The Progressive Corporation

2010 Annual Report

The Progressive Group of Insurance Companies, in business since 1937, is one of the country's largest auto insurance groups, the largest seller of motorcycle policies and a market leader in commercial auto insurance based on premiums written. Progressive is committed to becoming consumers' #1 choice for auto insurance by providing competitive rates and innovative products and services that meet drivers' needs throughout their lifetimes, including superior online and in-person customer service, and best-in-class, 24-hour claims service, such as its concierge level of claims service available at service centers located in major metropolitan areas throughout the United States.

Progressive companies offer consumers choices in how to shop for, buy and manage their auto insurance policies. Progressive offers its products, including personal and commercial auto, motorcycle, boat and recreational vehicle insurance, through more than 30,000 independent insurance agencies throughout the U.S. and online and by phone directly from the Company.

Progressive aspires to delight consumers who value distinctive service and competitively priced products. In this spirit, we chose "distinction" as the theme for this year's annual report. South African artist Robin Rhode's unique approach to storytelling transforms an ordinary wall into extraordinary environments often with only a simple piece of chalk. Selections of Rhode's work will join Progressive's collection of contemporary art.

Five-Year Financial Highlights

(billions—except per share amounts)

	2010	2009	2008	2007	2006
FOR THE YEAR					
Net premiums written	$ 14.5	$ 14.0	$ 13.6	$ 13.8	$ 14.1
Growth over prior year	3%	3%	(1)%	(3)%	1%
Net premiums earned	$ 14.3	$ 14.0	$ 13.6	$ 13.9	$ 14.1
Growth over prior year	2%	3%	(2)%	(2)%	3%
Total revenues	$ 15.0	$ 14.6	$ 12.8	$ 14.7	$ 14.8
Net income (loss)	$ 1.07	$ 1.06	$ (.07)	$ 1.18	$ 1.65
Per share[1]	$ 1.61	$ 1.57	$ (.10)	$ 1.65	$ 2.10
Underwriting margin	7.6%	8.4%	5.4%	7.4%	13.3%

(billions—except shares outstanding, per share amounts, and policies in force)

	2010	2009	2008	2007	2006
AT YEAR-END					
Common shares outstanding (millions)	662.4	672.6	676.5	680.2	748.0
Book value per share	$ 9.13	$ 8.55	$ 6.23	$ 7.26	$ 9.15
Consolidated shareholders' equity	$ 6.0	$ 5.7	$ 4.2	$ 4.9	$ 6.8
Market capitalization	$ 13.2	$ 12.1	$ 10.0	$ 13.0	$ 18.1
Return on average shareholders' equity	17.1%	21.4%	(1.5)%	19.5%	25.3%
Policies in force (thousands)					
Personal Lines					
Agency–Auto	4,480.1	4,299.2	4,288.6	4,396.8	4,433.1
Direct–Auto	3,610.4	3,201.1	2,824.0	2,598.5	2,428.5
Special Lines	3,612.2	3,440.3	3,352.3	3,120.3	2,879.5
Total Personal Lines	11,702.7	10,940.6	10,464.9	10,115.6	9,741.1
Growth over prior year	7%	5%	3%	4%	3%
Commercial Auto	510.4	512.8	539.4	539.2	503.2
Growth over prior year	0%	(5)%	0%	7%	7%
Market share[2]	NA	7.8%	7.3%	7.3%	7.4%
Industry net premiums written[3]	NA	$ 156.5	$ 158.0	$ 159.1	$ 160.2

	1-Year	3-Year	5-Year
STOCK PRICE APPRECIATION (DEPRECIATION)[4]			
Progressive	16.9%	3.5%	(4.3)%
S&P 500	15.0%	(2.9)%	2.3%

[1]Since we reported a net loss for 2008, the calculated diluted earnings per share was antidilutive; therefore, basic earnings per share is disclosed. For all other periods, diluted earnings per share is disclosed.

[2]Represents Progressive's private passenger auto business, including motorcycle insurance, as a percent of the private passenger auto insurance market.

[3]Represents private passenger auto insurance market net premiums written as reported by A.M. Best Company, Inc.

[4]Represents average annual compounded rate of increase (decrease) and assumes dividend reinvestment.

NA = Final comparable industry data will not be available until our third quarter report.

Communicating a clear picture of Progressive by stating what we try to achieve (Vision), how we interact with customers (Customer Value Proposition), and what guides our behavior (Core Values) permits all people associated with us to understand what we expect of ourselves and each other and how we conduct our business.

VISION

We seek to be an excellent, innovative, growing, and enduring business by cost-effectively and profitably reducing the human trauma and economic costs of auto accidents and other mishaps, and by building a recognized, trusted, admired, business-generating brand. We seek to maximize shareholder value and to provide a positive environment that attracts quality people who develop and achieve ambitious growth plans.

CUSTOMER VALUE PROPOSITION

Our Customer Value Proposition provides a litmus test for customer interactions and relationships and innovation.

Fast, Fair, Better That's what you can expect from Progressive. Everything we do recognizes the needs of busy consumers, who are cost-conscious, increasingly savvy about insurance, and ready for new, easy ways to quote, buy, and manage their policies, including claims service that respects their time and reduces the trauma and inconvenience of loss.

CORE VALUES

Progressive's Core Values serve as the foundation for our corporate culture. They govern our decisions and define the manner in which we conduct our business and how we interact with all interested parties. We want them understood and embraced by all Progressive people. Growth and change provide new perspective, requiring regular refinement of Core Values.

Integrity We revere honesty. We adhere to high ethical standards, provide timely, accurate, and complete financial reporting, encourage disclosing bad news, and welcome disagreement.

Golden Rule We respect all people, value the differences among them, and deal with them in the way we want to be dealt with. This requires us to know ourselves and to try to understand others.

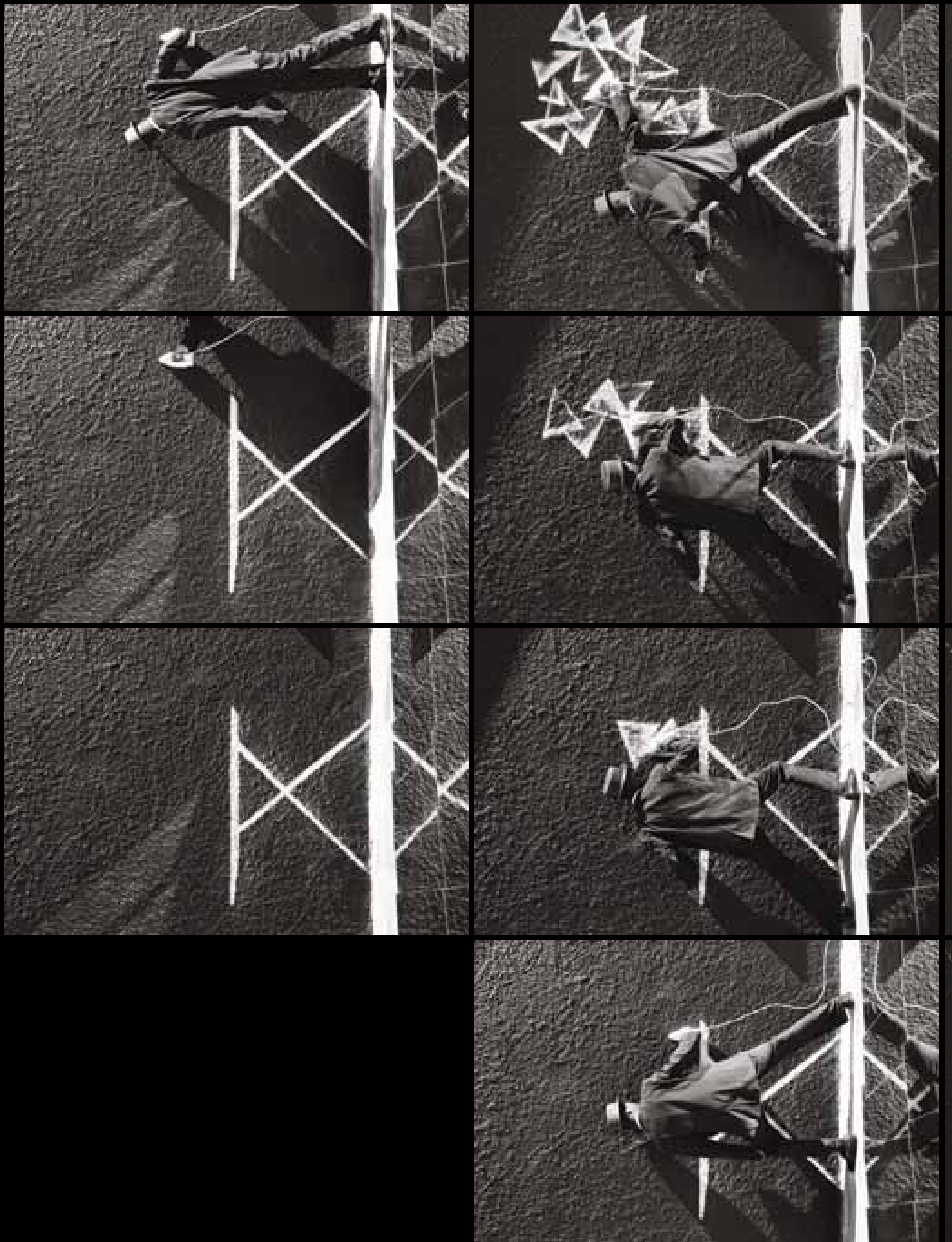
Objectives We strive to communicate clearly Progressive's ambitious objectives and our people's personal and team objectives. We evaluate performance against all these objectives.

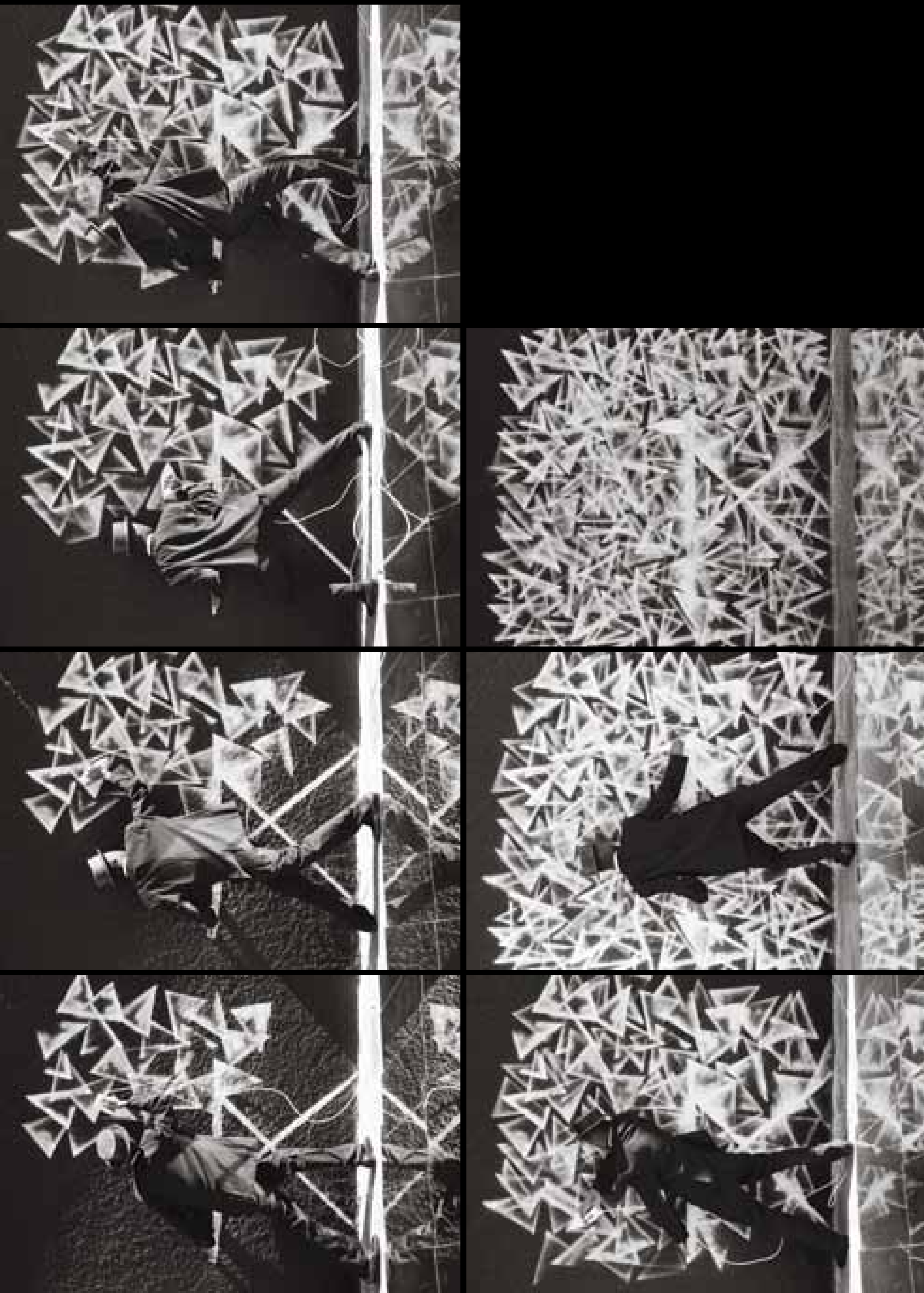
Excellence We strive constantly to improve in order to meet and exceed the highest expectations of our customers, agents, shareholders, and people. We teach and encourage our people to improve performance and to reduce the costs of what they do for customers. We base their rewards on results and promotion on ability.

Profit We seek to earn a profit by offering consumers products and services they want. Profit is how the free-enterprise system motivates investment and rewards companies that consistently create value.

distinction.

that which sets someone or something apart
from the others.





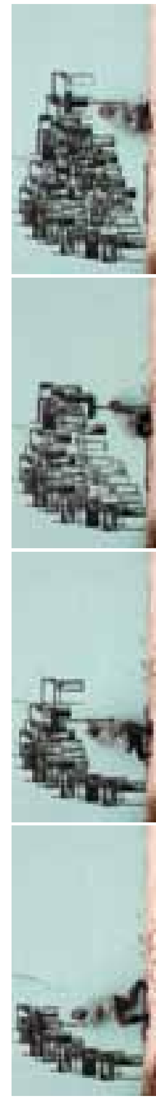
In naming Progressive, "Progressive," those who went before this writer left an indelible message of expectations and the role to which we aspire in the industry. Surveys being what they are inform, if not calibrate, but we were delighted by one such survey in 2010 that indexed Progressive higher than all others as—the company most positively changing how auto insurance is done.

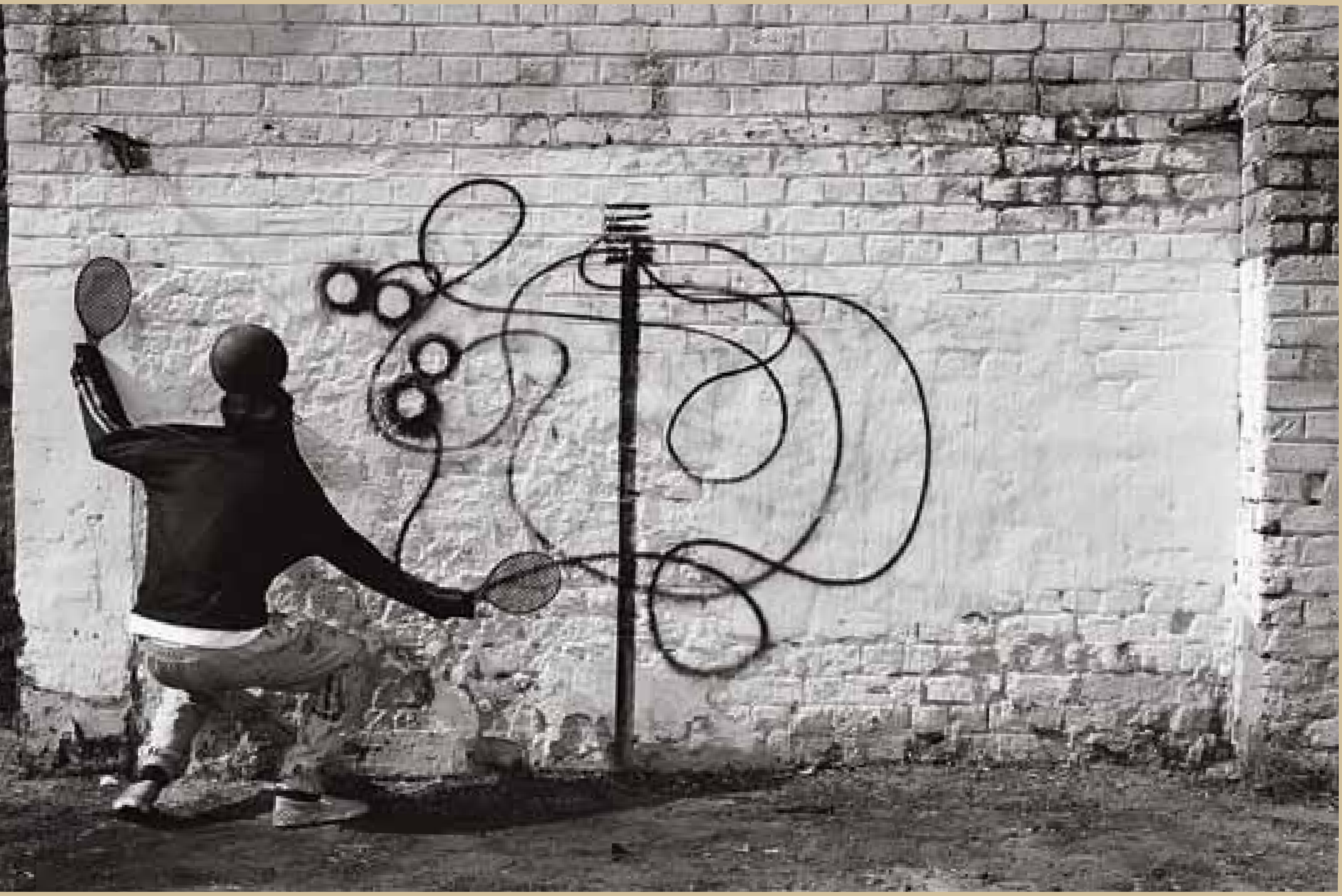
Surveys don't pay the bills, but often serve as a valuable qualitative read on the company's brand and future potential. Our performance in 2010 will, however, pay the bills and more.

We ended the year with net premiums written of around $14.5 billion, up some 3.4% from 2009, and net income of $1 billion, comparable to 2009 performance. What distinguishes 2010 performance for me is the addition of over 750,000 new policyholders and by implication well over a million new customers. Our 92.4 combined ratio from underwriting operations, in tandem with a 7.8% total return on investments, contributed to a very strong capital position. We were delighted to share this performance with shareholders in multiple ways not the least of which was a $1 extraordinary dividend late in the year and a further $0.40 variable dividend reflecting our internal measure of annual performance—Gainshare.

If the decade ending 2010 were a football game, it would be a story of two distinct halves. The first characterized by several years of the industry regaining profitability through rate increases, leading to significant industrywide growth in written premium. Progressive posted growth rates more often than not in the strong double digits zone for this half. As well documented frequency declines emerged and industry rate levels proved to be more than adequate, a six-year period of industry profitability followed. Best efforts interpreting history would suggest that two consecutive profitable years was the previous high water mark. Growth in written premium inevitably slowed, producing a slightly lagged, but matching, period of industrywide written premium declines. Progressive frustratingly posted low single digit growth numbers above and below zero for the same period. While gas prices, driving behavior, Internet adoption, media spending, and the economic crisis at a minimum would be required to fully chronicle the decade, there is little doubt the classic nature of the insurance cycle, with unique wavelength and amplitude to extend the analogy, has played a significant role. The closing years of the decade appear to be the approximate time frame during which industrywide profitability will once again be moderated and sustained industry premium declines will turn positive.

With that as a back drop, it is helpful to review Progressive's evolution as a company during the same period and, more importantly, our positioning for whatever emerges over the next decade.





UNDERWRITING RESULTS

Our commitment to a profitability target of a 96 combined ratio served well during the decade and at no time did we fail to meet or exceed our targets—a result we view with some pride. The period has seen an emergence of our Direct business as an industry leader and a significant contributor to our growth and profitability, joining our important and now growing Agency operations. With that emergence has come greater recognition for the margin contribution effects in any given calendar year from the timing dynamics unique to Direct distribution, prompting me last year at this time to write, *"However, under certain high growth new business scenarios, we would be happy to see the reported monthly and calendar-year combined ratios go above 96 for our Direct business, as long as our new and renewal business consistently meets predefined targets that ensure a lifetime result at or below 96,"* and, by implication, without compromise to the attainment of an aggregate companywide 96 in any calendar year. In fact, we were happy to experience high growth scenarios in our Direct business in 2010, notably in the first two quarters, driven by strong double digit new application growth. On three occasions during the year, our monthly combined ratio for the Direct business exceeded 96 but, as designed, our new and renewal cohorts met the necessary targets to ensure both lifetime profitability and aggregate calendar-year performance goals. The Direct business finished the year with a 94.6 calendar combined ratio, about two points higher on an accident-year basis—a strong performance given significant new business.

The momentum building in the second half of 2009 in our Agency auto production carried into 2010 and we saw attractive growth in new applications and policies in force for the entire year. Similar to Direct, demand was stronger on a year-over-year basis earlier in the year, but

Agency, more so than Direct, maintained a reasonably consistent pattern throughout the year. Our policies in force for Agency had fallen from our all-time highs and, while not happy for that experience, we are now back to levels closely approximating our best, with reason to believe in continued momentum and new highs in 2011.

We ended the year with both channels and all Personal Lines products meeting targets both on the GAAP presentation of numbers and our more preferred accident-year presentation. We started the year with significant problems in several large states and personal injury protection (PIP) coverage was one common denominator. Efforts throughout the year to manage these states, involving actions and rate level changes to position us for future profitable growth, were generally effective, with profitability first among priorities. We now have reason to be more optimistic for the growth outlook in these states for 2011.

In Personal Lines, 4 out of 51 regulatory jurisdictions in which we operate failed to make a profit. One, a recent market entry that in retrospect was mispriced and the recovery while slow is very much on track; one in which extreme and unusual weather is an identifiable condition; one where our management of the PIP coverage is still a work in progress; and a fourth just missed. Several others, while profitable, did not meet their planned targets. I offer this perspective to reinforce the point that we manage the business at the local level with talented product managers focused on the issues and conditions of their state, a view which is not always visible from the aggregate reporting offered in our financial presentations.

Our Commercial Auto business, largely distributed by our agents, had about as good of a year as we could expect. Our year-over-year reduction in active policies was a very small negative by year-end, down somewhat more on a multi-year basis, reflecting general economic and employment conditions. Profitability was strong at an 87.5 combined ratio and meaningful signs of growth were emerging during the year. We will need large and important states to reflect greater growth going forward to regain lost ground in this segment. Similar to our work in all products, our Commercial Auto group has been actively redesigning its product offering to reflect our best knowledge and experience and has done a great deal of work, in a period of less robust growth, to position for the future.

DISTINCTIVE SERVICE.

Save time with our Concierge service.

report your claim online or by phone

we're here to help anytime, day or night

schedule appointment + drop off your car

in 15 minutes, you'll be on your way

we'll arrange for the repairs

and they're guaranteed for life

a rental car will be waiting for you

and we'll move your things from your car to the rental

we'll keep you up-to-date

so you'll always know what's happening

DISTINCTIVE CHOICES.

Take control. Use Name Your Price®

visit progressive.com

access all Progressive has to offer for online shopping

select new quote

it only takes a few minutes

pick the way to choose your coverage

- get the coverage we recommend
- use the Name Your Price tool
- or match your current coverage

explore your options by price + coverage

get the insurance you designed and need

start your policy

and tell us how best to communicate with you

A DESTINATION COMPANY

One way I have described Progressive today is having evolved from a "Transaction" company to a "Destination" company. As a transaction company, we were and remain very focused on the essential transactions of insurance—presenting rates to our agents with the best possible technology; settling claims in a fast, fair, and efficient manner; providing 24/7 service on all manner of issues; changing rates to reflect current market conditions quickly; and the many other critical functions of our business.

What has evolved now is the distinct overlay of a customer-care culture, making our actions even more consistent with a company our customers can expect to be their long-term auto insurance destination. While few service companies would have differing objectives, we feel very good about our intensity and progress. Industry surveys would support our feelings, but most importantly customer policy life expectancy continues to lengthen and our 2010 actions, including our improved loyalty programs and commitment to rate stability at renewal, continued our push, with both channels increasing policy life expectancies during the year to all-time highs. Our effective use of Net Promoter® Scores as an internal barometer of our progress leaves open considerable room for improvement and will remain a top priority.

Increased rigor around customer segments in recent years highlighted the need to provide our customers with other products they need over time and may have had to leave Progressive to acquire. Offering a homeowners product underwritten by others, but packaged with our auto product, has met a consumer need and resulted in very attractive retention characteristics. We ended the year closing in on a million customers with multiple products purchased from Progressive, with a significant and growing percentage of those bundling homeowners' or renters' with their auto coverage.

Creating the environment where customers want to stay involves some bolder strategic moves, such as offering homeowners and concierge claims service, but more so a relentless focus on the thousands of details in product design, customer service, claims delivery, and every other aspect of our business. Progressive today is a different company and, in the broadest of terms, the asset value of the company, represented by numbers of customers and future months and years of life expectancy, is a different product by far than at the start of the decade.

BRAND STRATEGY

Our success and ability to communicate our brand has built consistently during the decade and 2010 was perhaps one of our best years. With the same caveat regarding survey results as in my opening, we are encouraged that consumer awareness of our brand continues to grow and the substance of their awareness is consistent with our intentions.

In addition to greater recognition of the company that changes how insurance is done, we are perceived as a company that "Has unique and distinctive features" and "Makes the entire auto insurance process easier." These are more than acceptable consumer characterizations. Our now quite recognizable employee spokesperson "Flo" continued to be the central figure in our advertising for 2010, and while no one taste satisfies all, "Flo's" appeal is very real. With nearly 2.5 million Facebook fans, she has no comparables in the insurance industry and one needs to look to the Boston Celtics or *The Daily Show* for a closer match.

The insurance advertising space was very active in 2010, as we expect it will be going forward, and making our brand truly distinctive requires continuous product innovation and compelling messaging. Last year I covered in greater detail the effectiveness of "Flo" not just in creating demand, but as the model of brand ambassadorship she exhibits and the stylized, but accurate, portrayal of our more than 24,000 employees. Expect to see much more of "Flo" in 2011.

Complementing the point of view expressed through “Flo” and the superstore will be the point of view of a satisfied customer as an advocate or promoter. This character feels licensed to comment on other people’s shopping experiences based on his knowledge and experience with Progressive. The character, we call the “Messenger,” will help tell the Progressive story from a different point of view while incorporating meaningful points of branding with our established campaign. Developed and tested in late 2010, we have high hopes this identifiable character will provide added weight to our “Flo” of customers (I know).

The rate of change in the diversity of media available to all of us as consumers has been, and will continue to be, game changing in creative development and media placement disciplines. While our skills and talents have been building to match the environment and importance, we did not yet have the leadership in this area that would ensure performance standards comparable to our other essential disciplines. I’m happy to report that I think this has changed with Jeff Charney accepting my invitation to join Progressive as our Chief Marketing Officer late in 2010.

PRODUCT DEVELOPMENT

Product development is at the core of Progressive, whether continuously refining our product at the macro level or for state-specific adaptation. 2010 saw the culmination of multi-year efforts to take the best features of our product designs independently derived for the Agency and Direct channels and integrate them into one design with maximum flexibility to serve both channels. Consistency of product, not necessarily price, regardless of whether presented by an agent or directly by Progressive, is a meaningful advantage along with the attendant reduction in maintenance costs and talent dilution associated with multiple systems.

More dramatic product features and packaging, like Name Your Price® (NYP), provides consumers wishing to shop online a very real opportunity to leverage technology and explore the options available to them. Agents have always helped customers reach smart decisions on price and coverage. We believe NYP contributed very nicely to our growth in 2010, but equally as important is consumer realization and appreciation that Progressive is a company willing to challenge and change how things are done.

These types of product presentations are only possible with great consumer facing technology. Progressive has been recognized as the industry leading Web site and received 16 out of 17 Keynote awards. However, consumer facing technology now is a much expanded category with smart phones and tablets providing form factors we intend to exploit to extend our product presentation and drive profitable growth. As NYP leveraged technology in one way, the potential for devices that are on your person, often with a camera and location software, is a whole new and really exciting dimension for all aspects of our business. Expect more next year.

Ironically, usage-based insurance, a concept correctly associated with Progressive, has been around for most of the last decade, but the technology to track in-vehicle data and the insurance product development were for the most part experimental. The later years of the decade saw rapid improvement in the technology and the cumulative knowledge we had acquired was leading to a better product and increasingly improved commercialization of the idea. 2010, however, was a breakthrough year. We dramatically repackaged the concept, making the consumer experience easier, incorporated usage as a product feature within our mainstream product offering, simplified the marketing message, and reduced the costs, all, we believe, while maintaining the rating effectiveness we know and understand. Early rollout and transitions from prior versions suggest that we are very much on-track with the redesign objectives. Our repackaged product known as Snapshot,℠ reflecting the "snapshot" of driving behavior we seek in the monitoring period, is available through participating agents and for online consumers. It's hard not to be excited by the potential for this concept and our redesign. Our 2011 plans call for increasing the number of states in which we offer the product, further improving the customer experience, and active marketing.

OPERATIONAL SKILLS

Marketing, product design, and distribution, perhaps for some are the more visible elements of Progressive, but our success is directly dependent on our operational skills and the talented individuals who execute, lead, and design the processes we follow. It is here the customer-care culture really has been operationalized. Claims resolution, our call centers operations, and our technology operations all had very good years in 2010.

Claims resolution continues to produce quality results and operating costs that in no small way reflect in our aggregate performance. Our numerous call center operations continue to seek ways to increase their focus on customer retention and agent satisfaction through superior, yet efficient, service. This commitment is now leading us to begin using technology that will help provide insightful diagnostics of a phone call, not just statistics, including consumer interaction styles and points of consumer stress during the call and by so doing provide for greater feedback on the emotional adaption required of us to provide the best possible future service. And while there are moments we can't live with it, we know we can't live without it. Technology makes all that has been featured in this letter possible and getting it right and getting it fast and getting it cost effective is a never-ending challenge.

Continuously innovating and changing things that work because there is a better way is difficult and demanding and requires a special mindset and motivation. Relentlessly improving our products and services, providing reasons for customers to stay and others to join is never ending. That is what we do. The decade has seen a lot of changes and 2010 was as big a year as any. I like the changes and the options we've created. I like the greater breadth of customers that we have been able to attract as a destination insurer. I like the customer culture that our leaders have created.

DISTINCTIVE PRICING.

Pay based on how you drive with Snapshot.SM

visit progressive.com or an authorized independent agent

select our exclusive Snapshot discount that reflects your safe driving habits

plug in the simple-to-use Snapshot device

continue to drive as normal

in 30 days, you'll know if you have earned a discount

the Snapshot discount is based on how you drive — not how fast or where

use the device for six months

your renewal and future rates reflect your personalized discount

return the device

it's that simple

INVESTMENTS AND CAPITAL

Investment and capital management, happily, had a year further removed from the hot seat imposed by prior years. The challenge became the return of underleveraged capital and effective asset management in a low interest rate world. We positioned our portfolio near the low end of our duration guidelines, with preference for credit and reinvestment risk over interest rate risk. Implicit in this positioning was an asymmetric view on the future directions of interest rates — more likely up than down from such low levels. While we cannot be sure of the timing on this positioning, we are sure that we will continue to invest in a manner that recognizes that our ability to underwrite all the insurance available to us is the "protected asset."

Signs late in the year suggest this positioning had merit. We were comfortable with the composition of our portfolio during 2010, but, as with everything we do, there is always room for review and improvement. Our decision to increase our corporate bond, asset-backed, and commercial mortgage-backed portfolios helped us earn a strong return. Portfolio results contributed $765.7 million to comprehensive income in 2010. Municipal budget woes, and by extension municipal bonds, became front page news during the second half of 2010. We began selling some of our municipal bond exposure during 2009 and continued into the first quarter 2010 when valuations were high. Later in the year, when valuations were lower and, to us, at more attractive levels, we increased our holdings. We continue to diligently manage our credit exposure to all of our investments, including municipal bond positions. Adding to our common equity position during the year produced good results and, with hindsight, could have been larger. We finished the year with 24% of our invested assets in what we call Group I, which includes common stocks.

Our capital position was very strong throughout the year and by mid-year we were actively considering a range of actions, consistent with our long-standing philosophy of returning underleveraged capital to shareholders when appropriate to do so, in addition to the 13.3 million shares we repurchased during the year. Our first notable capital action, which took place last summer, was the retirement of $223 million of our outstanding hybrid debt issue, which we were able to do paying 95 cents on the dollar. Prior to that transaction, we were required to gain consent from the holders of our 2032 senior debt issue to terminate a replacement capital covenant. We were successful in our solicitation to eliminate that requirement. This combined transaction was a very effective use of underleveraged capital and creates a significant increase in the freedom we will have in future years regarding the remaining hybrid debt. Our debt-to-total capital ratio closed the year at 24.5%, well below our 30% guideline, preserving significant debt capacity should we need or choose to use it.

We spend significant time and effort modeling our capital requirements and sizing what we call layers of capital to satisfy regulatory requirements and the contingencies for all manner of risks we can envision in our business. Based on this modeling, we formulate our minimum capital requirement and, by definition, a sizing of any underleveraged capital. Based on this work, and after considering all options, the Board of Directors approved a $1 extraordinary dividend, which was paid in December.

While the timing was similar, our declaration of an annual variable dividend is quite distinct from the extraordinary dividend. Our performance as a company is reflected in our Gainshare score, a measure of some complexity that reduces to a score between 0 and 2. Our final score for 2010 was 1.50, a welcome rebound from prior years and I believe a very fair reflection of the year. Company-wide performance compensation has the Gainshare score as a base as does our shareholder variable dividend. The 1.50 score, after-tax underwriting income of $704.3 million, and the 25% target factor established by the Board, combined for a variable dividend of $0.3987 per share paid in February 2011 for 2010 performance.

We remain very confident that the variable dividend is an appropriate part of our capital management arsenal, and now have several years that have tested its formulation. With minor changes to reflect a constraint that comprehensive income exceed underwriting income and an increase last year in the percentage of underwriting income, the design has achieved exactly what we had hoped. For 2011, the Board of Directors has changed the target factor, which is the percentage of underwriting income available to be distributed by the formula, to 33⅓%. It is more likely than not that this target factor will remain at this level for some time.

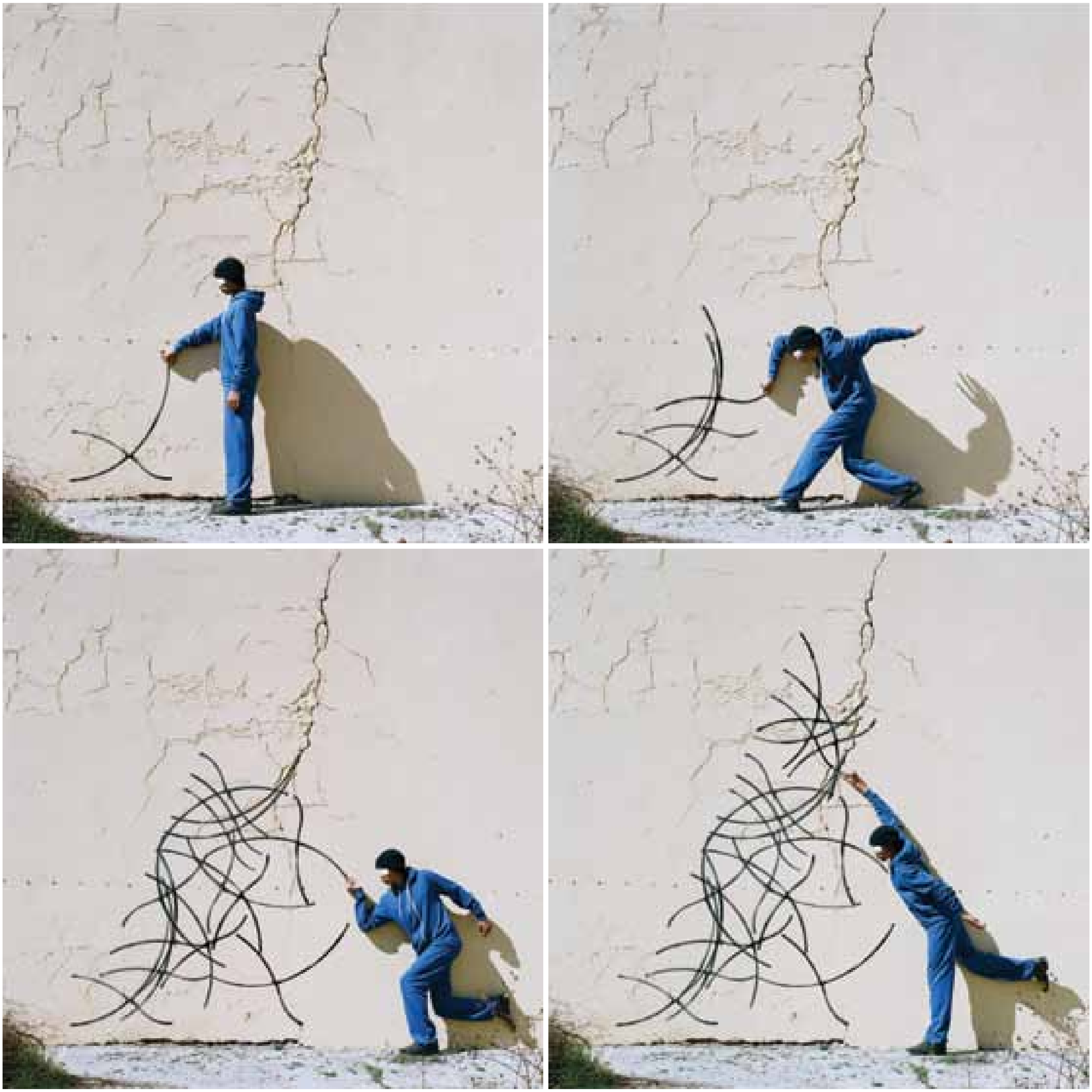
OUR PEOPLE AND CULTURE

Addressing groups within Progressive, I often simplify our business to two critical components to make a point—*"We don't have many characteristics of other businesses—the tangible product features of consumer electronics, the intellectual property of the pharmaceutical business, the production lines of the manufacturing segment,..."* we have "People" and "Reputation." Much of this letter and report, as is appropriate and the custom, focuses on this year's economic and tactical accomplishments along with an accounting-based presentation. It doesn't fit well in that format, but it is simply not a complete report without due recognition to all the people who make it possible and upon whom our reputation rests. Our people and our culture are what make us special.

My close each year thus is appropriately the most constant part of this letter for it is the most public forum I have to thank the people of Progressive, our agents and brokers, customers and shareholders for their support.

To all the people who make Progressive, "Progressive"—Thank you.

Glenn M. Renwick
President and Chief Executive Officer



Consistent achievement of superior results requires that our people understand Progressive's objectives and their specific roles, and that their personal objectives dovetail with Progressive's. Our objectives are ambitious, yet realistic. Progressive monitors its financial policies continuously and strives to meet these targets annually. Experience always clarifies objectives and illuminates better policies. We constantly evolve as we monitor the execution of our policies and progress toward achieving our objectives.

OBJECTIVES

Profitability Progressive's most important goal is for our insurance subsidiaries to produce an aggregate calendar-year underwriting profit of at least 4%. Our business is a composite of many product offerings defined in part by product type, distribution channel, geography, customer tenure, and underwriting grouping. Each of these products has targeted operating parameters based on level of maturity, underlying cost structures, customer mix, and policy life expectancy. Our aggregate goal is the balanced blend of these individual performance targets in any calendar year.

Growth Our goal is to grow as fast as possible, constrained only by our profitability objective and our ability to provide high-quality customer service. Progressive is a growth-oriented company and management incentives are tied to profitable growth.

We report Personal Lines and Commercial Auto results separately. We further break down our Personal Lines' results by channel (Agency and Direct) to give shareholders a clearer picture of the business dynamics of each distribution method and their respective rates of growth. Aggregate expense ratios and aggregate growth rates disguise the true nature and performance of each business.

FINANCIAL POLICIES

Progressive balances operating risk with risk of investing and financing activities in order to have sufficient capital to support all the insurance we can profitably underwrite and service. Risks arise in all operational and functional areas, and therefore must be assessed holistically, accounting for the offsetting and compounding effects of the separate sources of risk within Progressive.

We use risk management tools to quantify the amount of capital needed, in addition to surplus, to absorb consequences of events such as unfavorable loss reserve development, litigation, weather-related catastrophes, and investment-market corrections. Our financial policies define our allocation of risk and we measure our performance against them. If, in our view, future opportunities meet our financial objectives and policies, we will invest capital in expanding business operations. Underleveraged capital will be returned to investors. We expect to earn a return on equity greater than its cost. Presented is an overview of Progressive's Operating, Investing, and Financing policies.

Operating **Monitor pricing and reserving discipline**

- Manage profitability targets and operational performance at our lowest level of product definition
- Sustain premiums-to-surplus ratios at efficient levels, and at or below applicable state regulations, for each insurance subsidiary
- Ensure loss reserves are adequate and develop with minimal variance

Investing **Maintain a liquid, diversified, high-quality investment portfolio**

- Manage on a total return basis
- Manage interest rate, credit, prepayment, extension, and concentration risk
- Allocate portfolio between two groups:
  Group I—target 0% to 25% (common equities, redeemable and nonredeemable preferred stocks, and below investment-grade fixed-maturity securities)
  Group II—target 75% to 100% (other fixed-maturity and short-term securities)

Financing **Maintain sufficient capital to support insurance operations**

- Maintain debt below 30% of total capital at book value
- Neutralize dilution from equity-based compensation in the year of issuance through share repurchases
- Return underleveraged capital through share repurchases, extraordinary dividends, and a variable dividend program based on annual underwriting results

OBJECTIVES AND POLICIES SCORECARD

FINANCIAL RESULTS		Target	2010	2009	2008	5 Years[1]	10 Years[1]
Underwriting margin	–Progressive	4%	7.6%	8.4%	5.4%	8.4%	9.6%
	–Industry[2]	na	IIIIIIII	(.8)%	.2%	2.6%	.6%
Net premiums written growth	–Progressive	(a)	3%	3%	(1)%	1%	9%
	–Industry[2]	na	IIIIIIII	(1)%	(1)%	0%	3%
Policies in force growth	–Personal Auto	(a)	8%	5%	2%	3%	8%
	–Special Lines	(a)	5%	3%	7%	6%	12%
	–Commercial Auto	(a)	0%	(5)%	0%	2%	12%
Companywide premiums-to-surplus ratio		(b)	2.9	2.8	3.0	na	na
Investment allocation	–Group I	(c)	24%	20%	18%	na	na
	–Group II	(c)	76%	80%	82%	na	na
Debt-to-total capital ratio		<30%	24.5%	27.5%	34.0%	na	na
Return on average shareholders' equity (ROE)[3]		(d)	17.1%	21.4%	(1.5)%	17.2%	20.4%
Comprehensive ROE[4]		(d)	22.3%	35.5%	(13.3)%	19.2%	22.2%

[a] Grow as fast as possible, constrained only by our profitability objective and our ability to provide high-quality customer service.

[b] Determined separately for each insurance subsidiary.

[c] Allocate portfolio between two groups:
Group I–Target 0% to 25% (common equities, redeemable and nonredeemable preferred stocks, and below investment-grade fixed-maturity securities)
Group II–Target 75% to 100% (other fixed-maturity and short-term securities).

[d] Progressive does not have a predetermined target for ROE.

na = not applicable

[1] Represents results over the respective time period; growth represents average annual compounded rate of increase (decrease).

[2] Represents private passenger auto insurance market data as reported by A.M. Best Company, Inc. The industry underwriting margin excludes the effect of policyholder dividends. Final comparable industry data for 2010 will not be available until our third quarter report. The 5- and 10-year growth rates are presented on a one-year lag basis for the industry.

[3] Based on net income (loss).

[4] Based on comprehensive income (loss). Comprehensive ROE is consistent with Progressive's policy to manage on a total return basis and better reflects growth in shareholder value. For a reconciliation of net income (loss) to comprehensive income (loss) and for the components of comprehensive income (loss), see Progressive's *Consolidated Statements of Changes in Shareholders' Equity* and *Note 11–Other Comprehensive Income (Loss)*, respectively, which can be found in the complete Consolidated Financial Statements and Notes included in Progressive's 2010 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2011 Proxy Statement.

ACHIEVEMENTS

We are convinced that the best way to maximize shareholder value is to achieve these financial objectives and policies consistently. A shareholder who purchased 100 shares of Progressive for $1,800 in our first public stock offering on April 15, 1971, owned 92,264 shares on December 31, 2010, with a market value of $1,833,286, for a 19.6% compounded annual return, compared to the 6.6% return achieved by investors in the Standard & Poor's 500 during the same period. In addition, the shareholder received dividends of $107,146 in 2010, bringing their total dividends received to $342,370 since the shares were purchased.

In the ten years since December 31, 2000, Progressive shareholders have realized compounded annual returns, including dividend reinvestment, of 10.6%, compared to 1.4% for the S&P 500. In the five years since December 31, 2005, Progressive shareholders' returns were (4.3)%, compared to 2.3% for the S&P 500. In 2010, the returns were 16.9% on Progressive shares and 15.0% for the S&P 500.

Over the years, when we have had adequate capital and believed it to be appropriate, we have repurchased our shares. In addition, as our Financial Policies state, we will repurchase shares to neutralize the dilution from equity-based compensation programs and return any underleveraged capital to investors. During 2010, we repurchased 13,331,760 common shares. The total cost to repurchase these shares was $259 million, with an average cost of $19.40 per share. Since 1971, we have spent $6.8 billion repurchasing our shares, at an average cost of $6.10 per share.

OPERATIONS SUMMARY

Personal Lines Our Personal Lines business generated a 93.0 combined ratio, which outperformed our targets but was 0.6 points above the 2009 result. Net premiums earned grew 4%, while policies in force were up 7%, or more than three quarters of a million policies.

For our auto products, profitability was down almost a point versus 2009. In our special lines products, profitability was better than our targets by a considerable margin driven primarily again by the absence of severe weather on the coasts.

Policies in force growth was driven by both increases in new business applications and increases in policyholder retention. Agency auto new applications were up 4% for the year and Direct new auto applications were up 9%. The Agency auto performance reflects momentum from the previous year and continued progress penetrating preferred customer segments. The Direct auto new applications performance is half the growth rate we achieved in 2009 and reflects an increasingly competitive marketplace for Direct auto insurance. New applications in our special lines products were up 10% overall, resulting from significant growth from our Direct distribution. Retention improvement, as measured by policy life expectancy, was very good in Agency auto (+8%), positive in Direct auto (+2%), and down slightly in special lines (-1%). In aggregate, our average policyholder life expectancy for Personal Lines increased approximately 3% in 2010 over 2009.

Net written premium growth for the year was 5%. Our filed rate changes in our auto programs totaled an increase of approximately 2%. In our special lines programs, our filed rate changes totaled a decrease of slightly less than 1%. Actual average written premium changes for auto and special lines were -1% and -2%, respectively. The difference between the filed and actual price changes is explained by shifts in the mix of business across customer segments and geography.

We continue to adapt our products and services to meet our customers' personal insurance needs throughout their lives. The Progressive Home Advantage® program, where we "private label" other companies' property insurance products, is growing rapidly. This program allows us to attract new customers that bundle their dwelling and auto insurance and to meet the needs of current customers that desire that arrangement. Approximately 40% of U.S. homeowners bundle their home and auto insurance and when they do, their policy retention is materially better than stand-alone policies.

Towards the end of the year, we elevated a system that provides our customer service representatives household-level insight into our relationship with customers versus just a policy level view. We will elevate similar systems soon for our agents and our customers. We also expect to make it even easier to quote and shop for consumers that desire to bundle during 2011. Last year, we reported that we planned to roll out our patent-protected usage-based insurance rating feature MyRate® 2.0 in 2010. At year end, we had usage-based rating active in 27 states and have redesigned the marketing to Snapshot℠—based on the "snapshot" of driving behavior captured by our in-vehicle device. We expect to broadly market Snapshot early in 2011. We have been very pleased with the percent of consumers that opt-in to Snapshot and the loss prediction power of usage-based rating continues to impress us.

Traditional rating segmentation has been, and will continue to be, a source of competitive advantage for Progressive. We are currently rolling out new product models within our auto and special lines programs and we have the next generation of product models in the pipeline. These models provide even greater accuracy in loss prediction and allow us to attract more customers from all target segments.

In 2010, we significantly increased our focus on the mobile space and we are confident we will be reporting much more on this in the future. We upgraded our mobile Web site for policy services and added the ability to quote auto insurance in 13 states during 2010. We also elevated apps for iPhones and Android devices during the year. We are investing in adding more mobile capabilities for consumers as we see this manner of accessing the Internet for personal insurance needs growing rapidly.

Commercial Auto The commercial auto industry was characterized by a fourth consecutive year of declining total written premium. Modest growth in the number of insurable vehicles over the latter half of the year holds some promise of future premium growth, although generally strong industry underwriting profitability and increased capacity have kept prices from rising. The industry loss ratio began to rise in the third quarter and any continuation of that trend will put pressure on margins and eventually lead to a turn in pricing.

Our Commercial Auto business produced a calendar-year combined ratio of 87.5, an increase of 1.7 points over the prior year, but still below our Commercial Auto target combined ratio. The combined ratio includes nearly 7 points of favorable loss development on prior accident years, as we continue to see beneficial claims settlement patterns. We did see an increase in accident frequency during the year, which we have begun to address with rate level adjustments in most states.

Net premiums written declined 6% for the year due primarily to lower average premium per policy. The decline in average premium was driven by shifts in policy mix toward lower average premium states, more policies qualifying for discounts, and a higher percentage of liability-only policies. The slow economic recovery continues to influence purchase patterns and the new vehicle replacement rate. Lower premium put pressure on fixed expenses and, as a result, the expense ratio increased 1.3 points to 22.4. Diligent workforce management allowed us to hold the line on our core efficiency measure, policies in force per full time equivalent employee, which achieved a modest 1% improvement.

While most states were characterized by solid underwriting profits and a return to growth in new policies, the business was hampered by profitability challenges in our largest state, Florida. Changes to underwriting and claims procedures, coupled with an increase in rates, led to steady improvement throughout the year with the state finishing 2010 with a small underwriting

OPERATING RESULTS	2010	2009	Change
PERSONAL LINES			
Net premiums written (in billions)	$ 13.0	$ 12.5	5%
Net premiums earned (in billions)	$ 12.8	$ 12.4	4%
Loss and loss adjustment expense ratio	71.4	71.5	(.1) pts.
Underwriting expense ratio	21.6	20.9	.7 pts.
Combined ratio	93.0	92.4	.6 pts.
Policies in force (in thousands)	11,702.7	10,940.6	7%
COMMERCIAL AUTO			
Net premiums written (in billions)	$ 1.4	$ 1.5	(6)%
Net premiums earned (in billions)	$ 1.5	$ 1.6	(9)%
Loss and loss adjustment expense ratio	65.1	64.7	.4 pts.
Underwriting expense ratio	22.4	21.1	1.3 pts.
Combined ratio	87.5	85.8	1.7 pts.
Policies in force (in thousands)	510.4	512.8	0%

profit. Florida new business applications and policies in force were adversely affected by these changes and declined 45% and 16%, respectively. All other states combined saw new applications and policies in force increase 7% and 2% for the year. We are confident Florida is now positioned to meet profit targets in 2011, though rebuilding the policy base will be a longer-term proposition.

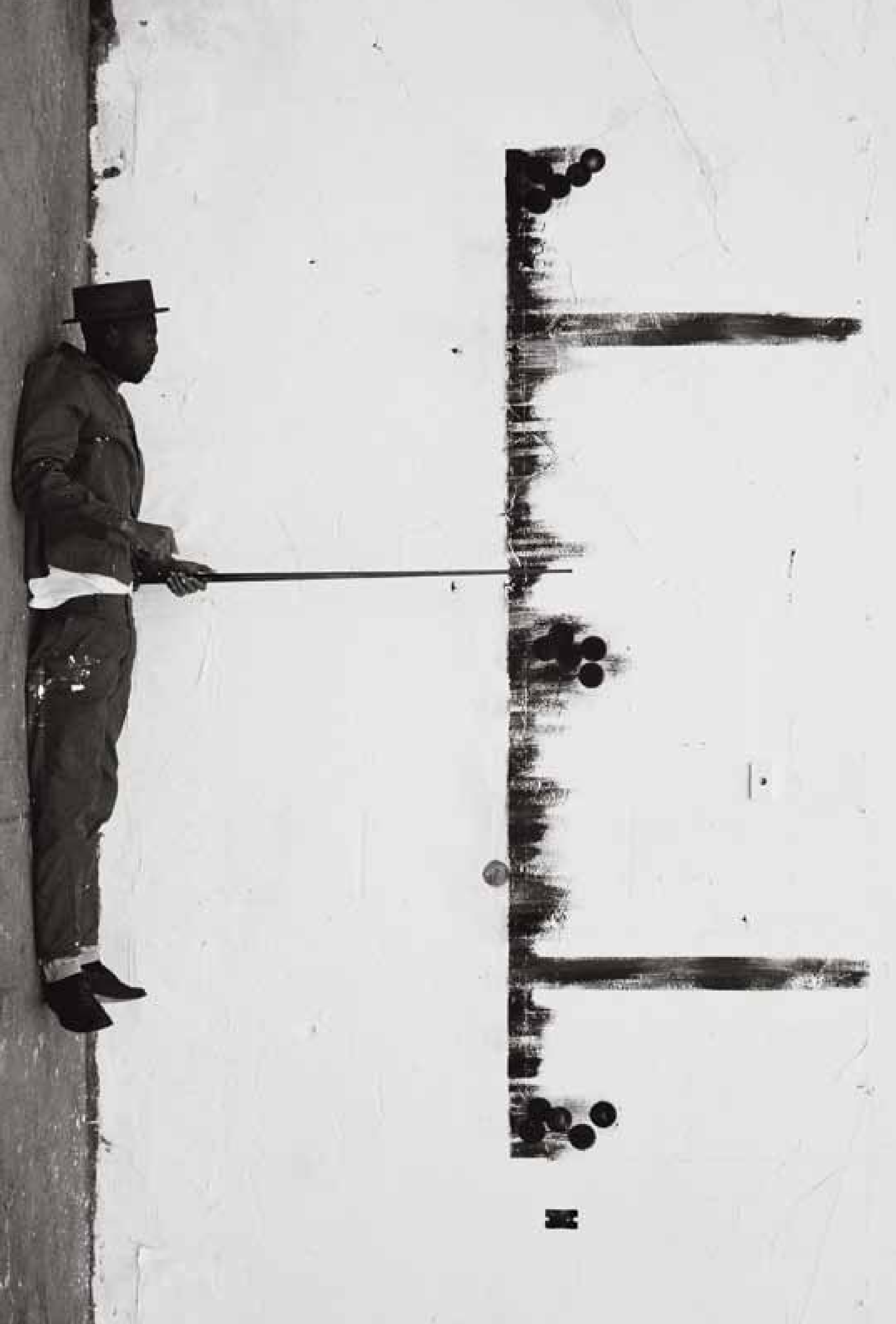
We cannot predict when the commercial auto market will begin to expand and to meet our expectations for growth we must capture share within the existing market. For the last few years we have focused on expanding the breadth of our products to serve more small business categories and intensifying our customer focus. In 2010, we refined our customer segmentation beyond the broad core groups of truck and business auto into five business market targets (BMTs). We have aligned our product structure, pricing, business metrics, and marketing around these groups and, while early in the implementation, are seeing encouraging results.

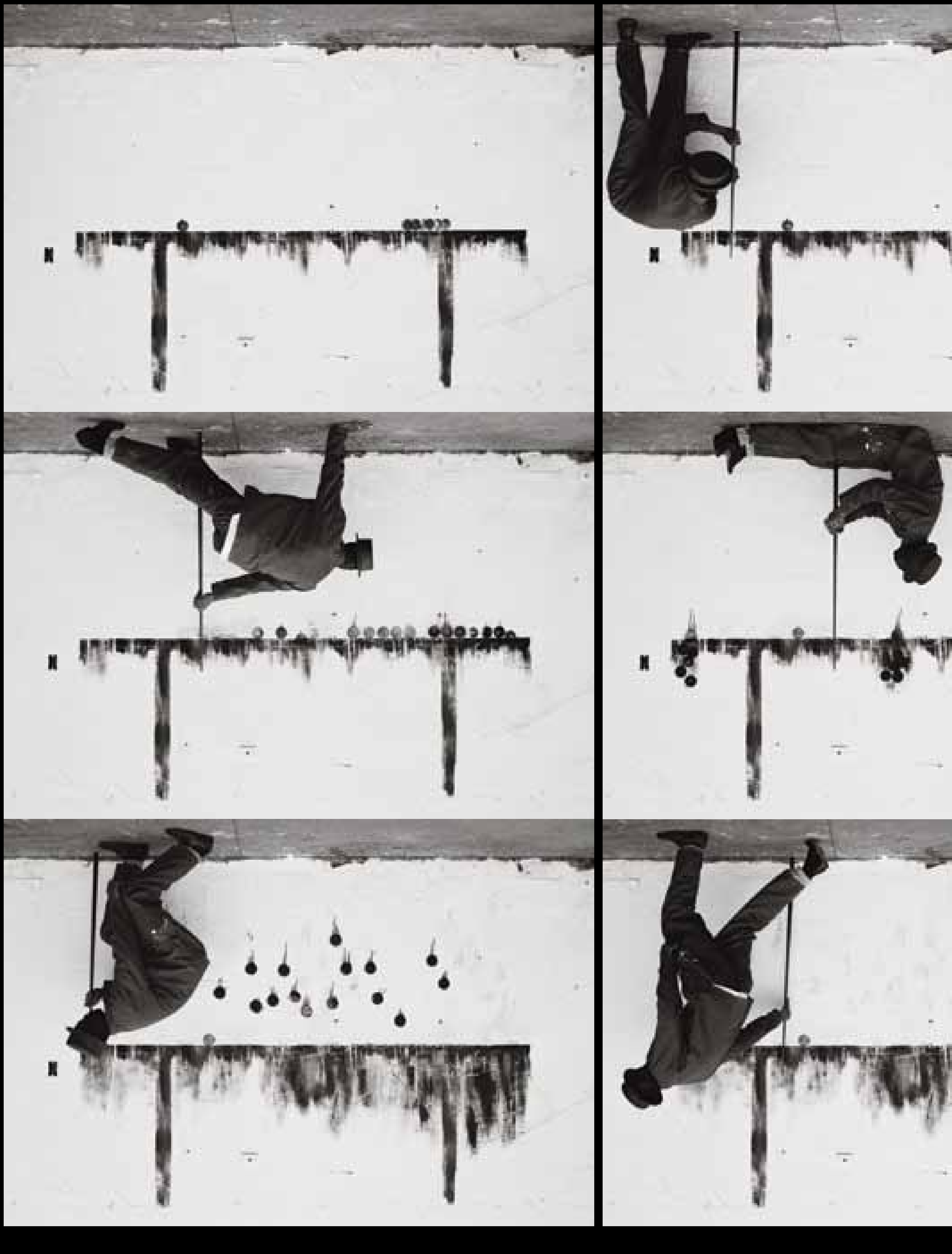
As the economy grew slowly in 2010, it was clear that the customer segments were recovering at very different rates, evidenced by different growth rates for new business prospects. Our new product model provided us with the flexibility to respond quickly and more precisely to changes in business mix and accident frequency by BMT, yielding more accurate pricing across the portfolio. Specifically, the combination of more responsive pricing and additional segment-oriented coverage for truck cargo and truckers liability assisted in achieving 10% growth in the for-hire transportation BMT, one area we are targeting for market share gains. We will expand on this customer segmentation approach in 2011 adding a sixth BMT.

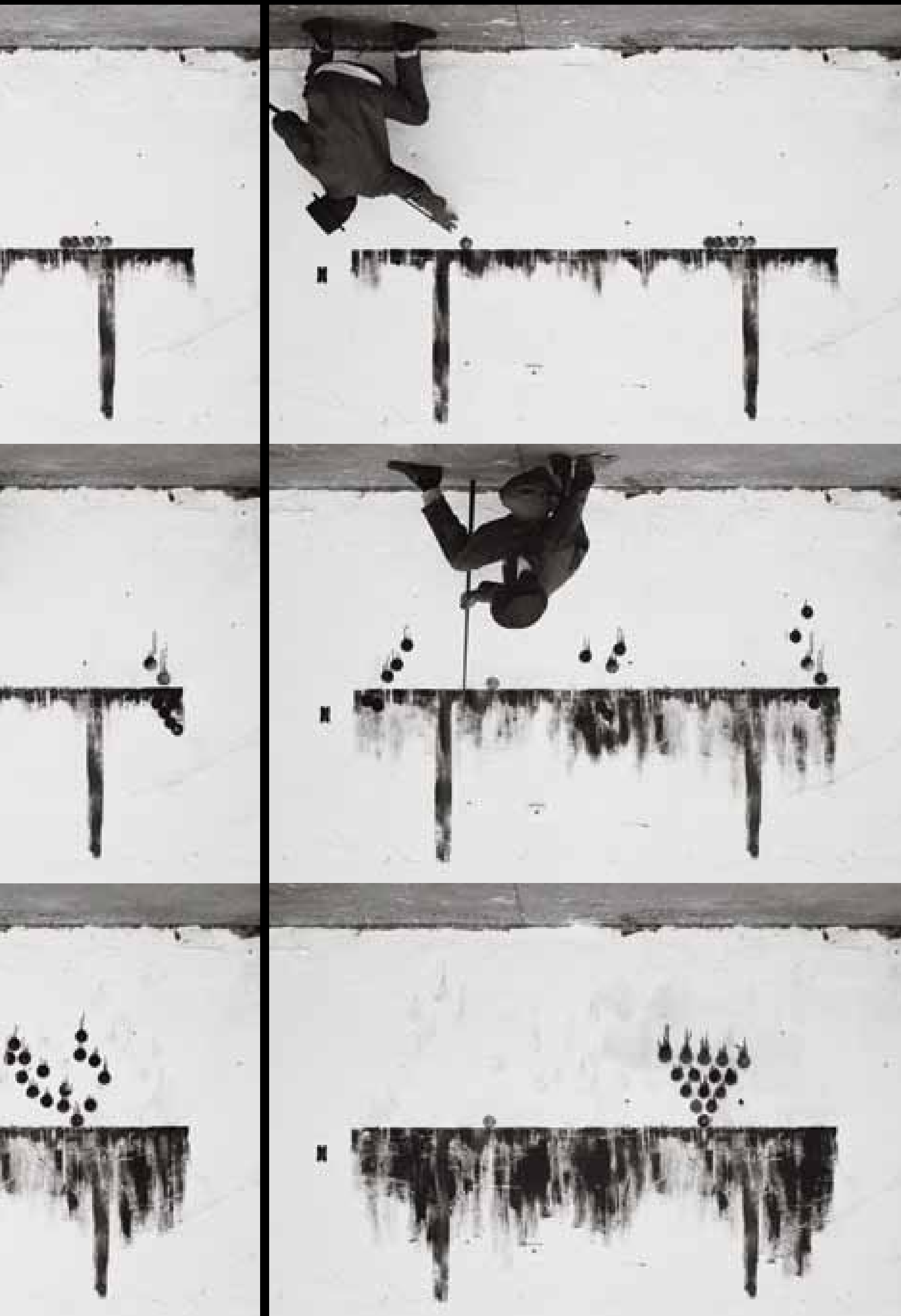
Better customer segmentation also benefits our growing direct distribution to small business owner operations. Direct sales comprise a relatively small portion of the commercial auto market today and we are excited by the opportunity for growth and the chance to lead in this domain. 2010 was our best year yet for the Direct business with 13% growth in new customers. Yield on our awareness marketing spend continues to trend favorably and is aided by an enhanced capability to target specific business segments with relevant products and messages. Targeted marketing, combined with Progressive brand strength, promises to be a powerful combination moving forward.

In the past year, we launched our Progressive Commercial Advantage program in our Direct business. The program enables us to provide additional non-auto commercial insurance products, such as workers' compensation and general liability, to our customers underwritten by two unaffiliated insurance carriers. Progressive Commercial Advantage is designed to enhance the value of our relationship leading to increased customer policy life expectancy. In 2011, we will add additional carriers and deploy Progressive Commercial Advantage to interested agents in a few pilot states.

Commercial Auto continues to make a significant contribution to companywide underwriting profits. Maintaining adequate rates and disciplined underwriting remains a top priority. With recent improvements in our products, customer segmentation, and distribution we look toward a return to profitable growth with an expectation of only modest improvements in market conditions.







Basis of Presentation: The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries and affiliate. These financial statements should be read in conjunction with the complete Consolidated Financial Statements, including the complete Notes to the Consolidated Financial Statements, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations and Supplemental Information, which are included in Progressive's 2010 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2011 Proxy Statement.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Progressive's management is responsible for establishing and maintaining adequate internal control over financial reporting. Based on Progressive's evaluation under the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), management concluded that Progressive's internal control over financial reporting was effective as of December 31, 2010. The complete "Management's Report on Internal Control over Financial Reporting," as required by Section 404 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations, along with the related report of PricewaterhouseCoopers LLP, is presented in the 2010 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2011 Proxy Statement.

CEO AND CFO CERTIFICATIONS

Glenn M. Renwick, President and Chief Executive Officer of The Progressive Corporation, and Brian C. Domeck, Vice President and Chief Financial Officer of The Progressive Corporation, have issued the certifications required by Sections 302 and 906 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations with respect to Progressive's 2010 Annual Report on Form 10-K, including the financial statements provided in this Report and in the 2010 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2011 Proxy Statement. Among other matters required to be included in those certifications, Mr. Renwick and Mr. Domeck have each certified that, to the best of his knowledge, the financial statements, and other financial information included in the Annual Report on Form 10-K, fairly present in all material respects the financial condition, results of operations, and cash flows of Progressive as of, and for, the periods presented. See Exhibits 31 and 32 to Progressive's Annual Report on Form 10-K for the complete Section 302 and 906 Certifications, respectively.

Consolidated Statements of Income

(millions — except per share amounts)

For the years ended December 31,	2010	2009	2008
REVENUES			
Net premiums earned	$ 14,314.8	$ 14,012.8	$ 13,631.4
Investment income	520.1	507.0	637.7
Net realized gains (losses) on securities:			
Other-than-temporary impairment (OTTI) losses:			
Total OTTI losses	(19.1)	(80.9)	
Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses	5.2	40.1	
Net impairment losses recognized in earnings	(13.9)	(40.8)	
Net realized gains (losses) on securities	110.0	67.9	
Total net realized gains (losses) on securities	96.1	27.1	(1,445.1)
Service revenues	25.9	16.7	16.1
Net gain on extinguishment of debt	6.4	0	0
Total revenues	14,963.3	14,563.6	12,840.1
EXPENSES			
Losses and loss adjustment expenses	10,131.3	9,904.9	10,015.0
Policy acquisition costs	1,359.9	1,364.6	1,358.1
Other underwriting expenses	1,740.1	1,567.7	1,523.4
Investment expenses	11.9	11.1	8.8
Service expenses	21.4	19.4	20.4
Interest expense	133.5	139.0	136.7
Total expenses	13,398.1	13,006.7	13,062.4
NET INCOME (LOSS)			
Income (loss) before income taxes	1,565.2	1,556.9	(222.3)
Provision (benefit) for income taxes	496.9	499.4	(152.3)
Net income (loss)	$ 1,068.3	$ 1,057.5	$ (70.0)
COMPUTATION OF EARNINGS PER SHARE			
Basic:			
Average shares outstanding	657.9	666.8	668.0
Per share	$ 1.62	$ 1.59	$ (.10)
Diluted:			
Average shares outstanding	657.9	666.8	668.0
Net effect of dilutive stock-based compensation	5.4	5.4	5.9
Total equivalent shares	663.3	672.2	673.9
Per share[1]	$ 1.61	$ 1.57	$ (.10)

[1]For 2008, amount represents basic earnings per share since diluted earnings per share was antidilutive due to the net loss for the year.

See Notes to the complete Consolidated Financial Statements included in Progressive's 2010 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2011 Proxy Statement.

Consolidated Balance Sheets

(millions)

December 31,	2010	2009
ASSETS		
Investments—Available-for-sale, at fair value:		
Fixed maturities (amortized cost: $11,630.8 and $11,717.0)	$ 11,850.0	$ 11,563.4
Equity securities:		
Nonredeemable preferred stocks (cost: $601.3 and $665.4)	1,157.6	1,255.8
Common equities (cost: $1,021.7 and $598.4)	1,425.0	816.2
Short-term investments (amortized cost: $1,090.8 and $1,078.0)	1,090.8	1,078.0
Total investments	15,523.4	14,713.4
Cash	158.9	160.7
Accrued investment income	109.3	110.4
Premiums receivable, net of allowance for doubtful accounts of $114.9 and $116.4	2,738.4	2,454.8
Reinsurance recoverables, including $37.4 and $35.4 on paid losses and loss adjustment expenses	741.5	564.8
Prepaid reinsurance premiums	88.1	69.3
Deferred acquisition costs	417.2	402.2
Income taxes	189.0	416.7
Property and equipment, net of accumulated depreciation of $564.3 and $595.8	932.6	961.3
Other assets	251.9	195.7
Total assets	$ 21,150.3	$ 20,049.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unearned premiums	$ 4,353.8	$ 4,172.9
Loss and loss adjustment expense reserves	7,071.0	6,653.0
Accounts payable, accrued expenses, and other liabilities[1]	1,718.4	1,297.6
Debt	1,958.2	2,177.2
Total liabilities	15,101.4	14,300.7
Common Shares, $1.00 par value (authorized 900.0; issued 797.7 and 797.8, including treasury shares of 135.3 and 125.2)	662.4	672.6
Paid-in capital	1,007.1	939.7
Retained earnings	3,595.7	3,683.1
Accumulated other comprehensive income (loss), net of tax:		
Net non-credit related OTTI losses, adjusted for valuation changes	(1.8)	(15.7)
Other net unrealized gains (losses) on securities	769.1	445.9
Total net unrealized gains (losses) on securities	767.3	430.2
Net unrealized gains on forecasted transactions	14.7	21.6
Foreign currency translation adjustment	1.7	1.4
Total accumulated other comprehensive income (loss)	783.7	453.2
Total shareholders' equity	6,048.9	5,748.6
Total liabilities and shareholders' equity	$ 21,150.3	$ 20,049.3

[1]See *Note 12–Litigation* and *Note 13–Commitments and Contingencies*, in Progressive's 2010 Annual Report to Shareholders, for further discussion.

See Notes to the complete Consolidated Financial Statements included in Progressive's 2010 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2011 Proxy Statement.

Consolidated Statements of Changes in Shareholders' Equity

(millions — except per share amounts)

For the years ended December 31,	2010		2009		2008	
RETAINED EARNINGS						
Balance, Beginning of year	$3,683.1		$2,697.8		$2,927.7	
Cumulative effect of change in accounting principle	0		189.6		0	
Net income (loss)	1,068.3	$1,068.3	1,057.5	$1,057.5	(70.0)	$ (70.0)
Cash dividends declared on common shares ($1.3987, $.1613, and $0 per share)	(924.8)		(108.5)		0	
Treasury shares purchased	(226.0)		(154.5)		(157.1)	
Other, net	(4.9)		1.2		(2.8)	
Balance, End of year	$3,595.7		$3,683.1		$2,697.8	
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX						
Balance, Beginning of year	$ 453.2		$ (51.9)		$ 492.8	
Cumulative effect of change in accounting principle	0		(189.6)		0	
Changes in:						
Net non-credit related OTTI losses, adjusted for valuation changes		13.9		(15.7)		[illegible]
Other unrealized gains (losses) on securities		323.2		712.3		[illegible]
Total net unrealized gains (losses) on securities		337.1		696.6		(541.8)
Net unrealized gains on forecasted transactions		(6.9)		(3.3)		(2.9)
Foreign currency translation adjustment		.3		1.4		0
Other comprehensive income (loss)	330.5	330.5	694.7	694.7	(544.7)	(544.7)
Balance, End of year	$ 783.7		$ 453.2		$ (51.9)	
Comprehensive income (loss)		$1,398.8		$1,752.2		$ (614.7)
COMMON SHARES, $1.00 PAR VALUE						
Balance, Beginning of year	$ 672.6		$ 676.5		$ 680.2	
Stock options exercised	3.4		3.5		3.5	
Treasury shares purchased	(13.3)		(11.1)		(9.9)	
Restricted stock awards issued, net of forfeitures	(.3)		3.7		2.7	
Balance, End of year	$ 662.4		$ 672.6		$ 676.5	
PAID-IN CAPITAL						
Balance, Beginning of year	$ 939.7		$ 892.9		$ 834.8	
Stock options exercised	23.8		15.3		23.5	
Tax benefit from exercise/vesting of stock-based compensation	14.0		9.7		11.1	
Treasury shares purchased	(19.3)		(15.0)		(12.4)	
Restricted stock awards issued, net of forfeitures	.3		(3.7)		(2.7)	
Amortization of stock-based compensation	44.8		39.2		35.1	
Other	3.8		1.3		3.5	
Balance, End of year	$1,007.1		$ 939.7		$ 892.9	
Total Shareholders' Equity	$6,048.9		$5,748.6		$4,215.3	

There are 20.0 million Serial Preferred Shares authorized; no such shares are issued or outstanding.

There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.

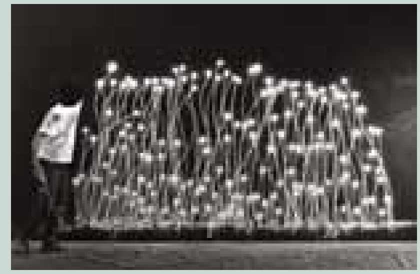
See Notes to the complete Consolidated Financial Statements included in Progressive's 2010 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2011 Proxy Statement.

Consolidated Statements of Cash Flows

(millions)

For the years ended December 31,	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 1,068.3	$ 1,057.5	$ (70.0)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	83.1	87.3	99.1
Amortization of fixed-income securities	229.2	230.8	249.6
Amortization of stock-based compensation	45.9	40.3	34.5
Net realized (gains) losses on securities	(96.1)	(27.1)	1,445.1
Net loss on disposition of property and equipment	2.3	13.3	1.6
Net gain on extinguishment of debt	(6.4)	0	0
Changes in:			
Premiums receivable	(283.6)	(46.2)	(13.5)
Reinsurance recoverables	(176.7)	(276.3)	46.6
Prepaid reinsurance premiums	(18.8)	(6.9)	7.4
Deferred acquisition costs	(15.0)	11.8	12.3
Income taxes	48.1	29.7	(423.8)
Unearned premiums	180.8	(3.0)	(34.5)
Loss and loss adjustment expense reserves	418.0	475.6	234.7
Accounts payable, accrued expenses, and other liabilities	210.2	(71.8)	(101.2)
Other, net	(10.0)	(28.2)	61.3
Net cash provided by operating activities	1,679.3	1,486.8	1,549.2
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases:			
Fixed maturities	(4,491.7)	(10,046.3)	(7,593.9)
Equity securities	(511.4)	(624.2)	(598.3)
Short-term investments–auction rate securities	0	0	(631.5)
Sales:			
Fixed maturities	3,055.8	7,950.0	5,629.5
Equity securities	241.9	919.4	1,401.0
Short-term investments–auction rate securities	0	0	631.5
Maturities, paydowns, calls, and other:			
Fixed maturities	1,341.1	842.5	505.5
Equity securities	0	15.7	34.9
Net sales (purchases) of short-term investments–other	(11.5)	75.6	(771.0)
Net unsettled security transactions	(54.0)	(246.5)	177.2
Purchases of property and equipment	(64.7)	(66.6)	(98.5)
Sales of property and equipment	8.0	1.8	1.1
Net cash used in investing activities	(486.5)	(1,178.6)	(1,312.5)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of stock options	27.2	18.8	27.0
Tax benefit from exercise/vesting of stock-based compensation	14.0	9.7	11.1
Reacquistion of debt	(214.3)	0	0
Dividends paid to shareholders	(763.7)	0	(98.3)
Acquisition of treasury shares	(258.6)	(180.6)	(179.4)
Net cash used in financing activities	(1,195.4)	(152.1)	(239.6)
Effect of exchange rate changes on cash	.8	1.7	0
Increase (decrease) in cash	(1.8)	157.8	(2.9)
Cash, Beginning of year	160.7	2.9	5.8
Cash, End of year	$ 158.9	$ 160.7	$ 2.9

See Notes to the complete Consolidated Financial Statements included in Progressive's 2010 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2011 Proxy Statement.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of The Progressive Corporation:

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Progressive Corporation and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010 (not presented herein) appearing in The Progressive Corporation's 2010 Annual Report to Shareholders, which is attached as an Appendix to The Progressive Corporation's 2011 Proxy Statement. In our report dated March 1, 2011, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

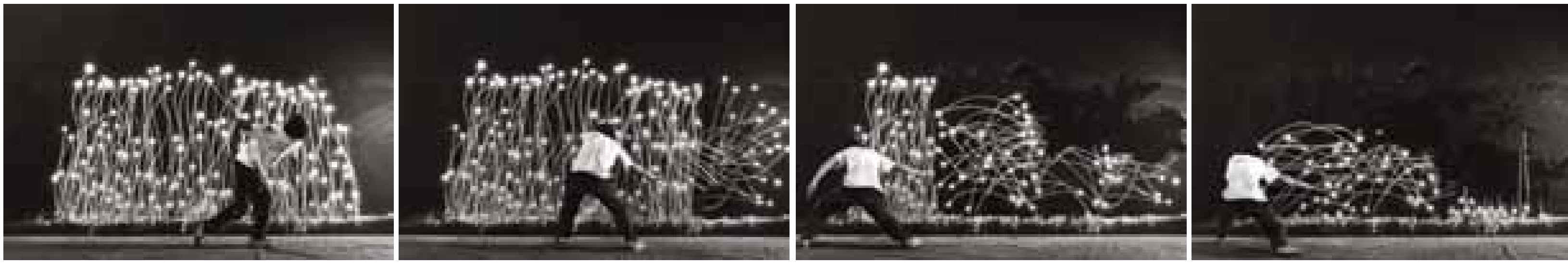
PricewaterhouseCoopers LLP

Cleveland, Ohio
March 1, 2011

COMMON SHARES AND DIVIDENDS

The Progressive Corporation's common shares (symbol PGR) are traded on the New York Stock Exchange. Progressive currently has an annual variable dividend policy. We expect the Board to declare the next annual variable dividend, subject to policy limitations, in December 2011, with a record date in January 2012 and payment shortly thereafter. A complete description of our annual variable dividend policy can be found at: progressive.com/dividend.

	Stock Price				
Quarter	High	Low	Close	Rate of Return	Dividends Declared per Share
2010					
1	$ 19.69	$ 16.18	$ 19.09		$ 0
2	20.94	18.67	18.72		0
3	21.59	18.41	20.87		0
4	22.13	19.54	19.87		1.3987
	$ 22.13	$ 16.18	$ 19.87	16.9%	$ 1.3987
2009					
1	$ 15.24	$ 9.76	$ 13.44		$ 0
2	17.00	13.00	15.11		0
3	17.50	14.12	16.58		0
4	18.10	15.90	17.99		.1613
	$ 18.10	$ 9.76	$ 17.99	21.5%	$ .1613



SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements in this report that are not historical fact are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. These risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions, and projections generally; inflation and changes in economic conditions (including changes in interest rates and financial markets); the financial condition of, and other issues relating to the strength of and liquidity available to, issuers of securities held in our investment portfolios and other companies with which we have ongoing business relationships, including counterparties to certain financial transactions; the accuracy and adequacy of our pricing and loss reserving methodologies; the competitiveness of our pricing and the effectiveness of our initiatives to retain more customers; initiatives by competitors and the effectiveness of our response; our ability to obtain regulatory approval for requested rate changes and the timing thereof; the effectiveness of our brand strategy and advertising campaigns relative to those of competitors; legislative and regulatory developments, including, but not limited to, health care reform and tax law changes; disputes relating to intellectual property rights; the outcome of litigation pending or that may be filed against us; weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail, and winter conditions); changes in driving patterns and loss trends; acts of war and terrorist activities; our ability to maintain the uninterrupted operation of our facilities, systems (including information technology systems), and business functions; court decisions and trends in litigation and health care and auto repair costs; and other matters described from time to time in our releases and publications, and in our periodic reports and other documents filed with the United States Securities and Exchange Commission. In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for one or more contingencies. Also, our regular reserve reviews may result in adjustments of varying magnitude as additional information regarding claims activity becomes known. Reported results, therefore, may be volatile in certain accounting periods.

CORPORATE INFORMATION

Principal Office The Progressive Corporation
6300 Wilson Mills Road, Mayfield Village, Ohio 44143
440-461-5000
progressive.com

Annual Meeting The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, 6671 Beta Drive, Mayfield Village, Ohio 44143 on April 29, 2011, at 10 a.m. eastern time. There were 3,703 shareholders of record on December 31, 2010.

Shareholder/Investor Relations Progressive does not maintain a mailing list for distribution of shareholders' reports. To view Progressive's publicly filed documents, shareholders can access our Web site: progressive.com/sec. To view our earnings and other releases, access progressive.com/investors.

For financial-related information or to request copies of Progressive's publicly filed documents free of charge, write to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143, e-mail: investor_relations@progressive.com or call: 440-395-2222.

For all other Company information, call: 440-461-5000 or access our Web site at progressive.com/contactus.

Charitable Contributions Progressive contributes annually to The Progressive Insurance Foundation, which provides: (i) financial support to the Insurance Institute for Highway Safety to further its work in reducing the human trauma and economic costs of auto accidents; and (ii) matching funds to eligible 501(c)(3) charitable organizations to which Progressive employees contribute.

Social Responsibility Progressive uses an interactive online format to communicate our social responsibility efforts. This report can be found at: progressive.com/socialresponsibility.

Counsel Baker & Hostetler LLP, Cleveland, Ohio

Corporate Governance Progressive's Corporate Governance Guidelines and Board Committee Charters are available at: progressive.com/governance.

Transfer Agent and Registrar

Registered Shareholders If you have questions or changes to your account and your Progressive shares are registered in your name, write to: American Stock Transfer & Trust Company, Attn: Operations Center, 6201 15th Avenue, Brooklyn, NY 11219; phone: 1-866-709-7695; e-mail: info@amstock.com; or visit their Web site at: www.amstock.com.

Beneficial Shareholders If your Progressive shares are held in a brokerage or other financial institution account, contact your broker or financial institution directly regarding questions or changes to your account.

Online Annual Report and Proxy Statement Our 2010 Annual Report to Shareholders can be found at: progressive.com/annualreport.

We have also posted copies of our 2011 Proxy Statement and 2010 Annual Report to Shareholders, in a "PDF" format, at: progressiveproxy.com.

Contact Non-Management Directors Interested parties have the ability to contact the non-management directors as a group by sending a written communication clearly addressed to the non-management directors and sent to any of the following:

Peter B. Lewis, Chairman of the Board,
The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or e-mail: peter_lewis@progressive.com.

Charles E. Jarrett, Secretary,
The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or e-mail: chuck_jarrett@progressive.com.

The recipient will forward communications so received to the non-management directors.

Accounting Complaint Procedure Any employee or other interested party with a complaint or concern regarding accounting, internal accounting controls, or auditing matters relating to Progressive may report such complaint or concern directly to the Chairman of the Audit Committee, as follows:

Patrick H. Nettles, Ph.D., Chairman of the Audit Committee, patrick_nettles@progressive.com.

Any such complaint or concern also may be reported anonymously over the following toll-free Alert Line: 1-800-683-3604 or online at www.progressivealertline.com. Progressive will not retaliate against any individual by reason of his or her having made such a complaint or reported such a concern in good faith. View the complete procedures at progressive.com/governance.

Whistleblower Protections Progressive will not retaliate against any officer or employee of Progressive because of any lawful act done by the employee to provide information or otherwise assist in investigations regarding conduct that the employee reasonably believes to be a violation of Federal securities laws or of any rule or regulation of the Securities and Exchange Commission or Federal securities laws relating to fraud against shareholders. View the complete Whistleblower Protections at progressive.com/governance.

Registered Trademark Net Promoter® is a registered trademark of Satmetrix Systems, Inc.

DIRECTORS AND OFFICERS

Directors

Stuart B. Burgdoerfer[1, 6]
Executive Vice President and
Chief Financial Officer,
Limited Brands, Inc.
(retailing)

Charles A. Davis[4, 5, 6]
Chief Executive Officer,
Stone Point Capital LLC
(private equity investing)

Roger N. Farah[3, 6]
President and Chief Operating Officer,
Polo Ralph Lauren Corporation
(lifestyle products)

Lawton W. Fitt[4, 6]
Corporate Director, various companies
Retired Partner,
Goldman Sachs Group
(financial services)

Stephen R. Hardis[2, 4, 5, 6]
Non-Executive Chairman of the Board,
Marsh & McLennan Companies, Inc.
(financial services)

Bernadine P. Healy, M.D.[1, 6]
Retired Health Editor and
Medical Columnist,
U.S. News & World Report
(publishing)

Abby F. Kohnstamm[1, 6]
President and Chief Executive Officer,
Abby F. Kohnstamm & Associates, Inc.
(marketing consulting)

Peter B. Lewis[2, 4, 6]
Chairman of the Board
(non-executive)

Norman S. Matthews[3, 5, 6]
Consultant, former President,
Federated Department Stores, Inc.
(retailing)

Patrick H. Nettles, Ph.D.[1, 6]
Executive Chairman,
Ciena Corporation
(telecommunications)

Glenn M. Renwick[2]
President and Chief Executive Officer

Bradley T. Sheares, Ph.D.[3,6]
Former Chief Executive Officer,
Reliant Pharmaceuticals, Inc.
(pharmaceuticals)

[1]Audit Committee member
[2]Executive Committee member
[3]Compensation Committee member
[4]Investment and Capital Committee member
[5]Nominating and Governance Committee member
[6]Independent Director

Corporate Officers

Glenn M. Renwick
President and Chief Executive Officer

Brian C. Domeck
Vice President and
Chief Financial Officer

Charles E. Jarrett
Vice President, Secretary,
and Chief Legal Officer

Thomas A. King
Vice President and Treasurer

Jeffrey W. Basch
Vice President and
Chief Accounting Officer

Mariann Wojtkun Marshall
Assistant Secretary

Peter B. Lewis
Chairman of the Board
(non-executive)

24-HOUR INSURANCE QUOTES, CLAIMS REPORTING, AND CUSTOMER SERVICE

	Personal autos, motorcycles, and recreational vehicles	Commercial autos/trucks
To Receive a Quote	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-888-806-9598 progressivecommercial.com
To Report a Claim	1-800-274-4499 progressive.com[1]	1-800-274-4499
For Customer Service: If you bought your policy through an independent agent or broker	1-800-925-2886 (1-800-300-3693 in California) progressiveagent.com	1-800-444-4487 progressivecommercial.com
If you bought your policy directly through Progressive online or by phone	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-444-4487 progressivecommercial.com
If you have a complaint or concern regarding any claim handling or other claims-related issue[2]	1-800-274-4641 e-mail: claims@email.progressive.com	1-800-274-4641 e-mail: claims@email.progressive.com

[1]Claims reporting via the Web site is currently only available for personal auto policies.

[2]Any policyholder, claimant, or other interested party who has any complaint or concern regarding any claim handling or other claims-related issue may report such claim using the contact information above. The complaint or concern will be promptly forwarded to the appropriate management personnel in our claims organization for review and response.

ARTWORK FROM THE SERIES

Artwork ©2011 Robin Rhode

Design Nesnadny + Schwartz, Cleveland + New York + Toronto

Printing AGS Custom Graphics

This publication was printed at an FSC-certified printer (Certification No. SW-COC-001530). The FSC Label identifies products that contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council. Acid-Free, recycled and recyclable papers were employed throughout this publication.

6300 Wilson Mills Road, Mayfield Village, Ohio 44143

440.461.5000

progressive.com

PROGRESSIVE®