Group Affiliation: Nationwide Group

NATIONWIDE INSURANCE COMPANY OF AMERICA

Madison, Wisconsin, United States
1100 Locust Street, Department 2007, Des Moines, Iowa, United States 50391-2007
Web: www.nationwide.com

Tel: 515-508-4211 **NAIC#:** 25453
AMB#: 02513
FEIN#: 95-2130882

BEST'S RATING

Based on our opinion of the company's Financial Strength and relationship with an affiliated reinsurer, which reinsures virtually all of the company's business, the company is assigned the Best's Rating of its affiliated reinsurer, AMCO Insurance Company, which is A+ (Superior). The company is assigned the Financial Size Category of Class XV, which is the Financial Size Category of its affiliated reinsurer.

RATING RATIONALE

The following text is derived from the report of Nationwide Group.

Rating Rationale: The rating reflects Nationwide Group's (Nationwide) superior capitalization, favorable core operating performance, significant market presence and brand-name recognition. These positive rating factors are the result of Nationwide's capital management strategies, its multi-variant pricing model, strict underwriting guidelines, extensive market knowledge and diversified product mix. The rating also reflects the additional diversification and financial flexibility afforded by a corporate structure that includes its publicly-traded holding company, Nationwide Financial Services, Inc. (NFS), parent of its life insurance subsidiaries, in which Nationwide maintains majority ownership.

Offsetting the positive rating factors are Nationwide's exposure to severe catastrophic events, which are mitigated by a comprehensive reinsurance program, and its legacy asbestos and environmental (A&E) claims that unfavorably influence loss reserve development. In addition, its underwriting expense ratio generally exceeds that of other personal lines carriers, primarily due to its somewhat elevated commission levels. The group also remains susceptible to competitive personal lines market conditions and to regulatory and legal decisions that impact profitability.

Nationwide utilizes multiple distribution channels that include exclusive and independent agents, direct sales via telephone and the Internet, as well as, direct marketing to affinity groups. Management's business acquisition strategy has enabled the group to increase its operating scale, provide solid platforms for running its agency distribution network and increase geographic diversification.

The rating is based on the consolidated financial position of the four Nationwide intercompany pool members, twenty-two reinsured affiliates and two separately-rated subsidiaries, Nationwide Indemnity Company (NIC) and Nationwide Insurance Company of Florida (NICOF).

Best's Rating: A+ r **Outlook: Stable**

FIVE YEAR RATING HISTORY

Date	Best's Rating
02/05/07	A+ r
05/03/06	A+ r
12/06/04	A+ r
06/04/04	A+ r
12/17/03	A+ r
06/06/03	A+ r
10/17/02	A+ r
06/20/02	A+ r

KEY FINANCIAL INDICATORS

	Statutory Data ($000)		
Period Ending	Direct Premiums Written	Net Premiums Written	Pretax Operating Income
2002	-75	…	3,646
2003	239	…	3,898
2004	45,036	…	3,957
2005	193,737	…	3,785
2006	403,106	…	4,442
09/2006	286,261	…	3,328
09/2007	442,315	…	3,027

	Statutory Data ($000)		
Period Ending	Net Income	Total Admitted Assets	Policy-holders' Surplus
2002	5,130	66,762	60,237
2003	5,493	73,426	66,945
2004	3,838	78,243	71,764
2005	4,771	76,440	76,307
2006	5,185	114,976	81,553
09/2006	3,817	121,060	80,180
09/2007	3,772	129,424	85,328

	Profitability			Leverage			Liquidity	
Period Ending	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev	Overall Liq (%)	Oper. Cash-flow (%)
2002	…	5.8	…	1.4	…	0.1	999.9	…
2003	…	5.8	…	1.1	…	0.1	999.9	999.9
2004	…	5.6	…	…	…	0.1	999.9	…
2005	…	5.2	…	1.3	…	0.0	999.9	999.9
2006	…	6.4	…	1.3	…	0.4	344.0	273.7
5-Yr Avg	…	5.8	0.0	…	…	…	…	…
09/2006	…	XX	…	XX	…	0.5	296.1	243.2
09/2007	…	XX	…	XX	…	0.5	293.5	178.9

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Private Passenger Auto & Homeowners Composite.

BUSINESS REVIEW

On December 31, 1997, Nationwide Mutual Insurance Company acquired Nationwide Insurance Company of America (formerly TIG Countrywide Insurance Company) as a shell company from TIG Holdings, Inc. (TIG), and concurrently acquired TIG's independent agency personal lines business. Until the products associated with this business can be filed for Nationwide Insurance Company of America in the appropriate states, the business produced will remain in TIG Holdings and be fully reinsured with Nationwide Insurance Company of America under a 100% quota share agreement.

Nationwide Insurance Company of America writes only personal lines insurance, including automobile, homeowners, dwelling fire, mobile home, boats, personal umbrella, and personal lines earthquake coverage. Automobile coverages represent approximately two-thirds of its net writings and property one-third. Over 20% of the company's property book is up-scale homeowners business.

Affiliations: The company is a member of the Insurance Services Office, Michigan Insurance Federation, Michigan Association of Insurance Companies and the Professional Insurance Agents Association (California).

Direct Premium Writings By Product Lines: Direct Premiums written at the last year end totaled ($000) $403,106, and were distributed as follows: Priv Pass Auto Liab, $235,798; Auto Physical, $140,906; Homeowners, $21,907; All Other, $4,494.

Major 2006 Direct Premium Writings By State ($000): Pennsylvania, $143,798 (35.7%); Ohio, $57,633 (14.3%); New York, $36,743 (9.1%); Maryland, $32,063 (8.0%); Arizona, $22,436 (5.6%); 20 other jurisdictions, $110,432 (27.4%).

FINANCIAL PERFORMANCE

The following text is derived from the report of Nationwide Group.

Overall Earnings: Nationwide's earnings fluctuated over the past five years due to underwriting losses and declining interest rates. Earnings improved in 2002 as rate increases developed through earned premiums and interest rates stabilized. The group's five-year average pre-tax operating returns and total returns were below the composite, th latter a result of the significant unrealized capital losses recognized earlier in the latest five-year period on the group's common stock portfolio and affiliated investments.

Operating results reflect the adoption of strict underwriting principles and increased rates primarily in its personal lines book of business. However, earnings were impacted by four Florida hurricanes in 2004 and Hurricane Wilma in 2005 that resulted in underwriting losses as reflected in the higher combined ratios reported in each of those years. In addition to significant rate increases, management implemented underwriting and agency management strategies designed to sustain positive underwriting results. These strategies included re-underwriting initiatives, risk segmentation and technological enhancements. In addition, the group continued to expand its customer access points, diversify its spread of risk to the mid-west and western portion of the

U.S. and re-focus on its core competencies.

The group's diversified fixed-income portfolio produced average five-year investment yields that were consistent with the industry composite and a robust stream of investment income that offset underwriting losses. In addition, realized capital gains on its equity portfolio supported operating earnings in 2003 and later years. The group's common stocks and sizable affiliated holdings pushed investment leverage above the industry average and limited the average return on invested assets. In addition to its property and casualty operations, the group's earnings stream is diversified through its 63% ownership of Nationwide Financial Services, Inc. (NFS), however, the volatility in the value of the NFS' common stock also impacted the group's capitalization over the past five years.

PROFITABILITY ANALYSIS

	Company				Industry Composite			
Period Ending	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio
2002	…	8.6	…	…	0.4	-8.5	106.3	98.9
2003	…	8.7	…	…	7.3	17.8	99.3	92.4
2004	…	5.6	…	…	10.8	14.5	95.7	88.9
2005	…	6.4	…	…	8.6	9.9	99.2	91.8
2006	…	6.6	…	…	14.4	17.6	93.9	85.8
5-Yr Avg	0.0	7.1	…	…	8.6	11.0	98.6	91.3
09/2006	…	XX	…	…	XX	XX	XX	XX
09/2007	…	XX	…	…	XX	XX	XX	XX

Underwriting Income: Although Nationwide's underwriting performance was impacted by competitive market conditions, escalating loss costs and significant weather-related losses, its five-year average combined ratio slightly outperformed the industry composite. The group's volatile underwriting results are illustrated by the improved levels of profitability in 2002 and 2003 followed by the significant hurricane events of 2004 and 2005 that contributed several points to the combined ratio in each of those years.

The group contained its operating expenses through a decentralized operating structure and controlled its loss and loss adjustment expenses. Underwriting results were impacted by increased automobile loss costs which, several times during this period, outpaced premium rate increases. However, the group steadily increased automobile rates and tightened underwriting guidelines which contributed to the improvement in loss experience. In addition, loss frequency and severity related to its commercial property book of business increased during the past five years. This commercial business was subject to rate increases, re-underwriting initiatives and refined risk segmentation. These actions, as well as management's efforts to focus on Nationwide's core personal and main-street commercial lines of business have begun to be reflected in the group's underwriting results.

Additional reserving of asbestos and environmental (A&E) claims continued to impact the group's underwriting results. These reserves were recorded on the Nationwide Indemnity Company for purposes of better monitoring this aspect of the group's loss reserve development. In 2004, A&E reserves were strengthened by approximately $505 million, by $725 million in 2005 and by $209 million in 2006 following annual loss reserve development reviews. The majority of the group's Florida hurricane exposure is confined to Nationwide Insurance Company of Florida (NICOF) which was unfavorably impacted by the four significant 2004 Florida hurricanes and Hurricane Wilma in 2005.

Due to its decentralized organizational structure, the group has been able to focus on specific target markets and establish solid platforms for running its multiple distribution network and geographic diversification strategy throughout the United States. Furthermore, the group continued to acquire small to medium size insurance organizations, such as THI Holdings' non-standard automobile book of business in 2003, which enhanced the group's product distribution network. The group's underwriting results will continue to be highly influenced by competitive market conditions and legislative decisions.

UNDERWRITING EXPERIENCE

	Net Undrw	Loss Ratios			Expense Ratios				
	Income	Pure		Loss &	Net	Other	Total	Div.	Comb
Year	($000)	Loss	LAE	LAE	Comm	Exp.	Exp.	Pol.	Ratio
2002	…	…	…	…	…	…	…	…	…
2003	…	…	…	…	…	…	…	…	…
2004	…	…	…	…	…	…	…	…	…
2005	9	…	…	…	…	…	…	…	…
2006	…	…	…	…	…	…	…	…	…
5-Yr Avg	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	…
09/2006	…	…	…	…	XX	XX	…	…	…
09/2007	…	…	…	…	XX	XX	…	…	…

Investment Income: Nationwide's investment portfolio primarily consists of high quality fixed-income securities followed by affiliated investments and equity holdings. Affiliated investments represent nearly 20% of invested assets and are mainly related to the ownership of Nationwide Financial Services, Inc. (NFS), the intermediate holding company of its life insurance subsidiaries. Investment returns were impacted by the the substantial holdings of fixed income securities as well as the level of affiliated investments. For the past five years on average, investment yields and total investment returns were comparable to the industry composite. The group's investment portfolio provided a steady flow of net investment income that generally offset underwriting losses.

INVESTMENT INCOME ANALYSIS ($000)

	Company		
	Net	Realized	Unrealized
	Inv	Capital	Capital
Year	Income	Gains	Gains
2002	3,646	171	-167
2003	3,898	34	45
2004	3,957	-155	63
2005	3,776	-65	-67
2006	4,442	-61	40
09/2006	3,328	-130	37
09/2007	3,027	55	1

	Company			Industry Composite	
	Inv Inc	Inv	Total	Inv Inc	Inv
	Growth	Yield	Return	Growth	Yield
Year	(%)	(%)	(%)	(%)	(%)
2002	6.0	5.8	5.9	-4.1	4.5
2003	6.9	5.8	6.0	1.3	4.3
2004	1.5	5.6	5.4	5.3	4.1
2005	-4.6	5.2	5.0	12.6	4.3
2006	17.6	6.4	6.4	10.8	4.4
5-Yr Avg	5.4	5.8	5.7	5.4	4.3
09/2006	XX	XX	4.4	XX	XX
09/2007	XX	XX	4.1	XX	XX

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2006 Inv Assets ($000)	% of Invested Assets 2006	% of Invested Assets 2005	Annual % Chg
Long-Term bonds	65,758	93.8	81.2	10.2
Other Inv Assets	4,368	6.2	18.8	-68.5
Total	70,126	100.0	100.0	-4.7

2006 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt Val to Stmt Val(%)	Avg. Maturity (Yrs)	Class 1 - 2 (%)	Class 3 - 6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments	20.6	0.0	13.2	100.0	…	…	…
States, terr & poss	51.8	3.9	4.4	100.0	…	1.8	0.7
Corporates	27.6	1.5	3.1	94.5	5.5	22.3	5.0
Total all bonds	100.0	2.4	5.9	98.5	1.5	7.1	5.7

CAPITALIZATION

The following text is derived from the report of Nationwide Group.

Nationwide Group's capitalization, as evidenced by its Best's Capital Adequacy Ratio (BCAR) is strong and supports the current rating. This capitalization reflects the group's elevated underwriting leverage and investment leverage positions. Nationwide's policyholders' surplus was impacted in earlier years by volatile operating performance and unrealized capital losses from both affiliated and unaffiliated equity holdings, however, in more recent years, improved operating performance and realized and unrealized capital gains produced increases in surplus.

From 2003 through 2005, Nationwide Mutual made combined capital contributions of $925 million to Nationwide Indemnity Company to provide protection against adverse loss development of its A&E exposure and to support discontinued operations. Additional contributions of $250 million were made to Nationwide Insurance Company of Florida (NICOF) during 2004 and 2005 to partially replace surplus lost following the four Florida hurricanes in 2004 and Hurricane Wilma in 2005. In 2003, $402 million of pre-tax equity under the group's stop loss treaty was commuted into the group and the stop loss reinsurance treaty was terminated.

Nationwide Mutual has three surplus notes outstanding with an aggregate value of $1.1 billion. Proceeds from these issues were used to fund new business growth and for other general business purposes. Nationwide Mutual also maintains a contingent surplus note vehicle through a special-purpose trust subsidiary, North Front Pass-Through Trust. Under this arrangement, the trust issued $400 million in notes payable and purchased U.S. Treasury securities with the proceeds. Should the need arise, Nationwide Mutual maintains the right to issue a surplus note payable to the trust and receive the equivalent amount of cash and/or securities in order to maintain the group's ongoing insurance operations.

The group's comprehensive reinsurance coverage and surplus note program reduces Nationwide's net, after-tax probable maximum loss (PML) arising from a 100-year hurricane event to approximately 10% of its reported policyholders' surplus.

CAPITAL GENERATION ANALYSIS ($000)

	Source of Surplus Growth		
Year	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital
2002	3,646	4	…
2003	3,898	79	…
2004	3,957	-91	…
2005	3,785	-132	…
2006	4,442	-21	…
5-Yr Total	19,728	-161	0
09/2006	3,328	-94	…
09/2007	3,027	56	…

	Source of Surplus Growth		
Year	Other, Net of Tax	Change in PHS	PHS Growth (%)
2002	1,077	4,727	8.5
2003	2,732	6,708	11.1
2004	953	4,819	7.2
2005	889	4,542	6.3
2006	825	5,247	6.9
5-Yr Total	6,476	26,044	…
09/2006	639	3,873	5.1
09/2007	691	3,774	4.6

QUALITY OF SURPLUS ($000)

		% of PHS			Dividend Requirements		
Year	Year-End PHS	Cap Stk/ Contrib. Cap.	Other	Un-assigned Surplus	Stock-holder Divs	Div to POI (%)	Div to Net Inc. (%)
2002	60,237	129.4	…	-29.4	…	…	…
2003	66,945	116.5	…	-16.5	…	…	…
2004	71,764	108.6	…	-8.6	…	…	…
2005	76,307	102.2	…	-2.2	…	…	…
2006	81,553	95.6	…	4.4	…	…	…
09/2006	80,180	97.2	…	2.8	…	…	…
09/2007	85,328	91.4	…	8.6	…	…	…

LEVERAGE ANALYSIS

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev
2002	…	…	0.1	0.1	1.5	0.9	3.4	3.6
2003	…	…	0.1	0.1	1.4	0.8	3.1	3.3
2004	…	…	0.1	0.1	1.3	0.8	2.9	3.1
2005	…	…	0.0	0.0	1.2	0.8	2.8	3.0
2006	…	…	0.4	0.4	1.1	0.6	2.4	2.6
09/2006	…	…	0.5	XX	XX	XX	XX	XX
09/2007	…	…	0.5	XX	XX	XX	XX	XX

Current BCAR: 245.3

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period	DPW		GPW	
Ending	($000)	(% Chg)	($000)	(% Chg)
2002	-75	-99.9	1,491	-96.7
2003	239	420.2	1,547	3.8
2004	45,036	999.9	45,458	999.9
2005	193,737	330.2	193,739	326.2
2006	403,106	108.1	403,106	108.1
5-Yr CAGR	…	56.1	…	54.7
5-Yr Change	…	826.3	…	786.4
09/2006	286,261	122.4	286,261	122.4
09/2007	442,315	54.5	442,315	54.5

Reserve Quality: Since Nationwide's loss reserves include both ongoing and discontinued operations, the development of its original reserves are somewhat skewed. Ongoing operations have generated modest redundancies in most accident years.

According to A.M. Best's estimates, Nationwide Group ranks among the top five insurers in the nation with an approximate 2.2% historic market share in commercial lines that are exposed to ongoing A&E claims emergence. Much of Nationwide' potential A&E liability exposure stems from policies assumed through various reinsurance agreements and from a former affiliate. On December 31, 1998, Nationwide Indemnity assumed loss and loss adjustment expense (LAE) reserves totaling $2 billion as a result of two loss portfolio transfers. First, the company assumed from the Wausau Companies, liability for all losses and LAE related to its discontinued operations totaling nearly $1.4 billion including A&E reserves of approximately $646 million. In addition, the company assumed from Nationwide Mutual Insurance Company liability for all losses and LAE related to business Nationwide Mutual assumed from National Casualty Company, an affiliate, and certain other assumed contracts as defined in the reinsurance contract. The total amount transferred, which were primarily reserves for A&E claims, was approximately $676 million. Assumption of these two portfolios established Nationwide Indemnity as the runoff entity for Nationwide's discontinued operations.

Nationwide completed a ground-up analysis of its ultimate A&E liability in 2004. This analysis incorporated several methods of market share modeling of emergence patterns, as well as a detailed analysis of policy limits and exposures conducted by an internal loss reserve working group (LRWG). As a result of this study, Nationwide Indemnity strengthened its A&E reserves approximately $500 million in 2004, $725 million in 2005 and $209 million in 2006. In light of the ongoing litigation surrounding A&E claims, the potential for further adverse development remains.

2006 REINSURANCE RECOVERABLES ($000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates	108,528	52,656	125,249	33	286,466
Grand Total	108,528	52,656	125,249	33	286,466

* Includes Commissions less Funds Withheld

Investment Leverage: Nationwide Group's holdings of non-investment grade bonds, common stock and real estate raises its non-affiliated investment leverage to approximately 53% of reported policyholders' surplus. The non-investment grade bond holdings are the result of the downgrading of credit ratings that occurred several years ago, however, these investments as a percentage of surplus, have since declined. The elevated affiliated investment leverage reflects the significant investment in holding company Nationwide Financial Services (NFS), which, in turn, fully-owns Nationwide Life Insurance Company and several other life subsidiaries.

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affl Inv. Lev.	Affil Inv.	Class 3-6 Bonds	Common Stocks
2002	1.4	…	…	…	1.4	…	4.9	47.0
2003	1.1	…	…	…	1.1	…	4.1	48.7
2004	…	…	…	…	…	…	3.1	46.0
2005	1.3	…	…	…	1.3	…	3.3	44.3
2006	1.2	…	0.0	…	1.3	…	2.7	44.7

LIQUIDITY

The following text is derived from the report of Nationwide Group.

All of Nationwide's historical measures of liquidity (quick, current and overall ratios) were slightly unfavorable compared to the personal lines composite. Liquidity was enhanced by the positive operating cash flows generated during each of the last five years. The group's invested assets are predominantly held in the form of fixed-income securities that provide an adequate rate of return and have maturities that closely match the expected payout of losses and expenses. Liquidity is further enhanced through Nationwide's special purpose trust subsidiary, Nationwide CSN Trust, which potentially provides for an additional source of funding of up to $400 million, should the need arise.

LIQUIDITY ANALYSIS

	Company				Industry Composite			
Year	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)	Quick Liq (%)	Current Liq (%)	Overall Liq (%)	Gross Agents Bal to PHS(%)
2002	183.2	999.9	999.9	…	37.9	120.0	152.9	8.5
2003	119.6	999.9	999.9	…	39.7	126.1	158.5	8.2
2004	233.4	999.9	999.9	…	40.2	130.0	162.3	7.0
2005	999.9	999.9	999.9	…	37.9	128.6	161.9	7.0
2006	999.9	999.9	344.0	…	44.1	141.1	173.4	5.4
09/2006	XX	189.8	296.1	…	XX	XX	XX	XX
09/2007	XX	187.9	293.5	…	XX	XX	XX	XX

CASH FLOW ANALYSIS ($000)

	Company					Industry Composite	
Year	Underw Cash Flow	Oper Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper Cash Flow (%)	Underw Cash Flow (%)	Oper Cash Flow (%)
2002	…	5,273	-355	…	…	98.5	108.0
2003	…	3,888	-3,474	…	999.9	106.4	114.1
2004	…	4,840	7,469	…	…	109.5	113.9
2005	-63	4,871	3,796	…	999.9	105.0	109.7
2006	15,134	31,775	-9,571	182.7	273.7	107.3	113.3
09/2006	26,149	21,094	-4,647	277.5	243.2	XX	XX
09/2007	2,979	5,844	24,954	140.2	178.9	XX	XX

HISTORY

The company was founded in 1926 as Wolverine Insurance Company. It was incorporated on June 30, 1960 under the laws of California as the Spartan Insurance Company and began business on August 31, 1960. In 1962, the company was purchased by Transamerica Insurance Company. The corporate title was changed to Countrywide Insurance Company on April 12, 1968, to Transamerica Countrywide Insurance Company on July 1, 1981 and back to Countrywide Insurance Company on January 3, 1985. On August 17, 1990, the title was changed again to its former name, Transamerica Countrywide Insurance Company. In 1993, the company was purchased and taken public by TIG Holdings, Inc. through public offerings in April and December. The title, TIG Countrywide Insurance Company, was adopted on December 31, 1993, after the second offering, which reduced Transamerica's ownership interest to zero. Nationwide Mutual Insurance Company acquired TIG Countrywide as a shell from TIG Holdings on December 31, 1997, concurrent with its acquisition of TIG Holdings' independent agency personal lines business, which TIG Countrywide assumed. The current title was adopted on January 2, 1999.

Capital paid-up of $3,375,000 consists of 12,500 common shares at $270 par value each. The company has 30,000 shares authorized.

MANAGEMENT

Presently, direct ownership is held by Nationwide Mutual Insurance Company.

Officers: President and Chief Operating Officer, Katherine A. Mabe; Executive Vice President and Chief Financial Officer, Robert A. Rosholt (Finance, Investments and Strategy); Executive Vice President and Chief Administrative Officer, Terri L. Hill; Executive Vice President, Patricia R. Hatler (Chief Legal and Governance Officer); Senior Vice President and Chief Investment Officer, Gail G. Snyder; Senior Vice Presidents, W. Kim Austen, James R. Burke (Property and Casualty Commercial/Farm Product Pricing), Judith L. Greenstein (Property and Casualty Personal Lines Product Pricing), David R. Jahn (P&C Claims); Treasurer, Wendell P. Crosser.

Directors: J. Lynn Greenstein, David R. Jahn, Gale V. King, Eileen A. Mallesch, R. Lee Morton, Stephen S. Rasmussen, Douglas C. Robinette, Richard M. Waggoner.

REGULATORY

An examination of the financial condition is being made as of December 31, 2006 by the Insurance Department of California. The 2006 annual independent audit of the company was conducted by KPMG, LLP. The annual statement of actuarial opinion is provided by Gary F. Scherer, Allied Insurance.

TERRITORY

The company is licensed in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, ID, IL, IN, IA, KS, KY, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NJ, NM, NY, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WA, WV, WI and WY.

REINSURANCE PROGRAMS

Various excess of loss reinsurance treaties are maintained jointly with companion carriers on the following lines: commercial umbrella coverage of $9 million with a retention of $1 million; property coverage of $3 million with retention of $2 million per risk; property catastrophe and a personal umbrella cover for $9.75 million excess a $250,000 retention. Additionally, other quota share agreements are maintained.

The company is a covered reassured under various Nationwide Mutual Insurance Company reinsurance treaties.

BALANCE SHEET ($000)

ADMITTED ASSETS	12/31/2006	12/31/2005	2006 %	2005 %
Bonds	65,758	59,689	57.2	78.1
Cash & short-term invest	3,386	12,957	2.9	17.0
Other non-affil inv asset	28	…	0.0	…
Total invested assets	69,171	72,646	60.2	95.0
Premium balances	10,867	…	9.5	…
Accrued interest	955	902	0.8	1.2
All other assets	33,983	2,893	29.6	3.8
Total assets	114,976	76,440	100.0	100.0

LIABILITIES & SURPLUS	12/31/2006	12/31/2005	2006 %	2005 %
All other liabilities	33,423	134	29.1	0.2
Total liabilities	33,423	134	29.1	0.2
Capital & assigned surplus	77,966	77,966	67.8	102.0
Unassigned surplus	3,587	-1,660	3.1	-2.2
Total policyholders' surplus	81,553	76,307	70.9	99.8
Total liabilities & surplus	114,976	76,440	100.0	100.0

SUMMARY OF 2006 OPERATIONS ($000)

STATEMENT OF INCOME	12/31/2006	FUNDS PROVIDED FROM OPERATIONS	12/31/2006
Premiums earned	…	Premiums collected	33,423
Losses incurred	…	Benefit & loss related pmts	18,289
Net underwriting income	…	Undrw cash flow	15,134
Net investment income	4,442	Investment income	4,623
Other income/expense	…	Other income/expense	10,867
Pre-tax oper income	4,442	Pre-tax cash operations	30,624
Realized capital gains	-61		
Income taxes incurred	-804	Income taxes pd (recov)	-1,151
Net income	5,185	Net oper cash flow	31,775

INTERIM BALANCE SHEET

ADMITTED ASSETS	03/31/2007	06/30/2007	09/30/2007
Cash & short term invest	12,869	14,939	28,340
Bonds	56,671	56,232	53,743
Other investments	23	28	23
Total investments	69,563	71,198	82,106
Premium balances	10,967	14,040	12,017
Reinsurance funds	25,786	23,943	25,983
Accrued interest	760	780	739
All other assets	18,148	14,672	8,580
Total assets	125,224	124,634	129,424

LIABILITIES & SURPLUS	03/31/2007	06/30/2007	09/30/2007
All other liabilities	42,346	40,566	44,096
Total liabilities	42,346	40,566	44,096
Capital & assigned surp	77,966	77,966	77,966
Unassigned surplus	4,912	6,102	7,361
Policyholders' surplus	82,878	84,068	85,328
Total liabilities & surplus	125,224	124,634	129,424

INTERIM INCOME STATEMENT

	Period Ended 09/30/2007	Period Ended 09/30/2006	Increase/ Decrease
Net investment income	3,027	3,328	-301
Pre-tax operating income	3,027	3,328	-301
Realized capital gains	55	-130	185
Income taxes incurred	-691	-620	-71
Net income	3,772	3,817	-45

INTERIM CASH FLOW

	Period Ended 09/30/2007	Period Ended 09/30/2006	Increase/ Decrease
Premiums collected	10,383	40,880	-30,496
Benefit & loss related pmts	7,404	14,730	-7,326
Undrw expenses paid	0	…	0
Underwriting cash flow	2,979	26,149	-23,170
Investment income	3,357	3,440	-83
Other income/expense	-1,149	-9,479	8,330
Pre-tax cash operations	5,187	20,111	-14,923
Income taxes pd (recov)	-657	-983	326
Net oper cash flow	5,844	21,094	-15,249