The Progressive Corporation 2009 Annual Report

respect every individual

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.

The foundation of Progressive's customer care philosophy is built upon respect. Photographer Coke Wisdom O'Neal explored the theme of respect by employing his wooden box—a metaphoric stage to celebrate each person's unique individuality. Since true respect is earned, the individuals featured in this annual report were selected for their commitment to their communities, their families and themselves. O'Neal's work will join Progressive's growing collection of contemporary art.

(billions—except per share amounts)

	2009	2008	2007	2006	2005
For the Year					
Net premiums written	$ 14.0	$ 13.6	$ 13.8	$ 14.1	$ 14.0
Growth over prior year	3%	(1)%	(3)%	1%	5%
Net premiums earned	$ 14.0	$ 13.6	$ 13.9	$ 14.1	$ 13.8
Growth over prior year	3%	(2)%	(2)%	3%	5%
Total revenues	$ 14.6	$ 12.8	$ 14.7	$ 14.8	$ 14.3
Net income (loss)	$ 1.06	$ (.07)	$ 1.18	$ 1.65	$ 1.39
Per share[1]	$ 1.57	$ (.10)	$ 1.65	$ 2.10	$ 1.74
Underwriting margin	8.4%	5.4%	7.4%	13.3%	11.9%

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

	2009	2008	2007	2006	2005
At Year-End					
Common shares outstanding (millions)	672.6	676.5	680.2	748.0	789.3
Book value per share	$ 8.55	$ 6.23	$ 7.26	$ 9.15	$ 7.74
Consolidated shareholders' equity	$ 5.7	$ 4.2	$ 4.9	$ 6.8	$ 6.1
Market capitalization	$ 12.1	$ 10.0	$ 13.0	$ 18.1	$ 23.0
Return on average shareholders' equity	21.4%	(1.5)%	19.5%	25.3%	25.0%
Policies in force (thousands)					
Personal Lines					
Agency–Auto	4,299.2	4,288.6	4,396.8	4,433.1	4,491.4
Direct–Auto	3,201.1	2,824.0	2,598.5	2,428.5	2,327.7
Special Lines	3,440.3	3,352.3	3,120.3	2,879.5	2,674.9
Total Personal Lines	10,940.6	10,464.9	10,115.6	9,741.1	9,494.0
Growth over prior year	5%	3%	4%	3%	9%
Commercial Auto	512.8	539.4	539.2	503.2	468.2
Growth over prior year	(5)%	—%	7%	7%	11%
Market share[2]	7.6%	7.3%	7.3%	7.4%	7.5%
Industry net premiums written[3]	$ 158.7	$ 157.9	$ 159.1	$ 160.2	$ 159.6

	1-Year	3-Year	5-Year
Stock Price Appreciation (Depreciation)[4]			
Progressive	21.5%	(6.1)%	(1.1)%
S&P 500	26.4%	(5.6)%	.4%

[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, which includes motorcycle insurance, as a percent of the private passenger auto insurance market; 2009 is estimated.

[3]Represents private passenger auto insurance market net premiums written as reported by A.M. Best Company, Inc.; 2009 is estimated.

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

All share and per share amounts were adjusted for the May 18, 2006, 4-for-1 stock split.

everyone

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 The opportunity to earn a profit is how the competitive free-enterprise system motivates investment to enhance human health and happiness. Profits reflect our customers' and claimants' increasingly positive view of Progressive.

everywhere

The widespread retrenchments and uncertainty that characterized 2008 faded as '09 developed and gave way to a largely "Go North" year for Progressive. What a difference—a disappointing net loss in '08 was solidly put in our rearview mirror with a return on shareholders' equity of 21.4% and net income over a billion dollars. Concerns for capital adequacy moved to more comfortable considerations of effective use of underleveraged capital and the frequency of discussion about book value impairment to invested assets faded like old news stories.

Passenger side rearview mirrors caution us that "*objects may be closer than they appear*." Similarly, percentage gains and single-year comparisons over a year like 2008 will undoubtedly need added clarification to appropriately communicate a meaningful perspective on the year—separating good actions from good fortune. That said, it was a good year for Progressive on almost all measures and, in more ways than not, what we had hoped to achieve.

Starting the year, we had two clear and critical imperatives: Meet or exceed underwriting targets and continue with our efforts to "de-risk" the investment portfolio. Each of these imperatives evolved as the year progressed, but both set the tone for our actions.

Underwriting Results

Commenting on the 94.6% combined ratio for 2008 I wrote that "Duplicating this profit margin next year will be very pleasing, but will take incredible vigilance" and expressed confidence by stating my view that these situations are Progressive at its best.

Our full year combined ratio for 2009 was 91.6%. Imperative one was met well.

A significant concern was pricing to reflect the level of claim frequency likely to emerge post the dramatic gas-price induced decline of 2008. Our models and estimates, while interesting, will never substitute for our ability to observe and respond quickly. With the benefit of hindsight, frequency escalation was, generally speaking, more benign than some of our estimates and contributed to our outperformance on margin relative to our goal of a 96 combined ratio. A notable exception was considerably more aggressive trends in personal injury protection coverage in a handful of important states.

Perhaps more impressive than the aggregate result is our performance at the product and state level. 48 of our 51 jurisdictions were profitable for Personal Lines for the year and only an additional five states did not meet or exceed their target profitability. To highlight the point of incredible vigilance, the single best common denominator among those states not meeting targets was personal injury protection coverage.

Our Commercial Auto business, struggling with the derivative effect of a damaged economy for volume, certainly contributed on margin with an aggregate 85.8 combined ratio with just five states on the wrong side of breakeven.

I suggest readers add a point to the total combined ratio above to get a more accurate read on the 2009 accident year results and, more importantly, the price adequacy for the year. The difference is a contribution from prior accident year claims settling at amounts lower than originally estimated, thus resulting in favorable development.

The business production story was equally hard to predict. As the year started, we were happy to see a measurable surge in quoting activity, most notably in our Direct business and even more specifically through the Internet. Theories to explain the growth remain mostly that, but our surveying seems to suggest that consumers, reacting to the economic news that surrounded them every day, were evaluating economic choices they perhaps may not have without such stimulus. Actions within my own household suggest some veracity to the theory and, while not meeting Progressive's standards of proof, I'm prepared to conclude QED. Regardless, the surge was welcome and we were well prepared and positioned.

Prepared and Positioned

In past letters I've outlined key elements of our strategic agenda and progress on each. While far from complete, our progress has been substantial and helped position us to take advantage of the market conditions.

Our intense focus on leading in the online space has resulted in a Web site that has consistently been recognized as the industry leader. Additional recognition was expressed by Forrester Research in the third quarter as they named our Web site the best Brand Building Web site across all financial services sectors.

We feel the real power of the online experience is changing it to involve the customer in respectful and engaging ways. This year, we substantially completed the countrywide roll-out of our "Name Your Price®" offering, which invites the customer to participate in the quoting process by telling us how much they would like to pay. The timing was perfect and the symbolism of a low-tech price gun provided an interesting juxtaposition that consumers had no trouble understanding. We see this as a perfect

Every interaction provides us with the opportunity to demonstrate our respect for the people who rely on us. Our licensed professionals are available 24/7, online and off, to answer questions and provide peace of mind. Our comparison rates deliver information that helps customers feel confident they've made an informed decision. And, our Name Your Price® option gives customers control by telling us what they would like to pay for car insurance.

example of the changing customer experiences that are possible and, by our measures, welcomed and business generating. We clearly need to do more and have plans to do so, but 2009 was an encouraging year online.

Increasing our focus on target consumer segments over the past several years has resulted in notable improvements in customer retention and care. The largest segment of consumers, as we use that term, is one that purchases multiple personal lines products for the household. We have low penetration in this sizable segment and see greater penetration as the best way to achieve our internal organic growth ambition of doubling the premium of the company. We are now far better positioned to serve the needs of those consumers wishing to combine a renters or homeowners policy with their auto selection and have consistently expanded this capability, ending the year with three meaningful relationships for companion products.

This effective expansion of our target market is an exciting prospect for further growth and consistent with the notion of positioning Progressive as a "destination" insurer. While noting my rearview mirror analogy, our growth in policies in this target segment in both our Agency and Direct businesses was over 100% in 2009. "Small with potential" is an exciting positioning for us but will not distract us from our commitment to segments we currently serve well.

A stronger brand communicated well is an action call that has been part of this letter for some time and represents an earnest aspiration. The last two years have been confirming of the effort and more importantly have provided a glimpse of what's possible with a strong brand to unify the other skills we value. Consumers have responded well to our messages and market innovations, but the buzz seems to stem from "Flo"— our self-constructed employee of the Superstore. Consumer recognition and appeal is high, and we have exciting plans to keep the campaign fresh and relevant. At the same time, we acknowledge that we have a significant gap yet to close relative to the best-in-class recognition.

Clearly, the consumer demand generation objective of a brand is essential and, in 2009, we were served well, but for me there is an even bigger contribution to our customer care culture that has been served by our brand-building efforts. Employees at every level identify with Flo, and with the positive brand characteristics she demonstrates to customers and shoppers—even her quirkiness. When we challenge ourselves with the question—"Who does the customer expect to answer the phone or settle a claim?," the immediate answer is clear and, while common sense suggests it will not be Flo, the expectations are unchanged.

Our customer-focused agenda has been a source of some pride for us over the past several years but the model of brand ambassadorship exhibited by Flo, and accepted by all employees with similar enthusiasm, ensures the critical congruence of brand messaging and brand execution.

Late in the second quarter, and continuing through the second half of the year, we saw the emergence of stronger new application growth in our Agency business. This was a very positive sign we had not seen for some time. While net growth in Agency auto policies in force for the year was slight, it reversed a multi-year declining trend. We always have theories on the pricing adequacy of our competitors and were not surprised when some increased rates in amounts that outstripped our estimates of loss-cost trends. Relative positioning on price is an important consideration in the Agency business and being comfortable with our rate level when others need additional rate is a position we like to be in. We have also taken additional measures to present our rates to agents such that they can ensure the consumer is offered the best options we can make available.

We consider our access to consumers via independent agents and directly, now primarily via the Internet, to be a significant strategic advantage over many in our space. The strategies are largely the same in each channel and, although our advertising is designed to incent consumers to shop with us directly, our recognition and support of consumer choice is unwavering. Agents have consistently expressed support for, and excitement about, our brand-building efforts and the positive reflection it has on their business.

Our Agency business remains the larger portion of our Personal Lines business and the dominant part of our Commercial Auto production. The Direct business, which perhaps reflects consumers' changing buying habits, is now substantial. Against the relatively flat growth in customers in Agency, Direct grew 13% for the year and is now about 43% of our personal auto policies in force. Both businesses produced combined ratios between 93 and 94 for personal auto for the year. Of some note is that the annual trend in average written premium is relatively flat for the Agency business, and still quite negative for Direct, at -4%, tempering Direct's top line growth to 11%.

Aggregate measures of combined ratio ultimately are most important, and our goal of an aggregate companywide 96 in any calendar year is unchanged. With room for some debate, the Agency auto business, along with the special lines and Commercial Auto businesses, are best thought of as variable cost acquisition businesses for which calendar-year combined ratio is an accurate assessment.

The key to controlling the Direct business is having a very clear understanding of target margins during the life of a policy, based on an accepted recognition period for acquisition costs, and an ability to predict policy life expectancy by consumer segment with some reliability. With a substantial base of renewal business in the Direct book, our calendar combined ratios have been consistently below 96. 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.

Surpassing aggregate written premium of $14 billion in 2009 was welcomed, but it's not the first time we have

We respect the environment and are mindful of the impact of our actions, as evidenced by our offer to fund the planting of a tree in a U.S. National Forest on behalf of each of the first one million customers who chose to go paperless by receiving their policy documents online.

crossed that threshold. Aggregate premiums in 2005 and 2006 were at comparable levels. There are, however, notable differences which speak to both successes and challenges of the past several years. We now serve over a million more Personal Lines policies than in 2006 when we achieved our highest ever premium of $14.1 billion. 639,000 of these additional policies are auto customers with the rest consumers of our special lines products. Our state and customer mix has changed, and the composition of our book of active policies between Direct and Agency is very different with Direct having increased some 773,000 policies offset by a loss of 134,000 Agency policies.

I offer this multi-year view to provide some perspective of the past several years. We have healthy growth in Personal Lines customers, which for me is the best form of growth, but battled a headwind of declining average premium per customer. Our growth has clearly come from our Direct business during that time. Our policy counts in Commercial Auto are up slightly from 2006 levels, but premiums are down in total more than $360 million. The macro industry conditions of the last few years become a little starker cast in this light.

While there are no guarantees, the forward-looking picture may be somewhat different. I expect continued growth in our Direct offerings, with added fuel from our multi-product consumer segment. Similarly, I expect our Agency business to continue to benefit from our competitive positioning and expanded multi-product offering. A return to greater employment levels, which is harder to predict, will almost certainly have an across-the-board effect and most importantly in our Commercial Auto products. I believe 2010 will be a year to build on the momentum from 2009 and all the initiatives that unquestionably have made Progressive an even better consumer and agent proposition.

Although a relatively minor premium contributor, we were very proud of our Professional Liability Group and its highly consistent track record of performance. However, we increasingly saw a mismatch with our long-term strategic interests and decided during the year to initiate a sale of our interest in the program to an affiliate of our partner, the American Bankers Association.

Building options for the future that are in line with our strategic interests, we launched our Internet-only personal auto insurance business in Australia just before year end. While there is little market activity to report yet, if it matches the effort expended by the new market entry team, we should have more to report next year.

Acknowledging our emerging strengths and their potential is appropriate, but it should be in balance with some commentary about other skills we hold central to our business model such as Claims and Information Technology.

Navigating the car repair process can be confusing and time-consuming. That's why customers tell us they don't want just payment—they want their car fixed. Our claims process is designed to respect the customer's time and offer to reduce their burdens to an absolute minimum. And, we deliver information customers need to make smart decisions and provide helpful alternatives including "we'll take it from here."

In Claims, 2009 was a milestone year, but not without some pain. Our Claims strategy has been evolving over the past decade. Starting with a simple premise, "It's Cars not Cash," which reflects our customer's preference for a repaired vehicle over just the financial compensation, we built and expanded our patented Concierge Service Centers approach, and a proxy in areas of lower policy concentration.

This type of change starts the first domino and invites rethinking of what's possible in all aspects of our claims process. A simple set of Guiding Principles designed to maximize the accuracy and quality of settlement, the efficiency and cost effectiveness of resolution, along with the highest satisfaction of customers and our people has and will be a constant.

Continuous process improvement for us led to greater recognition that, to achieve all the benefits available, more structural change would be needed. In the second quarter, we made a significant change to our Claims management infrastructure, reducing the size and increasing the scope of management to better fit with the cumulative process improvements. I have seen more than a few cost benefit analyses that in retrospect seem to be clearer on the costs than the attainment of benefits. For our Claims organization, 2009 was a year in which many of the intended benefits from nearly a decade of continuous improvement in claims response and accuracy were fully realized.

We ended the year with our run rate Loss Adjustment Expense ratio approximately one point lower than the prior year, improved on what was already our highest attained quality of settlement measure, and added considerable emphasis to our focus on employee and customer satisfaction expecting future measures to reflect the efforts. Key to success is attaining the delicate balance between all four guiding principles; however, a point of LAE reduction, with a very realistic goal of more, helps in no small way to keep our prices lower longer and below external trends wherever possible. It is certainly not out of place to extend a special recognition to the 11,500 claims employees who, through their patience, flexibility, openness, and nimbleness in the midst of some substantial changes, made these results possible.

Focus on non-claims costs is every bit as important to increasing market competitiveness. While on a relative basis, we may be very good, we see opportunity and we're going after it in ways that count. Last year, commenting on our Information Technology Group's process agenda to re-think just about every aspect of what we do and how we do it, I expressed an expectation that their efforts would result in increased leverage and greater accountability to market priorities. Suffice it to say that through terrific commitment by the whole organization, expectations are being met. Our expected IT spending level for 2010 is lower than the comparable number for 2006. Of special note, our multi-year effort to develop a replacement for our policy processing system went live in its first state during the year, with excellent quality.

Changing things that work because there is a better way is difficult and requires a special mindset and leadership. Relentlessly improving our products and services and providing reasons for customers to stay, in addition to eliminating reasons they leave, is never ending. Innovating in ways that matter to customers, and better defining target segments and our appeal to each, is exciting. This is what we do. I like the changes we've made and am genuinely excited about the prospects for 2010. We remain continuously motivated by our aspiration of becoming Consumers' #1 Choice for Auto Insurance.

Investments

Last year in this letter I editorialized that I had trouble typing the $1.4 billion we had recognized in net realized losses, including other-than-temporary impairments. This year I have no such trouble. We attained a 12.5% fully taxable equivalent return for 2009, but as the mirror analogy suggests, this too needs greater context.

Was last year as poor as the numbers suggested? Possibly not. Accounting guidance that exists now from the Financial Accounting Standards Board would have changed the accounting for last year had it been in place. While important, it's not the context that matters.

We think a better context is to use what I have referred to as the more consistent "all-in" economic data point of comprehensive income, a measure combining income statement results with balance sheet recognition of changes in unrealized gains or losses. We believe strongly that this measure takes out any timing issues of asset impairment or asset disposition and values assets at market, best reflecting the health of the company.

Based on that belief, we added a table of comprehensive income to our monthly disclosures and hope that it is insightful for readers. Comprehensive income for 2009 was $1.75 billion (I had no trouble typing that) or $2.61/share versus a comprehensive loss of $615 million in 2008. We ended 2009 with a net unrealized gain of nearly $700 million, a significant swing from last year's position of more than $100 million in unrealized losses.

With all appropriate adjustments to the fair value of assets, we started the year with a little less than $6.4 billion in capital. During the first quarter, we hit a low point closer to $6.3 billion, still, as we reported, several hundred million above the sum of our statutory capital requirement and our self-constructed extreme contingency reserve.

While our capital had been greatly diminished in 2008 and early 2009, our capital management practices allowed us the luxury of managing through the effects of reduced asset valuations and we were not forced to sell securities at low values or turn to external sources to restore capital balances. We had continued belief that the assets we held, and specifically our financial preferred stocks, would be far more likely to appreciate from our now re-established book values than they were to fall further. Our preferred stock portfolio ended 2009 with net unrealized gains of $533 million and received nearly $150 million of dividends during the year.

Our confidence in holding these positions stemmed from three reasons: we were very forthright in recognizing their changed fair value and expected no surprises to our capital position even without recovery; we were effective in "de-risking" the portfolio to protect the company's ongoing operations; and performance from insurance operations was strong.

With few exceptions, we held our preferred stock positions throughout the year, and benefited as financial institutions improved and, in some cases, added equity to their capital structure providing greater support for our positions. The dramatic recovery from low levels distorts single-year reporting, but the decision to hold was well considered, with more upside than down, and proved to be a good one. Notwithstanding, we expect to hold fewer preferred stocks in the future and have changed our guidelines to require that outcome but with no requirement to take actions counter to our best judgment to attain that position in an artificial time frame.

While our preferred stock position was the focus of most of our attention, it was not the only asset sector that warranted significant attention. Our active management of the fixed-income portfolio allows us to have a thoughtful thesis on our selections, even within sectors that are subject to additional macro market risk—municipal bonds and commercial real-estate bond structures are two easy examples for the year. We were pleased with our performance in each sector for 2009 and, although the portfolio still has a higher proportion of lower-risk treasuries than we may hold through 2010, we plan to be very prudent but purposeful in assuming additional risk.

With comprehensive income in positive territory, the mechanics of our variable dividend policy were very much back in play. Applying the 20% target established by the Board to our after-tax underwriting income of $764 million and further adjusting by the companywide Gainshare factor of .71, a shareholder dividend of 16.13 cents per share was declared. We're pleased with our variable dividend approach and, while not satisfying to have declared no dividend for 2008, it was exactly the right approach to capital management at the time.

The 2009 dividend, while only one way to facilitate a return of capital to shareholders, represents the largest regular dividend we have paid to date. For 2010, the Board of Directors has proposed an increased target of 25% of after-tax underwriting income. Consistent with our longstanding and continuing position on capital management—to repurchase shares when our capital balances, view of the future, and the company's stock price make it attractive to do so—we repurchased 11.1 million shares in the open market mostly during the latter part of the year. Repurchase activity was moderate compared to historic levels, reflecting in part our view of required capital adequacy for 2009 and volatility in the equity markets.

Book value at year end increased by 37% to $8.55 per share (post dividend accrual) and our debt-to-total capital ratio was back in line with our guideline at 27.5%.

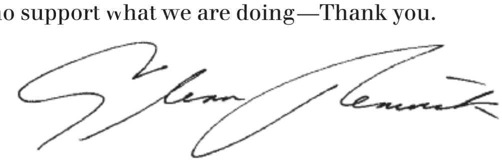
Social responsibility—a fancy label for doing the right thing by or simply respecting customers, agents, shareholders, employees, vendors, and the environment. We're doing this by building a sustainable business that provides a stable market for our agents and that will be here to provide the products and services our customers expect. Our actions are highlighted at progressive.com/socialresponsibility.

Our Culture and Credits

Nothing we have achieved has been without the efforts of so many and our single most important initiative, especially in current times, is ensuring Progressive is a great place to work. Creating an environment where all of us enjoy working hard, are motivated to do our best, can grow constantly, and one that others want to join is a never-ending challenge. Our people and culture are what makes us special.

Consistent with our culture and values is the simplest of notions to just do the right thing, and in a world that is fast recognizing that we must all up our game on social responsibility, Progressive is actively reviewing our business practices to further increase our social and environmental responsibility. A report on our actions is available online.

To the people who make all this possible—our employees, the customers we are privileged to serve, the agents and brokers who choose to represent us, and shareholders who support what we are doing—Thank you.



Glenn M. Renwick
President and Chief Executive Officer

everytime

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 foreseeable 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 and a variable dividend program based on annual underwriting results

Objectives and Policies Scorecard

Financial Results		Target	→ 2009	2008	2007	5 Years[1]	10 Years[1]
Underwriting margin	– Progressive	4%	8.4%	5.4%	7.4%	9.3%	9.1%
	– Industry[2]	na	.7%	(.2)%	1.7%	2.3%	.2%
Net premiums written growth	– Progressive	(a)	3%	(1)%	(3)%	1%	9%
	– Industry[2]	na	.5%	(1)%	(1)%	—%	3%
Policies in force growth	– Personal Auto	(a)	5%	2%	2%	3%	7%
	– Special Lines	(a)	3%	7%	8%	8%	13%
	– Commercial Auto	(a)	(5)%	—%	7%	4%	15%
Companywide premiums-to-surplus ratio		(b)	2.8	3.0	3.0	na	na
Investment allocation	– Group I	(c)	20%	18%		na	na
	– Group II	(c)	80%	82%		na	na
Debt-to-total capital ratio		< 30%	27.5%	34.0%	30.6%	na	na
Return on average shareholders' equity (ROE)[3]		(d)	21.4%	(1.5)%	19.5%	18.8%	19.7%
Comprehensive ROE[4]		(d)	35.5%	(13.3)%	17.7%	19.5%	21.1%

(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)
(Policy implemented in April 2009; 2008 results are shown for comparative purposes).

(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.; 2009 is estimated.

[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 2009 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2010 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, 2009, with a market value of $1,659,829, for a 19.7% compounded annual return, compared to the 6.4% return achieved by investors in the Standard & Poor's 500 during the same period. In addition, the shareholder did not receive any dividends during 2009, keeping their total dividends received to $235,224 since the shares were purchased.

In the ten years since December 31, 1999, Progressive shareholders have realized compounded annual returns, including dividend reinvestment, of 12.8%, compared to (0.9)% for the S&P 500. In the five years since December 31, 2004, Progressive shareholders' returns were (1.1)%, compared to 0.4% for the S&P 500. In 2009, the returns were 21.5% on Progressive shares and 26.4% 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 2009, we repurchased 11,053,953 common shares. The total cost to repurchase these shares was $181 million, with an average cost of $16.34 per share. Since 1971, we have spent $6.5 billion repurchasing our shares, at an average cost of $5.94 per share.

Operations Summary

Personal Lines Our Personal Lines operations improved profit margins relative to 2008 and added close to a half million policies.

The combined ratio for the year was 92.4. This was 2.2 points better than 2008 and better than our targeted profit margins. Auto claims frequency, specifically property damage and collision, continued to run lower than expected and even lower than we were experiencing during the gas price hikes in the latter half of 2008. Trends in auto claims severity were negative for physical damage coverages, fairly flat for bodily injury, and positive for personal injury protection. For the year, we implemented rate level changes totaling +2.9% in our auto programs.

Profitability in our Special Lines programs was especially good. The absence of significant coastal storm activity helped margins in our watercraft programs and frequency in our motorcycle programs dropped versus the prior year when higher gas prices appear to have increased usage.

Across all products, we reduced our expense ratio slightly and our loss adjustment expense ratio significantly in 2009. While we enjoy one of the more competitive cost structures in the industry today, we remain highly cognizant of the need to continue to get our cost structure even lower to drive greater competitiveness. At the same time, we will continue investing heavily in our brand and consumers' awareness of our brand.

New customer growth in Personal Lines was solid, led by our Direct auto programs at 20% and our Agency auto programs at 3%. This marks the first time since 2003 that we enjoyed new customer growth in Agency auto. This growth came as a result of our agents considering us more frequently for more "preferred" business and finding our "7.0" program design to be more competitive for those customers. We also continued to improve our approaches to ensuring that our agents see our most competitive price through whatever means they use to quote Progressive.

Direct auto new business growth was driven by an increase in the number of consumers shopping with Progressive, and by an increase in the conversion of those shoppers to customers. We believe that some of the increased shopping was environmental and some was driven by increased advertising with our very effective campaign headlined by Flo. Conversion gains were driven by improvements in our online quoting experience, including continuing to roll out Name Your Price®. Our boat and motor home businesses also grew new customers. New motorcycle business was considerably off the pace of 2008, when the spike in gas prices caused an increase in motorcycle and scooter new unit sales.

Retention of auto customers improved, driven by a continuing shift in our customer characteristics towards more stable preferred customers. Retention of Special Lines customers was down slightly versus 2008, which we believe is likely a function of economic pressures that reduced consumers' propensity to use and insure their recreational vehicles. Customers' perception of our service, as measured by our Net Promoter® Score did not improve in 2009. However, our commitment to making gains in the customer experience remains as strong as ever.

In total, we grew our policy base in Personal Lines by nearly 476 thousand, or 5%, to almost 11 million policies. Average written premium per policy was down about 2% in our auto programs and flat in our Special Lines programs. In total, net premiums written were up 5%.

We made further progress during the year in meeting the broader Personal Lines needs of more preferred customers. We added two more providers to our Progressive Home Advantage® program, through which we package auto and home insurance for consumers. We've also continued to roll out an umbrella product, which we now offer in 30 states. In 2009, our new preferred auto customers, including those combining their auto and homeowners policy with Progressive Home Advantage, grew approximately 20% within our Agency business and about 30% in our Direct business. We've learned much about cross-selling and are gaining insights around household loss and acquisition economics in contrast to the policy level view we have historically taken. In short, we are excited by the opportunity to broaden the spectrum of customers we serve to include those with whom we expect to have a much longer relationship.

We also made advancements during the year with our usage-based insurance program, MyRate®, which is now in 19 states. Our experience with multiple variations of our MyRate model deployed in 2009 has led to the development of a "MyRate 2.0" model, which we'll be rolling out in 2010. We think this version presents a more appealing consumer proposition and is aimed at a segment that we know displays markedly better loss experience. Today, well over 100,000 Progressive customers enjoy the benefit of controlling their premium through MyRate.

Our 2010 plans include ensuring that we remain a leader in our core segments, continuing to grow capabilities and customers in preferred and multi-product households, further improving our cost structure, and continuing to provide distinctive products and services valued by consumers.

Personal Lines

	→ 2009	2008	Change
Net premiums written (in billions)	$ 12.5	$ 11.9	5%
Net premiums earned (in billions)	$ 12.4	$ 11.8	4%
Loss and loss adjustment expense ratio	71.5	73.5	(2.0) pts.
Underwriting expense ratio	20.9	21.1	(.2) pts.
Combined ratio	92.4	94.6	(2.2) pts.
Policies in force (in thousands)	10,940.6	10,464.9	5%

Commercial Auto Progressive's Commercial Auto business produced a combined ratio of 85.8, an improvement of 8.9 points versus the prior year. The combined ratio benefitted from an increased focus on high exposure claims handling, lower claims frequency, gains in operating efficiency, and reflects prior rate increases. The combined ratio includes several points of favorable development on prior accident years. Rate increases taken in the first half of 2009, combined with favorable loss trends, allowed us, by May, to make all product options available in California, one of our largest markets.

While the general economy began to show signs of recovery, the commercial auto insurance sector continued to contract in 2009. Depressed levels of employment, construction spending, and new business creation, combined with constraints on commercial credit, led to a reduction in insurable risks, particularly for small businesses, our primary customers. For the year, Commercial Auto net premiums written declined 10%, which was in step with industry results but still disappointing.

The written premium decline was driven by both a reduction in policies written and business mix changes toward lower average premium business auto policies and more preferred risk profiles. Policies in force declined 5% as new business applications fell 9% and we experienced no change in our policy life expectancy. The negative production trends were more conspicuous in the specialty truck category, since these policies have higher average premiums, than with business auto.

Faced with soft demand and the prospects of a slow economic recovery, we sought and found opportunities to improve our operating efficiency. Improvements in workforce management and key business processes yielded a reduction in operations cost per policy in force and a significant gain in our core efficiency measure, policies in force per FTE (full time equivalent). As a result, the Commercial Auto expense ratio declined 0.4 points to 21.1, a gratifying result against a background of declining premium. We believe that our low relative cost structure provides us with an ongoing pricing advantage.

Commercial Auto policies have higher average policy limits than our Personal Lines policies. In 2009, we intensified our focus on high exposure claims through the consolidation of their handling by a smaller number of more seasoned adjusters and increased training. We have seen measurable improvement in investigation, diagnosis, and exposure recognition for large losses. These improvements increase the accuracy of our loss cost estimates and pricing and allow us to be more responsive to changes in the environment. As our large loss claims handling improves and cycle time comes down, we reduce both indemnity and handling costs associated with these claims. Inclusive of the improvements in large loss handling, Commercial Auto's loss adjustment expenses declined significantly for the year.

In response to an increasingly competitive, yet contracting, market sector, we invested heavily in product development. In December, we rolled out our new Commercial Auto product in Arizona. This new design improves pricing segmentation and more accurately allocates costs associated with high limit policies by business type. The program will roll out nationally in 2010. We also developed a series of program enhancements that broaden risk acceptance and increase appeal for the specialty truck and transportation categories. These will also hit the market in the first quarter 2010.

We enter 2010 confident in our pricing and with the flexibility to respond quickly to changes in the environment. Continued discipline on expense management and process improvement gives us a relative cost advantage and the ability to continue investing in the business during a down economy. With new products that improve segmentation and expand market reach, we are well positioned to take advantage of current opportunities and the anticipated economic recovery.

Commercial Auto

	2009	2008	Change
Net premiums written (in billions)	$ 1.5	$ 1.7	(10)%
Net premiums earned (in billions)	$ 1.6	$ 1.8	(8)%
Loss and loss adjustment expense ratio	64.7	73.2	(8.5) pts.
Underwriting expense ratio	21.1	21.5	(.4) pts.
Combined ratio	85.8	94.7	(8.9) pts.
Policies in force (in thousands)	512.8	539.4	(5)%

everyday

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 2009 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2010 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, 2009. 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 2009 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2010 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 2009 Annual Report on Form 10-K, including the financial statements provided in this Report and in the 2009 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2010 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.

(millions—except per share amounts)

For the years ended December 31,	2009	2008	2007
Revenues			
Net premiums earned	$ 14,012.8	$ 13,631.4	$ 13,877.4
Investment income	507.0	637.7	680.8
Net realized gains (losses) on securities:			
Other-than-temporary impairment (OTTI) losses:			
Total OTTI losses	(80.9)		
Less: portion of OTTI losses recognized in other comprehensive income	40.1		
Net impairment losses recognized in earnings	(40.8)		
Net realized gains (losses) on securities	67.9		
Total net realized gains (losses) on securities	27.1	(1,445.1)	106.3
Service revenues	16.7	16.1	22.3
Total revenues	14,563.6	12,840.1	14,686.8
Expenses			
Losses and loss adjustment expenses	9,904.9	10,015.0	9,926.2
Policy acquisition costs	1,364.6	1,358.1	1,399.9
Other underwriting expenses	1,567.7	1,523.4	1,526.2
Investment expenses	11.1	8.8	12.4
Service expenses	19.4	20.4	20.5
Interest expense	139.0	136.7	108.6
Total expenses	13,006.7	13,062.4	12,993.8
Net Income (Loss)			
Income (loss) before income taxes	1,556.9	(222.3)	1,693.0
Provision (benefit) for income taxes	499.4	(152.3)	510.5
Net income (loss)	$ 1,057.5	$ (70.0)	$ 1,182.5
Computation of Earnings Per Share			
Basic:			
Average shares outstanding	666.8	668.0	710.4
Per share	$ 1.59	$ (.10)	$ 1.66
Diluted:			
Average shares outstanding	666.8	668.0	710.4
Net effect of dilutive stock-based compensation	5.4	5.9	8.1
Total equivalent shares	672.2	673.9	718.5
Per share[1]	$ 1.57	$ (.10)	$ 1.65

[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 2009 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2010 Proxy Statement.

Consolidated Balance Sheets

(millions)

December 31,	2009	2008
Assets		
Investments — Available-for-sale, at fair value:		
Fixed maturities (amortized cost: $11,717.0 and $10,295.3)	$ 11,563.4	$ 9,946.7
Equity securities:		
Nonredeemable preferred stocks (cost: $665.4 and $1,131.3)	1,255.8	1,150.0
Common equities (cost: $598.4 and $553.6)	816.2	727.8
Short-term investments (amortized cost: $1,078.0 and $1,153.6)	1,078.0	1,153.6
Total investments	14,713.4	12,978.1
Cash	160.7	2.9
Accrued investment income	110.4	125.7
Premiums receivable, net of allowance for doubtful accounts of $116.4 and $113.7	2,454.8	2,408.6
Reinsurance recoverables, including $35.4 and $44.0 on paid losses and loss adjustment expenses	564.8	288.5
Prepaid reinsurance premiums	69.3	62.4
Deferred acquisition costs	402.2	414.0
Income taxes	416.7	821.6
Property and equipment, net of accumulated depreciation of $595.8 and $653.6	961.3	997.1
Other assets	195.7	151.6
Total assets	$ 20,049.3	$ 18,250.5
Liabilities and Shareholders' Equity		
Unearned premiums	$ 4,172.9	$ 4,175.9
Loss and loss adjustment expense reserves	6,653.0	6,177.4
Accounts payable, accrued expenses, and other liabilities[1]	1,297.6	1,506.4
Debt	2,177.2	2,175.5
Total liabilities	14,300.7	14,035.2
Common Shares, $1.00 par value (authorized 900.0; issued 797.8 and 797.9, including treasury shares of 125.2 and 121.4)	672.6	676.5
Paid-in capital	939.7	892.9
Retained earnings	3,683.1	2,697.8
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on securities	456.3	
Portion of OTTI losses recognized in other comprehensive income	(26.1)	
Total net unrealized gains (losses) on securities	430.2	(76.8)
Net unrealized gains on forecasted transactions	21.6	24.9
Foreign currency translation adjustment	1.4	—
Total accumulated other comprehensive income (loss)	453.2	(51.9)
Total shareholders' equity	5,748.6	4,215.3
Total liabilities and shareholders' equity	$ 20,049.3	$ 18,250.5

[1]See *Note 12 — Litigation* and *Note 13 — Commitments and Contingencies*, in Progressive's 2009 Annual Report to Shareholders, for further discussion.

See Notes to the complete Consolidated Financial Statements included in Progressive's 2009 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2010 Proxy Statement.

Consolidated Statements of Changes in Shareholders' Equity

(millions—except per share amounts)

For the years ended December 31,	2009		2008		2007	
Retained Earnings						
Balance, Beginning of year	$ 2,697.8		$ 2,927.7		$ 4,646.9	
Cumulative effect of change in accounting principle	189.6		—		—	
Net income (loss)	1,057.5	$ 1,057.5	(70.0)	$ (70.0)	1,182.5	$ 1,182.5
Cash dividends declared on common shares ($.1613, $0, and $2.1450 per share)	(108.5)		—		(1,507.6)	
Treasury shares purchased	(154.5)		(157.1)		(1,388.4)	
Other, net	1.2		(2.8)		(5.7)	
Balance, End of year	$ 3,683.1		$ 2,697.8		$ 2,927.7	
Accumulated Other Comprehensive Income (Loss), Net of Tax						
Balance, Beginning of year	$ (51.9)		$ 492.8		$ 604.3	
Cumulative effect of change in accounting principle	(189.6)		—		—	
Changes in:						
Net unrealized gains (losses) on securities		722.7				
Portion of OTTI losses recognized in other comprehensive income (loss)		(26.1)				
Total net unrealized gains (losses) on securities		696.6		(541.8)		(131.8)
Net unrealized gains on forecasted transactions		(3.3)		(2.9)		20.3
Foreign currency translation adjustment		1.4		—		—
Other comprehensive income (loss)	694.7	694.7	(544.7)	(544.7)	(111.5)	(111.5)
Balance, End of year	$ 453.2		$ (51.9)		$ 492.8	
Comprehensive Income (Loss)		$ 1,752.2		$ (614.7)		$ 1,071.0
Common Shares, $1.00 Par Value						
Balance, Beginning of year	$ 676.5		$ 680.2		$ 748.0	
Stock options exercised	3.5		3.5		3.4	
Treasury shares purchased	(11.1)		(9.9)		(72.9)	
Restricted stock issued, net of forfeitures	3.7		2.7		1.7	
Balance, End of year	$ 672.6		$ 676.5		$ 680.2	
Paid-in Capital						
Balance, Beginning of year	$ 892.9		$ 834.8		$ 847.4	
Stock options exercised	15.3		23.5		27.4	
Tax benefits from exercise/vesting of stock-based compensation	9.7		11.1		15.5	
Treasury shares purchased	(15.0)		(12.4)		(87.1)	
Restricted stock issued, net of forfeitures	(3.7)		(2.7)		(1.7)	
Amortization of stock-based compensation	39.2		35.1		28.0	
Other	1.3		3.5		5.3	
Balance, End of year	$ 939.7		$ 892.9		$ 834.8	
Total Shareholders' Equity	$ 5,748.6		$ 4,215.3		$ 4,935.5	

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 2009 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2010 Proxy Statement.

(millions)

For the years ended December 31,	2009	2008	2007
Cash Flows from Operating Activities			
Net income (loss)	$ 1,057.5	$ (70.0)	$ 1,182.5
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	87.3	99.1	106.9
Amortization of fixed-income securities	230.8	249.6	284.1
Amortization of stock-based compensation	40.3	34.5	26.5
Net realized (gains) losses on securities	(27.1)	1,445.1	(106.3)
Net loss on disposition of property and equipment	13.3	1.6	.4
Changes in:			
Premiums receivable	(46.2)	(13.5)	103.1
Reinsurance recoverables	(276.3)	46.6	98.7
Prepaid reinsurance premiums	(6.9)	7.4	19.7
Deferred acquisition costs	11.8	12.3	14.7
Income taxes	29.7	(423.8)	(30.3)
Unearned premiums	(3.0)	(34.5)	(124.6)
Loss and loss adjustment expense reserves	475.6	234.7	217.7
Accounts payable, accrued expenses, and other liabilities	(71.8)	(101.2)	2.4
Other, net	(28.2)	61.3	(4.5)
Net cash provided by operating activities	1,486.8	1,549.2	1,791.0
Cash Flows from Investing Activities			
Purchases:			
Fixed maturities	(10,046.3)	(7,593.9)	(8,184.6)
Equity securities	(624.2)	(598.3)	(1,490.3)
Short-term investments—auction rate securities	—	(631.5)	(7,156.6)
Sales:			
Fixed maturities	7,950.0	5,629.5	8,327.6
Equity securities	919.4	1,401.0	775.2
Short-term investments—auction rate securities	—	631.5	7,325.4
Maturities, paydowns, calls, and other:			
Fixed maturities	842.5	505.5	557.9
Equity securities	15.7	34.9	10.7
Net sales (purchases) of short-term investments—other	75.6	(771.0)	30.0
Net unsettled security transactions	(246.5)	177.2	35.1
Purchases of property and equipment	(66.6)	(98.5)	(136.3)
Sales of property and equipment	1.8	1.1	2.0
Net cash provided by (used in) investing activities	(1,178.6)	(1,312.5)	96.1
Cash Flows from Financing Activities			
Proceeds from exercise of stock options	18.8	27.0	30.8
Tax benefits from exercise/vesting of stock-based compensation	9.7	11.1	15.5
Proceeds from debt[1]	—	—	1,021.7
Dividends paid to shareholders	—	(98.3)	(1,406.5)
Acquisition of treasury shares	(180.6)	(179.4)	(1,548.4)
Net cash used in financing activities	(152.1)	(239.6)	(1,886.9)
Effect of exchange rate changes on cash	1.7	—	—
Increase (decrease) in cash	157.8	(2.9)	.2
Cash, Beginning of year	2.9	5.8	5.6
Cash, End of year	$ 160.7	$ 2.9	$ 5.8

[1]2007 includes a pretax gain received upon closing a forecasted debt issuance hedge. See *Note 4 – Debt* in Progressive's 2009 Annual Report to Shareholders, for further discussion.

See Notes to the complete Consolidated Financial Statements included in Progressive's 2009 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2010 Proxy Statement.

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; 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 pending loss and loss adjustment expense reserves becomes known. Reported results, therefore, may be volatile in certain accounting periods.

Common Shares

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 2010, with a record date in January 2011 and payment shortly thereafter. A complete description of our annual variable dividend policy can be found at: progressive.com/dividend.

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, 2009 and 2008, 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, 2009 (not presented herein) appearing in The Progressive Corporation's 2009 Annual Report to Shareholders, which is attached as an Appendix to The Progressive Corporation's 2010 Proxy Statement. In our report dated March 1, 2010, which contained an explanatory paragraph regarding the adoption of a new accounting principle, 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, 2010

Quarter	Stock Price High	Stock Price Low	Stock Price Close	Rate of Return	Dividends Declared per Share
2009					
1	$ 15.24	$ 9.76	$ 13.44		$ —
2	17.00	13.00	15.11		—
3	17.50	14.12	16.58		—
4	18.10	15.90	17.99		.1613
	$ 18.10	$ 9.76	$ 17.99	21.5%	$ .1613
2008					
1	$ 19.84	$ 15.00	$ 16.07		$ —
2	21.31	16.11	18.72		—
3	20.71	15.70	17.40		—
4	17.59	10.29	14.81		—
	$ 21.31	$ 10.29	$ 14.81	(21.9)%	$ —

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 23, 2010, at 10 a.m. eastern time. There were 3,794 shareholders of record on December 31, 2009.

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.

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: 440-395-2258.

For financial-related information, call: 440-395-2222 or e-mail: investor_relations @progressive.com.

For all other Company information, call: 440-461-5000 or e-mail: webmaster@progressive.com.

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

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

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.

Online Annual Report and Proxy Statement Our 2009 Annual Report to Shareholders, in an interactive format, can be found at: progressive.com/annualreport.

We have also posted copies of our 2010 Proxy Statement and 2009 Annual Report to Shareholders, in a "PDF" format, at: progressiveproxy.com.

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

Transfer Agent and Registrar

REGISTERED SHAREHOLDERS If your Progressive shares are registered in your name, contact American Stock Transfer & Trust Company regarding questions or changes to your account: 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.

Counsel Baker & Hostetler LLP, Cleveland, Ohio

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:

Stephen R. Hardis, Chairman of the Audit Committee, stephen_ hardis@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.

Directors and Officers

Directors

Stuart B. Burgdoerfer[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[6]
Corporate Director, various companies
Retired Partner,
Goldman Sachs Group
(financial services)

Stephen R. Hardis[1,2,5,6]
Non-Executive Chairman of the Board,
Marsh & McLennan Companies, Inc.
(financial services)

Bernadine P. Healy, M.D.[1,6]
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

*Donald B. Shackelford[4,6]
Retired, former Chairman,
Fifth Third Bank, Central Ohio
(commercial banking)

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

*In April 2010, Donald B. Shackelford will retire after 34 years of service on Progressive's Board. Progressive would like to thank Mr. Shackelford for his dedicated service and the many contributions he made during his tenure on the Board.

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)

[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

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.

In the Box

fc **Vonda**

1 **Angie and Robert**

3 **Ted and Jim**

5 **Travis**

7 **Erin, Tyra, and Anna**

8 **Madhumitha, Mamadou Sadio, Chloe, and Benjamin**

11 **Jayne and Yana**

12 **Ryan**

13 **Dave**

14 **Kevin, Christopher, and Konrad**

17 **Carlos, Stacey, James, and Kristen**

19 **Jonathan and Kent**

20 **Craig and Anne**

23 **Gwendolyn and Thomas**

26 **Jeremy, Jon, Gwen, Valecia, Celeste, Gabrielle, Fredrick, and Jeffrey**

29 **Harold and Kathleen**

31 **Marv**

36 **Ray**

37 **Tina**

bc **George**

Behind the Scenes

Photography
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Design
Nesnadny + Schwartz,
Cleveland + New York + Toronto

Printing
AGS Custom Graphics

To see *Respect: The Making of the 2009 Progressive Annual Report Artwork*, please visit progressive.com/annualreport2009video

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.

everybody

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