

Ultimate Parent: Progressive Corporation

PROGRESSIVE CASUALTY INSURANCE COMPANY

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FEIN#: 34-6513736

BEST'S RATING

Based on our opinion of the consolidated Financial Strength of the members of Progressive Agency Pool, which operate under a business pooling arrangement, each pool member is assigned a Best's Rating of A+ (Superior). The company is assigned the Financial Size Category of Class XV, which is the Financial Size Category of the pool.

RATING RATIONALE

The following text is derived from the report of Progressive Agency Pool.

Rating Rationale: The rating reflects Progressive's solid capitalization, strong operating performance and sustainable competitive advantages, which have enabled it to become a market leader in the private passenger automobile insurance sector. These positive rating factors are partially offset by Progressive's high underwriting leverage relative to industry composite norms. The rating outlook is based on the group's continued strong operating earnings.

The group's positive rating attributes are derived from its strong operating performance that was driven by consistently favorable underwriting earnings and investment income, which resulted in solid return measures. Progressive continues to benefit from an innovative management team with creative operating strategies, brand name recognition, a dynamic multiple channel distribution platform and extensive utilization of cutting edge underwriting and claims handling technology. In addition, Progressive benefits from its extensive data mining capabilities and technology advantages that enable detailed pricing of various risk classes and distribution sources. The group's strong underwriting earnings also reflect management's innovative approach to claims handling which emphasizes prompt contact and settlement with each insured, and its efficient expense operating platform. The rating further considers the financial flexibility of its ultimate parent, The Progressive Corporation ("PGR"), which maintains moderate financial leverage and excellent cash flow to fund fixed charges. The Progressive Investment Company, Inc. ("PIC"), a non-insurance investment entity, maintains assets that provide a source of funds for capital allocation, interest payments and debt obligations. The Progressive Insurance Group ranks as the third-largest automobile insurer in the United States.

The group's negative rating factors include growth in net premiums written and associated liabilities over the previous five-year period, as well as substantial stockholder dividend payments to its parent, which have resulted in high underwriting leverage relative to industry composite norms. The group's surplus also declined moderately in recent years, as strong operating earnings were more than offset by net stockholder dividend payments to its parent. These dividend payments were used, in part, to cover the transfer of direct channel policies to the Progressive Direct Pool from the Progressive Agency Pool. Nonetheless, significant stockholder dividends paid upstream to the group's ultimate parent, PGR, to cover interest payments and stockholder dividends, will continue to temper overall surplus growth but have been well supported by strong operating earnings.

Best's Rating: A+ p

Outlook: Stable

FIVE YEAR RATING HISTORY

<u>Date</u>	Best's <u>Rating</u>
10/16/08	A+ p
02/19/08	A+ p
12/06/06	A+ p
09/02/05	A+ p
06/14/04	A+ p

KEY FINANCIAL INDICATORS

<u>Statutory Data (\$000)</u>			
	Direct	Net	Pretax
Period	Premiums	Premiums	Operating
<u>Ending</u>	<u>Written</u>	<u>Written</u>	<u>Income</u>
2003	1,318,587	5,870,890	852,160
2004	1,577,511	5,203,303	1,006,198
2005	1,585,017	5,063,978	784,667
2006	1,201,322	4,713,945	794,709
2007	813,239	3,998,106	382,359
09/2007	653,922	3,087,399	297,876
09/2008	545,280	3,057,428	189,944

<u>Statutory Data (\$000)</u>			
	Net	Total	Policy-
Period	<u>Income</u>	<u>Admitted</u>	<u>holders'</u>
<u>Ending</u>		<u>Assets</u>	<u>Surplus</u>
2003	579,784	7,732,307	2,218,108
2004	727,575	6,508,115	1,773,858
2005	537,340	5,917,384	1,653,980
2006	660,980	5,588,120	1,592,701
2007	357,336	4,772,594	1,253,867
09/2007	289,380	5,357,974	1,167,432
09/2008	30,684	5,050,059	1,176,797

<u>Profitability</u>				<u>Leverage</u>			<u>Liquidity</u>	
	Inv.	Pretax		NA Inv	NPW	Net	Overall	Oper.
Period	Yield	ROR		Lev	to PHS	Lev	Liq	Cash-
<u>Ending</u>	<u>Ratio</u>	<u>(%)</u>	<u>(%)</u>				<u>(%)</u>	<u>flow (%)</u>
2003	87.4	2.9	15.3	54.4	2.6	5.1	140.2	119.8
2004	85.1	2.8	18.6	53.7	2.9	5.6	137.5	116.0
2005	87.8	2.7	15.2	69.3	3.1	5.6	138.8	107.3
2006	87.0	3.0	16.2	41.6	3.0	5.5	139.9	108.2
2007	93.7	2.8	9.2	54.3	3.2	6.0	135.6	106.3
5-Yr Avg	87.9	2.8	15.1	...	...	...	...	...
09/2007	93.0	XX	9.5	XX	3.5	6.9	136.0	104.9
09/2008	95.2	XX	6.3	XX	3.4	6.7	130.4	108.5

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Private Passenger Automobile Composite.

BUSINESS REVIEW

The following text is derived from the report of Progressive Agency Pool.

The Progressive Agency Pool is comprised of the lead company, Progressive Casualty Insurance Company, eleven of its property/casualty affiliates that participate in an inter-company pooling arrangement with Progressive Casualty, four non-pooled property/casualty affiliates that receive a "group" rating and two non-pooled property/casualty affiliates that receive a "reinsured" rating. Personal lines business, which comprises the majority of the group's writings, consists primarily of private passenger automobile and other specialty insurance coverages and related services in the United States. This business is generated primarily by independent insurance agencies that represent the Progressive Agency Pool, as well as brokerages in New York and California. In addition, the Progressive Agency Pool's business includes business written online or over the phone. The Progressive Agency Pool also writes commercial automobile business primarily through independent insurance agencies that represent the Progressive Agency Insurance Pool. Commercial automobile business consists primarily of liability and physical damage insurance for automobiles and trucks owned by small businesses, with the majority of customers insuring three or fewer vehicles.

Progressive is the third-largest domestic writer of private passenger automobile insurance based on premiums written. Progressive provides competitive rates and products to meet drivers' needs throughout their lifetimes, superior online and in-person customer service, and 24-hour claims service including concierge level of claims service available at service centers located in major metropolitan areas. Progressive offers consumers choices on how to shop for, buy and manage their auto insurance policies online and over the phone directly from the Company.

Progressive Casualty Insurance Company and eleven of its property/casualty insurance affiliates participate in the Progressive Agency Pool, whereby all business written by the companies is pooled, the combined premiums distributed and losses and expenses pro-rated. Pooling percentages are reviewed and updated annually based on each company's contribution to the pool and other factors. Effective January 1, 2007, Progressive Michigan Insurance Company became a member of the Progressive Agency Pool. The following are the pooling percentages: Progressive Casualty Insurance Company, 49.0%; Progressive Northwestern Insurance Company, 12.0%; Progressive Northern Insurance Company, 12.0%; Progressive Specialty Insurance Company, 7.0%; Progressive Preferred Insurance Company 6.0%; Progressive Classic Insurance Company, 3.0%; Progressive Michigan Insurance Company, 4.0%; Progressive American Insurance Company, 2.0%; Progressive Gulf Insurance Company, 2.0%; Progressive Mountain Insurance Company, 1.0%; Progressive Bayside Insurance Company, 1.0%; and Progressive Southeastern Insurance Company, 1.0%.

2007 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product <u>Line</u>	Premiums Written		% of Total	Pure Loss	Loss & LAE
	<u>Direct</u>	<u>Net</u>	<u>NPW</u>	<u>Ratio</u>	<u>Reserves</u>
Priv Pass Auto Liab	393,546	2,164,419	54.1	61.1	1,358,927
Auto Physical	253,742	1,513,018	37.8	58.7	2,890
Comm'l Auto Liab	48,912	221,648	5.5	57.0	326,996
Inland Marine	31,860	49,154	1.2	43.9	2,874
Oth Liab Occur	17,557	27,033	0.7	28.8	11,116
Homeowners	17,742	12,645	0.3	50.2	1,557
Oth Liab CI-Made	34,871	7,119	0.2	55.8	10,931
All Other	15,009	3,070	0.1	119.9	7,552
Totals	813,239	3,998,106	100.0	59.6	1,722,842

Major 2007 Direct Premium Writings By State (\$000): Connecticut, \$109,070 (13.4%); Ohio, \$95,376 (11.7%); Kentucky, \$94,899 (11.7%); California, \$80,222 (9.9%); Pennsylvania, \$71,351 (8.8%); Rhode Island, \$55,590 (6.8%); 48 other jurisdictions, \$306,730 (37.7%).

FINANCIAL PERFORMANCE

The following text is derived from the report of Progressive Agency Pool.

Overall Earnings: The group has produced strong operating earnings as measured by its five year pre-tax returns on revenue and equity, which compared favorably to the private passenger automobile industry composite. Pre-tax operating earnings have been driven by strong underwriting earnings and solid investment income. The group's strong underwriting earnings are attributable to management's effective claims handling, efficient operating platform and extensive product knowledge, which is derived from its successful leveraging of sophisticated data mining techniques. Despite current market conditions that have modestly impacted underwriting performance, the group continues to produce favorable underwriting earnings.

Although the group maintains a comparatively lower net investment yield than the industry composite, net investment income has consistently enhanced overall earnings for the previous five year period. However, net investment income decreased in 2005 due to a decline in non-affiliated invested assets, which was attributable to significant stockholder dividend payments to the group's ultimate parent, PGR. Capital gains have played a relatively modest role in total return for the period.

PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio
2003	15.3	46.1	87.4	84.7	11.9	24.8	93.8	88.4
2004	18.6	46.3	85.1	82.2	14.7	22.2	90.6	85.7
2005	15.2	39.9	87.8	85.2	14.7	19.6	91.3	85.7
2006	16.2	48.2	87.0	84.1	16.1	23.5	90.1	84.6
2007	9.2	28.6	93.7	90.9	12.5	14.5	94.4	88.5
5-Yr Avg	15.1	42.4	87.9	85.1	14.0	20.7	92.0	86.5
09/2007	9.5	XX	93.0	90.1	XX	XX	XX	XX
09/2008	6.3	XX	95.2	92.8	XX	XX	XX	XX

Underwriting Income: The group has produced excellent underwriting results as evidenced by its five year average combined ratio, which is lower than the private passenger automobile industry composite. Underwriting results have been attributable to management's exceptional product knowledge, which is partially derived from its utilization of sophisticated technology and extensive data mining capabilities. The group's superior technology resources empower management with substantial data to support very detailed pricing segmentation. As a result, management has developed numerous pricing tiers to support various risk classes and distribution sources. Underwriting results also reflect Progressive's innovative approach to claims handling, which emphasizes prompt contact and settlement with each insured, and its efficient expense operating platform.

The group's combined ratio has been consistently favorable over the previous five year period, which was driven by generally consistent loss, loss adjustment expense (LAE) and a underwriting expense ratios. Prior to 2007, improvement in loss and LAE experience had been attributable to rate adequacy and declining claim frequency, which was slightly offset by moderately increasing claim severity. However, the group's combined ratio increased modestly in 2005, primarily due to higher automobile physical damage severity that was partially mitigated by declining claim frequency and favorable loss reserve development on prior accident years. Modest deterioration in the combined ratio continued in 2007, as a result of competitive market conditions and shifting loss cost trends.

UNDERWRITING EXPERIENCE

<u>Year</u>	Net Undrw	<u>Loss Ratios</u>			<u>Expense Ratios</u>			<u>Div.</u>	<u>Comb</u>
	<u>Income</u> <u>(\$000)</u>	<u>Pure</u> <u>Loss</u>	<u>LAE</u> <u>LAE</u>	<u>Loss &</u> <u>LAE</u>	<u>Net</u> <u>Comm</u>	<u>Other</u> <u>Exp.</u>	<u>Total</u> <u>Exp.</u>		
2003	644,518	54.1	13.2	67.3	7.4	12.8	20.1	...	87.4
2004	844,937	51.5	12.8	64.4	9.1	11.6	20.7	...	85.1
2005	649,147	54.3	12.7	67.0	9.1	11.7	20.8	...	87.8
2006	684,459	53.9	12.2	66.1	9.3	11.6	20.8	...	87.0
2007	297,212	59.6	11.8	71.4	9.8	12.6	22.4	...	93.7
5-Yr Avg	...	54.5	12.6	67.1	8.8	12.0	20.9	0.0	87.9
09/2007	233,672	58.7	11.9	70.6	XX	XX	22.4	...	93.0
09/2008	128,243	61.4	12.0	73.4	XX	XX	21.8	...	95.2

Investment Income: The group reported generally consistent net investment income for most of the previous five year period, which was reflective of a fluctuating investment yield and invested asset base. Fluctuations in invested assets is largely derived from favorable earnings offset by stockholder dividends to the group's parent. Net investment income, comprised of interest and dividend income, is earned primarily on the bond portfolio, which represents approximately 65% of total invested assets. The bond portfolio is heavily weighted in corporate issues, followed by tax-exempt municipals and U.S. Treasury securities. The overall quality is high, as below investment grade issues comprise a nominal portion of the total bond portfolio. In addition to the bond portfolio, the group maintains a sizeable equity portfolio comprising approximately 25% of total invested assets. Equity allocations gradually increased in recent years, primarily due to appreciation in the stated value of the equity portfolio. Cash and other short-term investments represent the bulk of the remaining invested assets.

The group's five year net investment yield modestly lags the private passenger automobile industry composite, which is reflective of its comparatively higher allocation of invested assets to tax-exempt municipal bonds and affiliated investments. The group's net investment yields have been on a decreasing trend over most of the previous five year period due to lower market interest rates and more recently, due to reduced investment allocation to long-term bonds. Total return on invested assets was augmented by capital gains in recent years due to improved equity market conditions, following capital losses in 2002. As a result of poor financial market condition, the group had sizeable investment losses through the first nine months of 2008.

INVESTMENT INCOME ANALYSIS (\$000)

<u>Year</u>	<u>Company</u>		
	<u>Net</u> <u>Inv</u> <u>Income</u>	<u>Realized</u> <u>Capital</u> <u>Gains</u>	<u>Unrealized</u> <u>Capital</u> <u>Gains</u>
2003	154,839	-13,052	303,973
2004	155,480	36,993	196,725
2005	135,421	-2,162	146,392
2006	140,762	114,976	120,879
2007	119,171	71,563	50,345
09/2007	91,685	68,591	102,603
09/2008	72,347	-83,785	-209,444

<u>Year</u>	<u>Company</u>			<u>Industry Composite</u>	
	<u>Inv Inc</u>	<u>Inv</u>	<u>Total</u>	<u>Inv Inc</u>	<u>Inv</u>
	<u>Growth</u>	<u>Yield</u>	<u>Return</u>	<u>Growth</u>	<u>Yield</u>
	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>
2003	2.7	2.9	8.6	-1.0	4.1
2004	0.4	2.8	7.1	3.7	3.7
2005	-12.9	2.7	5.6	22.5	4.1
2006	3.9	3.0	8.3	2.4	4.0
2007	-15.3	2.8	5.8	7.4	4.3
5-Yr Avg	-4.3	2.8	7.1	6.9	4.1
09/2007	XX	XX	5.9	XX	XX
09/2008	XX	XX	-5.2	XX	XX

INVESTMENT PORTFOLIO ANALYSIS

<u>Asset Class</u>	<u>2007 Inv</u>	<u>% of Invested Assets</u>		<u>Annual</u>
	<u>Assets</u>	<u>2007</u>	<u>2006</u>	<u>% Chg</u>
	<u>(\$000)</u>			
Long-Term bonds	1,017,584	25.5	33.3	-33.6
Stocks	951,451	23.8	17.6	17.5
Affiliated Investments	1,811,890	45.3	42.5	-7.4
Other Inv Assets	215,911	5.4	6.6	-28.5
Total	3,996,836	100.0	100.0	-13.2

2007 BOND PORTFOLIO ANALYSIS

<u>Asset Class</u>	<u>% of</u>	<u>Mkt Val</u>	<u>Avg.</u>	<u>Class</u>	<u>Class</u>	<u>Struc.</u>	<u>Struc.</u>
	<u>Total</u>	<u>to Stmt</u>	<u>Maturity</u>	<u>1 - 2</u>	<u>3 - 6</u>	<u>Secur.</u>	<u>Secur.</u>
	<u>Bonds</u>	<u>Val(%)</u>	<u>(Yrs)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	<u>(% of PHS)</u>
Governments	7.5	1.3	5.7	100.0	...	...	...
States, terr & poss	18.3	0.6	3.5	100.0	...	...	...
Corporates	74.3	0.4	3.1	97.2	2.8	73.5	52.4
Total all bonds	100.0	0.5	3.4	97.9	2.1	54.5	52.4

CAPITALIZATION

The following text is derived from the report of Progressive Agency Pool.

Capital Generation: The group had generated solid surplus growth in prior years, which had supported its premium expansion. Surplus growth was primarily generated from pre-tax operating earnings, as capital gains have played a relatively modest role. The group's surplus declined moderately in recent years as strong operating earnings were more than offset by net stockholder dividend payments to its parent. These dividend payments were used, in part, to cover the transfer of direct channel policies to the Progressive Direct Pool from the Progressive Agency Pool.

The group experienced strong surplus growth earlier in the period, which was driven primarily by pre-tax operating earnings and to a lesser extent by capital gains on the equity portfolio due to improved equity market conditions. Over the previous five year period, significant stockholder dividends paid to the group's parent have been slightly mitigated by capital contributions to the group. Dividends paid upstream to the group's ultimate parent, PGR, to cover interest expense and stockholder dividends, will continue to temper overall surplus growth but have been well supported by strong operating earnings.

CAPITAL GENERATION ANALYSIS (\$000)

<u>Year</u>	<u>Source of Surplus Growth</u>		
	<u>Pretax</u>	<u>Total</u>	<u>Net</u>
	<u>Operating</u>	<u>Inv.</u>	<u>Contrib.</u>
	<u>Income</u>	<u>Gains</u>	<u>Capital</u>
2003	852,160	290,922	-301,812
2004	1,006,198	233,718	-1,300,795
2005	784,667	144,230	-775,884
2006	794,709	235,855	-793,969
2007	382,359	121,907	-660,768
5-Yr Total	3,820,094	1,026,631	-3,833,228
09/2007	297,876	171,194	-499,711
09/2008	189,944	-293,229	44,987

<u>Year</u>	<u>Source of Surplus Growth</u>		
	<u>Other,</u>	<u>Change</u>	<u>PHS</u>
	<u>Net of</u>	<u>in</u>	<u>Growth</u>
	<u>Tax</u>	<u>PHS</u>	<u>(%)</u>
2003	-242,600	598,670	37.0
2004	-383,371	-444,250	-20.0
2005	-272,891	-119,878	-6.8
2006	-297,874	-61,279	-3.7
2007	-182,332	-338,834	-21.3
5-Yr Total	-1,379,069	-365,571	...
09/2007	-394,627	-425,269	-26.7
09/2008	-18,772	-77,070	-6.1

Overall Capitalization: The Progressive Agency Pool maintains solid overall capitalization as indicated by Best's Capital Adequacy Ratio (BCAR), which supports its rating. The group's capital position is derived from strong internal surplus generation resulting from profitable operations, generally favorable loss reserve development patterns and modest catastrophe exposure. In addition, the group's capitalization is enhanced by the financial flexibility of its ultimate parent, PGR. These attributes are partially offset by the group's high underwriting leverage and above average common stock investment leverage, relative to the private passenger automobile industry composite.

PGR offers the group financial support through its favorable credit terms and access to capital markets. PGR also maintains a substantial amount of liquid assets in PICI, which can be utilized to fund its debt and shareholder dividend requirements. Further, these funds provide a source of capital, which can be contributed to the insurance group to support its growth and capital objectives. PGR's debt to total capital ratio is within acceptable levels for the rating and is well supported by historically strong fixed charge coverage.

QUALITY OF SURPLUS (\$000)

<u>Year</u>	<u>Year-End</u>	<u>% of PHS</u>			<u>Dividend Requirements</u>		
		<u>Cap Stk/</u>	<u>Un-</u>	<u>assigned</u>	<u>Stock-</u>	<u>Div to</u>	<u>Div to</u>
		<u>Contrib.</u>			<u>holder</u>	<u>POI</u>	<u>Net Inc.</u>
	<u>PHS</u>	<u>Cap.</u>	<u>Other</u>	<u>Surplus</u>	<u>Divs</u>	<u>(%)</u>	<u>(%)</u>
2003	2,218,108	23.5	...	76.5	-310,000	36.4	53.5
2004	1,773,858	30.5	...	69.5	-1,320,000	131.2	181.4
2005	1,653,980	32.7	...	67.3	-775,400	98.8	144.3
2006	1,592,701	34.7	...	65.3	-805,000	101.3	121.8
2007	1,253,867	44.1	...	55.9	-662,200	173.2	185.3
09/2007	1,167,432	47.3	...	52.7	-500,000	167.9	172.8
09/2008	1,176,797	50.8	...	49.2	...	...	...

Underwriting Leverage: The group maintains high gross and net underwriting leverage that is well above the private passenger automobile industry composite. The group's underwriting leverage is driven by above average net premiums written and net liabilities leverage. Gross and net underwriting leverage was on a gradually decreasing trend earlier in the previous five year period, as strong surplus growth slightly outpaced the significant growth in net premiums written and associated liabilities. However, underwriting leverage has increased modestly in recent years due to significant stockholder dividend payments to the group's parent, partially mitigated by a decline in net premiums written. These dividend payments were used, in part, to cover the transfer of direct channel policies to the Progressive Direct Pool from the Progressive Agency Pool.

The group's net premiums written decreased moderately in recent years, reflective of the transfer of policies written through the direct channel to the Progressive Direct Pool from the Progressive Agency Pool and a slowing of overall premium growth for Progressive Insurance Group due to more competitive market conditions. Net premiums written increased significantly in 2003 due to firm market conditions, rate adequacy, improved customer retention and new business growth.

LEVERAGE ANALYSIS

Year	Company				Industry Composite			
	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev
2003	2.6	1.0	5.1	5.2	1.8	0.9	3.7	4.1
2004	2.9	1.2	5.6	5.7	1.7	0.9	3.7	4.0
2005	3.1	1.2	5.6	5.7	1.6	0.9	3.5	3.8
2006	3.0	1.2	5.5	5.6	1.7	0.9	3.5	3.7
2007	3.2	1.4	6.0	6.1	1.7	0.9	3.5	3.7
09/2007	3.5	1.5	6.9	XX	XX	XX	XX	XX
09/2008	3.4	1.5	6.7	XX	XX	XX	XX	XX

Current BCAR: 145.9

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW	
	(\$000)	(% Chg)	(\$000)	(% Chg)
2003	1,318,587	50.5	11,135,956	26.4
2004	1,577,511	19.6	9,883,586	-11.2
2005	1,585,017	0.5	9,680,257	-2.1
2006	1,201,322	-24.2	8,934,916	-7.7
2007	813,239	-32.3	8,403,533	-5.9
5-Yr CAGR	...	-1.5	...	-0.9
5-Yr Change	...	-7.2	...	-4.6
09/2007	653,922	-31.8	6,537,835	-6.3
09/2008	545,280	-16.6	6,260,478	-4.2

Period <u>Ending</u>	<u>NPW</u>		<u>NPE</u>	
	<u>(\$000)</u>	<u>(% Chg)</u>	<u>(\$000)</u>	<u>(% Chg)</u>
2003	5,870,890	26.4	5,585,607	27.7
2004	5,203,303	-11.4	5,396,717	-3.4
2005	5,063,978	-2.7	5,157,443	-4.4
2006	4,713,945	-6.9	4,919,029	-4.6
2007	3,998,106	-15.2	4,160,829	-15.4
5-Yr CAGR	...	-3.0	...	-1.0
5-Yr Change	...	-13.9	...	-4.9
09/2007	3,087,399	-16.1	3,148,352	-16.0
09/2008	3,057,428	-1.0	2,993,269	-4.9

Reserve Quality: The group has reported favorable loss reserve development in nine of the last ten calendar years. The exception was in 1999, when aggressive rate decreases did not contemplate the magnitude of rising claims severities and the group reported modestly adverse calendar and accident year development. Subsequent to reserve strengthening in calendar year 2000, reserve development patterns have been modestly favorable. Loss and LAE reserves have decreased modestly in recent years due to a transfer of policies to the Progressive Direct Pool, a slowing in overall premium growth and favorable loss reserve development trends. Approximately 75% of loss and ALAE reserves represent private passenger automobile liability.

LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR (\$000)

Calendar <u>Year</u>	Original Loss <u>Reserves</u>	Developed Reserves <u>Thru 2007</u>	Develop. to <u>Orig. (%)</u>	Develop. to <u>PHS (%)</u>	Develop. to <u>NPE (%)</u>	Unpaid Reserves <u>@ 12/2007</u>	Unpaid Resrv. to <u>Dev. (%)</u>
2002	1,517,312	1,444,573	-4.8	-4.5	35.5	32,030	2.2
2003	1,814,895	1,708,083	-5.9	-4.8	32.9	68,487	4.0
2004	1,753,539	1,626,541	-7.2	-7.2	32.4	175,912	10.8
2005	1,689,860	1,645,457	-2.6	-2.7	34.1	404,280	24.6
2006	1,622,744	1,650,917	1.7	1.8	36.2	784,006	47.5
2007	1,585,607	1,585,607	...	...	38.1	1,585,607	100.0

LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR (\$000)

Accident <u>Year</u>	Original Loss <u>Reserves</u>	Developed Reserves <u>Thru 2007</u>	Develop. to <u>Orig. (%)</u>	Unpaid Reserves <u>@ 12/2007</u>	Acc Yr. Loss <u>Ratio</u>	Acc Yr. Comb <u>Ratio</u>
2002	892,834	866,044	-3.0	13,090	70.0	91.5
2003	1,082,079	1,029,868	-4.8	36,457	66.6	86.7
2004	1,011,301	944,347	-6.6	107,425	63.6	84.3
2005	947,103	930,532	-1.7	228,368	68.8	89.6
2006	832,386	840,798	1.0	379,726	67.8	88.7
2007	801,601	801,601	...	801,601	71.0	93.4

ASBESTOS & ENVIRONMENTAL (A&E) RESERVES ANALYSIS

<u>Year</u>	<u>Company</u>		
	Net A&E Reserves <u>(\$000)</u>	Reserve Retention <u>(%)</u>	Net IBNR <u>Mix (%)</u>
2003	1,375	52.9	57.6
2004	1,330	62.8	48.4
2005	1,265	65.5	40.4
2006	2,078	73.7	48.2
2007	4,277	86.0	28.9

Year	Company			Industry Composite		
	Survival	Comb	Comb	Survival	Comb	Comb
	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio
	(3 yr)	(1 yr)	(3 yr)	(3 yr)	(1 yr)	(3 yr)
2003	...	0.0	...	...	1.9	...
2004	...	0.0	...	...	1.4	...
2005	44.5	0.0	0.0	8.5	1.0	1.4
2006	71.3	0.0	0.0	7.9	0.5	0.9
2007	40.6	0.1	0.0	8.6	0.7	0.7

Reinsurance Utilization: The Progressive Agency Pool is modestly dependent on reinsurance to manage its risk as evidenced by reinsurance recoverable and ceded reinsurance leverage measures, which are significantly lower than the private passenger automobile industry composite. The group retains a high portion of its direct premium writings, as evidenced by a business retention ratio that is consistently above 95%. Reinsurance leverage has increased modestly in recent years, which was driven by reduced retention on direct business writings and a decline in surplus.

As the group writes primarily personal automobile coverages, exposure to catastrophic losses is tempered relative to more property predominant lines of business. However, due to the concentration of business in Florida and Texas, the group does maintain modest exposure to aggregate losses resulting from a major hurricane. Based on the group's most recent catastrophe risk assessment, as depicted in a probable maximum loss (PML) analysis, the gross and net PML for a 100-year hurricane is less than 5% of surplus. The group does not purchase reinsurance for catastrophic losses.

CEDED REINSURANCE ANALYSIS (\$000)

Year	Company			Industry Composite			
	Ceded Reins	Business Retention	Rein Rec to PHS	Ceded Reins to PHS	Business Retention	Rein Rec to PHS	Ceded Reins to PHS
	Total	(%)	(%)	(%)	(%)	(%)	(%)
2003	172,238	99.0	5.1	7.8	93.7	21.6	33.9
2004	181,738	98.7	6.5	10.2	94.2	19.3	30.3
2005	186,306	98.9	8.0	11.3	94.4	17.4	27.4
2006	170,711	99.1	8.2	10.7	94.7	16.3	25.7
2007	129,445	99.2	7.7	10.3	94.9	15.0	24.1

2007 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates	1,501,963	325,553	1,256,079	...	3,083,595
US Insurers	9,549	8,955	10,229	...	28,733
Pools/Associations	19,697	3,624	2,378	...	25,699
Other Non-US	11,381	10,218	20,223	...	41,822
Total (ex US Affils)	40,627	22,797	32,830	...	96,254
Grand Total	1,542,590	348,350	1,288,909	...	3,179,849

* Includes Commissions less Funds Withheld

Investment Leverage: The group maintains a high quality, well-diversified and predominantly fixed income investment portfolio. However, the group's common stock investment leverage is higher than the private passenger automobile industry composite and represented approximately 56% of surplus at year-end 2007. The group's investment leverage is derived primarily from common stock and affiliated investments, which are comprised of equities and real estate. In addition, the group maintains exposure to prepayment or extension risk from a dramatic change in interest rates as multi-class securities (commercial mortgage-backed securities and collateralized mortgage obligations) represented a sizeable percent of surplus at year-end 2007. However, these investments are aggressively monitored and consist primarily of lower risk securities. Further,

the group does not maintain any material exposure to subprime investments. However, the group had sizeable investment losses through the first nine months of 2008.

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Year	Company						Industry Composite	
	Class	Real	Other	Non-Affl			Class	
	3-6	Estate/	Invested	Common	Inv.	Affil	3-6	Common
	<u>Bonds</u>	<u>Mtg.</u>	<u>Assets</u>	<u>Stocks</u>	<u>Lev.</u>	<u>Inv.</u>	<u>Bonds</u>	<u>Stocks</u>
2003	6.8	...	0.0	47.5	54.4	53.6	4.6	38.7
2004	0.2	0.1	0.0	53.4	53.7	79.1	2.8	39.9
2005	2.5	0.2	0.0	66.6	69.3	97.4	3.6	44.3
2006	...	0.4	0.0	41.2	41.6	122.9	2.8	43.7
2007	2.0	0.4	0.0	51.9	54.3	144.5	4.3	44.9

LIQUIDITY

The following text is derived from the report of Progressive Agency Pool.

The group maintains a sound liquidity position, despite below average quick, current and overall liquidity ratios relative to the private passenger automobile industry composite. The group's liquidity position is enhanced by strong operating cash flows, which have resulted from significant premium growth that has outpaced the growth in paid losses and expenses. Liquidity is also enhanced through its ultimate parent, PGR, which has a track record of financial support and access to assets through PICI. Additionally, the parent has a \$125 million uncommitted line of credit and additional access to the capital markets.

LIQUIDITY ANALYSIS

Year	Company				Industry Composite			
	Quick	Current	Overall	Gross	Quick	Current	Overall	Gross
	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Agents Bal</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Agents Bal</u>
				<u>to PHS(%)</u>				<u>to PHS(%)</u>
2003	34.6	87.2	140.2	4.9	59.0	124.7	149.5	12.
2004	42.1	83.1	137.5	7.1	65.5	127.3	151.0	11.
2005	36.4	77.2	138.8	7.5	66.3	130.3	153.8	10.
2006	26.1	65.7	139.9	9.9	65.7	131.0	154.9	7.
2007	23.0	62.0	135.6	9.3	57.0	130.0	154.2	7.
09/2007	XX	63.6	136.0	11.1	XX	XX	XX	X?
09/2008	XX	65.4	130.4	9.1	XX	XX	XX	X?

CASH FLOW ANALYSIS (\$000)

Year	Company			Industry Composite		
	Underw	Oper	Net	Underw	Oper	
	Cash	Cash	Cash	Cash	Cash	
	<u>Flow</u>	<u>Flow</u>	<u>Flow</u>	<u>Flow (%)</u>	<u>Flow (%)</u>	<u>Flow (%)</u>
2003	987,100	932,676	-317,922	122.4	119.8	116.7
2004	826,406	814,369	559,747	117.1	116.0	119.8
2005	402,373	366,728	-611,389	108.4	107.3	115.4
2006	488,390	376,954	97,010	111.4	108.2	113.4
2007	73,932	261,211	-84,411	101.8	106.3	108.6
09/2007	68,092	158,670	-119,961	102.2	104.9	XX
09/2008	170,658	248,523	113,222	105.9	108.5	XX

HISTORY

This company, the lead member of the Progressive Insurance Group, was incorporated November 17, 1956 under Ohio laws and began business on December 11, 1956. Common stock of \$3,000,000, consists of 1,800 common shares at \$1,666.67 par value each. The company has 5,000 shares authorized.

MANAGEMENT

All outstanding capital stock of the company is owned by Drive Insurance Holdings, Inc., a subsidiary of The Progressive Corporation, a publicly traded holding company with 680.2 million common shares outstanding at December 31, 2007, trading on the NYSE under the symbol PGR.

Management is headed by Peter B. Lewis, chairman of the board, and Glenn M. Renwick, president and chief executive officer of The Progressive Corporation. Mr. Lewis and Mr. Renwick have served the Progressive companies in various capacities since 1955 and 1986, respectively.

Officers: Chairman of the Board, David L. Pratt; President, David J. Skove; Vice Presidents, William T. Cassella, Richard A. Hutchinson, David L. Pratt, Christopher J. Semancik; Secretary, Dane A. Shrallow; Treasurer, Thomas A. King.

Directors: Karen M. Barone, Richard R. Crawley, Christopher J. Garson, Thomas H. Hollyer, Mark D. Niehaus, David Skove (Chairman).

REGULATORY

An examination of the financial condition was made as of December 31, 2002 by the Insurance Department of Ohio. The 2007 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Allan R. Neis, FCAS, MAAA, corporate actuary of The Progressive Insurance Group.

TERRITORY

The company is licensed in the District of Columbia, Guam, Puerto Rico and all states. It is also licensed in all Canadian provinces and territories. It also operates on a surplus lines or non-admitted basis in U.S. Virgin Islands. The company is also licensed in Canada.

BALANCE SHEET (\$000)

<u>ADMITTED ASSETS</u>	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>2007 %</u>	<u>2006 %</u>
Bonds	1,017,584	1,532,628	21.3	27.4
Preferred stock	300,537	152,769	6.3	2.7
Common stock	650,914	656,970	13.6	11.8
Cash & short-term invest	188,540	272,951	4.0	4.9
Real estate, investment	5,549	5,909	0.1	0.1
Other non-affil inv asset	456	266	0.0	0.0
Investments in affiliates	1,281,817	1,230,746	26.9	22.0
Real estate, offices	530,073	726,953	11.1	13.0
Total invested assets	3,975,471	4,579,191	83.3	81.9
Premium balances	610,536	775,987	12.8	13.9
Accrued interest	21,365	22,970	0.4	0.4
All other assets	165,222	209,972	3.5	3.8
Total assets	4,772,594	5,588,120	100.0	100.0

<u>LIABILITIES & SURPLUS</u>	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>2007 %</u>	<u>2006 %</u>
Loss & LAE reserves	1,722,842	1,914,672	36.1	34.3
Unearned premiums	1,206,822	1,369,546	25.3	24.5
Conditional reserve funds	...	310	...	0.0
All other liabilities	589,063	710,891	12.3	12.7
Total liabilities	3,518,727	3,995,419	73.7	71.5
Capital & assigned surplus	553,360	551,928	11.6	9.9
Unassigned surplus	700,507	1,040,772	14.7	18.6
Total policyholders' surplus	1,253,867	1,592,701	26.3	28.5
Total liabilities & surplus	4,772,594	5,588,120	100.0	100.0

SUMMARY OF 2007 OPERATIONS (\$000)

<u>STATEMENT OF INCOME</u>	<u>12/31/2007</u>	<u>FUNDS PROVIDED FROM OPERATIONS</u>	<u>12/31/2007</u>
Premiums earned	4,160,829	Premiums collected	4,194,729
Losses incurred	2,477,799	Benefit & loss related pmts	2,663,941
LAE incurred	491,506	LAE & undrw expenses paid	1,456,856
Undrw expenses incurred	894,313	Other income/expense	...
Other expense incurred	0		
Net underwriting income	297,212	Undrw cash flow	73,932
Net investment income	119,171	Investment income	239,003
Other income/expense	-34,023	Other income/expense	-35,948
Pre-tax oper income	382,359	Pre-tax cash operations	276,988
Realized capital gains	71,563	Income taxes pd (recov)	15,777
Income taxes incurred	96,586		
Net income	357,336	Net oper cash flow	261,211

INTERIM BALANCE SHEET (\$000)

<u>ADMITTED ASSETS</u>	<u>03/31/2008</u>	<u>06/30/2008</u>	<u>09/30/2008</u>
Cash & short term invest	326,968	313,222	301,762
Bonds	1,318,286	1,302,912	1,458,497
Preferred stock	264,279	285,682	244,212
Common stock	1,846,106	1,845,939	1,532,395
Other investments	546,659	534,470	676,707
Total investments	4,302,297	4,282,224	4,213,574
Premium balances	634,604	625,361	626,382
Reinsurance funds	21,095	56,241	26,812
Accrued interest	21,970	20,561	22,643
All other assets	81,643	82,308	160,649
Total assets	5,061,610	5,066,696	5,050,059
<u>LIABILITIES & SURPLUS</u>	<u>03/31/2008</u>	<u>06/30/2008</u>	<u>09/30/2008</u>
Loss & LAE reserves	1,695,647	1,691,559	1,713,438
Unearned premiums	1,213,002	1,245,998	1,270,980
All other liabilities	884,289	807,739	888,843
Total liabilities	3,792,939	3,745,295	3,873,262
Capital & assigned surp	591,054	594,576	598,347
Unassigned surplus	677,617	726,825	578,450
Policyholders' surplus	1,268,671	1,321,401	1,176,797
Total liabilities & surplus	5,061,610	5,066,696	5,050,059

INTERIM INCOME STATEMENT (\$000)

	Period Ended <u>09/30/2008</u>	Period Ended <u>09/30/2007</u>	Increase/ Decrease
Premiums earned	2,993,269	3,148,352	-155,083
Losses incurred	1,839,206	1,848,659	-9,453
LAE incurred	357,803	375,390	-17,587
Underwriters expenses incurred	668,018	690,632	-22,614
Other expenses incurred	...	0	0
Net underwriting income	128,243	233,672	-105,429
Net investment income	72,347	91,685	-19,338
Other income/expenses	-10,646	-27,480	16,834
Pre-tax operating income	189,944	297,876	-107,932
Realized capital gains	-83,785	68,591	-152,376
Income taxes incurred	75,475	77,087	-1,613
Net income	30,684	289,380	-258,696

INTERIM CASH FLOW (\$000)

	Period Ended <u>09/30/2008</u>	Period Ended <u>09/30/2007</u>	Increase/ <u>Decrease</u>
Premiums collected	3,043,002	3,226,100	-183,097
Benefit & loss related pmts	1,857,678	2,031,254	-173,576
Undrw expenses paid	1,014,667	1,126,754	-112,087
Underwriting cash flow	170,658	68,092	102,566
Investment income	145,955	173,474	-27,519
Other income/expense	-10,508	-28,886	18,379
Pre-tax cash operations	306,105	212,679	93,426
Income taxes pd (recov)	57,582	54,010	3,572
Net oper cash flow	248,523	158,670	89,854