

Report of Examination of

Progressive Premier Insurance Company of Illinois
Cleveland, Ohio

As of December 31, 2007

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Columbus, Ohio
February 12, 2009

Honorable Alfred W. Gross
Commissioner
Chairman, Financial Condition (E) Committee
National Association of Insurance Commissioners
Division of Insurance
State of Virginia
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Honorable Merle Scheiber
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South Dakota Division of Insurance
Department of Revenue & Regulation
445 East Capital Avenue, 1st Floor
Pierre, South Dakota 57501-3185

Honorable Mary Jo Hudson
Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

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 Premier Insurance Company of Illinois

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 Illinois Department of Insurance last examined the Company as of December 31, 2002 and the state of domicile was changed to Ohio on November 19, 2003. 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
Steven A. Broz	Progressive Insurance Companies, Personal Lines General Manager
Alexander S. Ho	Progressive Insurance Companies, Marketing Process Manager
Caroline M. Koran	Progressive Insurance Companies, Human Resources Business Leader
Scott W. Ziegler	Progressive Insurance Companies, National Product Management Leader

Officers

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

Name	Title
Toby K. Alfred	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/>
	100.0%

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 states of Georgia, Hawaii, Idaho, Illinois, Maine, Minnesota, North Carolina, Ohio, Oklahoma, Rhode Island, and Virginia.

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	\$54,263,743
Total cash and invested assets	<u>54,263,743</u>
Investment income due and accrued	960,083
Uncollected premiums and agents' balances in course of collection	2,935,187
Deferred premiums, agents' balances and installments booked but deferred and not yet due	23,685,642
Amounts recoverable from reinsurers	1,633,046
Net deferred tax asset	2,046,067
Receivables from parent, subsidiaries and affiliates	9,670,612
Aggregate write-ins for invested assets:	
State unearned surcharge recoverable	159,820
Total admitted assets	<u>\$95,354,200</u>

Liabilities, capital and surplus

Liabilities:

Losses	\$20,189,556
Reinsurance payable on paid losses	468,102
Loss adjustment expenses	5,021,597
Commissions payable	4,292
Other expenses	758,871
Taxes, licenses and fees	641,589
Current federal and foreign income taxes	950,524
Unearned premiums	18,747,971
Advance premiums	939,620
Stockholder dividends	4,500,000
Ceded reinsurance premiums payable	2,555,637
Drafts outstanding	3,426,579
Aggregate write-ins for liabilities:	
Receivable factoring liability	12,900,000
Miscellaneous other liabilities	370,458
State plan liability	222,124
Escheatable property	60
Total liabilities	<u>71,696,980</u>

Capital and surplus:

Common capital stock	2,500,400
Gross paid in and contributed surplus	11,249,600
Unassigned funds	9,907,220
Total capital and surplus	<u>23,657,220</u>
Total liabilities, capital and surplus	<u>\$95,354,200</u>

Statement of Operations

December 31, 2007

Premiums earned	\$70,600,436
Losses incurred	41,901,217
Loss expenses incurred	8,890,382
Other underwriting expenses incurred	15,007,415
Underwriting gain	<u>4,801,422</u>
Net investment income earned	2,265,771
Net realized capital gains	1,086,372
Net investment gain	<u>3,352,143</u>
Net gain (loss) from agents' or premium balances charged off	(754,038)
Finance and service charges not included in premiums	720,549
Aggregate write-ins for miscellaneous income:	
Interest income on intercompany balances	157,693
Miscellaneous other expense	(296)
Loss on receivable factoring	(78,799)
Total other income	<u>45,109</u>
Net income before federal and foreign income taxes	8,198,674
Federal income taxes	2,722,861
Net income	<u>\$5,475,813</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>\$10,715</u>	<u>\$17,212</u>	<u>\$18,867</u>	<u>\$19,943</u>	<u>\$22,502</u>
Net income	954	2,948	4,271	6,509	5,476
Change in net deferred income tax	54	976	329	200	411
Change in nonadmitted assets	(11)	31	(24)	(150)	(232)
Capital paid in	1,100	-0-	-0-	-0-	-0-
Surplus paid in	4,400	-0-	-0-	-0-	-0-
Dividends to stockholders	-0-	(2,300)	(3,500)	(4,000)	(4,500)
Net change in capital and surplus	<u>6,497</u>	<u>1,655</u>	<u>1,076</u>	<u>2,559</u>	<u>1,155</u>
Capital and surplus December 31, current year	<u>\$17,212</u>	<u>\$18,867</u>	<u>\$19,943</u>	<u>\$22,502</u>	<u>\$23,657</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>56.9%</u>
Totals	<u>100.0%</u>	<u>56.9%</u>

The bond portfolio included 100% of federal, state, and local 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:

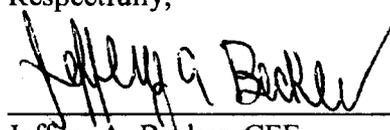
Total Admitted Assets	<u>\$95,354,200</u>
Liabilities	\$71,696,980
Surplus as Regards Policyholders	<u>23,657,220</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$95,354,200</u>

Acknowledgement

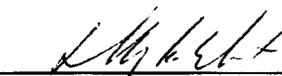
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

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
Jeffery A. Becker, CFE
Examiner-In-Charge

2/12/09
Date

Jeffrey K. Ebert
Jeffrey K. Ebert, CFE
Assistant Chief Examiner

2/12/09
Date

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