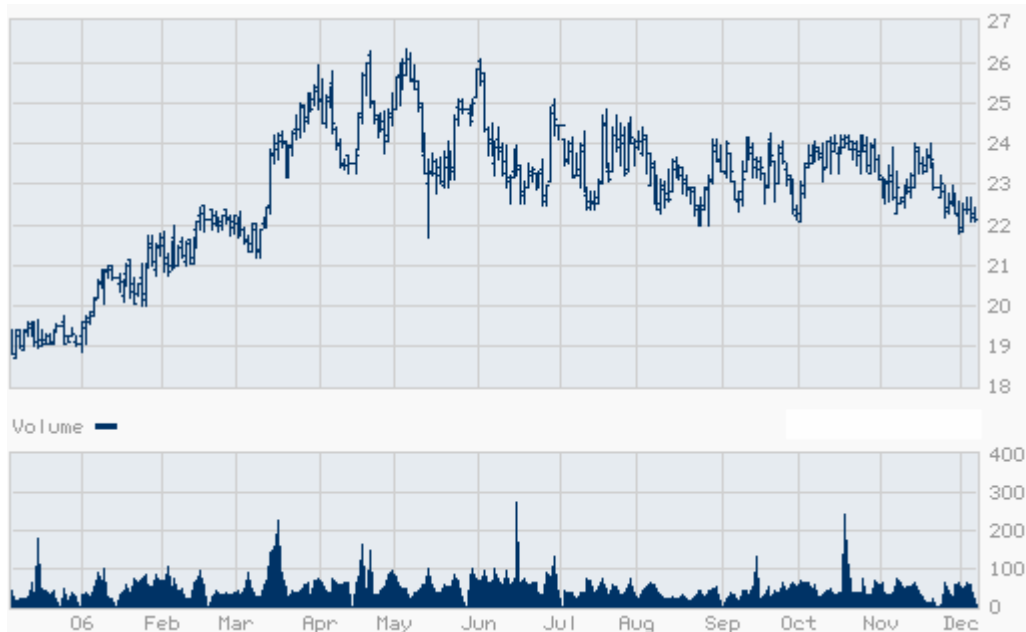
Presidential Life Corporation

(Ticker: PLFE)

Price (Dec 14, 2006)	\$21.79	P/E	2006e 13.7x
52 Week Range:	\$18.74 - \$26.31	Market Cap:	\$642.8 mm
3 Month Volume (avg):	53,500	Shares Out:	29.5 mm

e= Philo Smith & Co. estimates

Stock Price Performance



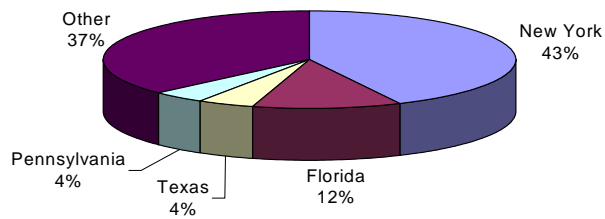
- **Presidential Life (PLFE) has done a good job of keeping focused on product and geography.** PLFE is primarily involved in the sale of fixed annuity products, which accounted for 90% of PLFE's annuity considerations in 2005. The company made the decision to exit the traditional life market in March 2004, and so this is currently a runoff business. Two-thirds of the company's fixed annuity sales have been of its deferred product, while one-third have been immediate annuities. The average policy size has

been \$50,000 for the single premium deferred annuities, and \$70,000 for single premium immediate annuities “SPIA” and single premium immediate income contracts “SPII”s.

- In 2005, close to 43% of total premiums came from New York State, a market where the company possesses strong established relationships, and limited competition.

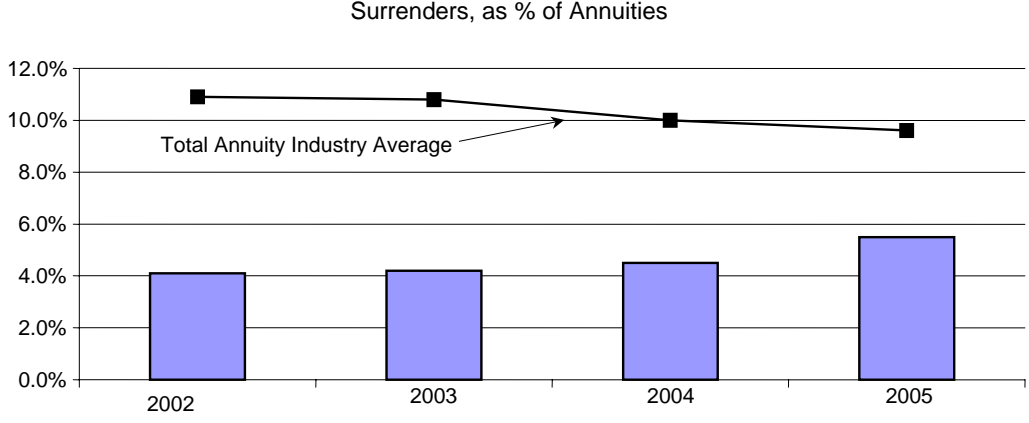
The company’s single premium immediate and deferred annuity products have been designed to provide supplemental retirement income and estate planning options for the company’s target customer, a 60-70 year old conservative investor. However, PLFE also has clients who use their products as the conservative portion of their overall portfolio.

Geographic Distribution



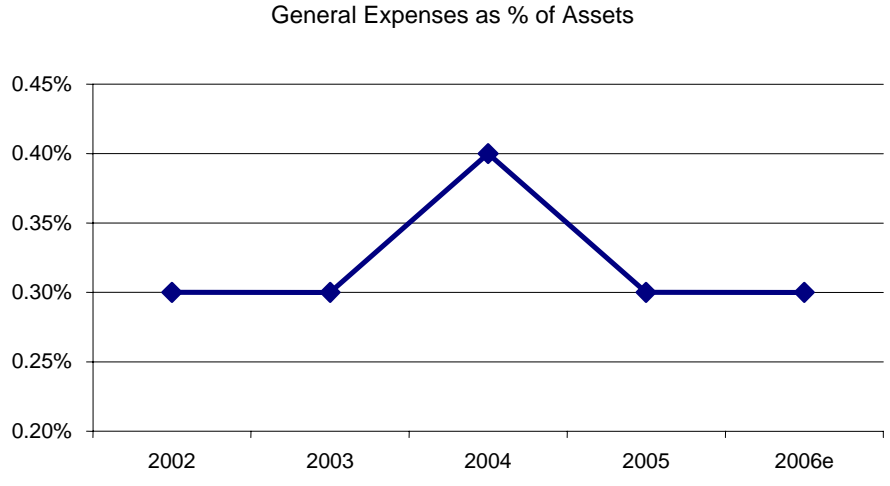
Source: *Presidential Life*

- **Strong retention levels, compared to peers.** Surrenders as a percentage of annuities in force have averaged 4.7% over the past three years, lower than the industry average of 9.6%. Surrender rates were higher (5.5%) for the company in 2005, owing to the rising interest rate environment. PLFE’s retention has benefited from surrender protection. At the end of 2005, about 74% of the company’s deferred annuity contracts inforce were subject to surrender charges. In addition, one-quarter of the inforce business does not allow for surrenders at all.



Source: *Presidential Life, A.M. Best*

- The company has done a good job at expense controls, despite a growing asset base.** Total assets have grown 8% since 2002, but general expenses as a percent of assets continue to be at the 0.3% levels, lower than an industry average of 0.6%.



Source: *Presidential Life*

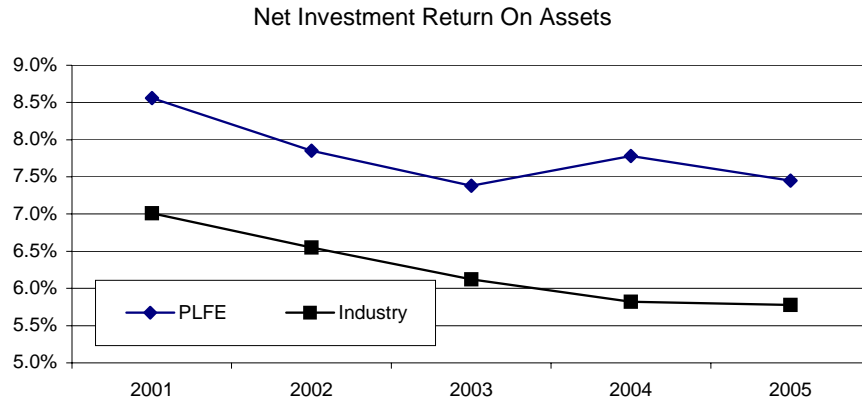
- Agents have been and continue to be very loyal to PLFE.** The Company is represented by about 1,000 independent general agents, one-third of which are located in New York State. The independent general agents market through 17,000 individual agents and brokers.

PLFE's use of non-captive independent general agents as a primary distribution source enables it to minimize the costs associated with marketing and distribution. Typically, the independent agent that is marketing PLFE is also doing business with two or three other companies that are involved in the fixed annuity marketplace. Depending on the relationship and tenure of the agent, PLFE gets anywhere from 25% to 50% of their fixed annuity business.

The average tenure of an agent with PLFE is 8+ years; many agents have continued to do business with PLFE before and after the company's downgrade to B+ in 2002. Although the company's current rating precludes them from doing business with banks and credit unions, the company continues to maintain strong relationships with them.

Not one general agent produces more than 5% of sales for the company. PLFE does not rely on a single agent for its business. PLFE's top ten general agents produced only 27% of total annuity and life sales in 2005. No single general agent contributed more than 4.7% of total sales for the company during this time.

- **PLFE's investment portfolio is positioned higher on the risk reward spectrum than those of its peers.** 85.5% of the portfolio is made up of fixed maturity bonds and notes, consisting of corporate bonds, U.S. Government, government agencies, public utility bonds, and commercial mortgage backed securities. 93.2% of the company's bonds have NAIC 1 designations. The company's remaining assets are invested in limited partnerships, equities, cash and short-term investments. The company's exposure to limited partnerships is high, at 6% (the industry averages 5% in investments in total high risk assets). While the limited partnerships are riskier, they have helped boost PLFE's returns and spreads. Over the past several years, net yields have been higher than the industry average.



Source: *Presidential Life*

- **Strong bench of talent and management succession plan in place.** A management succession plan was approved by the Board in 2005. While the timing is yet undetermined, Don Barnes, who has served as President of the Life Insurance Company and Vice Chairman of the Board for more than five years, will be the successor to Herbert Kurz, Founder and President.
- **Operating metrics at PLFE are at record high levels.** PL has achieved many of its financial goals. The company saw net income rise a record 37.9% in 2005. Its risk based capital ratio has improved from 235% to 347%, and PL has also seen a 28% increase in the statutory capital/surplus and asset valuation reserve.
- The combination of its business focus, outstanding relationships in NY with regulators and distributors, and talented management team, positions PLFE to continue to move ahead with a business strategy that has proven to be successful.

Statistical Summary

Company	Ticker	Price	Shares	Market Cap	Dividend		Earnings Per Share		P/E on 2006 Estimate	P/E on 2007 Estimate	P/B
					Dividend	Yield	2006E	2007E			
LIFE & HEALTH											
		12/14/06									
AmerUs Group	AMH	\$68.97	43.1	\$2,972.6	\$0.10	0.6%	\$5.02	\$5.48	13.7x	12.6x	1.9x
American Equity	AEL	13.02	55.9	727.8	0.01	0.3%	1.27	1.54	10.3x	8.5x	1.5x
EMC Insurance Group Inc.	EMCI	35.15	13.7	482.2	0.16	1.8%	3.49	2.78	10.1x	12.6x	1.7x
FBL Financial	FFG	40.28	29.6	1,192.3	0.11	1.0%	2.65	2.86	15.2x	14.1x	1.5x
Presidential Life	PLFE	21.79	29.5	642.8	0.10	1.8%	na	na	na	na	1.5x
Protective Life	PL	46.47	69.9	3,248.3	0.69	1.5%	3.54	4.27	13.1x	10.9x	1.5x
Universal American	UHCO	18.74	59.0	1,105.7	-	0.0%	1.22	1.44	15.4x	13.0x	2.0x
Average						1.0%			13.0x	11.9x	1.7x
PROPERTY & CASUALTY											
21st Century Holding	TCHC	25.55	7.8	199.3	0.08	1.3%	3.12	4.42	8.2x	na	3.1x
ACE	ACE	61.03	326.2	19,908.0	0.23	1.5%	6.81	3.79	9.0x	16.1x	1.7x
Arch Capital Group	ACGL	67.54	74.1	5,004.7	-	0.0%	8.88	8.41	7.6x	8.0x	1.9x
AssuranceAmerica	ASAM.OB	0.85	56.1	47.7	-	0.0%	na	na	na	na	nm
Bancinsurance Corp	BCIS.PK	6.05	5.0	30.1	-	0.0%	na	na	na	na	1.0x
Berkshire Hathaway	BRKA	109,800	1.5	169,201.8	-	0.0%	5,525.00	5,715.00	19.9x	19.2x	1.7x
CNA Surety Corp	SUR	21.00	43.8	919.8	-	0.0%	1.86	1.95	11.3x	10.8x	1.8x
Donegal Group	DGICA	19.40	25.2	488.9	0.09	1.8%	1.51	1.60	12.8x	12.1x	1.6x
Hallmark Financial	HALL	9.80	20.8	203.4	-	0.0%	na	na	na	na	1.8x
Harleysville Group	HGIC	36.11	31.5	1,137.1	0.17	1.9%	2.64	2.88	13.7x	12.5x	1.8x
Horace Mann	HMN	20.22	43.1	871.5	0.11	2.1%	2.02	1.86	10.0x	10.9x	1.6x
James River Group	JRVR	31.23	15.1	471.6	-	0.0%	2.08	2.40	15.0x	13.0x	2.5x
Kingsway Financial	KFS.TO	20.57	56.1	1,154.0	-	0.0%	2.70	2.94	7.6x	7.0x	1.3x
Meadowbrook Insurance	MIG	9.77	29.1	284.3	-	0.0%	0.71	0.82	13.8x	11.9x	1.5x
Navigators	NAVG	47.42	16.7	791.9	-	0.0%	4.20	4.68	11.3x	10.1x	1.6x
Philadelphia Cons	PHLY	44.78	70.4	3,151.6	-	0.0%	3.69	3.28	12.1x	13.7x	3.3x
ProCentury	PROS	17.75	13.3	236.1	0.02	0.5%	1.51	1.69	11.8x	10.5x	1.9x
QBE	QBE.AX	20.69	804.6	16,647.2	-	0.0%	na	na	NM	NM	3.0x
Quanta Capital Holdings	QNTA	2.35	70.0	164.5	-	0.0%	-0.27	-0.45	NM	NM	0.5x
RLI	RLI	54.65	24.4	1,333.5	0.16	1.2%	3.64	3.92	15.0x	13.9x	2.0x
State Auto Financial	STFC	34.26	41.0	1,404.7	0.05	0.5%	2.69	3.20	12.7x	na	1.8x
Tower Group	TWGP	32.69	20.0	653.8	0.03	0.3%	1.67	2.43	19.6x	na	4.1x
United Fire	UFCS	35.79	27.7	991.4	0.12	1.3%	2.95	2.90	12.1x	12.3x	1.6x
White Mountains	WTM	584.76	10.8	6,323.6	2.00	1.4%	35.05	33.00	16.7x	17.7x	1.6x
WR Berkley	BER	34.96	191.6	6,698.3	0.05	0.6%	3.37	3.57	10.4x	9.8x	2.4x
XL Capital Ltd.	XL	71.04	180.6	12,829.8	0.32	1.8%	9.06	8.89	7.8x	8.0x	1.6x
Average						0.6%			12.3x	11.5x	1.9x
INSURANCE BROKERS											
AJ Gallagher	AJG	30.11	98.1	2,953.8	0.28	3.7%	1.50	1.76	20.1x	17.1x	3.7x
Brown & Brown	BRO	29.32	140.0	4,104.8	0.08	1.1%	1.26	1.45	23.3x	20.2x	4.8x
USI Holdings Corp	USIH	15.70	58.4	916.9	-	0.0%	1.12	1.29	14.0x	12.2x	2.2x
Average						1.6%			19.1x	16.5x	3.5x
MULTILINE											
Atlantic American Corp	AAME	3.00	21.5	64.5	-	0.0%	na	na	na	na	1.0x
Unitrin, Inc.	UTR	50.52	67.1	3,389.9	0.425	3.4%	3.84	4.07	13.2x	16.5x	1.6x
						1.7%			13.2x	16.5x	1.3x