

**REPORT ON EXAMINATION**

**OF**

**PROGRESSIVE BAYSIDE INSURANCE**

**COMPANY**

**RIVERVIEW, FLORIDA**

**AS OF**

**DECEMBER 31, 2007**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

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April 17, 2009

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Honorable James J. Donelon  
Secretary, Southeastern Zone, NAIC  
Commissioner  
Louisiana Department of Insurance  
1702 N. 3<sup>rd</sup> Street  
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Honorable Morris J. Chavez  
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Honorable Merle Scheiber  
Secretary, Midwestern Zone, (III), NAIC  
South Dakota Division of Insurance  
Department of Revenue & Regulation  
445 East Capitol Avenue  
Pierre, SD 57501-3185

Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2007, of the financial condition and corporate affairs of:

**PROGRESSIVE BAYSIDE INSURANCE COMPANY  
4030 CRESCENT PARK DRIVE, BLDG. B  
RIVERVIEW, FLORIDA 33569**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2005, through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. This examination commenced with planning at the Ohio Department of Insurance. The fieldwork commenced on July 28, 2008, and was concluded on April 17, 2009.

This financial examination was a coordinated zone exam in conjunction with the Ohio Department of Insurance (Department) conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating 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 and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2007. Transactions subsequent to year-end 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

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

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

### **Status of Adverse Findings from Prior Examination**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2004, along with resulting action taken by the Company in connection therewith.

## **Corporate Records**

The Company was unable to produce a signed copy of the minutes of the 2001 Annual Shareholders meeting. **Resolution:** **The minutes to the 2007 Annual Shareholders meeting was appropriately signed by the Directors and in compliance with Section 607.1601, FS.**

## **Reinsurance**

The Company settled its net pooling balances through the intercompany receivable/payable. It did not report any balances for pooling transactions in Reinsurance recoverable on paid losses and LAE or Ceded balances payable. **Resolution:** **In the March 31, 2005 quarterly statement, the Company began to segregate these items into the appropriate annual statement lines and is now in compliance with the NAIC Annual Statement reporting requirements.**

## **Information Technology (IT)**

The Ohio Department of Insurance performed an evaluation of the information technology and computer systems of the Company. **Resolution:** Results of the evaluation were provided in a report to the Company.

# **HISTORY**

## **General**

The Company was incorporated on March 27, 1986, commenced business on May 19, 1992, was authorized by the State of Florida to write multiple property and casualty lines, including reinsurance on specific lines.

At December 31, 2007, in accordance with Section 624.401(1), Florida Statutes, the Company was authorized to write multiple property and casualty lines, including reinsurance for specific lines. At December 31, 2007, the Company was licensed in the states of Florida, Georgia and Ohio.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

|  |                 |
|--|-----------------|
| Private Passenger Auto Liability             | Inland Marine   |
| Private Passenger Automobile Physical Damage | Other Liability |
| Homeowners Multi Peril                       |                 |

The Company was licensed for reinsurance in the following lines as of December 31, 2007.

|                     |   |
|---------------------|---|
| Homeowners          | Commercial automobile liability and physical damage |
| Medical Malpractice | Fidelity  |
| Surety              |   |

The Articles of Incorporation were not amended during the period covered by this examination.

## Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

|  |             |
|--|-------------|
| Number of authorized common capital shares | 15,000      |
| Number of shares issued and outstanding    | 15,000      |
| Total common capital stock                 | \$1,500,000 |
| Par value per share                        | \$100.00    |

Effective January 1, 2004, control of the Company was transferred by its former parent, The Progressive Corporation (the Corporation) to Drive Insurance Holdings, Inc. (the Parent). The Parent was an intermediate holding company owned by the Corporation. In 2004, the

Progressive Group (the Group) realigned its property and casualty operations by distribution channels, classifying them as either direct or agency groups. The Company was part of the agency group of companies.

### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

|                                  | <b>2007</b> | <b>2006</b> | <b>2005</b> |
|----------------------------------|-------------|-------------|-------------|
| Premiums Earned                  | 84,914,886  | 92,811,877  | 98,094,706  |
| Net Underwriting Gain/(Loss)     | 6,065,542   | 12,914,323  | 12,344,511  |
| Net Income                       | 6,312,626   | 10,786,723  | 12,393,812  |
| Total Assets                     | 107,101,530 | 134,985,630 | 132,473,625 |
| Total Liabilities                | 72,587,125  | 104,510,091 | 100,001,732 |
| Surplus As Regards Policyholders | 34,514,405  | 30,475,539  | 32,471,893  |

### **Dividends to Stockholders**

In accordance with Section 628.371, Florida Statutes, the Company declared and paid ordinary dividends to its stockholders in 2007, 2006, and 2005 in the amounts of \$3,000,000, \$12,000,000 and \$ 15,000,000, respectively.

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2007, were:

## Directors

### Name and Location

James L. Lloyd \*  
Stow, Ohio

Richard Russell Crawley  
Stow, Ohio

Christopher John Garson  
Cleveland Heights, Ohio

Thomas H. Hollyer  
Stow, Ohio

Steven B. Gellen \*  
Chagrin Falls, Ohio

### Principal Occupation

Progressive Insurance Group  
Process Leader – Agency Distribution

Progressive Insurance Group, Direct Auto  
Product Research and Development Leader

Progressive Insurance Group  
Information Technology Business

Progressive Insurance Group  
National Product Development, Personal Lines

Progressive Insurance Group  
Customer Relationship Manager

\* No longer with the Company

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

## Senior Officers

### Name

James Lee Lloyd \*

Thomas Alfred King

Dane A. Shallow

Mary Beth Andreano

Kathleen M. Cerny

Timothy F. Kaselonis

James L. Kusmer

Kiara C. Berglund

Ronald M. Wells

### Title

President

Treasurer

Secretary

Vice President

Assistant Secretary

Assistant Vice President

Assistant Treasurer

Assistant Vice President

Assistant Vice President

The Company's board appointed several internal committees in accordance with Section 607.0825 Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2007:

**Executive Committee**

Steven B. Gellen \*\*  
James L. Lloyd \*  
Richard R. Crawley  
Thomas H. Hollyer

**Investment Committee**

Steven B. Gellen\*\*  
James L. Lloyd\*  
Christopher J. Garson

\* Chairman  
\* No longer with the Company

**Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

**Corporate Records**

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The minutes of the Board adequately documented meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

## **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance**

There were no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period under review.

## **Surplus Debentures**

The Company did not issue any surplus debentures during the period under review nor did it have any surplus debentures outstanding.

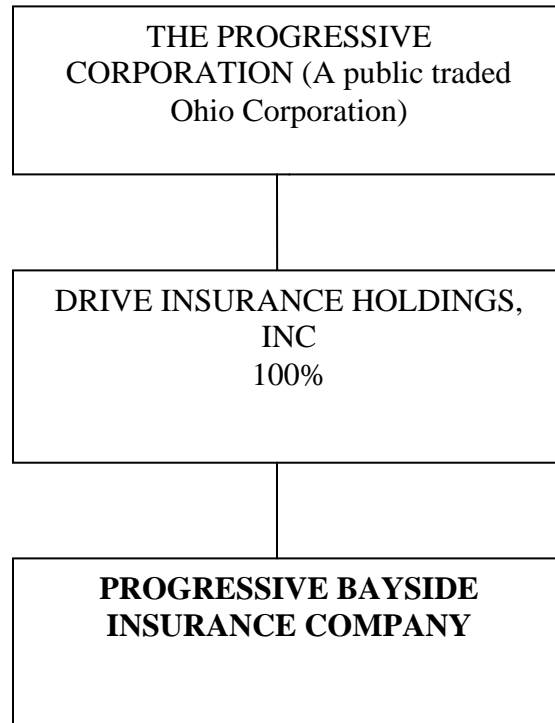
## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 30, 2009, as required by Section 628.801, Florida Statutes, and Rule 690-143.046, Florida Administrative Code. The Company was indirectly a wholly owned subsidiary of the Corporation, an insurance holding company formed in 1965. Various inter-company agreements were in effect at December 31, 2007, which provided for the pooling of underwriting results as well as centralized cash and investment management systems.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

**PROGRESSIVE BAYSIDE INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2007**



The following agreements were in effect between the Company and its affiliates:

**Intercompany Reinsurance Treaty**

The Company and certain of its property and casualty affiliates participated in an inter-company pooling arrangement pursuant to which each company's property and casualty business, net of external reinsurance, was pooled and retro ceded to participating affiliates in accordance with predetermined pool percentages. The agreement was amended effective January 1, 2005, to add Progressive Hawaii Insurance Corp. The agreement was subsequently amended effective

November 5, 2005 to remove Progressive Hawaii Insurance Corp. The agreement was also amended January 1, 2007 to add Progressive Michigan Insurance Company.

### **Cash Management Agreement**

This agreement, effective January 1, 1998, provided for the Company's participation in the Progressive Casualty Insurance Company's central cash management system (cashier account) in which all the cash of the Parent's system's companies were deposited. Pursuant to the agreement, Progressive Casualty Insurance Company was responsible in a fiduciary capacity for the Company's cash, and performed all the Company's duties and operations as they pertain to cash, including the payment of the Company's obligations.

### **Interest Agreement**

The Company became a participant, effective November 25, 1985, to the existing interest agreement with members of the holding company system. Pursuant to the agreement, the Company agreed to pay interest or to receive interest income from Progressive Casualty Insurance Company for any balances owed to or owed by Progressive Casualty Insurance Company as a result of the activity in the cashier account as stated in the cash management agreement.

### **Investment Services Agreement**

Progressive Capital Management Corp. provided investment management services to the Company as well as other affiliated members. Costs of the investment services were shared among the members of the holding company system.

## **Cost Allocation Agreement**

This agreement provided that Progressive Casualty Insurance Company would provide certain services and facilities directly or may cause or engage another party, which may be an affiliate, to provide such services.

## **Allocation of Federal Income Taxes**

The Company and other members of its holding company system entered into an income tax sharing agreement with the Corporation, whereby the companies filed a consolidated federal income tax return. Taxes were computed for each entity on a stand alone basis.

## **FIDELITY BOND AND OTHER INSURANCE**

The Progressive Group of Companies maintained aggregate fidelity bond coverage of \$50,000,000, with a single loss limit of \$25,000,000 and a deductible of \$1,000,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained insurance coverage through a Commercial General Liability policy, a Garage Liability policy, an Excess Liability policy, a Commercial Property policy, a Commercial Auto policy and a Claims-Made Professional Liability insurance policy. All policies were in the name of The Progressive Corporation and all of its subsidiaries and affiliates.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company was one of the companies in the Progressive Group that retained employees. The Company participated in benefit plans offered by the Corporation but had no legal obligation or direct liability for expenses in certain benefit plans. Member companies were allocated employee benefit expense based upon product lines and employee services, through the cost allocation agreement. Health, dental and long-term disability plans, as well as pre-paid medical and child care programs, were offered to employees. The Group had a two tiered retirement program. The first tier was a defined contribution pension plan covering all employees who met age and length of service requirements. The second tier was a long term savings plan under which the Corporation matched amounts contributed to the plan by an employee up to a maximum of 3% of the employee's eligible compensation.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

| STATE   | DESCRIPTION                               | PAR VALUE | MARKET VALUE |
|---------|---|-----------|--------------|
| Florida | United States Treasury DTD -5%- 2/15/2011 | \$317,920 | \$ 327,366   |
| Georgia | United States Treasury-5% -2/15,2011      | \$41,022  | \$42,241     |
|         | Total                                     | \$358,942 | \$369,607    |

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

The Company was an indirect subsidiary of the Corporation, a holding company that had insurance and non-insurance subsidiaries and one mutual insurance company affiliate. The Corporation did not have revenue producing operations of its own.

The Company and the affiliated Progressive Insurance Companies (“Group”) primarily wrote private passenger automobile, specialty (motorcycles, boats and recreational vehicles) and commercial automobile coverages. Previously the Group primarily wrote non-standard automobile insurance.

### **Territory and Plan of Operation**

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

Florida  
Georgia  
Ohio\*

\*In 2007 the Company did not write in Ohio. The Ohio license was maintained for reinsurance purposes under the pooling reinsurance agreement described in this report.

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(i)3a, Florida Statutes.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### **Pooling**

The Company participated in an underwriting pool consisting of twelve members of the Progressive Group. The manager of the underwriting pool was Progressive Casualty Insurance Company, an Ohio domestic Company. All direct premiums written, losses incurred, and related underwriting expenses generated by the Company were ceded into the pool, along with the corresponding direct underwriting results of other pool members. Similar amounts from several non-pooled affiliates were also ceded to Progressive Casualty Insurance Company under separate agreements and were included in the total agency pool underwriting results. The total pooled underwriting results, less outside reinsurance placements, were retro ceded back to each pool member according to its predetermined percentage.

Pool percentages for the period under review were as follows:

|  | <u>2007</u>   | <u>2006</u>   | <u>2005</u>   |
|--|---------------|---------------|---------------|
|  | <u>Pool %</u> | <u>Pool %</u> | <u>Pool %</u> |
| Progressive Casualty Insurance Company     | 49.0%         | 53.0%         | 52.5          |
| Progressive Northern Insurance Company     | 12.0          | 12.0          | 12.0          |
| Progressive Northwestern Insurance Company | 12.0          | 12.0          | 12.0          |
| Progressive Specialty Insurance Company    | 7.0           | 7.0           | 7.0           |
| Progressive Preferred Insurance Company    | 6.0           | 6.0           | 6.0           |
| Progressive Michigan Insurance Company     | 4.0           | 0.0           | 0.0           |
| Progressive Classic Insurance Company      | 3.0           | 3.0           | 3.0           |
| Progressive American Insurance Company     | 2.0           | 2.0           | 2.0           |
| Progressive Gulf Insurance Company         | 2.0           | 2.0           | 2.0           |
| Progressive Bayside Insurance Company      | 1.0           | 1.0           | 1.0           |
| Progressive Mountain Insurance Company     | 1.0           | 1.0           | 1.0           |
| Progressive Southeastern Insurance Company | 1.0           | 1.0           | 1.0           |
| Progressive Hawaii Insurance Corp.         | 0.0           | 0.0           | 0.5           |
| <b>TOTAL</b>                               | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

### **Assumed**

The only risk assumed by the Company was from its pooling retrocession depicted above.

### **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Mayfield Village, Ohio, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004 through 2007, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and primary non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Citibank, NA. The agreement was in conjunction with thirty six other Progressive companies, had been filed and approved by the Office, included all required clauses as described in 69O-143.042 Florida Administrative Code.

### **Independent Auditor Agreement**

The Company maintained a contract with PricewaterhouseCoopers (PwC) for the purpose of conducting Statutory and GAAP financial audits and preparing certified statutory financial statements. The GAAP audit was conducted on a consolidated basis for the Progressive Group.

### **Information Technology (IT)**

The Ohio Department of Insurance performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**PROGRESSIVE BAYSIDE INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2007**

|   | Per Company   | Examination<br>Adjustments | Per Examination |
|---|---------------|----------------------------|-----------------|
| Bonds   | \$90,311,577  |                            | \$90,311,577    |
| Cash:   | 0             |                            | 0               |
| Investment income due and accrued                       | 1,367,504     |                            | 1,367,504       |
| Premiums and considerations:                            |               |                            | 0               |
| Uncollected premiums and agents' balances               | 2,468,909     |                            | 2,468,909       |
| Deferred premiums, agents' balances                     | 9,257,328     |                            | 9,257,328       |
| Reinsurance recoverable                                 | 724,297       |                            | 724,297         |
| Net deferred tax asset                                  | 2,971,915     |                            | 2,971,915       |
| EDP Equipment   | 0             |                            | 0               |
| Receivable from parents, subsidiaries<br>and affiliates | 0             |                            | 0               |
| Aggregate write-in for<br>other than invested assets    | 0             |                            | 0               |
|   | <hr/>         |                            |                 |
| Totals  | \$107,101,530 | \$0                        | \$107,101,530   |

**PROGRESSIVE BAYSIDE INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2007**

|  | Per Company         | Examination<br>Adjustments | Per<br>Examination  |
|--|---------------------|----------------------------|---------------------|
| Losses   | \$28,217,362        |                            | \$28,217,362        |
| Reinsurance payable                            | 673,602             |                            | 673,602             |
| Loss adjustment expenses                       | 6,942,680           |                            | 6,942,680           |
| Commissions payable                            | 218,306             |                            | 218,306             |
| Other expenses                                 | 2,574,752           |                            | 2,574,752           |
| Taxes, licenses and fees                       | 670,817             |                            | 670,817             |
| Current federal and foreign income taxes       | 338,783             |                            | 338,783             |
| Unearned premium                               | 24,629,026          |                            | 24,629,026          |
| Advance premiums                               | 428,756             |                            | 428,756             |
| Dividends to stockholders                      | 3,000,000           |                            | 3,000,000           |
| Ceded reinsurance premiums payable             | 315,954             |                            | 315,954             |
| Drafts outstanding                             | 4,324,412           |                            | 4,324,412           |
| Payable to parent, subsidiaries and affiliates | 209,029             |                            | 209,029             |
| Aggregate write-ins for liabilities            | 43,647              |                            | 43,647              |
| <b>Total Liabilities</b>                       | <b>\$72,587,126</b> | <b>\$0</b>                 | <b>\$72,587,126</b> |
| Common capital stock                           | \$1,500,000         |                            | \$1,500,000         |
| Gross paid in and contributed surplus          | 12,000,000          |                            | 12,000,000          |
| Unassigned funds (surplus)                     | 21,014,405          |                            | 21,014,405          |
| <b>Surplus as regards policyholders</b>        | <b>\$34,514,405</b> |                            | <b>\$34,514,405</b> |

**PROGRESSIVE BAYSIDE INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2007**

|  |               |
|--|---------------|
| Premiums earned  | \$84,914,886  |
| <b>Deductions:</b>   |               |
| Losses incurred  | 50,567,324    |
| Loss expenses incurred   | 10,030,741    |
| Other underwriting expenses incurred   | 18,251,279    |
| Aggregate write-ins for underwriting deductions  | 0             |
| Total underwriting deductions  | \$78,849,344  |
| Net underwriting gain or (loss)  | \$6,065,542   |
| <b>Investment Income</b>   |               |
| Net investment income earned   | \$2,895,048   |
| Net realized capital gains or (losses)   | (387,735)     |
| Net investment gain or (loss)  | \$2,507,313   |
| <b>Other Income</b>  |               |
| Net gain or (loss) from agents' or premium balances charged off                            | (\$2,969,607) |
| Finance and service charges not included in premiums                                       | 1,838,893     |
| Aggregate write-ins for miscellaneous income   | 360,747       |
| Total other income   | (\$769,967)   |
| Net income before dividends to policyholders and<br>before federal & foreign income taxes  | \$7,802,888   |
| Dividends to policyholders   | 0             |
| Net Income, after dividends to policyholders, but<br>before federal & foreign income taxes | \$7,802,888   |
| Federal & foreign income taxes   | 1,490,262     |
| Net Income   | \$6,312,626   |
| <b>Capital and Surplus Account</b>   |               |
| Surplus as regards policyholders, December 31 prior year                                   | \$30,475,539  |
| Net Income   | \$6,312,626   |
| Change in net deferred income tax  | (783,948)     |
| Change in non-admitted assets  | 1,510,188     |
| Change in provision for reinsurance  | 0             |
| Change in excess statutory over statement reserves   | 0             |
| Surplus adjustments: Paid in   | 0             |
| Dividends to stockholders  | (3,000,000)   |
| Aggregate write-ins for gains and losses in surplus  | 0             |
| Examination Adjustment   | 0             |
| Change in surplus as regards policyholders for the year                                    | \$4,038,866   |
| Surplus as regards policyholders, December 31 current year                                 | \$34,514,405  |

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

**Bonds** \$90,311,577

Bonds reported as \$90,311,577 were a decrease of \$18,316,513 over the 2006 reported amount and represented a significant decrease of more than 16 percent.

### Liabilities

**Losses and Loss Adjustment Expenses** \$35,160,042

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Ohio Department of Insurance actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**Capital and Surplus** \$34,514,405

The amount reported by the Company of \$34,514,405, exceeded the minimum requirements of ten percent of liabilities, \$7,258,713, as required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**PROGRESSIVE BAYSIDE INSURANCE COMPANY  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2007**

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders  
December 31, 2007, per Annual Statement \$34,514,405

|  | <u>PER<br/>COMPANY</u> | <u>PER<br/>EXAM</u> | <u>INCREASE<br/>(DECREASE)<br/>IN SURPLUS</u> |
|--|------------------------|---------------------|---|
| ASSETS:  |                        |                     |   |
| No adjustment  |                        |                     |   |
| LIABILITIES:   |                        |                     |   |
| No adjustment  |                        |                     |   |
| Net Change in Surplus:   |                        |                     | <u>0</u>                                      |
| Surplus as Regards Policyholders<br>December 31, 2007, Per Examination |                        |                     | <u><u>\$34,514,405</u></u>                    |

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

There were no material findings or corrective actions to be taken with regard to the previous examination report as of December 31, 2004.

### **Current examination comments and corrective action**

There are no exceptions or findings in the examination as of December 31, 2007.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Progressive Bayside Insurance Company** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$34,514,405 and in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Frank Jones, Reinsurance/Financial Specialist and the examiners assigned from the Ohio Department of Insurance, participated in the examination.

Respectfully submitted,

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Richard Shaffer  
Financial Specialist  
Florida Office of Insurance Regulation

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Mary M. James, CFE, CPM  
Chief Examiner  
Florida Office of Insurance Regulation