

VIRGINIA PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION

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March 3, 2008

To: THE COMMISSIONER OF INSURANCE ("the Commissioner") AND
THE MEMBER INSURERS OF THE VIRGINIA PROPERTY
AND CASUALTY INSURANCE GUARANTY ASSOCIATION
("the Association")

Re: The Annual Report of the Association for the Year ending December 31, 2007

During 2007, there were no new insolvencies reported to the Association. The Board of Directors of the Association ("the Board") continued to monitor existing insolvencies and potential insolvencies.

On May 8, 2007, the member insurers of the Association held their Annual Meeting at the offices of Troutman Sanders LLP, in Richmond, Virginia.

The Chairman presented the 2006 Annual Report of the Association to the member insurers. The member insurers thereupon voted that the Annual Report be accepted.

The Board reviewed the Plan of Operation and no amendments were suggested.

Immediately subsequent thereto, the Board held its Annual Meeting. Messrs. Roach, Joyce, Gulko and Winskowicz, and Ms. Lavin were elected, Chairman, Vice Chairman, Executive Secretary, Claims Manager and Treasurer, respectively, of the Association.

The Board reviewed the Plan of Operation and no changes were recommended at this time.

The Board also reviewed the outstanding contract with Guaranty Fund Management Services® ("GFMS®").

The Board received and considered reports concerning claims and recoveries from receivers, respectively.

The Executive Secretary presented to the Board the audited financial statements of the Association, as approved by the Audit Committee. The Board thereupon voted that such audited financial statements be accepted.

C. Cotesworth Pinckney, Association counsel, reported to the Board concerning his activities for the prior year, addressing specifically issues concerning Reciprocal of America and the Chesapeake Hospital Authority matters.

At this juncture, Mr. Chew from the Bureau of Insurance addressed the Board on a number of matters of common interest.

On October 15, 2007, the Board held a meeting in Norwich, Connecticut, in conjunction with other meetings of the member guaranty associations of GFMS and its committees.

The Board received and considered reports concerning claims and recoveries from receivers, respectively.

Mr. Pinckney reported to the Board on several matters.

The Chairman recognized Mr. Pinckney, who is retiring, for his many years of service to the Board and the Association.

The Board next reviewed the financial condition of the Association and its operating expenses and covered claim costs in order to determine whether an assessment or a refund of prior assessments would be appropriate. The Board thereupon voted the following assessments and refunds:

| <u>ASSESSMENT</u> | <u>AUTO</u> | <u>OTHER</u> | <u>WORKERS' COMPENSATION</u> |
|------------------------------|-------------------|----------------------|------------------------------|
| Midland Insurance Company | | | \$1,000,000 |
| Rockwood Insurance Company | | | 2,000,000 |
| Reliance Insurance Company | | | 13,886,958 |
| Fremont Indemnity Company | | | 1,000,000 |
| Legion Insurance Company | \$500,000 | | |
| Villanova Insurance Company | | | 500,000 |
| Casualty Reciprocal Exchange | | | 1,000,000 |
| | \$ 500,000 | \$ 0 | \$19,386,958 |
| Total Assessment | | \$ 19,886,958 | |

| <u>REFUND</u> | <u>AUTO</u> | <u>OTHER</u> | <u>WORKERS' COMPENSATION</u> |
|-------------------------------------|-------------|--------------|------------------------------|
| Iowa National Insurance Company | | | (\$170,000) |
| Transit Casualty Company | (\$12,482) | | |
| Carriers Insurance Company | | | (79,490) |
| Midland Insurance Company | (31,187) | (\$111,178) | |
| Great Global Assurance Company | | (13,461) | |
| Mission Insurance Company | | (40,346) | (79,409) |
| Mission National Insurance Company | | (75,179) | |
| Integrity Insurance Company | (49,245) | (186,793) | |
| American Mutual Liability Ins. Co. | (11,837) | | |
| American Mutual Insurance of Boston | (11,866) | | |
| Rockwood Insurance Company | | (19,664) | |

| | | | |
|------------------------------------|-----------------------|------------------------|---------------------|
| MCA Insurance Company | (58,352) | (37,686) | |
| Premier Alliance Insurance Company | | (437,665) | |
| United Community Insurance Company | | (223,787) | |
| Quaker City Insurance Company | (20,488) | | |
| Credit General Insurance Company | | (40,006) | |
| Reliance Insurance Company | (5,000,000) | | |
| Reciprocal of America | | (6,000,000) | |
| Ideal Mutual Insurance Company | | (53,151) | |
| Transit Casualty Company | | (62,984) | (\$300,000) |
| | (\$ 5,195,457) | (\$ 7,301,900) | (\$ 628,899) |
| Total Refund | | (\$ 13,126,256) | |

Net Assessment **\$6,760,702**

Upon recommendation of Ms. Lavin, the Board further voted that the **Security Casualty, Protective National and Vesta Fire** insolvencies be **CLOSED**.

The Board was presented with estimates of costs for obtaining Directors and Officers liability insurance coverage. Upon motion duly made and seconded, it was voted to obtain a policy of Directors and Officers liability insurance for members of the Board.

The member insurers currently serving on the Board and their designated representatives are:

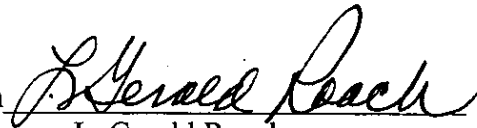
| | |
|---|------------------|
| MUTUAL ASSURANCE SOCIETY OF VIRGINIA | L. Gerald Roach |
| ALFA ALLIANCE INSURANCE CORPORATION | Douglas Joyce |
| ALLSTATE INSURANCE COMPANY | Jeff Williams |
| VIRGINIA FARM BUREAU MUTUAL INSURANCE COMPANY | Richard Mattox |
| HARTFORD ACCIDENT & INDEMNITY COMPANY | Scott Holbrook |
| UTICA MUTUAL INSURANCE COMPANY | James Ayres |
| STATE FARM MUTUAL AUTOMOBILE INSURANCE COMPANY | Peggy Echols |
| CONTINENTAL CASUALTY COMPANY | Elizabeth Wilson |
| UNITED SERVICES AUTOMOBILE ASSOCIATION | Donna Leaman |

The Statement of Account of the Association, from inception through December 31, 2007, and its Balance Sheet for the same period, are attached hereto and made a part hereof.

Respectfully submitted,

The Board of Directors of the
VIRGINIA PROPERTY AND
CASUALTY INSURANCE
GUARANTY ASSOCIATION

By its Chairman


L. Gerald Roach