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1. Objectives and Background

This discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for West Virginia National Auto Insurance Company ("Company"). Information presented in this discussion supplements the financial statements, schedules, and exhibits in the 2012 Annual Statement.

The Company was incorporated on April 29, 1998 and commenced business on June 1, 1998. The Company is domiciled in the state of West Virginia. Our Mission Statement is to provide a quality affordable insurance product through a network of independent agents. By maintaining close contact with our customers and agents and making it easy for them to do business with us, we believe that we will be able to meet our growth, retention, and profitablity goals.

On September 3, 2004, the West Virginia Insurance Commission authorized the Company to write fire insurance. Its first property insurance policy was written on June 8, 2007. In December 2011, due to a lack of growth and poor underwriting results, the Company stopped writing new property business, but it will continue to renew its inforce policies until March 31, 2012. The Company sold the renewals rights for property policies renewing after this date. The Company will also be responsible for all claims on policies effective up to this date. The West Virginia Insurance Commission approved our withdrawal plan on January 25, 2012. This property book of business was not a material part of our overall business.

In order to grow and diversify its core non-standard auto book of business, the Company expanded into the neighboring state of Virginia. The Company was authorized by the state of Virginia on March 30, 2010 and wrote its first Virginia policy on April 27, 2010.

The Company is a 100% owned subsidiary of WVA National Company, L.L.C. (Parent), a West Virginia Limited Liability Company. Schedule Y of the Annual Statement includes an organization chart of the Holding Company Group. The Company markets its products through independent agents located throughout the states of Virginia and West Virginia. The Company has no branch offices. All claims handling and administrative functions are handled in the home office. All West Virginia business is underwritten in the home office, while all Viginia business is underwritten by a Third Party Administrator. The amount of premiums written pertaining to each line of business and pertaining to each state are as follows:

Direct Premiums Written				
Lines of Business	**2012**	**%**	**2011**	**%**
Private Passenger Auto Liability	7,632	82.3%	8,465	77.3%
Private Passenger Physical Damage	1,588	17.1%	1,978	18.1%
Fire	23	0.3%	137	1.2%
Homeowners	10	0.1%	232	2.1%
Allied Lines	8	0.1%	56	0.5%
Other Personal Liability	12	0.1%	85	0.8%
Mine Subsidence	0	0.0%	1	0.0%
Total	9,273	100.0%	10,954	100.0%

Direct Premiums Written				
State	**2012**	**%**	**2011**	**%**
West Virginia	6,863	74.0%	7,503	68.5%
Virginia	2,410	26.0%	3,451	31.5%
Total	9,273	100.0%	10,954	100.0%

2. Financial Position

The Company's financial position at December 31 was as follows:

Balance Sheet	2012	2011
ASSETS		
Bonds	6,954	5,975
Common Stocks	362	124
Cash and Short-term Investments	886	1,691
Premium Balance	970	2,328
Reinsurance Recoverable	378	564
Other Assets	267	190
Total Assets	**9,817**	**10,872**
LIABILITIES		
Unpaid Losses and Loss Adjustment Expenses	3,673	3,294
Unearned Premiums	1,194	1,485
Ceded Reinsurance Premiums Payable	122	351
Other Liabilities	541	671
Schedule F and P Penalties	0	0
Total Liabilities	**5,530**	**5,801**
Total Policyholder Surplus	**4,287**	**5,071**

Policyholders' surplus decreased 15.46% from $5,071 at December 31, 2011 to $4,287 at December 31, 2012. The primary reasons for this decrease in surplus of $784 were:

- Net Income $ (207)
- Dividends to Stockholder $ (118)
- Change in Net Deferred Tax Assets $ (34)
- Change in Non-Admitted Assets $ (447)
- Change in Unrealized Capital Gains $ 22

Assets

The Company invests primarily in long-term bonds, common stock and short-term investments. The Company's long-term bond portfolio increased by $979 and its common stock portfolio increased $238. Cash and short-term investment assets balances decreased $805 from 2011.

The following table summarizes the makeup of the long-term bond portfolio:

Composition of Long-term Bond Portfolio	2012	%	2011	%
US Government and Agencies	1,926	27.7%	2,153	36.0%
State and Municipal	4,928	70.9%	3,472	58.1%
Corporate	100	1.4%	350	5.9%
Totals	**6,954**	**100.0%**	**5,975**	**100.0%**

As of December 31, 2012, long-term bonds had a market value of $7,174, which was $220, or approximately 3.16% higher than the admitted asset value of $6,954. All of the Company's bonds are exempt from the filing requirement with the SVO. The Company's bond portfolio contains all Class 1 rated bonds.

Maturity Distribution of Long-term Bond Portfolio	2012	%	2011	%
1 Year or less	1,128	16.2%	1,439	24.1%
Over 1 Year and less than 5 Years	3,115	44.8%	2,335	39.1%
Over 5 Years and less than 10 Years	931	13.4%	1,289	21.5%
Over 10 Years and less than 20 Years	1,528	22.0%	799	13.4%
Over 20 Years	252	3.6%	113	1.9%
Totals	**6,954**	**100.0%**	**5,975**	**100.0%**

The Company attempts to maintain maturity dates for its investment in bonds that approximate the requirement for cash for the payment of future claims. Based upon the Company's current cash flow needs, it should not be necessary to liquidate any part of the portfolio to meet operating needs.

Premium receivable balances decreased 58.34% from $2,328 in 2011 to $970 in 2012. This was primarily due to our decreased writings in Virginia, where we write mostly annual term policies, as opposed to the 3-month term policies that we write in West Virginia.

In addition, the Company has $459 in non-admitted premiums receivable. This entire amount is over 90 days due and was being disputed by the General Agency that owes the premiums. The Company is currently pursuing legal and insurance recourses in an attempt to collect these premiums.

The Company does not expect any unusual collection problems with respect to the December 31, 2012 admintted premiums receivable. Net premiums written decreased 2.95% from $8,390 in 2011 to $8,142 in 2012. This decrease in net writings was the result of a decrease in our auto premiums written in Virginia.

Amounts Recoverable from unaffiliated reinsurers for paid losses and expenses was $378 in 2012 and $564 in 2011. This is also due to our decreased writings in Virginia. As of 9/1/2012, 30% of all premiums and losses from Virginia and West Virginia business are ceded to reinsurers.

Liabilities

Loss and loss adjustment expense (LAE) reserves are stated at the Company's estimate of the ultimate cost, net of ceded reinsurance, of settling all incurred but unpaid claims. Loss and LAE reserves are not discounted. Salvage and subrogation recoveries are anticipated when setting loss reserves. The accrual of anticipated recoveries of salvage and subrogation decreased loss reserves by $49 at December 31, 2012.

The level of loss and LAE reserves is monitored continually and adjusted for changes in economic, social, judicial and legislative conditions, as well as changes in historical trends. The Company uses various development modeling techniques to assist in the evaluation of its reserves under the direction of its consulting actuary.

Management believes that its reserves are adequate, but establishing reserves is a judgmental and inherently uncertain process. It is therefore possible that as conditions and experience develops; additional reserves may be required in the future. Activity with respect to unpaid losses and LAE for the last two years is displayed below:

Loss and LAE Reserve Summary	**2012**	**2011**
Unpaid losses and LAE at beginning of year	**3,294**	**3,557**
Losses and LAE incurred in current year:		
For current year losses and LAE	6,146	5,796
For prior year losses and ALAE	151	(390)
Income statement amounts	**6,297**	**5,406**
Losses and LAE paid in current year:		
For current year losses and LAE	3,519	3,560
For prior year losses and LAE	2,400	2,109
Underwriting exhibits amounts	**5,919**	**5,669**
Unpaid losses and LAE at end of year	**3,673**	**3,294**

Increases in loss and LAE reserve estimates for prior loss years resulted in a net increase in estimates of $151, which was recognized in 2012 and was due to:

• Loss reserve adjustment	$ 129
• LAE reserve adjustment	22
Total	$ 151

Net unearned premiums decreased 19.59% from $1,485 at December 31, 2011 to $1,194 at December 31, 2012 primarily due to the decrease in auto premiums written in Virginia.

Capital and Surplus Accounts

Policyholders' surplus decreased from $5,071 in 2011 to $4,287 in 2012. This decrease was due to the net loss of $207 less $447 due to the increase in nonadmitted assets detailed earlier plus $22 due to an increase in unrealized capital gains less $34 due to a decrease in net deferred income tax less $118 in stockholder dividends paid.

WV National calculated its Risk-Based Capital (RBC) requirements as of year-end 2011 and the results are as follows:

• Total adjusted capital (TAC)	$ 4,287
• Authorized control level RBC	$ 786

The authorized control level RBC is equal to 50% of the RBC requirement. WV National's TAC of $4,287, compared with its RBC requirements of $786, indicates that WV National's capital surplus is well above its RBC requirements.

3. Results of Operations

WV National's operating results for 2012 and 2011 and certain key financial ratios are presented in the following table.

Statement of Income and Ratios	**2012**	**2011**
Premiums earned	8,433	8,480
Losses and LAE incurred	6,298	5,406
Underwriting expenses	2,883	3,055
Underwriting gain (loss)	**(748)**	**19**
Net investment gain	151	252
Other income	310	141
Income before income taxes	**(287)**	**412**
Federal income tax expense	(80)	60
Net income	**(207)**	**352**
Loss ratio	62.7%	52.4%
LAE ratio	12.0%	11.4%
Underwriting expense ratio	34.2%	36.0%
Combined ratio	**108.9%**	**99.8%**

The combined ratio expresses the sum of the costs for losses, LAE, and underwriting expenses as a percentage of earned premiums. This ratio is a recognized industry measure of underwriting performance. WV National reported a combined ratio of 108.9% in 2012 and 99.8% in 2011.

Effective 2/1/2011 and 8/1/2012, the Company took overall rate increases on its West Virginia auto line of 1.1% and 1.7%, respectively. These rate increases, along with the increase in writings, have brought its combined ratio back to a profitable level. The Company will continue to monitor the profitability of this book of business on an agency-by-agency basis, as well as various other rating factors, such as insured zip code and driver class.

Effective 5/1/2012, the Company took overall rate increase on its Virginia auto line of 8.9% This rate increase, along with more stringent underwriting practices and better agency selection, will bring its combined ratio to a profitable level. The Company will continue to monitor the profitability of this book of business and adjust the rates accordingly.

There was a 0.56% decrease in net premiums earned between 2011 and 2012. This decrease was due to the Company's 2012 decrease in net written premiums in Virginia.

The Company's investment income, which includes realized gains and losses, decreased from $252 in 2011 to $151 in 2012. The decrease in investment income from the currect declining bond interest rate environment and a $48 decrease in realized capital gains on our stock portfolio. The Company was not within the usual range for its Insurance Regulatory Information System (IRIS) Investment Yield ratio based on 2012 financial results. The following table summarizes the pre-tax investment results for the years ended December 31, 2012 and 2011:

Investment Results	**2012**	**2011**
Average Invested Assets (A)	8,050	7,871
Net Pre-tax Investment Income (B)	151	251
Average Annual Yield on Investments	**1.9%**	**3.2%**

(A) Simple Average Invested Assets from 2012/2011 and 2011/2010 Annual Statements, respectively, including Interest Due and Accrued.

(B) Net of investment expenses.

The Company incurred federal income taxes of ($79) and $60 in 2012 and 2011, respectively. As of 12/31/2012, the Company had a Net Operating Loss Carryforward of $52 that is available to offset future taxable income.

4. Cash Flow and Liquidity

The cash flows of WV National for 2012 and 2011 are summarized as follows:

Cash Flows Statement	2012	2011
Operations		
Cash from underwriting	39	(353)
Investment income received	178	265
Federal income taxes (paid) received	(7)	(82)
Other – net	310	141
Cash provided (used) by operations	**520**	**(29)**
Investment Activities		
Proceeds from sale or maturity of long-term invested assets	2,769	2,806
Cost of long-term investments acquired	(3,992)	(1,253)
Cash provided (used) in investment activities	**(1,223)**	**1,553**
Financing Activities		
Repayment of surplus notes	0	0
Cash dividends to shareholders	(118)	0
Increase (decrease) in borrowed money	0	0
Other – Net	16	31
Cash provided (used) in financing activities	**(102)**	**31**
Net increase (decrease) in cash and short-term investments	**(805)**	**1,555**

The primary source of cash in 2012 was provided from long-term bonds being called or maturing. The Company expects to meet its liquidity requirements for 2013 completely by funds provided from operations.

5. Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

6. Participation in High Yield Financings, Highly Leveraged Transactions or Non-Investment Grade Loans and Investments

The Company does not participate in any high yield financings, highly leveraged transactions or non-investment grade loans.

7. Preliminary Merger/Acquisition Negotiations

The Company is not involved in any preliminary merger or acquisition negotiations.

8. Looking towards 2013

The Company plans to continue growing its West Virginia and Virginia non-standard auto books of business. In 2013, we expect direct premiums written to increase by 10% in Virginia and by 5% in West Virginia. The Company will continue to implement stringent agency management to maximize potential profitability. New agency appointments will only be considered if the Company determines that the agency has a historical track record of profitability with other carriers.

The Company will continue to monitor results on a quarterly basis and, with the assistance of our actuarial consultant, rate levels will be reviewed to ensure proper pricing of our products. These items in conjunction with expense control will be critical to our 2013 results.