Report of Examination of

Progressive Preferred 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 Preferred Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the ("Company"). The Company is 100% owned by Drive Insurance Holdings, Inc. ("DIHI") and DIHI 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.

Name	Principal Occupation
Thomas Hudson Hollyer	National Product Development Leader, Personal Lines – Progressive
Kathryn Margaret Lemieux	Customer Relation Management Systems Leader, Personal Lines – Progressive
Mark Donald Niehaus	Personal Lines Product Management General Manager-Progressive
David Lloyd Pratt	Business Leader Usage Based Insurance, Personal Line – Progressive
David James Skove	Personal Lines Product Management General Manager – Progressive

Officers

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

Name	Title
David James Skove	President
Peter James Albert	Secretary
Thomas Alfred King	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:

Alaska	Arizona	Colorado	Delaware	Georgia
Hawaii	Idaho	Indiana	Iowa	Kentucky
Maine	Maryland	Michigan	Minnesota	Mississippi
Missouri	Montana	Nebraska	Nevada	New Jersey
New Mexico	New York	North Carolina	Ohio	Oklahoma
Oregon	Pennsylvania	Rhode Island	South Carolina	South Dakota
Tennessee	Texas	Utah	Virginia	Washington
West Virginia				

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

	Direct	Assumed	Ceded	Net	Percent
Private passenger auto liability	$ 409,612,765	$ 311,219,367	$ 409,612,765	$ 311,219,367	57.1%
Auto physical damage	236,833,121	185,493,421	236,833,121	185,493,421	34.1%
Commercial auto liability	8,580,545	33,335,264	8,580,545	33,335,264	6.1%
Inland marine	5,687,198	9,120,423	5,687,198	9,120,423	1.7%
Other liability – occurrence	3,183,659	3,788,565	3,183,659	3,788,565	0.7%
Homeowners multiple peril	2,187,302	1,684,772	2,187,302	1,684,772	0.3%
All other lines	-	3,875	-	3,875	0.0%
Totals	$ 666,084,590	$ 544,645,687	$ 666,084,590	$ 544,645,687	100.0%

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	$ 534,404	$ 501,460	$ 485,991	$ 488,590	$ 487,431
Losses incurred	346,203	308,904	289,368	289,246	300,534
Loss adjustment expenses incurred	55,249	51,913	52,498	53,342	57,960
Other underwriting expenses incurred	115,415	111,660	110,949	106,919	106,293
Aggregate write-ins	-	-	(93)	93	-
Total underwriting deductions	516,867	472,477	452,722	449,600	464,787
Net underwriting gain	$ 17,537	$ 28,983	$ 33,269	$ 38,990	$ 22,644
Loss ratio	64.8%	61.6%	59.5%	59.2%	61.7%
Loss adjustment expense ratio	10.3%	10.4%	10.8%	10.9%	11.9%
Loss and LAE ratio	75.1%	72.0%	70.3%	70.1%	73.6%
Other underwriting expense ratio	21.2%	22.0%	22.6%	22.1%	22.0%
Combined ratio	96.3%	94.0%	92.9%	92.2%	95.6%

Reinsurance

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

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

Progressive Casualty Insurance Company	49%
Progressive Northern Insurance Company	12%
Progressive Northwestern Insurance Company	12%
Progressive Specialty Insurance Company	7%
Progressive Preferred Insurance Company	6%
Progressive Michigan Insurance Company	4%
Progressive Classic Insurance Company	3%
Progressive American Insurance Company	2%
Progressive Gulf Insurance Company	2%
Progressive Bayside Insurance Company	1%
Progressive Mountain Insurance Company	1%
Progressive Southeastern Insurance Company	1%
Progressive Hawaii Insurance Corp.	0%
	100%

The Agency Pool's affiliated assumed reinsurance transactions are a result of (1) 90% quota-share reinsurance agreements with three of its non-pooled insurance affiliates, (2) a 100% quota-share reinsurance agreement with Progressive County Mutual Insurance Company, a managed but not owned insurance affiliate, and (3) aggregate stop loss reinsurance agreements with National Continental Insurance Company and Progressive Max Insurance Company, two affiliated insurance companies. The Agency Pool's ceded premiums consist of "State Plans". State Plans include (1) amounts ceded to state-provided reinsurance facilities, including the Michigan Catastrophic Claims Association and the North Carolina Reinsurance Facility, and (2) state-mandated involuntary CAIP, for which the Agency Pool retains no loss indemnity risk.

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	$ 469,457,662
Cash equivalents	9,999,333
Total cash and invested assets	479,456,995
Investment income due and accrued	3,049,403
Uncollected premiums and agents' balances in the course of collection	6,563,216
Deferred premiums, agents' balances and installments booked but deferred and not yet due	90,138,801
Amounts recoverable from reinsurers	4,392,715
Net deferred tax asset	18,711,640
Receivables from parent, subsidiaries and affiliates	18,142,373
Aggregate write-ins for other than invested assets	
State tax credits	255,044
Total admitted assets	$ 620,710,187

Statement of Liabilities, Capital and Surplus
December 31, 2012

Liabilities	
Losses	$ 186,126,429
Reinsurance payable on paid losses and loss adjustment expenses	4,267,287
Loss adjustment expenses	37,160,753
Commissions payable, contingent commissions and other similar charges	888,120
Other expenses	17,082,341
Taxes, licenses and fees	4,378,869
Current federal and foreign income taxes	4,023,955
Unearned premiums	162,100,332
Advance premium	4,376,306
Ceded reinsurance premiums payable	38,990
Drafts outstanding	25,406,313
Aggregate write-ins for liabilities	
State plan liability	279,108
Other liabilities	229,810
Escheatable property	46,218
Unearned fee reserve	5,137
Total liabilities	446,409,968
Capital and Surplus	
Common capital stock	3,003,300
Gross paid in and contributed surplus	42,712,474
Unassigned funds	128,584,445
Surplus as regards policyholders	174,300,219
Total liabilities, capital and surplus	$ 620,710,187

Statement of Income
As of December 31, 2012

Premiums earned	$ 534,403,541
Losses incurred	346,202,683
Loss adjustment expenses incurred	55,249,334
Other underwriting expenses incurred	115,414,582
Net underwriting gain	17,536,942
Net investment income earned	9,888,922
Net realized capital gains less capital gains tax	1,790,006
Net investment gain	11,678,928
Net loss from agents' or premium balances charged off	(5,301,318)
Finance and service charges not included in premiums	11,854,970
Aggregate write-ins for miscellaneous income:	
Miscellaneous income	463,647
Service business revenue	46,998
Interest income on intercompany balances	29,812
Total other income	7,094,109
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	36,309,979
Federal and foreign income taxes incurred	13,614,330
Net income	$ 22,695,649

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

Capital and Surplus	2012	2011	2010	2009	2008
Capital & surplus, prior year end	$ 164,026	$ 160,753	$ 158,328	$ 165,281	$ 160,074
Net income	22,696	34,462	33,992	44,997	61,804
Change in net unrealized capital gains or (losses)	2	(2)	10	305	(320)
Change in net deferred income tax	1,577	103	(892)	(822)	434
Change in non-admitted assets	461	710	1,815	67	(211)
Cumulative effect of changes in accounting principles	38	-	-	-	-
Paid in surplus adjustment	-	-	-	-	2,000
Dividends to stockholders	(14,500)	(32,000)	(32,500)	(51,500)	(58,500)
Net change in capital and surplus	10,274	3,273	2,425	(6,953)	5,207
Capital and surplus, current year end	$ 174,300	$ 164,026	$ 160,753	$ 158,328	$ 165,281

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	$ 620,710,187
Liabilities	446,409,968
Surplus as Regards Policyholders	174,300,219
Total Liabilities and Surplus as Regards Policyholders	$ 620,710,187

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

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

W. C. Harrington

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 W. 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