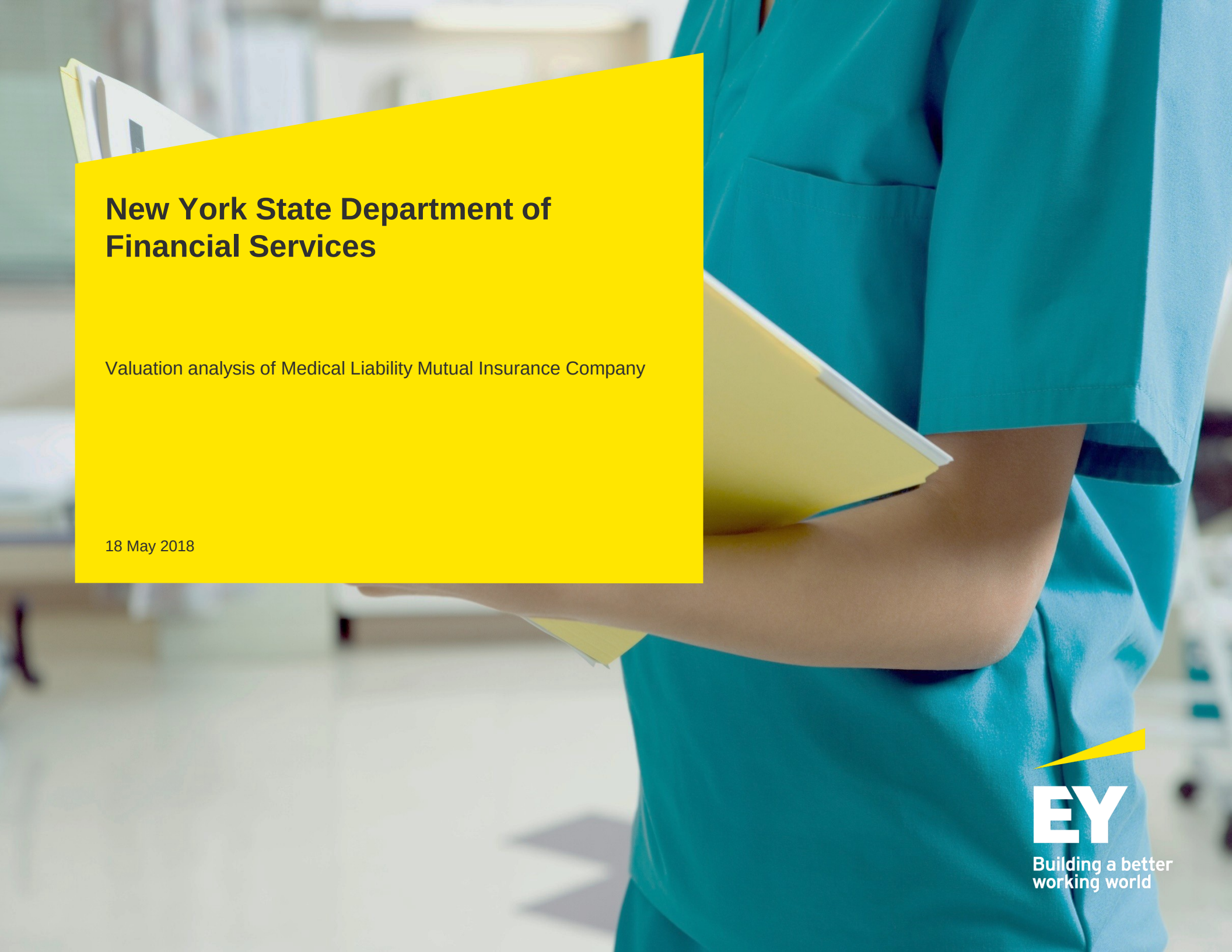

New York State Department of Financial Services

Valuation analysis of Medical Liability Mutual Insurance Company

18 May 2018

EY
Building a better working world

Building a better working world

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Valuation analysis of Medical Liability Mutual Insurance Company **18 May 2018**

Dear Mr. Bozzo:

At the request of New York State Department of Financial Services (DFS) and in accordance with our letter agreement dated 14 July 2017, Ernst & Young Investment Advisers LLP (EY) was appointed, pursuant to the Insurance Law, as an advisor to assist the DFS in its review and analysis of Medical Liability Mutual Insurance Company (MLMIC) in connection with its Reorganization. Accordingly, we are pleased to present the following report related to the valuation of MLMIC as of 23 March 2018.

Our work was performed giving consideration to applicable valuation standards and professional guidance. To support our opinion, we performed various procedures and analyses, the results of which are summarized in the following report. The report is subject to the attached Statement of Limiting Conditions. Additionally, this analysis should not be construed as investment advice and should not be used as a basis to set a transaction price. We assume no responsibility for a potential buyer or seller to negotiate a purchase or sale at the estimated values. For the avoidance of doubt and notwithstanding anything herein to the contrary, no part of this report addresses or includes advice as to the value of any security or as to the advisability of investing in, purchasing or selling securities.

We appreciate the opportunity to provide our valuation services to DFS. Please feel free to contact us, if you have any questions or if we may be of further assistance.

Sincerely,

Ernst & Young Investment Advisers LLP

Ernst & Young Investment Advisers LLP

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Executive summary

Our analysis at a glance

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Overview

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Situation — **MLMIC has entered into a definitive agreement to be acquired by NIC as part of a sponsored demutualization.**

Objective — **To assist the DFS in its review of the Reorganization, we have performed analyses to estimate the fair market value of MLMIC and its liabilities for unpaid claims, policy reserves and adjustment expenses.**

Our analysis — **We have, among other analytical procedures, performed a valuation of MLMIC using generally accepted valuation methodologies and have compared the resulting value indications to the Purchase Consideration.**

Target	
Name	MLMIC
Business description	MPL insurance underwriter
Industry	Property and casualty insurance
Public/private	Private
NPW	$410m (2017)
Net income	$120m (2017)
Year founded	1975
Location	New York, NY
Employees	365

Transaction	
Type	Sponsored demutualization
Announced date	18 July 2016
Buyer	NIC
% sought	100.0%
Purchase Consideration	$2,502m
	100% cash
Implied multiples	P/BV = 1.05x
	P/TBV = 1.06x
	P/E = 20.9x (2017)
Sale process	Negotiated sale (1 participant)

Scope of work	
Type	Valuation analysis
Interest valued	Equity value of MLMIC
Analysis Date	23 March 2018
Standard of value	Fair market value
Premise of value	Going concern
Valuation methodologies	► NAV method ► DCF method ► GPCM ► GTM

Source: Management data. Implied multiples calculated by EY.

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Key considerations

1. Our analysis is based on the latest available balance sheet as of 28 February 2018.
2. Our analysis relies on publicly available information, historical and projected financial information for MLMIC provided by Management, and certain discussions held with Management.
3. Our analysis relies on the historical and prospective financial information of GPCs and guideline transaction targets reported by various databases and information services.
4. Our analysis is based on market data as of 23 March 2018.
5. We had access to and participated in discussions with Management.
6. Full year data for MLMIC are based on calendar year end. MLMIC's fiscal year end is 31 December 2017.
7. Our analysis has been performed in USD.
8. We have relied on Management's representation regarding the expected income tax rate for MLMIC equal to 21%.

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We considered various valuation methodologies in our analysis. The methodologies and their relevance for our analysis are described below.

Method	NAV method	DCF method	GPCM	GTM
Description	► An asset-based valuation methodology that measures the value of a business based on the difference between the value of its assets and liabilities.	► An income-based valuation methodology that measures the intrinsic value of a business based on the present value of future cash flows.	► A market-based valuation methodology that measures the value of a business based on the trading multiples of GPCs.	► A market-based valuation methodology that measures the value of a business based on the transaction multiples paid in prior M&A transactions.
Advantages	► Consistent with the notion that a business is worth the sum of its parts. ► Generally less subjective than income or market-based approaches.	► FCF is the most theoretically valid driver of value. ► Reflects company-specific factors and provides the ability to evaluate multiple scenarios.	► Based on current market data that captures industry growth and risk expectations, as well as overall investor sentiment. ► Can be updated on a daily basis to reflect changing market conditions.	► Based on actual acquisition multiples and premiums paid for similar companies. ► Recent transactions tend to reflect prevailing M&A, capital markets and general economic conditions.
Disadvantages	► May not fully capture the going concern value of a business. ► May not fully capture the profitability of the business and its ability to generate future cash flow.	► Accurate forecasting of financial performance can be challenging, especially as the forecast period lengthens. ► Sensitive to certain key assumptions.	► Pure-play GPCs may be difficult to identify or nonexistent. ► May fail to capture long-term company specific strengths, weaknesses, opportunities, and threats.	► Less recent guideline transactions may no longer be reflective of current market conditions. ► Prices paid may include a transaction-specific synergistic acquisition premium that is difficult to isolate and quantify.
Comments	► Most of MLMIC's assets have readily observable market values. ► We have estimated the fair market value of key reserve liabilities.	► Management was able to provide financial projections, on which we relied.	► Although there are several publicly traded MPL underwriters, none of them are directly similar to MLMIC because they operate in different geographies and MPL accounts for a relatively small portion of their overall business.	► Although we identified several guideline transactions, many of them occurred several years ago, which reduces their relevance. Additionally, they occurred under the previous tax laws further reducing their relevance.
Relevance				

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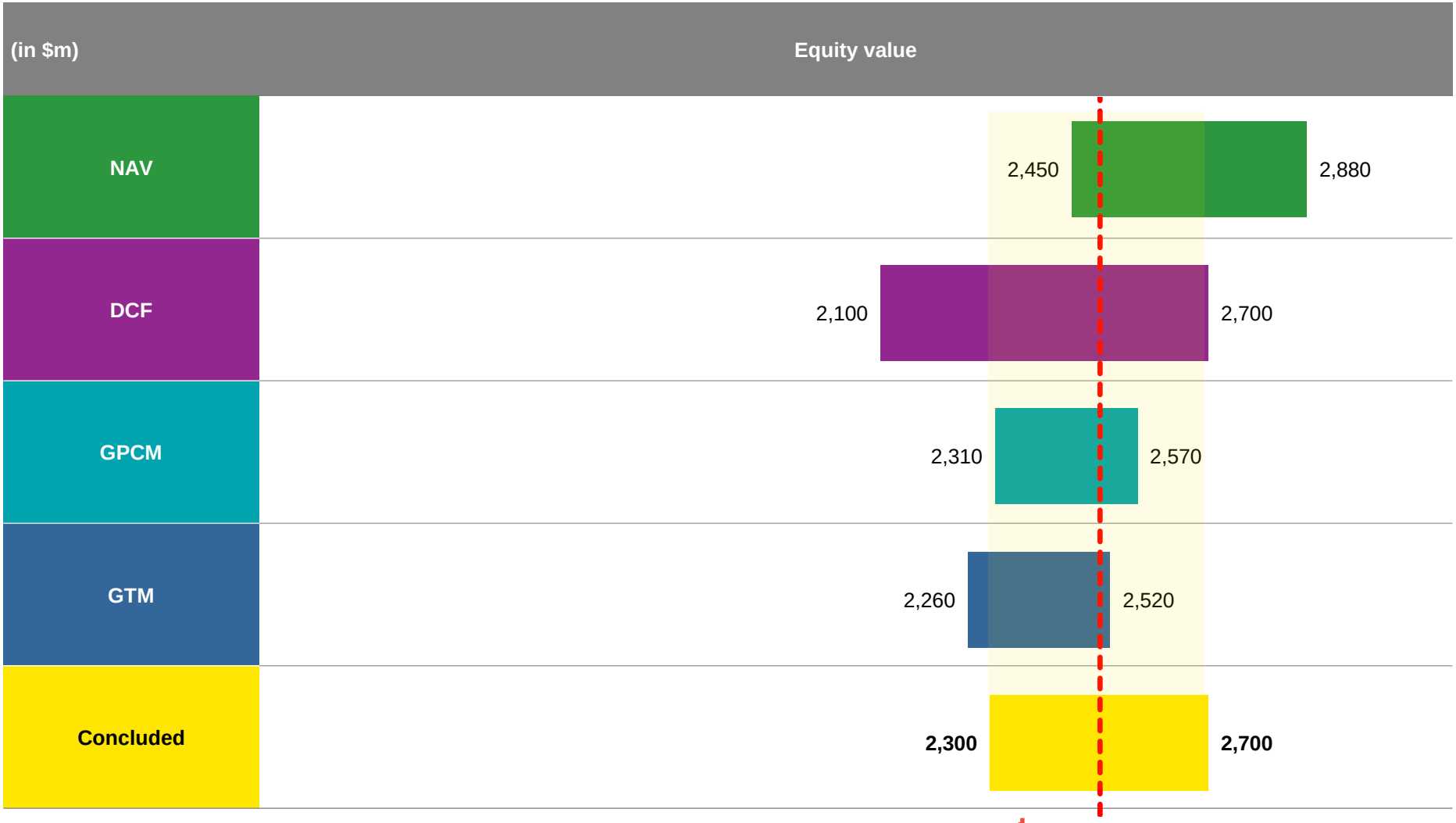

Purchase Consideration: $2,502 million

Our estimated total equity fair market value of MLMIC ranges from $2,300 million to $2,700 million as of the Analysis Date.

Source: EY analysis.

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Financial analysis

Analysis of historical and prospective financial performance

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Historical balance sheet data

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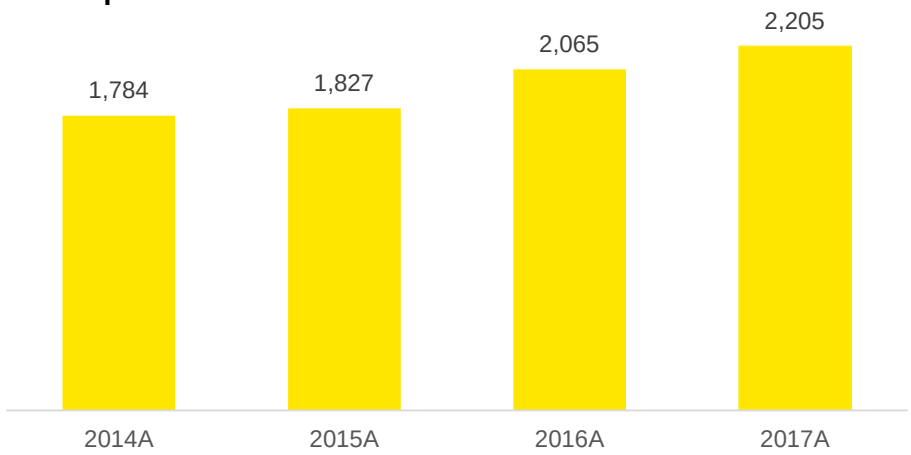
Historical statutory balance sheet highlights

		For the years ended December 31,			
(in USD millions)		2014A	2015A	2016A	2017A
Invested assets	1	5,528	5,107	5,100	5,016
Total assets		5,881	5,452	5,500	5,431
Loss+LAE reserves		3,734	3,545	3,232	3,113
Total liabilities		4,097	3,625	3,435	3,226
Total surplus	2	1,784	1,827	2,065	2,205
NPW/Surplus	3	0.27x	0.22x	0.19x	0.19x
Assets/Liabilities		1.44x	1.50x	1.60x	1.68x
ACL RBC	4	374.0%	349.0%	349.0%	320.0%
RBC %	5	405.0%	451.4%	527.2%	621.6%

Source: Management data.

Total surplus as of 31 December



Source: Management data.

1 Invested assets

The majority of the invested asset base consists of investment grade debt. Overall, the assets are conservatively invested, with approximately 32% of the portfolio invested in treasuries and 22% of the portfolio in investment grade debt. The remainder of invested assets is composed mainly of convertible debt, preferred and common equity and some non-investment grade assets.

2 Surplus

Surplus is the difference between assets and liabilities. It provides a buffer for unexpected events. MLMIC's 40 year history suggests that $1.0b-$1.5b in surplus is needed to support approximately $500m in annual medical malpractice premium in NY state. MLMIC has a strong surplus base and has continued to hold a significant amount of capital.

3 NPW/Surplus multiple

NPW/Surplus represents the amount of NPW that can be written for every dollar of surplus and is a measure of an insurer's financial strength. Surplus in excess of a target NPW/Surplus multiple can be used to support additional business or can be returned to policyholders via dividends.

4 ACL RBC

ACL RBC identifies a level of capital where the regulator is authorized to take control of the company if the surplus falls to that level.

5 RBC

RBC is a statistical formula used by insurance regulators to calculate how much capital an insurer needs to support its operating risks. However, MPL insurers are exempt from RBC compliance in NY state. A RBC ratio of 300% or more is viewed as a "safe" level, with a cushion above the ACL. MLMIC targets an RBC ratio of 300-400%.

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Historical income statement data

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Historical income statement data

		For the years ended December 31,			
(in $m)		2014A	2015A	2016A	2017A
Direct premium written	1	503	422	394	411
Net premium written		490	411	393	410
Net premium earned		515	450	403	402
AY loss+LAE incurred		588	533	462	457
PY loss+LAE incurred		(184)	(184)	(271)	(114)
Net loss+LAE incurred		404	349	191	343
UW expenses		46	42	48	50
Premium deficiency reserve		(1)	(2)	(2)	14
UW gain	2	66	61	166	(5)
Net investment gain	3	279	172	128	195
Other income		(9)	(8)	(18)	(67)
Other expense		0	0	0	0
Policy dividends		34	101	69	(1)
Pretax profits		302	124	207	124
Taxes		39	9	44	4
Net income		263	115	163	120
DPW growth		-7.9%	-16.1%	-6.6%	4.3%
NPE growth		-4.8%	-12.6%	-10.4%	-0.2%
Investment return		5.2%	3.2%	2.6%	3.9%
AY loss ratio	4	114.2%	118.4%	114.6%	113.7%
CY loss ratio	4	78.4%	77.6%	47.4%	85.3%
Expense ratio		8.9%	9.3%	11.9%	12.4%
AY combined ratio		123.1%	127.8%	126.6%	126.1%
CY combined ratio		87.4%	86.9%	59.3%	97.8%

Source: Management data, growth rates and ratios calculated by EY.

1 DPW

MLMIC's DPW had continued to decline year-over-year from $658m in 2008A to $394m in 2016A until 2017A in which MLMIC had positive growth. The original decline was due to the consistent soft market and struggle to maintain adequate pricing.

2 UW results

MLMIC's historical UW results were strong and buoyed by the release of positive reserve variances as evidenced by an UW margin increasing from approximately 13% of direct DPW in 2014A to 41% by 2016A before tailing off in 2017A.

3 Investment income

MLMIC's investment income is a significant portion of their overall earnings ranging from approximately 30%-50% of DPW. MLMIC earns investment income on their invested asset base. With interest rates increasing amid certain attractive investments, the company's net investment income increased by approximately 52% from 2016 to 2017.

4 Loss ratio

Between 2007 and 2017, MLMIC experienced approximately $1.6b in favorable reserve development, resulting in lower loss + LAE incurred expenses as compared to their expected AY loss + LAE incurred. In 2017A, MLMIC's CY loss ratio was 85.3%, compared to their projected AY loss ratio of 113.7%.

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MLMIC reserve development

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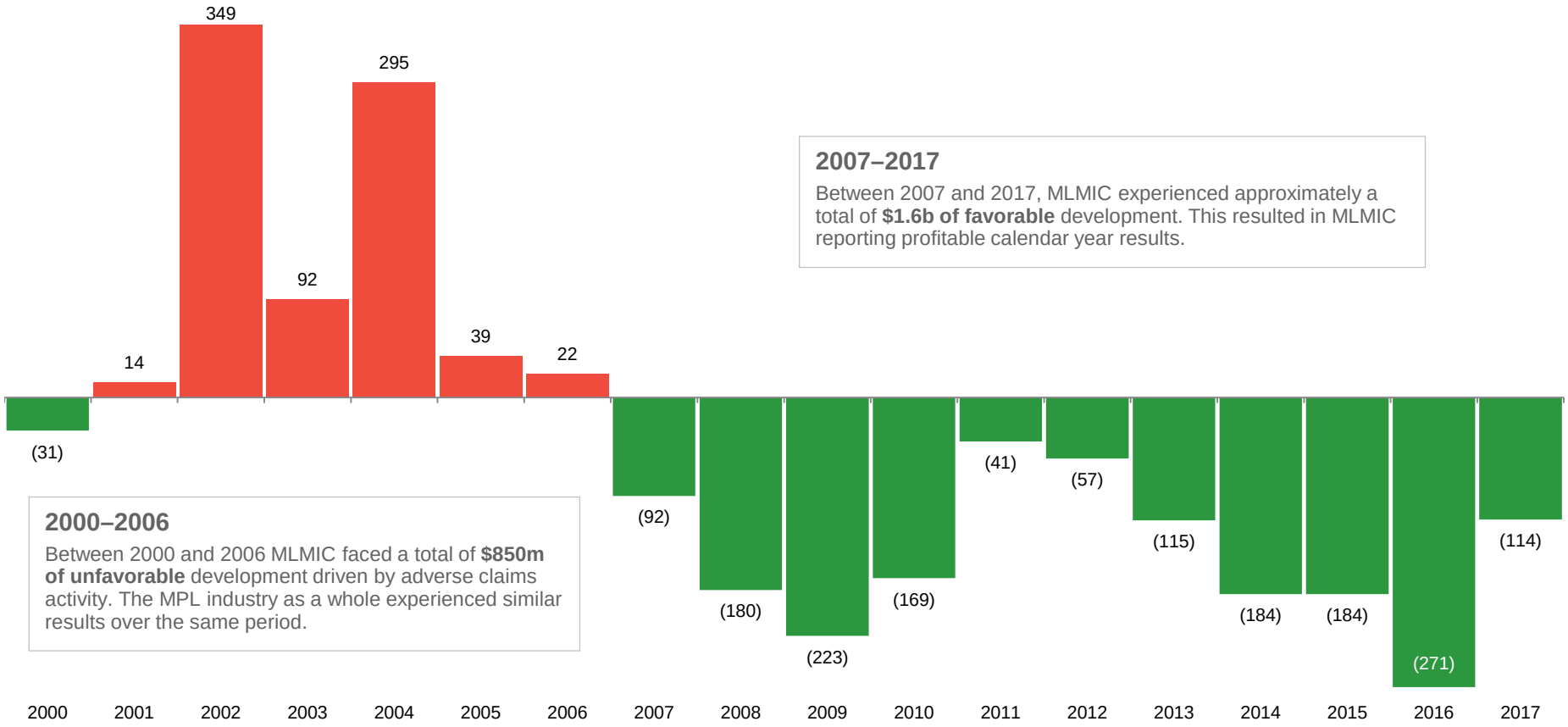
MLMIC's (favorable) / unfavorable reserve development



Source: Management data.

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PFI

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Summary PFI

		For the years December 31,													
(in $m)		2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Direct premium written	1	546	503	422	394	411	396	405	409	413	411	408	406	404	401
Net premium written		534	490	411	393	410	395	404	408	412	410	407	405	403	401
Net premium earned		541	515	450	403	402	403	400	406	410	411	408	406	404	402
AY loss+LAE incurred		620	588	533	462	457	493	477	472	464	461	454	447	440	433
PY loss+LAE incurred		(115)	(184)	(184)	(271)	(114)	0	(15)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Net loss+LAE incurred	2	505	404	349	191	343	493	462	458	450	447	440	433	426	419
UW expenses		47	46	42	48	50	47	49	50	50	45	46	47	47	47
Premium deficiency reserve		0	(1)	(2)	(2)	14	0	0	0	0	0	0	0	0	0
UW gain	3	(11)	66	61	166	(5)	(137)	(111)	(101)	(90)	(81)	(78)	(74)	(69)	(65)
Net investment gain		199	279	172	128	195	144	140	142	143	143	142	142	141	140
Other income		10	(9)	(8)	(18)	(67)	9	7	6	6	6	5	5	5	4
Other expense		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Policy dividends		26	34	101	69	(1)	0	0	0	0	0	0	0	0	0
Pretax profits		172	302	124	207	124	16	36	47	58	67	69	73	76	80
Taxes		0	39	9	44	4	3	8	10	12	14	15	15	16	17
Net income		172	263	115	163	120	13	28	37	46	53	55	58	60	63
DPW growth		-2.8%	-7.9%	-16.1%	-6.6%	4.3%	-3.5%	2.2%	1.0%	1.0%	-0.6%	-0.6%	-0.6%	-0.5%	-0.5%
NPE growth		-3.7%	-4.8%	-12.6%	-10.4%	-0.2%	0.2%	-0.7%	1.6%	1.0%	0.2%	-0.6%	-0.6%	-0.6%	-0.5%
Investment return	4	3.8%	5.2%	3.2%	2.6%	3.9%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
AY loss ratio	2	114.6%	114.2%	118.4%	114.6%	113.7%	122.3%	119.3%	116.2%	113.1%	112.2%	111.2%	110.2%	109.1%	107.9%
CY loss ratio	2	93.3%	78.4%	77.6%	47.4%	85.3%	122.3%	115.6%	112.7%	109.7%	108.8%	107.8%	106.7%	105.6%	104.5%
Expense ratio		8.7%	8.9%	9.3%	11.9%	12.4%	11.7%	12.2%	12.2%	12.3%	11.0%	11.4%	11.5%	11.6%	11.6%
AY combined ratio	5	123.3%	123.1%	127.8%	126.6%	126.1%	134.0%	131.5%	128.4%	125.4%	123.2%	122.6%	121.6%	120.6%	119.6%
CY combined ratio	5	102.0%	87.4%	86.9%	59.3%	97.8%	134.0%	127.8%	124.9%	121.9%	119.8%	119.1%	118.2%	117.2%	116.1%

Source: Management data with adjustments by EY. Growth rates and ratios calculated by EY.

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PFI

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Key PFI assumptions

The forecast assumes the company operates as a standalone business and will continue to price at a breakeven level from an UW perspective. There are no synergies embedded in the forecast and based on discussions with MLMIC, Berkshire Hathaway will allow the company to operate autonomously. The PFI assumes a flat level in premiums written driven by a high retention rate despite increased competition and a soft market.

1 DPW

MLMIC's DPW is expected to increase to $413m by 2021E, before ultimately declining to $401m by 2026E as the business continues to face competitive pricing pressures and slumping demand resulting from consolidation of physicians' groups and hospital systems.

2 Loss ratio

While MLMIC's AY loss ratio was previously higher than the CY loss ratio due to favorable developments in 2013A-2017A, the company is forecasting nominal favorable development based on an improved selection of policyholders in the PFI as reserve variances are not expected to be as favorable as in previous years.

3 UW performance

The deterioration in forecasted UW results is driven by diminishing positive reserve variances and ultimately declining premiums.

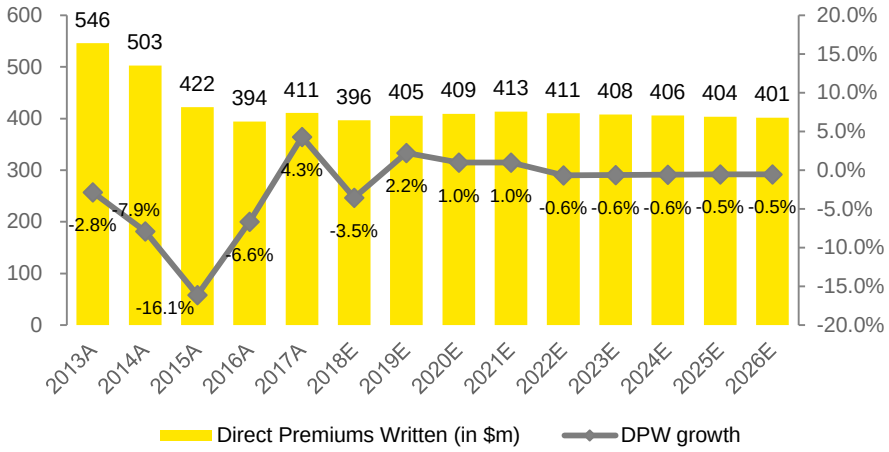
4 Investment income

MLMIC's projected investment income is based on a 3.25% investment yield, which is consistent and in-line with the company's historical returns as well as the returns of the GPCs.

5 Combined ratio

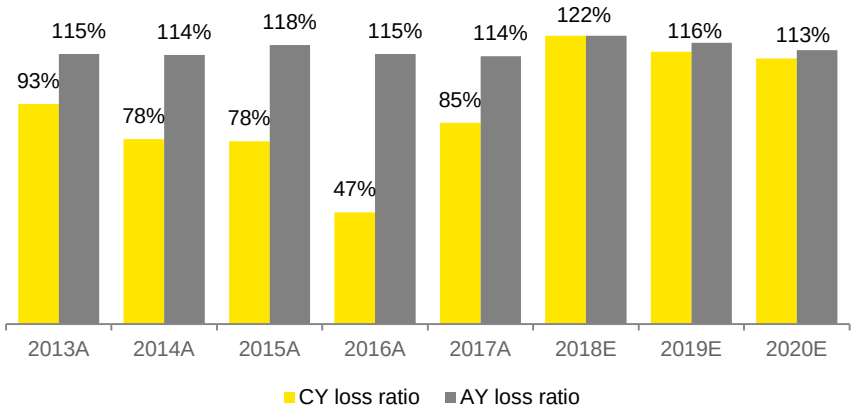
The slight increase followed by the decline in net earned premiums year-over-year combined with the increase in loss and LAE expenses incurred driven by less favorable reserve variances and increased claims result in the combined ratio deteriorating from 97.8% in 2017 to 134.0% in 2018. During 2018-2021 period the combined ratio was expected to range from 121.9% to 134.0%.

Historical and projected DPW



Source: Management data, growth rates calculated by EY.

Loss ratio



Source: Management data, ratios calculated by EY.

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Guideline private company performance benchmarking[1]

	NPW/Statutory surplus and capital					Loss ratio				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Academic Health Professionals Insurance Association	nmf	nmf	nmf	nmf	nmf	107.0%	150.0%	100.1%	107.2%	98.4%
Controlled Risk Insurance Company	0.49x	0.47x	0.46x	0.53x	0.53x	36.4%	38.8%	39.8%	34.3%	33.2%
COPIC Insurance Company	0.31x	0.30x	0.21x	0.24x	0.34x	59.4%	49.3%	56.3%	63.6%	72.2%
Hospitals Insurance Company	0.73x	0.50x	0.48x	0.36x	0.31x	55.3%	9.5%	88.7%	54.1%	63.8%
ISMIE Mutual Insurance Company	0.38x	0.29x	0.25x	0.22x	0.19x	37.6%	53.3%	57.9%	61.9%	71.7%
MCIC Vermont	nmf	0.38x	0.46x	0.52x	0.51x	42.7%	nmf	107.2%	97.4%	102.8%
Mutual Insurance Company of Arizona (MICA)	0.20x	0.19x	0.18x	0.16x	0.14x	63.3%	57.9%	53.7%	56.9%	62.1%
Physicians Reciprocal Insurers (PRI)	nmf	nmf	nmf	nmf	nmf	81.8%	87.6%	84.7%	148.1%	69.6%
State Volunteer Mutual Insurance Company (SVMIC)	0.25x	0.22x	0.21x	0.20x	0.20x	89.0%	84.6%	79.5%	79.3%	67.0%
MLMIC	0.35x	0.27x	0.22x	0.19x	0.19x	93.3%	78.4%	77.6%	47.4%	85.3%
Maximum	**0.73x**	**0.50x**	**0.48x**	**0.53x**	**0.53x**	**107.0%**	**150.0%**	**107.2%**	**148.1%**	**102.8%**
3rd quartile	**0.43x**	**0.40x**	**0.46x**	**0.40x**	**0.38x**	**87.2%**	**84.6%**	**87.7%**	**92.8%**	**82.0%**
Average	**0.39x**	**0.33x**	**0.31x**	**0.30x**	**0.30x**	**66.6%**	**67.7%**	**74.6%**	**75.0%**	**72.6%**
Median	**0.35x**	**0.30x**	**0.24x**	**0.23x**	**0.25x**	**61.4%**	**57.9%**	**78.5%**	**62.8%**	**70.6%**
1st quartile	**0.28x**	**0.26x**	**0.21x**	**0.20x**	**0.19x**	**45.8%**	**49.3%**	**56.7%**	**54.8%**	**64.6%**
Minimum	**0.20x**	**0.19x**	**0.18x**	**0.16x**	**0.14x**	**36.4%**	**9.5%**	**39.8%**	**34.3%**	**33.2%**

Source: SNL.

[1] The selected guideline private companies operate in less than 10 US states including NY state and at least 90% of their business is focused on MPL. Refer to the GPCM section for a discussion of the GPCs. LTM 09/30 = latest available data.

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Guideline private company performance benchmarking[1]

	Expense ratio					Combined ratio				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Academic Health Professionals Insurance Association	12.1%	14.3%	11.8%	15.2%	18.3%	119.1%	164.3%	112.0%	122.4%	116.7%
Controlled Risk Insurance Company	55.7%	54.7%	60.8%	57.3%	62.1%	92.1%	93.5%	100.6%	91.6%	95.3%
COPIC Insurance Company	23.9%	24.3%	24.8%	22.9%	17.8%	83.3%	73.6%	81.1%	86.6%	89.9%
Hospitals Insurance Company	8.4%	11.4%	11.1%	17.5%	5.0%	63.7%	20.9%	99.8%	71.5%	68.8%
ISMIE Mutual Insurance Company	2.6%	29.5%	29.6%	34.4%	40.8%	40.2%	82.8%	87.6%	96.3%	112.5%
MCIC Vermont	59.2%	nmf	25.6%	14.2%	n/a	101.9%	121.7%	132.8%	111.6%	n/a
Mutual Insurance Company of Arizona (MICA)	18.4%	18.3%	19.2%	17.3%	18.4%	81.6%	76.2%	73.0%	74.2%	80.5%
Physicians Reciprocal Insurers (PRI)	18.8%	18.8%	22.0%	21.7%	26.9%	100.6%	106.4%	106.8%	169.8%	96.4%
State Volunteer Mutual Insurance Company (SVMIC)	17.4%	17.8%	19.5%	19.5%	18.9%	106.4%	102.4%	99.0%	98.8%	85.9%
MLMIC	8.7%	8.9%	9.3%	11.9%	12.4%	102.0%	87.4%	86.9%	59.3%	97.8%
Maximum	**59.2%**	**54.7%**	**60.8%**	**57.3%**	**62.1%**	**119.1%**	**164.3%**	**132.8%**	**169.8%**	**116.7%**
3rd quartile	**22.6%**	**24.3%**	**25.4%**	**22.6%**	**26.9%**	**102.0%**	**105.4%**	**105.2%**	**108.4%**	**97.8%**
Average	**22.5%**	**22.0%**	**23.4%**	**23.2%**	**24.5%**	**89.1%**	**92.9%**	**98.0%**	**98.2%**	**93.8%**
Median	**17.9%**	**18.3%**	**20.8%**	**18.5%**	**18.4%**	**96.4%**	**90.4%**	**99.4%**	**93.9%**	**95.3%**
1st quartile	**9.5%**	**14.3%**	**13.7%**	**15.7%**	**17.8%**	**82.1%**	**77.9%**	**87.1%**	**77.3%**	**85.9%**
Minimum	**2.6%**	**8.9%**	**9.3%**	**11.9%**	**5.0%**	**40.2%**	**20.9%**	**73.0%**	**59.3%**	**68.8%**

Source: SNL.

[1] The selected guideline private companies operate in less than 10 US states including NY state and at least 90% of their business is focused on MPL. Refer to the GPCM section for a discussion of the GPCs. LTM 09/30 = latest available data.

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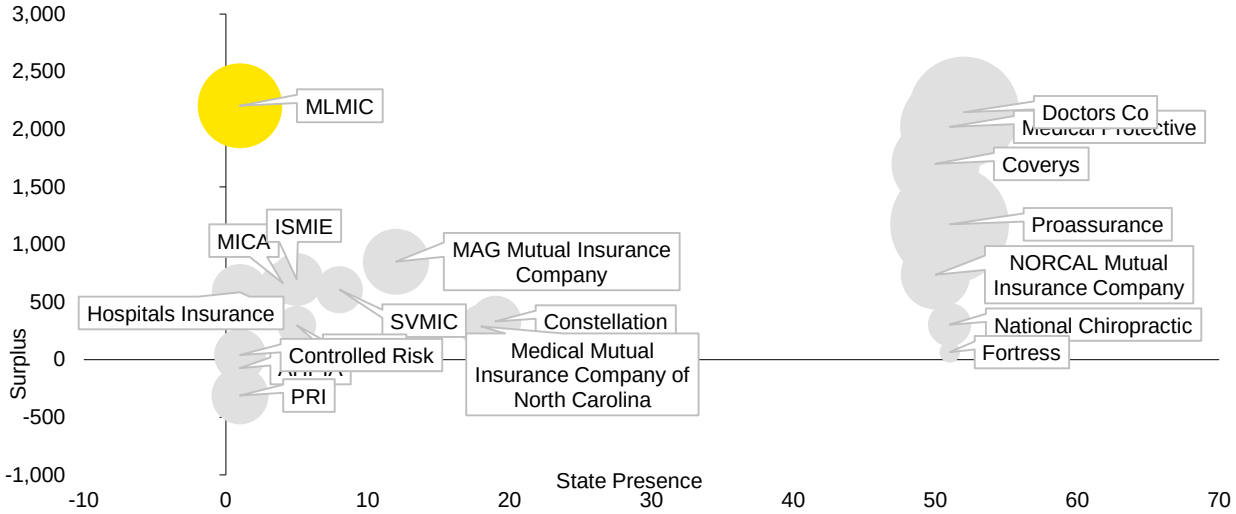
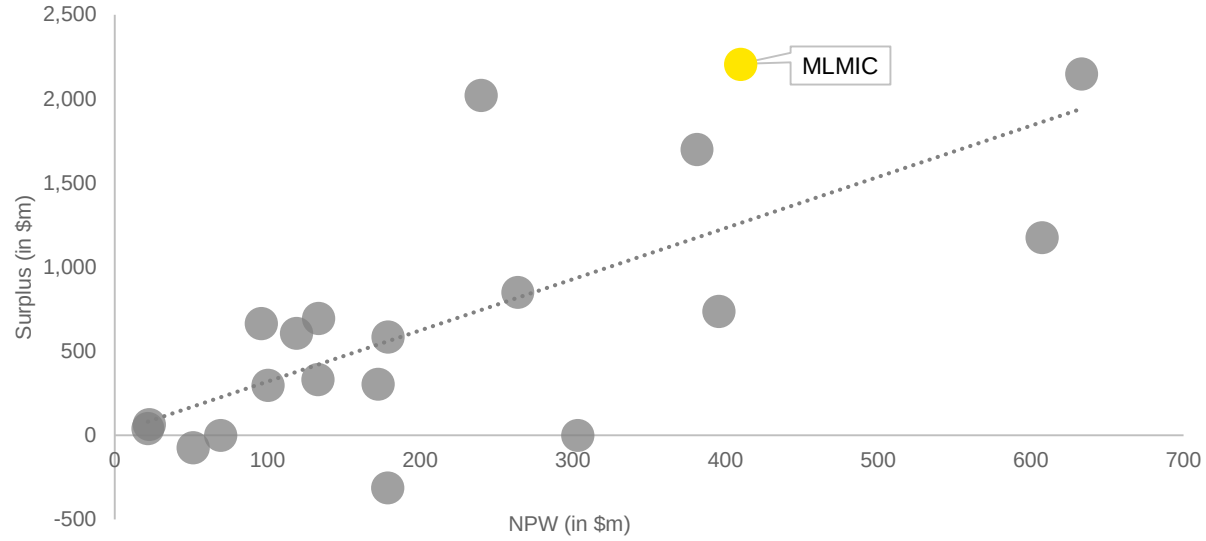
Size, geographical presence and capital of MPL insurance companies





Source: SNL

MLMIC excess capital

- MLMIC holds a substantially higher level of capital in comparison to its private and public peers with a similar lack of geographical diversification.
- Additionally, MLMIC holds a substantial amount of capital as compared to the level of net premiums it writes.
- As compared to the peer group, MLMIC holds the highest level of capital overall, and the highest level with respect to the premiums written. MLMIC has an NPW/surplus of approximately 0.19x as compared to the peer group average NPW/surplus ratios of 0.30x.

3

NAV method

Net asset value method

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Methodology	Key assumptions	Equity value (in $m)
NAV method	► Loss and LAE reserves of $2,760m to $3,150m	2,450 — 2,880

Source: EY NAV analysis.

NAV method	Low	High
Equity value	**$2,450m**	**$2,880m**

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Fair market value adjustments

- Balance sheet reflect fair market value adjustments, as applicable.
- Refer to the Actuarial analysis section for further detail.

	GAAP book value		
(in $m)	Balance Sheet Date	Low	High
Fixed maturities, at fair value	4,952	4,952	4,952
Equity securities, at fair value	656	656	656
Goodwill	21	-	-
Cash and cash equivalents	186	186	186
Securities lending reinvested collateral assets	-	-	-
Other invested assets	51	51	51
Subtotal cash & invested assets	5,872	5,851	5,851
Uncollected premiums/MMIP participation	301	301	301
Reinsurance recoverables	-	-	-
Reinsurance receivables	52	52	52
Deferred acquisition costs	5	-	-
Accrued investment income	24	24	24
Current federal income tax recoverable	4	4	4
Real estate	4	7	7
Other assets	9	9	9
Intangible assets	-	12	16
Total assets	**6,271**	**6,261**	**6,264**
Loss & LAE reserves, net of anticipated subrogation	3,166	3,153	2,758
Unearned premiums	166	175	149
Net deferred tax liability	7	7	7
Amounts withheld or retained by company for others	433	433	433
Other liabilities	110	38	38
Total liabilities	**3,881**	**3,806**	**3,385**
Total equity	**2,390**	**2,455**	**2,879**

Source: Management. Fair market value adjustments based on EY analysis.

4

Actuarial analysis

Fair market value of loss, LAE, UPR and DDR reserves

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Methodology – Loss and LAE reserves

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The fair market value of MLMIC's loss and LAE reserves was estimated using a common actuarial approach that consists of three building blocks including nominal estimates, a risk margin and the time value of money.

	1 Develop nominal estimates	2 Apply risk margin	3 Discount for time value of money
Summary	► Estimate the expected, undiscounted future cash flow related to unpaid losses and LAE liabilities incurred through the evaluation date. ► The loss reserves are an estimate of an insurer's liability for future claim payments on claims incurred through the evaluation date. MLMIC records these reserves at their discounted value.	► Apply a risk margin to account for uncertainty regarding the timing and amount of future cash flows. ► The risk margin represents the compensation required by third party market participant for bearing the insurance risk, in an arm's length transaction.	► Discount the nominal estimates to present value using a risk-free rate to reflect the time value of money.

Methodology	► Our nominal estimates were computed using historical company data, which is common practice for a company with as much historical experience as MLMIC. Standard actuarial methods were employed, and are further detailed.
	► The expected future cash flows from the run off of the nominal reserves were developed by applying selected payout patterns by calendar period.
	► EY has used a measure known as the ACE. The ACE represents an expected value over the range of reasonably possible outcomes. The low and high estimates are the endpoints of the range of estimates that IAAS considers reasonable ACEs.
		► COC method, which estimates a risk margin based on the following steps:
		  ► Project the required level of capital at the beginning of the projection period.
		  ► Multiply the required level of capital by a COC to estimate a capital charge.
		  ► Repeat the previous steps for each projection period and sum the resulting amounts.
			► The cash flow for each projection period was discounted using a risk-free rate corresponding to the maturity of that cash flow (e.g. a cash flow expected to occur in 5 years was discounted using the 5 year risk-free rate) to reflect the term structure of interest rates.

Key assumptions	► We performed our analysis using data evaluated as of the Balance Sheet Date.
	► To obtain payments as of the Analysis Date we projected payments by line using the selected payment pattern
	► We adjusted our estimates to reflect the impact of Lavern's law
		► Our fair value estimate for reserves and UPR includes impact from Lavern's Law.
		► The source of these RBC factors is the "2016 Update to Property & Casualty Risk-Based Capital Underwriting Factors" published by the American Academy of Actuaries as a report to the NAIC:
		  ► 0.404 for occurrence policies
		  ► 0.289 for claims made policies
		► These factors were further adjusted by MLMIC's loss concentration factor of 0.923 to recognize diversification between portfolios.
		► The COC was based on MLMIC's pretax WACC less the risk-free rate.
		► The analysis assumes that the internal capital requirements are equal to the RBC requirements for reserve risk charge.
			► The risk-free rate was based on the US Treasury yield curve as of the Analysis Date.
			► Mid-period convention, which assumes that cash flow are received evenly throughout each projection period.

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Fair market value of loss and LAE reserves, UPR and DDR

As of 23 March 2018			
(in $m)	**Low**	**Central**	**High**
Loss and LAE reserves			
Fair market value	**2,758**	**2,940**	**3,153**
Company booked	2,998	2,998	2,998
Fair market value adjustment	(240)	(58)	155
UPR and DDR			
Fair market value	**149**	**161**	**175**
Company booked	153	153	153
VBIF	4	(8)	(23)

Source: EY actuarial analysis.

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Summary by Reserving Segment

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Fair market value of loss and LAE reserves

	Nominal estimates (+)			Risk margin (–)			Discounting (=)			Fair market value		
(in $m)	Low	Central	High	Low	Central	High	Low	Central	High	Low	Central	High
Loss and LAE reserves												
Physicians occurrence	1,570	1,717	1,889	169	185	203	131	143	157	1,608	1,758	1,935
Physicians claims made	576	579	583	36	37	37	37	37	37	575	578	582
Physicians excess	42	47	53	5	6	6	4	4	5	43	48	55
HPL occurrence	32	36	40	3	3	4	2	2	3	33	36	41
HPL claims made	149	152	154	8	8	9	8	8	8	150	152	154
All other segments	184	198	215	21	22	24	16	17	19	188	203	220
MMIP (MLMIC's proportionate share)	157	159	162	16	16	16	12	12	12	161	163	166
Total	**2,709**	**2,887**	**3,096**	**258**	**277**	**299**	**210**	**224**	**241**	**2,758**	**2,940**	**3,153**
UPR and DDR												
Physicians occurrence	65	68	72	12	12	13	10	10	11	67	70	74
Physicians claims made	25	27	30	2	2	3	2	2	3	25	27	30
Physicians excess	5	5	6	1	1	1	1	1	1	5	6	6
HPL occurrence	2	2	2	0	0	0	0	0	0	2	2	2
HPL claims made	9	9	10	1	1	1	1	1	1	9	9	10
All other segments	13	14	14	2	2	3	2	2	2	13	14	15
DDR	22	28	32	6	8	9	6	9	9	22	27	33
UPR	1	1	1	0	0	0	0	0	0	1	1	1
MMIP (MLMIC's proportionate share)	6	6	7	1	1	1	1	1	1	6	6	7
Total	**147**	**159**	**173**	**25**	**28**	**31**	**23**	**27**	**28**	**149**	**161**	**175**

Source: EY actuarial analysis.

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Summary of results

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Summary of results as of Balance Sheet Date (in $000's)

	Low	Central	High
VBIF	3,806	(7,636)	(22,534)
Fair market value reserve	2,757,773	2,939,841	3,153,136

Source: EY actuarial analysis.

Valuation of liabilities

Fair market value analysis for MLMIC's liabilities was performed using a generally accepted 3-building block actuarial approach:

- Nominal estimate of unpaid loss and LAE
  - For the nominal liability EY performed the analysis as of 23 March 2018
  - Risk margin to compensate for the risk inherent in the amount and timing of the claim and expense payments.
  - Lavern Law provision to reflect the impact of the recently passed legislation
- Discount for the time value of money at the risk-free rate

In this review, EY has used a measure known as the ACE. The ACE represents an expected value over the range of reasonably possible outcomes. Such a range of reasonably possible outcomes may not include all conceivable outcomes, as, for example, it would not include conceivable extreme events where the contribution of such events to an expected value is not reliably estimable.

The low and high estimates are the endpoints of the range of estimates that IAAS considers reasonable ACEs.

VBIF refers to the Company's held UPR minus the respective EY fair value estimate of the unearned premium liability.

5

DCF method

Discounted cash flow method

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DCF summary

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Sensitivities	Key assumptions	Equity value (in $m)
Loss ratio improvement vs. cost of equity	► Loss ratio improvement between 5%-35% ► Discount rates between 8.50%-9.50%	2,060 – 2,690
Loss ratio improvement vs. terminal multiple	► Loss ratio improvement between 5%-35% ► P/BV multiple range between 1.10x-1.30x	2,040 – 2,700
Loss ratio improvement vs. NPW/Surplus	► Loss ratio improvement between 5%-35% ► NPW/Surplus multiple between 0.21x-0.30x	1,950 – 2,640
NPW/Surplus vs. cost of equity	► NPW/Surplus multiple between 0.21x-0.30x ► Discount rates between 8.50%-9.50%	1,690 – 1,970
NPW/Surplus vs. terminal multiple	► NPW/Surplus multiple between 0.21x-0.30x ► P/BV multiple range between 0.90x-1.10x	1,650 – 2,000
Cost of equity vs. terminal multiple	► Discount rates between 8.50%-9.50% ► P/BV multiple range between 0.90x-1.10x	1,850 – 2,040
Concluded		2,100 – 2,700

Source: EY DCF analysis.

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- A DCF analysis measures the intrinsic value of a business based on present value of its future cash flows. For the DCF method, the Dividend Discount Model was used to estimate cash flows. This methodology assumes any excess capital to be payable as a dividend resulting in positive cash flow. In the absence of excess capital, a capital contribution, or cash outflow would be required.
- For each scenario, different ranges of value were developed by varying four main assumptions: discount rate, exit multiple, loss ratio improvement and NPW/Surplus multiple.

	Components of value	
Discrete period	Present value of FCF in forecast period	
Terminal value	Present value of FCF beyond forecast period	+
Excess capital	Excess capital as of the Analysis Date	+
Equity value	**Value to equity holders**	=

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Key assumptions

		Loss ratio improvement vs. cost of equity		Loss ratio improvement vs. terminal multiple		Loss ratio improvement vs. NPW/Surplus		NPW/Surplus vs. cost of equity		NPW/Surplus vs. terminal multiple		Cost of equity vs. terminal multiple	
Input		Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
Discount rate	1	9.50%	8.50%	9.00%	9.00%	9.00%	9.00%	9.50%	8.50%	9.00%	9.00%	9.50%	8.50%
Exit multiple (P/BV)	2	1.20x	1.20x	1.10x	1.30x	1.20x	1.20x	1.00x	1.00x	0.90x	1.10x	0.90x	1.10x
Improved Loss ratio	3	5%	35%	5%	35%	5%	35%	0%	0%	0%	0%	0%	0%
NPW/Surplus	4	0.30x	0.30x	0.30x	0.30x	0.21x	0.30x	0.21x	0.30x	0.21x	0.30x	0.30x	0.30x
Fair market value (in $m)		**2,063**	**2,686**	**2,037**	**2,701**	**1,949**	**2,639**	**1,693**	**1,973**	**1,648**	**2,003**	**1,850**	**2,038**

Source: EY DCF analysis.

1

Discount rate

The discount rate was sensitized from 8.50% to 9.50%, based on our analysis of ranges of discount rates.

2

Exit multiple

The P/BV exit multiple was sensitized from 1.10x to 1.30x in the improved loss ratio scenarios and 0.90x to 1.10x in the other sensitivities based on an estimate from the GPCM selected P/BV multiples and the upside captured in the improved loss ratio.

3

Loss ratio improvement

AM Best estimates that MPL reserves at year end had a positive variance by approximately $3.0b. The gradual release of these reserves should continue to favorably contribute to MLMIC's positive earnings over the next few years. Accordingly, we assumed a loss ratio improvement from 5% to 35%. Additionally this loss ratio range is in-line with the private guideline company peer group.

4

NPW/Surplus

The NPW/Surplus multiple was sensitized from 0.21x to 0.30x based on a number of factors including the private guideline companies historical NPW/Surplus multiples as well as MLMIC's target RBC of 300%-400%

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Dividend Discount Model

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Discrete period

	For the years ended December 31,										
(in $m)	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net premiums earned	394	411	396	405	409	413	411	408	406	404	401
Net Loss+LAE Incurred	(191)	(343)	(493)	(462)	(458)	(450)	(447)	(440)	(433)	(426)	(419)
Total UW expenses	(48)	(50)	(47)	(49)	(50)	(50)	(45)	(46)	(47)	(47)	(47)
UW gain	166	(5)	(137)	(111)	(101)	(90)	(81)	(78)	(74)	(69)	(65)
Net investment income	128	195	144	140	142	143	143	142	142	141	140
Pretax income	207	124	16	36	47	58	67	69	73	76	80
Tax expense	(44)	(4)	(3)	(8)	(10)	(12)	(14)	(15)	(15)	(16)	(17)
Net income	163	120	13	28	37	46	53	55	58	60	63
Beginning equity			1,318	1,348	1,361	1,374	1,365	1,357	1,349	1,342	1,335
Plus: Net income			10	28	37	46	53	55	58	60	63
Minus: Dividends			**(19)**	**15**	**24**	**55**	**61**	**63**	**65**	**67**	**70**
Ending equity		2,390	1,348	1,361	1,374	1,365	1,357	1,349	1,342	1,335	1,328
Normalized capital		1,318									
Excess capital		**1,071**									

Source: Management data with adjustments by EY. Excess capital based on EY analysis.

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Sensitivity analysis

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Equity value (in $m)

	Improvement in loss ratio			
Cost of equity	5.00%	15.00%	25.00%	35.00%
8.50%	2,136	2,319	2,502	**2,686**
8.75%	2,117	2,299	2,480	2,662
9.00%	2,099	2,279	2,459	2,639
9.25%	2,081	2,259	2,438	2,616
9.50%	**2,063**	2,240	2,417	2,594

Source: EY DCF analysis.

	NPW/Surplus				
Cost of equity	0.30x	0.27x	0.25x	0.23x	0.21x
8.50%	**1,973**	1,924	1,876	1,828	1,779
8.75%	1,957	1,907	1,857	1,807	1,757
9.00%	1,941	1,889	1,838	1,787	1,735
9.25%	1,925	1,872	1,820	1,767	1,714
9.50%	1,910	1,856	1,802	1,747	**1,693**

Source: EY DCF analysis.

	Improvement in loss ratio			
Terminal multiple	5.00%	15.00%	25.00%	35.00%
1.10x	**2,037**	2,216	2,396	2,576
1.15x	2,068	2,248	2,428	2,608
1.20x	2,099	2,279	2,459	2,639
1.25x	2,130	2,310	2,490	2,670
1.30x	2,161	2,341	2,521	**2,701**

Source: EY DCF analysis.

	NPW/Surplus				
Terminal multiple	0.30x	0.27x	0.25x	0.23x	0.21x
0.90x	1,879	1,821	1,763	1,706	**1,648**
0.95x	1,910	1,855	1,801	1,746	1,692
1.00x	1,941	1,889	1,838	1,787	1,735
1.05x	1,972	1,924	1,875	1,827	1,779
1.10x	**2,003**	1,958	1,913	1,868	1,822

Source: EY DCF Analysis.

	Improvement in loss ratio			
NPW/Surplus	5.00%	15.00%	25.00%	35.00%
0.30x	2,099	2,279	2,459	**2,639**
0.27x	2,061	2,241	2,421	2,601
0.25x	2,024	2,204	2,384	2,564
0.23x	1,986	2,166	2,346	2,526
0.21x	**1,949**	2,129	2,309	2,489

Source: EY DCF analysis.

	Cost of Equity				
Terminal multiple	8.50%	8.75%	9.00%	9.25%	9.50%
0.90x	1,908	1,893	1,879	1,864	**1,850**
0.95x	1,940	1,925	1,910	1,895	1,880
1.00x	1,973	1,957	1,941	1,925	1,910
1.05x	2,005	1,989	1,972	1,956	1,940
1.10x	**2,038**	2,020	2,003	1,986	1,970

Source: EY DCF analysis.

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Discount rate estimation

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WACC

Input	Low	High	Notes
Risk-free rate (rf)	2.9%	2.9%	Yield on 20-year US Treasury Bonds as of the Analysis Date
Relevered beta (βrelevered)	0.78	0.78	Based on median unlevered 5-year weekly beta of the GPCs
ERP	5.5%	6.5%	Based on historical risk premia, forward-looking premium estimates, and recent academic studies
Size premium	1.0%	1.5%	Based on a range of Duff & Phelps mid-cap to 6th decile small stock premium
CSRP	0.0%	0.0%	N/a
Cost of equity (ke)	**8.5%**	**9.5%**	**ke = rf + (βrelevered × ERP) + size premium + CSRP**
Pretax cost of debt	4.9%	4.9%	Yield on 20-year USD BBB insurance bonds as of the Analysis Date
Income tax rate	21.0%	21.0%	MLMIC's effective tax rate
After-tax cost of debt (kd)	3.9%	3.9%	kd = pretax cost of debt × (1 - tax rate)
% equity (we)	83.8%	83.8%	Median equity/capital of the GPCs as of the Analysis Date
% debt (wd)	16.2%	16.2%	Debt/capital = 1 - equity/capital
WACC	**7.5%**	**8.5%**	**WACC = we × ke + wd × kd**
Pretax WACC	**9.5%**	**11.0%**	**Based on MLMIC's effective tax rate**

Source: EY WACC analysis.

Cost of equity

8.5%–9.5%

WACC

7.5%–8.5%

Pretax WACC

9.5%–11.0%

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GPC	Equity beta	Debt	Equity	Debt/equity	Income tax rate	Asset beta	S&P credit rating
Alleghany Corporation	0.92	1,485	8,872	16.7%	21.0%	0.82	BBB+
AmTrust Financial Services, Inc.	0.98	1,457	2,418	60.2%	22.9%	0.67	
CNA Financial Corporation	0.98	2,858	13,366	21.4%	31.4%	0.85	BBB+
James River Group Holdings, Ltd.	0.77	202	1,016	19.9%	21.0%	0.66	
Markel Corporation	0.78	3,099	16,007	19.4%	21.0%	0.68	BBB
ProAssurance Corporation	0.77	412	2,561	16.1%	16.6%	0.68	BBB+
RLI Corp.	0.94	149	2,720	5.5%	21.0%	0.90	BBB+
W. R. Berkley Corporation	0.82	2,497	8,535	29.3%	28.4%	0.68	BBB+
White Mountains Insurance Group, Ltd.	0.56	24	3,000	0.8%	21.0%	0.55	BBB
Mean	**0.83**			**21.0%**	**22.7%**	**0.72**	
Median	**0.82**			**19.4%**	**21.0%**	**0.68**	

Source: EY WACC analysis.

Beta estimation

		Comments
Selected asset beta	0.68	Based on median asset beta of GPCs
Target debt/equity	19.4%	Based on median debt/equity ratio of GPCs
Tax rate	21.0%	Based on the Target's forecasted tax rate
Relevered beta	0.78	βrelevered = βasset × [1 + (D/E) × (1 - t)]

Source: EY WACC analysis.

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GPCM

Guideline public company method

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Summary

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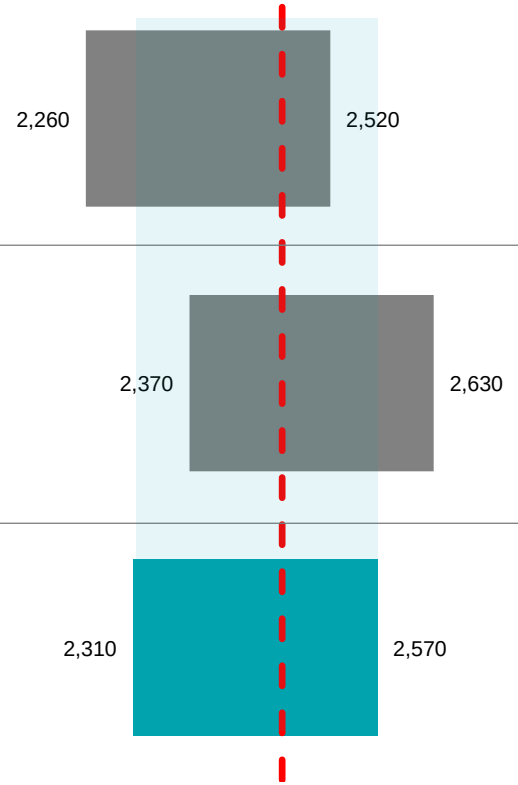
Methodology		Key assumptions	Equity value (in $m)
GPCM	P/BV	► Financial measure of $1,318 million ► P/BV multiple range of 0.90x-1.10x ► Excess capital of $1,071 million	2,260 – 2,520
	P/TBV	► Financial measure of $1,297 million ► P/TBV multiple range of 1.00x-1.20x ► Excess capital of $1,071 million	2,370 – 2,630
	Concluded		2,310 – 2,570



Source: EY GPCM analysis.

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GPCM valuation

(in $m)		Book value	− Excess capital	= Book value (normalized)	× Selected multiple		= Equity value (excl. excess capital)		+ Excess capital	= Equity value	
	Multiple				Low	High	Low	High		Low	High
GPCM	P/BV	2,390	1,071	1,318	0.9x	1.1x	1,186	1,450	1,071	2,258	2,522
	P/TBV	2,369	1,071	1,297	1.0x	1.2x	1,297	1,557	1,071	2,369	2,628
	Concluded									**2,313**	**2,575**

Source: EY GPCM analysis.

Multiple	Highlight	Low	High
P/BV	**Selected P/BV multiple**	**0.9x**	**1.1x**
P/TBV	**Selected P/TBV multiple**	**1.0x**	**1.2x**
Concluded	**Equity value**	**$2,313m**	**$2,575m**

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GPC multiples

		P/BV		P/TBV	
GPC	Market capitalization	2016	2017	2016	2017
Alleghany Corporation	8,872	1.1x	1.0x	1.2x	1.1x
AmTrust Financial Services, Inc.	2,418	0.7x	0.7x	1.1x	1.0x
CNA Financial Corporation	13,366	1.1x	1.1x	1.1x	1.1x
James River Group Holdings, Ltd.	1,016	1.5x	1.5x	2.1x	2.1x
Markel Corporation	16,007	1.9x	1.7x	2.4x	2.5x
ProAssurance Corporation	2,561	1.4x	1.6x	1.7x	2.0x
RLI Corp.	2,720	3.3x	3.2x	3.6x	3.4x
W. R. Berkley Corporation	8,535	1.7x	1.6x	1.8x	1.7x
White Mountains Insurance Group, Ltd.	3,000	0.8x	0.9x	0.8x	0.9x
Maximum		**3.3x**	**3.2x**	**3.6x**	**3.4x**
3rd quartile		**1.7x**	**1.6x**	**2.1x**	**2.1x**
Average		**1.5x**	**1.5x**	**1.8x**	**1.8x**
Median		**1.4x**	**1.5x**	**1.7x**	**1.7x**
1st quartile		**1.1x**	**1.0x**	**1.1x**	**1.1x**
Minimum		**0.7x**	**0.7x**	**0.8x**	**0.9x**

Source: SNL, Bloomberg.

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GPC performance benchmarking

	Net written premium growth					Net income growth				
GPC	2016A	2017A	2018E	2019E	CAGR 2015-2019	2016A	2017A	2018E	2019E	CAGR 2015-2019
Alleghany Corporation	13.4%	-2.5%	n/a	n/a	n/a	-18.1%	-78.2%	399.6%	8.9%	4.4%
AmTrust Financial Services, Inc.	13.8%	6.2%	8.5%	7.2%	8.9%	-6.0%	-177.8%	-176.4%	29.7%	-6.3%
CNA Financial Corporation	0.4%	1.2%	3.3%	2.3%	1.8%	79.3%	4.7%	15.2%	8.5%	7.0%
James River Group Holdings, Ltd.	18.4%	37.5%	5.7%	6.4%	16.3%	39.2%	-41.5%	80.2%	8.0%	3.3%
Markel Corporation	4.8%	10.4%	5.3%	3.5%	5.9%	-21.8%	-13.0%	23.9%	3.2%	2.7%
ProAssurance Corporation	4.1%	3.5%	3.1%	3.0%	3.4%	30.0%	-29.0%	0.4%	-3.6%	-8.9%
RLI Corp.	2.6%	1.2%	4.3%	3.9%	3.0%	-16.4%	-8.6%	-7.1%	4.9%	-2.9%
W. R. Berkley Corporation	3.8%	-2.5%	2.8%	3.5%	1.9%	19.7%	-8.3%	-12.1%	4.7%	-4.2%
White Mountains Insurance Group, Ltd.	-96.7%	63.7%	n/a	n/a	n/a	-172.6%	-113.6%	3.8%	161.1%	n/a
Maximum	**18.4%**	**63.7%**	**8.5%**	**7.2%**	**16.3%**	**82.0%**	**79.3%**	**399.6%**	**161.1%**	**7.0%**
3rd quartile	**13.4%**	**10.4%**	**5.5%**	**5.1%**	**7.4%**	**12.6%**	**30.0%**	**23.9%**	**8.9%**	**3.6%**
Average	**-3.9%**	**13.2%**	**4.7%**	**4.3%**	**5.9%**	**-1.7%**	**-7.4%**	**36.4%**	**25.0%**	**-0.6%**
Median	**4.1%**	**3.5%**	**4.3%**	**3.5%**	**3.4%**	**-7.9%**	**-6.0%**	**3.8%**	**8.0%**	**-0.1%**
1st quartile	**2.6%**	**1.2%**	**3.2%**	**3.3%**	**2.4%**	**-27.0%**	**-18.1%**	**-7.1%**	**4.7%**	**-4.7%**
Minimum	**-96.7%**	**-2.5%**	**2.8%**	**2.3%**	**1.8%**	**-46.1%**	**-172.6%**	**-176.4%**	**-3.6%**	**-8.9%**
MLMIC	-4.4%	4.3%	-3.5%	2.2%	-2.9%	41.7%	-26.4%	-89.1%	117.1%	-29.6%

Source: EY Analysis based on SNL data for comparable companies and Management data for MLMIC.

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GPC performance benchmarking

	ROE				ROTE		Investment yield	
GPC	2016A	2017A	2018E	2019E	2016A	2017A	2016A	2017A
Alleghany Corporation	5.8%	1.2%	n/a	n/a	6.3%	1.3%	2.4%	2.8%
AmTrust Financial Services, Inc.	12.4%	-9.8%	9.0%	10.9%	19.4%	-14.4%	3.0%	3.8%
CNA Financial Corporation	7.2%	7.4%	8.2%	8.1%	7.3%	7.6%	4.4%	4.6%
James River Group Holdings, Ltd.	10.7%	6.3%	10.3%	10.2%	15.8%	9.2%	4.3%	3.9%
Markel Corporation	5.4%	4.5%	5.0%	4.9%	7.0%	6.2%	2.3%	2.0%
ProAssurance Corporation	8.4%	6.3%	6.8%	6.4%	10.0%	7.6%	3.3%	3.1%
RLI Corp.	14.0%	12.5%	11.3%	11.2%	15.1%	13.5%	5.0%	3.7%
W. R. Berkley Corporation	11.9%	10.5%	8.5%	8.4%	12.4%	11.0%	4.9%	5.0%
White Mountains Insurance Group, Ltd.	-3.1%	0.4%	n/a	n/a	-3.1%	0.4%	0.1%	4.7%
Maximum	**14.0%**	**12.5%**	**11.3%**	**11.2%**	**19.4%**	**13.5%**	**5.0%**	**5.0%**
3rd quartile	**11.9%**	**7.4%**	**9.7%**	**10.6%**	**15.1%**	**9.2%**	**4.4%**	**4.6%**
Average	**8.1%**	**4.4%**	**8.4%**	**8.6%**	**10.0%**	**4.7%**	**3.3%**	**3.7%**
Median	**8.4%**	**6.3%**	**8.5%**	**8.4%**	**10.0%**	**7.6%**	**3.3%**	**3.8%**
1st quartile	**5.8%**	**1.2%**	**7.5%**	**7.3%**	**7.0%**	**1.3%**	**2.4%**	**3.1%**
Minimum	**-3.1%**	**-9.8%**	**5.0%**	**4.9%**	**-3.1%**	**-14.4%**	**0.1%**	**2.0%**
MLMIC	7.9%	5.0%	1.0%	2.1%	6.9%	5.1%	2.6%	3.9%

Source: EY Analysis based on SNL data for comparable companies and Management data for MLMIC.

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GPC performance benchmarking

	Loss ratio				Expense ratio				Combined ratio			
GPC	2016A	2017A	2018E	2019E	2016A	2017A	2018E	2019E	2016A	2017A	2018E	2019E
Alleghany Corporation	58.6%	73.1%	n/a	n/a	33.3%	33.3%	n/a	n/a	91.9%	106.4%	n/a	n/a
AmTrust Financial Services, Inc.	67.3%	80.8%	68.6%	67.7%	26.4%	32.1%	27.3%	27.2%	93.7%	112.9%	95.9%	94.9%
CNA Financial Corporation	62.6%	62.7%	61.2%	60.9%	35.1%	34.5%	24.5%	24.2%	97.7%	97.2%	85.6%	85.1%
James River Group Holdings, Ltd.	63.1%	74.9%	69.4%	69.9%	31.2%	24.3%	26.2%	25.7%	94.3%	99.2%	95.7%	95.6%
Markel Corporation	53.0%	67.5%	56.5%	56.8%	38.8%	37.4%	37.5%	37.4%	91.8%	104.8%	94.0%	94.1%
ProAssurance Corporation	60.4%	63.5%	64.4%	65.7%	31.0%	31.9%	30.4%	30.4%	91.4%	95.4%	94.8%	96.1%
RLI Corp.	48.0%	54.4%	50.5%	50.9%	41.5%	42.0%	41.0%	40.9%	89.5%	96.4%	91.5%	91.8%
W. R. Berkley Corporation	61.1%	63.4%	62.1%	62.3%	33.2%	33.3%	33.6%	33.4%	94.3%	96.7%	95.7%	95.7%
White Mountains Insurance Group, Ltd.	59.7%	nmf	n/a	n/a	nmf	nmf	n/a	n/a	nmf	nmf	n/a	n/a
Maximum	**67.3%**	**80.8%**	**69.4%**	**69.9%**	**41.5%**	**42.0%**	**41.0%**	**40.9%**	**97.7%**	**112.9%**	**95.9%**	**96.1%**
3rd quartile	**62.6%**	**73.5%**	**66.5%**	**66.7%**	**36.0%**	**35.2%**	**35.5%**	**35.4%**	**94.3%**	**105.2%**	**95.7%**	**95.6%**
Average	**59.3%**	**67.5%**	**61.8%**	**62.0%**	**33.8%**	**33.6%**	**31.5%**	**31.3%**	**93.1%**	**101.1%**	**93.3%**	**93.3%**
Median	**60.4%**	**65.5%**	**62.1%**	**62.3%**	**33.3%**	**33.3%**	**30.4%**	**30.4%**	**92.8%**	**98.2%**	**94.8%**	**94.9%**
1st quartile	**58.6%**	**63.2%**	**58.8%**	**58.8%**	**31.2%**	**32.1%**	**26.8%**	**26.5%**	**91.7%**	**96.6%**	**92.7%**	**93.0%**
Minimum	**48.0%**	**54.4%**	**50.5%**	**50.9%**	**26.4%**	**24.3%**	**24.5%**	**24.2%**	**89.5%**	**95.4%**	**85.6%**	**85.1%**
MLMIC	47.4%	85.3%	122.3%	115.6%	11.9%	12.4%	11.7%	12.2%	59.3%	97.8%	134.0%	127.8%

Source: EY Analysis based on SNL data for comparable companies and Management data for MLMIC.

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GTM

Guideline transaction method

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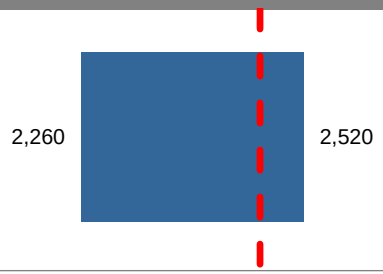
Methodology	Equity value (in $m)
P/BV multiple ► Financial measure of $1,318 million ► P/BV multiple range of 0.90x-1.10x ► Excess capital of $1,071 million	

Source: EY GTM analysis

GTM highlights

Multiple	Highlight	Low	High
P/BV multiple	Selected P/BV multiple	0.9x	1.1x
	Equity value	$2,260m	$2,520m

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GTM

(in $m)

Announced	Buyer	Target	Deal value	P/BV	Combined ratio	ROE
9/28/2011	Berkshire Hathaway Inc.	Princeton Insurance Company	400	1.0x	NA	6%
5/24/2011	Doctors Company, An Interinsurance Exchange	FPIC Insurance Group, Inc.	361	1.4x	87%	10%
9/1/2010	ProAssurance Corporation	American Physicians Service Group, Inc.	229	1.4x	53%	16%
7/8/2010	Doctors Company, An Interinsurance Exchange	American Physicians Capital, Inc.	396	1.7x	75%	17%
10/28/2008	ProAssurance Corporation	Podiatry Insurance Company of America	135	1.5x	NA	NA
6/30/2008	Allied World Assurance Company Holdings, Ltd	Darwin Professional Underwriters, Inc.	550	2.0x	84%	14%
10/15/2007	Doctors Company, An Interinsurance Exchange	SCPIE Holdings Inc.	280	1.3x	102%	6%
2/28/2005	ProAssurance Corporation	NCRIC Group, Inc.	70	1.0x	125%	-9%
6/22/2000	Medical Assurance, Inc.	Professionals Group Inc.	222	1.0x	105%	12%
12/20/1999	St. Paul Companies, Inc.	MMI Companies, Inc.	191	0.6x	123%	3%
8/14/1997	Professionals Insurance Company Management Group	Physicians Protective Trust Fund	158	1.6x	NA	NA
Maximum			550	2.0x	125%	17%
Average			272	1.3x	94%	8%
Median			229	1.4x	94%	10%
Minimum			70	0.6x	53%	-9%
MLMIC – Normalized					120%	4%

Source: EY GTM analysis based on SNL and CapitalIQ data for comparable transactions and Management data for MLMIC.

GTM screening

- The guideline transaction screening process involved searching for M&A transactions in which target companies similar to MLMIC were acquired.
- Our transactions were selected by first considering all transactions in which insurance underwriters were acquired.
- This list was then refined based on % MPL-related NPW, statutory insurance activity, line of business and various keywords.

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Appendix

Supplementary information regarding the target, transaction and other considerations

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Business description

- MLMIC is an insurance underwriter that provides MPL coverage to physicians, dentists, hospitals and other healthcare professionals. MLMIC is a mutual insurance company and is owned by its policyholders.
- It is the largest medical malpractice insurance company in NY state (based on DPW) and insures nearly 15,000 physicians, 4,000 dentists and dozens of hospitals.
- MLMIC is licensed in 9 states, but currently only writes business in NY state, where it is regulated by the DFS.
- The company was founded in 1975 and has 365 employees. It is headquartered in New York, NY.
- MLMIC is also a member of the MMIP, which provides medical malpractice coverage for physicians and health care providers who are unable to obtain malpractice insurance in the voluntary market due to excessive claims experience or other licensing issues. The MMIP is a high risk pool and charges premiums that are approximately 300% higher than standard rates.
- MLMIC's participation percentage in MMIP was approximately 38% as of 31 December 2017, the highest among all members.
- MLMIC is the servicing company for the MMIP and issues its policies, collects premiums, handles and pays claims, holds cash and invested assets and performs all other duties to administer the MMIP. In return, MLMIC receives a management fee equal to 12% of premiums written.

1975	MLMIC was incorporated in NY state on 4 April 1975 under the auspices of the Medical Society of the State of New York.
2000	MLMIC acquired Princeton Insurance Company, Inc., a MPL insurance company focused on the New Jersey market, to increase MLMIC's geographic footprint and expand its lines of business.
2001	MLMIC merged with Healthcare Underwriters Mutual Insurance Company, an insurance company that primarily wrote business for small hospitals as opposed to individual physicians.
2006	MLMIC agreed to sell OHIC Insurance Company, which was in runoff, to The Doctors Company.
2011	MLMIC agreed to sell Princeton Insurance Company, Inc. to The Medical Protective Company, Inc., a subsidiary of Berkshire Hathaway.
2016	MLMIC announced that it had entered into a definitive agreement to be acquired by NIC.

Products and services

- MLMIC offers two primary types of MPL coverage: occurrence form and claims made form.
- MLMIC also offers various supplemental insurance policies to qualified policyholders.
- In addition to its UW activities, MLMIC also offers risk management programs, legal services and continuing medical education for physicians.

Source: Management.

Mission

- Provide quality professional liability insurance to physicians, dentists, hospitals and other healthcare professionals at the lowest possible cost consistent with fiscal responsibility.
- Provide the strongest possible defense of insureds for claims without merit, and prompt and equitable compensation to those with legitimate claims against insureds.
- Continue to pursue vigorously efforts to reform the inequitable medical and dental liability compensation system.

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Management team

MLMIC is governed by a BOD, which is comprised of up to 39 professionals. All but four directors must be policyholders of MLMIC, and no more than half of the directors may be officers of MLMIC. As a result, the BOD consists of majority policyholders that have a direct vested interest in the Transaction. An Executive Committee of the BOD has been established to act in lieu of the full BOD when the full BOD is not in session. The BOD has established several committees, details of which are provided below.

Board of Directors

Executive
- Conducts and controls the business between meetings of the BOD.

Audit
- Provides oversight into accounting and financial reporting and oversees internal and external annual audits.

Appellate review
- Examines decisions made by the peer review committees for reasonableness and fairness.

Claims
- Provides oversight of the company's philosophy to adjust meritorious claims as equitably as possible and aggressively defend claims without merit, as well as provide claim-related guidance.

Compensation
- Reviews compensation strategy and makes recommendations concerning the reasonable compensations of directors.

Dental UW/claims
- Reviews UW strategy, risk tolerances, UW policies and guidelines, UW performance, etc. as it relates to dental malpractice insurance.

Finance
- Assists in fulfilling the fiduciary duties relating to investment of the company's assets.

Governance and compensation
- Recommends rules and procedures for governing the company and reviews compliance with such rules.

Nominating
- Nominates persons to be elected to the BOD and to be officers of the company.

Patient safety
- Evaluates and monitors the quality of healthcare and performance of insureds.

Peer review (downstate)
- Reviews the performance of physicians and determines whether their policies will be renewed for downstate NY.

Peer review (upstate)
- Reviews the performance of physicians and determines whether their policies will be renewed for upstate NY.

Physicians UW
- Reviews UW strategy, risk tolerances, UW policies and guidelines, UW performance, etc. as it relates to physicians malpractice insurance.

Specialties and territories
- Represents the interests of the various medical specialties and geographic areas of policyholders.

Source: Management.

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1 Indication of interest from MedPro

- MedPro Group Inc., a subsidiary of Berkshire Hathaway, expresses interest in acquiring MLMIC.
- Executive Committee votes against pursuing the opportunity in order to maintain a stable, at-cost insurance market that policyholders control.

3 Executive Committee votes to pursue opportunity

- Executive Committee meets with Berkshire Hathaway to further discuss the indication of interest.
- Executive Committee unanimously votes in favor of pursuing the opportunity.

4 Special meeting of the BOD

- The BOD is informed of the developments regarding the Transaction and discusses the pros/cons of a sale.

6 Letter of intent is signed

- The BOD discusses the proposed organizational structure and reviews the proposed terms and pricing for the Transaction.
- The BOD agrees to sign a letter of intent.

2 Berkshire Hathaway proposes to acquire MLMIC directly

- After the MedPro proposal was rejected, Berkshire Hathaway offers to acquire MLMIC directly with the promise to allow the company to operate independently.

5 BOD votes to further explore a sale

- After further evaluating MLMIC's strategic alternatives[1] and discussing what steps would need to be taken to achieve a 100% combined ratio, the BOD votes to explore the opportunity to sell.

7 BOD reviews independent valuation

- The BOD reviews the independent valuation of MLMIC performed by Keefe, Bruyette & Woods to ensure the offer is fair to MLMIC's policyholders.

8 Acquisition agreement signed

- July 2016 – The BOD reviews the final terms of the acquisition agreement and answers questions regarding the Transaction. The BOD unanimously votes to sell MLMIC to Berkshire Hathaway.
- February 2018 – The parties sign an amended acquisition agreement to reflect the updated purchase price and closing procedures.

Source: Management.

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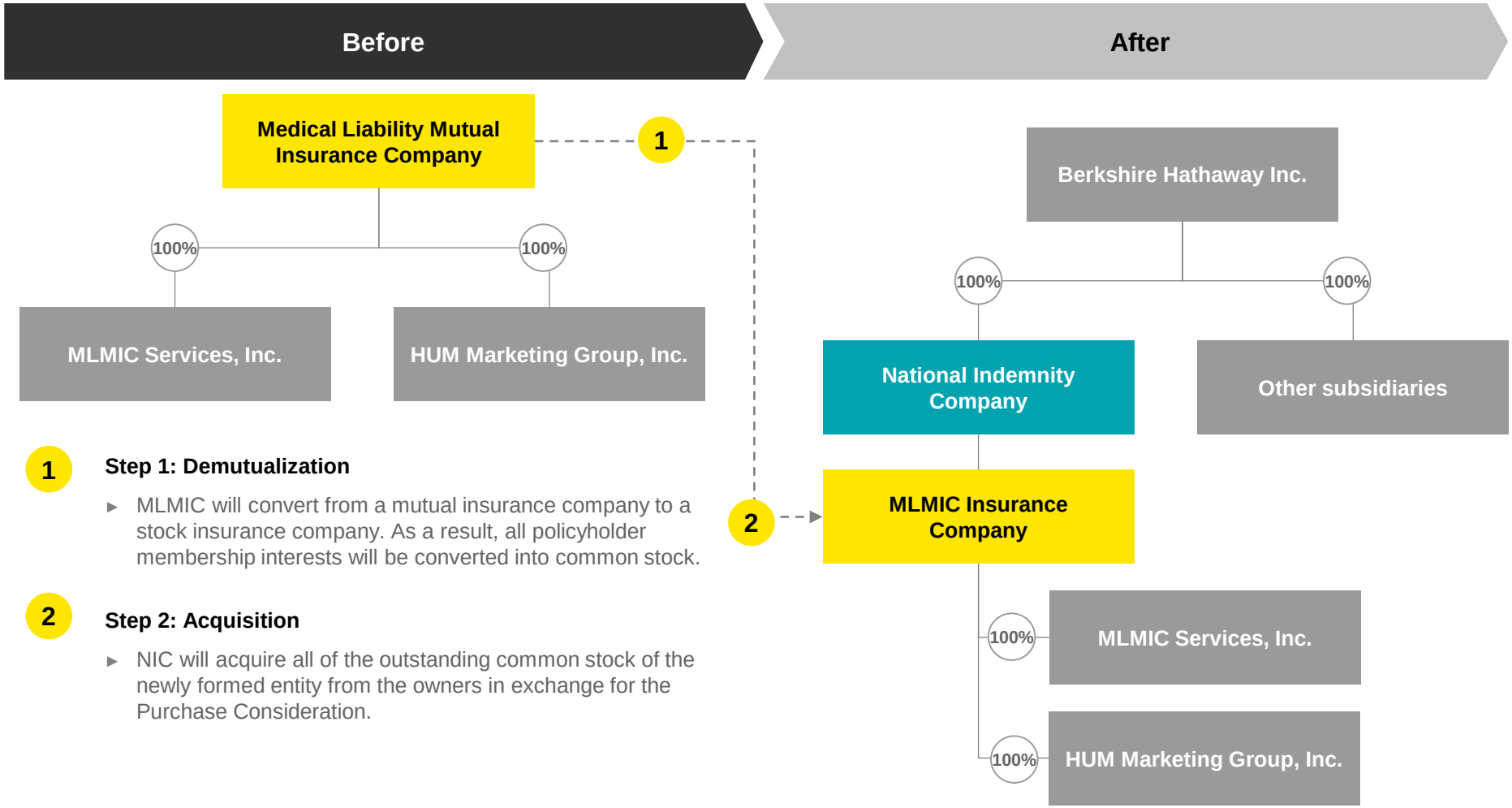

1 **Step 1: Demutualization**

- MLMIC will convert from a mutual insurance company to a stock insurance company. As a result, all policyholder membership interests will be converted into common stock.

2 **Step 2: Acquisition**

- NIC will acquire all of the outstanding common stock of the newly formed entity from the owners in exchange for the Purchase Consideration.

MLMIC Services, Inc. – Provides operational and administrative services to MLMIC, including UW, claims adjustment, premium collection, policyholder services, accounting, etc. This entity was formerly known as Donald J. Fager & Associates, Inc.

HUM Marketing Group, Inc. – Provides advertising services for approximately $25,000 annually.

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Sector overview

- MPL insurance protects physicians and other licensed health care professionals (e.g., dentists, nurses) from liability associated with wrongful practices resulting in bodily injury, medical expenses and property damage, as well as the cost of defending lawsuits related to such claims.
- MPL insurance is a low-frequency, high-severity, long-tail line of insurance with high volatility. Malpractice claims are often not reported until several years after the incident and frequently involve a lengthy and complex resolution process. These development risks create significant uncertainty around MPL insurance UW.

Market size and characteristics

- NY state is one of the states with the highest numbers of physicians in the country and thus has a large addressable market. However, it also has some of the highest malpractice rates in the US and is one of the few states that has not enacted any tort reform that imposes statutory caps on medical malpractice damages. As a result, MPL insurance premiums and payouts are among the highest in the nation.
- There are 5 admitted carriers in NY state that account for approximately 57.8% of the total market.
  - Academic Health Professionals Insurance Association
  - Hospital Insurance Company
  - MLMIC
  - MMIP
  - Physicians Reciprocal Insurers

Competitive landscape

- The proposed sponsored demutualization of MLMIC, the nation's fifth-largest writer of MPL business, would increase Berkshire Hathaway's market share to more than 2x its nearest rival on a pro forma basis.
- The deal could reshape the NY state MPL marketplace that has seen MLMIC and Physicians Reciprocal Insurers, the state's two largest carriers, steadily lose share in recent years as RRGs increased their presence.

Top 10 MPL insurance underwriters in the US

Rank	Name	DPW (2016, $m)	Market share (%)
1	Berkshire Hathaway Inc.	1,047	11.2
2	Doctors Co.	673	7.2
3	CNA Financial Corp.	465	5.0
4	ProAssurance Corp.	453	4.9
5	MLMIC	392	4.2
6	Coverys Insurance Group	390	4.2
7	NORCAL Group	330	3.5
8	MCIC VT	288	3.1
9	Physicians Reciprocal Insurers	288	3.1
10	MAG Mutual	247	2.7
Total		**4,573**	**49.0**

Source: SNL. Latest data available.

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Competitive pressures and slumping demand have been the driving forces behind the steady decline in premiums.

RRGs

The admitted carriers have faced increasing competition from out-of-state insurers known as RRGs. Unlike licensed insurance companies, these groups are not regulated by the state and do not participate in the state's guaranty fund system which provides a safety net in the event an insurance company becomes insolvent. The ability of RRGs to offer insurance at a lower cost has allowed them to significantly increase their market share and has put admitted carriers at a significant competitive disadvantage.

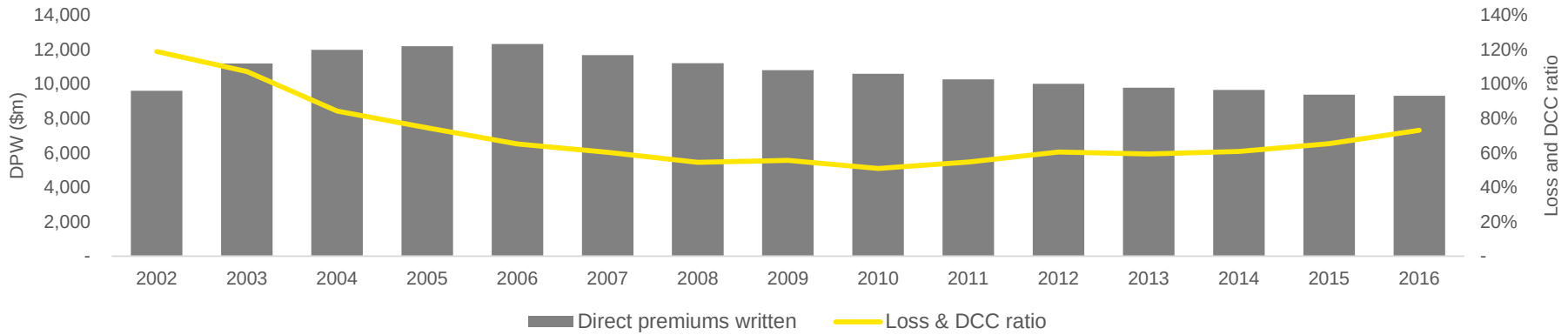
Healthcare consolidation

Due to increased consolidation in the healthcare industry (e.g. large hospitals buying smaller physician groups), potential buyers are more frequently choosing to become self insured, which puts insurance carriers at a competitive disadvantage. In many cases, however, these groups are essentially underinsured because they are often poorly capitalized and lack claims resolutions experience.

Lavern's Law

NY state law previously allowed patients to file a medical malpractice claim against their doctor or health care provider within 2.5 years of the incident. Lavern's Law passed which modifies this statute of limitations and allows cancer patients to file lawsuits 2.5 years starting from the day they become aware of malpractice, not from the day the incident took place. The bill was passed by the state legislature and has been signed into law by the Governor. This law negatively impacts MPL underwriters and is expected to increase the cost of insurance.

Historical DPW and loss ratio and DCC ratio for US medical malpractice insurance underwriters



Source: NAIC. Latest data available.

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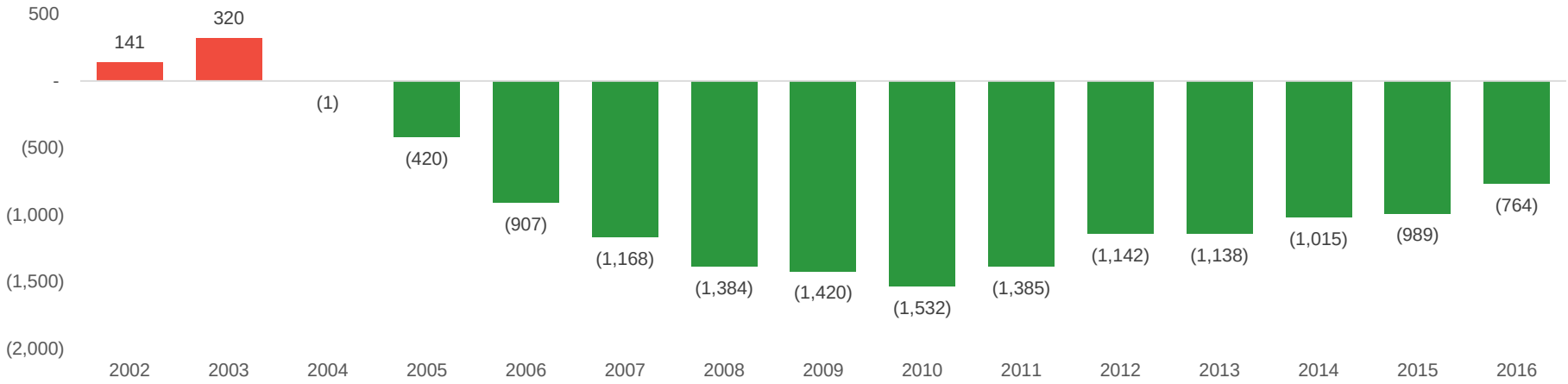
One-year loss reserve development for selected MPL insurance underwriters (in $m)



Source: Management. Latest data available.

Loss reserve development

- The MPL industry as a whole has experienced significant favorable reserve development over the last 12 years, which has helped boost industry profitability. However, the magnitude of the segment's one-year reserve development has generally been declining since 2010. These developments provide evidence that the reserve cushion for MPL insurers is shrinking.
- AM Best estimates that MPL reserves at year end 2016 had a positive variance by approximately $3.0b. This will allow insurers to continue to report favorable reserve development in the near term and report profitable calendar year results.

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Alleghany

Alleghany is a holding company with a focus on property/casualty reinsurance and insurance. Its subsidiaries include Transatlantic Holdings (TransRe), which offers property/casualty reinsurance (risk coverage for insurers) globally through Transatlantic Reinsurance, Fair American, and Trans Re Zurich. It also issues specialty property/casualty insurance policies through RSUI Group and Capitol Transamerica (CATA). Targeting small and midsized US firms, CapSpecialty underwrites specialty lines including commercial property, fidelity, surety, and professional lines, while Pacific Compensation Insurance provides workers' compensation insurance in California. Alleghany's offerings are marketed in the US and abroad.

AmTrust Financial Services

Insurance holding company AmTrust Financial Services' subsidiaries offer a range of commercial property/casualty insurance products for small and midsized customers, including workers' compensation products, auto and general liability, workplace and agricultural coverage, and extended service and warranty coverage of consumer and commercial goods. It also provides a small amount of personal auto reinsurance. AmTrust operates in Bermuda, Ireland, the UK, and the US and distributes its products through brokers, agents, and claims administrators. Customers include restaurants, retailers, physicians' offices, auto and electronics manufacturers, and trucking operations.

CNA Financial

CNA Financial is an umbrella organization for a wide range of insurance providers, including Continental Casualty and Continental Insurance. It primarily provides commercial policies, such as workers' compensation, auto, and general liability. CNA also sells specialty insurance including professional liability (doctors, lawyers, and architects) and vehicle warranty service contracts. The firm offers commercial surety bonds (through CNA Surety), risk management, claims administration, and information services. Its products are sold by independent agents and brokers in the US and through partners abroad. Holding company Loews owns 90% of CNA, which was formed in 1897.

James River Group

James River Group writes specialty property/casualty insurance through its two primary operating subsidiaries. James River Insurance offers excess and surplus lines (policies that have been rejected by standard carriers), including general casualty, professional liability, and environmental coverage in 49 states and Washington, DC. Stonewood Insurance provides workers' compensation in North Carolina and Virginia, primarily for homebuilders. The company distributes its products through a network of independent brokers and agents. James River Group went public in 2015.

Markel Corporation

Markel Corporation is a diverse financial holding company serving a variety of niche markets. The Company's principal business markets and underwrites specialty insurance products. In each of the Company's businesses, it seeks to provide quality products and excellent customer service so that it can be a market leader. The financial goals of the company are to earn consistent UW and operating profits and superior investment returns to build shareholder value.

ProAssurance

ProAssurance protects professional health associates — the doctors, dentists, and nurses of the US. One of the largest medical liability insurance providers in the nation, ProAssurance is the holding company for ProAssurance Indemnity, ProAssurance Casualty, and other subsidiaries that sell liability coverage for health care providers, primarily in the South and Midwest. Its customers include individual doctors in private practice, as well as large physician groups, clinics, and hospitals. Its ProAssurance Specialty Insurance subsidiary writes excess and surplus (higher risk) lines of MPL insurance. ProAssurance Casualty also provides some coverage for legal professionals.

Source: SNL.

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RLI Corp.

RLI Corp. is a specialty insurer serving diverse, niche property, casualty and surety markets. The company provides deep UW expertise and superior service to commercial and personal lines customers nationwide. RLI's products are offered through its insurance subsidiaries RLI Insurance Company, Mt. Hawley Insurance Company and Contractors Bonding and Insurance Company. All of RLI's insurance subsidiaries are rated A+ (Superior) by A.M. Best Company. RLI has paid and increased regular dividends for 42 consecutive years and delivered UW profits for 21 consecutive years.

W. R. Berkley

W. R. Berkley is a holding company offering an assortment of niche commercial property/casualty insurance across three segments. Its largest segment, domestic insurance, underwrites complex third-party liability risks, professional liability, and commercial transportation insurance for small to midsized business customers and state and local governments. It also develops self-insuring programs aimed at employers and employer groups. International insurance offers the same services in 60 countries in Europe, the Americas, Asia, and Australia. Its reinsurance unit allows insurance companies in the US, Europe, and Asia/Pacific region to pool their risks in order to reduce their liability.

White Mountains Insurance Group, Ltd.

White Mountains Insurance Group, Ltd. is primarily engaged in UW accident and health insurance. This industry includes establishments which provide health insurance protection for disability income losses and medical expense coverage on an indemnity basis. These establishments are operated by enterprises that may be owned by stock-holders, policy holders, or other carriers.

Source: SNL.

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Announced	Buyer	Target	Target business description
5/24/2011	Doctors Company, An Interinsurance Exchange	FPIC Insurance Group, Inc.	FPIC Insurance Group, Inc., together with its subsidiaries, operates as an insurance carrier in the medical professional liability (MPL) insurance sector of the property and casualty insurance industry.
9/1/2010	ProAssurance Corporation	American Physicians Service Group, Inc.	American Physicians Service Group, Inc. operates as the holding company for a key operating subsidiary, APS Insurance Services, Inc., which provides medical professional liability insurance and related services for physicians and other healthcare providers primarily in Texas.
7/8/2010	Doctors Company, An Interinsurance Exchange	American Physicians Capital, Inc.	American Physicians Capital, Inc. operates as an insurance holding company for American Physicians Assurance Corporation that writes medical professional liability insurance in Michigan, Illinois, Ohio, and New Mexico. The company underwrites medical professional liability coverage for physicians, corporations, medical groups, clinics, and ancillary healthcare providers.
10/28/2008	ProAssurance Corporation	Podiatry Insurance Company of America	Podiatry Insurance Company of America, Inc. provides medical professional liability insurance for podiatric physicians in the United States.
6/30/2008	Allied World Assurance Company Holdings, Ltd	Darwin Professional Underwriters, Inc.	Allied World Underwriters, Inc., through its subsidiaries, offers liability insurance underwriting and distribution services.
10/15/2007	Doctors Company, An Interinsurance Exchange	SCPIE Holdings Inc.	SCPIE Holdings Inc., through its subsidiaries, provides insurance and reinsurance products.
2/28/2005	ProAssurance Corporation	NCRIC Group, Inc.	NCRIC Group Inc. provides healthcare financial services in the United States. It assisted individual physicians and groups of physicians in managing their practices by providing medical professional liability insurance, practice management and financial services, and employee benefits plan design and pension administration services.
6/22/2000	Medical Assurance, Inc.	Professionals Group Inc.	Professionals Group, Inc. offers medical professional liability insurance to physicians, surgeons, dentists, hospitals and other health care providers through its wholly owned subsidiary ProNational Insurance Company, a stock insurance company incorporated under Michigan law in 1980.
12/20/1999	St. Paul Companies, Inc.	MMI Companies, Inc.	MMI Companies, Inc. provides insurance products and related specialized services in the United States healthcare industry and international insurance and reinsurance markets.
8/14/1997	Professionals Insurance Company Management Group	Physicians Protective Trust Fund	Physicians Protective Trust Fund is a Florida domiciled medical malpractice self-insurance trust fund.

Source: SNL, Capital IQ.

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$b	Billions of USD
$m	Millions of USD
$000's	Thousands of USD
A	Actual figures
ACE	Actuarial central estimate
ACL	Authorized Control Level
AICPA	American Institute of Certified Public Accountants
AM Best	AM Best Company, Inc. - A global insurance credit rating and information services company
Analysis Date	23-Mar-18
ASA	American Society of Appraisers
AY	Accident year
Balance Sheet Date	28-Feb-18
Berkshire Hathaway	Berkshire Hathaway Inc.
BOD	Board of directors of MLMIC
Buyer	NIC
BVS-VIII	Business Valuation Standard 8 "Comprehensive Written Business Valuation Report"
CAGR	Compound annual growth rate
Closing Date	Date of the Transaction completion
COC	Cost of capital
CSRP	Company-specific risk premium
CY	Calendar year
D/E	Debt-to-equity ratio
DAC	Deferred acquisition costs
DCC	Direct cost and containment
DCF	Discounted cash flow
DDR	Death, disability, and retirement
DFS	The Superintendent of Financial Services of the State of New York and the New York State Department of Financial Services
DPW	Direct premiums written
E	Estimated figures
ERP	Equity risk premium
Executive Committee	Committee as defined on Target Overview slide
EY	Ernst & Young Investment Advisers LLP
FCAS	Fellow of the Casualty Actuarial Society
FCF	Free cash flow
FY	Fiscal year
GAAP	Generally Accepted Accounting Principles
GPC	Guideline public company
GPCM	Guideline public company method
GTM	Guideline transactions method
HPL	Hospital professional liability
IAAS	Insurance & Actuarial Advisory Services
Insurance Law	§7307 of the New York State Insurance Law
LAE	Loss adjustment expenses
Lavern's Law	Law as defined on industry overview slide

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LTM	Last twelve months
M&A	Mergers and acquisitions
MAAA	Member of the American Academy of Actuaries
Management	Management of MLMIC
Memorandum	This narrative document
MLMIC	Medical Liability Mutual Insurance Company
MMIP	Medical Malpractice Insurance Pool
mo	Months
MPL	Medical professional liability
NAIC	National Association of Insurance Commissioners
NAV	Net asset value
NIC	National Indemnity Company, a subsidiary of Berkshire Hathaway Inc.
NPW	Net premiums written
P/BV	Price to book value multiple
P/E	Price to earnings multiple
P/TBV	Price to tangible book value multiple
PFI	Prospective financial information
Purchase Consideration	$2,502 million
RBC	Risk-based capital
Reorganization	Reorganization pursuant to the Insurance Law from a domestic mutual property and casualty insurer to a domestic stock property and casualty insurer and the sale to NIC of 100% of MLMIC's stock
ROE	Return on equity
RRG	Risk retention group
Statement of Limiting Conditions	Refers to the statement provided in the Appendix section
Target	MLMIC
TAS	Transaction Advisory Services of Ernst & Young LLP
Transaction	The acquisition of MLMIC's equity by NIC
UPR	Unearned premium reserves
US	United States
USD	United States Dollar
UW	Underwriting
VBIF	Value of business in force
VOBA	Value of business acquired
WACC	Weighted average cost of capital
x	Times multiple
yr	Years

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Purpose, scope and contacts

To support our opinion, we performed an actuarial analysis of the liabilities as well as the fair market value of the reserves and the value of the business in force for MLMIC as of the Analysis Date. The fair market value of loss and LAE reserves was utilized as one of the inputs in the NAV method.

Jay Votta FCAS, MAAA and John Ferrara FCAS, MAAA are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to perform this analysis, provide the findings and recommendations contained herein. Comments or questions regarding the analysis of loss and LAE reserves should be directed to Jay Votta, FCAS, MAAA at +1-212-773-0509.

Evaluation date

Data through 28 February 2018 has been considered in our analysis. Events subsequent to the Analysis Date have not been factored into our analysis.

Data and qualitative information

The report presents findings and recommendations based on data, conditions, and practices communicated to EY personnel involved in this engagement and described herein.

The DFS and MLMIC provided the following data items to be utilized in the course of our work:

- Premiums, paid and incurred loss and loss adjustment expense data
- Internal and external actuarial analyses of MLMIC's claim liabilities
- Information regarding MLMIC's insurance operations
- Numerous conversations with relevant MLMIC personnel, the New York State Department of Financial Services, and MLMIC's external consultants

We have relied on the DFS to specify the scope of work to comply with the Insurance Law. Our report is intended for the information and use of DFS in connection with the DFS's review of the Reorganization.

Our work has been limited in scope and time and we stress that more detailed procedures may have revealed issues that this engagement has not. The procedures performed throughout this engagement were advisory in nature and were performed under the American Institute of Certified Public Accountants ("AICPA") consulting standards. The procedures performed did not constitute an audit, a review, examination, or other form of attestation or assurance as those terms are defined by the AICPA. Accordingly we do not express any form of assurance. Any use of the term "review" within this report should be interpreted in the common use of that term, and not in the definition of "review" promulgated by the AICPA. Also, this report/work product does not constitute a legal opinion or advice.

In preparing our analysis, we relied on data and qualitative information provided to us under the direction of DFS and MLMIC. Any inaccuracies or inconsistencies in the data could have a significant effect on our results.

In accordance with ASOP 23, *Data* Quality, we performed "*an informal examination of the obvious characteristics of the selected data to determine if such data appear reasonable and consistent for purposes of the assignment."* This "informal examination" did not constitute an audit of data. Rather, the procedures that we performed on the data provided to us were as follows:

- We reviewed the data for consistency with the financial statements of MLMIC and the actuarial reports that were provided to us.
- We note that the review procedures performed may not always uncover existing defects, as they did not constitute an audit. Should any defects be found in the data, by management, through the Company's financial audit, or through any other external review, we should be notified so that our analysis can be adjusted accordingly.

Uncertainty or risk

Considerable uncertainty and variability are inherent in the estimation of unpaid claim liabilities. As a result, it is possible that actual experience may be different than the estimate provided in these slides, and such differences may be material.

The Lavern law that went into effect in February 2018 impacts statutes of limitations for medical malpractice claims, creates additional uncertainty about the potential for future claims to be reported, and could cause significant deterioration of the loss reserves estimate.

For the avoidance of doubt and notwithstanding anything herein to the contrary, no part of this report addresses or includes advice as to the value of any security or as to the advisability of investing in, purchasing or selling securities.

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1. This Report and any supplemental information (written or oral) or other documents provided in connection therewith (collectively, the Report), are provided solely for the information of New York State Department of Financial Services (the DFS or you) by Ernst & Young Investment Advisers LLP (EYIA) and / or our affiliates (collectively, EY) in connection with the contemplated Transaction, as described in the Conclusion section of this Report. The Report may not be disclosed to any party other than the DFS, unless otherwise specified in the Engagement Letter dated 14 July 2017 (the Engagement Letter).
2. This Report is incomplete without reference to, and should be considered in conjunction with, any supplemental Information provided by and discussions with EY in connection therewith. Any defined terms used herein shall have the meanings set forth herein, even if such defined terms have been given different meanings elsewhere in the Report. Unless otherwise noted, currency amounts refer to US Dollars.
3. The services provided are limited to the knowledge and experience gained from our regular valuation practice and do not represent audit, advisory or tax-related services that may otherwise be provided by EY.
4. No investigation of the title to the subject company and subject assets has been made, and the owner's claim to the subject company and subject assets is assumed to be valid. To the extent that EY's services include any analysis of assets, properties or business interests, EY assumes no responsibility for matters of legal description or title, and EY shall be entitled to make the following assumptions: (i) title is good and marketable, (ii) there exist no liens or encumbrances, (iii) there is full compliance with all applicable Federal, state, local and national regulations and laws (including, without limitation, usage, environmental, zoning and similar laws and/or regulations), and (iv) all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any Federal, state, local, or national government, private entity or organization have been or can be obtained or renewed for any use on which EY services are to be based.
5. This Report has been prepared solely for the purpose stated, and may not be used for any other purpose. Neither this Report nor any portions hereof may be copied or disseminated through advertising, public relations, news, sales, Securities and Exchange Commission disclosure documents or any other public (or private) media without the express prior written approval of EY as set forth in the Engagement Letter. The Report is provided solely for the information of the DFS and may not be disclosed, summarized, reproduced, disseminated or quoted or otherwise referred to, in whole or in part, without EY's express prior written consent, unless otherwise specified in the Engagement Letter. The Report was prepared for specific persons familiar with the business and affairs of the Company for use in a specific context. EY does not take any responsibility for the use of the Report by persons other than the DFS.
6. The conclusions contained herein are not intended to represent analysis of the subject assets at any time other than the effective date that is specifically stated in this Report. Changes in market conditions could result in conclusions substantially different than those presented at the stated effective date. We assume no responsibility for changes in market conditions or for the inability of the owner to locate a purchaser of the subject assets.
7. No responsibility is assumed for Information furnished by others, including Management.
8. In the course of our analysis, we were provided with written Information, oral Information, and/or data in electronic form, related to the structure, operation, and financial performance of the subject company and subject assets. We have relied upon this Information in our analyses and in the preparation of this Report and have not independently verified its accuracy or completeness.
9. Certain historical financial data used in our financial analysis were derived from audited and/or unaudited financial statements and are the responsibility of Management of the Company. The financial statements may include disclosures required by generally accepted accounting principles. We have not independently verified the accuracy or completeness of this data provided and do not express an opinion or offer any form of assurance regarding its accuracy or completeness.
10. The estimates of cash flow data included herein are solely for use in the financial analysis and are not intended for use as forecasts or projections of future operations. We have not performed an examination or compilation, nor have we performed an agreed-upon procedures engagement with regard to the accompanying cash flow data in accordance with standards prescribed by the American Institute of Certified Public Accountants (AICPA), and, accordingly, do not express an opinion or offer any form of assurance on the accompanying cash flow data or their underlying assumptions. Furthermore, there will usually be differences between estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. All budgets, projections, estimates, financial analyses, reports and other Information with respect to operations (including estimates of potential cost savings and expenses, if any) reflected in the Report have been prepared by management of the relevant party or are derived from such budgets, projections, estimates, financial analyses, reports and other Information or from other sources, which involve numerous and significant subjective determinations made by management of the relevant party.
11. We assume no responsibility for any financial and tax reporting judgments, which are appropriately those of Management of the Company.
12. EY is not acting in a capacity as an expert on, and nothing contained in the Report should be construed as advice with regard to, legal, accounting, regulatory, insurance, tax or other specialist matters. Any statement contained in the Report as to tax matters was neither written nor intended by EY or any of its affiliates to be used, and cannot be used by any taxpayer, for the purpose of avoiding tax penalties that may be imposed on such taxpayer. If any person uses or refers to any such tax statement in promoting, marketing or recommending a partnership or other entity, investment plan or arrangement to any taxpayer, then such statement is being delivered to support the promotion or marketing of the Transaction or matter addressed and such person should seek advice based on its particular circumstances from an independent tax advisor.

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13. The preparation of the Report was a complex process involving quantitative and qualitative judgments and determinations with respect to the financial, comparative and other analytic methods employed and the adaptation and application of these methods to the unique facts and circumstances presented and, therefore, is not readily susceptible to partial analysis or summary description. Furthermore, EY did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Each analytical technique has inherent strengths and weaknesses, and the nature of the available Information may further affect the value of particular techniques. Accordingly, the analyses contained in the Report must be considered as a whole. Selecting portions of the analyses, analytic methods and factors without considering all analyses and factors could create a misleading or incomplete view. The Report reflects judgments and assumptions with regard to industry performance, general business, economic, regulatory, market and financial conditions and other matters, many of which are beyond the control of the participants in the Transaction. Any estimates of value contained in the Report are not necessarily indicative of actual value or predictive of future results or values, which may be significantly more or less favorable. In addition, any analyses relating to the value of assets, businesses or securities do not purport to be appraisals or to reflect the prices at which any assets, businesses or securities may actually be sold. In preparing the Report, EY has not conducted any physical inspection or independent appraisal or evaluation of any of the assets, properties or liabilities (contingent or otherwise) of the Target or any other participant in the Transaction.

14. EY has assumed and relied upon the accuracy and completeness of the financial and other Information provided to or reviewed by it without (and without assuming responsibility for) independent verification of such Information, makes no representation or warranty (express or implied) in respect of the accuracy or completeness of such Information and has further relied upon the assurances of the Company that they are not aware of any facts or circumstances that would make such Information inaccurate or misleading. In addition, EY has relied upon representations made by management of the Company, without independent verification, that there has been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of the Company since the date of the most recent financial statements provided to EY that would be material to our analyses, and that the final forms of any draft documents reviewed by EY will not differ in any material respect from such draft documents.

15. With respect to the Prospective Financial Information (PFI), we did not examine, compile, or apply agreed-upon procedures to such information in accordance with attestation standards established by the AICPA, and we express no assurance of any kind on the PFI presented. We did not prepare, assemble, formulate, develop or process the PFI data or the assumptions used to generate the PFI. We did not assist in the preparation or assembly of Company's PFI or in the development of any assumptions therein.

16. We have not provided any opinion, conclusion or any type of assurance about specific assumptions or components of the PFI or on the PFI as a whole.

17. The Report is not intended to provide the sole basis for evaluation of the Transaction and does not purport to contain all Information that may be required. The Report does not address the underlying business decision of the Company or any other party to proceed with or effect the Transaction, or the relative merits of the Transaction as compared to any alternative business strategies that might exist for the Company or any other party. The Report does not constitute any opinion, nor does the Report constitute a recommendation to the BOD, any security holder of the Company or any other person as to how to vote or act with respect to any matter relating to the Transaction or whether to buy or sell any assets or securities of any company. The Report may not reflect Information known to other professionals in other business areas of EY and its affiliates.

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19. We and our affiliates in the future may provide services to the Target or Buyer for which we and our affiliates would expect to receive compensation. Within the past three years, neither EYIA nor any of its affiliates has had any relationship with the Target, Buyer or any other party to the contemplated Reorganization in which compensation was received or is intended to be received by EYIA as a result of such relationship, other than in connection with providing certain tax advisory and cyber transformation services to Buyer. As of the date of this letter, neither EYIA nor the investment professionals who have participated in this engagement have any ownership interest in the Target.

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