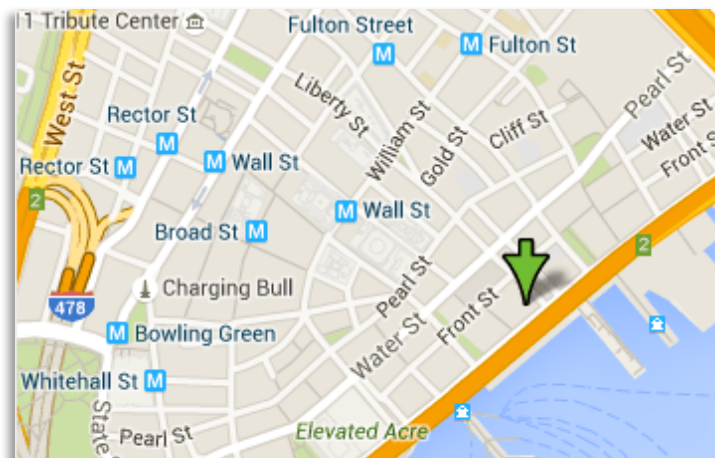


STONYBROOK CAPITAL

MUTUAL
INSURANCE COMPANY
CAPITAL MARKETS:
KEY INDUSTRY TRENDS

STONYBROOK CAPITAL

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“ALTERNATIVES” DEFINED CAPITAL MARKET TRENDS IN 2016

Mutual Holding Companies

By their very nature, mutual insurance companies are restricted to raising capital in the form of debt since they have no equity shares to sell.

However, finding lenders willing to provide capital in sufficient amounts and at reasonable terms is an ongoing challenge for many. For this reason, we were not surprised to have witnessed a recent increase in the number of conversion of mutual insurance companies into mutual holding companies, wherein a mutual (owned by the policyholders) shares equity ownership of a stock company with other (public or otherwise) shareholders.

This strategy is typically effected through a public offering of less than 50% (as required by statute) of the stock company's shares. A recent example includes Nodak Mutual which was announced in January 2016 and is currently pending department approval. American Family is also an example, and could be the most noteworthy since Liberty mutual (~15 years ago).

We anticipate similar activity in years to come, particularly as debt capital becomes more expensive in line with the Fed's raising of base rates.

Surplus Notes

The popularity of surplus notes is particularly acute with mutual insurance companies, given their corporate structure. However, given prevailing interest rates, we have found a handful of stock companies find them attractive, as well.

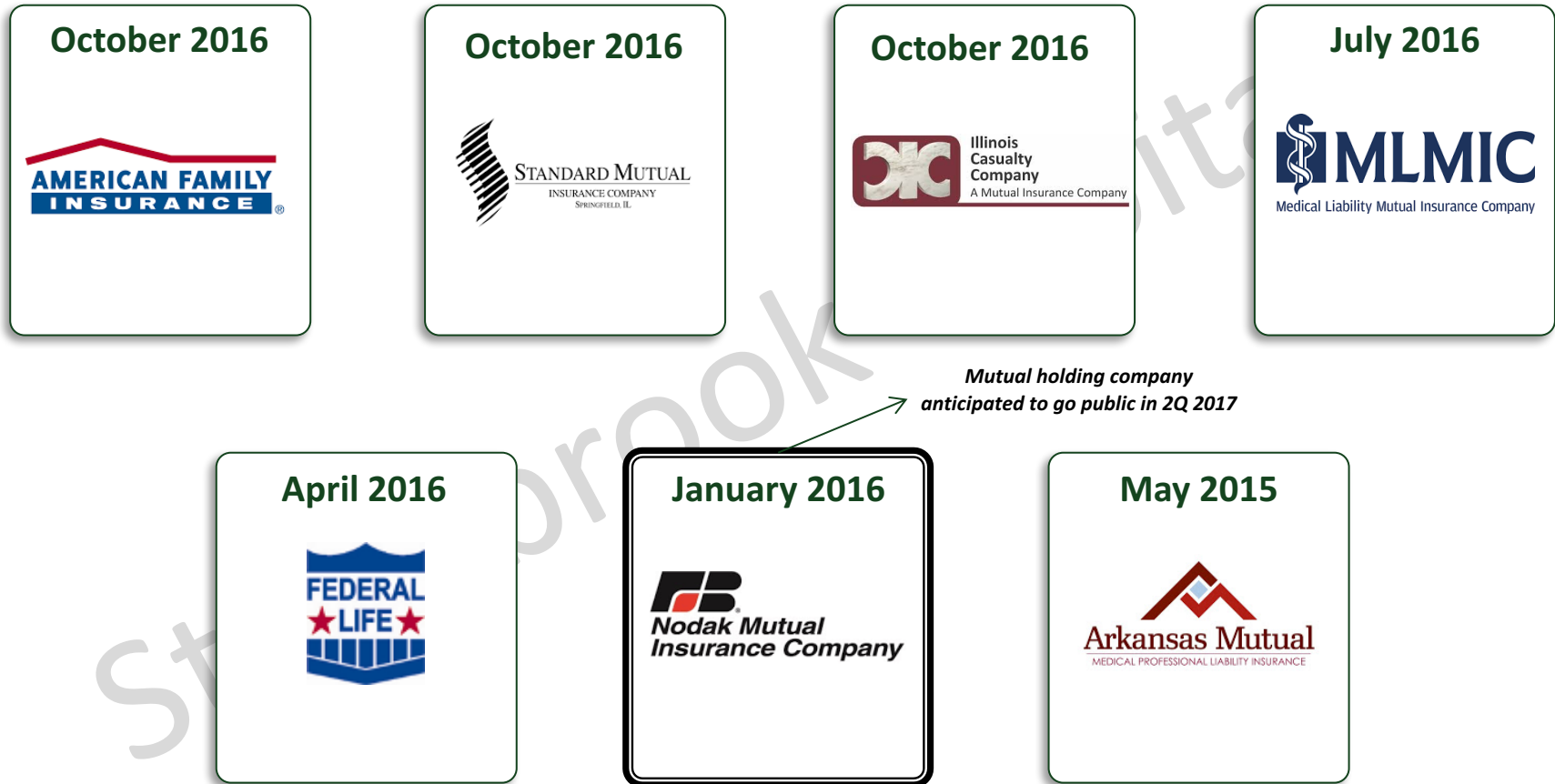
A surplus note is designed primarily to favorably augment policyholder surplus (e.g. decrease operating leverage, effect M&A strategies, or just generally strengthen balance sheets). It often accomplishes this with a “long term” (many times 20 to 30 years in maturity) and at an interest rate acceptable to the regulators and rating agencies. Both payment of interest expense, and principal payback are subject to department of insurance approval. AM Best can sometimes allow almost 100% equity capital treatment in calculating capital adequacy. We expect Demotech to follow suit in comparable situations, although, we are not aware of any “live precedents”.

Given the aforementioned features, it is not easy to find interested buyers of the illiquid security. But, given the low-yield, soft-market environment, overcapitalized insurers have entered the market in recent years – albeit with a variety of motives.

We expect that as interest rates rise and investment portfolio performance improves for “surplus note markets”, these securities will enter a down-cycle and become more scarce.

NOTABLE MUTUAL HOLDING COMPANY CONVERSIONS





THE STRUCTURE SEEMS TO BE INCREASINGLY POPULAR



Date reflects the date the transaction was announced

SELECTED SURPLUS NOTES RECENTLY ISSUED BY MUTUAL INSURANCE COMPANIES

(\$ in thousands)

Date Issued	Issuer	AM Best Rating	Debt/ Surplus (a)	Amount
11/23/2016	 SECURITY MUTUAL LIFE	A-	20% (b)	\$20,000
04/29/2016	 MUTUAL OF ENUMCLAW INSURANCE	A-	12%	20,000
12/30/2015	 Brotherhood Mutual® <small>Insurance Company</small>	A	22%	28,000
05/01/2014	 WEST BEND <small>A MUTUAL INSURANCE COMPANY™</small>	A	9%	70,000

This schedule shows only those notes for which we believe AM Best and/or Demotech will grant equity capital treatment and for whom the lender was basically a "strategic investor". We did not include immaterially small notes or notes from affiliated companies etc.

Footnotes:

a. Calculated as surplus notes outstanding divided by pro forma surplus at the time of issuance

b. Pro forma surplus calculated as 9/30/16 surplus plus \$20m

Universe: Selected surplus notes issued by mutual insurance companies since 1/1/2014

Source: SNL Financial

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NODAK MUTUAL INSURANCE CO.

Headquarters Fargo, ND

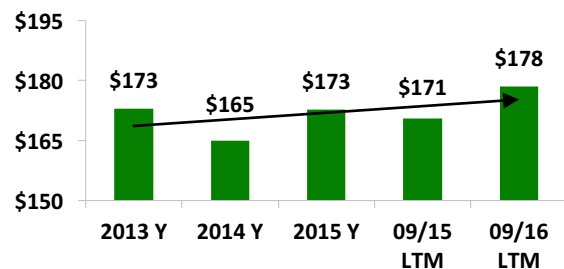
CEO Jim Alexander

AM Best FSR A

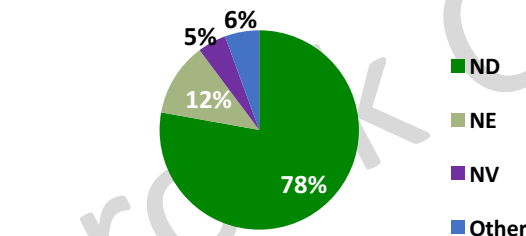
Line of Business Personal Lines

- ✧ **Nodak is a group of four insurance companies and is a member of the “farm bureau” system**
 - Competitors include State Farm, Progressive, American Family, QBE, Farmers Union, and Auto Owners
 - Nodak has completed two acquisitions, since 2011 including: Battle Creek Mutual and Tri-State
 - The Company has three offices and 126 employees
- ✧ **In January 2016, the Company approved the “plan of conversion”**
 - IPO of newly created holding company
 - Ultimate control remains with the Mutual
- ✧ **The lead company – Nodak Mutual Insurance Company = founded in 1946**
 - North Dakota domicile

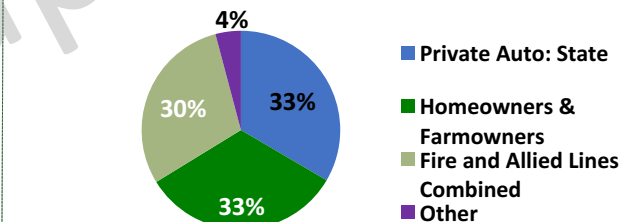
DIRECT PREMIUM WRITTEN



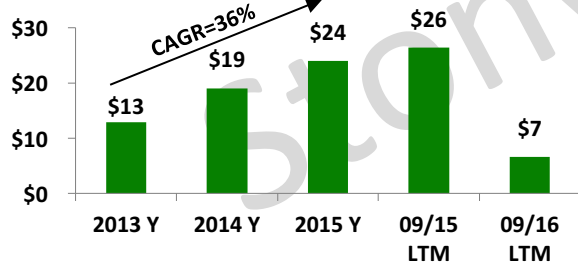
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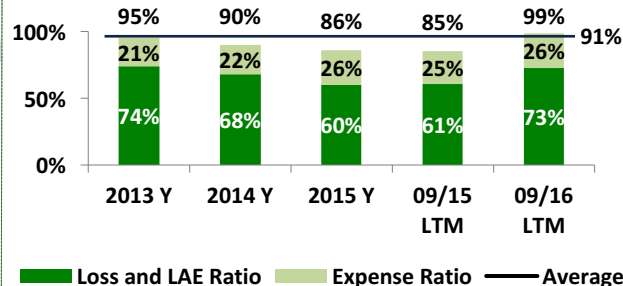
DPW BY PRODUCT



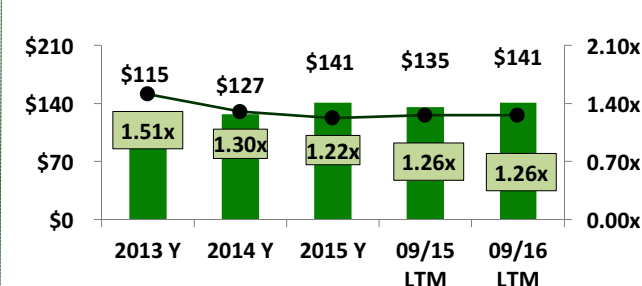
NET OPERATING INCOME (a)



UNDERWRITING



SURPLUS & UNDERWRITING LEVERAGE



Footnotes:

a. Net operating income calculated as the sum of Nodak's net underwriting gain (loss), net investment gain (loss) and total other income less net realized capital gains after taxes

\$M. Data source: SNL Financial
Data as of 12/31/2015

NODAK MUTUALS STOCK CONVERSION EXPLAINED

NODAK'S IPO WILL PROVIDE FUNDS TO SPUR GROWTH

✧ Nodak Mutual selling up to 45% via IPO

- Will trade on the Nasdaq under ticker "NODK"
- Ultimate control remains with "the mutual" and all other entities to remain in the same structure except for the newly created holding company which will be publicly traded
- Comparable structures include Donegal, EMC and State Auto

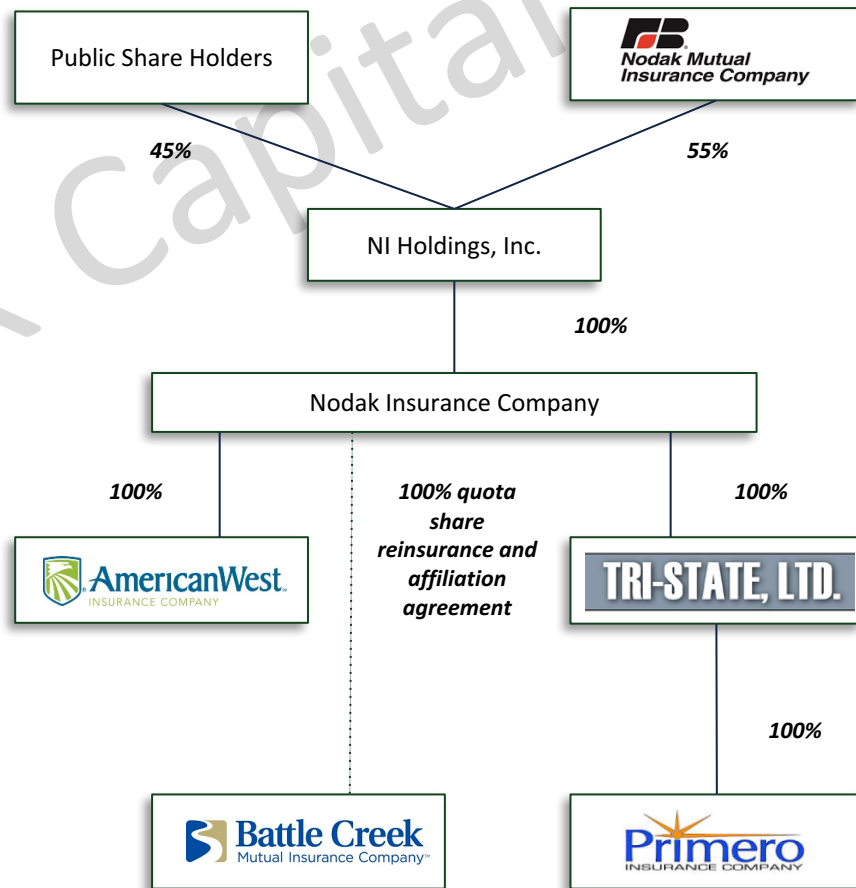
✧ New capital raised projected to be ~\$90m

- Pro forma GAAP book value = ~\$240m
- If the midpoint of the range is achieved, the stock is expected to trade at 86% of GAAP book value upon closing of the transaction

✧ Use of Proceeds and rationale for the transaction

- Access to capital markets, equity incentive comp packages for management, offer stock as consideration for acquisitions
- Staged offering of shares
 - First offering to = policyholders
 - Second offering to = directors, offices, and employees
 - Third offering to = the public

POST CONVERSION STRUCTURE



ANALYSIS OF COMPARABLE PUBLICLY TRADED COMPANIES

(\$M, except per share data)

Company ("Ticker")	2/2/2017		% of 52 wk High	Debt / Total Cap	LTM (a)		LTM NPW Growth	Market Cap /	
	Market Cap	Closing Price			Comb. Ratio (b)	ROAE		TBV	Earnings (c)

Comparable Structure

State Auto ("STFC")	\$1,048	\$25.10	92%	10%	109%	(1%)	(3%)	1.20x	n.m.
EMC Insurance ("EMCI")	607	28.74	91%	4%	98%	6%	2%	1.08x	17.4x
Donegal ("DGICA")	439	16.41	88%	15%	96%	6%	8%	1.00x	16.1x
Median			91%	8%	97%	7%	3%	1.08x	12.5x

Comparable Business Lines

HCI ("HCI")	\$425	\$41.75	99%	25%	91%	15%	(31%)	1.76x	12.0x
Baldwin & Lyons ("BWINB")	360	23.85	86%	5%	95%	7%	3%	0.89x	13.0x
United Insurance ("UIHC")	293	13.55	68%	8%	97%	12%	33%	1.19x	9.8x
Federated National ("FNHC")	257	18.61	75%	2%	106%	8%	40%	1.06x	12.0x
Hallmark ("HALL")	205	10.99	91%	30%	96%	5%	1%	0.96x	15.0x
Atlas ("AFH")	204	16.95	91%	9%	85%	15%	17%	1.51x	9.9x
Kingstone ("KINS")	126	12.05	83%	0%	82%	18%	14%	2.28x	14.5x
Median			86%	8%	96%	7%	3%	1.08x	12.8x

All Comparables

Median			91%	8%	96%	7%	3%	1.08x	12.8x
Nodak Mutual (d)	\$200 (e)	\$10.00 (f)	n.a.	0%	99%	6%	0%	0.85x	11.6x

Footnotes:

- a. Last twelve months as of 9/30/2016
 - b. STAT combined ratios used
 - c. Pro Forma 12/31/15 net income used for Nodak Mutual
 - d. Pro forma GAAP financials used where available
 - e. Assumes the midpoint offering amount of \$90m occurs as displayed in NI Holdings S1 registration
 - f. Offering price per share displayed in NI holdings S1 Registration
- Excludes companies with less than \$100m in market cap

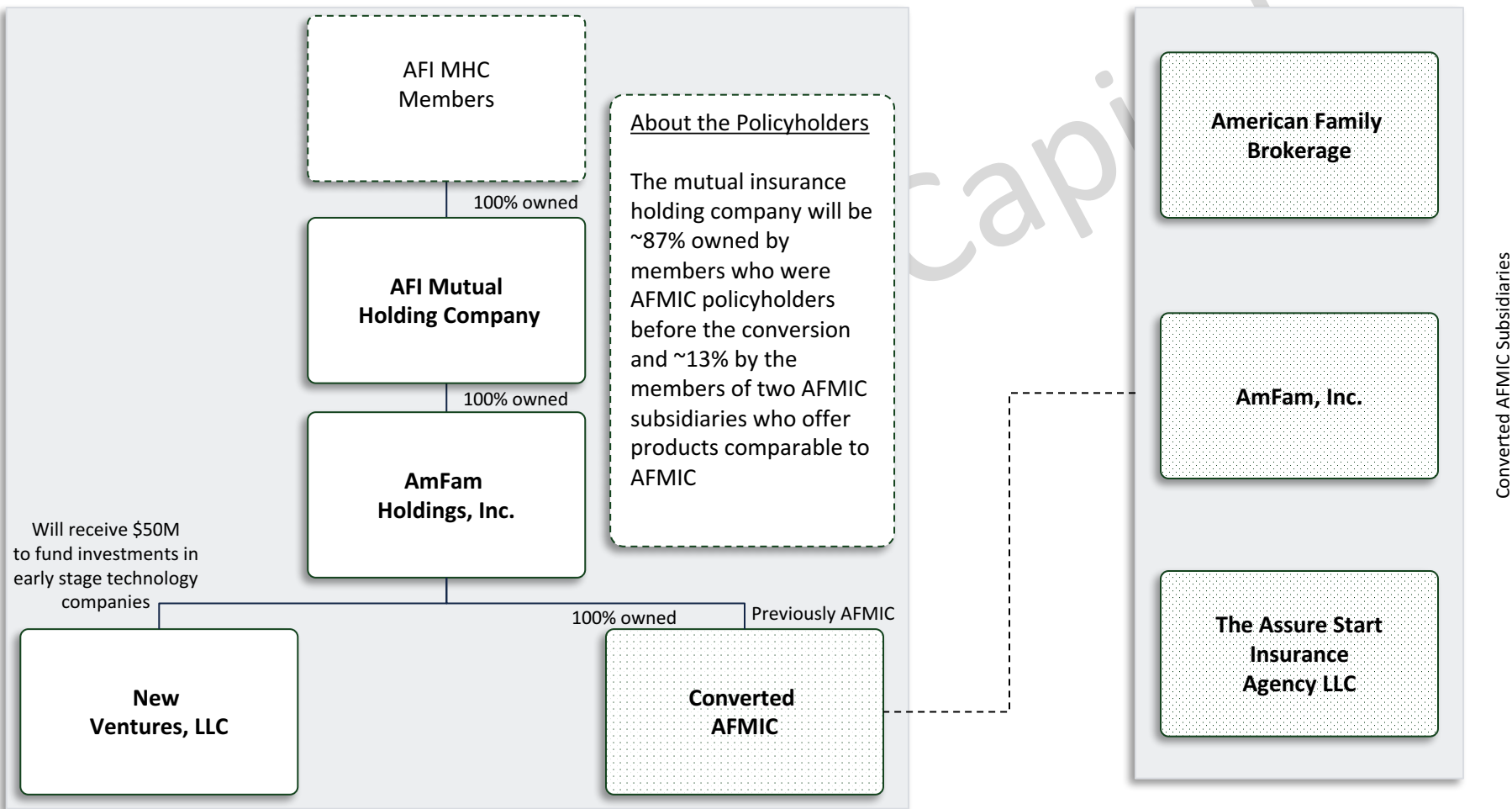
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CASE STUDY: AMERICAN FAMILY'S MUTUAL STOCK CONVERSION EXPLAINED

- ✧ Idea introduced to the board in 2012
- ✧ Goal is to improve flexibility for M&A
- ✧ Largest transaction of its kind in 15 years
- ✧ Conversion status = expect approval in early 2017

"MIHCs have greater flexibility to pursue mutual mergers in a way that can preserve both entities' identities, brand recognition and goodwill", the Company said.





AMERICAN FAMILY: CHALLENGES & OPPORTUNITIES

Challenge

→ Opportunity

<p>✧ Mutuals cannot issue stock to raise capital. The three options they have are:</p> <ul style="list-style-type: none"> • Selling surplus notes • Retained earnings • Selling stock in a stock sub, which does not reflect the valuation of the mutual 	<p>✧ Raise capital through public or private sales of stock or debt (though the policyholders/members must retain majority ownership)</p>
<p>✧ Mutuals cannot pay for an acquisition with stock</p>	<p>✧ Multiple payment options include stock issuance</p>
<p>✧ Merging mutuals and maintaining two franchises/brands</p>	<p>✧ Merging, while preserving separate brands and goodwill. Options include sponsored conversion, MHC to MHC merger and stock acquisition</p>
<p>✧ Regulatory limits on the amount a carrier can invest in non-insurance subsidiaries</p> <ul style="list-style-type: none"> • With a mutual as the ultimate parent, the entire enterprise is limited 	<p>✧ Fully able to invest in synergistic ancillary and non-insurance entities without regulatory limitations</p>
<p>✧ Regulatory limits on number of products the same carrier can sell</p> <ul style="list-style-type: none"> • A carrier can create a stock sub, but it is not eligible for membership in the mutual parent 	<p>✧ Diversify while preserving the benefits of mutuality (e.g. a degree of participation in distributions, full voting rights on electing directors, amending articles of incorporation, etc.)</p>

AMERICAN FAMILY: ALTERNATIVES CONSIDERED

Status Quo & Demutualization vs. MHC

Status Quo

- ✧ Strengths
 - Organic growth through operations
 - Benefits of mutuality
- ✧ Weaknesses
 - Limited structural, financial or strategic flexibility

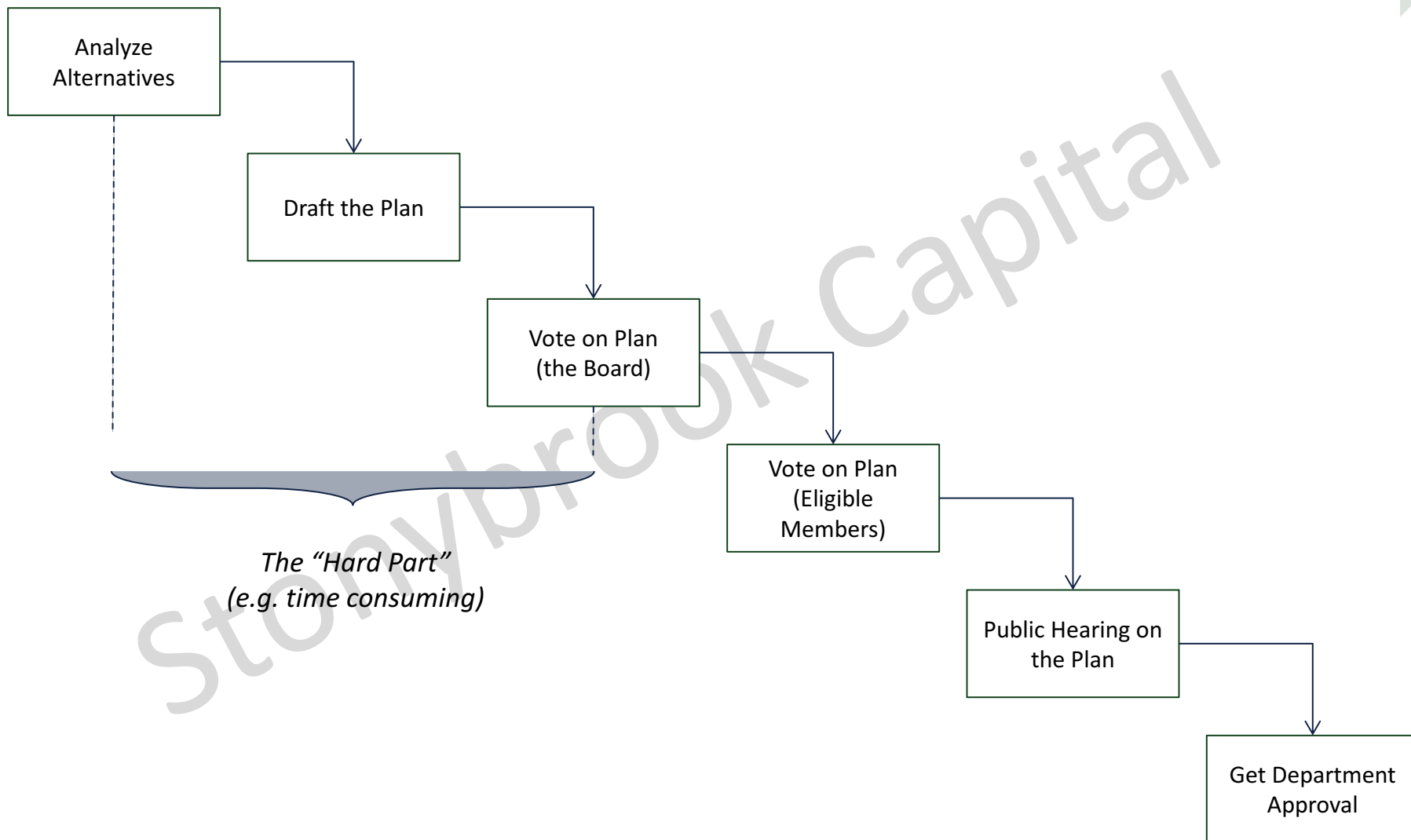
Demutualization

- ✧ Strengths
 - Consideration to policyholders
 - Stock as acquisition currency
 - Potentially higher valuation than MHC
- ✧ Weaknesses
 - Mutuality not preserved
 - Reduced ability to merge with mutuals
 - Potentially inefficient way to raise capital (public market volatility)
 - Investors focused on the shorter term
 - Loss of policyholder control
 - Difficult to structure, time consuming and more expensive than MHC

MHC = A Combination of Both Worlds

AMERICAN FAMILY: STEPS TO CONVERSION

May have taken upwards of four years – from idea to execution



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ABOUT Us

STONYBROOK ARE THE ADVISORS OF CHOICE TO MUTUAL INSURANCE COMPANIES

- ✧ The **vast majority** of our revenue is generated by transactions involving mutual insurance companies
- ✧ We've developed a **center of excellence** around strategic mutual insurance company services
 - Alternative corporate structures
 - Surplus note debt instruments
 - Mutual company M&A
- ✧ We've established relationships with third-parties that **understand life as a mutual**
 - Reinsurance intermediaries
 - Advisory Board members
 - Regulators



YOUR COVERAGE TEAM

EXPERIENCED, EXPERT, LASER-FOCUSED

JOSEPH M. SCHEERER
Principal & Managing Director

Founded Stonybrook after over 130 investment advisory assignments over his career. Graduated with Honors from the University of Pennsylvania. Director of Atlantic American Corporation (Nasdaq:AAME), an Atlanta based insurance holding company. Frequent speaker at industry conferences.

DWIGHT EVANS
Special Advisor

35+ year career in insurance and reinsurance, most recently CEO of Sirius America Ins. Co. and Senior Partner at White Mountains Insurance Group. Previously Mr. Evans was Co-founder of Arch Capital Group and CEO and Chairman of Arch Worldwide Reinsurance.

Ravi D. Arps
Director

Founding member of Stonybrook Capital. Specialist in raising capital for and effecting M&A transactions for middle-market insurance companies. Previously worked for Booz Allen Hamilton and Bridgewater Associates. Graduated from Wesleyan University with a Bachelor of Science in Neuroscience.

Justin A. Roman
Analyst

Previously worked as a Summer Analyst at Stonybrook Capital. Worked at Huntertrust LLC, a family office focused on middle market Private Equity. Graduated from the University of Tampa with a Bachelor of Science in Finance.



- ✧ World class strategic business advisor & reinsurance intermediary
- ✧ Intelligent Insurer's Best Reinsurance Broker for Expertise and Market Knowledge
(Revenues of less than \$1b)



- ✧ Capital market services provided
 - Private placements
 - IPO's
 - Uplistings
 - Follow on offerings

NOTABLE TRANSACTIONS

<p>Pending</p>  <p>Analysis of strategic alternatives</p>	<p>November 2016</p>  <p>Sale to Undisclosed Buyer</p> <p>Exclusive sell-side financial advisor</p>	<p>October 2016</p>  <p>Acquisition of </p> <p>Exclusive buy-side financial advisor</p>	<p>July 2016</p>  <p>Sale to </p> <p>Exclusive sell-side financial advisor</p>	<p>April 2016</p>  <p>\$20,000,000 capital raise</p>
<p>December 2015</p>  <p>\$28,000,000 capital raise</p>	<p>December 2015</p>  <p>\$10,000,000 capital raise</p>	<p>August 2015</p>  <p>Valuation analysis</p>	<p>July 2015</p>  <p>Sale to </p> <p>Exclusive sell-side financial advisor</p>	<p>May 2015</p>  <p>Corporate development advisory</p>
<p>March 2015</p>  <p>Placed program </p>	<p>March 2015</p>  <p>Sale to </p>	<p>January 2015</p>  <p>Valuation analysis</p>	<p>December 2014</p>  <p>Analysis of strategic alternatives</p>	<p>November 2014</p>  <p>Analysis of strategic alternatives</p>