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, 1998

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)

(440) 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, 1999: $7,864,758,903.37

The number of the registrant's Common Shares, $1.00 par value, outstanding as of February 26, 1999: 72,819,870

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Shareholders for the year ended December 31, 1998 are incorporated by reference in Parts I, II and IV hereof. Portions of the registrant's Proxy Statement dated March 19, 1999, for the Annual Meeting of Shareholders to be held on April 23, 1999, are incorporated by reference in Part III hereof.

INTRODUCTION

The Progressive Corporation and subsidiaries' (collectively, the "Company") 1998 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 19, 1999, for the Annual Meeting of Shareholders to be held on April 23, 1999 (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 insurance organization began business in 1937. The Progressive Corporation, an insurance holding company formed in 1965, has 82 subsidiaries and 1 mutual insurance company affiliate. The Progressive Corporation's insurance subsidiaries and affiliate provide personal automobile insurance and other specialty property-casualty insurance and related services throughout the United States and 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.

(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

The Company offers a number of personal and commercial property-casualty insurance products primarily related to motor vehicles. Net premiums written were $5,299.7 million in 1998, compared to $4,665.1 million in 1997 and $3,441.7 million in 1996. The underwriting profit margin was 8.4% in 1998, compared to 6.6% in 1997 and 8.5% in 1996.

Personal Lines

Of the approximately 250 United States insurance company groups writing private passenger auto insurance, the Company estimates that it ranks fifth in size for 1998. 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 1998, the estimated industry premiums written, which include personal auto insurance in the United States and Ontario, Canada, were $121.7 billion, and Progressive's share of this market was approximately 4.0%, compared to $117.5 billion and 3.7%, respectively, in 1997, and $111.6 billion and 2.8% in 1996.

The Company's Personal Lines segment writes insurance for private passenger automobiles and recreational vehicles. This business frequently offers more than one program in a single state, with each targeted to a specific market segment. Personal Lines accounted for 93% of the Company's 1998 total net premiums written, compared to 92% in both 1997 and 1996.

A portion of the Company's Personal Lines consists of nonstandard automobile insurance products for people who have been cancelled or rejected by other insurers. The size of the nonstandard automobile insurance market changes with the insurance environment and is estimated to be about 20% of the United States' personal automobile insurance market. Volume potential is influenced by the actions of direct competitors, writers of standard and preferred automobile insurance and state-mandated involuntary plans. Approximately 355 nonstandard insurance companies, many of which are part of an affiliated group, compete for this business. In 1997, the Company ranked second in direct premiums written and near the top in underwriting performance in the nonstandard market. During 1998, the Company continued to maintain a major presence in this market.

The Personal Lines segment also writes standard and preferred automobile risks. These products accounted for between 30% and 35% of the Company's total Personal Lines premiums in 1998. Our strategy is to build towards becoming a low-cost provider of a full line of auto insurance products and related services, distributed through whichever channel the customer prefers. The Company's goal is to compete successfully in the standard and preferred market, which comprises about 80% of the United States' personal automobile insurance market.

The Company's specialty Personal Lines products include motorcycle, recreational vehicle, mobile home, watercraft and snowmobile insurance. The Company'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. In 1998, Progressive became the market share leader in the motorcycle product.

The Company writes through multiple distribution methods, including Independent Agents, Direct (via 1 800 AUTO PRO(R) and progressive.com) and through Strategic Alliances. The majority of the Company's Personal Lines premiums are written through a network of more than 30,000 Independent Insurance Agents located throughout the United States and 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. In 1998, the Direct distribution channel represented between 10% and 15% of the Personal Lines volume. The Company expanded its television advertising campaign on a national level in 1998. The Company also introduced its local advertising campaign, which includes direct mail, radio and television advertising, to 14 more states in 1998 , bringing the total number of states in which the Company advertises to 32 plus Washington, D.C. (83 markets). In addition, the Company is the market leader in selling auto insurance on the Internet. Consumers can comparison shop online for auto insurance in 47 states and can buy online in 23 states plus the District of Columbia. In 1998, Internet sales represented approximately 2% of the Direct business volume. The Company also writes through its Strategic Alliances channel, which includes alliances with other insurance companies, employers, affinity groups and national brokerage agencies. The Strategic Alliances channel represented between 5% and 10% of the Personal Lines premiums in 1998.

Auto insurance differs greatly by community because regulations vary by state and because traffic, law enforcement, cultural attitudes, insurance agents, medical services and auto repair facilities vary by community. The Company's matrix organization enables it to meet varied local conditions under a cohesive set of policies and procedures that ensure consistency and control. The Company's 44 State and Community Managers run the business in their state(s). They manage claims, distribution, advertising budgets, price levels, agent development, regulation and community relations for their territory. State Managers determine their state(s) organization, and may appoint Community Managers with responsibilities similar to their own for a large part of the state. Processing (customer service calls, direct sales calls and claims processing) is done at ten regional sites in Albany, New York; Austin, Texas; Cleveland, Ohio; Colorado Springs, Colorado; Richmond, Virginia; Sacramento, California; Tampa, Florida; Tempe, Arizona; Tigard, Oregon and Toronto, Ontario.

State Managers report directly to members of the Company's Policy Team, which is the Company's senior policy and decision making body. In 1999, the Policy Team includes two CEOs (Insurance Operations, Investments and Capital Management), four Distribution Leaders (Independent Agent, 1 800 AUTO PRO(R), progressive.com, Strategic Alliances), Chief Pricing/Product Officer, Chief Claim Officer, Chief Financial Officer, Chief Information Officer, Chief Human Resources Officer and Chief Communications Officer. The Distribution Leaders are challenged to develop and manage product offerings and customer service processes tailored to the unique requirements of customers who discover and select Progressive through different distribution modes.

Other Businesses

The Company's other lines of business include the commercial vehicle business unit, United Financial Casualty Company (UFCC), Professional Liability Group (PLG) and Motor Carrier business unit, which are organized by customer group and headquartered in Cleveland, Ohio. These businesses accounted for 7% of total volume in 1998. The choice of distribution channel is driven by each customer group's buying preference and service needs. Distribution channels include independent agents, 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 other lines of business also market their products directly to their customers through company-employed sales forces. Most of these businesses are in markets that are declining in size.

Monoline commercial vehicle insurance covers commercial vehicle risks for primary liability, physical damage and other supplementary insurance coverages. Based on the Company's analysis of this market, the Company competes for this business on a nationwide basis with approximately 150 other companies. In the target segment of monoline commercial auto writers, the Company estimates its 1998 ranking to be in the top 10.

UFCC primarily 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 offered 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 loan institutions, 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 and various other reinsurance entities. The program is sponsored by the American Bankers Association. Additionally, the Company provides similar coverages for credit unions and savings and loan institutions. The risk and premium on these coverages are also reinsured by various reinsurance entities. PLG represented less than one-half percent of the Company's total 1998 net premiums written.

The service operations of the other lines of business consist primarily of processing business for involuntary plans and providing claim services to fleet owners and other insurance companies. Service revenues were $38.2 million in 1998, compared to $45.3 million in 1997 and $46.2 million in 1996. Pretax operating profits were $7.4 million in 1998, compared to $1.4 million and $4.3 million in 1997 and 1996, respectively.

The Motor Carrier business unit currently processes business for the Commercial Auto Insurance Procedures (CAIP) in 27 states. As a CAIP servicing carrier, the business unit processes over 50% of the premiums in the CAIP market without assuming the indemnity risk. It competes with approximately 3 other providers nationwide.

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 expenses. 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 adjusting are also important factors in the Company's competitive strategy.

Licenses

The Company operates under licenses issued by various state or provincial insurance authorities. These 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 three Canadian provinces 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 insurance subsidiaries and affiliate are domiciled in the states of Arizona, California, Colorado, Hawaii, Illinois, Florida, Louisiana, Michigan, Mississippi, Missouri, New York, Ohio, Pennsylvania, Tennessee, 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 statutory 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, to ensure 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 these 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 which are not insurable in the voluntary market. 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 in those states.

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 premiums 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.

In 1998, the NAIC adopted the Codification of Statutory Accounting Principles guidance which will replace the current NAIC Annual Statement Instructions and Accounting Practices and Procedures manual as the NAIC's primary guidance on statutory accounting. The Codification provides guidance for areas where statutory accounting has been silent and changes current statutory accounting in some areas. The implementation date established by the NAIC is January 1, 2001; however, the effective date will be specified by each insurance company's state of domicile. The Company is currently evaluating the potential effect of the Codification guidance, but does not expect it to have a material impact on the Company's statutory surplus.

Statutory Accounting Principles

The Company'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 that are outstanding 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.

5. Costs for computer software developed or obtained for internal use are capitalized and amortized over their useful life, rather then expensed as incurred, as required by SAP.

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

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 $5,674.3 million at December 31, 1998, compared to $5,270.4 million at December 31, 1997. 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 $306.2 million in 1998, compared to $373.4 million in 1997 and $232.9 million in 1996. 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, 1998, was 15,735.

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.

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 1998, 1997 and 1996 on a GAAP basis.

RECONCILIATION OF NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

(millions)	1998	1997	1996
Balance at January 1	$2,146.6	$1,800.6	$1,610.5
Less reinsurance recoverables on unpaid losses	279.1	267.7	296.1
Net balance at January 1	1,867.5	1,532.9	1,314.4
Net reserves of subsidiary purchased	--	82.2	--
Incurred related to:			
Current year	3,560.5	3,070.8	2,341.9
Prior years	(184.2)	(103.3)	(105.8)
Total incurred	3,376.3	2,967.5	2,236.1
Paid related to:			
Current year	2,376.0	1,971.5	1,424.7
Prior years	922.0	743.6	592.9
Total paid	3,298.0	2,715.1	2,017.6
Net balance at December 31	1,945.8	1,867.5	1,532.9
Plus reinsurance recoverable on unpaid losses	242.8	279.1	267.7
Balance at December 31	$2,188.6	$2,146.6	$1,800.6

The reconciliation above shows a $184.2 million redundancy, which emerged during 1998, in the 1998 liability and a $103.3 million redundancy in the 1997 liability, based on information known as of December 31, 1998 and December 31, 1997, 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	1988	1989	1990	1991	1992	1993	1994(3)	1995	1996	1997	1998
LIABILITY FOR UNPAID LOSSES AND LAE(1)	$651.0	$748.6	$791.6	$861.5	$956.4	$1,012.4	$1,098.7	$1,314.4	$1,532.9	$1,867.5	$1,945.8
PAID (CUMULATIVE) AS OF:											
One year later	283.1	293.1	322.4	353.4	366.8	417.0	525.3	593.0	743.6	922.0	
Two years later	393.7	446.8	490.8	518.8	520.0	589.8	706.4	838.9	1,034.5		
Three years later	465.0	539.8	570.4	583.2	598.2	664.1	810.6	960.1	--		
Four years later	514.0	588.2	600.0	617.6	632.8	709.9	857.1	--	--		
Five years later	540.7	603.1	613.6	635.8	658.6	729.8	--	--	--		
Six years later	545.1	608.1	624.7	651.2	669.7	--	--	--	--		
Seven years later	545.5	614.7	631.1	656.2	--	--	--	--	--		
Eight years later	549.0	619.2	634.7	--	--	--	--	--	--		
Nine years later	551.7	620.9	--	--	--	--	--	--	--		
Ten years later	552.9	--	--	--	--	--	--	--	--		
LIABILITY RE-ESTIMATED AS OF:											
One year later	610.3	685.4	748.8	810.0	857.9	869.9	1,042.1	1,208.6	1,429.6	1,683.3	
Two years later	573.4	677.9	726.5	771.9	765.5	837.8	991.7	1,149.5	1,364.5		
Three years later	581.3	668.6	712.7	718.7	737.4	811.3	961.2	1,118.6	--		
Four years later	575.1	667.1	683.7	700.1	725.2	794.6	940.6	--	--		
Five years later	578.4	654.7	666.3	695.1	717.3	782.9	--	--	--		
Six years later	582.2	647.1	664.8	692.6	711.1	--	--	--	--		
Seven years later	574.3	645.7	664.5	688.2	--	--	--	--	--		
Eight years later	574.4	645.4	661.4	--	--	--	--	--	--		
Nine years later	575.0	641.9	--	--	--	--	--	--	--		
Ten years later	572.4	--	--	--	--	--	--	--	--		
CUMULATIVE REDUNDANCY	$ 78.6	$106.7	$130.2	$173.3	$245.3	$229.5	$158.1	$195.8	$ 168.4	$ 184.2	
PERCENTAGE(2)	12.1	14.3	16.4	20.1	25.6	22.7	14.4	14.9	11.0	9.9	

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

2 Cumulative redundancy / liability for unpaid losses and LAE.

3 In 1994, based on a review of its total loss reserves, the Company eliminated its $71.0 million "supplemental reserve."

The above table presents the development of balance sheet liabilities for 1988 through 1997. 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. 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 about the claims becomes known for individual years. For example, as of December 31, 1998 the companies had paid $620.9 million of the currently estimated $641.9 million of losses and LAE that had been incurred through the end of 1989; thus an estimated $21.0 million of losses incurred through 1989 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 1988 liability has developed redundant by $78.6 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 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 1991, but incurred in 1988, will be included in the cumulative deficiency or redundancy amount for years 1988, 1989 and 1990. 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 1998 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 Canada. The amount of Canadian revenues and assets are less than 2% 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

The Company's 517,800 square foot corporate office complex is located on a 42-acre parcel in Mayfield Village, Ohio, owned by a subsidiary. The Company's central data processing facility occupies a 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, five buildings in Tampa, Florida, a building in Tempe, Arizona and a building in Tigard, Oregon. In total, these buildings contained approximately 1,088,500 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 and are not segregated by industry segment. In addition, the Company owns two buildings, one in Tampa, Florida and one in Plymouth Meeting, Pennsylvania, which are partially leased to non-affiliates.

In November 1997, the Company purchased 91 acres in Mayfield Village, Ohio to construct an office complex near the site of its current corporate headquarters. This office complex is part of a five-year cooperative effort with Mayfield Village to develop over 300 acres. Progressive would serve as the anchor corporate user with additional business users and recreational facilities on the site. The Company is constructing three buildings containing a total of approximately 443,000 square feet on the site and could build up to two additional buildings, containing about 500,000 additional square feet in total, in the future. The first three buildings are expected to be completed during 1999 and are estimated to cost $68.3 million. As of December 31, 1998, $28.7 million has been paid. The Company is also constructing a 90,000 square foot office in Albany, New York, which is expected to be completed during 1999. The construction projects are being funded through operating cash flows.

The Company leases approximately 490,000 square feet of 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 365 claim offices, consisting of 1,540,000 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 that it will need 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 2, Litigation, on page 39 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 in Part III 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
1998	1	$135 1/2	$106 11/16	$134 11/16	$.060
	2	150	126 1/2	141	.060
	3	156 3/4	95	112 3/4	.065

	4	172	94	169 3/8	.065
		$172	$ 94	$169 3/8	$.250
1997	1	$ 73 5/8	$ 63 7/8	$ 63 7/8	$.060
	2	87 3/8	61 1/2	87	.060
	3	111 7/8	86 1/2	107 1/8	.060
	4	120 7/8	99	119 7/8	.060
		$120 7/8	$ 61 1/2	$119 7/8	$.240

The closing price of the Company's Common Shares on February 26, 1999 was $128 1/2.

(b) Holders

There were 3,954 shareholders of record on February 26, 1999.

(c) Dividends

Statutory policyholders' surplus was $2,029.9 million and $1,722.9 million at December 31, 1998 and 1997, 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, 1998, $245.7 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 to the corporate parent of $274.2 million in 1999 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, 1998	1997	1996	1995	1994
Total revenues	$5,292.4	$4,608.2	$3,478.4	$3,011.9	$2,415.3
Operating income	449.3	336.0	309.1	220.1	212.7
Net income(1)	456.7	400.0	313.7	250.5	274.3
Per share:					
Operating income(2)	6.01	4.46	4.12	2.85	2.76
Net income(1),(2)	6.11	5.31	4.14	3.26	3.59
Dividends	.250	.240	.230	.220	.210
Total assets	8,463.1	7,559.6	6,183.9	5,352.5	4,675.1
Debt outstanding	776.6	775.9	775.7	675.9	675.6

1 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.

2 Presented on a diluted basis. In 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) 128 "Earnings Per Share," and, as a result, restated prior periods per share amounts, if applicable.

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 retire its outstanding indebtedness, to pay dividends and for other business purposes.

During 1998, the Company repurchased 404,079 of its Common Shares at a total cost of $42.6 million (average $105.28 per share), including 11,079 Common Shares repurchased to satisfy obligations under the Company's benefit plans. During the three-year period ended December 31, 1998, the Company repurchased 1.4 million of its Common Shares at a total cost of $87.4 million (average $60.75 per share), .2 million of its 9 3/8% Serial Preferred Shares, Series A, at a total cost of $6.0 million (average $25.60 per share) and redeemed its remaining Preferred Shares at a total cost of $82.1 million ($25.00 per share). The Company also sold $100.0 million of Notes. During the same period, The Progressive Corporation made $1.1 million of capital contributions to its subsidiaries, net of dividends received from 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. In March 1999, the Company issued $300 million of 6 5/8% Senior Notes due 2029 under an outstanding shelf registration, which became effective in 1998. The net proceeds of $293.7 million are intended to replace current outstanding debt upon its maturity. The Company also has available a $10.0 million revolving credit agreement. With its current 29% debt to capital ratio, management believes the Company 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, 1998, operations generated positive cash flows of $2,004.9 million, and cash flows are 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 March 1997, the Company acquired Midland Financial Group, Inc. for about $50 million in cash. Midland underwrites and markets nonstandard private passenger automobile insurance through Independent Agents across 11 states, primarily in the southeastern and western United States.

Total capital expenditures for the three years ended December 31, 1998, aggregated $331.9 million. In December 1997, the Company purchased approximately 72 acres in Tampa, Florida to construct a three-building, 307,000 square foot, regional call center. The cost of the project is currently estimated at $45.2 million; $41.3 million has been paid as of December 31, 1998. The first two buildings were completed during 1998. The third building was completed in February 1999. In addition, in November 1997, the Company purchased 91 acres in Mayfield Village, Ohio to construct an office complex, near the site of its current corporate headquarters. This office complex is part of a five-year cooperative effort with Mayfield Village to develop over 300 acres. Progressive will serve as the anchor corporate user with additional business users and recreational facilities on the site. The Company is constructing three buildings containing a total of approximately 443,000 square feet on the site and could build up to two additional buildings, containing about 500,000 square feet in total, in the future. The first three buildings are expected to be completed during 1999 and are estimated to cost $68.3 million. As of December 31, 1998, $28.7 million has been paid. The construction projects are being funded through operating cash flows.

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. The Company evaluates the risk/reward tradeoffs 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 $4,439.4 million, or 78.3%, at the end of 1998, compared to $4,024.9 million, or 76.4%, at the end of 1997. Long-term investment-grade securities, including those principal paydowns from asset-backed securities that are greater than 10 years, were $93.5 million, or 1.6%, at the end of 1998, compared to $143.4 million, or 2.7%, at the end of 1997. Non-investment-grade fixed-maturity securities were $128.0 million, or 2.3%, at the end of 1998, compared to $132.5 million, or 2.5%, at the end of 1997, and offer the Company higher 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 2.8 years at December 31, 1998, compared to 3.3 years at December 31, 1997.

A portion of the investment portfolio is invested in marketable equity securities. Common stocks represented $636.9 million, or 11.2%, of the portfolio, at the end of 1998, compared to $620.8 million, or 11.8%, a year earlier. The majority of the common stock portfolio is invested in domestic equities traded on nationally recognized securities exchanges. In addition, the Company invests in foreign equities, which may include stock index futures and foreign currency forwards, which comprised $130.7 million of the common stock portfolio at the end of 1998, compared to $106.0 million last year, and partnership investments, which comprised $63.7 million of the common stock portfolio at the end of 1998, compared to $31.8 million last year. Preferred stocks represented $376.5 million, or 6.6%, of the portfolio at the end of 1998, compared to $348.8 million, or 6.6%, a year earlier, and was comprised of over 72% of fixed-rate preferred stocks with mechanisms that are expected to provide an opportunity to liquidate at par.

As of December 31, 1998, the Company's portfolio had $174.3 million in unrealized gains, compared to $188.4 million in 1997. This decrease in value was the result of widening credit spreads on all non-treasury related products and the Company's underperformance relative to the S&P 500, due to overweighting in smaller capitalization value stocks.

The weighted average fully taxable equivalent book yield of the portfolio was 6.3%, 6.6% and 6.7% for the years ended December 31, 1998, 1997 and 1996, respectively.

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

Rating	Percentage at December 31, 1998	Percentage at December 31,1997
AAA	57.7%	67.5%
AA	14.3	13.0
A	20.4	12.9
BBB	4.1	3.4
Non Rated/Other	3.5	3.2
	100.0%	100.0%

As of December 31, 1998, the Company held $1,486.9 million of asset-backed securities, which represented 26.2% of the total investment portfolio. The asset-backed portfolio included collateralized mortgage obligations (CMO) and commercial mortgage-backed obligations (CMB) totaling $325.3 million and $728.9

million, respectively. The remainder of the asset-backed portfolio was invested primarily in auto loan and other asset-backed securities. As of December 31, 1998, the CMO portfolio primarily included sequential bonds, representing 90.3% of the CMO portfolio ($293.7 million)

with an average life of 3.6 years. At December 31, 1998, the CMO portfolio had a weighted average Moody's or Standard & Poor's rating of AAA and the CMB portfolio had an average life of 6.1 years and a weighted average Moody's or Standard & Poor's rating of AA. At December 31, 1998, the CMO and CMB portfolios had unrealized gains/(losses) of $.1 million and $(8.2) million, respectively. The single largest unrealized loss in any individual CMO security was $.9 million and in any CMB security was $5.4 million, at December 31, 1998. The CMB portfolio includes $132.5 million of CMB interest-only certificates, which had an average life of 6.6 years and a weighted average Moody's or Standard & Poor's rating of AAA at December 31, 1998. Both the CMO and CMB portfolios are highly liquid with readily available quotes and contain no residual interests. During 1997, the Company sold $178.4 million (proceeds of $200.8 million) of non-investment-grade CMB securities to a third-party purchaser. The purchaser subsequently transferred the securities to a trust as collateral in a resecuritized debt offering. The transaction was accounted for as a sale under Statement of Financial Accounting Standards (SFAS) 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," resulting in a net gain of $22.4 million. A bankruptcy remote subsidiary of the Company acquired $22.8 million of the resecuritized debt, which was subsequently sold in 1998 for a net gain of $3.5 million. This portion of the transaction was not accounted for as a sale in 1997 in accordance with SFAS 125.

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 managing duration to a defined range of 1.8 to 5 years. The distribution of maturities and convexity are monitored on a regular basis. Common stocks and similar investments, which generally have greater risk and volatility of market value, are limited to a target of 15%, with a range of 0 to 25%. Market values, along with industry and sector concentrations of common stocks and similar investments, are monitored daily. Exposure to foreign currency exchange risk is limited by Company restrictions and is monitored regularly. Exposures are evaluated individually and as a whole, considering the effects of cross correlation. For the quantitative market risk disclosures, see page 56 of the Company's 1998 Annual Report. The Company regularly examines its portfolio for evidence of impairment. In such cases, 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 generally accepted accounting principles (GAAP) to reduce the carrying value of such security to its net realizable value. In 1998, the Company wrote down $32.2 million, including $20.8 million in two securities in emerging markets driven by changing economic conditions.

Included in the Company's non-investment-grade fixed-maturity securities and common stock portfolios are $299.6 million of other risk assets. Other risk assets include such items as high yield and distressed debt, private equities and warrants, mezzanine investments, and securities in emerging markets. No individual security in the other risk asset portfolio comprised more than one percent of Progressive's total investment portfolio. The total return on the average amount invested in this asset class in 1998 was (4.4)% with a total net unrealized gain of $4.7 million at December 31, 1998. The single largest unrealized loss in any individual other risk asset security was $5.4 million.

Derivative instruments are primarily used to manage the risks and enhance the returns of the available-for-sale portfolio. This is accomplished by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio, hedged securities or hedged cash flows. During 1998, the Company entered into two transactions, an interest rate swap hedge and a short futures position, to hedge against possible rises in interest rates prior to the issuance of debt under the $300 million shelf registration. The interest rate swap hedge performed as expected and is recorded as an $11.0 million deferred asset under SFAS 80, "Accounting for Futures Contracts," as a qualified hedge. The short futures position, driven by changing economic conditions, did not meet the established criteria for hedging correlation and was discontinued as a hedge, recognizing a net realized loss of $9.2 million in 1998. The Company continues to hold the short futures position for risk management of the anticipated debt offering. Derivative instruments may also be used for trading purposes. During 1998, net activity in the trading portfolio was not material to the Company's financial position, cash flows or results of operations. Net cash requirements of derivative instruments 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. The Company has stringent restrictions on the amount of open

positions in the trading portfolios, limiting exposure to defined levels. At December 31, 1998, trading positions had a net market value of $(.4) million; at December 31, 1997, the net market value was $1.1 million.

RESULTS OF OPERATIONS Operating income, which excludes net realized gains and losses from security sales and one-time items, was $449.3 million, or $6.01 per share, in 1998, $336.0 million, or $4.46 per share, in 1997 and $309.1 million, or $4.12 per share, in 1996. The GAAP combined ratio was 91.6 in 1998, 93.4 in 1997 and 91.5 in 1996.

Direct premiums written increased 13% to $5,451.3 million in 1998, compared to $4,825.2 million in 1997 and $3,638.4 million in 1996. Net premiums written increased 14% to $5,299.7 million in 1998, compared to $4,665.1 million in 1997 and $3,441.7 million in 1996. The difference between direct and net premiums written is partially attributable to premiums written under state-mandated involuntary Commercial Auto Insurance Procedures (CAIP), for which the Company retains no indemnity risk, of $60.7 million in 1998, $78.4 million in 1997 and $99.5 million in 1996. The Company provided policy and claim processing services to 27 state CAIPs in all three years. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 18% in 1998, compared to 31% in 1997 and 17% in 1996.

Net premiums written in the Company's Personal Lines, which write insurance for private passenger automobiles and recreational vehicles, grew 15%, 36% and 20% in 1998, 1997 and 1996, respectively, primarily reflecting an increase in unit sales. The slower growth in 1998 is a result of intensified competition in the auto insurance market. Many of the Company's competitors reduced rates, increased advertising, entered new states, expanded their distribution channels, entered the nonstandard auto insurance market and increased agents' compensation. The Company expects continued growth in 1999 despite increased competition. The Company decreased rates an average of 5.3% in 1998, compared to rate decreases of .9% in 1997 and rate increases of 2.5% in 1996. The Company continues to write through multiple distribution methods, including Independent Agents, Direct (via 1 800 AUTO PRO(R) and progressive.com) and through Strategic Alliances. In 1998, the Direct distribution channel represented between 10% and 15% of the Personal Lines volume, compared to between 5% and 10% in 1997 and less than 5% in 1996. The sales generated via the Internet represented approximately 2% of the Direct business net premiums written in 1998. The Company also writes through its Strategic Alliances channel, which includes alliances with other insurance companies, employers, affinity groups and national brokerage agencies. The Strategic Alliances channel represented between 5% and 10% of the Personal Lines premiums in all three years. The remainder of the Personal Lines premiums are written through a network of over 30,000 Independent Insurance Agents. Through these multiple distribution channels, the Company continues to write standard and preferred risks, which represented between 30% and 35% of total 1998 Personal Lines volume, compared to between 20% and 25% in 1997 and between 10% and 15% in 1996, as well as its traditional nonstandard auto products.

In 1997, the Company began using rating criteria based partially on consumer financial responsibility. This approach is in use in 43 states that represent 91% of the Personal Lines volume. The Company expects product design and pricing methods to evolve constantly, based on the developing understanding of loss data, work flows, market conditions and technology, as well as consumer acceptance of the Progressive brand as an insurer for all drivers. The Company introduced the next generation of product design in mid-1998 and expects to have it in markets representing 80% of premium by April 1999. Early results suggest that the Company is attracting drivers from all risk profiles and retaining them longer. 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 resulted in more spending to promote the Progressive brand and to hire and develop more claim adjusters and customer service representatives, and the Company expects this to continue at least in the near term. These costs, along with lower margins on first year business, are expected 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 a policyholder. In 1998, Personal Lines generated an underwriting profit margin of 8%, compared to 6% in 1997 and 8% in 1996.

The Company's other lines of business include writing insurance for small fleets of commercial vehicles, collateral protection and loan tracking for auto lenders and financial institutions, directors' and officers' liability and fidelity coverage for American Bankers Association member community banks and independent credit unions, and providing related claim, underwriting and system services. Revenues in these businesses were $405 million in 1998, compared to

$402 million in 1997 and $330 million in 1996. Pretax operating profit was $62 million in 1998, compared to $37 million in 1997 and $46 million in 1996. Most of these businesses are in markets that are declining in size.

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. Claim 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 established. 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 68% in 1998, compared to 71% in 1997 and 70% in 1996. In recent years, the industry has had favorable loss experience driven by continuing trends with respect to safer cars and roads, the impaired driving crackdown, better law enforcement and insurers operating more efficiently.

The Company writes directors and officers and other professional liability coverage for community banks and credit unions and, therefore, could potentially be exposed to liability for errors made by these institutions relating to the year 2000 conversion. To minimize its risk, from October 1997 through May 1998, the Company included year 2000 exclusions in all new and renewal policies for commercial banks which have multi-year terms that extend beyond December 31, 1999. This placed the Company at a competitive disadvantage since few of its competitors included similar exclusions. The Company has obtained additional reinsurance to limit its potential exposure to about 7% of the average policy limits in the event any of the insured directors or officers are held liable for year 2000 noncompliance by their financial institutions. In light of this additional reinsurance contract, which reduced the Company's net exposure by 68% and covers all of the Company's in-force directors and officers insurance business, in June 1998, the Company stopped including year 2000 exclusions in its multi-year policies. Additionally, the Company has begun to selectively remove previously issued year 2000 exclusions. As a regulated industry, financial institutions are under pressure from government regulatory agencies and other interested parties to ensure they achieve readiness for the year 2000. The Company is monitoring its customers' compliance efforts and believes that substantially all such customers are pursuing plans to achieve year 2000 compliance. It is currently unknown whether these financial institutions will be able to completely avoid errors relating to year 2000 compliance and the Company is unable to predict to what extent such financial institutions will incur losses as a result of noncompliance and whether their directors and officers will be subject to individual liability for such noncompliance. In the event of a claim, applicable factual and coverage issues would have to be resolved. Based on information currently available and management's best estimate, the Company does not believe that any losses resulting from this exposure will have a material impact on the Company's liquidity, financial condition, cash flows or results of operations.

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. Management does not believe that these claims will have a material impact on the Company's liquidity, financial condition, cash flows or results of operations.

Policy acquisition and other underwriting expenses as a percentage of premiums earned were 23% in 1998 and 1997 and 22% in 1996. During 1998, the Company expanded its television advertising campaign on a national level. The Company also introduced its local advertising campaign to 14 more states during 1998, bringing the total number of states in which the Company advertises to 32 plus Washington D.C. (83 markets).

Recurring investment income (interest and dividends) increased 7% to $294.8 million in 1998, compared to $274.9 million in 1997 and $225.8 million in 1996, primarily due to an increase in the size of the investment portfolio. Net realized gains on security sales were $11.4 million in 1998, $98.5 million in 1997 and $7.1 million in 1996. Investment expenses were $7.4 million in 1998, compared to $9.9 million in 1997 and $6.1 million in 1996; in 1997, the Company purchased a new portfolio management system and incurred expenses related to the sale of the commercial mortgage-backed securities.

YEAR 2000 COMPLIANCE The year 2000 problem exists because many computer programs only use the last two digits to refer to a year and could recognize "00" as 1900 instead of 2000. If not corrected, many computer and other microchip supported applications could fail or create erroneous results. The extent of the potential impact is still unknown but could affect the global economy. In response to this issue, the Company has evaluated its applications and operating software (including its claims reporting, financial reporting, policy issuance, policy maintenance and other internal production systems), hardware and software products, and third-party data exchanges and business relationships, and is in the process of evaluating its end user computing activities and facilities implications (including public utility services), and has established a dedicated, tenured project team responsible for overseeing progress on the Company's compliance program and periodically reporting to management.

The Company began converting its applications software to be year 2000 compliant in July 1995 and, as a result, has been able to avoid redeploying significant resources or deferring other important projects to specifically address the year 2000 issues. During the first quarter 1998, the Company retained independent consultants to determine its state of readiness. Although some additional areas of focus were identified, the consultants noted that the Company was adequately addressing its critical internal systems and issues. As of December 31, 1998, the Company has completed approximately 94% of its efforts to bring its applications software in compliance. Testing of critical applications is being accomplished through the use of a special systems environment known as a "Time Warp Lab," which mimics the Company's production environment. As a final test of year 2000 readiness, after conversion and year 2000 certification, critical applications are run in the Time Warp Lab while systems clocks turn over from 1999 to 2000 and beyond. The total cost to modify these existing production systems, which includes both internal and external costs of programming, coding and testing, is estimated to be $8.0 million, of which $7.1 million had been expensed through December 31, 1998. The Company also replaced some of its systems during 1998. In addition to being year 2000 compliant, these new systems added increased functionality to the Company. The total cost of these systems, which include both internal and external costs, is estimated to be $4.8 million, and the majority of the projects were completed in 1998, with remaining parallel testing scheduled during the first quarter 1999. As of December 31, 1998, $4.7 million had been paid for these systems. All costs are being funded through operating cash flows. In addition, the Company has identified approximately 330 third parties with which data is exchanged. All critical data exchanges are being tested for compliance. Although dependent on business partners' testing schedules, testing of critical data exchanges is expected to be completed by the end of the second quarter 1999.

The Company continually evaluates computer hardware and software upgrades for enhancements and, therefore, many of the costs to replace these items to be year 2000 compliant are not likely to be incremental costs to the Company. The Company's remediation of its mainframe hardware and operating software is 94%

complete and the remediation of its servers and client server operating software is 30% complete. The Company estimates that all mainframe and client server hardware and operating software will be year 2000 compliant by the first half of 1999. In addition, during 1998, the Company secured software which will assist in the discovery of noncompliant desktop hardware and software. It is estimated that the assessment and remediation process will be completed by the first half of 1999.

The Company is currently unable to determine the impact that year 2000 noncompliance may have on its financial condition, cash flows and results of operations. The Company believes that it is taking the necessary measures to address issues that may arise relating to the year 2000 and that its production systems will be compliant. The Company realizes, however, that noncompliance by third parties could impact its business. The possibility exists that a portion of the Company's distribution channel may not be compliant, that communication with agents could be disrupted, that underwriting data, such as motor vehicle reports, could be unobtainable, that the claim settling process could be delayed or that frequency and severity of losses may increase due to external factors. The Company is contacting its key independent insurance agents, vendors and suppliers (e.g. banks, credit bureaus, motor vehicle departments, rating agencies, etc.) to determine their status of compliance and to assess the impact of noncompliance to the Company. The Company is working closely with all critical business relationships to minimize its exposure to year 2000 issues, including on-site visits to identify their state of readiness.

The Company's process teams and business groups are identifying potential year 2000 scenarios. For those scenarios deemed to be both probable and with a potentially significant business impact, the Company is developing contingency plans. The majority of the contingency plans are drafted and were reviewed by the Company's chief financial and

technology officers during 1998. Contingency plans may include such items as hardening facilities with back-up generators, prioritizing resources, securing alternative vendors, developing alternative processes, pre-ordering policyholder information, and other measures. The contingency plans were substantially completed for all material relationships during the first quarter 1999 and the Company will continue to review them throughout 1999.

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. THESE RISKS AND UNCERTAINTIES INCLUDE, WITHOUT LIMITATION, PRICING COMPETITION AND OTHER INITIATIVES BY COMPETITORS, LEGISLATIVE AND REGULATORY DEVELOPMENTS, WEATHER CONDITIONS (INCLUDING THE SEVERITY AND FREQUENCY OF STORMS, HURRICANES, SNOWFALLS, HAIL AND WINTER CONDITIONS), DRIVING PATTERNS, COURT DECISIONS AND TRENDS IN LITIGATION, INTEREST RATE LEVELS AND OTHER CONDITIONS IN THE FINANCIAL AND SECURITIES MARKETS, UNFORESEEN TECHNOLOGICAL ISSUES ASSOCIATED WITH THE YEAR 2000 COMPLIANCE EFFORTS AND THE EXTENT TO WHICH VENDORS, PUBLIC UTILITIES, GOVERNMENTAL ENTITIES AND OTHER THIRD PARTIES THAT INTERFACE WITH THE COMPANY MAY FAIL TO ACHIEVE YEAR 2000 COMPLIANCE, 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The quantitative and qualitative disclosures about market risk are incorporated by reference from the "Investments" section of Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and pages 56 and 57 of the Company's 1998 Annual Report to Shareholders, which is included as Exhibit 13 to such Annual Report on Form 10-K.

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 1998 Annual Report, pages 34 through 47 and pages 52 through 59.

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 all of the directors and the individuals who have been nominated for election as directors at the 1999 Annual Meeting of Shareholders of the Registrant, is incorporated herein by reference from the section entitled "Election of Directors" in the Proxy Statement, pages 2 through 6.

A description of the executive officers of the Registrant and its subsidiaries follows. 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	65	President and Chairman of the Board; Chief Executive Officer - Insurance Operations since January 1999; Chief Executive Officer prior to January 1999; President, Chairman of the Board and Chief Executive Officer of Progressive Casualty Insurance Company, the principal subsidiary of the Registrant
Alan R. Bauer	46	Internet Distribution Leader since January 1999; International/Internet Officer from December 1996 to December 1998; Independent Agent Marketing Process Leader from March 1996 to December 1996; West Division President prior to March 1996
Charles B. Chokel	45	Chief Executive Officer - Investments and Capital Management since January 1999; Treasurer from December 1994 to December 1998; Chief Financial Officer prior to January 1999
W. Thomas Forrester	50	Chief Financial Officer and Treasurer since January 1999; Ownership Process Leader from March 1996 to December 1998; Central States Division President from January 1995 to March 1996; Diversified Division President in 1994
Moira A. Lardakis	47	Chief Communications Officer since January 1999; Community Manager Support Process Leader from January 1998 to December 1998; General Manager of Ohio Business Unit from March 1996 to December 1997; Ohio Division President prior to March 1996
Daniel R. Lewis	52	Independent Agent Distribution Leader since January 1999; Independent Agent Marketing Process Leader from December 1996 to December 1998; General Manager of South Florida Community from November 1994 to December 1996; Treasurer and Central Division President prior to December 1994
Robert J. McMillan	47	Direct Distribution Leader since January 1999; Consumer Marketing Process Leader from January 1998 to December 1998; Product Process Leader from March 1996 to December 1997; Florida Division President prior to March 1996
Brian J. Passell	42	Chief Claim Officer since January 1999; General Manager of Pennsylvania from March 1996 to December 1998; Division Claim Manager prior to March 1996
Glenn M. Renwick	43	Chief Information Officer since January 1998; Consumer Marketing Process Leader from March 1996 to December 1997; Director of Consumer Marketing prior to March 1996
David L. Roush	45	Strategic Alliance Distribution Leader

David M. Schneider	61	Chief Legal Officer and Secretary
Tiona M. Thompson	48	Chief Human Resources Officer
Robert T. Williams	42	Chief Pricing/Product Officer since January 1999; Product Process Leader from January 1998 to December 1998; General Manager of New York Business Unit from March 1996 to December 1997; New York Division President from December 1994 to March 1996; Manager of Special Lines prior to March 1997

Section 16(a) Beneficial Ownership Reporting Compliance. A Form 4 reporting the writing of 150 covered call option contracts by Robert J. McMillan during April 1998 was filed 26 days late. The September 29, 1997 purchase of 409 shares in the Executive Deferred Compensation Plan by Daniel R. Lewis was reported in a Form 4 filed in January 1999. The December 18, 1997 purchase of 839 shares in the Executive Deferred Compensation Plan by Moira A. Lardakis was reported in a

Form 4 filed in January 1999. The January 1, 1997 distribution of 8,376 shares from the Directors Deferral Plan to Donald B. Shackelford was reported in a Form 4 filed in January 1999.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the section of the Proxy Statement entitled "Executive Compensation," pages 10 through 21.

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 7 through 9.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from the section of the Proxy statement entitled "Election of Directors - Certain Relationships and Related Transactions," pages 5 and 6.

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 - For the Years Ended December 31, 1998, 1997 and 1996

Consolidated Balance Sheets - December 31, 1998 and 1997

Consolidated Statements of Changes in Shareholders' Equity - For the Years Ended December 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows - For the Years Ended December 31, 1998, 1997 and 1996

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 40 through 44. Management contracts and compensatory plans and arrangements are identified in the Exhibit Index as Exhibit Nos. (10)(C) through (10)(S).

(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 31 through 39.

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 26, 1999 BY: /s/ Peter B. Lewis

Peter B. Lewis
Chairman, President and Chief
Executive Officer - Insurance Operations

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 - Insurance Operations and a Director	March 26, 1999
/s/ Charles B. Chokel - ------------------------ Charles B. Chokel	Chief Executive Officer - Investments and Capital Management	March 26, 1999

/s/ W. Thomas Forrester - ------------------------ W. Thomas Forrester	Treasurer and Chief Financial Officer	March 26, 1999
/s/ Jeffrey W. Basch - ------------------------ Jeffrey W. Basch	Chief Accounting Officer	March 26, 1999
* - ------------------------ Milton N. Allen	Director	March 26, 1999
* - ------------------------ B. Charles Ames	Director	March 26, 1999
* - ------------------------ James E. Bennett III	Director	March 26, 1999
* - ------------------------ Charles A. Davis	Director	March 26, 1999

* - ------------------------ Stephen R. Hardis	Director	March 26, 1999
* - ------------------------ Janet M. Hill	Director	March 26, 1999
* - ------------------------ Norman S. Matthews	Director	March 26, 1999
* - ------------------------ Donald B. Shackelford	Director	March 26, 1999
* - ------------------------ Paul B. Sigler	Director	March 26, 1999

* DANE A. SHRALLOW, 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/ Dane A. Shrallow March 26, 1999

Dane A. Shrallow

Attorney-in-fact

ANNUAL REPORT ON FORM 10-K

ITEM 14(d)

FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 31, 1998

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 47 of the 1998 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 24 and 25 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.

PRICEWATERHOUSECOOPERS LLP

Cleveland, Ohio

January 25, 1999 (March 1, 1999 as to Note 14 of the 1998 Annual Report to Shareholders of The Progressive Corporation)

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-8 (File No. 333-51613) filed May 1, 1998, the Registration Statement on Form S-8 (File No. 333-25197) filed April 15, 1997, 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 25, 1999, (March 1, 1999 as to Note 14 of the 1998 Annual Report to Shareholders of The Progressive Corporation) on our audits of the consolidated financial statements and financial statement schedules of The Progressive Corporation and subsidiaries as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, which reports are included in this Annual Report on Form 10-K.

PRICEWATERHOUSECOOPERS LLP

Cleveland, Ohio
March 26, 1999

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

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

	December 31, 1998		
Type of Investment	Cost	Market Value	Amount At Which Shown In The Balance Sheet
Fixed Maturities:			
Available-for-sale:			
United States Government and government agencies and authorities	$ 665.4	$ 668.9	$ 668.9
States, municipalities and political subdivisions	1,649.0	1,693.6	1,693.6
Asset-backed securities	1,491.4	1,486.9	1,486.9
Foreign government obligations	52.9	53.3	53.3
Corporate and other debt securities	280.1	282.7	282.7
Redeemable preferred stock	32.8	33.6	33.6
Total fixed maturities	4,171.6	4,219.0	4,219.0
Equity securities:			
Common stocks	512.2	636.9	636.9
Preferred stocks	374.3	376.5	376.5
Total equity securities	886.5	1,013.4	1,013.4
Short-term investments	441.9	441.9	441.9

Total investments	$5,500.0	$5,674.3	$5,674.3

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, 1998.

SCHEDULE II -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF INCOME

THE PROGRESSIVE CORPORATION (PARENT COMPANY)

(millions)

	Years Ended December 31, 1998	1997	1996
Revenues			
Dividends from subsidiaries*	$151.0	$108.1	$125.0
Intercompany investment income*	25.9	35.3	36.5
	176.9	143.4	161.5
Expenses			
Interest expense	64.5	64.5	61.4
Other operating costs and expenses	5.2	6.2	4.1
	69.7	70.7	65.5
Operating income and income before income taxes and other items below	107.2	72.7	96.0
Income tax benefit	(16.2)	(12.7)	(10.2)
Income before equity in undistributed earnings of subsidiaries	123.4	85.4	106.2
Equity in undistributed net income of consolidated subsidiaries*	333.3	314.6	207.5
Net income	$456.7	$400.0	313.7

*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, 1998	1997
ASSETS		

Investment in non-consolidated affiliates	$ .4	$ .4
Investment in subsidiaries*	2,882.9	2,437.8
Receivable from subsidiary*	441.1	489.4
Intercompany receivable*	9.9	--
Income taxes	19.7	28.9
Other assets	12.6	6.7
TOTAL ASSETS	$3,366.6	$2,963.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ 32.9	$ 23.5
Intercompany payable*	--	27.9
Debt	776.6	775.9
Total liabilities	809.5	827.3
Shareholders' equity:		
Common Shares, $1.00 par value, authorized 300.0 shares, issued 83.1, including treasury shares of 10.6 and 10.8	72.5	72.3
Paid-in capital	448.3	412.8
Accumulated other comprehensive income:		
Net unrealized appreciation of investment in equity securities of consolidated subsidiaries	113.3	122.3
Other	(9.6)	(6.3)
Retained earnings	1,932.6	1,534.8
Total shareholders' equity	2,557.1	2,135.9
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,366.6	$2,963.2

*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, 1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 456.7	$ 400.0	$ 313.7
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in income of consolidated subsidiaries	(484.3)	(422.7)	(332.5)
Changes in:			
Intercompany receivable or payable	(37.8)	34.5	19.0
Accounts payable and accrued expenses	9.3	1.4	1.8
Income taxes	9.2	(15.9)	13.1
Other, net	(4.7)	(3.5)	(.9)
Net cash provided by (used in) operating activities	(51.6)	(6.2)	14.2
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additional investments in equity securities of consolidated subsidiaries	(124.1)	(219.3)	(42.2)
Return of capital from consolidated subsidiary	--	--	.5
Purchase of consolidated subsidiaries	--	(100.5)	(26.6)
Dividends received from consolidated subsidiaries	151.0	108.1	125.0
Net cash provided by (used in) investing activities	26.9	(211.7)	56.7
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	11.5	14.1	6.9
Tax benefits from exercise of stock options	25.6	17.6	5.9
Redemption of Preferred Shares	--	--	(80.8)
Proceeds from Debt	--	--	99.6

Receivable from subsidiary	48.3	206.4	(35.0)
Dividends paid to shareholders	(18.1)	(17.3)	(19.6)
Acquisition of treasury shares	(42.6)	(2.9)	(47.9)
Net cash provided by (used in) financing activities	24.7	217.9	(70.9)
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 1998 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 $235.9 million in 1998, and $166.9 million, and $120.4 million in 1997 and 1996, respectively. Total interest paid was $63.8 million for 1998 and 1997 and $60.2 million for 1996.

DEBT -- Debt at December 31 consisted of:

(millions)	1998 Cost	1998 Market Value	1997 Cost	1997 Market Value
7.30% Notes due 2006 (issued: $100.0, May 1996)	$ 99.7	$109.5	$ 99.7	$105.3
6.60% Notes due 2004 (issued: $200.0, January 1994)	199.1	199.4	198.9	200.7
7% Notes due 2013 (issued: $150.0, October 1993)	148.4	157.2	148.4	154.4
8 3/4% Notes due 1999 (issued: $30.0, May 1989)	29.9	30.4	29.7	30.9
10% Notes due 2000 (issued: $150.0, December 1988)	149.8	162.7	149.6	164.6
10 1/8% Subordinated Notes due 2000 (issued:$150.0, December 1988)	149.7	162.4	149.6	164.6
	$776.6	$821.6	$775.9	$820.5

Debt includes amounts the Registrant has borrowed and contributed to the capital of its insurance subsidiaries or borrowed for other long-term purposes.

All debt is noncallable with interest payable semiannually.

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 has the right to borrow up to $10.0 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, 1998 and 1997, the Registrant had no borrowings under this arrangement.

Aggregate principal payments on debt outstanding at December 31, 1998 are $30.0 for 1999, $300.0 million for 2000, $0 million for 2001, 2002 and 2003, and $450.0 million thereafter.

On March 1, 1999, the Company issued $300 million of 6 5/8% Senior Notes due March 1, 2029, under a shelf registration statement filed with the Securities and Exchange Commission in 1998. The Company may redeem all or part of the Notes at any time, subject to a "make whole" provision. There are no sinking fund requirements. The Notes were priced at 98.768% to yield 6.721% to maturity. Interest is payable semiannually on March 1 and September 1, beginning September 1, 1999. Net proceeds to the Company of $293.7 million are intended to be used, together with other available funds, to retire certain of the Company's current outstanding debt upon its maturity.

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

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)	1998	1997	1996
Unrealized gains (losses):			
Available-for-sale: fixed maturities	$(7.2)	$ 29.5	$ (18.3)
equity securities	(6.9)	44.8	53.7
Deferred income taxes	5.1	(26.0)	(12.5)
	$(9.0)	$ 48.3	$ 22.9

OTHER MATTERS -- The information relating to incentive compensation plans is incorporated by reference from Note 9, Employee Benefit Plans, "Incentive Compensation Plans" on pages 44 and 45 of the Registrant's 1998 Annual Report.

SCHEDULE III -- SUPPLEMENTARY INSURANCE INFORMATION

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Segment	Deferred policy acquisition costs(1)	Future policy benefits, losses, claims and loss expenses(1)	Unearned premiums(1)	Other policy claims and benefits payable(1)	Premium revenue	Investment income(1)(2)	Benefits, claims, losses and settlement expenses	Amortization of deferred policy acquisition costs(3)	Other operating expenses	Net premiums written
Year ended										

December 31, 1998:										
Personal Lines					$4,580.7		$3,164.4	$610.9	$444.1	$4,922.3
Other					367.3		211.9	49.0	51.7	377.4
Total	$299.1	$2,188.6	$2,329.7	$ --	$4,948.0	$294.8	$3,376.3	$659.9	$495.8	$5,299.7
Year ended December 31, 1997:										
Personal Lines					$3,832.7		$2,743.3	$556.0	$290.4	$4,288.8
Other					356.8		224.2	51.8	45.6	376.3
Total	$259.6	$2,146.6	$1,980.1	$ --	$4,189.5	$274.9	$2,967.5	$607.8	$336.0	$4,665.1
Year ended December 31, 1996:										
Personal Lines					$2,916.0		$2,069.2	$439.9	$176.1	$3,149.3
Other					283.3		166.9	42.7	32.4	292.4
Total	$200.1	$1,800.6	$1,467.3	$ --	$3,199.3	$225.8	$2,236.1	$482.6	$208.5	$3,441.7

(1) The Company does not allocate assets or investment income to operating segments.

(2) Excluding investment expenses of $7.4 million in 1998, $9.9 million in 1997 and $6.1 million in 1996.

(3) Since the Company does not allocate deferred policy acquisition costs to operating segments, amounts were allocated based on premium revenue.

SCHEDULE IV -- REINSURANCE

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
- --
(millions)

Year Ended	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
December 31, 1998					
Life Insurance in force	$ --	$ --	$ --	$ --	--
Premiums earned: Property and liability	$5,100.5	$152.5	$ --	$4,948.0	--
December 31, 1997					
Life Insurance in force	$ --	$ --	$ --	$ --	--
Premiums earned: Property and liability	$4,382.9	$193.4	$ --	$4,189.5	--
December 31, 1996					
Life Insurance in force	$ .1	$ .1	$ --	$ --	--
Premiums earned: Property and liability	$3,380.7	$185.2	$3.8	$3,199.3	.1%

SCHEDULE VI-SUPPLEMENTAL INFORMATION CONCERNING PROPERTY - CASUALTY INSURANCE OPERATIONS

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

	Losses and Loss Adjustment Expenses Incurred Related to		Paid Losses and Loss Adjustment Expenses
Year Ended	Current Year	Prior Years	
December 31, 1998	$3,560.5	$(184.2)	$3,298.0
December 31, 1997	$3,070.8	$(103.3)	$2,715.1
December 31, 1996	$2,341.9	$(105.8)	$2,017.6

Pursuant to Rule 12-18 of Regulation S-X. See Schedule III, page 35, for the additional information required in Schedule VI.

EXHIBIT INDEX

Exhibit No. 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, as amended, of The Progressive Corporation	Registration Statement No. 333-51613 (Filed with SEC on May 1, 1998; see Exhibit 4(C) therein)
(3)(ii)	3(B)	Code of Regulations of Progressive	Quarterly Report on Form 10-Q (filed with SEC on May 15, 1997; see Exhibit 3 therein)
(4)	4(A)	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(B)	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(C)	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)
(4)	4(D)	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(E)	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)

EXHIBIT INDEX

Exhibit No. 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(F)	$10,000,000 Unsecured Line of Credit with National City Bank (dated May 23, 1990; renewed May 20, 1992; amended February 1, 1994 and May 1, 1997)	Annual Report on Form 10-K (Filed with SEC on March 27, 1998; see Exhibit 4(F) therein)
(4)	4(G)	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)	Registration Statement No. 333-48935 (Filed with SEC on March 31, 1998; see Exhibit 4.1 therein)
(4)	4(H)	Form of 7% Notes due 2013 issued in the aggregate principal amount of $150,000,000 under the 1993 Senior Indenture	Contained in Exhibit Binder
(4)	4(I)	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(J)	First Supplemental Indenture dated March 15, 1996 between Progressive 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	Registration Statement No. 333-0175 (Filed with SEC on March 15, 1996; see Exhibit 4.2 therein)
(4)	4(K)	Form of 7.30% Notes due 2006, issued in the aggregate principal amount of $100,000,000 under the 1993 Senior Indenture, as amended and supplemented	Quarterly Report on Form 10-Q (Filed with SEC on July 31, 1996; see Exhibit 4 therein)
(4)	4(L)	Second Supplemental Indenture dated February 26, 1999 between Progressive and State Street Bank and Trust Company, as Trustee, supplementing and amending the 1993 Senior Indenture	Current Report on Form 8-K (Filed with SEC on February 26, 1999; see Exhibit 4.4 therein)

EXHIBIT INDEX

Exhibit No. 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(M)	Form of 6 5/8% Senior Notes due 2029, issued in the aggregate principal amount of $300,000,000 under the 1993 Senior Indenture, as amended and supplemented	Current Report on Form 8-K (Filed with SEC on February 26, 1999; see Exhibit 4.5 therein)
(10)(i)	10(A)	Construction Agreements dated November 3, 1997 between Progressive Casualty Insurance Company and HCB Contractors	Annual Report on Form 10-K (Filed with SEC on March 27, 1998; see Exhibit 10(A) therein)
(10)(i)	10(B)	Construction Agreement dated April 6, 1998 between Progressive Casualty Insurance Company and the Whiting-Turner Construction Company for the Corporate Office Complex in Mayfield Village, Ohio	Quarterly Report on Form 10-Q (Filed with SEC on August 14, 1998; see Exhibit 10 therein)
(10)(iii)	10(C)	The Progressive Corporation 1997 Gainsharing Plan	Annual Report on Form 10-K (Filed with SEC on March 31, 1997; see Exhibit 10(B) therein)
(10)(iii)	10(D)	The Progressive Corporation 1999 Gainsharing Plan	Contained in Exhibit Binder
(10)(iii)	10(E)	The Progressive Corporation 1997 Executive Bonus Plan	Annual Report on Form 10-K (Filed with SEC on March 31, 1997; see Exhibit 10(D) therein)
(10)(iii)	10(F)	The Progressive Corporation 1999 Executive Bonus Plan	Contained in Exhibit Binder
(10)(iii)	10(G)	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(H)	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)	Contained in Exhibit Binder

EXHIBIT INDEX

Exhibit No. 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(I)	The Progressive Corporation 1998 Directors' Stock Option Plan	Annual Report on Form 10-K/A-No. 1 (Filed with SEC on March 30, 1998; see Exhibit 10(H) therein)
(10)(iii)	10(J)	The Progressive Corporation 1990 Directors' Stock Option Plan (Amended and Restated as of April 24, 1992 and as further amended on July 1, 1992)	Annual Report on Form 10-K (Filed with SEC on March 27, 1998; see Exhibit 10(I) therein)
(10)(iii)	10(K)	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(L)	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(M)	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(N)	The Progressive Corporation Executive Deferred Compensation Plan (Amended and Restated as of January 1, 1997), as further amended December 1, 1997	Annual Report on Form 10-K (Filed with SEC on March 27, 1998; see Exhibit 10(M) therein)
(10)(iii)	10(O)	Third Amendment to The Progressive Corporation Executive Deferred Compensation Plan dated December 1, 1998	Contained in Exhibit Binder
(10)(iii)	10(P)	The Progressive Corporation Executive Deferred Compensation Trust (December 1, 1998 Amendment and Restatement)	Contained in Exhibit Binder

EXHIBIT INDEX

Exhibit No. 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(Q)	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(R)	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)
(10)(iii)	10(S)	The Progressive Corporation 1999 Information Services Incentive Plan	Contained in Exhibit Binder
(11)	11	Computation of Earnings Per Share	Contained in Exhibit Binder
(12)	12	Computation of Ratio of Earnings to Fixed Charges	Contained in Exhibit Binder
(13)	13	The Progressive Corporation 1998 Annual Report	Contained in Exhibit Binder
(21)	21	Subsidiaries of The Progressive Corporation	Contained in Exhibit Binder
(23)	23	Consent of Independent Accountants	Incorporated herein by reference to page 30 of this Annual Report on Form 10-K
(24)	24	Powers of Attorney	Contained in Exhibit Binder
(27)	27	Financial Data Schedule	These exhibits are contained in the EDGAR filing of the Annual Report on Form 10-K for the year ended December 31, 1998 only

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

EXHIBIT NO. 4(H)

(Face of Security)

REGISTERED
REGISTERED

NO.

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CUSIP 743315 AF 0

THE PROGRESSIVE CORPORATION

7% NOTE DUE 2013

THE PROGRESSIVE CORPORATION, an Ohio corporation (the "Issuer"), for value received, hereby promises to pay to

or registered assigns, at the office or agency of the Issuer at the office of the Trustee in Canton, Massachusetts, the principal sum of

dollars on October 1, 2013, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest semiannually on April 1 and October 1 of each year, commencing on April 1, 1994, on said principal sum at said office or agency, in like coin or currency, at the rate per annum specified in the title of this Note, from the April 1 or the October 1, as the case may be, next preceding the date of this Note to which interest has been paid, unless the date hereof is a date to which interest has been paid, in which case from the date of this Note, or unless no interest has been paid on the Notes, in which case from October 6, 1993, until payment of said principal sum has been made or duly provided for; provided, that payment of interest may be made at the option of the Issuer by check mailed to the address of the person entitled thereto as such address shall appear on the Security Register. Nothwithstanding the foregoing, if the date hereof is after the fifteenth day of March or September, as the case may be, and before the following April 1 or October 1, this Note shall bear interest from such April 1 or October 1; provided, that if the Issuer default in the payment of interest due on such April 1 or October 1, then this Note shall bear interest from the next preceding April 1 or October 1 to which interest has been paid or, if no interest has been paid on this Note, from October 6, 1993. The interest so payable on any April 1 or October 1 will, subject to certain exceptions provided in the Indenture referred to on the reverse hereof, be paid to the person in whose name this Note is registered at the close of business on the March 15 or September 15, as the case may be, next preceding such April 1 or October 1.

Reference is made to the further provisions of this Note set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed by the Trustee under the Indenture referred to on the reverse hereof.

IN WITNESS WHEREOF, The Progressive Corporation has caused this instrument to be signed by facsimile by its duly authorized officers and has caused a facsimile of its corporate seal to be affixed hereto or imprinted hereon.

THE PROGRESSIVE CORPORATION

[CORPORATE SEAL] By:

President and Chief Executive Officer

Attest:

Secretary

Date: ----------------

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities, of the series designated herein, referred to in the within-mentioned Indenture.

THE FIRST NATIONAL BANK OF BOSTON,
as TRUSTEE

By:

Authorized Signatory

(Back of Security)

THE PROGRESSIVE CORPORATION

7% NOTE DUE 2013

This Note is one of a duly authorized issue of debenture, notes, bonds or other evidences of indebtedness of the Issuer (hereinafter called the "Securities") of the series hereinafter specified, all issued or to be issued under and pursuant to an indenture dated as of September 15, 1993 (herein called the "Indenture"), duly executed and delivered by the Issuer to The First National Bank of Boston, as Trustee (herein called the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the holders of the Securities. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rate, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any) and may otherwise vary as in the Indenture provided. This Note is one of a series designated as the 7% Notes Due 2013 of the Issuer, limited in aggregate principal amount to $150,000,000.

In case an Event of Default, as defined in the Indenture, with respect to the 7% Notes Due 2013 shall have occurred and be continuing, the principal hereof any be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Issuer and the Trustee, with the consent of the Holders of not less than 66-2/3% in aggregate principal amount of the Securities at the time Outstanding (as defined in the Indenture) of all series to be affected (voting as one class), evidenced as in the Indenture provided, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or modifying in any manner the rights of the Holders of the Securities of each such series: provided, however, that no such supplemental indenture shall (i) extend the final maturity of any Security, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of any interest thereon, or impair or affect the rights of any Holder to institute suit for the payment thereof, without the consent of the Holder of each Security so affected or (ii) reduce the aforesaid percentage of Securities, the Holders of which are required to consent to any such supplemental indenture, without the consent of the Holder of each Security so affected. It is also provided in the Indenture

that, with respect to certain defaults or Events of Default regarding the Securities of any series, prior to any declaration accelerating the maturity of such Securities, the Holders of a majority in aggregate principal amount Outstanding of the Securities of such series may on behalf of the Holders of all the Securities of such series waive any such past default or Event of Default and its consequences. The preceding sentence shall not, however, apply to a default in the payment of the principal of or premium, if any, or interest on any of the Securities. Any such consent or wavier by the Holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Note and any Note which may be issued in exchange or substitution herefor, irrespective of whether or not any notation thereof is made upon this Note or such other Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on this Note in the manner, at the respective times, at the rate and in the coin or currency herein prescribed.

The Notes are issuable in registered form without coupons in denominations of $1,000 and any integral multiple of $1,000 at the office or agency of the Issuer at the office of the Trustee in Canton, Massachusetts, and in the manner and subject to the limitations provided in the Indenture, but without the payment of any service charge. Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations.

The Notes are not subject to redemption at the option of the Issuer or through the operation of a sinking fund.

Upon due presentment for registration of transfer of this Note at the office or agency of the Issuer at the office of the Trustee in Canton, Massachusetts, a new Note or Notes of authorized denominations for an equal aggregate principal amount will be issued to the transferee in exchange therefor, subject to the limitations provided in the Indenture, without charge except for any tax or other governmental charge imposed in connection therewith.

The Issuer, the Trustee and any authorized agent of the Issuer or the Trustee may deem and treat the registered Holder hereof as the absolute owner of this Note (whether or not this Note shall be overdue and notwithstanding any notation or ownership or other writing hereon), for the purpose of receiving payment of, or on account of, the principal hereof and, subject to the provisions on the face hereof, interest hereon, and for all other purposes, and neither the Issuer nor the Trustee nor any authorized agent of the Issuer or the Trustee shall be affected by notice to the contrary.

No recourse under or upon any obligation, covenant or agreement of the Issuer in the Indenture or any indenture supplemental thereto or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, shareholder, officer or director, as such, of the Issuer or of any successor corporation, either directly or through the Issuer or any successor corporation, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance hereof and as part of the consideration for the issue hereof.

Terms used herein which are defined in the Indenture shall have the respective meanings assigned thereto in the Indenture.

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this instrument, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	-	as tenants in common
TEN ENT	-	as tenants by the entireties
CUST	-	Custodian
JT TEN	-	as joint tenants with right of survivorship and not as tenants
UNIF GIFT MIN ACT	-	Uniform Gifts to Minors Act in common
		----------------------------------- (State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED the undersigned hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

- --

- --

Please print or typewrite name and address including postal zip code of assignee

- --

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

- --

attorney to transfer said Note on the books of the Issuer, with full power of substitution in the premises.

Date: -------------------

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within instrument in every particular, without alteration or enlargement or any change whatever.

EXHIBIT NO. 10(D)

THE PROGRESSIVE CORPORATION
1999 GAINSHARING PLAN

1. The Progressive Corporation and its subsidiaries ("Progressive" or the "Company") have adopted The Progressive Corporation 1999 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 (as defined below) and assigned Business Segment performance meets expectations. A Business Segment may consist of a distribution channel, business unit, product, function, process or other business category, such as new or renewal business. Participants will have the opportunity to earn cash compensation in excess of the top of the market when Core Business and assigned Business Segment 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 (or such other date as may be determined by the Chief Human Resources Officer) of that Plan year. The gainsharing opportunity, if any, for those executive officers who participate in The Progressive Corporation 1999 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.

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 Leaders/Managers	40% - 135%
Top Functional/Line Managers	35%
Senior Functional/Line Managers	25%
Middle Functional/Line Managers	15%

Senior Professionals and Managers	12%
Professionals and Supervisors	8%

Target Percentages will be established within the above ranges by, and may be changed with the approval of (a) the CEO - Insurance Operations or CEO-Investments and Capital Management, (b) Chief Human Resources Officer and (c) if applicable, the appropriate process leader (collectively, the "Designated Executives"). Target Percentages also may be changed from year to year by the Designated Executives.

6. The Performance Factor

A. General

The Performance Factor shall consist of one or more Profitability and Growth Components and a Cost Structure Improvement Component, as described below (the "Performance Components"). The Performance 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 Committee.

B. Profitability and Growth Components

The Profitability and Growth Components measure overall operating performance of Progressive's Personal Lines segment (excluding Midland Financial Group, Inc.) and the commercial vehicle insurance business unit (collectively, the "Core Business"), as a whole, or the participant's assigned Business Segment, 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 a 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. A separate Gainsharing Matrix may be established for the Core Business and each Business Segment, as determined by or under the direction of the Committee.

The Gainsharing Combined Ratio is determined for the Core Business, and for each Business Segment (as applicable), as follows:

1. Each year, target combined ratios are established by or under the direction of the Committee for all products within the Core Business, as a whole, and for each Business Segment, determined to yield an average target policy life combined ratio of 96.

2. A weighted target combined ratio is calculated for the Core Business or applicable Business Segment based on the various target combined ratios for the constituent product categories, which are weighted on the basis of the Net Earned Premium generated by each such product category 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. Cost Structure Improvement Component

The Cost Structure Improvement Component measures success in achieving cost structure improvement for the Core Business, as a whole, and for the assigned Business Segment, if applicable. Results are reflected in a Cost Structure Improvement Score. For purposes of computing the Cost Structure Improvement Score, cost structure improvement is measured by comparing the sum of the GAAP Underwriting Expense Ratio ("Underwriting Expense Ratio") and Loss Adjustment Expense Ratio ("LAE Ratio") achieved for the Plan year (collectively, "Actual Expense Ratio") against defined expense objectives for that year, as established by or under the direction of the Committee ("Target Expense Ratio"). The Target Expense Ratio, including its individual components, may vary by Business Segment and/or for the Core Business as a whole, and may be changed from year to year by or under the direction of the Committee.

The Cost Structure Improvement Score will be computed in accordance with the following formula:

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Cost Structure
Improvement = 1+ [Target Expense Ratio-Actual Expense Ratio]
Score           -------------------------------------------
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D. Component Weighting

Performance Components for the Core Business and assigned Business Segment are weighted as provided above. For participants in the Core Business, the typical weighting will be as follows:

Performance Component	Weighting
Core Business Profitability and Growth Results	60%
Core Business Cost Structure Improvement Results	15%
Business Segment Profitability and Growth Results	25%
Total	100%

There will typically be no Business Segment Profitability and Growth Component for participants assigned to a corporate support function (such as Finance, Human Resources and Law) and others who are not assigned primarily to a Business Segment. Individualized programs may be developed if and to the extent deemed appropriate by the Designated Executives.

The Performance Score for each Performance 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.

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 that Plan year equal to 75% of an amount calculated on the basis of Paid Earnings for the first 11 months of the Plan year, one month 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 and performance data for the entire 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 Designated Executives. In the event of a conflict, the determination of the Committee will govern.

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. Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 1997 Gainsharing Plan, as heretofore in effect (the"Prior Plan"), which is and shall be deemed to be terminated as of December 31, 1998 (the "Termination Date"); provided, that any bonuses or other sums earned under the Prior Plan with respect to any Plan year ended on or 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, 1999. This Plan shall be effective for 1999 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(F)

THE PROGRESSIVE CORPORATION
1999 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 interest of shareholders. The annual bonus component of this program is performance-based and focuses on current results.

2. The 1999 Executive Bonus Plan (the "Plan") provides the annual bonus component of Progressive's executive compensation program for Plan participants. 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. Subject to the following sentence, the amount of the annual bonus earned by any participant under the Plan for any Plan year ("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 $3,000,000.

4. 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.

5. The Target Percentages for the participants in the Plan shall be determined by the Committee, but will not exceed 150% for any participant. Target Percentages may vary among Plan participants and may be changed from year to year by the Committee.

6. The Performance Factor

   A. General

   The Performance Factor shall consist of one or more of the following components: a Core Business Profitability and Growth Component, a Business Segment Performance Component, a Cost Structure Improvement Component and an Investment Performance Component (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, as determined by the Committee.

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

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 will equal 1.0 if specified performance goals are met, and can vary from 0 to 2.0, based on actual performance versus the pre-established objectives.

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.

B. Core Business Profitability and Growth Component

The Core Business Profitability and Growth Component measures overall operating performance of Progressive's Personal Lines segment (excluding Midland Financial Group, Inc.) and the commercial vehicle business unit (collectively, the "Core Business") for the Plan year for which an Annual Bonus payment is to be made. For purposes of computing a Performance Score for this Component, operating performance results are measured by a 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 as follows:

1. Each year, a target combined ratio is established by or under the direction of the Committee for all products within the Core Business, 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 for the constituent product categories, which are weighted on the basis of the Net Earned Premium generated by each such product category 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 Core Business Profitability and Growth Performance Score.

C. Business Segment Performance Component

The Business Segment Performance Component measures the performance of a designated Business Segment (as defined below) in terms of any one or more of the following criteria selected by the Committee: profitability (measured by the combined ratio, weighted combined ratio, return on equity or return on revenue), growth (measured by net written premium, earned premium or revenues) or operating effectiveness (measured by systems availability or timeliness of response). A Business Segment may consist of a distribution channel, business unit, product, function, process or other business category, such as new or renewal business. The Committee may designate one or more Business Segment Performance Components for an individual Plan participant for any Plan year and, for each such Component, will determine the applicable criteria upon which performance will be measured, the goals to be achieved and the performance scores that will result from various levels of performance. The applicable criteria, related goals and resulting performance scores may be set forth in a Business Segment Performance Matrix or other format approved by the Committee. Business Segment Performance Components, performance criteria, goals and resulting performance scores may vary among participants and may be changed from year to year by the Committee.

D. Cost Structure Improvement Component

The Cost Structure Improvement Component measures success in achieving cost structure improvement for the Core Business, as a whole, or for an assigned Business Segment, if applicable. Results are reflected in a Cost Structure Improvement Score. For purposes of computing the Cost Structure Improvement Score, cost structure improvement is measured by comparing the sum of the GAAP Underwriting Expense Ratio ("Underwriting Expense Ratio") and Loss Adjustment Expense Ratio ("LAE Ratio") achieved for the Plan year (collectively, "Actual Expense Ratio") against defined expense objectives for that year, as established by or under the direction of the Committee ("Target Expense Ratio"). The Target Expense Ratio, including its individual components, may vary by Business Segment and/or for the Core Business as a whole, and may be changed from year to year by or under the direction of the Committee.

The Cost Structure Improvement Score will be computed in accordance with the following formula:

$$\text{Cost Structure Improvement Score} = 1 + \frac{[\text{Target Expense Ratio} - \text{Actual Expense Ratio}]}{3}$$

E. 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 applicable Portfolio Segments will be identified, and the related Investment Benchmarks and funds which comprise the Investment Benchmarks will be determined, by the Committee and may be changed from year to year by the Committee.

At the conclusion of a Plan year, the investment funds which comprise an Investment Benchmark are ranked according to their respective levels of performance 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
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 15 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 1997 Executive Bonus Plan, as heretofore in effect (the "Prior Plan"), which is and shall be deemed to be terminated as of December 31, 1998 (the "Termination Date"); provided, that any bonuses or other sums earned under the Prior Plan with respect to any period ended on or prior to the Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided the reunder.

18. This Plan is adopted and, subject to the provisions of Paragraph 12 hereof, is to be effective, as of January 1, 1999. Subject to the provisions of Paragraph 12, this Plan shall be effective for 1999 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(H)

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)

SECTION 1. Purpose; Definitions.

The purpose of The Progressive Corporation 1989 Incentive Plan (the "Plan") is to enable The Progressive Corporation (the "Company") to attract, retain and reward key employees of the Company and its Subsidiaries and Affiliates and strengthen the mutuality of interests between such key employees and the Company's shareholders by offering such key employees equity or equity-based incentives.

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) "Affiliate" means Progressive Partners Limited Partnership and any other entity (other than the Company and its Subsidiaries) that is designated by the Board as a participating employer under the Plan.

(b) "Award" means any award of Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Purchase Rights and Other Stock-Based Awards under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Book Value" means, as of any given date, on a per share basis (1) the shareholders' equity in the Company as of the end of the immediately preceding fiscal year as reflected in the Company's audited consolidated balance sheet as of such year-end date, subject to such adjustments as the Committee shall specify at or after grant, divided by (2) the number of outstanding shares of Stock as of such year-end date, subject to such adjustments as the Committee shall specify for events subsequent to such year-end date.

(e) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(f) "Committee" means the Committee referred to in Section 2 of the Plan.

(g) "Company" means The Progressive Corporation, an Ohio corporation, or any successor corporation.

(h) "Deferred Stock" means an award of the right to receive Stock at the end of a specified deferral period granted pursuant to Section 8.

(i) "Disability" means disability as determined under procedures established by the Committee for purposes of the Plan.

(j) "Disinterested Person" shall have the meaning set forth in Rule 16b-3(c)(2)(i) as promulgated by the Securities and Exchange Commission under the Exchange Act, or any successor definition adopted by the Commission.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Fair Market Value" means, as of any given date, the mean between the highest and lowest quoted selling price, regular way, of the Stock on such date on the New York Stock Exchange or, if no such sale of the Stock occurs on the New York Stock Exchange on such date, then such mean price on the next preceding day on which the Stock was traded. If the Stock is no longer traded on the New York Stock Exchange, then the Fair Market Value of the Stock shall be determined by the Committee in good faith.

(m) "Incentive Stock Option" means any Stock Option intended to be and designated as an "Incentive Stock Option", within the meaning of Section 422 of the Code or any successor section thereto.

(n) "Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

(o) "Other Stock-Based Award" means an award granted pursuant to Section 10 that is valued, in whole or in part, by reference to, or is otherwise based on, Stock.

(p) "Plan" means The Progressive Corporation 1989 Incentive Plan, as amended from time to time.

(q) "Restricted Stock" means an award of shares that is granted pursuant to Section 7 and is subject to restrictions.

(r) "Section 16 participant" means a participant under the Plan who is then subject to Section 16 of the Exchange Act.

(s) "Stock" means the Common Shares, $1.00 par value per share, of the Company.

(t) "Stock Appreciation Right" means an award of rights that is granted pursuant to Section 6.

(u) "Stock Option" or "Option" means any option to purchase shares of Stock (including Restricted Stock and Deferred Stock, if the Committee so determines) that is granted pursuant to Section 5.

(v) "Stock Purchase Right" means an award of the right to purchase Stock that is granted pursuant to Section 9.

(w) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

In addition, the terms "Change in Control," "Potential Change in Control" and "Change in Control Price" shall have the meanings set forth, respectively, in Sections 11(b), (c) and (d) and the term "Cause" shall have the meaning set forth in Section 5(b)(8) below.

SECTION 2. Administration.

The Plan shall be administered by a Committee of not less than three directors of the Company all of whom shall be directors who are Disinterested Persons. Such directors shall be appointed by the Board and shall serve as the Committee at the pleasure of the Board. The functions of the Committee specified in the Plan shall be exercised by the Board if and to the extent that no Committee exists which has the authority to so administer the Plan.

The Committee shall have full power to interpret and administer the Plan and full authority to select the individuals to whom Awards will be granted and to determine the type and amount of Award(s) to be granted to each participant, the consideration, if any, to be paid for such Award(s), the timing of such Award(s), the terms and conditions of Awards granted under the Plan and the terms and conditions of the related agreements which will be entered into with participants. As to the selection of and grant of Awards to participants who are not Section 16 participants, the Committee may delegate its responsibilities to members of the Company's management consistent with applicable law.

The Committee shall have the authority to adopt, alter and repeal such rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable; to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreements relating thereto); to direct employees of the Company or other advisors to prepare such materials or perform such analyses as the Committee deems necessary or appropriate; and otherwise to supervise the administration of the Plan.

Any interpretation and administration of the Plan by the Committee, and all actions and determinations of the Committee, shall be final, binding and conclusive on the Company, its shareholders,

Subsidiaries, Affiliates, all participants in the Plan, their respective legal representatives, successors and assigns, and upon all persons claiming under or through any of them. No member of the Board or of the Committee shall incur any liability for any action taken or omitted, or any determination made, in good faith in connection with the Plan.

SECTION 3. Stock Subject to the Plan.

(a) Aggregate Stock Subject to the Plan. Subject to adjustment as provided below in Section 3(c), the total number of shares of Stock reserved and available for Awards under the Plan is 6,500,000. Any Stock issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) Forfeiture or Termination of Awards of Stock. If any Stock subject to any Award granted hereunder is forfeited or an Award otherwise terminates or expires without the issuance of Stock, the Stock subject to such Award shall again be available for distribution in connection with future Awards under the Plan as set forth in Section 3(a), unless the participant who had been awarded such forfeited Stock or the expired or terminated Award has theretofore received dividends or other benefits of ownership with respect to such Stock. For purposes hereof, a participant shall not be deemed to have received a benefit of ownership with respect to such Stock by the exercise of voting rights or the accumulation of dividends which are not realized due to the forfeiture of such Stock or the expiration or termination of the related Award without issuance of such Stock.

(c) Adjustment. In the event of any 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, in the number and option price of shares subject to outstanding Options granted under the Plan, in the number and purchase price of shares subject to outstanding Stock Purchase Rights granted under the Plan, and in the number of shares subject to Restricted Stock Awards, Deferred Stock Awards and any other outstanding Awards granted under the Plan as may be approved by the Committee, in its sole discretion; provided that the number of shares subject to any Award shall always be a whole number. Any fractional shares shall be eliminated.

SECTION 4. Eligibility.

Officers and other key employees of the Company and its Subsidiaries and Affiliates (but excluding members of the Committee and any person who serves only as a director) who are responsible for or contribute to the management, growth or profitability of the business of the Company or its Subsidiaries or Affiliates are eligible to be granted Awards under the Plan.

SECTION 5. Stock Options.

(a) Grant. Stock Options may be granted alone, in addition to or in tandem with other Awards granted under the Plan or cash awards made outside of the Plan. However, no Incentive Stock

Option shall be issued in tandem with any other Award other than a Stock Appreciation Right as provided for in Section 6. The Committee shall determine the individuals to whom, and the time or times at which, grants of Stock Options will be made, the number of shares purchasable under each Stock Option and the other terms and conditions of the Stock Options in addition to those set forth in Sections 5(b) and 5(c). Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be of two types which shall be indicated on their face: (i) Incentive Stock Options and (ii) Non-Qualified Stock Options. Subject to Section 5(c) hereof, the Committee shall have the authority to grant to any participant Incentive Stock Options, Non-Qualified Stock Options or both types of Stock Options.

(b) Terms and Conditions. Options granted under the Plan shall be evidenced by Option agreements, shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(1) Option Price. The option price per share of Stock purchasable under a Non-Qualified Stock Option shall be determined by the Committee at the time of grant and shall not be less than fifty percent of the Fair Market Value of the Stock at the date of grant.

The option price per share of Stock purchasable under an Incentive Stock Option shall be determined by the Committee at the time of grant and shall be not less than 100% of the Fair Market Value of the Stock at the date of grant (or 110% of the Fair Market Value of the Stock at the date of grant in the case of a participant who at the date of grant owns shares possessing more than ten percent of the total combined voting power of all classes of stock of the Company or its parent or subsidiary corporations (as determined under Section 425(d), (e) and (f) of the Code)).

(2) Option Term. The term of each Stock Option shall be determined by the Committee and may not exceed ten years from the date the Option is granted (or, with respect to Incentive Stock Options, five years in the case of a participant who at the date of grant owns shares possessing more than ten percent of the total combined voting power of all classes of stock of the Company or its parent or subsidiary corporations (as determined under Section 425(d), (e) and (f) of the Code)).

(3) Exercise. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at or after grant; provided, however, that, except as provided in Section 5(b)(6) and Section 11, unless otherwise determined by the Committee at or after grant, no Stock Option shall be exercisable prior to six months and one day following the date of grant. If the Committee provides, in its sole discretion, that any Stock Option is exercisable only in installments, the Committee may waive, in whole or in part, such installment exercise provisions at any time at or after grant based on such factors as the Committee shall determine, in its sole discretion.

(4) Method of Exercise. Subject to whatever installment exercise provisions apply with respect to such Stock Option, and the six month and one day holding period set forth in Section 5(b)(3), Stock Options may be exercised in whole or in part, at any time during the option period, by giving to the Company written notice of exercise specifying the number of shares of Stock to be purchased.

Such notice shall be accompanied by payment in full of the option price of the shares of Stock for which the Option is exercised, in cash or by check or such other instrument as the Committee may accept. Subject to the following sentence, unless otherwise determined by the Committee, in its sole discretion, at or after grant, payment, in full or in part, of the option price of (i) Incentive Stock Options may be made in the form of unrestricted Stock then owned by the participant and (ii) Non-Qualified Stock Options may be made in the form of unrestricted Stock then owned by the participant or Stock that is part of the Non-Qualified Stock Option being exercised. Notwithstanding the foregoing, any election by a Section 16 participant to satisfy such payment obligation, in whole or in part, with Stock that is part of the Non-Qualified Stock Option being exercised shall be subject to approval by the Committee, in its sole discretion. The value of each such share surrendered or withheld shall be 100% of the Fair Market Value of the Stock on the date the Option is exercised.

No Stock shall be issued pursuant to an exercise of an Option until full payment has been made. A participant shall not have rights to dividends or any other rights of a shareholder with respect to any Stock subject to an Option unless and until the participant has given written notice of exercise, has paid in full for such shares, has given, if requested, the representation described in Section 14(a) and such shares have been issued to him.

(5) Non-Transferability of Options. No Stock Option shall be transferable by the participant other than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the participant's lifetime, only by the participant or, subject to Sections 5(b)(3) and 5(c), by the participant's authorized legal representative if the participant is unable to exercise an Option as a result of the participant's Disability.

(6) Termination by Death. Subject to Section 5(c), if any participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of death, any Stock Option held by such participant may thereafter be exercised, to the extent such Option was exercisable at the time of death or would have become exercisable within one year from the time of death had the participant continued to fulfill all conditions of the Option during such period (or on such accelerated basis as the Committee may determine at or after grant), by the estate of the participant (acting through its fiduciary), for a period of one year (or such other period as the Committee may specify at or after grant) from the date of such death. The balance of the Stock Option shall be forfeited.

(7) Termination by Reason of Disability. Subject to Sections 5(b)(3) and 5(c), if a participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of Disability, any Stock Option held by such participant may thereafter be exercised, to the extent such Option was exercisable at the time of termination or would have become exercisable within one year from the time of termination had the participant continued to fulfill all conditions of the

Option during such period (or on such accelerated basis as the Committee may determine at or after grant), by the participant or by the participant's duly authorized legal representative if the participant is unable to exercise the Option as a result of the participant's Disability, for a period of one year (or such other period as the Committee may specify at or after grant) from the date of such termination of employment; provided, however, that in no event may any such Option be exercised prior to six months and one day from the date of grant; and provided, further, that if the participant dies within such one-year period (or such other period as the Committee shall specify at or after grant), any unexercised Stock Option held by such participant shall thereafter be exercisable by the estate of the participant (acting through its fiduciary) to the same extent to which it was exercisable at the time of death for a period of one year from the date of such termination of employment. The balance of the Stock Option shall be forfeited.

(8) Other Termination. Unless otherwise determined by the Committee at or after the time of granting any Stock Option, if a participant's employment by the Company or any Subsidiary or Affiliate terminates for any reason other than death or Disability, all Stock Options held by such participant shall thereupon immediately terminate, except that if the participant is involuntarily terminated by the Company or any Subsidiary or Affiliate without Cause, any such Stock Option may be exercised, to the extent otherwise exercisable at the time of such termination, at any time during the lesser of two months from the date of such termination or the balance of such Stock Option's term. For purposes of this Plan, "Cause" means a felony conviction of a participant or the failure of a participant to contest prosecution for a felony, or a participant's willful misconduct or dishonesty, any of which, in the judgment of the Committee, is harmful to the business or reputation of the Company or any Subsidiary or Affiliate.

(c) Incentive Stock Options. Notwithstanding Section 4, only key employees of the Company or any Subsidiary shall be eligible to receive Incentive Stock Options. Notwithstanding Sections 5(b)(6) and (7), an Incentive Stock Option shall be exercisable by (i) a participant's authorized legal representative (if the participant is unable to exercise the Incentive Stock Option as a result of the participant's Disability) only if, and to the extent, permitted by Section 422 of the Code and Section 16 of the Exchange Act and the rules and regulations promulgated thereunder and (ii) by the participant's estate, in the case of death, or authorized legal representative, in the case of Disability, no later than 10 years from the date the Incentive Stock Option was granted (in addition to any other restrictions or limitations which may apply). Anything in the Plan to the contrary notwithstanding, no term or provision of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the participant(s) affected, to disqualify any Incentive Stock Option under such Section 422 or any successor Section thereto.

(d) Buyout Provisions. The Committee may at any time buy out for a payment in cash, Stock, Deferred Stock or Restricted Stock an Option previously granted, based on such terms and conditions as the Committee shall establish and agree upon with the participant, provided that no such transaction involving a Section 16 participant shall be structured or effected in a manner that would violate, or result in any liability on the part of the participant under, Section 16 of the Exchange Act or the rules and regulations promulgated thereunder.

SECTION 6. Stock Appreciation Rights.

(a) Grant. Stock Appreciation Rights may be granted alone, in addition to or in tandem with other Awards granted under the Plan or cash awards made outside of the Plan. The Committee shall determine the individuals to whom, and the time or times at which, grants of Stock Appreciation Rights will be made and the other terms and conditions of the Stock Appreciation Rights in addition to those set forth in Section 6(b). Any Stock Appreciation Right granted under the Plan shall be in such form as the Committee may from time to time approve. In the case of Non-Qualified Stock Options, such rights may be granted either at or after the time of the grant of the related Non-Qualified Stock Options. In the case of Incentive Stock Options, such rights may be granted in tandem with Incentive Stock Options only at the time of the grant of such Incentive Stock Options and exercised only when the Fair Market Value of the Stock subject to the Option exceeds the option price of the Option.

Stock Appreciation Rights issued in tandem with Stock Options ("Tandem SARs") shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option, subject to such provisions as the Committee may specify at grant if a Stock Appreciation Right is granted with respect to less than the full number of shares of Stock subject to the related Stock Option.

All Stock Appreciation Rights granted hereunder shall be exercised, subject to Section 6(b), in accordance with the procedures established by the Committee for such purpose. Upon such exercise, the participant shall be entitled to receive an amount determined in the manner prescribed in Section 6(b).

(b) Terms and Conditions. Stock Appreciation Rights granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable:

(1) Tandem SARs shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6, and Stock Appreciation Rights granted separately ("Freestanding SARs") shall be exercisable as the Committee shall determine; provided, however, that any Stock Appreciation Right granted to a Section 16 participant shall not be exercisable at any time prior to six months and one day from the date of the grant of such Stock Appreciation Right, except that this limitation shall not apply in the event of the death of the participant prior to the expiration of the six-month and one-day period.

(2) Upon the exercise of a Stock Appreciation Right, a participant shall be entitled to receive an amount in cash or shares of Stock, as determined by the Committee, equal in value to the excess of the Fair Market Value of one share of Stock on the date of exercise of the Stock Appreciation Right over (i) the option price per share

specified in the related Stock Option in the case of Tandem SARs, which price shall be fixed no later than the date of grant of the Tandem SARs, or (ii) the price per share specified in the related Stock Appreciation Rights Agreement in the case of Freestanding SARs, which price shall be fixed at the date of grant and shall be not less than fifty percent of the Fair Market Value of the Stock on the date of grant, multiplied by the number of shares of Stock in respect of which the Stock Appreciation Right shall have been exercised. The Committee, in its sole discretion, shall have the right to determine the form of payment (i.e. cash, Stock or any combination thereof) and to approve any election by the

participant to receive cash, in whole or in part, upon exercise of the Stock Appreciation Right. When payment is to be made in Stock, the number of shares of Stock to be paid shall be calculated on the basis of the Fair Market Value of the Stock on the date of exercise. Notwithstanding the foregoing, the Committee may unilaterally limit the appreciation in value of any Stock Appreciation Right at any time prior to exercise.

(3) Upon the exercise of a Tandem SAR, the Stock Option or part thereof to which such Tandem SAR is related shall be deemed to have been exercised.

(4) In its sole discretion, the Committee may grant "Limited" Stock Appreciation Rights under this Section 6; that is, Freestanding SARs that become exercisable only in the event of a Change in Control or a Potential Change in Control, subject to such terms and conditions as the Committee may specify at grant. Such Limited Stock Appreciation Rights shall be settled solely in cash.

(5) Stock Appreciation Rights shall not be transferable by the participant other than by will or by the laws of descent and distribution, and all Stock Appreciation Rights shall be exercisable, during the participant's lifetime, only by the participant or, subject to Section 6(b)(6), by the participant's authorized legal representative if the participant is unable to exercise a Stock Appreciation Right as a result of the participant's Disability.

(6) Unless varied by the Committee, Stock Appreciation Rights shall be subject to the terms and conditions specified for Stock Options in Sections 5(b)(6), (7) and (8) and 5(d), except that the terms and conditions applicable to any Stock Appreciation Right held by a Section 16 participant shall not be varied in a manner that would cause the exercise or cancellation of such Stock Appreciation Right to fail to qualify for any applicable exemption from Section 16(b) of the Exchange Act provided by Rule 16b-3 thereunder.

SECTION 7. Restricted Stock.

(a) Grant. Shares of Restricted Stock may be issued alone, in addition to or in tandem with other Awards under the Plan or cash awards made outside of the Plan. The Committee shall determine the individuals to whom, and the time or times at which, grants of Restricted Stock will be made, the number of shares of Restricted Stock to be awarded to each participant, the price (if any) to be paid by the participant (subject to Section 7(b)), the date or dates upon which Restricted Stock Awards will vest and the period or periods within which such Restricted Stock Awards may be subject to forfeiture, and the other terms and conditions of such Awards in addition to those set forth in Section 7(b).

The Committee may condition the grant of Restricted Stock upon the attainment of specified performance goals or such other factors as the Committee may determine in its sole discretion.

(b) Terms and Conditions. Restricted Stock awarded under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent

with the provisions of the Plan, as the Committee shall deem desirable. A participant who receives a Restricted Stock Award shall not have any rights with respect to such Award, unless and until such participant has executed an agreement evidencing the Award in the form approved from time to time by the

Committee and has delivered a fully executed copy thereof to the Company, and has otherwise complied with the applicable terms and conditions of such Award.

(1) The purchase price for shares of Restricted Stock shall be determined by the Committee at the time of grant and may be equal to their par value or zero.

(2) Awards of Restricted Stock must be accepted by executing a Restricted Stock Award agreement and paying whatever price (if any) is required under Section 7(b)(1).

(3) Each participant receiving a Restricted Stock Award shall be issued a stock certificate in respect of such shares of Restricted Stock. Such certificate shall be registered in the name of such participant, and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award.

(4) The Committee shall require that the stock certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Restricted Stock Award, the participant shall have delivered to the Company a stock power, endorsed in blank, relating to the Stock covered by such Award.

(5) Subject to the provisions of this Plan and the Restricted Stock Award agreement, during a period set by the Committee commencing with the date of such Award (the "Restriction Period"), the participant shall not be permitted to sell, transfer, pledge, assign or otherwise encumber the shares of Restricted Stock awarded under the Plan. The Restriction Period shall not be less than six months and one day in duration ("Minimum Restriction Period"). Subject to these limitations and the Minimum Restriction Period requirement, the Committee, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions, in whole or in part, based on service, performance or such other factors and criteria as the Committee may determine, in its sole discretion.

(6) Except as provided in this Section 7(b)(6), Section 7(b)(5) and Section 7(b)(7), the participant shall have, with respect to the shares of Restricted Stock awarded, all of the rights of a shareholder of the Company, including the right to vote the Stock, and the right to receive any dividends. The Committee, in its sole discretion, as determined at the time of award, may permit or require the payment of cash dividends to be deferred and, if the Committee so determines, reinvested, subject to Section 14(f), in additional Restricted Stock to the extent shares are available under Section 3, or otherwise reinvested. Stock dividends issued with respect to Restricted Stock shall be treated as additional shares of Restricted Stock that are subject to the same restrictions and other terms and conditions that apply to the shares with respect to which such dividends are issued.

(7) No Restricted Stock shall be transferable by a participant otherwise than by will or by the laws of descent and distribution.

(8) If a participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of death, any Restricted Stock held by such participant shall thereafter vest or any restriction lapse, to the extent such Restricted Stock would have become vested or no longer subject to restriction within one year from the time of death had the participant continued to fulfill all of the conditions of the Restricted Stock Award during such period (or on such accelerated basis as the Committee may determine at or after grant). The balance of the Restricted Stock shall be forfeited.

(9) If a participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of Disability, any Restricted Stock held by such participant shall thereafter vest or any restriction lapse, to the extent such Restricted Stock would have become vested or no longer subject to restriction within one year from the time of termination had the participant continued to fulfill all of the conditions of the Restricted Stock Award during such period (or on such accelerated basis as the Committee may determine at or after grant), subject in all cases to the Minimum Restriction Period

requirement. The balance of the Restricted Stock shall be forfeited.

(10) Unless otherwise determined by the Committee at or after the time of granting any Restricted Stock, if a participant's employment by the Company or any Subsidiary or Affiliate terminates for any reason other than death or Disability, the Restricted Stock held by such participant which is unvested or subject to restriction at the time of termination shall thereupon be forfeited.

(c) Minimum Value Provisions. In order to better ensure that award payments actually reflect the performance of the Company and service of the participant, the Committee may provide, in its sole discretion, for a tandem performance-based or other award designed to guarantee a minimum value, payable in cash or Stock to the recipient of a Restricted Stock Award, subject to such performance, future service, deferral and other terms and conditions as may be specified by the Committee.

SECTION 8. Deferred Stock.

(a) Grant. Deferred Stock may be awarded alone, in addition to or in tandem with other Awards granted under the Plan or cash awards made outside of the Plan. The Committee shall determine the individuals to whom, and the time or times at which, Deferred Stock shall be awarded, the number of shares of Deferred Stock to be awarded to any participant, the duration of the period (the "Deferral Period") during which, and the conditions under which, receipt of the Stock will be deferred, and the other terms and conditions of the Award in addition to those set forth in Section 8(b).

The Committee may condition the grant of Deferred Stock upon the attainment of specified performance goals or such other factors as the Committee shall determine, in its sole discretion.

(b) Terms and Conditions. Deferred Stock Awards shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(1) The purchase price for shares of Deferred Stock shall be determined at the time of grant and may be equal to their par value or zero, as determined by the Committee. Subject to the provisions of the Plan and the Award agreement referred to in Section 8(b)(9), Deferred Stock Awards may not be sold, assigned, transferred, pledged or otherwise encumbered during the Deferral Period. At the expiration of the Deferral Period (or the Elective Deferral Period referred to in Section 8(b)(8), where applicable), share certificates shall be delivered to the participant, or his legal representative, for the shares covered by the Deferred Stock Award. The Deferral Period applicable to any Deferred Stock Award shall not be less than six months and one day ("Minimum Deferral Period").

(2) Unless otherwise determined by the Committee at grant, amounts equal to any dividends declared during the Deferral Period with respect to the number of shares covered by a Deferred Stock Award will be paid to the participant currently, or deferred and deemed to be reinvested in additional Deferred Stock, or otherwise reinvested, all as determined at or after the time of the Award by the Committee, in its sole discretion.

(3) No Deferred Stock shall be transferable by a participant otherwise than by will or by the laws of descent and distribution.

(4) If a participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of death, any Deferred Stock held by such participant shall thereafter vest or any restriction lapse, to the extent such Deferred Stock would have become vested or no longer subject to restriction within one year from the time of death had the participant continued to fulfill all of the conditions of the Deferred Stock Award during such period (or on such accelerated basis as the Committee may determine at or after grant). The balance of the Deferred Stock shall be forfeited.

(5) If a participant's employment by the Company or any Subsidiary or Affiliate terminates by reason of Disability, any Deferred Stock held by such participant shall thereafter vest or any restriction lapse, to the extent such Deferred Stock would have become vested or no longer subject to

restriction within one year from the time of termination had the participant continued to fulfill all of the conditions of the Deferred Stock Award during such period (or on such accelerated basis as the Committee may determine at or after grant), subject in all cases to the Minimum Deferral Period requirement. The balance of the Deferred Stock shall be forfeited.

(6) Unless otherwise determined by the Committee at or after the time of granting any Deferred Stock Award, if a participant's employment by the Company or any Subsidiary or Affiliate terminates for any reason other than death or Disability, all Deferred Stock held by such participant which is unvested or subject to restriction shall thereupon be forfeited.

(7) Based on service, performance or such other factors or criteria as the Committee may determine, the Committee may, at or after grant, accelerate the vesting of all or any part of any Deferred Stock Award or waive a portion of the Deferral Period for all or any part of such Award, subject in all cases to the Minimum Deferral Period requirement.

(8) A participant may elect to further defer receipt of a Deferred Stock Award (or an installment of an Award) for a specified period or until a specified event (the "Elective Deferral Period"), subject in each case to the Committee's approval and the terms of this Section 8 and such other terms as are determined by the Committee, all in its sole discretion. Subject to any exceptions approved by the Committee, such election must be made at least 12 months prior to completion of the Deferral Period for such Deferred Stock Award (or such installment).

(9) Each such Award shall be confirmed by, and subject to the terms of, a Deferred Stock Award agreement evidencing the Award in the form approved from time to time by the Committee.

(c) Minimum Value Provisions. In order to better ensure that award payments actually reflect the performance of the Company and service of the participant, the Committee may provide, in its sole discretion, for a tandem performance-based or other Award designed to guarantee a minimum value, payable in cash or Stock to the recipient of a Deferred Stock Award, subject to such performance, future service, deferral and other terms and conditions as may be specified by the Committee.

SECTION 9. Stock Purchase Rights.

(a) Grant. Stock Purchase Rights may be granted alone, in addition to or in tandem with other Awards granted under the Plan or cash awards made outside the Plan. The Committee shall determine the individuals to whom, and the time or times at which, grants of Stock Purchase Rights will be made, the number of shares of Stock which may be purchased pursuant to the Stock Purchase Rights, and the other terms and conditions of the Stock Purchase Rights in addition to those set forth in Section 9(b). The Stock subject to the Stock Purchase Rights may be purchased, as determined by the Committee at the time of grant:

(1) at the Fair Market Value of such Stock on the date of grant;

(2) at 50% of the Fair Market Value of such Stock on the date of grant;

(3) at an amount equal to the Book Value of such Stock on the date of grant; or

(4) at an amount equal to the par value of such Stock on the date of grant.

Subject to Section 9(b) hereof, the Committee may also impose such deferral, forfeiture or other terms and conditions as it shall determine, in its sole discretion, on such Stock Purchase Rights or the exercise thereof.

Each Stock Purchase Right Award shall be confirmed by, and be subject to the terms of, a Stock Purchase Rights Agreement which shall be in form approved by the Committee.

(b) Terms and Conditions. Stock Purchase Rights may contain such additional terms and conditions not inconsistent with the terms of the Plan as the Committee shall deem desirable, and shall generally be exercisable for such period as shall be determined by the Committee. However, Stock Purchase Rights granted to Section 16 participants shall not become exercisable earlier than six months and one day after the grant date. Stock Purchase Rights shall not be transferable by a participant other than by will or by the laws of descent and distribution.

SECTION 10. Other Stock-Based Awards.

(a) Grant. Other Awards of Stock and other Awards that are valued, in whole or in part, by reference to, or are otherwise based on, Stock, including, without limitation, performance shares, convertible preferred stock, convertible debentures, exchangeable securities and Stock Awards or options valued by reference to Book Value or subsidiary performance, may be granted alone, in addition to or in tandem with other Awards granted under the Plan or cash awards made outside of the Plan.

At the time the Stock or Other Stock-Based Award is granted, the Committee shall determine the individuals to whom and the time or times at which such Stock or Other Stock-Based Awards shall be awarded, the number of shares of Stock to be used in computing an Award or which are to be awarded pursuant to such Awards, the consideration, if any, to be paid for such Stock or Other Stock-Based Awards, and all other terms and conditions of the Awards in addition to those set forth in Section 10(b).

The provisions of Other Stock-Based Awards need not be the same with respect to each participant.

(b) Terms and Conditions. Other Stock-Based Awards shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(1) Subject to the provisions of this Plan and the Award agreement referred to in Section 10(b)(5) below, Stock awarded or subject to Awards made under this Section 10 may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the Stock is issued, or, if later, the date on which any applicable restriction, performance, holding or deferral period or requirement is satisfied or lapses. All Stock or Other Stock Based Awards granted under this Section 10 shall be subject to a minimum holding period (including any applicable restriction, performance and/or deferral periods) of six months and one day ("Minimum Holding Period").

(2) Subject to the provisions of this Plan and the Award agreement and unless otherwise determined by the Committee at the time of grant, the recipient of an Other Stock-Based Award shall be entitled to receive, currently or on a deferred basis, interest or dividends or interest or dividend equivalents with respect to the number of shares of Stock covered by the Award, as determined at the time of the Award by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional Stock or otherwise reinvested.

(3) Subject to the Minimum Holding Period, any Other Stock-Based Award and any Stock covered by any such Award shall vest or be forfeited to the extent, at the times and subject to the conditions, if any, provided in the Award agreement, as determined by the Committee, in its sole discretion.

(4) In the event of the participant's Disability or death, or in cases of special circumstances, the Committee may, in its sole discretion, waive, in whole or in part, any or all of the remaining limitations imposed hereunder or under any related Award agreement (if any) with respect to any part or all of any Award under this Section 10, provided that the Minimum Holding Period requirement may not be waived, except in case of a participant's death.

(5) Each Award shall be confirmed by, and subject to the terms of, an agreement or other instrument evidencing the Award in the form approved from time to time by the Committee, the Company and the participant.

(6) Stock (including securities convertible into Stock) issued on a bonus basis under this Section 10 shall be issued for no cash consideration. Stock (including securities convertible into Stock) purchased pursuant to a purchase right awarded under this Section 10 shall bear a price of at least 50% of the Fair Market Value of the Stock on the date of grant. The purchase price of such Stock, and of any Other Stock Based Award granted hereunder, or the formula by which such price is to be determined, shall be fixed by the Committee at the time of grant.

(7) In the event that any "derivative security", as defined in Rule 16a-1(c) (or any successor thereto) promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act, is awarded pursuant to this Section 10 to any Section 16 participant, such derivative security shall not be transferable other than by will or by the laws of descent and distribution.

SECTION 11. Change In Control Provision.

(a) Impact of Event. In the event of: (1) a "Change in Control" as defined in Section 11(b) or (2) a "Potential Change in Control" as defined in Section 11(c), the following acceleration and valuation provisions shall apply:

(1) Any Stock Appreciation Rights and any Stock Options awarded under the Plan not previously exercisable and vested shall become fully exercisable and vested;

(2) The restrictions and deferral limitations applicable to any Restricted Stock, Deferred Stock, Stock Purchase Rights and Other Stock-Based Awards shall lapse and such shares and awards shall be deemed fully vested; and

(3) The value of all outstanding Awards, in each case to the extent vested, shall, unless otherwise determined by the Committee in its sole discretion at or after grant but prior to any Change in Control or Potential Change in Control, be cashed out on the basis of the "Change in Control Price" as defined in Section 11(d) as of the date such Change in Control or such Potential Change in Control is determined to have occurred;

provided, however, that the provisions of Sections 11(a)(1)-(3) shall not apply with respect to Awards granted to any Section 16 participant which have been held by such participant for less than six months and one day as of the date that such Change in Control or Potential Change in Control is determined to have occurred.

(b) Definition of Change in Control. For purposes of Section 11(a), a "Change in Control" means the happening of any of the following:

(1) When any "person" as defined in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act, but excluding the Company and any Subsidiary and any employee benefit plan sponsored or maintained by the Company or any Subsidiary (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time), of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities; provided, however, that the terms "person" and "group" shall not include any "Excluded Director", and the term "Excluded Director" means any director who, on the effective date of the Plan, is the beneficial owner of or has the right to acquire an amount of Stock equal to or greater than five percent of the number of shares of Stock outstanding on such effective date; and further provided that, unless otherwise determined by the Board or any committee thereof, the terms "person" and "group" shall not include any entity or group of entities which has acquired Stock of the Company in the ordinary course of business for investment purposes only and not with the purpose or effect of changing or influencing the control of the Company, or in connection with or as a participant in any transaction having such purpose or effect, ("Investment Intent"), as demonstrated by the filing by such entity or group of a statement on Schedule 13G (including amendments thereto) pursuant to Regulation 13D under the Exchange Act, as long as such entity or group continues to hold such Stock with an Investment Intent;

(2) When, during any period of 24 consecutive months during the existence of the Plan, the individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof;

provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this Section 11(b)(2); or

(3) The occurrence of a transaction requiring shareholder approval for the acquisition of the Company by an entity other than the Company or a Subsidiary through purchase of assets, by merger or otherwise;

provided, however, a change in control shall not be deemed to be a Change in Control for purposes of the Plan if the Board approves such change prior to either (i) the commencement of any of the events described in Section (b)(l), (2), or (3) or (c)(l) or (ii) the commencement by any person other than the Company of a tender offer for Stock.

(c) Definition of Potential Change in Control. For purposes of Section 11(a), a "Potential Change in Control" means the happening of any one of the following:

(1) The approval by shareholders of an agreement by the Company, the consummation of which would result in a Change in Control of the Company as defined in Section 11(b); or

(2) The acquisition of beneficial ownership, directly or indirectly, by any entity, person or group (other than the Company or a Subsidiary or any Company employee benefit plan (including any trustee of such plan acting as such trustee)) of securities of the Company representing 5% or more of the combined voting power of the Company's outstanding securities and the adoption by the Board of a resolution to the effect that a Potential Change in Control of the Company has occurred for purposes of this Plan.

(d) Change in Control Price. For purposes of this Section 11, "Change in Control Price" means the highest price per share paid in any transaction reported on the New York Stock Exchange Composite Index, or paid or offered in any bona fide transaction related to a Change in Control or Potential Change in Control of the Company, at any time during the 60-day period immediately preceding the occurrence of the Change in Control (or, where applicable, the occurrence of the Potential Change in Control event), in each case as determined by the Committee, except that, in the case of Incentive Stock Options and Stock Appreciation Rights relating to Incentive Stock Options, such price shall be based only on transactions reported for the date on which the participant exercises such Stock Appreciation Rights or, where applicable, the date on which a cash out occurs under Section 11(a)(3).

SECTION 12. Amendments and Termination.

The Board may at any time, in its sole discretion, amend, alter or discontinue the Plan, but no such amendment, alteration or discontinuation shall be made which would impair the rights of a participant under an Award theretofore granted, without the participant's consent. The Company shall submit to the shareholders of the Company for their approval any amendments to the Plan which are required by Section 16 of the Exchange Act, or the rules and regulations thereunder, to be approved by the shareholders.

The Committee may at any time, in its sole discretion, amend the terms of any Award, but no such amendment shall be made which would impair the rights of

a participant under an Award theretofore granted, without the participant's consent; nor shall any such amendment be made which would make the applicable exemptions provided by Rule 16b-3 under the Exchange Act unavailable to any Section 16 participant holding the Award without the participant's consent. The Committee may also substitute new Stock Options for previously granted Stock Options (on a one-for-one or other basis), including previously granted Stock

Options having a higher option price.

Subject to the above provisions, the Board shall have all necessary authority to amend the Plan to take into account changes in applicable securities and tax laws and accounting rules, as well as other developments.

SECTION 13. Unfunded Status of Plan.

The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a participant by the Company, nothing contained herein shall give any such participant any rights that are greater than those of a general creditor of the Company.

SECTION 14. General Provisions.

(a) The Committee may require each participant acquiring Stock pursuant to an Award under the Plan to represent to and agree with the Company in writing that the participant is acquiring the Stock without a view to distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

All shares of Stock or other securities delivered under the Plan shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed, and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be put on any certificates for such shares to make appropriate reference to such restrictions.

(b) Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(c) Neither the adoption of the Plan, nor its operation, nor any document describing, implementing or referring to the Plan, or any part thereof, shall confer upon any participant under the Plan any right to continue in the employ, or as a director, of the Company or any Subsidiary or Affiliate, or shall in any way affect the right and power of the Company or any Subsidiary or Affiliate to terminate the employment, or service as a director, of any participant under the Plan at any time with or without assigning a reason therefor, to the same extent as the Company or any Subsidiary or Affiliate might have done if the Plan had not been adopted.

(d) For purposes of this Plan, a transfer of a participant between the Company and its Subsidiaries and Affiliates shall not be deemed a termination of employment.

(e) No later than the date as of which an amount first becomes includable in the gross income of the participant for federal income tax purposes with respect to any Award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any federal, state or local taxes of any kind required by law to be withheld with respect to such amount. Subject to the following sentence, unless otherwise determined by the Committee, withholding obligations may be settled with Stock, including unrestricted Stock previously owned by the participant or Stock that is part of the Award that gives rise to the withholding requirement. Notwithstanding the foregoing, any election by a Section 16 participant to settle such tax withholding obligation with Stock that is part of such Award shall be subject to approval by the Committee, in its sole discretion. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company and its Subsidiaries and Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(f) The actual or deemed reinvestment of dividends or dividend equivalents in additional Restricted Stock (or in Deferred Stock or other types of Awards) at the time of any dividend payment shall only be permissible if sufficient shares of Stock are available under Section 3 for such reinvestment (taking into account then outstanding Stock Options, Stock Purchase Rights and other Plan Awards).

(g) The Plan, all Awards made and actions taken thereunder and any agreements relating thereto shall be governed by and construed in accordance with the laws of the State of Ohio.

(h) All agreements entered into with participants pursuant to the Plan shall be subject to the Plan.

(i) The provisions of Awards need not be the same with respect to each participant.

SECTION 15. Effective Date of Plan.

The Plan was adopted by the Board on September 27, 1989 and approved by shareholders on April 27, 1990. This amendment and restatement of the Plan shall be effective as of April 24, 1992. Amendments made subsequent to April 24, 1992 shall be effective upon the date of their adoption by the Board.

SECTION 16. Term of Plan.

No Award shall be granted pursuant to the Plan on or after April 27, 2000, but Awards granted prior to such date may extend beyond that date.

EXHIBIT NO. 10(O)

THIRD AMENDMENT TO THE PROGRESSIVE CORPORATION
EXECUTIVE DEFERRED COMPENSATION PLAN
(January 1, 1997 Amendment and Restatement)

WHEREAS, The Progressive Corporation Executive Deferred Compensation Plan is currently maintained pursuant to a January 1, 1997 Amendment and Restatement and the First and Second Amendments thereto ("Plan"); and

WHEREAS, it is deemed desirable to amend the Plan further;

NOW, THEREFORE, the Plan is hereby amended in the respects hereinafter set forth, effective December 1, 1998.

1. Section 1.17 of the Plan is hereby amended and restated in its entirety to provide as follows:

> "`Fixed Income Fund' means the IDS Cash Management Fund or such other Investment Fund as may be designated by the Committee as the Fixed Income Fund within the meaning of the Plan."

2. Except as expressly provided in this Amendment, the terms and provisions of the Plan shall remain entirely unchanged and continue in full force and effect.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Amendment to be executed by its duly authorized representative effective as of the date set forth above.

THE PROGRESSIVE CORPORATION

By: /s/ David M. Schneider

Title: Secretary

EXHIBIT NO. 10(P)

THE PROGRESSIVE CORPORATION
EXECUTIVE DEFERRED COMPENSATION TRUST
(December 1, 1998 Amendment and Restatement)

WHEREAS, The Progressive Corporation Executive Deferred Compensation Trust is currently maintained pursuant to a January 1, 1997 Amendment and Restatement between The Progressive Corporation ("Company") and The Northern Trust Company ("Northern Trust") as trustee; and

WHEREAS, Northern Trust has been removed as trustee effective upon the close of business on December 1, 1998; and

WHEREAS, Company has designated American Express Trust Company ("Trustee") as the new trustee of the Plan effective December 1, 1998; and

WHEREAS, Company and Trustee desire to amend and restate the Trust Agreement to reflect the designation of American Express Trust Company as Trustee and to make certain other changes in the Trust;

NOW, therefore, effective December 1, 1998, Company and Trustee hereby amend and restate the Trust Agreement in its entirety to provide as follows:

SECTION 1. Establishment of Trust

(a) Company hereby deposits with Trustee in trust Ten Dollars ($10.00), which shall become the principal of the Trust to be held, administered and disposed of by Trustee as provided in this Trust Agreement.

(b) The Trust hereby established shall be irrevocable.

(c) The Trust is intended to be a grantor trust, of which Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) 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 as herein set forth. 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 this 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 Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein. Any assets held by the Trust will also be subject to the federal and state law claims of general creditors of each subsidiary of Company that employs Plan participants ("Subsidiary") in the event of Insolvency, as defined in Section 3(a) herein, but only to the extent of the amounts due under the Plan to participants attributable to the period that such participants were employed by such Subsidiary.

(e) Within 30 days following the end of the Plan year(s), ending after the Trust has become irrevocable pursuant to Section 1(b) hereof, Company shall be required to irrevocably deposit additional cash or other

property to the Trust in an amount sufficient to pay each Plan participant or beneficiary the benefits payable pursuant to the terms of the Plan as of the close of the Plan year(s). Trustee shall have no duty to enforce any funding obligations of Company and the duties of Trustee shall be governed solely by the terms of the Trust without reference to the Plan.

SECTION 2. Payments to Plan Participants and Their Beneficiaries

(a) Company shall deliver to Trustee a schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Plan participant (and his or her beneficiaries), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plan, and the time of commencement for payment of such amounts. Except as otherwise provided herein, Trustee shall make payments to the Plan participants and their beneficiaries in accordance with such Payment Schedule. Company shall have the sole responsibility for all tax withholding, filings and reports. Trustee shall withhold such amounts from distributions as Company may direct and shall follow the instructions of Company with respect to remission of such withheld amounts to appropriate governmental authorities.

(b) The entitlement of a Plan participant or his or her beneficiaries to benefits under the Plan shall be determined by Company or such party as it shall designate under the Plan, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan.

(c) Company may make payment of benefits directly to Plan participants or their beneficiaries as they become due under the terms of the Plan. Company shall notify Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to participants or their beneficiaries. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plan, Company shall make the balance of each such payment as it falls due. Trustee shall notify Company where principal and earnings are not sufficient to make a payment then due under the Payment Schedule.

SECTION 3. Trustee Responsibility Regarding Payments to Trust Beneficiary When Company is Insolvent.

(a) Trustee shall cease payment of benefits to Plan participants and their beneficiaries if the Company, or any subsidiary that ever employed such participants, is Insolvent, subject to the provisions of Section 3(b) below. Company or a Subsidiary shall be considered "Insolvent" for purposes of this Trust Agreement if (i) Company or such Subsidiary is unable to pay its debts as they become due, or (ii) Company or such Subsidiary is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of Company and, to the extent provided in Section 1(d), each Subsidiary, under federal and state law as set forth below.

(1) The Board of Directors and the Chief Executive Officer of Company shall have the duty to inform Trustee in writing of Company's or any Subsidiary's Insolvency. If a person claiming to be a creditor of Company or a Subsidiary alleges in writing to Trustee that Company or such Subsidiary has become Insolvent, Trustee shall determine whether Company or such Subsidiary is Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.

(2) Unless Trustee has actual knowledge of Company's or any Subsidiary's Insolvency, or has received notice from Company or a Subsidiary or a person claiming to be a creditor alleging that Company or a Subsidiary is Insolvent, Trustee shall have no duty to inquire whether Company or a Subsidiary is Insolvent. Trustee may in all events rely on such evidence concerning Company's or any Subsidiary's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning Company's or any Subsidiary's solvency. Trustee may appoint an independent accounting or consulting firm to make any determination required by Trustee under this Section 3, in which event Trustee may conclusively rely upon the determination by such firm and shall be responsible only for the prudent selection of the firm.

(3) If at any time Trustee has determined that Company or a Subsidiary is Insolvent, Trustee shall discontinue payments to all Plan participants and

their beneficiaries (if Company is Insolvent) or Plan participants who were ever employed by such Subsidiary (if such Subsidiary is Insolvent), and shall hold the assets of the Trust for the benefit of Company's or such Subsidiary's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Plan participants or their beneficiaries to pursue their rights as general creditors of Company with respect to benefits due under the Plan or otherwise. Company shall be responsible for furnishing Trustee with current information regarding identities of Subsidiaries and participants who were ever employed by each such Subsidiary.

(4) Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 of this Trust Agreement only after Trustee has determined that Company, or a Subsidiary as the case may be, is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by Company in lieu of the payments provided for hereunder during any such period of discontinuance, all in accordance with the Payment

Schedule, which shall be modified by Company as necessary to comply with the provisions of this paragraph (c).

SECTION 4. Payments to Company.

Except as provided in Section 3 hereof, after the Trust has become irrevocable, Company shall have no right or power to direct Trustee to return to Company or to divert to others any of the Trust assets before all payment of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plan.

SECTION 5. Investment Authority.

(a) Trustee may invest in securities (including stock or rights to acquire stock) or obligations issued by Company. Except as provided below and in Section 5(b), all rights associated with assets of the Trust shall be exercised by Trustee or the person designated by Trustee, and shall in no event be exercisable by or rest with Plan participants, except that voting rights with respect to Trust assets will be exercised by Company. Company shall have the right at anytime, and from time to time in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust. This right is exercisable by Company in a nonfiduciary capacity without the approval or consent of any person in a fiduciary capacity. Trustee shall have no responsibility for determining whether such right has been properly exercised or for any investment losses that may result from its exercise.

(b) Company may by notice to Trustee create one or more investment funds in which Trust assets are to be invested and shall in such event direct Trustee with respect to allocation of assets to such funds and transfers among such funds. Company shall be responsible for the initial selection of mutual funds or other investment vehicles which are to comprise the investment funds and for retaining the availability of or terminating the use of any such investment vehicles.

SECTION 6. Disposition of Income.

(a) During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

SECTION 7. Accounting by Trustee.

(a) Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between Company and Trustee. Within 60 days following the close of each calendar year and within 60 days after the removal or resignation of Trustee, Trustee shall deliver to Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

SECTION 8. Responsibility of Trustee.

(a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request, or approval given by Company which is contemplated by, and in conformity with, the terms of this Trust and is given in writing by Company. In the event of a dispute between Company and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) Trustee may consult with legal counsel (who may also be counsel for Company generally) with respect to any of its duties or obligations hereunder.

(c) Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(d) Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy and shall act with respect to any such policy only as directed by Company.

(e) However, notwithstanding the provisions of Section 8(d) above, Trustee may loan to Company the proceeds of any borrowing against an insurance policy held as an asset of the Trust.

(f) Notwithstanding any powers granted to Trustee pursuant to this Trust Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

SECTION 9. Compensation and Expenses of Trustee.

Company shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust. The Trustee will, as part of its compensation for services, receive interest earned on any uninvested cash awaiting investment into or distribution from the Trust.

SECTION 10. Resignation and Removal of Trustee.

(a) Trustee may resign at any time by written notice to Company, which shall be effective not less than 365 days after receipt of such notice unless Company and Trustee agree otherwise.

(b) Trustee may be removed by Company on not less than 180 days notice or upon shorter notice accepted by Trustee.

(c) If Trustee resigns or is removed within two years after a Change of Control, as defined herein, Company shall apply to a court of competent jurisdiction for the appointment of a successor trustee or for instructions.

(d) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within 60 days after receipt of notice of resignation, removal or transfer, unless Company extends the time limit.

(e) If Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of resignation or removal under paragraphs (a) or (b) of this section. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 11. Appointment of Successor.

(a) If Trustee resigns or is removed in accordance with Section 10(a) or (b) hereof, Company may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by Company or the successor Trustee to evidence the transfer.

(b) If Trustee resigns or is removed pursuant to the provisions of Section 10(c) hereof and a court of competent jurisdiction appoints a successor Trustee, the appointment shall be effective when accepted in writing by the new Trustee. The new Trustee shall have all the rights and powers of the former Trustee, including ownership rights in Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the successor Trustee to evidence the transfer.

(c) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 7 and 8 hereof. The successor Trustee shall not be responsible for and Company shall indemnify and defend the successor Trustee from any claims or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

SECTION 12. Amendment or Termination.

(a) This Trust Agreement may be amended by a written instrument executed by Trustee and Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plan or shall make the Trust revocable after it has become irrevocable in accordance with Section 1(b) hereof. Company shall be solely responsible for determining whether an amendment conflicts with the terms of the Plan.

(b) The Trust shall not terminate until the date on which Plan participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plan. Upon termination of the Trust any assets remaining in the Trust shall be returned to Company pursuant to certification of Company to Trustee that the conditions for termination of the Trust have been met.

(c) Upon written approval of participants or beneficiaries entitled to payment of benefits pursuant to the terms of the Plan, Company may terminate this Trust prior to the time all benefit payments under the Plan have been made. All assets in the Trust at termination shall be returned to Company.

SECTION 13. Miscellaneous

(a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to Plan participants and their beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

(d) For purposes of this Trust, Change of Control shall mean 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). Company shall notify Trustee promptly of any Change of Control and Trustee shall have no responsibility to independently determine whether a Change of Control has occurred.

(e) Company shall indemnify Trustee against, and hold Trustee harmless from, any and all loss, damage, penalty, liability, cost, expense and reasonable attorney's fees and disbursements, that may be incurred by, imposed upon or asserted against Trustee by reason of any claim, regulatory proceeding or litigation arising from any act done or omitted to be done by any individual or person with respect to the Plan or Trust, excepting only any and all loss, damage, penalty, liability, cost, expense and reasonable attorney's fees and disbursements, to the extent arising from Trustee's negligence in performing or failing to perform any of the duties specifically allocated to the Trustee under the terms of this Agreement or from the Trustee's willful misconduct or bad faith. Trustee agrees to indemnify and hold Company harmless from and against any and all loss, damage, penalty, liability, cost, expense and reasonable attorney's fees and disbursements incurred by, imposed upon or asserted against Company by reason of any claim, regulatory proceeding or litigation to the extent arising from the Trustee's negligence in performing or failing to perform any of the duties specifically allocated to the Trustee under the terms of this Agreement or from the Trustee's willful misconduct or bad faith.

(f) Trustee shall not undertake or defend any litigation arising in connection with the Trust without the express written consent of Company. If, with Company's consent, Trustee undertakes or defends any litigation arising in connection with this Trust, Company agrees, subject to Section 13(e), to indemnify Trustee against Trustee's costs, expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If Company does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from the Trust.

(g) The Trustee shall deliver or cause to be executed and delivered, to the Company, all notices, prospectuses, finance statements, proxies and proxy soliciting materials relating to investments held hereunder. The Trustee shall not vote any proxy or tender offer election, participate in any voting trust, exercise any options or subscription right or join in, dissent from or oppose any merger, reorganization, consolidation, liquidation or sale with respect to any asset held hereunder, except in accordance with the timely written instructions of the Company. If no such written instructions are timely received, such proxies, elections and voting trust shall not be voted; such options or subscription rights shall not be exercised; and such mergers, reorganizations, consolidations, liquidations or sales shall not be joined, dissented from or opposed.

(h) The Trustee may, in the exercise of its discretion, invest and reinvest the assets of any trust created under this Agreement in assets issued or distributed by American Express Financial Corporation or any of its successors, subsidiaries or affiliates, even though American Express Financial Corporation and its successors, subsidiaries or affiliates are affiliated with the Trustee. Assets that the Trustee may acquire pursuant to the authority granted by this paragraph include, but are not limited to load and no-load mutual funds and stock of the Company. The Trustee shall have full discretionary authority to make sales, purchases and exchanges of assets of any trust created under this Agreement to, from, through any securities broker/dealer owned by or affiliated with American Express Financial Corporation, including

but not limited to American Express Securities Services, or any of its successors, subsidiaries or affiliates, or any unaffiliated persons, partnerships or corporations it may select, and settle transactions in the usual course of business.

IN WITNESS WHEREOF, Company and Trustee have hereunto caused this Trust Agreement to be executed by their duly authorized representatives as of the date set forth above.

THE PROGRESSIVE CORPORATION	AMERICAN EXPRESS TRUST COMPANY
By: /s/ David M. Schneider	By: /s/ Tara L. Stonehouse
Title: Secretary	Title: Vice President

EXHIBIT NO. 10(S)

THE PROGRESSIVE CORPORATION 1999
INFORMATION SERVICES INCENTIVE PLAN

1. The Progressive Corporation and its subsidiaries ("Progressive" or the "Company") have adopted the Progressive Corporation 1999 Information Services Incentive Plan (the Plan) as part of their overall compensation program.

2. All officers and regular employees of Progressive who are assigned primarily to Information Services as of December 1 (or such other date as may be determined by the Chief Human Resource Officer) of a given Plan year are eligible to be selected for participation in the Plan. The Chief Information Officer will be a participant in the Plan. The Chief Human Resource Officer and either the CEO - Insurance Operations or the CFO ("Designated Officers") shall have the authority to select other Plan participants for any given plan year.

3. Annual payments under the Information Services (I/S) Incentive Plan will be determined by application of the following formula:

Annual I/S Incentive Payment = Paid Earnings x Target Percentage x I/S Performance Factor

The Annual I/S Incentive Payment to any participant with respect to any given plan year will not exceed $250,000.00.

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.

5. Target Percentages vary by position and shall be determined on an annual basis by the Designated Officers. The Chief Information Officer's target percentage will be 10%, until otherwise determined by the Executive Compensation Committee (the "Committee") of the Board of Directors of The Progressive Corporation.

6. The I/S Performance Factor

The I/S Performance Factor is based on application availability measured on a point system and may vary from 0 to 2.0. Points are awarded for every day that production systems, both mainframe and client/server, are outage free. If there is an outage in any production system, all of the points are lost for that day. Measured applications, hours, outage definitions and point values will be defined on an annual basis, by or under the direction of the Designated Officers.

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 I/S Incentive Payment for that Plan year equal to 75% of an amount calculated on the basis of Paid Earnings for the first 11 months of the Plan year, one month 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 I/S Incentive Payment, if any, for such

Plan year, based on his or her Paid Earnings and performance data for the entire 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 I/S Incentive 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 I/S Incentive Payment for any Plan year, the participant must be employed by Progressive on the payment date for that portion of the Annual I/S Incentive Payment. Annual I/S Incentive Payments will be net of any legally required deductions for federal, state and local taxes and other items.

9. The right to any I/S Incentive 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, interpret the provisions thereof, waive any of the requirements specified herein and make determinations hereunder and to establish, change or modify performance measures) may be exercised by the Designated Officers. In the event of a conflict, the determination of the Committee will govern.

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 I/S Incentive Payment or other sums owed to any participant under the Plan any amounts owed by such participant to Progressive.

15. This Plan is adopted, and is to be effective, as of January 1, 1999. This Plan shall be effective for 1999 and for each calendar year thereafter unless and until terminated by the Committee.

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

EXHIBIT NO. 11

THE PROGRESSIVE CORPORATION
COMPUTATION OF EARNINGS PER SHARE
(millions - except per share amounts)

Years Ended December 31,	1998		1997		1996	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Basic:						
Net income	$456.7		$400.0		$313.7	
Less: Preferred stock dividends	--		--		(3.5)	
Excess Preferred Stock liquidation price over carrying value	--		--		(2.9)	
	$456.7	$6.30	$400.0	$5.56	$307.3	$4.29
Average shares outstanding	72.5		72.0		71.6	
Diluted:						
Net income	$456.7		$400.0		$313.7	
Less: Preferred stock dividends	--		--		(3.5)	
Excess Preferred Stock liquidation price over carrying value	--		--		(2.9)	
	$456.7	$6.11	$400.0	$5.31	$307.3	$4.14
Average shares outstanding	72.5		72.0		71.6	
Net effect of dilutive stock options	2.2		3.3		2.6	
Total	74.7		75.3		74.2	

EXHIBIT NO. 12

THE PROGRESSIVE CORPORATION

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(millions)

(unaudited)

	Years Ended December 31, 1998	1997
Income before income taxes	$661.1	$578.5
Fixed Charges:		
Interest and amortization on indebtedness	64.6	64.6
Portion of rents representative of the interest factor	6.7	5.6
Total fixed charges	71.3	70.2
Total income available for fixed charges(1)	$728.9	$648.7
Ratio of earnings to fixed charges	10.2	9.2

1 Excludes interest capitalized of $3.5 million for the year ended December 31, 1998; no interest was capitalized in 1997.

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Exhibit 13

About the Art

Each year, Progressive commissions an artist or a group of artists to create a body of work for our Annual Report which is inspired by a Progressive theme. This year, our inspiration is the American passion for car travel and the culture born from it. The artist is photographer Stephen Frailey. Stephen works by collaging found images to create new meaning from their juxtaposition. Frailey's work will become part of Progressive's growing collection of contemporary art.

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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 82 subsidiaries and has one mutual insurance company affiliate. The companies provide personal automobile insurance and other specialty property-casualty insurance and related services throughout the United States and Canada.

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1998 Financial Highlights

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(millions-except per share amounts)

	1998	1997	% CHANGE	AVERAGE ANNUAL COMPOUNDED RATE OF INCREASE (DECREASE) 5-YEAR 1994-1998	10-YEAR 1989-1998
FOR THE YEAR					
Direct premiums written	$ 5,451.3	$ 4,825.2	13%	23%	15%
Net premiums written	5,299.7	4,665.1	14	24	15
Net premiums earned	4,948.0	4,189.5	18	24	15
Total revenues	5,292.4	4,608.2	15	22	15
Operating income	449.3	336.0	34	18	17
Net income	456.7	400.0	14	11	16
Per share:(1)					
Operating income	6.01	4.46	35	18	19
Net income	6.11	5.31	15	11	17
Underwriting margin(2)	8.4%	6.6%		8	7
AT YEAR-END					
Consolidated shareholders' equity	$ 2,557.1	$ 2,135.9	20	21	20
Common Shares outstanding	72.5	72.3	--	--	(1)
Book value per share	$ 35.27	$ 29.54	19	23	21
Market capitalization	$ 12,279.7	$ 8,667.0	42	33	35
Return on average shareholders' equity(2)	19.3%	20.9%		21	22

STOCK PRICE APPRECIATION(3)	1-YEAR	5-YEAR	10-YEAR
Progressive	41.6%	33.6%	37.2%
S&P 500	28.5%	24.0%	19.1%

(1) Presented on a diluted basis.

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

(3) Assumes dividend reinvestment.

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Vision, Core Values and Objectives

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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 cost-effectively and profitably reducing the human trauma and economic costs of auto accidents and other mishaps, and by building a recognized, trusted, admired, business-generating brand. We seek to earn a superior return on equity and to provide a positive environment which attracts quality people who develop and achieve ambitious growth plans.

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CORE VALUES

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

INTEGRITY We revere honesty. We adhere to high ethical standards, report promptly and 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 communicate clearly Progressive's ambitious objectives and our people's personal and team objectives. We evaluate performance against all these objectives.

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

PROFIT The opportunity to earn a profit is how the competitive free-enterprise system motivates investment to enhance human health and happiness. Expanding profits reflect our customers' and claimants' increasingly positive view of Progressive. We value all people's 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 1.6% in 1998, and averaged 2.4% over the past five years and 3.1% over the past ten years). Return on equity was 19.3% in 1998, and averaged 20.9% over the past five years and 21.8% over the past ten years.

PROFITABILITY Progressive is driven by the goal of producing a 4% underwriting profit over the entire retention period of a policyholder. Overall, we had an underwriting profit of 8.4% in 1998, 8.0% for the past five years and 6.5% for the past ten years. Estimated industry results for the personal auto insurance market were underwriting gains of .3% in 1998 and underwriting losses of .5% and 2.5%, for the past five and ten years, respectively.

GROWTH We seek increases in net premium volume that are at least 15 percentage points greater than the rate of inflation. Company-wide net premiums written increased 13.6% in 1998, 23.8% compounded annually over the past five years and 15.3% over the past ten years. Net premiums written in the personal auto insurance market for the same periods grew 3.9%, 4.8% and 5.4%.

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ACHIEVEMENTS We are convinced that the best way to maximize shareholder value is to achieve these financial objectives consistently. A 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, 1998, with a market value of $1,302,000, for a 26.8% compounded annual return, compared to the 9.5% return achieved by investors in the Standard & Poor's 500 during the same period. In addition, the shareholder received dividends of $1,922 in 1998, bringing total dividends received to $18,266 since the shares were purchased.

In the ten years since December 31, 1988, Progressive shareholders have realized compounded annual returns of 37.2%, compared to 19.1% for the S&P 500. In the five years since December 31, 1993, Progressive shareholders' returns were 33.6%, compared to 24.0% for the S&P 500. In 1998, the returns were 41.6% on Progressive shares and 28.5% on the S&P 500.

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1998 OBJECTIVES AND ACCOMPLISHMENTS

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	1998	LAST 5 YEARS	LAST 10 YEARS
RETURN ON SHAREHOLDERS' EQUITY			
Objective	16.6%	17.4%	18.1%
Accomplishment	19.3	20.9	21.8
UNDERWRITING PROFIT (LOSS)			
Objective	4.0	4.0	4.0
Accomplishment	8.4	8.0	6.5
Industry-Personal Auto Insurance Market	.3	(.5)	(2.5)
GROWTH (ANNUALIZED)			
Objective	16.6	17.4	18.1
Accomplishment	13.6	23.8	15.3
Industry-Personal Auto Insurance Market	3.9	4.8	5.4

The repurchase of Progressive stock is another way the Company increases shareholder value. Over the years, when we have had adequate capital and Progressive's stock was attractively priced, we have repurchased our shares. Since 1971, we spent $613.7 million repurchasing our shares, at an average cost of $7.44 per share. During 1998, we repurchased 404,079 Common Shares, including 11,079 Common Shares repurchased to offset obligations under various employee benefit plans.

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Letter to Shareholders

For 34 years, writing annually to shareholders has been my way to describe Progressive's achievements and aspirations, and to explain our current performance and prospects. I try to do it in a way that lets anyone interested in Progressive understand the value of and reasons for what Progressive does.

Since 1965, Progressive has grown faster and more profitably than other auto insurers. By 1988, we were the largest, fastest-growing, most-profitable insurer specializing in high-risk auto insurance sold by Independent Insurance Agents. This was achieved by Progressive's smart and creative people working hard to serve auto insurance consumers better than competitors. In 1988, California consumer activists turned their constituents' rage against escalating auto insurance costs into laws and regulations that threatened auto insurance as a free-enterprise activity. Progressive's strategic response has been to create a new value proposition with redefined service, distribution and product that enhances consumers' auto insurance experience.

Today, we offer auto insurance to every licensed driver, selling many ways while innovating in claims, technology, pricing and consumer brand building. We first changed claim service so we could respond to most claims within a few hours of their being reported, any time, any day. Next, we made all services available 24 hours a day, 7 days a week and developed rates for all licensed owners and drivers. Then we distributed in the many different ways consumers wanted to buy-in person from Independent Agents, by telephone through 1 800 AUTO PRO(R) or online at progressive.com. Another innovation was offering competitor premium comparisons. We use a combination of television, direct mail and other media to urge consumers to consider Progressive's unique combination of price and service. As important as Independent Agents continue to be to Progressive, we no longer depend solely on them choosing us for their nonstandard risks.

Progressive seeks to be consumers' #1 choice for auto insurance. Progressive's Personal Lines net premiums written of $4.9 billion (93% of Progressive's total net premiums written) were 4.0% of the industry's U.S. personal lines insurance premiums, making Progressive the 5th largest U.S. auto insurer. We had another year of excellent financial performance in 1998, notwithstanding the aggressive competition in auto insurance history. Progressive's underwriting profit margin was 8.4% (industry was .3%), compared to 6.6% in 1997.

Although proud of our achievements, all Progressive people understand that our customers, agents, partners and shareholders care only about what we WILL do for them-no matter what we have already done for them. Competitors are imitating Progressive's consumer-focused innovations. Industry-wide auto insurance service is generally better. Auto insurance premiums are stable or declining due to continuing trends with respect to safer cars and roads, the impaired driving crackdown, better law enforcement and insurers operating more efficiently.

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Because auto insurance rates are based on history, and because experience steadily improves, we are in the midst of the most profitable period in 20 years. There is an explosion in consumer advertising for auto insurance. Many insurers are increasing producer incentives and many more are reducing rates. Soon operating margins may shrink and be negative for the industry as a whole. These circumstances historically have energized Progressive's great people to focus their knowledge, creativity and effort to serve our customers even better and more efficiently, to achieve our profit and growth aspirations.

To become consumers' #1 choice for auto insurance, Progressive seeks to provide a competitive price for all drivers AND to produce at least a 4% underwriting profit over the total time a person is insured by Progressive. We seek customers for life and are more focused on retaining customers longer. To do this, and to attract new customers, we will promote our brand based on Progressive's unique customer proposition. We "kicked off" 1999 brand building by sponsoring the Super Bowl(TM) XXXIII Halftime Show and by introducing new commercials featuring E.T. as spokesterrestrial for Progressive's commitment to reduce the trauma and costs of accidents by reducing their frequency and severity.

Customer focus has driven Progressive's innovation over the past decade. We will work hard in 1999 to expand and improve the ways in which consumers become Progressive customers and will foreclose no distribution option. We know that costs must continue to come down for us to accomplish our vision and achieve our financial objectives. We continue to improve claim operations, trying to reduce claim costs faster than competitors. We continue to work hard to eliminate work and simplify processes, obtain economies of

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scale, and reduce cycle times and costs, thereby improving customer satisfaction and lowering customer cost. We regularly measure more activities more precisely to understand them better and to improve performance.

We refine the definition and delivery of Immediate Response(R) claims service as we gain greater understanding of customer/claimant needs. Progressive's Immediate Response Vehicles (painted white with PROGRESSIVE emblazoned in blue on the side) travel America's streets providing the help and counseling people need when they are unfortunate enough to have an auto mishap and reinforcing the defining service standard only available from us.

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OUR ORGANIZATION

More customers and changing business processes require the talent and energy of people who are better trained, harder working and better paid. How we train, motivate, evaluate and compensate our people and how we organize are critical to Progressive's success. Auto insurance differs greatly by community because regulations differ by state and because traffic, law enforcement, cultural attitudes, insurance agents, medical services and auto repair facilities differ by community. Our matrix organization enables Progressive to meet varied local conditions under a cohesive set of policies that ensure consistency and control, while sustaining experimentation and excitement.

Progressive's 44 State and Community Managers actually run the business in their state(s). State Managers are measured and paid based on profit and growth in their state(s) or region. They manage claims, distribution, advertising budgets, price levels, agent development, regulation and community relations for their state. State Managers decide their state(s) organization, including appointing Community Managers with responsibilities similar to their own for a large part of the state.

State Managers report to members of the "Policy Team" which in 1999 includes two CEOs (Insurance Operations, Investments and Capital Management), four Distribution Leaders (Independent Agent, 1 800 AUTO PRO(R), progressive.com, Strategic Alliances), Chief Pricing/Product Officer, Chief Claim Officer, Chief

Financial Officer, Chief Information Officer, Chief Human Resources Officer and Chief Communications Officer. The Distribution Leaders are challenged to develop and manage product offerings and customer service processes tailored to the unique requirements of customers who discover and select Progressive through different distribution modes.

Progressive's organization is like a growing cell inhabited by nearly 16,000 people, many soaring from team to team and task to task. The sphere's skin is kept taut by straight lines between people which define the relationship of the people connected by them (e.g. boss, former boss, direct report, former direct report, relative, etc.). These relationships change constantly, responding to business and personal needs. We eliminate organization confusion by being clear and current about performance objectives, standards, measurements and rewards for each team and each person. We help our people understand how their good work enhances our customers' well-being, our shareholders' value, our agents' prosperity, our partners' profits and their personal opportunities.

Objectives are regularly reviewed and renegotiated. Performance against objectives is regularly and completely reported on and monitored. The whole process is validated and reinforced by Progressive's performance-based employee incentive compensation program, which paid $85.8 million for 1997 and $107.5 million for 1998. Progressive stays flexible by having people expect the organization, their objectives and the Gainsharing formula to change regularly.

PERSONAL LINES BUSINESS

Ninety-three percent of Progressive's net premiums written is insurance for private passenger automobiles, motorcycles and recreational vehicles. Net premiums written for the Personal Lines business was $4,922.3 million, 15% more than the $4,288.8 million in 1997. The underwriting profit margin was 7.9%, compared to 6.3% in 1997. In 1998, we celebrated a milestone in our motorcycle product expansion by taking over market share leadership from State Farm.

PRODUCT STRATEGY-COMPETITIVE RATES FOR ALL RISK PROFILES In 1997, we reported that introducing financial responsibility as an auto insurance rating factor would result in more competitive rates for many consumers. In 1998, we used financial responsibility in 43 states and began to refine and improve our product design. We expect product design and pricing methods to evolve constantly, based on our developing understanding of loss data, work flows, market conditions and technology, as well as consumer acceptance of our brand as an insurer for all drivers. We introduced the next generation of product design in mid-1998 and expect to have it in markets representing 80% of premium by April 1999. Early results suggest we are attracting more drivers from all risk profiles and retaining them longer.

BRAND STRATEGY - BE PROGRESSIVE In 1998, we expanded Progressive's brand promotion and the service and price proposition it stands for by introducing our television advertising in 43 additional markets, bringing the total number of markets in which we regularly advertise to 83. We expanded our national fleet of distinctively marked Immediate Response Vehicles, increased our visibility in the Independent Agency channel with prominent Progressive Authorized Independent Agent signs and significantly increased advertising related to our Internet site, all aimed at substantially increasing awareness of Progressive, what we offer, and what it means to BE PROGRESSIVE.

Customers evaluate our brand by the experiences we provide them. We measure customer satisfaction and our performance with a combination of surveys, customer response requests, phone monitoring and mystery shopping. Delivering superior service depends on hiring superb people and training them all very well. During 1998, we successfully hired and trained over 3,800 people companywide, including claim representatives, policy service representatives, sales representatives, and technology and management staff, and provided ongoing training to several thousand employees across each service experience. We employ a variety of techniques including aptitude simulations before hiring, coaching/ mentoring programs, team quality and productivity objectives, and performance-based promotion to develop and empower exceptional people and deliver consistently good customer experiences.

MARKETING STRATEGY-MANY WAYS TO BUY To accommodate consumer preferences, we offer our products through more than 30,000 Independent Insurance Agents, by calling 1 800 AUTO PRO(R) or by visiting our Web site, progressive.com. We are the market leader in selling auto insurance through Independent Agents and seek ever stronger ties between us and Independent Agents and their customers. In 1998, there was considerable development in agent systems to greatly improve Agents' ability to quote accurately, to retrieve policyholder information, to receive rate and software updates electronically, to eliminate paper and to use the Internet to communicate with us.

Our fastest growing distribution channel is 1 800 AUTO PRO(R), making Progressive a leading direct writer of auto insurance. To support growth, we expanded to five call center locations in 1998 and focused on sales effectiveness training, measurement and call center management. Progressive is the market leader in selling auto insurance on the Internet. Consumers can comparison shop online for auto insurance in 47 states and can actually buy online in 23 states plus the District of Columbia. In 1998, we introduced "Personal Progressive," an online Internet-based system providing consumers access to their own policy information and allowing them to process certain changes and premium payments.

In 1998, our Strategic Alliances channel surpassed 200 active alliances with companies that influence their constituents to buy Progressive's products. Our expanded and improved product and offering rates for all drivers greatly expand the opportunities for direct and affinity marketing programs aimed at all risks to be sold through these long-term, exclusive alliances.

Midland Financial Group, acquired in 1997, underwrites and markets nonstandard private passenger auto insurance, under the Midland name, through Independent Agents in 11 southeastern and western states.

In 1999, because different distribution channels and the customer sets they attract present different business opportunities and challenges, each channel will be led by a Policy Team member. We seek to maximize the opportunities within each distribution channel, while maintaining both the integrity of brand experience for all customers and the ability to leverage our service and technology infrastructures. However our customers decide to buy, we want them to understand and benefit from the following Progressive service offerings.

SERVICE STRATEGY-WHEN AND WHERE YOU WANT IT Assistance after an accident or other loss is Progressive's most important service. We implore our customers to call 1-800-274-4499 immediately after any incident. Twenty-four hours a day, 7 days a week, Progressive people take claim report telephone calls, obtain the relevant information, authorize emergency measures and dispatch Progressive claim representatives to meet customers as quickly as possible, usually within hours.

AROUND-THE-CLOCK SERVICE. Consumers want to do business when it's convenient for them, so we operate 24 hours a day, 7 days a week, providing insurance sales and policy change assistance, as well as the critically important Immediate Response(R) claims service. Our customers come to depend on this level of service, which we support by continuous real-time monitoring of internal systems performance, threatening weather and other natural disasters. This approach allows us immediately to reconfigure voice and data networks and to activate disaster response teams when required.

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OTHER BUSINESSES

The Company's other lines of business include writing insurance for small fleets of commercial vehicles, collateral protection and loan tracking for auto lenders and financial institutions, directors' and officers' liability and fidelity coverage for American Bankers Association member community banks and independent credit unions, and providing related claims, underwriting and system services. Revenues in these businesses were $405 million in 1998, compared to $402 million last year. Pretax operating profit was $62 million, compared to $37 million last year, up 68%, and return on revenue was 15.3%, compared to 9.2% in 1997. Most of these businesses are in markets that are declining in size.

INVESTMENTS AND CAPITAL MANAGEMENT

Progressive employs a conservative approach to investments and capital management, intended to ensure that there is sufficient capital to support all the insurance premium that we can profitably write. Our objectives are to finance growth internally, to sustain an A or better senior debt rating, to have lower debt cost than peer companies and to repurchase stock cost-effectively. Progressive's senior debt was rated A+ and A2 by S&P and Moody's, respectively, at year-end 1998 and our debt to debt plus capital ratio was 23.3%. During 1998, we repurchased 393,000 shares at an average cost per share of $104. We filed a shelf registration to issue $300 million of senior debt intended to replace $300 million of debt expiring at year-end 2000.

Asset allocation considers the capital we have in excess of that required to support premiums planned over the next three years, anticipated liquidity needs and our analysis of the expected risks and returns on various assets. At year-end 1998, $4,532.9 million, 79.9% of our total invested assets, was investment-grade, fixed-maturity securities, compared to $4,168.3 million in 1997, 79.1%. Non-investment-grade fixed-maturity securities were $128.0 million, 2.3% of total invested assets, compared to $132.5 million in 1997, 2.5%. The portfolio's duration was 2.8 years at year-end 1998, in the middle of our target range.

Common stocks were $636.9 million, 11.2% of total invested assets, compared to $620.8 million and 11.8% at year-end 1997. Our 3.7% total return underperformed the S&P 500's 28.5% because we overweighted smaller capitalization "value style" companies and foreign equities.

Included in our non-investment-grade fixed-maturity securities and our common stock portfolio are $299.6 million, 5.3%, of other risk assets. Other risk assets include such items as high yield and distressed debt, private equities and warrants, and mezzanine investments. No individual security in the other risk asset portfolio comprised more than one percent of Progressive's total investment portfolio. Our total return on the average amount invested in this asset class in 1998 was (4.4)%.

In 1998, Progressive earned $221.3 million of investment income after tax, compared to $205.3 million in 1997. Realized gains were $11.4 million in 1998, compared to $98.5 million in 1997. As of year-end 1998, there were $174.3 million in unrealized gains, compared to $188.4 million at year-end 1997. The weighted average fully taxable equivalent book yield of the portfolio was 6.3% in 1998, compared to 6.6% in 1997.

RISKS

LEGISLATIVE AND REGULATORY Highly complex regulation becomes more ambiguous in a technology-driven economy and compliance with the variety of state regulatory systems becomes more difficult. As Progressive innovates and grows, our "cutting-edge" programs increase the risk of regulatory scrutiny. The constant attention of the plaintiff bar to the insurance industry increases the risk of added liabilities not contemplated when premiums were set.

ADVERTISED BRAND Heightened consumer awareness of the Progressive brand requires ever higher performance standards. We regularly monitor consumer reaction to our advertising and assess their service delivery expectations. We continually seek ways to exceed consumer expectations in innovative and low-cost ways.

UNPREDICTABLE UNDERWRITING MARGIN AND GROWTH RATE Our goal is to achieve a 4% underwriting profit over the entire retention period of a policyholder and we monitor closely to ensure rates are adjusted promptly and adequately. However, we cannot predict with precision the timing and pace of changes in underwriting margins, retention or the rate of growth.

HOMEOWNERS INSURANCE Because many consumers buy auto and homeowners insurance together, we plan to test offer a homeowners product in 1999, expanding thereafter based on what we learn from the tests. Inexperience exposes us to underwriting losses. Broad implementation could create underserved market issues and aggregate exposures requiring precise measurement and conservative management.

COMPETITOR RESPONSE Competitors notice Progressive's profitability and growth and then attempt to copy our approach to improving auto insurance consumers' experience. We cannot predict whether or when competitive tactics will influence our profitability and growth, and/or if their attempts to attract our excellent people will succeed. We constantly monitor competitors and improve our products and services to keep them among the industry's best.

Y2K Between 1995 and 1998, nearly 100% of our system applications were remediated. Critical applications are being tested in our Year 2000 Time Warp Lab, an autonomous production environment simulating year 2000 operating time frames. We are well under way in ensuring that mainframe computers, servers, personal computers, operating systems, desktop applications and telecommunications hardware and software are compliant. We have completed contingency plans for all of our business processes and are assessing and testing key business partners' readiness. During 1999, we will continue to test, refine and challenge all our preparations. Nonetheless, Progressive, like other well-prepared institutions, is subject to Y2K risks we cannot anticipate, eliminate or quantify.

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THE FUTURE

In 1998, I turned 65 and recovered from an illness. It became clear that managing a smooth CEO succession that left people confident about Progressive's future would be the best thing I could do for the organization I am so proud of and care so much about. On January 1, 1999, Progressive's CEO responsibility was divided so that we now have a CEO-Insurance Operations and a CEO-Investments and Capital Management. Chuck Chokel, formerly CFO, became CEO-Investments and Capital Management and I remain CEO-Insurance Operations. In 1998, we also codified the Board structure, composition and protocols that resulted in clarifying the role of Chairman of the Board, as distinct from the CEO. I remain Chairman of the Board. There are no plans now to appoint a new CEO-Insurance Operations. However, I am delighted to have a structure in place that allows it and will permit me to contribute.

Progressive leads a wave of change in the United States' system for dealing with auto accident injuries and property damage. We reduce auto accident victims' trauma and cost. We are being rewarded for leadership and commitment. Our success so far encourages us to expand at a pace that tests our ability to provide the service we aspire to deliver.

We begin 1999 as we have begun all other years-excited, respectful of the challenges implicit in our objectives and strategy, humbled by our failures, proud of having responded to them and comfortable 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. We see a future that is brighter than ever.

We deeply appreciate the customers we are privileged to serve. Thank you for your business. Thanks to the more than 30,000 Independent Insurance Agents who did business with Progressive in 1998. We are grateful for our shareholders' continued confidence. To the 15,735 men and women who make Progressive a great company, thanks for all your contributions in 1998 and for the promise you bring to our future.

Joy, Love and Peace

/s/ Peter Lewis

Peter B. Lewis
Chairman, President and Chief Executive Officer-
Insurance Operations

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1998 Financial Review

Consolidated Statements of Income

(millions-except per share amounts)

For the years ended December 31,	1998	1997	1996
NET PREMIUMS WRITTEN	$ 5,299.7	$ 4,665.1	$ 3,441.7
REVENUES			
Premiums earned	$ 4,948.0	$ 4,189.5	$ 3,199.3
Investment income	294.8	274.9	225.8
Net realized gains on security sales	11.4	98.5	7.1
Service revenues	38.2	45.3	46.2
Total revenues	5,292.4	4,608.2	3,478.4
EXPENSES			
Losses and loss adjustment expenses	3,376.3	2,967.5	2,236.1
Policy acquisition costs	659.9	607.8	482.6
Other underwriting expenses	495.8	336.0	208.5
Investment expenses	7.4	9.9	6.1
Service expenses	30.8	43.9	41.9
Interest expense	61.1	64.6	61.5
Total expenses	4,631.3	4,029.7	3,036.7
NET INCOME			
Income before income taxes	661.1	578.5	441.7
Provision for income taxes	204.4	178.5	128.0
Net income	$ 456.7	$ 400.0	$ 313.7
COMPUTATION OF EARNINGS PER SHARE			
Net income	$ 456.7	$ 400.0	$ 313.7
Less: Preferred Share dividends	--	--	(3.5)
Excess Preferred Share liquidation price over cost basis	--	--	(2.9)
Income available to common shareholders	$ 456.7	$ 400.0	$ 307.3
Basic:			
Average shares outstanding	72.5	72.0	71.6
Per share	$ 6.30	$ 5.56	$ 4.29
Diluted:			
Average shares outstanding	72.5	72.0	71.6
Net effect of dilutive stock options	2.2	3.3	2.6
Total equivalent shares	74.7	75.3	74.2
Per share	$ 6.11	$ 5.31	$ 4.14

See notes to consolidated financial statements.

Consolidated Balance Sheets

(millions)

December 31,	1998	1997
ASSETS		
Investments:		
Available-for-sale:		
Fixed maturities, at market (amortized cost: $4,171.6 and $3,836.8)	$ 4,219.0	$ 3,891.4
Equity securities, at market:		
Preferred stocks (cost: $374.3 and $333.9)	376.5	348.8
Common stocks (cost: $512.2 and $501.9)	636.9	620.8
Short-term investments, at amortized cost (market: $441.9 and $409.4)	441.9	409.4
Total investments	5,674.3	5,270.4
Cash	18.6	23.3
Accrued investment income	53.1	44.3
Premiums receivable, net of allowance for doubtful accounts of $34.0 and $32.4	1,456.2	1,160.8
Reinsurance recoverables	281.0	317.5
Prepaid reinsurance premiums	77.7	79.8
Deferred acquisition costs	299.1	259.6
Income taxes	192.9	116.5
Property and equipment, net of accumulated depreciation of $194.1 and $158.3	376.2	260.4
Other assets	34.0	27.0
Total assets	$ 8,463.1	$ 7,559.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unearned premiums	$ 2,329.7	$ 1,980.1
Loss and loss adjustment expense reserves	2,188.6	2,146.6
Policy cancellation reserve	29.1	34.7
Accounts payable and accrued expenses	582.0	486.4
Debt	776.6	775.9
Total liabilities	5,906.0	5,423.7
Shareholders' equity:		
Common Shares, $1.00 par value (authorized 300.0, issued 83.1, including treasury shares of 10.6 and 10.8)	72.5	72.3
Paid-in capital	448.3	412.8
Accumulated other comprehensive income:		
Net unrealized appreciation on investment securities	113.3	122.3
Other	(9.6)	(6.3)
Retained earnings	1,932.6	1,534.8
Total shareholders' equity	2,557.1	2,135.9
Total liabilities and shareholders' equity	$ 8,463.1	$ 7,559.6

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(millions-except per share amounts)

For the years ended December 31,	1998		1997		1996	
RETAINED EARNINGS						
Balance, Beginning of year	$ 1,534.8		$ 1,155.2		$ 899.8	
Net income	456.7	$ 456.7	400.0	$ 400.0	313.7	$ 313.7
Cash dividends on Preferred Shares (9 3/8% annually)	--		--		(3.2)	
Cash dividends on Common Shares ($.25, $.24 and $.23 per share)	(18.1)		(17.3)		(16.4)	
Treasury shares purchased: Common Shares	(39.8)		(2.7)		(35.5)	
Preferred Shares	--		--		(.3)	
Preferred Shares redeemed	--		--		(2.9)	
Other, net	(1.0)		(.4)		--	
Balance, End of year	$ 1,932.6		$ 1,534.8		$ 1,155.2	
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAX						
Balance, Beginning of year	$ 116.0		$ 68.4		$ 45.5	
Change in unrealized appreciation (depreciation)		(9.0)		48.3		22.9
Other		(3.3)		(.7)		--
Other comprehensive income (loss)	(12.3)	(12.3)	47.6	47.6	22.9	22.9
Balance, End of year	$ 103.7		$ 116.0		$ 68.4	
COMPREHENSIVE INCOME		$ 444.4		$ 447.6		$ 336.6
PREFERRED SHARES, NO PAR VALUE						
Balance, Beginning of year	$ --		$ --		$ 83.6	
Redemption of shares	--		--		(77.9)	
Treasury shares purchased-cost basis	--		--		(5.7)	
Balance, End of year	$ --		$ --		$ --	
COMMON SHARES, $1.00 PAR VALUE						
Balance, Beginning of year	$ 72.3		$ 71.5		$ 72.1	
Stock options exercised	.6		.8		.4	
Treasury shares purchased	(.4)		--		(1.0)	
Balance, End of year	$ 72.5		$ 72.3		$ 71.5	
PAID-IN CAPITAL						
Balance, Beginning of year	$ 412.8		$ 381.8		$ 374.8	
Stock options exercised	10.9		13.3		6.5	
Tax benefits on stock options exercised	25.6		17.6		5.9	
Treasury shares purchased	(2.4)		(.2)		(5.4)	
Other	1.4		.3		--	
Balance, End of year	$ 448.3		$ 412.8		$ 381.8	
TOTAL SHAREHOLDERS' EQUITY	$ 2,557.1		$ 2,135.9		$ 1,676.9	

There are 20.0 million Serial Preferred Shares authorized. In May 1991, the Company sold 4.0 million 9 3/8% Serial Preferred Shares, Series A; all remaining Preferred Shares were redeemed, at the Company's option, on May 31, 1996, 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.

Consolidated Statements of Cash Flows

(millions)

For the years ended December 31,	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 456.7	$ 400.0	$ 313.7
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	56.1	36.6	23.8
Net realized gains on security sales	(11.4)	(98.5)	(7.1)
Changes in:			
Unearned premiums	349.6	442.3	257.7
Loss and loss adjustment expense reserves	42.0	204.6	190.1
Accounts payable and accrued expenses	76.7	49.9	50.1
Policy cancellation reserve	(5.6)	(8.6)	2.5
Prepaid reinsurance premiums	2.1	33.3	(15.3)
Reinsurance recoverables	36.5	62.7	28.1
Premiums receivable	(295.4)	(310.9)	(170.9)
Deferred acquisition costs	(39.5)	(52.7)	(18.2)
Income taxes	(71.3)	(67.8)	(16.3)
Other, net	21.5	43.8	14.0
Net cash provided by operating activities	618.0	734.7	652.2
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases:			
Available-for-sale: fixed maturities	(3,998.8)	(6,764.3)	(4,447.2)
equity securities	(942.9)	(658.2)	(725.3)
Sales:			
Available-for-sale: fixed maturities	3,210.2	5,840.0	3,306.3
equity securities	774.3	581.7	537.7
Maturities, paydowns, calls and other:			
Available-for-sale: fixed maturities	419.9	578.0	465.7
equity securities	126.0	125.4	62.5
Net (purchases) sales of short-term investments	(32.5)	(248.6)	143.1
(Receivable) payable on securities	18.9	(2.0)	76.3
Purchases of property and equipment	(174.2)	(121.9)	(35.8)
Purchase of subsidiary, net of cash acquired	--	(48.0)	--
Net cash used in investing activities	(599.1)	(717.9)	(616.7)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of stock options	11.5	14.1	6.9
Tax benefits from exercise of stock options	25.6	17.6	5.9
Redemption of Preferred Shares	--	--	(80.8)
Proceeds from debt	--	--	99.6
Payments of debt	--	(20.4)	(.4)
Dividends paid to shareholders	(18.1)	(17.3)	(19.6)
Acquisition of treasury shares	(42.6)	(2.9)	(47.9)
Net cash used in financing activities	(23.6)	(8.9)	(36.3)
Increase (decrease) in cash	(4.7)	7.9	(.8)
Cash, Beginning of year	23.3	15.4	16.2
Cash, End of year	$ 18.6	$ 23.3	$ 15.4

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1998, 1997 and 1996

01 REPORTING AND ACCOUNTING POLICIES

NATURE OF OPERATIONS The Progressive Corporation, an insurance holding company formed in 1965, owns 82 subsidiaries and has one mutual insurance company affiliate. The companies provide personal automobile insurance and other specialty property-casualty insurance and related services throughout 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 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 $17.9 million, of which $6.3 million remains. In the opinion of management, there is no present indication of diminished value in this amount.

INVESTMENTS Available-for-sale: fixed maturity securities are securities held for indefinite periods of time, and may be used as a part of the Company's asset/liability strategy 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, reported in accumulated other comprehensive income. 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 accumulated other comprehensive income. Changes in value due to foreign currency exchange are limited by foreign currency hedges; unhedged amounts are not material and changes in value are recognized in income in the current period.

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 financial position, cash flows or results of operations. The Company had no trading securities at December 31, 1998 and 1997.

Derivative instruments, 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. Derivative instruments held or issued for purposes other than trading include derivative positions used for risk management purposes and hedge positions. Derivative positions used for risk management are evaluated as to their effectiveness to modify the Company's risk characteristics and enhance the yields of the available-for-sale portfolios. Hedges are evaluated on established criteria to determine the effectiveness of their correlation and ability to reduce risk of specific securities or transactions. Those instruments held or issued for risk management purposes are carried at market value in the appropriate available-for-sale portfolio based on the nature of the derivative instrument; 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 other comprehensive income 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. 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 instruments entered into for the purpose of hedging anticipated transactions are deferred and amortized over the life of the hedged transaction, beginning at the inception of the transaction. Gains and losses on foreign currency hedges offset the foreign exchange gains and losses on the foreign equity portfolio. The net hedged gain or loss is not material and is recognized into income in the current period. Hedges that no longer qualify for hedge accounting due to lack of correlation are reclassified to derivative instruments held or issued for purposes other than trading and used for risk management purposes. Those instruments held or issued for trading purposes are carried at market value and include derivatives held or issued for the specific purpose of generating profits and all other derivatives not meeting the criteria for derivatives held or issued for other than trading purposes; changes in value are recorded to income in the current period. During the year, the net activity in derivative instruments held or issued for trading purposes was not material to the Company's financial position, cash flows or results of operations; gains or losses during the year were recognized in the available-for-sale portfolio. See Note 4-Investments for further discussion.

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 in the near term.

Realized gains and losses on sales of securities are computed based on the first-in first-out method and include write downs on available-for-sale securities considered to have other than temporary declines in market value.

PROPERTY AND EQUIPMENT Property and equipment are 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. The Company early adopted the accounting treatment required by Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and, as a result, capitalized $19.4 million, or $.17 per share, of computer software costs incurred during the year ended December 31, 1998.

As of December 31, 1998, the Company had contractual commitments related to the Company's construction projects in Tampa, Florida and Mayfield Village, Ohio totalling $99.0 million, of which $55.5 million had been paid through 1998. Total interest capitalized related to the Company's construction projects and capitalized computer software costs was $3.5 million in 1998.

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% 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 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. 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 include 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 7-Reinsurance for further discussion). The remaining reinsurance arises from the Company seeking to reduce its loss exposure in its auto and non-auto businesses and to build its strategic alliance relationships. Prepaid reinsurance premiums are recognized on a pro rata basis over the period of risk.

EARNINGS PER SHARE Basic earnings per share are computed using the weighted average number of Common Shares outstanding and diluted earnings per share include common stock 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. The Company does not defer advertising costs.

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 $235.9 million, $166.9 million and $121.5 million in 1998, 1997 and 1996, respectively. Total interest paid was $63.8 million for both 1998 and 1997 and $60.3 million for 1996.

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."

NEW ACCOUNTING STANDARDS In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which standardizes the accounting for derivative instruments and requires that all derivatives be recognized at fair value on the balance sheet. Changes in fair value are recorded in current period earnings or in other comprehensive income if the derivative transaction is a qualified cash flow hedge. The statement is effective for fiscal years beginning after June 15, 1999. At December 31, 1998, the Company estimates that the net effect of all derivative transactions would not be significant. The Company held an anticipatory debt issuance hedge at December 31, 1998, that, under SFAS 133, would have been recorded as a $7.2 million loss, net of tax, to other comprehensive income.

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 classified to conform with the 1998 presentation.

02 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 financial position, cash flows or results of operations.

03 CONTRACTUAL COMMITMENTS

The Company has operating lease commitments, licensing and service agreements with terms greater than one year, some with options to renew at the end of the contract periods. The minimum commitments under such noncancelable contracts at December 31, 1998 are as follows (in millions): 1999-$61.6; 2000-$51.6; 2001-$34.4; 2002-$10.3; 2003-$6.0; and thereafter-$.9. Total expense incurred by the Company for such purposes for 1998, 1997 and 1996 was $93.1 million, $83.3 million and $57.5 million, respectively.

04 INVESTMENTS

The components of pretax investment income and net realized gains on security sales for the periods ended December 31 were:

(millions)

	1998	1997	1996
Available-for-sale: fixed maturities	$ 233.9	$ 219.1	$ 183.9
equity securities	34.1	24.6	27.7
Short-term investments	26.8	31.2	14.2
Investment income	294.8	274.9	225.8
Gross realized gains:			
Available-for-sale: fixed maturities	34.6	56.9	23.9
equity securities	159.1	121.4	39.7
Short-term investments	.2	--	--
Gross realized losses:			
Available-for-sale: fixed maturities	(37.1)	(36.9)	(29.6)
equity securities	(145.4)	(42.9)	(26.9)
Net realized gains on security sales	11.4	98.5	7.1
	$ 306.2	$ 373.4	$ 232.9

During 1998, the Company realized losses of $32.2 million related to write downs on investment securities considered to have other than temporary declines in market value and a $9.2 million net realized loss on an anticipatory hedge.

During 1997, the Company sold $178.4 million (proceeds of $200.8 million) of non-investment-grade commercial mortgage-backed securities, recognizing a net realized gain of $22.4 million and accounted for the transaction in accordance with SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

The composition of the investment portfolio at December 31 was:

(millions)	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
1998				
Available-for-sale:				
U.S. government obligations	$ 610.8	$ 4.1	$ (.4)	$ 614.5
State and local government obligations	1,649.0	44.9	(.3)	1,693.6
Foreign government obligations	52.9	.4	--	53.3
Corporate debt securities	315.5	4.5	(1.8)	318.2
Asset-backed securities	1,491.4	19.8	(24.3)	1,486.9
Other debt securities	52.0	.7	(.2)	52.5
	4,171.6	74.4	(27.0)	4,219.0
Preferred stocks	374.3	14.0	(11.8)	376.5
Common stocks	512.2	144.3	(19.6)	636.9
Short-term investments	441.9	--	--	441.9
	$ 5,500.0	$ 232.7	$ (58.4)	$ 5,674.3
1997				
Available-for-sale:				

U.S. government obligations	$ 918.1	$ 2.1	$ (.6)	$ 919.6
State and local government obligations	1,231.8	32.6	(.2)	1,264.2
Foreign government obligations	57.6	1.0	(.1)	58.5
Corporate debt securities	89.2	.8	--	90.0
Asset-backed securities	1,501.4	23.9	(5.3)	1,520.0
Other debt securities	38.7	.7	(.3)	39.1
	3,836.8	61.1	(6.5)	3,891.4
Preferred stocks	333.9	15.1	(.2)	348.8
Common stocks	501.9	139.0	(20.1)	620.8
Short-term investments	409.4	--	--	409.4
	$ 5,082.0	$ 215.2	$ (26.8)	$ 5,270.4

The composition of fixed maturities by maturity at December 31, 1998 was:

(millions)	COST	MARKET VALUE
Less than one year	$ 368.2	$ 371.7
One to five years	2,602.9	2,639.3
Five to ten years	1,049.5	1,068.9
Ten years or greater	151.0	139.1
	$ 4,171.6	$ 4,219.0

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, 1998, bonds in the principal amount of $67.9 million were on deposit with various regulatory agencies to meet statutory requirements. Securities with a market value of $2.4 million were held at December 31, 1998, by a bankruptcy remote subsidiary and are not available to the general creditors of the Company.

The components of derivative financial instruments held or issued for purposes other than trading at December 31 were:

(millions)	MARKET VALUE/ CARRYING VALUE AT DECEMBER 31,		CONTRACT/ NOTIONAL VALUE AT DECEMBER 31,	
	1998	1997	1998	1997
Forward and future positions:				
Assets	$ 2.8	$ .8	$ 30.9	$ 13.7
Liabilities	--	(.1)	--	13.4
Anticipatory debt issuance hedge:				
Short futures position	4.4	--	203.7	--
Interest rate swap hedge	(11.0)	--	150.0	--
Foreign currency forward and future positions:				
Assets	--	(.7)	--	50.9
Liabilities	(.5)	1.7	31.8	67.2
	$ (4.3)	$1.7	$416.4	$145.2

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Derivative instruments classified as held or issued for purposes other than trading are used to manage the Company's 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, hedged securities or hedged cash flows. The anticipatory debt issuance hedges were entered into to hedge against possible rises in interest rates prior to the issuance of debt under the Company's outstanding $300 million shelf registration, which is intended to replace debt expiring December 2000. The interest rate swap hedge performed as expected and is recorded as a deferred asset under SFAS 80, "Accounting for Futures Contracts," as a qualified hedge. Gains or losses on the hedge are deferred and will be recognized into income as adjustments to interest expense upon the issuance of the debt. The short futures position, driven by changing economic conditions, did not meet the established criteria for hedging correlation and was discontinued as a hedge, recognizing a net realized loss of $9.2 million in 1998. The Company continues to hold the short futures position for risk management of the anticipated debt offering.

Derivative instruments may also be used for trading purposes. The Company had net losses of $1.2 million (gross gains of $9.9 million; gross losses of $11.1 million) during 1998 and net losses of $.7 million (gross gains of $9.9 million; gross losses of $10.6 million) during 1997 in the trading portfolio; these losses were not material to the Company's results of operations and are included in the results of the available-for-sale portfolio. At December 31, 1998, the Company had short trading positions in foreign currency and treasury forwards with net market values of $(.4) million and notional values of $31.5 million; the average market values for long and short positions in 1998 were $(.2) million and $.5 million, respectively. At December 31, 1997, the Company had short trading positions in foreign currency and commodity futures with net market values of $1.1 million and notional values of $64.4 million; the average market values for long and short positions in 1997 were $.5 million and $.4 million, respectively.

For all derivative positions, net cash requirements are limited to changes in market values, which may vary based upon changes in interest rates, currency exchange 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.

As of December 31, 1998, the Company had open investment funding commitments of $56.0 million. The Company had no uncollateralized lines or letters of credit as of December 31, 1998 or 1997.

05 STATUTORY FINANCIAL INFORMATION

At December 31, 1998, $245.7 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 1998, the insurance and other subsidiaries paid aggregate cash dividends of $151.0 million to the parent company. Based on the dividend laws currently in effect, the insurance subsidiaries may pay aggregate dividends of $274.2 million in 1999 without prior approval from regulatory authorities.

Statutory policyholders' surplus was $2,029.9 million and $1,722.9 million at

December 31, 1998 and 1997, respectively. Statutory net income was $331.5 million, $274.7 million and $277.9 million for the years ended December 31, 1998, 1997 and 1996, 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 (NAIC) 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.

In 1998, the NAIC adopted the Codification of Statutory Accounting Principles guidance which will replace the current NAIC Annual Statement Instructions and Accounting Practices and Procedures manual as the NAIC's primary guidance on statutory accounting. The Codification provides guidance for areas where statutory accounting has been silent and changes current statutory accounting in some areas. The implementation date established by the NAIC is January 1, 2001; however, the effective date will be specified by each insurance company's state of domicile. The Company is currently evaluating the potential effect of the Codification guidance, but does not expect it to have a material impact on the Company's statutory surplus.

06 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)

	1998	1997	1996
Balance at January 1	$ 2,146.6	$ 1,800.6	$ 1,610.5
Less reinsurance recoverables on unpaid losses	279.1	267.7	296.1
Net balance at January 1	1,867.5	1,532.9	1,314.4
Net reserves of subsidiary purchased	--	82.2	--
Incurred related to:			
Current year	3,560.5	3,070.8	2,341.9
Prior years	(184.2)	(103.3)	(105.8)
Total incurred	3,376.3	2,967.5	2,236.1
Paid related to:			
Current year	2,376.0	1,971.5	1,424.7
Prior years	922.0	743.6	592.9
Total paid	3,298.0	2,715.1	2,017.6
Net balance at December 31	1,945.8	1,867.5	1,532.9
Plus reinsurance recoverables on unpaid losses	242.8	279.1	267.7
Balance at December 31	$ 2,188.6	$ 2,146.6	$ 1,800.6

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, financial condition, cash flows or results of operations.

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.

07 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, 1998 and 1997, 36% and 44%, respectively, of the "prepaid reinsurance premiums" and 56% and 60%, 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 was as follows:

(millions)

	1998		1997		1996	
	Written	Earned	Written	Earned	Written	Earned
Direct premiums	$ 5,451.3	$ 5,100.5	$ 4,825.2	$ 4,382.9	$ 3,638.4	$ 3,380.7
Assumed	--	--	--	--	3.8	3.8
Ceded	(151.6)	(152.5)	(160.1)	(193.4)	(200.5)	(185.2)
Net premiums	$ 5,299.7	$ 4,948.0	$ 4,665.1	$ 4,189.5	$ 3,441.7	$ 3,199.3

Losses and loss adjustment expenses are net of reinsurance ceded of $131.9 million in 1998, $150.8 million in 1997 and $117.3 million in 1996.

08 INCOME TAXES

Significant components of the Company's income tax provision were as follows:

(millions)

	1998	1997	1996
Current tax provision	$ 237.1	$ 241.6	$ 163.9
Deferred tax benefit	(32.7)	(63.1)	(35.9)
Total income tax provision	$ 204.4	$ 178.5	$ 128.0

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

(millions)

	1998		1997		1996	
Income before income taxes	$ 661.1		$ 578.5		$ 441.7	
Tax at statutory rate	$ 231.4	35%	$ 202.5	35%	$ 154.6	35%
Tax effect of:						
Exempt interest income	(23.1)	(3)	(19.6)	(3)	(21.1)	(5)
Dividends received deduction	(6.6)	(1)	(7.0)	(1)	(7.7)	(2)
Other items, net	2.7	--	2.6	--	2.2	1
	$ 204.4	31%	$ 178.5	31%	$ 128.0	29%

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, 1998 and 1997, the components of the net deferred tax assets were as follows:

(millions)

	1998	1997
Deferred tax assets:		
Unearned premiums reserve	$ 161.2	$ 132.1
Non-deductible accruals	43.1	37.0
Derivative financial instruments	4.4	6.9
Capitalized expenditures	10.9	12.7
Loss reserves	109.5	93.8
Other	14.3	12.3
Deferred tax liabilities:		
Deferred acquisition costs	(104.7)	(88.7)
Unrealized gains	(61.0)	(66.1)
Net deferred tax assets	$ 177.7	$ 140.0

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

09 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 1% to 5% of annual eligible compensation up to the Social Security wage base, based on years of eligible service. Company contributions were $6.5 million in 1998, $5.1 million in 1997 and $4.2 million in 1996.

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 3% of the employee's eligible compensation. Company contributions were $9.9 million in 1998, $7.3 million in 1997 and $5.8 million in 1996.

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; 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. As of December 31, 1998, the Company had a pension asset of $3.5 million, compared to $2.0 million in 1997 and a pension liability of $1.2 million in 1996. The Company recognized income of $.1 million in both 1998 and 1997, and $0 in 1996. 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.

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 liability was $1.8 million at December 31, 1998, compared to $1.5 million in 1997.

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 expenses of $.7 million in 1998, $.2 million in 1997 and $.4 million in 1996. 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 The Company maintains 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 are deemed 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, 1998 and 1997, the trust held assets of $14.6 million and $6.4 million, respectively, of which $3.9 million and $1.4 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. In addition to the Incentive Plans, the Company registered 1,425,000 and 650,000 Common Shares relating to stock options granted to key employees and directors of the Company, respectively. The nonqualified stock options granted are 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 employee stock option activity during the three years ended December 31 follows:

	1998		1997		1996	
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	4,968,964	$ 35.52	5,109,390	$ 28.09	4,943,324	$ 23.76
Add (deduct):						
Granted	441,210	124.61	726,889	69.82	852,989	47.52
Exercised	(641,013)	16.99	(758,580)	17.44	(454,348)	14.89
Cancelled	(63,350)	61.03	(108,735)	41.07	(232,575)	32.95
End of year	4,705,811	$ 46.07	4,968,964	$ 35.52	5,109,390	$ 28.09
Exercisable, end of year	1,342,801	$ 20.26	1,497,050	$ 15.53	1,561,428	$ 15.75
Available, end of year	4,676,547		5,054,407		5,672,561	

The following employee options were outstanding or exercisable as of December 31, 1998:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING NUMBER OF SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
$ 9 - 20	923,070	2.41 years	$ 15.31	923,070	$ 15.31
21 - 40	1,817,028	5.17 years	33.32	393,928	29.83
41 - 60	818,637	6.98 years	47.17	19,687	44.97
61 - 80	694,752	7.99 years	68.64	5,527	67.14
81 - 120	29,239	8.25 years	104.08	589	114.19
121 - 161	423,085	9.01 years	124.83	-	-
$ 9 - 161	4,705,811			1,342,801	

Under SFAS 123, the Company uses the Black-Scholes pricing model to calculate the fair value of the options awarded, including 138,696 options awarded to directors. This model produced a value of 40.6% for 1998 awards, 43.2% for 1997 awards and 41.4% for 1996 awards. The following assumptions were used to derive the ratio: a 7-year option term; an annualized volatility rate of .259 for 1998, .255 for 1997 and .246 for 1996; a risk-free rate of return of 5.49% for 1998, 6.63% for 1997 and 6.69% for 1996; and a dividend yield of .20% for 1998, .25% for 1997 and .5% for 1996. 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)

	1998	1997	1996
PRO FORMA			
Net income	$447.3	$393.5	$310.3
Earnings per share			
Basic	$ 6.17	$ 5.46	$ 4.24
Diluted	6.00	5.22	4.09

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 executive cash bonus programs for key members of management and a gainsharing program for all other employees, were $107.5 million in 1998, $85.8 million in 1997 and $45.3 million in 1996.

10 DEBT

During 1998, there were no bank borrowings outstanding. Debt includes amounts the Company has borrowed and contributed to the capital of its insurance subsidiaries or borrowed for other long-term purposes.

Debt at December 31 consisted of:
(millions)

	1998 COST	1998 MARKET VALUE	1997 COST	1997 MARKET VALUE

7.30% Notes, due 2006 (issued: $100.0, May 1996)	$ 99.7	$ 109.5	$ 99.7	$ 105.3
6.60% Notes, due 2004 (issued: $200.0, January 1994)	199.1	199.4	198.9	200.7
7% Notes, due 2013 (issued: $150.0, October 1993)	148.4	157.2	148.4	154.4
8 3/4% Notes, due 1999 (issued: $30.0, May 1989)	29.9	30.4	29.7	30.9
10% Notes, due 2000 (issued: $150.0, December 1988)	149.8	162.7	149.6	164.6
10 1/8% Subordinated Notes, due 2000 (issued: $150.0, December 1988)	149.7	162.4	149.6	164.6
	$ 776.6	$ 821.6	$ 775.9	$ 820.5

All debt is noncallable with interest payable semiannually.

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 has the right to borrow up to $10.0 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, 1998 or 1997.

In addition, the Company may issue from time to time, in one or more transactions, up to $300 million of its debt securities under an outstanding shelf registration, which became effective in 1998.

Aggregate principal payments on debt outstanding at December 31, 1998, are $30.0 million for 1999, $300.0 million for 2000, $0 for 2001, 2002 and 2003, and $450.0 million thereafter.

11 SEGMENT INFORMATION

During 1998, the Company adopted SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," which requires companies to report financial and descriptive information about their reportable operating segments. The Company writes personal automobile and other specialty property-casualty insurance and related services throughout the United States and Canada. The Company's Personal Lines business is predominantly auto insurance and is organized by states. The Company's 44 state/community managers are located in or near the market served. These managers are measured and paid based on profit and growth in their state(s)/community and manage claims, distribution, advertising, budgets, price levels, agent development, regulation and community relations for their area. The Canadian business unit's revenues are less than 1% of the Company's consolidated revenues.

The Company's other lines of business include insurance for commercial vehicles, lenders' collateral protection, directors' and officers' liability and related services, including processing business for involuntary plans and claim services to fleet owners and other insurance companies. The other businesses accounted for less than 8% of the Company's consolidated revenues. All revenues are generated from external customers and the Company does not have a reliance on any major customer.

The Company evaluates segment profitability based on pretax operating profit. Expense allocations are based on certain assumptions and estimates; stated segment operating results would change if different methods were applied. The Company does not allocate assets, investment income, interest expense or income taxes to operating segments. In addition, the Company does not separately identify depreciation and amortization expense by segment and such disclosure would be impracticable. Companywide depreciation and amortization expense was $56.1 million in 1998, $36.6 million in 1997 and $23.8 million in 1996. The accounting policies of the operating segments are the same as those described in Note 1-Reporting and Accounting Policies.

For the years ended December 31, (millions)	1998		1997		1996	
		PRETAX		PRETAX		PRETAX

	REVENUES	PROFIT (LOSS)	REVENUES	PROFIT (LOSS)	REVENUES	PROFIT (LOSS)
Personal Lines(1)	$ 4,580.7	$ 361.3	$ 3,832.7	$ 243.0	$ 2,916.0	$ 230.8
Other	405.5	62.1	402.1	36.6	329.5	45.6
Investments(2)	306.2	298.8	373.4	363.5	232.9	226.8
Interest Expense	--	(61.1)	--	(64.6)	--	(61.5)
	$ 5,292.4	$ 661.1	$ 4,608.2	$ 578.5	$ 3,478.4	$ 441.7

(1) 94% of the Personal Lines segment is personal automobile insurance.

(2) Revenues represent recurring investment income and net realized gains/losses on security sales; pretax profit is net of investment expenses.

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 4-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)	1998		1997	
	COST	MARKET VALUE	COST	MARKET VALUE
Investments:				
Available-for-sale: fixed maturities	$4,171.6	$4,219.0	$3,836.8	$3,891.4
preferred stocks	374.3	376.5	333.9	348.8
common stocks	512.2	636.9	501.9	620.8
Short-term investments	441.9	441.9	409.4	409.4
Debt	(776.6)	(821.6)	(775.9)	(820.5)

13 OTHER COMPREHENSIVE INCOME

During 1998, the Company adopted SFAS 130, "Reporting Comprehensive Income," which requires disclosure of comprehensive income and its components in the financial statements. The components of other comprehensive income (loss) for the years ended December 31 were as follows:

(millions)	1998			1997			1996		
	PRETAX	TAX (PROVISION) BENEFIT	AFTER TAX	PRETAX	TAX (PROVISION) BENEFIT	AFTER TAX	PRETAX	TAX (PROVISION) BENEFIT	AFTER TAX
Unrealized gains (losses) arising during period:(1)									
Available-for-sale:									
fixed maturities	$ 2.8	$ (1.0)	$ 1.8	$ 29.5	$ (10.3)	$ 19.2	$ (18.3)	$ 6.4	(11.9)
equity securities	64.3	(22.5)	41.8	44.8	(15.7)	29.1	53.7	(18.9)	34.8
Reclassification adjustment:(2)									
Available-for-sale:									
fixed maturities	(10.0)	3.5	(6.5)						
equity securities	(71.2)	25.1	(46.1)						
Net unrealized gains (losses)	(14.1)	5.1	(9.0)	74.3	(26.0)	48.3	35.4	(12.5)	22.9
Other(3)	(3.3)	--	(3.3)	--	(.7)	(.7)	--	--	--
Other comprehensive									

income (loss)	$ (17.4)	$ 5.1	$ (12.3)	$ 74.3	$ (26.7)	$ 47.6	$ 35.4	$ (12.5)	$ 22.9

(1) Amounts for 1997 and 1996 reflect changes in net unrealized gains (losses).

(2) Represents adjustments for gains (losses) realized in net income; reclassification adjustments for prior years are not available.

(3) Other includes foreign currency translation adjustments, which have no tax effect, and minimum pension liability, which is taxed at the statutory rate.

14 SUBSEQUENT EVENT

On March 1, 1999, the Company issued $300 million of 6 5/8% Senior Notes due March 1, 2029, under a shelf registration statement filed with the Securities and Exchange Commission in 1998. The Company may redeem all or part of the Notes at any time, subject to a "make whole" provision. There are no sinking fund requirements. The Notes were priced at 98.768% to yield 6.721% to maturity. Interest is payable semiannually on March 1 and September 1, beginning September 1, 1999. Net proceeds to the Company of $293.7 million are intended to be used, together with other available funds, to retire certain of the Company's current outstanding debt upon its maturity.

Report of PricewaterhouseCoopers LLP, Independent Accountants

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS, THE PROGRESSIVE CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of The Progressive Corporation and subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

Cleveland, Ohio
January 25, 1999 (March 1, 1999 as to Note 14)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The consolidated financial statements and the related notes on pages 34 through 47, together with the supplemental information on pages 52 through 59, 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 retire its outstanding indebtedness, to pay dividends and for other business purposes.

During 1998, the Company repurchased 404,079 of its Common Shares at a total cost of $42.6 million (average $105.28 per share), including 11,079 Common Shares repurchased to satisfy obligations under the Company's benefit plans. During the three-year period ended December 31, 1998, the Company repurchased 1.4 million of its Common Shares at a total cost of $87.4 million (average $60.75 per share), .2 million of its 9 3/8% Serial Preferred Shares, Series A, at a total cost of $6.0 million (average $25.60 per share) and redeemed its remaining Preferred Shares at a total cost of $82.1 million ($25.00 per share). The Company also sold $100.0 million of Notes. During the same period, The Progressive Corporation made $1.1 million of capital contributions to its subsidiaries, net of dividends received from these subsidiaries. The regulatory restrictions on subsidiary dividends are described in Note 5 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. In March 1999, the Company issued $300 million of 6 5/8% Senior Notes due 2029 under an outstanding shelf registration, which became effective in 1998. The net proceeds of $293.7 million are intended to replace current outstanding debt upon its maturity. The Company also has available a $10.0 million revolving credit agreement. With its current 29% debt to capital ratio, management believes the Company 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, 1998, operations generated positive cash flows of $2,004.9 million, and cash flows are 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 March 1997, the Company acquired Midland Financial Group, Inc. for about $50 million in cash. Midland underwrites and markets nonstandard private passenger automobile insurance through Independent Agents across 11 states, primarily in the southeastern and western United States.

Total capital expenditures for the three years ended December 31, 1998, aggregated $331.9 million. In December 1997, the Company purchased approximately 72 acres in Tampa, Florida to construct a three-building, 307,000 square foot, regional call center. The cost of the project is currently estimated at $45.2 million; $41.3 million has been paid as of December 31, 1998. The first two buildings were completed during 1998. The third building was completed in February 1999. In addition, in November 1997, the Company purchased 91 acres in Mayfield Village, Ohio to construct an office complex, near the site of its current corporate headquarters. This office complex is part of a five-year cooperative effort with Mayfield Village to develop over 300 acres. Progressive will serve as the anchor corporate user with additional business users and recreational facilities on the site. The Company is constructing three buildings containing a total of approximately 443,000 square feet on the site and could build up to two additional buildings, containing about 500,000 square feet in total, in the future. The first three buildings are expected to be completed during 1999 and are estimated to cost $68.3 million. As of December 31, 1998, $28.7 million has been paid. The construction projects are being funded through operating cash flows.

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. The Company evaluates the risk/reward tradeoffs 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 $4,439.4

million, or 78.3%, at the end of 1998, compared to $4,024.9 million, or 76.4%, at the end of 1997. Long-term investment-grade securities, including those principal paydowns from asset-backed securities that are greater than 10 years, were $93.5 million, or 1.6%, at the end of 1998, compared to $143.4 million, or 2.7%, at the end of 1997. Non-investment-grade fixed-maturity securities were $128.0 million, or 2.3%, at the end of 1998, compared to $132.5 million, or 2.5%, at the end of 1997, and offer the Company higher 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 2.8 years at December 31, 1998, compared to 3.3 years at December 31, 1997.

A portion of the investment portfolio is invested in marketable equity securities. Common stocks represented $636.9 million, or 11.2%, of the portfolio, at the end of 1998, compared to $620.8 million, or 11.8%, a year earlier. The majority of the common stock portfolio is invested in domestic equities traded on nationally recognized securities exchanges. In addition, the Company invests in foreign equities, which may include stock index futures and foreign currency forwards, which comprised $130.7 million of the common stock portfolio at the end of 1998, compared to $106.0 million last year, and partnership investments, which comprised $63.7 million of the common stock portfolio at the end of 1998, compared to $31.8 million last year. Preferred stocks represented $376.5 million, or 6.6%, of the portfolio at the end of 1998, compared to $348.8 million, or 6.6%, a year earlier, and was comprised of over 72% of fixed-rate preferred stocks with mechanisms that are expected to provide an opportunity to liquidate at par.

As of December 31, 1998, the Company's portfolio had $174.3 million in unrealized gains, compared to $188.4 million in 1997. This decrease in value was the result of widening credit spreads on all non-treasury related products and the Company's underperformance relative to the S&P 500, due to overweighting in smaller capitalization value stocks.

The weighted average fully taxable equivalent book yield of the portfolio was 6.3%, 6.6% and 6.7% for the years ended December 31, 1998, 1997 and 1996, respectively.

As of December 31, 1998, the Company held $1,486.9 million of asset-backed securities, which represented 26.2% of the total investment portfolio. The asset-backed portfolio included collateralized mortgage obligations (CMO) and commercial mortgage-backed obligations (CMB) totaling $325.3 million and $728.9 million, respectively. The remainder of the asset-backed portfolio was invested primarily in auto loan and other asset-backed securities. As of December 31, 1998, the CMO portfolio primarily included sequential bonds, representing 90.3% of the CMO portfolio ($293.7 million) with an average life of 3.6 years. At December 31, 1998, the CMO portfolio had a weighted average Moody's or Standard & Poor's rating of AAA and the CMB portfolio had an average life of 6.1 years and a weighted average Moody's or Standard & Poor's rating of AA. At December 31, 1998, the CMO and CMB portfolios had unrealized gains/(losses) of $.1 million and $(8.2) million, respectively. The single largest unrealized loss in any individual CMO security was $.9 million and in any CMB security was $5.4 million, at December 31, 1998. The CMB portfolio includes $132.5 million of CMB interest-only certificates, which had an average life of 6.6 years and a weighted average Moody's or Standard & Poor's rating of AAA at December 31, 1998. Both the CMO and CMB portfolios are highly liquid with readily available quotes and contain no residual interests. During 1997, the Company sold $178.4 million (proceeds of $200.8 million) of non-investment-grade CMB securities to a third-party purchaser. The purchaser subsequently transferred the securities to a trust as collateral in a resecuritized debt offering. The transaction was accounted for as a sale under Statement of Financial Accounting Standards (SFAS) 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," resulting in a net gain of $22.4 million. A bankruptcy remote subsidiary of the Company acquired $22.8 million of the resecuritized debt, which was subsequently sold in 1998 for a net gain of $3.5 million. This portion of the transaction was not accounted for as a sale in 1997 in accordance with SFAS 125.

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 managing duration to a defined range of 1.8 to 5 years. The distribution of maturities and convexity are monitored on a regular basis. Common stocks and similar investments, which generally have greater risk and volatility of market value, are limited to a target of 15%, with a range of 0 to 25%. Market values, along with industry and sector concentrations of common stocks and similar investments, are monitored daily. Exposure to foreign currency exchange risk is limited by Company restrictions and is monitored regularly. Exposures are evaluated individually and as a whole, considering the effects of cross correlation. For the quantitative market risk disclosures, see page 56. The Company regularly examines its portfolio for evidence of impairment. In such cases, 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 generally accepted accounting principles (GAAP) to reduce the carrying value of such security to its net realizable value. In 1998, the Company wrote down $32.2 million, including $20.8 million in two securities in emerging markets driven by changing economic conditions.

Included in our non-investment-grade fixed-maturity securities and our common stock portfolios are $299.6 million of other risk assets. Other risk assets include such items as high yield and distressed debt, private equities and warrants, mezzanine investments, and securities in emerging markets. No individual security in the other risk asset portfolio comprised more than one percent of Progressive's total investment portfolio. The total return on the average amount invested in this asset class in 1998 was (4.4)% with a total net unrealized gain of $4.7 million at December 31, 1998. The single largest unrealized loss in any individual other risk asset security was $5.4 million.

Derivative instruments are primarily used to manage the risks and enhance the returns of the available-for-sale portfolio. This is accomplished by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio, hedged securities or hedged cash flows. During 1998, the Company entered into two transactions, an interest rate swap hedge and a short futures position, to hedge against possible rises in interest rates prior to the issuance of debt under the $300 million shelf registration. The interest rate swap hedge performed as expected and is recorded as an $11.0 million deferred asset under SFAS 80, "Accounting for Futures Contracts," as a qualified hedge. The short futures position, driven by changing economic conditions, did not meet the established criteria for hedging correlation and was discontinued as a hedge, recognizing a net realized loss of $9.2 million in 1998. The Company continues to hold the short futures position for risk management of the anticipated debt offering. Derivative instruments may also be used for trading purposes. During 1998, net activity in the trading portfolio was not material to the Company's financial position, cash flows or results of operations. Net cash requirements of derivative instruments 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. The Company has stringent restrictions on the amount of open positions in the trading portfolios, limiting exposure to defined levels. At December 31, 1998, trading positions had a net market value of $(.4) million; at December 31, 1997, the net market value was $1.1 million.

RESULTS OF OPERATIONS Operating income, which excludes net realized gains and losses from security sales and one-time items, was $449.3 million, or $6.01 per share, in 1998, $336.0 million, or $4.46 per share, in 1997 and $309.1 million, or $4.12 per share, in 1996. The GAAP combined ratio was 91.6 in 1998, 93.4 in 1997 and 91.5 in 1996.

Direct premiums written increased 13% to $5,451.3 million in 1998, compared to $4,825.2 million in 1997 and $3,638.4 million in 1996. Net premiums written increased 14% to $5,299.7 million in 1998, compared to $4,665.1 million in 1997 and $3,441.7 million in 1996. The difference between direct and net premiums written is partially attributable to premiums written under state-mandated involuntary Commercial Auto Insurance Procedures (CAIP), for which the Company retains no indemnity risk, of $60.7 million in 1998, $78.4 million in 1997 and $99.5 million in 1996. The Company provided policy and claim processing services to 27 state CAIPs in all three years. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 18% in 1998, compared to 31% in 1997 and 17% in 1996.

Net premiums written in the Company's Personal Lines, which write insurance for private passenger automobiles and recreational vehicles, grew 15%, 36% and 20% in 1998, 1997 and 1996, respectively, primarily reflecting an increase in unit sales. The slower growth in 1998 is a result of intensified competition in the auto insurance market. Many of the Company's competitors reduced rates, increased advertising, entered new states, expanded their distribution channels, entered the nonstandard auto insurance market and increased agents' compensation. The Company expects continued growth in 1999 despite increased competition. The Company decreased rates an average of 5.3% in 1998, compared to rate decreases of .9% in 1997 and rate increases of 2.5% in 1996. The Company continues to write through multiple distribution methods, including Independent Agents, Direct (via 1 800 AUTO PRO(R) and progressive.com) and through Strategic Alliances. In 1998, the Direct distribution channel represented between 10% and 15% of the Personal Lines volume, compared to between 5% and 10% in 1997 and less than 5% in 1996. The sales generated via the Internet represented approximately 2% of the Direct business net premiums written in 1998. The Company also writes through its Strategic Alliances channel, which includes alliances with other insurance companies, employers, affinity groups and national brokerage agencies. The Strategic Alliances channel represented between 5% and 10% of the Personal Lines premiums in all three years. The remainder of the Personal Lines premiums are written through a network of over 30,000 Independent Insurance Agents. Through these multiple distribution channels, the Company continues to write standard and preferred risks, which represented between 30% and 35% of total 1998 Personal Lines volume, compared to between 20% and 25% in 1997 and between 10% and 15% in 1996, as well as its traditional nonstandard auto products.

In 1997, the Company began using rating criteria based partially on consumer financial responsibility. This approach is in use in 43 states that represent 91% of the Personal Lines volume. The Company expects product design and pricing methods to evolve constantly, based on the developing understanding of loss data, work flows, market conditions and technology, as well as consumer acceptance of the Progressive brand as an insurer for all drivers. The Company introduced the next generation of product design in mid-1998 and expects to have it in markets representing 80% of premium by April 1999. Early results suggest that the Company is attracting drivers from all risk profiles and retaining them longer. 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 resulted in more spending to promote the Progressive brand and to hire and develop more claim adjusters and customer service representatives, and the Company expects this to continue at least in the near term. These costs, along with lower margins on first year business, are expected 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 a policyholder. In 1998, Personal Lines generated an underwriting profit margin of 8%, compared to 6% in 1997 and 8% in 1996.

The Company's other lines of business include writing insurance for small fleets of commercial vehicles, collateral protection and loan tracking for auto lenders and financial institutions, directors' and officers' liability and fidelity coverage for American Bankers Association member community banks and independent credit unions, and providing related claim, underwriting and system services. Revenues in these businesses were $405 million in 1998, compared to $402 million in 1997 and $330 million in 1996. Pretax operating profit was $62 million in 1998, compared to $37 million in 1997 and $46 million in 1996. Most of these businesses are in markets that are declining in size.

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. Claim 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 established. 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 68% in 1998, compared to 71% in 1997 and 70% in 1996. In recent years, the industry has had favorable loss experience driven by continuing trends with respect to safer cars and roads, the impaired driving crackdown, better law enforcement and insurers operating more efficiently.

The Company writes directors and officers and other professional liability coverage for community banks and credit unions and, therefore, could potentially be exposed to liability for errors made by these institutions relating to the year 2000 conversion. To minimize its risk, from October 1997 through May 1998, the Company included year 2000 exclusions in all new and renewal policies for commercial banks which have multi-year terms that extend beyond December 31, 1999. This placed the Company at a competitive disadvantage since few of its competitors included similar exclusions. The Company has obtained additional reinsurance to limit its potential exposure to about 7% of the average policy limits in the event any of the insured directors or officers are held liable for year 2000 noncompliance by their financial institutions. In light of this additional reinsurance contract, which reduced the Company's net exposure by 68% and covers all of the Company's inforce directors and officers insurance business, in June 1998, the Company stopped including year 2000 exclusions in its multi-year policies. Additionally, the Company has begun to selectively remove previously issued year 2000 exclusions. As a regulated industry, financial institutions are under pressure from government regulatory agencies and other interested parties to ensure they achieve readiness for the year 2000. The Company is monitoring its customers' compliance efforts and believes that substantially all such customers are pursuing plans to achieve year 2000 compliance. It is currently unknown whether these financial institutions will be able to completely avoid errors relating to year 2000 compliance and the Company is unable to predict to what extent such financial institutions will incur losses as a result of noncompliance and whether their directors and officers will be subject to individual liability for such noncompliance. In the event of a claim, applicable factual and coverage issues would have to be resolved. Based on information currently available and management's best estimate, the Company does not believe that any losses resulting from this exposure will have a material impact on the Company's liquidity, financial condition, cash flows or results of operations.

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. Management does not believe that these claims will have a material impact on the Company's liquidity, financial condition, cash flows or results of operations.

Policy acquisition and other underwriting expenses as a percentage of premiums earned were 23% in 1998 and 1997 and 22% in 1996. During 1998, the Company expanded its television advertising

campaign on a national level. The Company also introduced its local advertising campaign to 14 more states during 1998, bringing the total number of states in which the Company advertises to 32 plus Washington D.C. (83 markets).

Recurring investment income (interest and dividends) increased 7% to $294.8 million in 1998, compared to $274.9 million in 1997 and $225.8 million in 1996, primarily due to an increase in the size of the investment portfolio. Net realized gains on security sales were $11.4 million in 1998, $98.5 million in 1997 and $7.1 million in 1996. Investment expenses were $7.4 million in 1998, compared to $9.9 million in 1997 and $6.1 million in 1996; in 1997, the Company purchased a new portfolio management system and incurred expenses related to the sale of the commercial mortgage-backed securities.

YEAR 2000 COMPLIANCE The year 2000 problem exists because many computer programs only use the last two digits to refer to a year and could recognize "00" as 1900 instead of 2000. If not corrected, many computer and other microchip supported applications could fail or create erroneous results. The extent of the potential impact is still unknown but could affect the global economy. In response to this issue, the Company has evaluated its applications and operating software (including its claims reporting, financial reporting, policy issuance, policy maintenance and other internal production systems), hardware and software products, and third-party data exchanges and business relationships, and is in the process of evaluating its end user computing activities and facilities implications (including public utility services), and has established a dedicated, tenured project team responsible for overseeing progress on the

Company's compliance program and periodically reporting to management.

The Company began converting its applications software to be year 2000 compliant in July 1995 and, as a result, has been able to avoid redeploying significant resources or deferring other important projects to specifically address the year 2000 issues. During the first quarter 1998, the Company retained independent consultants to determine its state of readiness. Although some additional areas of focus were identified, the consultants noted that the Company was adequately addressing its critical internal systems and issues. As of December 31, 1998, the Company has completed approximately 94% of its efforts to bring its applications software in compliance. Testing of critical applications is being accomplished through the use of a special systems environment known as a "Time Warp Lab," which mimics the Company's production environment. As a final test of year 2000 readiness, after conversion and year 2000 certification, critical applications are run in the Time Warp Lab while systems clocks turn over from 1999 to 2000 and beyond. The total cost to modify these existing production systems, which includes both internal and external costs of programming, coding and testing, is estimated to be $8.0 million, of which $7.1 million had been expensed through December 31, 1998. The Company also replaced some of its systems during 1998. In addition to being year 2000 compliant, these new systems added increased functionality to the Company. The total cost of these systems, which include both internal and external costs, is estimated to be $4.8 million, and the majority of the projects were completed in 1998, with remaining parallel testing scheduled during the first quarter 1999. As of December 31, 1998, $4.7 million had been paid for these systems. All costs are being funded through operating cash flows. In addition, the Company has identified approximately 330 third parties with which data is exchanged. All critical data exchanges are being tested for compliance. Although dependent on business partners' testing schedules, testing of critical data exchanges is expected to be completed by the end of the second quarter 1999.

The Company continually evaluates computer hardware and software upgrades for enhancements and, therefore, many of the costs to replace these items to be year 2000 compliant are not likely to be incremental costs to the Company. The Company's remediation of its mainframe hardware and operating software is 94% complete and the remediation of its servers and client server operating software is 30% complete. The Company estimates that all mainframe and client server hardware and operating software will be year 2000 compliant by the first half of 1999. In addition, during 1998, the Company secured software which will assist in the discovery of noncompliant desktop hardware and software. It is estimated that the assessment and remediation process will be completed by the first half of 1999.

The Company is currently unable to determine the impact that year 2000 noncompliance may have on its financial condition, cash flows and results of operations. The Company believes that it is taking the necessary measures to address issues that may arise relating to the year 2000 and that its production systems will be compliant. The Company realizes, however, that noncompliance by third parties could impact its business. The possibility exists that a portion of the Company's distribution channel may not be compliant, that communication with agents could be disrupted, that underwriting data, such as motor vehicle reports, could be unobtainable, that the claim settling process could be delayed or that frequency and severity of losses may increase due to external factors. The Company is contacting its key independent insurance agents, vendors and suppliers (e.g. banks, credit bureaus, motor vehicle departments, rating agencies, etc.) to determine their status of compliance and to assess the impact of noncompliance to the Company. The Company is working closely with all critical business relationships to minimize its exposure to year 2000 issues, including on-site visits to identify their state of readiness.

The Company's process teams and business groups are identifying potential year 2000 scenarios. For those scenarios deemed to be both probable and with a potentially significant business impact, the Company is developing contingency plans. The majority of the contingency plans are drafted and were reviewed by the Company's chief financial and technology officers during 1998. Contingency plans may include such items as hardening facilities with back-up generators, prioritizing resources, securing alternative vendors, developing alternative processes, pre-ordering policyholder information, and other measures. The Company anticipates that contingency plans will be completed for all material relationships during the first quarter 1999.

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. These risks and uncertainties include, without limitation, pricing competition and other initiatives by competitors, legislative and regulatory developments, weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail and winter conditions), driving patterns, court decisions and trends in litigation, interest rate levels and other conditions in the financial and securities markets, unforeseen technological issues associated with the year 2000 compliance efforts and the extent to which vendors, public utilities, governmental entities and other third parties that interface with the Company may fail to achieve year 2000 compliance, 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.

Ten Year Summary - Financial Highlights
(not covered by report of independent accountants)

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

	1998	1997
INSURANCE COMPANIES SELECTED FINANCIAL INFORMATION AND OPERATING STATISTICS-STATUTORY BASIS		
Reserves:		
Loss and loss adjustment expense(1)	$ 1,945.8	$ 1,867.5
Unearned premiums	2,253.3	1,901.9
Policyholders' surplus(1)	2,029.9	1,722.9
Ratios:		
Net premiums written to policyholders' surplus	2.6	2.7
Loss and loss adjustment expense reserves to policyholders' surplus	1.0	1.1
Loss and loss adjustment expense	68.5	71.1
Underwriting expense	22.4	20.7
Statutory combined ratio	90.9	91.8
SELECTED CONSOLIDATED FINANCIAL INFORMATION-GAAP BASIS		
Total revenues	$ 5,292.4	$ 4,608.2
Total assets	8,463.1	7,559.6
Total shareholders' equity(2)	2,557.1	2,135.9
Common Shares outstanding	72.5	72.3
Common Share price		
High	$ 172	$ 120 7/8
Low	94	61 1/2
Close(3)	169 3/8	119 7/8
Market capitalization	$ 12,279.7	$ 8,667.0
Book value per Common Share(2)	$ 35.27	$ 29.54
Return on average common shareholders' equity(4)	19.3%	20.9%
Debt outstanding	$ 776.6	$ 775.9
Ratios:		
Debt to total capital	23%	27%
Price to earnings(5)	28	27
Price to book	4.8	4.1
GAAP underwriting margin(2)	8.4	6.6
Number of people employed	15,735	14,126

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.

3 Represents the closing price at December 31.

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

5 Represents the closing stock price / operating earnings per share.

All share and per share amounts were adjusted for the December 1992, 3 for 1 stock split.

1996	1995	1994	1993

INSURANCE COMPANIES SELECTED FINANCIAL INFORMATION AND OPERATING STATISTICS-STATUTORY BASIS				
Reserves:				
Loss and loss adjustment expense(1)	$ 1,532.9	$ 1,314.4	$ 1,100.2	$ 1,053.7
Unearned premiums	1,382.9	1,140.4	954.8	688.9
Policyholders' surplus(1)	1,292.4	1,055.1	945.1	701.9
Ratios:				
Net premiums written to policyholders' surplus	2.7	2.8	2.6	2.6
Loss and loss adjustment expense reserves to policyholders' surplus	1.2	1.2	1.2	1.5
Loss and loss adjustment expense	70.2	71.6	64.2	62.6
Underwriting expense	19.8	21.4	22.4	25.4
Statutory combined ratio	90.0	93.0	86.6	88.0
SELECTED CONSOLIDATED FINANCIAL INFORMATION-GAAP BASIS				
Total revenues	$ 3,478.4	$ 3,011.9	$ 2,415.3	$ 1,954.8
Total assets	6,183.9	5,352.5	4,675.1	4,011.3
Total shareholders' equity(2)	1,676.9	1,475.8	1,151.9	997.9
Common Shares outstanding	71.5	72.1	71.2	72.1
Common Share price				
High	$ 72 1/4	$ 49 1/2	$ 40 1/2	$ 46 1/8
Low	40 3/8	34 3/4	27 3/4	26 5/8
Close(3)	67 3/8	48 7/8	35	40 1/2
Market capitalization	$ 4,817.3	$ 3,523.9	$ 2,492.0	$ 2,920.1
Book value per Common Share(2)	$ 23.45	$ 19.31	$ 14.97	$ 12.62
Return on average common shareholders' equity(4)	20.5%	19.6%	27.4%	36.0%
Debt outstanding	$ 775.7	$ 675.9	$ 675.6	$ 477.1
Ratios:				
Debt to total capital	32%	31%	37%	32%
Price to earnings(5)	16	17	13	15
Price to book	2.9	2.5	2.3	3.2
GAAP underwriting margin(2)	8.5	5.7	11.5	10.7
Number of people employed	9,557	8,025	7,544	6,101

	1992	1991	1990	1989
INSURANCE COMPANIES SELECTED FINANCIAL INFORMATION AND OPERATING STATISTICS-STATUTORY BASIS				
Reserves:				
Loss and loss adjustment expense(1)	$ 994.7	$ 901.7	$ 827.4	$ 787.7
Unearned premiums	538.5	513.6	474.1	467.6
Policyholders' surplus(1)	658.3	676.7	636.7	578.1
Ratios:				
Net premiums written to policyholders' surplus	2.2	2.0	1.9	2.0
Loss and loss adjustment expense reserves to policyholders' surplus	1.5	1.3	1.3	1.4
Loss and loss adjustment expense	68.3	65.7	62.1	65.9
Underwriting expense	29.8	33.5	31.1	31.4
Statutory combined ratio	98.1	99.2	93.2	97.3
SELECTED CONSOLIDATED FINANCIAL INFORMATION-GAAP BASIS				
Total revenues	$ 1,738.9	$ 1,493.1	$ 1,376.2	$ 1,392.7
Total assets	3,440.9	3,317.2	2,912.4	2,643.7
Total shareholders' equity(2)	629.0	465.7	408.5	435.2
Common Shares outstanding	67.1	63.3	69.3	76.2
Common Share price				
High	$ 29 3/8	$ 20 5/8	$ 18 3/4	$ 14 1/2
Low	14 3/4	15	11	7 1/2
Close(3)	29 1/8	18	17 1/8	12 7/8
Market capitalization	$ 1,954.3	$ 1,139.4	$ 1,186.8	$ 981.1
Book value per Common Share(2)	$ 7.94	$ 5.83	$ 5.89	$ 5.71
Return on average common shareholders' equity(4)	34.7%	6.7%	21.5%	17.4%
Debt outstanding	$ 568.5	$ 644.0	$ 644.4	$ 645.9
Ratios:				
Debt to total capital	47%	58%	61%	60%
Price to earnings(5)	17	14	13	14
Price to book	3.7	3.1	2.9	2.3
GAAP underwriting margin(2)	3.5	(3.7)	1.0	(1.2)
Number of people employed	5,591	6,918	6,370	6,049

TEN YEAR SUMMARY - GAAP CONSOLIDATED OPERATING RESULTS
(not covered by report of independent accountants)

(millions-except per share amounts)

	1998	1997
Direct premiums written:		
Personal lines	$ 4,987.1	$ 4,355.9
All other lines	464.2	469.3
Total direct premiums written	5,451.3	4,825.2
Reinsurance assumed	-	-
Reinsurance ceded	(151.6)	(160.1)
Net premiums written	5,299.7	4,665.1
Net change in unearned premiums reserve(1)	(351.7)	(475.6)
Premiums earned	4,948.0	4,189.5

Expenses:		
Losses and loss adjustment expenses(2)	3,376.3	2,967.5
Policy acquisition costs	659.9	607.8
Other underwriting expenses	495.8	336.0
Total underwriting expenses	4,532.0	3,911.3
Underwriting profit (loss) before taxes	416.0	278.2
Provision (benefit) for income taxes	145.6	97.4
Underwriting profit (loss) after taxes	270.4	180.8
Service operations profit (loss) after taxes	4.8	.9
	275.2	181.7
Investment income after taxes	221.3	205.3
Net realized gains (losses) on security sales after taxes	7.4	64.0
Interest expense after taxes	(39.7)	(42.0)
Proposition 103 reserve reduction after taxes	-	-
Non-recurring items after taxes	-	-
Other expenses after taxes(3)	(7.5)	(9.0)
Income before tax adjustments and cumulative effect of accounting change	456.7	400.0
Tax adjustments(4)	-	-
Cumulative effect of accounting change5	-	-
Net income	$ 456.7	$ 400.0
Per share(6)		
Net income(2)	$ 6.11	$ 5.31
Dividends	.250	.240
Average equivalent shares		
Basic	72.5	72.0
Diluted	74.7	75.3

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.

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 Reflects adoption of SFAS 109, "Accounting for Income Taxes."

6 Presented on a diluted basis. In 1997, the Company adopted SFAS 128, "Earnings Per Share," and, as a result, restated prior periods per share amounts, if applicable.

All share and per share amounts were adjusted for the December 1992, 3 for 1 stock split.

	1996	1995	1994	1993
Direct premiums written:				
Personal lines	$ 3,165.4	$ 2,644.6	$ 2,181.7	$ 1,548.9
All other lines	473.0	424.3	463.4	417.5
Total direct premiums written	3,638.4	3,068.9	2,645.1	1,966.4
Reinsurance assumed	3.8	.1	2.9	9.2
Reinsurance ceded	(200.5)	(156.2)	(190.8)	(156.4)
Net premiums written	3,441.7	2,912.8	2,457.2	1,819.2
Net change in unearned premiums reserve(1)	(242.4)	(185.6)	(266.1)	(150.5)
Premiums earned	3,199.3	2,727.2	2,191.1	1,668.7
Expenses:				
Losses and loss adjustment expenses(2)	2,236.1	1,943.8	1,397.3	1,028.0
Policy acquisition costs	482.6	459.6	391.5	311.6
Other underwriting expenses	208.5	167.2	150.8	151.3

Total underwriting expenses	2,927.2	2,570.6	1,939.6	1,490.9
Underwriting profit (loss) before taxes	272.1	156.6	251.5	177.8
Provision (benefit) for income taxes	95.2	54.8	88.0	62.2
Underwriting profit (loss) after taxes	176.9	101.8	163.5	115.6
Service operations profit (loss) after taxes	2.8	5.6	6.5	4.4
	179.7	107.4	170.0	120.0
Investment income after taxes	175.6	156.2	131.2	107.1
Net realized gains (losses) on security sales after taxes	4.6	30.4	15.5	70.1
Interest expense after taxes	(40.0)	(37.1)	(35.9)	(25.8)
Proposition 103 reserve reduction after taxes	--	--	--	--
Non-recurring items after taxes	--	--	--	(2.6)
Other expenses after taxes(3)	(6.2)	(6.4)	(6.5)	(1.5)
Income before tax adjustments and cumulative effect of accounting change	313.7	250.5	274.3	267.3
Tax adjustments(4)	--	--	--	--
Cumulative effect of accounting change(5)	--	--	--	--
Net income	$ 313.7	$ 250.5	$ 274.3	$ 267.3
Per share(6)	$ 4.14	$ 3.26	$ 3.59	$ 3.59
Net income(2)	.230	.220	.210	.200
Dividends				
Average equivalent shares	71.6	71.8	71.6	69.3
Basic	74.2	74.2	74.0	71.8
Diluted				

	1992	1991	1990	1989
Direct premiums written:				
Personal lines	$ 1,214.6	$ 1,047.4	$ 876.0	$ 800.1
All other lines	422.2	489.4	482.8	487.0
Total direct premiums written	1,636.8	1,536.8	1,358.8	1,287.1
Reinsurance assumed	4.3	.1	.1	7.2
Reinsurance ceded	(189.9)	(212.3)	(162.6)	(134.0)
Net premiums written	1,451.2	1,324.6	1,196.3	1,160.3
Net change in unearned premiums reserve(1)	(25.1)	(37.7)	(5.1)	36.2
Premiums earned	1,426.1	1,286.9	1,191.2	1,196.5
Expenses:				
Losses and loss adjustment expenses(2)	930.9	858.0	762.9	799.3
Policy acquisition costs	304.1	313.7	292.7	296.7
Other underwriting expenses	141.5	162.1	123.7	114.9
Total underwriting expenses	1,376.5	1,333.8	1,179.3	1,210.9
Underwriting profit (loss) before taxes	49.6	(46.9)	11.9	(14.4)
Provision (benefit) for income taxes	16.9	(15.9)	4.0	(2.9)
Underwriting profit (loss) after taxes	32.7	(31.0)	7.9	(11.5)
Service operations profit (loss) after taxes	(2.8)	(1.4)	2.8	2.5
	29.9	(32.4)	10.7	(9.0)
Investment income after taxes	110.4	121.1	126.4	135.3
Net realized gains (losses) on security sales after taxes	9.6	4.9	(8.4)	(.4)
Interest expense after taxes	(29.4)	(31.6)	(32.0)	(32.5)
Proposition 103 reserve reduction after taxes	70.0	--	--	--
Non-recurring items after taxes	(42.6)	--	--	--
Other expenses after taxes(3)	(8.3)	(14.9)	(13.2)	(15.4)
Income before tax adjustments and cumulative effect of accounting change	139.6	47.1	83.5	78.0
Tax adjustments(4)	--	(14.2)	9.9	--
Cumulative effect of accounting change(5)	14.2	--	--	--
Net income	$ 153.8	$ 32.9	$ 93.4	$ 78.0
Per share(6)	$ 2.08	$ .41	$ 1.20	$ .94
Net income(2)	.191	.172	.160	.147
Dividends				
Average equivalent shares	60.7	65.4	72.3	79.5
Basic	70.9	66.6	81.9	88.8
Diluted				

QUANTITATIVE MARKET RISK DISCLOSURES
(not covered by report of independent accountants)

Quantitative market risk disclosures are only presented for market risk categories when risk is considered material. Materiality is determined based on the fair value of the financial instruments at December 31, 1998, and the potential for near term losses from reasonably possible near term changes in market rates or prices.

OTHER THAN TRADING FINANCIAL INSTRUMENTS

Financial instruments subject to interest rate risk as of December 31, 1998 were:
(millions)

	MARKET VALUE				
	-200 BPS CHANGE	-100 BPS CHANGE	ACTUAL	+100 BPS CHANGE	+200 BPS CHANGE
U.S. Government obligations	$ 639.4	$ 627.0	$ 614.5	$ 603.2	$ 592.0
State and local government obligations	1,814.1	1,752.5	1,693.6	1,638.2	1,579.8
Asset-backed securities	1,567.5	1,527.1	1,486.9	1,443.6	1,398.3
Other debt securities	455.0	439.3	424.0	409.9	396.1
Preferred stocks	399.3	388.4	376.5	365.3	355.0
Short-term investments	444.1	443.0	441.9	440.8	439.7
	$ 5,319.4	$ 5,177.3	$ 5,037.4	$ 4,901.0	$ 4,760.9

Exposure to risk is represented in terms of changes in fair value due to selected hypothetical movements in market rates. Bonds and preferred stocks are individually priced to yield to the worst case scenario. State and local government obligations, including lease deals and super sinkers, are assumed to hold their prepayment patterns. Asset-backed securities are priced assuming deal specific prepayment scenarios, considering the deal structure, prepayment penalties, yield maintenance agreements and the underlying collateral. Over 72% of the preferred stocks have mechanisms that are expected to provide an opportunity to liquidate at par.

Derivative financial instruments held or issued for purposes of managing interest rate exposure on the anticipated debt issuance as of December 31, 1998 were:
(millions)

	MARKET VALUE				
	-200 BPS CHANGE	-100 BPS CHANGE	ACTUAL	+100 BPS CHANGE	+200 BPS CHANGE
Short futures position	$ (32.0)	$ (10.0)	$ 4.4	$ 26.5	$ 42.3
Interest rate swap hedge	(55.1)	(33.1)	(11.0)	11.0	33.1

Exposure to risk is represented in terms of changes in fair value due to selected hypothetical movements in market rates. During 1998, the Company entered into two transactions to hedge against possible rises in interest rates prior to the issuance of debt under the $300 million shelf registration. The interest rate swap hedge performed as expected and is recorded as a deferred asset under SFAS 80, "Accounting for Futures Contracts," as a qualified hedge. The short futures position, driven by changing economic conditions, did not meet the established criteria for hedging correlation and was discontinued as a hedge, recognizing a net realized loss of $9.2 million in 1998. The Company continues to hold the short futures position for risk management of the anticipated debt offering. Changes in market rates will have a reciprocal effect on the cost of borrowing of the debt upon issuance.

Financial instruments subject to equity market risk as of December 31, 1998 were:
(millions)

	HYPOTHETICAL MARKET CHANGES	
MARKET VALUE	+10%	-10%

Common stocks	$ 636.9	$ 697.4	$ 576.4

The model represents the estimated value of the Company's common stock portfolio given a + (-) 10% change in the market, based on the common stock portfolio's weighted average beta of .94. The beta is derived from recent historical experience, using the S&P 500 as the market surrogate. The historical relationship of the common stock portfolio's beta to the S&P 500 is not necessarily indicative of future correlation, as individual company or industry factors may effect price movement. Betas are not available for all securities. In such cases, the change in market value reflects a direct + (-) 10% change; the number of securities without betas is less than 25%. The common stock portfolio includes stock index futures with a market value of $1.9 million.

Financial instruments subject to foreign currency risk as of December 31, 1998 were:
(millions)

	MARKET VALUE	NOTIONAL VALUE	HYPOTHETICAL GAIN (LOSS)
Canadian fixed income investments	$ 73.0	N/A	$ 7.3
Other foreign fixed income investments	11.1	N/A	1.1
Foreign equity investments	111.4	N/A	11.1
Foreign currency forwards-assets	.5	25.8	3.9
Foreign currency forwards-liabilities	(.5)	31.8	(1.8)
	$ 195.5	N/A	$ 21.6

N/A = not applicable; notional value pertains only to derivative instruments

The foreign equity portfolio, which may include stock index futures, foreign currency forwards and foreign preferred stocks, is comprised of numerous currencies, none of which are individually material. Therefore, sensitivity results are presented by class of financial instrument. The model calculates a gain or loss in market value if the U.S. dollar depreciates by 10% to the respective currency. The model does not attempt to reflect the correlation of multiple currencies to changes in the U.S. dollar. At December 31, 1998, the Company did not have any cross currency exposures.

TRADING FINANCIAL INSTRUMENTS

At December 31, 1998, the Company had short trading positions with a market value of $(.4) million. Exposure to loss from open trading positions is not material individually or in the aggregate. The Company did not have any trading securities as of December 31, 1998.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSES (LAE) DEVELOPMENT
(not covered by report of independent accountants)

(millions)

For the years ended December 31,	1988	1989	1990	1991	1992	1993	1994(3)	1995	1996	1997	1998
Loss and LAE reserves(1)	$ 651.0	$ 748.6	$ 791.6	$ 861.5	$ 956.4	$1,012.4	$1,098.7	$1,314.4	$1,532.9	$1,867.5	$1,945.8
Re-estimated reserves as of:											
One year later	610.3	685.4	748.8	810.0	857.9	869.9	1,042.1	1,208.6	1,429.6	1,683.3	
Two years later	573.4	677.9	726.5	771.9	765.5	837.8	991.7	1,149.5	1,364.5		
Three years later	581.3	668.6	712.7	718.7	737.4	811.3	961.2	1,118.6			
Four years later	575.1	667.1	683.7	700.1	725.2	794.6	940.6				
Five years later	578.4	654.7	666.3	695.1	717.3	782.9					

Six years later	582.2	647.1	664.8	692.6	711.1					
Seven years later	574.3	645.7	664.5	688.2						
Eight years later	574.4	645.4	661.4							
Nine years later	575.0	641.9								
Ten years later	572.4									
Cumulative redundancy	$ 78.6	$ 106.7	$ 130.2	$ 173.3	$ 245.3	$ 229.5	$ 158.1	$ 195.8	$ 168.4	$ 184.2
Percentage(2)	12.1	14.3	16.4	20.1	25.6	22.7	14.4	14.9	11.0	9.9

The chart represents the development of the property-casualty loss and LAE reserves for 1988 through 1997. 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."

DIRECT PREMIUMS WRITTEN BY STATE
(not covered by report of independent accountants)

(millions)	1998		1997		1996		1995		1994	
Florida	$ 784.4	14.4%	$ 663.0	13.7%	$ 467.4	12.9%	$ 421.9	13.7%	$ 369.9	14.0%
New York	522.2	9.6	446.3	9.2	358.0	9.8	225.6	7.4	195.2	7.4
Texas	518.6	9.5	509.4	10.6	349.9	9.6	313.2	10.2	246.4	9.3
Ohio	447.7	8.2	404.3	8.4	340.8	9.4	284.1	9.3	232.0	8.8
California	343.2	6.3	291.7	6.0	171.6	4.7	126.6	4.1	126.8	4.8
Pennsylvania	292.3	5.4	248.3	5.1	201.3	5.5	184.9	6.0	161.2	6.1
Georgia	277.8	5.1	261.9	5.4	212.1	5.8	155.1	5.1	129.7	4.9
All other	2,265.1	41.5	2,000.3	41.6	1,537.3	42.3	1,357.5	44.2	1,183.9	44.7
Total	$ 5,451.3	100.0%	$ 4,825.2	100.0%	$ 3,638.4	100.0%	$ 3,068.9	100.0%	$ 2,645.1	100.0%

QUARTERLY FINANCIAL AND COMMON SHARE DATA
(not covered by report of independent accountants)

(millions-except per share amounts)

		Net Income		Operating Income(1)	
Quarter	Operating Revenues(7)	Total(2)	Per Share(3)	Total(2)	Per Share(3)
1998					
1	$ 1,156.2	$ 120.1	$ 1.58	$ 102.8	$ 1.35
2	1,237.2	123.0	1.61	109.1	1.43
3	1,290.9	135.1	1.81	134.4	1.80
4	1,301.9	78.5(6)	1.05(6)	103.1	1.38
	$ 4,986.2	$ 456.7	$ 6.11	$ 449.3	$ 6.01
1997					
1	$ 905.7	$ 76.5	$ 1.02	$ 78.6	$ 1.05
2	1,020.9	102.1	1.36	82.8	1.10
3	1,090.1	116.2	1.54	89.3	1.18
4	1,218.1	105.3	1.39	85.3	1.13
	$ 4,234.8	$ 400.0	$ 5.31	$ 336.0	$ 4.46

1996

1	$ 741.4	$ 63.3	$ .82	$ 60.2	$ .78
2	794.9	78.4	1.01	78.5	1.05
3	840.3	80.3	1.08	82.5	1.11
4	868.9	91.7	1.23	87.9	1.18
	$ 3,245.5	$ 313.7	$ 4.14	$ 309.1	$ 4.12

Quarter	Stock Price(4) High-Low	Close	Rate of Return(5)	Dividends Per Share
1998				
1	$ 135 1/2 - 106 11/16	$ 134 11/16		$ .060
2	150 - 126 1/2	141		.060
3	156 3/4 - 95	112 3/4		.065
4	172 - 94	169 3/8		.065
	$ 172 - 94	$ 169 3/8	41.6%	$ .250
1997				
1	$ 73 5/8 - 63 7/8	$ 63 7/8		$ .060
2	87 3/8 - 61 1/2	87		.060
3	111 7/8 - 86 1/2	107 1/8		.060
4	120 7/8 - 99	119 7/8		.060
	$ 120 7/8 - 61 1/2	$ 119 7/8	78.4%	$ .240
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	38.5%	$ .230

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

2 The sum may not equal the total due to rounding in the individual periods. Each period is properly stated.

3 Presented on a diluted basis. The sum may not equal the total because the average equivalent shares differ in the periods. In 1997, the Company adopted SFAS 128, "Earnings Per Share," and, as a result, restated prior periods per share amounts, if applicable.

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

5 Represents annual rate of return, including quarterly dividend reinvestment.

6 During the fourth quarter 1998, the Company wrote down $24.5 million, $.21 per share, on investment securities considered to have other than temporary declines in market value and realized a $9.2 million, $.08 per share, net loss on an anticipatory hedge.

7 Represents premiums earned plus service revenues.

DIRECTORS
Milton N. Allen(1,2)
Director,

various companies

B. Charles Ames(1)
Partner,
Clayton, Dubilier & Rice, Inc.
(investment banking)

James E. Bennett III(1)
Senior Executive Vice President
KeyCorp
(banking)

Charles A. Davis(1)
President and
Chief Executive Officer
Marsh & McLennan
Capital, Inc.
(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-
Insurance Operations

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

Donald B. Shackelford(3)
Chairman,
Fifth Third Bank of
Central Ohio
(commercial bank)

Dr. Paul B. Sigler(3)
Henry Ford II Professor,
Yale University
and Investigator,
Howard Hughes Medical
Institute
(education and medical
research)

(1) Audit Committee member

(2) Executive Committee member

(3) Executive Compensation Committee member

CORPORATE OFFICERS
Peter B. Lewis
Chairman, President and
Chief Executive Officer -
Insurance Operations

Charles B. Chokel
Chief Executive Officer -

Investments and
Capital Management

David M. Schneider
Secretary

W. Thomas Forrester
Treasurer

POLICY TEAM
Alan R. Bauer
Charles B. Chokel
W. Thomas Forrester
Moira G. Lardakis
Daniel R. Lewis
Peter B. Lewis
Robert J. McMillan
Brian J. Passell
Glenn M. Renwick
David L. Roush
Tiona M. Thompson
Robert T. Williams

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, 6671 Beta Drive, Mayfield Village, Ohio 44143 on April 23, 1999, at 10:00 a.m. There were 3,974 shareholders of record on December 31, 1998.

PRINCIPAL OFFICE

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

Web site: progressive.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

COUNSEL

Baker & Hostetler, Cleveland, Ohio

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: 1-800-622-6757

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.

SHAREHOLDER/INVESTOR RELATIONS

The Progressive Corporation does not maintain a mailing list for distribution of 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, 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 web site: progressive.com.

To request copies of public financial information on the Company, shareholders and potential investors may call the Company's shareholders services line at

1-800-879-PROG or write to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143.

For specific questions on financial or other Company information call: 440-446-2851.

EXHIBIT NO. 21

SUBSIDIARIES OF THE PROGRESSIVE CORPORATION

Name of Subsidiary	Jurisdiction of Incorporation
1890 Insurance Agency, Inc.	Wyoming
Airy Insurance Center, Inc.	Pennsylvania
Allied Insurance Agency, Inc.	Ohio
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
Maryland Auto Insurance Solutions, Inc.	Maryland
Midland Financial Group, Inc.	Tennessee
Agents Financial Services - Tennessee, Inc.	Tennessee
Agents Financial Services - Illinois, Inc. (90% owned)	Illinois
Agents Financial Services, Inc. (40% owned)	Florida
AutoSurance of America, Inc.	Arizona
Midland Risk Insurance Company	Tennessee
Specialty Risk Insurance Company	Tennessee
Midland Risk Services, Inc.	Tennessee
Midland Risk Services - Arizona, Inc.	Arizona
Midland Risk Services - Nevada, Inc.	Nevada
Midland Risk Insurance Services - California, Inc.	California
Midland Risk Services - Illinois, Inc. (85% owned)	Illinois
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
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 Classic Insurance Company	Wisconsin
Progressive American Life Insurance Company	Ohio
Progressive Life Insurance, Ltd.	Turks & Caicos Islands
Progressive Auto Pro Insurance Agency, Inc.	Florida
Progressive Auto Pro Insurance Company	Florida
Progressive Bayside Insurance Company	Florida
Progressive Casualty Insurance Company	Ohio
PC Investment Company	Delaware
Progressive Gulf Insurance Agency	Mississippi
Progressive Specialty Insurance Company	Ohio

Progressive Consumers Insurance Company	Florida
Progressive DirecTrac Service Corp.	Texas
Progressive Express Insurance Company	Florida
Progressive Hawaii Insurance Corp.	Hawaii
Progressive Insurance Agency, Inc.	Ohio
Progressive International Holdings Corp.	Delaware

Progressive Investment Company, Inc.	Delaware
RRM Holdings, Inc.	Ohio
Progressive Marathon Insurance Company	California
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 Paloverde Insurance Company	Arizona
Progressive Capital Management Corp.	New York
Progressive Preferred Insurance Company	Ohio
Progressive Premium Budget, Inc.	Ohio
Progressive Resources Services Company	Ohio
Progressive Security Insurance Company	Louisiana
Progressive Southeastern Insurance Company	Florida
Progressive West Insurance Company	California
Silver Key Insurance Agency, Inc.	Nevada
The Paradyme Corporation	Ohio
United Financial Insurance Agency, Inc.	Ohio
United Financial Insurance Agency, Inc.	Washington
The Progressive Agency, Inc.	Virginia
United Financial Adjusting Company	Ohio
Dealer Direct Financial Services, Inc. (25% owned)	Texas
JW Software, Inc. (51% owned)	Missouri
Progressive Vehicle Inspection 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.

1

EXHIBIT NO. 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint 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 1998, 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 22nd day of March, 1999.

Signature	Position(s) with The Progressive Corporation
/s/ Peter B. Lewis Peter B. Lewis	Chairman, President, Chief Executive Officer-Insurance Operations and Director

2

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint 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 1998, 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 22nd day of February, 1999.

Signature	Position(s) with The Progressive Corporation
/s/ Jeffrey W. Basch Jeffrey W. Basch	Chief Accounting Officer

3

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint 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 1998, 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 22nd day of February, 1999.

Signature	Position(s) with The Progressive Corporation
/s/ Charles B. Chokel Charles B. Chokel	Chief Executive Officer- Investments and Capital Management

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint 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 1998, 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 23rd day of February, 1999.

Signature	Position(s) with The Progressive Corporation
/s/ W. Thomas Forresster W. Thomas Forresster	Treasurer and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint 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 1998, 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 1st day of March, 1999.

Signature	Position(s) with The Progressive Corporation
/s/ Milton N. Allen Milton N. Allen	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 1998, 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 22nd day of March, 1999.

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 1998, 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 1st day of March, 1999.

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 1998, 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 4th day of March, 1999.

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 1998, 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 4th day of March, 1999.

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 1998, 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 4th day of March, 1999.

Signature	Position(s) with The Progressive Corporation
/s/ Paul B. Sigler Paul B. Sigler	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 1998, 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 3rd day of March, 1999.

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

12

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 1998, 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 10th day of March, 1999.

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

13

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 1998, 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 1st day of March, 1999.

Position(s) with
Signature The Progressive Corporation

- ---------   ---------------------------

/s/ James E. Bennett III
- ---------------------------
James E. Bennett III   Director

<ARTICLE> 7
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF INCOME AND IS QUALIFIED IN ITS
ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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(184,200)
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