

COMBINED STATUTORY-BASIS FINANCIAL
STATEMENTS

NGM Insurance Company and Insurance Subsidiaries
As of December 31, 2009 And 2008
Together With Report of Independent Auditors

NGM Insurance Company and Insurance Subsidiaries

Combined Statutory-Basis Financial Statements

Years Ended December 31, 2009 and 2008

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of NGM Insurance Company:

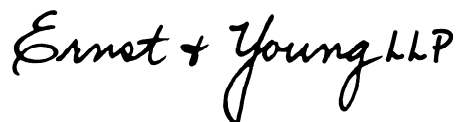
We have audited the accompanying combined statutory-basis balance sheets of NGM Insurance Company and Insurance Subsidiaries (the Group) as of December 31, 2009 and 2008, and the related combined statutory-basis statements of operations and changes in shareholder's surplus and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Group's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Group presents its financial statements in conformity with accounting practices prescribed or permitted by the Insurance Departments of the States of South Carolina, Michigan, and Florida, which practices differ from U.S. generally accepted accounting principles. The variances between such practices and U.S. generally accepted accounting principles and the effects on the accompanying financial statements are described in Note 1.

In our opinion, because of the effects of the matter described in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of NGM Insurance Company and Insurance Subsidiaries at December 31, 2009 and 2008, or the results of their operations or their cash flows for the years then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NGM Insurance Company and Insurance Subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting practices prescribed or permitted by the Insurance Departments of the States of South Carolina, Michigan, and Florida.



March 10, 2010

NGM Insurance Company and Insurance Subsidiaries

Combined Statutory-Basis Balance Sheets

(Dollars in Thousands)

As of December 31,	2009	2008
Assets		
Bonds	\$1,396,983	\$1,280,524
Common Stocks at Fair Values	98,351	39,729
Preferred Stocks at Amortized Cost	-	8,010
Preferred Stocks at Fair Values	5,307	7,240
Investment in Uncombined Subsidiaries	38,479	38,853
Real Estate	5,804	5,894
First Mortgage Loans	1,528	1,614
Investment in Limited Partnerships	6,422	6,478
Cash (Overdraft) and Short-Term Investments	(7,240)	41,184
Total Cash and Invested Assets	1,545,634	1,429,526
Premiums Receivable	225,786	222,878
Reinsurance Recoverable on Paid Losses	2,989	5,479
Deferred Tax Asset	46,969	44,067
Accrued Investment Income	14,106	13,810
Federal Taxes Receivable	1,051	9,006
Other Assets	33,632	40,186
Total Assets	\$1,870,167	\$1,764,952
Liabilities and Shareholder's Surplus		
Unpaid Losses	\$ 562,863	\$ 558,470
Unpaid Loss Adjustment Expenses	105,128	102,302
Unearned Premiums	422,906	411,109
Deposits on Perpetual Policies	5,654	5,737
Other Underwriting Expenses Payable	33,837	32,048
Taxes, Licenses, and Fees Payable	10,074	10,552
Other Liabilities	37,731	37,243
Total Liabilities	1,178,193	1,157,461
Shareholder's Surplus		
Surplus Notes	30,000	30,000
Common Stock, \$1 par value; 10,000,000 shares authorized; 5,250,000 shares issued and outstanding in 2009 and 2008	5,250	5,250
Additional Paid-In Capital	69,519	69,519
Surplus	587,205	502,722
Total Shareholder's Surplus	691,974	607,491
Total Liabilities and Shareholder's Surplus	\$1,870,167	\$1,764,952

See accompanying notes.

**Combined Statutory-Basis Statements of Operations and
Changes in Shareholder's Surplus**

(Dollars in Thousands)

Year Ended December 31,	2009	2008
Net Premiums Written	\$ 815,500	\$ 805,023
Change in Unearned Premiums	(11,797)	7,546
Net Premiums Earned	803,703	812,569
Losses and Loss Adjustment Expenses Incurred	516,081	510,027
Underwriting Expenses Incurred	271,211	258,924
Total Losses and Expenses	787,292	768,951
Net Underwriting Gain	16,411	43,618
Investment Income, Net of Expenses of \$6,172 in 2009 and \$7,028 in 2008	65,093	58,265
Net Realized Gains/(Losses) from Investments	24,821	(69,634)
Net Investment Income/(Loss)	89,914	(11,369)
Other Net (Loss) Income	(2,790)	976
Income Before Federal Income Taxes	103,535	33,225
Federal Income Tax Expense	12,482	5,775
Net Income	\$ 91,053	\$ 27,450

Combined Statutory-Basis Statements of Changes in Shareholder's Surplus

Shareholder's Surplus, January 1,	\$ 607,491	\$ 619,568
Additional Paid-In Capital	-	34,519
Net Income	91,053	27,450
Change in Net Deferred Tax Asset	(15,104)	8,828
Change in Net Unrealized Gains and (Losses) on Investments Carried at Fair Value	14,001	(54,219)
Dividends to Shareholders	(10,606)	(11,318)
Other Changes in Surplus	486	1,187
Change in Nonadmitted Assets	4,653	(18,524)
Shareholder's Surplus, December 31,	\$ 691,974	\$ 607,491

NGM Insurance Company and Insurance Subsidiaries

Combined Statutory-Basis Statements of Cash Flows

(Dollars in Thousands)

Year Ended December 31,	2009	2008
Cash Flows from Operating Activities		
Net Premiums Received	\$ 812,555	\$ 818,677
Losses and Loss Adjustment Expenses Paid, net of Salvage and Subrogation	(506,371)	(489,123)
Underwriting Expenses Paid	(247,321)	(268,746)
Miscellaneous Loss and Intercompany Activity	(31,708)	(39,148)
Net Cash Provided by Underwriting Activities	27,155	21,660
Investment Income Received	75,392	68,356
Investment Expenses Paid	(6,172)	(7,028)
Income Taxes Paid	(4,527)	(8,899)
Net Cash Provided by Operating Activities	91,848	74,089
Cash Flows from Investing Activities		
Proceeds from Bonds Sold and Matured	832,069	445,462
Proceeds from Preferred Stock Sold and Matured	6,284	2,441
Proceeds from Common Stock Sold	12,277	363,364
Purchases of Bonds	(919,267)	(642,017)
Purchases of Preferred Stock	(4,850)	(9,723)
Purchases of Common Stock	(54,759)	(233,940)
Net Change in Securities Payable and Other	(1,420)	(1,899)
Net Cash Used in Investing Activities	(129,666)	(76,312)
Cash Flows from Financing Activities		
Proceeds from Capital Contributions	-	34,519
Dividends to Shareholders	(10,606)	(11,318)
Net Cash (Used in) Provided by Financing Activities	(10,606)	23,201
Net (Decrease) Increase in Cash and Short-Term Investments	(48,424)	20,978
Cash and Short-Term Investments at Beginning of Year	41,184	20,206
Cash (Overdraft) and Short-Term Investments at End of Year	\$ (7,240)	\$ 41,184

See accompanying notes.

NGM Insurance Company and Insurance Subsidiaries

NOTES TO COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS

December 31, 2009

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined statutory–basis financial statements include the combined accounts of NGM Insurance Company (NGM), Main Street America Assurance Company (MSAAC), Old Dominion Insurance Company (ODIC), Main Street America Protection Insurance Company (MSAPIC), all domiciled under Florida State Laws and Regulations, MSA Insurance Company (MSAIC), domiciled under South Carolina Laws and Regulations and Great Lakes Casualty Insurance Company (GLC), domiciled under Michigan Laws and Regulations (collectively referred to as the Group). NGM is a subsidiary of Main Street America Group, Incorporated (MSAG) and MSAG is 94.2% owned by Main Street America Group Mutual Holdings, Incorporated. NGM owns 100% of its subsidiaries.

Effective, November 30, 2009, NGM Insurance Company entered into a Master Affiliation Agreement and a Management and Services Agreement with the Grain Dealers Mutual Insurance Company of Indianapolis, Indiana (GDM). Under these agreements NGM provides GDM with executive management and oversight of GDM's business operations. Effective, January 1, 2010 NGM and GDM entered into a 100% quota share reinsurance agreement. These agreements have been approved by the Indiana Department of Insurance. The accompanying combined statutory-basis financial statements do not include the results of GDM.

On October 1, 2008 Main Street America Financial Corporation (MSAFC), a subsidiary of NGM, purchased 100% of the common stock of Great Lakes Casualty Insurance Company. The purchase was accounted for using the statutory purchase method. The purchase price was \$5,977,000 and the amount of goodwill resulting from the acquisition was \$2,181,000. Effective on the date of acquisition, Great Lakes began ceding its underwriting results to the Pool.

The Group is primarily involved in the sale of personal and commercial lines of property/casualty insurance. Substantially all net underwriting results are ceded into a pooling arrangement between NGM (NAIC # 14788), ODIC (NAIC # 40231), MSAIC (NAIC # 11066), MSAPIC (NAIC # 13026), MSAAC (NAIC # 29939), and GLC (NAIC # 10787) (the Pool). NGM assumes 100% of the underwriting results of the Pool and all other companies in the Group cede 100% of their net underwriting results to the Pool. The Pool underwrites risks located primarily in New York, Massachusetts, Florida, Connecticut, Pennsylvania and North Carolina.

The principal lines of business insured by the Group and the percentage of total written premiums for these lines are as follows:

For The Years Ended December 31,	2009	2008
Commercial Multiple Peril (CMP)	31%	31%
Private Passenger Auto	26%	25%
Homeowners	16%	14%
Commercial Automobile	12%	13%
All Other	15%	17%

The preparation of financial statements of insurance companies requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future, as more information becomes known, which could impact the amounts reported and disclosed herein.

Basis of Presentation

The accompanying financial statements of the Group have been prepared in conformity with accounting practices prescribed or permitted by the Florida, Michigan, and South Carolina Insurance Departments. Such practices vary from U.S. generally accepted accounting principles ("GAAP"). The more significant variances from GAAP are as follows:

NGM Insurance Company and Insurance Subsidiaries

NOTES TO COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS

Investments: Investments in bonds and mandatory redeemable preferred stocks are reported at amortized cost or market value based on their National Association of Insurance Commissioners (“NAIC”) rating; for GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed investments would be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a separate component of other comprehensive income, net of the related deferred taxes, for those designated as available-for-sale. Fair value for statutory purposes is based on the price published by the Security Valuation Office of the NAIC (“SVO”) if available, whereas fair value for GAAP is based on quoted market prices.

Investments in real estate are reported net of related obligations rather than on a gross basis as for GAAP. Real estate owned and occupied by the Group is included in investments rather than reported as an operating asset as under GAAP, and investment income and operating expenses for statutory reporting include rent for the Group’s occupancy of those properties.

Embedded derivatives are not accounted for separately from the host contract. Under GAAP, an embedded derivative within a contract that is not clearly and closely related to the economic characteristics and risk of the host contract is accounted for separately from the host contract and valued and reported at fair value. The change in fair value for the embedded derivative is credited or charged directly to income rather than a separate component of shareholders’ equity.

Subsidiaries: The accounts and operations of the Group’s noninsurance subsidiaries are not combined with the accounts and operations of the Group as would be required under GAAP.

Policy Acquisition Costs: The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.

Nonadmitted Assets: Certain assets designated as “nonadmitted,” principally past-due agents’ balances, furniture and equipment, taxes, prepaid pension costs, unsecured loans or cash advances to officers or agents, and other assets not specifically identified as an admitted asset within the NAIC Accounting Practices and Procedures Manual are excluded from the accompanying balance sheets and are charged directly to shareholder’s surplus. Under GAAP, such assets are included in the balance sheets.

Reinsurance: A liability for reinsurance balances has been provided for unsecured unearned premiums and unpaid losses ceded to reinsurers unauthorized to assume such business and for certain overdue reinsurance balances. Changes to those amounts are credited or charged directly to shareholder’s surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

Reserves for losses and loss adjustment expenses and unearned premiums ceded to reinsurers have been reported as reductions of the related reserves rather than as assets, as would be required under GAAP.

Commissions allowed by reinsurers on business ceded are reported as income when incurred to the extent the amount does not exceed actual acquisition costs, rather than being deferred and amortized with deferred policy acquisition costs, as required under GAAP.

Employee Benefits: For purposes of calculating the Group’s pension and postretirement benefit obligations, only vested participants and current retirees are included in the valuation. Under GAAP, active participants not currently eligible also would be included.

NGM Insurance Company and Insurance Subsidiaries

NOTES TO COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS

Deferred Income Taxes: Deferred taxes are provided for differences between the tax basis and statutory basis of assets and liabilities. For 2009, subsequent to adoption of SSAP 10 – Revised, deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a timeframe corresponding with IRS tax loss carryback provisions, not to exceed three years, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within three years of the balance sheet date limited to 15% of statutory capital and surplus, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. For 2008, Deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the balance sheet date or 10% of capital and surplus excluding any net deferred tax assets, EDP equipment, and operating software, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes. Under GAAP, state income taxes are included in the computation of deferred taxes, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets that may not be realizable. Changes in admitted deferred tax assets are charged directly to shareholder's surplus. Under GAAP, these changes in deferred taxes are charged to income.

Guaranty Fund and Other Assessments: A liability for guaranty fund (and other) assessments (net of certain offsets depending on state rules) is accrued after an insolvency has occurred regardless of whether the assessment is based on premiums written before or after the insolvency. Under GAAP, the assessment recognized is typically accrued when premiums are written because the assessment generally is based on prospective premium writings.

Statements of Cash Flows: Cash, cash equivalents, and short-term investments in the statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

Surplus Notes: Surplus notes represent subordinated debt instruments classified as a component of surplus for statutory accounting purposes. Associated surplus note issuance costs are expensed as incurred. Interest expense on surplus notes is reported as a component of net investment income. Under GAAP, surplus notes are reported as debt, and the associated interest is reported as interest expense. Associated surplus note issuance costs are amortized using the interest method over the period to maturity for GAAP.

A reconciliation of net income and capital and surplus of the Group as determined in accordance with statutory accounting practices to amounts determined in accordance with GAAP is as follows for the years ended December 31, 2009 and 2008:

<i>(In Thousands)</i>	Net Income for the Year Ended December 31, 2009	Capital and Surplus December 31, 2009	Net Income for the Year Ended December 31, 2008	Capital and Surplus December 31, 2008
Statutory-basis amounts	\$ 91,053	\$ 691,974	\$ 27,450	\$ 607,491
Add (deduct) adjustments:				
Policy acquisition costs	282	101,486	1,301	101,204
Investments	12,197	23,103	(14,027)	(54,957)
Nonadmitted assets	-	71,158	-	57,747
Deferred income tax	(9,766)	(58,390)	16,578	(5,892)
Pension liability	1,397	(32,962)	(16,160)	(34,359)
Net loss of subsidiary	(374)	-	(8,001)	-
Surplus notes	-	(30,000)	-	(30,000)
Other, net	3,145	(993)	1,684	(2,381)
GAAP-basis amounts	\$ 97,934	\$ 765,376	\$ 8,825	\$ 638,853

NGM Insurance Company and Insurance Subsidiaries

NOTES TO COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS

Other significant accounting practices are as follows:

Consolidation

The Group's insurance subsidiaries are combined in these financial statements. All significant intercompany transactions have been eliminated. The Group's noninsurance subsidiaries, which have significant ongoing operations other than for the Group and its affiliates, are reported at GAAP equity. The net change in the subsidiaries' equity is included in the change in net unrealized capital gains or losses.

Investments

Bonds, preferred stocks, common stocks, and short-term investments are stated at values prescribed by the NAIC, as follows:

Bonds not backed by other loans are principally stated at amortized cost using the interest method.

Single class and multi-class mortgage-backed/asset-backed securities are valued at amortized cost using the interest method including anticipated prepayments. Prepayment assumptions are obtained from "The Asset-Backed Securities Group", a third party, and are based on the current interest rate and economic environment. The retrospective adjustment method is used to value all such securities.

Redeemable preferred stocks, which have characteristics of debt securities and are rated as high quality or better, are reported at cost or amortized cost. All other redeemable preferred stocks are reported at the lower of cost, amortized cost, or fair value. Nonredeemable preferred stocks are reported at fair value or lower of cost or fair value as determined by the Securities Valuation Office of the NAIC (SVO), and the related net unrealized capital gains (losses) are reported in shareholder's surplus, along with any adjustment for federal income taxes.

Common stocks are reported at fair value as determined by the SVO, and the related net unrealized capital gains (losses) are reported in shareholder's surplus, along with any adjustment for federal income taxes.

There are no restrictions on common or preferred stock.

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition, and are principally stated at amortized cost.

Cash equivalents are short-term highly liquid investments with original maturities of three months or less, and are principally stated at amortized cost.

For repurchase agreements, the Group's policies require a minimum of 102% of the fair value of securities purchased under repurchase agreements to be maintained as collateral. Cash collateral received is invested in short term investments and the offsetting collateral liability is included in miscellaneous liabilities.

Mortgage loans are reported at unpaid principal balances, less allowance for impairment. A mortgage loan is considered to be impaired when, based on current information and events, it is probable that the Group will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage agreement. When management determines the loan is impaired, the mortgage loan is written down and a realized loss is recognized.

The Group recognized interest expense of \$1,601,000 and \$2,011,000 during the years ended December 31, 2009 and 2008, respectively primarily related to Surplus Notes.

Land is reported at cost. Real estate occupied by the Group and real estate held for the production of income are reported at depreciated cost net of related obligations. Real estate that the Group has the intent to sell is reported at the lower of depreciated cost or fair value, net of related obligations. Depreciation is calculated on a straight-line basis over the estimated useful lives of the properties.

Realized capital gains and losses are determined using the specific identification basis. Changes in admitted asset-carrying amounts of bonds, mortgage loans, common, and nonredeemable preferred stocks are credited or charged directly to shareholder's surplus.

NGM Insurance Company and Insurance Subsidiaries

NOTES TO COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS

The Group has minor ownership interests in limited partnerships. The Group carries these interests based on their ownership in the underlying GAAP equity of the Investee.

Furniture, Equipment, and Software

The admitted value of the Group's electronic data processing equipment and operating software is limited to three percent of capital and surplus. The admitted portion is reported at cost of \$20,931,000 and \$20,420,000, less accumulated depreciation of \$19,584,000 and \$18,228,000 at December 31, 2009 and 2008, respectively. Electronic data processing equipment and operating software is depreciated using the straight-line method over the lesser of its useful life or three years. Nonoperating software is depreciated using the straight-line method over the lesser of its useful life or five years. Other furniture and equipment is depreciated using the straight-line method over its estimated useful life. Depreciation expense charged to operations in 2009 and 2008 was \$6,802,000 and \$9,196,000, respectively.

Premiums

Premiums are earned pro rata over the terms of the policies. The reserve for unearned premiums is determined on a daily pro rata basis.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense reserves represent management's best estimate of the ultimate net cost of all reported and unreported losses incurred and unpaid through December 31. The Group does not discount loss and loss adjustment expense reserves, except for certain permanent long-term disability claims related to worker's compensation coverages. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes the reserves for losses and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Salvage and subrogation recoverables are estimated using the "case basis" method for large recoverables and historical statistics for smaller recoverables. Recoverable amounts deducted from the liability for losses and loss adjustment expense were \$22,023,000 and \$24,925,000 at December 31, 2009 and 2008, respectively.

Premium Deficiency Reserves

Premium deficiency reserves are established for the amount of the anticipated losses, loss adjustment expenses, commissions, and other acquisition costs and maintenance costs that have not previously been expensed in excess of the recorded unearned premium reserve, future installment premiums, and anticipated investment income on existing policies. The Company did not have a premium reserve deficiency in 2009 or 2008.

Reinsurance

Prospective reinsurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with the basis used in accounting for the original policies issued and the terms of the reinsurance contracts. Letters of credit are required from unauthorized reinsurers adequate to fund ceded unearned premiums, ceded unpaid losses, and related receivables.

Reinstatement Premiums

Reinstatement premiums are recognized when the losses creating the additional premiums are incurred.

Permitted Statutory Accounting Practices and Changes in Accounting Practices

The financial statements of the Group are presented on the basis of accounting practices prescribed or permitted by the Florida, Michigan, and South Carolina Insurance Departments. The Florida, Michigan, and South Carolina Insurance Departments recognize only statutory accounting practices prescribed or permitted by the States of Florida, Michigan, and South Carolina for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency. The NAIC' Accounting Practices and Procedures manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the States of Florida, Michigan, and South Carolina. The States of Florida, Michigan, and South Carolina have not prescribed or permitted accounting practices or procedures for the Group that deviate from NAIC SAP.

NGM Insurance Company and Insurance Subsidiaries

NOTES TO COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS

In September 2009, the NAIC issued Statement of Statutory Accounting Principles ("SSAP") No. 43-Revised (Loan-backed and Structured Securities) which is effective September 30, 2009. SSAP No. 43-Revised establishes statutory accounting principles for investments in loan-backed securities and structured securities and supersedes SSAP No. 43 (Loan-backed and Structured Securities) and paragraph 13 of SSAP No. 99 (Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment). The implementation of SSAP No. 43-Revised did not have a material impact on the Group's statutory-basis financial statements.

In December 2009, the NAIC issued Statement of Statutory Accounting Principles ("SSAP") No. 10-Revised (A Temporary Replacement of SSAP No. 10) which is effective for annual periods ending December 31, 2009 and for interim and annual periods of 2010. SSAP No. 10-Revised establishes statutory accounting principles for current and deferred federal and foreign income taxes and current state income taxes. It supersedes SSAP No. 10 (Income Taxes). Refer to the policy note within this footnote for changes to the deferred tax process. The implementation of SSAP No. 10-Revised by the Group resulted in an increase of \$9,104,000 in both admitted deferred tax assets and statutory surplus at December 31, 2009.

2. Investments

The Group used the following methods and assumptions in estimating the "fair value" disclosures for financial instruments in the accompanying financial statements and notes thereto:

Cash (Overdraft), Cash Equivalents, and Short-Term Investments: The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

Investment Securities: Fair values for fixed maturity securities (including redeemable preferred stock) are based on quoted market prices, where available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from independent pricing services, or, in the case of private placements, are estimated by discounting the expected future cash flows using current market rates applicable to the coupon rate, credit, and maturity of the investments. The fair values for equity securities are based on quoted market prices, where available; for equity securities that are not actively traded, estimated fair values are based on values of issues of comparable yield and quality.

The following table summarizes the Group's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2009 and 2008:

<i>(In Thousands)</i>	Level 1	Level 2	Level 3	Total
At December 31, 2009				
Cash (overdraft) and cash equivalents	\$ (7,240)	\$ -	\$ -	\$ (7,240)
Fixed maturities	118	6,652	16,148	22,918
Equity securities	94,168	5,050	4,440	103,658
Total assets	<u>\$ 87,046</u>	<u>\$ 11,702</u>	<u>\$ 20,588</u>	<u>\$ 119,336</u>
<i>(In Thousands)</i>	Level1	Level2	Level3	Total
At December 31, 2008				
Cash and cash equivalents	\$ 41,184	\$ -	\$ -	\$ 41,184
Fixed maturities	-	3,881	-	3,881
Equity securities	35,129	7,240	4,600	46,969
Total assets	<u>\$ 76,313</u>	<u>\$ 11,121</u>	<u>\$ 4,600</u>	<u>\$ 92,034</u>

NGM Insurance Company and Insurance Subsidiaries

NOTES TO COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS

The following table summarizes the fair values of the investments that were impaired that were viewed to be measured at fair value on a on a non-recurring basis as of December 31, 2009 and 2008:

(In Thousands)

At December 31, 2009

	Level 1	Level 2	Level 3	Total
Fixed maturities	-	945	5,448	6,393
Total assets	\$ -	\$ 945	\$ 5,448	\$ 6,393

(In Thousands)

At December 31, 2008

	Level 1	Level 2	Level 3	Total
Fixed maturities	-	3,312	6,364	9,676
Equity securities	627	1,985	-	2,612
Total assets	\$ 627	\$ 5,296	\$ 6,364	\$ 12,287

Cash equivalents and certain fixed maturities are recorded at fair value in the Group's financial statements. In instances where there are quoted prices in active markets for identical instruments, as is the case within the U.S. Treasury market, these securities are categorized as Level 1 of the fair value hierarchy. For securities where the fair value of fixed income securities are estimated using recently executed transactions, market price quotations, bond spreads, or models that have inputs from published interest rate yield curves, these securities are generally categorized as Level 2 of the hierarchy. Those securities with fair values estimated by the Group using significant unobservable inputs are categorized as Level 3 of the hierarchy.

Most equity securities are recorded at fair value in the Group's financial statements. The fair value of most common stocks are generally based on quoted prices in active markets. As such, common stocks are generally categorized as Level 1 of the hierarchy. The fair value of most preferred stocks are generally determined by quoted prices for similar instruments in active markets, hence they are categorized as Level 2 of the fair value hierarchy.

The following table reconciles the beginning and ending balances of assets valued at fair value on a recurring basis and classified as level 3 within the fair value hierarchy for 2009 and 2008:

<i>(In Thousands)</i>	Balance January 1, 2009	Amortization / Accretion	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Net Purchases, (Sales) and (Maturities)	Transfer in and / or out of Level 3	Balance December 31, 2009
Fixed maturities	\$ -	\$ 80	\$ (941)	\$ (2,651)	\$ (2,790)	\$ 22,450	\$ 16,148
Equity securities	4,600	-	-	(160)	-	-	4,440
Total assets	\$ 4,600	\$ 80	\$ (941)	\$ (2,811)	\$ (2,790)	\$ 22,450	\$ 20,588

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The amortized cost and the fair value of investments in bonds are summarized as follows:

(In Thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2009				
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 30,952	\$ 220	\$ 849	\$ 30,323
Obligations of states and political subdivisions	463,563	18,946	3,196	479,313
Mortgage-backed securities	524,288	10,276	13,744	520,820
Corporate securities	383,140	17,768	11,399	389,509
Total	<u>\$1,401,943</u>	<u>\$ 47,210</u>	<u>\$ 29,188</u>	<u>\$1,419,965</u>
At December 31, 2008				
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 8,003	\$ 580	\$ -	\$ 8,583
Obligations of states and political subdivisions	536,977	16,803	7,724	546,056
Mortgage-backed securities	415,125	4,447	27,135	392,437
Corporate securities	321,662	2,171	38,166	285,667
Total	<u>\$1,281,767</u>	<u>\$ 24,001</u>	<u>\$ 73,025</u>	<u>\$1,232,743</u>

At December 31, 2009, the Group held unrated or less-than-investment grade corporate bonds of \$19,938,000, with an aggregate fair value of \$20,224,000. Those holdings amounted to 1% of the Group's invested assets. The Group performs periodic evaluations of the relative credit standing of the issuers of these bonds.

The amortized cost of bonds at December 31, 2009 and 2008 has been modified by adjustments of \$(4,878,000) and \$(1,243,000), respectively, to derive the carrying amount of bonds in the balance sheets.

Equity securities are considered "other-than-temporarily impaired" if their fair values are below cost for six consecutive months or if their fair values are less than fifty percent of cost. Bond securities, excluding mortgage-backed securities, are considered "other-than-temporarily impaired" if it is probable that the Group will be unable to collect all amounts due according to the contractual terms of the security in effect at the date of acquisition. Mortgage-backed securities are considered "other-than-temporarily impaired" if management does not have the ability to hold the security to maturity, if management has decided to sell the security prior to maturity at an amount below its carrying value, or if the present value of cash flows expected to be collected is less than the amortized cost basis of the security. Realized losses due to other-than-temporary impairments of \$1,019,000 and \$11,957,000 were incurred in 2009 and 2008, respectively, and are included in net realized gains/(losses) from investments in the Statement of Operations. The 2009 losses were due to the present value of future cash flows being less than the amortized cost basis of four loan-backed securities, and are summarized below:

(In Thousands)	Amortized Cost Prior to Current- Period OTTI	Present Value of Expected Cash Flows	OTTI Recognized as Realized Loss	Fair Value At December 31, 2009	Amortized Cost After Current- Period OTTI
CWL 2006-S4 A3	\$ 3,025	\$ 2,626	\$ 399	\$2,210	\$ 2,626
RAMC 2006-3 M1	1,400	1,054	346	577	1,054
CWALT 2007-3T1 1A7	3,165	2,999	166	2,661	2,999
CSFB 2002	2,957	2,849	108	945	2,849
	<u>\$10,547</u>	<u>\$ 9,528</u>	<u>\$ 1,019</u>	<u>\$6,393</u>	<u>\$ 9,528</u>

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The following table shows the aggregate amount of unrealized losses and related fair value of impaired loan-backed securities for which an other-than-temporary impairment has not been recognized in earnings as a realized loss, aggregated by length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2009:

<i>(In Thousands)</i>	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	\$ 145,351	\$ 6,636	\$ 72,631	\$ 9,934	\$ 217,982	\$ 16,570

A summary of the amortized cost and fair value of the Group's investments in bonds at December 31, 2009, by contractual maturity, is as follows:

<i>(In Thousands)</i>	December 31, 2009	
	Amortized Cost	Fair Value
Years to maturity:		
One or less	\$ 3,019	\$ 2,980
After one through five	173,047	183,018
After five through ten	276,213	282,063
After ten	425,376	431,084
Mortgage-backed securities	524,288	520,820
Total	<u>\$ 1,401,943</u>	<u>\$ 1,419,965</u>

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

The Group did not capitalize interest during the years ended December 31, 2009 and 2008, respectively.

Investments in Low Income Housing Tax Credits have holding periods until 2012. None are subject to adverse regulatory actions, exceed 10% of admitted assets, or require additional capital contributions.

Proceeds from the sale of investments in bonds during 2009 and 2008 were \$803,469,000 and \$428,087,000; gross gains of \$33,797,000 and \$10,040,000, and gross losses of \$3,708,000 and \$4,419,000 were realized on those sales, respectively.

Proceeds from the sale of investments in stocks during 2009 and 2008 were \$18,561,000 and \$338,887,000; gross gains of \$2,426,000 and \$46,493,000, and gross losses of \$3,956,000 and \$109,516,000 were realized on those sales, respectively.

At December 31, 2009 bonds with an admitted asset value of \$17,489,000 were on deposit with state insurance departments to satisfy regulatory requirements.

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Unrealized gains and losses on investments in preferred and common stocks are reported directly in shareholder's surplus and do not affect operations. The increase in common stocks at fair value in 2009 was entirely related to securities valued at unadjusted quoted prices for identical assets in active markets that the Group has the ability to access. The cost, gross unrealized gains and losses, and fair value of the investments in stocks are summarized as follows:

(In Thousands)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2009				
Preferred stocks	\$ 5,150	\$ 200	\$ 43	\$ 5,307
Common stocks	87,836	13,225	2,710	98,351
Total	\$ 92,986	\$ 13,425	\$ 2,753	\$ 103,658
At December 31, 2008				
Preferred stocks	\$ 17,852	\$ -	\$ 7,356	\$ 10,496
Common stocks	44,554	2,056	6,881	39,729
Total	\$ 62,406	\$ 2,056	\$ 14,237	\$ 50,225

The following table shows gross unrealized losses and fair value of all investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2009:

(In Thousands)

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 24,772	\$ 849	\$ -	\$ -	\$ 24,772	\$ 849
Obligations of states and political subdivisions	82,813	1,220	15,469	1,976	98,282	3,196
Mortgage-backed securities	129,475	1,858	68,580	11,886	198,055	13,744
Corporate securities	46,618	857	68,984	10,542	115,602	11,399
Total debt securities	283,678	4,784	153,033	24,404	436,711	29,188
Preferred stock	257	43	-	-	257	43
Common stock	5,875	213	141,846	2,497	147,721	2,710
Total temporarily impaired securities	\$ 289,810	\$ 5,040	\$ 294,879	\$ 26,901	\$ 584,689	\$ 31,941

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The following table shows gross unrealized losses and fair value of all investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2008:

<i>(In Thousands)</i>	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
Obligations of states and political subdivisions	\$ 149,904	\$ 5,592	\$ 21,565	\$ 2,132	\$ 171,469	\$ 7,724
Mortgage-backed securities	113,414	11,678	73,197	15,457	186,611	27,135
Corporate securities	134,403	11,230	83,297	26,936	217,700	38,166
Total debt securities	397,721	28,500	178,059	44,525	575,780	73,025
Preferred stock	5,563	2,260	5,050	5,096	10,613	7,356
Common stock	20,904	6,150	1,417	731	22,321	6,881
Total temporarily impaired securities	\$ 424,188	\$ 36,910	\$ 184,526	\$ 50,352	\$ 608,714	\$ 87,262

The Group considers relevant facts and circumstances in evaluating whether the impairment of the security is other-than-temporary. Relevant facts and circumstances include (1) the length of time the fair value has been below cost; (2) the financial position of the issuer; (3) the Group's ability and intent to hold the security to maturity or until it recovers to amortized cost. To the extent the Group determines that a bond is deemed to be other-than-temporarily impaired and the Group intends to sell the security, the difference between amortized cost and fair value would be charged to operations. For mortgage-backed securities, if the Group intends to hold a bond but determines the security will not recover to amortized cost, the difference between amortized cost and the present value of future cash flows will be charged to operations.

With respect to common stocks, the unrealized losses are due to temporary fluctuations in fair values. The Group will continue to examine its portfolio and closely watch the value of these stocks; the Group will record an "other-than-temporary" impairment if the amounts do not recover.

With respect to bonds, the unrealized losses are principally due to an increase in interest rates since the investments were acquired. These unrealized losses will reverse as these investments near maturity. The Group has the intent and ability to hold these investments until maturity or until fair value recovers above cost or amortized cost.

At December 31, 2009 the lending rate for mortgage loans was 5.6%. At the issuance of a loan, the percentage of any one loan to value of security was 80%. At December 31, 2009 and 2008, the Group held no mortgages with interest overdue beyond 180 days. No amounts were advanced on loans for taxes or assessments. At December 31, 2009 and 2008, no loans were impaired.

The Group's investments in mortgage loans involve commercial real estate. At December 31, 2009, all such mortgages (\$1,528,000) were represented by one property located in New Hampshire. This investment includes a first mortgage lien on this completed income-producing property.

The Group has no investments in restructured loans at December 31, 2009 and 2008.

3. Reinsurance

During the normal course of business, the Group places reinsurance with various reinsurance companies and state reinsurance facilities. No material balances are past due or in dispute. Certain premiums and benefits are assumed from and ceded to other insurance companies under various reinsurance agreements. The ceded reinsurance agreements provide the Group with increased capacity to write larger risks and maintain its exposure to loss within its capital resources. The Group remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

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The effects of reinsurance on premiums written and earned are as follows:

<i>(In Thousands)</i>	2009		2008	
	Written	Earned	Written	Earned
Direct premiums	\$ 807,333	\$ 802,521	\$ 810,876	\$ 825,645
Assumed premiums – Nonaffiliates	76,437	67,505	55,380	49,303
Ceded premiums – Nonaffiliates	68,270	66,323	61,233	62,379
Net premiums	<u>\$ 815,500</u>	<u>\$ 803,703</u>	<u>\$ 805,023</u>	<u>\$ 812,569</u>

Amounts payable or recoverable for reinsurance on paid or unpaid losses are not subject to periodic or maximum limits. The Group's ceded reinsurance arrangements reduced certain other items in the accompanying financial statements as follows for the years ending December 31:

<i>(In Thousands)</i>	2009	2008
Losses and loss adjustment expenses	\$ 16,254	\$ 20,789
Loss and loss adjustment expense reserves	\$ 39,345	\$ 40,204
Unearned premium reserves	\$ 11,730	\$ 9,784

At December 31, 2009, no individual reinsurer owed the Group an amount that was equal to or greater than 3% of the Group's surplus.

The net amount of return commissions recoverable (payable) at December 31, 2009, if all assumed and ceded reinsurance treaties were canceled, is summarized as follows:

<i>(In Thousands)</i>	Assumed Reinsurance		Ceded Reinsurance		Net	
	Unearned Premium Reserve	Commission Recoverable/ (Payable)	Unearned Premium Reserve	Commission Recoverable/ (Payable)	Unearned Premium Reserve	Commission Recoverable/ (Payable)
Total Nonaffiliates	\$ 31,624	\$ 8,174	\$ (11,730)	\$ (991)	\$ 19,894	\$ 7,183

In 2009 and 2008, the Group did not commute any ceded reinsurance, nor did it enter into or engage in any loss portfolio transfer for any lines of business.

4. Intercompany Pooling Arrangements

NGM is the lead company in an intercompany pooling arrangement for the Group. NGM assumes 100% of the underwriting results of the Pool and all other companies in the Group cede 100% of their net underwriting results to the Pool.

5. Federal Income Taxes

The Group is included in a consolidated federal income tax return with its ultimate parent company, Main Street America Group Mutual Holdings, Incorporated (MSAGMH) and all of its subsidiaries. The entities included in this consolidated tax return have tax sharing agreements that allocate the consolidated tax provision among the companies. The method of allocation among the companies is subject to the tax sharing agreements, approved by the Board of Directors. Allocations are based upon separate tax return calculations with tax benefits recognized for net losses currently recoverable on a consolidated basis. No amounts were due from the subsidiaries for federal income taxes at December 31, 2009 and 2008.

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NOTES TO COMBINED STATUTORY-BASIS FINANCIAL STATEMENTS

A. Deferred Tax Assets and Liabilities

The components of the gross deferred tax asset are as follows:

<i>(In Thousands)</i>	Year Ended December 31					
	2009			2008		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	\$61,786	\$ 1,996	\$63,782	\$60,410	\$13,422	\$73,832
Statutory valuation allowance	-	-	-	-	-	-
Adjusted gross deferred tax assets	61,786	1,996	63,782	60,410	13,422	73,832
Gross deferred tax liabilities	2,451	11,405	13,856	2,053	6,749	8,802
Net deferred tax asset (liability) before admissibility test	<u>\$59,335</u>	<u>\$ (9,409)</u>	<u>\$49,926</u>	<u>\$58,357</u>	<u>\$ 6,673</u>	<u>\$65,030</u>
Admitted pursuant to paragraph 10.a.	\$19,507	\$ 95	\$19,507	\$37,972	\$ 6,390	\$44,362
Admitted pursuant to paragraph 10.b.	21,813	-	21,908	3,464	-	3,464
Admitted pursuant to paragraph 10.c.	10,306	-	10,306	5,043	-	5,043
Additional admitted pursuant to paragraph 10.e.i.	-	-	-	-	-	-
Additional admitted pursuant to paragraph 10.e.ii.	9,104	-	9,104	-	-	-
Additional admitted pursuant to paragraph 10.e.iii.	-	-	-	-	-	-
Admitted deferred tax asset	60,730	95	60,825	46,479	6,390	52,869
Deferred tax liability	2,451	11,405	13,856	2,053	6,749	8,802
Net admitted deferred tax asset or liability	<u>\$58,279</u>	<u>\$(11,310)</u>	<u>\$46,969</u>	<u>\$44,426</u>	<u>\$ (359)</u>	<u>\$44,067</u>
Nonadmitted deferred tax asset			<u>\$ 2,957</u>			<u>\$20,963</u>

The Group has elected to admit deferred tax assets pursuant to paragraph 10.e. Such election was not available in 2008.

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The Group recorded an increase in admitted deferred tax assets as the result of its election to employ the provisions of paragraph 10.e as follows:

<i>(In Thousands)</i>	Change During 2009		
	Ordinary	Capital	Total
Gross deferred tax assets	\$ 1,376	\$ (11,426)	\$ (10,050)
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	1,376	(11,426)	(10,050)
Gross deferred tax liabilities	398	4,656	5,054
Net deferred tax asset (liability) before admissibility test	<u>\$ 978</u>	<u>\$ (16,082)</u>	<u>\$ (15,104)</u>
Admitted pursuant to paragraph 10.a.	(18,465)	(6,390)	(24,855)
Admitted pursuant to paragraph 10.b.	18,349	95	18,444
Admitted pursuant to paragraph 10.c.	5,263	-	5,263
Additional admitted pursuant to paragraph 10.e.i.	-	-	-
Additional admitted pursuant to paragraph 10.e.iii.	9,104	-	9,104
Additional admitted pursuant to paragraph 10.e.iii.	-	-	-
Admitted deferred tax asset	14,251	(6,295)	7,956
Deferred tax liability	398	4,656	5,054
Change in net admitted deferred tax asset or liability	<u>\$ 13,853</u>	<u>\$ (10,951)</u>	<u>\$ 2,902</u>
Change in nonadmitted deferred tax asset			<u>\$ 18,006</u>

Description	With Paragraphs 10.a - c.	With Paragraph 10.e.	Difference
<i>(In Thousands)</i>			
Admitted deferred tax assets	\$ 37,865	\$ 46,969	\$ 9,104
Admitted assets	\$ 1,847,356	\$ 1,856,460	\$ 9,104
Statutory surplus	\$ 682,870	\$ 691,974	\$ 9,104
Total adjusted capital	\$ 682,870	\$ 691,974	\$ 9,104
Authorized control level used in 10.d.	\$ 75,857	\$ 75,870	\$ 13

B. There are no temporary differences for which a deferred tax liability has not been established.

C. Current Tax and Change in Deferred Tax

Current income taxes incurred consist of the following components:

<i>(In Thousands)</i>	Year Ended December 31	
	2009	2008
Current income tax expense	\$ 5,730	\$ 19,054
Tax on capital gains/(losses)	8,089	(13,415)
Foreign taxes	2	12
Prior year (over accrual)/under accrual	(1,339)	124
Federal income taxes incurred	<u>\$ 12,482</u>	<u>\$ 5,775</u>

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The tax effects of temporary differences that give rise to significant portions of the gross deferred tax assets and gross deferred tax liabilities are as follows:

<i>(In Thousands)</i>	Year Ended December 31		Change	Character
	2009	2008		
Deferred tax assets resulting from book/tax differences in:				
Reserves	\$19,979	\$19,779	\$ 200	Ordinary
Unearned premium	30,204	29,245	959	Ordinary
Deferred compensation	3,523	2,506	1,017	Ordinary
Capital loss carryforward	95	6,394	(6,299)	Capital
Investment tax basis greater than book basis	1,843	4,058	(2,215)	Capital
Net unrealized losses	58	2,970	(2,912)	Capital
Other deferred assets	8,080	8,880	(800)	Ordinary
Total deferred tax assets	<u>\$63,782</u>	<u>\$73,832</u>	<u>(\$10,050)</u>	
Nonadmitted deferred tax assets	<u>\$ 2,957</u>	<u>\$20,963</u>	<u>(\$18,006)</u>	

<i>(In Thousands)</i>	Year Ended December 31		Change	Character
	2009	2008		
Deferred tax liabilities resulting from book/tax differences in:				
Unrealized capital gains	\$ 3,552	\$ 805	\$ 2,747	Capital
Partnership deferred adjustments	3,235	3,212	23	Capital
Federal Historic Tax Credits basis adjustments	4,547	2,696	1,851	Capital
Other - ordinary	2,451	2,052	399	Ordinary
Other - capital	71	37	34	Capital
Total deferred tax liabilities	<u>\$13,856</u>	<u>\$ 8,802</u>	<u>\$ 5,054</u>	

The change in net deferred income taxes is comprised of the following as of December 31:

<i>(In Thousands)</i>	2009	2008	Change
Total gross deferred tax assets	\$ 63,782	\$ 73,832	\$ (10,050)
Total gross deferred tax liabilities	<u>13,856</u>	<u>8,802</u>	<u>5,054</u>
Net deferred tax assets	<u>\$ 49,926</u>	<u>\$ 65,030</u>	<u>(15,104)</u>
Tax effected of unrealized			<u>5,658</u>
Change in net deferred income taxes			<u>\$ (9,446)</u>

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D. Reconciliation of Federal Income Tax at Statutory Rate to Actual Federal Income Tax Incurred

The Company's provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 35% to net gain from operations before taxes. The significant items causing these differences at December 31 are as follows:

<i>(In Thousands)</i>	<u>2009</u>	<u>2008</u>
Statutory Gain Provision computed at statutory rate	\$ 36,237	\$ 11,629
Tax exempt income	(5,212)	(3,852)
Dividends received deductions	(176)	(1,216)
Federal historic tax credit	(6,165)	(2,721)
Change in non-admitted assets	(4,674)	(6,067)
Gross deferred tax assets of GLC at acquisition	-	(1,844)
Other	1,918	1,018
Total incurred Federal income tax expense	<u>\$ 21,928</u>	<u>\$ (3,053)</u>
Federal income taxes incurred	\$ 12,482	\$ 5,775
Change in deferred income taxes	9,446	(8,828)
Total statutory taxes	<u>\$ 21,928</u>	<u>\$ (3,053)</u>

E. Loss Carryforwards and Expense Recoupments

As of December 31, 2009, the Company has net operating loss carryforwards available of \$4,383,000 that expire in 2025 through 2028, and net capital loss carryforwards of \$272,000, that expire in 2013. The operating loss was obtained as part of the Great Lakes Casualty Insurance Company acquisition and is subject to an annual limitation on its use of \$551,000 for the first five years after purchase and \$297,000 thereafter. The amount of federal income taxes incurred that will be available for recoupment in the event of future net losses are \$13,443,000, and \$17,408,000, from 2009, and 2008, respectively.

6. Losses and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses (LAE), net of reinsurance recoverables, for 2009 and 2008:

<i>(In Thousands)</i>	<u>Year Ended December 31</u>	
	<u>2009</u>	<u>2008</u>
Unpaid losses and LAE, at beginning of year	\$ 660,772	\$ 634,316
Add provision for claims, net of reinsurance, occurring in:		
The current year	537,301	526,860
Prior years	(21,220)	(16,833)
Net incurred losses during the current year	<u>516,081</u>	<u>510,027</u>
Deduct payments for claims, net of reinsurance, occurring in:		
The current year	263,477	248,155
Prior years	245,385	235,416
Net claim payments during the current year	<u>508,862</u>	<u>483,571</u>
Unpaid losses and LAE, at end of year	<u>\$ 667,991</u>	<u>\$ 660,772</u>

The Group's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, increased 1.1% during 2009. The growth rate in our unpaid losses and LAE has been moderate due to an overall flattening in our policies-in-force growth during the calendar year. Incurred losses related to prior years developed favorably by \$21,220,000 and \$16,833,000 for the years ending December 31, 2009 and 2008 respectively, as a result of actual experience developing more favorably than the Group's initial expectations.

The indemnity portion of reserves for workers' compensation claims have been discounted on a tabular basis using

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the NCCI Table III-A, at 3.5%. The December 31, 2009 and 2008 loss reserves include \$5,006,000 and \$5,688,000 respectively, of such discounted reserves. The amount of discount for case reserves is \$1,267,000 and \$1,846,000, respectively at December 31, 2009 and 2008, respectively.

The anticipated effect of inflation is implicitly considered in the actuarial methodologies used to estimate our liabilities for losses and LAE. The increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

The Group has reduced reserves by \$1,598,000 and \$1,788,000 at December 31, 2009 and 2008 respectively, for annuities purchased where the claimant is the payee. The Group is contingently liable for such amounts should the issuers of the annuities fail to perform under the terms of the annuities.

7. Asbestos-Related and Environmental Loss Reserve

The Group has minimal exposure to asbestos-related and environmental claims relative to its size due to the nature of the risks it insures. Exposure arises primarily from the Homeowners and CMP Property lines of business and the majority of these claims arise from heating oil spills at residences or places of business. The Group estimates the full impact of the exposure by establishing full case basis reserves on all known losses and computing IBNR based on previous experience. In establishing liabilities for claims for asbestos-related illnesses and for toxic waste cleanup claims, the Group's management considers facts currently known and the current state of the law and coverage litigation. However, given the expansion of coverage and liability by the courts and the legislatures in the past and the possibilities of similar interpretations in the future, there is significant uncertainty regarding the extent of the Group's ultimate liability. Accordingly, a significant amount of additional liability could develop. The Group's asbestos-related and environmental losses (including coverage dispute costs), for years ended December 31, were as follows:

Asbestos Loss Reserves

Gross and Net of Reinsurance:

<i>(In Thousands)</i>	2005	2006	2007	2008	2009
Beginning reserves	\$ 507	\$ 523	\$ 502	\$ 406	\$ 416
Incurred losses and LAE	111	205	30	89	268
Payments	95	226	126	79	335
Ending reserves	<u>\$ 523</u>	<u>\$ 502</u>	<u>\$ 406</u>	<u>\$416</u>	<u>\$349</u>

At December 31, 2009, the Group held IBNR and LAE reserves related to asbestos coverage in the amount of \$235,000 on a gross and net basis.

Environmental Loss Reserves

Gross and Net of Reinsurance:

<i>(In Thousands)</i>	2005	2006	2007	2008	2009
Beginning reserves	\$ 3,219	\$ 3,153	\$ 1,993	\$ 2,273	\$ 2,173
Incurred losses and LAE	359	(600)	763	160	48
Payments	425	560	483	260	95
Ending reserves	<u>\$ 3,153</u>	<u>\$ 1,993</u>	<u>\$ 2,273</u>	<u>\$ 2,173</u>	<u>\$ 2,126</u>

At December 31, 2009, the Group held IBNR and LAE reserves related to environmental coverage of \$1,365,000 on a gross and net basis.

8. Capital and Surplus

Property/casualty insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property/casualty insurance company is to be determined based on the various risk factors related to it. At December 31, 2009, the Group meets the RBC requirements.

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During 2008 the parent of NGM, MSAG, provided additional paid in capital of \$34,519,000.

The payment of dividends by the Group to shareholders is limited and can only be made from earned profits unless prior approval is received from the Insurance Commissioner of the state of domicile. The maximum amount of dividends that may be paid by property-casualty insurance companies without prior approval of the Insurance Commissioner also is subject to restrictions relating to statutory surplus and net income. In 2009, NGM and MSAAC can pay dividends of \$69,197,000 and \$9,503,000 respectively, without the prior approval of the Florida Insurance Commissioner.

The Board of Directors approved a dividend of \$10,000,000 from MSAAC to its parent MSAFC during 2009. Additionally, the Board of Directors approved dividend payments by NGM to its parent MSAG of \$10,606,000 and \$11,318,000 during 2009 and 2008, respectively.

9. Related Party Transactions

The Group shares office facilities and personnel with its subsidiaries. Such shared costs and expenses are allocated to the Group and its subsidiaries based on time and usage studies and those allocations would vary depending on the assumptions underlying those studies. The Group's allocated expenses to uncombined subsidiaries were \$300,000 and \$584,000 in 2009 and 2008, respectively. Amounts due from and to uncombined subsidiaries were \$177,000 receivable and \$12,484,000 payable in 2009 and 2008, respectively.

10. Leases

The Group leases office space and equipment under lease agreements that expire at various intervals over the next five years and are subject to renewal options at market rates prevailing at the time of renewal. Rental expense for all leases was \$6,039,000 and \$5,556,000 for the years ended 2009 and 2008, respectively.

The Group entered into sale-leaseback transactions with unrelated parties as of December 30, 2008 for the sale of software and fixed assets in the amount of \$20,905,000. The assets were sold at book value and no gains or losses were recognized. The lease terms are for three years; annual lease payments are \$7,562,000. Leased assets may be repurchased for a nominal amount at the end of the lease term.

At December 31, 2009, future minimum payments under noncancellable leases are as follows:

2010	2011	2012	2013	2014	Thereafter	Total
\$ 12,769,000	\$ 11,362,000	\$ 1,897,000	\$ 695,000	\$ 564,000	\$ 564,000	\$ 27,851,000

11. Commitments and Contingencies

The Group is named as a defendant in various legal actions arising principally from claims made under insurance policies and contracts. The Group considers these actions when estimating the loss and loss adjustment expense reserves. The Group's management believes the resolution of these actions will not have a material effect on the Group's financial position or results of operations.

The Group has guaranteed a third party loan of \$5,000,000. If this third party defaults on their loan obligations, the Group will be responsible for the balance of the outstanding loan. The Group has not had to, and does not expect to, fund any amounts related to its guarantee.

The Group is assessed amounts by state guaranty funds to cover losses to policyholders of insolvent insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states and from recoveries from the estates of insolvent insurance companies. At December 31, 2009 and 2008, the Group has accrued \$650,000 and \$925,000, respectively, for guaranty fund assessments. A receivable for future premium tax deductions related to these assessments of \$471,000 and \$610,000 was recorded at December 31, 2009 and 2008, respectively. The period over which the assessments are expected to be paid and the recorded premium tax offsets and/or policy surcharges are expected to be realized is up to 10 years. Expenses incurred for guaranty fund assessments were \$(160,000) and \$(100,000) in 2009 and 2008, respectively.

The Group has little exposure to the risks and uncertainties related to the credit crisis.

The Group has a line of credit agreement with Wachovia Bank for \$10,000,000, with an interest rate of LIBOR plus

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1.5%; \$3,000,000 is outstanding as of December 31, 2009.

Management has assessed and concluded that there were no material subsequent events through March 10, 2010, the date that the 2009 audited financial statements were published.

12. Surplus Notes

The Group has issued the following surplus notes:

Date Issued	Interest Rate at December 31, 2009	Par Value	Carrying Value	Total Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid Cumulative	Unapproved Principal and/or Interest	Date of Maturity
12/4/2002	4.26%	\$15,000,000	\$15,000,000	\$ 777,000	\$ 7,418,000	None	12/4/2032
5/15/2003	4.37%	\$15,000,000	\$15,000,000	\$ 802,000	\$ 7,076,000	None	5/15/2033

The interest rate on the 12/4/2002 Surplus Note varies (3-Month LIBOR plus 4%) on a quarterly basis provided, however, that prior to December 4, 2008, the interest rate shall not exceed 12.5%. This Surplus Note was sold for cash to I-Preferred Term Securities I, Ltd., an unaffiliated Company, and is callable at par on or after December 4, 2008.

The interest rate on the 5/15/2003 surplus note varies (3-Month LIBOR plus 4.1%) on a quarterly basis provided, however, that prior to May 15, 2008, the interest rate shall not exceed 12.5%. This surplus note was sold for cash to I-Preferred Term Securities II, Ltd., an unaffiliated Company, and is callable at par on or after May 15, 2008. The Florida Insurance Commissioner must approve in advance, interest, and principal payments on these surplus notes. The payment by the Group of the principal and interest of both surplus notes are subordinated and junior in right of payment to the prior payment in full of all policy claims and senior indebtedness of the Group.

13. Transferable State Tax Credits

The carrying value and the amount of unused transferable state tax credits available are as follows:

State	Carrying Value	Unused Credits
Connecticut	\$ 896,000	\$ 1,400,000
Massachusetts	912,000	1,205,000
North Carolina	99,000	386,000
South Carolina	461,000	726,000
Virginia	285,000	1,251,000
Total	\$ 2,653,000	\$ 4,968,000

Utilization of tax credits is based on projected State tax liabilities; the Group expects to fully utilize these credits during 2010.

14. Employee Benefits

The Group sponsors a noncontributory defined benefit retirement plan, which provides benefits to substantially all employees based upon compensation and length of service. Contributions to the plan are at least equal to the ERISA minimum funding requirements. Plan assets consist primarily of common stock, investment-grade corporate bonds, and U.S. government obligations.

The Group has a Profit Sharing Retirement Plan in which substantially all employees are eligible to participate and a deferred compensation plan for senior management. The Group contributed \$1,920,000 and \$1,951,000 in 2009 and 2008, respectively, to the Profit Sharing Retirement Plan.

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Certain health care and life insurance benefits are provided for retired employees. Substantially all employees become eligible for those benefits if they reach age 55, with 15 years of service. Plan benefits terminate at age 65. The cost of postretirement benefits is initially recognized when the employee becomes vested and the remainder is recognized over the employees working life. The health care cost trend was 9.00% during 2009, decreasing to 5.00% in 2017 and future years. The health care cost trend was 10.00% during 2008, decreasing to 5.00% in 2013 and future years.

The Group uses a December 31 measurement date for its pension and postretirement benefit plans. The Group expects to make a \$4,000,000 contribution to the defined benefit pension plan in 2010; however, the Group monitors changes in interest rates and the return on pension plan assets and will make adjustments to contributions as needed.

The Groups pension plan weighted-average asset allocations by asset category are as follows:

	Year Ended December 31		
	Target	2009	2008
Equity securities	55% - 65%	52.1%	54.0%
Debt securities	35% - 45%	40.4%	41.2%
Other	0% - 2%	7.5%	4.8%
Total		100.0%	100.0%

The expected return on plan assets of 8.5% is based on the Group's allocation of assets of 60% to equities and 40% to bonds, plus or minus 5%, and the 10-year historical returns of the S&P 500 and the U.S. Lehman Aggregate.

Expected benefit payments for years ended December 31, are as follows:

(In Thousands)

	2010	2011	2012	2013	2014	2015 through 2019
Pension plan	\$ 6,772	\$ 6,764	\$ 7,800	\$ 8,396	\$ 7,657	\$ 42,122
Postretirement plan	\$ 340	\$ 406	\$ 375	\$ 450	\$ 522	\$ 3,474

Health care cost trend rate assumptions have a significant effect on the amounts reported for health care plans. A 1% change in the assumed health care cost trend rates, for years ended December 31, would have the following effects:

(In Thousands)

	Postretirement Benefits			
	1% Increase		1% Decrease	
	2009	2008	2009	2008
Effect on the benefit obligation	\$ 98	\$ 92	\$ (94)	\$ (87)
Effect on total of service and interest cost components	\$ 15	\$ 34	\$ (14)	\$ (32)

Excess Employee Retirement Plan

The Group has entered into excess retirement income agreements with certain employees. Benefits under those agreements vest at normal retirement or disability. The Group accrues the liability for each agreement over the period from inception to retirement. The expense for those agreements amounted to \$(104,000) and \$(323,000) in 2009 and 2008, respectively. The Projected Benefit Obligation was \$1,162,000 and the Accumulated Benefit Obligation was \$824,000 as of December 31, 2009. The liability recognized in the statement of financial position as of December 31, 2009 is \$824,000.

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A summary of assets, obligations and assumptions of the Pension and Postretirement Benefit Plans, for years ended December 31, are as follows:

(In Thousands)

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Change in Projected Benefit Obligation (PBO):				
PBO at beginning of year	\$ 70,102	\$ 77,380	\$ 2,533	\$ 2,465
Service cost	3,826	4,530	114	400
Interest cost	5,192	4,474	186	141
Plan change	-	-	-	-
Actuarial (gain)/loss (excluding assumption change)	539	(312)	151	83
Actuarial (gain)/loss (due to assumption change)	11,807	(11,087)	230	(365)
Benefits paid to participants	(4,103)	(4,883)	(212)	(191)
PBO at end of year	<u>\$ 87,363</u>	<u>\$ 70,102</u>	<u>\$ 3,002</u>	<u>\$ 2,533</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 65,391	\$ 79,661	\$ -	\$ -
Actual return on plan assets	16,296	(21,887)	-	-
Employer contribution	6,450	12,500	-	-
Benefits paid	(4,103)	(4,883)	-	-
Fair value of plan assets at end of year	<u>\$ 84,034</u>	<u>\$ 65,391</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status:				
Excess of the PBO over plan assets	\$ (3,329)	\$ (4,711)	\$ (3,002)	\$ (2,533)
Unamortized prior service cost	146	188	-	-
Unrecognized net actuarial (gain)/loss	32,162	33,566	36	(376)
Prepaid asset/(accrued liability)	<u>\$ 28,979</u>	<u>\$ 29,043</u>	<u>(2,966)</u>	<u>(2,909)</u>
Amount recognized in the financial statements:				
Prepaid asset/(accrued liability)	\$ 29,309	\$ 29,373	\$ (3,002)	\$ (2,533)
Nonadmitted asset	(29,309)	(29,373)	-	-
Net accrued benefit cost	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,002)</u>	<u>\$ (2,533)</u>
PBO for non-vested employees	\$ 324	\$ 275	\$ 3,105	\$ 2,168
Accumulated Benefit Obligation (ABO)	\$ 79,014	\$ 63,763	\$ 3,002	\$ 2,533
ABO for nonvested employees	\$ 233	\$ 210	\$ 3,105	\$ 2,168
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	6.00%	7.75%	6.00%	7.75%
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Expected compensation increase (Age Graded Rates)	3% to 6%	3% to 6%	N/A	N/A
Components of net periodic benefit cost:				
Service cost	\$ 3,826	\$ 4,530	\$ 114	\$ 400
Interest cost	5,192	4,474	186	141
Expected return on plan assets	(5,294)	(6,532)	-	-
Amount of recognized losses	2,747	978	(31)	-
Amount of prior service cost recognized	43	43	-	-
Total net periodic benefit cost	<u>\$ 6,514</u>	<u>\$ 3,493</u>	<u>\$ 269</u>	<u>\$ 541</u>
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	7.75%	6.00%	7.75%	6.00%
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Expected compensation increase (Age Graded Rates)	3% to 6%	3% to 6%	N/A	N/A