JUNE 2009

DISCUSSION MATERIALS

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Agenda

Standard components in a sell-side process

Illustrative timeline

Weeks 1–3 Phase 1
Plan strategy and conduct due diligence

- Define objectives
- Review operations and financial performance
- **Develop preliminary valuation**
- **Develop preliminary marketing strategy**
- Set process timeline

Weeks 3–6 Phase 2
Prepare selling materials

- Define key selling points
- **Prepare descriptive memorandum**
- Evaluate buyers
- Finalize buyer list
- Customize approach for buyers

Weeks 6–10 Phase 3
Conduct formal marketing effort

- Contact buyers
- Distribute descriptive memorandum
- Arrange data room
- Prepare management presentation
- Receive preliminary indications of interest

Weeks 10–14 Phase 4
Monitor buyer due diligence

- Select participants based on
  - Price
  - Terms
- Management presentation
- Distribute contract
- **Arrange due diligence visits**

Weeks 14–16 Phase 5
Receive final bids and negotiate

- **Evaluate bids**
  - **Cash/non-cash consideration**
  - Contract
- Negotiate final offers
- "Round 3" bids if necessary
- Announcement
- HSR filing

Note: Time periods are averages and can vary materially in any given transaction

Standard components in a buy-side process

Illustrative timeline for the auction of a privately held company or subsidiary of a public company

Initial contact by seller	Review descriptive memorandum	First round bids	Due diligence	Second round bids	Negotiate contract	Acquire target
1 week	**3 weeks**	**1 week**	**4 weeks**	**1 week**	**2 weeks**	**8 weeks**

▪ Reassess strategic direction
▪ Assess interest
▪ Sign confidentiality agreement
	▪ **Perform initial valuation**
	  ▫ DCF
	  ▫ Trading multiples
	  ▫ Recent transactions
	▪ Establish first round bid
	▪ Determine other potential bidders
		▪ Place preliminary indication of interest
		▪ Seller assesses bids
		▪ **Prepare for due diligence effort**
		▪ Receive purchase contract
		▪ Assess financing alternatives
		▪ May seek exclusivity
		  ▫ Unlikely to be warranted unless bid is perceived to be pre-emptive and competition is limited
			▪ **Assemble due diligence team**
			▪ Review data room
			▪ Visit facility(ies)
			▪ **Attend management presentation**
			▪ **Verify valuation assumptions**
			▪ **Assess potential liability**
			▪ Revise bid if appropriate
			▪ Confirm walk-away price
			▪ Mark up purchase contract
				▪ Place binding bid
				▪ Submit marked-up contract
				▪ Seller assesses bids
				▪ **Obtain appropriate Board approvals**
					▪ Reach definitive agreement
					▪ H-S-R
					▪ Develop strategy for communication to investors and rating agencies
					▪ Make public announcement
					▪ Obtain definitive Board approval
						▪ Secure financing
						▪ Cash payment
						▪ Close transaction
						▪ **Post-closing adjustments**

Note: Time periods are averages and can vary materially in any given transaction

Key process elements of a public company merger

1) **Exchange and review detailed financial models**
   a) **5—10 year forecast**
   b) **Consolidated and segment level detail (IS/BS/CF)**
2) Begin development of data room
3) **Preliminary business and financial diligence**
   a) **Initial follow-up due diligence questions**
   b) **Informal presentations and Q&A**
   c) **Follow-up conversations and meetings**
4) Initial meetings on regulatory/legal considerations
5) **Detailed due diligence reviews**
   a) **Emphasis on specific topics**
   b) **Electronic data room**
   c) **Small business team Q&A**
6) Preliminary views on deal structure
   a) Negotiate range of financial terms
   b) Finalize key governance issues
7) Begin transaction documentation drafting and negotiation
   a) Distribution of draft Merger Agreement
   b) Discuss and negotiate basic language
8) Interim Board meeting updates
9) **Finalize due diligence findings**
   a) **Draft rating agency presentations**
   b) Assemble and begin PR/IR work plan
10) **Finalize valuation range and key transaction terms (financial and contractual)**
11) Plan communication and integration strategy
    a) Discuss transaction terms with rating agencies
12) Board Meetings
13) Sign Merger Agreement
14) Announce transaction

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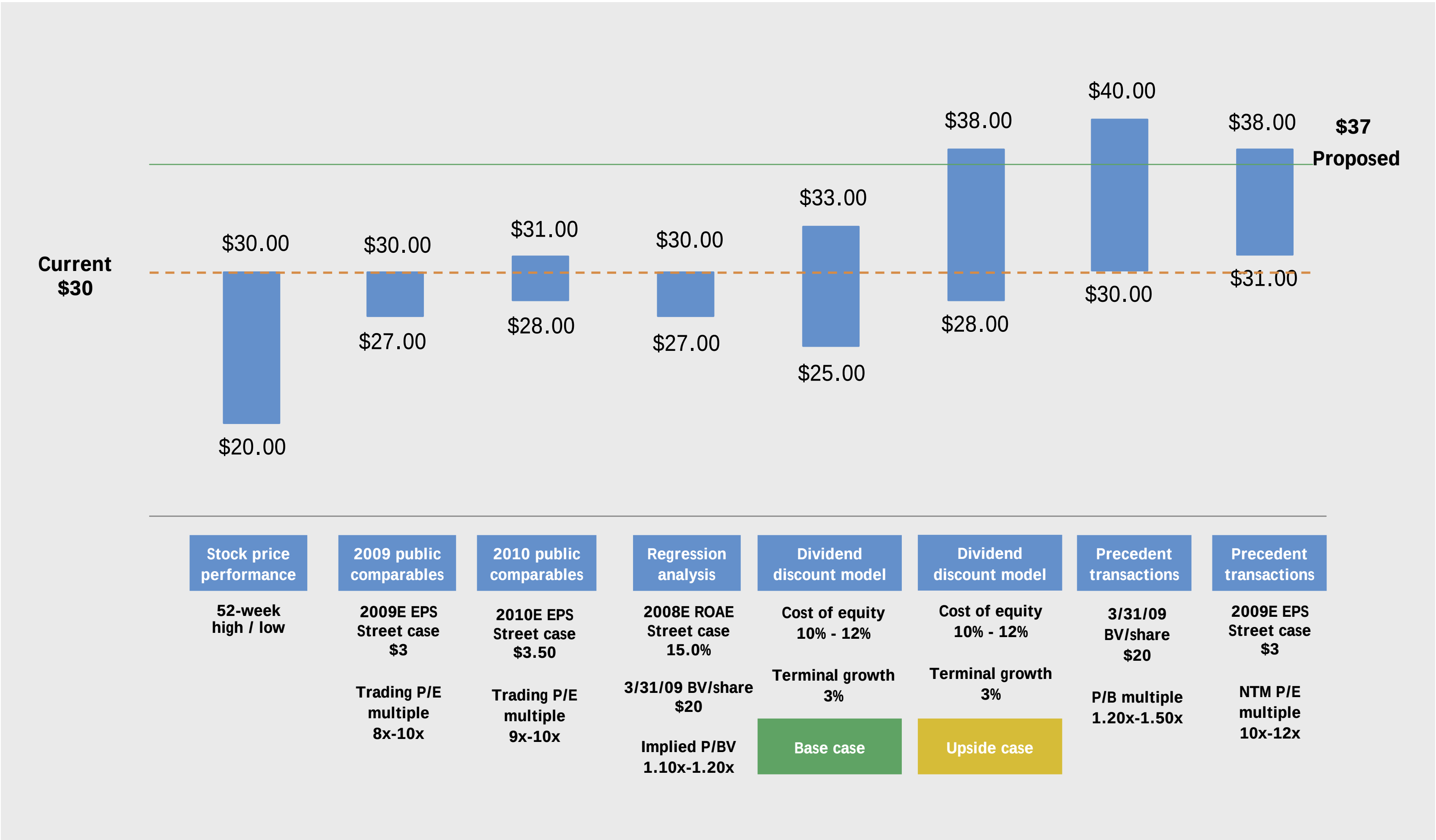
Insurance valuation methodologies

Publicly-traded comparable company analysis	Analyst price targets	▪ Range (or selected range) of analyst price targets ▪ Analysts will not have access to nonpublic information that may affect valuation
	Comparable trading multiples	▪ Estimate value by assigning pricing multiples to company's metrics ▪ P/E, price/book value most commonly used for insurers, emphasis on P/B ▪ Simple and intuitive, but some times difficult to find perfectly comparable peers
	ROE regression analysis	▪ Values the company based on P/B multiples at which comparable companies trade and the company's ROE ▪ Normally a high correlation between ROE and price/ book value
Intrinsic valuation	Dividend discount model	▪ Present value of projected future dividends ▪ Risks in cash flows and capital structure captured in discount rate ▪ Values a company based on its capacity to pay out dividends, subject to regulatory constraints and while maintaining target rating agency ratios ▪ Incorporates retention of earnings necessary to attain a predetermined ratings target ▪ Best theoretical approach
Change of control	Comparable transaction multiples	▪ P/E, price/book value most commonly used for insurers, emphasis on P/B ▪ Simple and intuitive, but some times difficult to find perfectly comparable transactions ▪ Transaction multiples tend to change over time – difficult to compare a current transactions with historical ones

Illustrative valuation summary

Value per share



Source: Company filings, PowerData, I/B/E/S, SNL

Role of an actuary in the M&A process

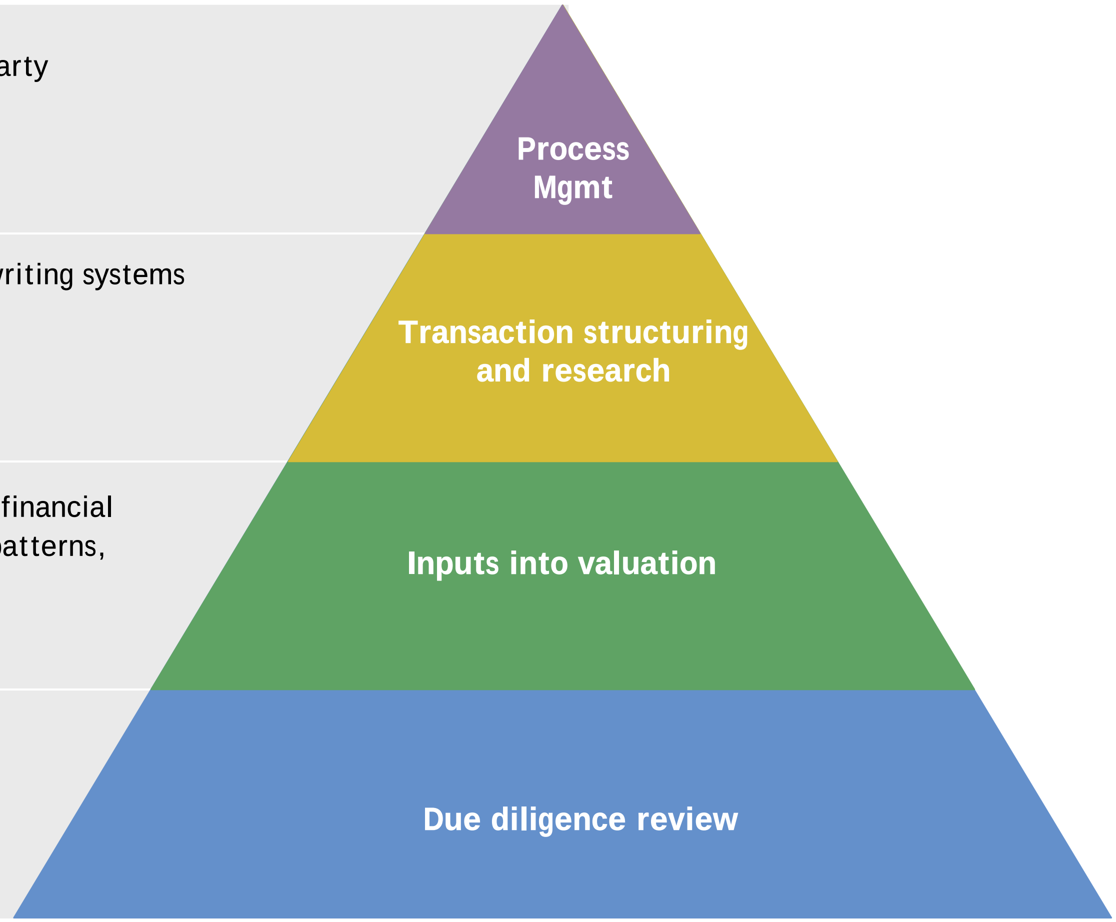
Roles and responsibilities

- Communicate with client and counterparty
- Manage elements of process execution

- Understand existing pricing and underwriting systems
- Industry benchmarking

- Develop, guide and provide inputs into financial projections – reserve position, payout patterns, loss and expense ratios

- Marketing, underwriting and product management
- Reserves and claims management
- Outward reinsurance



Key areas of responsibility