EXAMINATION REPORT

OF

NGM INSURANCE COMPANY

Jacksonville, Florida
as of
December 31, 2015

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

October 18, 2016

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, 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, 2015, of the financial condition and corporate affairs of

NGM Insurance Company
4601 Touchton Road East, 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, 2011, through December 31, 2015. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2009, through December 31, 2010. This examination commenced with planning at the Office on April 26, 2016, to April 28, 2016. The fieldwork commenced on May 9, 2016, and concluded as of October 18, 2016.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles (SSAP).

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of material adverse findings, significant noncompliance findings or material changes in the financial statements.

Statement of Actuarial Opinion Requirements

Our review indicated that the Company's appointed actuary did not opine on the insurers "gross reserves" in the Company's Statement of Actuarial Opinion. The Statement of Actuarial Opinion was not completed in accordance with the NAIC Property and Casualty Annual Statement Instructions as the Statement of Actuarial Opinion must address the adequacy of direct and assumed, as well as net loss and loss adjustment expense reserves as contained in Schedule P of the annual statement.

Custodian Termination Notice

The Company utilized State Street Bank as its custodian during the period under examination. Effective January 16, 2014, the custody agreement between State Street Bank and the Company was terminated. The custodian did not provide written notification to the Office regarding the termination of the custodial agreement between the Company and State Street Bank as required by Rule 69O-143.042(2)(o), Florida Administrative Code.

Special Consent Investment Limitation

The Company was not in compliance with the special consent investment limitation during the examination period. The Company exceeded the allowable investment threshold for Schedule BA assets by $4,262,501 in violation of Section 625.331(1)(b), Florida Statutes as of December 31, 2014.

Letter of Credit

As of December 31, 2015, the Company reported the following letter of credit with Endurance Specialty Insurance, LTD. Upon review of the letters of credit, the following provisions were not included as required by Rule 69O-144.005(6), Florida Administrative Code:

- The heading of the letter of credit may include a boxed section containing the name of the applicant and other appropriate notations to provide a reference for the letter of credit.
- The boxed section shall be clearly marked to indicate that such information is for internal identification purposes only.
- The "evergreen clause" shall provide for a period of no less than sixty (60) days' notice prior to expiration date or nonrenewal.
- The letter of credit shall be subject to and governed by the laws of the State of Florida.

Reinsurance Broker Services Agreement

Based on the review of the reinsurance broker services agreement between BMS Intermediaries, Inc. and the Company, the examiner noted that the agreement does not contain the required statutory provisions set forth in Section 626.7492(4), Florida Statutes.

Reporting of Balances and Disclosures from Intercompany Pooling Transactions

The Company is not reporting and disclosing outstanding balances as result of the intercompany pooling transactions in accordance with SSAP No. 63.

Intercompany Transactions

The Company and Main Street America Financial Corporation, a non-insurance subsidiary of the Company, executed several non-insurance transactions whereby the Company financed cash for Main Street America Financial Corporation. The transactions were not covered by a formal written agreement as required by SSAP No. 25.

Prior Examination Findings

There were no adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2010.

COMPANY 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. Effective June 6, 2005, National Grange Mutual Insurance Company re-domesticated to the State of Florida. Subsequently, in August of 2005, under the Plan of Reorganization approved by the Office, National Grange Mutual Insurance Company was converted to a stock insurance company and renamed NGM Insurance Company.

The Company was authorized to transact insurance in Florida on May 26, 2005, and is currently authorized for the following coverage(s) as of December 31, 2015.

Fire	Multi-Peril Crop
Farmowners Multi-Peril	Homeowners Multi-Peril
Commercial Multi-Peril	Ocean Marine
Inland Marine	Workers' Compensation
Other Liability	Private Passenger Auto Liability
Commercial Automobile Liability	Private Passenger Auto Physical Damage
Commercial Auto Physical Damage	Fidelity
Surety	Glass
Burglary and Theft	Boiler and Machinery
Mobile Home Multi-Peril	Mobile Home Physical Damage
Allied Lines	

Dividends

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder(s) in 2015; 2014; 2013; 2012; and 2011 in the amounts of $8,515,234; $8,476,409; $9,203,518; $10,960,549; and $45,589,266, respectively.

Capital Stock and Capital Contributions

As of December 31, 2015, 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, Main Street America Group, Inc., which owned one hundred percent (100%) of the stock issued by the Company, which in turn was one hundred percent (100%) owned by Main Street America Group Mutual Holdings, Inc., a Florida mutual insurance holding company.

Surplus Notes

The Company had a total of $30,000,000 in surplus notes as of December 31, 2010. The first note, issued on December 4, 2002, has a par value of $15,000,000 with an interest rate equal to 3 month LIBOR plus four percent (4%), maturing on December 4, 2032. The second note, issued on May 15, 2003, has a par value of $15,000,000 with an interest rate equal to 3 month LIBOR plus four and one tenth percent (4.1%), maturing on May 15, 2033. The Office must approve, in advance, the interest and principal payments on the surplus notes.

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

Effective September 15, 2011, the Company entered into a Master Affiliation Agreement and a Management and Services Agreement with Spring Valley Mutual Insurance Company. Under these agreements, the Company provides Spring Valley Mutual Insurance Company with executive management and oversight of Spring Valley Mutual Insurance Company's business operations. Effective, January 1, 2012, the Company and Spring Valley Mutual Insurance Company entered into a one hundred percent (100%) quota share reinsurance agreement.

Effective April 3, 2012, the Company entered into a Master Affiliation Agreement and a Management and Services Agreement with Austin Mutual Insurance Company. Under these agreements the Company provides Austin Mutual Insurance Company with executive management and oversight of Austin Mutual Insurance Company's business operations. Effective January 1, 2013, the Company and Austin Mutual Insurance Company entered into a one hundred percent (100%) quota share reinsurance agreement.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) 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 compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2015, are shown below.

Directors

Name	**City, State**	**Principal Occupation**
Terry Lawrence Baxter	Lyme, New Hampshire	Retired Insurance Executive
Cotton Mather Cleveland	New London, New Hampshire	Senior Associate/Management Consulting, Mather Associates
John Adrian Delaney	Neptune Beach, Florida	University President, University of North Florida
Robert Chris Doerr	Jacksonville, Florida	Retired Insurance Executive
Albert Henry Elfner III	Boston, Massachusetts	Retired Investment Management
Eric Shawn Elliott[1]	West Chester, Pennsylvania	Retired Insurance Executive
David Freeman	Canton, Connecticut	Retired Executive
William Dawson Gunter, Jr.	Tallahassee, Florida	Insurance Agency Executive and Consultant
Idalene Fay Kesner	Bloomington, Indiana	Dean and Professor of Strategic Management, Indiana University
James Everitt Morley, Jr.	Annapolis, Maryland	Retired Executive
Thomas Mark Van Berkel	Ponte Vedra Beach, Florida	Chairman, President and Chief Executive Officer, Main Street America Group

[1] Eric S. Elliott resigned effective August 22, 2016.

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	City, State	Title
Thomas Mark Van Berkel	Ponte Vedra Beach, Florida	President and Chief Executive Officer
Edward John Kuhl	St. Augustine, Florida	Treasurer and Chief Financial Officer
Bruce Robert Fox	Orange Park, Florida	Secretary and General Counsel

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2015:

Executive Committee

Name	City, State	Title
Thomas Mark Van Berkel[1]	Ponte Vedra Beach, Florida	President and Chief Executive Officer
John Adrian Delaney	Neptune Beach, Florida	University President, University of North Florida
Robert Chris Doerr	Jacksonville, Florida	Retired Insurance Executive
Albert Henry Elfner III	Boston, Massachusetts	Retired Investment Management
David Freeman	Canton, Connecticut	Retired Executive
Idalene Fay Kesner	Bloomington, Indiana	Dean and Professor of Strategic Management

[1] Chairperson

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

Audit Committee

Name	City, State	Title
Albert Henry Elfner III[1]	Boston, Massachusetts	Retired Investment Management
Terry Lawrence Baxter	Lyme, New Hampshire	Retired Insurance Executive
Cotton Mather Cleveland	New London, New Hampshire	Senior Associate/Management Consulting, Mather Associates
Idalene Fay Kesner	Bloomington, Indiana	Dean and Professor of Strategic Management, Indiana University
James Everitt Morley, Jr.	Annapolis, Maryland	Retired Executive

[1] Chairperson

Finance Committee

Name	City, State	Title
Robert Chris Doerr[1]	Jacksonville, Florida	Retired Insurance Executive
John Adrian Delaney	Neptune Beach, Florida	University President, University of North Florida
Eric Shawn Elliott	West Chester, Pennsylvania	Retired Insurance Executive
David Freeman	Canton, Connecticut	Retired Executive
William Dawson Gunter, Jr.	Tallahassee, Florida	Insurance Agency Executive and Consultant

[1] Chairperson

Corporate Governance Committee

Name	City, State	Title
Idalene Fay Kesner[1]	Bloomington, Indiana	Dean and Professor of Strategic Management, Indiana University
Terry Lawrence Baxter	Lyme, New Hampshire	Retired Investment Management
Albert Henry Elfner III	Boston, Massachusetts	Retired Investment Management
Eric Shawn Elliott	West Chester, Pennsylvania	Retired Insurance Executive
William Dawson Gunter, Jr.	Tallahassee, Florida	Insurance Agency Executive and Consultant

[1] Chairperson

Compensation Committee

Name	City, State	Title
John Adrian Delaney[1]	Neptune Beach, Florida	University President, University of North Florida
Cotton Mather Cleveland	New London, New Hampshire	Senior Associate/Management Consulting, Mather Associates
Robert Chris Doerr	Jacksonville, Florida	Retired Insurance Executive
David Freeman	Canton, Connecticut	Retired Executive
James Everitt Morley, Jr.	Annapolis, Maryland	Retired Executive

[1] Chairperson

Affiliated Companies

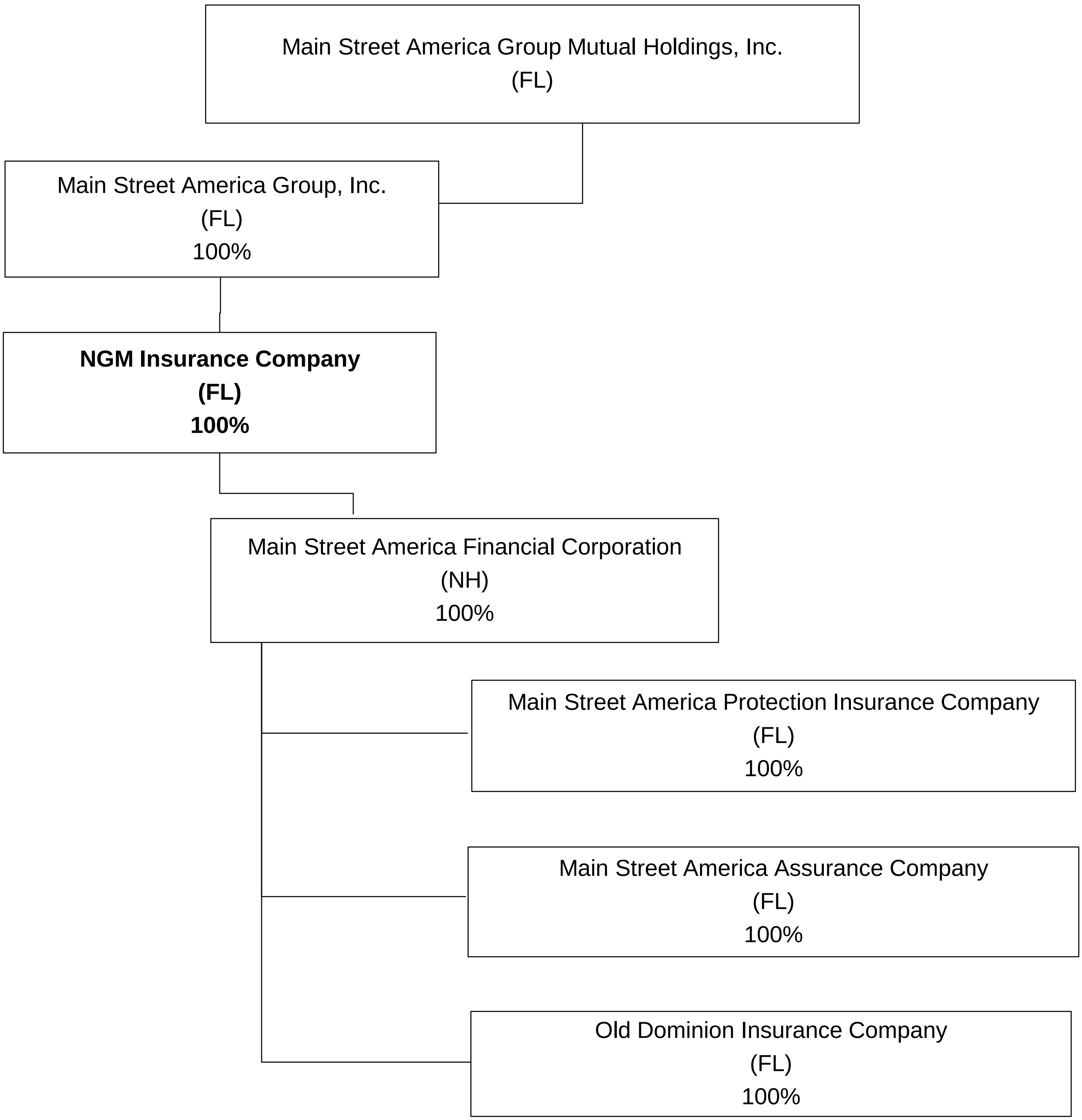
The most recent holding company registration statement was filed with the Office on March 30, 2016, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2015, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2015 annual statement provided a list of all related companies of the holding company group.

NGM Insurance Company

Organizational Chart

December 31, 2015



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

Intercompany Quota Share Reinsurance Agreements

Effective January 1, 2007, the Company was the lead company in the Intercompany Pooling Arrangement (the "Pool") with the Main Street America Group of insurers. Pursuant to the agreement, the Company assumed one hundred percent (100%) of the net underwriting results of the Pool and the Company's subsidiaries, Old Dominion Insurance Company, Main Street America Protection Insurance Company, Main Street America Assurance Company, MSA Insurance Company, and Great Lakes Casualty Insurance Company, ceded one hundred percent (100%) of their net underwriting results to the Pool. The Company's subsidiaries received no ceding commission or retrocession from the Company. Facultative reinsurance cessions to non-affiliated reinsurers occurred prior to cessions to the Pool. The agreement was amended on September 6, 2007, to include Main Street America Protection Insurance Company. The agreement was amended on October 1, 2008, to include Great Lakes Casualty Insurance Company. The agreement was amended on October 15, 2008, to include reinsurer's coverage for run-off liabilities. The agreement was amended again on August 2, 2010, to provide that all intercompany balances resulting from intercompany pooling transactions made pursuant to this agreement are due and payable within ninety (90) days of the end of each month.

The Company assumed one hundred percent (100%) of the net underwriting results of the Pool and the Company's affiliates, Grain Dealers Mutual Insurance Company, Spring Valley Mutual Insurance Company and Austin Mutual Insurance Company, ceded one hundred percent (100%) of their net underwriting results to the Pool through a separate intercompany quota share reinsurance agreement. The separate intercompany quota share reinsurance agreement provided that Grain Dealers Mutual Insurance Company, Spring Valley Mutual Insurance Company and Austin Mutual Insurance Company receive a ceding commission equal to five percent (5%) of the net premium ceded to the Pool. Facultative reinsurance cessions to non-affiliated reinsurers occurred prior to cessions to the Pool. The amended and restated agreement went into effect January 1, 2015.

Intercompany Tax Allocation Agreement

Effective June 30, 2007, the Company, along with its ultimate parent, Main Street America Group Mutual Holdings, Inc., and its insurance subsidiaries, entered into an Intercompany Tax Allocation Agreement. The agreement provides for a tax sharing arrangement that allocates the consolidated tax provision among the companies that are party to the agreement. The method of allocation among the companies is subject to the tax sharing arrangement, which is approved by the Board of Directors. Allocations are based upon separate tax return calculations with tax benefits recognized for net losses recoverable on a consolidated basis. The agreement was amended on October 1, 2008, to include Great Lakes Casualty Insurance Company.

Intercompany Expense Allocation Agreement

Effective June 30, 2007, the Company, along with its ultimate parent, Main Street America Group Mutual Holdings, Inc., and its insurance subsidiaries, entered into an Intercompany Expense Allocation Agreement. The agreement provides that the Company will provide a number of administrative and managerial services. The agreement also provides for the allocation of and payment of the expense obligations of all parties to the agreement. Pursuant to the terms of the agreement, indirect costs were allocated based upon a uniform and reasonable basis for all companies that are party to the agreement. The Company will furnish statements with accounting of costs and expenses paid on behalf of each affiliate party to the agreement. The agreement was amended on October 1, 2008, to add Great Lakes Casualty Insurance Company to the existing agreement. The agreement was amended again on August 2, 2010, to provide that all intercompany balances resulting from cost allocations made pursuant to this agreement are due and payable within ninety (90) days of the end of each month. The Company reported and collected fees under this agreement for 2015; 2014; 2013; 2012; and 2011 that totaled $16,875; $106,182; $27,400; $24,800; and $27,700, respectively.

TERRITORY AND PLAN OF OPERATIONS

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

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

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(i) 3a, Florida Statutes.

REINSURANCE

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

As previously mentioned, the Company was the lead company in an intercompany pooling arrangement with its insurance subsidiaries and affiliates. Pursuant to the terms of the intercompany quota share reinsurance agreements, the Company assumed one hundred percent (100%) of the net underwriting results from its insurance subsidiaries and affiliates.

The Company also assumed certain risks through a voluntary reinsurance program and involuntary reinsurance pools and programs. The voluntary assumed reinsurance risks were primarily written through brokers on various accounts. The assumed business primarily consisted of non-standard auto and the contracts were quota share reinsurance agreements.

Ceded

The Company maintained a property and casualty excess of loss and catastrophe reinsurance coverage with non-affiliated reinsurers on behalf of its insurance subsidiaries and affiliates that participated in the intercompany pooling arrangement. The 2015 treaty reinsurance program included two catastrophe programs; a catastrophe per occurrence program and a catastrophe aggregate program, both of which are intended to address financial risks to the Company created by major events, primarily weather related and which affect multiple properties insured by the Company and its subsidiaries and affiliates.

The catastrophe per occurrence program was designed to provide the Company protection up to the Company's estimated "probable maximum loss". Based on modeling, the Company's reinsurance program was intended to address a 1-in-250year event with coverage up to $430,000,000 before the program was exhausted. Under the catastrophe per occurrence program, the Company retained the first $25,000,000 of exposure with additional layers of retention above the initial $25,000,000 retention. The catastrophe aggregate program was intended to address the risk of frequency of events, which may occur below the $25,000,000 retention of the per occurrence program.

The Company also maintained a per risk program, intended to protect against large single losses, such as major fires, multiple injury auto accidents, serious worker injuries and other casualty losses. The per risk programs were: a property per risk, casualty per occurrence, and workers' compensation per person. Property per risk was designed to provide coverage up to $10,000,000. Casualty per occurrence was designed to provide coverage up to $40,000,000. Workers' compensation per person was designed to provide coverage up to $25,000,000.

ACCOUNTS AND RECORDS

The Company maintained its principal administrative office in Jacksonville, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with U.S. Bank National Association, executed on November 24, 2014. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

The Company utilized State Street Bank as its custodian during the period under examination. Effective January 16, 2014, the custody agreement between State Street Bank and the Company was terminated. The custodian did not provide written notification to the Office regarding the termination of the custodial agreement between the Company and State Street Bank as required by Rule 69O-143.042(2)(o), Florida Administrative Code.

Investment Management Agreements

The Company was a party to various investment advisory agreements during the period of review. The investment advisors had authority and responsibility to select appropriate investments in the specific asset classes mandated by the Company's investment policy statement in accordance and subject to the terms of the investment management agreement between the Company and investment advisor. The Company's Chief Investment Officer was primarily responsible for managing and providing oversight of the external asset managers and all investment transactions were subject to approval by the Finance Committee of the Company's Board of Directors.

The Company's primary investment managers included Asset Allocation and Management Company, LLC and Municrest Investment Management Company.

BMS Service Bank Brokerage Agreement

Effective January 1, 2012, the Company and its insurance subsidiaries and affiliates were party to a Service Bank Brokerage Agreement with BMS Intermediaries, Inc. The agreement did not contain the required statutory provisions set forth in Section 626.7492(4), Florida Statutes.

Guy Carpenter Reinsurance Intermediary Authorization Agreement

Effective January 1, 2007, the Company and its insurance subsidiaries and affiliates were party to a Reinsurance Intermediary Authorization Agreement with Guy Carpenter & Company, LLC (Guy Carpenter). The agreement provides that Guy Carpenter will provide reinsurance brokering services to the Company and its affiliates in accordance with applicable laws and regulations. Guy Carpenter is to provide accounts to the Company on at least a quarterly basis accurately detailing all material transactions, including information necessary to support all commissions, charges, and other fees received by or owing to Guy Carpenter. Reinsurance brokerage shall be earned upon the earlier of the placement of the reinsurance contract(s) or inception date of reinsurance contracts.

Aon Broker Authorization Agreement

Effective August 30, 2010, the Company and its insurance subsidiaries and affiliates were party to a Broker Authorization Agreement with Aon Benfield (Aon). The agreement provides that Aon is designated as its reinsurance broker for the purpose of procuring and servicing reinsurance in the kinds and amounts outlined in each reinsurance confirmation or reinsurance contract issued by Aon and accepted by the Company. Aon is compensated by the reinsurers for placements made by Aon on behalf of the Company and its affiliates. Aon is to provide quarterly statements accurately detailing all material transactions, including information necessary to support all commissions, charges and other fees.

Holborn Broker Authorization Contract

Effective January 1, 2014, the Company and its insurance subsidiaries and affiliates were party to a Broker Authorization Agreement with Holborn Corporation (Holborn). The agreement provides that Holborn is designated as its reinsurance broker for the purpose of procuring and servicing reinsurance in the kinds and amounts outlined in each reinsurance confirmation or reinsurance contract issued by Holborn and accepted by the Company. Holborn is compensated by the brokerage revenue owed to the intermediary by the reinsurers. Holborn is to provide quarterly statements accurately detailing all material transactions, including information necessary to support all commissions, charges and other fees.

Managing General Agent Agreements

The Company utilized two (2) non-affiliated managing general agents (MGAs) to produce insurance business during the examination period. The agreements pertained to business written in Illinois and Texas only. The MGAs were responsible for quoting policies to customers, binding policies, policy administration, claims administration and billing and collecting premiums on behalf of the insurer. The agreements specifically state that the MGAs have the authority to bind program business in accordance with the Company's guidelines and procedures. The Company terminated their MGA agreements with Frontier General Agency, Inc. and Milton O. Johnston & Company, Ltd. on April 4, 2011, and January 4, 2014, respectively. The Company reported that it had direct premium written through MGAs for 2015; 2014; 2013; 2012 and 2011 in that amount of $5,414,000; 13,963,000; $22,048,000; $19,480,000; and $20,872,000, respectively.

Independent Auditor Agreement

An independent CPA, Ernst & Young, audited the Company's statutory basis financial statements annually for the years 2011, 2012, 2013, 2014 and 2015, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

Letter of Credit

As of December 31, 2015, the Company reported the following letter of credit with Endurance Specialty Insurance, LTD. Upon review of the letters of credit, the following provisions were not included as required by Rule 69O-144.005(6), Florida Administrative Code:

- The heading of the letter of credit may include a boxed section containing the name of the applicant and other appropriate notations to provide a reference for the letter of credit.
- The boxed section shall be clearly marked to indicate that such information is for internal identification purposes only.
- The "evergreen clause" shall provide for a period of no less than sixty (60) days' notice prior to expiration date or nonrenewal.
- The letter of credit shall be subject to and governed by the laws of the state of Florida.

Reporting of Balances and Disclosures from Intercompany Pooling Transactions

The Company disclosed in their 2015 Annual Statement that they were the lead company in an intercompany pooling arrangement with their insurance subsidiaries and affiliates. The Company is not reporting and disclosing outstanding balances as result of the intercompany pooling transactions in accordance with SSAP No. 63. The Company should be reporting outstanding balances from intercompany pooling transactions on a gross basis and in the appropriate reinsurance accounts consistent with other direct, assumed and ceded business. In addition, the Company should be disclosing each of the outstanding balances due from (due to) its subsidiaries and affiliates participating in the intercompany pool as of the balance sheet date in the Notes to the Financials.

Intercompany Transactions

The Company and Main Street America Financial Corporation, a non-insurance subsidiary of the Company, executed several non-insurance transactions whereby the Company financed cash for Main Street America Financial Corporation. The transactions were not covered by a formal written agreement as required by SSAP No. 25. The Company should have a written agreement in effect for all transactions between related parties that includes terms for settlement of the amounts owed between the parties to the agreement. In addition, the Company should consider standards required by Rule 69O-143.047, Florida Administrative Code, when establishing an agreement and conducting transactions with related parties. Specifically, Rule 69O-143.047(7), Florida Administrative Code, states in-part, “A domestic insurer shall not enter into transactions which are part of a plan or series of like transactions with persons within the holding company system if the purpose of those separate transactions is to avoid the statutory threshold amount and thus avoid the review which would otherwise occur. . .”

INFORMATION TECHNOLOGY REPORT

Phillip McMurray, CISSP, CISA, AES, IT Specialist, of Risk and Regulatory Consulting, LLC, performed a review and evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law.

State	Description	Par Value	Market Value
FL	IL State Pension 4.95%, 06/01/2023	$ 400,000	$ 387,916
FL	Bank of America Corp 6.25%, 08/15/2023	1,100,000	1,321,221
FL	USTB 6.88%, 11/15/2018	1,000,000	1,217,878
TOTAL FLORIDA DEPOSITS		$2,500,000	$2,927,015
DE	IL State Pension 4.95%, 06/01/2023	$ 125,000	$ 125,053
GA	IL State Pension 4.95%, 06/01/2023	85,000	85,036
ID	USTB 7.5%, 11/15/2016	250,000	264,288
MA	IL State Pension 4.95%, 06/01/2023	60,000	58,187
MA	MA State Econ Dev 5.6%, 12/01/2024	600,000	689,480
NV	USTB 3.125%, 05/15/2021	325,000	345,693
NH	Bank of America Corp 6.25%, 08/15/2023	1,200,000	1,441,332
NH	USTB 6.88%, 11/15/2018	750,000	875,030
NM	USTB 6.88%, 11/15/2018	225,000	290,531
NC	USTB 7.5%, 11/15/2016	300,000	317,145
OK	IL State Pension 4.95%, 06/01/2023	400,000	400,168
OR	USTB 7.5%, 11/15/2016	250,000	264,288
VA	IL State Pension 4.95%, 06/01/2023	325,000	325,137
WY	IL State Pension 4.95%, 06/01/2023	175,000	175,074
TOTAL OTHER DEPOSITS		$5,070,000	$5,656,442
TOTAL SPECIAL DEPOSITS		$7,570,000	$8,583,457

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

NGM Insurance Company

Assets

December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Bonds	$1,397,394,541		$1,397,394,541
Stocks:			
Preferred	230,776		230,776
Common	425,004,296		425,004,296
Mortgage loans on real estate:			
First liens	15,422,641		15,422,641
Real Estate:			
Properties occupied by the Company	4,230,106		4,230,106
Properties held for production of income	53,746		53,746
Cash and Short-Term Investments	15,559,685		15,559,685
Other investments	103,848,769		103,848,769
Receivable for securities	6,873,809		6,873,809
Investment income due and accrued	12,671,289		12,671,289
Agents' Balances:			
Uncollected premium	38,172,916		38,172,916
Deferred premium	180,699,456		180,699,456
Reinsurance:			
Amounts recoverable from reinsurers	9,041,287		9,041,287
Funds held by reinsured companies	19,472,386		19,472,386
Net deferred tax asset	87,959,071		87,959,071
Guaranty funds receivable	84,027		84,027
Electronic data processing equipment	550,095		550,095
Aggregate write-in for other than invested assets	27,550,912		27,550,912
Totals	$2,344,819,808	$0	$2,344,819,808

NGM Insurance Company

Liabilities, Surplus and Other Funds

December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Losses	$637,394,211		$637,394,211
Reinsurance payable on paid losses and LAE	7,256,829		7,256,829
Loss adjustment expenses	117,616,168		117,616,168
Commissions payable	13,052,323		13,052,323
Other expenses	28,943,070		28,943,070
Taxes, licenses and fees	1,660,783		1,660,783
Current federal and foreign income tax	95,519		95,519
Unearned premium	461,789,022		461,789,022
Advance premium	7,051,441		7,051,441
Dividends declared and unpaid:			
Policyholders	6,303		6,303
Ceded reinsurance premium payable	(1,822,855)		(1,822,855)
Funds held by company			
under reinsurance treaties	167,383		167,383
Provision for reinsurance	449,032		449,032
Payable to parent, subsidiaries and affiliates	13,184,912		13,184,912
Payable for securities	15,792,874		15,792,874
Aggregate write-ins for liabilities	21,544,756		21,544,756
Total Liabilities	$1,324,181,771		$1,324,181,771
Common capital stock	$5,250,000		$5,250,000
Surplus notes	30,000,000		30,000,000
Gross paid in and contributed surplus	69,518,826		69,518,826
Unassigned funds (surplus)	915,869,211		915,869,211
Surplus as regards policyholders	$1,020,638,037		$1,020,638,037
Total liabilities, surplus and other funds	$2,344,819,808	$0	$2,344,819,808

NGM Insurance Company

Statement of Income and Capital and Surplus Account

December 31, 2015

Underwriting Income	
Premiums earned	$972,785,816
Deductions:	
Losses incurred	$546,112,267
Loss expenses incurred	114,913,810
Other underwriting expenses incurred	313,496,744
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$974,522,821
Net underwriting gain or (loss)	($1,737,005)
Investment Income	
Net investment income earned	$42,898,609
Net realized capital gains or (losses)	10,455,312
Net investment gain or (loss)	$53,353,921
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($2,819,116)
Finance and service charges not included in premiums	6,215,991
Aggregate write-ins for miscellaneous income	5,515,720
Total other income	$8,912,595
Net income before dividends to policyholders and before federal & foreign income taxes	$60,529,511
Dividends to policyholders	14,635
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$60,514,876
Federal & foreign income taxes	(5,732,227)
Net Income	$66,247,103
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$968,221,744
Net Income	$66,247,103
Change in net unrealized capital gains or losses	(3,842,899)
Change in net deferred income tax	9,060,141
Change in non-admitted assets	(4,209,972)
Change in provision for reinsurance	(67,521)
Dividends to stockholders	(8,515,234)
Aggregate write-ins for losses in surplus	(6,255,325)
Change in surplus as regards policyholders for the year	$52,416,293
Surplus as regards policyholders, December 31 current year	$1,020,638,037

NGM Insurance Company

Reconciliation of Capital and Surplus

December 31, 2015

No adjustments were made to surplus as a result of this examination.

	Increase	Decrease	
Surplus as regards policyholders			
December 31, 2010 per Examination			$762,000,379
Net Income (loss)	$238,853,592		
Change in net unrealized capital gain (loss)	$34,907,360		
Change in net deferred income tax	$33,944,933		
Change in non-admitted assets	$64,961,109		
Change in provision for reinsurance		$315,098	
Dividends to stockholders		$82,744,976	
Aggregate write-ins for gains and losses in surplus		$30,968,963	
Rounding		$299	
Total Gains and Losses	$372,666,994	$114,029,336	
Net Increase/(Decrease) in surplus as regards policyholders			$258,637,658
Surplus as regards policyholders			
December 31, 2015 per Examination			$1,020,638,037

COMMENTS ON FINANCIAL STATEMENTS

Assets

Other Invested Assets $103,848,769

The Company was not in compliance with the special consent investment limitation during the examination period. The Company exceeded the allowable investment threshold for Schedule BA assets by $4,262,501 in accordance with Section 625.331(1)(b) as of December 31, 2014. The Company filed for the special consent exception in 2014, but had not pursued it further as of December 31, 2015.

Liabilities

Losses and Loss Adjustment Expenses $755,010,379

Dean Dorman, Vice President and Chief Actuary of Main Street America Group, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Dave Heppen, FCAS, MAAA of Risk and Regulatory Consulting, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Our review indicated that the Company's appointed actuary did not opine on the insurers "gross reserves" in the Company's Statement of Actuarial Opinion. The Statement of Actuarial Opinion was not completed in accordance with the NAIC Property and Casualty Annual Statement Instructions as the Statement of Actuarial Opinion must address the adequacy of direct and assumed, as well as net loss and loss adjustment expense reserves as contained in Schedule P of the annual statement.

Capital and Surplus

The amount of capital and surplus reported by the Company of $1,020,638,037, exceeded the minimum of $100,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Statement of Actuarial Opinion Requirements

We recommend that the Company's appointed actuary opine on the adequacy of the gross reserves in the Company's Statement of Actuarial Opinion in accordance with Rule 69O-170.031(3), Florida Administrative Code, and Section 624.424, Florida Statutes.

Custodian Termination Notice

We recommend that the Company comply with Rule 69O-143.042(2)(o), Florida Administrative Code, as well as, disclose any changes to its custodian in accordance with NAIC Annual Statement Instructions.

Special Consent Investment Limitation

We recommend that the Company implement policies and procedures to track and record its investments in compliance with Section 625.331, Florida Statutes. The Company may only exceed the special consent investment limitation, if consented to in writing by the Office.

Letter of Credit

We recommend the Company amend the letters of credit with Endurance Specialty Insurance, LTD. and maintain all letters of credit in compliance with the Rule 69O-144.005, Florida Administrative Code.

Reinsurance Broker Services Agreement

We recommend the Company amend its reinsurance broker agreement with BMS Intermediaries Inc. to include the required provisions as provided in Section 626.7492(4), Florida Statutes.

Reporting of Balances and Disclosures from Intercompany Pooling Transactions

The Company was not reporting and disclosing outstanding balances as result of the intercompany pooling transactions in accordance with Statement of Statutory Accounting Principles No. 63. The Company should be reporting outstanding balances from intercompany pooling transactions on a gross basis and in the appropriate reinsurance accounts consistent with other direct, assumed and ceded business. In addition, the Company should be disclosing each of the outstanding balances due from (due to) its subsidiaries and affiliates participating in the intercompany pool as of the balance sheet date in the Notes to the Financials. We recommend that the Company report and disclose outstanding balances from intercompany pooling transactions in accordance with Statement of Statutory Accounting Principles No. 63.

Intercompany Transactions

We recommend that the Company ensures that all transactions between related parties are supported by a written agreement as required by SSAP No. 25. The agreement should identify the entities that are party to the agreement, nature or description of transactions entered into and terms for settlement of the amounts owed between the parties to the agreement. We also recommend that the Company retroactively seek written approval for any series of like transactions that were entered into over any twelve-month period between related parties that exceeded that statutory threshold which would have required prior notice approval.

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, 2015, consistent with the insurance laws of the State of Florida.

Per examination annual financial statement, the Company's surplus as regards policyholders was $1,020,638,037, which exceeded the minimum of $100,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Joshua J. Johnson, CFE, Examiner-in-Charge, and Waheed Zafer, CFE, CPA, Participating Examiner, of Risk and Regulatory Consulting, LLC, also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, MBA, Financial Examiner/Analyst Supervisor, Examination Manager and Marie Stuhlmuller, Financial Specialist, Participating Examiner. Additionally, Dave Heppen, FCAS, MAAA, Actuarial Specialist, Phillip McMurray, CISSP, CISA, AES, IT Specialist, of Risk and Regulatory Consulting, LLC and Tracy Gates, CISA, CFE, Examination Manager, of Highland Clark, LLC, are recognized for participation in the examination.

Respectfully submitted,

Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation