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MAIN STREET AMERICA GROUP

National Grange Mutual Insurance Company

Main Street America Financial Corporation

Main Street America Holdings, Inc.

MSA-Information Systems & Services Corporation

Main Street America Assurance Company

Old Dominion Insurance Company

Chairman's Message

Transitions: Building With Vision

Main Street America Group is ready! Building on milestones achieved in 2001, MSA Group is on course for the challenges ahead, ready for a planned and clear transition of leadership and positioned to build on the successes of 2001.

Main Street America Group has worked diligently to plot a clear course, always mindful of our customer. Our guiding principle has always been to take care of our independent agent customers better than anyone else. This principle is reflected in all our actions, from extraordinary claim service, to delivering functionality at our agents' desktops.

In the following pages, you will read about the many milestones Main Street America Group achieved in 2001. They were the culmination of efforts of both individuals and teams throughout our organization. And they were accomplished by keeping our agents in the forefront of our plans and objectives, while continuing to steer a consistent and clear course into the future.

Chairman's Message

2001 was indeed an incredible year. For the world it was a year filled with tragedy, renewed spirit and resolve, and many challenges. That same spirit, which is rebuilding America after the events of September 11, is clearly evident in the Main Street America Group. I applaud the efforts of our team, which have contributed to our organization achieving significant financial goals. We are extremely proud of our results and are confident our path remains true — directed toward our customers.

The new year, 2002, marks the beginning of a personal transition. Corporately it is an additional milestone that was well planned and comfortably executed. On January 1, Tom Van Berkel assumed the role of CEO and President. I am pleased to hand over a well performing company to Tom and his senior management team. Like MSA, they too are ready! I have every confidence in their abilities to grow the profits of our operations and to do so always mindful of our customer.

This transition is the culmination of years of challenges, accomplishments, and a lot of fun along the way. Main Street America Group has reached a level of success we can proudly say stands out in today's property and casualty marketplace. We say this confidently, but know we cannot rest on our successes. We must continue to build on what we have learned.

We are a company, which reflects the attitudes of its people. We've developed a philosophy that says hire people for who they are, not only for what they know. And, we hire people who love serving our customers, the independent insurance agent. Our employees demonstrate every day that they regard our customers as partners. We're in this together and we earn our way.

To our customers, be assured that MSA Group can take care of you and your policyholders better than anyone. We will work as partners in our quest to improve our mutual abilities to serve your customers. Toward this end, Tom Van Berkel has been involved in all aspects of the evolution. Tom understands the challenges facing the independent agent today. I have every confidence that he and the entire team will work tirelessly to make sure you have the right tools to compete effectively in the future.

To the MSA team, keep focusing on the initiatives that created today's successes. Main Street America Group is well positioned and will continue to be successful because we adhere to the long-accepted, consistent values of relationships, ownership, and service. In the transition, this will not change.

Phil Koerner
Chairman

Tom Van Berkel
President & CEO

I joined Main Street America Group in 1974 and since that time have seen the company evolve and grow in many areas, from product development and organizational structure to embracing the e-business culture. The one thing I haven't seen change is the commitment to our customer, the independent agent. I am proud!

In my new role as Chairman, I will focus on finding financial affiliations, mergers, and acquisitions that make good sense for our business. I don't expect it to be full time, and that fits nicely into my plans to enjoy spending more time in warmer weather!

The course is clear, our business is healthy, our strategy of customer intimacy is embraced by all of our team, and the future looks great! I wish the best for Tom, the entire Main Street America Team, and to each of our independent agency customers.

Phil

Phil Koerner
Chairman of the Board

Financial Strength, Profitable Growth

We at Main Street America Group have worked diligently to improve our insurance results through a series of pricing, underwriting, claims and agency relationship initiatives. We began to see the impact of these changes in 2000. Our continued rigorous execution has led us to an excellent 2001 underwriting result, and we continue to expect even better results over the next few years.

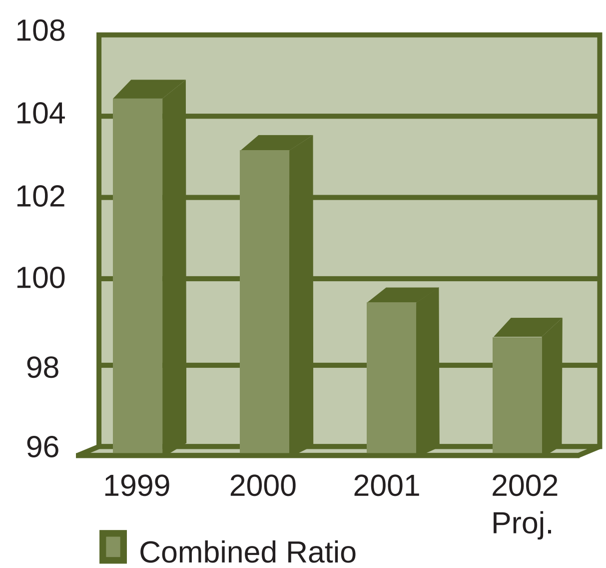
Right now we find ourselves in an enviable position relative to the property and casualty industry. We achieved a 99.8% combined ratio this year and are expecting to be near 99% in 2002. The industry may reach 118% in 2001, with a forecast of around 109% expected for 2002. Main Street America Group's net premium grew 15.6% in 2001 and our expectation is to grow close to that amount again in 2002. In both years we will significantly outperform the industry. With our solid capitalization, excellent franchise value, and recent upgrade to an "A" rating by AM Best, our expectations for results in 2002 and beyond are exciting.

The fundamentals of Main Street America's success are simple. We remain vigilant in executing the processes in achieving underwriting profitability. Our excellent results continue to be driven by solid premium growth and an improving loss ratio. Our efforts to extend this success are now focused on four key drivers: risk and rate balance, achievement of adequate rate levels, expeditious, fair, empathetic claims handling, and taking care of our customers, the independent agent, better than anyone else. The result will be the continuation of profitable growth.

We are proud of our stellar commercial lines results and our improved personal lines posture. Commercial lines grew 21%, with a combined ratio of 88%, while personal lines grew at 9%, with a combined ratio of 104%. All four of our regions exceeded their plans, with Syracuse and Jacksonville growing greater than 20%, and the New England and Southern regions growing by 10%. Our overall premium growth was driven by favorable results in all key components. The number of new policies written reached an all-time high at 107,000. The average premium per policy grew in most lines and most importantly, retention ratios improved.

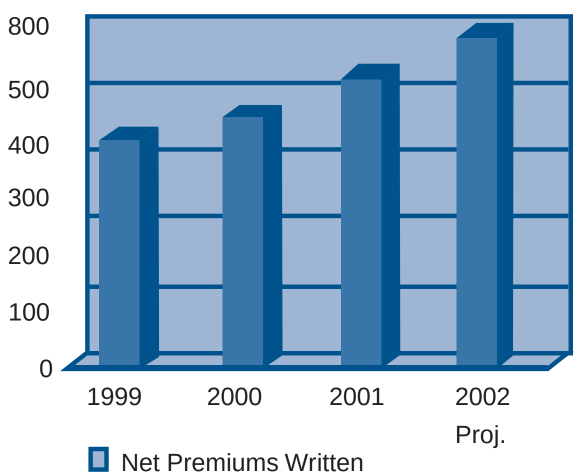
The loss ratio for 2001 was also reflective of our focus on the fundamentals of underwriting, pricing and claims handling. Corporately, our loss ratio for

Improving Profitability



Financial Strength, Profitable Growth cont.

Premium Growth



the year was 57.7%. More importantly, the underlying net loss ratio for our direct business was 56.4%. In our Business Owners line, our year-over-year loss ratio dropped by more than 11 points, and finished at a remarkable 38.5%. Similarly, our Personal Auto loss ratio dropped by almost 9 points and Commercial Auto improved by almost 14 points. Our Homeowners' and Workers' Comp businesses experienced year-over-year increases in their loss ratios, but in the case of Homeowners, we still look to be significantly better than the full year estimates for the industry. In Workers' Comp our loss ratio continues to be significantly better than the industry, as it has been for several years.

Main Street America Group's operating strategy has always included a "share in our success" philosophy, particularly with our customers, the independent agents. This year we welcomed an addition to our expense ratio by setting aside just over 2% of our premium in profit sharing commissions, the direct result of our success at attaining profitability and checks were in our customers' hands by mid-February!

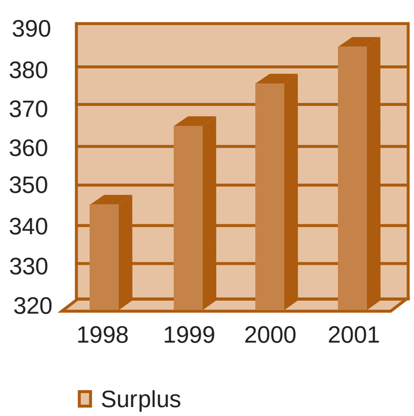
For the second year in a row, the poor performance of the stock market dampened our bottom line, despite improved insurance operating results. In 2002 we will take advantage of our return to underwriting profitability by lowering our reliance on the volatile equity market results. Instead, we will receive a more consistent income flow provided by a larger, and more diversified fixed income portfolio.

The MSA Group ended 2001 with a total of $387 million in Policyholders' Surplus and Shareholders' Equity. While that number did not grow by as much as we expected, we still maintain a very comfortable premium to surplus ratio of 1.3 to 1.

With our continuing commitment to the independent agent, we look to an even more profitable 2002.

The opportunity for growth and profitability is equally bright for our customers. Independent agents and consumers are attracted to financially strong insurers and the Main Street America Group is firmly in that category. Today we have solid franchise value. We want to build on that value, however,

Financial Strength



"With our solid capitalization, excellent franchise value and recent upgrade to an "A" rating by AM Best, our expectations for results 2002 and beyond are exciting."

Financial Strength, Profitable Growth cont.

by adding complete transaction functionality at our customer's desktop and by building more service differentiation. This positions our enterprise for superior results in all market cycles. In 2001, we enhanced our Web site and delivered Personal Auto Change Requests on-line and expect to deliver Homeowner Change Requests and some additional commercial functionality in 2002.

MSA Group is well positioned to capitalize on the today's hard market opportunities and will do so while maintaining our focus on superior financial results. We want quality business and will navigate market waters very carefully.

Charting the Main Street America Course

In September of 2001, NGM's Board of Directors unanimously proposed to reorganize and form a mutual insurance holding company. The reorganization is simply a way for the company to have more options available to raise capital for growth, have a way to acquire other insurance companies, and remain a strong company with a solid financial future.

The reorganized company would not behave any differently regarding agents or policyholders. We will continue our strong support and allegiance to the independent agency distribution system. The change will not affect the premiums or coverages of our policyholders. Our Board of Directors and management team will remain the same.

The reorganization would form two new companies. A mutual insurance holding company (Main Street America Group Holdings, Inc.) will serve as the ultimate controlling company within the Group. Under New Hampshire law, the NGM policyholders will control this company through the exercise of their mutual ownership rights. An intermediate stock holding company (Main Street America Group, Inc.) will provide additional organizational flexibility. National Grange Mutual Insurance Company will become a stock insurance company called NGM Insurance Company.

We believe this form of reorganization will allow Main Street America Group to adapt to and remain fully competitive in a changing insurance marketplace while preserving policyholders' contract rights, policyholder membership interests and company agency relationships.

Main Street America Group is ready — ready for growth and innovation and ready to serve our independent agent customers. Everything we do is grounded in our commitment to take care of our customer, the independent agent, better than anyone else. Whether it's delivering Auto Change Request functionality, settling claims expertly, or delivering profit sharing checks before any other

John Cross
The Cross Agency

Financial Strength, Profitable Growth cont.

company, we intend to take care of our customers in a magnificent way.

Many of the milestones we achieved are highlighted in the following pages. We enjoy the culmination of efforts to deliver unique franchise value to our customer while building efficient process improvements, technology advances, and service differentiation.

In 2002 we will remain a strong and stable company while we will laser our efforts on delivering MSA at the Desktop functionality to our customer. We are privileged to do business in the best possible distribution system in the world. To our 1,000 independent agency customers and nearly 1,000 dedicated MSA teammates I say thank you. I applaud your commitment to the Main Street America Group and your commitment to excellence.

Sincerely,

Tom

Tom Van Berkel

President and CEO

A Tribute to The American Spirit

None of us will forget the events of September 11, 2001 and the effect it had on our lives and on our nation. We are no longer naïve enough to believe that this nation is a safe harbor and immune to the turmoil that besets many other parts of the world.

However, that day also presented an opportunity for the people of this nation to show the rest of the world what the American Spirit really means. Instead of confusion and fear, our people came together as never before. We worked as one, opened our hearts and our pocketbooks and began the process of healing and rebuilding.

Thankfully, Main Street America Group was not directly impacted by this tragedy. But we all felt a sense of personal loss. In addition to individual contributions, the company was proud to make donations to the American Red Cross National Disaster Relief Fund, the New York Firefighters 9-11 Disaster Relief Fund, and the World Trade Center Police Disaster Relief Fund.

As we look back on this pivotal year, it seems appropriate to give thanks for the relationships that we have nurtured through both our personal and business lives. And, while MSA has always espoused the unique value of the relationships we have with our agents as business partners, we would like to emphasize that we are also your neighbors, your colleagues and your friends.

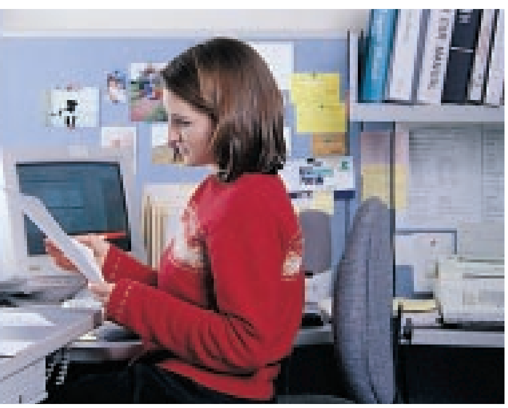
Be assured that Main Street America Group remains a strong, stable and successful company. Our commitment to the independent agent remains our number one priority. We will move forward as a company and as a nation, learning and growing from the experiences of the past.

MSA @ the Desktop

Milestone: MSA @ the Desktop is Introduced

Today's insurance market is radically different from the market of just a few years ago. Today there are a myriad of different distribution channels to sell insurance to the consumer, including telemarketing, internet sales, and direct writers as well as independent agents. In addition, there are lots of different ways to process business, with the internet quickly becoming the medium of choice because of its speed and convenience.

All through these dramatic changes, Main Street America Group has remained steadfast in our commitment to the independent agent. We believe that the independent agent is still the best way to sell and serve the insurance consumer. They provide an expertise that is essential in making the right coverage choices. No Internet site can replace that.



Amanda Clarke,
Carlton Wright Insurance Agency

To meet consumer expectations, agents need the appropriate tools to compete in this new marketplace. That means agents must be able to utilize all distribution methods to appeal to today's insurance consumers.

Agents and their staffs must have access to technology which allows them to deliver value-added services to their customers anytime, anywhere. And, this technology needs to be fast and error free. Finally, all this must be accomplished cost effectively. A Web-based system presents a solution.

Main Street America Group's Automation Vision

We created a vision that included an automated system, accessed through the agent's desktop that would:

- Be flexible enough to accommodate quickly changes and innovations in technology.
- Allow our agents to conduct business with us anywhere, 24/7, in real time.
- Be easy to learn and use.
- Enable our agents to fully service all their MSA business online, including financial reports, billing and claim status, policy administration, rating, policy issuance, payments and claim handling.
- Offer value-added services such as sales and account rounding programs, advertising and marketing information.
- Provide integration between online transactions and agency management systems through upload and download functionality

To accomplish our goals, we must replace our old legacy computer systems with a new Web-based system. No small endeavor. This in fact, will be a long-term undertaking, but we are totally committed and have invested significant time, resources and finances to achieving this goal.

"This is one of the easiest systems I've ever used … I'm very impressed. There's absolutely no question about what needs to be entered and what doesn't need to be entered — everything is very clear."
— Susan Donovan, Southern Maine Insurance, Scarborough, ME.

MSA @ the Desktop cont.

While our new system will take time to fully deploy, we are delivering Web-based functionality to our customers now. We're doing this by leveraging new technology that enables us to bridge state-of-the-art web services with our current legacy system.

In March we rolled out the new security system for the agent-only section of our Web site. This feature gave our agents more control over their own accounts and policy information. They can set up security authorizations online, without input or approval from MSA, after the initial sign up.

Larry Acord, Vice President and
Greg Manning, Marketing Operations Director

Also in March, we introduced financial reports on-line. Now our agents have access to their financial information. Having access helps our agents keep better tabs on the activity of their business and to better track their financial progress against their goals.

A major achievement of MSA @ the Desktop came in September, when we introduced our Auto Change Request application on-line. Our agents and their staffs are now able to make personal auto change requests on-line, send it directly to our offices over the Internet, and have the information download to their agency management systems automatically.

"For the first time, our agents could transact business with us via the Web. We chose to deliver the auto change function first, since a majority of agents' paperwork stems from this activity. By placing it on-line, not only did we eliminate redundant processes, but significantly increased the speed at which these requests were being processed. It was a win-win situation all around," noted Greg Manning, marketing operations director.

The benefits of having such a function on-line are numerous. First, it's a one-entry system. The CSR enters the information and it's sent directly to the system. The information does not need to be rekeyed, so the opportunity for mistakes is drastically reduced. Second, the information is processed much quicker. Most times it can be processed and downloaded back to the agency overnight. Third, the information is automatically downloaded to the agent's management system. No double entry is needed and the information is exactly the same as what the CSR entered. Simple, fast, accurate.

The application was designed and developed at Main Street America Group, utilizing a group of agents as consultants and beta testers. We wanted to make sure that the application we developed would meet the needs of our agent customers and CSRs. Here are some of the comments we received from agents once the application was introduced:

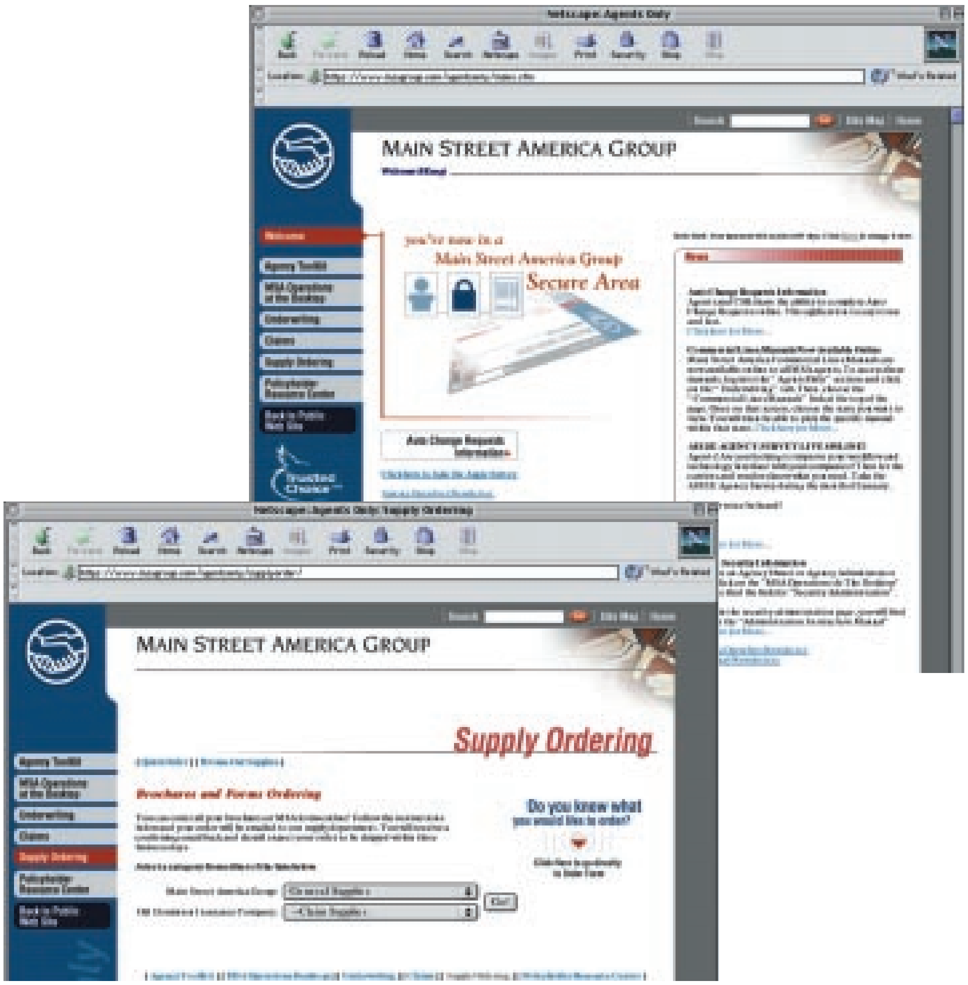
Sidebar Photo:
Chrisondra Tracy, Goss Logan Insurance

Inset Photo:
Richard Logan, President; Jessica Martell, Peggy Melinier, April Sanborn, John Trachy, Chrisondra Tracy, Goss Logan Insurance

"We work with a lot of different companies, and your Web site makes my job a heck of a lot easier!"

Casey Cooper —
Adcock Insurance Agency

MSA @ the Desktop cont.



Susan Donovan of Southern Maine Ins. says: *"This is one of the easiest systems I've ever used, I'm very impressed. There's absolutely no question what needs to be entered and what doesn't need to be entered, everything is very clear."*

Even as we were developing our auto change request function, we were simultaneously moving forward in our ultimate goal of replacing our current system. A cross-functional team of employees worked to develop a solid plan on how to proceed. It was critical to establish a clear plan of action and to research each aspect of the plan diligently.

Because of the importance of this undertaking, we engaged several experts to help us along the way. We determined that there did not exist a ready-made program that would meet all our needs. However, there were programs available that met some of our needs and were flexible enough for us to modify and enhance to accomplish our goals.

"I found your Web site very user friendly to use the very first time."
— Diane Johnson, Clark-Mortenson, Keene, NH.

Diane Johnson of Clark-Mortenson, Keene, NH; *"I found your Web site very user friendly to use the very first time."*

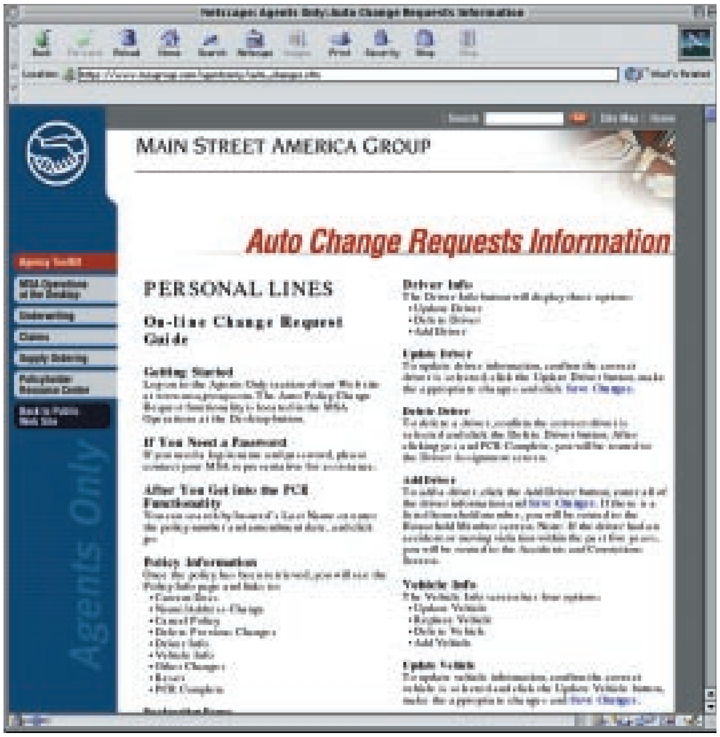
John M. Cross, The Cross Agency, Plattsburgh, NY: *"Great Web site, policy changes program is the best and easiest to use in the business."*

Casey Cooper, Adcock Insurance Agency, Tampa, FL: *"I just finished my first endorsement on your Web site. I am very impressed with the organization you guys have!!! …We work with a lot of different companies and your Web site makes my job a heck of a lot easier!"*

"Our search for a vendor was extensive," said Bill Garvey, replacement project director. "After careful consideration of many good alternatives, we are confident we chose the right one."

Once we contracted with the vendor, we moved to the next phase. We started by configuring a user interface that will enable us to more easily make changes to our system, and by addressing the internal interfaces to our other systems, such as billing, claims, accounting and regulatory reporting. These actions are not

MSA @ the Desktop cont.



"I just finished my first endorsement on your Web site. I am very impressed with the organization you guys have!!!"
— Casey Cooper,
Adcock Insurance Agency, Tampa, FL.

immediately apparent to our agents, but they lay the groundwork for delivering outstanding service starting in 2002.

Throughout 2002, agents will see more and more functionality available on our Web site. We have plans to introduce a Homeowners Change Request function, which will be similar to our Auto Change Request. It will still operate with our existing systems but will incorporate many updated functions that will mirror how the new system will work.

By the end of 2002 we will begin implementing phases of the new Web-based system.

"We have made a major investment in this new system," commented Jeanne Eddy, executive vice president. "But it is consistent with our long-term vision. The new system will allow our agents to conduct business with us anywhere, any time. By providing these services on-line, our agents will have more time to concentrate on growing their business and remaining profitable. And that's what we are ultimately looking to help them do. We are committed to the independent agent. When they are successful, we are successful. It's a partnership. It's been our mission from the very beginning and it determines our direction today and in the future. Technology is just a facilitator for that partnership."

"Great Web site, policy changes program is the best and easiest to use in the business."

John Cross —
The Cross Agency

Sidebar Photo:
John Cross, President, The Cross Agency

Claims WOW! Customer Service

Milestone: WOW! Service Now Covers All 16 States

Our dedication to the customer and desire to deliver superior customer service is what drives the claims group. At the heart of Main Street America Group's claims department is our "Creating the WOW!" Program. WOW! Customer service is more than just words on paper. It is a way of thinking, a philosophy that is interwoven into everything we do. It starts with a consistency in our mission statement and continues with a commitment to delivering the best claims service possible, as well as establishing ways to measure our level of success in the eyes of our customers.

We were excited to expand our WOW! Claims Service to a new region in 2002, as we introduced our southern agents to the Adjuster Center. Our plan to bring the southern region on board was an aggressive one. It included planning and executing 22 Adjuster Center meetings throughout the southern region. We accomplished this by assembling a cross-functional team composed of claims, underwriting, marketing, and regional leadership. The regional team made the arrangements, set the agendas, and assisted in the presentations. It was a true team effort!

Our primary focus was on gaining the trust of agents who were not familiar with the Adjuster Center. Agents needed to know that we value them and their policyholders. We feel honored that our agents trust us with their customers. We know this relationship is essential to the success of the agents' businesses — and therefore to ours.

It was important to emphasize that the Adjuster Center is not a call center but does have call center functionality. Through the regional meetings we were able to illustrate to our agents the many strengths of the Adjuster Center. MSA always empowers the agent to do business their way, through flexible reporting and draft authority. Our highly trained and dedicated staff handles each claim with care, showing empathy with and understanding of, each policyholder through every step of the claims process. Also, through past successes in other regions, we have shown that there is an increase in policyholder satisfaction and retention when the Adjuster Center is utilized.

We get great satisfaction from knowing that all our customers can now take advantage of MSA's claims and WOW! Customer service. In addition to the Adjuster Center rollout, we achieved other milestones that will improve our business and, more importantly, the businesses of our agents:

- Increased the number of our first-party claims handled in the AC to 65% of the total.
- Witnessed a 55% decrease in first-party claims cycle time.
- Policyholder satisfaction increased to 4.33 out of 5.
- Rolled out an automatic customer survey response program.
- Finalized the specialization of specific claims units for the New England region.

In addition, the Claims Department's justified complaints are at an all-time low and our average claim payment is down 10% from 1999!

Cathy Adkins, Earl Byrd
Carlton Wright Insurance

Sidebar Photo:
Carlton Wright, President, Charlotte Foster, Carlton Wright Insurance

Inset Photo:
Carlton Wright, President, Charlotte Foster, Carlton Wright Insurance

Claims WOW! Customer Service cont.

By achieving our goals we have strengthened the financial status for the agents' business and MSA Group as a whole. We've created a system in which the agents are in charge of their customers and can do business their way. We have produced a high level of customer satisfaction with the policy-holder, thereby increasing customer loyalty and retention. Through product specialization, claims are processed more quickly, with less money paid, thus benefiting the agents' bottom line.

As we enter 2002, MSA Group looks toward new challenges. We see technology changing the way we do business in the future. Through the power of information, we will streamline our processes and provide a higher level of efficiency for our customers, improving the amount and quality of information to which our agents have access.

Technology is only a tool to help us increase our service to the customer. By improving our technology, we will increase the WOW! in our customer service. After all, that's what we are continuously striving to do — WOW our customers!

Triumph Out of Tragedy

In a year of tragedies, Main Street America Group found itself immersed in one of its own when on Nov. 30, 2001, our Adjuster Center building in Auburn, MA, was destroyed by fire. Computers, records, and claims files are gone, but, thankfully, no personal losses were sustained. It was a wonderful example of the resolve of the human spirit when over 90 employees of the Auburn Claim Center were bused to Keene, NH, some 75 miles to the north, where they were back on line by the following Monday morning.

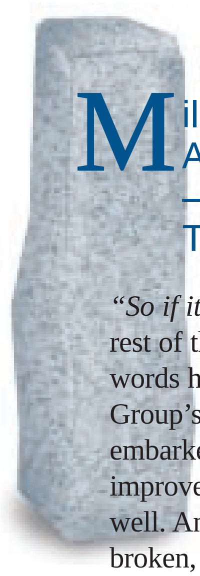
"I knew this was a make-it-or-break-it moment for us. This was an opportunity for us to shine, and we did," said Stephen Canty, vice president of claims. The number of people involved to make this happen was phenomenal and the level of their commitment was downright inspirational, Canty said. The Claim Center has now set up a temporary facility in Shrewsbury, MA, about 12 miles from Auburn, while building continues on a new facility that was already in progress.

"This event highlighted a year full of success, but more importantly was a display of the strength of our employees' commitment to serving the customer, regardless of the obstacles we face. Once again our employees demonstrated that outstanding claim service isn't the result of one department's work. It requires every department to step up and contribute. And they did," Canty said.

Canty added, "We were also extremely gratified and humbled by the tremendous outpouring of support from our agent customers. From flowers and cards to offers of office space, our agents stepped up to the plate to help us out. In many ways it became obvious that our customers rose to the occasion and took on extra burdens when we really needed their help. Without their cooperation we would have never been able to continue providing the level of service they are accustomed to. For that, we sincerely thank them."

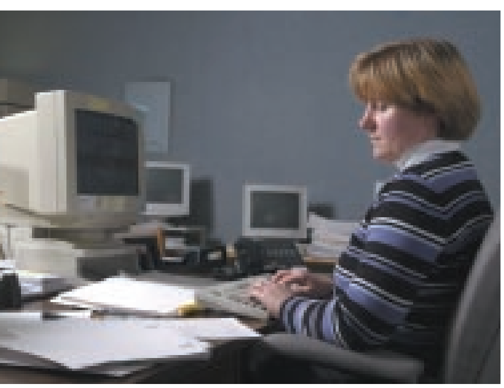
> **"This event highlighted a year full of success, but more importantly was a display of the strength of our employees."**
>
> Steve Canty —
> *Vice President*

Regions Redefine Meeting Customers' Needs



Milestone: Main Street America Group's Regions – Developing Relationships That Fit the Customer.

"So if it isn't broke!" … You know the rest of the story. Those were some of the words heard in Main Street America Group's regional offices as they embarked on a process in 2001 to improve an organization already doing well. And while true that not a lot was broken, a reinvented regional structure was needed to ensure that MSA's front-line people were spending quality time in front of their customers; continuing our strategy of *customer intimacy*.



Anne Schwartzman
Fragomeni Associates

As part of our five-year plan, we realized the need to develop our field organization into one that could meet the changing needs of our customers. Therefore, in 2000, a regional design team composed primarily of the regional directors and marketing personnel, dedicated time to crafting a reinvented field operation. Our objective was to create a structure that allows our field teams to spend more time with their customers. And, we needed to build the appropriate support structure to ensure that our teams could deliver on their promises. These actions were instituted with the expectation that they would directly positively affect our bottom line sales in 2001, which they did with flying colors!

"Through this reinvention, MSA has created **Territorial Management Teams**, focused on tighter geographic markets and a more focused span of customer control … resulting in the highest quality customer contact," said Kelly Stacy, vice president of marketing for MSA Group. "The regional reinvention makes possible an energized approach to **Distribution Management**, ensuring focused agency management, new customer selection, market development, and customer segmentation."

Judge Parker, southern regional vice president, chaired the original redesign team. "We began a process several years ago to rethink our regional and home office operations. Our aim was to better serve both our agency customers as well as policyholders. A key component of the redesign was to build territories based on how we could best allocate resources to the customer, not on how convenient it is for us to manage those territories," Parker said.

He added that the basic tenets of the redesign are:

- Allow more decision-making in the field.
- Bring more value to the agency visit by assisting the agent in becoming more successful.
- Listen more effectively and respond sooner.
- Make doing business with MSA both easier and more effective.

Mark Berger, Syracuse regional vice president, feels the redesign has added clarity through narrowing the focus of our line of sight to the customer. "It has increased customer interaction and raised the quality of our customer relationships," Berger states.

What are the next steps for MSA's regional reinvention? "A great deal of progress was made in 2001." Stacy said.

Regions Redefine Meeting Customers' Needs cont.

"In 2002, our regional offices will focus on building consistency in the process. We're clearly on the way, but we've still got a ways to go. A key element in taking the teams to higher levels of performance will be the rollout in 2002 of a *Strategic Account Management* discipline. MSA's field teams have a good understanding of their customer today but with the aid of account management there is much more to gain. Simply put, strategic account management is all about building deeper and stronger customer relationships.

"To do so, we have designed an organized process to ensure that we know as much as we possibly can about our customers so that we can then design account plans and behaviors to mutually capitalize on more opportunity.

"All too often we miss opportunities because we don't ask the right questions. This organized discipline will make a good process today, even better tomorrow. At the end of the day, our goal is to *increase the wealth of our customers* while building loyalty with the MSA Group," Stacy added.

Mark Berger's sights for high performing teams will come with the broadening mindset for the team members. "A key example entails a process where the teams, throughout the year, discuss individual agency results and how we can form partnerships with our customers to strengthen relationships and improve agency results. Today, the teams "schedule" pre-meetings before actual meeting with regional management. I'll know we're a step closer when the teams no longer feel the need for the pre-meetings and the actual "planning meetings" just become part of the ongoing process and not a specific event. As such, the overall interaction both internally and externally with our customer will become second nature!!"

A territory manager in the New England region, Sue Burd had some additional thoughts. "Our philosophy of providing broader support to agents while remaining 'customer intimate' differentiates us from other companies. Agents want companies they can trust, and that bring value to the partnership in more than the traditional ways. By creating smaller territories, with teams made up of multi-disciplined professionals, we have significantly magnified the impact we can have at the front line."

"This is a win-win-win situation" said Burd. "It's good for our employees; it's good for our customers and therefore, it's good for MSA!"

"As we complete the roll out over 2002, our 'port of destination' will remain the same as it's always been, and that is… to be the company of choice for our independent agents," Parker concludes. "To put it simply, bringing more value to the table."

Sidebar Photo:
Lori Bertrand; Jay Fowler

Inset Photo:
Jay Fowler; David Fragomeni, President, Fragomeni Associates; Marjorie Russo

"To put it simply, bringing more value to the table."

Judge Parker —
Southern Region Vice President

Milestone: Main Street America Group Invests in Industry Associations

Main Street America Group recognizes the value agents derive from their industry associations. “We support both the Independent Insurance Agents of America (IIAA) and the Professional Insurance Agents (PIA). We invest in their efforts on the national and state levels with both financial support and the commitment of the time, effort and leadership of our people. We help to drive the initiatives that are critical to our agents’ success,” notes Larry Acord, vice president sales, communications and industry relations.

At the PIA, we are a founding member of the Company Council of Executive Officers (CCEO). We believe that 2002 will be a milestone year for the CCEO with the continued rollout of the “Value Difference” workshop for agents.

MSA is actively committed to several programs with the IIAA, including:

- Future One Governing Board
- InVest Program
- Commission to Enhance Agency Value
- Agents’ Council on Technology (ACT)

And a significant new program, “Trusted Choice.”

Trusted Choice

In October 2001 National Grange Mutual and Old Dominion signed on as founding sponsors of Trusted Choice, the new consumer-marketing brand created by the Independent Insurance Agents of America (IIAA).

The Main Street America Group affiliates helped to design the Trusted Choice program along with national carriers Encompass Insurance, The Hartford, and Safeco. “These companies understand, as do others, that Trusted Choice agencies will be the valued and preferred choice of consumers,” said IIAA CEO Robert A. Rusbuldt.

The Trusted Choice brand is rolling out in 2002 with advertising, public relations, local agency marketing and an innovative Web site. All forms of media will direct consumers to www.TrustedChoice.com, where they will find a sophisticated agency locator and consumer insurance information. Main Street American Group will utilize the Trusted Choice logo in its own marketing as an “ingredient brand.”

Main Street America Group CEO Tom Van Berkel said IIAA’s branding initiative is “a way for our organization and really all companies within the industry to support and differentiate the independent agent as a strong brand in a very crowded marketplace. The captive and direct carriers all spend millions branding their companies. We have a wonderful opportunity to brand the best distribution system, which is the independent agent representing choice and advocacy.”

Larry Acord said: “Research made it very clear that the Big ‘I’ logo is well known in the insurance community but not outside. Furthermore, our proprietary research matched up with IIAA’s research that consumers value what independent agents offer but they don’t know how to find them. For our channel to grow and prosper in the future, agents will need to go out and

Peggy Meunier
Goss Logan Insurance

Trusted Choice SM
We serve you first.

Industry Association Involvement cont.

take business away from other channels. And to do that they need a strong brand name in the marketplace that they can leverage."

Trusted Choice "isn't about any one company," Acord added. "Our company surely will benefit from this initiative, but we as an industry must really throw our support behind our distribution channel. We think it's vital that other carriers get involved to support Trusted Choice. This will not only make the program financially viable but also show solidarity and support behind the independent agency system."

IIAA's Rusbuldt told Van Berkel that "you and your company have been leaders in building the Trusted Choice brand for independent agents. Main Street America Group is committed to the independent agency system in every possible way."

Main Street America Group "understands the subtle and underlying issues that must be addressed on both the agency and company sides, such as grooming young agents, the need to create a new sales-oriented culture, emerging technology issues, more efficient regulation, education, and of course other needs such as branding your company and distribution force in a way that distinguishes Main Street America Group and your Trusted Choice agencies in the marketplace," Rusbuldt added.

Ronald A. Smith, CPCU, chairman of IIAA's Communications Committee, said carriers that commit to the independent agent channel ensure its continuing success. "Together, we have the opportunity to improve the image of independent agents among consumers and increase market share for our distribution force and company partners. Over time, when consumers think insurance, they will know they need a Trusted Choice agency.

"Our company partners have played an invaluable role in the development of this program, and we look forward to their continued involvement and support," said Smith, president of Smith, Sawyer & Smith Insurance Agency in Rochester, Ind., and an IIAA past president. "We know other national and regional insurance companies are ready to partner with IIAA to brand their distribution force as the preeminent choice of consumers for all lines of insurance – business, home, auto, employee benefits, life, and other types of coverage."

In addition to company investments, Trusted Choice is supported financially by member agencies, which pay a fee to participate in the program.

Related to their commitment to Trusted Choice, National Grange Mutual Insurance Co. and Old Dominion Insurance Co. were honored with the Award of Excellence by IIAA in October.

IIAA is the nation's largest national association of independent insurance agents, representing a network of more than 300,000 agents and agency employees nationwide. Main Street America Group interacts with IIAA state-based affiliates throughout the company's marketing territory.

Sidebar Photo:

Customer and Mark Williamson,
Sleek & Williamson

"...Trusted Choice agencies will be the valued and preferred choice of consumers."

Robert A. Rusbuldt —
IIAA CEO

Our People, Our Culture

Milestone: Making Main Street America Group a Great Place To Work

At Main Street America Group we understand that our success is directly related to the quality of people we employ. Their dedication to providing superior service and understanding the needs of our agent customers is what makes our company unique. Attracting and retaining the high quality employees who possess these skills and abilities requires the combined efforts of the entire MSA management team. Human Resources is responsible for leading the effort to make MSA a "great place to work" and an Employer of Choice in the insurance community.

Dee Gallick, Sandy Ricard

What makes a company a great place to work? Good pay? Certainly! Good benefits? Of course. However, there is more to creating an attractive work environment.

Our employees have told us, "Make the job challenging and provide an opportunity to grow." We examined the programs we currently had in place to assist people in growing in their jobs. We found opportunities to offer more educational options for all of our employees. We did this in two ways — we added to our training staff to provide more classes and workshops for our people to attend. In addition, it was clear that sometimes it's better to learn at your own pace and be able to fit the learning into your own schedule. That's why we introduced a whole new program — e-learning. Courses are available on-line to all employees, and can be worked on when it's convenient for them. Our new e-learning program has been very well received and utilization increased throughout 2001.

Another benefit introduced this year to encourage people to challenge themselves and to continue to learn, was our tuition reimbursement program. This program provides employees with the opportunity to pursue job-related education at the undergraduate and graduate levels.

Main Street America Group has a tradition of celebrating success. This is another aspect of making the company "a great place to work" and we have always believed that celebrations are an important aspect of our culture. Employees are expected to meet high standards in their jobs and they work hard to meet and exceed those standards. That's why it's essential that we recognize and reward those efforts. We've always had a tradition of company-wide "A" day celebrations. "A" days were begun when our

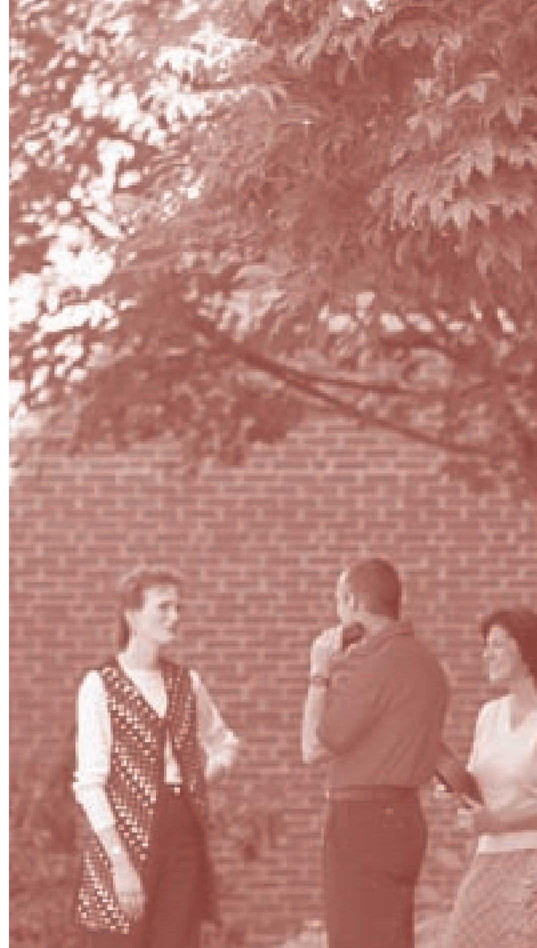
Our People, Our Culture cont.

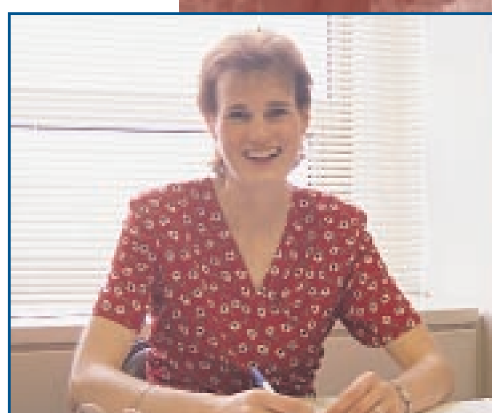
Greg Manning, Kevin Smick, Mike Robie

company first received an A (Excellent) rating from AM Best. However, we continue this tradition to celebrate many other successes of the company. In 2001 we were able to celebrate “A” Days with activities as varied as barbecues, ice cream parties, and pizza parties. We also instituted spontaneous celebrations throughout the year as a special surprise to our employees.

By encouraging these celebrations, we believe our people become a more coherent group — caring about the well being of the others in their department. They are willing to fill in for coworkers when they are on vacation, or work extra hours to help out the team. We work hard, but we also have a lot of fun! That’s what makes coming to work every day worthwhile.

In the end, the key is people serving people. That’s our culture and that’s what makes us successful. We live our three most important values: ownership in your job; relationships, to your peers and your customers; and service, to those around you and to your customers. By making sure that we are meeting and exceeding the needs of our employees, we make sure we meet and exceed the needs of our customers. And, we will never stop evaluating our programs and benefits, because we understand that each generation has new expectations and requirements. We strive to be as dynamic as our people to make sure that we continue to attract and keep the best employees in the business.





Sidebar Photo:
Mary Armstrong, Roger Hamilton, Christine Sears

Inset Photo:
Mary Armstrong

“E-Learning provides opportunities to create a rich future for our employees.”

MSA in Georgia

Milestone: Setting a Course for Success in the State of Georgia

It was a milestone not undertaken lightly. After directly involving our independent agents in the development process, Main Street America Group was poised to meet the challenges to be faced in its introduction to Georgia in 2001. With this established commitment to the Georgia independent agent, we assembled a package of products and services designed specifically to meet their needs. This ensured these products would both expand the agents' current portfolios and be easy to market.

Kathy Sleek, Mark Williamson and Brandi O'Brien
Sleek & Williamson Insurance Agency

Through our determination to include the independent agent in each step of the process, we not only successfully launched into Georgia, but also made many impressive inroads:

- MSA gained approval from the Georgia Insurance Department for all form, rate, and rule filings on February 1, 2001.
- Our Georgia Team led by State Manager Phil Golden leveraged the reputation of MSA as a strong and stable company with a true commitment to the independent agent and appointed 13 new agencies in one year.
- The careful planning and solid financial foundation of MSA helped set the stage for a profitable loss ratio in our first year.
- We gained over two million in new premiums through the introduction of our products and services in Georgia, further adding to the solid financial standing of the company.
- We assembled an experienced, successful, and responsive team of insurance professionals who understand the needs of the independent agents in Georgia. The team includes a manager, commercial lines underwriter, personal lines underwriter, and bond specialist.

"If I have a chance to write business I want to do it with Main Street America Group. They are an agent-oriented company who is a pleasure to do business with.

"After working for years with Old Dominion I was told that MSA was bringing their products to Georgia, let me tell you, it was well worth the wait.

Mark Williamson, Sleek & Williamson, Douglasville, Georgia

MSA in Georgia cont.

Larry Talbert
Talbert Insurance Service

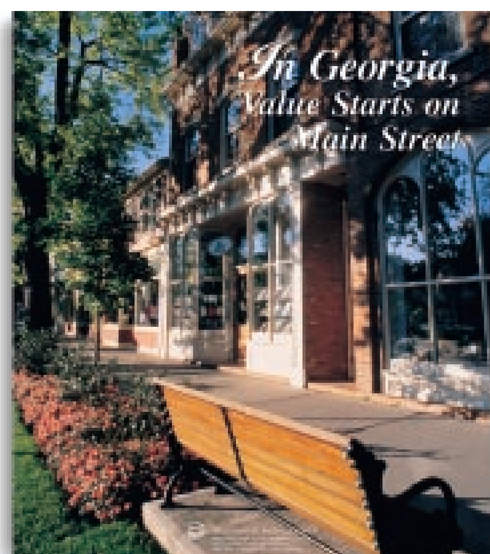
"Main Street America Group is so easy to work with, they are very accommodating and responsive to our needs and their team approach really supports the agent."

Larry Talbert

Talbert Insurance Services, Deluth, Georgia

Georgia independent agents have clearly benefited from having access to a suite of products offered by Main Street America Group. Agents can take comfort in doing business with a consistent company that carefully plans with them, stays the course, and delivers on its promises, especially in times of significant market disruptions.

Our Georgia team is optimistic as it heads into 2002. We plan to further accelerate premium growth and add new agency appointments. We will continue to monitor progress in the state by fine-tuning our existing products where we find necessary and by offering new products when the need arises. Through careful planning, strong relationships, and a commitment to providing top-level customer service and support, we look forward to years of growth in Georgia.



Sidebar Photo:
Kathy Sleek, Mark Williamson

"If I have a chance to write business I want to do it with Main Street America Group. They are an agent-oriented company who is a pleasure to do business with."

Mark Williamson —
Sleek & Williamson

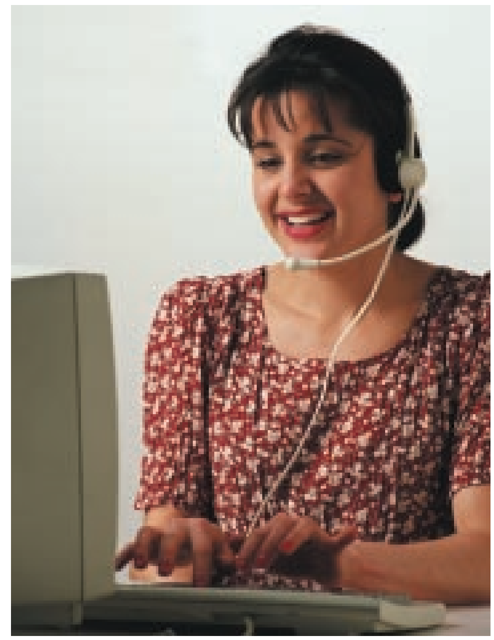
Information Systems & Services

Milestone: NY AIP — Staying Focused on the Market

For more than 15 years, Information Systems and Services (ISS) has been providing policy processing and outsourcing solutions to property and casualty insurers nationwide. Like the rest of the MSA Group, ISS recognizes the value of delivering superior products and services, being committing to our markets and developing relationships with our customers.

Therefore, we have remained focused on our strengths — selecting business partners and delivering services to the markets we serve best — markets that include Assigned Risk Automobile (AIP), California Earthquake Authority (CEA) and Voluntary property and casualty lines. For 2001, our plan was to grow our business within these markets — and we were successful in doing just that.

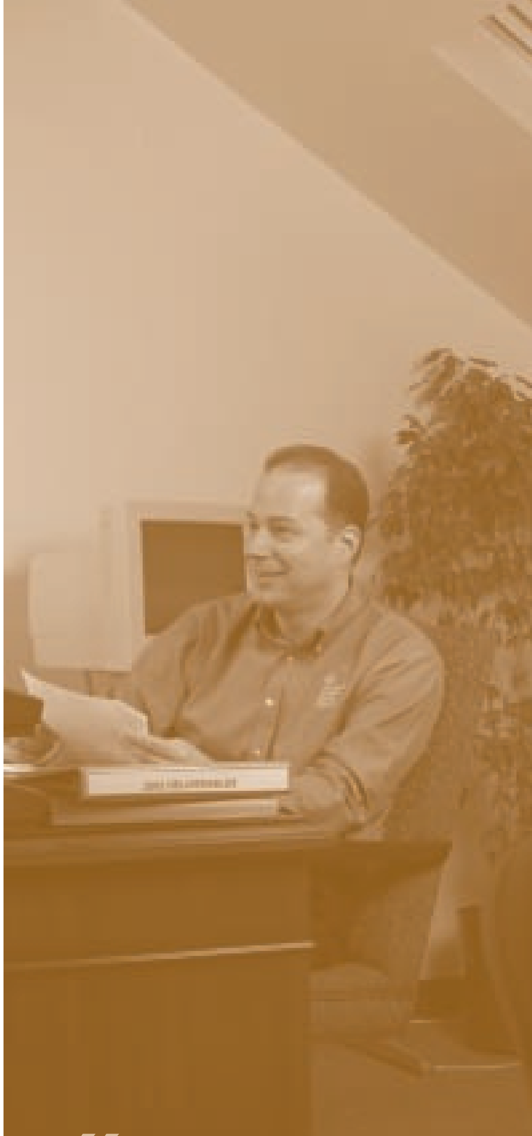
Dave Medvidofsky, Pam Davidian, Barbara Giguere



We experienced firsthand the signs of distress in the New York AIP market in the first half of 2001. These signs included increased assignments for ISS customers and alarming numbers of fraudulent cases. In addition, AIPSO was projecting an 86% increase in assignments in the largest AIP state — surely not a good sign for personal auto carriers. The repopulation of the plan at a time when fraud was on the rise, coupled with the uncertainty of available options, left the industry in need of an experienced partner and more choices for 2002. ISS took a proactive approach to this changing environment by increasing its role in Plan activities. The timing couldn't have been better for us to concentrate our sales efforts here, and it was extremely successful.

In the fall, we implemented a significant new AIP client. This newly formed

Information Systems & Services cont.



Limited Assignment Distribution (LAD) carrier contracted with ISS to provide all policy processing and administration to more than a dozen insurance carriers. This partnership is a much-needed alternative for New York's automobile insurers and a significant partnering opportunity for ISS. During the first year, we expect to see upwards of 50,000 policies in the LAD.

Not only was ISS busy supporting the explosive growth in NY for both new and existing clients, during the year we continued to add value in our customer partnerships, which was demonstrated by eight (8) contract renewals in 2001. In addition, revenue from existing customers was up 13% as a result of cross sales efforts.

To round out our CEA product, we implemented Supplemental Coverages in 2001. All CEA customers have added this product enhancement, giving them the ability to offer additional earthquake coverage to their homeowners' customers.

Lisa Robideaux, Jeff Mathews

Since 1998 ISS has provided Advanced Rate Pursuit services designed to assure that the premiums charged accurately reflect the chance of loss. In 2001 our largest customer attained a significant milestone crossing the $3,000,000 mark in additional premiums gained by using this program.

We continue to see the dividends in having a strong operational base and staying focused on a defined niche. For 2002 we say "Bring it On" as we support additional growth. Still, our focus will remain on seeing the business through the eyes of our customers as we add value by doing what we do best within the markets that we know and serve well.

Sidebar Photo:
David Medvidofsky,
Vice President & General Manager, ISS

"Integration of MSA Policy Services under the ISS umbrella allows for additional processing efficiencies and use of "best practices" throughout our operations."

MSA Receives "A" Rating

Milestone: MSA Group Rates an 'A'

In December 2001 from Tom Van Berkel, president and CEO, announced the exciting news that Main Street America Group, including National Grange Mutual Insurance Company and Old Dominion Insurance Company, received a new rating of "A" (Excellent) from leading insurance industry analyst A.M. Best. Company.

This upgrade was significant, as financial-strength ratings are critical, everyday business tools for independent insurance agents as they seek quality providers of products for their customers.

The new A.M. Best rating designation, which upgraded National Grange Mutual and Old Dominion from "A-" to "A," is "representative of our stellar operations results and the great financial position that we're in," Van Berkel said. "We're well capitalized, we have a clean balance sheet — and combined with the strength of our customer base and our 100% unequivocal commitment to the independent agency system, it's a wonderful time for Main Street America Group."

Van Berkel added that consistently sound underwriting, especially in light of the turmoil in the insurance market-place, reflects an overall solid company well positioned for growth. While many other insurance companies were trying other avenues of distribution, utilizing Web-based policy quoting and issuance, and telemarketing, Main Street America Group never wavered from its exclusive commitment to the independent agent. When other companies were fluctuating prices and products, Main Street America Group stayed true to its market niche. This philosophy has proved invaluable to our agents, who know that they can count on us for a consistently solid pricing and profitable products.

According to A.M. Best, the "A" (Excellent) rating is assigned to companies that have, excellent balance sheet strength, operating performance and business profile. In addition, A.M. Best said it anticipates that Main Street America Group will generate and sustain its earnings growth, as well as reduce its expense structure through efficiency driven automation initiatives, due to its strict adherence to management's conservative operational strategies.

Main Street America Group has succeeded because of its dedication to its mission: "Main Street America Group is singularly committed to the independent agent and our success is grounded in the quality of our relationships with our agent customers." The new rating simply reinforces the truth of that statement.

Scott Gerlach —
Vice President

A
Rating

Circle of Excellence

Mark Beauregard,
Administrative Team Leader; Data Center Operations

Lori Bergevin
Sr. Commercial Lines Underwriter

Deb Bissell
Agency Support Coordinator, Marketing

Diana Bressett
Compensation & Benefits Analyst II

Dean Burns
Claim Representative II

Martha Curtis
Manager, ISS Operations

Carol Leininger
Sr. Commercial Lines Underwriter

Craig Meyer
Network Design Engineer,
Data Center Operations

Debra Pospiel
Director, Adjuster Center

Lee Ann VanParys
Agency Development Manager

Kandi Searle-Longo
Marketing Secretary

Joan Shealy
Sr. Personal Lines Underwriter

Steven Skinner
Sr. Accountant, Financial
Control & Report

NOTES TO CONSOLIDATED STATUTORY - BASIS FINANCIAL STATEMENTS

CONSOLIDATED STATUTORY – BASIS BALANCE SHEETS

(Dollars in Thousands)

As of December 31,	**2001**	**2000**
Assets		
Bonds at Statement Values	$ 470,183	$ 526,274
Common Stocks at Fair Values	116,750	134,618
Sinking Fund Preferred Stocks at Amortized Cost	19,361	34,899
Preferred Stocks at Fair Values	39,296	12,356
Investment in Unconsolidated Subsidiaries	63,316	65,694
First Mortgage Loans	2,111	2,166
Investment in Limited Partnerships	630	1,413
Cash and Short-Term Investments	83,527	11,927
Total Cash and Invested Assets	**795,174**	**789,347**
Premiums Receivable	139,751	118,373
Reinsurance Recoverable on Paid Losses	3,207	2,879
Deferred Tax Asset	27,232	0
Accrued Investment Income	7,388	7,810
Real Estate	6,611	6,965
Other Assets	22,455	13,417
Total Assets	**$1,001,818**	**$ 938,791**
Liabilities, Minority Shareholder's Equity, and Surplus		
Unpaid Losses	$ 271,337	$ 268,464
Unpaid Loss Adjustment Expenses	34,277	35,254
Unearned Premiums	249,814	216,068
Deposits on Perpetual Policies	6,334	6,319
Other Underwriting Expenses Payable	27,009	13,255
Taxes, Licenses, and Fees Payable	5,594	3,933
Securities Payable and Other Liabilities	20,930	18,620
Total Liabilities	**615,295**	**561,913**
Minority Shareholder's Equity	111,128	105,435
Policyholders' Surplus	275,395	271,443
Total Liabilities, Minority Shareholder's Equity, and Surplus	**$1,001,818**	**$ 938,791**

CONSOLIDATED STATUTORY – BASIS STATEMENTS OF OPERATIONS AND CHANGES IN POLICYHOLDERS' SURPLUS

(Dollars in Thousands)

Year Ended December 31,	**2001**	**2000**
Net Premiums Written	$ 511,377	$ 442,415
Change in Unearned Premiums	(33,746)	(18,880)
Net Premiums Earned	**477,631**	**423,535**
Losses and Loss Adjustment Expenses Incurred	311,764	295,759
Underwriting Expenses Incurred	176,778	148,991
Total Losses and Expenses	488,542	444,750
Net Underwriting Loss	**(10,911)**	**(21,215)**
Investment Income, Net of Expenses	35,857	39,687
Net Realized (Losses) from Investments	(10,566)	(929)
Net Investment Income	**25,291**	**38,758**
Other Net (Loss) Income	(5,004)	4,379
Income Before Federal Income Taxes	9,376	21,922
Federal Income Tax Expense	1,462	3,709
Income Before Minority Interest	7,914	18,213
Minority Interest in Net Income of Consolidated Subsidiaries	(2,622)	(4,887)
Net Income	**$ 5,292**	**$ 13,326**

Consolidated Statutory-Basis Statements of Changes in Policyholders' Surplus

Policyholders' Surplus, January 1,	**$ 271,443**	**$ 265,708**
Net Income	5,292	13,326
Cumulative Effect of Changes in Accounting Principles	6,798	0
Change in Net Deferred Income Tax	4,216	0
Change in Net Unrealized (Losses) on Investments Carried at Fair Value	(1,775)	(5,875)
Other Surplus Changes	(10,579)	(1,716)
Policyholders' Surplus, December 31,	**$ 275,395**	**$ 271,443**

CONSOLIDATED STATUTORY – BASIS STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

Year Ended December 31,	**2001**	**2000**
Cash Flows from Operating Activities:		
Net Premiums Received	$ 491,950	$ 406,134
Losses and Loss Adjustment Expenses Paid	(310,195)	(296,239)
Underwriting Expenses Paid	(172,856)	(144,358)
Miscellaneous (Expenses) Income	(14,867)	2,732
Net Cash Used for Underwriting Activities	**(5,968)**	**(31,731)**
Investment Income Received	41,268	44,482
Investment Expenses Paid	(5,262)	(5,021)
Income Taxes Paid	(4,988)	(6,751)
Net Cash Provided by Operating Activities	**25,050**	**979**
Cash Flows from Investing Activities:		
Proceeds from Investments Sold and Matured	253,189	226,631
Purchases of Investment Securities	(202,305)	(190,738)
Net (Decrease) in Securities Payable and Other Liabilities	(4,334)	(27,030)
Net Cash Provided by Investing Activities	**46,550**	**8,863**
Net Increase in Cash and Short-Term Investments	**71,600**	**9,842**
Cash and Short-Term Investments at Beginning of Year	**11,927**	**2,085**
Cash and Short-Term Investments at End of Year	**$ 83,527**	**$ 11,927**

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:

The accompanying consolidated statutory–basis financial statements include the consolidated accounts of National Grange Mutual Insurance Company (NGM), a Mutual Insurance Company domiciled under New Hampshire State Laws and Regulations, Main Street America Assurance Company (MSAAC) domiciled under New Hampshire State Laws and Regulations, and Old Dominion Insurance Company (ODIC) domiciled under Florida State Laws and Regulations (collectively referred to as the Group).

NGM owns 100% of Main Street America Financial Corporation (MSAFC). MSAFC owns 100% of the outstanding stock of MSA Information Systems and Services Corporation (ISS) and 50% of the outstanding stock of Main Street America Holdings, Incorporated (MSAH). MSAH is the parent company of MSAAC, ODIC, and Main Street America Capital Corporation (MSACC). OneBeacon Insurance Company, (formerly White Mountains Asset Management (Barbados) Ltd.) owns the remaining 50% of the outstanding stock of MSAH.

The Group is primarily involved in the sale of personal and commercial lines of property/casualty insurance. Substantially all underwriting results are ceded into a pooling arrangement between NGM, ODIC, and MSAAC (the Pool). Each member of the Pool assumes the following percentages of the underwriting results of the Pool: NGM 40%, MSAAC 55%, and ODIC 5%. The Pool underwrites risks located primarily in New York, Massachusetts, Florida, Connecticut, Virginia, Pennsylvania, and New Hampshire. The principal lines of business insured by the Group and the percent of total written premiums for these lines are as follows:

For The Years Ended December 31,	2001	2000
Personal Automobile	41%	42%
Homeowners	13%	15%
Commercial Multiple Peril	20%	19%
Commercial Automobile	15%	14%

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 and New Hampshire Insurance Departments. Such practices vary from generally accepted accounting principles (GAAP). The more significant variances from GAAP are as follows:

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 policyholders' surplus for those designated as available-for-sale.

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

Valuation allowances, if necessary, are established for mortgage loans based on the difference between the net value of the collateral, determined by the fair value of the collateral less estimated costs to obtain and sell the recorded investment in the mortgage loan. Prior to January 1, 2001, valuation allowances were based on the difference between the unpaid loan balance and the estimated fair value of the underlying real estate. Under GAAP, such allowances are based on the present value of expected future cash flows discounted at the loan's effective interest rate or, if foreclosure is probable, on the estimated fair value of the collateral.

Subsidiaries: The accounts and operations of the Group's non-insurance subsidiaries are not consolidated 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, 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, unsecured loans or cash advances to officers or agents, and other assets not specifically identified as an admitted asset within the Accounting Practices and Procedures Manual are excluded from the accompanying balance sheets and are charged directly to policyholders' 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 policyholders' 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 received 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.

Deferred Income Taxes: Effective January 1, 2001, deferred taxes are provided for differences between the tax basis and statutory basis of assets and liabilities. 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 non-admitted. Deferred taxes do not include amounts for state taxes. Prior to January 1, 2001, deferred federal income taxes were not provided for differences between the financial statement amounts and tax bases of assets and liabilities. Under GAAP, state 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 not realizable. Changes in admitted deferred tax assets are charged directly to policyholders' surplus. Under GAAP these changes in deferred taxes are charged to income.

Guaranty Fund and Other Assessments: Effective January 1, 2001, a liability for guaranty fund (and other) assessments is accrued after an insolvency has occurred regardless of whether the assessment is based on premiums written before or after the insolvency. Prior to January 1, 2001, guaranty fund (and other) assessments were accrued when the Group received notice that an assessment was payable. 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 of less. Under GAAP, the corresponding caption of cash and cash equivalents included, cash balances and investments with initial maturities of three months or less.

The effects of the foregoing variances from GAAP on the accompanying statutory-basis financial statements have not been determined, but are presumed to be material.

Other significant accounting practices are as follows:

Consolidation

The Group's insurance subsidiaries are consolidated in these financial statements. All significant intercompany transactions have been eliminated in consolidation. 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 market value. Nonredeemable preferred stocks are reported at market value or lower of cost or market value as determined by the Securities Valuation Office of the NAIC ("SVO") and the related net unrealized capital gains/(losses) are reported in policyholders' surplus along with any adjustment for federal income taxes. Prior to January 1, 2001, the related net unrealized capital gains (losses) were reported in policyholders' surplus without any adjustment for federal income taxes.

Common stocks are reported at market value as determined by the SVO and the related net unrealized capital gains (losses) are reported in policyholders' surplus along with any adjustment for federal income taxes. Prior to January 1, 2001, the related net unrealized capital gains (losses) were reported in policyholders' surplus without 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.

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 foreclosure is probable the impairment is other than temporary; the mortgage loan is written down and a realized loss is recognized.

The Group recognized no significant interest expense during the years ended December 31, 2001 and 2000 respectively.

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. Prior to January 1, 2001, real estate, other than that occupied by the Group was reported at the lower of depreciated cost or fair value. 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 policyholders' surplus.

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

Furniture and Equipment

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 $7,736,000 and $6,380,000, less accumulated depreciation of $5,488,000 and $4,705,000 at December 31, 2001 and 2000, 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. Prior to January 1, 2001, electronic data processing equipment, operating and nonoperating software, furniture and equipment were depreciated on a straight-line basis over five years or less. Depreciation expense charged to operations in 2001 and 2000 was $3,285,000 and $1,619,000, 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 represents management's best estimate of the ultimate net cost of all reported and unreported losses incurred 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 analysis. 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 $15,050,000 and $13,902,000 at December 31, 2001 and 2000, respectively.

Premium Deficiency Reserves

Premium deficiency reserves are established, if necessary, 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. Prior to January 1, 2001, premium deficiency reserves were not recorded; rather statutorily required loss reserves in excess of amounts considered adequate by the Group were provided and charged directly to policyholders' surplus.

Reinsurance

Prospective reinsurance premiums, losses, and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Reinstatement Premiums

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

Reclassifications

Certain 2000 amounts in the Group's statutory-basis financial statements have been reclassified to conform to the 2001 financial statement presentation.

Permitted Statutory Accounting Practices

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

2. Accounting Changes

Effective January 1, 2001, the States of Florida and New Hampshire required that domiciled insurance companies prepare their statutory basis financial statements in accordance with NAIC SSAP subject to any deviations prescribed or permitted by the States.

Accounting changes adopted to conform to the provisions of NAIC SSAP are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to policyholders' surplus in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. As a result of these changes, the Group reported a change of accounting principle and a related change in unrealized losses as an adjustment that increased capital and surplus by $6,798,000 as of January 1, 2001. Included in this total adjustment is a reduction in capital and surplus of approximately $9,583,000 related to pension and guaranty funds and other assessments and an increase in capital and surplus of approximately $16,381,000 related mainly to deferred tax assets.

3. 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, 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 amortized cost and the fair value of investments in bonds are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2001		*(In Thousands)*		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 149,890	$ 5,570	$ 1,132	$ 154,328
Obligations of states and political subdivisions	60,849	1,805	243	62,411
Mortgage backed securities	92,514	3,741	245	96,010
Corporate securities	167,440	2,454	2,588	167,306
Total	$ 470,693	$ 13,570	$ 4,208	$ 480,055
At December 31, 2000				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 170,264	$ 3,157	$ 1,890	$ 171,531
Obligations of states and political subdivisions	77,547	2,411	161	79,797
Mortgage backed securities	122,825	3,120	33	125,912
Corporate securities	155,638	1,446	5,339	151,745
Total	$ 526,274	$ 10,134	$ 7,423	$ 528,985

The amortized cost of bonds at December 31, 2001 and 2000 has been reduced by adjustments of $510 and $0, respectively, to derive the carrying amount of bonds in the balance sheets.

A summary of the amortized cost and fair value of the Group's investments in bonds at December 31, 2001, by contractual maturity, is as follows:

	Amortized Cost	Fair Value
	(In Thousands)	
Years to maturity:		
One or less	$ 5,861	$ 5,851
After one through five	110,602	113,396
After five through ten	223,096	225,912
After ten	38,620	38,886
Mortgage-backed securities	92,514	96,010
Total	$ 470,693	$ 480,055

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.

Proceeds from the sales of investments in bonds during 2001 and 2000 were $173,895,000 and $116,604,000; gross gains of $4,547,000 and 1,183,000, and gross losses of $602,000 and $4,329,000 were realized on those sales, respectively.

At December 31, 2001, bonds with an admitted asset value of $12,845,000 were on deposit with state insurance departments to satisfy regulatory requirements.

At December 31, 2001, the Group held unrated or less-than-investment grade corporate bonds of $4,981,000, with an aggregate fair value of $4,973,000. Those holdings amounted to 1% of the Group's investments in bonds and less than .5% of the Group's total admitted assets. The Group performs periodic evaluations of the relative credit standing of the issuers of these bonds.

Unrealized gains and losses on investments in preferred and common stocks are reported directly in policyholders' surplus and do not affect operations. The cost, gross unrealized gains and losses, and fair value of those investments are summarized as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
At December 31, 2001				
Preferred stocks	$ 59,014	$ 1,325	$ 1,229	$ 59,110
Common stocks	105,566	16,522	5,338	116,750
Total	$ 164,580	$ 17,847	$ 6,567	$ 175,860
At December 31, 2000				
Preferred stocks	$ 46,602	$ 1,263	$ 1,256	$ 46,609
Common stocks	134,366	21,170	20,918	134,618
Total	$ 180,968	$ 22,433	$ 22,174	$ 181,227

During 2001, the respective maximum and minimum lending rates for mortgage loans were 11.5% and 7.5%. At the issuance of a loan, the percentage of any one loan to value of security was 80%. At December 31, 2001 and 2000, the Group held no mortgages with interest overdue beyond 180 days. No amounts were advanced on loans for taxes or assessments. At December 31, 2001 and 2000 no loans were impaired.

The Group's investments in mortgage loans principally involve commercial real estate. At December 31, 2001 99% of such mortgages ($2,096,000) involved properties located in New Hampshire. Such investments consist of first mortgage liens on completed income-producing properties; the aggregate mortgages outstanding to any one borrower do not exceed $2,096,000.

The Group has no investments in restructured loans at December 31, 2001 and 2000.

4. Sale of Business Segment

NGM entered into an agreement in March 2000 to sell the Perpetual Insurance business obtained as part of the merger with the Mutual Assurance Company in 1996. The agreement called for the novation of the Perpetual Policies and the transfer of the deposits and liabilities to the Penn Mutual Insurance Company of West Chester, PA. The agreement is subject to the approval of the Insurance Departments of the States in which the Policyholders reside. In 2000 the Pennsylvania Insurance Department, representing 76% of the Perpetual Policyholders, approved the sale resulting in the transfer of $19.2 million of Pennsylvania policyholder deposits and a gain on the sale of $1.7 million.

5. Reinsurance

During the normal course of business, the Group places reinsurance with various reinsurance companies and state reinsurance facilities. None of these 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.

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

	2001 Written	2001 Earned	2000 Written	2000 Earned
	(In Thousands)			
Direct premiums	$ 495,825	$ 465,712	$ 434,355	$ 412,965
Assumed premiums - Non-affiliates	44,315	40,070	31,608	33,359
Ceded premiums - Non-affiliates	28,763	28,151	23,548	22,789
Net premiums	$ 511,377	$ 477,631	$ 442,415	$ 423,535

The Group's ceded reinsurance arrangements reduced certain other items in the accompanying financial statements as follows for the years ending December 31:

	2001	2000
	(In Thousands)	
Losses and loss adjustment expenses - Non-affiliates	$ 13,587	$ 12,034
Loss and loss adjustment expense reserves - Non-affiliates	$ 32,705	$ 31,219
Unearned premium reserves - Non-affiliates	$ 6,229	$ 5,617

Amounts payable or recoverable for reinsurance on paid or unpaid losses are not subject to periodic or maximum limits. At December 31, 2001, 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, 2001 if all assumed and ceded reinsurance treaties were canceled is summarized as follows:

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Unearned Premium Reserve	Commission Recoverable/ (Payable)	Unearned Premium Reserve	Commission Recoverable/ (Payable)	Unearned Premium Reserve	Commission Recoverable/ (Payable)
	(In Thousands)					
Non-affiliates	$ 14,381	$ 3,595	$ 6,229	$ (399)	$ 8,152	$ 3,196
Total	$ 14,381	$ 3,595	$ 6,229	$ (399)	$ 8,152	$ 3,196

In 2001 and 2000, 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.

6. Intercompany Pooling Arrangements

NGM is the lead company in an Intercompany pooling arrangement for the Group. Substantially all underwriting results of the Group are ceded into the pooling arrangement between NGM, ODIC, and MSAAC (the Pool). Each member of the Pool assumes the following percentages of the underwriting results of the Pool: NGM 40%, MSAAC 55%, and ODIC 5%.

7. Federal Income Taxes

The Group files a consolidated federal income tax return for all 80% and greater owned subsidiaries and has a tax sharing agreement to allocate the consolidated tax provision among the companies. MSAH and its wholly owned subsidiaries are not included in NGM's consolidated income tax return and file a separate consolidated return as NGM's ownership is below 80%. The method of allocation among the companies within the same consolidated group (for tax purposes) is subject to a written agreement, 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, 2001 and 2000. Federal Income Taxes receivable and (payable) included in Other Assets or Other Liabilities are $1,139,000 and ($2,388,000) at December 31, 2001 and 2000, respectively.

Income before federal income taxes differs from taxable income principally due to tax-exempt investment income, dividends-received tax deductions, and differences in loss and loss adjustment expense and unearned premium reserves for tax and statutory-basis financial reporting purposes.

As of December 31, 2001, the Company had $ 36.6 million of operating loss carryforwards, general business credits and AMT credits that will expire in years 2009 through 2021. The amount of federal income taxes incurred that will be available for recoupment in the event of future net losses is $3,047,000, $ 3,158,000 and $ 8,773,000 from 2001, 2000, and 1999 respectively.

The components of the net deferred tax asset/(liability) at December 31, 2001 are as follows (in thousands):

Gross deferred tax assets	$ 55,149
Gross deferred tax liabilities	$ 2,947
Deferred tax assets nonadmitted	$ 24,970
Increase in deferred tax assets nonadmitted	$ 2,050

The components of incurred income tax expense and the change in deferred tax assets and deferred tax liabilities for the year ended December 31, 2001 are as follows:

Current income tax expense	$ 1,462
Increase in deferred tax assets	6,739
Decrease in deferred tax liabilities	166
Net change in deferred taxes	$ 6,905

Deferred income taxes include a benefit of $ 2,974,000 from net operating losses.

A reconciliation of the expected statutory income tax expense at 34% to the actual income tax expense follows:

	Year ended December 31	
	2001	**2000**
	(In Thousands)	
Expected income tax expense	$ 3,188	$ 7,454
Tax exempt income	(1,061)	(1,391)
Dividends received deductions	(1,067)	(1,061)
Unearned premiums	2,344	1,366
Discount on loss reserves	(150)	(371)
Low income housing credits	0	(618)
Utilization of Carryforward losses of Mutual Assurance Company (MACO)	(719)	(1,291)
Capital losses in excess of capital gains	2,205	254
Pension Contribution	(2,006)	0
Other, net	(1,272)	(633)
Federal income tax expense	$ 1,462	$ 3,709

8. 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 2001 and 2000:

	Year ended December 31	
	2001	**2000**
	(In Thousands)	
Unpaid losses and LAE, at beginning of year	$ 303,718	$ 306,446
Add provision for claims, net of reinsurance, occurring in:		
The current year	317,943	307,099
Prior years	(6,179)	(11,340)
Net incurred losses during the current year	311,764	295,759
Deduct payments for claims, net of reinsurance, occurring in:		
The current year	184,964	165,140
Prior years	124,904	133,347
Net claim payments during the current year	309,868	298,487
Unpaid for losses and LAE, at end of year	$ 305,614	$ 303,718

The Group's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, at December 31, 2001 and 2000, were decreased in the following year for claims that had occurred on or prior to those balance sheet dates. Those redundancies resulted principally from settling case-basis reserves established in prior years for amounts that were less than expected.

The indemnity portion of reserves for workers' compensation claims has been discounted on a tabular basis using the NCCI Table III-A at 3.5%. The December 31, 2001 and 2000 loss reserves include $1,612,000 and $1,459,000, respectively, of such discounted reserves. The amount of discount for case reserves is $1,668,000 and $1,509,000, respectively, and none for IBNR reserves, at December 31, 2001 and 2000, respectively.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, 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 $1,634,000 at December 31, 2001 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.

9. Asbestos-Related and Environmental Loss Reserve

The Group has exposure to environmental claims. Exposure arises mainly from the sale of Commercial Multiperil, Homeowners, and General Liability insurance. 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 environmental related losses (including coverage dispute costs) were as follows:

Gross of Reinsurance: *(In Thousands)*	1997	1998	1999	2000	2001
Beginning reserves	$ 8,229	$ 7,049	$ 7,415	$ 7,095	$ 6,859
Incurred Losses and LAE	1,295	824	620	709	561
Payments	2,475	458	940	945	959
Ending Reserves	$ 7,049	$ 7,415	$ 7,095	$ 6,859	$ 6,461

Net of Reinsurance: *(In Thousands)*	1997	1998	1999	2000	2001
Beginning reserves	$ 8,003	$ 6,952	$ 7,415	$ 7,095	$ 6,835
Incurred Losses and LAE	1,314	791	387	659	417
Payments	2,365	328	707	919	815
Ending Reserves	$ 6,952	$ 7,415	$ 7,095	$ 6,835	$ 6,437

At December 31, 2001, the Group held IBNR and LAE reserves related to environmental coverages in the amount of $5,000,000 on a gross and net basis.

10. 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, 2001, the Group meets the RBC requirements.

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 2002, MSAAC can pay dividends of $17,069,000 without the prior approval of the New Hampshire Insurance Commissioner.

11. 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 unconsolidated subsidiaries were $10,216,000 and $10,791,000 in 2001 and 2000, respectively.

12. Leases

The Group leases office space and equipment under lease agreements that expire at various intervals over the next four years and are subject to renewal options at market rates prevailing at the time of renewal. Rental expense for all leases was $3,344,000 and $3,794,000 for 2001 and 2000, respectively. At December 31, 2001, future minimum payments under noncancellable leases are as follows (in thousands):

2002	2003	2004	2005	2006	Thereafter	Total
3,596	1,682	1,211	316	0	0	6,805

13. Commitments and Contingencies

The Group is named as a defendant in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Group in estimating the loss and loss adjustment expense reserves. The Group's management believes the resolution of those 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 $2 million to a Limited Liability Company (LLC) that provides services to independent agents. The agents are part of a voluntary association, which receives a range of insurance related services from the LLC including a unified agency system and broader market access. The Group has not had to fund any amounts related to its guarantee.

The Group is assessed amounts by state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At December 31, 2001 and 2000, the Group has accrued $ 1,447,000 and $ 352,000, respectively, for guaranty fund assessments. A receivable for future premium tax deductions related to these assessments of $ 170,000 and $ 20,000 was recorded at December 31, 2001 and 2000, 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 $ 1,465,000 and $ 108,000 in 2001 and 2000, respectively.

14. Employee Benefits

The Group sponsors a non-contributory 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 of primarily common stock, investment-grade corporate bonds, guaranteed annuity contracts 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 $534,000 and $539,000 for 2001 and 2000, respectively, to the Profit Sharing Retirement Plan.

The Group provides certain health care and life insurance benefits for retired employees. Substantially all employees become eligible for those benefits if they reach age 55, with 15 years of service. There were no changes or amendments to the retirement plan or the profit sharing retirement plan in 2001. At December 31, 2001 and 2000, the unfunded post-retirement benefit obligation for retirees and other vested plan participants was $1,202,000 and $959,000, respectively. Benefits paid were $172,000, and $130,000 and expenses incurred were $196,000, and $112,000, for 2001 and 2000, respectively. The unfunded post-retirement benefit obligation for non-vested employees was $1,844,000 and $1,555,000, at December 31, 2001 and 2000, respectively. The discount rate used in determining the accumulated post-retirement benefit obligation for 2001 was 7.5% and the health care cost trend was 12.5% during 2001 and then decreasing .75% per year until reaching 5.5% in 2011 and future years. The effect of a 1% increase in health care cost trends would increase the accumulated plan benefit obligation by $250,000. The discount rate used in determining the accumulated post-retirement benefit obligation for 2000 was 7.5% and the health care cost trend was 8%, graded to 5% over five years. The effect of a 1% increase in health care cost trends would have increased the accumulated plan benefit obligation by $217,000.

A summary of assets, obligations and assumptions of the Pension Plan are as follows:

	2001	2000
	(In Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 36,943	$ 35,822
Service cost	1,512	1,690
Interest cost	2,815	2,750
Actuarial gain/(loss)	(30)	(1,619)
Benefits paid	(1,800)	(1,700)
Benefit obligation at end of year	$ 39,440	$ 36,943
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 26,619	$ 31,887
Actual return on plan assets	(1,384)	(5,210)
Employer contribution	11,179	1,642
Benefits paid	(1,800)	(1,700)
Fair value of plan assets at end of year	$ 34,614	$ 26,619
Funded status:		
Unrecognized net (gain) or loss	$ 3,683	$ 0
Excess of the benefit obligation over the value of plan assets	$ (4,826)	$ (10,324)
Accrued liabilities	$ (1,143)	$ (10,324)
Benefit obligation for non vested employees	$ 2,041	$ 1,640
Components of net periodic benefit cost:		
Service cost	$ 1,512	$ 1,690
Interest cost	2,815	2,750
Expected return on plan assets	(2,329)	(2,640)
Total net periodic benefit cost	$ 1,998	$ 1,800

	Pension Benefits	
Weighted-average assumptions	**2001**	**2000**
Discount rate	7.50%	7.50%
Expected return on plan assets	8.50%	8.50%
Expected compensation increase	4.00%	4.00%

Supplemental Employee Retirement Plan

The Group has entered into supplemental 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 $1,278,000 and $(3,000) in 2001 and 2000, respectively.

Report of Independent Auditors

To the Board of Directors and Policyholders of National Grange Mutual Insurance Company:

We have audited the accompanying consolidated statutory-basis balance sheets of National Grange Mutual Insurance Company (a New Hampshire corporation) and Insurance Subsidiaries (the Group) as of December 31, 2001 and 2000, and the related consolidated statutory-basis statements of operations and changes in policyholders' 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 New Hampshire and Florida, which practices differ from accounting principles generally accepted in the United States. The variances between such practices and accounting principles generally accepted in the United States are described in Note 1. The effects on the financial statements of these variances are not reasonably determinable but are presumed to be material.

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 accounting principles generally accepted in the United States, the financial position of National Grange Mutual Insurance Company and Insurance Subsidiaries at December 31, 2001 and 2000, 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 National Grange Mutual Insurance Company and Insurance Subsidiaries at December 31, 2001 and 2000, 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 New Hampshire and Florida.

As discussed in Note 2 to the financial statements, in 2001 the Group changed various accounting policies to comply with the revised National Association of Insurance Commissioners' Accounting Practices and Procedures Manual, as adopted by Insurance Departments of the States of New Hampshire and Florida.

Ernst & Young LLP

Boston, Massachusetts
February 8, 2002

Corporate Information

Directors

National Grange Mutual Insurance Company
Main Street America Financial Corporation
Main Street America Holdings, Inc.
Information Systems & Services Corporation
Main Street America Capital Corporation
Old Dominion Insurance Company
Main Street America Assurance Company

Cotton Mather Cleveland
President
Mather Associates
New London, NH

Albert H. Elfner, III
Retired Executive
Boston, MA

Charles A. Farmer
Retired Executive
First NH Bank
Keene, NH

William D. Gunter, Jr.
President
Rogers, Atkins, Gunter & Associates Insurance, Inc.
Tallahassee, FL

Terry S. Jacobs, FCAS
Chairman & Chief Executive Officer
Regent Communications, Inc.
Covington, KY

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Chairman of the Board
National Grange Mutual Insurance Company
Keene, NH

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President
NACUBO
Washington, DC

Barbara D. Stewart
President
Stewart Economics, Inc.
Atlanta, GA

Main Street America Holdings, Inc.

Terry L. Baxter
White Mountains Insurance Group. Ltd.
Hanover, NH

K. Thomas Kemp
White Mountains Insurance Group. Ltd.
Hanover, NH

Officers

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Chairman of the Board

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President & CEO

Jeanne H. Eddy
Executive Vice President
Finance and Systems

Larry G. Acord
Vice President

Stephen D. Canty
Vice President

Joel Gelb
Vice President &
Chief Information Officer

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Vice President

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Vice President

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Vice President
Controller & Treasurer

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Vice President & Secretary

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Vice President

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Assistant Vice President

Kevin Smick
Assistant Vice President

Wallace H. Smith
Assistant Vice President

Geoffrey S. Molina
Assistant Treasurer

Timothy O. Muzzey
Assistant Actuary

Marlin Jack Crawford
Assistant Secretary

Gerald F. Ganley
Assistant Secretary

Michael Grogan
Assistant Secretary

John M. Herron
Assistant Secretary

Michael Robie
Assistant Secretary

Dennis B. Uhler, CPCU
Assistant Secretary

Council Information

Agent Councils

New England Agents

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Peter M. Bakker Agency, Inc.
Avon, CT

Cheryl Barcome
The Insurance Source, Inc.
Keene, NH

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Eldredge & Lumpkin,
Insurance Agency, Inc.
Chatham, MA

Jill Maynard
Hull Maynard Agency, Inc.
Rutland. VT

Marc Rousseau
The Rousseau Insurance Agency
Biddeford, ME

Bill Warburton
USI New England
N. Kingstown, RI

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Webber & Grinnell
Insurance Agency, Inc.
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Richmond Agents

Phil Ranalli
First State Insurance
Wilmington, DE

Bill Nahm
Eastern Insurance
Ocean City, MD

Clarence Pickard
Central Caroline Insurance
Mooresville, NC

Frank Norris
Frank B. Norris & Co.
Columbia, SC

Bill Watts
Parker Watts Insurance
Nashville, TN

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B.H. Baird
Warsaw, VA

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Cabell Insurance Associates
Charlottesville, VA

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Council Information

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Sturbridge, MA

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New England Personal Lines

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Frank H. Reis, Inc.
Kingston, NY

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The Connors Agency
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Tennessee
Vermont
Virginia