

AMERISAFE, Inc. and First Mercury Financial Corporation

More Attractive Relative Opportunity—Increasing First Mercury to Outperform, Lowering AMERISAFE to Market Perform

Highlights

- We have upgraded First Mercury to Outperform from Market Perform given more appropriate setting of financial expectations and attractive absolute and relative valuation after the recent market sell-off. The shares trade at a 30% discount to book value per share. First Mercury is arguably the least expensive publicly traded commercial underwriter with its profitability profile (11%-13% return on equity in 2009) and lack of property catastrophe exposure. We forecast 12% book value per share growth over the next 12 months and we believe the shares should trade at or above book value as equity markets stabilize, thus providing upside of at least 50%.
- We have downgraded AMERISAFE to Market Perform from Outperform given a continued high relative valuation and less confidence in the durability of significant favorable loss reserve development driving huge earnings upside in the future. That said, AMERISAFE remains a high-quality, unique franchise, in our opinion, and remains one of the better small-cap, specialty lines operators, in our opinion. The shares trade at a 12% premium to book value per share (overall group at 10% discount) and we forecast 16% book value per share growth over the next 12 months.
- We continue to remain selective within the commercial property-casualty underwriting group given continued deterioration in underlying profitability and the pressure from a recessionary economy, thus demanding we maintain some balance in our ratings within the space despite low absolute valuation for the overall group. We simply see much more upside in First Mercury relative to AMERISAFE over the next 12 to 24 months. We believe the risk on this call is that we may be too negative regarding AMERISAFE on an absolute basis.

Financial | Commercial P/C Insurance

February 24, 2009

AMERISAFE, Inc.

Stock Rating: **Market Perform**
 Company Profile: **Aggressive Growth**
 Symbol: AMSF (Nasdaq)
 Price: \$15.47 (52-Wk.: \$12-\$22)

First Mercury Financial Corporation

Stock Rating: **Outperform**
 Company Profile: **Aggressive Growth**
 Symbol: FMR (NYSE)
 Price: \$9.98 (52-Wk.: \$8-\$19)

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Discussion

Upgrade of First Mercury Driven by More Realistic Expectations and Recent Sell-Off

We have upgraded First Mercury to Outperform from Market Perform given that we believe more appropriate expectations have finally been set and the stock's absolute and relative valuation more fully discounts our concerns after the recent market sell-off. We believe First Mercury has finally righted itself after digesting the fallout from setting expectations way too aggressively in early 2008 and a misstep on a sizable acquisition in early 2008. On February 19, management set a 2009 operating EPS guidance range of \$1.65 to \$1.80 versus the consensus estimate of \$1.83. Our current 2009 EPS estimate of \$1.75 per share started at \$2.40 about 12 months ago. During 2008, management needed to reduce its growth expectations given an increasingly competitive pricing environment, and the pressure on pricing cut underlying margins greater than expected. In addition, we believe management made a major tactical mistake during its acquisition of American Management Corporation (AMC). AMC is a general managing underwriter (MGU), but the company's main market would not support an MGU that was owned by an insurance company. While the incumbent carrier stated it would support the book for a limited time, the quality of support was lacking and disruptive and we believe management should have anticipated the lacking support and replaced the incumbent carrier sooner. However, AMC also appears to be back on track with better fourth-quarter earnings.

Importantly, First Mercury needs no capital to hit its near-term growth goals, in our opinion, and the balance sheet appears to be in good shape. First Mercury had an \$8.3 million realized investment loss in the fourth quarter including \$0.4 million of impairments, which was lower than last quarter's \$10.6 million realized investment loss—mainly attributed to mark-to-market losses in the company's convertible portfolio. Most property-casualty companies have seen some deterioration in their investment portfolios, given the deteriorating credit and equity markets, but in general the deterioration has been small compared with life insurers that tend to have lower-quality portfolios and have taken a larger hit to book value on a comparative basis—an important distinction for property-casualty companies. First Mercury's investment portfolio is not riskless, but the quality of the problem areas appears to be very high. The \$543 million investment portfolio (December 31, 2008, market value) asset allocation as of September 30 (most recent available data) was as follows: 37% municipals, 19% mortgages, 13% corporates/preferreds, 9% money market, 9% ABS/CMBS, 8% converts, and 5% other. Of the 28% mortgages/ABS/CMBS, 97% was triple A as of September 30, 2008, and 85% was agency-backed. While state and local governments have come under significant financial stress and are of increasing concern, we believe the federal government would support these credits before witnessing any widespread defaults. During the fourth quarter, the company repurchased 474,000 shares of common stock—699,000 of total shares repurchased for the year. The company has 800,000 shares remaining in its 1.5 million share repurchase capacity, which expires August 2009.

While pricing remains negative and competitive in First Mercury's major markets, the company is benefiting from the financial market dislocation and troubles at certain competitors. On February 17, 2009, First Mercury announced that a new underwriting team had been added to write professional liability and employment practices liability business. The three underwriters that joined the company were brought over from a unit of American International Group (AIG \$0.53) and XL Capital (XL \$3.18). In addition, on February 23, the company announced the hiring of the former head underwriter of North Pointe, an individual who helped build a very profitable and successful book of hospitality/recreational risks at North Pointe. Management believes that it can grow its top line in 2009 with the benefit of these new business initiatives and others—contributing 5 to 10 percentage points of growth. Despite the addition of some new business lines the past few years, about 95% of First Mercury's business is liability and the overall book lacks any meaningful catastrophe exposure.

First Mercury trades at a 30% discount to diluted book value per share, and as equity markets stabilize at some point we believe the stock should trade at least at diluted book value per share even with deteriorating profitability. First Mercury is arguably the least expensive publicly traded insurance underwriter with its profitability profile (11%-13%) and lack of property catastrophe exposure—some names are 40% higher. The shares have declined by more than 10% over the past couple days since reporting strong fourth-quarter earnings (see our First Call note dated February 19 regarding fourth-quarter results). We also believe First Mercury is a legitimate takeover candidate at some point and would complement an onshore or offshore company with a broad specialty lines platform.

We believe that First Mercury's principal challenge is to keep a short leash on its underwriters in 2009 as underlying profitability continues to deteriorate. Management has expanded in several new areas with new underwriters over the past few years. Despite the fact that these underwriters all have long-term experience, our primary concern is the prospects for adverse loss reserve development from the 2008 accident year. If management is behind the curve in setting reserves relative to underlying profitability, then current expectations are too high and the stock could be "dead money" over the next 12 months, in our opinion, although the current valuation mitigates the adverse impact from this risk.

First Mercury Financial Corporation
Condensed Income Statement Comparison
(\$ in millions, except per share data)

	1Q08	2Q08	3Q08	4Q08	2008 Actual	1Q09E	2Q09E	3Q09E	4Q09E	2009 Estimate	2010 Estimate
Gross premiums produced	\$81,293	\$79,862	\$76,956	\$83,155	\$321,266	\$85,358	\$87,848	\$84,652	\$83,155	\$341,012	\$375,114
% change annual	27%	2%	16%	24%	16%	5%	10%	10%	0%	6%	10%
Gross premiums written	\$81,206	\$79,914	\$76,999	\$83,157	\$321,276	\$85,358	\$87,848	\$84,652	\$83,155	\$341,012	\$375,114
% change annual	34%	3%	16%	24%	18%	5%	10%	10%	0%	6%	10%
% gross premiums produced	99.9%	100.1%	100.1%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net premiums written	\$58,503	\$52,241	\$49,546	\$59,660	\$219,950	\$59,750	\$61,494	\$57,140	\$56,130	\$234,514	\$253,202
% change annual	70%	19%	40%	44%	41%	2%	18%	15%	-6%	7%	8%
% gross premiums written	72.0%	65.4%	64.3%	71.7%	68.5%	70.0%	70.0%	67.5%	67.5%	68.8%	67.5%
Net premiums earned	\$43,571	\$46,559	\$49,092	\$54,522	\$193,744	\$55,819	\$57,156	\$59,262	\$59,770	\$232,007	\$243,858
% change annual	-3%	7%	19%	38%	15%	28%	23%	21%	10%	20%	5%
Loss and loss expense	\$23,444	\$25,732	\$27,537	\$31,127	\$107,840	\$32,654	\$33,722	\$33,305	\$35,264	\$134,946	\$142,657
% premiums earned	53.8%	55.3%	56.1%	57.1%	55.7%	58.5%	59.0%	56.2%	59.0%	58.2%	58.5%
Favorable/(unfavorable) loss reserve development	\$0	\$0	\$4,800	\$0	\$4,800	\$0	\$0	\$1,500	\$0	\$1,500	\$2,000
% premiums earned	0.0%	0.0%	9.8%	0.0%	2.5%	0.0%	0.0%	2.5%	0.0%	0.6%	0.8%
Acquisition costs	\$8,213	\$9,096	\$10,798	\$13,057	\$41,164	\$13,397	\$13,603	\$13,927	\$14,046	\$54,972	\$58,526
% premiums earned	18.8%	19.5%	22.0%	23.9%	21.2%	24.0%	23.8%	23.5%	23.5%	23.7%	24.0%
Insurance underwriting expenses	\$1,024	\$4,266	\$4,028	\$3,681	\$13,000	\$3,907	\$4,001	\$4,148	\$4,184	\$16,240	\$15,119
% premiums earned	2.4%	9.2%	8.2%	6.8%	6.7%	7.0%	7.0%	7.0%	7.0%	7.0%	6.2%
Expense ratio	21.2%	28.7%	30.2%	30.7%	28.0%	31.0%	30.8%	30.5%	30.5%	30.7%	30.2%
Underwriting income	\$11,891	\$7,202	\$6,515	\$7,675	\$33,283	\$11,361	\$11,080	\$13,632	\$12,026	\$48,099	\$52,556
% change annual	4%	-34%	-41%	-36%	-27%	-4%	54%	109%	57%	45%	9%
Combined ratio	75.0%	84.0%	86.3%	87.8%	83.6%	89.5%	89.8%	86.7%	89.5%	88.9%	88.7%
Commissions and fees	\$7,029	\$7,086	\$4,757	\$5,093	\$23,965	\$5,500	\$5,250	\$5,750	\$5,750	\$22,250	\$25,000
% change annual	275%	243%	114%	-737%	347%	-22%	-26%	21%	13%	-7%	12%
Noninsurance company expenses	\$6,028	\$7,349	\$4,971	\$4,075	\$22,422	\$4,500	\$4,500	\$4,500	\$4,500	\$18,000	\$18,500
% change annual	169%	201%	104%	-863%	241%	-25%	-39%	-9%	10%	-20%	3%
Insurance services income	\$1,001	(\$263)	(\$214)	\$1,018	\$1,543	\$1,000	\$750	\$1,250	\$1,250	\$4,250	\$6,500
% insurance commissions/fees	14.2%	-3.7%	-4.5%	20.0%	6.4%	18.2%	14.3%	21.7%	21.7%	19.1%	26.0%
Net investment income	\$4,853	\$5,216	\$5,571	\$5,997	\$21,637	\$5,995	\$6,049	\$6,092	\$6,126	\$24,262	\$26,057
% change annual	47%	35%	28%	26%	33%	24%	16%	9%	2%	12%	7%
% yield	4.16%	4.01%	4.04%	4.24%	4.11%	4.10%	4.00%	3.90%	3.80%	3.95%	3.75%
Intangible asset amortization	\$539	\$515	\$553	\$572	\$2,179	\$572	\$572	\$572	\$572	\$2,288	\$2,288
Interest expense	\$1,464	\$1,476	\$1,440	\$1,440	\$5,820	\$1,440	\$1,440	\$1,440	\$1,440	\$5,760	\$5,800
Change in fair value of derivatives	\$435	(\$262)	(\$64)	\$202	\$311	\$0	\$0	\$0	\$0	\$0	\$0
Pretax operating income	\$14,306	\$10,689	\$10,157	\$11,458	\$46,610	\$10,844	\$10,617	\$13,212	\$11,640	\$46,313	\$52,025
% change annual	6%	-22%	-27%	-23%	-17%	-24%	-1%	30%	2%	-1%	12%
Net realized investment gains/(losses)	\$1	(\$1,812)	(\$10,604)	(\$8,271)	(\$20,686)	\$0	\$0	\$0	\$0	\$0	\$0
Income before taxes	\$14,307	\$8,877	(\$447)	\$3,187	\$25,924	\$10,844	\$10,617	\$13,212	\$11,640	\$46,313	\$52,025
% change annual	5%	-38%	-103%	-78%	-54%	-24%	20%	-3056%	265%	79%	12%
Income tax expense	\$4,586	\$2,641	(\$948)	\$823	\$7,102	\$3,340	\$3,270	\$4,069	\$3,585	\$14,264	\$16,024
Effective tax rate	32.1%	29.8%	212.1%	25.8%	27.4%	30.8%	30.8%	30.8%	30.8%	30.8%	30.8%
Net income from continuing operations	\$9,721	\$6,236	\$501	\$2,364	\$18,822	\$7,504	\$7,347	\$9,143	\$8,055	\$32,048	\$36,001
% change annual	8%	-34%	-95%	-76%	-50%	-23%	18%	1725%	241%	70%	12%
Operating income from continuing operations¹	\$10,003	\$7,244	\$7,352	\$7,871	\$32,470	\$7,504	\$7,347	\$9,143	\$8,055	\$32,048	\$36,001
% change annual	11%	-19%	-23%	-23%	-14%	-25%	1%	24%	2%	-1%	12%
Diluted operating EPS	\$0.53	\$0.38	\$0.39	\$0.43	\$1.74	\$0.41	\$0.40	\$0.50	\$0.44	\$1.75	\$1.95
% change annual	8%	-22%	-22%	-21%	-14%	-23%	5%	27%	2%	1%	11%
Average diluted shares	18,793.3	18,943.3	18,726.2	18,357.3	18,705.0	18,350.0	18,350.0	18,350.0	18,350.0	18,350.0	18,500.0
% change annual	3%	4%	-1%	-3%	1%	-2%	-3%	-2%	0%	-2%	1%
Operating return on equity - diluted	17.1%	11.4%	11.2%	12.1%	12.8%	11.8%	10.8%	13.4%	11.6%	11.5%	11.6%
100-basis-point change in combined ratio	\$0.02	\$0.02	(\$0.03)	\$0.02	\$0.08	\$0.02	\$0.02	\$0.02	\$0.02	\$0.09	\$0.09

¹Income before the effects of net realized investment gains/losses and the change in fair value of derivatives.
Source: Company reports and William Blair & Company estimates

Downgrade of AMERISAFE Driven by High Relative Valuation and Less Confidence in Loss Reserve Development

We have downgraded AMERISAFE to Market Perform from Outperform given a continued high relative valuation and less confidence in the durability of significant favorable loss reserve development, which has been the major driver of earnings upside the past several quarters. AMERISAFE's absolute valuation remains attractive over any reasonable period of time, but we are increasingly seeing more relative value opportunities within our financial services coverage universe broadly due to the recent indiscriminate market sell-off. That said, AMERISAFE remains a high-quality, unique franchise and one of the better small-cap, specialty lines operators, in our opinion.

AMERISAFE's fourth-quarter results were strong in the aggregate and profitability remains among the highest of any publicly traded insurance company, with a return on equity (ROE) in excess of 22% in 2008 on an operating basis after in excess of a 24% ROE on an operating basis in 2009. Fourth-quarter operating EPS (excluding \$0.66 per share of realized investment losses) increased 2%, to \$0.94 (see the income statement for the quarter in the attached model), based on a fully converted share count, compared with our \$0.53 per share estimate and a consensus of \$0.57 per share. Upside was principally driven by \$9.3 million of favorable loss reserve development and a lower tax rate. Net investment income was also above our estimate and operating expenses were below our estimate given the benefit from a new, three-year profit-sharing reinsurance program (runs through 2010). AMERISAFE has generated EPS upside in 12 consecutive quarters, or in each quarter since coming public in the fourth quarter 2005. AMERISAFE's management has set financial expectations arguably more smartly than any publicly traded insurance company, in our opinion.

But we were surprised and discouraged by the adverse loss reserve development the company experienced in 2007—\$10 million pretax, or \$0.32 per share aftertax. Part of the problem in 2007 was an unusual spike in volatility—31 claims over \$500,000 in 2007 compared with 18 in 2008—including one large claim that has been reserved at about \$3.5 million. The fully developed accident year loss ratios for 2006 through 2008 through December 31 are 59.1%, 71.0%, and 68.0%, respectively. While favorable loss reserve development from earlier periods more than dominated the adverse development this quarter, the spike in accident year profitability highlights some of the inherent volatility in AMERISAFE's business that has not been visible since the company came public in late 2005. The volatility gives us less confidence in predicting near-term accident year loss ratio trends and counting on significant future favorable loss reserve development to drive earnings upside.

While pricing remains negative in AMERISAFE's major markets, the company is benefiting from the financial market dislocation and troubles at certain competitors. Gross written premium increased 5% in the fourth quarter versus our 7% decline estimate, the first increase in five quarters, with the growth driven heavily by strong new business taken from AIG—142 accounts for more than \$7 million of gross premiums since mid-September. In addition, negative premium audits had a less negative impact relative to the fourth quarter. Gross written premium increased 2% excluding premium audit adjustments. The competitive environment within workers' compensation is beginning to improve given a general retreat in certain segments. However, a key contributor to the withdrawal from certain market segments is the deterioration in underlying profitability, which we do not believe has fully flowed through industry results yet, and no company is immune to deteriorating industry underlying profitability.

AMERISAFE trades at a 12% premium to diluted book value per share, and as equity markets stabilize at some point over the next few quarters, we believe the stock should continue to trade at a healthy premium to diluted book value per share even with deteriorating profitability. We also believe AMERISAFE is a legitimate takeover candidate at some point and would complement an onshore or offshore company with a broad specialty lines platform. Although AMERISAFE has been one of the most, if not the most, profitable underwriter among publicly traded companies over the past few years, commercial underwriting results can be volatile and that premium profitability can change quickly during a downturn. We believe we are much more likely to be wrong regarding AMERISAFE on absolute basis than on a relative basis to First Mercury.

AMERISAFE, Inc.
Condensed Income Statement Comparison
(\$ in millions, except per share data)

	1Q08	2Q08	3Q08	4Q08	2008 Actual	1Q09E	2Q09E	3Q09E	4Q09E	2009 Estimate	2010 Estimate
Gross premiums written	\$80,977	\$85,995	\$75,767	\$65,102	\$307,841	\$76,928	\$81,695	\$71,979	\$63,149	\$293,751	\$308,439
<i>% change annual</i>	-11%	-9%	-7%	5%	-6%	-5%	-5%	-5%	-3%	-5%	5%
Net premiums written	\$76,187	\$81,329	\$71,193	\$59,482	\$288,191	\$72,312	\$76,794	\$67,660	\$57,781	\$274,547	\$288,390
<i>% change annual</i>	-11%	-9%	-6%	5%	-6%	-5%	-6%	-5%	-3%	-5%	5%
<i>% gross premiums written</i>	94.1%	94.6%	94.0%	91.4%	93.6%	94.0%	94.0%	94.0%	91.5%	93.5%	93.5%
Net premiums earned	\$74,300	\$72,143	\$71,284	\$71,766	\$289,493	\$71,570	\$70,485	\$69,527	\$68,964	\$280,546	\$281,469
<i>% change annual</i>	-2%	-6%	-10%	-3%	-6%	-4%	-2%	-2%	-4%	-3%	0%
Loss and loss expense	\$49,928	\$47,317	\$41,972	\$37,172	\$176,389	\$49,383	\$48,635	\$45,193	\$44,827	\$188,037	\$194,213
<i>% premiums earned</i>	67.2%	65.6%	58.9%	51.8%	60.9%	69.0%	69.0%	65.0%	65.0%	67.0%	69.0%
Reserve development	\$1,700	\$2,800	\$6,600	\$9,300	\$20,400	\$0	\$0	\$3,000	\$3,000	\$6,000	\$3,000
<i>% premiums earned</i>	2.3%	3.9%	9.3%	13.0%	7.0%	0.0%	0.0%	4.3%	4.4%	2.1%	1.1%
Total underwriting expenses	\$14,514	\$14,149	\$14,474	\$12,799	\$55,936	\$15,101	\$14,731	\$14,288	\$14,379	\$58,500	\$58,545
<i>Expense ratio</i>	19.5%	19.6%	20.3%	17.8%	19.3%	21.1%	20.9%	20.6%	20.9%	20.9%	20.8%
Policyholder dividends	\$316	\$122	\$125	\$2,941	\$3,504	\$172	\$169	\$167	\$138	\$646	\$563
<i>Policyholder dividend ratio</i>	0.4%	0.2%	0.2%	4.1%	1.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Underwriting income	\$9,542	\$10,555	\$14,713	\$18,854	\$53,664	\$6,914	\$6,950	\$9,880	\$9,621	\$33,364	\$28,147
<i>% change annual</i>	67%	18%	71%	-6%	24%	-28%	-34%	-33%	-49%	-38%	-16%
Combined ratio	87.2%	85.4%	79.4%	73.7%	81.5%	90.3%	90.1%	85.8%	86.1%	88.1%	90.0%
Fees and other income	\$141	\$229	\$200	\$172	\$742	\$200	\$200	\$200	\$200	\$800	\$800
<i>% change annual</i>	1%	66%	-29%	23%	-30%	42%	-13%	0%	16%	8%	0%
Net investment income	\$7,817	\$7,405	\$7,712	\$8,064	\$30,998	\$7,897	\$7,988	\$8,075	\$8,156	\$32,116	\$33,488
<i>% change annual</i>	13%	0%	-3%	2%	3%	1%	8%	5%	1%	4%	4%
<i>% of average invested assets</i>	4.1%	3.8%	4.0%	4.1%	4.0%	3.9%	3.9%	3.8%	3.8%	3.8%	3.7%
Interest expense	\$769	\$657	\$654	\$380	\$2,460	\$400	\$400	\$400	\$400	\$1,600	\$1,900
Pretax operating income	\$16,731	\$17,532	\$21,971	\$26,710	\$82,944	\$14,611	\$14,738	\$17,755	\$17,577	\$64,680	\$60,535
<i>% change annual</i>	41%	12%	35%	-2%	17%	-13%	-16%	-19%	-34%	-22%	-6%
Net realized investment gains/(losses)	\$8	\$53	(\$2,921)	(\$15,996)	(\$18,856)	\$0	\$0	\$0	\$0	\$0	\$0
Income before taxes	\$16,739	\$17,585	\$19,050	\$10,714	\$64,088	\$14,611	\$14,738	\$17,755	\$17,577	\$64,680	\$60,535
<i>% change annual</i>	41%	13%	17%	-61%	-10%	-13%	-16%	-7%	64%	1%	-6%
Income tax expense	\$4,816	\$4,758	\$5,691	\$4,977	\$20,242	\$4,237	\$4,274	\$5,149	\$5,097	\$18,757	\$17,555
<i>Effective tax rate</i>	28.8%	27.1%	29.9%	46.5%	31.6%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Net income before preferred dividends	\$11,923	\$12,827	\$13,359	\$5,737	\$43,846	\$10,374	\$10,464	\$12,606	\$12,479	\$45,923	\$42,980
<i>% change annual</i>	42%	13%	13%	-69%	-13%	-13%	-18%	-6%	118%	5%	-6%
Preferred dividends	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net income available to common shareholders	\$11,923	\$12,827	\$13,359	\$5,737	\$43,846	\$10,374	\$10,464	\$12,606	\$12,479	\$45,923	\$42,980
<i>% change annual</i>	42%	13%	13%	-69%	-13%	-13%	-18%	-6%	118%	5%	-6%
Operating income¹	\$11,918	\$12,793	\$15,258	\$19,094	\$59,062	\$10,374	\$10,464	\$12,606	\$12,479	\$45,923	\$42,980
<i>% change annual</i>	42%	13%	30%	3%	18%	-13%	-18%	-17%	-35%	-22%	-6%
Diluted operating EPS	\$0.59	\$0.63	\$0.75	\$0.94	\$2.90	\$0.51	\$0.51	\$0.62	\$0.61	\$2.25	\$2.10
<i>% change annual</i>	41%	13%	29%	2%	17%	-13%	-19%	-17%	-35%	-23%	-7%
Average diluted shares²	20,300	20,300	20,422	20,420	20,361	20,425	20,430	20,435	20,440	20,433	20,500
<i>% change annual</i>	0%	0%	1%	1%	0%	1%	1%	0%	0%	0%	0%
Operating return on equity - diluted	20.0%	20.6%	23.4%	28.0%	23.1%	14.6%	14.2%	16.5%	15.7%	15.3%	12.4%
100-basis-point change in combined ratio	\$0.03	\$0.03	\$0.02	\$0.02	\$0.10	\$0.02	\$0.02	\$0.02	\$0.02	\$0.10	\$0.10

¹Income before the effects of net realized investment gains/losses.

²On a fully converted basis for Series C&D preferred stock and on a pro forma basis for the completion of the IPO in November, 2005.

Source: Company reports and William Blair & Company estimates

We Remain Selective in the Space

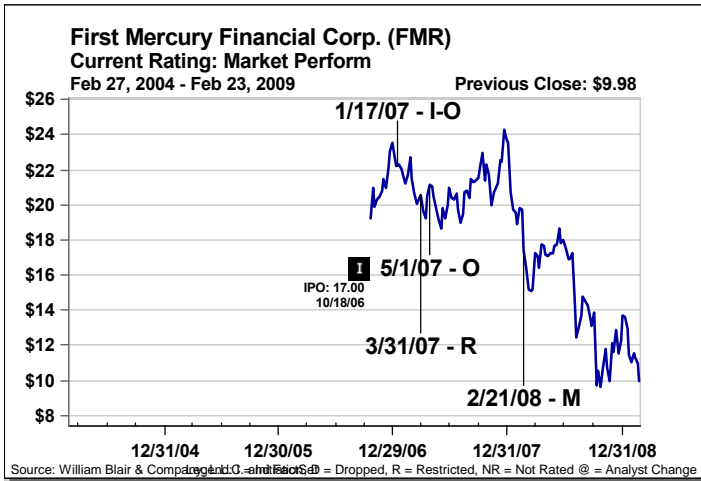
We remain selective within commercial property-casualty insurance despite low absolute valuation given the continued deterioration in underlying profitability, the pressure on exposure growth from the current recession, and the resistance to price changes from the weak economy as well. While absolute valuation is compressed, relative valuation to other areas of financial services has held very strongly. The competitive environment has stabilized somewhat, but not dramatically enough to push industry profitability higher in the near term, in our opinion. We believe that the industry has not felt enough pain on the underwriting side in order to move prices aggressively higher. We believe the consensus position regarding the market environment is somewhat based on rational behavior, that competitors feel the pressure on capital from the current credit environment and acknowledge pricing inadequacy after three to four years of pricing degradation, and then push for higher prices. However, no pricing cycle in the modern history of the commercial property-casualty underwriting industry has ever turned based on rational behavior, in our opinion.

Commercial Property/Casualty Underwriters
Valuation Table

Company	WB Rating	Ticker	Price 2/24/09	52-Week Range	% Price Change 12/31/08	% Price Change 12/31/07	EPS ¹			P/E Ratio			Price/Book	ROE 2007	ROE 2008E	ROE 2009E	% Div. Yield	Market Cap (MM)	
							2007	2008E	2009E	2007	2008E	2009E							
Multiline Companies/Midcap Specialty/Regional Companies > \$1.5 billion																			
ACE Ltd.	O	ACE	\$36.36	\$68.00	\$34.90	(31.3)	(41.1)	\$8.07	\$7.72	\$7.25	4.5x	4.7x	5.0x	0.84x	18.0	16.3	15.6	2.92	\$12,101
Allied World Assurance (7/06 - \$34)		AWH	\$37.52	\$46.82	\$21.00	(7.6)	(25.2)	\$7.64	\$7.31	\$7.03	4.9x	5.1x	5.3x	0.76x	17.3	15.8	13.8	1.68	\$1,890
American Financial Group		AFG	\$15.65	\$32.00	\$13.65	(31.6)	(45.8)	\$3.94	\$3.67	\$3.63	4.0x	4.3x	4.3x	0.73x	15.4	15.4	15.8	2.56	\$1,825
Chubb		CB	\$38.00	\$69.39	\$33.47	(25.5)	(30.4)	\$6.41	\$5.26	\$5.26	5.9x	7.2x	7.2x	1.00x	16.3	13.6	13.4	3.05	\$13,665
Cincinnati Financial		CINF	\$20.31	\$40.24	\$13.68	(30.1)	(48.6)	\$3.54	\$2.07	\$2.12	5.7x	9.8x	9.6x	0.79x	9.0	6.6	8.1	6.99	\$3,300
CNA Financial		CNA	\$8.39	\$32.15	\$8.45	(49.0)	(75.1)	\$3.90	\$2.66	\$2.86	2.2x	3.2x	2.9x	0.40x	10.0	8.6	12.3	4.17	\$2,146
Hartford Financial		HIG	\$6.68	\$79.88	\$4.16	(59.3)	(92.3)	\$10.99	\$5.68	\$6.28	0.6x	1.2x	1.1x	0.25x	17.3	12.3	20.4	NA	\$2,005
HCC Insurance	MP	HCC	\$21.44	\$30.00	\$14.48	(19.9)	(25.2)	\$3.31	\$2.82	\$2.95	6.5x	7.6x	7.3x	0.97x	17.0	12.7	11.9	1.96	\$2,475
Markel		MKL	\$271.26	\$480.00	\$234.23	(9.3)	(44.8)	\$36.76	\$22.27	\$23.83	7.4x	12.2x	11.4x	1.22x	14.6	9.1	10.2	-	\$2,661
Old Republic Intl		ORI	\$9.02	\$17.25	\$6.77	(24.3)	(41.5)	\$0.97	(\$0.78)	\$0.94	9.3x	NM	NM	0.57x	5.1	(4.4)	5.8	6.98	\$2,109
ProAssurance Corporation		PRA	\$44.91	\$65.00	\$37.24	(14.9)	(18.2)	\$4.89	\$5.00	\$4.64	9.2x	9.0x	9.7x	1.13x	14.0	12.7	10.5	-	\$1,521
The Hanover Insurance Group		THG	\$34.19	\$55.00	\$29.75	(20.4)	(25.3)	\$4.46	\$4.36	\$4.54	7.7x	7.8x	7.5x	0.92x	10.7	10.7	11.7	1.17	\$1,757
Travelers		TRV	\$37.49	\$58.57	\$28.91	(17.1)	(30.3)	\$6.71	\$5.42	\$5.53	5.6x	6.9x	6.8x	0.86x	15.4	11.6	10.8	3.17	\$22,232
White Mountains Insurance		WTM	\$200.00	\$525.00	\$195.00	(25.1)	(61.1)	\$22.03	\$20.50	\$22.13	9.1x	9.8x	9.0x	0.61x	3.1	3.5	4.9	4.00	\$1,304
WR Berkley		WRB	\$20.81	\$31.21	\$16.62	(32.9)	(30.2)	\$3.73	\$2.83	\$3.28	5.6x	7.3x	6.3x	1.03x	18.1	12.6	13.0	0.96	\$3,493
Average						(24.6)	(36.9)				5.6x	6.5x	6.7x	0.86x	15.2	12.0	12.3		
Specialty/Regional Companies < \$1.5 billion																			
American Physicians Capital		ACAP	\$42.71	\$50.49	\$28.93	(11.2)	3.0	\$4.74	\$4.43	\$4.47	9.0x	9.6x	9.5x	1.48x	16.7	16.0	15.4	0.47	\$401
American Safety Insurance Holdings		ASI	\$10.11	\$20.56	\$6.10	(23.5)	(48.5)	\$2.56	NA	\$1.90	3.9x	NM	NM	0.51x	12.4	NM	NM	-	\$104
AMERISAFE (11/05 - \$9.00)	MP	AMSF	\$15.47	\$21.97	\$12.10	(24.6)	(0.3)	\$2.47	\$2.90	\$2.30	6.3x	5.3x	6.7x	1.13x	24.3	20.5	15.6	-	\$297
Argo Group	O	ARGI	\$28.38	\$43.15	\$24.35	(16.3)	(32.6)	NM	\$2.81	\$4.25	NM	10.1x	6.7x	0.64x	23.0	6.5	9.5	-	\$871
Baldwin & Lyons		BWIN	\$16.27	\$27.90	\$14.01	(10.6)	(40.8)	\$1.91	\$1.50	\$1.40	8.5x	10.8x	11.6x	0.73x	7.7	6.3	6.3	10.14	\$242
CNA Surety		SUR	\$14.32	\$22.90	\$9.00	(25.4)	(27.6)	\$2.09	\$2.10	\$2.10	6.9x	6.8x	6.8x	0.82x	15.0	13.0	11.4	-	\$634
CRM Holdings, Ltd. (12/05 - \$13.00)		CRMH	\$0.83	\$7.35	\$0.50	(51.2)	(89.4)	\$1.24	\$0.40	\$0.80	0.7x	2.1x	1.0x	0.12x	NM	5.9	10.9	-	\$14
EMC Insurance Group		EMCI	\$18.51	\$31.65	\$16.36	(27.2)	(21.8)	\$2.91	\$0.85	\$1.17	6.4x	21.8x	15.8x	0.81x	11.7	3.2	4.3	3.73	\$248
Employers Holdings (1/07 - \$17.00)		EIG	\$10.34	\$20.75	\$10.08	(37.3)	(38.1)	\$1.97	\$1.90	\$1.64	5.2x	5.4x	6.3x	1.28x	28.3	22.2	16.1	1.74	\$507
First Mercury Financial (10/06 - \$17.00)	O	FMR	\$9.98	\$20.99	\$8.34	(30.0)	(59.1)	\$2.25	\$1.74	\$1.80	4.4x	5.7x	5.5x	0.70x	18.7	12.9	11.9	-	\$183
FPIC Insurance		FPIC	\$36.03	\$71.50	\$35.16	(17.7)	(16.2)	\$5.27	\$4.72	\$4.43	6.8x	7.6x	8.1x	1.10x	15.4	12.7	10.6	-	\$306
Hallmark Financial (10/06 - \$9.00)		HALL	\$6.94	\$13.38	\$5.05	(20.9)	(56.2)	\$1.22	NA	\$1.20	5.7x	NM	NM	0.58x	15.6	NM	12.4	-	\$145
Harleysville Group		HGIC	\$28.62	\$51.74	\$24.75	(17.6)	(19.1)	\$3.17	\$3.16	\$3.43	9.0x	9.0x	8.3x	1.23x	12.2	12.7	14.1	3.07	\$811
Meadowbrook Insurance		MIG	\$5.64	\$9.17	\$3.75	(12.4)	(40.1)	\$0.85	\$0.82	\$0.92	6.6x	6.9x	6.1x	0.74x	19.5	12.8	11.5	-	\$326
Mercer Insurance Group (12/03 - \$10.00)		MIGP	\$13.94	\$17.96	\$10.71	10.3	(22.3)	\$2.25	\$2.05	\$2.30	6.2	6.8	6.1x	0.71x	11.5	9.4	9.6	1.43	\$89
National Interstate Corporation (01/05 - \$13.50)		NATL	\$14.80	\$30.54	\$13.57	(17.2)	(55.3)	\$2.28	\$1.69	\$1.73	6.5x	8.8x	8.6x	1.32x	22.8	15.2	14.5	1.35	\$287
Navigator Group		NAV	\$51.30	\$66.74	\$39.29	(6.6)	(21.1)	\$5.55	\$5.28	\$5.46	9.2x	9.7x	9.4x	1.24x	15.5	13.3	12.6	-	\$871
NY Magic		NYM	\$14.27	\$29.35	\$11.04	(25.1)	(38.3)	\$1.94	NA	\$0.55	7.4x	NM	25.9x	0.67x	5.9	NM	NM	2.24	\$120
PMA Capital		PMACA	\$5.37	\$12.00	\$3.46	(24.2)	(34.7)	\$0.44	\$0.61	\$0.67	12.2x	8.8x	8.0x	0.50x	3.5	5.4	6.1	-	\$172
RLI Insurance		RLI	\$49.38	\$72.10	\$44.00	(19.3)	(13.0)	\$6.52	\$4.12	\$4.21	7.6x	12.0x	11.7x	1.50x	18.5	12.1	12.3	1.76	\$1,072
SeaBright Insurance Holdings (01/05 - \$10.50)		SBX	\$7.82	\$16.03	\$7.64	(33.4)	(48.1)	\$1.90	\$1.75	\$1.72	4.1x	4.5x	4.6x	0.54x	14.9	11.9	10.5	-	\$167
Selective Insurance		SIG	\$11.86	\$30.40	\$11.86	(48.3)	(48.4)	\$2.21	\$1.16	\$1.44	5.4x	10.2x	8.3x	0.70x	10.7	6.1	8.2	4.13	\$616
Specialty Underwriters' Alliance (11/04 - \$9.50)		SUAI	\$2.94	\$6.14	\$2.00	11.8	(45.0)	\$0.82	\$0.60	\$0.45	3.6x	4.9x	6.5x	0.34x	10.4	6.9	4.9	-	\$46
Tower Group (10/04 - \$8.50)		TWGP	\$22.72	\$31.05	\$15.76	(19.5)	(32.0)	\$2.43	\$2.86	\$3.25	9.3x	7.9x	7.0x	1.66x	21.2	19.5	18.5	0.66	\$528
United America Indemnity (12/03 - \$17.00)		INDM	\$8.33	\$20.24	\$8.27	(35.0)	(38.2)	\$2.63	\$1.19	\$1.29	3.2x	7.0x	6.5x	0.42x	10.3	5.1	6.2	-	\$262
United Fire & Casualty Co.		UFCS	\$17.85	\$39.27	\$13.09	(42.5)	(58.6)	\$3.81	\$1.40	\$1.50	4.7x	12.8x	11.9x	0.74x	14.2	5.4	6.1	3.11	\$476
Zenith National Insurance		ZNT	\$22.26	\$48.26	\$22.26	(29.5)	(50.2)	\$5.92	\$2.20	\$2.23	3.8x	10.1x	10.0x	0.81x	22.0	7.8	8.2	10.78	\$833
Average						(22.8)	(25.4)				5.6x	7.8x	8.8x	0.90x	12.6	10.1	9.8		
Reinsurance Companies																			
Arch Capital Group		ACGL	\$51.99	\$80.47	\$51.99	(25.8)	(26.1)	\$11.47	\$9.76	\$9.94	4.5x	5.3x	5.2x	1.01x	19.7	17.2	17.5	-	\$3,122
Aspen Insurance Holdings (12/03 - \$22.50)		AHL	\$20.87	\$32.42	\$13.53	(13.9)	(27.6)	\$4.99	\$4.03	\$3.97	4.2x	5.2x	5.3x	0.72x	19.1	14.1	13.3	2.87	\$1,741
Axis Capital (7/03 - \$22.00)		AXS	\$22.60	\$39.11	\$17.27	(22.4)	(42.0)	\$6.38	\$4.57	\$4.76	3.5x	4.9x	4.7x	0.78x	22.2	15.8	16.8	3.01	\$3,376
Endurance Specialty (2/03 - \$23.00)		ENH	\$23.59	\$42.17	\$19.32	(22.7)	(43.5)	\$7.45	\$5.14	\$5.18	3.2x	4.6x	4.6x	0.67x	20.1	14.1	14.5	4.24	\$1,406
Everest Re		RE	\$67.06	\$101.87	\$54.77	(11.9)	(33.2)	\$12.21	\$11.24	\$11.55	5.5x	6.0x	5.8x	0.83x	13.9	12.9	13.5	2.86	\$4,109
Flagstone Re (3/07 - \$13.50)		FSR	\$7.80	\$13.70	\$7.26	(20.2)	(43.9)	\$1.96	\$2.12	\$2.24	4.0x	3.7x	3.5x	0.67x	14.9	16.4	17.7	10.3	\$662
IPC Holdings		IPCR	\$26.24	\$33.75	\$19.01	(12.2)	(9.1)	\$4.56	\$4.74	\$4.89	5.8x	5.5x	5.4x	0.79x	13.7	13.9	13.8	3.05	\$1,447
Max Re Capital (8/01 - \$16.00)		MXGL	\$16.17	\$31.00	\$9.56	(8.6)	(42.2)	\$4.81	\$2.99	\$3.28	3.4x	5.4x	4.9x	0.60x	18.2	10.1	10.1	1.98	\$910
Montpelier Re (10/02 - \$20.00)		MRH	\$13.24	\$17.94	\$10.13	(21.1)	(22.2)	\$2.93	\$2.32	\$2.33	4.5x	5.7x	5.7x	0.90x	13.5	13.0	13.5	2.27	\$1,115
Odyssey Re (6/01 - \$18.00)		ORH	\$45.29	\$54.56	\$31.55	(12.6)	23.4	\$3.32	\$2.82	\$3.00	13.6x	16.1x	15.1x	1.00x	8.7	6.4	6.4	2.55	\$2,709
PartnerRe		PRE	\$61.51	\$79.23	\$47.70	(13.7)	(25.5)	\$14.43	\$9.53	\$9.75	4.3x	6.5x	6.3x	0.94x	23.0	14.4	14.1	0.80	\$3,482
Platinum Underwriters (10/02 - \$22.50)		PTP	\$27.90	\$38.76	\$21.38	(22.7)	(21.5)	\$5.38	\$3.65	\$5.07	5.2x	7.6x	5.5x	0.80x	16.7	11.5	15.8	1.15	\$1,521
Renaissance Re Holdings																			

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Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	55	Outperform (Buy)	3
Market Perform (Hold)	44	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	1

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