

The information related to Note # 30 in the Annual Statement did not get uploaded to the NAIC electronic data capture.



ANNUAL STATEMENT
For the Year Ended December 31, 2012
OF THE CONDITION AND AFFAIRS OF THE
Permanent General Assurance Corporation

NAIC Group Code 00473, 3638 NAIC Company Code 37648 Employer's ID Number 13-2960609
Organized under the Laws of Ohio, State of Domicile or Port of Entry Ohio
Country of Domicile United States
Incorporated/Organized 09/28/1994 Commenced Business 09/28/1994
Statutory Home Office 9700 Rockside Road, Suite 250, Valley View, OH, 44125
Main Administrative Office 2636 Elm Hill Pike, Suite 510, Nashville, TN, 37214 615-242-1961
Mail Address P.O. Box 305054, Nashville, TN, 37230-5054
Primary Location of Books and Records 2636 Elm Hill Pike, Suite 510, Nashville, TN, 37214 615-744-1221
Internet Web Site Address www.pgac.com
Statutory Statement Contact R Burton Barnes Jr, 615-744-1221
bbarnes@thegeneral.com (E-Mail Address) 615-744-1608 (Fax Number)

OFFICERS

Table with 4 columns: Name, Title, Name, Title. Includes Randy Philip Parker (Chairman, President & CEO), Brian Michael Donovan (Secretary), David Lee Hettinger (Sr. V.P., Chief Administrative Officer).

OTHER OFFICERS

Table with 4 columns: Name, Title, Name, Title. Includes Robert Eugene Nelson (Assistant Secretary), Allison Walker Garretson (V.P., Underwriting & Customer Service), Charles Wesley Kirkland (V.P., Claims), John Allen Hollar (Sr. V.P., Product Management), Kenton Lee Fourman (V.P., Chief Information Officer), Andrew Peter Martin (Sr. V.P., Corporate-wide Sales & Distribution), Todd Raymond Hakala (V.P., Actuary Services), Sherrill Cleek Kaiser (Secretary), Barry Scot Dice (V.P., Direct Sales & Marketing), William Joseph Yeager (Sr. V.P., Claims), Eileen Manners (Assistant V.P., Claims), Eric William Bur (V.P., IA Sales & Distribution), Elizabeth Ann Roberts (V.P., Human Resources).

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Name, Name, Name. Includes Randy Philip Parker, David Lee Hettinger, Brian Michael Donovan, Andrew Peter Martin, Elizabeth Ann Roberts.

State of Tennessee

ss

County of Davidson

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Signature lines for David Lee Hettinger (Sr. V.P., Chief Administrative Officer), Brian Michael Donovan (CFO, Treasurer & Assistant Secretary), Sherrill Cleek Kaiser (Secretary). Includes notary information: Susan Hawk, Notary Public, May 5, 2015. Includes filing details: 1. State the amendment number 1, 2. Date filed 05/23/2013, 3. Number of pages attached 8.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

- A. The accompanying financial statements of Permanent General Assurance Corporation have been prepared in accordance with the NAIC Accounting Practices and Procedures Manual except to the extent that Ohio law differs. However, as of this Statement date, there have been no requests from the State of Ohio to depart from the prescribed NAIC guidelines.

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the state of Ohio is shown below:

	<u>2012</u>	<u>2011</u>
<u>Net Income</u>		
(1) Ohio company state basis (Page 4, Line 20, Column 1 & 2)	\$5,978	\$625
(2) State prescribed practices that increase / (decrease) NAIC SAP:		
(3) State permitted practices that increase / (decrease) NAIC SAP:		
(4) NAIC SAP	\$5,978	\$625
<u>Surplus</u>		
(5) Ohio company state basis (Page 3, Line 37, Column 1 & 2)	\$90,551	\$85,546
(6) State prescribed practices that increase / (decrease) NAIC SAP:		
(7) State permitted practices that increase / (decrease) NAIC SAP:		
(8) NAIC SAP	\$90,551	\$85,546

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

Premiums are earned over the terms of the related insurance policies. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro rata methods for direct business.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

- (1) Short-term investments are stated at cost.
- (2) Bonds are stated at amortized cost using the yield to maturity method.
- (3) Common stocks, if owned are stated at lower of cost or market with exception to the stock of PGAC's wholly owned subsidiary (which is valued as described in the NAIC Valuation of Securities Manual).
- (4) The Company holds no preferred stock as of the statement date.
- (5) The Company holds no mortgage loans.
- (6) The basis for loan backed securities is amortized cost or the lower of amortized cost or fair market value. The adjustment methodology used for each type of security is prospective for securities which an OTTI loss has been recognized and retrospective for all other securities.
- (7) The Company values PGA Service Corporation (a wholly owned subsidiary) in accordance with the NAIC policies and procedures manual.
- (8) The company has no investments in joint ventures, partnerships & limited liability company.
- (9) The company has no investments in derivatives.
- (10) The Company does not anticipate investment income as a factor in the premium deficiency calculation.
- (11) Reserve for losses represents the estimated liability for claims reported to the Company and an amount, based on actuarially determined reserves for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined.
- (12) The Company has not modified its capitalization policy from the prior year.
- (13) The Company has no pharmaceutical rebate receivables.

2. Accounting Changes and Corrections of Errors:

On November 6, 2011, SSAP No. 101, Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10, was adopted by the NAIC. SSAP No. 101 contains changes to accounting for current and deferred federal and foreign income taxes, effective January 1, 2012. This guidance provides that the deferred tax asset admissibility guidance is no longer elective, and the reversal and surplus limitation parameters in the admissibility test are determined based on the risk-based capital level. It also requires gross deferred tax assets to be reduced by a statutory valuation allowance if it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Finally, the guidance set a more likely than not threshold for the recording of contingent tax liabilities. The cumulative effect of adopting this pronouncement is \$54,722.

The following summarizes the impact of the adoption (000's omitted).

	1/1/2012	12/31/2011	Change
Gross DTA	\$7,775	\$7,775	-
SVA	-	-	-
Adj. Gross DTA	\$7,775	\$7,775	-
Gross DTL	(301)	(301)	-
Non admitted DTA	(276)	(331)	55
Net Admitted DTA/(DTL)	\$7,198	\$7,143	\$55
Contingent tax liability	-	-	-
Penalty / Interest	-	-	-

NOTES TO FINANCIAL STATEMENTS

Net impact to surplus \$55 - \$55 **

** The net impact to surplus is the sum of any change in the net admitted DTA / (DTL), contingent tax liability, and penalty and interest.

3. Business Combinations and Goodwill

Refer to Note 21.A Extraordinary Items.

4. Discontinued Operations

None.

5. Investments

- A) The Company has no mortgage loans.
 B) The Company did not restructure any debt.
 C) The Company has no reverse mortgages.
 D) Loan-Backed Securities
 (1) The source used to determine prepayment assumptions is Intex.
 (2) Not applicable.
 (3) Securities with recognized impairments currently held

<u>Cusip</u>	<u>Book / Adjusted Carry Value Before Current Period OTTI</u>	<u>Present Value of Projected Cashflows</u>	<u>Recognized Other Than Temporary Impairment</u>	<u>Amortized Cost After Other Than Temporary Impairment</u>	<u>Fair Value at time of OTTI</u>	<u>Date of Financial Statement Where Reported</u>
07387MAP4	974,419	118,000	856,419	118,000	330,000	12/31/2012
Total	974,419	118,000	856,419	118,000	330,000	

- (4) All impaired securities (fair value is less than amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):

Continuous Unrealized Loss	Less than 12 Months	\$3,091
	12 Months or Longer	\$ -

Fair Value of Security with Continuous Unrealized Loss

Less than 12 Months	\$562,848
12 Months or Longer	\$ -

- (5) Not Applicable

- E) The Company has no repurchase agreements.
 F) The Company has no real estate investments.
 G) The Company has no low-income housing tax credits (LIHTC).

6. Joint Ventures, Partnerships and Limited Liability Companies

None.

7. Investment Income

All investment income due and accrued is admitted.

8. Derivative Instruments

None.

9. Income Taxes

A. The components of the net deferred tax asset / (liability) at December 31 are as follows:

	31-Dec.-12			31-Dec-11			Change Capital	Total
	Ordinary	Capital	Total	Ordinary	Capital	Total		
Total gross deferred tax assets	6,210,617	636,607	6,847,224	6,509,865	1,264,766	7,774,631	(299,248)	(927,407)
Stat valuation allowance adj	-	-	-	-	-	-	-	-
Adj gross deferred tax assets	6,210,617	636,607	6,847,224	6,509,865	1,264,766	7,774,631	(299,248)	(927,407)
Total gross deferred tax liab				(300,409)		(300,409)	300,409	300,409
Net deferred tax assets	6,210,617	636,607	6,847,224	6,209,456	1,264,766	7,474,222	1,161	(628,159)
Def tax assets nonadmitted	(7,359)	(636,607)	(643,966)		(330,893)	(330,893)	(7,359)	(305,714)
Net admitted def tax asset	6,203,258		6,203,258	6,209,456	933,873	7,143,329	(6,198)	(933,873)

The Company has not elected to admit additional DTAs pursuant to SSAP 10R, paragraph 10e. The current period election does not differ from the prior reporting period.

NOTES TO FINANCIAL STATEMENTS

Admission Calculation Components SSAP 101	31-Dec.-12			31-Dec-11			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	3,098,053		3,098,053	1,442,495		1,442,495	1,655,558		1,655,558
Adj gross deferred tax assets expected to be realized after application of the threshold limitation	3,105,205		3,105,205	4,766,961	933,873	5,700,834	(1,661,756)	(933,873)	(2,595,629)
1. Adj gross deferred tax assets expected to be realized following the balance sheet date	3,105,205		3,105,205	4,766,961	933,873	5,700,834	(1,661,756)	(933,873)	(2,595,629)
2. Adj gross dtas allowed per limitation threshold			12,637,306			8,111,468			4,525,838
Adj gross dtas offset by gross deferred tax liabilities				300,409		300,409	(300,409)		(300,409)
Total	6,203,258		6,203,258	6,509,865	933,873	7,443,738	(306,607)	(933,873)	(1,240,480)

Ratio percentage used to determine recovery period and threshold limitation amount.

	31-Dec.-12	31-Dec-11
	440%	410%

Amount of adjusted capital and surplus used to determine recovery period and threshold limitation.

	31-Dec.-12	31-Dec-11
	84,248,704	78,402,459

Impact of tax planning strategies:	31-Dec.-12			31-Dec-11			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Adjusted gross DTAs (% of Total Adjusted Gross DTAs)	0.0%	9.3%	9.3%	0.0%	16.3%	16.3%	0.0%	(7.0%)	(7.0%)
Net Admitted Gross DTAs (% of Total Net Admitted Adj Gross DTAs)	0.0%	0.0%	0.0%	0.0%	13.1%	13.1%	0.0%	(13.1%)	(13.1%)

The Company's tax strategies do not include the use of reinsurance.

B. Unrecognized DTLs
Not applicable

C. Current Tax and Change in Deferred Tax

Current income tax:	31-Dec.-12	31-Dec-11	Change
Current federal income tax provision	3,199,040	0	3,199,040
Prior year (overaccrual)/underaccrual	(79,889)	(439,631)	359,752
Other adjustments	(567,817)	(33,367)	(534,450)
Federal and foreign income taxes incurred	<u>2,551,334</u>	<u>(473,008)</u>	<u>3,024,342</u>

Deferred income tax:	31-Dec.-12	31-Dec-11	Change
Ordinary:			
Unearned premium reserve@ 20%	4,556,479	4,615,881	(59,403)
Discounted loss reserves	502,851	561,737	(58,886)
Guaranty fund accrual			
Allowance for Bad Debts	577,092	747,730	(170,638)
Accrued Bonus	566,836		566,836
Net Operating loss carryover		584,517	(584,517)
Unearned Provisional Commission	7,359		7,359
Subtotal	6,210,617	6,509,865	(299,248)
Statutory valuation allowance adjustment			
Nonadmitted	(7,359)		(7,359)
Admitted ordinary deferred tax assets	<u>6,203,258</u>	<u>6,509,865</u>	<u>(306,607)</u>

Capital:	31-Dec.-12	31-Dec-11	Change
Impairment Loss on Investments	434,022	737,934	(303,912)
Capital loss carryover			
Net unrealized capital losses - SAP	202,585	526,832	(324,247)
Subtotal	636,607	1,264,766	(628,159)
Statutory valuation allowance adjustment			
Nonadmitted	(636,607)	(330,893)	(305,714)
Admitted capital deferred tax assets	<u>-</u>	<u>933,873</u>	<u>(933,873)</u>

NOTES TO FINANCIAL STATEMENTS

Admitted deferred tax assets	<u>6,203,258</u>	<u>7,443,738</u>	<u>(1,240,480)</u>
Deferred Tax Liabilities:	31-Dec.-12	31-Dec-11	Change
Ordinary:			
Sec. 481 adjustment	<u>-</u>	<u>(300,409)</u>	<u>300,409</u>
Subtotal		<u>(300,409)</u>	<u>300,409</u>
Capital:			
Subtotal			
Deferred tax liabilities	<u>-</u>	<u>(300,409)</u>	<u>300,409</u>
Net deferred tax assets / liabilities	<u>6,203,258</u>	<u>7,143,329</u>	<u>(940,071)</u>

D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate

The significant items causing a difference between the statutory federal income tax rate and the Company's effective income tax rate are as follows:

	31-Dec.-12	Effective Rate
Provision computed at statutory rate	3,012,823	35.00%
Tax exempt interest	(160,944)	-1.87%
Other permanent differences	61,762	0.72%
State tax	(27,632)	-0.32%
Rate differential	(77,389)	-0.90%
Provision to return adjustment	<u>45,465</u>	<u>0.53%</u>
Total	2,854,085	33.16%

	31-Dec.-12	Effective Rate
Federal and foreign income taxes incurred	2,551,334	29.64%
Current taxes on realized capital gains	-	0.00%
Change in net deferred income taxes	<u>302,751</u>	<u>3.52%</u>
Total statutory income taxes	2,854,085	33.16%

E. Operating Loss and Tax Credit Carryforwards

At the end of the year, the Company did not have any unused operating loss carryforwards generated in prior years available to offset against future taxable income.

Income tax expense for 2012 and 2011 in the amounts of \$9,408,941 and \$0 are available for recoupment in the event of future losses.

The company does not have any protective tax deposits under Sec. 6603 of the Internal Revenue Code.

F. Consolidated Federal Income Tax Return

1) The Company's federal income tax return will be consolidated with the following entities:

PGC Holdings Corp. (parent)	The General Automobile Insurance Services, Inc.
Permanent General Companies, Inc.	The General Automobile Insurance Services of Georgia, Inc.
Permanent General Assurance Corporation of Ohio	The General Automobile Insurance Services of Louisiana, Inc.
PGA Service Corporation	The General Automobile Insurance Services of Ohio, Inc.
The General Automobile Insurance Company, Inc.	The General Automobile Insurance Services of Texas, Inc.

2) The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled quarterly.

G. Federal or Foreign Federal Income Tax Loss Contingencies

The Company has no loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

10. Information Concerning Parent, Subsidiaries Affiliates and Other Related Parties

A,B,C. At December 31, 2012 PGAC declared a dividend of \$1,000,000 to its parent Permanent General Companies who in turn paid a dividend of \$1,000,000 to its parent PGC Holdings Corporation.

D. At December 31, 2012, the Company reported \$409,013 net payable to its parent and affiliates. The terms of the settlement require these amounts are settled within 90 days.

E. The Company has made no guarantees or undertakings for the benefit of the parent or affiliates.

F. PGAC is a affiliate of PGC Holdings Corp. and as such has a tax agreement in place with this affiliated company. PGAC also has a service agreement in place with its parent Permanent General Companies, Inc (PGC), which is also a wholly owned subsidiary of PGC Holdings Corp. Under this agreement PGC performs administrative services on behalf of PGAC. These services include;

NOTES TO FINANCIAL STATEMENTS

- claims administration, underwriting, policy issuance and record keeping, legal services, data processing and accounting.
- G. All outstanding shares of the company are owned by the parent company, Permanent General Companies, Inc., a non-insurance holding company domiciled in the State of Tennessee.
- H. The Company wholly owns PGA Service Corporation, an insurance premium finance company domiciled in the State of Tennessee.
- I.J. The Company has no investments in an SCA entity that exceeds 10% of admitted assets.
- K. None.
- L. None.

11. Debt
None.

12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans.
None.

13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

- (1) The company has 20,000 shares authorized; 10,000 shares issued of \$500 par common stock; & 10,000 shares outstanding. All shares are Class A.
- (2) The company has no preferred stock issued.
- (3) The maximum amount of dividends which can be paid by an Ohio domiciled company without approval of the insurance commissioner is subject to restrictions based upon statutory surplus.
- (4) The company declared a ordinary dividend of \$1,000,000 to it's parent Permanent General Companies at December 31, 2012.
- (5) The portion of the Company's profits that may be paid as ordinary dividends to stockholders is limited by # (3) above. However, the maximum dividend payout which can be made in 2013 without prior approval is \$9,055,096.
- (6) The company has no restrictions on the unassigned surplus.
- (7) The company has not made advances of surplus.
- (8) The stock of the company has not been allocated for any special purposes.
- (9) The company has no special surplus funds.
- (10) Refer to page 4 lines 21 through 37 and Exhibit of Capital Gain (Losses) .
- (11) The company has no surplus notes.
- (12) The company has not been reorganized.
- (13) N/A

14. Contingencies

- (A) The company has no contingent commitments to an SCA entity, joint ventures, partnerships, or limited liability companies.
- (B) The company has not been notified of any assessments that could have a material financial effect.
- (C) The company has no gain contingencies.
- (D) Claims related extra contractual obligations and bad faith losses stemming from lawsuits.

The company paid the following amounts in the reporting period to settle claims related extra contractual obligations or bad faith claims stemming from lawsuits.

	<u>Direct</u>
Claim payments made during reporting period	\$0

Number of claims where amounts were paid to settle claims resulting from lawsuits during the reporting period.

(A)	(B)	(C)	(D)	(E)
0-25	26-50	51-100	101-500	More than 500 Claims
X				

Indicate whether claim count information is disclosed per claim or claimant.

(F) Per Claim [X] (G) Per Claimant []

- (E) The company has no warranty liabilities.
- (F) All Other Contingencies.

Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company.

15. Leases.
None.

16. Information about Financial Instruments with Off-balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk.
None.

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities.

NOTES TO FINANCIAL STATEMENTS

None.

18. Gain or Loss to the Report Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans.

None.

19. Direct Premium Written/Produced by MGA/3rd Party Administration

None.

20. Fair Value Measurements.

A. (1) Fair Value Measurements at Reporting Date

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets at fair value</u>				
<u>Bonds</u>				
U.S. Governments				
Industrial & Misc.		1,000,000		1,000,000
RMBS				
CMBS		562,848		562,848
Special Revenue				
Other				
Total	<u>0</u>	<u>1,562,848</u>	<u>0</u>	<u>1,562,848</u>

(2) Fair Value Measurements in Level 3 of the Fair Value Hierachy

<u>Description</u>	<u>Bal. @</u> <u>01/01/12</u>	<u>Trans.</u> <u>into</u> <u>Level 3</u>	<u>Trans. out</u> <u>of Level 3</u>	<u>Gains /</u> <u>(Losses)</u> <u>in Net</u> <u>Income</u>	<u>Gains /</u> <u>(Losses)</u> <u>in</u> <u>Surplus</u>	<u>Purch.</u>	<u>Iss.</u>	<u>Sales</u>	<u>Sett.</u>	<u>Bal. @</u> <u>12/31/12</u>
<u>Assets</u>										
<u>Bonds</u>										
U.S. Govts.										
Ind & Misc.	1,790,415		(1,023,903)		133,488			(900,000)		0
RMBS										
CMBS	310,000		(330,000)		20,000					0
Special Rev.										
Other										
Total Assets	<u>2,100,415</u>	<u>0</u>	<u>(1,353,903)</u>	<u>0</u>	<u>153,488</u>	<u>0</u>	<u>0</u>	<u>(900,000)</u>	<u>0</u>	<u>0</u>

(3) Transfers between levels are recognized at the end of the reporting period.

(4) As of December 31, 2012, the reported fair value of the reporting entity's investment in level 2 commercial mortgage-backed securities was \$562,848. The company had one level 2 corporate bond with a fair value of \$1,000,000. These securities have a weighted average coupon rate of 5.05% and a weighted average maturity of 27.5 years. These securities are currently rated below investment grade. To measure the securities fair value the reporting entity uses third party information from various pricing services. The input assumptions include but are not limited to prepayments, delinquency percentage, loan status, etc.

21. Other Items.

A. Extraordinary Items

On December 31, 2012 American Family Mutual Insurance Company through a wholly owned non-insurance holding company, Am Fam, Inc., acquired 100% of the ownership interest in PGC Holdings Corp. (PGC) for \$241,636,000 in cash. PGC was the ultimate parent of the Company prior to the acquisition. Refer to Schedule Y for the organizational chart following the acquisition.

B. Troubled Debt Restructuring. Debtors

None.

C. Other Disclosers

None.

D. The Company routinely assesses the collectibility of premium and agent balances. The uncollectible amounts are not material to the Company's financial condition.

E. Business Interruption Insurance Recoveries.

None.

F. State Transferable Tax Credits

None.

G. Subprime Mortgage Related Risk Exposure

(1) Factors used to determine the investment in a specific sub-prime security include the quality of underwriter / loan servicer, types of loans (fixed, floating, hybrid ARM), loan quality (documentation, purpose, occupancy), loan origination year (vintage), loan geographic distribution, average loan to values, average FICO scores and the securities credit support level. Loan loss estimates are computed based on historical loan delinquency and foreclosure statistics and projecting future delinquencies and losses under multiple economic scenarios including various home price changes and employment estimates, as well as servicer style and the foreclosure rules for each

NOTES TO FINANCIAL STATEMENTS

state. Total projected losses for all mortgages in each deal are then compared to the credit support (subordination plus over collateralization) to determine the percentage of principal loss expected for each tranche. To minimize specific security risk and concentration risk to the sector, issue limitations and sector limitations as a percentage of the portfolio have been established.

(2) Direct Exposure through investment in subprime mortgage loans.
None.

(3) Direct Exposure through other investments.

Description	Cost	Book adjusted carry value	Fair value	OTTI to date
Other Assets	\$924,013	\$666,477	\$680,996	\$1,063,264

(4) Underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Guaranty insurance coverage.
None.

22. Events Subsequent.

None.

23. Reinsurance

A. Unsecured Reinsurance Recoverable

None.

B. Reinsurance Recoverable in Dispute.

None.

C. Reinsurance Assumed and Ceded

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
a. Affiliates	42,210,215	15,060,605	45,078,938	17,134,504	(2,868,722)	(2,073,899)
b. All Other			232,756	27,931	(232,756)	(27,931)
c. Total	42,210,215	15,060,605	45,311,694	17,162,435	(3,101,478)	(2,101,830)
d. Dir. UE Prem Res.	67,971,640					

D. Uncollectible Reinsurance.

None.

E. Commutation of Ceded Reinsurance

None.

F. Retroactive Reinsurance

None.

G. Reinsurance Accounted for as a Deposit.

None.

H. Transfer of Property and Casualty Run-Off Agreements.

None.

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination.

None.

25. Change in Incurred Losses and Loss Adjustment Expenses

Loss & lae reserves as of December 31, 2011 were \$53.980 million. As of December 31, 2012, \$40.377 million has been paid for incurred loss & lae expenses attributable to insured events or prior years. Reserves remaining for prior years are now \$14.917 million as a result of re-estimation of unpaid claims and lae expenses. Therefore, there has been a \$1.314 million unfavorable prior year development from 12/31/2011 to 12/31/2012 principally on liability lines of business.

For the 2011 accident year, liability and PIP reserves for Florida are now projected at lower levels with California liability now developing more favorably. There was unfavorable development in the 2009 and 2010 accident years from New York and Florida PIP due to severity levels coming in higher than previously projected.

The development is generally the result of an ongoing analysis of recent loss development trends and are increased or decreased as additional information becomes known regarding individual claims. The Company has no retrospectively rated policies that are subject to premium adjustments. The development is generally the result of an ongoing analysis of recent loss development trends and are increased or decreased as additional information becomes known regarding individual claims. The Company has no retrospectively rated policies that are subject to premium adjustments.

26. Intercompany Pooling Arrangements

Effective January 1, 2010, the Company (lead entity) entered into a reinsurance pooling agreement with PGAC of Ohio (NAIC company code - 22906) and The General Automobile Insurance Company, Inc. (GAIC) (NAIC company code - 13703), both of which are affiliated property and casualty insurance companies incorporated in Ohio. The business includes private passenger auto liability & auto physical damage with PGAC receiving 59%, PGAC-Ohio receiving 33%, & GAIC receiving 8%. This Agreement applies only to that portion of any insurance or reinsurance which the parties hereto retain net for their own account and in calculating the amount of any loss hereunder, only loss or losses in respect of that portion of any insurance or reinsurance which the parties hereto retain net for their own account shall be included. The Company has a net receivable balance of \$2,036,745 at 12/31/2012.

27. Structured Settlements

None.

28. Health Care Receivables

None.

29. Participating Policies

NOTES TO FINANCIAL STATEMENTS

None.

30. Premium Deficiency Reserves

- 1. Liability carried for premium deficiency reserves. \$0
- 2. Date of the most recent evaluation of this liability. 12/31/2012
- 3. Was anticipated investment income utilized in the calculation? Yes No

31. High Deductibles

None.

32. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

None.

33. Asbestos/Environmental Reserves

None.

34. Subscriber Savings accounts

None.

35. Multi Peril Crop Insurance

None.

36. Financial Guaranty Insurance

None.