

REPORT ON EXAMINATION

OF THE

PROGRESSIVE NORTHEASTERN INSURANCE COMPANY

AS OF

DECEMBER 31, 2002

DATE OF REPORT

DECEMBER 5, 2003

EXAMINER

DENNIS J. McGOVERN

Appointment No 22039

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Dennis Mc Govern

as proper person to examine into the affairs of the

PROGRESSIVE NORTHEASTERN INSURANCE COMPANY

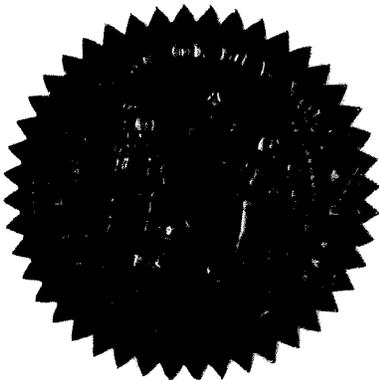
and to make a report to me in writing of the condition of the said

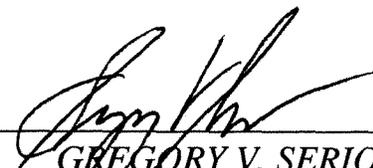
Company

with such other information as he shall deem requisite.

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

this 2nd day of April, 2003





GREGORY V. SERIO
Superintendent of Insurance

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GEORGE E. PATAKI
Governor

STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

GREGORY V. SERIO
Superintendent of Insurance

December 5, 2003

Honorable Gregory V. Serio
Superintendent of Insurance
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 22039, dated April 2, 2003 attached hereto, I have made an examination into the condition and affairs of the Progressive Northeastern Insurance Company as of December 31, 2002, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 6300 Wilson Mills Road, Mayfield Village, Ohio.

Wherever the designations "the Company" or "PNEIC" appear herein without qualification, they should be understood to indicate the Progressive Northeastern Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1998. This examination covered the four-year period from January 1, 1999 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2002. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated on September 28, 1992 under the name, Paragon Insurance Company of New York (Paragon). Paragon is wholly-owned by the Progressive Corporation, an Ohio domiciled holding company.

On September 19, 1994, Paragon Insurance Company of New York's name was changed to Progressive Northeastern Insurance Company. The name change was submitted to and approved by this Department.

The Company's initial stock offering was on March 30, 1994, when 1,000 shares of \$1,000 par value per share were sold for \$4,600 per share. This resulted in \$1,000,000 of common capital and \$3,600,000 of contributed surplus. Additional contributions to surplus were as follows:

<u>Year</u>	<u>Amount</u>
1994	\$ 3,600,000
1995	500,000
1996	15,000,000
1997	9,000,000
2001	14,000,000
2002	<u>10,000,000</u>
Total Contributed Surplus	<u>\$52,100,000</u>

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of thirteen members. The board is scheduled to meet four times during each calendar year. The directors as of December 31, 2002 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jeffrey W. Basch Solon, OH	Director, General Accounting, Progressive Casualty Insurance Company
Alan R. Bauer Mill Valley, CA	Direct Group President, Progressive Casualty Insurance Company
Michael R. Beney Camillus, NY	Regional Manager III, Progressive Casualty Insurance Company
Timothy R. Case Clarence Center, NY	Claims Manager III, The Progressive Casualty Insurance Company
W. Thomas Forrester, II Moreland, OH	Chief Financial Officer, The Progressive Corporation
Charles E. Jarrett Pepper Pike, OH	Chief Legal Officer, The Progressive Corporation
Thomas A. King South Russell, OH	Investment Strategist, Progressive Casualty Insurance Company
Stephen D. Peterson Austin, TX	Controller, Progressive Casualty Insurance Company
Victor Politzi Loudonville, NY	State Manager V, Progressive Casualty Insurance Company
Dane R. Shrallow Solon, OH	Corporate Attorney, Progressive Casualty Insurance Company
Michael R. Uth Chargin Falls, OH	Corporate Attorney, Progressive Casualty Insurance Company
Richard H. Watts Beachwood, OH	Progressive Sales and Service Group Vice President, Casualty Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert T. Williams Jr. Aurora, OH	Agency Group President, Progressive Causalty Insurance Company

At December 31, 2002, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Victor Politzi	President
Dane R. Shrallow	Secretary
Stephen D. Peterson	Treasurer
Kathleen M. Cerny	Assistant Secretary

The directors met or conducted business without a meeting thirty-six times during the examination period. A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

B. Territory and Plan of Operation

As of December 31, 2002, the Company was only licensed to transact business in the State of New York.

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

DIRECT PREMIUM WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a percentage of United States Premiums</u>
1999	\$242,045,112	\$242,045,112	100.00%
2000	\$163,604,236	\$163,604,236	100.00%
2001	\$288,125,692	\$288,125,692	100.00%
2002	\$433,430,570	\$433,430,570	100.00%

Effective July 1, 1995, the Company entered into a 90% quota share reinsurance agreement with Progressive Casualty Insurance Company, an affiliate.

As of December 31, 2002, the Company was licensed to transact the kinds of business as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
12	Collision
13	Personal injury liability
14	Property damage liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Inland marine only
30	Substantially similar kinds of insurance

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirement of Articles 13 and 41 of the New York Insurance Law, Progressive Northeastern Insurance Company is required to maintain a minimum surplus to policyholders in the amount of \$2,400,000.

The Company writes personal and commercial automobile liability and physical damage liability as well as selected specialty insurance coverages. Business is produced by independent agents and direct marketing within the state. The Progressive Group has over 30,000 independent agents throughout the country. Premiums are billed directly to the insured through a corporate billing system. Agency billing is not used. All funds are deposited via lockbox. There is a small amount of cash received by the agent usually for down payments. This cash is swept from the agents account. There are no managing general agents and there are no retrospective compensation agreements.

The Company's operations are managed by Progressive Casualty Insurance Company, an affiliate of the Company. The Company has no direct employees. Progressive Casualty Insurance Company ("PCIC") and the Company are parties to a management agreement whereby PCIC provides sales, underwriting, reinsurance, billing and collection, agency management, claims, administrative and accounting, personnel management, investment, data processing, advertising, and tax services to the Company.

C. Reinsurance

Assumed

As of the examination date, the Company had no assumed reinsurance contracts in force.

Ceded

All ceded reinsurance contracts effected during the examination period were reviewed. All contracts contained the required standard clauses, including the insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Schedule F data contained in the Company's filed annual statements for the years covered by the examination period was found to accurately reflect its reinsurance transactions.

A summary of the Company's ceded reinsurance in effect as of the examination date follows:

Quota Share Reinsurance Agreement

Effective July 1, 1995, the Company entered into a 90% quota share reinsurance agreement with an affiliate, Progressive Casualty Insurance Company ("PCIC"). Pursuant to the agreement, approved by the Department, the Company ceded 90% of its premiums, losses and loss adjustment expenses and underwriting expenses to PCIC after the effect of all other reinsurance agreements with non-affiliated companies. The Company retains 10% of its initial business.

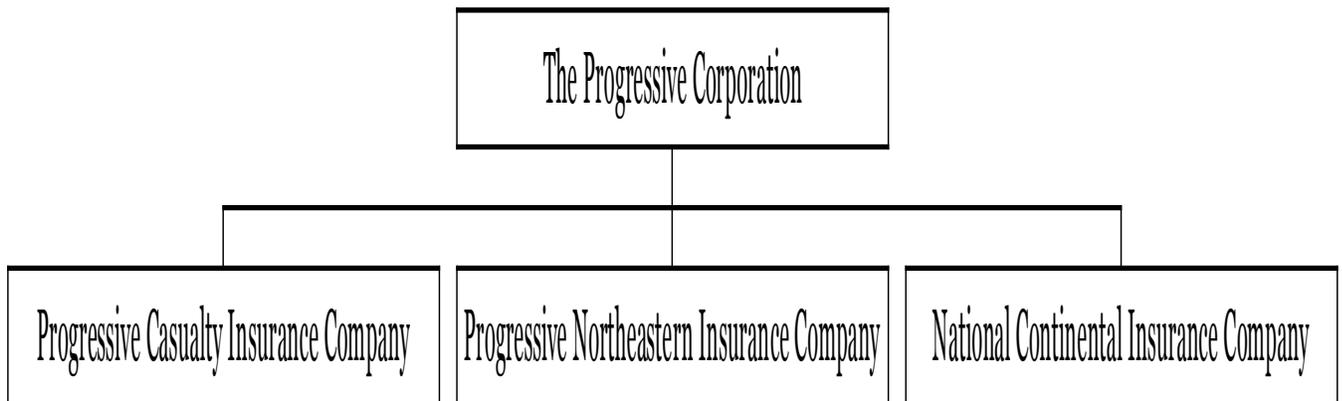
The Company and several affiliates have entered into a 30% quota share agreement with AMEX Assurance Company (“AMEX”). The agreement covers private passenger auto and special lines policies written by the companies pursuant to an agency agreement between AMEX and the Progressive companies. The agreement was effective July 5, 1998, with an automatic renewal after two years. The agreement was last renewed July 2002.

D. Holding Company System

The Company is a wholly-owned subsidiary of the Progressive Corporation, an Ohio insurance holding company.

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 abbreviated chart of the holding company system at December 31, 2002 showing the affiliates relevant to this examination:



THE COMPANY HAS ENTERED INTO THE FOLLOWING AGREEMENTS WITH MEMBERS OF ITS HOLDING COMPANY SYSTEM, ALL OF WHICH HAVE BEEN FOUND NON-OBJECTIONABLE BY THE DEPARTMENT PURSUANT TO THE PROVISIONS OF SECTION 1505 OF THE NEW YORK INSURANCE LAW:

REINSURANCE AGREEMENT BETWEEN PROGRESSIVE CASUALTY INSURANCE COMPANY AND PROGRESSIVE NORTHEASTERN INSURANCE COMPANY (EFFECTIVE JULY 1, 1995)

THE COMPANY ENTERED INTO A 90% QUOTA SHARE REINSURANCE AGREEMENT WITH PROGRESSIVE CASUALTY INSURANCE COMPANY. PURSUANT TO THE AGREEMENT THE COMPANY CEDES 90% OF ITS BUSINESS TO THE REINSURER.

CASH MANAGEMENT AGREEMENT BETWEEN PROGRESSIVE CASUALTY INSURANCE COMPANY AND PROGRESSIVE NORTHEASTERN INSURANCE COMPANY AND CERTAIN AFFILIATES (EFFECTIVE JANUARY 1, 1998)

THIS AGREEMENT 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 PROGRESSIVE HOLDING COMPANY SYSTEM'S COMPANIES ARE DEPOSITED. PURSUANT TO THE AGREEMENT, PROGRESSIVE CASUALTY INSURANCE COMPANY 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 PAYMENT OF THE COMPANY'S OBLIGATIONS.

INTEREST AGREEMENT BETWEEN PROGRESSIVE CASUALTY INSURANCE COMPANY AND PROGRESSIVE NORTHEASTERN INSURANCE COMPANY AND CERTAIN AFFILIATES (EFFECTIVE APRIL 6, 1994)

THE COMPANY BECAME A PARTICIPANT TO AN EXISTING INTEREST AGREEMENT AMONG THE PROGRESSIVE CASUALTY INSURANCE COMPANY AND MEMBERS OF THE HOLDING COMPANY SYSTEM. PURSUANT TO THE AGREEMENT, THE COMPANY AGREES TO PAY PROGRESSIVE CASUALTY INSURANCE COMPANY OR TO RECEIVE CREDIT FROM PROGRESSIVE CASUALTY INSURANCE COMPANY FOR ANY BALANCES OWED TO PROGRESSIVE CASUALTY INSURANCE COMPANY OR OWED BY PROGRESSIVE CASUALTY INSURANCE COMPANY AS A RESULT OF THE ACTIVITY IN THE CASHIER ACCOUNT PER THE CASH MANAGEMENT AGREEMENT.

INVESTMENT SERVICES AGREEMENT BETWEEN PROGRESSIVE CAPITAL MANAGEMENT CORPORATION, PROGRESSIVE NORTHEASTERN INSURANCE COMPANY AND CERTAIN AFFILIATES (EFFECTIVE JULY 16, 1992)

PURSUANT TO THIS AGREEMENT PROGRESSIVE CAPITAL MANAGEMENT CORPORATION 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.

SERVICE AGREEMENT BETWEEN PROGRESSIVE CASUALTY INSURANCE COMPANY AND PROGRESSIVE NORTHEASTERN INSURANCE COMPANY (EFFECTIVE APRIL 12, 1993)

THE COMPANY ENTERED INTO A SERVICE AGREEMENT WITH PROGRESSIVE CASUALTY INSURANCE COMPANY. PURSUANT TO THE AGREEMENT, THE COMPANY UTILIZES THE PERSONNEL, PROPERTY AND FACILITIES OF PCIC. PCIC ALSO PROVIDES SERVICES RELATING TO THE INSURANCE OPERATIONS, INCLUDING ADMINISTRATIVE AND RECORD KEEPING FOR THE COMPANY. THE COMPANY REIMBURSES PCIC 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 AGREEMENT BETWEEN PROGNV AGENCY, INC., PROGRESSIVE NORTHEASTERN INSURANCE COMPANY AND CERTAIN AFFILIATES (EFFECTIVE AUGUST 14, 1996)

THIS AGREEMENT AUTHORIZED PROGNV AGENCY TO SELL INSURANCE PRODUCTS FOR THE COMPANY.

PRODUCERS' AGREEMENT BETWEEN UNITED FINANCIAL INSURANCE AGENCY, INC., UNITED FINANCIAL INSURANCE AGENCY OF WASHINGTON, INC., PROGRESSIVE NORTHEASTERN INSURANCE COMPANY AND CERTAIN AFFILIATES (EFFECTIVE MAY 15, 1996)

PURSUANT TO THE AGREEMENT, UNITED FINANCIAL INSURANCE AGENCY, INC. AND UNITED FINANCIAL INSURANCE AGENCY OF WASHINGTON, INC. ARE AUTHORIZED TO SELL SELECTED INSURANCE BUSINESS FOR THE COMPANY IN NEW YORK STATE.

PREMIUM RECEIVABLE AGREEMENT BETWEEN PROGRESSIVE NORTHEASTERN INSURANCE COMPANY AND PROGRESSIVE INVESTMENT COMPANY, INC. (EFFECTIVE DECEMBER 31, 1998)

THE COMPANY AGREES TO SELL A PORTION OF ITS PREMIUMS RECEIVABLE TO PROGRESSIVE INVESTMENT COMPANY, INC. UNDER THE AGREEMENT, THE COMPANY IS RESPONSIBLE FOR THE COLLECTION OF THE TRANSFERRED PREMIUMS RECEIVABLE.

ALLOCATION OF FEDERAL INCOME TAXES BETWEEN THE PROGRESSIVE CORPORATION AND PROGRESSIVE NORTHEASTERN INSURANCE COMPANY (EFFECTIVE APRIL 6, 1994)

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 BY AND AMONG THE COMPANY, THE PROGRESSIVE CORPORATION AND PROGRESSIVE INVESTMENT AGREEMENT (EFFECTIVE MARCH 23, 1994)

PROGRESSIVE INVESTMENT COMPANY HAS AGREED TO PLACE AND HOLD CERTAIN OF ITS ASSETS IN ESCROW TO SATISFY CERTAIN TAX ESCROW OBLIGATIONS IMPOSED ON THE COMPANY PURSUANT TO THE NEW YORK INSURANCE LAWS.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller

on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were all filed on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law. The Company follows up with claimants who fail, after several months, to cash their claim payment instruments. However, the Company has adopted the position that loss payment instruments are "offers of settlement" which, if uncashed, do not constitute abandoned property. The position is currently being litigated by the Comptroller of the State of New York.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	86%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	131%*
Premiums in course of collection to surplus as regards policyholders	16%

The Company's results on the first and third ratios fall within the benchmark ranges of the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The Company's result for the ratio "Liabilities to liquid assets" exceeded the benchmark range. The examiner noted that the Company reported an admitted asset for "Reinsurance

recoverable on loss and loss adjustment expense payments” of \$65,997,197. This asset represents 27% of the Company’s total admitted assets and is not considered a liquid asset for the purposes of calculating this ratio, thus resulting in the exceptional value.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$91,223,956	83.25%
Other underwriting expenses incurred	27,087,679	24.72
Net underwriting loss	<u>(8,737,933)</u>	<u>(7.97)</u>
Premiums earned	<u>\$109,573,702</u>	<u>100.00%</u>

1. Certified Public Accountants

The engagement letter from the Company’s independent certified public accountants does not contain the following required provisions pursuant to the Part 98.2 of the Department Regulation 118:

- (a) On or before May 31, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer’s and any such subsidiary’s accounting procedures and internal control systems as are necessary to the furnishing of the opinions;
- (b) Any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the superintendent within 15 calendar days following such determination; and

- (c) The workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in section 243.2(b)(7) and (c) of this Title. For the purposes of this subdivision, the workpapers and communications shall be deemed to have been created on the date the filing required by section 98.2(a) of this Part was submitted to the superintendent.

It is recommended that the Company amend the engagement letter with its independent certified public accountants to comply with the provisions of Department Regulation No. 118.

2. Residual Market Premiums

The Company reported its net participation in various state private passenger and commercial automobile residual market facilities under the caption "State plan liability". Allocations of experience from the facilities' manager indicated that such allocation should be recorded as reinsurance assumed.

Paragraph 8 of SSAP No. 63 Underwriting Pools and Associations Including Intercompany Pools states:

"Underwriting results shall be accounted for on a gross basis whereby the participant's portion of premiums, losses, expenses, and other operations of the pools are recorded separately in the financial statements rather than netted against each other. Premiums and losses shall be recorded as direct, assumed, and/or ceded as applicable. If the reporting entity is a direct writer of the business, premiums shall be recorded as directly written and accounted for in the same manner as other business which is directly written by the entity. To the

extent that premium is ceded to a pool, premiums and losses shall be recorded in the same manner as any other reinsurance arrangement. A reporting entity who is a member of a pool shall record its participation in the pool as assumed business as in any other reinsurance arrangement.”

[IT IS RECOMMENDED THAT THE COMPANY PROPERLY REPORT RESIDUAL MARKET PREMIUMS UNDER THE APPROPRIATE CAPTION IN FUTURE ANNUAL STATEMENT FILINGS.]

AGAINST EACH OTHER. PREMIUMS AND LOSSES SHALL BE RECORDED AS DIRECT, ASSUMED, AND/OR CEDED AS APPLICABLE. [IF THE REPORTING ENTITY IS A DIRECT WRITER OF THE BUSINESS, PREMIUMS SHALL BE RECORDED AS DIRECTLY WRITTEN AND ACCOUNTED FOR IN THE SAME MANNER AS OTHER BUSINESS WHICH IS DIRECTLY WRITTEN BY THE ENTITY. TO THE EXTENT THAT PREMIUM IS CEDED TO A POOL, PREMIUMS AND LOSSES SHALL BE RECORDED IN THE SAME MANNER AS ANY OTHER REINSURANCE ARRANGEMENT. A REPORTING ENTITY WHO IS A MEMBER OF A POOL SHALL RECORD ITS PARTICIPATION IN THE POOL AS ASSUMED BUSINESS AS IN ANY REINSURANCE ARRANGEMENT.]

[IT IS RECOMMENDED THAT THE COMPANY PROPERLY REPORT RESIDUAL MARKET PREMIUMS UNDER THE APPROPRIATE CAPTION IN FUTURE ANNUAL STATEMENT FILINGS.]

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2002 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 86,515,858	\$ 0	\$ 86,515,858
Premiums and agents' balances in course of collection	10,307,304	2,276,323	8,030,981
Premiums, agents' balances and installments booked but deferred and not yet due	73,193,967	0	73,193,967
Reinsurance recoverables on loss and loss adjustment expense payments	65,997,197	0	65,997,197
Federal and foreign income taxes recoverable	4,562,209	1,708,022	2,854,187
Interest, dividends and real estate income due and accrued	1,186,137	0	1,186,137
Receivable from parent, subsidiaries and affiliates	958,665	0	958,665
Prepaid expenses	<u>149,088</u>	<u>149,088</u>	<u>0</u>
Total Assets	<u>\$242,870,425</u>	<u>\$4,133,433</u>	<u>\$238,736,992</u>

Liabilities, Surplus and Other FundsLiabilities

Losses		\$ 18,076,137
Loss adjustment expenses		4,271,410
Commissions payable, contingent commissions and other similar charges		239,063
Other expenses (excluding taxes, licenses and fees)		145,054
Taxes, licenses and fees (excluding federal and foreign income taxes)		8,518,893
Unearned premiums		13,369,836
Advance premiums		5,098,605
Ceded reinsurance premiums payable (net of ceding commissions)		109,954,331
Drafts outstanding		14,606,028
Payable to parent, subsidiaries and affiliates		7,784,384
Other liabilities		3,841,377
State plan liability		2,289,165
Escheatable property		<u>300,332</u>
Total liabilities		\$188,494,615

Surplus and Other Funds

Common capital stock	\$ 1,000,000	
Gross paid in and contributed surplus	52,100,000	
Unassigned funds (surplus)	<u>(2,857,623)</u>	
Surplus as regards policyholders		<u>50,242,377</u>
Total liabilities, surplus and other funds		<u>\$238,736,992</u>

Note: The Internal Revenue Service has completed its audits of the Company's (consolidated) Federal Income Tax returns through tax year 2000. A claim for refund for tax years 1993-1998 was agreed upon and signed in July 2003. The refund of taxes and interest for the Progressive Group amounted to \$85 million. The audits covering tax years 1999 and 2000 are complete and the Company has the revenue agents report. The Company expects a modest refund for these years. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2001 and 2002.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$ 23,660,778 during the four-year examination period January 1, 1999 through December 31, 2002, detailed as follows:

Underwriting Income

Premiums earned		\$109,573,702
Deductions:		
Losses incurred	\$74,162,318	
Loss adjustment expenses incurred	17,061,638	
Other underwriting expenses incurred	<u>27,087,679</u>	
Total underwriting deductions		<u>118,311,635</u>
Net underwriting gain or (loss)		\$ (8,737,933)

Investment Income

Net investment income earned	\$ 5,458,335	
Net realized capital gains	<u>1,907,100</u>	
Net investment gain or (loss)		7,365,435

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(1,059,065)	
Finance and service charges not included in premiums	34,642,727	
Finance and service charges revenue ceded	(31,178,455)	
Interest income (expense) on intercompany balances	(1,149,087)	
Loss on receivable factoring	(343,045)	
Miscellaneous other expense	<u>(750)</u>	
Total other income		<u>912,325</u>
Net income before federal and foreign income taxes		\$ (460,173)
Federal and foreign income taxes incurred		<u>1,717,822</u>
Net income		\$ <u>(2,177,995)</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 1998			\$26,581,599
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$2,177,995	
Change in net deferred income taxes	\$ 341,281		
Change in nonadmitted assets		1,034,749	
Cumulative effect of changes in accounting principles	2,541,030		
Surplus adjustments paid in	24,000,000		
Change in excess of statutory reserves over statement reserves		9,000	
Correction of prior years surplus.	211		
Total increases and decreases	<u>\$26,882,522</u>	<u>\$3,221,744</u>	
Net increase (decrease) in surplus			<u>23,660,778</u>
Surplus as regards policyholders per report on examination as of December 31, 2002			<u>\$50,242,377</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for the above captioned accounts totaling \$18,076,137 and \$4,271,410, respectively, are the same as the amounts reported by the Company in its filed annual statement. This examination relied upon a certification provided by Mary Miller, FCAS, MAAA of the Ohio Department of Insurance. The certification was performed as a part of the examination of the Progressive Group of Companies coordinated by the Ohio Department of Insurance. The certification concluded that the reserves were reasonably stated.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The following major areas were reviewed:

- (A) Sales and Advertising
- (B) Underwriting
- (C) Rating
- (D) Claims

No problem areas were encountered.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A <u>MANAGEMENT</u></p> <p>IT IS RECOMMENDED THAT BOARD MEMBERS WHO ARE UNABLE OR UNWILLING TO ATTEND MEETINGS CONSISTENTLY SHOULD RESIGN OR BE REPLACED.</p> <p>THE COMPANY HAS COMPLIED WITH THIS RECOMMENDATION.</p>	<p>5</p>
<p>B <u>ACCOUNTS AND RECORDS</u></p> <p>i IT IS RECOMMENDED THAT THE COMPANY MAINTAIN ADEQUATE CAPITAL TO SETTLE INTER-COMPANY BALANCES AND NOT RELY ON SELLING ITS ACCOUNTS RECEIVABLE.</p> <p>THE COMPANY HAS CHANGED IT PROCEDURES FOR SETTLING CEDED BALANCES FROM A WRITTEN BASIS TO COLLECTED BASIS WHICH HAS ALLEVIATED THE PROBLEM STATED ABOVE.</p>	<p>13</p>
<p>ii IT IS RECOMMENDED THAT THE COMPANY AMEND ITS CUSTODIAN AGREEMENT TO INCLUDE THE PROTECTIVE COVENANTS AND PROVISIONS WHICH MEET THE GUIDELINES ESTABLISHED BY THE DEPARTMENT FOR THE CONTENTS OF SUCH AGREEMENTS.</p>	<p>14</p>

The Company at the time of this comment was changing custodians and in the new custodian agreement had included many of the safeguards established by the Department for the contents of such agreements. The Company is again in the process of changing its custodian.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Accounts and Records</u>	
	<u>Certified Public Accountants</u>	
i	It is recommended that the Company amend the engagement letter with its independent certified public accountants to comply with the provisions of Department Regulation No. 118.	15
ii	<u>Residual Market Premiums</u>	
	It is recommended that the Company properly report residual market premiums under the appropriate caption in future annual statement filings.	16

Appointment No 22039

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Dennis Mc Govern

as proper person to examine into the affairs of the

PROGRESSIVE NORTHEASTERN INSURANCE COMPANY

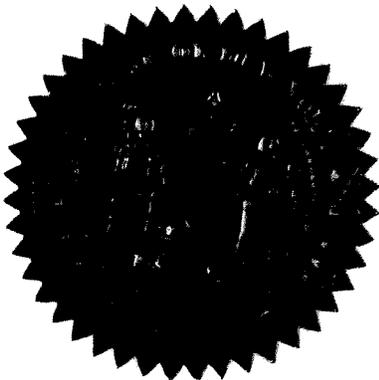
and to make a report to me in writing of the condition of the said

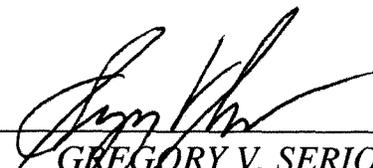
Company

with such other information as he shall deem requisite.

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

this 2nd day of April, 2003





GREGORY V. SERIO
Superintendent of Insurance