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Company Examinations

REPORT ON EXAMINATION

OF THE

PERMANENT GENERAL ASSURANCE CORPORATION

NASHVILLE, TENNESSEE

AS OF

DECEMBER 31, 2004

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT
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Nashville, Tennessee
May 30, 2006

Honorable Alfred W. Gross
Chair, Financial Condition Committee
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Commissioner of Insurance
Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Honorable Eleanor Kitzman
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Honorable Gary L. Smith
Secretary, Western Zone
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Idaho Department of Insurance
700 West State Street, 3rd Floor
Boise, Idaho 83720

Honorable Paula A. Flowers
Commissioner of Commerce
and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioners:

Pursuant to your instructions and in accordance with the Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners, (NAIC), a financial examination and market conduct review has been made concerning the condition and affairs of the

PERMANENT GENERAL ASSURANCE CORPORATION
NASHVILLE, TENNESSEE

hereinafter generally referred to as the "Company", and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on September 12, 2005. The examination was conducted under the association plan of the NAIC by duly authorized representatives of the Tennessee Department of Commerce and Insurance. The examination was made concurrently with the examination of the Company's affiliate, Permanent General Assurance Corporation of Ohio (PGAC of Ohio), by the Ohio Department of Insurance.

SCOPE OF EXAMINATION

The period covered by this examination is from December 31, 2001, the date of the last examination, to the close of business on December 31, 2004, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The examination was conducted at the Company's office at 2636 Elm Hill Pike, Suite 510, Nashville, Tennessee 37214.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the *NAIC Financial Condition Examiners Handbook*. During the course of the examination, assets were verified and valued and liabilities were determined or estimated as of December 31, 2004. The Company's financial condition and its degree of solvency were thereby established. Test checks, covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices and compliance with statutes, to the extent hereinafter set forth. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amounts and potential impact on surplus as regards policyholders.

Additionally, an examination of the following items was made:

Previous Examination Comments and Recommendations
Company History
Charter and Bylaws
Management and Control
Corporate Records
Affiliated Companies
Fidelity Bond and Other Insurance
Retirement Plan and Other Employee Benefits
Territory
Plan of Operation
Market Conduct Activities
Loss Experience
Reinsurance
Statutory Deposits
Litigation
Accounts and Records
Loss Reserves
Financial Statement

Previous Examination Comments and Recommendations:

The previous full scope examination of the Company was conducted as of December 31, 1999, by examiners of the Tennessee Department of Commerce and Insurance. The adverse findings and their resolutions are as follows:

- *The Company changed custodians subsequent to the examination date. The Company's custodial agreement with its new custodian is not in compliance with Tenn. Comp. R. & Regs. Tit. Dept. of Commerce and Ins., ch. 0780-1-46-.04 which states, in part, that the custodial agreement provide a standard of responsibility which shall not be less than the responsibility of a bailee for hire or a fiduciary under statutory or case law of Tennessee and that securities held by the custodian may be immediately withdrawn upon demand of the insurance company. Additionally, the agreement does not contain an immediate indemnification provision in the event of a loss of securities by the custodian, as suggested by the NAIC. It is recommended that the Company amend the custodial agreement to comply with Tennessee regulations and NAIC guidelines.*

  The Company filed an amended custodial agreement which met the standards of Tenn. Comp. R. & Regs., ch. 0780-1-46-.04 and contained the provisions suggested by the NAIC.

- *The Company is a producer controlled insurer pursuant to Tenn. Code Ann. § 56-6. Tenn. Code Ann. § 56-6-603 states several requirements that must be met before business can be placed with a producer controlled insurer. It is recommended that the Company comply with all the requirements of Tenn. Code Ann. § 56-6-603. It is further recommended that the Company provide evidence of such compliance.*

  The Company was advised by the Tennessee Department of Commerce and Insurance that it would not be deemed a producer controlled insurer if the form agency contract is changed to delete all references to Permanent General Companies, Inc. and that the revised contract is executed by all independent agents appointed by the Company.

  The standard agency contract was revised and all agents were required to execute the new agency agreement. This process was completed in April, 2004.

- *The following errors were noted on the Company's 2001 Annual Statement:*

  (a) On the Underwriting and Investment Exhibit, page 4, the Company incorrectly reported a paid in surplus adjustment of ($5,000,000). This should have been reported as a $5,000,000 dividend to stockholder. Additionally, this dividend was misreported on Schedule Y, Part 2.

  (b) The Company's capital stock was incorrectly reported in the General Interrogatories as 5,000 shares authorized, 5,000 shares outstanding and a par value of $1,000. The correct reporting should be 20,000 authorized, 10,000 shares outstanding and a par value of $500.

  (c) The Company's special deposits on Schedule E, Part 2 did not show a complete description. The annual statement instructions state that bond deposit descriptions should include the rate of interest and due date.

These errors result in the Company not being in compliance with Tenn. Code Ann. § 56-1-501(g) which state that financial statements shall be prepared in accordance with the NAIC Accounting Practices and Procedures Manual.

The errors listed in (a), (b) and (c) above have been corrected.

- *From the review of the minutes of the meetings of the Board of Directors, for the period under examination, there is no indication that the previous examination report was reviewed by the directors.*

  There is still no indication that the previous examination report was reviewed by the Company's Board of Directors.

- *The Company is not keeping its capital stock ledger up to date. Therefore a reconciliation of all the capital stock transactions could not be performed. The Company's general ledger at December 31, 2002, shows capital stock as $2,500,000. However, on June 24, 1998, the Board of Directors adopted a resolution increasing the capital stock from $2,500,000 to $5,000,000. On June 30, 1998, $2,500,000 was transferred from paid in surplus to common capital stock. The Company amended its charter on May 4, 1999, changing the common capital stock par value from $1,000 to $500. Thereafter, an additional 5,000 shares were issued to PGC. The Company could not provide copies of stock certificates to substantiate these transactions.*

  As noted in the prior examination report, subsequent to the examination date, the Company provided a stock certificate dated February 3, 2003, reflecting the issuance of the 5,000 shares.

- *Taylor-Walker & Associates, Inc. determined that in reporting loss and loss adjustment expense data in their 2001 annual statement, the Company did not prepare Schedule P in accordance with the NAIC's Annual Statement Instructions. The premiums earned, loss and loss expense payments, losses unpaid, and loss adjustment expenses unpaid amounts as shown in Schedule P do not properly reflect the pooling arrangement between the Company and Permanent General Assurance Corporation of Ohio.*

  This has not been corrected.

- *Taylor-Walker & Associates, Inc. recommended that the Company's opining actuary should prepare a complete reconciliation of all premium, loss and loss adjustment expense data presented in Schedule P and used in the reserve study, including a complete explanation of all observed differences.*

  This has not been corrected. It is noted that the opining actuary did prepare a reconciliation, but did not provide an explanation of the observed differences.

- *The Services Agreement and the Management Services and Income Tax Allocation Agreement with the Company's parent, Permanent General Companies, Inc. have never been filed with the Tennessee Department of Commerce and Insurance. It is recommended that the Company file these agreements pursuant to Tenn. Code Ann. § 56-11-206(a)(2)(D).*

  A Form D filing was made requesting approval of the agreements.

- *It is recommended that the Company, when purchasing money market funds, purchase funds that are on the list of funds filed with the Securities Valuation Office to prevent reclassification of those funds to common stock which may result in the Company exceeding the percentage limitation on common stock pursuant to Tenn. Code Ann. § 56-3-402(4)(C)(i).*

  The Company has implemented procedures to assure that all short-term investments in money market and similar funds will be on the list of funds filed with the Securities Valuation Office.

COMPANY HISTORY

The Company is the product of a merger between two companies which are described as follows:

(1) The "Original" Permanent General Assurance Corporation:

The original Permanent General Assurance Corporation (original PGAC) was incorporated August 25, 1983, and acquired by PGA Holdings, Inc. on September 30, 1983. On October 21, 1983, the original PGAC was issued a Certificate of Authority by the Tennessee Department of Commerce and Insurance to transact the business of property, vehicle and casualty insurance.

Effective December 31, 1987, United States Reinsurance Company was merged with and into the original PGAC. Following this merger, the holding company system was reorganized. Permanent General Companies, Inc. (PGC) became the 100% owner of PGA Holdings, Inc., USRC Holdings, Inc. and PGA Service Corporation. Effective December 31, 1988, all three entities were merged with and into PGC, which then became the 100% owner of the original PGAC. PGC also contributed the stock of PGA Service Corporation to the original PGAC making the PGA Service Corporation a wholly owned subsidiary of the original PGAC.

Effective June 30, 1989, Tennessee Insurance Company, a wholly-owned subsidiary of Ingram Industries, Inc. (Ingram), acquired all of the voting stock of PGC and the original PGAC. Subsequent to this acquisition, Tennessee Insurance Company contributed 100% of the stock of the original PGAC to PGC, and immediately thereafter, contributed

100% of PGC's stock to Ingram. Thus, the original PGAC remained a wholly-owned subsidiary of PGC, while PGC became a wholly-owned subsidiary of Ingram.

(2) Nordic Union Reinsurance Corporation:

Nordic Union Reinsurance Corporation (Nordic), a Delaware domestic, was incorporated on October 31, 1978, as a wholly-owned subsidiary of Constitution Reinsurance Corporation (Constitution Re). Nordic commenced business on January 1, 1979. Until 1992, Nordic assumed certain reinsurance business from Constitution Re. In 1992, all business previously written by Nordic was retroceded back to Constitution Re. No net risk was retained by Nordic.

On September 28, 1994, Nordic was redomesticated from Delaware to Tennessee. On September 30, 1994, Nordic was acquired by PGC. Concurrent with the acquisition of Nordic, the original PGAC was merged with and into Nordic, with Nordic being the surviving corporation. Simultaneously, Nordic's name was changed to Permanent General Assurance Corporation (the Company).

Effective April 3, 1997, the Company's wholly-owned premium finance subsidiary, PGA Service Corporation (PGASC), purchased substantially all of the tangible net assets related to the personal lines automobile business of the Phoenix Insurance Group, Inc. for a purchase price of $9,073,000. Ingram contributed additional capital to PGC of $9,073,000 which was subsequently invested in PGASC through the Company to fund the purchase.

During 1998, Ingram contributed additional capital of $6,000,000 to PGC which was subsequently contributed as paid-in surplus to the Company. In November 1998, Ingram contributed additional capital of $2,300,000 to PGC which was subsequently invested in PGASC through the Company to fund an agency acquisition. Additionally, in 1998, the Company transferred $2,500,000 from paid-in surplus to common stock and increased the par value of its common stock from $500 to $1,000 per share.

In 1999, Ingram contributed additional capital of $2,300,000 to PGC which was subsequently invested in PGASC through the Company to fund another agency acquisition.

During 2001, the Company returned $5,000,000 of surplus to PGC. The $5,000,000 was returned to Ingram, which subsequently contributed it to PGAC of Ohio.

In 2002, the Company received a total of $7,500,000 in paid-in surplus from PGC. It paid a dividend of $5,000,000 to PGC.

In June 2003, the Company received an additional $1,900,000 in paid-in surplus from PGC.

In 2004, the Company received a total of $5,404,422 in paid-in surplus contributions from PGC.

On December 2, 2004, PGC and PGAC of Ohio were acquired by PGC Holdings Corporation. This acquisition was approved by the Tennessee Department of Commerce and Insurance on July 6, 2004. An organizational chart is attached to this report.

At December 31, 2004, common capital stock had a balance of $5,000,000 and paid-in and contributed surplus had a balance of $33,574,183. The Company's authorized capital stock was 20,000 shares of $500 par value common capital stock, of which 10,000 shares were outstanding.

The Company's development, as taken from Annual Statement filings since the previous examination, is shown in the following table (000 omitted):

Date	Gross Premiums Written	Net Premiums Written	Net Income	Admitted Assets	Total Liabilities	Capital & Surplus
*12/31/01	$138,185	$ 77,248	$(6,242)	$104,601	$ 80,986	$23,615
12/31/02	155,821	88,654	2,163	117,532	86,148	31,385
12/31/03	187,292	123,250	8,647	142,615	98,737	43,877
12/31/04	172,934	103,817	9,004	179,861	116,129	63,732

*previous exam

CHARTER AND BYLAWS

Charter:

The general provisions and powers enumerated in the Company's charter are usual in nature. The Company's existence is perpetual. The Company's charter states the following purpose for which the corporation is organized:

> *To furnish insurance and to insure property, casualty, and surety as defined in 56-2-201 of the Tennessee Code Annotated; to engage in activities, including, but not limited to, the conduct of business, which is necessary, suitable, or convenient for the accomplishment of those purposes or which are incidental thereto or connected therewith; and to conduct its activities and carry out these purposes in any state, territory, district or possession of the United States.*
>
> *The corporation may, at its option, exercise one or more of all of the branches of business in which it is authorized to engage, and may both place and accept contracts of reinsurance.*

An amendment to the Company's charter was made on May 4, 1999, as follows:

"The maximum number of shares which the Company shall have the authority to issue is twenty thousand (20,000) shares of common stock with a $500 par value per share."

Bylaws:

The bylaws of the Company, as amended on September 22, 1995, and May 4, 1999, are such as are generally found in corporations of this type. They are consistent with the charter and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board of Directors and the shareholders. The bylaws may be altered or amended by an affirmative vote of the majority of the entire Board of Directors at any regular or special meeting.

MANAGEMENT AND CONTROL

Management:

Management of the Company is vested in a Board of Directors which is elected annually, each December, by the stockholders. The Board of Directors must consist of no less than seven or more than 15 members, with the exact number fixed by the Board of Directors. The duly elected directors serving at December 31, 2004, were as follows:

Name	Address	Position
John Bruce Allyn	Nashville, Tennessee	Vice President of Company
Brian Michael Donovan	Brentwood, Tennessee	Vice President of Company
Allison Walker Garretson	Franklin, Tennessee	Vice President of Company
David Lee Hettinger	Brentwood, Tennessee	Senior Vice President of Company
Andrew Peter Martin	Franklin, Tennessee	Vice President of Company
Randy Philip Parker	Nashville, Tennessee	President of Company
Elizabeth Ann Roberts	LaVergne, Tennessee	Vice President of Company

The bylaws provide that the Board of Directors may appoint, from time to time, from its own members or otherwise, committees, for such purposes and with such powers as the Board may determine; provided, however, that the membership of each such committee shall include at least three Directors.

At December 31, 2004, the Company had the following committees in place:

Investment Committee	Audit Committee	Compliance Committee
Brian M Donovan, Chairman	David L. Hettinger, Chairman	John B. Allyn, Chairman
Randy P. Parker	Randy P. Parker	Randy P. Parker
David L. Hettinger	Brian M. Donovan	David L. Hettinger

The Board of Directors will elect officers of the Company which shall include a President and a Secretary, and may include a Chairman of the Board. Additional officers may be chosen from time to time as the Board of Directors in its discretion shall determine. The duly elected officers of the Company at December 31, 2004, were as follows:

Name	Office Held
Randy P. Parker	Chairman, President and Chief Executive Officer
John B. Allyn	Vice President, Secretary and General Counsel
Brian M. Donovan	Vice President, Treasurer, Controller and Assistant Secretary
David L. Hettinger	Senior Vice President and Chief Administrative Officer
Allison R. Garretson	Vice President, Underwriting and Premium Finance
Charles W. Kirkland, Jr.	Vice President, Claims
Douglas A. Markel	Vice President, Marketing and Sales
Stephen J. Frisina	Vice President, Product Development
Gail R. Banks	Assistant Vice President, Customer Service
Todd R. Hakala	Assistant Vice President, Actuary Services
Eileen M. Manners	Assistant Vice President, Claims
Elizabeth A. Roberts	Vice President, Human Resources
Robert E. Nelson	Assistant Controller, Assistant Secretary
Andrew P. Martin	Vice President, Marketing and Distribution

The Company has no employees of its own. Personnel and services are provided by the Company's parent, PGC, in accordance with an Administrative Services Agreement as described in this report under the heading "Affiliated Companies".

Pecuniary Interest:

The Company has a written conflict of interest policy which includes procedures for disclosing to its Board of Directors any material interest or affiliation on the part of its officers, directors and key employees which conflicts with the person's official duties with the Company. The conflict of interest disclosure forms completed by management during the period under examination were reviewed and no exceptions were noted.

Control:

At December 31, 2004, 100% of the outstanding shares of the Company were owned by PGC. During the examination period, only one dividend was paid. This $5,000,000 dividend was paid to PGC in 2002.

CORPORATE RECORDS

The minutes of the meetings of the Stockholders, Board of Directors, and Investment Committee were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to adequately reflect the actions of the

respective bodies. However, there is no indication from the minutes that the previous examination report was reviewed by the Board of Directors.

AFFILIATED COMPANIES

The following agreements with affiliates were in effect at December 31, 2004:

Administrative Services Agreement:

The Company entered into an Administrative Services Agreement with its parent, PGC, and PGC Holdings Corp. effective December 2, 2004, the date PGC was acquired by PGC Holdings Corp. Under the terms of the agreement, the Company is provided administrative and management services including financial reporting and accounting, legal and actuarial, data processing, underwriting, policy issuance and customer service. In consideration of the services provided, the Company pays for the services on a cost allocation/reimbursement basis apportioned in accordance with NAIC Statements of Statutory Accounting Principles (SSAP) No. 70, "Allocation of Expenses". The amount that the Company pays for such services is equal to the Company's pro rata share of the total premium income for all insurance subsidiaries of PGC Holdings. Balances are to be settled on a monthly basis.

Reinsurance Pooling Agreement:

Effective January 1, 1995, the Company entered into a Reinsurance Pooling Agreement with its affiliate, PGAC of Ohio. See the "Reinsurance" section of this report for details.

Royalty Agreement:

The Company entered into a Royalty Agreement with its wholly-owned subsidiary, PGASC effective January 1, 1999. Under the terms of the agreement, the Company agrees to refer all policies that are to be financed to PGASC. In consideration for the referral of policies to be financed, PGASC pays the Company a royalty fee equal to the service charge associated with each premium finance contract. The Company earned royalty income of $505,713 in 2004, $589,787 in 2003 and $616,702 in 2002.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on the following insurance coverage maintained by PGC Holdings Corp. at December 31, 2004:

Fidelity and Crime
Workers' Compensation and Employers Liability
Business Auto
Financial Institutions Property and Liability
Employment, Fiduciary and Directors and Officers Liability

Commercial Excess and Umbrella Liability
Excess Directors and Officers Liability

The above coverage was issued by companies licensed to transact business in the State of Tennessee. The Company's fidelity coverage is in excess of the suggested minimum amount listed in the *NAIC Financial Condition Examiners Handbook*.

EMPLOYEE BENEFITS

The Company has no employees of its own. Personnel and services are provided by the Company's parent, PGC, and PGC's immediate parent, PGC Holdings Corporation, in accordance with an Administrative Services Agreement. This agreement is described in this report under the heading "Affiliated Companies".

TERRITORY

At December 31, 2004, the Company was an authorized insurer in the following states:

Alabama	Idaho	Mississippi	North Dakota	Tennessee
Arizona	Illinois	Montana	Ohio	Texas
California	Indiana	Nebraska	Oklahoma	Washington
Connecticut	Iowa	Nevada	Oregon	West Virginia
Delaware	Kansas	New Jersey	Rhode Island	Wisconsin
Florida	Kentucky	New York	South Carolina	
Georgia	Louisiana	North Carolina	South Dakota	

Certificates of Authority, for the various jurisdictions, were reviewed and found to be valid.

The figures below show the premiums by state in which the Company operated for the year ending December 31, 2004, as reported in Schedule T of the Company's Annual Statement:

State	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred	Direct Losses Unpaid
California	$ 70,242,200	$ 67,851,820	$ 34,064,352	$ 35,736,777	$ 16,736,756
Florida	21,705,088	20,538,007	13,700,240	15,383,570	5,866,304
Georgia	9,856,975	12,808,122	8,709,543	7,689,211	3,222,381
Indiana	-	-	207,264	29,208	31,000
Louisiana	16,369	71,003	150,905	155,036	78,437
Mississippi	-	-	1,350	1,350	15,400
South Carolina	6,680,326	5,378,070	3,435,950	3,073,233	1,428,731
Tennessee	23,298,815	25,247,759	12,962,341	13,043,569	8,035,510
Wisconsin	1,382,478	1,416,606	720,310	610,132	528,343
Totals	$133,182,251	$133,311,387	$ 73,952,255	$ 75,722,086	$ 35,942,862

PLAN OF OPERATION

The Company operates principally in the private passenger automobile market. The Company's products are sold by a force of approximately 3,200 independent, non-exclusive agents. These agents are contracted with PGAC which appoints them to the Company via the State of Tennessee's Notification of Agency Contract or Agreement. Most agents are appointed by both the Company and PGAC of Ohio.

MARKET CONDUCT ACTIVITIES

A market conduct review of the Company was made concurrently with the financial condition examination. The following areas were covered by this review:

Advertising:

The Company maintains a website which provides general information. The website allows users to find agents and allows policyholders to review their policies and to make payments online.

Underwriting:

The Company writes nonstandard automobile insurance policies that generally provide basic limits of $25,000 per person and $50,000 per occurrence for bodily injury and $25,000 for property damage. Increased limits are available. All underwriting and policy issuance is performed by the Company's parent, PGC, pursuant to an Administrative Services Agreement described in this report under the heading "Affiliated Companies".

Rates and Policy Forms:

The current rates and policy forms were duly filed with and approved by the Tennessee Department of Commerce and Insurance.

Complaints:

All complaints are under the control of PGC's Legal Department. Upon receipt of a complaint, it is logged in and referred to the appropriate person. Within five working days after receipt of the complaint, the person to whom the complaint was referred provides PGC's Legal Department with a response setting forth the Company's position. The Company's response is then prepared by PGC's Legal Department. A review of complaints made to regulatory authorities regarding the Company indicates an effort by the Company to equitably fulfill its obligations and to resolve policyholder complaints in a timely manner.

Claims:

All claims are handled by PGC pursuant to an Administrative Services Agreement described in this report under the heading "Affiliated Companies". PGC maintains a comprehensive claims procedure manual. This manual was reviewed and no exceptions were noted. A sample of open and closed claims reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were promptly made upon receipt of proper evidence of the Company's liability.

Privacy Policy:

The Company has a written privacy policy. It is supplied to its policyholders the first time business is transacted and annually thereafter in compliance with Tenn. Comp. R. & Regs. ch. 0890-1-72. The policy is also posted on the Company's website.

LOSS EXPERIENCE

The loss experience of the Company for the period under examination, as reported in its Annual Statements, is as follows:

Year	Losses Incurred	Loss Expenses Incurred	Premiums Earned	Loss Ratio
2002	$ 55,793,171	$10,835,067	$ 84,394,530	78.9%
2003	58,753,043	10,163,597	97,858,203	70.4%
2004	68,059,020	11,537,763	113,919,843	69.9%
Total	$182,605,234	$32,536,427	$296,172,576	72.6%

REINSURANCE

The Company routinely assumes and cedes reinsurance with other insurance companies. All material reinsurance agreements were reviewed and were found to provide transfer of risk.

Assumed Reinsurance:

The Company has an agreement with PGAC of Ohio, an affiliated, authorized reinsurer whereby the Company assumes 100% of PGAC of Ohio's ultimate net liability and premium under a quota share arrangement. The Company pays to PGAC of Ohio a ceding commission of 22% and reimburses all expenses. The Company then cedes 28% of this business and its own business to PGAC of Ohio. PGAC of Ohio pays to the Company a ceding commission of 22% and reimburses all expenses.

The Company has an agreement with Tennessee Insurance Company, an affiliated company, whereby the Company assumes 100% of all private passenger auto policies issued by Tennessee Insurance Company.

Ceded Reinsurance:

The Company maintains excess of loss and quota share agreements that also cover the non-standard auto business of its affiliates, PGAC of Ohio and Tennessee Insurance Company.

Quota Share:

The Company has a 14.5% quota share agreement with the following reinsurers for all private passenger auto policies (liability and physical damage):

1. Hannover Reinsurance (Ireland) Ltd. (40% participation)
2. E&S Reinsurance (Ireland) Ltd. (10% participation)
3. Odyssey America Reinsurance Corporation (50% participation)

The company's retention is:

Property Catastrophe:	$750,000 per occurrence ($5,000,000 aggregate)
All Liability Coverages:	$1,000,000 per occurrence
ECO/XPL/Declaratory Judgement Expense:	$5,000,000 aggregate

Additionally, the reinsurers have no liability for any and all losses in excess of a 105% loss ratio.

Odyssey America Reinsurance Corporation is an authorized reinsurer in the State of Tennessee. Hannover Reinsurance (Ireland) Ltd. and E&S Reinsurance (Ireland) Ltd. are unauthorized reinsurers.

Excess of Loss:

The Company has an excess of loss agreement with the following reinsurers for all private passenger auto policies (liability and physical damage):

1. Hannover Reinsurance (Ireland) Ltd. (40% participation)
2. E&S Reinsurance (Ireland) Ltd. (10% participation)
3. Odyssey America Reinsurance Corporation (50% participation)

The company's retention is:

Class of Business	*Company Retention*	*Reinsurer Limits of Liability*
Automobile Bodily Injury Liability	$25,000 per person/ $50,000 per occurrence	The difference between $250,000 per person/$500,000 per occurrence and the Company's retention
Automobile Property Damage Liability	$25,000 per occurrence	$75,000 per occurrence
Uninsured and Underinsured Motorists Bodily Injury Liability	$25,000 per person/ $50,000 per occurrence	The difference between $250,000 per person/$500,000 per occurrence and the Company's retention
Uninsured and Underinsured Motorists Property Damage Liability	$25,000 per occurrence	$75,000 per occurrence
Personal Injury Protection	$10,000 per person	$40,000 per person
Georgia Excess Medical Payments	$5,000 per person	$45,000 per person

Trust Agreements:

All unauthorized reinsurers have executed trust agreements with the Company and report amounts held under these agreements to secure the Company's reinsurance recoverables and reserve credits at December 31, 2004.

Unearned Ceding Commission:

Nearly all of the Company's reinsurance agreements cede premiums on a written basis, and therefore, in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. However, all of the agreements provide that in the event of termination, the reinsurance continues to apply to all policies in force until their expiry or cancellation in the normal course of business. There is no return of premium or ceding commission at the termination of an agreement because the policies continue in full force. Most of the Company's reinsurance agreements provide that ceding commissions be paid based on net premiums; that is, on written premiums less the return premiums (those that are cancelled by policyholders prior to the end of the policy period). These agreements provide for monthly settlements,

including any return premiums and any associated ceding commissions, by offset. Therefore, the Company is deemed to have no ultimate liability for unearned ceding commissions.

Other Considerations:

All of the Company's active reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit by Tenn. Code Ann. §56-2-207(a)(2). All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 62 and NAIC guidelines.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2004:

Deposits Which Are Not for the Benefit of all Policyholders:

State Where Deposit is Held	Description	Par Value	Statement Value	Market Value
California	USTN, 3.25%, Due 8/15/07	$160,000	$160,639	$160,237
Florida	Cash, Florida Treasury Trust	200,000	200,000	200,000
Georgia	USTN, 3.25%, Due 8/15/07	125,000	125,500	125,185
Louisiana	Bank One Institutional Money Market Fund	119,768	119,768	119,768
North Carolina	USTN, 3.25%, Due 8/15/07	70,000	70,280	70,104
	USTN, 3.25%, Due 8/15/07	75,000	75,300	75,111
	USTN, 3.125%, Due 9/15/08	225,000	226,361	222,759
Total deposits which are not for the benefit of all policyholders:		$974,768	$977,848	$973,164

Deposits Which are for the Benefit of All Policyholders:

State Where Deposit is Held	Description	Par Value	Statement Value	Market Value
Tennessee	Chattanooga, Tennessee General Obligation, 5.375%, Due 9/01/09	$ 405,000	$ 410,065	$ 429,960
	FNMA, 6.0%, Due 12/15/05	1,000,000	1,007,688	1,028,125
	Johnson City, TN General Obligation, 4.25%, Due 6/01/05	50,000	50,000	50,472
	Memphis, TN Water Revenue, 6.0%, Due 1/01/06	70,000	70,893	72,602
Total deposits which are for the benefit of all policyholders:		$ 1,525,000	$1,538,646	$1,581,159
Total Deposits		$2,499,768	$2,516,494	$2,554,323

LITIGATION

From the examination data made available, it appears that the only matters of law in which the Company was involved during the period under review were those arising out of the normal course of business. The outcome of such actions should not have a material effect on the financial position of the Company.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings. General ledger trial balances were reconciled with copies of Annual Statements for the years 2002, 2003 and 2004.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

Intercompany balances, including management fees, federal income taxes, premiums, ceding commissions, losses and loss adjustment expenses are settled between the Company and its affiliates on a monthly basis.

An audit of the Company is conducted annually by an independent accounting firm. The audit was performed by PricewaterhouseCoopers, LLP for the year ending December 31, 2004.

The Company's Risk-Based Capital Report was reviewed and found to be in compliance with Tenn. Code Ann. § 56-46.

LOSS RESERVES

The Company and PGAC of Ohio participate in an inter-company pooling arrangement which is discussed more fully in the "Reinsurance" section of this report. In addition, all of the business of Tennessee Insurance Company is 100% reinsured by the Company. As the business is pooled, the analysis of the loss reserves was performed on a pooled basis. The independent actuarial analysis was performed by Mary Downey Miller, FCAS, MAAA.

The analysis included a review of the 2004 Actuarial Report prepared by Tillinghast Towers Perrin. This report relied on an earlier report issued in January 2005 using September 2004 data. Both reports were reviewed and evaluated for reasonableness. A retrospective review was performed using data as of June 2005. The 2005 Quarterly Statements were used to review the year-to-date run-off of the 2004 reserves. The actuary determined that the loss and loss adjustment expense reserves presented in the December 2004 Annual Statements appear to be reasonable.

However, several issues arose during the course of the actuarial analysis. The first issue is that the pooled business is not reported properly in Schedule P of the Annual Statement, which distorts the analysis and reporting of direct and assumed losses. Secondly, the March Actuarial Report completed by Tillinghast Towers Perrin relies on an earlier report which was completed in January using September data. The data segments in the two reports are not the same. Therefore, the actuary was unable to follow the analysis from the basic data to conclusions as required. The actuary was able to arrive at a total tolerable difference. The bulk of the analysis was performed using direct data. The actuary attempted to verify totals by using the consolidated State Page, but was unable to reconcile the data.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2004, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 93,688,808	$301,661	$ 93,387,147
Common Stocks	12,501,940		12,501,940
Cash and short-term investments	29,564,345		29,564,345
Subtotal cash and invested assets	135,453,432		135,453,432
Investment income due and accrued	799,756		799,756
Uncollected premiums and agents balances in the course of collection	8,611,836		8,611,836
Deferred premiums, agents balances and installments not yet due	29,050,128		29,050,128
Amounts recoverable from reinsurers	965,820		965,820
Net deferred tax asset	4,435,179	79,271	4,355,908
Guaranty funds receivable or on deposit	18,750		18,750
Receivable from parent, subsidiaries and affiliates	605,347		605,347
Totals	$180,241,909	$380,932	$179,860,977

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$ 30,883,978
Reinsurance payable on paid loss and loss adjustment expenses		917,172
Loss adjustment expenses		9,519,968
Commissions payable, contingent commissions and other similar charges		31,359
Taxes, licenses and fees (excluding federal and foreign taxes)		573,412
Current federal and foreign income taxes		633,898
Unearned premiums		53,927,503
Ceded reinsurance premiums payable (net of ceding commissions)		4,067,687
Funds held by company under reinsurance treaties		14,068,062
Payable for securities		1,505,625
Total liabilities		$116,128,664
Common capital stock	5,000,000	
Gross paid in and contributed surplus	33,574,183	
Unassigned funds (surplus)	25,158,130	
Surplus as regards policyholders		$ 63,732,313
Total		$179,860,977

STATEMENT OF INCOME

UNDERWRITING INCOME		
Premiums earned		$113,919,843
Deductions		
Losses incurred	68,059,020	
Loss expenses incurred	11,537,763	
Other underwriting expenses incurred	25,018,590	
Total underwriting deductions		$104,615,373
Net underwriting gain		$ 9,304,470
INVESTMENT INCOME		
Net investment income earned	4,353,410	
Net realized capital gains or (losses)	238,012	
Net investment gain or (loss)		$ 4,591,422
OTHER INCOME		
Aggregate write-ins for miscellaneous income	508,544	
Total other income		$ 508,544
Net income before federal and foreign income taxes		14,404,436
Federal and foreign income taxes incurred		5,400,117
Net income		$ 9,004,319

CAPITAL AND SURPLUS ACCOUNT

GAINS AND LOSSES IN SURPLUS

Surplus as regards policyholders, December 31 previous year		$43,877,292
Net income	9,004,319	
Net unrealized capital gains or (losses)	1,673,146	
Change in net deferred income tax	793,089	
Change in non-admitted assets	(16,354)	
Change in provision for reinsurance	247,000	
Change in paid-in surplus	5,404,422	
Aggregate write-ins for gains and losses in surplus	2,749,399	
Net change in surplus for the year		19,855,021
Surplus as regards policyholders, December 31 current year		$63,732,313

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

	2002	2003	2004
Surplus as regards policyholders, December 31 previous year	$23,614,851	$31,384,700	$43,877,292
Net income	2,162,516	8,646,527	9,004,319
Net unrealized capital gains or (losses)	712,037	1,230,625	1,673,146
Change in net deferred income tax	263,347	164,559	793,089
Change in non-admitted assets	2,256,366	550,881	(16,354)
Change in provision for reinsurance	(247,000)	-	247,000
Cumulative effect of changes in accounting principles	122,583	-	-
Change in paid-in surplus	7,500,000	1,900,000	5,404,422
Dividends to stockholders	(5,000,000)	-	-
Aggregate write-ins for gains and losses in surplus	-	-	2,749,399
Net change for the year	7,769,849	12,492,592	19,855,021
Surplus as regards policyholders, December 31 current year	$31,384,700	$43,877,292	$63,732,313

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on surplus funds as regards policyholders, either singly or in the aggregate.

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

No schedule or comment is applicable. All noted differences were below the threshold established for examination purposes.

COMMENTS AND RECOMMENDATIONS

Comments:

1. It was noted that the Company does not have a formal Disaster Recovery Plan in place to address the restoration of significant business activities such as financial functions, telecommunication services and data processing following a disaster. The Company does have an informal business continuity/disaster recovery plan. The Company also lacks formal written control procedures for several other areas of its Information Systems, although informal procedures exist.

2. Based on the review of the Board of Directors' minutes, there is no indication that the previous examination report was reviewed by the Board of Directors.

3. The independent actuary, Mary Downey Miller, FCAS, MAAA, attempted to reconcile the direct loss data to the consolidated State page, (former statutory page 14), of the Annual Statement, but was unable to do so. As noted in the prior examination report, it would improve reporting of the Company's reserves if the Company's opining actuary included a complete explanation of all observed differences when preparing the reconciliation of all premium, loss and loss adjustment expense data presented in Schedule P and used in the reserve study.

Recommendations:

The following recommendations relate to proper completion of the Annual Statement:

1. The independent actuary, Mary Downey Miller, FCAS, MAAA, determined that the Company did not prepare Schedule P in accordance with the *NAIC's Accounting Practices and Procedures Manual* as required by Tenn. Code Ann. §56-1-501 (g). The premiums earned, loss and loss expense payments, losses unpaid, and loss adjustment expenses unpaid amounts as shown in Schedule P do not properly reflect the pooling arrangement between the Company and PGAC of Ohio.

2. In Schedule T of the Annual Statement the Company incorrectly reported that it was licensed in the states of Maryland and New Hampshire.

It is recommended that the Company comply fully with Tenn. Code Ann. §56-1-501 (g) when completing its annual statement.

CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that as of December 31, 2004, the Company had net admitted assets of $179,860,977 and liabilities, exclusive of capital, of $116,128,664. Thus, there existed for the additional protection of the policyholders, the amount of $63,732,313 in the form of paid-up capital, gross paid-in and contributed surplus and unassigned funds (surplus).

In addition to the undersigned, Stephanie Higgins, CFE, Brian Sewell, CFE and Bhavna Shah, Insurance Examiners for the State of Tennessee, Norman Chandler, CPA, CPCU, Are, AIAF, ARC, of TaylorChander, LLC, and Mary Downey Miller, FCAS, MAAA, participated in this examination.

Respectfully submitted,

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Permanent General Assurance Corporation dated May 30, 2006, and made as of December 31, 2004, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

30TH day of May, 2006

Notary Kristina D. Rust

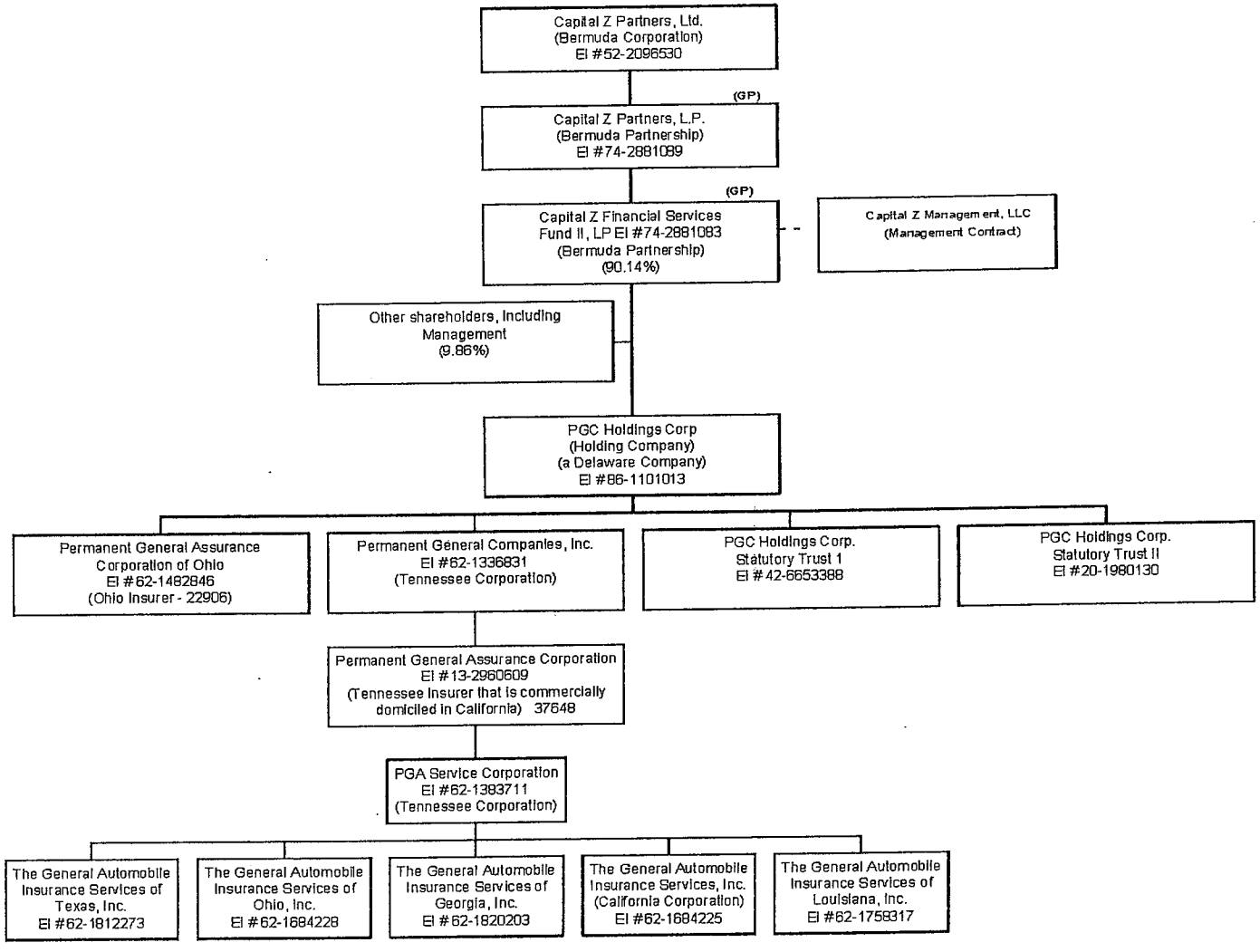
County DAVIDSON

State TENNESSEE

Commission Expires 7/19/08

KRISTINA D. RUST
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

ORGANIZATIONAL CHART



PGAC

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06/20/06 Copied & forwarded to Eric JBK

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JUN 20 2006
LEGAL DIV
DEPT. OF COMMERCE

June 13, 2006

Don Spann, Insurance Examination Director
State of Tennessee
Department of Commerce and Insurance
Insurance Division – Examination Section
500 James Robertson Parkway, 4th Floor
Nashville, Tennessee 37243-1135

RE: Financial Condition Examination of Permanent General Assurance Corporation
Made as of December 31, 2004.

Dear Mr. Spann:

Listed below are the Company's responses to the comments and recommendations made by the Department of Commerce and Insurance presented in the examination report as of December 31, 2004 dated May 31, 2006.

Department's Comments (page 24 of report):

1. It was noted that the Company does not have a formal Disaster Recovery Plan in place to address the restoration of significant business activities such as financial functions, telecommunication services and data processing following a disaster. The Company does have an informal business continuity/disaster recovery plan. The Company also lacks formal written control procedures for several other areas of its Information Systems, although informal procedures exist.

Company Response:

The Company is currently completing a formal business/disaster recovery plan. A test of the plan will be coordinated during 2006. Also, an offsite hosting agreement was executed with SunGuard in 2005 and the backup AS/400 and optical storage systems have been relocated to the new data center. In 2005, the Company acquired the rights to ISO 17799 documentation that will become the basis for future formal written control policies.

EXHIBIT
B

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JUN 19 2006
Dept. Of Commerce & Insurance
Company Examinations

PGAC

2. Based on the review of the Board of Directors' minutes, there is no indication that the previous examination report was reviewed by the Board of Directors.

Company Response:

Although the Company's Board of Directors was provided with the previous examination report, we agree that the review of the 2001 examination report was not documented within the Board meeting minutes. Management will ensure that the review of this (and future) examination report(s) is properly documented in the future

3. The independent actuary, Mary Downey Miller, FCAS, MAAA, attempted to reconcile the direct loss data to the consolidated State page, (former statutory page 14), of the Annual Statement, but was unable to do so. As noted in the prior examination report, it would improve reporting of the Company's reserves if the Company's opining actuary included a complete explanation of all observed differences when preparing the reconciliation of all premium, loss and loss adjustment expense data presented in Schedule P and used in the reserve study.

Company Response:

The Company's opining actuary does prepare a detailed reconciliation between the data used within the reserve study and the data presented in Schedule P. Historically, differences have existed between the reserve study and Schedule P for a variety of reasons that do not impact the validity of the outside reserve study. In the future, we will instruct the opining actuary to document these differences within the final reserve study report.

Department's Recommendations (page 24 of report):

The following recommendations relate to proper completion of the Annual Statement:

1. The independent actuary, Mary Downey Miller, FCAS, MAAA, determined that the Company did not prepare Schedule P in accordance with the NAIC's Accounting Practices and Procedures Manual as required by Tenn. Code Ann. §56-1-501 (g). The premiums earned, loss and loss expense payments, losses unpaid, and loss adjustment expenses unpaid amounts as shown in Schedule P do not properly reflect the pooling arrangement between the Company and PGAC of Ohio.

2. In Schedule T of the Annual Statement the Company incorrectly reported that it was licensed in the states of Maryland and New Hampshire.

It is recommended that the Company comply fully with Tenn. Code Ann. §56-1-501 (g) when completing its annual statement.

Company Response:

The issue discussed in #1 above was corrected within the filing of the 2005 annual statement where Schedule P was restated for prior accident years to properly reflect the pooling arrangement between PGAC and PGAC of Ohio. Please note that the restatement did not impact the reported financial results for either company for any year.

The issue discussed in #2 was corrected within the filing of the 2006 first quarter statutory financial statement.

Thanks for your consideration regarding the suggestions above. Please let me know if you have any questions or need further information.

Sincerely,

Randy Parker
President & CEO