REPORT ON EXAMINATION

OF THE

NATIONAL CONTINENTAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT	AUGUST 05, 2013
EXAMINER	LAMIN JAMMEH

TABLE OF CONTENTS

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

August 05, 2013

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30999 dated April 9, 2013, attached hereto, I have made an examination into the condition and affairs of National Continental Insurance Company as of December 31, 2012, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate National Continental Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Department's office located at One State Street, New York, NY 10004.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2007. This examination covered the five year period from January 1, 2008 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Ohio, which was the coordinating state of the Progressive Insurance Group. The examination was performed concurrently with the examinations of the following 33 insurers:

Company	State of Domicile
Artisan and Truckers Casualty Company	WI
Drive New Jersey Insurance Company	NJ
Mountain Laurel Assurance Company	OH
Progressive Advanced Insurance Company	OH
Progressive American Insurance Company	OH
Progressive Bayside Insurance Company	OH
Progressive Casualty Insurance Company	OH
Progressive Choice Insurance Company	OH
Progressive Classic Insurance Company	WI
Progressive Commercial Casualty Company	OH
Progressive County Mutual Insurance Company	TX
Progressive Direct Insurance Company	OH
Progressive Express Insurance Company	OH
Progressive Freedom Insurance Company	NJ
Progressive Garden State Insurance Company	NJ
Progressive Gulf Insurance Company	OH
Progressive Hawaii Insurance Corp.	OH
Progressive Marathon Insurance Company	MI
Progressive Max Insurance Company	OH
Progressive Michigan Insurance Company	MI
Progressive Mountain Insurance Company	OH
Progressive Northern Insurance Company	WI
Progressive Northwestern Insurance Company	OH
Progressive Paloverde Insurance Company	IN
Progressive Preferred Insurance Company	OH
Progressive Premier Insurance Company of Illinois	OH
Progressive Security Insurance Company	LA
Progressive Select Insurance Company	OH

Progressive Southeastern Insurance Company	IN
Progressive Specialty Insurance Company	OH
Progressive Universal Insurance Company	WI
Progressive West Insurance Company	OH
United Financial Casualty Company	OH

Other states participating in this examination were Indiana, Louisiana, Michigan, New Jersey, New York, Texas and Wisconsin.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination 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. This 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.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment assessment and an evaluation based upon the Company's Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated as a stock fire insurer under the laws of the State of New York as the Caledonian-American Insurance Company on December 24, 1897 and commenced business on March 24, 1898. In 1958, the Company was acquired by Rathbone, King and Seeley, Inc. and its name was changed to American Star Insurance Company. In 1981, the stock of Rathbone, King and Seeley was acquired by the Seibels Bruce Group, Inc.

In November 1985, financial control of the Company was acquired by The Progressive Corporation (TPC), a publicly traded Ohio holding company, and the Company's name was changed to its current title. The Company is wholly-owned by Progressive Commercial Holdings, Inc. ("PCH"), a Delaware holding company, which is in turn wholly-owned by TPC.

Capital paid in is $6,429,106 consisting of 257,163 shares of $25 par value per share common stock. Gross paid in and contributed surplus is $29,542,125. Gross paid in and contributed surplus increased by $900,000 during the examination period, as follows:

Year	Description	Amount
1/1/2008	Beginning gross paid in and contributed surplus	$28,642,125
2011	Surplus contribution	900,000
12/31/2012	Ending gross paid in and contributed surplus	$29,542,125

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of nine members. The Company did not hold board meetings during the period covered by this examination. In lieu of formal board meetings, the Company's business was conducted through "Action by Unanimous Consent of Directors." At December 31, 2012, the board of directors was comprised of the following nine members:

Name and Residence	Principal Business Affiliation
Patricia O. Bemer Highland Heights, OH	HR Business Leader, Progressive Group
Michael R. Beney Camillus, NY	Senior Claims Manager Progressive Group
Michael W. Bissler Munson Township, OH	Senior Controller, Progressive Group
William T. Cassella Kirtland, OH	CAIP Manager Progressive Group
Thomas W. Flynn Smithtown, NY	Senior Claims Director Progressive Group
Jeanette L. Hisek Twinsburg, OH	Director Regional Marketing Progressive Group
William R. Kampf Moreland Hills, OH	Commercial Auto Marketing General Manager Progressive Group
Kevin P. Maher Westlake, OH	Business Leader/PCA Progressive Group
Christopher J. Rosati Shoreham, NY	Senior Claims Manager Progressive Group

The Company does not have any employees or facilities. All management services and facilities are provided pursuant to a management agreement with United Financial Casualty Company ("UFCC"), an affiliated Ohio insurer. Pursuant to the management agreement, UFCC provides all underwriting and claims services for the business produced in exchange for a management fee.

As of December 31, 2012, the principal officers of the Company were as follows:

Name	Title
William T. Cassella	President
Patricia M. Corwin	Secretary
Michael W. Bissler	Treasurer
Patricia O. Bemer	Vice President
Kevin P. Maher	Vice President
Sandra L. Rihvalsky	Vice President
Margaret A. Rose	Assistant Secretary

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to transact business in all states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
26	Gap

Based on the lines of business for which the Company is licensed and the Company’s current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance

Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $2,950,000

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a percentage of Total Premium
2008	$55,574,151	$152,806,529	36.37%
2009	$60,502,304	$138,745,283	43.61%
2010	$66,351,633	$126,071,470	52.63%
2011	$76,082,563	$127,954,075	59.46%
2012	$80,245,066	$129,358,172	62.03%

Prior to 1996, the Company participated in the Progressive Pool, at which time it was de-pooled. As a condition of the de-pooling agreement approved by the Department on December 20, 1995, the Company received a surplus contribution from TPC in the amount of $20,077,005, which represented the return of cash paid to TPC on March 22, 1994, pursuant to a stock redemption and retirement of common shares.

Beginning in 1996, the Company began writing commercial automobile business mainly in New Jersey for the Commercial Auto Insurance Plans ("CAIP") and Special Risk Distribution Plans ("SRDP"), which are state-supervised plans serving the involuntary markets. Additionally, the Company participates in the state-mandated voluntary New Jersey Special Automobile Insurance Plan ("SAIP"), for which it retains no loss underwriting risk. The Company provides policy and claim processing services to 38 state CAIP's, 2 SRDP's, and one SAIP.

Beginning in 2005, the Company began writing voluntary commercial automobile business in New York and New Jersey and then in Massachusetts beginning in 2007. The New Jersey commercial auto business is now in run-off, with new business now being written by an affiliate. Additionally, the New York commercial auto business is now being written by an affiliate effective September 27, 2012.

The Company's business is generated primarily by independent insurance agencies and brokerages.

C. Reinsurance

The Company did not assume any business during the examination period.

At December 31, 2012, the Company participated in 38 state CAIP's, 2 SRDP's, and 1 SAIP. As part of these plans, the Company cedes 100% of its premiums and losses related to these plans, and in return, receives a fee for its policy issuance and claims adjustment services.

At December 31, 2012, the Company had the following ceded reinsurance program in effect:

Type of Cession	Coverage and Limits
Commercial Automobile Liability Excess of Loss Bodily Injury, Property Damage ("BIPD") coverage parts (scheduled vehicles, Hired Autos, Any Auto and Employer's Non-ownership liability), and Uninsured/Underinsured coverage parts.	A. $1 million excess of $1 million ultimate net loss, each occurrence. B. In addition to A., reinsurer shall be liable in respect of each uninsured/underinsured motorist, $3 million excess of $2 million ultimate net loss, each occurrence; further subject to a maximum limit of $9 million in the aggregate under this contract.

Additionally, effective July 1, 1995, as a condition of the de-pooling agreement approved by the Department, the Company entered into an aggregate stop loss reinsurance agreement with Progressive Casualty Insurance Company ("PCIC"), whereby PCIC agrees to indemnify the Company for all losses and allocated loss adjustment expenses paid by the Company on or after July 1, 1995 on all insurance and reinsurance policies issued or renewed by the Company on or before November 25, 1985 (the date the Company was acquired from the Siebels Bruce Group, Inc.) in excess of $28,478,300, up to a limit to the reinsurer of $45,000,000.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

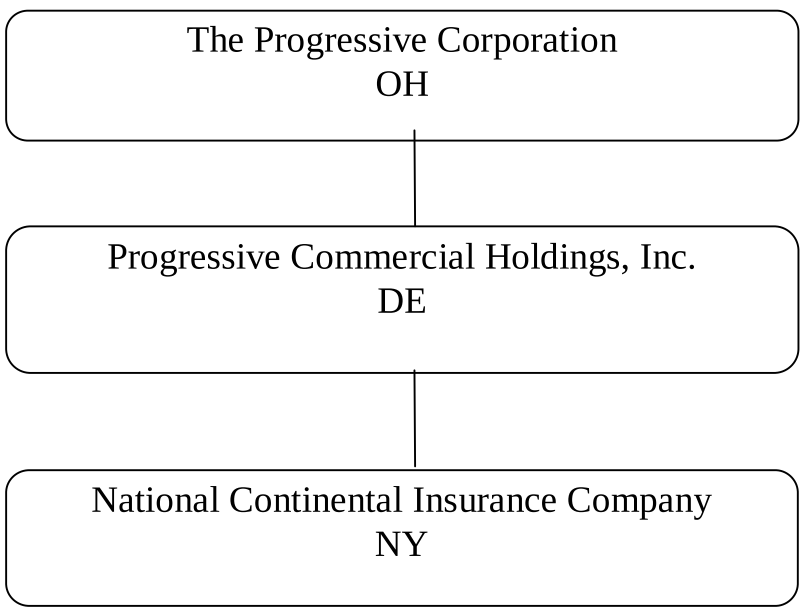
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

D. <u>Holding Company System</u>

The Company is a member of the Progressive Group. The Company is wholly owned by PCH, a Delaware holding company, which is ultimately controlled by TPC.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2012:



At December 31, 2012, the Company was party to the following agreements with other members of its holding company system:

Non Exclusive Patent Licensing

Effective October 25, 2010, the Company entered into the Non Exclusive Patent Licensing agreement with PCIC. Pursuant to the agreement, PCIC grants to the licensees the exclusive right and license to develop, improve, use and exploit its various patents. This grant includes existing patents as well as patents created in the future.

Periodic Settlement

Effective December 1, 2009, the Company entered into the Periodic Settlement agreement with Drive New Jersey Insurance Company ("DNJIC") for periodic settlement of Guaranty Association amounts. Pursuant to the agreement, on a quarterly basis, the Company transfers to DNJIC the right of recoupment equal to the amount DNJIC has recouped from policyholders in excess of the amount paid to the Association. Transfers shall be applied on a dollar for dollar basis when settling intercompany balances between the parties. Parties will commence settlement within 30 days after the end of the quarter and will use best efforts to complete settlement within 60 days after the end of the quarter.

The Agreement was approved by the Department November 3, 2009.

Cash Management Agreement

Effective January 1, 1998, the Company entered into an agreement with PCIC, which provides for the Company's participation in the PCIC's central cash management system (cashier account) in which all the cash of the Progressive Holding Company system's companies is deposited. Pursuant to the agreement, PCIC is responsible in a fiduciary capacity for the Company's cash, and performs all the Company's duties and operations as they pertain to cash, including the recording and payment of the Company's obligations. The balances in the cashier account are to be settled on a quarterly basis, with payment commencing within thirty (30) days of the end of each quarter. The companies will use their best efforts to complete settlement within sixty (60) days after the end of the quarter.

Interest Agreement

Effective November 25, 1985, the Company became a participant to the existing interest agreement among PCIC and members of its holding company system. Pursuant to the agreement, the Company agrees to pay PCIC, or to receive credit from PCIC, for any balances owed to PCIC or owed by PCIC as a result of the activity in the cashier account per the Cash Management Agreement.

Investment Services Agreement

Effective July 16, 1992, the Company entered into an agreement with Progressive Capital Management Corp., whereby Progressive Capital Management Corp. provides investment management services to the Company as well as other affiliated members. Costs of the investment services are shared among the members of the holding company system.

Cost Allocation Agreement

Effective January 1, 2005, the Company entered into a service agreement with United Financial Casualty Company ("UFCC"). Pursuant to the agreement, the Company utilizes the personnel, property and facilities of UFCC. UFCC also provides services relating to the insurance operations, including administrative and record keeping for the Company. The Company reimburses UFCC for all its identifiable expenses. The expenses that are not identifiable are allocated based on formulas and factors consistent with the provisions of Department Regulation 30.

General Agency Agreements

Effective August 14, 1996, the Company entered into an agreement with ProgNY Agency, Inc. ("ProgNY"), whereby the Company authorized ProgNY to sell insurance products for the Company in the State of New York.

Effective October 1, 2007, the Company entered into an agreement with Progressive Alliance Insurance Agencies ("PAIA"), whereby the Company authorized PAIA to sell insurance products for the Company in the states of California, Kentucky, Louisiana, Washington and such other states as the parties may agree upon from time to time.

Tax Allocation Agreement

Effective August 1, 2005 the Company and other members of its holding company system entered into an income tax sharing agreement with the Progressive Corporation, whereby the companies file a consolidated federal income tax return.

Escrow Agreement

Effective January 1, 1998, the Company entered into an agreement with PCIC, whereby PCIC has agreed to place and hold certain of its assets in escrow, when necessary to satisfy certain tax escrow obligations imposed upon the Company pursuant to New York Insurance Law.

Licensing Agreements

Effective May 1, 2002, the Company participates in a licensing agreement with PCIC for the purpose of using the trademarks of PCIC.

Effective April 1, 1997, the Company participates in a licensing agreement with The Progressive Corporation, PCIC, Progressive Casualty Insurance Company of Canada, and Progressive American Insurance Company for the purpose of using their names and trademarks.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2012, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	218%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	93%
Premiums in course of collection to surplus as regards policyholders	20%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$409,706,085	76.47%
Other underwriting expenses incurred	149,925,951	27.98
Net underwriting loss	(23,877,375)	(4.46)
Premiums earned	$535,754,661	100.00%

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 as determined by this examination and as reported by the Company:

Assets	Assets	Examination Assets Not Admitted	Net Admitted Assets
Bonds	$152,797,067	$ 0	$152,797,067
Cash, cash equivalents and short-term investments	19,992,582	0	19,992,582
Investment income due and accrued	904,183	0	904,183
Uncollected premiums and agents' balances in the course of collection	9,735,930	756,205	8,979,725
Deferred premiums, agents' balances and installments booked but deferred and not yet due	29,412,408	0	29,412,408
Amounts recoverable from reinsurers	11,564,760	0	11,564,760
Current federal and foreign income tax recoverable and interest thereon	108,991	0	108,991
Net deferred tax asset	5,431,101	81,464	5,349,637
AIPSO supplemental CAIP servicing fee receivable	4,560,275		4,560,275
New Jersey SAIP service carrier receivable	667,214		667,214
PLIGA Receivable	467,576		467,576
Alaska CAIP Receivable	364,954		364,954
PLIGA unearned surcharge recoverable	60,831		60,831
Miscellaneous other assets	84,759	84,759	0
Prepaid expenses	26,371	26,371	0
Totals	$236,179,002	$948,799	$235,230,203

Liabilities, surplus and other funds

	Examination
Losses and loss adjustment expenses	$114,720,604
Commissions payable, contingent commissions and other similar charges	24,012
Other expenses (excluding taxes, licenses and fees)	16,807
Taxes, licenses and fees (excluding federal and foreign income taxes)	150,482
Unearned premiums	47,120,447
Advance premium	201,783
Ceded reinsurance premiums payable (net of ceding commissions)	6,382,924
Drafts outstanding	8,175,399
Payable to parent, subsidiaries and affiliates	4,187,212
State plan liability	4,727,041
Unearned fee reserve	3,019,215
Other liabilities	1,205,851
PLIGA payable	170,964
PLIGA unearned surcharge payable	60,831
Escheatable property	14,297
Total liabilities	$190,177,869
Common capital stock	$ 6,429,106
Gross paid in and contributed surplus	29,542,125
Unassigned funds (surplus)	9,081,103
Surplus as regards policyholders	$ 45,052,334
Totals	$235,230,203

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2011. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. An audit covering tax year 2012 is currently under examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders increased $7,519,458 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Underwriting Income		
Premiums earned		$535,754,661
Deductions:		
Losses and loss adjustment expenses incurred	$409,706,085	
Other underwriting expenses incurred	149,925,951	
Total underwriting deductions		559,632,036
Net underwriting gain or (loss)		$ (23,877,375)
Investment Income		
Net investment income earned	$26,765,059	
Net realized capital gain	8,191,091	
Net investment gain or (loss)		34,956,150
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (6,579,130)	
Finance and service charges not included in premiums	6,386,244	
Interest income on intercompany balances	288,485	
Service business revenue	63,129,241	
Miscellaneous other income	370,312	
Total other income		63,595,152
Net income after dividends to policyholders but before federal and foreign income taxes		$ 74,673,927
Federal and foreign income taxes incurred		17,690,960
Net Income		$ 56,982,967

C. Capital and Surplus

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2007			$37,532,876
Net income	$56,982,967		
Change in net deferred income tax		$ 56,998	
Change in nonadmitted assets		493,285	
Cumulative effect of changes in accounting principles	986,774		
Surplus adjustments paid in	900,000		
Net remittances from or (to) home office			
Dividends to stockholders	0	50,800,000	
Net increase (decrease) in surplus	$58,869,741	$51,350,283	$7,519,458
Surplus as regards policyholders per report on examination as of December 31, 2012			$ 45,052,334

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $114,720,604 is the same as reported by the Company as of December 31, 2012. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A	Management It is recommended that the Company comply with its charter and/or by-laws and hold at least one regular meeting of the board of directors. The Company has complied with this recommendation.	9

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no recommendations.

Respectfully submitted,

_____________/s/____________
Lamin Jammeh
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Lamin Jammeh, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____________/s/____________
Lamin Jammeh

Subscribed and sworn to before me

this__________ day of ___________________, 2013.

APPOINTMENT NO. ***30999***

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Lamin Jammeh

as a proper person to examine the affairs of the

National Continental Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 9th day of April, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent