

Report of Examination of

Progressive Max Insurance Company
Mayfield Village, Ohio

As of December 31, 2012

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Columbus, Ohio
August 6, 2013

Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
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”), 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 Company is 100% owned by Progressive Direct Holdings, Inc. (“PDHI”) and PDHI is 100% owned by The Progressive Corporation. The examination was conducted at Progressive’s home office, located at 6300 Wilson Mills Road, Mayfield Village, Ohio.

Scope of Examination

The Department last examined the Company as of December 31, 2007. The current examination covers the period of January 1, 2008 through and including December 31, 2012.

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.

The State of Ohio took the lead role to perform the coordinated exam of the Progressive insurance companies and the States of Indiana, Louisiana, Michigan, New Jersey, New York, Texas and Wisconsin were all participants on the group examination.

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

For years covered by the examination, the certified public accounting firm of PricewaterhouseCoopers (“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.

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.

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.

<u>Name</u>	<u>Principal Occupation</u>
Toby Kramer Alfred	Customer Relation Management Business Leader, Personal Lines - Progressive
James Russell Haas	Process Business Leader, Claims Resolution – Progressive
Caroline Mae Koran	Business Leader Customer Care Process, Personal Lines – Progressive
Sanjay Mahesh Vyas	Personal Lines Product Management General Manager – Progressive
Daniel Joseph Witalec	Sr Controller, Personal Lines - Progressive

Officers

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

<u>Name</u>	<u>Title</u>
Sanjay Mahesh Vyas	President
Michael Robert Uth	Secretary
Daniel Joseph Witalec	Treasurer

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Progressive Corporation is the ultimate controlling party of the insurance holding company system.

Territory and Plan of Operations

The Company is licensed to transact business in the District of Columbia and the following states:

Alabama	Alaska	Arizona	Arkansas	Colorado
Connecticut	Delaware	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			

The following schedule illustrates the Company's premium written in 2012 by line of business:

	Direct	Assumed	Ceded	Net	Percent
Private passenger auto liability	\$ 106,991,182	\$ 214,887,496	\$ 106,991,182	\$ 214,887,496	65.4%
Auto physical damage	49,971,138	107,227,750	49,971,138	107,227,750	32.6%
Inland marine	2,248,850	3,418,944	2,248,850	3,418,944	1.0%
Commercial auto liability	-	1,678,483	-	1,678,483	0.5%
Other liability – occurrence	867,714	1,339,054	867,714	1,339,054	0.4%
All other lines	<u>250,000</u>	<u>227,383</u>	<u>250,000</u>	<u>227,383</u>	<u>0.1%</u>
Totals	<u>\$ 160,328,884</u>	<u>\$ 328,779,110</u>	<u>\$ 160,328,884</u>	<u>\$ 328,779,110</u>	<u>100.0%</u>

Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, during the examination period:

	2012	2011	2010	2009	2008
Premiums earned	<u>\$ 324,464</u>	<u>\$ 300,282</u>	<u>\$ 277,128</u>	<u>\$ 249,686</u>	<u>\$ 222,155</u>
Losses incurred	205,634	181,861	169,813	153,118	135,641
Loss adjustment expenses incurred	35,188	33,494	33,245	29,935	28,132
Other underwriting expenses incurred	69,820	69,271	62,564	52,072	46,190
Aggregate write-ins	-	-	(48)	48	-
Total underwriting deductions	<u>310,642</u>	<u>284,626</u>	<u>265,574</u>	<u>235,173</u>	<u>209,963</u>
Net underwriting gain	<u>\$ 13,822</u>	<u>\$ 15,656</u>	<u>\$ 11,554</u>	<u>\$ 14,513</u>	<u>\$ 12,192</u>
Loss ratio	63.4%	60.6%	61.3%	61.3%	61.1%
Loss adjustment expense ratio	<u>10.8%</u>	<u>11.2%</u>	<u>12.0%</u>	<u>12.0%</u>	<u>12.7%</u>
Loss and LAE ratio	74.2%	71.8%	73.3%	73.3%	73.8%
Other underwriting expense ratio	<u>21.2%</u>	<u>22.6%</u>	<u>22.0%</u>	<u>20.3%</u>	<u>20.4%</u>
Combined ratio	<u>95.4%</u>	<u>94.4%</u>	<u>95.3%</u>	<u>93.6%</u>	<u>94.2%</u>

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 Progressive Direct Insurance Company, the Direct Pool manager and a pool participant. 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	<u>0.0%</u>
	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. The Direct Pool's non-affiliated ceded reinsurance transactions primarily arise from its participation in voluntary state-provided reinsurance facilities.

The Company has an aggregate stop loss agreement and cedes incurred loss reserves from asbestos and environmental claims through the IBNR reserve to Progressive Casualty Insurance Company.

Effective April 11, 2011, the Company and thirty-two affiliates entered into an excess of loss agreement with Swiss Reinsurance America Corporation ("Swiss Re"), that applies to commercial vehicle policies with vehicle liability limits in excess of \$1 million, but not to exceed \$2 million. The companies cede to Swiss Re \$1 million in excess of \$1 million.

The examination noted that the Company has policies and procedures in place to comply with SSAP 62R and 63.

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, Capital and Surplus
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets
December 31, 2012**

Admitted assets

Bonds	\$ 264,667,102
Cash equivalents	<u>31,798,753</u>
Total cash and invested assets	296,465,855
Investment income due and accrued	1,519,159
Uncollected premiums and agents' balances in the course of collection	5,433,847
Deferred premiums, agents' balances and installments booked but deferred and not yet due	23,408,075
Amounts recoverable from reinsurers	1,614,859
Net deferred tax asset	8,537,165
Receivables from parent, subsidiaries and affiliates	1,818,805
Aggregate write-ins for other than invested assets	
State unearned surcharge recoverable	33,777
State tax credits	<u>30,521</u>
Total admitted assets	<u>\$ 338,862,063</u>

**Statement of Liabilities, Capital and Surplus
December 31, 2012**

Liabilities

Losses	\$ 108,156,860
Reinsurance payable on paid losses and loss adjustment expenses	1,832,350
Loss adjustment expenses	22,538,740
Commissions payable, contingent commissions and other similar charges	3,055
Other expenses	977,373
Taxes, licenses and fees	2,709,476
Current federal and foreign income taxes	1,670,510
Unearned premiums	85,635,116
Advance premium	585,128
Drafts outstanding	5,870,900
Aggregate write-ins for liabilities	
Miscellaneous other liabilities	706,760
State plan liability	31,142
Escheatable property	<u>3,265</u>
Total liabilities	230,720,675

Capital and Surplus

Common capital stock	3,604,824
Gross paid in and contributed surplus	37,666,521
Unassigned funds	<u>66,870,043</u>
Surplus as regards policyholders	<u>108,141,388</u>
Total liabilities, capital and surplus	<u>\$ 338,862,063</u>

Statement of Income
As of December 31, 2012

Premiums earned	<u>\$ 324,464,207</u>
Losses incurred	205,633,984
Loss adjustment expenses incurred	35,187,876
Other underwriting expenses incurred	69,819,780
Aggregate write-ins	
2008 North Carolina private passenger auto escrow	(1)
Net underwriting gain	13,822,568
Net investment income earned	6,158,052
Net realized capital gains less capital gains tax	<u>1,492,899</u>
Net investment gain	<u>7,650,951</u>
Net loss from agents' or premium balances charged off	(2,932,443)
Finance and service charges not included in premiums	2,808,693
Aggregate write-ins for miscellaneous income:	
Miscellaneous other income	42,929
Interest income on intercompany balances	<u>11,432</u>
Total other income	<u>(69,389)</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>21,404,130</u>
Federal and foreign income taxes incurred	<u>6,867,323</u>
Net income	<u>\$ 14,536,807</u>

Statement of Changes in the Capital and Surplus Account
(In thousands)

<u>Capital and Surplus</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital & surplus, prior year end	\$ 98,257	\$ 93,867	\$ 82,737	\$ 74,774	\$ 69,130
Net income	14,537	15,104	10,472	17,311	17,566
Change in net deferred income tax	(4)	584	825	811	(1,005)
Change in non-admitted assets	307	(298)	(167)	(659)	2,083
Cumulative effect of changes in accounting principles	544	-	-	-	-
Dividends to stockholders	(5,500)	(11,000)	-	(9,500)	(13,000)
Net change in capital and surplus	<u>9,884</u>	<u>4,390</u>	<u>11,130</u>	<u>7,963</u>	<u>5,644</u>
Capital and surplus, current year end	<u>\$ 108,141</u>	<u>\$ 98,257</u>	<u>\$ 93,867</u>	<u>\$ 82,737</u>	<u>\$ 74,774</u>

Notes to Financial Statements

Investments

The Company's investment portfolio primarily consists of investment grade bonds and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Gary S. Traicoff, FCAS, MAAA, of Progressive management to render a Statement of Actuarial Opinion ("Opinion") on the total reserves. Mr. Traicoff prepared an Actuarial Report supporting the Opinion in conjunction with the preparation of the Company's December 31, 2012 Annual Statement.

Thomas Botsko, ACAS, MAAA, the Department's Chief Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the loss and loss adjustment expense ("LAE") reserves. Mr. Botsko concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2012.

Subsequent Events

There are no material subsequent events.

Conclusion

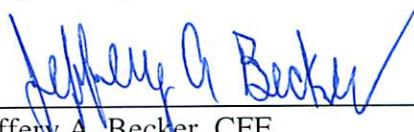
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$ 338,862,063</u>
Liabilities	230,720,675
Surplus as Regards Policyholders	<u>108,141,388</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 338,862,063</u>

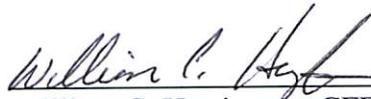
Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad Arif, AES, CISA, CPA; Edward Nagorny, CFE, CPA; Kim Somogyi, CPA; Bryan Radecky, CPA; and Bradley Schroer.

Respectfully,



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



William C. Harrington, CFE
Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the ORC, 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, 2012.

Jeffery A. Becker 8/6/13
Examiner In-Charge Date

William C. Harrington 8/6/13
Chief Examiner Date

State of Oh. O

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 knowledge and belief.

Subscribed and sworn to before me this 6 day of August, 2013.

Elizabeth Chase
(Notary Public)
~~ELIZABETH CHASE~~
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires

State of Oh. O

County of Franklin

Personally appeared before me the above named, William C. Harrington, 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 6 day of August, 2013.

Elizabeth Chase
(Notary Public)
~~ELIZABETH CHASE~~
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires

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