

Report of Examination of

Progressive Max Insurance Company
Cleveland, Ohio

As of December 31, 2007

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Columbus, Ohio
February 12, 2009

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Honorable Mary Jo Hudson
Director
State of Ohio
Department of Insurance
50 West Town Street
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Dear Madams and Sirs:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Progressive Max Insurance Company

an Ohio 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 6300 Wilson Mills Road, Cleveland, Ohio.

A report of this examination is hereby respectfully submitted.

Scope of Examination

The Department last examined the Company as of December 31, 2002. The current full scope association examination covers the intervening period to and including December 31, 2007.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For each year during the period under examination, the Certified Public Accounting firm of PricewaterhouseCoopers, LLP (“PWC”) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by PWC during its annual audit

of the Company was reviewed during the examination and incorporated into the examination work papers.

The Department's property and casualty actuary was retained to review 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.

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
Toby K. Alfred	Progressive Insurance Companies, Acquisition Leader
Jeffrey E. Briglia	Progressive Insurance Companies, Customer Relationship Manager Business Leader
Alexander S. Ho	Progressive Insurance Companies, Marketing Process Manager
Christine A. Johnson	Progressive Insurance Companies, Customer Contact/Retention Leader
Caroline M. Koran	Progressive Insurance Companies, Human Resources Business Leader

Officers

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

Name	Title
Christine A. Johnson	President
Jeffrey E. Briglia	Treasurer
Michael R. Uth	Secretary

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, 2007:

The Progressive Corporation – Ohio
 Progressive RSC, Inc. – Ohio
 Pacific Motor Club – California
 Progressive Capital Management Corp. – New York
 Progressive Investment Company, Inc. – Delaware
 Progressive Insurance Agency, Inc. – Ohio
 Progressive Adjusting Company, Inc. – Ohio
 Progressive Premium Budget, Inc. – Ohio
 Wilson Mills Land Company – Ohio
 Village Transport Corp. – Delaware
 Progressive Corporate Support, Inc. – Ohio
 Silver Key Insurance Agency, Inc. – Nevada
 Garden Sun Insurance Services, Inc. – Hawaii
 Progn Agency, Inc. – New York
 Progressive Vehicle Service Company – Ohio
 Progressive Direct Holdings, Inc. – Delaware
 Progressive Freedom Insurance Company – New Jersey
 Progressive Specialty Insurance Agency, Inc. – Ohio
 Progressive Auto Pro Insurance Agency, Inc. – Florida
 Progressive Choice Insurance Company – Ohio
 Mountain Laurel Assurance Company – Ohio
 Progressive Marathon Insurance Company – Michigan
 Midland Financial Group, Inc. – Ohio
 Midland Risk Services, Inc. – Tennessee
 Progressive Advanced Insurance Company – Ohio
 Progressive Direct Resources Services Company – Ohio
 Progressive Select Insurance Company – Florida
 Progressive Max Insurance Company – Ohio
 Progressive Paloverde Insurance Company – Indiana
 Progressive Premier Insurance Company of Illinois – Ohio
 Progressive Universal Insurance Company – Wisconsin
 Progressive Direct Insurance Company – Ohio
 Gadsden, Al, LLC – Ohio
 Progressive Garden State Insurance Company – New Jersey
 Progressive Commercial Holdings, Inc. – Delaware
 National Continental Insurance Company – New York
 Progressive Express Insurance Company – Florida
 Commercial Resource Services Company – Ohio
 Artisan and Truckers Casualty Company – Wisconsin
 United Financial Casualty Company – Ohio

Progressive Commercial Casualty Company – Ohio
Drive Insurance Holdings, Inc. – Delaware
 Progressive West Insurance Company – Ohio
 Progressive Mountain Insurance Company – Ohio
 Progressive Preferred Insurance Company – Ohio
 Progressive Classic Insurance Company – Wisconsin
 Progressive Bayside Insurance Company – Florida
 Progressive Hawaii Insurance Corp. – Ohio
 Progressive Southeastern Insurance Company – Indiana
 Progressive Northeastern Insurance Company – New York
 Drive Resource Services Company – Ohio
 Progressive Michigan Insurance Company – Michigan
 Progressive Northern Insurance Company – Wisconsin
 Bayside Underwriters Insurance Agency, Inc. – Florida
 Progressive Security Insurance Company – Louisiana
 Progressive Northwestern Insurance Company – Ohio
 Progressive American Insurance Company – Florida
 Progressive DLP Corp. – Ohio
 Progressive Casualty Insurance Company – Ohio
 Progressive Specialty Insurance Company – Ohio
 Trussville/Cahaba, AL., LLC - Ohio
 Progressive Gulf Insurance Company – Ohio
 PC Investment Company – Delaware
 Progressive Alliance Insurance Agency, Inc – Washington
 Drive New Jersey Insurance Company – New Jersey

Reinsurance

The Company is a party to various reinsurance agreements including a pooling agreement with affiliated property casualty companies ("Direct Pool"). 100% of the underwriting business of each member company, net of external reinsurance, is ceded to the Progressive Direct Insurance Company, the Direct Pool manager. The combined premiums, losses, and expenses are then retroceded to each Direct Pool member based on pre-determined pooling percentages.

The Companies participating in the Direct Pool are listed below, each with their respective pooling percentage:

Progressive Direct Insurance Company	77.5%
Progressive Marathon Insurance Company	6.0%
Progressive Max Insurance Company	6.0%
Progressive Advanced Insurance Company	4.0%
Progressive Universal Insurance Company	4.0%
Progressive Premier Insurance Company of Illinois	2.0%
Progressive Paloverde Insurance Company	0.5%
Mountain Laurel Assurance Company	0.0%
	<hr/>
	100%

The Direct Pool's affiliated assumed reinsurance transactions are a result of 90% quota-share reinsurance agreements with four of its non-pooled insurance affiliates as well as an aggregate excess of loss reinsurance agreement between Progressive Max Insurance Company and Progressive Casualty Insurance Company. The non-affiliated assumed reinsurance transactions are attributable to the assumed business by Progressive Max Insurance Company and are not subject to pooling. The Direct Pool's non-affiliated ceded reinsurance transactions primarily arise from its participation in voluntary state-provided reinsurance facilities.

The Company has policies and procedures in place to comply with Statutory Statement of Accounting Principles 62 and 63.

All contracts contained an insolvency clause, errors and omission clause and an arbitration clause, which meet the guidelines prescribed by the NAIC.

Territory and Plan of Operations

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

Alabama	Alaska	Arizona	Arkansas
Colorado	Connecticut	Delaware	District of Columbia
Georgia	Hawaii	Idaho	Illinois
Indiana	Iowa	Kansas	Kentucky
Maryland	Minnesota	Mississippi	Missouri
Montana	Nebraska	Nevada	New Hampshire
New Jersey	New Mexico	New York	North Carolina
North Dakota	Ohio	Oklahoma	Oregon
Pennsylvania	Rhode Island	South Carolina	South Dakota
Utah	Vermont	Virginia	Washington
West Virginia	Wisconsin	Wyoming	

Percentage of Net Business Written by Line

<u>Description</u>	<u>2007</u>
Private passenger auto liability	61.1%
Auto physical damage	37.4%
All other	1.5%
Total	<u>100.0%</u>

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, 2007

Admitted assets

Cash and invested assets:	
Bonds	\$199,134,108
Receivable for securities	21,564
Total cash and invested assets	199,155,672
Investment income due and accrued	2,847,261
Uncollected premiums and agents' balances	1,984,158
Deferred premiums, agents' balances and installments booked but deferred and not yet due	25,862,729
Amounts recoverable from reinsurers	(101,036)
Net deferred tax asset	6,488,219
Total admitted assets	\$236,237,003

December 31, 2007

Liabilities, capital and surplus

Liabilities:	
Losses	\$61,209,379
Reinsurance payable on paid losses and LAE	1,816,286
Loss adjustment expenses	15,064,791
Commissions payable	12,875
Other expenses	2,276,612
Taxes, licenses and fees	1,924,767
Current federal and foreign income taxes	789,477
Unearned premiums	56,243,914
Advance premiums	934,489
Stockholder dividends	12,000,000
Drafts outstanding	13,679,303
Payable to parent, subsidiaries and affiliates	958,866
Aggregate write-ins for liabilities:	
Escheatable property	132,844
State plan liability	35,040
Miscellaneous other liabilities	27,941
Total liabilities	167,106,584
Capital and surplus:	
Common capital stock	3,604,824
Gross paid in and contributed surplus	37,666,521
Unassigned funds	27,859,074
Total capital and surplus	69,130,419
Total liabilities, capital and surplus	\$236,237,003

Statement of Operations

December 31, 2007

Premiums earned	\$211,801,309
Losses incurred	125,703,651
Loss expenses incurred	26,671,146
Other underwriting expenses incurred	45,022,244
Underwriting gain	<u>14,404,268</u>
Net investment income earned	4,985,796
Net realized capital gains	287,127
Net investment gain	<u>5,272,923</u>
Net gain (loss) from agents' or premium balances charged off	(4,476,581)
Finance and service charges not included in premiums	3,607,830
Interest income on intercompany balances	1,050,879
Miscellaneous other expense	(889)
Total other income	<u>181,239</u>
Net income before federal and foreign income taxes	19,858,430
Federal income taxes	5,973,375
Net income	<u>\$13,885,055</u>

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2003	2004	2005	2006	2007
Capital and surplus December 31, previous year	<u>\$37,339</u>	<u>\$40,262</u>	<u>\$55,192</u>	<u>\$59,227</u>	<u>\$66,420</u>
Net income	2,882	9,888	14,581	19,029	13,885
Change in net deferred income tax	(48)	3,160	1,502	632	193
Change in nonadmitted assets	89	(618)	(1,048)	(468)	632
Surplus paid in	-0-	2,500	-0-	-0-	-0-
Dividends to stockholders	-0-	-0-	(11,000)	(12,000)	(12,000)
Net change in capital and surplus	<u>2,923</u>	<u>14,930</u>	<u>4,035</u>	<u>7,193</u>	<u>2,710</u>
Capital and surplus December 31, current year	<u>\$40,262</u>	<u>\$55,192</u>	<u>\$59,227</u>	<u>\$66,420</u>	<u>\$69,130</u>

Summary of Examination Changes

There were no changes made as a result of this examination.

Notes to Financial Statements

Investments

At December 31, 2007, the Company's investments, as measured by statement valuations, were composed of:

<u>Invested Assets</u>	<u>Ratio to Total</u>	
	<u>Investments</u>	<u>Assets</u>
Bonds	<u>100.0%</u>	<u>84.3%</u>
Totals	<u>100.0%</u>	<u>84.3%</u>

The bond portfolio included 100% of federal and state government issues. The NAIC Securities Valuation Office (SVO) and/or a NAIC Acceptable Rating Organization (ARO) rated 100% of the bond portfolio as Class 1.

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

Loss and Loss Adjustment Expense Reserves

The Company's corporate actuary, Allan R. Neis, FCAS, MAAA, certified the total reserves for the 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, 2007.

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, 2007.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2007, and is summarized as follows:

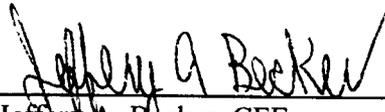
Total Admitted Assets	<u>\$236,237,003</u>
Liabilities	\$167,106,584
Surplus as Regards Policyholders	<u>69,130,419</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$236,237,003</u>

Acknowledgement

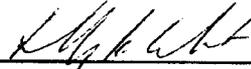
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: William C. Harrington, CFE, CPA (inactive), Chief Examiner; David T. Finkler, CPA; Methuselah E. Nyangoro, CPA; Richard J. Mack, CFE; Vicky L. Hugo, CPA; Louis F. Radecky, CPA; Edward J. Nagorny, CPA, CFE; Mark W. Boston, CPA; C. Cameron Piatt, CPCU, CFE; Bradley J. Schroer; Mary D. Miller, FCAS, MAAA; William H. Ward, CPA, CFE; Floyd D. Meeks, AES; and Dominik R. Ilc, AES.

Respectfully,



Jeffery A. Becker, CFE
Examiner-In-Charge
Ohio Department of Insurance



Jeffrey K. Ebert, 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, 2007.

Jeffery A. Becker 2/12/09
Jeffery A. Becker, CFE Date
Examiner-In-Charge

Jeffrey K. Ebert 2/12/09
Jeffrey K. Ebert, CFE Date
Assistant Chief Examiner

State of Ohio

County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, 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/her knowledge and belief.

Subscribed and sworn to before me this 12 day of February, 2009.

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 Jeffrey K. Ebert, 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/her knowledge and belief.

Subscribed and sworn to before me this 12 day of February, 2009.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires