

Report of Examination of

Progressive Commercial Casualty Company
Mayfield Village, Ohio

As of December 31, 2012

Table of Contents

| Subject | Page |
|---|-------------|
| Salutation | 1 |
| Description of Company | 1 |
| Scope of Examination | 1 |
| Management and Control: | |
| Board of Directors | 2 |
| Officers | 3 |
| Insurance Holding Company System | 3 |
| Territory and Plan of Operations | 3 |
| Financial Statements: | |
| Statement of Assets, Liabilities, Capital and Surplus | 4 |
| Statement of Income | 5 |
| Statement of Changes in the Capital and Surplus Account | 5 |
| Notes to Financial Statements: | |
| Investments | 6 |
| Subsequent Events | 6 |
| Conclusion | 6 |
| Acknowledgement | 6 |
| Verification | 7 |

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 Commercial Casualty Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company”). The Company is 100% owned by Progressive Commercial Holdings, Inc. (“PCHI”) and PCHI 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> |
|-------------------------|---|
| Michael William Bissler | Senior Controller, Commercial Lines - Progressive |
| Jeanette Louise Hisek | Director Regional Marketing, Commercial Lines – Progressive |
| William Raymond Kampf | Commercial Auto Marketing General Manager, Commercial Lines – Progressive |
| Kevin Patrick Maher | Business Leader PCA Operations, Commercial Lines – Progressive |
| Michael John Miller | Director Regional Marketing, Commercial 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> |
|--------------------------|---------------------|
| William Raymond Kampf | President |
| Patricia Mitchell Corwin | Secretary |
| Kevin Patrick Maher | 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 following states:

| | | | | |
|--------------|----------------|--------------|------------|---------------|
| Alabama | Alaska | Arizona | Arkansas | California |
| Delaware | Hawaii | Illinois | Indiana | Iowa |
| Kansas | Kentucky | Maine | Maryland | Massachusetts |
| Minnesota | Montana | Nebraska | Nevada | New Mexico |
| North Dakota | Ohio | Oklahoma | Oregon | Pennsylvania |
| Rhode Island | South Carolina | South Dakota | Tennessee | Texas |
| Utah | Vermont | Virginia | Washington | West Virginia |
| Wyoming | | | | |

The Company had no written premium for each of the years under examination.

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 | <u>\$ 9,172,617</u> |
| Total cash and invested assets | 9,172,617 |
| Investment income due and accrued | 36,226 |
| Current federal and foreign income tax recoverable | <u>1,950</u> |
| Total admitted assets | <u>\$ 9,210,793</u> |

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

Liabilities

| | |
|--|---------------|
| Other expenses | \$ 3,784 |
| Drafts outstanding | 500 |
| Payable to parent, subsidiaries and affiliates | <u>56,497</u> |
| Total liabilities | 60,781 |

Capital and Surplus

| | |
|--|--------------------|
| Common capital stock | 3,000,000 |
| Gross paid in and contributed surplus | 4,200,000 |
| Unassigned funds | <u>1,950,012</u> |
| Surplus as regards policyholders | <u>9,150,012</u> |
| Total liabilities, capital and surplus | <u>\$9,210,793</u> |

Statement of Income
As of December 31, 2012

| | |
|--|-------------------|
| Other underwriting expenses incurred | <u>\$ 7,718</u> |
| Net underwriting loss | <u>(7,718)</u> |
| Net investment income earned | 193,399 |
| Net realized capital gain less capital gains tax | <u>1,053</u> |
| Net investment gain | <u>194,452</u> |
| Aggregate write-ins for miscellaneous income: | |
| Interest income on intercompany balances | <u>14</u> |
| Total other income | <u>14</u> |
| Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | <u>186,748</u> |
| Federal and foreign income taxes incurred | <u>42,580</u> |
| Net income | <u>\$ 144,168</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 | <u>\$ 9,007</u> | <u>\$ 8,858</u> | <u>\$ 8,649</u> | <u>\$ 8,371</u> | <u>\$ 13,651</u> |
| Net income | 144 | 148 | 213 | 277 | 719 |
| Change in net deferred income tax | (21) | (6) | 1 | 57 | - |
| Change in non-admitted assets | 7 | 7 | (5) | (56) | 1 |
| Cumulative effect of changes in accounting principles | 13 | - | - | - | - |
| Paid in surplus adjustment | - | - | - | - | 500 |
| Dividends to stockholders | - | - | - | - | (6,500) |
| Net change in capital and surplus | <u>143</u> | <u>149</u> | <u>209</u> | <u>278</u> | <u>(5,280)</u> |
| Capital and surplus, current year end | <u>\$ 9,150</u> | <u>\$ 9,007</u> | <u>\$ 8,858</u> | <u>\$ 8,649</u> | <u>\$ 8,371</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.

Subsequent Events

There are no material subsequent events.

Conclusion

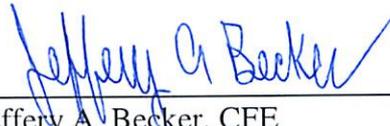
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

| | |
|--|---------------------|
| Total Admitted Assets | <u>\$ 9,210,793</u> |
| Liabilities | 60,781 |
| Surplus as Regards Policyholders | <u>9,150,012</u> |
| Total Liabilities and Surplus as Regards Policyholders | <u>\$ 9,210,793</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 William C. Harrington 8/6/13
Examiner-In-Charge Date Chief Examiner 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 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 Ohio
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