EXHIBIT
A

REPORT ON EXAMINATION

OF THE

PERMANENT GENERAL ASSURANCE CORPORATION

NASHVILLE, TENNESSEE

RECEIVED
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Dept. Of Commerce & Insurance
Company Examinations

AS OF

DECEMBER 31, 2001

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Nashville, Tennessee
September 3, 2003

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Secretary, Southeastern Zone
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Commissioner of Commerce and Insurance
State of Tennessee
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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:

SCOPE OF EXAMINATION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee through the Examination Tracking System of the NAIC and commenced on May 27, 2002. The examination was conducted under the association plan of the NAIC by examiners from the State of Tennessee.

The period covered by this examination is from January 1, 1997, to the close of business on December 31, 2001, 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 made concurrently with the examination of the Company's affiliate, Tennessee Insurance Company (TIC). The previous examination of the Company was made as of December 31, 1996, and resulted in a $2,066,878 decrease in surplus. Additionally, several recommendations were made as a result of non-compliance with regulatory requirements. Each of these issues were subsequently brought into compliance.

The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the NAIC Examiners Handbook.

During the course of examination, assets were verified and valued and liabilities were determined or estimated as of December 31, 2001. 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:

Company History	Charter and Bylaws	Management and Control
Corporate Records	Affiliated Companies	Fidelity Bond and Insurance
Employee Benefits	Territory	Plan of Operation
Market Conduct Activities	Loss Experience	Reinsurance
Actuarial Review	Statutory Deposits	Commitments/ Contingencies
Accounts and Records	Subsequent Events	Financial Statement

In the interest of making the examination more efficient, certain audit work performed by the Company's independent auditors was relied on.

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 (USRC) was merged with and into the original PGAC. Following this merger, the holding company system, of which the original PGAC was a member, 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 of these 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 so that PGA Service Corporation became a wholly owned subsidiary of the original PGAC.

Effective June 30, 1989, Tennessee Insurance Company (TIC), 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, TIC contributed 100% of the stock of the original PGAC to PGC, and immediately

thereafter, 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, and until 1992, 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 in Nordic.

On September 28, 1994, Nordic was redomesticated from Delaware to Tennessee and on September 30, 1994, Nordic was acquired by Permanent General Companies, Inc. (PGC), a subsidiary of Ingram Industries, Inc. (Ingram). PGC already owned the original Permanent General Assurance Corporation (original PGAC). 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). The original PGAC ceased to exist.

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. (Phoenix) for the 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 to PGC of $2,300,000 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 to PGC of $2,300,000 which was subsequently invested in PGASC through the Company to fund an agency acquisition. During 2001, the Company returned $5,000,000 of surplus to PGC. The $5,000,000 was returned to PGC's parent, Ingram which subsequently contributed it to PGAC of Ohio.

The Company writes nonstandard automobile insurance. Additionally, the Company provides excess coverage for Ingram's marine, hull and cargo, and multiple liability risks. The excess coverage relates to annual policies effective October 1, 1999, and the subsequent annual renewals that were previously written through Tennessee Insurance Company (TIC), an affiliated subsidiary of Ingram.

At December 31, 2001, the Company's authorized capital stock was 20,000 shares of $500 par value common capital stock, of which 10,000 shares were outstanding. See the Comments and Recommendations section of this report for additional information on the Company's capital stock.

The Company's development, as taken from annual statement filings since the previous examination, is depicted in the following table (000 omitted):

Date	Gross Premiums Written	Net Premiums Written	Net Income	Admitted Assets	Total Liabilities	Capital & Surplus
*12/31/96	58,252	32,867	1,656	47,959	31,434	16,524
12/31/97	99,354	52,171	2,019	68,860	49,745	19,115
12/31/98	93,510	38,359	6,651	71,706	40,176	31,529
12/31/99	105,100	31,389	5,920	67,055	32,324	34,730
12/31/00	108,533	37,110	(1,326)	65,832	32,259	33,573
12/31/01	138,185	77,248	(6,242)	104,601	80,986	23,615

*previous exam

CHARTER AND BYLAWS

Charter:

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

> "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 contacts 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, 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 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.

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

"In addition to its annual meeting, the Board shall hold a regularly scheduled meeting during each of February, April, June, August and October every year. The date, time and place of such meetings shall be fixed by the Chairman of the Board or, in his absence, the President upon at least ten days prior written notice to the Directors. Other regular meetings of the Board may be held without notice at such time and place as shall from time to time be determined by the Board."

MANAGEMENT AND CONTROL

Management:

Management of the Company is vested in a Board of Directors which are elected annually, each December, by the stockholders. The Board of Directors of the Company will consist of not less than seven nor more than 15, the exact number at any time and from time to time shall be fixed by the Board. The duly elected directors serving at December 31, 2001, were as follows:

Name	Address	Occupation
David Lee Hettinger	Brentwood, Tennessee	Sr. VP of Company
John Rivers Ingram	Nashville, Tennessee	Vice Chair., Ingram Ind.
Orrin Henry Ingram	Franklin, Tennessee	Pres. & CEO, Ingram Ind.
Steven Jude Mason	Nashville, Tennessee	CEO of Company
Robert William Mitchell	Nashville, Tennessee	VP & Treas., Ingram Ind.
Randy Phillip Parker	Nashville, Tennessee	President of Company
Richard Connell Patton	Nashville, Tennessee	Pres. Of Trident Partners

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, 2001, the Company had an investment committee consisting of the following persons:

John R. Ingram	Nashville, Tennessee	Vice Chair., Ingram Ind.
Steven J. Mason	Nashville, Tennessee	CEO of Company
Robert W. Mitchell	Nashville, Tennessee	VP & Treas., Ingram Ind.
William T. Spitz	Nashville, Tennessee	CIO, Vanderbilt Univ.

The Board of Directors will elect officers of the Company which shall include a President and a Secretary, and may include from the members of the

Board a Chairman of the Board. Additional officers may be chosen from time to time as the Board in its discretion shall determine. The duly elected officers of the Company at December 31, 2001, were as follows:

Name	Office Held
Steven J. Mason	Chairman of the Board and CEO
Randy P. Parker	President and COO
William P. Morelli	Secretary
Robert W. Mitchell	Treasurer
David L. Hettinger	Sr. Vice President, Finance and Administration
John B. Allyn	Vice President, General Counsel and Asst. Sec.
Brian M. Donovan	Vice President, Controller and Asst. Secretary
Allison W. Garretson	Vice President, Underwriting and Premium Finance
Charles W. Kirkland	Vice President, Claims
Larry J. Lauder	Vice President, Information Systems
Douglas A. Markel	Vice President, Independent Agent Sales, Marketing
Andrew P. Martin	Vice President, Internet Development & Retail Sales
Michael J. Miller	Vice President, Actuary Services
Gregory S. Reichert	Vice President, Product Development
Denise Cole	Assistant Treasurer
Janet C. Ingle	Assistant Secretary
William S. Jones	Assistant Secretary
Eileen Manners	Assistant Vice President, Claims
Paul W. Mercer	Assistant Secretary
Robert E. Nelson	Assistant Controller
Elizabeth Roberts	Assistant Vice President, Human Resources

The Company has no employees of its own. Personnel and services are provided by the Company's parent, PGC, and the ultimate parent, Ingram, in accordance with a Services Agreement and a Management Services and Income Tax Allocation Agreement as described in this report under the heading Affiliated Companies.

Ingram publishes an "Annual Compliance Certificate for Ingram Industries, Inc. Compliance and Ethics Code" (conflict of interests statement). Directors, officers and key employees of the Company's parent are required to complete the certificate annually, and all employees in the holding company are subject to the ethics code. The Ingram certificate is used for all entities within the holding company and persons required to complete the certificate sign only one form regardless of the number of positions they hold with different companies throughout the holding system. The examiners reviewed certificates completed by the directors and major officers with no exceptions.

Control:

At December 31, 2001, 100% of the outstanding shares of the Company were owned by PGC, the Company's parent. The following dividends were paid by the Company during the examination period:

Year	Paid To	Amount
2001	Permanent General Companies, Inc.	$5,000,000

See the Comments and Recommendations section of this report for additional information on the 2001 dividend.

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 acts 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

An organizational chart of the Company, its parent and subsidiaries is located on page 41 of this examination report. The following agreements with affiliates were in effect at December 31, 2001:

Services Agreement:

The Company entered into a Services Agreement with its parent, PGC effective January 1, 1999. Under the terms of the agreement, the Company is provided administrative services including claims, underwriting, policy issuance, recordkeeping, data processing, and accounting. In consideration of the services provided, the Company compensates PGC based on actual direct expenses incurred, and an allocation of administrative costs based on either policies issued or the number of claims for the Company in relation to the respective amounts for all of PGC. Compensation is accrued monthly and paid quarterly. Since the Company is wholly owned by PGC, both are subject to the requirements of 56-6-603 Tennessee Code Annotated. See the Comments and Recommendations section of this report for additional information on these requirements.

Management Services and Income Tax Allocation Agreement:

Effective December 31, 1989, the Company entered into a Management Services and Income Tax Allocation Agreement with its parent, PGC, and the ultimate parent of the holding company system, Ingram, whereby PGC and

Ingram will provide, without cost, management services to the Company for the duration of the agreement. Additionally, PGC and the Company will be combined with Ingram for Federal Income Tax purposes and for state and local tax purposes when permissible and advantageous. Allocation will be based upon separate return calculations with current credit for net losses. Intercompany tax balances will be settled quarterly with a final settlement based upon the tax return as filed.

Reinsurance Pooling Agreement:

Effective January 1, 1995, the Company entered into a Reinsurance Pooling Agreement with its affiliate, Permanent General Assurance Corporation 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, PGA Service Corporation (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 $500,372 in 2001.

See the Comments and Recommendations section of this report for additional information on agreements with affiliates.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on the following insurance coverages maintained by Ingram Industries, Inc. at December 31, 2001:

Executive Protection (Employment Practices Liability)
Executive Protection (Executive and Fiduciary Liability)
Professional Liability
Business Auto
Commercial Liability
Workers' Compensation
Fidelity and Crime

The Company's fidelity coverage is in excess of the suggested minimum amount per 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 the ultimate parent, Ingram, in accordance with a Services Agreement and a Management Services and Income Tax Allocation Agreement as described in this report under the heading Affiliated Companies.

TERRITORY

As of December 31, 2001, the Company was licensed to transact business in 30 states. Certificates of authority, for the various jurisdictions, were reviewed

and found to be valid. Additionally, a letter was sent to each state in which the Company does business inquiring about any non-compliance concerns. No material concerns were received.

PLAN OF OPERATION

The Company operates principally in the private passenger automobile market. Additionally, the Company provides excess coverage for Ingram's marine, hull and cargo, and multiple liability risks. The Company's products are sold by a force of approximately 3,200 independent, non-exclusive agents of its parent, PGC. Agents are contracted to PGC 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 its affiliate, Tennessee Insurance Company.

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 about the company. 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 a Services Agreement described in this report under the heading Affiliated Companies.

Rates and Policy Forms:

The current rates were duly filed with and approved by the Tennessee Department of Commerce and Insurance to be effective April 1, 2001, for new business and May 5, 2001, for renewal business.

The policy forms currently in use at December 31, 2001, were approved by the Tennessee Department of Commerce and Insurance on November 30, 2000.

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 a conscientious effort by the Company to equitably fulfill its obligations and to resolve policyholder complaints in a timely manner.

Claims:

All claims are handled by the Company's parent, PGC, pursuant to a Services Agreement described in this report under the heading Affiliated Companies. PGC maintains a comprehensive claims procedures 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.

LOSS EXPERIENCE

The loss experience of the Company, since the previous examination, as reported in its annual statements, is as follows:

Year	Losses Incurred	LAE Incurred	Premiums Earned	Loss Ratio
1997	$32,284,551	$4,312,009	$45,710,347	80.1%
1998	25,018,378	3,000,693	43,060,937	65.1%
1999	19,670,572	2,436,131	34,051,683	64.9%
2000	22,831,737	4,262,038	33,848,382	80.0%
2001	41,320,694	7,057,945	58,672,506	82.5%
Total	$141,125,932	$21,068,816	$215,343,855	75.3%

REINSURANCE

The Company routinely assumes and cedes reinsurance with other insurance companies. All material reinsurance agreements were reviewed and found to contain all of the standard clauses. There were no treaties with any unusual provisions and all treaties provide for a transfer of risk.

Assumed Reinsurance:

Reinsurance Pooling Agreement: The Company and its affiliate, PGAC-Ohio, write non-standard automobile insurance. Effective January 1, 1995, these two companies entered into a Reinsurance Pooling Agreement whereby all of the business written by the two companies is pooled and then allocated between the two companies based on their relative surplus positions. Prior to 2001, 85% of the pooled business was allocated to the Company, and 15% to PGAC-Ohio. In 2001, 72% of the pooled business was allocated to the Company, and 28% to PGAC-Ohio. The premiums pooled are net of the effects of quota share reinsurance, which is discussed below.

Guaranty: On July 19, 1995, a guaranty was executed whereby Ingram guarantees payment of all obligations of PGAC-Ohio to the Company arising under the Reinsurance Pooling Agreement described above.

Ceded Reinsurance:

Quota Share: The Company maintains quota share reinsurance which also covers the non-standard auto business of its affiliates, PGAC-Ohio and TIC. Effective January 1, 2001, the Company was afforded 25% quota share reinsurance as provided by the following carriers:

Reinsurer	Participation
Motors Insurance Corp.	90.0%
Axa Corporate Solutions Reassurance	10.0%
Total	100.0%

Excess of Loss: Effective January 1, 2001, the Company and its affiliates, PGAC-Ohio and TIC, entered into an excess of loss reinsurance agreement with Motors Insurance Corporation whereby Motors shall pay to the Company, with respect to each automobile liability policy of the Company, the amount of the ultimate net loss in excess of the Company's retention, but not exceeding the limits of liability of the reinsurer as set forth in the Schedule of Reinsurance as follows:

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

Multiple Liability: Effective October 1, 1999, the Company began providing direct multiple liability coverage to Ingram of up to $360,000,000 in excess of Ingram's self-insured retention of $4,500,000. The Company's exposure is 100% reinsured as follows:

1st level, $10,000,000	American Home Assurance 100%
2nd level, $50,000,000	National Union Fire Insurance Co. of Pittsburg 100%
3rd level, $300,000,000	The Continental Insurance Co. 16.67%
	Underwriters Insurance Co. 16.67%
	Lloyd's & Companies 16.67%
	Navigators Insurance Co. 13.33%
	Albany Insurance Co. 13.33%
	Royal & SunAlliance USA 8.33%
	Zurich American Insurance Co. 8.33%
	American National Fire Insurance Co. 6.67%

INDEPENDENT ACTUARIAL REVIEW

Taylor-Walker & Associates, Inc., Midvale, Utah performed an independent actuarial examination of the Company. The examination included a review of the actuarial reserve opinions, the 2001 and 2002 annual statements, and the supporting actuarial reports prepared as of December 31, 2001 and December 31, 2002. Also, an estimation of examination reserves was made based on actual development occurring during 2002. See the Comments and Recommendations section of this report for additional information.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2001:

Where Deposited and Description	Par Value	Statement Value	Market Value
California			
USTN, 6.375%, Due 8/15/02	$160,000	$160,448	$164,550
Florida			
Cash, Florida Treasury Fund	200,000	200,000	200,000
Georgia			
USTN, 6.375%, Due 8/15/02	125,000	125,350	128,555
Louisiana			
USTN, 6.375%, Due 8/15/02	70,000	70,196	71,991
Cash	120,818	120,818	120,818
North Carolina			
USTN, 6.375%, Due 8/15/02	80,000	80,224	82,275
Tennessee			
Chattanooga, 5.375%, Due 9/1/09	405,000	411,224	411,224
Johnson City, 4.25%, Due 6/1/15	50,000	50,000	50,000
FNMA, 6.0%, Due 12/15/05	1,000,000	1,029,612	1,051,880
Memphis, 6.0%, Due 1/1/06	70,000	73,335	76,125
Totals	$2,280,818	$2,321,207	$2,357,418

The above deposits were verified by confirmations received from custodians or by direct correspondence with the regulating jurisdiction.

COMMITMENTS AND CONTINGENCIES

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 and 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 1997, 1998, 1999, 2000 and 2001. With the exception of the Company's capital stock account, no errors were noted. See the Comments and Recommendations section of this report for additional information on the capital stock account.

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.

Ingram manages all treasury activities for itself and all of its affiliates, including the Company, using a centralized cash management system through intercompany payable/receivable accounts (Cash Management System). The Company's cash receipts received by PGC are remitted to Ingram and cash disbursements are funded by Ingram on a daily basis. The difference between the cash receipts and cash disbursements is reflected on the Company's books as an intercompany payable/receivable.

Intercompany balances, including management fees, federal income taxes, premiums, ceding commissions, losses and loss adjustment expenses are settled between the Company, PGC and Ingram on a quarterly basis. The practice of settling intercompany balances on a quarterly basis results in large intercompany receivables and payables in the Company's financial statements and inconsistencies from period to period which can cause NAIC IRIS ratios to be outside of "acceptable" ranges. Upon request of the Tennessee Department of Commerce and Insurance, alternative settlement practices were discussed with the Company in October, 2002. See the Subsequent Events section of this report for additional information on intercompany balances and transactions.

The Company is routinely audited by Ingram's internal audit department. The Company's financial statements are reviewed annually as part of the audit of Ingram and its affiliates by a nationally recognized accounting firm.

SUBSEQUENT EVENTS

Effective December 31, 2002, the Company entered into a Receivables Assignment Agreement with its parent, PGC, whereby PGC assigns to the Company, all accounts receivable from direct and agency billings related to the Company's policyholders. Accordingly, the Company assumes and agrees to perform all obligations with respect to the receivables and takes responsibility for collection thereof from the effective date forward. Therefore, the intercompany accounts payable from PGC to the Company is discharged to the extent of the receivables assigned to the Company.

Effective December 31, 2002, the Company entered into an Intercompany Balance Agreement with Ingram, PGA, and PGA Service Corporation whereby the Cash Management System discussed in this report under the heading Accounts and Records was formalized. As part of the agreement, Ingram agrees to evaluate all business needs of and provide cash funds to the other parties of this agreement based on factors such as (i) working capital needs, (ii) regulatory capital requirements, (iii) approved plant and equipment expenditures and (iv) other approved periodic cash flow needs (including quarterly advances in an amount equivalent to the Company's deferred tax receivable balance, not to exceed $5,000,000). Ingram agrees to discharge intercompany receivables and fund intercompany payables among itself and the other parties of this agreement based on the factors listed above and such other requests by the other parties or governmental agencies regulating the other parties, to comply with all relevant statutes and regulations, as evaluated on a case by case basis. The Agreement was approved contingent upon the following conditions:

(1) The amount of each company's parent receivables admitted must not exceed the lesser of $5,000,000 or the company's capital and surplus minus the minimum amount of capital and surplus mandated by the Tennessee Code Annotated.

(2) The amount of each company's parent receivables admitted must be carried as am investment pursuant to Tennessee Code Annotated 56-3-303(a)(15), commonly referred to as the "basket clause".

(3) The parent affiliate must be able to demonstrate to the Department of Commerce and Insurance, the ability to repay the loan; and if applicable, that it has done so in the past.

(4) A written, executed document must evidence the agreement between the insurance company and the parent affiliate, and all balances must clear within no more than ninety days.

(5) All other laws and accounting principles, not in conflict with this policy, pertaining to receivable balances generally will apply.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2001, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$16,359,968	$80,224	$16,279,744
Common stocks	30,706,805	15,318,374	15,388,431
Cash and short-term investments	40,044,384		40,044,384
Receivable for securities	6,534		6,534
Total cash and invested assets	87,117,691	15,398,598	71,719,093
Premiums and agents' balances in course of collection	(260,997)		(260,997)
Reinsurance recoverables on loss and lae payments	17,543,249		17,543,249
Federal income tax recoverable	3,091,601	3,091,601	0
Guaranty funds receivable/on deposit	103,673		103,673
Interest due and accrued	162,952		162,952
Receivable from parent, subsidiaries and affiliates	14,887		14,887
Totals	$107,773,056	$18,490,199	$89,282,857

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$18,877,636
Loss adjustment expenses	3,509,352
Commissions payable, contingent commissions	14,299
Other expenses	44,654
Taxes, licenses and fees	1,120,243
Federal income taxes	1,658,601
Unearned premiums	34,379,319
Ceded reinsurance premiums payable	22,332,276
Total liabilities	81,936,380
Common capital stock	5,000,000
Gross paid in and contributed surplus	23,769,761
Unassigned funds	(21,423,284)
Surplus as regards policyholders	7,346,477
Totals	$89,282,857

UNDERWRITING AND INVESTMENT EXHIBIT

STATEMENT OF INCOME

Underwriting Income	
Premiums earned	$58,672,506
Deductions	
Losses incurred	42,120,694
Loss expenses incurred	7,207,945
Other underwriting expenses incurred	19,801,464
Total underwriting deductions	69,130,103
Net underwriting gain or (loss)	(10,457,597)
Investment Income	
Net investment income earned	2,346,290
Net realized capital gains or (losses)	213,585
Net investment gain or (loss)	2,559,875
Other Income	
Aggregate write-ins for miscellaneous income:	
Other interest income/expense	(956)
Finance royalty income	500,372
Total other income	499,416
Net income before federal income tax	(7,398,306)
Federal income taxes incurred	(206,222)
Net income	$(7,192,084)

RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders, December 31, 1996	$16,524,480
Net income	2,019,144
Net unrealized capital gains or (losses)	(619,845)
Change in non-admitted assets	(7,882,258)
Paid in capital	9,073,000
Change in surplus as regards policyholders for the year	2,590,041
Surplus as regards policyholders, December 31, 1997	$19,114,521
Net income	6,650,890
Net unrealized capital gains or (losses)	(918,368)
Change in non-admitted assets	(1,617,696)
Capital transferred from surplus	2,500,000
Surplus paid in	8,300,000
Surplus transferred to capital	(2,500,000)
Change in surplus as regards policyholders for the year	12,414,826
Surplus as regards policyholders, December 31, 1998	$31,529,347
Net income	5,919,797
Net unrealized capital gains or (losses)	(2,810,278)
Change in non-admitted assets	(1,502,463)
Surplus paid in	1,594,000
Change in surplus as regards policyholders for the year	3,201,056
Surplus as regards policyholders, December 31, 1999	$34,730,403
Net income	(1,325,880)
Net unrealized capital gains or (losses)	(344,458)
Change in non-admitted assets	513,128
Change in surplus as regards policyholders for the year	(1,157,210)
Surplus as regards policyholders, December 31, 2000	$33,573,193
Net income	(7,192,084)
Net unrealized capital gains or (losses)	215,893
Change in net deferred income tax	1,328,788
Change in non-admitted assets	(17,010,932)
Cumulative effect of changes in accounting principles	1,431,619
Surplus paid in	(5,000,000)
Change in surplus as regards policyholders for the year	(26,226,716)
Surplus as regards policyholders, December 31, 2001	$7,346,477

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Bonds $16,279,744

The amount shown above is $2,600,000 more than the Company reported in its 2001 annual statement. The difference represents a reclassification of an investment from "Cash and short-term investments". The investment has a maturity date of 07/01/2022 and should be reported in accordance with SSAP No. 26 of the NAIC Accounting Practices and Procedures Manual.

Common stocks $15,388,431

The above amount is $9,481,626 more than reported by the Company in its 2001 annual statement. The difference represents a reclassification of a money market fund in the amount of $24,800,000 from "Cash and short-term investments." After reclassification the admissibility of this fund was limited to 5% of total admitted assets pursuant to Section 56-3-402(4)(C)(i) Tennessee Code Annotated. This resulted in a reduction of $19,569,938. However, $4,251,565 was re-admitted pursuant to Section 56-3-402(15) Tennessee Code Annotated.

Cash and short-term investments $40,044,384

The amount shown above is $27,400,000 less than the Company reported in its 2001 annual statement. The difference represents a reclassification of a money market fund to "Common stocks" in the amount of $24,800,000. This money market fund did not qualify as short-term investment pursuant to the NAIC Accounting Practices and Procedures Manual, SSAP No. 2 and Statutory Issue Paper No. 28, the NAIC Purposes and Procedures of the Securities Valuation

Office, Part 5, Section 3(g) and Section 56-1-501(g) Tennessee Code Annotated. Additionally, the Company was reporting a long-term investment in the amount of $2,600,000 as cash. This investment does not qualify as cash or cash equivalents pursuant to SSAP No. 2 of the NAIC Accounting Practices and Procedures Manual. This investment was reclassified as "Bonds."

Losses	$18,877,636
Loss adjustment expenses	$3,509,352

The above amounts are $800,000 and $150,000 respectively, more than reported by the Company in its 2001 annual statement. Early in 2002, the Company determined that the allocation of the net loss and loss adjustment expense reserves, under the pooling arrangement between the Company and PGAC-Ohio, was improperly prepared. It was determined that the reserves of PGAC-Ohio were overstated by approximately $950,000 and the reserves for the Company being understated by the same amount. Taylor-Walker & Associates, Inc. verified that this adjustment was appropriate.

Unassigned funds	($21,423,284)

The above amount is $16,268,374 less than reported by the Company in its 2001 annual statement. The difference, as it relates to the items previously indicated, is outlined in the schedule on the following page.

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

Item	Change in Surplus	
	Increase	Decrease
Common stocks		$15,318,374
Losses		800,000
Loss adjustment expenses		150,000
Total		$16,268,374
Net Change in Surplus		$16,268,374

COMMENTS AND RECOMMENDATIONS

Comments:

1. The Company changed custodians subsequent to the examination date. The Company's custodial agreement with its new custodian is not in compliance with Tennessee Insurance Regulation 0780-1-46-.04 which states, in part, that the custodial agreement provide a standard of responsibility on the part of the custodian 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. (See Recommendation #1 on page 37)

2. The Company is a producer controlled insurer pursuant to Tennessee Code Annotated 56-6. Section 56-6-603 Tennessee Code Annotated states several requirements that must be met before business can be placed with a producer controlled insurer. All of these requirements have been met with the exception of the following:

   (a) TCA 56-6-603(2) states: such producer, prior to the effective date of the policy, delivers written notice to the prospective insured disclosing the relationship between such producer and the controlled insurer. Such disclosure, signed by the insured, shall be retained in the underwriting file until the filing of the report on examination covering the period in which the

coverage is in effect. If the business is placed through a subproducer who is not a controlling producer, the controlling producer shall retain in such controlling producer's records a signed commitment from the subproducer that the subproducer is aware of the relationship between the insurer and the producer and that the subproducer has or will notify the insured

(b) TCA 56-6-603(5) states: the controlled producer shall annually report to the commissioner the amount of commissions paid to such producer, the percentage such amount represents of the net premiums written and comparable amounts and percentage paid to noncontrolling producers for placements of the same kinds of insurance

(c) TCA 56-6-603(6) states: every controlled insurer shall have an audit committee of the board of directors composed of independent directors. Prior to approval of the annual financial statement, the audit committee shall meet with management, the insurer's independent certified public accountants, and an independent casualty actuary (or such other independent loss reserve specialist acceptable to the commissioner) to review the adequacy of the insurer's loss reserves.
(See Recommendation #2 on page 37)

3. In addition to the misclassifications described on pages 30-31 of this report, 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. Note: this error was subsequently corrected on the Company's 1st Quarter 2002 filing.

(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 and due date.

These errors result in the Company not being in compliance with Section 56-1-501(g) Tennessee Code Annotated which states that financial statements shall be prepared in accordance with the NAIC Accounting Practices and Procedures Manual. (See Recommendation #3 on page 38)

4. 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.

5. The Company is not keeping its capital stock ledger up to date, and therefore a reconciliation of all the capital stock transactions was unable to be performed. The Company's general ledger at December 31, 2001, 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. As noted in this report under the heading Charter and Bylaws the Company amended its charter 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. Subsequent to the examination date, the Company provided a stock certificate dated February 3, 2003, reflecting the issuance of the 5,000 shares.

6. 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 PGAC-Ohio. The result of the Company's improper presentation is that the loss and loss adjustment expense experience shown in Schedule P cannot form a basis for the evaluation of the reasonableness of either the Company's or PGAC-Ohio's loss and loss adjustment expense reserves. (See Recommendation #3 on page 38)

7. Taylor-Walker & Associates, Inc. noted that the following improvement could be made with regards to the Company's reserves and reserves reporting:

(a) 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.

8. Based on the examination adjustments made to the Company's financial statement a re-calculation was made of the Company's Risk Based Capital (RBC) level. The re-calculation indicates that the Company is in the Regulatory Action Level. As noted in the adjustments on page 30, $15,318,373 of the surplus adjustment was due to a re-classification of a money market fund from "Cash and short-term investments" to "Common stock". The money market fund in question is an investment that the Company purchased at the end of 2001 for tax credit purposes. The investment was sold during January, 2002; thereby, putting the Company back into compliance with RBC requirements. (See recommendation #5 on page 38)

Recommendations:

1. Based on Comment #1 on page 33, it is recommended that the Company amend the custodial agreement, entered into subsequent to the examination date, to comply with the requirements of Tennessee Insurance Regulation 0780-1-46-.04 and NAIC guidelines. It is also recommended that the Company provide proof of the amended custodial agreement to the Tennessee Department of Commerce and Insurance.

2. Based on Comment #2 on page 33, it is recommended that the Company

comply with all the requirements of Tennessee Code Annotated 56-6-603. It is further recommended that the Company provide evidence of compliance with Sections 56-6-603(2), 56-6-603(5) and 56-6-603(6) Tennessee Code Annotated to the Tennessee Department of Commerce and Insurance.

3. Based on Comments #3 and #6 on pages 34 and 36, it is recommended that the Company comply with Tennessee Code Annotated 56-1-501(g) when completing its annual statement to alleviate discrepancies.

4. The Services Agreement and the Management Services and Income Tax Allocation Agreement described on pages 12-13 have never been filed with the Tennessee Department of Commerce and Insurance. It is recommended that the Company file these two agreements pursuant to 56-11-206(a)(2)(D) Tennessee Code Annotated.

5. Based on Comment #8 on page 37, it is recommended that the Company, when purchasing money market funds, purchase funds that are on the list of funds filed with the SVO to prevent re-classification of those funds to common stock resulting in percentage limitations on common stock pursuant to 56-3-402(4)(C)(i) Tennessee Code Annotated and thereby resulting in non-compliance with RBC requirements pursuant to 56-46 Tennessee Code Annotated.

CONCLUSION

The customary insurance examination practices and procedures, as established by the National Association of Insurance Commissioners, 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, 2001, the Company had net admitted assets of $89,282,857 and liabilities, exclusive of capital, of $81,936,380. Thus, there existed for the additional protection of the policyholders, the amount of $7,346,477 in the form of paid-up capital, gross paid-in and contributed surplus and unassigned funds (surplus).

In addition to the undersigned, actuaries from Taylor-Walker & Associates, Inc., Midvale, Utah, participated in the work of this examination.

Respectfully submitted,

David R. White, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Stephanie Brooks
Examiner III
State of Tennessee
Southeastern Zone, NAIC

Keith M. Patterson
Examiner III
State of Tennessee
Southeastern Zone, NAIC

Bryant Cummings
Examiner I
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Permanent General Assurance Corporation dated September 3, 2003, and made as of December 31, 2001, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

David R. White, CFE
Examiner-in Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

3rd day of September, 2003

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/25/06

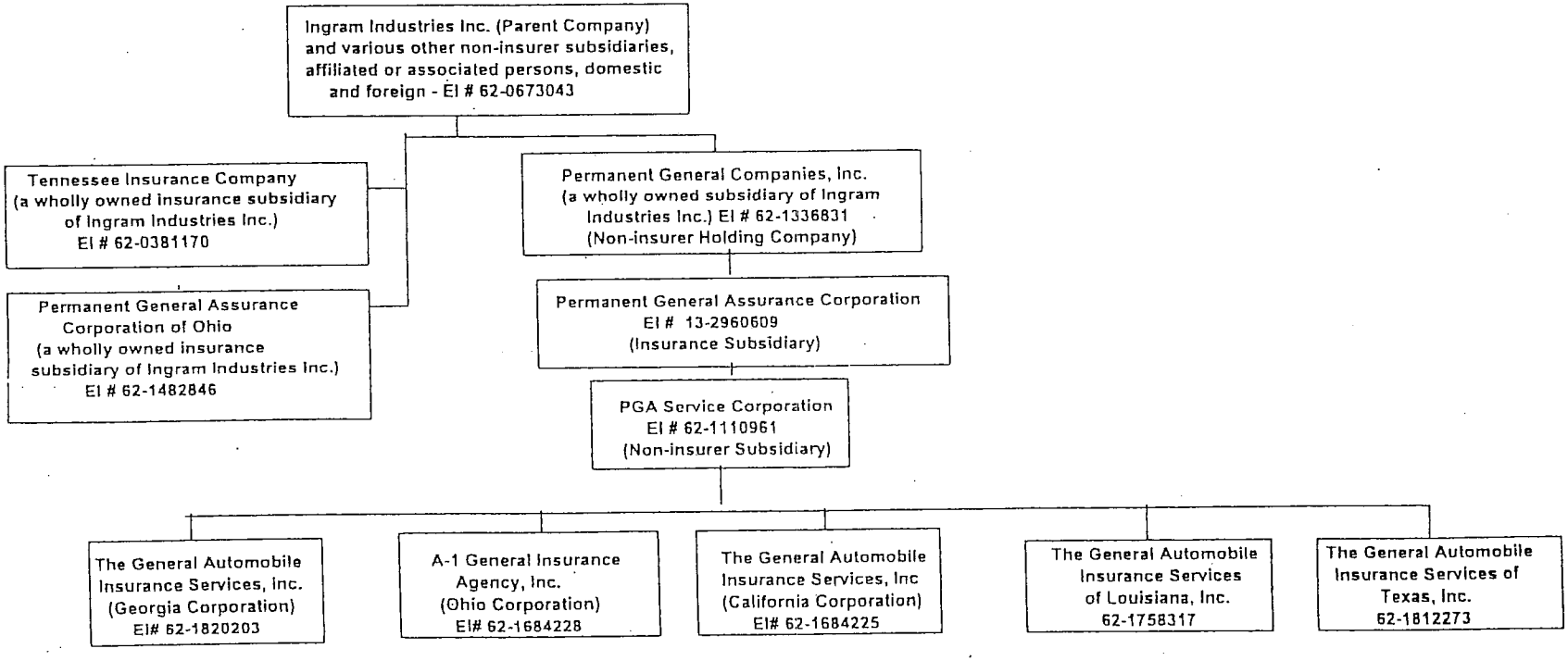
Ingram Industries Inc. (Parent Company) and various other non-insurer subsidiaries, affiliated or associated persons, domestic and foreign - EI # 62-0673043
Tennessee Insurance Company (a wholly owned insurance subsidiary of Ingram Industries Inc.) EI # 62-0381170
Permanent General Companies, Inc. (a wholly owned subsidiary of Ingram Industries Inc.) EI # 62-1336831 (Non-insurer Holding Company)
Permanent General Assurance Corporation of Ohio (a wholly owned insurance subsidiary of Ingram Industries Inc.) EI # 62-1482846
Permanent General Assurance Corporation EI # 13-2960609 (Insurance Subsidiary)
PGA Service Corporation EI # 62-1110961 (Non-insurer Subsidiary)
The General Automobile Insurance Services, Inc. (Georgia Corporation) EI# 62-1820203
A-1 General Insurance Agency, Inc. (Ohio Corporation) EI# 62-1684228
The General Automobile Insurance Services, Inc (California Corporation) EI# 62-1684225
The General Automobile Insurance Services of Louisiana, Inc. 62-1758317
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EXHIBIT B

RECEIVED
OCT 13 2003
Dept. Of Commerce & Insurance
Company Examinations

October 6, 2003

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, 2001.

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 dated September 3, 2003.

1. Within the "Analysis of Changes in Financial Statement and Comments Resulting from Examination" on page 30, the Department has reclassified a money market fund in the amount of $24,800,000 owned at December 31, 2001 from short-term investments to common stocks resulting in a reduction to surplus of $15,388,431 stating "the admissibility of this fund was limited to 5% of total admitted assets pursuant to Section 56-3-402 (4)(C)(i) Tennessee Code Annotated". The report further states, "This money market fund did not qualify as short-term investment pursuant to the NAIC Accounting Practices and Procedures Manual, SSAP No. 2 and Statutory Issue Paper No. 28, the NAIC Purposes and Procedures of the Securities Valuation Office, Part 5, Section 3(g) and Section 56-1-501(g) Tennessee Code Annotated." Recommendation 5 (p. 38) states, "It is recommended that the Company, when purchasing money market funds, purchase funds that are on the list of funds filed with the SVO to prevent re-classification of those funds to common stock..."

Company Response:

With respect to Recommendation #5 on page 38 of the examination report, we have already begun implementing additional procedures to assure that short-term investments in money market and other similar funds will be on the list of funds filed with the SVO. However, we respectfully request that, for the following reasons, the reclassification of the Federated Georgia Municipal Cash Trust from short-term investment to "common stocks" be reconsidered.

Permanent General

Section 56-1-501(g) Tennessee Code Annotated ("TCA") does provide that "financial statements or information required by this part shall be prepared in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual [NAIC APPM]..." In Section I (4) of the preamble to the Manual it states that the Manual "...is not intended to preempt states' legislative and regulatory authority." Even the Statutory Hierarchy in Section IV of the Preamble states this principle of no preemption. Because of this, other statutory or regulatory provisions affecting this issue can be used for guidance. TCA §56-1-411(c)(2) specifically states that in addition to the Examiners Handbook and the NAIC APPM, "The commissioner may also employ such other guidelines or procedures as the commissioner deems appropriate." In TCA §56-3-402 relating to Permissible Investments, subsection (10) allows a permissible investment to be "In other good and solvent securities, in addition to those authorized by this section or other sections of the code, subject to the approval of the commissioner." Additionally, under the Rules of the Department of Commerce and Insurance, Division of Insurance, Chapter 0780-1-65, Rule 0780-1-65-.14, a procedure is set forth whereby an insurer may apply to the Commissioner for an exemption from compliance with the rules governing the Annual Audited Financial Reports if the Commissioner finds that compliance would "constitute a financial or organizational hardship upon the insurer." It also states "an exemption may be granted at any time and from time to time for a specified period or periods."

We believe that the fact that the overall money market fund in question wasn't listed by the SVO is a technical, not substantive, deviation from the NAIC APPM, SSAP No. 2 and Statutory Issue Paper No. 28, and the NAIC Purposes and Procedures of the Securities Valuation Office, Part 5. As representatives from Federated have pointed out, all of the underlying funds in which the Georgia Municipal Cash Trust Fund was invested met the appropriate rating requirements and, as they emphasized, it is commonly held by courts and regulatory agencies that investment in a money market mutual fund is equivalent to a direct investment in the underlying securities held by the fund. Additionally, it should be pointed out that Part 11, Sections 1 and 2 of the NAIC Purposes and Procedures of the Securities Valuation Office speaks in terms of eligibility for listing – certainly a criteria met by the Federated fund in question. It is also our belief that considering the technical nature of the non-conformance, there should be no question that the fund would meet the test of being a "good and solvent securit[y]," permitted and authorized by the language of TCA §56-3-402 (10) quoted above, and we respectfully ask for the commissioner to so determine.

Based on the above, we respectfully request that the investment in the Georgia Municipal Cash Trust Fund not be reclassified and that you consider this response a formal request for the commissioner to "employ such other guidelines or procedures" as discussed herein and as authorized in TCA §56-1-411 (c)(2).

In the alternative, because this reclassification could cause a "financial or organizational hardship" if it results in collateral issues being raised by other states, this letter should also be considered an application for an exemption from complying with the listing requirement for the Georgia Municipal Cash Trust Fund on a retrospective basis, with the clear understanding that we will in the future comply with Recommendation #5 of the examination report.

2. Recommendation #1 on page 37 of the examination report states, "Based on Comment #1 on page 33, it is recommended that the Company amend the custodial agreement, entered into subsequent to the examination date, to comply with the requirements of Tennessee Insurance Regulation 0780-1-46-.04 and NAIC guidelines. It is also recommended that the Company provide proof of the amended custodial agreement to the Tennessee Department of Commerce and Insurance.

Company Response:

We agree with Recommendation #1 and we have filed an amended custodial agreement with the Department.

3. Recommendation #2 on page 37 of the examination report states, "Based on Comment #2 on page 33, it is recommended that the Company comply with all the requirements of Tennessee Code Annotated 56-6-603. It is further recommended that the Company provide evidence of compliance with Sections 56-6-603 (2), 56-6-603 (5) and 56-6-603 (6) Tennessee Code Annotated to the Tennessee Department of Commerce and Insurance.

Company Response:

The statutes referenced by the Department in Recommendation #2 apply specifically to producer controlled property/casualty insurers. The definition in Section 56-6-602 (4) states, " 'Producer' means an insurance broker... or corporation, when, for any compensation, commission or other thing of value... acts or aids in any manner in soliciting, negotiating or procuring the making of any insurance contract on behalf of an insured..." The Company is a wholly owned subsidiary of Permanent General Companies Inc. (PGC). PGC does not participate in any manner in placing insurance with an insured for compensation (the sales process in Tennessee is handled entirely by independent agents employed outside of PGC), thus PGC fails explicitly in meeting the definition of a "producer" per TCA 56-6-602. Therefore, since the provisions required by TCA 56-6-603 do not apply to the Company, we kindly request that Comment #2 on page 33 and Recommendation #2 on page 37 be removed from the examination report.

Permanent General

4. Recommendation #3 on page 38 states, "Based on Comments #3 and #6 on pages 34 and 36, it is recommended that the Company comply with Tennessee Code Annotated 56-1-501 (g) when completing its annual statement to alleviate discrepancies.

Company Response:

We agree with Recommendation #3 and will implement the necessary changes to ensure compliance with TCA 56-1-501 (g) to eliminate the few discrepancies that occurred during preparation of the 2001 annual statement. However, we believe Comment #6 on page 36 is somewhat misleading. The comment states, "The result of the Company's improper presentation is that the loss and loss adjustment expense experience shown in Schedule P cannot form a basis for the evaluation of the reasonableness of either the Company's or PGAC-Ohio's loss and loss adjustment expense reserves." This comment might cause the reader to reach an incorrect conclusion that the actuary did not opine on the adequacy of PGAC's loss reserves when in fact the actuarial report states, "our examination analysis indicated that booked reserves were within a range of reasonable reserve estimates." We kindly request the Department to consider amending Comment #6 to clarify this point.

5. Recommendation #4 on page 38 states, "The Services Agreement and the Management Services and Income Tax Allocation Agreement described on pages 12-13 have never been filed with the Tennessee Department of Commerce and Insurance. It is recommended that the Company file these two agreements pursuant to 56-11-206 (a)(2)(D) Tennessee Code Annotated."

Company Response:

Both of these agreements have been filed each year as part of the "Insurance Holding Company System Registration Statement Form B". Furthermore, we requested the Department to approve these agreements in a letter dated August 11, 2000 (copy attached) for which we never received a response. Finally, a Form D filing was made on August 25, 2003, again requesting approval of these agreements. The Form D filing was made based upon the request of David White, Examiner In-Charge, who indicated that the Form D filing would eliminate the need for making a recommendation in the examination report. Based upon these circumstances, we respectfully request that the Department consider deleting Recommendation #4 from the report.

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

Sincerely,

Randy Parker
President & CEO

Permanent General
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OCT 13 2003
Dept. Of Commerce & Insurance
Company Examinations

August 11, 2000

Larry Knight, Jr.
Analyst
Tennessee Department of Commerce & Insurance
500 James Robertson Parkway
Nashville, TN 37243

RE: PGAC & TIC
1999 Holding Company Registration Statements
Your Letter dated July 31,2000

Dear Mr. Knight:

In response to your referenced letter of July 30,2000, on behalf of Permanent General Assurance Corporation and Tennessee Insurance Company, we hereby request approval of the Service Agreements that have been filed as part of the Companies' 1999 Holding Company Registration Statements. We would also like to request approval of the Royalty Agreements that are part of the same filings for the two insurers. We understand that per your July 31, 2000 letter, they may not appear to meet the minimum trigger in TCA, 56-11-206 (a)(2) at this time. But because premium volume can vary based on market conditions, we believe that it is prudent to request approval of the Royalty Agreements at this time.

Please give me a call at (615) 744-1277, if you have any questions on our response or need further information.

Sincerely,

David L. Hettinger
Sr. Vice President
Finance & Administration

DLH:amf