UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1996

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number 1-9518

THE PROGRESSIVE CORPORATION

(Exact name of registrant as specified in its charter)

Ohio	34-0963169
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6300 Wilson Mills Road, Mayfield Village, Ohio	44143
(Address of principal executive offices)	(Zip Code)

(216) 461-5000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, $1.00 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant at January 31, 1997: $4,004,326,091.25

The number of the registrant's Common Shares, $1.00 par value, outstanding as of February 28, 1997: 71,806,063

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Shareholders for the year ended December 31, 1996 are incorporated by reference in Parts I, II and IV hereof. Portions of the registrant's Proxy Statement dated March 14, 1997, for the Annual Meeting of Shareholders to be held on April 25, 1997, are incorporated by reference in Part III hereof.

INTRODUCTION

The Progressive Corporation and subsidiaries' (collectively, the "Company") 1996 Annual Report to Shareholders (the "Annual Report") contains portions of the information required to be included in this Form 10-K, which are incorporated herein by reference. Cross references to relevant sections of the Annual Report are included under the appropriate items of this Form 10-K.

Portions of the information included in The Progressive Corporation's Proxy Statement dated March 14, 1997, for the Annual Meeting of Shareholders to be held on April 25, 1997 (the "Proxy Statement") have also been incorporated by reference herein and are identified under the appropriate items in this Form 10-K.

PART I

ITEM 1. BUSINESS

(a) General Development of Business

The Progressive Corporation, an insurance holding company formed in 1965, has 85 subsidiaries and one mutual insurance company affiliate. The Progressive Corporation's insurance subsidiaries and its affiliate (collectively, the "Insurance Group") provide personal automobile insurance and other specialty property-casualty insurance and related services throughout the United States and in Canada. The Company's property-casualty insurance products protect its customers against collision and physical damage to their motor vehicles and liability to others for personal injury or property damage arising out of the use of those vehicles.

Of the approximately 260 United States insurance company groups writing private passenger auto insurance, the Company estimates that it ranks sixth in size for 1996. Except as otherwise noted, all industry data and Progressive's market share or ranking in the industry were derived either directly from data reported by A.M. Best Company Inc. ("A.M. Best") or were estimated using A.M. Best data as the primary source. For 1996, the estimated industry premiums written, which include personal auto insurance in the United States and Ontario, Canada, as well as insurance for commercial vehicles, were $129.4 billion, and Progressive's share of this market was approximately 2.6%.

(b) Financial Information About Industry Segments

Incorporated by reference from Note 11, Segment Information, on page 46 of the Company's Annual Report.

(c) Narrative Description of Business

INSURANCE SEGMENT

The Insurance Group offers a number of personal and commercial property-casualty insurance products primarily related to motor vehicles. Net premiums written were $3,441.7 million in 1996, compared to $2,912.8 million in 1995 and $2,457.2 million in 1994. The underwriting profit margin was 8.5% in 1996, compared to 5.7% in 1995 and 8.3% in 1994 (excluding the elimination of the "supplemental reserve." See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS beginning on page 14 for further discussion.)

The Insurance Group's core business writes insurance for private passenger automobiles, recreational vehicles and small fleets of commercial vehicles. This business frequently has more than one program in a single state, with each targeted to a specific market segment. The core business accounted for 98% of the Company's 1996 total net premiums written.

The bulk of the Insurance Group's core business consists of nonstandard automobile insurance products for people cancelled or rejected by other insurers. The size of the nonstandard automobile insurance market changes with the insurance environment. Volume potential is influenced by the actions of direct competitors, writers of standard and preferred automobile insurance and state-mandated involuntary plans. The total direct premiums written in the nonstandard automobile insurance market, including the involuntary market plans, were about $23 billion in 1996, $22 billion in 1995 and $20 billion in 1994. Approximately 320 nonstandard insurance companies, many of which are part of an affiliated group, wrote an estimated $19 billion of nonstandard auto premiums in 1996, excluding premiums written through involuntary market plans. In 1995, the Insurance Group ranked second in direct premiums written in this market and near the top in underwriting performance. Although final data has not been published, the Company estimates that its 1996 ranking and underwriting performance will be consistent with 1995.

The core business also writes standard and preferred automobile risks in many states. These products accounted for between 10% and 15% of the Company's total private passenger auto premiums in 1996. The Company's strategy is to build towards becoming a low-cost provider of a full line of auto insurance and related services, distributed through whichever channel the customer prefers. The Insurance Group's goal is to compete successfully in the standard and preferred market, which comprises 80% of the United States' personal automobile insurance market.

The Insurance Group's specialty personal lines products include motorcycle, recreational vehicle, mobile home and boat insurance. The Insurance Group's competitors are specialty companies and large multi-line insurance carriers. Although industry figures are not available, based on the Company's analysis of this market, the Company believes that it is a significant participant in the specialty personal lines market.

Nonstandard commercial vehicle insurance covers commercial vehicle risks that are rejected or cancelled by other insurance companies. Based on the Company's analysis of this market, approximately 40 companies compete for this business on a nationwide basis. State assigned risk plans also provide this coverage.

In 1996, over 90% of the net premiums written by the core business were written through a network of more than 30,000 independent insurance agents located throughout the United States and in Canada. Subject to compliance with certain Company-mandated procedures, these independent insurance agents have the authority to bind the Company to specified insurance coverages within prescribed underwriting guidelines. These guidelines prescribe the kinds and amounts of coverage that may be written and the premium rates that may be charged for specified categories of risk. The agents do not have authority on behalf of the Company to settle or adjust claims, establish underwriting guidelines, develop rates or enter into other transactions or commitments. The Company also markets its products through intermediaries such as employers, other insurance companies and national brokerage agencies, and directly to customers through employed sales people and owned insurance agencies. The core business currently markets personal automobile insurance directly to the public by direct mail, television and radio advertising in Colorado, Connecticut, Florida, Indiana, Michigan, Ohio, Pennsylvania and Texas.

In an effort to manage growth and improve customer service, the Company moved profit and growth responsibility in its core business from 13 divisions to 41 business units. The Company subdivides business units as growth produces enough customers to warrant more local focus. Each business unit is headed by a general manager and is headquartered in or near the market served. The individual business units are responsible for reducing claim costs, improving agent service and relationships, direct marketing and deciding price levels for their territory. Processing is done at seven regional sites located in Austin, Cleveland, Colorado Springs, Ontario, Richmond, Sacramento and Tampa.

In addition, the Company organized process teams made up of people from both staff and line functions to support the business units. The process teams are respectively responsible for product, independent agent marketing, direct marketing, ownership (customer service) and claims. The process teams concentrate on improving the processes fast enough for the Company to meet its high standards for customer service, profit and growth.

The Insurance Group's diversified businesses - the United Financial Casualty Company (UFCC), Professional Liability Group (PLG) and Motor Carrier business units - accounted for 2% of total volume in 1996. These businesses, which are organized by customer group, are headquartered in Cleveland, Ohio. The choice of distribution channel is driven by each customer group's buying preference and service needs. Distribution channels include financial institutions and vehicle dealers. Distribution arrangements are individually negotiated between such intermediaries and the Company and are tailored to the specific needs of the customer group and the nature of the related financial or purchase transactions. The diversified businesses also market their products directly to their customers through company-employed sales forces.

UFCC provides physical damage insurance and related tracking services to protect the commercial or retail lender's interest in collateral which is not otherwise insured against these risks. The principal product is collateral protection for automobile lenders, which is sold to financial institutions and/or their customers. Commercial banks are UFCC's largest customer group for these services. This business also serves savings and loans, finance companies and credit unions. According to the Company's analysis of this market, numerous companies offer these products and none of them has a dominant market share.

PLG's principal customers are community banks. Its principal products are liability insurance for directors and officers and employee dishonesty insurance. Progressive shares the risk and premium on these coverages with a small mutual reinsurer controlled by its bank customers. The program is sponsored by the American Bankers Association. This program represented less than one-half percent of the Company's total 1996 net premiums written.

The Motor Carrier business unit primarily manages involuntary Commercial Auto Insurance Procedures. See SERVICE OPERATIONS on page 7 for further discussion.

COMPETITIVE FACTORS

The automobile insurance and other property-casualty markets in which the Company operates are highly competitive. Property-casualty insurers generally compete on the basis of price, consumer recognition, coverages offered, claim handling, financial stability, customer service and geographic coverage. Vigorous competition is provided by large, well-capitalized national companies, some of which have broad distribution networks of employed or captive agents, and by smaller regional insurers. While the Company relies heavily on technology and extensive data gathering and analysis to segment and price markets according to risk potential, some competitors merely price their coverage at rates set lower than the Company's published rates. By avoiding extensive data gathering and analysis, these competitors incur lower underwriting costs. The Company has remained competitive by closely managing expenses and achieving operating efficiencies, and by refining its risk measurement and price segmentation skills. In addition, the Company offers prices for a wide spectrum of risks and seeks to offer a wider array of payment plans, limits of liability and deductibles than its competitors. Superior customer service and claim adjustment are also important factors in the Company's competitive strategy.

LICENSES

The Insurance Group operates under licenses issued by various state or provincial insurance authorities. Such licenses may be of perpetual duration or renewable periodically, provided the holder continues to meet applicable regulatory requirements. The licenses govern the kind of insurance coverages which may be written in the issuing state. Such licenses are normally issued only after the filing of an appropriate application and the satisfaction of prescribed criteria. All licenses which are material to the Company's business are in good standing.

INSURANCE REGULATION

The insurance subsidiaries are generally subject to regulation and supervision by insurance departments of the jurisdictions in which they are domiciled or licensed to transact business. At least one of the subsidiaries is licensed and subject to regulation in each of the 50 states and certain U.S. possessions, in one Canadian province and by Canadian federal authorities. The nature and extent of such regulation and supervision varies from jurisdiction to jurisdiction. Generally, an insurance company is subject to a higher degree of regulation and supervision in its state of domicile. The Company's principal insurance subsidiaries are domiciled in the states of California, Florida, Louisiana, Mississippi, Missouri, New York, Ohio, Pennsylvania, Texas, Washington and Wisconsin. State insurance departments have broad administrative power relating to licensing insurers and agents, regulating premium rates and policy forms, establishing reserve requirements, prescribing accounting methods and the form and content of statutory financial reports, and regulating the type and amount of investments permitted. Rate regulation varies from "file and use" to prior approval to mandated rates. Most jurisdictions prohibit rates that are "excessive, inadequate or unfairly discriminatory."

Insurance departments are charged with the responsibility of ensuring that insurance companies maintain adequate capital and surplus and comply with a variety of operational standards. Insurance companies are generally required to file detailed annual and other reports with the insurance department of each jurisdiction in which they conduct business. Insurance departments are authorized to make periodic and other examinations of regulated insurers' financial condition, adherence to statutory accounting principles and compliance with state insurance laws and regulations.

Insurance holding company laws enacted in many jurisdictions grant to insurance authorities the power to regulate acquisitions of insurers and certain other transactions involving insurers and to require periodic disclosure of certain information. These laws impose prior approval requirements for certain transactions between regulated insurers and their affiliates and generally regulate dividend and other distributions, including loans and cash advances, between regulated insurers and their affiliates. See the "Dividends" discussion in Item 5(c) for further information on such dividend limitations.

Under state insolvency and guaranty laws, regulated insurers can be assessed, or required to contribute to state guaranty funds to cover policyholder losses resulting from insurer insolvencies. Insurers are also required by many states, as a condition of doing business in the state, to provide coverage to certain risks. These so-called "assigned risk" plans generally specify the types of insurance and the level of coverage which must be offered to such involuntary risks, as well as the allowable premium. Many states also have involuntary market plans which hire a limited number of servicing carriers to provide insurance to involuntary risks. These plans, through assessments, pass underwriting and administrative expenses on to insurers that write voluntary coverages.

Insurance companies are generally required by insurance regulators to maintain sufficient surplus to support their writings. Although the ratio of writings to surplus that the regulators will allow is a function of a number of factors, including the type of business being written, the adequacy of the insurer's reserves, the quality of the insurer's assets, and the identity of the regulator, as a general rule, the regulators prefer that annual net written premium be not more than three times the insurer's total policyholders' surplus. Thus, the amount of an insurer's surplus may, in certain cases, limit its ability to grow its business.

Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit an automobile insurer's ability to cancel and non-renew policies. Furthermore, certain states prohibit an insurer from withdrawing one or more lines of business from the state, except pursuant to a plan that is approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. Laws and regulations that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict an insurer's ability to exit unprofitable markets.

Regulation of insurance constantly changes as real or perceived issues and developments arise. Some changes may be due to technical factors, such as changes in investment laws made to recognize new investment vehicles; other changes result from such general pressures as consumer resistance to price increases and concerns relating to insurer solvency. In recent years, legislation and voter initiatives have been introduced which deal with insurance rate development, rate determination

and the ability of insurers to cancel or renew insurance policies, reflecting concerns about availability, prices and alleged discriminatory pricing.

In some states, the automobile insurance industry has been under pressure in recent years from regulators, legislators or special interest groups to reduce, freeze or set rates to or at levels that are not necessarily related to underlying costs, including initiatives to roll back automobile and other personal lines rates. This kind of activity has adversely affected, and may in the future adversely affect, the profitability and growth of the subsidiaries' automobile insurance business in those jurisdictions, and may limit the subsidiaries' ability to increase rates to compensate for increases in costs. Adverse legislative and regulatory activity limiting the subsidiaries' ability to adequately price automobile insurance may occur in the future. The impact of these regulatory changes on the subsidiaries' businesses cannot be predicted.

The state insurance regulatory framework has come under increased federal scrutiny, and certain state legislatures have considered or enacted laws that alter and, in many cases, expand state authority to regulate insurance companies and insurance holding company systems. Further, the National Association of Insurance Commissioners (NAIC) and state insurance regulators are re-examining existing laws and regulations, specifically focusing on insurance company investments, issues relating to the solvency of insurance companies and further limitations on the ability of regulated insurers to pay dividends. The NAIC also developed a risk-based capital (RBC) program to enable regulators to take appropriate and timely regulatory actions relating to insurers that show signs of weak or deteriorating financial conditions. RBC is a series of dynamic surplus-related formulas which contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks. In addition, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary.

STATUTORY ACCOUNTING PRINCIPLES

The Insurance Group's results are reported in accordance with generally accepted accounting principles (GAAP), which differ from amounts reported under statutory accounting principles (SAP) prescribed by insurance regulatory authorities. Specifically, under GAAP:

1. Commissions, premium taxes and other costs incurred in connection with writing new and renewal business are capitalized and amortized on a pro rata basis over the period in which the related premiums are earned, rather than expensed as incurred, as required by SAP.

2. Certain assets are included in the consolidated balance sheets, which for SAP are charged directly against statutory surplus. These assets consist primarily of premium receivables over 90 days, furniture and equipment and prepaid expenses.

3. Amounts related to ceded reinsurance are shown gross as prepaid reinsurance premiums and reinsurance recoverables, rather than netted against unearned premium reserves and loss and loss adjustment expense reserves, respectively, as required by SAP.

4. Fixed maturities securities, which are classified as available-for-sale, are reported at market values, rather than at amortized cost, or the lower of amortized cost or market depending on the specific type of security as required by SAP. Equity securities are reported at quoted market values which may differ from the NAIC market values as required by SAP.

The differing treatment of income and expense items results in a corresponding difference in Federal income tax expense.

During 1994, the insurance subsidiaries began to reduce loss reserves for anticipated salvage and subrogation recoveries. Previously, salvage and subrogation was not reflected in the statutory financial statements until actually recovered.

SERVICE OPERATIONS

The service operations of the diversified business units consist primarily of processing business for involuntary plans and providing claim services to fleet owners and other insurance companies. Total service revenues were $46.2 million in 1996, compared to $38.9 million in 1995 and $41.9 million in 1994. Pretax operating profits for all service businesses were $4.3 million in 1996, compared to $8.7 million and $10.0 million in 1995 and 1994, respectively.

The Motor Carrier business unit currently processes business for the Commercial Auto Insurance Procedures (CAIP) in 27 states, the Florida Joint Underwriters Association (FAJUA) and the New York Public Automobile Pool (NYPAP), which are all part of the involuntary market. As a CAIP servicing carrier, the business unit processes over 40% of the premiums in the CAIP market, without assuming the indemnity risk. It competes with approximately nine other providers nationwide. In 1995, the business unit began processing business for the FAJUA and competes with six other carriers in the state. Beginning in March 1996, the Company began processing business for the NYPAP and was granted a one-third share of new business with a three-year phase-in period.

INVESTMENTS

The Company employs a conservative approach to investment and capital management intended to ensure that there is sufficient capital to support all the insurance premium that can be profitably written. The Company's portfolio is invested primarily in short-term and intermediate-term, investment-grade fixed-income securities. The Company's investment portfolio, at market value, was $4,450.6 million at December 31, 1996, compared to $3,768.0 million at December 31, 1995. Investment income is affected by shifts in the types of investments in the portfolio, changes in interest rates and other factors. Investment income, including net realized gains on security sales, before expenses and taxes, was $232.9 million in 1996, compared to $245.8 million in 1995 and $182.3 million in 1994. See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, beginning on page 14 herein for additional discussion.

EMPLOYEES

The number of employees, excluding temporary employees, at December 31, 1996, was 9,557.

LIABILITY FOR PROPERTY-CASUALTY LOSSES AND LOSS ADJUSTMENT EXPENSES

The consolidated financial statements include the estimated liability for unpaid losses and loss adjustment expenses (LAE) of the Company's insurance subsidiaries. Total loss reserves are established at a level that is intended to represent the midpoint of the reasonable range of loss reserve estimates. The liabilities for losses and LAE are determined using actuarial and statistical procedures and represent undiscounted estimates of the ultimate net cost of all unpaid losses and LAE incurred through December 31 of each year. These estimates are subject to the effect of future trends on claim settlement. These estimates are continually reviewed and adjusted as experience develops and new information becomes known. Such adjustments, if any, are reflected in the current results of operations.

During 1994, based on a review of the adequacy of its total loss reserves, the Company eliminated its $71.0 million "supplemental reserve." See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS beginning on page 14 for further discussion. The elimination of the supplemental reserve is reflected in the Reconciliation of Net Reserves for Losses and Loss Adjustment Expenses table on page 8 and the Analysis of Loss and Loss Adjustment Expenses Development table on page 9.

The accompanying tables present an analysis of property-casualty losses and LAE. The following table provides a reconciliation of beginning and ending estimated liability balances for 1996, 1995 and 1994 on a GAAP basis.

RECONCILIATION OF NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

(millions)	1996	1995	1994
Balance at January 1	$1,610.5	$1,434.4	$1,348.6
Less reinsurance recoverables on unpaid losses	296.1	334.2	334.8
Net balance at January 1	1,314.4	1,100.2	1,013.8
Incurred related to:			
Current year	2,341.9	2,000.4	1,539.8
Prior years	(105.8)	(56.6)	(142.5)
Total incurred	2,236.1	1,943.8	1,397.3
Paid related to:			
Current year	1,424.7	1,204.3	893.9
Prior years	592.9	525.3	417.0
Total paid	2,017.6	1,729.6	1,310.9
Net balance at December 31	1,532.9	1,314.4	1,100.2
Plus reinsurance recoverables on unpaid losses	267.7	296.1	334.2
Balance at December 31	$1,800.6	$1,610.5	$1,434.4

The reconciliation above shows a $105.8 million redundancy, which emerged during 1996, in the 1996 liability and a $56.6 million redundancy in the 1995 liability, based on information known as of December 31, 1996 and December 31, 1995, respectively.

The anticipated effect of inflation is explicitly considered when estimating liabilities for losses and LAE. While anticipated increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for anticipated changes in underwriting standards, inflation, policy provisions and general economic trends. These anticipated trends are monitored based on actual development and are modified if necessary.

The Company has not entered into any loss reserve transfers or similar transactions having a material effect on earnings or reserves.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSES DEVELOPMENT

(millions)

YEAR ENDED	1986	1987	1988	1989	1990	1991	1992		1994	1995	1996
LIABILITY FOR UNPAID											
LOSSES AND LAE	$323.8	$471.0	$651.0	$748.6	$791.6	$861.5	$956.4	$1,012.4	$1,098.7	$1,314.4	$1,532.9
PAID (CUMULATIVE) AS OF:											
One year later	142.7	195.0	283.1	293.1	322.4	353.4	366.8	417.0	525.3	593.0	
Two years later	204.4	294.9	393.7	446.8	490.8	518.8	520.0	589.8	706.4		
Three years later	238.9	339.5	465.0	539.8	570.4	583.2	598.2	664.1	--		
Four years later	255.7	369.9	514.0	588.2	600.0	617.6	632.8	--	--		
Five years later	264.3	383.5	540.7	603.1	613.6	635.8	--	--	--		
Six years later	268.7	389.1	545.1	608.1	624.7	--	--	--	--		
Seven years later	270.1	381.9	545.5	614.7	--	--	--	--	--		
Eight years later	261.3	384.2	549.0	--	--	--	--	--	--		
Nine years later	263.2	386.1	--	--	--	--	--	--	--		
Ten years later	264.4	--	--	--	--	--	--	--	--		
LIABILITY RE-ESTIMATED AS OF:											
One year later	300.6	446.6	610.3	685.4	748.8	810.0	857.9	869.9	1,042.1	1,208.6	
Two years later	293.6	422.2	573.4	677.9	726.5	771.9	765.5	837.8	991.7		
Three years later	282.8	402.4	581.3	668.6	712.7	718.7	737.4	811.3	--		
Four years later	274.1	403.9	575.1	667.1	683.7	700.1	725.2	--	--		
Five years later	275.6	399.6	578.4	654.7	666.3	695.1	--	--	--		
Six years later	275.8	400.2	582.2	647.1	664.8	--	--	--	--		
Seven years later	277.5	408.5	574.3	645.7	--	--	--	--	--		
Eight years later	285.7	408.1	574.4	--	--	--	--	--	--		
Nine years later	286.7	407.8	--	--	--	--	--	--	--		
Ten years later	285.7		--	--	--	--	--	--	--		
CUMULATIVE REDUNDANCY	$38.1	$63.2	$76.6	$102.9	$126.8	$166.4	$231.2	$201.1	$107.0	$105.8	
PERCENTAGE1	11.8	13.4	11.8	13.7	16.0	19.3	24.2	19.9	9.7	8.0	

1Cumulative redundancy / liability for unpaid losses and LAE.

The above table presents the development of balance sheet liabilities for 1986 through 1995. The top line of the table shows the estimated liability for unpaid losses and LAE recorded at the balance sheet date for each of the indicated years for the property-casualty insurance subsidiaries only. Similar reserves for the life insurance subsidiary, which are immaterial, are excluded. This liability represents the estimated amount of losses and LAE for claims arising in all prior years that are unpaid at the balance sheet date, including losses that had been incurred but not reported.

The upper section of the table shows the cumulative amount paid with respect to the previously recorded liability as of the end of each succeeding year. The lower portion of the table shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the claim for individual years. For example, as of December 31, 1996 the companies had paid $386.1 million of the currently estimated $407.8 million of losses and LAE that had been incurred through the end of 1987; thus an estimated $21.7 million of losses incurred through 1987 remain unpaid as of the current financial statement date.

The "Cumulative Redundancy" represents the aggregate change in the estimates over all prior years. For example, the 1986 liability has developed redundant by $38.1 million over ten years. That amount has been reflected in income over the ten years and did not have a significant effect on the income of any one year. The effects on income during the past three years due to changes in estimates of the liabilities for losses and LAE is shown in the reconciliation table on page 8 as the "prior accident years"contribution to incurred losses and LAE.

In evaluating this information, note that each cumulative redundancy amount includes the effects of all changes in amounts during the current year for prior periods. For example, the amount of the redundancy related to losses settled in 1989, but incurred in 1986, will be included in the cumulative deficiency or redundancy amount for years 1986, 1987 and 1988. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it generally is not appropriate to extrapolate future redundancies or deficiencies based on this table.

The Analysis of Loss and Loss Adjustment Expenses Development table on page 9 is constructed from Schedule P, Part-1, from the 1991 through 1996 Consolidated Annual Statements, as filed with the state insurance departments, and Schedules O and P filed for years prior to 1991. This development table differs from the development displayed in Schedule P, Part-2 due to the fact Schedule P, Part-2 excludes unallocated loss adjustment expenses and reflects the change in the method of accounting for salvage and subrogation for 1994 and prior.

(d) Financial Information about Foreign and Domestic Operations

The Company operates throughout the United States and in Canada. The amount of Canadian revenues and assets are approximately 2 percent of the Company's consolidated revenues and assets. The amount of operating income (loss) generated by its Canadian operations is immaterial with respect to the Company's consolidated operating income.

ITEM 2. PROPERTIES

In 1994, the Company completed its new corporate office complex on a 42-acre parcel in Mayfield Village, Ohio, owned by a subsidiary. The new facility consists of 517,800 square feet of space and replaced office space held under leases in a number of locations in the Cleveland, Ohio area. The project's cost of $75.5 million was funded through operating cash flows. The Company's central data processing facility occupies a modern, three-story brick, building containing approximately 107,000 square feet of office space, on this same parcel.

The Company also owns six other buildings in suburbs adjoining the corporate office complex and two buildings in Tampa, Florida. In total, these buildings contained approximately 629,100 square feet of office, warehouse and training facility space and are owned by subsidiaries of the Company. These locations are occupied by the Company's business units or other operations.

The Company leases approximately 320,000 square feet of modern office and warehouse space at various locations throughout the United States for its other business units and staff functions. In addition, the Company leases approximately 340 processing and claim offices, or 1,082,000 square feet, at various locations throughout the United States. Two offices are leased in Canada. These leases are generally short-term to medium-term leases of standard commercial office space.

As the Company continues to grow, it expects the need for additional space and is actively engaged in seeking out additional locations to meet its current and anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

Incorporated by reference from Note 4, LITIGATION, on page 41 of the Company's Annual Report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference from information with respect to executive officers of The Progressive Corporation and its subsidiaries set forth in Item 10 of this Annual Report on Form 10-K.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY
AND RELATED STOCKHOLDER MATTERS

(a) Market Information

The Company's Common Shares are traded on the New York Stock Exchange under the symbol PGR. The high and low prices set forth below are as reported on the consolidated transaction reporting system.

Year	Quarter	High	Low	Close	Dividends Per Share
1996	1	$51 1/4	$43 1/2	$44 5/8	$.055
	2	48 7/8	40 3/8	46 1/4	.055
	3	58 1/2	43 1/8	57 1/4	.060
	4	72 1/4	55 3/8	67 3/8	.060
		$72 1/4	$40 3/8	$67 3/8	$.230
1995	1	$42 1/8	$34 3/4	$40 5/8	$.055
	2	41 7/8	37 1/8	38 3/8	.055
	3	48	37 3/4	44 3/4	.055
	4	49 1/2	41 1/2	48 7/8	.055
		$49 1/2	$34 3/4	$48 7/8	$.220

The closing price of the Company's Common Shares on February 28, 1997 was $66 1/8.

(b) Holders

There were 4,156 shareholders of record on February 28, 1997.

(c) Dividends

Statutory policyholders' surplus was $1,292.4 million and $1,055.1 million at December 31, 1996 and 1995, respectively. Generally, under state insurance laws, the net admitted assets of insurance subsidiaries available for transfer to a corporate parent are limited to those net admitted assets, as determined in accordance with SAP, which exceed minimum statutory capital requirements. At December 31, 1996, $167.3 million of consolidated statutory policyholders' surplus represents net admitted assets of the insurance subsidiaries that are required to meet minimum statutory surplus requirements in the subsidiaries' states of domicile. Furthermore, state insurance laws limit the amount that can be paid as a dividend or other distribution in any given year without prior regulatory approval and adequate policyholders' surplus must be maintained to support premiums written. Based on the dividend laws currently in effect, the insurance subsidiaries may pay aggregate dividends of $216.4 million in 1997 out of statutory policyholders' surplus, without prior approval by regulatory authorities.

ITEM 6. SELECTED FINANCIAL DATA

(millions - except per share amounts)

	For the years ended December 31, 1996	1995	1994	1993	1992
Total revenues(1)	$3,478.4	$3,011.9	$2,415.3	$1,954.8	$1,738.9
Operating income	309.1	220.1	212.7	197.3	129.8
Net income(1,2,3)	313.7	250.5	274.3	267.3	153.8
Per share:					
Operating income(4)	4.08	2.84	2.76	2.61	1.72
Net income(1,2,3,4)	4.11	3.24	3.59	3.58	2.05
Dividends	.230	.220	.210	.200	.191
Total assets(3,5)	6,183.9	5,352.5	4,675.1	4,011.3	3,440.9

Funded debt outstanding	775.7	675.9	675.6	477.1	568.5

(1) Total revenues for 1992 include $106.0 million ($70.0 million after taxes), or $.97 per share, for the Company's California Proposition 103 reserve reduction.

(2) During 1994, based on a review of the adequacy of its total loss reserves, the Company eliminated its $71.0 million "supplemental reserve" ($46.2 million after tax), resulting in a one-time increase in earnings of $.62 per share. See MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS set forth in Item 7 of this Annual Report on Form 10-K for further discussion.

(3) Effective January 1, 1992, the Company adopted SFAS 109 and is able to demonstrate that the benefit of deferred tax assets is fully realizable. The cumulative effect of adopting SFAS 109 increased net income $14.2 million, or $.20 per share.

(4) Presented on a fully diluted basis.

(5) Pursuant to SFAS 113, amounts for 1992 were restated.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

The Progressive Corporation is a holding company and does not have any revenue producing operations of its own. It receives cash through borrowings, equity sales, subsidiary dividends and other transactions, and may use the proceeds to contribute to the capital of its insurance subsidiaries in order to support premium growth, to repurchase its Common Shares and other outstanding securities, to redeem its outstanding securities and for other business purposes. During 1996, the Company repurchased 1.0 million of its Common Shares at a total cost of $41.9 million (average cost of $41.73 per share), .2 million of its 9 3/8% Serial Preferred Shares, Series A, at a total cost of $6.0 million (average cost of $25.60 per share) and redeemed the remaining Preferred Shares at a total cost of $82.1 million, including accrued and unpaid dividends through the redemption date.

During the three-year period ended December 31, 1996, the Company repurchased 2.1 million Common Shares at a total cost of $75.9 million (average cost of $36.42 per share) and .4 million of its 9 3/8% Serial Preferred Shares, Series A, at a total cost of $10.6 million (average cost $25.69 per share). The Company also sold $300.0 million of Notes. During the same period, The Progressive Corporation received $178.2 million from its insurance subsidiaries, net of capital contributions made to these subsidiaries. The regulatory restrictions on subsidiary dividends are described in Item 5(c) on page 12 herein.

The Company has substantial capital resources and is unaware of any trends, events or circumstances that are reasonably likely to affect its capital resources in a material way. The Company also has available a $20.0 million revolving credit agreement. Given its 32% debt to equity ratio, the Company believes it has sufficient borrowing capacity and other capital resources to support current and anticipated growth.

The Company's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. For the three years ended December 31, 1996, operations generated a positive cash flow of $1,634.1 million, and cash flow is expected to be positive in both the short-term and reasonably foreseeable future. The Company's substantial investment portfolio is highly liquid, consisting almost entirely of readily marketable securities.

In November 1996, the Company signed a definitive agreement to acquire all of Midland Financial Group, Inc.'s outstanding stock (approximately 5.5 million shares) for a total cost of $49.5 million, or $9 per share, in cash. Midland underwrites and markets nonstandard private passenger automobile insurance through approximately 8,500 independent agents across 20 states, primarily in the southern and western United States. During 1996, Midland wrote $116.6 million of net premiums written. The transaction was approved by Midland's shareholders on March 7, 1997, and funded through current investments of the Company.

In January 1997, the Company signed a letter of intent under which it was contemplated that the Company would purchase approximately 11 million newly-issued shares (42% of the outstanding voting stock) of Danielson Holding Corporation for consideration having a total value of approximately $73 million, or $6.60 per share. Danielson is engaged, through its subsidiaries, in insurance services, primarily writing private and commercial nonstandard insurance in California and workers' compensation insurance in California and certain other western states. During 1996, Danielson's insurance subsidiaries wrote $36.1 million of net premiums written. In March 1997, negotiations between Danielson and the Company were terminated by the Company for internal corporate reasons.

The Company does not expect any material changes in its cash requirements and is not aware of any trends, events or uncertainties that are reasonably likely to have a material effect on its liquidity.

In January 1996, the Company began converting its computer systems to be year 2000 compliant (e.g. to recognize the difference between '99 and '00 as one year instead of negative 99 years). At December 31, 1996, approximately 40% of the Company's systems were compliant, with all systems expected to be compliant by the end of 1998. The total cost of the project is estimated to be $4.3 million and is being funded through operating cash flows. The Company is expensing all costs associated with these system changes. As of December 31, 1996, $1.6 million had been expensed.

Total capital expenditures for property and equipment for the three years ended December 31, 1996, aggregated $132.3 million.

INVESTMENTS

The Company invests in fixed-maturity, equity and short-term securities. The Company's investment strategy recognizes its need to maintain capital adequate to support its insurance operations and commitment to risk adverse investment policies. Therefore, the Company evaluates the risk/reward trade-offs of investment opportunities, measuring their effects on stability, diversity, overall quality and liquidity of the investment portfolio. The majority of the portfolio is invested in high-grade, fixed-maturity securities, of which short- and intermediate-term securities represented $3,275.6 million, or 73.6%, in 1996, and $2,876.2 million, or 76.4%, in 1995. Long-term investment-grade securities were $187.5 million, or 4.2%, in 1996, and $191.9 million, or 5.1%, in 1995. Non-investment-grade fixed-maturity securities were $105.8 million, or 2.4%, in 1996, and $7.6 million, or .2%, in 1995 and offer the Company high returns and added diversification without a significant adverse effect on the stability and quality of the investment portfolio as a whole. Non-investment-grade securities may involve greater risks often related to creditworthiness, solvency and relative liquidity of the secondary trading market. The duration of the fixed-income portfolio was 3.2 years at December 31, 1996.

A relatively small portion of the investment portfolio was invested in marketable equity securities providing risk/reward balance and diversification. Common stocks represented $540.1 million, or 12.1%, in 1996, and $310.0 million, or 8.2%, in 1995. The increase in common stocks reflects the Company's objective of increasing its position in common stock investments to approximately 15% of the entire portfolio and to optimize value and further diversify the portfolio through foreign equity investments. The foreign equity portfolio, which may utilize stock index futures and foreign currency forwards, comprised $149.5 million of the common stock portfolio at December 31, 1996, and $46.4 million at December 31, 1995. The remainder of the equity portfolio ($341.6 million, or 7.7%, in 1996, and $382.3 million, or 10.1%, in 1995) was comprised of over 94% of fixed-rate preferred stocks with mechanisms that may provide an opportunity to liquidate at par.

As of December 31, 1996, the Company's portfolio had $114.1 million in unrealized gains, compared to $78.7 million in 1995, resulting from increased stock prices as the S&P 500 index rose from 615.9 to 740.7 during the year. The weighted average fully taxable equivalent book yield of the portfolio was 6.7%, 6.9% and 6.7% for the years ended December 31, 1996, 1995 and 1994, respectively.

The quality distribution of the fixed-income portfolio is as follows:

Rating	Percentage at December 31, 1996	Percentage at December 31, 1995
AAA	62.8%	63.9%
AA	16.2	17.6
A	14.0	13.6
BBB	4.2	4.5
Non Rated/Other	2.8	.4
	100.0%	100.0%

As of December 31, 1996, the Company held $1,088.3 million of asset-backed securities which represented 24.5% of the total investment portfolio. The portfolio included collateralized mortgage obligations (CMOs) and commercial mortgage-backed obligations (CMBs) totaling $303.0 million and $480.2 million, respectively. As of December 31, 1996, the CMO portfolio included sequential bonds representing 88.8% of the CMO portfolio ($269.0 million) with an average life of 2.9 years, and planned amortization class bonds representing 11.2% of the CMO portfolio ($34.0 million) with an average life of 1.4 years. The CMO portfolio had a weighted average Moody's or Standard & Poor's rating of AAA. At December 31, 1996, the CMB portfolio had an average life of 5.4 years and a weighted average Moody's or Standard & Poor's rating of AA-. The CMB portfolio included $122.7 million of CMB interest-only certificates, which had an average life of 5.1 years and a weighted average Moody's or S&P's rating of AAA at December 31, 1996. At December 31, 1996,

the CMO and CMB portfolios had unrealized gains of $1.7 million and $2.1 million, respectively. The single largest unrealized loss in any individual CMO and CMB security was $.3 million and $.8 million, respectively, at December 31, 1996. Both the CMO and CMB portfolios are highly liquid with readily available quotes and contain no residual interests. The remainder of the asset-backed portfolio is invested primarily in auto loan and other asset-backed securities.

Investments in the Company's portfolio have varying degrees of risk. The primary market risk exposure to the fixed-income portfolio is interest rate risk, which is limited by Company restrictions as to the acceptable range of duration. Equity securities generally have greater risks than the non-equity portion of the portfolio since these securities are subordinate to rights of debt holders and other creditors of the issuer and are subject to the volatility of the equity markets. In addition, the foreign equity portfolio is exposed to foreign currency exchange risk, which is reduced by an active hedging policy. The Company regularly evaluates individual holdings for evidence of impairment. Changes in market value are evaluated to determine the extent to which such changes are attributable to: (i) interest rates, (ii) market-related factors other than interest rates and (iii) financial conditions, business prospects and other fundamental factors specific to the issuer. Declines attributable to issuer fundamentals are reviewed in further detail. Available evidence is considered to estimate the realizable value of the investment. When a security in the Company's investment portfolio has a decline in market value which is other than temporary, the Company is required by GAAP to reduce the carrying value of such security to its net realizable value.

Financial instruments with off-balance-sheet risk are used to manage the risks and enhance the yields of the available-for-sale portfolio. This is accomplished by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio or hedged securities. Net cash requirements are limited to changes in market values which may vary based upon changes in interest rates and other factors. Exposure to credit risk is limited to the carrying value; collateral is not required to support the credit risk. During

1995, the Company added a government bond trading portfolio to benefit from short-term market rate opportunities. The Company has stringent restrictions on the amount of open positions in the trading portfolio limiting its exposure to acceptable levels. At December 31, 1996 and 1995, there were no trading securities or off-balance-sheet trading positions.

RESULTS OF OPERATIONS

Operating income, which excludes net realized gains and losses from security sales and one-time items, was $309.1 million, or $4.08 per share, in 1996, $220.1 million, or $2.84 per share, in 1995 and $212.7 million, or $2.76 per share, in 1994. The GAAP combined ratio was 91.5 in 1996, 94.3 in 1995 and 91.7 (88.5 including the elimination of the "supplemental reserve" discussed below) in 1994.

Direct premiums written increased 19% to $3,638.4 million in 1996, compared to $3,068.9 million in 1995 and $2,645.1 million in 1994. Net premiums written increased 18% to $3,441.7 million, compared to $2,912.8 million in 1995 and $2,457.2 million in 1994. The difference between direct and net premiums written is largely attributable to premiums written under state-mandated involuntary Commercial Auto Insurance Procedures (CAIP), for which the Company retains no indemnity risk, of $99.5 million in 1996, $105.4 million in 1995 and $115.4 million in 1994. The Company provided policy and claim processing services to 27 state CAIPs in 1996, compared to 28 in 1995 and 1994. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 17% in 1996, compared to 24% in 1995 and 31% in 1994.

The Company's Core business units' net premiums written grew 19%, 21% and 38% in 1996, 1995 and 1994, respectively, primarily driven by an increase in unit sales. In 1996, the Company raised rates an average of 2.5%, compared 6.5% in 1995 and no rate changes in 1994. The Company continues to write standard and preferred auto risks which represented between 10% and 15% of total Core business volume. To encourage writing more standard and preferred risks and to improve customer retention, the Company adjusted the contingent cash incentive compensation program for 1997 to credit its conservative estimates of the increase in value created by adding new customers. The Company believes that growing the numbers of policyholders, particularly standard and preferred risks with their higher retention rates, builds intrinsic

value because renewals are more profitable than first year business. The drive to add customers faster will result in more spending to promote our brand and to develop more claim adjusters and customer service representatives. These costs, along with expected losses on first year business, are likely to bring profit margins more in line with the Company's objective of achieving a 4% underwriting profit margin over the entire retention period of an insured. In 1996, the Core business units generated an underwriting profit margin of 8%, compared to 5% in 1995 and 7% in 1994.

Claim costs, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. These costs include a loss estimate for future assignments and assessments, based on current business, under state-mandated involuntary automobile programs. Claims costs are influenced by inflation and loss severity and frequency, the impact of which is mitigated by adequate pricing. Increases in the rate of inflation increase loss payments, which are made after premiums are collected. Accordingly, anticipated rates of inflation are taken into account when the Company establishes premium rates and loss reserves. Claim costs, expressed as a percentage of premiums earned, were 70% in 1996, compared to 71% in 1995 and 67% (excluding the elimination of the "supplemental reserve") in 1994.

During 1994, based on a review of the adequacy of its total loss reserves, the Company eliminated its $71.0 million "supplemental reserve," resulting in a one-time increase in earnings of $.62 per share, a 3.2 point increase in the underwriting profit margin and a $46.2 million increase in capital. The Company historically established case and IBNR reserves by product with the objective of being accurate to within plus or minus 2%. Pricing has been based on these estimates of reserves by product. Because the Company desired a very high degree of comfort that aggregate reserves were adequate, aggregate reserves were established near the upper end of the reasonable range of reserves, and the difference between such aggregate reserves and the midpoint of the reasonable range of case and IBNR reserves was called the "supplemental reserve." The Company concluded, after examining its historical aggregate reserves, that the practice of setting aggregate reserves at the upper end of the range of reasonable reserves provided an unnecessarily high level of comfort. At December 31, 1994, even without the high level of comfort provided by the "supplemental reserve," the Company's reserves would have been redundant by approximately 2% to 4% over the previous 5 years. The Company believes that this change in the estimate of its reserves placed it more in line with the practices of other companies in the industry.

Because the Company is primarily an insurer of motor vehicles, it has limited exposure for environmental, product and general liability claims. The Company has established reserves for these exposures, in amounts which it believes to be adequate based on information currently known by it. The Company does not believe that these claims will have a material impact on the Company's liquidity, results of operation, cash flows or financial condition.

During 1994, the Company settled the dispute, arising out of its 1985 acquisition of American Star Insurance Company (since renamed National Continental Insurance Company) over the seller's refusal to pay certain losses on pre-sale business written by American Star. Under the settlement, National Continental received $10.1 million from the seller and agreed to be solely responsible for the next $20 million of gross losses. The seller will thereafter be responsible for half the losses, net of reinsurance, if it achieves certain minimum net worth requirements. In addition to the $10.1 million, National Continental will be entitled to the proceeds of various treaty and facultative reinsurance policies that had been purchased by American Star. National Continental has established reserves for these exposures, which are mainly for product liability and environmental claims, in amounts it believes to be adequate based on information currently available to it, including a study by independent actuaries for the seller. Total reserves on this business are $26.4 million, of which $9.4 million is recoverable from reinsurers. The Company will continue to monitor these exposures, adjust the related reserves appropriately as additional information becomes known and disclose any material developments.

Policy acquisition and other underwriting expenses as a percentage of premiums earned were 22% in 1996, compared to 23% in 1995 and 25% in 1994.

Service businesses generated a pretax operating profit of $4.3 million in 1996, compared to $8.7 million in 1995 and $10.0 million in 1994. The decrease in operating profit is partially attributable to new businesses entered into during 1996.

Recurring investment income (interest and dividends) increased 13% to $225.8 million in 1996, compared to $199.1 million in 1995 and $158.5 million in 1994, primarily due to an increase in the average investment portfolio. Net realized gains on security sales were $7.1 million in 1996, $46.7 million in 1995 and $23.8 million in 1994.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: EXCEPT FOR HISTORICAL INFORMATION, THE MATTERS DISCUSSED IN THIS ANNUAL REPORT ON FORM 10-K ARE FORWARD-LOOKING STATEMENTS THAT ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE THE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED, INCLUDING ACCEPTANCE OF THE PRODUCTS, PRICING COMPETITION, MARKET CONDITIONS AND OTHER RISKS DETAILED FROM TIME TO TIME IN THE COMPANY'S SEC REPORTS. THE COMPANY ASSUMES NO OBLIGATION TO UPDATE THE INFORMATION IN THIS ANNUAL REPORT.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of the Company, along with the related notes, supplementary data and report of independent accountants, are incorporated by reference from the Company's 1996 Annual Report, pages 33 through 46 and pages 50 through 55.

The following note is hereby added to Item 8 of the Company's 1996 Annual Report on Form 10-K, supplementing the Notes to the Consolidated Financial Statements which are incorporated by reference therein:

Note 1. Reporting and Accounting Policies

New Accounting Standards - In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 128, "Earnings Per Share." The statement simplifies the computation of earnings per share (EPS). Under the statement, primary EPS would be replaced by a simpler calculation called "basic" EPS. Basic EPS would be calculated by dividing income available to common shareholders by the weighted average number of shares outstanding. Stock options and other common stock equivalents (CSE) would be excluded from the basic EPS calculation. The current fully diluted EPS would be replaced with "diluted" EPS. The primary difference in the diluted EPS calculation would require the average common stock price be used in determing the number of CSE relating stock options, rather than the greater of the average price or closing price. SFAS 128 requires dual presentation of basic and diluted EPS on the face of the income statement, including a reconciliaiton of the numerator and denominator used in computing basic and diluted EPS. For 1996, the Company would have reported basic EPS of $4.29 and diluted EPS of $4.14. SFAS 128 is effective for periods beginning after December 15, 1997. Earlier application is not permitted.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

A description of the directors, all of whom have been nominated for election as directors at the 1997 Annual Meeting of Shareholders of the Registrant, is incorporated herein by reference from the section entitled "Election of Directors" in the Proxy Statement, pages 3 and 4.

A description of the executive officers of the Registrant and its subsidiaries follows. These descriptions reflect the Company's termination of its officership program and consequent elimination of many officer positions, effective December 31, 1993. Unless otherwise indicated, the executive officer has held the position(s) indicated for at least the last five years.

Name	Age	Offices Held and Last Five Years' Business Experience
Peter B. Lewis	63	Chairman since April 1993; President, Chief Executive Officer and a director of the Registrant and Progressive Casualty Insurance Company ("Progressive Casualty"), the principal subsidiary of the Registrant.
Alan R. Bauer	44	Process Leader for International and Internet Operations since December 1996; Independent Agent Marketing Process Leader from March 1996 to December 1996; West Division President prior to March 1996.
Charles B. Chokel	43	Treasurer of the Registrant since December 1994; Chief Financial Officer of the Registrant; Senior Vice President - Finance of Progressive Casualty prior to December 1993.
Allan W. Ditchfield	59	Chief Information Officer of the Registrant; Senior Vice President - Information Services of Progressive Casualty prior to December 1993.
W. Thomas Forrester II	48	Ownership Process Leader of the Registrant since March 1996; Central States Division President from January 1995 to March 1996; Diversified Division President in 1994; CAIP/Transportation Division President in 1993; CAIP Division President in 1992.
William H. Graves	40	Claims Process Leader of the Registrant since March 1996; South Central Division President prior to March 1996.
Daniel R. Lewis	50	Independent Agent Marketing Process Leader of the Registrant since December 1996; General Manager of South Florida Community from November 1994 to December 1996; Treasurer of the Registrant and Central Division President prior to December 1994.
Robert J. McMillan	45	Product Process Leader of the Registrant since March 1996; Florida Division President prior to March 1996.
Glenn M. Renwick	41	Direct Marketing Process Leader since March 1996; Director of Consumer Marketing prior to March 1996.

David M. Schneider	59	Chief Legal Officer and Secretary of the Registrant; Senior Vice President of Progressive Casualty prior to December 1993.
Tiona M. Thompson	46	Chief Human Resources Officer of the Registrant since December 1993; Vice President - Human Resources of Progressive Casualty prior to December 1993.

Section 16(a) Beneficial Ownership Reporting Compliance. Daniel R. Lewis inadvertently failed to include in his Form 3 filed in April 1996, 50,000 shares held in a family investment partnership. Daniel Lewis filed an amended Form 3 promptly following discovery. A Form 4 reporting the sale of 81 shares by a trust under which Milton Allen is a beneficiary was inadvertently filed four days late. Charles B. Chokel transferred 2,682 shares in 1992 to a family trust of which he is trustee and a beneficiary. These shares were erroneously reported as being directly owned by Mr. Chokel until January 1997, when the error was discovered and promptly corrected. Peter B. Lewis filed an amended Form 4 for April 1995, clarifying the nature of a change in the form of his beneficial ownership of 125,000 shares from directly held to held by a family partnership. A 1996 Form 5 reporting a transfer of 50,000 shares to a trust of which Peter Lewis is trustee was filed thirteen days late.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the section of the Proxy Statement entitled "Executive Compensation," pages 8 through 20.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from the section of the Proxy Statement entitled "Security Ownership of Certain Beneficial Owners and Management," pages 5 through 7.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a)(1) Listing of Financial Statements

The following consolidated financial statements of the Registrant and its subsidiaries, included in the Registrant's Annual Report, are incorporated by reference in Item 8:

Report of Independent Accountants

Consolidated Statements of Income - December 31, 1996, 1995 and 1994

Consolidated Balance Sheets - December 31, 1996 and 1995

Consolidated Statements of Changes in Shareholders' Equity - December 31, 1996, 1995 and 1994

Consolidated Statements of Cash Flows - December 31, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

Supplemental Information*

*Not covered by Report of Independent Accountants.

(a)(2) Listing of Financial Statement Schedules

The following financial statement schedules of the Registrant and its subsidiaries, Report of Independent Accountants and Consent of Independent Accountants are included in Item 14(d):

Schedules

Report of Independent Accountants

Consent of Independent Accountants

Schedule I - Summary of Investments - Other than Investments in Related Parties

Schedule II - Condensed Financial Information of Registrant

Schedule III - Supplementary Insurance Information

Schedule IV - Reinsurance

Schedule VI - Supplemental Information Concerning Property-Casualty Insurance Operations

No other schedules are required to be filed herewith pursuant to Article 7 of Regulation S-X.

(a)(3) Listing of Exhibits

See exhibit index contained herein at pages 37 through 41. Management contracts and compensatory plans and arrangements are identified in the Exhibit Index as Exhibit Nos. (10)(A) through (10)(O).

(b) Reports on Form 8-K

None.

(c) Exhibits

The exhibits in response to this portion of Item 14 are submitted concurrently with this report.

(d) Financial Statement Schedules

The response to this portion of Item 14 is located at pages 28 through 36.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE PROGRESSIVE CORPORATION

March 31, 1997

BY: /s/ Peter B. Lewis

Peter B. Lewis
Chairman, President and Chief

Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

/s/ Peter B. Lewis Peter B. Lewis	Chairman, President, Chief Executive Officer and a Director	March 31, 1997
/s/ Charles B. Chokel Charles B. Chokel	Treasurer and Chief Financial Officer	March 31, 1997
/s/ Jeffrey W. Basch Jeffrey W. Basch	Chief Accounting Officer	March 31, 1997
Milton N. Allen* Milton N. Allen	Director	March 31, 1997
B. Charles Ames* B. Charles Ames	Director	March 31, 1997
Charles A. Davis* Charles A. Davis	Director	March 31, 1997
Stephen R. Hardis* Stephen R. Hardis	Director	March 31, 1997
Janet Hill* Janet Hill	Director	March 31, 1997
Norman S. Matthews* Norman S. Matthews	Director	March 31, 1997

Donald B. Shackelford* Donald B. Shackelford	Director	March 31, 1997
Paul B. Sigler* Paul B. Sigler	Director	March 31, 1997

* DAVID M. SCHNEIDER, by signing his name hereto, does sign this document on behalf of the persons indicated above pursuant to a power of attorney duly executed by such persons.

By /s/ David M. Schneider — March 31, 1997

David M. Schneider
Attorney-in-fact

ANNUAL REPORT ON FORM 10-K

ITEM 14(D)

FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 31, 1996

THE PROGRESSIVE CORPORATION

MAYFIELD VILLAGE, OHIO

REPORT OF INDEPENDENT ACCOUNTANTS

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

Our report on the consolidated financial statements of The Progressive Corporation and subsidiaries has been incorporated by reference in this Form 10-K from page 33 of the 1996 Annual Report to Shareholders of The Progressive Corporation. In connection with our audits of such financial statements, we have also audited the related financial statement schedules listed in the index on pages 21 and 22 of this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Cleveland, Ohio
January 21, 1997

CONSENT OF INDEPENDENT ACCOUNTANTS

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

We consent to the incorporation by reference in the Registration Statement of The Progressive Corporation on Form S-3 (File No. 333-01745) filed March 15, 1996, the Registration Statement on Form S-8 (File No. 33-57121) filed December 29, 1994, the Registration Statement on Form S-8 (File No.

33-64210) filed June 10, 1993, the Registration Statement on Form S-8 (File No. 33-51034) filed August 20, 1992, the Registration Statement on Form S-8 (File No. 33-46944) filed April 3, 1992, the Registration Statement on Form S-8 (File No. 33-38793) filed February 4, 1991, the Registration Statement on Form S-8 (File No. 33-38107) filed December 6, 1990, the Registration Statement on Form S-8 (File No. 33-37707) filed November 9, 1990, the Registration Statement on Form S-8 (File No. 33-33240) filed January 31, 1990, and the Registration Statement on Form S-8 (File No. 33-16509) filed August 14, 1987, of our reports dated January 21, 1997, on our audits of the consolidated financial statements and financial statement schedules of The Progressive Corporation and subsidiaries as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996, which reports are included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Cleveland, Ohio
March 31, 1997

SCHEDULE I -- SUMMARY OF INVESTMENTS -- OTHER THAN INVESTMENTS IN RELATED PARTIES

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Type of Investment	December 31, 1996 Cost	Market Value	Amount At Which Shown In The Balance Sheet
Fixed Maturities:			
Available-for-sale:			
United States Government and government agencies and authorities	$ 830.1	$ 829.1	$ 829.1
States, municipalities and political subdivisions	1,314.7	1,331.3	1,331.3
Asset-backed securities	1,084.3	1,088.3	1,088.3
Foreign government obligations	48.7	51.1	51.1
Corporate and other debt securities	49.9	52.1	52.1
Redeemable preferred stock	56.4	57.3	57.3
Total fixed maturities	3,384.1	3,409.2	3,409.2
Equity securities:			
Common stocks	458.9	540.1	540.1
Preferred stocks	333.8	341.6	341.6
Total equity securities	792.7	881.7	881.7
Short-term investments	159.7	159.7	159.7
Total investments	$4,336.5	$4,450.6	$4,450.6

The Company did not have any securities of one issuer with an aggregate cost or market value exceeding 10% of total shareholders' equity at December 31, 1996.

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF INCOME

THE PROGRESSIVE CORPORATION (PARENT COMPANY)

(millions)

	1996	1995	1994
	Years Ended December 31,		
Revenues			
Dividends from subsidiaries*	$125.0	$120.8	$ 53.0
Intercompany investment income*	36.5	37.2	29.8
	161.5	158.0	82.8
Expenses			
Interest expense	61.4	57.1	56.7
Other operating costs and expenses	4.1	3.6	3.8
Loss on disposition of subsidiary*	--	--	5.3
	65.5	60.7	65.8
Operating income and income before income taxes and other items below	96.0	97.3	17.0
Income tax benefit	(10.2)	(7.3)	(12.2)
Income before equity in undistributed earnings of subsidiaries	106.2	104.6	29.2
Equity in undistributed net income of consolidated subsidiaries*	207.5	145.9	245.1
Net income	$313.7	$250.5	$274.3

*Eliminated in consolidation.

See notes to condensed financial statements.

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

CONDENSED BALANCE SHEETS

THE PROGRESSIVE CORPORATION (PARENT COMPANY)

(millions)

	December 31, 1996	1995
ASSETS		
Investment in non-consolidated affiliates	$ .4	$ .4
Investment in subsidiaries*	1,755.7	1,456.7
Receivable from subsidiary*	695.8	660.8
Intercompany receivable*	6.6	25.6
Income taxes	13.0	26.1
Other assets	2.8	1.6
TOTAL ASSETS	$2,474.3	$2,171.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ 22.1	$ 20.3
Funded debt	775.3	675.1
Total liabilities	797.4	695.4
Shareholders' equity:		
Preferred Shares, no par value (authorized 20.0 Serial Preferred Shares and 5.0 Voting Preference Shares)		
9 3/8% Serial Preferred Shares, Series A (cumulative, liquidation preference of $25 per share, issued and outstanding 0 and 3.4 shares)	--	83.6
Common Shares, $1.00 par value, authorized 200.0 shares, issued 83.1, including treasury shares of 11.6 and 11.0	71.5	72.1
Paid-in capital	381.8	374.8
Net unrealized appreciation of investment in equity securities of consolidated subsidiaries	74.0	51.1

Retained earnings	1,149.6	894.2
Total shareholders' equity	1,676.9	1,475.8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,474.3	$2,171.2

*Eliminated in consolidation.

See notes to condensed financial statements.

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

THE PROGRESSIVE CORPORATION (PARENT COMPANY)

(millions)

	Years Ended December 31, 1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$313.7	$250.5	$274.3
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in income of consolidated subsidiaries	(332.5)	(266.7)	(298.1)
Amortization	--	--	1.5
Changes in:			
Intercompany receivable or payable	19.0	1.6	(61.1)
Accounts payable and accrued expenses	1.8	1.3	12.9
Income taxes	13.1	3.9	24.3
Other, net	(.9)	(.1)	1.0
Net cash provided by (used in) operating activities	14.2	(9.5)	(45.2)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additional investments in equity securities of consolidated subsidiaries	(42.2)	(42.1)	(56.9)
Return of capital from consolidated subsidiary	.5	--	20.1
Purchase of consolidated subsidiaries	(26.6)	--	--
Dividends received from consolidated subsidiaries	125.0	120.8	53.0
Net cash provided by investing activities	56.7	78.7	16.2
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	6.9	10.1	2.7
Tax benefits from the exercise of stock options	5.9	8.5	2.4
Redemption of Preferred shares	(80.8)	--	--
Proceeds from funded debt	99.6	--	198.4
Receivable from subsidiary	(35.0)	(61.4)	(114.8)
Dividends paid to shareholders	(19.6)	(24.1)	(23.4)
Acquisition of treasury shares	(47.9)	(2.3)	(36.3)
Net cash provided by (used in) financing activities	(70.9)	(69.2)	29.0
Change in cash	--	--	--
Cash, beginning of year	--	--	--
Cash, end of year	$ --	$ --	$ --

See notes to condensed financial statements.

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

NOTES TO CONDENSED FINANCIAL STATEMENTS
- ---------------------------------------

The accompanying condensed financial statements of The Progressive Corporation (the "Registrant") should be read in conjunction with the consolidated financial statements and notes thereto of The Progressive Corporation and subsidiaries included in the Registrant's 1996 Annual Report.

STATEMENTS OF CASH FLOWS -- For the purpose of the Statements of Cash Flows, cash includes only bank demand deposits. The Registrant paid income taxes of $120.4 million in 1996, and $75.5 million, and $89.8 million in 1995 and 1994, respectively. Total interest paid was $60.2 million for 1996, $56.5 million for 1995 and $49.8 million for 1994.

DEBT -- Funded debt at December 31 consisted of:

(millions)	1996	1995
7.30% Notes	$ 99.6	$ --
6.60% Notes	198.8	198.7
7% Notes	148.3	148.3
8 3/4% Notes	29.5	29.2
10% Notes	149.6	149.5
10 1/8% Subordinated Notes	149.5	149.4
	$775.3	$675.1

Funded debt is the amount the Registrant has borrowed and contributed to the capital of its insurance subsidiaries or borrowed for other long-term purposes.

In May 1990, the Registrant entered into a revolving credit arrangement with National City Bank, which is reviewed by the bank annually. Under this agreement, the Registrant had the right to borrow up to $50.0 million. In February 1994, the Registrant reduced this revolving credit arrangement to $20.0 million. By selecting from available credit options, the Registrant may elect to pay interest at rates related to the London interbank offered rate, the bank's base rate or at a money market rate. A commitment fee is payable on any unused portion of the committed amount at the rate of .125% per annum. At December 31, 1996 and 1995, the Registrant had no borrowings under this arrangement.

In May 1996, the Registrant sold $100.0 million of noncallable 7.30% Notes due 2006 with interest payable semiannually. The fair value of these Notes was $101.7 million at December 31, 1996.

In January 1994, the Registrant sold $200.0 million of noncallable 6.60% Notes due 2004 with interest payable semiannually. The fair value of the Notes was $197.1 million and $203.6 million at December 31, 1996 and 1995, respectively.

In October 1993, the Registrant sold $150.0 million of noncallable 7% Notes due 2013 with interest payable semiannually. The fair value of these Notes was $144.3 million and $156.6 million at December 31, 1996 and 1995, respectively.

In May 1989, the Registrant issued $30.0 million of 8 3/4% Notes due 1999 with interest payable semiannually. The fair value of these Notes was $31.6 million and $32.7 million at December 31, 1996 and 1995, respectively.

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

NOTES TO CONDENSED FINANCIAL STATEMENTS
- ---------------------------------------

In December 1988, the Registrant sold $150.0 million of 10% Notes due 2000 and $150.0 million of 10 1/8% Subordinated Notes due 2000. All such Notes are noncallable with interest payable semiannually on both issues. The fair value of the 10% Notes and 10 1/8% Subordinated Notes were $167.8 million and $168.4 million, respectively, at December 31, 1996, and $175.9 million and $176.1 million, respectively, at December 31, 1995.

As of December 31, 1996, the Registrant was in compliance with its debt covenants.

Aggregate principal payments on funded debt outstanding at December 31, 1996 are $0 for 1997 and 1998, $30.0 million for 1999, $300.0 million for 2000, $0 for 2001, and $450.0 million thereafter.

INCOME TAXES -- The Registrant files a consolidated Federal income tax return with all eligible subsidiaries. The Federal income taxes in the accompanying Condensed Balance Sheets represent amounts recoverable from the Internal Revenue Service by the Registrant as agent for the consolidated tax group. The Registrant and its subsidiaries have adopted, pursuant to a written agreement, a method of allocating consolidated Federal income taxes. Amounts allocated to the subsidiaries under the written agreement are included in Intercompany Receivable from Subsidiaries in the accompanying Condensed Balance Sheets.

INVESTMENTS IN CONSOLIDATED SUBSIDIARIES -- The Registrant, through its investment in consolidated subsidiaries, recognizes the changes in unrealized gains (losses) on equity securities of the subsidiaries. These amounts were:

(millions)	1996	1995	1994
Unrealized gains (losses):			
Available-for-sale: fixed maturities	$(18.3)	$ 86.1	$(73.4)
equity securities	53.7	40.0	(25.4)
Deferred income taxes	(12.5)	(44.3)	34.6
	$ 22.9	$ 81.8	$(64.2)

OTHER MATTERS -- The information relating to incentive compensation plans is incorporated by reference from Note 8, EMPLOYEE BENEFIT PLANS, "Incentive Compensation Plans" on pages 44 and 45 of the Registrant's 1996 Annual Report.

SCHEDULE III -- SUPPLEMENTARY INSURANCE INFORMATION

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Segment	Deferred policy acquisition costs	Future policy benefits, losses, claims and loss expenses(2)	Unearned premiums	Other policy claims and benefits payable	Premium revenue	Investment income(1)	Benefits, claims, losses and settlement expenses(2)
Year ended December 31, 1996:							
Insurance Lines	$200.1	$1,800.6	$1,467.3	$ --	$3,199.3	$225.8	$2,236.1
Year ended December 31, 1995:							
Insurance Lines	$181.9	$1,610.5	$1,209.6	$ --	$2,727.2	$199.1	$1,943.8
Year ended December 31, 1994:							
Insurance Lines	$161.6	$1,434.4	$1,036.7	$ --	$2,191.1	$158.5	$1,397.3

Amortization of deferred policy	Other	Net

Segment	acquisition costs	operating expenses	premiums written
Year ended December 31, 1996:			
Insurance Lines	$482.6	$208.5	$3,441.7
Year ended December 31, 1995:			
Insurance Lines	$459.6	$167.2	$2,912.8
Year ended December 31, 1994:			
Insurance Lines	$391.5	$150.8	$2,457.2

(1)Excluding investment expenses of $6.1 million in 1996, $8.1 million in 1995 and $8.7 million in 1994.

(2)During 1994, based on a review of the adequacy of its total loss reserves, the Company eliminated its $71.0 million "supplemental reserve." See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS beginning on page 14 for further discussion.

SCHEDULE IV -- REINSURANCE

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Year Ended December 31, 1996	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
Life Insurance in force	$ .1	$ .1	$ --	$ --	--
Premiums earned:					
Accident and health	$ --	$ --	$ --	$ --	--
Property and liability	3,380.7	185.2	3.8	3,199.3	.1%
Life	--	--	--	--	--
Total premiums earned	$3,380.7	$185.2	$3.8	$3,199.3	--
December 31, 1995					
Life Insurance in force	$ .4	$ .1	$ --	$ .3	--
Premiums earned:					
Accident and health	$ --	$ --	$ --	$ --	--%
Property and liability	2,895.9	168.8	.1	2,727.2	--
Life	--	--	--	--	--
Total premiums earned	$2,895.9	$168.8	$ .1	$2,727.2	--
December 31, 1994					
Life Insurance in force	$ .7	$ .2	$ --	$ .5	--
Premiums earned:					
Accident and health	$ --	$ --	$ --	$ --	--
Property and liability	2,378.4	192.2	4.9	2,191.1	.2%
Life	--	--	--	--	--
Total premiums earned	$2,378.4	$192.2	$4.9	$2,191.1	

SCHEDULE VI -SUPPLEMENTAL INFORMATION CONCERNING PROPERTY - CASUALTY INSURANCE OPERATIONS

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Year Ended	Losses and Loss Adjustment Expenses Incurred Related to: Current Year	Prior Years	Paid Losses and Loss Adjustment Expenses
December 31, 1996	$2,341.9	$(105.8)	$2,017.6
December 31, 1995	$2,000.4	$(56.6)	$1,729.6
December 31, 1994(1)	$1,539.8	$(142.5)	$1,310.9

Pursuant to Rule 12-18 of Regulation S-X. See Schedule III, page 34, for the additional information required in Schedule VI.

(1)During 1994, based on a review of the adequacy of its total loss reserves, the Company eliminated its $71.0 million "supplemental reserve." See MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS beginning on page 14 for further discussion.

EXHIBIT INDEX

Exhibit Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(3)(i)	3(A)	Amended Articles of Incorporation of The Progressive Corporation ("Progressive"), as amended	Quarterly Report on Form 10-Q (Filed with SEC on April 23, 1993; see Exhibit 3 therein)
(3)(ii)	3(B)	Code of Regulations of Progressive	Filed herewith
(4)	4(A)	$4,000,000 Hillsborough County Industrial Development Authority Industrial Development Revenue Bonds, Series 1982 (dated December 16, 1982); Loan and Debt Obligation Agreement; Indenture of Trust; Mortgage and Security Agreement; Unconditional Guaranty	Annual Report on Form 10-K (Filed with SEC on March 28, 1995; see Exhibit 4(A) therein)
(4)	4(B)	Indenture dated as of November 15, 1988 between Progressive and State Street Bank and Trust Company (successor in interest to Rhode Island Hospital Trust National Bank), as Trustee ("Subordinated Indenture") (including Table of Contents and cross-reference sheet)	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; see Exhibit 4(B) therein)
(4)	4(C)	Form of 10 1/8% Subordinated Notes due 2000 issued in the aggregate principal amount of $150,000,000 under the Subordinated Indenture	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; see Exhibit 4(C) therein)
(4)	4(D)	Indenture dated as of November 15, 1988 between Progressive and State Street Bank and Trust Company (successor in interest to The First National Bank of Boston), as Trustee ("1988 Senior Indenture") (including Table of Contents and cross-reference sheet)	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; see Exhibit 4(D) therein)

EXHIBIT INDEX

Exhibit Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(4)	4(E)	Form of 10% Notes due 2000 issued in the aggregate principal amount of $150,000,000 under the 1988 Senior Indenture	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; see Exhibit 4(E) therein)
(4)	4(F)	Form of 8 3/4% Notes due 1999 issued in the aggregate principal amount of $30,000,000 under the 1988 Senior Indenture	Annual Report on Form 10-K (Filed with SEC on March 28, 1995; see Exhibit 4(F) therein)
(4)	4(G)	$20,000,000 Unsecured Line of Credit with National City Bank (dated May 23, 1990; renewed May 20, 1992, and amended February 1, 1994)	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; See Exhibit 4(I) therein)
(4)	4(H)	Indenture dated as of September 15, 1993 between Progressive and State Street Bank and Trust Company (successor in interest to The First National Bank of Boston), as Trustee ("1993 Senior Indenture") (including Table of Contents and cross-reference sheet)	Quarterly Report on Form 10-Q (Filed with SEC on November 5, 1993; see Exhibit 4(A) therein)
(4)	4(I)	Form of 7% Notes due 2013 issued in the aggregate principal amount of $150,000,000 under the 1993 Senior Indenture	Quarterly Report on Form 10-Q (Filed with SEC on November 5, 1993; see Exhibit 4(B) therein)
(4)	4(J)	Form of 6.60% Notes due 2004 issued in the aggregate principal amount of $200,000,000 under the 1993 Senior Indenture	Annual Report on Form 10-K (Filed with SEC on March 29, 1994; see Exhibit 4(L) therein)
(4)	4(K)	Supplemental Indenture dated March 15, 1996 between the Registrant and State Street Bank and Trust Company, evidencing the designation of State Street Bank and Trust Company, as successor Trustee under the 1993 Senior Indenture	Annual Report on Form 10-K (Filed with SEC on March 15, 1996; see Exhibit 4(K) therein)

EXHIBIT INDEX

Exhibit Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(4)	4(L)	Form of 7.30% Notes due 2006, issued in the aggregate principal amount of $100,000,000 under the Senior Indenture dated September 15, 1993, between the Company and State Street Bank and Trust, as amended and supplemented	Quarterly Report on Form 10-Q (Filed with SEC on July 31, 1996; see Exhibit 4 therein)
(10)(iii)	10(A)	The Progressive Corporation 1995 Gainsharing Plan, as amended on December 8, 1995	Annual Report on Form 10-K (Filed with SEC on March 15, 1996; see Exhibit 10(B) therein)
(10)(iii)	10(B)	The Progressive Corporation 1997 Gainsharing Plan	Filed herewith
(10)(iii)	10(C)	The Progressive Corporation 1995 Executive Bonus Plan, as amended on December 8, 1995 and as further amended on February 21, 1996	Annual Report on Form 10-K (Filed with SEC on March 15, 1996; see Exhibit 10(C) therein)
(10)(iii)	10(D)	The Progressive Corporation 1997 Executive Bonus Plan	Filed herewith
(10)(iii)	10(E)	The Progressive Corporation 1996 Process Management Bonus Plan	Quarterly Report on Form 10-Q (Filed with SEC on May 1, 1996; see Exhibit 10(A) therein)
(10)(iii)	10(F)	The Progressive Corporation Directors Deferral Plan (Amendment and Restatement), as further amended on October 25, 1996	Quarterly Report on Form 10-Q (Filed with SEC on November 13, 1996; see Exhibit 10 therein)
(10)(iii)	10(G)	The Progressive Corporation 1989 Incentive Plan (amended and restated as of April 24, 1992, as further amended on July 1, 1992 and February 5, 1993)	Annual Report on Form 10-K (Filed with SEC on March 30, 1993; see Exhibit 10(G) therein)

EXHIBIT INDEX

Exhibit Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(10)(iii)	10(H)	Share Option Agreement dated March 17, 1989, between Progressive and David M. Schneider	Annual Report on Form 10-K (Filed with SEC on March 28, 1995; see Exhibit 10(H) therein)

(10)(iii)	10(I)	The Progressive Corporation 1990 Directors' Stock Option Plan (Amended and Restated as of April 24, 1992 and as further amended on July 1, 1992)	Quarterly Report on Form 10-Q (Filed with SEC on November 12, 1992; see Exhibit 10(A) therein)
(10)(iii)	10(J)	Agreement dated March 11, 1996 with Bruce W. Marlow	Annual Report on Form 10-K (Filed with SEC on March 15, 1996; see Exhibit 10(H) therein)
(10)(iii)	10(K)	Amending Agreement dated April 1, 1996 between the Company and Bruce W. Marlow relating to certain outstanding stock options previously granted to Mr. Marlow	Quarterly Report on Form 10-Q (Filed with SEC on July 31, 1996; see Exhibit 10 therein)
(10)(iii)	10(L)	The Progressive Corporation 1995 Incentive Plan	Annual Report on Form 10-K (Filed with SEC on March 28, 1995; see Exhibit 10(L) therein)
(10)(iii)	10(M)	The Progressive Corporation Executive Deferred Compensation Plan (January 1, 1997 Amended and Restated)	Filed herewith
(10)(iii)	10(N)	Form of Non-Qualified Stock Option Agreement under The Progressive Corporation 1989 Incentive Plan (single award)	Quarterly Report on Form 10-Q (Filed with SEC on May 1, 1996; see Exhibit 10(B) therein)
(10)(iii)	10(O)	Form of Non-Qualified Stock Option Agreement under The Progressive Corporation 1989 Incentive Plan (multiple awards)	Quarterly Report on Form 10-Q (Filed with SEC on May 1, 1996; see Exhibit 10(C) therein)

EXHIBIT INDEX

Exhibit Under Reg. S-K, Item 601	Form 10-K Exhi-bit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
(11)	11	Computation of Earnings Per Share	Filed herewith
(12)	12	Computation of Ratio of Earnings to Fixed Charges	Filed herewith
(13)	13	The Progressive Corporation 1996 Annual Report	Filed herewith
(21)	21	Subsidiaries of The Progressive Corporation	Filed herewith
(23)	23	Consent of Independent Accountants	Incorporated herein by reference to page 27 of this Annual Report on Form 10-K
(24)	24	Powers of Attorney	Filed herewith
(27)	27	Financial Data Schedule	This exhibit is contained in the EDGAR filing of the Annual Report on Form 10-K for the year ended December 31, 1996 only

No other exhibits are required to be filed herewith pursuant to Item 601 of Regulation S-K.

EXHIBIT NO. 3(B)

CODE OF REGULATIONS

OF

PROGRESSIVE

Exhibit 3(B)

CODE OF REGULATIONS

OF

THE PROGRESSIVE CORPORATION

ARTICLE I

Meetings of Shareholders

Section 1. ANNUAL MEETINGS. The annual meeting of shareholders shall be held at such time and on such date in the month of April of each year (beginning in 1972) as may be fixed by the board of directors and stated in the notice of the meeting, for the election of directors the consideration of reports to be laid before such meeting and the transaction of such other business as may properly come before the meeting.

Section 2. SPECIAL MEETINGS. Special meetings of the shareholders shall be called upon the written request of the president, the directors by action at a meeting, a majority of the directors acting without a meeting, or of the holders of shares entitling them to exercise twenty-five percent (25%) of the voting power of the corporation entitled to vote thereat. Calls for such meetings shall specify the time, place, and purposes thereof. No business other than that specified in the call shall be considered at any special meeting.

Section 3. NOTICES OF MEETINGS. Unless waived, written notice of each annual or special meeting stating the time, place, and the purposes thereof shall be given by personal delivery or by mail to each shareholder of record entitled to vote at or entitled to notice of the meeting, not more than sixty (60) days nor less than seven (7) days before any such meeting. If mailed, such notice shall be directed to the shareholder at his address as the same appears upon the records of the corporation. Any shareholder, either before or after any meeting, may waive any notice required to be given by law or under these Regulations.

Section 4. PLACE OF MEETINGS. Meetings of shareholders shall be held at the principal office of the corporation unless the board of directors determines that a meeting shall be held at some other place within or without the State of Ohio and causes the notice thereof to so state.

Section 5. QUORUM. The holders of shares entitling them to exercise a majority of the voting power of the corporation entitled to vote at any meeting, present in person or by proxy, shall constitute a quorum for the transaction of business to be considered at such meeting; provided, however, that no action required by law or by the Articles of Incorporation or these Regulations to be authorized or taken by the holders of a designated proportion of the shares of any particular class or of each class may be authorized or taken by a lesser proportion. The holders of a majority of the voting shares represented at a meeting, whether or not a quorum is present, may adjourn such meeting from time to time, until a quorum shall be present.

Section 6. RECORD DATE. The board of directors may fix a record date for any lawful purpose, including, without limiting the generality of the foregoing, the determination of shareholders entitled to (i) receive notice of or to vote at any meeting, (ii) receive payment of any dividend or distribution, (iii) receive or exercise rights of purchase of or subscription for, or exchange or conversion of, shares or other securities, subject to any contract right with respect thereto, or (iv) participate in the execution of written consents, waivers or releases. Said record date, which shall not be a date earlier than the date on which the record date is fixed, shall not be more than sixty (6O) days preceding the date of such meeting, the date fixed for the payment of any dividend or distribution or the date fixed for the receipt or the exercise of rights, as the case may be.

If a record date shall not be fixed, the record date for the determination of shareholders who are entitled to notice of, or who are entitled to vote at, a meeting of shareholders, shall be the close of business on the date next preceding the day on which notice is given, or the close of business on the date next preceding the day on which the meeting is held, as the case may be.

Section 7. PROXIES. A person who is entitled to attend a shareholders' meeting, to vote thereat, or to execute consents, waivers or releases, may be represented at such meeting or vote thereat, and execute consents, waivers and releases, and exercise any of his other rights, by proxy or proxies appointed by a writing signed by such person.

ARTICLE II

Directors

Section 1. NUMBER. The number of directors of the corporation, none of whom need be shareholders or residents of the State of Ohio, shall be ten. The shareholders, acting by the affirmative vote of the holders of record of shares of the corporation entitling them to exercise a majority of the voting power of the corporation on such proposal, may, from time to time, increase or decrease the number of directors, but in no case shall the number of directors be fewer than five or more than twelve nor shall any decrease in the number of directors shorten the term of any director then in office.

Section 2. ELECTION OF DIRECTORS. Directors shall be elected at the annual meeting of shareholders, but when the annual meeting is not held or directors are not elected thereat, they may be elected at a special meeting called and held for that purpose. Such election shall be by ballot whenever requested by any shareholder entitled to vote at such election; but, unless such request is made, the election may be conducted in any manner approved at such meeting.

At each meeting of shareholders for the election of directors, the persons receiving the greatest number of votes shall be directors.

Section 3. TERM OF OFFICE. The term of office for each director shall be one year, except that the term of any director elected prior to the 1991 annual meeting of shareholders to a term of more than one year shall be the term to which such director was elected. Except as provided in the preceding sentence, each director shall hold office until the next annual meeting of shareholders following his election and until his successor shall be elected and qualified or until his earlier resignation, removal from office or death.

Section 4. REMOVAL. All directors, or any individual director may be removed from office, without assigning any cause, by the affirmative vote of the holders of record of shares having 75% of the voting power of the corporation with respect to the election of directors, provided that unless all the directors are removed, no individual director shall be removed if the votes of a sufficient number of shares are cast against his removal which, if cumulatively voted at an election of all the directors whose terms end at the next annual meeting of shareholders would be sufficient to elect at least one director. In case of any such removal, a new director may be elected at the same meeting for the unexpired term of each director removed.

Section 5. VACANCIES. Vacancies in the board of directors may be filled by a majority vote of the remaining directors until an election to fill such vacancies is had. Shareholders entitled to elect directors shall have the right to fill any vacancy in the board (whether the same has been temporarily filled by the remaining directors or not) at any meeting of the shareholders called for that purpose, and any directors elected at any such meeting of shareholders shall serve until the next annual election of directors and until their successors are elected and qualified.

Section 6. QUORUM AND TRANSACTION OF BUSINESS. A majority of the whole authorized number of directors shall constitute a quorum for the transaction of business, except that a majority of the directors in office shall constitute a quorum for filling a vacancy on the board. Whenever less than a quorum is present at the time and place appointed for any meeting of the board, a majority of those present may adjourn the meeting from time to time, until a quorum shall be present. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board.

Section 7. ANNUAL MEETING. Annual meetings of the board of directors shall be held immediately following annual meetings of the shareholders, or as soon thereafter as is practicable. If no annual meeting of the shareholders is held, or if directors are not elected thereat, then the annual meeting of the board of directors shall be held immediately following any special meeting of the shareholders at which directors are elected, or as soon thereafter as is practicable. If such annual meeting of directors is held immediately following a meeting of the shareholders, it shall be held at the same place at which such meeting of shareholders was held.

Section 8. REGULAR MEETINGS. Regular meetings of the board of directors shall be held at such times and places, within or without the State of Ohio, as the board of directors may, by resolution or by-law, from time to time, determine. The secretary shall give notice of each such resolution or bylaw to any director who was not present at the time the same was adopted, but no further notice of such regular meeting need be given.

Section 9. SPECIAL MEETINGS. Special meetings of the board of directors may be called by the chairman of the board or the president to be held at such times and places within or without the State of Ohio as the person calling such meeting shall specify. In addition, any two members of the board of directors may call special meetings of the board of directors to be held at the principal office of the corporation at such times as they may specify.

Section 1O. NOTICE OF ANNUAL OR SPECIAL MEETINGS. Notice of the time and place of each annual or special meeting shall be given to each director by the secretary or by the person or persons calling such meeting. Such notice need not specify the purpose or purposes of the meeting and may be given in any manner or method and at such time so that the director receiving it may have reasonable opportunity to attend the meeting. Such notice shall, in all events, be deemed to have been properly and duly given if mailed at least forty-eight (48) hours prior to the meeting and directed to the residence of each director as shown upon the secretary's records. The giving of notice shall be deemed to have been waived by any director who shall attend and participate in such meeting and may be waived, in a writing, by any director either before or after such meeting.

Section 11. COMPENSATION. The directors, as such, shall be entitled to receive such reasonable compensation for their services as may be fixed from time to time by resolution of the board, and expenses of attendance, if any, may be allowed for attendance of each annual, regular or special meeting of the board. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of the executive committee or of any standing or special committee may by resolution of the board be allowed such compensation for their services as the board may deem reasonable, and additional compensation may be allowed to directors for special services rendered.

Section 12. BY-LAWS. For the government of its actions, the board of directors may adopt by-laws consistent with the Articles of Incorporation and these Regulations.

ARTICLE III

Committees

Section 1. EXECUTIVE COMMITTEE. The board of directors may from time to time, by resolution passed by a majority of the whole board, create an executive committee of three or more directors, the members of which shall be elected by the board of directors to serve during the pleasure of the board. If the board of directors does not designate a chairman of the executive committee, the executive committee shall elect a chairman from its own number. Except as otherwise provided herein and in the resolution creating an executive committee, such committee shall, during the intervals between the meetings of the board of directors, possess and may exercise all of the powers of the board of directors in the management of the business and affairs of the corporation, other than that of filling vacancies among the directors or in any committee of the directors. The executive committee shall keep full records and accounts of its proceedings and transactions. All action by the executive committee shall be reported to the board of directors at its meeting next succeeding such action and shall be subject to control, revision and alteration by the board of directors, provided that no rights of third persons shall be prejudicially affected thereby. Vacancies in the executive committee shall be filled by the directors, and the directors may appoint one or more directors as alternate members of the committee who may take the place of any absent member or members at any meeting.

Section 2. MEETINGS OF EXECUTIVE COMMITTEE. Subject to the provisions of these Regulations, the executive committee shall fix its own rules of procedure and shall meet as provided by such rules or by resolutions of the board of directors, and it shall also meet at the call of the president, the chairman of the executive committee or any two members of the committee. Unless otherwise provided by such rules or by such resolutions, the provisions of Section 1O of Article II relating to the notice required to be given of meetings of the board of directors shall also apply to meetings of the executive committee. A majority of the executive committee shall be necessary to constitute a quorum. The executive committee may act in a writing, or by telephone with written confirmation, without a meeting, but no such action of the executive committee shall be effective unless concurred in by all members of the committee.

Section 3. OTHER COMMITTEES. The board of directors may by resolution provide for such other standing or special committees as it deems desirable, and discontinue the same at pleasure. Each such committee shall have such powers and perform such duties, not inconsistent with law, as may be delegated to it by the board of directors. The provisions of Section 1 and Section 2 of this Article shall govern the appointment and action of such committees so far as consistent, unless otherwise provided by the board of directors. Vacancies in such committees shall be filled by the board of directors or as the board of directors may provide.

ARTICLE IV

Officers

Section 1. GENERAL PROVISIONS. The board of directors shall elect a president, such number of vice presidents as the board may from time to time determine, a secretary and a treasurer and, in its discretion, a chairman of the board of directors. The board of directors may from time to time create such offices and appoint such other officers, subordinate officers and assistant officers as it may determine. The president, any vice president who succeeds to the office of the president, and the chairman of the board shall be, but the other officers need not be, chosen from among the members of the board of directors. Any two of such offices, other than that of president and vice president, may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity.

Section 2. TERM OF OFFICE. The officers of the corporation shall hold office during the pleasure of the board of directors, and, unless sooner removed by the board of directors, until the organization meeting of the board of directors following the date of their election and until their successors are chosen and qualified. The board of directors may remove any officer at any time, with or without cause. A vacancy in any office, however created, shall be filled by the board of directors.

ARTICLE V

Duties of Officers

Section 1. CHAIRMAN OF THE BOARD. The chairman of the board, if one be elected, shall preside at all meetings of the board of directors and shall have such other powers and duties as may be prescribed by the board of directors.

Section 2. PRESIDENT. The president shall be the chief executive officer of the corporation and shall exercise supervision over the business of the corporation and over its several officers, subject, however, to the control of the board of directors. He shall preside at all meetings of shareholders, and, in the absence of the chairman of the board, or if a chairman of the board shall not have been elected, shall also preside at meetings of the board of directors. He shall have authority to sign all certificates for shares and all deeds, mortgages, bonds, agreements, notes, and other instruments requiring his signature; and shall have all the powers and duties prescribed by Chapter 1701 of the Revised Code of Ohio and such others as the board of directors may from time to time assign to him.

Section 3. VICE PRESIDENTS. The vice presidents shall have such powers and duties as may from time to time be assigned to them by the board of directors or the president. At the request of the president, or in the case of his absence or disability, the vice president designated by the president (or in the absence of such designation, the vice president designated by the board) shall perform all the duties of the president and, when so acting, shall have all the powers of the president. The authority of vice presidents to sign in the name of the corporation certificates for shares and deeds, mortgages, bonds, agreements, notes and other instruments shall be coordinate with like authority of the president.

Section 4. SECRETARY. The secretary shall keep minutes of all the proceedings of the shareholders and board of directors and shall make proper record of the same, which shall be attested by him; shall have authority to sign all certificates for shares and all deeds, mortgages, bonds, agreements, notes, and other instruments executed by the corporation requiring his signature; shall give notice of meetings of shareholders and directors; shall produce on request at each meeting of shareholders a certified list of shareholders arranged in alphabetical order; shall keep such books as may be required by the board of directors; and shall have such other powers and duties as may from time to time be assigned to him by the board of directors or the president.

Section 5. TREASURER. The treasurer shall have general supervision of all finances; he shall receive and have in charge all money, bills, notes, deeds, leases, mortgages and similar property belonging to the corporation, and shall do with the same as may from time to time be required by the board of directors. He shall cause to be kept adequate and correct accounts of the business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, stated capital and shares, together with such other accounts as may be required, and upon the expiration of his term of office shall turn over to his successor or to the board of directors all property, books, papers and money of the corporation in his hands; and shall have such other powers and duties as may from time to time be assigned to him by the board of directors or the president.

Section 6. ASSISTANT AND SUBORDINATE OFFICERS. The board of directors may appoint such assistant and subordinate officers as it may deem desirable. Each such officer shall hold office during the pleasure of the board of directors, and perform such duties as the board of directors or the president may prescribe.

The board of directors may, from time to time, authorize any officer to appoint and remove subordinate officers, to prescribe their authority and duties, and to fix their compensation.

Section 7. DUTIES OF OFFICERS MAY BE DELEGATED. In the absence of any officer of the corporation, or for any other reason the board of directors may deem sufficient, the board of directors may delegate, for the time being, the powers or duties, or any of them, of such officers to any other officer or to any director.

ARTICLE VI

Indemnification and Insurance

Section 1. INDEMNIFICATION. The corporation shall indemnify each director, officer and employee and each former director, officer and employee of the corporation, and each person who is serving or has served at its request as a director, officer or employee of another corporation, against expenses, judgements, decrees, fines, penalties or amounts paid in settlement in connection with the defense of any past, pending or threatened action, suit or proceeding, criminal or civil, to which he was, is or may be made a party by reason of being or having been such director, officer or employee, provided a determination is made (i) by the directors of the corporation acting at a meeting at which a quorum consisting of directors who neither were nor are parties to or threatened with any such action, suit or proceeding is present, or (ii) by the shareholders of the corporation at a meeting held for such purpose by the affirmative vote of the holders of shares entitling them to exercise a majority of the voting power of the corporation on such proposal or without a meeting by the written consent of the holders of shares entitling them to exercise two-thirds of the voting power on such proposal, that (a) such director, officer or employee was not, and has not been adjudicated to have the corporation of which he is or was a director, officer or employee, (b) he acted in good faith in what he reasonably believed to be the best interest of such corporation, and (c) in any matter the subject of a criminal action, suit or proceeding, he had no reasonable cause to believe that his conduct was unlawful.

Expenses of each person indemnified hereunder incurred in defending a civil, criminal, administrative or investigative action, suit or proceeding (including all appeals) or threat thereof, may be paid by the corporation in advance of the final disposition of such action, suit or proceeding as authorized by the board of directors, whether a disinterested quorum exists or not, upon receipt of an undertaking by or on behalf of the director, officer or employee to repay such expenses unless it shall ultimately be determined that he is entitled to be indemnified by the corporation.

The foregoing rights of indemnification shall not be deemed exclusive of, or in any way to limit, any other rights to which any person indemnified may be, or may become, entitled apart from the provisions of this Article VI.

Section 2. LIABILITY INSURANCE. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or designated agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or designated agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Article or of Chapter 1701 of the Ohio Revised Code.

ARTICLE VII

Certificates for Shares

Section 1. FORM AND EXECUTION. Certificates for shares, certifying the number of full-paid shares owned, shall be issued to each shareholder in such form as shall be approved by the board of directors. Such certificates shall be signed by the president or a vice president and by the secretary or an assistant secretary or the treasurer or an assistant treasurer; provided however, that if such certificates are countersigned by a transfer agent and/or registrar the signatures of any of said officers and the seal of the corporation upon such certificates may be facsimiles, engraved, stamped or printed. If any officer or officers, who shall have signed, or whose facsimile signature shall have been used, printed or stamped on any certificate or certificates for shares, shall cease to be such officer or officers, because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the corporation, such certificate or certificates, if authenticated by the endorsement thereon of the signature of a transfer agent or registrar, shall nevertheless be conclusively deemed to have been adopted by the corporation by the use and delivery thereof and shall be as effective in all respects as though signed by a duly elected, qualified and authorized officer or officers, and as though the person or persons who signed such certificate or certificates, or whose facsimile signature or signatures shall have been used thereon, had not ceased to be an officer or officers of the corporation.

Section 2. REGISTRATION OF TRANSFER. Any certificate for shares of the corporation shall be transferable in person or by attorney upon the surrender thereof to the corporation or any transfer agent therefor (for the class of shares represented by the certificate surrendered of a certificate), properly endorsed for transfer and accompanied by such assurances as the corporation or such transfer agent may require as to the genuineness and effectiveness of each necessary endorsement.

Section 3. LOST, DESTROYED OR STOLEN CERTIFICATES. A new share certificate or certificates may be issued in place of any certificate theretofore issued by the corporation which is alleged to have been lost, destroyed or wrongfully taken upon (i) the execution and delivery to the corporation by the person claiming the certificate to have been lost, destroyed or wrongfully taken of an affidavit of that fact, specifying whether or not, at the time of such alleged loss, destruction or taking, the certificate was endorsed, and (ii) the furnishing to the corporation of indemnity and other assurances satisfactory to the corporation and to all transfer agents and registrars of the class of shares represented by the certificate against any and all losses, damages, costs, expenses or liabilities to which they or any of them may be subjected by reason of the issue and delivery of such new certificate or certificates or in respect of the original certificate.

Section 4. REGISTERED SHAREHOLDERS. A person in whose name shares are of record on the books of the corporation shall conclusively be deemed the unqualified owner and holder thereof for all purposes and to have capacity to exercise all rights of ownership. Neither the corporation nor any transfer agent of the corporation shall be bound to recognize any equitable interest in or claim to such shares on the part of any other person, whether disclosed upon such certificate or otherwise, nor shall they be obliged to see to the execution of any trust or obligation.

ARTICLE VIII

Fiscal Year

The fiscal year of the corporation shall end on the 31st day of December in each year, or on such other date as may be fixed from time to time by the board of directors.

ARTICLE IX

Seal

The board of directors may provide a suitable seal containing the name of the corporation. If deemed advisable by the board of directors, duplicate seals may be provided and kept for the purposes of the corporation.

ARTICLE X

Amendments

These Regulations may be amended or repealed at any meeting of shareholders called for that purpose by the affirmative vote of the holders of record of shares entitling them to exercise a majority of the voting power of the corporation with respect to such proposal.

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EXHIBIT NO. 10(B)

THE PROGRESSIVE CORPORATION 1997

GAINSHARING PLAN

2

Exhibit 10(B)

THE PROGRESSIVE CORPORATION
1997 GAINSHARING PLAN

1. The Progressive Corporation and its subsidiaries ("Progressive" or the "Company") have adopted The Progressive Corporation 1997 Gainsharing Plan (the "Plan") as part of their overall compensation program. The objective of the compensation program is to pay competitive base salaries and for gainsharing to bring total cash compensation to the top of the market when Core Business and assigned Business Unit or Product performance meets expectations. Participants will have the opportunity to earn cash compensation in excess of the top of the market when Core Business and assigned Business Unit or Product performance exceeds expectations.

2. Plan participants for each Plan year shall be selected by the Executive Compensation Committee (the "Committee") of the Board of Directors of The Progressive Corporation from those officers and regular employees of Progressive who are assigned primarily to the Core Business or a corporate support function as of December 1 of that Plan year. The gainsharing opportunity, if any, for those executive officers who participate in The Progressive Corporation 1997 Executive Bonus Plan will be provided by and be a component of that plan. The Plan shall be administered by or under the direction of the Committee.

3. Annual Gainsharing Payments under the Plan will be determined by application of the following formula:

   Annual Gainsharing Payment = Paid Earnings x Target Percentage x Performance Factor

4. Paid Earnings for any Plan year means the following items paid to a participant during the Plan year: (a) regular, vacation, sick, holiday, funeral and overtime pay, (b) lump sum merit adjustments based on performance and (c) retroactive payments of any of the foregoing items relating to the same Plan year.

   For purposes of the Plan, Paid Earnings shall not include any short-term or long-term disability payments made to the participant, the earnings replacement component of any worker's compensation award or any other bonus or incentive compensation awards.

   Notwithstanding the foregoing, if the sum of the regular, vacation, sick, holiday and funeral pay received by a participant during a Plan year exceeds his/her salary range maximum for that Plan year, then his/her Paid Earnings for that Plan year shall equal his/her salary range maximum, plus any of the following items received by such participant during that Plan year: (a) overtime pay, (b) retroactive payments of regular, vacation, sick, holiday, overtime and funeral pay and (c) lump sum merit adjustments.

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5. Target Percentages vary by position. Target Percentages for Plan participants typically are as follows:

POSITION	TARGET %
Policy Team Members, General Managers and Senior Process Team Members	50% - 100%
Senior Product Managers (PM's), Senior Claims Managers and Senior Corporate Function Heads	35%
Senior Regional Claims Managers, Function Heads and PM's	25%
Regional Claims Managers, Finance Managers and Group Managers	15%
Senior Professionals and Managers	12%
Professionals and Supervisors (e.g. CSR's, Claims Reps, etc.)	8%

Target Percentages will be established within the above ranges by, and may be changed with the approval of, the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") or Chief Human Resources Officer ("CHRO") and, if applicable, the appropriate process leader. Target Percentages also may be changed from year to year by such individuals.

6. The Performance Factor

A. General

The Performance Factor shall consist of one or more Profitability and Growth Components, as described below. The Profitability and Growth Components will be weighted to reflect the nature of the individual participant's assigned responsibilities. The weighting factors may differ among participants and will be determined, and may be changed from year to year, by or under the direction of the CEO, CFO or CHRO.

B. Profitability and Growth Components

The Profitability and Growth Components measure overall operating performance of Progressive's core personal and commercial automobile insurance business ("Core Business"), as a whole, and the participant's assigned Business Unit or Product (as applicable), for the Plan year for which an Annual Gainsharing Payment is to be made. For purposes of computing a Performance Score for these Components, operating performance results are measured by the Gainsharing Matrix, as established by or under the direction of the Committee for the Plan year, which assigns a Profitability and Growth Performance Score to various combinations of profitability (as measured by the Gainsharing Combined Ratio) and growth (based on year-to-year change in Net Written Premium) outcomes.

The Gainsharing Combined Ratio is determined for the Core Business and each Business Unit or Product (as applicable) as follows:

1. Each year, target combined ratios are established by or under the

direction of the Committee by Product, Distribution Channel and New/Renewal business ("Designated Segments"), determined to yield an average target policy life combined ratio of 96. Special Lines and CV target combined ratios remain at 96 regardless of Distribution Channel and whether New or Renewal business.

2. A weighted target combined ratio is calculated based on the various target combined ratios, weighted based on the Net Earned Premium generated by each Designated Segment for the Plan year.

3. The actual GAAP combined ratio achieved for the Plan year is subtracted from the weighted target combined ratio to determine the extent to which performance is over or under target. This result, whether positive or negative, is subtracted from the average policy life combined ratio target of 96 to determine the Gainsharing Combined Ratio.

The Gainsharing Combined Ratio is then matched with growth in Net Written Premium using the Gainsharing Matrix to determine a Profitability and Growth Performance Score.

C. Component Weighting

Profitability and Growth Components for the Core Business and assigned Business Unit or Product, as applicable, are weighted as provided above. For participants in the Core Business, the typical weighting will be as follows:

Profitability and Growth Component	Weighting
Core Business	75%
Business Unit or Product	25%
Total	100%

There will typically be no Business Unit or Product Profitability and Growth Component for participants assigned to a corporate support function (such as Finance, Human Resources, Law and Information Services) and others who are not assigned primarily to a Business Unit or Product. Individualized programs may be developed if and to the extent deemed appropriate by the CEO, CFO or CHRO.

The Performance Score for each Profitability and Growth Component is multiplied by the assigned weighting factor to produce a Weighted Performance Score. The sum of the Weighted Performance Scores equals the Performance Factor. The final Performance Factor can vary from 0 to 2.0, based on actual performance versus the pre-established objectives. In some cases, the Profitability and Growth Performance Score for the Core Business or a particular Business Unit or Product may be above 2.0 or below 0. The individual scores (positive and negative, above 2.0 and below 0) are not adjusted, but go directly into the calculation of the Performance Factor, which is capped at 0 and 2.0.

7. Subject to Paragraph 8 below, no later than December 31 of each Plan year, each participant will receive an initial payment in respect of his or her Annual Gainsharing Payment for such Plan year equal to 75% of an amount calculated on the basis of Paid Earnings for the first 25 pay periods of the Plan year, one pay period of estimated earnings, performance data

through the first 11 months of the Plan year (estimated, if necessary) and one month of forecasted operating results. No later than February 15 of the following year, each such participant shall receive the balance of his or her Annual Gainsharing Payment, if any, for such Plan year, based on his or her Paid Earnings for the entire Plan year and performance data for the Plan year.

Any Plan participant who is then eligible to participate in The Progressive Corporation Executive Deferred Compensation Plan ("Deferral Plan") may elect to defer all or a portion of the Annual Gainsharing Payment otherwise payable under this Plan, subject to and in accordance with the terms of the Deferral Plan.

8. Unless otherwise determined by the Committee or as provided at Paragraph 10 hereof, in order to be entitled to receive any portion of an Annual Gainsharing Payment for any Plan year, the participant must be employed by Progressive on the payment date for that portion of the Annual Gainsharing Payment. Annual Gainsharing Payments will be net of any legally required deductions for federal, state and local taxes and other items.

9. The right to any Annual Gainsharing Payment hereunder may not be transferred, assigned or encumbered by any participant. Nothing herein shall prevent any participant's interest hereunder from being subject to involuntary attachment, levy or other legal process.

10. The Plan shall be administered by or under the direction of the Committee. The Committee shall have the authority to adopt, alter and repeal such rules, guidelines, procedures and practices governing the Plan as it shall, from time to time, in its sole discretion, deem advisable.

    The Committee shall have full authority to determine the manner in which the Plan will operate, to interpret the provisions of the Plan and to make all determinations hereunder. All such interpretations and determinations shall be final and binding on Progressive, all Plan participants and all other parties. No such interpretation or determination shall be relied on as a precedent for any similar action or decision.

    Unless otherwise determined by the Committee, all of the authority of the Committee hereunder (including, without limitation, the authority to administer the Plan, select the persons entitled to participate herein, interpret the provisions thereof, waive any of the requirements specified herein and make determinations hereunder and to establish, change or modify Performance Components and their respective weighting factors, performance targets and Target Percentages) may be exercised by the CEO, CFO or the CHRO.

11. The Plan may be terminated, amended or revised, in whole or in part, at any time and from time to time by the Committee, in its sole discretion.

12. The Plan will be unfunded and all payments due under the Plan shall be made from Progressive's general assets.

13. Nothing in the Plan shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties or compensation.

14. Progressive shall have the unrestricted right to set off against or recover out of any Annual Gainsharing Payment or other sums owed to any participant under the Plan any amounts owed by such participant to Progressive.

15. This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable by or due from Progressive, other than The Progressive Corporation 1996 Process Management Bonus Plan and any successor plans thereto. Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 1995 Gainsharing Plan, as heretofore in effect (the "Prior Plan"), which is and shall be deemed to be terminated as of

December 31, 1996 (the "Termination Date"); provided, that any bonuses or other sums earned under the Prior Plan prior to the Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder.

16. This Plan is adopted, and is to be effective, as of January 1, 1997. This Plan shall be effective for 1997 and for each calendar year thereafter unless and until terminated by the Committee.

17. This Plan shall be interpreted and construed in accordance with the laws of the State of Ohio.

EXHIBIT NO. 10(D)

THE PROGRESSIVE CORPORATION 1997

EXECUTIVE BONUS PLAN

THE PROGRESSIVE CORPORATION
1997 EXECUTIVE BONUS PLAN

1. The Progressive Corporation and its subsidiaries ("Progressive") have designed an executive compensation program consisting of three components: salary, annual bonus and equity-based incentives in the form of non-qualified stock options. These components have been structured to reflect the market for executive compensation and to promote both the achievement of corporate goals and performance that is in the long-term interests of shareholders. The annual bonus component of this program is performance-based and focuses on current results.

2. The 1997 Executive Bonus Plan (the "Plan") shall be administered by or under the direction of the Executive Compensation Committee (the "Committee") of the Board of Directors. Executive officers of Progressive may be selected by the Committee to participate in the Plan for one or more Plan years. Plan years shall coincide with Progressive's fiscal years.

3. The following executive officers have been selected for participation in the Plan: Charles B. Chokel and Peter B. Lewis (the "participants").

4. Subject to the following sentence, the amount of the annual bonus earned by any participant under the Plan ("Annual Bonus") will be determined by application of the following formula:

   Annual Bonus = Paid Salary x Target Percentage x Performance Factor

   The Annual Bonus payable to any participant with respect to any Plan year shall not exceed $2,500,000.00.

5. The salary rate of each Plan participant for any Plan year shall be established by the Committee no later than ninety (90) days after commencement of such Plan year. For purposes of the Plan, "salary" and "Paid Salary" shall include regular, vacation, sick, holiday and funeral pay received by the participant during the Plan year for work or services performed by the participant as an officer or employee of Progressive, but shall not include any (a) short-term or long-term disability payments, (b) lump sum merit adjustments, (c) discretionary or other bonus or incentive payments or (d) the earnings replacement component of any worker's compensation award.

6. The Target Percentages for the participants in the Plan are as follows:

PARTICIPANT	POSITION	TARGET PERCENTAGE
Charles B. Chokel	Chief Financial Officer	125%
Peter B. Lewis	Chief Executive Officer	135%

   Target Percentages may be changed from year to year by the Committee.

7. The Performance Factor

A. General

The Performance Factor shall be determined by the performance results achieved with respect to one or more of the following components: Core Business Gainsharing and Investment Performance, as described below (the "Bonus Components"). An appropriate combination of Bonus Components will be designated for each participant, and the designated Bonus Components will be weighted, based on such participant's assigned responsibilities.

The combination of Bonus Components designated for each of the participants, and the relative weighting of those Components, are as follows:

PARTICIPANT	CORE BUSINESS GAINSHARING COMPONENT	INVESTMENT PERFORMANCE COMPONENT
Chokel	70%	30%
Lewis	80%	20%

The relative weighting of the Bonus Components may vary among Plan participants and may be changed from year to year by the Committee.

Actual performance results achieved for any Plan year, as used to calculate the performance score achieved for each of the applicable Bonus Components, must be certified by the Committee prior to payment of the Annual Bonus.

For purposes of computing the amount of the Annual Bonus for any Plan year, the performance score achieved for each of the designated Bonus Components will be multiplied by the applicable weighting factor to produce a Weighted Performance Score. The sum of the Weighted Performance Scores will equal the Performance Factor. The Performance Factor can vary from 0 to 2.0, based on actual performance versus the pre-established objectives.

B. Core Business Gainsharing Component

The Core Business Gainsharing Component measures overall operating performance of Progressive's core personal and commercial automobile insurance business ("Core Business") for the Plan year. For purposes of computing a Performance Score for this Component, operating performance results are measured by the Gainsharing Matrix, as established by or under the direction of the Committee for the Plan year, which assigns a Performance Score to various combinations of profitability (as measured by the Gainsharing Combined Ratio) and growth (based on year-to-year change in Net Written Premium) outcomes.

The Gainsharing Combined Ratio is determined for the Core Business as follows:

1. Each year, target combined ratios are established by or under the direction of the Committee by Product, Distribution Channel and New/Renewal business ("Designated Segments"), determined to yield an average policy life target combined ratio of 96.

2. A weighted target combined ratio is calculated based on the various target combined ratios, weighted based on the Net Earned Premium generated by each Designated Segment for the Plan year.

3. The actual GAAP combined ratio achieved by the Core Business for the Plan year is subtracted from the weighted target combined ratio to determine the extent to which performance is over or under target. This result, whether positive or negative, is subtracted from the average policy life combined ratio target of 96 to determine the Gainsharing Combined Ratio.

The Gainsharing Combined Ratio is then matched with growth in Net Written Premium using the Gainsharing Matrix to determine a Performance Score for the Core Business Gainsharing Component.

C. Investment Performance Component

The Investment Performance Component compares the investment performance of the individual segments of Progressive's investment portfolio ("Portfolio Segments") against the performance of selected groups of comparable investment funds ("Investment Benchmarks") over such period or periods as shall be determined by the Committee. Investment results are marked to market in order to calculate total return, which is then compared against the designated Investment Benchmarks to produce a Performance Score for each Portfolio Segment.

The Portfolio Segments and Investment Benchmarks are as follows:

PORTFOLIO SEGMENT	INVESTMENT BENCHMARK
Equities (internally managed)	Rogers Casey Large Cap Value Funds
Equities (externally managed)	
Short Term Fixed Income	70% Rogers Casey Intermediate Fixed Income Funds 30% Rogers Casey Limited Duration Fixed Income Funds

Investment Benchmarks, and the funds which comprise the Investment Benchmarks, may be changed from year to year by the Committee. Funds which announce or initiate a fundamental change in investment strategy during the course of a Plan year may be deleted from the Investment Benchmark.

At the conclusion of a Plan year, the investment funds which comprise an Investment Benchmark are ranked according to their respective performances for the Plan year. The investment performance achieved by each Portfolio Segment for the Plan year is then compared against the performance of the several investment funds which comprise the applicable Investment Benchmark to determine the decile in which such Portfolio Segment's performance falls ("Decile Ranking"). The Performance Score for each Portfolio Segment is determined by its Decile Ranking for the Plan year, as follows:

DECILE RANKING	PERFORMANCE SCORE
1st	2.00
2nd	1.78
3rd	1.56
4th	1.33
5th	1.11
6th	.89

7th	.67
8th	.44
9th	.22
10th	0

The Performance Scores for the several Portfolio Segments are weighted, based on the average amounts invested in each such Segment during the Plan year, and the weighted Performance Scores for the Portfolio Segments are then combined to produce the Investment Performance Score. Investment expense is not included in determining investment performance vs. benchmark.

8. The Annual Bonus for any Plan year will be paid to participants as soon as practicable after the Committee has certified performance results for the Plan year, but no later than March 31 of the immediately following year. The provisions of this Paragraph shall be subject to Paragraph 9 hereof.

   Any Plan participant who is eligible to participate in The Progressive Corporation Executive Deferred Compensation Plan ("Deferral Plan") may elect to defer all or a portion of the Annual Bonus otherwise payable under this Plan, subject to and in accordance with the terms of the Deferral Plan.

9. Unless otherwise determined by the Committee, in order to be entitled to receive an Annual Bonus for any Plan year, the participant must be employed by Progressive on the date designated for payment thereof. Annual Bonus payments made to participants will be net of any legally required deductions for federal, state and local taxes and other items.

10. The right to any of the Annual Bonuses hereunder may not be transferred, assigned or encumbered by any participant. Nothing herein shall prevent any participant's interest hereunder from being subject to involuntary attachment, levy or other legal process.

11. The Plan will be administered by or under the direction of the Committee. The Committee will have the authority to adopt, alter and repeal such rules, guidelines, procedures and practices governing the Plan as it, from time to time, in its sole discretion deems advisable.

    The Committee will have full authority to determine the manner in which the Plan will operate, to interpret the provisions of the Plan and to make all determinations thereunder. All such interpretations and determinations will be final and binding on Progressive, all Plan participants and all other parties. No such interpretation or determination may be relied on as a precedent for any similar action or decision.

    The Plan will be administered by the Committee in accordance with the requirements of Section 162(m) of the Internal Revenue Code, as amended, and the rules and regulations promulgated thereunder (the "Code").

12. The Plan will be subject to approval by the holders of Progressive's Common Shares, $1.00 par value ("shareholders") in accordance with the requirements of Section 162(m) of the Code and no Annual Bonus will be paid hereunder unless the Plan has been so approved.

13. The Plan may be terminated, amended or revised, in whole or in part, at any time and from time to time by the Committee, in its sole discretion; provided that the Committee may not increase the amount of compensation payable hereunder to any participant above the amount that would otherwise be payable upon attainment of the applicable performance goals, or accelerate the payment of any portion of the Annual Bonus due to any participant under the Plan without discounting the amount of such payment in accordance with Section 162(m) of the Code, and further provided that any amendment or revision of the Plan

required to be approved by shareholders pursuant to Section 162(m) of the Code will not be effective until approved by Progressive's shareholders in accordance with the requirements of Section 162(m).

14. The Plan will be unfunded and all payments due under the Plan will be made from Progressive's general assets.

15. Nothing in the Plan shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties or compensation.

16. Progressive shall have the unrestricted right to set off against or recover out of any bonuses or other sums owed to any participant under the Plan any amounts owed by such participant to Progressive.

17. This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable or due to any participant from Progressive. Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 1995 Executive Bonus Plan, as heretofore in effect (the "Prior Plan"), which is and shall be deemed to be terminated as of December 31, 1996 (the "Termination Date"); provided, that any bonuses or other sums earned under the Prior Plan prior to the Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder.

18. This Plan is adopted and, subject to the provisions of Paragraph 12 hereof, is to be effective, as of January 1, 1997. Subject to the provisions of Paragraph 12, this Plan shall be effective for 1997 and for each year thereafter unless and until terminated by the Committee.

19. This Plan shall be interpreted and construed in accordance with the laws of the State of Ohio.

EXHIBIT NO. 10(M)

THE PROGRESSIVE CORPORATION EXECUTIVE DEFERRED COMPENSATION PLAN

(JANUARY 1, 1997 AMENDED AND RESTATED)

TABLE OF CONTENTS

THE PROGRESSIVE CORPORATION EXECUTIVE DEFERRED COMPENSATION PLAN (JANUARY 1, 1997 AMENDMENT AND RESTATEMENT)

WHEREAS, The Progressive Corporation maintains The Progressive Corporation Executive Deferred Compensation Plan pursuant to a plan document dated December 28, 1994; and,

WHEREAS, it is desired to amend and restate the Plan;

NOW, THEREFORE, effective January 1, 1997, the Plan is hereby amended and restated in its entirety to provide as follows:

ARTICLE 1

DEFINITIONS

1.1 "AFFILIATED COMPANY" means any corporation included in the affiliated group of corporations as defined in Section 1504 of the Code (determined without regard to 1504(b)) of which the Company is the common parent corporation.

1.2 "ANNUAL DEFERRAL ACCOUNT" or "ACCOUNT" shall have the meaning set forth in Section 4.1.

1.3 "BENEFICIARY" means such person(s) as the Participant has designated. A Participant may change his Beneficiary designation at any time. All Beneficiary designations (including changes) shall be made in writing on such forms as the Committee shall prescribe, and shall become effective only when received and accepted by the Committee; provided, however, that a Beneficiary designation (including a change) received by the Committee after the designating Participant's death shall be disregarded. In the absence of a Beneficiary designation, or if the designated Beneficiary is no longer living or in existence at the time of the Participant's death, all distributions payable from the Plan upon the Participant's death shall be paid to the Participant's estate.

1.4 "CHANGE IN CONTROL" means a "Change in Control" or "Potential Change in Control" within the meaning of The Progressive Corporation 1989 Incentive Plan (amended and restated as of April 24, 1992 and as further amended as of July 1, 1992 and February 5, 1993).

1.5 "CODE" means the Internal Revenue Code of 1986, as amended.

1.6 "COMMITTEE" means the Executive Compensation Committee of the Board of Directors of the Company, or any successor committee.

1.7 "COMPANY" means The Progressive Corporation, an Ohio corporation, or its successors.

1.8 "COMPANY STOCK FUND" means an Investment Fund consisting of Stock.

1.9 "DEDUCTION LIMITATION" means the following described limitation on a payment that may otherwise be distributable under the Plan. If the Committee determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Company would not be deductible by the Company solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Committee to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to a Change in Control is deductible, the Committee may elect to defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be deemed to be invested as provided in Article 5. The amounts so deferred (subject to investment gains and losses) shall be distributed to the Participant or his or her Beneficiary (if the Participant dies) at the earliest possible date, as determined by the Committee in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Company during which the distribution is made will not be limited by Code Section 162(m), or, if earlier, upon a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

1.10 "DEFERRAL AGREEMENT" means a written agreement entered into by an Eligible Executive pursuant to Article 2.

1.11 "DEFERRAL" means an amount credited to an Annual Deferral Account pursuant to a Deferral Agreement.

1.12 "DISABLED" AND "DISABILITY" means that a Participant is expected to be unable to perform the duties of his usual occupation for at least twelve (12) consecutive months, as determined by the Committee.

1.13 "DISTRIBUTION EVENT" means, as to each Participant, the earliest of the following events:

(i) the Participant's death;

(ii) the Participant's Termination of Employment; or

(iii) Change in Control.

1.14 "ELIGIBLE EXECUTIVE" means any executive of the Company or any Affiliated Company who is designated in writing as an Eligible Executive by the Committee, excluding, however, individuals who are not residents of the United States or are not working at a location in the United States.

1.15 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.16 "FIXED DEFERRAL PERIOD" shall have the meaning set forth in Section 2.3.

1.17 "FIXED INCOME FUND" means the Vanguard Money Market Reserves - Prime Portfolio or such other Investment Fund as may be designated by the Committee as the Fixed Income Fund within the meaning of the Plan.

1.18 "GAINSHARING AWARD" means any bonus or other incentive award payable with respect to a Plan Year under The Progressive Corporation 1997 Executive Bonus Plan, The Progressive Corporation 1997 Gainsharing Plan or any other plan or program as may be designated by the Committee.

1.19 "INVESTMENT FUND" means a device established from time to time by the Committee pursuant to Section 5.1 that is used to calculate gains and losses in amounts deferred by Participants under the Plan.

1.20 "PARTICIPANT" means an Eligible Executive who has deferred receipt of a portion of any Gainsharing Award pursuant to a Deferral Agreement. Participation shall begin on the date that a Deferral Account is established in the name of the Participant and shall end on the date that the Participant dies or receives a distribution of the balance of all his Deferral Accounts.

1.21 "PLAN" means The Progressive Corporation Executive Deferred Compensation Plan (January 1, 1997 Amendment and Restatement), as set forth herein and as it may be amended from time to time.

1.22 "PLAN YEAR" means 1997 and each subsequent calendar year.

1.23 "TERMINATION OF EMPLOYMENT" means the voluntary or involuntary cessation of a Participant's active employment with the Company and all Affiliated Companies as a result of any reason other than death, Disability and approved leave of absence.

1.24 "STOCK" means the Common Shares, $1.00 par value, of the Company.

1.25 "TRUST" shall mean the trust maintained pursuant to the Trust Agreement and known as The Progressive Corporation Executive Deferred Compensation Trust.

1.26 "TRUST AGREEMENT" shall mean the agreement of trust between the Company and the Trustee executed in furtherance of the Plan, as the same may be amended from time to time.

1.27 "TRUSTEE" shall mean the person selected from time to time by the Company to serve as trustee under the Trust Agreement.

1.28 "VALUATION DATE" shall mean each day that the New York Stock Exchange is open for trading.

1.29 "WITHDRAWAL AMOUNT" shall have the meaning provided in Article 3.

ARTICLE 2

DEFERRAL OF GAINSHARING AWARDS

2.1 METHOD OF DEFERRAL.

Each Eligible Executive may elect to defer receipt of all or a portion of his/her Gainsharing Award in respect of any Plan Year in excess of applicable tax withholding and other deductions required to be made in respect of the Gainsharing Award by signing a Deferral Agreement and delivering it to the Committee. If a Gainsharing Award is payable in installments, each installment, whether or not payable in the same Plan Year, shall be subject to the same Deferral Agreement.

2.2 DEFERRAL AGREEMENT PROVISIONS.

Each Deferral Agreement must satisfy all of the following requirements:

(a) it must be in writing and be in the form specified by the Committee;

(b) it must be irrevocable;

(c) it must apply to only one Gainsharing Award;

(d) it must be signed by the Eligible Executive making the Deferral and be delivered to the Committee prior to the Plan Year in which the applicable Gainsharing Award will be earned;

(e) it must specify the percentage of the Eligible Executive's Gainsharing Award to be deferred, which percentage shall not be less than ten percent (10%). The same deferral percentage shall apply to each installment of a Gainsharing Award covered by the Deferral Agreement. However, a Deferral Agreement may provide for the deferral of a percentage of that portion of a Gainsharing Award that exceeds a specified gross dollar amount, which percentage shall not be less than ten percent (10%). Notwithstanding the preceding provisions of this Section 2.2(e), no Deferral shall be less than such dollar amount as the Committee may specify from time to time. All Deferrals shall be reduced by applicable tax withholding and other legally required deductions;

(f) it must specify whether the balance of the Annual Deferral Account to be established pursuant to that Deferral Agreement will be distributed in a lump sum, in three (3) annual installments or in five (5) annual installments; and

(g) it must contain such other provisions, conditions and limitations as may be required by the Company or the Committee.

2.3 FIXED DEFERRAL PERIODS.

If an Eligible Executive wishes to defer receipt of all or a portion of any Gainsharing Award for a fixed period of time ("Fixed Deferral Period"), then his/her Deferral Agreement relating to such Gainsharing Award shall specify that Fixed Deferral Period, which shall not be less than three (3) years following the end of the Plan Year in which the Gainsharing Award will be earned.

ARTICLE 3

DISTRIBUTIONS AND WITHDRAWALS

3.1 DATE OF DISTRIBUTION.

The balance of each Annual Deferral Account of a Participant shall be distributed within thirty (30) days following the earlier of (i) the date a Distribution Event occurs, (ii) the date on which the Fixed Deferral Period, if any, applicable to such Account expires, or (iii) the date, if any, selected by the Company, in its sole discretion, pursuant to Section 9.2. The Committee, in its sole discretion, may also permit the balance of all of a Participant's Annual Deferral Accounts to be distributed at any time following the date the Participant is determined by the Committee to be Disabled. If the Committee approves such a Disability distribution, no further Deferrals shall be made with respect to the Disabled Participant following the date of the Committee's approval, and each Deferral Agreement to which such Participant is a party shall be of no further effect.

3.2 METHOD OF DISTRIBUTION.

Each distribution of the balance of an Annual Deferral Account made on account of the Participant's death shall be made to the Participant's Beneficiary. Each distribution made on account of the Participant's death, termination of the Plan or a Change in Control shall be paid in a lump sum. Each distribution made on account of the Participant's Termination of Employment or expiration of a Fixed Deferral Period shall be paid in either a lump sum or installments, as specified in the applicable Deferral Agreement. Each distribution made on account of the Participant's Disability shall be paid in either a lump sum or installments, as determined by the Committee in its sole discretion. If a Participant elects to receive (or, in the case of Disability, begins receiving) payment in installments and dies prior to payment of all installments, the balance remaining unpaid at his/her death shall be paid to his/her Beneficiary in a lump sum. Installment payments shall be paid annually for three (3) years or five (5) years, as specified in the applicable Deferral Agreement. Notwithstanding the preceding provisions of this Section 3.2, a Participant may elect to change the method of distribution elected in respect of any distribution to be made on account of Termination of Employment or expiration of a Fixed Deferral Period to any of the three permissible options (lump sum, installments over three (3) years, installments over five (5) years). Each such change must be made in writing on such forms as the Committee shall specify and must be delivered to the Committee at least one (1) year prior to Termination of Employment or expiration of the Fixed Deferral Period.

3.3 AMOUNT OF DISTRIBUTION.

The amount of each lump sum payment shall be equal to the balance of the Annual Deferral Account, as of the Valuation Date immediately preceding the date of distribution. The amount of each installment payment shall be equal to the balance of the Annual Deferral Account as of the Valuation Date immediately preceding the date of payment multiplied by a fraction, the numerator of which is one and the denominator of which is the number of years remaining in the period over which installments are to be paid. Installment distributions to be made in Stock shall be rounded to the nearest whole share. Notwithstanding anything in the Plan to the contrary, all distributions, except those made on account of a Change in Control, are subject to the Deduction Limitation.

3.4 FORM OF DISTRIBUTION.

All distributions shall be made in cash, except that a distribution representing amounts invested in the Company Stock Fund shall be made in Stock.

3.5 WITHDRAWAL ELECTION.

A Participant may elect at any time to withdraw all of his/her Annual Deferral Account balances, less a withdrawal penalty equal to 10% of such amount (the net amount shall be referred to as the "Withdrawal Amount"). This election can be made at any time before or after Disability, death or Termination of Employment, and whether or not the Participant is in the process of being paid pursuant to an installment payment schedule. No partial withdrawals of the Withdrawal Amount shall be allowed. The Withdrawal Amount shall be paid in a lump sum, except to the extent the Deduction Limitation requires otherwise. The Participant shall make a withdrawal election by giving the Committee advance written notice of the election in a form specified by the Committee. The election shall be irrevocable. The Participant shall be paid (or, if the Deduction Limitation applies, commence to be paid) the Withdrawal Amount within 30 days after the Committee's receipt of his/her election. Once the Withdrawal Amount is paid, or commences to be paid, the Participant's participation in the Plan shall terminate and the Participant shall not be eligible to participate in the Plan thereafter. If the Deduction Limitation applies, the entire balance of all of the Participant's Annual Deferral Accounts shall be reduced by the 10% withdrawal penalty effective on the date that payment of the Withdrawal Amount is to commence, even though final payment of the last portion of the Withdrawal Amount will not be made until permitted by the Deduction Limitation provisions. Any portion of the Withdrawal Amount not paid immediately shall continue to be deemed to be invested as provided in Article 5. If a Participant dies prior to payment of any portion of a Withdrawal Amount, the remaining portion shall be paid to his/her Beneficiary in a lump sum, subject to the Deduction Limitation. The provisions of Section 3.4 shall apply to all withdrawals under this Section 3.5.

ARTICLE 4

ACCOUNTS

4.1 ESTABLISHMENT OF ANNUAL DEFERRAL ACCOUNTS.

The Committee shall establish an Annual Deferral Account in the name of each Participant for each Gainsharing Award, or portion thereof, that is the subject of a Deferral Agreement. Such Account shall be established as of the first date that such Gainsharing Award or portion otherwise would have been paid to the Participant. Each Annual Deferral Account shall be credited with the deferred portion of such Gainsharing Award. Thereafter, all Annual Deferral Accounts shall be valued and administered as provided in this Article.

4.2 INVESTMENT OF ACCOUNTS.

All credits to an Annual Deferral Account of a Participant shall be deemed to be invested in such Investment Funds as the Participant shall elect from time to time in accordance with Article 5. The number of shares of Stock to be credited to a Participant's Account by virtue of a Participant's election to invest a portion of a Deferral in the Company Stock Fund shall be determined on the date of the Deferral, based on the closing price of Stock on the immediately preceding Valuation Date as quoted in the New York Stock Exchange composite trading. However, the amount of a Deferral otherwise elected by the Participant to be invested in the Company Stock Fund shall be reduced to the extent necessary to insure that only whole shares of Stock are credited and an amount corresponding to any fractional shares shall be invested in the Fixed Income Fund.

4.3 VALUATION OF INVESTMENT FUNDS.

As of each Valuation Date, the Trustee shall compute the value of each Investment Fund from which shall be determined the net gain or loss of such Investment Fund since the immediately preceding Valuation Date. The net gain or loss shall include any unrealized and realized profits and losses, and any dividends, interest or other income and any expenses which are due or accrued, but shall not include distributions from such Investment Fund or dividends transferred to the Fixed Income Fund pursuant to the following sentence. Notwithstanding the preceding provisions of this Section, any cash dividends paid in respect of Stock shall not be considered part of the gain of the Company Stock Fund; instead, those dividends shall be considered as having been transferred to the Fixed Income Fund as of the date such dividends are paid. In determining the value of each Investment Fund, the Trustee shall use the following values: securities listed on any nationally recognized securities exchange shall be valued at the closing price reported on any such exchange on the Valuation Date, or, if there were no sales on the Valuation Date, then at the quoted bid price on the Valuation Date. Securities not listed on a recognized securities exchange shall be valued at the quoted closing bid price on the Valuation Date. A unit of participation in a common trust fund maintained by the Trustee or a share in a mutual fund shall be valued at the unit value, or share price respectively, in effect at the close of business on the Valuation Date. Securities with respect to which there were no available sale prices or bid prices on the Valuation Date, and any other investments, shall be valued at prices deemed by the Trustee to represent the fair market value thereof on the Valuation Date.

4.4 VALUATION OF ACCOUNTS.

As of each Valuation Date, the net gain or loss of each Investment Fund shall be allocated among the appropriate Annual Deferral Accounts in accordance with such procedures as the Committee shall establish, which procedures shall apply uniformly to all Participants.

4.5 NATURE OF ACCOUNTS.

All credits to each Annual Deferral Account of each Participant shall be recorded as a liability on the books of the Company. However, no Participant or Beneficiary shall have any proprietary rights of any nature with respect to any Account of any Participant or with respect to any funds, securities or other property owned by the Company or any Affiliated Company that is held in the Trust or that otherwise may be represented from time to time by Investment Funds. All payments under the Plan shall be made from the Trust or from the Company's general funds and in no event shall any Participant or Beneficiary have any claims or rights to any payment hereunder that are superior to any claims or rights of any general creditor of the Company.

4.6 ACCOUNT STATEMENTS.

The Committee will furnish each Participant with quarterly statements of the value of each of his/her Annual Deferral Accounts.

ARTICLE 5

INVESTMENT FUNDS

5.1 INVESTMENT FUNDS.

The Committee shall establish and maintain the Company Stock Fund and such other Investment Funds as are specified from time to time by the Company. In this regard, the Company may choose to offer as Investment Funds any investment vehicles, including without limitation: (i) securities issued by investment companies advised by affiliates of the Trustee, (ii) guaranteed investment contracts recommended by the Trustee, and (iii) collective investment trusts maintained by the Trustee.

5.2 INVESTMENT ELECTIONS OF PARTICIPANTS.

Each Participant shall make an investment election in the manner prescribed by the Committee, directing the manner in which his/her Deferrals shall be deemed to be invested. Each investment election must be made in writing at the time the applicable Deferral Agreement is signed and may be changed upon written notice to the Committee at least five (5) business days prior to the deemed deposit of the applicable Deferral into one or more Investment Funds. Each Participant may make a separate investment election for each of his/her Annual Deferral Accounts. Each investment election shall specify that Deferrals shall be deemed to be deposited in one or more of the Investment Funds in percentages that are each an integral multiple of 1% and that in the aggregate equal 100% of the Deferral.

5.3 TRANSFERS. Amounts deemed to be invested in an Investment Fund pursuant to this Section may be transferred to another Investment Fund in accordance with such procedures and limitations as the Committee shall prescribe. The procedures and limitations prescribed by the Committee may include, without limitation, provisions which (i) limit transfers to specified dollar amounts or percentages (ii) limit the number of transfers that each Participant may make each Plan year (iii) limit the dates as of which transfers may become effective and (iv) impose waiting periods or other restrictions in connection with multiple transfers in and out of the same Investment Fund. All such procedures and limitations shall apply uniformly to similarly situated Participants.

5.4 NATURE OF INVESTMENT FUNDS.

Notwithstanding anything in the Plan, Trust or any Deferral Agreement to the contrary, no Participant shall have any rights or interests in any particular funds, securities or property of the Company, any Affiliated Company or the Trust, or in any investment vehicle in which Deferrals are deemed to be invested, by virtue of any investment election made by the

Participant under the Plan or any transactions engaged in by the Trust. Each Annual Deferral Account, however, shall be credited/charged in accordance with Article 4 with gains/losses as if the Participant in fact had made a corresponding actual investment.

5.5 LIQUIDATION OF INVESTMENT FUNDS.

If any Investment Fund is liquidated or otherwise ceases to exist without a successor, then that portion of each Account balance that previously has been deemed to have been invested in that Investment Fund shall be deemed to have been transferred to an Investment Fund consisting of money market instruments, or, if none, such other Investment Fund selected by the Committee.

ARTICLE 6
TRUST

6.1 ESTABLISHMENT OF TRUST.

The Company shall establish and maintain a Trust to provide a source of funds to assist the Company in meeting its liabilities under the Plan. Within thirty (30) days following the end of each Plan Year ending after the Trust has become irrevocable pursuant to the Trust Agreement, the Company shall be required to irrevocably deposit additional cash or other property to the Trust in an amount sufficient to pay each Participant or Beneficiary the benefits payable pursuant to the terms of the Plan as of the close of that Plan year.

The principal of the Trust, and any earnings thereon, shall be held separate and apart from other funds of Company and shall be used exclusively for the uses and purposes of Plan Participants and general creditors of the Company as set forth herein and in the Trust Agreement. Plan Participants and their Beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and the Trust Agreement shall be mere unsecured contractual rights of Plan Participants and their Beneficiaries against Company. Any assets held by the Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in the Trust Agreement. All assets deposited in the Trust shall be held, administered and distributed by the Trustee in accordance with the Trust Agreement. The Company shall pay directly, or reimburse the Trustee for, all taxes due in respect of any income or gains on Trust assets.

ARTICLE 7
PLAN OPERATION AND ADMINISTRATION

7.1 POWERS OF COMMITTEE.

The Committee will have full power to administer the Plan. Such power includes, but is not limited to, the following authority:

(a) to make and enforce such rules and regulations as it deems necessary or proper for the efficient administration of the Plan;

(b) to interpret the Plan and to decide all matters arising thereunder, including the right to resolve or remedy any ambiguities, inconsistencies or omissions. All such interpretations shall be final and binding on all parties;

(c) to compute the amounts payable to any Participant or Beneficiary or other person in accordance with the provisions of the Plan;

(d) to authorize disbursements from the Trust or the Plan;

(e) to keep such records and submit such filings, elections, applications, returns or other documents or forms as may be required under ERISA, the Code or other applicable law;

(f) to appoint such agents, counsel, accountants and consultants as may be desirable to assist in administering the Plan;

(g) To exercise the other powers that are expressly granted to it herein, or that are impliedly necessary for it to carry out any of its responsibilities hereunder; and

(h) by written instrument, to delegate any of the foregoing powers.

7.2 NONDISCRIMINATORY EXERCISE OF AUTHORITY.

The Committee shall exercise its authority in a nondiscriminatory manner so that all persons similarly situated will receive substantially the same treatment.

7.3 RELIANCE ON TABLES, ETC.

The Committee will be entitled, to the extent permitted by law, to rely conclusively on all tables, valuations, certificates, opinions and reports which are furnished by any accountant, Trustee, counsel or other expert retained by the Committee to assist it in administering the Plan.

7.4 INDEMNIFICATION.

In addition to whatever rights of indemnification to which employees, officers and directors of the Company and the Affiliated Companies may be entitled under the articles of incorporation, regulations or bylaws of the Company or the Affiliated Companies, under any provision of law, or under any other agreement, the Company shall satisfy any liabilities actually and reasonably incurred by any such employee, officer or director, including expenses, attorneys' fees, judgments, fines and amounts paid in settlement, in connection with any threatened, pending, or completed action, suit, or proceeding which is related to the exercise or failure to exercise by such person or persons of any of the powers, authority, responsibilities, or discretion of the Company, the Affiliated Companies or the Committee provided under the Plan or the Trust Agreement, or reasonably believed by such person or persons to be provided thereunder, and any action taken by such person or persons in connection therewith.

7.5 NOTICES TO COMMITTEE.

The Committee shall designate one or more addresses to which notices and other communications to the Committee shall be sent. No notice or other communication shall be considered to have been given to or received by the Committee until it has been delivered to the Committee's attention at one of such designated addresses.

ARTICLE 8

CLAIMS PROCEDURES

8.1 ESTABLISHMENT OF CLAIMS PROCEDURES.

The Committee shall establish reasonable procedures under which a claimant, who may be a Participant or Beneficiary, may present a claim for benefits under this Plan.

8.2 CLAIMS DENIALS.

Unless such claim is allowed in full by the Committee, written notice of the denial shall be furnished to the claimant within ninety (90) days (which may be extended by a period not to exceed an additional ninety (90) days if special circumstances so require and proper written notice to the claimant is given prior to the expiration of the initial ninety (90) day period) setting forth the following in a manner calculated to be understood by the claimant:

(a) The specific reason(s) for the denial;

(b) Specific reference(s) to any pertinent provision(s) of the Plan or rules promulgated pursuant thereto on which the denial is based;

(c) A description of any additional information or material as may be necessary to perfect the claim, together with an explanation of why it is necessary; and

(d) An explanation of the steps to be taken if the claimant wishes to resubmit his/her claim for review.

8.3 APPEALS OF DENIED CLAIMS.

Within a reasonable period of time after the denial of the claim, but in any event not to be more than sixty (60) days, the claimant or his/her duly authorized representative may make written application to the Committee for a review of such denial. The claimant or his/her representative may review documents held by the Committee and pertinent to the denial of such claim, and may submit a written statement of issues and comments together with such application for review.

8.4 REVIEW OF APPEALS.

If an appeal is timely filed, the Committee shall conduct a full and fair review of the claim and mail or deliver to the claimant its written decision within sixty (60) days after the claimant's request for review (which may be extended by a period not to exceed an additional sixty (60) days if special circumstances or a hearing so require and proper written notice to the claimant is given prior to the expiration of the initial sixty (60) day period). Such decision shall:

(i) Be written in a manner calculated to be understandable by the claimant;

(ii) State the specific reason(s) for the decision;

(iii) Make specific reference to pertinent provision(s) of the Plan upon which such decision is based; and

(iv) Be final and binding on all parties.

ARTICLE 9

AMENDMENT AND TERMINATION OF THE PLAN

9.1 AMENDMENT.

The Company may amend the Plan and Trust Agreement in any respect at any time for any reason by action of the Committee without liability to any Participant, Beneficiary or other person for any such amendment or for any other action taken pursuant to this Section 9.1, provided that any amendment required to be approved by the Company's shareholders pursuant to Section 162(m) of the Code shall not be effective until approved by the Company's shareholders in accordance with the requirements of Section 162(m) and further provided that no such amendment shall be made retroactively in a manner that would deprive any Participant of any rights or benefits which have accrued to his/her benefit under the Plan as of the date such amendment is proposed to be effective, unless such amendment is necessary to comply with applicable law.

9.2 TERMINATION.

The Company may terminate the Plan at any time for any reason by action of the Committee without any liability to any Participant, Beneficiary or other person for any such termination or for any other action taken pursuant to this Section 9.2. Following termination of the Plan, and notwithstanding the provisions of any Deferral Agreement entered into prior to such termination, no additional Deferrals may be made hereunder, but all existing Accounts shall continue to be administered in accordance with the Plan, as in effect immediately prior to termination, and shall be distributed in accordance with such terms of the Plan and the applicable Deferral Agreements, unless and until the Company elects to accelerate distribution as provided below. At any time on or after the effective date of termination of the Plan, the Company, in its sole discretion, may elect to accelerate the distribution of the entire balance of each Participant's Accounts. Such accelerated distributions shall be made in accordance with Article 3, except that all distributions shall be made in a lump sum based on the value of the Accounts, determined as of the Valuation Date immediately preceding the date of distribution. Upon the completion of distributions to all Participants or Beneficiaries, as the case may be, no Participant, Beneficiary or person claiming under or through them, will have any claims in respect of the Plan.

9.3 LIQUIDATION OF THE TRUST.

The Trust shall continue in existence after the termination of the Plan for such period of time as may be required to complete the liquidation thereof in accordance with the terms of this Article 9.

ARTICLE 10

MISCELLANEOUS PROVISIONS

10.1 HEADINGS.

The headings of the Plan have been inserted for convenience of reference only and are not to be deemed controlling in any constructions of the provisions herein (other than with respect to defined terms).

10.2 PLAN NOT CONTRACT OF EMPLOYMENT.

The existence of the Plan shall not create, evidence or change any contract of employment with any Participant. The right of the Company and all Affiliated Companies to take corrective, disciplinary or other action with respect to their employees, including terminating their respective employment at any time for any reason, shall not be affected by any provision of this Plan, and the Company and the Affiliated Companies will not be deemed responsible to provide continuing employment for any reason, at any time solely by reason of this Plan.

10.3 SEVERABILITY.

If any provision of the Plan shall be invalid, such provision shall be fully severable, and the remainder of the Plan and the application thereof shall not be affected thereby.

10.4 PROHIBITION ON ASSIGNMENT.

No right or interest under the Plan of any Participant or Beneficiary shall be subject at any time or in any manner to anticipation, alienation, assignment (either at law or in equity), encumbrance (as security or otherwise), garnishment, levy, execution, or other legal or equitable process, and no Participant or Beneficiary shall have the power at any time or in any manner to anticipate, transfer, assign (either at law or in equity), alienate, or subject to attachment, garnishment, levy, execution or other legal or equitable process, or in any way encumber, such Participant's or Beneficiary's rights or interests under the Plan, and any attempt to do so shall be void; provided, however, that the Company shall have the unrestricted right to set off against or recover out of any payments due a Participant or Beneficiary at the time such payments would have otherwise been payable hereunder, any amounts owed the Company or any Affiliated Company by such Participant or Beneficiary.

10.5 NUMBER AND GENDER.

Any use of the singular shall be interpreted to include the plural and the plural the singular. Any use of the masculine, feminine or neuter shall be interpreted to include the masculine, feminine and neuter, as the context shall require.

10.6 GOVERNING LAW.

To the extent not preempted by Federal law, the provisions of the Plan shall be construed, regulated and administered under the laws of the State of Ohio.

10.7 SATISFACTION OF CLAIMS.

Any payment to any Participant or Beneficiary in accordance with the terms of the Plan shall, to the extent thereof, be in full satisfaction of all claims hereunder, whether they be against the Company, the Committee, or the Trustee, any of whom may require the Participant or Beneficiary (or legal representative), as a condition precedent to such payment to execute a release and receipt therefor.

10.8 NO LIABILITY.

Participation in the Plan is entirely at the risk of each Participant. Neither the Company, any Affiliated Company, the Committee, the Trustee nor any other person associated with the Plan shall have any liability for any loss or diminution in the value of Accounts, or for any failure of the Plan to effectively defer recognition of income or to achieve any Participant's desired tax treatment or financial results.

10.9 TAX WITHHOLDING.

All payments under the Plan shall be subject to federal, state and local income tax withholding and other legally required deductions.

10.10 FACILITY OF PAYMENT.

If the Committee determines that a Participant or Beneficiary entitled to receive a payment under this Plan is (at the time such payment is to be made) a minor or physically, mentally or legally incompetent to receive such payment and that another person or an institution has legal custody of such minor or incompetent individual, the Committee may cause payment to be made to such person or institution having custody of such Participant or Beneficiary. Such payment, to the extent made, shall operate as a complete discharge of obligation by the Committee, the Company, the Trustee and the Trust.

10.11 REPAYMENT OF GAINSHARING AWARDS.

If any amount credited to an Annual Deferral Account represents a portion of a Gainsharing Award that is subsequently found to be repayable by the Participant to the Company or any Affiliated Company pursuant to the plan pursuant to which the Gainsharing Award was made, the amount of that credit shall nevertheless remain unaffected by that repayment obligation, and the Participant shall make the required repayment out of his/her own funds.

10.12 STOCK SUBJECT TO THE PLAN.

Subject to adjustment as provided below, the total number of shares of Stock reserved and available for issuance in connection with the Plan is Three Hundred Thousand (300,000). Any Stock issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares. If there is a merger, reorganization, consolidation, recapitalization, share dividend, share split, combination of shares or other change in corporate structure of the Company affecting the Stock, such substitution or adjustment shall be made in the aggregate number of shares of Stock reserved for issuance under the Plan as may be approved by the Committee in its sole discretion; provided that the number of shares of Stock to be issued in connection with the Plan shall always be a whole number. Any fractional shares shall be eliminated and the value of such fractional shares shall be deemed to have been transferred to the Fixed Income Fund as of the effective date of such substitution or adjustment.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its duly authorized officers as of this 16th day of December, 1996.

THE PROGRESSIVE CORPORATION

By: /s/ David M. Schneider

Title: Secretary

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EXHIBIT NO. 11

COMPUTATION OF EARNINGS

PER SHARE

2

EXHIBIT 11

THE PROGRESSIVE CORPORATION
COMPUTATION OF EARNINGS PER SHARE
(MILLIONS - EXCEPT PER SHARE AMOUNTS)

	1996		1995		1994	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
PRIMARY:						
Net income	$313.7		$250.5		$274.3	
Less: Preferred stock dividends	(3.5)		(8.4)		(8.6)	
Excess Preferred Stock liquidation price over carrying value	(2.9)		--		--	
	$307.3	$4.14	$242.1	$3.26	$265.7	$3.59
Average shares outstanding	71.6		71.8		71.6	
Net effect of dilutive stock options	2.6		2.4		2.4	
Total	74.2		74.2		74.0	
FULLY DILUTED:						
Net income	$313.7		$250.5		$274.3	
Less: Preferred stock dividends	(3.5)		(8.4)		(8.6)	
Excess Preferred Stock liquidation price over carrying value	(2.9)		--		--	
	$307.3	$4.11	$242.1	$3.24	$265.7	$3.59
Average shares outstanding	71.6		71.8		71.6	
Net effect of dilutive stock options	3.2		2.9		2.4	
Total	74.8		74.7		74.0	

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EXHIBIT NO. 12

COMPUTATION OF RATIO OF EARNINGS
TO FIXED CHARGES

2

EXHIBIT 12

THE PROGRESSIVE CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(millions)
(unaudited)

	Twelve Months Ended December 31,	
	1996	1995
Income before income taxes	$441.7	$345.9
Fixed Charges:		
Interest and amortization on indebtedness	61.5	57.1
Portion of rents representative of the interest factor	4.5	4.2
Total fixed charges	66.0	61.3
Total income available for fixed charges	$507.7	$407.2
Ratio of earnings to fixed charges	7.7	6.6

EXHIBIT NO. 13

THE PROGRESSIVE CORPORATION

1996 ANNUAL REPORT

About the Art

A Whether Progressive proactively changes its approach to marketing or management, or changes in reaction to competition, regulation or technology, change is constant and requires agility, flexibility and velocity. To illustrate that Progressive changes constantly, "Change" was selected as the theme for this Annual Report. As Progressive continues to reinvent itself to serve customers, it has become a designer and agent of change, both internally and throughout the industry. At the same time, embracing change also facilitates Progressive's ability to adapt to shifts in the market that are outside of its control. The art for this years' annual report was commissioned to directly address the concept of "Change." Russian-born artists, Rimma Gerlovina and Valeriy Gerlovin use their own faces and bodies as a canvas for the transformation of their "still performances" known as photoglyphs. The Gerlovins' work will become part of Progressive's growing collection of contemporary art.

cover <u>Calendar</u> back cover <u>Spiral Clock</u>

(millions-except per share amounts)

	1996	1995	% Change	Average Annual Compounded Rate of Increase (Decrease) 5-Year 1992-1996	10-Year 1987-1996
For the Year					
Direct premiums written	$ 3,638.4	$ 3,068.9	19%	19%	16%
Net premiums written	3,441.7	2,912.8	18	21	16
Net premiums earned	3,199.3	2,727.2	17	20	17
Total revenues	3,478.4	3,011.9	15	18	17
Operating income	309.1	220.1	40	29	19
Net income	313.7	250.5	25	57	17
Per share:					
Operating income	4.08	2.84	44	28	20
Net income	4.11	3.24	27	59	18
Underwriting margin(1)	8.5%	5.7%		8	6
At Year-End					
Consolidated shareholders' equity	$ 1,676.9	$ 1,475.8	14	29	18
Common Shares outstanding	71.5	72.1	(1)	3	(2)
Book value per Common Share	$ 23.45	$ 19.31	21	32	20
Return on average common shareholders' equity	20.5%	19.6%		25	23

Stock Price Appreciation(2)	1-Year	5-Year	10-Year
Progressive	38.5%	31.0%	21.6%
S&P 500	22.8%	15.2%	15.2%

<FN>

(1) The 5- and 10-year amounts represent averages for the period, not rate of increase.

(2) Assumes dividend reinvestment.

Operating income per share, which excludes net realized gains on security sales and one-time items, increased 44 percent to $4.08.

Progressive's stock appreciated 38.5 percent during the year.

The Core business net premiums written grew 19 percent with an 8.1 percent underwriting profit margin.

Market capitalization was $4.8 billion at December 31, 1996.

The companywide underwriting profit margin was 8.5 percent, compared to the personal auto insurance market's estimated underwriting loss of 1.0 percent.

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About Progressive

The Progressive insurance organization began business in 1937. Progressive Casualty Insurance Company was founded in 1956 to be among the first specialty underwriters of nonstandard auto insurance. The Progressive Corporation, an insurance holding company formed in 1965, owns 64 subsidiaries and has one mutual insurance company affiliate. The companies provide personal automobile insurance and other specialty property-casualty insurance and related services sold primarily through independent insurance agents in the United States and Canada. The 1996 estimated industry premiums, which include personal auto insurance in the U.S. and Ontario, Canada, as well as insurance for commercial vehicles, were $129.4 billion, and Progressive's share was 2.6 percent.

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Communicating a clear picture of Progressive by stating what we try to achieve (Vision), what guides our behavior (Core Values), what our people expect to accomplish (Objectives), and how we evaluate performance (Measurements), permits all people associated with Progressive to understand their role and enjoy their contributions.

Vision

We seek to be an excellent, innovative, growing and enduring business by reducing the human trauma and economic costs of auto accidents, theft and other perils while building a recognized, trusted, admired, business-generating consumer brand. We seek to earn a superior return on equity and to provide a positive environment to attract quality people and achieve ambitious growth plans.

Core Values

Progressive's Core Values are pragmatic statements of what works best for us in the real world and they govern our decisions and behavior. We want them understood and embraced by all Progressive people. Growth and change provide new perspective and require regular refinement of Core Values.

Integrity. We revere honesty. We adhere to high ethical standards, report completely, 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 be clear and open about 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, shareholders and people. "Quality" is Progressive's process for teaching and encouraging our people to improve performance and reduce the costs of what they do for customers. We base 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. Our increasing profits reflect our customers and claimants increasingly positive view of Progressive. We strive to find the most cost-effective ways to reduce the human trauma and economic costs of automobile accidents. We value social and economic well-being and strive to give back to our communities.

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Financial Objectives and Measurements

Consistent achievement of superior results requires that our people understand Progressive's objectives and their specific role, and that their personal objectives dovetail with Progressive's. Our objectives are ambitious yet realistic. We are committed to achieving financial objectives over rolling five-year periods. Experience always clarifies objectives and illuminates better strategies. We constantly evolve as we monitor the execution of our strategies and progress toward achieving our objectives.

Return On Shareholders' Equity. Our most important financial goal is to achieve an after-tax return on shareholders' equity over a five-year period that is at least 15 percentage points greater than the rate of inflation (measured by the Consumer Price Index which was 3.3 percent in 1996, and averaged 2.8 percent over the past five years and 3.7 percent over the past ten years). Return on equity was 20.5 percent in 1996, and averaged 25.2 percent over the past five years and 23.4 percent over the past ten years.

Profitability. Progressive is driven by the goal of producing a 4 percent underwriting profit over the entire retention period of an insured. Overall, we had an underwriting profit of 8.5 percent in 1996, 8.1 percent for the past five years and 5.6 percent for the past ten years. Estimated industry results for the personal auto insurance market for the same periods were underwriting losses of 1.0 percent, 1.4 percent and 3.9 percent.

Growth. We seek increases in net premium volume that are at least 15 percentage points greater than the rate of inflation. Companywide net premiums written increased 18.2 percent in 1996, 21.0 percent compounded annually over the past five years and 16.0 percent over the past ten years. Net premiums written in the personal auto insurance market for the same periods grew 5.2 percent, 5.3 percent and 6.5 percent.

Achievements. We are convinced that the best way to maximize shareholder value is to achieve these financial objectives consistently. An initial shareholder who purchased 100 shares of Progressive for $1,800 in our first public stock offering on April 15, 1971, owned 7,689 shares on December 31, 1996, with a market value of $518,000, for a 24.7 percent compounded annual return, compared to the 8.4 percent return achieved by investors in the Standard & Poor's 500 during the same period. In addition, the shareholder received dividends of $1,768 in 1996, bringing their total dividends received to $14,500 since they purchased the stock.

In the ten years since December 31, 1986, Progressive shareholders have realized compounded annual returns of 21.6 percent, compared to 15.2 percent for the S&P 500. In the five years since December 31, 1991, Progressive shareholders' returns were 31.0 percent, compared to 15.2 percent for the S&P 500. In 1996, the returns were 38.5 percent on Progressive shares and 22.8 percent on the S&P 500.

The repurchase of Progressive stock is another way the Company increases shareholder value. Over the years, when we have adequate capital and Progressive's stock is attractively priced, we have repurchased our shares. Since 1971, we have spent $568.2 million repurchasing our shares, at an average cost of $6.92 per share. During 1996, we repurchased 1.0 million Common Shares at an average cost of $41.73 per share.

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1996 Objectives and Accomplishments

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	1996	Last 5 Years	Last 10 Years
Return on Shareholders' Equity			
Objective	18.3%	17.8%	18.7%
Accomplishment	20.5	25.2	23.4
Underwriting Profit (Loss) Margin			
Objective	4.0	4.0	4.0
Accomplishment	8.5	8.1	5.6
Industry-Personal Auto Insurance Market	(1.0)	(1.4)	(3.9)
Growth (annualized)			
Objective	18.3	17.8	18.7
Accomplishment	18.2	21.0	16.0
Industry-Personal Auto Insurance Market	5.2	5.3	6.5

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Claim Stories

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Following are the claim stories that appeared in our earnings releases throughout 1996:

A claim representative responded to a call reporting damage to a policyholder's vehicle after a tornado swept through his neighborhood in Louisville, Kentucky. Because of possible looting, the police were not allowing anyone other than residents to drive into the devastated area. So, he parked the Immediate Response Vehicle and set out on foot, reaching the policyholder within one hour of the report of loss. Once he arrived at the scene, only one more problem remained. A huge tree had fallen, completely obscuring the car. To allow him to settle the claim, the claim representative and the owner of the vehicle used a chain saw and cleared all of the wood so an estimate could be provided and the claim could be settled. That's not what you'd expect from an insurance company . . . well, maybe you should.

On April 25, a new policyholder bought an auto insurance policy in Gainesville, Florida. On May 29, the same policyholder reported that she hit a deer which caused extensive damage to her vehicle. While inspecting the damage, our claim representative removed some hair fibers and took them to a local veterinarian. The vet advised the claim representative that the hair was from a cow, not a deer. With this piece of information, our special investigation unit was able to track down a report of a cow that was killed several hours before the policy was taken out--a month before the loss was reported! The investigator located the cow's owner, confirmed when and where the cow had been killed and exhumed the body. The investigator found that the debris embedded in the cow's flesh matched the damaged parts on the policyholder's vehicle. The claim was denied. It just goes to show you that sometimes you have to dig deep down to get all the facts!

Graphic of Time

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December 22--A policyholder, along with her two children and a carload of Christmas presents, was on her way from Atlanta to Miami when she ran off the highway and hit a guardrail. She called to report the accident from the now-disabled car. It was dark and she was alone with her children on the side of the interstate. When Progressive received the claim report, the claim representative immediately called a car rental agency and persuaded the manager, who was closing the rental office for the night, to stay open just a little later so a car could be delivered to the policyholder waiting on the side of the interstate. The claim representative then called a body shop and arranged for a tow truck to meet him at the accident scene. The claim representative arrived at the accident scene shortly before the rental car and tow truck and, within two hours of the accident, helped the policyholder load the Christmas presents and her children into the rental car so the family could continue their holiday trip to Miami. That's not what people expect from their insurance company . . . well, maybe they should.

During peak drive time on a Friday afternoon on one of Miami's busiest highways, one of Progressive's policyholders was rear-ended on his way to work. Of all days, this was not a day he could be late for work. The policyholder was a musician with the Miami Sound Machine and not only was the group about to perform at the Miami Arena, HBO would be broadcasting the event worldwide. The policyholder called from the accident scene, explained the situation and indicated he had no time to spare. No problem for Progressive's Immediate Response(R) claims service. The claim representative gathered the loss information and arranged for a tow truck and rental car to be dispatched to the accident scene. Upon arriving at the scene, the claim representative got the policyholder into the rental car, assured him the claim was being handled and sent him off to the hundreds of thousands of fans eagerly anticipating the concert. That's not what you'd expect from an insurance company . . . well, maybe you should.

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In 1996, Progressive continued on its path to leadership in automobile insurance. We expanded from 37 to 43 the number of states where we hope to convince every auto owner and operator to investigate and buy Progressive's unique package of low cost auto insurance and extraordinary customer service. We make it easy for consumers to do business with Progressive by distributing our products through many different channels.

I am proud and happy to report that we believe that our private passenger auto premium growth in 1996 made Progressive the 6th largest United States auto insurance company. We grew in 1996 by increasing our share of the approximately $22 billion nonstandard auto insurance market and by continuing to grow in the approximately $85 billion standard and preferred auto insurance market. We work hard and invest heavily in people and processes to reduce the human trauma and economic costs of auto accidents. Our results include the cost of these investments, designed to make us more competitive for all auto insurance.

In 1996, Progressive's organization adapted to the company's larger size and gained the flexibility and responsiveness required to sustain superior performance in the face of increasingly intense competition and increasingly rapid technological change. We are confident that we can continue to grow profitably by continuing to lower our costs and rates and continuing to improve customer service and the speed with which we deliver it. The rate, extent and success of all the change required to accomplish this has earned Progressive unexpected recognition as a leader among the many organizations which are re-engineering themselves.

Progressive's strong focus on customers leads to steady growth in market share which, in turn, permits us to reduce the costs of doing business and become even more competitive. Our people's superb response to the challenge of creating and managing growth reaffirms both how committed and how talented they are. Great people operating with a clear Vision, strong Core Values and creative Strategies will continue to drive Progressive's profitable growth.

Growing the number of policyholders, particularly standard and preferred risks with their higher retention rates, builds intrinsic value because renewals are more profitable than first year business. To encourage writing more standard and preferred risks and to improve customer retention, we adjusted the 1997 "Gainsharing" program (contingent cash incentive compensation for all Progressive people) to credit the estimated increase in value created by adding new customers. The drive to add customers faster will result in more spending to promote our brand and to develop more claim adjusters and customer service representatives. These costs, along with expected losses on first year business, are likely to bring underwriting profit margins more in line with our 4 percent objective.

Like all shareholders, we want premium growth to translate into current earnings growth and a higher stock price. However, we manage by executing meaningful, long-term strategies that build value which we expect to be reflected in the stock price over five-year periods. Therefore, as an investment, Progressive stock may be most attractive to investors interested in long-term appreciation.

To facilitate growth and the execution of our strategies, we reorganized in 1996 to be less hierarchical, to have managers doing both staff and line work, and to become closer to customers by expanding the number of local business units. We eliminated the Chief Operating Officer

Impulse of Life

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role and created a "Policy Team" made up of the eleven people who make Progressive's final management-level decisions--five Process Leaders respectively responsible for Product, Independent Agent Marketing, Direct Marketing, Ownership (customer service) and Claims, as well as the Chief Financial, Human Resources, Legal, Information and International Officers, and me.

Policy Team member's Gainsharing compensation is targeted between 100 percent and 135 percent of base salary and is based largely on corporate results, with Process Leaders incented to achieve world class profit/growth producing breakthroughs. My role on the team is to ensure that all issues are identified, articulated and addressed; to decide in the rare instances where there is sufficient disagreement to warrant my doing so; and to oversee the objective setting and performance evaluation processes. In 1996, Policy Team members initiated the practice of evaluating each other and being evaluated by their direct reports.

We organized process teams made up of people from both staff and line functions to support the business units serving ever more localized sets of customers. The teams concentrate on improving the processes fast enough to sustain Progressive meeting its own high standards for customer service, profit and growth.

Most business unit general managers report to Process Leaders. General managers are responsible for reducing claim costs, improving agent service and relationships, direct marketing and deciding price levels for their territory. Gainsharing for general managers is targeted at 50 percent to 100 percent of base salary, depending on business size and process involvement, and is earned based on the profitability and growth of their business. We subdivide continuously as growth produces enough customers to warrant more local focus, which almost always drives costs down and improves customer service. Early in 1997, we had 38 business units, compared to 16 at the end of 1995.

Progressive's unique approach to management continues to evolve along with its business strategy. Our management philosophy includes the following:

Total Quality Management dovetails with our Excellence Core Value--doing better than we did before--and empowers Progressive people to change how they function if the change measurably improves customer service or reduces costs, and if it does not disrupt others in the work chain. Because measurement is essential to TQM, we have dramatically improved our ability to measure performance and to control quality.

Teamwork is the way we work. We continue to improve the ways in which we motivate, manage, evaluate and reward teams.

Steady Cost Reduction has been, and continues to be, critical to our strategy. Underwriting expenses were 21.6 percent of premiums in 1996, compared to 23.0 percent in 1995 and 35.0 percent in 1990.

Process Management by top managers eliminates much staff/line friction, fosters cooperation among business units and departments, and requires balancing delicate trade-offs between local autonomy and collective effectiveness.

Thorough Testing of new ideas has replaced our former propensity to seize perceived opportunities and grow them as fast as possible.

Performance-based Compensation pays our people very well for exceptional performance, makes contingent pay significant to everyone and fosters the achievement of our demanding objectives. In 1996, 10.8 percent of total compensation resulted from our Gainsharing program.

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Results
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In 1996, net premiums written increased 18 percent to $3,441.7 million, compared to $2,912.8 million in 1995. Progressive has posted an annual underwriting profit in 24 out of the last 30 years and bettered our 4 percent underwriting goal with an 8.5 percent margin in 1996. We reduced underwriting expenses by 1.4 percentage points in 1996, following a 1.7 point reduction in 1995.

Operating income, which excludes net realized gains on security sales and one-time items, is the best measure of how well we manage our insurance operations. Operating income increased to $309.1 million, or $4.08 per share, compared to $220.1 million, or $2.84 per share, in 1996. Operating income excludes $7.1 million of net realized gains in 1996, compared to $46.7 million in 1995. Net income was $313.7 million, or $4.11 per share, this year, compared to $250.5 million, or $3.24 per share, in 1995. Return on shareholders' equity was 20.5 percent, compared to 19.6 percent in 1995.

Changing Globe

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Ninety-eight percent of Progressive's net premiums written is insurance for private passenger automobiles, recreational vehicles and small fleets of commercial vehicles, which we categorize as "core." Core business net premiums written grew 19 percent to $3,367.2 million, compared to $2,824.2 million in 1995. The underwriting profit margin was 8.1 percent, compared to 5.2 percent in 1995.

Three years ago, we consolidated our new, unique and superior customer services into a Progressive brand by expanding service in a number of states and testing ways to project the brand to potential customers. We focused managers on empowering people and constantly improving the delivery of around-the-clock, immediate response, information-rich service, designed to delight customers.

We use a combination of television commercials, direct mail and other media to urge consumers to test Progressive's smart new way to shop for auto insurance by calling 1 800 AUTO PRO(R) (1-800-288-6776). In an average 15-minute call, consumers can receive a quote for their particular risk profile from Progressive and comparison rates from up to three other leading auto insurers, including State Farm and Allstate. Our representative also explains the following service improvements, which when considered together, are unique to Progressive:

Assistance after an accident, or other loss, is Progressive's most important service, so we implore our customers to call 1-800-274-4499 immediately after any incident. Twenty four hours a day, 7 days a week, a Progressive person answers the phone, takes the information, authorizes emergency measures and almost always can have a Progressive claim representative face-to-face with the customer or claimant within a few hours.

Universal acceptance because consumers abhor being rejected or cancelled. Progressive rarely rejects and never cancels honest customers who pay their premiums in the 43 states where our complete program is operative.

Competitive rates for risks from ultra-preferred to nonstandard in the states with the complete program. As experience makes us comfortable with pricing standard and preferred risks, we concentrate more on this market which accounted for between 10 and 15 percent of 1996 premium volume and is expected to become an increasing percentage of total premium volume.

Many different ways to buy, which consumers prefer, so we offer choices--including over 30,000 independent insurance agencies (our most important method of distribution), joint marketing relationships with national accounts and Progressive's 1 800 AUTO PRO(R) telephone service. Now that our personal auto product line includes standard and preferred auto, agents have found more and better ways to match the product they offer with the needs of the consumer, spurring our growth and helping the independent agent channel regain lost market share.

24 hours a day, 7 days a week service. Consumers want to do business when it's convenient for them, so we operate 24 hours a day, 7 days a week to provide new insurance quotes, handle endorsements and questions concerning current policies, and, most importantly, respond to accidents and other incidents. Our customers depend upon our service, which is supported by a real-time disaster management approach that continuously monitors performance of internal systems, threatening weather patterns and other natural events. This approach allows us to regularly reconfigure our network and place disaster response teams in motion as soon as we hear of an event.

Absolute-Relative

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Progressive's Diversified Businesses

The United Financial Casualty Company, Professional Liability Group and Motor Carrier business units provide combinations of service and indemnity to businesses. Their primary products are collateral protection coverage for automobile lenders and loan tracking for financial institutions, directors and officers liability and fidelity coverage for American Bankers Association member community banks, and underwriting and claim servicing for state involuntary residual market commercial and personal auto programs and other commercial enterprises. Each unit is the largest provider of its specialty in the country, though the market size for each declined in 1996.

The Diversified businesses produced revenues and pretax profits of $117.7 million and $24.3 million, respectively, in 1996, compared to $130.2 million and $29.9 million in 1995. In 1996, Progressive acquired 50.1 percent of an automobile inspection service company for $3.0 million.

Investments and Capital Management

Progressive employs a conservative approach to investment and capital management intended to ensure that there is sufficient capital to support all the insurance premium that can be profitably written. Benchmarks for measuring the performance of our investment professionals discourage the assumption of large amounts of interest rate risk. The quality of our portfolio remained exceptional. Fixed-income investments averaged about 89 percent of our portfolio with 63 percent invested in treasuries and other AAA securities. The duration of the fixed-income portfolio was 3.2 years at year-end.

Our 1996 objective was to increase Progressive's exposure to the equity markets closer to the 15 percent target established in early 1996 while avoiding excessive market volatility which could reduce surplus and thus curtail growth. On December 31, 1996, common stocks comprised 12.1 percent of the portfolio, up from 8.2 percent at the prior year-end. This percentage will increase as investment opportunities are identified. Progressive generally pursues a "value" rather than a "growth" style of equity investing. From this perspective, the domestic stock markets look over-valued relative to some foreign markets. We rely on Sanford C. Bernstein & Co., a value-oriented firm, to manage our small global equity portfolio.

The 1996 taxable equivalent total return for the portfolio was 7.8 percent, compared to 12.4 percent last year. The average maturity of our fixed-income portfolio ranged between 3.1 years and 3.9 years throughout the year. The short average maturity of Progressive's bond portfolio reflects the 1.7 year average life of our insurance liabilities.

The total portfolio increased to $4,450.6 million at December 31, 1996, from $3,768.0 million at December 31, 1995. Investment income (interest, dividends and realized gains and losses) was $232.9 million before taxes and $180.2 million after taxes, compared to $245.8 million before taxes and $186.6 million after taxes in 1995. On December 31, 1996, our portfolio had $114.1 million in unrealized capital gains, compared to $78.7 million at the end of 1995, resulting from increased stock prices as the S&P 500 index rose from 615.9 to 740.7 during the year.

Our ratio of net premiums written to statutory surplus was 2.7 to 1 on December 31, 1996. The Company has sufficient funds to support anticipated growth in the operating companies. Progressive's debt to total capital ratio was 32 percent at year-end 1996, compared to 31 percent last year and a range of 24 percent to 61 percent over the past 20 years. During 1996, we issued $100 million of 7.30% 10-year Notes and redeemed our 93/8% Serial Preferred Shares, Series A, at a price of $25 per share, plus accrued and unpaid dividends through May 31, 1996, the redemption date, for a total cost of $82.1 million. In addition, we repurchased 1.0 million Common Shares at an average cost of $41.73 per share.

Progressive supports risk-based capital monitoring by regulators and endorses the trend toward more demanding standards than those currently in use. This effort to improve the early detection of financial weakness before it leads to insolvency should benefit Progressive over time by reducing state insolvency fund assessments. The risk-based capital calculation reflects favorably on companies like Progressive with historically high profitability, short-tailed liabilities, and conservative reserves and investments.

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Risks
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Progressive faces tremendous opportunity. We point out risks to help our shareholders understand the company better, not because our risk level is greater than that of other businesses.

Legislative and Regulatory Risk. Insurance laws and regulations change continually. There were no significant reforms during the year. We rely on our general managers to help regulators and legislators resolve issues in the way that best serves consumers.

Unpredictable Underwriting Margin and Growth Rate. Our strategy is to strive to achieve a 4 percent underwriting profit margin over the entire retention period of an insured. We cannot predict with precision the timing and pace of changes in underwriting margins, in retention nor in the rate of growth. We monitor each program to ensure that rates are adjusted promptly and adequately to obtain 4 percent margins over the entire retention period of a policyholder.

Pricing Risk. We continue to learn how to price standard and preferred auto insurance, and to experiment with new ways to price certain segments. We minimize the risk implicit in new pricing methodology by controlling volume in new programs and changing rates immediately when experience dictates.

Homeowners Insurance. This type of insurance has the potential to expose Progressive to catastrophes. Thus, there will be risk if our auto insurance market share objectives require us to offer it. Our current absence of plans to write homeowners

is also risky because many consumers prefer to buy all their insurance from one company. In 1997, we will assess the demand for homeowners and will develop a plan to satisfy our customers' needs.

Advertised Brand. Consumer advertising and brand awareness require higher performance standards. We continually consider consumers' demands and appreciate their ability to make wise choices. In response, we are always looking for new and innovative ways to improve service at a lower cost.

Competitor Response. Other insurers are reacting to Progressive's attempt to change consumers' auto insurance experience, but we cannot predict when and how their response will affect our growth and profitability. We monitor competitors and will promptly incorporate their product and service improvements in our consumer offerings. In addition, our people, with their knowledge of our operations along with their skills and talents, are being sought by companies with whom we compete.

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The Future
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Looking forward prompts me to reminisce. When I leave the office for the last time in a business year, I think about my Dad, Joe Lewis, Progressive's founder and driving force for 18 years, and about the challenges implicit in producing one more record year. As a very young man, I helped Dad with the year-end hand compilation of policy-by-policy results that was Progressive's annual operating summary then. The end of 1996 was especially poignant for me because Progressive is about to celebrate its 60th anniversary and because I was recovering from surgery to correct a circulation problem in my leg, which I am delighted to report has healed well.

I start my 33rd year as CEO proud of producing record earnings and volume in most years and still undaunted by the challenge implicit in Progressive's and my own high standards. I am excited by the new problems and opportunities that come faster and are more perplexing than ever. Along with all Progressive people, in 1997 I will focus on and be measured by improving claim handling quality and efficiency; building the Progressive brand; new process implementation; and responding to community-specific opportunities.

Progressive is leading a wave of change in the United States' system for dealing with auto accident injuries and property damage. We are reducing auto accident victims' trauma and costs, improving how consumers feel about auto insurance and being rewarded for our leadership and commitment. Success so far encourages us to expand at a pace that tests our ability to provide the service we aspire to deliver.

We begin 1997 as we began all other years --excited, respectful of the challenge implicit in our objectives and strategy, humbled by our failures, proud of having responded to them and confident that our excellent people will continue to achieve superior results.

Much will be required to realize our Vision. At Progressive, it is always as if we are just beginning our business and so we look at a future that is brighter than ever.

We deeply appreciate the customers we are privileged to serve. Thank you for your business, and thanks especially to the more than 30,000 independent insurance agents who chose to do business with Progressive in 1996. We are particularly grateful for our shareholders' continued confidence. To the men and women who make Progressive a great company, thanks for all your contributions in 1996 and the promise you bring to our future.

Joy Love and Peace

/s/ Peter Lewis

Peter B. Lewis
Chairman, President and Chief Executive Officer

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

We have audited the accompanying consolidated balance sheets of The Progressive Corporation and subsidiaries as of December 31, 1996 and 1995, 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, 1996. These financial statements are the responsibility of The Progressive Corporation and subsidiaries' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Progressive Corporation and subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Cleveland, Ohio
January 21, 1997

The Progressive Corporation and Subsidiaries

(millions-except per share amounts)			
For the years ended December 31,	1996	1995	1994
Net Premiums Written	$ 3,441.7	$ 2,912.8	$ 2,457.2

Revenues

Premiums earned	$ 3,199.3	$ 2,727.2	$ 2,191.1
Investment income	225.8	199.1	158.5
Net realized gains on security sales	7.1	46.7	23.8
Service revenues	46.2	38.9	41.9
Total revenues	3,478.4	3,011.9	2,415.3
Expenses			
Losses and loss adjustment expenses	2,236.1	1,943.8	1,397.3
Policy acquisition costs	482.6	459.6	391.5
Other underwriting expenses	208.5	167.2	150.8
Investment expenses	6.1	8.1	8.7
Service expenses	41.9	30.2	31.9
Interest expense	61.5	57.1	55.3
Total expenses	3,036.7	2,666.0	2,035.5
Net Income			
Income before income taxes	441.7	345.9	379.8
Provision for income taxes	128.0	95.4	105.5
Net income	$ 313.7	$ 250.5	$ 274.3
Per Share			
Primary	$ 4.14	$ 3.26	$ 3.59
Fully diluted	4.11	3.24	3.59

See notes to consolidated financial statements.

Consolidated Balance Sheets

December 31,	1996	1995
	(millions)	
Assets		
Investments:		
Available-for-sale:		
Fixed maturities, at market (amortized cost: $3,384.1 and $2,729.5)	$3,409.2	$2,772.9
Equity securities, at market		
Preferred stocks (cost: $333.8 and $379.4)	341.6	382.3
Common stocks (cost: $458.9 and $277.6)	540.1	310.0
Short-term investments, at amortized cost (market: $159.7 and $302.8)	159.7	302.8
Total investments	4,450.6	3,768.0
Cash	15.4	16.2
Accrued investment income	46.9	39.8
Premiums receivable, net of allowance for doubtful accounts of $23.2 and $19.2	820.8	649.9
Reinsurance recoverables	310.0	338.1
Prepaid reinsurance premiums	85.8	70.5
Deferred acquisition costs	200.1	181.9
Income taxes	62.1	58.3
Property and equipment, net of accumulated depreciation of $126.7 and $128.7	169.9	159.2
Other assets	22.3	70.6
Total assets	$6,183.9	$5,352.5

Liabilities and Shareholders' Equity		
Unearned premiums	$1,467.3	$1,209.6
Loss and loss adjustment expense reserves	1,800.6	1,610.5
Policy cancellation reserve	43.3	40.8
Accounts payable and accrued expenses	420.1	339.9
Funded debt	775.7	675.9
Total liabilities	4,507.0	3,876.7
Shareholders' equity:		
Serial Preferred Shares (authorized 20.0) 93/8% Serial Preferred Shares, Series A, no par value, cumulative, liquidation preference $25.00 per share (issued and outstanding: 0 and 3.4)	--	83.6
Common Shares, $1.00 par value (authorized 200.0, issued 83.1, including treasury shares of 11.6 and 11.0)	71.5	72.1
Paid-in capital	381.8	374.8
Net unrealized appreciation on investment securities	74.0	51.1
Retained earnings	1,149.6	894.2
Total shareholders' equity	1,676.9	1,475.8
Total liabilities and shareholders' equity	$6,183.9	$5,352.5

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(millions-except per share amounts)

For the years ended December 31,	1996	1995	1994
Preferred Shares, No Par Value			
Balance, Beginning of year	$ 83.6	$ 85.8	$ 87.9
Redemption of shares	(77.9)	--	--
Treasury shares purchased-cost basis	(5.7)	(2.2)	(2.1)
Balance, End of year	$ --	$ 83.6	$ 85.8
Common Shares, $1.00 Par Value			
Balance, Beginning of year	$ 72.1	$ 71.2	$ 72.1
Stock options exercised	.4	.9	.2
Treasury shares purchased	(1.0)	--	(1.1)
Balance, End of year	$ 71.5	$ 72.1	$ 71.2
Paid-In Capital			
Balance, Beginning of year	$ 374.8	$ 357.1	$ 357.6
Stock options exercised	6.5	9.2	2.5
Tax benefits on stock options exercised	5.9	8.5	2.4
Treasury shares purchased	(5.4)	--	(5.4)
Balance, End of year	$ 381.8	$ 374.8	$ 357.1
Net Unrealized Appreciation (Depreciation) On Investment Securities			
Balance, Beginning of year	$ 51.1	$ (30.7)	$ 33.5
Change in net unrealized appreciation (depreciation)	22.9	81.8	(64.2)
Balance, End of year	$ 74.0	$ 51.1	$ (30.7)
Retained Earnings			
Balance, Beginning of year	$ 894.2	$ 668.5	$ 446.8
Net income	313.7	250.5	274.3
Cash dividends on Preferred Shares (9 3/8% annually)	(3.2)	(8.3)	(8.5)
Cash dividends on Common Shares ($.23, $.22 and $.21 per share)	(16.4)	(15.8)	(14.9)

Treasury shares purchased: Common Shares	(35.5)	--	(27.5)
Preferred Shares	(.3)	(.1)	(.2)
Preferred Shares redeemed	(2.9)	--	--
Other, net	--	(.6)	(1.5)
Balance, End of year	$1,149.6	$ 894.2	$ 668.5
Total Shareholders' Equity	$1,676.9	$1,475.8	$1,151.9

On May 31, 1996, the Company redeemed, at its option, all of the remaining 9 3/8% Serial Preferred Shares, Series A, at a cost of $25 per share, plus accrued and unpaid dividends through the redemption date.

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

See notes to consolidated financial statements.

(millions)

For the years ended December 31,	1996	1995	1994
Cash Flows From Operating Activities			
Net income	$ 313.7	$ 250.5	$ 274.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	23.8	20.4	19.3
Net realized gains on security sales	(7.1)	(46.7)	(23.8)
Changes in:			
Unearned premiums	257.7	172.9	264.7
Loss and loss adjustment expense reserves	190.1	176.1	85.8
Accounts payable and accrued expenses	50.1	16.5	14.9
Policy cancellation reserve	2.5	(6.5)	(12.8)
Prepaid reinsurance premiums	(15.3)	12.7	1.4
Reinsurance recoverables	28.1	41.6	1.2
Premiums receivable	(170.9)	(107.5)	(161.8)
Deferred acquisition costs	(18.2)	(20.3)	(37.0)
Income taxes	(16.3)	.6	9.9
Other, net	14.0	20.3	15.2
Net cash provided by operating activities	652.2	530.6	451.3
Cash Flows From Investing Activities			
Purchases:			
Held-to-maturity: fixed maturities	--	(.2)	(89.6)
Available-for-sale: fixed maturities	(4,447.2)	(2,575.5)	(1,463.1)
equity securities	(725.3)	(763.1)	(350.2)
Sales:			
Available-for-sale: fixed maturities	3,306.3	1,744.9	731.6
equity securities	537.7	593.6	298.3
Maturities, paydowns, calls and other:			
Held-to-maturity: fixed maturities	--	87.1	58.6
Available-for-sale: fixed maturities	465.7	497.2	354.5
equity securities	62.5	10.4	17.7

Net (purchases) sales of short-term investments	143.1	(23.7)	(48.3)
(Receivable) payable on securities	76.3	(52.0)	(41.3)
Purchases of property and equipment	(35.8)	(38.3)	(58.2)
Net cash used in investing activities	(616.7)	(519.6)	(590.0)
Cash Flows From Financing Activities			
Proceeds from exercise of stock options	6.9	10.1	2.7
Tax benefits from exercise of stock options	5.9	8.5	2.4
Redemption of Preferred Shares	(80.8)	--	--
Proceeds from funded debt	99.6	--	198.4
Payments of funded debt	(.4)	(.4)	(.4)
Dividends paid to shareholders	(19.6)	(24.1)	(23.4)
Acquisition of treasury shares	(47.9)	(2.3)	(36.3)
Net cash provided by (used in) financing activities	(36.3)	(8.2)	143.4
Increase (decrease) in cash	(.8)	2.8	4.7
Cash, Beginning of year	16.2	13.4	8.7
Cash, End of year	$ 15.4	$ 16.2	$ 13.4

See notes to consolidated financial statements.

December 31, 1996, 1995 and 1994

1. Reporting and Accounting Policies

Nature of Operations The Progressive Corporation, an insurance holding company formed in 1965, owns 64 subsidiaries and has one mutual insurance company affiliate. The companies provide personal automobile insurance and other specialty property-casualty insurance and related services sold primarily through independent insurance agents in the United States and Canada.

Basis of Consolidation and Reporting The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries and affiliate (the Company). All of the subsidiaries and the affiliate are wholly owned or controlled. All significant intercompany accounts and transactions are eliminated in consolidation. The parent company's investments in subsidiaries exceeded their underlying book value at dates of acquisition by $7.0 million, of which $1.6 million remains.

Investments Held-to-maturity: fixed-maturity securities are securities which the Company has the positive intent and ability to hold to maturity. The Company had no held-to-maturity securities at December 31, 1996 and 1995. In November 1995, the Financial Accounting Standards Board (FASB) issued a Special Report entitled "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities." In accordance with the implementation guidance, the Company reclassified its held-to-maturity securities to available-for-sale and marked the securities to market.

Available-for-sale: fixed-maturity securities are securities held for indefinite periods of time or sold in response to changes in interest rates, anticipated prepayments, risk/reward characteristics, liquidity needs or similar economic factors. These securities are carried at market value with the corresponding unrealized appreciation or depreciation, net of deferred income taxes, reflected in shareholders' equity. The asset-backed portfolio is accounted for under the retrospective method; prepayment assumptions are based on market expectations.

Available-for-sale: equity securities include common stocks and nonredeemable preferred stocks and are reported at quoted market values. Changes in the market values of these securities, net of deferred income taxes, are reflected as unrealized appreciation or depreciation in shareholders' equity. Changes in value due to foreign currency exchange are recognized in income in the current period.

Derivatives, as defined by Statement of Financial Accounting Standards (SFAS) 119, "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments," include futures, options, short positions, forward positions, foreign currency forwards and interest rate swap agreements, and are carried in the appropriate available-for-sale portfolio based on the nature of the instrument. Those instruments held or issued for purposes other than trading are carried at market value; changes in value of futures, options, foreign currency forwards and short positions are recorded to income in the current period, and changes in the value of forward positions and interest rate swaps are reflected in shareholders' equity as unrealized appreciation or depreciation, net of deferred income taxes. At disposition, changes in value of forward positions and interest rate swap agreements are recognized in income as "net realized gains or losses on security sales." Those instruments entered into for the purpose of hedging are carried at market value; changes in value follow the recognition of the asset being hedged. Hedges are evaluated on established criteria to determine the effectiveness of their correlation and ability to reduce risk. Gains or losses on closed hedge positions are recorded as basis adjustments to the cost of the assets hedged and amortized over their expected life. Unamortized amounts are recognized in income at the disposition of the assets hedged. Gains and losses on foreign currency hedges are recognized in income and offset the foreign exchange gains and losses on the underlying transactions.

Trading securities are securities bought principally for the purpose of selling them in the near term and are reported at market value. Changes in market value are recognized in income in the current period. During the year, the net activity in trading securities was not material to the Company's results of operations, cash flows and financial position. The Company had no trading securities or financial instruments with off-balance-sheet risk held or issued for trading purposes at December 31, 1996 and 1995.

Short-term investments include eurodollar deposits, commercial paper and other securities maturing within one year and are reported at amortized cost, which approximates market.

Investment securities are exposed to various risks such as interest rate, market and credit. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect portfolio value. Risk is individually evaluated for all positions, including financial instruments with off-balance-sheet risk.

Realized gains and losses on sales of securities are computed based on the first-in first-out method.

Property and Equipment Property and equipment is recorded at cost. Depreciation is provided over the estimated useful lives of the assets using accelerated methods for computers and straight line for all other fixed assets.

Insurance Premiums and Receivables Insurance premiums written are earned primarily on a pro rata basis over the period of risk. For products where more than 50 percent cancellations are anticipated, premiums written and earned are reduced, though cancellations have not yet occurred.

The Company provides insurance and related services to individuals, lenders and motor carriers throughout the United States and in Canada, and offers a variety of payment plans to meet individual customer needs. Generally, premiums are collected in advance of providing risk coverage, minimizing the Company's exposure to credit risk.

Loss and Loss Adjustment Expense Reserves Loss reserves represent the estimated liability on claims reported to the Company, plus reserves for losses incurred but not yet reported (IBNR). These estimates are reported net of amounts recoverable from salvage and subrogation. Loss adjustment expense reserves represent the estimated expenses required to settle these claims and losses. The methods of making estimates and establishing these reserves are reviewed regularly, and resulting adjustments are reflected in income currently. Such loss and loss adjustment expense reserves could be susceptible to significant change in the near term.

Reinsurance The Company's reinsurance transactions are primarily attributable to premiums written under state-mandated involuntary plans for commercial vehicles (Commercial Auto Insurance Procedures-CAIP), for which the Company retains no indemnity risk. (See Note 3-Reinsurance for further discussion). The remaining reinsurance arises from the Company seeking to reduce its loss exposure in its non-auto businesses. Prepaid reinsurance premiums are recognized on a pro rata basis over the period of risk.

Earnings Per Share Prior to the redemption of the Preferred Shares, net income was reduced by Preferred Share dividends earned during the period and the excess of the fair value over the carrying amount of Preferred Shares repurchased for both the primary and fully diluted earnings per share calculations. Primary and fully diluted earnings per share are computed using the weighted number of Common Shares and equivalents, including stock options, assumed outstanding during the period.

Deferred Acquisition Costs Deferred acquisition costs include commissions, premium taxes and other costs incurred in connection with writing business. These costs are deferred and amortized over the period in which the related premiums are earned. The Company considers anticipated investment income in determining the recoverability of these costs. There is no indication that these costs will not be fully recoverable in the near term.

Service Revenues and Expenses Service revenues are earned on a pro rata basis over the term of the related policies; acquisition expenses are deferred and amortized over the period in which the related revenues are earned.

Supplemental Cash Flow Information Cash includes only bank demand deposits. The Company paid income taxes of $121.5 million, $75.5 million and $89.8 million in 1996, 1995 and 1994, respectively. Total interest paid was $60.3 million for 1996, $56.6 million for 1995 and $48.3 million for 1994.

As discussed above, on December 1, 1995, the Company reclassified $248.4 million of its held-to-maturity securities to available-for-sale, recognizing $10.4 million in gross unrealized gains.

Stock Options The Company follows the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," to account for its stock option activity in the financial statements. The Company granted all options currently outstanding at an exercise price equal to the market price at the date of grant and, therefore, under APB 25, no compensation expense is recorded. The Company follows the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation."

Estimates The Company is required to make estimates and assumptions when preparing its financial statements and accompanying notes in conformity with generally accepted accounting principles (GAAP). Actual results could differ from those estimates.

Reclassifications Certain amounts in the financial statements for prior periods were reclassified to conform with the 1996 presentation.

2. Investments

The components of pretax investment income at December 31 were:

(millions)	1996	1995	1994
Held-to-maturity: fixed maturities	$ --	$ 15.8	$ 18.4
Available-for-sale: fixed maturities	183.9	140.3	103.8
equity securities	27.7	23.9	23.2
Short-term investments	14.2	19.1	13.1
Investment income	225.8	199.1	158.5
Gross realized gains:			
Held-to-maturity: fixed maturities	--	.8	1.1
Available-for-sale: fixed maturities	23.9	49.0	49.6
equity securities	39.7	32.5	23.0
Short-term investments	--	.1	--
Gross realized losses:			
Held-to-maturity: fixed maturities	--	(.6)	(.7)
Available-for-sale: fixed maturities	(29.6)	(22.3)	(40.2)
equity securities	(26.9)	(12.8)	(9.0)
Net realized gains on security sales	7.1	46.7	23.8
	$232.9	$245.8	$182.3

Changes in net unrealized gains (losses) on fixed maturities and equity securities were:

(millions)	1996	1995	1994
Unrealized gains (losses):			
Held-to-maturity: fixed maturities	$ --	$(6.2)	$(12.1)
Available-for-sale: fixed maturities	$(18.3)	$86.1	$(73.4)
equity securities	53.7	40.0	(25.4)
Deferred income taxes	(12.5)	(44.3)	34.6
	$ 22.9	$81.8	$(64.2)

The composition of the investment portfolio at December 31 was:

(millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
1996				
Available-for-sale:				
U.S. government obligations	$ 830.1	$ 1.5	$ (2.5)	$ 829.1
State and local government obligations	1,314.7	24.0	(7.4)	1,331.3
Foreign government obligations	48.7	2.4	--	51.1
Corporate debt securities	48.6	2.2	--	50.8

Asset-backed securities	1,084.3	10.5	(6.5)	1,088.3
Other debt securities	57.7	.9	--	58.6
	3,384.1	41.5	(16.4)	3,409.2
Preferred stocks	333.8	8.5	(.7)	341.6
Common stocks	458.9	92.9	(11.7)	540.1
Short-term investments	159.7	--	--	159.7
	$ 4,336.5	$ 142.9	$ (28.8)	$ 4,450.6
1995				
Available-for-sale:				
U.S. government obligations	$ 676.7	$ 9.5	$ (.1)	$ 686.1
State and local government obligations	1,186.9	32.6	(7.9)	1,211.6
Foreign government obligations	33.9	1.0	--	34.9
Corporate debt securities	59.7	1.4	--	61.1
Asset-backed securities	722.3	8.8	(2.0)	729.1
Other debt securities	50.0	.8	(.7)	50.1
	2,729.5	54.1	(10.7)	2,772.9
Preferred stocks	379.4	3.7	(.8)	382.3
Common stocks	277.6	43.6	(11.2)	310.0
Short-term investments	302.8	--	--	302.8
	$ 3,689.3	$ 101.4	$ (22.7)	$ 3,768.0

The composition of fixed maturities by maturity at December 31, 1996 was:

(millions)	Cost	Market Value
Less than one year	$ 482.6	$ 486.8
One to five years	1,903.0	1,915.3
Five to ten years	769.2	771.9
Ten years or greater	229.3	235.2
	$ 3,384.1	$ 3,409.2

Asset-backed securities are reported based upon their projected cash flows. All other securities which do not have a single maturity date are reported at average maturity.

At December 31, 1996, bonds in the principal amount of $64.0 million were on deposit with various regulatory agencies to meet statutory requirements.

The components of derivative financial instruments were:

(millions)	Market Value/Carrying Value at December 31,		Contract/Notional Value at December 31,	
	1996	1995	1996	1995
Forward and future positions:				
Assets	$ (.3)	$ .1	$ 16.5	$ 4.6
Liabilities	.8	(3.0)	34.0	54.7
Option positions-assets	--	(.3)	--	50.0
Foreign currency forward positions:				
Assets	.5	.1	62.0	21.2
Liabilities	1.0	.4	145.4	97.1
	$ 2.0	$ (2.7)	$257.9	$227.6

Derivatives are used to manage the risks and enhance the yields of the available-for-sale portfolio. This is accomplished by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio or hedged securities. Net cash requirements are limited to changes in market values, which may vary based upon changes in interest rates and other factors. Exposure to credit risk is limited to the carrying value; unless otherwise noted, collateral is not required to support the credit risk.

The Company had open investment funding commitments of $13.7 million and $12.7 million as of December 31, 1996 and 1995, respectively. The Company had no uncollateralized lines and letters of credit as of December 31, 1996 or 1995.

3. Reinsurance

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. As of December 31, 1996 and 1995, 52 percent and 69 percent, respectively, of the "prepaid reinsurance premiums" and 68 percent and 70 percent, respectively, of the "reinsurance recoverables" relate to CAIP, for which the Company retains no indemnity risk.

The effect of reinsurance on premiums written and earned as of December 31 is as follows:

(millions)	1996		1995		1994	
	Written	Earned	Written	Earned	Written	Earned
Direct premiums	$ 3,638.4	$ 3,380.7	$ 3,068.9	$ 2,895.9	$ 2,645.1	$ 2,378.4
Assumed	3.8	3.8	.1	.1	2.9	4.9
Ceded	(200.5)	(185.2)	(156.2)	(168.8)	(190.8)	(192.2)
Net premiums	$ 3,441.7	$ 3,199.3	$ 2,912.8	$ 2,727.2	$ 2,457.2	$ 2,191.1

Losses and loss adjustment expenses are net of reinsurance ceded of $117.3 million in 1996, $104.1 million in 1995 and $145.9 million in 1994.

4. Litigation

The Company is named as defendant in various lawsuits generally relating to its insurance operations. Numerous legal actions arise from claims made under insurance policies issued by the subsidiaries or in connection with previous reinsurance agreements. These actions were considered by the Company in establishing its loss and loss adjustment expense reserves. The Company believes that the ultimate disposition of these and other pending lawsuits will not materially impact the Company's results of operations, cash flows or financial position.

5. Income Taxes

The provision for income taxes in the accompanying consolidated statements of income differs from the statutory rate as follows:

(millions)	1996	1995	1994

Income before income taxes	$ 441.7		$ 345.9		$ 379.8	
Tax at statutory rate	$ 154.6	35%	$ 121.1	35%	$ 132.9	35%
Tax effect of:						
Exempt interest income	(21.1)	(5)	(21.9)	(6)	(24.8)	(6)
Dividends received deduction	(7.7)	(2)	(5.7)	(2)	(3.4)	(1)
Other items, net	2.2	1	1.9	1	.8	--
	$ 128.0	29%	$ 95.4	28%	$ 105.5	28%

The current portion of the income tax provision was $157.2 million in 1996, $95.2 million in 1995 and $113.0 million in 1994.

Deferred income taxes reflect the impact for financial statement reporting purposes of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 1996 and 1995, the components of the net deferred tax assets were as follows:

(millions)	1996	1995
Deferred tax assets:		
Unearned premium reserve	$ 96.7	$ 79.7
Non-deductible accruals	38.8	29.4
Off-balance-sheet financial instruments	2.8	--
Capitalized expenditures	8.3	5.2
Loss reserve discounting	7.3	10.5
Other	10.3	7.4
Deferred tax liabilities:		
Deferred acquisition costs	(70.0)	(63.7)
Unrealized gains	(40.1)	(27.6)
Net deferred tax assets	$ 54.1	$ 40.9

The Company is able to demonstrate that the benefit of its deferred tax assets is fully realizable.

Deferred income taxes include noninterest bearing special estimated tax deposits made pursuant to Section 847 of the Internal Revenue Code of $48.7 million and $38.5 million at December 31, 1996 and 1995, respectively.

6. Statutory Financial Information

At December 31, 1996, $167.3 million of consolidated statutory policyholders' surplus represents net admitted assets of the Company's insurance subsidiaries that are required to meet minimum statutory surplus requirements in the subsidiaries' states of domicile. The subsidiaries may be licensed in states, other than their states of domicile, which may have higher minimum statutory surplus requirements. Generally, the net admitted assets of insurance subsidiaries that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the subsidiaries are licensed.

During 1996, the insurance subsidiaries paid aggregate cash dividends of

$125.0 million to the parent company. Based on the dividend laws currently in effect, the insurance subsidiaries may pay aggregate dividends of $216.4 million in 1997 without prior approval from regulatory authorities.

Statutory policyholders' surplus was $1,292.4 million and $1,055.1 million at December 31, 1996 and 1995, respectively. Statutory net income was $277.9 million, $200.0 million and $230.3 million for the years ended December 31, 1996, 1995 and 1994, respectively.

The Company's insurance subsidiaries, as part of their statutory filings, are required to disclose their risk-based capital (RBC) requirements. The National Association of Insurance Commissioners developed the RBC program to enable regulators to take appropriate and timely regulatory actions with respect to insurers that show signs of weak or deteriorating financial condition. RBC is a series of dynamic surplus-related formulas which contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks.

7. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves, prepared in accordance with GAAP, is summarized as follows:

(millions)	1996	1995	1994
Balance at January 1	$ 1,610.5	$ 1,434.4	$ 1,348.6
Less reinsurance recoverables on unpaid losses	296.1	334.2	334.8
Net balance at January 1	1,314.4	1,100.2	1,013.8
Incurred related to:			
Current year	2,341.9	2,000.4	1,539.8
Prior years	(105.8)	(56.6)	(142.5)
Total incurred	2,236.1	1,943.8	1,397.3
Paid related to:			
Current year	1,424.7	1,204.3	893.9
Prior years	592.9	525.3	417.0
Total paid	2,017.6	1,729.6	1,310.9
Net balance at December 31	1,532.9	1,314.4	1,100.2
Plus reinsurance recoverables on unpaid losses	267.7	296.1	334.2
Balance at December 31	$ 1,800.6	$ 1,610.5	$ 1,434.4

During 1994, based on a review of the adequacy of its total loss reserves, the Company eliminated its $71.0 million "supplemental reserve" ($46.2 million after tax), resulting in a one-time increase in earnings of $.62 per share. The Company historically established case and IBNR reserves by product with the objective of being accurate to within plus or minus 2 percent. Pricing had been based on these estimates of reserves by product. Because the Company desired a very high degree of comfort that aggregate reserves were adequate, aggregate reserves were established near the upper end of the reasonable range of reserves, and the difference between such aggregate reserves and the midpoint of the reasonable range of case and IBNR reserves was called the "supplemental reserve." The Company concluded, after examining its historical aggregate reserves, that the practice of setting aggregate reserves at the upper end of the range of reasonable reserves provided an unnecessarily high level of comfort. At December 31, 1994, even without the high level of comfort provided by the "supplemental reserve," the Company's reserves would have been redundant by approximately 2 percent to 4 percent over the previous 5 years. The Company believes that this change in the estimate of its reserves placed it more in line with the practices of other companies in the industry.

Because the Company is primarily an insurer of motor vehicles, it has limited exposure for environmental, product and general liability claims. The Company has established reserves for these exposures, in amounts which it believes to be adequate based on information currently known by it. The Company does not believe that these claims will have a material impact on the Company's liquidity, results of operations, cash flows or financial condition.

During 1994, the Company settled the dispute arising out of its 1985 acquisition of American Star Insurance Company, over the seller's refusal to pay certain losses on pre-sale business written by American Star. Total reserves on this business, which are mainly for product liability and environmental claims, are $26.4 million, of which $9.4 million is recoverable from reinsurers. The Company will continue to monitor these exposures, adjust the related reserves appropriately as additional information becomes known and disclose any material developments.

The Company writes auto insurance in the coastal states, which could be exposed to natural catastrophes, such as hurricanes. Although the occurrence of a major catastrophe could have a significant impact on the Company's quarterly results, the Company believes such an event would not be so material as to disrupt the overall normal operations of the Company. The Company is unable to predict if any such events will occur in the near term.

8. Employee Benefit Plans

Retirement Plans. The Company has a two-tiered Retirement Security Program. The first tier is a defined contribution pension plan covering all employees who meet requirements as to age and length of service. Contributions vary from one percent to five percent of annual eligible compensation up to the Social Security wage base, based on years of eligible service. Prior to January 1, 1994, the defined contribution plan covered only eligible employees hired after December 31, 1988, and was funded at 1.3 percent of annual eligible compensation up to the Social Security wage base. Company contributions were $4.2 million in 1996, $3.6 million in 1995 and $3.2 million in 1994.

The second tier is a long-term savings plan under which the Company matches, into a Company stock account, amounts contributed to the plan by an employee up to a maximum of three percent of the employee's eligible compensation. Company contributions were $5.8 million in 1996 and $4.4 million in 1995 and 1994.

The Company has a defined benefit pension plan which covered employees hired before January 1, 1989, who met requirements as to age and length of service. This plan and future benefit accruals were frozen on December 31, 1993, and the Company recognized a $1.5 million gain; the benefits accruals through the date the plan was frozen were based on years of service and career average compensation up to the Social Security tax base. The Company's funding policy is to contribute annually the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. There is no past service liability requiring funding by the Company.

The following table sets forth the defined benefit plan information as of December 31:

(millions)	1996	1995	1994
Actuarial present value of benefit obligations:			
Vested benefit obligation	$ 18.8	$ 19.6	$ 13.6
Accumulated benefit obligation	$ 18.8	$ 19.6	$ 13.6
Projected benefit obligation for service rendered to date	$ 18.8	$ 19.6	$ 13.6
Plan assets at fair value, primarily government and corporate taxable bonds	17.6	18.1	17.1
Plan assets net of projected benefit obligation	(1.2)	(1.5)	3.5
Unrecognized actuarial (gains) losses	1.9	2.2	(3.0)
Required minimum liability	(1.7)	(2.0)	--
Unrecognized transition asset at January 1, 1987, recognized over 21 years	(.2)	(.2)	(.3)
Pension asset (liability) recognized in the consolidated balance sheets	$ (1.2)	$ (1.5)	$ .2
Net pension cost included the following components:			
Service cost-benefits earned during the period	$ --	$ --	$ --
Interest cost on projected benefit obligation	1.4	1.2	1.3
Actual return on plan assets	(.6)	(2.2)	.1
Net amortization and deferral	(.8)	.8	(1.6)

Net periodic pension return	$ --	$ (.2)	$ (.2)

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 7.25 percent for 1996, 7.0 percent for 1995 and 8.0 percent for 1994. The expected long-term rate of return on assets was 8.0 percent for 1996, 1995 and 1994.

Postemployment Benefits. The Company provides various postemployment benefits to former or inactive employees who meet eligibility requirements, their beneficiaries and covered dependents. Postemployment benefits include salary continuation and disability-related benefits including workers' compensation and, if elected, continuation of health care benefits. The Company's obligations were $1.5 million, $1.7 million and $1.3 million at December 31, 1996, 1995 and 1994, respectively.

Postretirement Benefits. The Company provides postretirement health and life insurance benefits to all employees who met requirements as to age and length of service at December 31, 1988. The Company recognized its current obligation of $.4 million in 1996, $.3 million in 1995 and $.4 million in 1994. The Company's funding policy is to contribute annually the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only for benefits attributed to services to date, but also for those expected to be earned in the future.

Deferred Compensation. In April 1995, the Company's shareholders approved The Progressive Corporation Executive Deferred Compensation Plan (Deferral Plan), which permits eligible executives to defer receipt of some or all of their annual bonuses or other incentive awards. These deferred amounts will be invested in one or more investment funds, including Common Shares of the Company, offered under the Deferral Plan. All distributions from the Deferral Plan will be made in cash, except that distributions representing amounts deemed invested in Common Shares will be made in Common Shares. The Company reserved 300,000 Common Shares for issuance under the Deferral Plan. The Company established an irrevocable grantor trust to provide a source of funds to assist the Company in meeting its liabilities under the Deferral Plan. At December 31, 1996 and 1995, the trust held assets of $2.6 million and $.9 million, respectively, of which $.7 million and $.2 million were held in Common Shares, to cover its liabilities.

Incentive Compensation. Plans The Company's 1989 Incentive Plan and 1995 Incentive Plan provide for the granting of stock options and other stock-based awards to key employees of the Company. The 1989 Incentive Plan has 6,500,000 shares authorized and the 1995 Incentive Plan has 5,000,000 shares authorized. All outstanding grants are nonqualified stock options awarded under the 1989 Incentive Plan. Outside of the Incentive Plans, the Company registered 1,425,000 Common Shares relating to nonqualified stock options granted to key employees of the Company. The nonqualified stock options are granted for periods up to ten years, become exercisable at various dates not earlier than six months after the date of grant, and remain exercisable for specified periods thereafter. All options granted have an exercise price equal to the market value of the Common Shares on the date of grant.

A summary of all stock option activity during the three years ended December 31, follows:

	1996		1995		1994	
Options Outstanding	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price

Beginning of year	4,943,324	$ 23.76	5,263,822	$ 19.49	4,488,887	$ 16.21
Add (deduct):						
Granted	852,989	47.52	888,725	38.27	1,156,450	31.06
Exercised	(454,348)	14.89	(861,802)	11.54	(198,959)	13.59
Cancelled	(232,575)	32.95	(347,421)	26.51	(182,556)	18.65
End of year	5,109,390	$ 28.09	4,943,324	$ 23.76	5,263,822	$ 19.49
Exercisable, end of year	1,561,428	$ 15.75	984,099	$ 12.61	1,128,902	$ 10.87
Available, end of year	5,672,561		6,292,975		1,834,279	

The following options were outstanding or exercisable as of December 31, 1996:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 9- 20	2,045,351	4.05 years	$ 14.53	1,408,751	$ 14.08
21- 40	2,181,950	7.09 years	33.00	150,040	30.92
41- 60	869,362	8.97 years	47.14	2,637	46.23
61- 71	12,727	9.16 years	64.98	--	--
$ 9- 71	5,109,390			1,561,428	

During 1996, the Company adopted the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 introduced a fair-value based method of accounting for stock-based compensation. To calculate the fair value of the options awarded, the Company elected to use the Black-Scholes pricing model which produced a value of 41.4 percent for 1996 awards and 42.8 percent for 1995 awards. The following assumptions were used to derive the ratio: a 7-year option term; an annualized volatility rate of .246 for 1996 and .275 for 1995; a risk-free rate of return of 6.69 percent for 1996 and 6.53 percent for 1995; and a dividend yield of .5 percent for both years. The Company elected to account for terminations when they occur rather than include an attrition factor into its model.

If compensation cost had been measured based on the fair-value based accounting method under SFAS 123, the following would have been disclosed for December 31:

(millions-except per share amounts)	1996	1995
Pro forma		
Net income	$ 310.3	$ 249.1
Earnings per share		
Primary	$ 4.09	$ 3.24
Fully diluted	4.06	3.22

The effect of applying SFAS 123 in the current year is not representative of the effect on income for future years since each subsequent year will reflect expense for additional years' vesting.

The amounts charged to income for incentive compensation plans, including an executive cash bonus program for key members of management and a gainsharing program for all other employees, were $45.3 million in 1996, $33.9 million in 1995 and $32.0 million in 1994.

9. Contractual Commitments

The Company has operating lease commitments and service agreements with terms greater than one year for equipment, office space and telecommunications services, some with options to renew at the end of the contract periods. The minimum commitments under such noncancelable leases and service contracts at December 31, 1996 are as follows (in millions): 1997- $32.8; 1998-$20.1; 1999-$7.4; 2000-$3.0; 2001-$.6; and thereafter-$0. Total expense incurred by the Company for such purposes for 1996, 1995 and 1994 was $57.5 million, $51.3 million and $42.6 million, respectively.

10. Debt

During 1996, bank borrowings of $10.0 million were outstanding for one day at an annual interest rate of 5.8 percent. Funded debt includes amounts the Company has borrowed and contributed to the capital of its insurance subsidiaries or borrowed for other long-term purposes.

Funded Debt at December 31 consisted of:

(millions)	1996	1995
7.30% Notes	$ 99.6	$ --
6.60% Notes	198.8	198.7
7% Notes	148.3	148.3
8 3/4% Notes	29.5	29.2
10% Notes	149.6	149.5
10 1/8% Subordinated Notes	149.5	149.4
Other funded debt	.4	.8
	$ 775.7	$ 675.9

In May 1990, the Company entered into a revolving credit arrangement with National City Bank, which is reviewed by the bank annually. Under this agreement, the Company had the right to borrow up to $50.0 million. In February 1994, the Company reduced this revolving credit arrangement to $20.0 million. By selecting from available credit options, the Company may elect to pay interest at rates related to the London interbank offered rate, the bank's base rate or at a money market rate. A commitment fee is payable on any unused portion of the committed amount at the rate of .125 percent per annum. The Company had no borrowings under this arrangement at December 31, 1996 or 1995.

In May 1996, the Company sold $100.0 million of noncallable 7.30% Notes due 2006 with interest payable semiannually. The fair value of these Notes was $101.7 million at December 31, 1996.

In January 1994, the Company sold $200.0 million of noncallable 6.60% Notes due 2004 with interest payable semiannually. The fair value of these Notes was $197.1 million and $203.6 million at December 31, 1996 and 1995, respectively. In October 1993, the Company sold $150.0 million of noncallable 7% Notes due 2013 with interest payable semiannually. The fair value of these Notes was $144.3 million and $156.6 million at December 31, 1996 and 1995, respectively.

In May 1989, the Company issued $30.0 million of noncallable 83/4% Notes due

1999 with interest payable semiannually. The fair value of these Notes was $31.6 million and $32.7 million at December 31, 1996 and 1995, respectively.

In December 1988, the Company sold $150.0 million of 10% Notes due 2000 and $150.0 million of 101/8% Subordinated Notes due 2000. All such Notes are noncallable with interest payable semiannually on both issues. The fair values of the 10% Notes and 101/8% Subordinated Notes were $167.8 million and $168.4 million, respectively, at December 31, 1996, and $175.9 million and $176.1 million, respectively, at December 31, 1995.

As of December 31, 1996, the Company was in compliance with its debt covenants.

Aggregate principal payments on funded debt outstanding at December 31, 1996, are $.3 million for 1997, $.1 million for 1998, $30.0 million for 1999, $300.0 million for 2000, $0 for 2001, and $450.0 million thereafter.

11. Segment Information

The operating segments of the Company are classified into Insurance and Service. Expense allocations are based on assumptions and estimates; stated segment operating results would change if different methods were applied. The Company does not allocate assets to segments.

For the years ended December 31,	1996		1995		1994	
(millions)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)
Insurance operations	$ 3,199.3	$ 272.1	$ 2,727.2	$ 156.6	$ 2,191.1	$ 251.5
Service operations	46.2	4.3	38.9	8.7	41.9	10.0
Total operations	3,245.5	276.4	2,766.1	165.3	2,233.0	261.5
Total investment income	232.9	232.9	245.8	245.8	182.3	182.3
Interest expense and other costs	--	(67.6)	--	(65.2)	--	(64.0)
	$ 3,478.4	$ 441.7	$ 3,011.9	$ 345.9	$ 2,415.3	$ 379.8

12. Fair Value of Financial Instruments

Information about specific valuation techniques and related fair value detail is provided in Note 1-Reporting and Accounting Policies, Note 2-Investments and Note 10-Debt. Pursuant to SFAS 119, the cost and market value of the financial instruments as of December 31 are summarized as follows:

(millions)	1996		1995	
	Cost	Market Value	Cost	Market Value
Investments:				
Available-for-sale: fixed maturities	$ 3,384.1	$ 3,409.2	$ 2,729.5	$ 2,772.9
preferred stocks	333.8	341.6	379.4	382.3
common stocks	458.9	540.1	277.6	310.0
Short-term investments	159.7	159.7	302.8	302.8
Funded debt	(775.7)	(811.3)	(675.9)	(745.7)

13. Pending Acquisitions

In November 1996, the Company signed a definitive agreement to acquire all of Midland Financial Group, Inc.'s outstanding stock; the transaction is subject to approval by Midland's shareholders and other customary conditions. In addition, in January 1997, the Company signed a letter of intent under which it is contemplated that it would purchase approximately 42% of the outstanding voting stock of Danielson Holding Corporation. See Management's Discussion and Analysis for further discussion on these pending acquisitions.

The consolidated financial statements and the related notes on pages 34 through 46, together with the supplemental information on pages 50 through 55, should be read in conjunction with the following discussion of the consolidated financial condition and results of operations.

Financial Condition. The Progressive Corporation is a holding company and does not have any revenue producing operations of its own. It receives cash through borrowings, equity sales, subsidiary dividends and other transactions, and may use the proceeds to contribute to the capital of its insurance subsidiaries in order to support premium growth, to repurchase its Common Shares and other outstanding securities, to redeem its outstanding securities and for other business purposes. During 1996, the Company repurchased 1.0 million of its Common Shares at a total cost of $41.9 million (average cost of $41.73 per share), .2 million of its 9 3/8% Serial Preferred Shares, Series A, at a total cost of $6.0 million (average cost of $25.60 per share) and redeemed the remaining Preferred Shares at a total cost of $82.1 million, including accrued and unpaid dividends through the redemption date.

During the three-year period ended December 31, 1996, the Company repurchased 2.1 million Common Shares at a total cost of $75.9 million (average cost of $36.42 per share) and .4 million of its 9 3/8% Serial Preferred Shares, Series A, at a total cost of $10.6 million (average cost $25.69 per share). The Company also sold $300.0 million of Notes. During the same period, The Progressive Corporation received $178.2 million from its insurance subsidiaries, net of capital contributions made to these subsidiaries. The regulatory restrictions on subsidiary dividends are described in Note 6 to the financial statements.

The Company has substantial capital resources and is unaware of any trends, events or circumstances that are reasonably likely to affect its capital resources in a material way. The Company also has available a $20.0 million revolving credit agreement. Given its 32% debt to equity ratio, the Company believes it has sufficient borrowing capacity and other capital resources to support current and anticipated growth.

The Company's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. For the three years ended December 31, 1996, operations generated a positive cash flow of $1,634.1 million, and cash flow is expected to be positive in both the short-term and reasonably foreseeable future. The Company's substantial investment portfolio is highly liquid, consisting almost entirely of readily marketable securities.

In November 1996, the Company signed a definitive agreement to acquire all of Midland Financial Group, Inc.'s outstanding stock (approximately 5.5 million shares) for a total cost of $49.5 million, or $9 per share, in cash. Midland underwrites and markets nonstandard private passenger automobile insurance through approximately 8,500 independent agents across 20 states, primarily in the southern and western United States. During 1996, Midland wrote $116.6 million of net premiums written. The Company expects the transaction to be completed during the first quarter 1997, subject to approval by Midland's shareholders and other customary conditions, and will be funded with cash generated by operating cash flows or investments.

In January 1997, the Company signed a letter of intent under which it is contemplated that it will purchase approximately 11 million newly-issued shares (42% of the outstanding voting stock) of Danielson Holding Corporation for consideration having a total value of approximately $73 million, or $6.60

per share. Danielson is engaged, through its subsidiaries, in insurance services, primarily writing private and commercial nonstandard insurance in California and workers' compensation insurance in California and certain other western states. During 1996, Danielson's insurance subsidiaries wrote $36.1 million of net premiums written. The proposed transaction is subject to, among other things, additional due diligence by the parties and the execution of mutually satisfactory documentation. If the transaction proceeds, a definitive agreement is expected to be signed in the first quarter 1997 and will be subject to approval of Danielson's shareholders and regulatory authorities.

The Company does not expect any material changes in its cash requirements and is not aware of any trends, events or uncertainties that are reasonably likely to have a material effect on its liquidity.

In January 1996, the Company began converting its computer systems to be year 2000 compliant (e.g. to recognize the difference between '99 and '00 as one year instead of negative 99 years). Approximately 40% of the Company's systems are now compliant, with all systems expected to be compliant by the end of 1998. The total cost of the project is estimated to be $4.3 million and is being funded through operating cash flows. The Company is expensing all costs associated with these system changes. As of December 31, 1996, $1.6 million has been expensed.

Total capital expenditures for the three years ended December 31, 1996, aggregated $132.3 million.

Investments. The Company invests in fixed-maturity, equity and short-term securities. The Company's investment strategy recognizes its need to maintain capital adequate to support its insurance operations and commitment to risk adverse investment policies. Therefore, the Company evaluates the risk/reward trade-offs of investment opportunities, measuring their effects on stability, diversity, overall quality and liquidity of the investment portfolio. The majority of the portfolio is invested in high-grade, fixed-maturity securities, of which short- and intermediate-term securities represented $3,275.6 million, or 73.6%, in 1996, and $2,876.2 million, or 76.4%, in 1995. Long-term investment-grade securities were $187.5 million, or 4.2%, in 1996, and $191.9 million, or 5.1%, in 1995. Non-investment-grade fixed-maturity securities were $105.8 million, or 2.4%, in 1996, and $7.6 million, or .2%, in 1995 and offer the Company high returns and added diversification without a significant adverse effect on the stability and quality of the investment portfolio as a whole. Non-investment-grade securities may involve greater risks often related to creditworthiness, solvency and relative liquidity of the secondary trading market. The duration of the fixed-income portfolio was 3.2 years at December 31, 1996.

A relatively small portion of the investment portfolio was invested in marketable equity securities providing risk/reward balance and diversification. Common stocks represented $540.1 million, or 12.1%, in 1996, and $310.0 million, or 8.2%, in 1995. The increase in common stocks reflects the Company's objective of increasing its position in common stock investments to approximately 15% of the entire portfolio and to optimize value and further diversify the portfolio through foreign equity investments. The foreign equity portfolio, which may utilize stock index futures and foreign currency forwards, comprised $149.5 million of the common stock portfolio at December 31, 1996, and $46.4 million at December 31, 1995. The remainder of the

equity portfolio of $341.6 million, or 7.7%, in 1996, and $382.3 million, or 10.1%, in 1995, was comprised of over 94% of fixed-rate preferred stocks with mechanisms that may provide an opportunity to liquidate at par.

As of December 31, 1996, the Company's portfolio had $114.1 million in unrealized gains, compared to $78.7 million in 1995, resulting from increased stock prices as the S&P 500 index rose from 615.9 to 740.7 during the year. The weighted average fully taxable equivalent book yield of the portfolio was 6.7%, 6.9% and 6.7% for the years ended December 31, 1996, 1995 and 1994, respectively.

As of December 31, 1996, the Company held $1,088.3 million of asset-backed securities which represented 24.5% of the total investment portfolio. The portfolio included collateralized mortgage obligations (CMOs) and commercial mortgage-backed obligations (CMBs) totaling $303.0 million and $480.2 million, respectively. As of December 31, 1996, the CMO portfolio included sequential bonds representing 88.8% of the CMO portfolio ($269.0 million) with an average life of 2.9 years, and planned amortization class bonds representing 11.2% of the CMO portfolio ($34.0 million) with an average life of 1.4 years. The CMO portfolio had a weighted average Moody's or Standard & Poor's rating of AAA. At December 31, 1996, the CMB portfolio had an average life of 5.4 years and a weighted average Moody's or Standard & Poor's rating of AA-. The CMB portfolio included $122.7 million of CMB interest-only certificates, which had an average life of 5.1 years and a weighted average Moody's or S&P's rating of AAA at December 31, 1996. At December 31, 1996, the CMO and CMB portfolios had unrealized gains of $1.7 million and $2.1 million, respectively. The single largest unrealized loss in any individual CMO and CMB security was $.3 million and $.8 million, respectively, at December 31, 1996. Both the CMO and CMB portfolios are highly liquid with readily available quotes and contain no residual interests. The remainder of the asset-backed portfolio is invested primarily in auto loan and other asset-backed securities.

Investments in the Company's portfolio have varying degrees of risk. The primary market risk exposure to the fixed-income portfolio is interest rate risk, which is limited by Company restrictions as to the acceptable range of duration. Equity securities generally have greater risks than the non-equity portion of the portfolio since these securities are subordinate to rights of debt holders and other creditors of the issuer and are subject to the volatility of the equity markets. In addition, the foreign equity portfolio is exposed to foreign currency exchange risk, which is reduced by an active hedging policy. The Company regularly evaluates individual holdings for evidence of impairment. Changes in market value are evaluated to determine the extent to which such changes are attributable to: (i) interest rates, (ii) market-related factors other than interest rates and (iii) financial conditions, business prospects and other fundamental factors specific to the issuer. Declines attributable to issuer fundamentals are reviewed in further detail. Available evidence is considered to estimate the realizable value of the investment. When a security in the Company's investment portfolio has a decline in market value which is other than temporary, the Company is required by GAAP to reduce the carrying value of such security to its net realizable value.

Financial instruments with off-balance-sheet risk are used to manage the risks and enhance the yields of the available-for-sale portfolio. This is accomplished by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio or hedged securities. Net cash requirements are limited to changes in market values which may vary based upon changes in interest rates and other factors. Exposure to credit risk is limited to the carrying value; collateral is not required to support the credit risk. During 1995, the Company added a government bond trading portfolio to benefit from short-term market rate opportunities. The Company has stringent restrictions on the amount of open positions in the trading portfolio limiting its exposure to acceptable levels. At December 31, 1996 and 1995, there were no trading securities or off-balance-sheet trading positions.

Results of Operations. Operating income, which excludes net realized gains and losses from security sales and one-time items, was $309.1 million, or $4.08 per share, in 1996, $220.1 million, or $2.84 per share, in 1995 and $212.7 million, or $2.76 per share, in 1994. The GAAP combined ratio was 91.5 in 1996, 94.3 in 1995 and 91.7 (88.5 including the elimination of the "supplemental reserve" discussed below) in 1994.

Direct premiums written increased 19% to $3,638.4 million in 1996, compared to $3,068.9 million in 1995 and $2,645.1 million in 1994. Net premiums written increased 18% to $3,441.7 million, compared to $2,912.8 million in 1995 and $2,457.2 million in 1994. The difference between direct and net premiums written is largely attributable to premiums written under state-mandated involuntary Commercial Auto Insurance Procedures (CAIP), for which the Company retains no indemnity risk, of $99.5 million in 1996, $105.4 million in 1995 and $115.4

million in 1994. The Company provided policy and claim processing services to 27 state CAIPs in 1996, compared to 28 in 1995 and 1994. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 17% in 1996, compared to 24% in 1995 and 31% in 1994.

The Company's Core business units' net premiums written grew 19%, 21% and 38% in 1996, 1995 and 1994, respectively, primarily driven by an increase in unit sales. In 1996, the Company raised rates an average of 2.5%, compared 6.5% in 1995 and no rate changes in 1994. The Company continues to write standard and preferred auto risks which represented between 10% and 15% of total Core business volume. To encourage writing more standard and preferred risks and to improve customer retention, the Company adjusted the contingent cash incentive compensation program for 1997 to credit its conservative estimates of the increase in value created by adding new customers. The Company believes that growing the numbers of policyholders, particularly standard and preferred risks with their higher retention rates, builds intrinsic value because renewals are more profitable than first year business. The drive to add customers faster will result in more spending to promote our brand and to develop more claim adjusters and customer service representatives. These costs, along with expected losses on first year business, are likely to bring profit margins more in line with the Company's objective of achieving a 4% underwriting profit margin over the entire retention period of an insured. In 1996, the Core business units generated an underwriting profit margin of 8%, compared to 5% in 1995 and 7% in 1994.

Claim costs, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. These costs include a loss estimate for future assignments and assessments, based on current business, under state-mandated involuntary automobile programs. Claims costs are influenced by inflation and loss severity and frequency, the impact of which is mitigated by

adequate pricing. Increases in the rate of inflation increase loss payments, which are made after premiums are collected. Accordingly, anticipated rates of inflation are taken into account when the Company establishes premium rates and loss reserves. Claim costs, expressed as a percentage of premiums earned, were 70% in 1996, compared to 71% in 1995 and 67% (excluding the elimination of the "supplemental reserve") in 1994.

During 1994, based on a review of the adequacy of its total loss reserves, the Company eliminated its $71.0 million "supplemental reserve," resulting in a one-time increase in earnings of $.62 per share, a 3.2 point increase in the underwriting profit margin and a $46.2 million increase in capital. The Company historically established case and IBNR reserves by product with the objective of being accurate to within plus or minus 2%. Pricing had been based on these estimates of reserves by product. Because the Company desired a very high degree of comfort that aggregate reserves were adequate, aggregate reserves were established near the upper end of the reasonable range of reserves, and the difference between such aggregate reserves and the midpoint of the reasonable range of case and IBNR reserves was called the "supplemental reserve." The Company concluded, after examining its historical aggregate reserves, that the practice of setting aggregate reserves at the upper end of the range of reasonable reserves provided an unnecessarily high level of comfort. At December 31, 1994, even without the high level of comfort provided by the "supplemental reserve," the Company's reserves would have been redundant by approximately 2% to 4% over the previous 5 years. The Company believes that this change in the estimate of its reserves placed it more in line with the practices of other companies in the industry.

Because the Company is primarily an insurer of motor vehicles, it has limited exposure for environmental, product and general liability claims. The Company has established reserves for these exposures, in amounts which it believes to be adequate based on information currently known by it. The Company does not believe that these claims will have a material impact on the Company's liquidity, results of operation, cash flows or financial condition.

During 1994, the Company settled the dispute, arising out of its 1985 acquisition of American Star Insurance Company (since renamed National Continental Insurance Company) over the seller's refusal to pay certain losses on pre-sale business written by American Star. Under the settlement, National Continental received $10.1 million from the seller and agreed to be solely responsible for the next $20 million of gross losses. The seller will thereafter be responsible for half the losses, net of reinsurance, if it achieves certain minimum net worth requirements. In addition to the $10.1 million, National Continental will be entitled to the proceeds of various treaty and facultative reinsurance policies that had been purchased by American Star. National Continental has established reserves for these exposures, which are mainly for product liability and environmental claims, in amounts it believes to be adequate based on information currently available to it, including a study by independent actuaries for the seller. Total reserves on this business are $26.4 million, of which $9.4 million is recoverable from reinsurers. The Company will continue to monitor these exposures, adjust the related reserves appropriately as additional information becomes known and disclose any material developments.

Policy acquisition and other underwriting expenses as a percentage of premiums earned were 22% in 1996, compared to 23% in 1995 and 25% in 1994.

Service businesses generated a pretax operating profit of $4.3 million in 1996, compared to $8.7 million in 1995 and $10.0 million in 1994. The decrease in operating profit is partially attributable to new businesses entered into during 1996.

Recurring investment income (interest and dividends) increased 13% to $225.8 million in 1996, compared to $199.1 million in 1995 and $158.5 million in 1994, primarily due to an increase in the average investment portfolio. Net realized gains on security sales were $7.1 million in 1996, $46.7 million in 1995 and $23.8 million in 1994.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: EXCEPT FOR HISTORICAL INFORMATION, THE MATTERS DISCUSSED IN THIS ANNUAL REPORT ARE FORWARD-LOOKING STATEMENTS THAT ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE THE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED, INCLUDING ACCEPTANCE OF THE PRODUCTS, PRICING COMPETITION, MARKET CONDITIONS AND OTHER RISKS DETAILED FROM TIME TO TIME IN THE COMPANY'S SEC REPORTS. THE COMPANY ASSUMES NO OBLIGATION TO UPDATE THE INFORMATION IN THIS ANNUAL REPORT.

not covered by report of independent accountants

(millions-except per share amounts and number of people employed)

	1996	1995
Insurance Companies Selected Financial Information and Operating Statistics-Statutory Basis		
Reserves:		
Loss and loss adjustment expense(1)	$ 1,532.9	$ 1,314.4
Unearned premiums	1,382.9	1,140.4
Policyholders' surplus(1)	1,292.4	1,055.1
Ratios:		
Net premiums written to policyholders' surplus	2.7	2.8
Loss and loss adjustment expense reserves to policyholders' surplus	1.2	1.2
Loss and loss adjustment expense	70.2	71.6
Underwriting expense	19.8	21.4
Statutory combined ratio	90.0	93.0
Selected Consolidated Financial Information-GAAP Basis		
Total revenues	$ 3,478.4	$ 3,011.9
Total assets	6,183.9	5,352.5
Total shareholders' equity(2)	1,676.9	1,475.8

Common Shares outstanding	71.5	72.1
Common Share price		
High	$ 72 1/4	$ 49 1/2
Low	40 3/8	34 3/4
Close(3)	67 3/8	48 7/8
Market capitalization	$ 4,817.3	$ 3,523.9
Book value per Common Share(2)	$ 23.45	$ 19.31
Return on average shareholders' equity(4)	20.5%	19.6%
Funded debt outstanding	$ 775.7	$ 675.9
Ratio of funded debt to capital	32%	31%
GAAP underwriting margin(2)	8.5	5.7
Number of people employed	9,557	8,025

<FN>
(1) During 1994, the Company began accruing salvage and subrogation recoverables.

(2) In 1994, the $71.0 million "supplemental reserve" was eliminated, increasing book value per share $.65, underwriting profit margin 3.2% and shareholders' equity $46.2 million. See Management's Discussion and Analysis for further discussion.

(3) Represents the closing price at December 31.

(4) Net income minus preferred share dividends / average common shareholders' equity.

All share and per share amounts were adjusted for stock splits.

1994	1993	1992	1991	1990	1989	1988	1987
$ 1,100.2	$ 1,053.7	$ 994.7	$ 901.7	$ 827.4	$ 787.7	$ 685.5	$ 496.1
954.8	688.9	538.5	513.6	474.1	467.6	505.0	446.8
945.1	701.9	658.3	676.7	636.7	578.1	495.0	452.0
2.6	2.6	2.2	2.0	1.9	2.0	2.6	2.5
1.2	1.5	1.5	1.3	1.3	1.4	1.4	1.1
64.2	62.6	68.3	65.7	62.1	65.9	62.9	58.3
22.4	25.4	29.8	33.5	31.1	31.4	33.2	35.8
86.6	88.0	98.1	99.2	93.2	97.3	96.1	94.1
$ 2,415.3	$ 1,954.8	$ 1,738.9	$ 1,493.1	$ 1,376.2	$ 1,392.7	$ 1,355.8	$ 1,066.2
4,675.1	4,011.3	3,440.9	3,317.2	2,912.4	2,643.7	2,316.3	1,782.5
1,151.9	997.9	629.0	465.7	408.5	435.2	417.2	395.0
71.2	72.1	67.1	63.3	69.3	76.2	80.7	86.1
$ 40 1/2	$ 46 1/8	$ 29 3/8	$ 20 5/8	$ 18 3/4	$ 14 1/2	$ 10 3/4	$ 11 7/8
27 3/4	26 5/8	14 3/4	15	11	7 1/2	7 1/4	8 1/2
35	40 1/2	29 1/8	18	17 1/8	12 7/8	7 5/8	10 1/8
$ 2,492.0	$ 2,920.1	$ 1,954.3	$ 1,139.4	$ 1,186.8	$ 981.1	$ 615.3	$ 871.8
$ 14.97	$ 12.62	$ 7.94	$ 5.83	$ 5.89	$ 5.71	$ 5.17	$ 4.59
27.4%	36.0%	34.7%	6.7%	21.5%	17.4%	25.9%	24.7%
$ 675.6	$ 477.1	$ 568.5	$ 644.0	$ 644.4	$ 645.9	$ 479.2	$ 216.9
37%	32%	47%	58%	61%	60%	53%	35%
11.5	10.7	3.5	(3.7)	1.0	(1.2)	2.9	5.6
7,544	6,101	5,591	6,918	6,370	6,049	5,854	5,879

	(millions-except per share amounts)	
	1996	1995
Direct premiums written:		
Personal lines	$ 3,165.4	$ 2,644.6
Commercial lines	473.0	424.3
Total direct premiums written	3,638.4	3,068.9
Reinsurance assumed	3.8	.1
Reinsurance ceded	(200.5)	(156.2)
Net premiums written	3,441.7	2,912.8
Net change in unearned premiums reserve1	(242.4)	(185.6)
Premiums earned	3,199.3	2,727.2
Expenses:		
Losses and loss adjustment expenses2	2,236.1	1,943.8
Policy acquisition costs	482.6	459.6
Other underwriting expenses	208.5	167.2
Total underwriting expenses	2,927.2	2,570.6
Underwriting profit (loss) before taxes	272.1	156.6
Provision (benefit) for income taxes	95.2	54.8
Underwriting profit (loss) after taxes	176.9	101.8
Service operations profit (loss) after taxes	2.8	5.6
	179.7	107.4
Investment income after taxes	175.6	156.2
Net realized gains (losses) on security sales after taxes	4.6	30.4
Interest expense after taxes	(40.0)	(37.1)
Proposition 103 reserve reduction after taxes	--	--
Non-recurring items after taxes	--	--
Other expenses after taxes3	(6.2)	(6.4)
Income before tax adjustments and cumulative effect of accounting change	313.7	250.5
Tax adjustments4	--	--
Cumulative effect of accounting change5	--	--
Net income	$ 313.7	$ 250.5
Per share		
Net income2	$ 4.11	$ 3.24
Dividends	.230	.220
Average equivalent shares		
Primary	74.2	74.2
Fully diluted	74.8	74.7

<FN>

1 Amount represents change in unearned premiums reserve less change in prepaid reinsurance premiums.

2 In 1994, the "supplemental reserve" was eliminated, resulting in a one-time decrease to losses and loss adjustment expenses of $71.0 million, or $.62 per share. See Management's Discussion and Analysis for further discussion.

3 Reflects investment expenses after taxes and other tax adjustments.

4 1991 reflects a deferred tax asset write-down and 1990 reflects a fresh start tax benefit.

5 1992 reflects adoption of SFAS 109, "Accounting for Income Taxes," and 1987 reflects adoption of SFAS 96, "Accounting for Income Taxes."

All share and per share amounts were adjusted for stock splits.

1994	1993	1992	1991	1990	1989	1988	1987
$ 2,181.7	$ 1,548.9	$ 1,214.6	$ 1,047.4	$ 876.0	$ 800.1	$ 817.0	$ 690.2
463.4	417.5	422.2	489.4	482.8	487.0	521.0	488.0
2,645.1	1,966.4	1,636.8	1,536.8	1,358.8	1,287.1	1,338.0	1,178.2
2.9	9.2	4.3	.1	.1	7.2	9.4	19.5
(190.8)	(156.4)	(189.9)	(212.3)	(162.6)	(134.0)	(72.4)	(81.2)
2,457.2	1,819.2	1,451.2	1,324.6	1,196.3	1,160.3	1,275.0	1,116.5
(266.1)	(150.5)	(25.1)	(37.7)	(5.1)	36.2	(59.6)	(122.1)
2,191.1	1,668.7	1,426.1	1,286.9	1,191.2	1,196.5	1,215.4	994.4
1,397.3	1,028.0	930.9	858.0	762.9	799.3	752.0	571.9
391.5	311.6	304.1	313.7	292.7	296.7	321.3	292.6
150.8	151.3	141.5	162.1	123.7	114.9	106.6	74.4
1,939.6	1,490.9	1,376.5	1,333.8	1,179.3	1,210.9	1,179.9	938.9
251.5	177.8	49.6	(46.9)	11.9	(14.4)	35.5	55.5
88.0	62.2	16.9	(15.9)	4.0	(2.9)	10.0	12.2
163.5	115.6	32.7	(31.0)	7.9	(11.5)	25.5	43.3
6.5	4.4	(2.8)	(1.4)	2.8	2.5	(1.3)	(1.0)
170.0	120.0	29.9	(32.4)	10.7	(9.0)	24.2	42.3
131.2	107.1	110.4	121.1	126.4	135.3	91.3	59.3
15.5	70.1	9.6	4.9	(8.4)	(.4)	12.3	(1.9)
(35.9)	(25.8)	(29.4)	(31.6)	(32.0)	(32.5)	(10.5)	(6.5)
--	--	70.0	--	--	--	--	--
--	(2.6)	(42.6)	--	--	--	--	--
(6.5)	(1.5)	(8.3)	(14.9)	(13.2)	(15.4)	(9.2)	(3.4)
274.3	267.3	139.6	47.1	83.5	78.0	108.1	89.8
--	--	--	(14.2)	9.9	--	--	--
--	--	14.2	--	--	--	--	3.7
$ 274.3	$ 267.3	$ 153.8	$ 32.9	$ 93.4	$ 78.0	$ 108.1	$ 93.5
$ 3.59	$ 3.58	$ 2.05	$ .41	$ 1.19	$ .94	$ 1.23	$ 1.08
.210	.200	.191	.172	.160	.147	.133	.077
74.0	71.8	62.3	66.6	72.9	79.8	84.0	86.7
74.0	72.0	71.9	75.6	82.5	89.1	90.9	86.7

Analysis of Loss and Loss Adjustment Expenses (LAE) Development

not covered by report of independent accountants

(millions)

For the years ended December 31,	1986	1987	1988	1989	1990	1991	1992	1993	19943	1995	1996
Loss and LAE reserves1	$ 323.8	$ 471.0	$ 651.0	$ 748.6	$ 791.6	$ 861.5	$ 956.4	$1,012.4	$1,098.7	$1,314.4	$1,532.9
Re-estimated reserves as of:											
One year later	300.6	446.6	610.3	685.4	748.8	810.0	857.9	869.9	1,042.1	1,208.6	
Two years later	293.6	422.2	573.4	677.9	726.5	771.9	765.5	837.8	991.7		
Three years later	282.8	402.4	581.3	668.6	712.7	718.7	737.4	811.3			

Four years later	274.1	403.9	575.1	667.1	683.7	700.1	725.2			
Five years later	275.6	399.6	578.4	654.7	666.3	695.1				
Six years later	275.8	400.2	582.2	647.1	664.8					
Seven years later	277.5	408.5	574.3	645.7						
Eight years later	285.7	408.1	574.4							
Nine years later	286.7	407.8								
Ten years later	285.7									
Cumulative redundancy	$ 38.1	$ 63.2	$ 76.6	$ 102.9	$ 126.8	$ 166.4	$ 231.2	$ 201.1	$ 107.0	$ 105.8
Percentage2	11.8	13.4	11.8	13.7	16.0	19.3	24.2	19.9	9.7	8.0

<FN>

The chart represents the development of the property-casualty loss and LAE reserves for 1986 through 1995. The reserves are re-estimated based on experience as of the end of each succeeding year and are increased or decreased as more information becomes known about the frequency and severity of claims for individual years. The cumulative redundancy represents the aggregate change in the estimates over all prior years.

1 Represents loss and LAE reserves net of reinsurance recoverables on unpaid losses at the balance sheet date.

2 Cumulative redundancy / loss and LAE reserves.

3 In 1994, based on a review of its total loss reserves, the Company eliminated its $71.0 million "supplemental reserve." See Management's Discussion and Analysis for further discussion.

Direct Premiums Written by State

not covered by report of independent accountants

(millions)	1996		1995		1994		1993		1992	
Florida	$ 467.4	12.9%	$ 421.9	13.7%	$ 369.9	14.0%	$ 265.6	13.5%	$ 195.3	11.9%
New York	358.0	9.8	225.6	7.4	195.2	7.4	170.4	8.7	156.8	9.6
Texas	349.9	9.6	313.2	10.2	246.4	9.3	146.6	7.4	117.0	7.2
Ohio	340.8	9.4	284.1	9.3	232.0	8.8	175.9	8.9	140.7	8.6
Georgia	212.1	5.8	155.1	5.1	129.7	4.9	120.0	6.1	114.6	7.0
Pennsylvania	201.3	5.5	184.9	6.0	161.2	6.1	113.0	5.8	70.1	4.3
California	171.6	4.7	126.6	4.1	126.8	4.8	80.2	4.1	90.6	5.5
All other	1,537.3	42.3	1,357.5	44.2	1,183.9	44.7	894.7	45.5	751.7	45.9
Total	$ 3,638.4	100.0%	$ 3,068.9	100.0%	$ 2,645.1	100.0%	$ 1,966.4	100.0%	$ 1,636.8	100.0%

Quarterly Financial and Common Share Data

not covered by report of independent accountants

(millions)

		Net Income		Operating Income(1)		Stock Price(3)			
Quarter	Operating Revenues	Total	Per Share(2)	Total	Per Share(2)	High-Low	Close	Rate of Return(4)	Dividends Per Share
1996									
1	$ 741.4	$ 63.3	$ .82	$ 60.2	$ .78	$51 1/4 - 43 1/2	$ 44 5/8		$ .055
2	794.9	78.4	1.01	78.5	1.05	48 7/8 - 40 3/8	46 1/4		.055
3	840.3	80.3	1.08	82.5	1.11	58 1/2 - 43 1/8	57 1/4		.060
4	868.9	91.7	1.23	87.9	1.18	72 1/4 - 55 3/8	67 3/8		.060
	$3,245.5	$ 313.7	$ 4.11	$ 309.1	$ 4.08	$72 1/4 - 40 3/8	$ 67 3/8	38.5%	$ .230

1995									
1	$ 633.6	$ 60.7	$ .79	$ 50.7	$ .66	$42 1/8 - 34 3/4	$ 40 5/8		$ .055
2	687.4	60.8	.79	46.4	.60	41 7/8 - 37 1/8	38 3/8		.055
3	719.0	62.5	.81	59.0	.76	48 - 37 3/4	44 3/4		.055
4	726.1	66.5	.86	64.0	.83	49 1/2 - 41 1/2	48 7/8		.055
	$2,766.1	$ 250.5	$ 3.24	$ 220.1	$ 2.84	$49 1/2 - 34 3/4	$ 48 7/8	40.4%	$ .220
1994									
1	$ 488.2	$ 48.1	$ .62	$ 49.8	$ .64	$40 1/2 - 27 3/4	$ 29 1/8		$ .050
2	547.1	60.5	.79	54.7	.71	35 5/8 - 28 1/2	33 1/4		.050
3	582.3	64.8	.85	57.4	.75	38 7/8 - 33 1/4	35 5/8		.055
4	615.4	100.95	1.345	50.8	.66	38 3/8 - 32 1/4	35		.055
	$2,233.0	$ 274.35	$ 3.595	$ 212.7	$ 2.76	$40 1/2 - 27 3/4	$ 35	(13.1)%	$ .210

<FN>

(1) Represents net income less net realized gains and losses on security sales and one-time items.

(2) Presented on a fully diluted basis. The sum does not equal the total because the average equivalent shares differ in the periods.

(3) Prices as reported on the consolidated transaction reporting system. The Company's Common Shares are listed on the New York Stock Exchange.

(4) Represents annual appreciation (depreciation) on the Company's Common Shares, including quarterly dividend reinvestment.

(5) In the fourth quarter 1994, the "supplemental reserve" was eliminated, resulting in a one-time increase of $71.0 million before taxes, or $.63 per share for the quarter and $.62 per share for the year. See Management's Discussion and Analysis for further discussion.

Directors and Officers

Directors

Milton N. Allen[1,2]
Director,
various corporations

B. Charles Ames[1]
Partner,
Clayton, Dubilier & Rice, Inc.
(management consulting)

Charles A. Davis[1]
Limited Partner,
Goldman Sachs Group L.P.
(investment banking)

Stephen R. Hardis[1,2]
Chairman of the Board
and Chief Executive Officer,
Eaton Corporation
(manufacturing)

Janet Hill[3]
Vice President
Alexander & Associates, Inc.
(management consulting) and
President,
Staubach Alexander Hill, LLC
(commercial real estate consulting)

Peter B. Lewis[2]
Chairman of the Board, President
and Chief Executive Officer

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

Donald B. Shackelford[3]
Chairman,
State Savings Bank

Policy Team

Alan R. Bauer
Charles B. Chokel
Allan W. Ditchfield
W. Thomas Forrester
William H. Graves
Daniel R. Lewis
Peter B. Lewis
Robert J. McMillan
Glenn M. Renwick
David M. Schneider
Tiona M. Thompson

General Managers

Jeffrey W. Adler
Mark H. Arnell
Jose R. Benitez
Charles C. Boucherle
Alan D. Brannan
William P. Cadden
Gerald E. Combs
John M. Davies
Brian C. Domeck
Brian J. Dwyer
Steven B. Gellen
James F. Gerstner
Meryl S. Golden
Michael J. Hanerty
Robin A. Harbage
Thomas H. Hollyer
Richard A. Hutchinson
Steven W. Jones
Thomas A. King
Moira A. Lardakis
Robert E. Mathe
Eric W. Neely
Mark D. Niehaus
Christopher B. Olie
Karen L. Palmer
Brian J. Passell

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 25, 1997, at 10:00 a.m. There were 4,184 shareholders of record on December 31, 1996.

Principal Office

The principal office of The Progressive Corporation is at 6300 Wilson Mills Road, Mayfield Village, Ohio 44143

World Wide Web address: http://www.auto-insurance.com

Toll-free Telephone Numbers

For assistance after an accident or to report a loss, 24 hours a day, 7 days a week, call: 1-800-274-4499

For Progressive's smart new way to shop for auto insurance, available 24 hours a day, 7 days a week, call: 1 800 AUTO PRO(R) (1-800-288-6776)

For 24 Hour Policy Service, call: 1-800-888-7764

Transfer Agent and Registrar

If you have questions about a specific stock ownership account, write or call: Corporate Trust Customer Service, National City Bank, 1900 East Ninth Street, Cleveland, Ohio 44114. Phone: 800-622-6757

Counsel

Baker & Hostetler, Cleveland, Ohio

Common Shares

The Progressive Corporation's Common Shares (symbol PGR) are traded on the New York Stock Exchange. Dividends are customarily paid on the last day of each quarter.

Interim Reporting

(savings and loan)

Dr. Paul B. Sigler3
Professor, Yale University and
Investigator,
Howard Hughes Medical Institute
(medical research and education)

Corporate Officers

Peter B. Lewis, Chairman,
President and
Chief Executive Officer

David M. Schneider, Secretary

Charles B. Chokel, Treasurer

Victor Politzi
Michael J. Randall
Andrew W. Rogacki
Robert J. Rose
David L. Roush
Michael D. Sieger
Brian A. Silva
David J. Skove
Julia Clark Sweeney
Gregory J. Trapp
Richard H. Watts
Jeffrey G. West
Robert T. Williams
David W. Young

The Progressive Corporation is no longer distributing quarterly shareholders' reports. To hear the text of the latest earnings release, receive key financial information for the past several quarters, receive dividend and other information, or request copies of public documents, shareholders can call 1-800-879-PROG. This toll-free shareholder services line is available 24 hours a day, 7 days a week. Such information is also available from the Company's internet site: http://www.auto-insurance.com

Investor Relations

Any shareholder wishing to receive public financial information on the Company may write or call: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box E61, Mayfield Village, Ohio 44143.
Phone: 216-446-2851

<FN>
1 Audit Committee member

2 Executive Committee membe

3 Executive Compensation
Committee member

Design: Nesnadny + Schwartz, Cleveland + New York + Toronto   Artwork: Rimma Gerlovina and Valeriy Gerlovin   Printing: Fortran Printing, Cleveland
Printed on Recycled Paper

EXHIBIT NO. 21

SUBSIDIARIES OF

THE PROGRESSIVE CORPORATION

SUBSIDIARIES OF THE PROGRESSIVE CORPORATION

Name of Subsidiary	Jurisdiction of Incorporation
Airy Insurance Center, Inc.	Pennsylvania
Allied Insurance Agency, Inc.	Ohio
Classic Insurance Company	Wisconsin
Express Quote Services, Inc.	Florida
Garden Sun Insurance Services, Inc.	Hawaii
Gold Key Insurance Agency	California
Greenberg Financial Insurance Services, Inc.	California
Halcyon Insurance Company	Ohio
Husky Sun Insurance Services, Inc.	Washington
Insurance Confirmation Services, Inc.	Delaware
Lakeside Insurance Agency, Inc.	Ohio
Marathon Insurance Company	California
Maryland Auto Insurance Solutions, Inc.	Maryland
Midland Financial Group, Inc.	Tennessee
Agents Financial Services, Inc. (40% owned)	Florida
Agents Financial Services - Tennessee, Inc.	Tennessee
Agents Financial Services - Arizona, Inc.	Arizona
Agents Financial Services - Illinois, Inc. (90% owned)	Illinois
Agents Financial Services - Pacific, N.W., Inc.	Oregon
Midland Financial Services - Texas, Inc.	Texas
AutoSurance of America, Inc.	Tennessee
Delta Claims Services, Inc.	Tennessee
Midland Financial Services, Inc.	Louisiana
Midland Risk Insurance Company	Tennessee
Specialty Risk Insurance Company	Tennessee
Midland Risk Services - Texas, Inc.	Texas
Midland Risk Services, Inc.	Tennessee
Midland Risk Insurance Services - California, Inc.	California
Midland Risk Services - Arizona, Inc.	Arizona
Midland Risk Services - Nevada, Inc.	Nevada
Midland Risk Services - Illinois, Inc. (85% owned)	Illinois
Midland Risk Services of Louisiana, Inc.	Louisiana
Midland Risk Services - Pacific, N.W., Inc.	Oregon
Midland Risk Services - Tennessee, Inc.	Tennessee
Mountain Laurel Assurance Company	Pennsylvania
Mountainside Insurance Agency, Inc.	Colorado
National Continental Insurance Company	New York
Pacific Motor Club	California
Paloverde Insurance Company of Arizona	Arizona
PCIC Canada Holdings, Ltd.	Canada
Progressive Casualty Insurance Company of Canada	Canada
Progny Agency, Inc.	New York
Progressive Adjusting Company, Inc.	Ohio
Progressive American Insurance Company	Florida
Bayside Underwriters Insurance Agency, Inc.	Florida
Progressive Gulf Insurance Company	Mississippi

Progressive American Life Insurance Company	Ohio
Progressive Life Insurance, Ltd.	Turks & Caicos Islands
Progressive Auto Pro Insurance Company	Florida
Progressive Bayside Insurance Company	Florida
Progressive Casualty Insurance Company	Ohio
PC Investment Company	Delaware
Progressive Specialty Insurance Company	Ohio
Progressive Consumers Insurance Company	Florida
Progressive Express Insurance Company	Florida
Progressive Hawaii Insurance Corp.	Hawaii
Progressive Insurance Agency, Inc.	Ohio
Progressive Investment Company, Inc.	Delaware
Progressive Max Insurance Company	Ohio
Progressive Michigan Insurance Company	Michigan
Progressive Mountain Insurance Company	Colorado
Progressive Northeastern Insurance Company	New York
Progressive Northern Insurance Company	Wisconsin
Progressive Premier Insurance Company of Illinois	Illinois
Progressive Universal Insurance Company of Illinois	Illinois
Progressive Northwestern Insurance Company	Washington
Progressive Partners, Inc.	New York
Progressive Preferred Insurance Company	Ohio
Progressive Premium Budget, Inc.	Ohio
Progressive Security Insurance Company	Louisiana
Progressive Southeastern Insurance Company	Florida
Progressive West Insurance Company	California
Silver Key Insurance Agency, Inc.	Nevada
Tampa Insurance Services, Inc.	Florida
The Paradyme Corporation	Ohio
United Financial Insurance Agency, Inc.	Ohio
United Financial Insurance Agency, Inc.	Washington
The Progressive Agency, Inc.	Virginia
Transportation Recoveries, Inc.	Ohio
United Financial Adjusting Company	Ohio
Integrated Warranty Services, Inc. (50.1% owned)	California
United Financial Casualty Company	Missouri
Village Transport Corp.	Delaware
Wilson Mills Land Co.	Ohio

Except as indicated, each subsidiary is wholly owned by its parent.

EXHIBIT NO. 23

CONSENT OF
INDEPENDENT ACCOUNTANTS

Incorporated herein by reference to

page 27 of this Annual Report

on Form 10-K

1

EXHIBIT NO. 24

POWERS OF ATTORNEY

2

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1996, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 13th day of March, 1997.

Signature	Position(s) with The Progressive Corporation
/s/ Milton N. Allen Milton N. Allen	Director

3

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1996, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 13th day of March, 1997.

Signature	Position(s) with The Progressive Corporation
/s/ B. Charles Ames	

____
B. Charles Ames   Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1996, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 13th day of March, 1997.

Signature	Position(s) with The Progressive Corporation
/s/ Charles A. Davis ___________________________ Charles A. Davis	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1996, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 14th day of March, 1997.

Signature	Position(s) with The Progressive Corporation
/s/ Stephen R. Hardis ___________________________ Stephen R. Hardis	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1996, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 13th day of March, 1997.

Signature	Position(s) with The Progressive Corporation
/s/ Janet Hill Janet M. Hill	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1996, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 13th day of March, 1997.

Signature	Position(s) with The Progressive Corporation
/s/ Norman S. Matthews Norman S. Matthews	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint

Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1996, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 21st day of March, 1997.

Signature	Position(s) with The Progressive Corporation
/s/ Donald B. Shackelford Donald B. Shackelford	Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Peter B. Lewis, David M. Schneider, Dane A. Shrallow and Michael R. Uth, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year 1996, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 24th day of March, 1997.

Signature	Position(s) with The Progressive Corporation
/s/ Paul B. Sigler Paul B. Sigler	Director

<ARTICLE> 7
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THIS SCHEDULE INCLUDES SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<PAYMENTS-PRIOR>		592,900
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