

MARKET PERFORMANCE OF FINANCIAL SERVICES STOCKS

In the third quarter of 2011, the US stock market declined 14.3% as measured by Standard & Poor's 500. Insurance stocks, as measured by the Nasdaq Insurance Index, and financial industry stocks, as measured by the XLF Financial ETF, underperformed the market with respective returns of -17.4% and -23.1%. The average return for all 151

companies included in this study was a decline of 15.3%, slightly better than the Nasdaq Insurance Index and slightly below the US equity market. While the majority of insurance and financial sector segments lagged the market, two categories were able to outpace the S&P 500, as shown in Table 1.

Table 1

	Median Average % Increase <u>6/30/11 - 9/30/11</u>
Primary Property Casualty Underwriting Cos.	-8.3
Property and Casualty Reinsurance Cos.	-8.4
Standard & Poors 500	-14.3
Insurance Brokers	-14.9
Multi-Line Insurers	-14.9
Title Insurers	-15.0
Nasdaq Insurance Index	-17.4
Finance Cos.	-17.8
Life & Annuity Cos.	-21.3
XLF (Financial Sector ETF)	-23.1
Claims Adjusters	-24.4
Health Insurers	-26.3
Securities Brokers & Asset Management Cos.	-29.0
Financial Gaurantors	-40.4

The 3rd quarter of 2011 saw the realization of losses from severe weather in the U.S., floods in Australia, and the Japanese earthquake and tsunami earlier in the year, as well as losses from hurricane Irene. A.M. Best estimates catastrophe losses in the U.S. for the first half of 2011 at \$27 billion. Insured losses from Hurricane Irene range from \$1.6 billion to \$6.6 billion according to estimates from Aon, Risk Management Solutions, EQECAT and AIR Worldwide. While commercial insurers posted second quarter loss ratios of 88.35% (highest since hurricane Katrina), many homeowners insurers posted loss ratios well over 100%. Despite some unpleasant loss numbers and the recent quarter's stock price

declines, the outlook is not dire. Uncertainty and fear, rather than fundamentals, has been the driving force behind most stock prices declines for the quarter with insurance and financials only slightly underperforming the market.

The U.S. P&C segment beat the S&P 500 by about 6% as the companies began to see signs of rate stabilization and increase. Rates in Japan have seen significant rise for lines that suffered loss, but still strong increases in lines that did not. Valuations are low and balance sheets are strong. All of the recent catastrophes have been within the range of longer term trends and pose no threat to the solvency of the industry. The P&C industry

overcame underwriting and operational difficulties to post a 0.3% increase in policyholder surplus for the first half of the year. P&C underwriter stock prices declined for the quarter, but were the top performing sub-sector with only an 8.3% decline. P&C reinsurers were a close second with an 8.4% decline.

Acquisition activity was a driver for several top performers in the 3rd quarter. Harleysville Mutual Insurance Co. agreed to be acquired at \$60/share by Nationwide Mutual Insurance Co. on Sept 29th in a deal that more than doubled Harleysville's share price, placing them in the top performer spot for the quarter. On Sept 8th a subsidiary of ACE Ltd. announced plans to acquire Penn Millers in a deal expected to close by the first quarter of 2012. The ACE Ltd. offering of \$20.50/share resulted in an 18.8% increase in share price for the quarter.

Life Partners Holdings, with a 76.4% increase in price, was second to Harleysville. This second best performer and the worst were both the result of similar circumstances. Life Partners' life settlement business purchases life insurance policies at a fraction of their value from individuals and then collects in full when the person passes away. Ernst & Young refused to sign off on their accounting for 2010 resulting in the potential for delisting by NASDAQ. As a result, the stock posted a significant decline during the first half of the year. Life Partners has since switched accounting firms and NASDAQ has accepted Life Partners steps to regain compliance with listing rules. The recent price increase is a bounce from these lows to a valuation closer to historic norms

Imperial Holdings, the worst performing stock, pulled down the Finance Cos. Category, also suffered from accounting concerns over their life settlement business. The SEC felt Imperial estimated unrealistically short life expectancies on policies. Imperial's stock declined 76.4% amid FBI raids on Sept 27th. While 2nd quarter net income presented a \$14.7M gain compared to the same quarter last year, this was entirely equitable to an increase in unrealized value of life settlements. Baring this increase, net income would have decline by \$5.08M.

Financial Guarantors were the worst performing sub-sector in this study, as expected losses related to private mortgage insurance and other private debt defaults continued. The group had a median average decline of 40.4% in the third

quarter of 2011. The combination of high loan delinquency rates with low rates of new policy writing will put a prolonged drag on the industry's profitability. Two of the ten worst performing stocks fell in this segment. Radian Group led the decline with a 47.6% loss in share price this year caused by continued mortgage insurance defaults. MGIC has begun to see a slight decline in mortgage delinquencies this August, but the still elevated level cause their stock to decline 68.6%, pushing share prices below \$2.

Unitrin Inc (UTR) facilitated a name change on September 25th to Kemper and began trading under KMPR.

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>6/30/11 - 9/30/11</u>
Harleysville Group	88.8
Life Partners Holdings	76.4
Penn Millers Holding	18.8
Kingstone Companies Inc	16.5
Primerica Inc	11.8
Knight Capital group	10.3
Advance America	6.8
UTG Inc	5.3
Unico American Corp	3.0
ProAssurance Corp	2.9

Table 3:
Ten Worst Performing Financial Services Stocks

	% Decrease <u>6/30/11 - 9/30/11</u>
Imperial Holdings Inc	76.4
MGIC Investment Corp	68.6
Phoenix Companies Inc	50.4
Radian Group Inc	48.2
Torchmark Corp	45.7
Lincoln National Corp	45.1
Genworth Financial Inc	44.1
Lazard	43.1
Morgan Stanley	41.3
Symetra Financial Corp	39.3

		Market Price 6/30/11	Market Price 9/30/11	Percent Increase/ - Decrease
<u>Primary Property Casualty Underwriting Cos</u>				
Penn Millers Holding	PMIC	\$16.91	\$20.09	18.81%
Unico American Corp	UNAM	\$9.96	\$10.26	3.01%
ProAssurance Corp	PRA	\$70.00	\$72.02	2.89%
RLI Corp	RLI	\$61.92	\$63.58	2.68%
Erie Indemnity Co	ERIE	\$70.72	\$71.18	0.65%
Fremont Michigan InsuraCorp Inc	FMMH	\$35.90	\$36.05	0.42%
FPIC Insurance Group Inc	FPIC	\$41.68	\$41.84	0.38%
United Insurance Holdings	UIHC	\$4.25	\$4.25	0.00%
Eastern Insurance Holdings	EIHI	\$13.22	\$13.15	-0.53%
AmTrust Financial Services	AFSI	\$22.78	\$22.26	-2.28%
Everest Reinsurance Group Ltd	RE	\$81.75	\$79.38	-2.90%
National Interstate Corp	NATL	\$22.90	\$21.98	-4.02%
Tower Group Inc	TWGP	\$23.82	\$22.86	-4.03%
Chubb Corp	CB	\$62.61	\$59.99	-4.18%
Baldwin & Lyons	BWINB	\$23.17	\$21.37	-7.77%
ACE Ltd	ACE	\$65.82	\$60.60	-7.93%
Navigators Group Inc	NAVIG	\$47.00	\$43.21	-8.06%
WR Berkley Corp	WRB	\$32.44	\$29.69	-8.48%
Markel Corp	MKL	\$396.81	\$357.13	-10.00%
Meadowbrook Insurance	MIG	\$9.91	\$8.91	-10.09%
National Security Group Inc	NSEC	\$12.25	\$10.88	-11.18%
American Financial Group Inc	AFG	\$35.69	\$31.07	-12.94%
Alleghany Corp	Y	\$333.11	\$288.50	-13.39%
HCC Insurance Holdings Inc	HCC	\$31.50	\$27.05	-14.13%
Travelers Companies Inc	TRV	\$58.38	\$48.73	-16.53%
Progressive Corp	PGR	\$21.38	\$17.76	-16.93%
Universal Insurance Holdings	UVE	\$4.67	\$3.85	-17.56%
Loews Corp	L	\$42.09	\$34.55	-17.91%
Greenlight Capital Re	GLRE	\$26.29	\$20.74	-21.11%
Allstate Corp	ALL	\$30.53	\$23.69	-22.40%
CNA Financial Corp	CNA	\$29.05	\$22.47	-22.65%
Global Indemnity plc	GBLI	\$22.18	\$17.08	-22.99%
Employers Holdings	EIG	\$16.77	\$12.76	-23.91%
State Auto Financial	STFC	\$17.43	\$13.15	-24.56%
SeaBright Holdings	SBX	\$9.90	\$7.20	-27.27%
First Acceptance Corp	FAC	\$1.85	\$1.23	-33.51%

		Market Price 6/30/11	Market Price 9/30/11	Percent Increase/ - Decrease
<u>Primary Property Casualty Underwriting Cos (Cont.)</u>				
Harleysville Group	HGIC	\$31.17	\$58.86	88.84%
Kingstone Companies Inc	KINS	\$2.99	\$3.48	16.47%
OneBeacon Insurance Group	OB	\$13.39	\$13.64	1.87%
United F&C Co	UFCS	\$17.37	\$17.69	1.84%
Assurance America	ASAM	\$0.17	\$0.16	-3.03%
Homeowners Choice	HCII	\$6.66	\$6.45	-3.15%
EMC Insurance Group Inc	EMCI	\$19.10	\$18.40	-3.66%
American Safety Insurance	ASI	\$19.14	\$18.40	-3.87%
Infinity P&C Corp	IPCC	\$54.66	\$52.48	-3.99%
Hanover Insurance Group	THG	\$37.71	\$35.50	-5.86%
Donegal Group Inc	DGICA	\$12.80	\$12.04	-5.94%
Hallmark Financial Services	HALL	\$7.87	\$7.37	-6.35%
Cincinnati Financial	CINF	\$29.18	\$26.33	-9.77%
Safety Insurance Group Inc	SAFT	\$42.04	\$37.83	-10.01%
GAINSCO INC	GANS	\$8.00	\$7.11	-11.13%
21st Century Holding	TCHC	\$2.72	\$2.32	-14.71%
Hilltop Holdings Inc	HTH	\$8.84	\$7.21	-18.44%
Selective Insurance Group	SIGI	\$16.27	\$13.05	-19.79%
Old Republic International Corp	ORI	\$11.75	\$8.92	-24.09%
Horace Mann	HMN	\$15.61	\$11.41	-26.91%
Kingsway Financial Services	KFS	\$1.02	\$0.72	-29.41%
Affirmative Insurance	AFFM	\$2.35	\$1.58	-32.77%
Median Average				-8.27%

		Market Price 6/30/11	Market Price 9/30/11	Percent Increase/ -Decrease
<u>Property Casualty Reinsurance Cos.</u>				
Arch Capital Group Ltd	ACGL	\$31.92	\$32.68	2.38%
Transatlantic Holdings Inc	TRH	\$49.01	\$48.52	-1.00%
Montpelier Re	MRH	\$18.00	\$17.68	-1.78%
White Mountains	WTM	\$420.16	\$405.75	-3.43%
Argo Group International	AGII	\$29.72	\$28.37	-4.54%
Allied World Assr	AWH	\$57.58	\$53.71	-6.72%

		Market Price 6/30/11	Market Price 9/30/11	Percent Increase/ - Decrease
Property Casualty Reinsurance Cos. (cont'd.)				
Platinum	PTP	\$33.24	\$30.75	-7.49%
Berkshire Hathaway	BRK.A	\$116,105.00	\$106,800.00	-8.01%
Flagstone Reinsurance Holdings	FSR	\$8.43	\$7.75	-8.07%
RenaissanceRe	RNR	\$69.95	\$63.80	-8.79%
Enstar Group Ltd	ESGR	\$104.49	\$95.23	-8.86%
Aspen Insurance Holdings	AHL	\$25.73	\$23.04	-10.45%
XL Group plc	XL	\$21.98	\$18.80	-14.47%
Axis Capital Holdings Ltd	AXS	\$30.96	\$25.94	-16.21%
Endurance Specialty	ENH	\$41.33	\$34.15	-17.37%
Maiden Holdings Ltd	MHLD	\$9.10	\$7.39	-18.79%
Validus Holdings Ltd	VR	\$30.95	\$24.92	-19.48%
PartnerRe Ltd	PRE	\$68.85	\$52.27	-24.08%
Median Average				-8.43%

		Market Price 6/30/11	Market Price 6/30/11	Percent Increase/ - Decrease
Insurance Brokers				
Life Partners Holdings	LPHI	\$3.43	\$6.05	76.38%
National Financial Partners	NFP	\$11.54	\$10.94	-5.20%
Arthur J Gallagher	AJG	\$28.54	\$26.30	-7.85%
InsWeb Corp	INSW	\$7.15	\$6.10	-14.69%
Marsh & McLennan	MMC	\$31.19	\$26.55	-14.88%
Willis Group Holdings	WSH	\$41.11	\$34.37	-16.40%
Aon Corp	AON	\$51.30	\$41.98	-18.17%
Brown & Brown Inc	BRO	\$25.66	\$17.80	-30.63%
Fortegra Financial Corp	FRF	\$7.84	\$5.25	-33.04%
Median Average				-14.88%

		Market Price 6/30/11	Market Price 6/30/11	Percent Increase/ -Decrease
<u>Multi-Line Insurers</u>				
Assurant Inc	AIZ	\$36.27	\$35.80	-1.30%
Atlantic American Corp	AAME	\$2.05	\$1.90	-7.32%
American National Insurance Co	ANAT	\$77.50	\$69.25	-10.65%
Alterra Cap Holdings	ALTE	\$22.30	\$18.97	-14.93%
Kemper	KMPR	\$29.67	\$23.96	-19.25%
American International Group Inc	AIG	\$29.32	\$21.95	-25.14%
Hartford Financial Svcs	HIG	\$26.37	\$16.14	-38.79%
Median Average				-14.93%

		Market Price 6/30/2011	Market Price 9/30/11	Percent Increase/ -Decrease
<u>Title</u>				
Fidelity National Financial	FNF	\$15.74	\$15.18	-3.56%
Stewart Info Services	STC	\$10.03	\$8.84	-11.86%
First American Financial	FAF	\$15.65	\$12.80	-18.21%
Investors Title Co	ITIC	\$39.86	\$32.59	-18.24%
Median Average				-15.04%

		Market Price 6/30/11	Market Price 9/30/11	Percent Increase/ -Decrease
<u>Finance Cos.</u>				
Advance America	AEA	\$6.89	\$7.36	6.82%
White River Capital	RVR	\$19.25	\$19.37	0.62%
Asta Funding	ASFI	\$8.39	\$8.11	-3.34%
World Acceptance Corp	WRLD	\$65.57	\$55.95	-14.67%
Asset Acceptance Capital Corp	AACC	\$4.04	\$3.37	-16.58%
Nicholas Financial	NICK	\$11.88	\$9.77	-17.76%
Credit Acceptance Corp	CACC	\$84.47	\$64.36	-23.81%
Portfolio Recovery Associates	PRAA	\$84.79	\$62.22	-26.62%

			Market Price 6/30/11	Market Price 9/30/11	Percent Increase/ -Decrease
<u>Finance Cos. (cont'd.)</u>					
QC Holdings	QCCO		\$4.00	\$2.92	-27.00%
Encore Capital Group	ECPG		\$30.72	\$21.85	-28.87%
Imperial Holdings Inc	IFT	2/7/2011	\$10.16	\$2.40	-76.38%

Median Average **-17.76%**

			Market Price 6/30/2011	Market Price 6/30/11	Percent Increase/ - Decrease
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Life & Annuity Cos

Primerica Inc	PRI		\$21.97	\$24.56	11.79%
UTG Inc	UTGN		\$11.40	\$12.00	5.26%
Investors Heritage Capital	IHRC		\$18.00	\$18.10	0.56%
Kansas City Life Insurance	KCLI		\$31.15	\$30.87	-0.90%
Citizens Inc	CIA		\$6.82	\$6.41	-6.01%
Security National Financial Corp	SNFCA		\$1.53	\$1.36	-11.11%
National Western Life	NWLI		\$159.47	\$135.50	-15.03%
FBL Financial Group Inc	FFG		\$32.15	\$26.62	-17.20%
American Independence Corp	AMIC		\$5.80	\$4.78	-17.59%
Presidential Life	PLFE		\$10.44	\$8.22	-21.26%
Principal Financial Group Inc	PFG		\$30.42	\$22.67	-25.48%
Prudential Financial	PRU		\$63.59	\$46.86	-26.31%
American Equity Investment	AEL		\$12.71	\$8.75	-31.16%
Protective Life Corp	PL		\$23.13	\$15.63	-32.43%
Metlife Inc	MET		\$43.87	\$28.01	-36.15%
Symetra Financial Corp	SYA		\$13.43	\$8.15	-39.31%
Genworth Financial Inc	GNW		\$10.28	\$5.75	-44.07%

Life & Annuity Cos, cont'd.

Lincoln National Corp	LNC		\$28.49	\$15.63	-45.14%
Phoenix Companies Inc	PNX		\$2.46	\$1.22	-50.41%

Median Average **-21.26%**

		Market Price <u>6/30/11</u>	Market Price <u>9/30/11</u>	Percent Increase/ -Decrease
<u>Claims Adjusters</u>				
Crawford & Co. (B Shares)	CRDB	\$7.09	\$ 5.36	-24.40%
Median Average				-24.40%

		Market Price <u>6/30/2011</u>	Market Price <u>6/30/11</u>	Percent Increase/ - Decrease
<u>Health Insurers</u>				
Unum Group	UNM	\$25.48	\$20.96	-17.74%
Aflac Inc	AFL	\$46.68	\$34.95	-25.13%
Delphi Financial Group	DFG	\$29.21	\$21.52	-26.33%
StanCorp Financial Group	SFG	\$42.19	\$27.57	-34.65%
Torchmark Corp	TMK	\$64.14	\$34.86	-45.65%
Median Average				-26.33%

		Market Price <u>6/30/11</u>	Market Price <u>9/30/11</u>	Percent Increase/ - Decrease
<u>Securities Brokers & Asset Management Cos</u>				
Knight Capital group	KCG	\$11.02	\$12.16	10.34%
Raymond James Financial	RJF	\$32.15	\$25.96	-19.25%
T. Rowe Price	TROW	\$60.34	\$47.77	-20.83%
Legg Mason	LM	\$32.76	\$25.71	-21.52%
Eaton Vance	EV	\$30.23	\$22.27	-26.33%
Federated Investors	FII	\$23.84	\$17.53	-26.47%
Franklin Resources	BEN	\$131.29	\$95.64	-27.15%
Blackstone Group L.P.	BX	\$16.56	\$11.98	-27.66%
Goldman Sachs	GS	\$133.09	\$94.55	-28.96%
Waddell and Reed	WDR	\$36.35	\$25.01	-31.20%
Ameriprise	AMP	\$57.68	\$39.36	-31.76%
Och-Ziff Capital	OZM	\$13.87	\$9.13	-34.17%
KKR & Co. L.P.	KKR	\$16.32	\$10.40	-36.27%

		Market Price 6/30/11	Market Price 9/30/11	Percent Increase/ - Decrease
<u>Securities Brokers & Asset Management Cos (cont'd.)</u>				
Janus	JNS	\$9.44	\$6.00	-36.44%
Jefferies	JEF	\$20.40	\$12.41	-39.17%
Morgan Stanley	MS	\$23.01	\$13.51	-41.29%
Lazard	LAZ	\$37.10	\$21.10	-43.13%
Median Average				-28.96%

		Market Price 6/30/2011	Market Price 9/30/11	Percent Increase/ - Decrease
<u>Financial Guarantors</u>				
MBIA Inc	MBI	\$8.69	\$7.27	-16.34%
Assured Guaranty Ltd	AGO	\$16.31	\$10.99	-32.62%
Radian Group Inc	RDN	\$4.23	\$2.19	-48.23%
MGIC Investment Corp	MTG	\$5.95	\$1.87	-68.57%
Median Average				-40.42%