

REPORT ON EXAMINATION
OF
NGM INSURANCE COMPANY, INC.
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 19, 2008

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Honorable Eleanor Kitzman
Secretary, Southeastern Zone, NAIC
Director of Insurance
300 Arbor Lake Drive
Suite 1200
Columbia, South Carolina 29223

Alfred W. Gross
Chairman, NAIC Financial Condition (E) Committee
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

**NGM INSURANCE COMPANY, INC.
4601 TOUCHTON ROAD, SUITE 3400
JACKSONVILLE, FLORIDA 32246**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2006 through December 31, 2006. This is the first examination of the Company by representatives of the Florida Office of Insurance Regulation (Office) since the Company redomesticated to Florida in 2005. This examination commenced, with planning at the Office, on June 11, 2007, to June 15, 2007. The fieldwork commenced on June 18, 2007, and was concluded as of March 19, 2008.

This financial examination was an association zone statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

HISTORY

General

The Company was organized in March of 1923 under the laws of New Hampshire as the National Grange Mutual Liability Company and began business on July 16, 1923. All of the outstanding policy liability of a former companion carrier, National Grange Fire Insurance Company (formed in 1935), was reinsured into the Company on December 31, 1958. The corporate title was revised to National Grange Mutual Insurance Company on January 1, 1959. The National Grange Mutual Insurance Company was renamed as NGM Insurance Company in August 2005.

Main Street America Group was initiated in 1986 with the creation of the Main Street America Financial Corporation (MSAFC), which was wholly owned by the Company. In addition, Main Street America Assurance Company (MSAAC) known as Presidential Property and Casualty Insurance Company was incorporated as a stock New Hampshire domestic property and casualty insurer. On January 31, 1996, Mutual Assurance Company (MACO), a Pennsylvania domiciled property and casualty insurer, merged into National Grange Mutual Insurance Company. All policies written by MACO were assumed into National Grange Mutual Insurance Company.

In December, 1994 with an additional capital investment in 1998, the White Mountains Insurance Group Ltd. became the indirect owner of 50% of Main Street America Holdings, Inc.

(MSAH), a downstream holding company with Main Street America Group, Inc. (MSA Group) and continued in existence until October 31, 2006.

During 2005, following the redomestication of National Grange Mutual Insurance Company and its affiliate MSAAC to Florida, National Grange Mutual Insurance Company converted to a mutual insurance holding company structure. Under the Plan of Reorganization approved by the Office, National Grange Mutual Insurance Company was converted to a stock insurance company and was renamed as NGM Insurance Company, Inc. The Company issued 100% of its common stock to Main Street America Group Mutual Holdings, Inc. (Mutual Holdings), a newly organized Florida mutual insurance holding company, which immediately contributed all of its shares of the Company to MSA Group, a newly organized Florida intermediate holding company, in consideration for issuance of 100% of MSA Group's outstanding common stock to Mutual Holdings. The policyholders of the Company own all of the membership interests of Mutual Holdings.

On October 31, 2006 by mutual agreement, the White Mountains Insurance Group Ltd. investment in MSA Group was restructured. As a result, White Mountains Insurance Group Ltd. was now the indirect owner of 4.9% of the common stock of MSA Group.

The Company was a party to Consent Order No. 77686-05-CO filed May 26, 2005, No. 83599-05 filed October 7, 2005, and No. 83360-05 filed October 7, 2005 with the Office, regarding the redomestication to Florida and the application for the issuance of certificates of authority. The Company was in compliance with all issued consent orders.

The Company wrote 28 lines of business in 45 states. The Company only wrote a minor amount of Surety insurance in Florida in 2006.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Fire	Allied lines
Farmowners multi peril	Homeowners multi peril
Glass	Commercial multi peril
Inland marine	Workers' compensation
Burglary and theft	Private passenger auto physical damage
Other liability	Mobile home multi peril
Private passenger auto liability	Commercial automobile liability
Commercial auto physical damage	Fidelity
Surety	Boiler and machinery
Mobile home physical damage	Ocean marine
Mobile home multi peril	Multi peril crop

The Company has not written insurance coverage in the last two years in the lines of business of Ocean marine, Glass, Boiler and machinery, Mobile home multi peril, Mobile home physical damage and Multi peril crop. Since the Company assumed business from the pool, but did not write direct, the Office allowed the Company to retain these lines of business on its certificate of authority.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	5,250,000

Total common capital stock
Par value per share

\$5,250,000
\$1.00

Control of the Company was maintained by its parent, MSA Group, which owned 100% of the stock issued by the Company, which in turn was 95.1% owned by Mutual Holdings, a Florida corporation.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2006	2005
Premiums Earned	326,054,992	311,709,741
Net Underwriting Gain/(Loss)	9,464,303	(9,043,677)
Net Income	34,662,402	7,372,981
Total Assets	1,008,556,621	801,908,541
Total Liabilities	448,246,610	423,926,275
Surplus As Regards Policyholders	560,310,011	377,982,266

Dividends to Stockholders

The Company declared and paid dividends to its stockholder in 2006 in the amount of \$1,761,507.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2006, were:

Directors

Name and Location	Principal Occupation
Philip D. Koerner Jacksonville, Florida	Insurance Executive
Terry L. Baxter Lyme, New Hampshire	Director, Folksamerica Corporation
Cotton M. Cleveland New London, New Hampshire	Senior Associate, Mather Associates
Albert H. Elfner, III Boston, Massachusetts	Director, Unital Corp./Emerson Ecologies
David Freeman Manchester, Connecticut	President & CEO, Lydall, Inc.
William D. Gunter, Jr. Tallahassee, Florida	Chairman & CEO, Rogers, Atkins, Gunter, Vaughn Insurance, Inc.
John A. Delaney Jacksonville, Florida	President, University of North Florida
James E. Morley, Jr. Annapolis, Maryland	President, National Association of College and University Business Officers
Barbara D. Stewart Atlanta, Georgia	President, Stewart Economics, Inc.
Thomas M. Van Berkel Jacksonville, Florida	Chairman, President and CEO NGM Insurance Company Main Street America Financial Corporation Main Street America Holdings, Inc. Main Street America Capital Corporation
Melvin L. Temares Coral Gables, Florida	VP & Chief Information Officer, University of Miami
Karl T. Kemp Hanover, New Hampshire	Retired Insurance Executive

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Thomas M. Van Berkel	Chairman, CEO & President
Susan E. Mack	Senior Vice President, General Counsel and Secretary
Edward J. Kuhl	Senior Vice President, CFO and Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

Executive Committee	Audit Committee	Finance Committee
Thomas M. Van Berkel ¹	James E. Morley, Jr. ¹	Albert H. Elfner, III ¹
William D. Gunter, Jr.	Terry L. Baxter	Philip D. Koerner
Barbara D. Stewart	Cotton M. Cleveland	Barbara D. Stewart
James E. Morley, Jr.	David Freeman	William D. Gunter, Jr.
	Melvin L. Temares	John A. Delaney

¹ Chairman

The Company maintained an audit committee, as required by Section 624.424(8), Florida Statutes.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in

accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had a total of \$30,000,000 in surplus notes. The first note issued on December 4, 2002 had a par value of \$15,000,000 with an interest rate of 9.37% and matures on December 4, 2032. The second note issued on May 15, 2003 had a par value of \$15,000,000 with an interest rate of 9.47% and matures on May 15, 2033. The Office must approve in advance the interest and principal payments on these surplus notes.

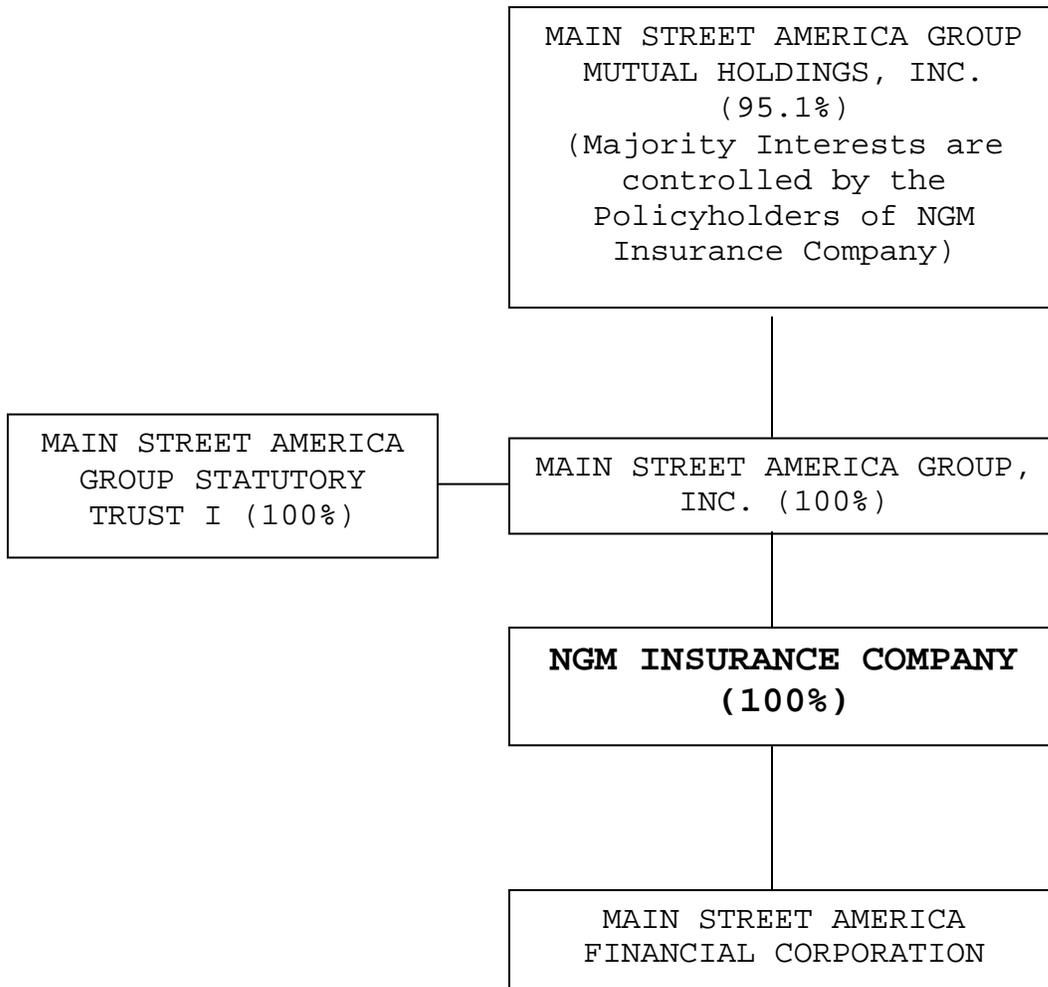
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on September 30, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**NGM INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company's federal income tax return was combined with MSAH, MSAAC, MSA Group and Main Street America Capital Corporation. The method of allocation between the companies was subject to a written agreement dated March 30, 1998 and was approved by the Board of Directors. Allocation was based upon separate return calculations with the current credit for net losses recoverable on a consolidated basis. The agreement was amended on October 27, 2005 to include Mutual Holdings and MSA Group as parties to the agreement.

Cost Sharing Agreement

Effective January 1, 1996, the Company entered into an intercompany expense allocation agreement with its subsidiaries to provide administrative and managerial services. Indirect costs were allocated based upon a uniform and reasonable basis for all affiliated companies. On a quarterly basis, the Company furnished all affiliated companies with an accounting of costs and expenses paid on behalf of each affiliate in the agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$39,000,000 with a deductible of \$25,000 per loss, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC Financial Condition Examiners Handbook. The Company had other property and liability insurance coverage necessary for the operation of the business.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company was a member of a group of companies which shared employees and underwriting results under a pooling agreement. The Company had a noncontributory defined benefit pension plan covering substantially all employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL	IL State Pension	4.950%	06/01/23	\$ 400,000	\$ 382,592
FL	Merril Lynch	6.875%	11/15/18	1,100,000	1,221,902
FL	US Treasury	7.500%	11/15/16	500,000	607,580
FL	US Treasury	5.500%	02/15/08	500,000	502,775
TOTAL FL DEPOSITS				\$ 2,500,000	\$ 2,714,849
DE	IL State Pension	4.950%	06/01/23	\$ 125,000	\$ 119,560
GA	IL State Pension	4.950%	06/01/23	85,000	81,301
MA	IL State Pension	4.950%	06/01/23	60,000	57,389
MA	MD St. Econ Dev	5.600%	12/01/24	600,000	602,442
NC	US Treasury	7.500%	11/15/16	300,000	364,548
NH	Merrill Lynch	6.875%	11/15/18	1,200,000	1,332,984
NH	US Treasury	5.500%	02/15/08	750,000	754,163
NM	IL State Pension	4.950%	06/01/23	225,000	215,208
NV	IL State Pension	4.950%	06/01/23	225,000	215,208
OK	IL State Pension	4.950%	06/01/23	325,000	310,856
OR	Surety	7.500%	11/15/16	225,000	273,411
VA	IL State Pension	4.950%	06/01/23	275,000	263,032
WY	IL State Pension	4.950%	06/01/23	175,000	167,384
TOTAL OTHER DEPOSITS				\$ 4,570,000	\$ 4,757,486
TOTAL SPECIAL DEPOSITS				\$ 7,070,000	\$ 7,472,335

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance business in 45 states, in accordance with Section 624.401(2), Florida Statutes.

Treatment of Policyholders

The Company maintained procedures and records for complaints received in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company adopted and implemented procedures for proper investigation of claims as required by Section 626.9541 (1) (i) 3a, Florida Statutes.

REINSURANCE

Effective January 1, 1996, the Company entered into a pooling agreement in which the Company was the lead company in an affiliated group of insurance companies. The agreement was amended on June 30, 1997. The Company had 40% of the pool, MSAAC had 55% and Old Dominion Insurance Company had 5%. All lines of business were subject to the pooling agreement. Cessions to non-affiliated reinsurers occurred prior to the pool. Schedule F provisions were not shared by pool members; however, write-offs of uncollectible reinsurance were shared in accordance with each company's pooling percentage. The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed 40% of the combined insurance business of the pool.

Ceded

The Company ceded 100% of its business to the pool.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida. This examination was conducted in Jacksonville, Florida and Keene, New Hampshire.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005 and 2006, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with State Street Bank and Trust Company effective November 1, 1989 that failed to comply with Rule 69O-143.042, (j), Florida Administrative Code which states that the custodian shall provide, upon written request from the Insurance Director or

from an appropriate officer of the insurance company, the appropriate affidavits, on Forms OIR-D0-341 (A), (B), or (C) or substantially similar forms with respect to custodied securities.

Subsequent Event

The Company provided an amended custodial agreement dated August 6, 2007, which complied with Rule 69O-043.142, (j), Florida Administrative Code.

Managing General Agent Agreement

The Company did not enter into any managing general agent agreements.

Independent Auditor Agreement

The Company had an agreement with Ernst & Young, LLP to perform an audit of its statutory financial statements for the years 2006 and 2005.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

NGM INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 363,441,142		\$ 363,441,142
Stocks:			
Preferred	5,981,794		5,981,794
Common	474,508,539		474,508,539
Mortgage loans on real estate			
First lien	1,770,738		1,770,738
Real Estate:			
Properties occupied by the Company	5,137,027		5,137,027
Cash and short-term investments	16,299,521		16,299,521
Other invested assets	7,491,063		7,491,063
Receivable for securities	1,817,833		1,817,833
Agents' Balances:			
Uncollected premium	21,474,227		21,474,227
Deferred premium	67,966,897		67,966,897
Reinsurance:			
Amount recoverable from reinsurers	6,772,073		6,772,073
Funds held by or deposited with reinsured companies	3,288,405		3,288,405
Other receivables under reinsurance contracts	1,775,895		1,775,895
Investment income due & accrued	3,208,549		3,208,549
Current federal & foreign income recoverable	7,444,897		7,444,897
Net deferred tax asset	8,487,953		8,487,953
Guaranty funds receivable or on deposit	405,438		405,438
Electronic data processing equipment & software	1,900,165		1,900,165
Aggregate write-ins for other invested assets	9,384,465		9,384,465
	<hr/>		<hr/>
Totals	\$ 1,008,556,621	\$ -	\$ 1,008,556,621
	<hr/> <hr/>		<hr/> <hr/>

NGM INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$194,199,973		\$194,199,973
Reinsurance payable on paid loss and loss adjustment expenses	1,526,636		1,526,636
Loss adjustment expenses	35,752,378		35,752,378
Commissions payable	8,985,536		8,985,536
Other expenses	5,760,407		5,760,407
Taxes, licenses and fees	5,071,198		5,071,198
Borrowed money	294,844		294,844
Unearned premium	164,181,585		164,181,585
Advance premium	1,843,593		1,843,593
Ceded reinsurance premiums payable	1,775,895		1,775,895
Funds held under reinsurance treaties	3,711,021		3,711,021
Provision for reinsurance	299,177		299,177
Drafts outstanding	9,822,172		9,822,172
Payable to parent, subsidiaries and affiliates	330,042		330,042
Payable for security	523,466		523,466
Aggregate write-ins for liabilities	14,168,687		14,168,687
Total Liabilities	\$448,246,610	\$0	\$448,246,610
Common capital stock	\$5,250,000		\$5,250,000
Surplus notes	30,000,000		30,000,000
Gross paid in and contributed surplus	35,000,000		35,000,000
Unassigned funds (surplus)	490,060,011		490,060,011
Surplus as regards policyholders	\$560,310,011	\$0	\$560,310,011
Total liabilities, surplus and other funds	\$1,008,556,621	\$0	\$1,008,556,621

NGM INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2006

<u>Underwriting Income</u>		
Premiums earned		\$326,054,992
<u>Deductions</u>		
Losses incurred		176,153,790
Loss expenses incurred		36,165,202
Other underwriting expenses incurred		104,271,697
Total underwriting deductions		<u>\$316,590,689</u>
Net underwriting gain or (loss)		\$9,464,303
<u>Investment Income</u>		
Net investment income earned		\$17,486,157
Net realized capital gains or (losses)		7,438,045
Net investment gain or (loss)		<u>\$24,924,202</u>
<u>Other Income</u>		
Net gain or (loss) from agents' or premium balances charged off		(\$1,012,868)
Finance and service charges not included in premiums		2,836,270
Aggregate write-ins for miscellaneous income		692,671
Total other income		<u>\$2,516,073</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$36,903,578
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$36,903,578
Federal & foreign income taxes		<u>2,241,176</u>
Net Income		\$34,662,402
<u>Capital and Surplus Account</u>		
Surplus as regards policyholders, December 31 prior year		\$377,982,266
Net Income		\$34,662,402
Change in net unrealized capital gains or losses		123,565,871
Change in net deferred income tax		(7,914,695)
Change in non-admitted assets		(1,192,086)
Change in provision for reinsurance		(32,240)
Changes in capital: Transferred from surplus		5,000,000
Surplus adjustments: Paid in		35,000,000
Surplus adjustments: transferred to capital (Stock Dividend)		(5,000,000)
Dividends to stockholders		(1,761,507)
Change in surplus as regards policyholders for the year		\$182,327,745
Examination Adjustment		0
Surplus as regards policyholders, December 31 current year		<u>\$560,310,011</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$229,952,609

Mr. Edward P. Lotkowski, FCAS, Vice President and Chief Actuary of the Company, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Actuarial Review

The Office contracted with an independent actuary, Pinnacle Actuarial Resources, Inc., to perform an actuarial review. The independent actuary reported that Net Loss and Loss Reserves as of December 31, 2006 were materially consistent with those of the Company actuary.

Capital and Surplus

The amount reported by the Company of \$560,310,011 exceeds the minimum required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**NGM INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2006, per Annual Statement	\$560,310,011
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			0
LIABILITIES:			
No adjustment			0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$560,310,011

SUMMARY OF FINDINGS

Current examination comments and corrective action

There was no item of interest and corrective action to be taken by the Company with regards to this examination.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **NGM Insurance Company** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$560,310,011, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned John C. Berry, Financial Examiner/Analyst Supervisor, Roger Kelley, Financial Examiner/Analyst II, and Jay Ambler, Financial Examiner/Analyst II, participated in the examination.

Also, contributing to this examination for the actuarial review was Charles C. Emma, FCAS, MAAA, and Deborah W. Price, FCAS, MAAA of Pinnacle Actuarial Resources, Inc.

Respectfully submitted,

Joel V. Bengo
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

Respectfully submitted,

Mary James, CFE, CPM
Financial Administrator
Florida Office of Insurance Regulation