

REPORT ON TARGET EXAMINATION
OF
NGM INSURANCE COMPANY
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 30, 2009

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

Honorable Scott Richardson
Secretary, Southeastern Zone, NAIC
Director of Insurance
South Carolina Department of Insurance
1201 Main Street, Suite 1000
Columbia, South Carolina 29201

Honorable Alfred W. Gross
Chairman, NAIC Financial Condition (E) Committee
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
PO Box 1157
Richmond, Virginia 23218

Dear Sirs:

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, 2007, of the financial condition and corporate affairs of:

**NGM INSURANCE COMPANY
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, 2007 through December 31, 2007. This was the second 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 July 7, 2008. The fieldwork commenced on September 15, 2008, and was concluded as of January 30, 2009.

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.

This is a Limited Scope Financial Examination as defined in Section 624.316, Florida Statutes, to the extent directed by the Florida Office as set forth in the Scope of Services Addendum Regarding the Financial Examination of NGM Insurance Company. The examination emphasis was directed to the following areas:

Actuarial

Information Technology

Reinsurance – Transfer of Risk

Investments – Confirmation of Invested Assets

Florida Specific Compliance Testing

Verification of Prior Examination Report and Management Letter Findings

Testing of the Company's Compliance with the Provisions of the Initial Licensing Application

The examination included a review of the corporate records and other selected records deemed pertinent to the Limited Scope of the Examination. In addition, 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 were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

There were no items of interest or corrective action to be taken by the Company with regards to the previous examination.

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 liabilities of a former companion carrier, National Grange Fire Insurance Company (formed in 1935), were 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 with the application for the issuance of a Certificate of Authority. The Company was in compliance with all issued Consent Orders.

The Company writes 28 lines of business in 45 states. The Company only wrote a minor amount of Federal Flood, Workers' Compensation, Fidelity and Surety insurance in Florida, in 2007.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

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 had not written insurance coverage in the previous three 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 these lines of business from the pool, but did not write direct business, the Office allowed the Company to retain these lines of business in its certificate of authority.

On September 14, 2007, Article II, Sections I and II of the bylaws were amended by action of the Board of Directors. On December 7, 2007, Article II, Section II of the bylaws was amended by action of the Board of Directors. The shareholders approved the actions of the Board of Directors at the Annual Meeting on March 14, 2008. The amended bylaws were filed with the OIR and properly disclosed in the General Interrogatories of the annual statement.

Capital Stock

As of December 31, 2007, 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	\$5,250,000
Par value per share	\$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 operations, as reported in the filed annual statements.

	2007	2006
Premiums Earned	832,367,578	326,054,992
Net Underwriting Gain/(Loss)	31,718,076	9,464,303
Net Income	165,615,457	34,662,402
Total Assets	1,817,113,917	1,008,556,621
Total Liabilities	1,197,546,102	448,246,610
Surplus As Regards Policyholders	619,567,815	560,310,011

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2007 in the amount of \$12,465,074.

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, 2007, were:

Directors

Name and Location

Terry Lawrence Baxter
Lyme, NH

Cotton Mather Cleveland
New London, NH

Principal Occupation

Director, Folksamerica Corporation

President, Mather Associates

John Adrian Delaney Neptune Beach, FL	President, University of North Florida
Albert Henry Elfner, III Boston, MA	Retired
David Freeman Canton, CT	President, Lydall Corporation
William Dawson Gunter, Jr. Tallahassee, FL	CEO, Rogers, Gunter, Vaughn Insurance Co.
Karl Thomas Kemp Hanover, NH	Retired
Philip Donald Koerner Tipp City, OH	Insurance Executive
James Everitt Morley, Jr. Annapolis, MD	President, National Association for College and University Business Officers
Barbara Dunbar Stewart Atlanta, GA	President, Stewart Economics, Inc.
Melvin Lewis Temares Miami, FL	Vice President, University of Miami
Thomas Mark Van Berkel Ponte Vedra Beach, FL	President, Main Street America Assurance Company

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

Senior Officers

Name	Title
Thomas Van Berkel	CEO
Susan Mack	Secretary
Edward Kuhl	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, 2007:

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 (NMN) 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. Except as noted below, the recorded minutes of the Board of Directors 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.

The Board of Directors minutes did not reflect a review of the December 31, 2006 exam report as specified in the NAIC Financial Examiners Handbook, Part 1, Section V, Part C, Section 3d,

and as adopted by Section 624.316(1)(c), Florida Statutes and Rule 69O.138.001, Florida Administrative Code.

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 has 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 has 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.

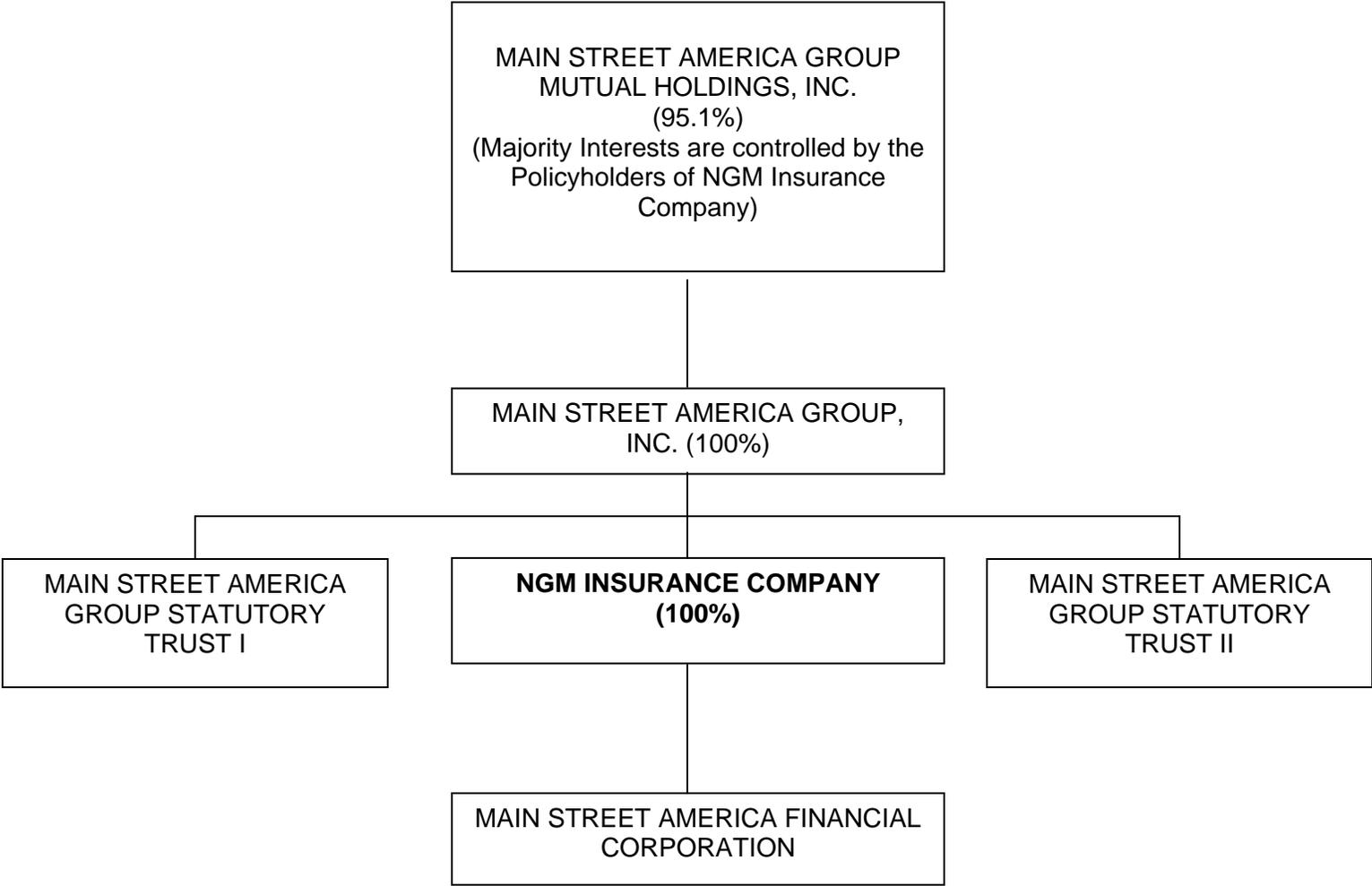
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The holding company registration statement for the period covered by this examination was filed with the State of Florida February 15, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

**NGM INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



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 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 \$5,000,000 with a deductible of \$150,000 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 share employees and underwriting results under a pooling agreement. The Company has 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	\$ 388,872
FL	Merril Lynch	6.875%	11/15/18	1,100,000	1,126,576
FL	US Treasury	7.500%	11/15/16	1,000,000	1,255,230
FL	US Treasury	5.500%	02/15/08	500,000	501,290
TOTAL FL DEPOSITS				\$ 3,000,000	\$ 3,271,968
DE	IL State Pension	4.950%	06/01/23	\$ 125,000	\$ 121,523
GA	IL State Pension	4.950%	06/01/23	85,000	82,635
MA	IL State Pension	4.950%	06/01/23	60,000	58,331
MA	MD St. Econ Dev	5.600%	12/01/24	600,000	606,834
NC	US Treasury	7.500%	11/15/16	300,000	376,569
NH	Merrill Lynch	6.875%	11/15/18	1,200,000	1,228,992
NH	US Treasury	5.500%	02/15/08	750,000	941,423
NM	IL State Pension	4.950%	06/01/23	225,000	218,741
NV	IL State Pension	4.950%	06/01/23	225,000	218,741
OK	IL State Pension	4.950%	06/01/23	325,000	315,959
OR	Surety	7.500%	11/15/16	225,000	282,427
VA	IL State Pension	4.950%	06/01/23	275,000	267,350
WY	IL State Pension	4.950%	06/01/23	175,000	170,132
TOTAL OTHER DEPOSITS				\$ 4,570,000	\$ 4,889,657
TOTAL SPECIAL DEPOSITS				\$ 7,570,000	\$ 8,161,625

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance business in following 44 states and the District of Columbia:

Alabama	New Hampshire
Arizona	New Jersey
Arkansas	New Mexico
Colorado	New York
Connecticut	North Carolina
Delaware	North Dakota
District of Columbia	Ohio
Florida	Oklahoma
Georgia	Oregon
Idaho	Pennsylvania
Illinois	Rhode Island
Indiana	South Carolina
Iowa	South Dakota
Kansas	Tennessee
Kentucky	Texas
Maine	Utah
Maryland	Vermont
Massachusetts	Virginia
Michigan	Washington
Missouri	West Virginia
Montana	Wisconsin
Nebraska	Wyoming
Nevada	

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

On January 1, 2007 the reinsurance pooling agreement between NGM and its subsidiaries was changed to an intercompany quota share reinsurance agreement. Under the terms of this agreement there is a pooling of all companies direct and assumed business which is 100% assumed by NGM and no amount ceded back to the other insurers.

Assumed

The Company assumed 100% of the combined insurance business of the pool.

Ceded

The Company did not cede any of the business back 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 2007 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 December 31, 2006 examination noted that the Company had a custodial agreement with State Street Bank and Trust Company effective November 1, 1989 that failed to comply with Rule

690-143.042,(2)(i), Florida Administrative Code which states that the custodian shall provide, upon written request from the Office or from an appropriate officer of the insurance company, the appropriate affidavits, on Forms ORI-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 690-143.042,(2)(i), Florida Administrative Code.

Managing General Agent Agreement

The Company did not enter into any Managing General Agent Agreement.

Independent Auditor Agreement

The Company had an agreement with Ernst & Young, LLP to perform an audit of its statutory financial statements for the years 2007 and 2006.

Information Technology Report

An IT review was performed by INS Services, Inc., during this examination.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, 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
Assets

DECEMBER 31, 2007

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$ 966,032,471		\$ 966,032,471
Stocks:			
Preferred	14,859,429		14,859,429
Common	468,292,511		468,292,511
Mortgage Loans on Real Estate			
First lien	1,694,330		1,694,330
Real Estate:			
Properties occupied by the Company	5,425,033		5,425,033
Cash and short-term Investments	34,675,897		34,675,897
Other invested assets	7,027,362		7,027,362
Receivable for securities	906,340		906,340
Investment income due and accrued	9,134,099		9,134,099
Agents' Balances:			
Uncollected premium	64,441,987		64,441,987
Deferred premium	171,795,637		171,795,637
Reinsurance:			
Amount recoverable from reinsurers	4,117,690		4,117,690
Funds held by or deposited with reinsured companies	10,815,997		10,815,997
Other receivables under reinsurance contracts	1,411,129		1,411,129
Net deferred tax asset	40,066,035		40,066,035
Guaranty funds receivable or on deposit	911,910		911,910
EDP equipment and software	2,234,544		2,234,544
Aggregate write-ins for other invested assets	13,271,516		13,271,516
	<hr/>		
Totals	\$ 1,817,113,917	\$ -	\$ 1,817,113,917
	<hr/>		

NGM INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Losses	\$534,743,165		\$534,743,165
Reinsurance payable on paid losses and LAE	1,271,257		1,271,257
Loss adjustment expenses	99,572,720		99,572,720
Commissions payable	22,209,549		22,209,549
Other expenses	19,899,166		19,899,166
Taxes, licenses and fees	13,611,173		13,611,173
Current federal and foreign income taxes	20,452,897		20,452,897
Borrowed money	282,169		282,169
Unearned premiums	417,283,967		417,283,967
Advance premiums	3,664,250		3,664,250
Ceded reinsurance premiums payable	1,411,129		1,411,129
Funds held under reinsurance treaties	373,172		373,172
Provision for reinsurance	920,754		920,754
Drafts outstanding	17,190,714		17,190,714
Payable to parent, subsidiaries and affiliates	25,076,982		25,076,982
Payable for securities	1,429,991		1,429,991
Aggregate write-ins for liabilities	18,153,047		18,153,047
Total Liabilities	\$1,197,546,102	\$0	\$1,197,546,102
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)	549,317,815		549,317,815
Surplus as regards policyholders	\$619,567,815	\$0	\$619,567,815
Total liabilities, surplus and other funds	\$1,817,113,917	\$0	\$1,817,113,917

NGM INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

<u>Underwriting Income</u>		
Premiums earned		\$832,367,578
	<u>Deductions</u>	
Losses incurred		439,795,939
Loss expenses incurred		86,046,740
Other underwriting expenses incurred		274,806,823
Total underwriting deductions		<u>\$800,649,502</u>
Net underwriting gain or (loss)		\$31,718,076
<u>Investment Income</u>		
Net investment income earned		\$179,268,599
Net realized capital gains or (losses)		3,201,674
Net investment gain or (loss)		<u>\$182,470,273</u>
<u>Other Income</u>		
Net gain or (loss) from agents' or premium balances charged off		(\$2,775,894)
Finance and service charges not included in premiums		7,605,654
Aggregate write-ins for miscellaneous income		(1,187,261)
Total other income		<u>\$3,642,499</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$217,830,848
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal and foreign income taxes		\$217,830,848
Federal and foreign income taxes		<u>52,215,391</u>
Net Income		\$165,615,457
<u>Capital and Surplus Account</u>		
Surplus as regards policyholders, December 31 prior year		\$560,310,011
Net Income		\$165,615,457
Change in net unrealized capital gains or losses		(100,831,259)
Change in net unrealized foreign exchange capital gain (loss)		269,807
Change in net deferred income tax		32,778,723
Change in non-admitted assets		(25,488,273)
Change in provision for reinsurance		(621,577)
Dividends to stockholders		(12,465,074)
Change in surplus as regards policyholders for the year		\$59,257,804
Surplus as regards policyholders, December 31 current year		<u><u>\$619,567,815</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$634,315,885

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, 2007, made 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, Mr. James R. Neidermyer, FCAS, MAAA, INS Consultants, Inc., to perform an actuarial review. The independent actuary reported that Net Loss and Loss Reserves as of December 31, 2007 were redundant.

Capital and Surplus

The amount reported by the Company of \$619,567,815 exceeded 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, 2007

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, 2007, per Annual Statement	\$619,567,815
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2007, Per Examination			\$619,567,815

SUMMARY OF FINDINGS

Current examination comments and corrective action

Corporate Records

The Board of Directors minutes did not reflect a review of the December 31, 2006 exam report as specified in the NAIC Financial Examiners Handbook, Part 1, Section V, Part C, Section 3d, and as adopted by Section 624.316(1)(c), Florida Statutes and Rule 69O.138.001, FAC.

We recommend that the Board of Directors take the necessary steps to comply with Section 624.316(1)(c), Florida Statutes, Rule 69O.138.001, Florida Administrative Code, NAIC Examiners Handbook, Part 1, Section V., to review the December 31, 2006 examination report and future reports. Such review should be included in the minutes of the Board of Directors.

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, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as Regards Policyholders was \$619,567,815, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned Barry Armstrong, CPA, CFE, Supervising Examiner; INS Regulatory Insurance Services, INC., Patricia Casey Davis, CPA, CFE, Supervising Examiner, INS Regulatory Insurance Services, INC. and Robert C. Murphy, CFE, CIE, FLMI, Examiner, INS Regulatory Insurance Services, Inc. participated in the examination.

Also, contributing to this examination for the actuarial review was James R. Neidermyer, FCAS, MAAA, of INS Consultants, Inc.; and INS Services, Inc., which conducted the IT Review of the examination.

Respectfully submitted,

Mary M. James CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation