

Report of Examination of

Permanent General Assurance Corporation
Nashville, Tennessee

As of December 31, 2009

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Columbus, Ohio
February 8, 2011

Honorable Mary Taylor
Lieutenant Governor/Director
State of Ohio
Department of Insurance (“Department”)
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

Permanent General Assurance Corporation

a Tennessee domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 2636 Elm Hill Pike, Suite 510, Nashville, Tennessee.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2004, by the Tennessee Department of Commerce and Insurance. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Brian M. Donovan	Chief Financial Officer, Treasurer & Assistant Secretary Permanent General Companies, Inc.
David L. Hettinger	Senior Vice President & Chief Administrative Officer Permanent General Companies, Inc.

Andrew P. Martin	Senior Vice President, Company-wide Sales & Distribution Permanent General Companies, Inc.
Randy P. Parker	Chairman, President & Chief Executive Officer Permanent General Companies, Inc.
Elizabeth A. Roberts	Vice President, Human Resources Permanent General Companies, Inc.

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
Randy P. Parker	Chairman, President & Chief Executive Officer
Brian M. Donovan	Chief Financial Officer, Treasurer & Assistant Secretary
William L. McCague, II	Vice President, General Counsel & Secretary
David L. Hettinger	Senior Vice President & Chief Administrative Officer
Sherrill C. Kaiser	Assistant Secretary
Eileen M. Manners	Assistant Vice President, Claims
Allison W. Garretson	Vice President, Underwriting & Premium Finance
Eric W. Bur	Vice President, Independent Agent Sales & Distribution
Barry S. Dice	Vice President, Direct Sales & Marketing
Kenton L. Fourman	Vice President & Chief Information Officer
C. Wesley Kirkland, Jr.	Vice President, Claims
Andrew P. Martin	Senior Vice President, Company-wide Sales & Distribution
Robert E. Nelson	Assistant Secretary
Elizabeth A. Roberts	Vice President, Human Resources
Todd R. Hakala	Assistant Vice President, Actuary Services
Stephen J. Frisina	Vice President, Product Development

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the chain of ownership of the insurance companies as of December 31, 2009 (100% owned unless otherwise indicated):

Capital Z Partners, Ltd.
 Capital Z Partners, L.P.
 Other Shareholders, Including Management (9.6%)
 Capital Z Financial Services Fund II, LP (90.4%)
 PGC Holdings Corp.
 Permanent General Assurance Corporation of Ohio
 The General Automobile Insurance Company, Inc.
 Permanent General Companies, Inc.
 Permanent General Assurance Corporation
 PGA Service Corporation
 The General Automobile Insurance Services of Texas, Inc.
 The General Automobile Insurance Services of Ohio, Inc.
 The General Automobile Insurance Services of Georgia
 The General Automobile Insurance Services, Inc.
 The General Automobile Insurance Services of Louisiana
 PGC Holdings Corp. Statutory Trust I
 PGC Holdings Corp. Statutory Trust II
 Capital Z Management, LLC

Reinsurance

Ceded

The Company does not cede a material amount of business except through the Reinsurance Pooling Agreement, which is described below.

Assumed

The Company does not assume a material amount of business except through the Reinsurance Pooling Agreement.

Pooling

The Company is the lead insurer in a Reinsurance Pooling Agreement with its affiliate, Permanent General Assurance Corporation of Ohio (“PGAC of Ohio”). Under terms of this agreement, all business written by the two companies is pooled and then allocated between the two companies based on the pooling percentages of 72% to the Company and 28% to PGAC of Ohio.

The contract contained all applicable clauses that meet the guidelines prescribed by the National Association of Insurance Commissioners (“NAIC”).

Territory and Plan of Operations

The Company was licensed to transact business in the following states:

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

The following table illustrates the Company's percentages of net premiums written by line of business in 2009:

<u>Description</u>	<u>%</u>
Private passenger auto liability	72.53
Auto physical damage	27.47
Total	<u>100.00</u>

Scope of Examination

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2009. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting ("CPA") firm of Pricewaterhouse Coopers has provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The Department's property and casualty actuary reviewed the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

Financial Statements

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds

December 31, 2009

Admitted assets

Invested assets:	
Bonds	\$117,544,588
Short-term investments	4,414,323
Receivables for securities	57,859
Aggregate write-ins for invested assets	40
Total cash and invested assets	<u>122,016,810</u>
Accrued investment income	1,320,964
Uncollected premiums and agents' balances	9,854,751
Deferred premiums, agents' balances and installments booked but deferred and not yet due	50,613,251
Amounts recoverable from reinsurers	88,572
Net deferred tax asset	6,156,685
Guaranty funds receivable or on deposit	6,625
Receivables from parent, subsidiaries and affiliates	8,488,182
Total admitted assets	<u>\$198,545,840</u>

Liabilities, capital and surplus

Liabilities:	
Losses	\$35,681,064
Reinsurance payable on paid losses	2,181,112
Loss adjustment expenses	8,115,032
Commissions payable	160,081
Taxes, licenses and fees	1,480,351
Current federal and foreign income taxes	175,548
Unearned premiums	73,840,502
Ceded reinsurance premiums payable	4,978
Total liabilities	<u>121,638,668</u>
Capital and surplus:	
Common capital stock	5,000,000
Gross paid in and contributed surplus	33,574,183
Unassigned funds	38,332,989
Total capital and surplus	<u>76,907,172</u>
Total liabilities, capital and surplus	<u>\$198,545,840</u>

Statement of Operations

**For the Year Ended
December 31, 2009**

Premiums earned	\$157,228,924
Losses incurred	93,852,750
Loss expenses incurred	15,040,130
Other underwriting expenses incurred	59,536,704
Underwriting (loss)	<u>(11,200,660)</u>
Net investment income earned	6,250,219
Net realized capital (losses)	<u>(2,367,647)</u>
Net investment gain	3,882,572
Finance and service charges not included in premiums	16,967,188
Aggregate write-ins for miscellaneous income	116,160
Total other income	<u>17,083,348</u>
Income before federal income taxes	9,765,260
Federal income taxes	<u>3,771,046</u>
Net income	<u><u>\$5,994,214</u></u>

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2005	2006	2007	2008	2009
Capital and surplus December 31, previous year	<u>\$63,732</u>	<u>\$69,422</u>	<u>\$78,693</u>	<u>\$74,396</u>	<u>\$78,625</u>
Net income	6,639	9,445	3,843	5,887	5,994
Net unrealized capital gains (losses)	(176)	1,174	989	386	(2,487)
Change in net deferred income tax	1,238	178	371	375	1,015
Change in nonadmitted assets	(11)	24	(501)	(2,366)	1,407
Change in provision for reinsurance				(52)	52
Dividends to stockholders	(2,000)	(1,700)	(9,000)		(7,700)
Aggregate write-ins for gains and losses in surplus		150			
Net change in capital and surplus	<u>5,690</u>	<u>9,271</u>	<u>(4,298)</u>	<u>4,229</u>	<u>(1,718)</u>
Capital and surplus December 31, current year	<u><u>\$69,422</u></u>	<u><u>\$78,693</u></u>	<u><u>\$74,396</u></u>	<u><u>\$78,625</u></u>	<u><u>\$76,907</u></u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with Section 3925.08 of the ORC.

Loss and Loss Adjustment Expense Reserves

The Company had an outside actuary, Jeff Kimble, ACAS, MAAA of Towers Watson (Towers Perrin for 2008 and prior), opine on the reasonableness of the total reserves for the last three years covered by the examination. Another outside actuary, Wayne D. Holdridge, ACAS, MAAA of Towers Perrin, opined on the reasonableness of the Company's total reserves for the first two years covered by the examination. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2009.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2009.

Subsequent Events

On January 1, 2010, a new Reinsurance Pooling Agreement became effective to include another affiliate, The General Automobile Insurance Company, Inc ("GAIC"). Under terms of this agreement, all business written by the three companies is pooled and then allocated between the companies based on the pooling percentages of 59% to the Company, 33% to PGAC of Ohio and 8% to GAIC.

Although the Company's loss and loss adjustment expense reserves as of December 31, 2009 appeared to have been determined in a reasonable manner, the 2010 quarterly statements indicate that these reserves are developing adversely. The Company has strengthened reserves in 2010 to more accurately reflect the adverse trend.

On September 17, 2010, the Company redomiciled from Tennessee to Ohio and designated a location in Valley View, Ohio as its Statutory Home Office.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Admitted Assets	<u>\$198,545,840</u>
Liabilities	\$121,638,668
Surplus as Regards Policyholders	<u>76,907,172</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$198,545,840</u>

Acknowledgement

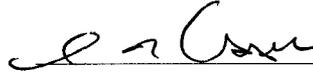
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and the undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CIDM, CISA, CISSP; Aaron R. Hibbs, CPA, FLMI, ChFC; James H. Luke, CFE, CPA; Floyd D. Meeks, AES, CFE, CIDM, CISA, CPA, MBA; Leroy J. Moster, CFE, CPA; and Larry G. Rice, AES, CFE, CISA, CPA.

Respectfully,



Kevin J. Rupp, CFE
Examiner-In-Charge
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

Kevin J. Rupp
Examiner-In-Charge

3/4/11
Date

Elizabeth Chase
Assistant Chief Examiner

3/4/11
Date

State of Ohio

County of Franklin

Personally appeared before me the above named Kevin J. Rupp, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 4 day of March, 2011.

Elizabeth Chase

(Notary Public)

ELIZABETH CHASE

NOTARY PUBLIC, STATE OF OHIO

MY COMMISSION EXPIRES MAY 22, 2012

My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 4 day of March, 2011.

Elizabeth Chase

(Notary Public)

ELIZABETH CHASE

NOTARY PUBLIC, STATE OF OHIO

MY COMMISSION EXPIRES MAY 22, 2012

My Commission Expires