

The  
Progressive Corporation  
Annual Report

2013



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

Progressive companies offer consumers choices in how to shop for, buy, and manage their auto insurance policies. Progressive offers its products, including personal and commercial auto, motorcycle, boat, and recreational vehicle insurance, through more than 35,000 independent insurance agencies throughout the U.S. and directly from the Company online, by phone, or on mobile devices.

The idea that customers benefit from engagement with their insurance needs is part of Progressive's philosophy. Encouraging the use of products and services that foster active involvement, we can improve the experience for everyone. For this reason, we chose *engagement* as the theme for this year's annual report. To represent this idea, the world-renowned painter Felice Varini was asked to create a site-specific artwork at Progressive's headquarters in Mayfield Village, Ohio. The immersive painting is different for everyone who engages with the space and reflects their own unique viewpoint. This painting is a permanent addition to Progressive's growing collection of contemporary art.

**ENGAGE**

In December 2013, Progressive welcomed the Swiss artist Felice Varini to its corporate headquarters. Stepping into the precise point of view from which Varini conceived the painting, a beautiful pattern of hollowed discs magically appears. The pattern appears to the viewer's eyes like a transparent overlay of color, as if it's hanging in the air above a highly trafficked cafeteria area. This *engagement* between the viewer, the space, and the painting is central to Varini's work.

**ENRICH**

However, when viewed outside of the artist's original eyeline, a different story is told. From almost all angles, abstract shapes sporadically cover the space. The pattern folds and twists on the space's ceiling, beams, and windows, creating a unique *engagement* with the environment. Viewers have the experience of walking up to the painting and then through it, outside of it, and behind it. Varini is as interested in what happens outside the point of view as much as the "engaged" view.

**EXCEED**



## FIVE-YEAR financial highlights

(billions—except per share amounts)

	2013	2012	2011	2010	2009
<b>For the Year</b>					
Net premiums written	\$ 17.3	\$ 16.4	\$ 15.1	\$ 14.5	\$ 14.0
Growth over prior year	6%	8%	5%	3%	3%
Net premiums earned	\$ 17.1	\$ 16.0	\$ 14.9	\$ 14.3	\$ 14.0
Growth over prior year	7%	7%	4%	2%	3%
Total revenues	\$ 18.2	\$ 17.1	\$ 15.8	\$ 15.2	\$ 14.8
Net income	\$ 1.17	\$ .90	\$ 1.02	\$ 1.07	\$ 1.06
Per share	\$ 1.93	\$ 1.48	\$ 1.59	\$ 1.61	\$ 1.57
Underwriting margin	6.5%	4.4%	7.0%	7.6%	8.4%

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

	2013	2012	2011	2010	2009
<b>At Year-End</b>					
Common shares outstanding (millions)	595.8	604.6	613.0	662.4	672.6
Book value per share	\$ 10.39	\$ 9.94	\$ 9.47	\$ 9.13	\$ 8.55
Consolidated shareholders' equity	\$ 6.2	\$ 6.0	\$ 5.8	\$ 6.0	\$ 5.7
Market capitalization	\$ 16.2	\$ 12.8	\$ 12.0	\$ 13.2	\$ 12.1
Return on average shareholders' equity					
Net income	17.7%	14.5%	16.5%	17.1%	21.4%
Comprehensive income	19.0%	17.4%	15.0%	22.3%	35.5%
Policies in force (thousands)					
Personal Lines					
Agency—auto	4,841.9	4,790.4	4,648.5	4,480.1	4,299.2
Direct—auto	4,224.2	4,000.1	3,844.5	3,610.4	3,201.1
Special lines	3,990.3	3,944.8	3,790.8	3,612.2	3,440.3
Total Personal Lines	13,056.4	12,735.3	12,283.8	11,702.7	10,940.6
Growth over prior year	3%	4%	5%	7%	5%
Commercial Lines	514.6	519.6	509.1	510.4	512.8
Growth over prior year	(1)%	2%	0%	0%	(5)%
Industry net premiums written <sup>1</sup>	NA	167.9	\$ 163.3	\$ 160.1	\$ 157.2
Market share <sup>2</sup>	NA	8.5%	8.1%	7.9%	7.7%

	1-Year	3-Year	5-Year
<b>Stock Price Appreciation<sup>3</sup></b>			
Progressive	30.9%	14.8%	16.6%
S&P 500	32.4%	16.1%	17.9%

<sup>1</sup>Represents private passenger auto insurance market net premiums written as reported by A.M. Best Company, Inc.

<sup>2</sup>Represents Progressive's private passenger auto business, including motorcycle insurance, as a percent of the private passenger auto insurance market.

<sup>3</sup>Represents average annual compounded rate of increase and assumes dividend reinvestment.

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

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

# VISION & VALUES

## VISION

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

## CUSTOMER VALUE PROPOSITION

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

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

## CORE VALUES

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

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

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

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

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

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

What does an apron have to do with car insurance?

- *An apron is hard work.*
- *An apron is pride in what you do.*
- *An apron is not quitting until you've made something better.*

What does an apron have to do with car insurance?

For us — Everything!

# LETTER to SHAREHOLDERS

## **What does an apron have to do with car Insurance?**

Designed to be thought provoking and, for most, rhetorical, we featured this question to open the newest visual expression of the evolving Progressive brand. Brands in some form are an emotive consumer response, and a brand owner's best efforts are directed toward shaping that response to match the character of the company. We see Progressive from the inside-out as a company with strong values, a clear sense of purpose, a refreshingly positive work culture focused on the customer, and a demonstrated sense of innovation in the auto insurance space — insight not so easily expressed to others with the same veracity as observed by those of us in an advantaged position. However, our best research suggests these qualities are highly valued by consumers and additive to the product-centric dimensions proffered by Flo.

We set out to answer the question using the apron Flo has worn in close to 100 commercial appearances, and borrowed the universality of the apron as a tool for helping make things and making things better. We blended the two into a visual presentation that we believe portrays Progressive in the disarmingly humble, but highly credible, light of a company that works every day to make things better. Thus answering our own question with a straightforward — **Everything!**

There's considerably more depth to this initiative and interested readers are directed to [progressive.com](http://progressive.com). Regardless, expect to see more, but only selectively so, as we add this important dimension to our marketing efforts for 2014.

#### **MAKING THINGS BETTER**

In 2013 we made a lot of things better and, while accepting that this task is never done, I'd enjoy sharing a few of them with you.

Notwithstanding a long history of underwriting results that have met or exceeded our targets, we did get to make them even better this year. Written premiums grew close to 6% and topped \$17 billion for the year, continuing a numeric progression of topping \$15 billion in 2011 and \$16 billion in 2012. I can envision more rapid sequences, but I like the direction. We have every reason to be pleased with a 93.5 combined ratio, and the resulting pretax underwriting income of \$1.1 billion, both markedly better than last year. Completing our revenue and income model, we added \$422 million in investment income and \$318 million of net realized gains, along with a \$130 million increase to our unrealized gains balance, now standing at \$1.5 billion. The all-in measures of net income per share and, our preferred, comprehensive income per share were \$1.93 and \$2.06, respectively, both better than the equivalent result last year by 30% and 16%, and our return on shareholders' equity using both measures approximated 18% and 19%. On these important financial dimensions, I'm happy to say I think we made things better in 2013.

By the time this letter is posted, these results will be well known. Let's take a look at the story behind the numbers. In some ways 2013 was for Progressive's auto product line a year of two contrasting market dynamics. The first was the extended earn-in period of the fairly significant and geographically wide-spread rate increases we took in mid-2012, the reasons for which I highlighted in this letter last year. While unquestionably necessary to maintain our unbending commitment to meeting or exceeding our profitability targets, this discipline also comes with a large dose of frustration. At a time when our marketing efforts were producing record numbers of new prospects, as they did for the entire year, our rate competitiveness — a highly complex notion which spans across 51 rating jurisdictions, two channels of distribution, and numerous products — was not as productive in converting them into customers as we would like. Our premium growth was more a function of the increase in average

### Our Business Model

**Target Profitability.** For us, a 96 combined ratio is not a “solve for” variable in our business model equation, but rather a constant that provides direction to each product and marketing decision and a cultural tipping point that ensures zero ambiguity as to how to act in certain situations. Set at a level we believe creates a fair balance between attractive profitability and consumer competitiveness, it's deeply ingrained and central to our culture.

*With clarity as to our business constant, we seek to maximize all other important variables and support with appropriate axioms:*

**Grow as fast as we can** subject to our ability to provide high-quality service. Our preferred measure of growth is in customers, best measured by policies in force.

**Extend policy life expectancy.** Our preference is for the flexibility of shorter policy periods, highlighting however, the importance of retaining customers at policy renewal. Our focus is inclusive of all points throughout a customer's tenure and is a never-ending focus, tailored for every customer segment. Our use of Net Promoter scoring provides for a much more dynamic measure, which is highly correlated to policy life expectancy, and is an internal acceptable proxy for our ultimate goal of extended life expectancy.

*Clarity as to our objectives means other elements of the business model must be appropriately designed to strongly support, but not necessarily amplify, the risk of maximizing all things at the same time. Our articulation of our most critical investment objective is a good example:*

**Invest in a manner that does not constrain our ability to underwrite all the profitable insurance available to us at an efficient premiums-to-surplus leverage.** We often refer to underwriting capacity as the protected asset and for us it is a clear determination of where the risk of leverage is best allocated.

*The importance of net income, earnings per share, and return on equity is never lost on us, but we view achieving strong, long-term performance of these measures as stemming from our consistent focus on the primary elements of our business model.*

rate per customer on a year-over-year basis, not as we prefer from increasing numbers of customers. In fact our new business conversion rate against the higher prospects was down significantly and, even more frustratingly, some of our current customers chose to shop and change based on rate at renewal. Customer retention is so obviously the key to many positives in our business and our decade long assault on intense measurement and actions designed to increase policy life expectancy for each customer took an unwelcomed hit. One might ask — then why do it? While acknowledging there are alternatives, the constancy of the central elements of our business model has been tested over short and long time periods and is in so many ways the DNA of Progressive. I have reprinted in the insert my articulation of our business model, in part incorporated in last year's letter.

Since, I have already suggested two market dynamics, it's a good guess the second was more favorable.

At slightly different rates, both our Agency and Direct auto channels were reporting double digit growth in new business applications by roughly mid-third quarter and showing healthy signs of reduced retention losses and increased Net Promoter® Scores. Unfortunately, consumers may be at a disadvantage when comparing insurance rates at a single point in time since the lowest might be just about to change, discoverable upon renewal offer, and higher rates may present more stability. That, however, is the basis of a competitive market which for all its failings, currently provides consumers with a very easily accessed and competitive market for auto insurance, and one in which we enjoy competing. For the last third of the year, the continued willingness of agents to quote us and the strong flow of prospects was capitalized on in both our Agency and Direct distributions, and premium growth at about the same rates as earlier in the year was logged in the second half, but for reasons that felt even better — increasing new customer counts.



This would not be the game plan that we would draw up as a preference, and we certainly favor the closing chapters. Our overall rate change for the year was minimal and, with the benefit of hindsight, we might have been able to be a little softer in 2012 and slightly stronger in 2013 — hindsight on future inflationary trends is a wonderful thing, just not very realistic for our purposes. Of course, we did make numerous adjustments during the year as best determined by the state product managers, and that process remains the heart and soul of our ability over any extended period as we seek profitable growth in every state in which we do business. We added a net 276,000 auto customers for the year and most of the increase was in the last four months overcoming the earlier deficit. This does not come close to our potential to add customers nor the demand we are experiencing for our product. So, while 2013 was better in many ways, some yet to come in this note, only half the year might best fit the definition, but for the 2014 outlook, the right half.

Our special lines products, including motorcycle, recreational vehicle, personal watercraft, and boat, have a great deal of

seasonality in most states, and this year the weather conditions across the country were less than favorable for much of the potential use season. While that dampened losses, it also dampened policy growth in these products and, although the results were attractive, we had only marginal growth in policyholders — something we look forward to reversing in 2014.

Our Commercial Lines business had a solid year with more variability in results than we would like, but management was consistently on top of the issues and market conditions. While parts of the commercial market we serve, notably the business auto and contractor segment, have been reasonably predictable throughout the economic recovery, others have been highly variable with a feast or famine type usage (e.g., double shifts on major infrastructure jobs), presenting accident frequency patterns very hard to predict. Acknowledging the challenges, we like this business and seek to engage even greater numbers of customers by meeting their other business insurance needs in a manner similar to our approach with homeowners and renters insurance in Personal Lines.

We hope we made things better for shareholders by declaring both a variable dividend and a \$1.00 per share special dividend in December 2013, both paid in February 2014. The annual variable dividend was completely consistent with our published methodology and resulted in an approximately \$0.49 per share amount based on our post tax underwriting profit and our Gainshare factor of 1.21. Further, the Board of Directors confirmed the variable dividend calculation process for calendar year 2014 to be consistent with 2013. Our comfort in paying these dividends stems from our rigorous efforts to determine the capital we need for regulatory purposes to support our writings, including expected growth, and a layer of contingency capital adequate to cover the many possible contingencies we can envision for our business. Capital in excess of these combined layers is by design available for share repurchases, acquisitions, and shareholder dividends. Our philosophy continues to favor the return of capital above our estimated needs over any reasonable planning horizon.

Our complementary income stream, investing the often called “insurance float,” has performed very well, relative to our desired constraints and guidelines, during a prolonged period of low interest rates and did so again in 2013, posting a total return on our fixed-income portfolio of 1.7%. In fact, with interest rates so low, any desire for long-term increases has to be moderated by the

potentially sudden and dramatic price depreciation that may be incurred in current holdings. We had a preview to this potential in the second quarter, but our short-duration position and heavier exposure to the front end of the yield curve provided some insulation to the interest rate increase and steepening yield curve. While our current recurring interest income by historical standards is frustratingly low at a pretax book yield of 2.6%, we remain confident in our preference for shorter duration positioning during times of extremely low interest rates, but will certainly benefit from a return to more substantial yields and are well prepared to act. We were more than happy to be among the boats on a rising 2013 tide for equities, and our approximately 14% allocation of the portfolio to equities — largely indexed — recorded a total return of 32.8%.

As selective signs perhaps suggest a slow strengthening of the economy, we would welcome an improved investment environment with interest rates more comfortably matching our longer-term investment income preference, but, by design, we are not dependent on it. We enter 2014 with a very strong and well-structured capital position, and an investment portfolio positioned to support our current and future objectives, and prospects for our underwriting business that always seem brighter based on the past year’s accomplishments.

#### **MORE AND BETTER**

Snapshot® our usage-based insurance program, contributed to making things better in 2013, in part by contributing over \$2 billion to our auto written premium and in part by continuing to help us better understand much of what we didn't know, we didn't know as we introduced this rating breakthrough to the market. Least among the unknowns was the premise that driving behavior matters, and another year and significant data confirmed, in no uncertain terms, that observed and measured driving behavior is an extraordinarily powerful basis for matching a rate with the risk presented. Perhaps higher on the list of unknowns was the willingness and degree of engagement customers would be comfortable with when it comes to auto insurance. Historically, a low engagement product after quotation and payment, excluding any claims activity, we are now asking consumers to actively select an option requiring the insertion of a device into the automobile, at their discretion track progress, and in time return the device. Needless to say, not all devices are installed and not all returned, but our focus

on these new dimensions to our business and our communication with customers is improving every day. To highlight the notion of engagement, the art in this year's annual report is entirely dependent on the viewer's active engagement since the works, including the one commissioned for our campus which is reproduced on the cover of this report, can only be fully appreciated by the observer finding the exact viewing spot and thus point-of-view. We hope, as with Snapshot, the engagement has disproportionate benefits for most.

We had a very good year increasing the percentage of customers accepting the increased level of Snapshot engagement. Notably, Internet customers were accepting at significantly higher rates than at initial introduction and year-end 2012. The most notable, which is far from a surprise, is the high acceptance rates among our customers using mobile devices to buy policies, to whom this seems apparently quite natural. This trend bodes well for us in 2014 and beyond.

Our advertising efforts for Snapshot now use the full gambit of options available to us: we have Flo communicating in multiple ways; we have the "Rate Suckers" campaign strongly suggesting if you're not in you may be subsidizing the poor driving habits of others; and soon we will use the "Policy Box" to reinforce the key messages. Each has an appeal and a message designed to cover an ever wider spectrum of consumers and a priori concerns. Our research shows three groups of customers: those very encouraged by this type of option; those less persuaded but open; and those with little or no interest for reasons often regarding their perception of privacy. We remain confident that clearer concept communication, greater general awareness, high integrity execution, and changing societal expectations, all work to our and consumers' advantage going forward. While it's invigorating to be the pioneer in this extraordinary rating dimension, it may well prove even more rewarding to be the advantaged player when it's a mainstream consumer expectation.

2013 saw significant progress on our efforts at managing and mining "Big Data"— Snapshot will be a primary beneficiary. As good as our understanding of our data is today, we see continued potential to extract greater value and improve our ability to accurately distinguish between consumer risk profiles. Continuing to evolve our products, including features like Snapshot, is at the very heart of what we do and a clear basis for how we see our ability to outperform in a competitive market. 2014 will be a year where many of the research initiatives of 2013 will come to market.

Each year it seems we need a new vocabulary for mobile computing and communication devices — once simply a phone and desktop, then add tablet and now an evolving array of screen sizes in between, tablets, phones, minis, etc. The common denominator is simple — people want to and do transact all forms of business when and where they want and on whatever device best suits the moment. Quoting, sales, payments, and document requests by mobile device all now represent strong double digit percentages, and in some cases approaching a quarter, of all such transactions. Our challenge is to provide an appealing, easy to use interface for our customers and prospective customers, regardless of the means by which they interact with us. Our efforts on quoting and buying have been at the forefront of our industry and those were enhanced in 2013 with car and driver combinations that meet 99% of consumer needs. Our mobile servicing efforts, for reasons no longer important, were not as responsive to customer preferences as we would desire for much of the year, but our intensive effort to redirect was released late in the year and now forms the basis for our mobile servicing initiative that is fully extensible for 2014. We can never stray far from where it all started, and Progressive's website design and user experience still represents the base functionality for all else; as such, we were pleased to be again recognized by Keynote Competitive Research as the No.1 website in the insurance industry for now our ninth year running.

One of the most dramatic differences in Progressive today versus a decade or so ago, and certainly for the better, is operating with the umbrella of a high profile brand. We are unquestionably challenged when occasionally pricing or servicing actions, perceived or real, don't match the consumer's perception of what our brand and their expectations of it call for and, in those cases with merit, it serves us well to reevaluate. However, by far the biggest difference is the consumer awareness, consideration, and preference for Progressive products and service — all measures we track with great interest. 2013 was a great year for our ongoing brand development with the Superstore creative campaign starring Flo performing at some of our best yet response levels. Additionally, we pulled the Policy Box off the shelf of the Superstore and using a witty, slightly boastful caricature of it, delivered targeted messages expanding our network of delivery options.

Our objective is not to become simply the decision brand for consumers when considering auto insurance, but also for complementary personal insurance products, primarily home and renter's coverage. Our Progressive Home Advantage® Program (PHA), supported by the offerings of 11 unaffiliated underwriters, now serves over a million customers, most of whom have a bundled auto and home combination — clearly our retention focused objective. From modest beginnings, the PHA program has become a very significant part of our strategy to attract and retain customers — in some cases those who may not have previously considered us or may have felt the need to leave us when their needs expanded. Our interpretation of an independent survey of customer satisfaction with household insurance bundling, published in 2013, ranking Progressive higher than many traditional underwriters of both auto and home products, was confirming for us of our original premise and research results, that consumers are very comfortable bundling products from different underwriters, conditioned on a brand they

can relate to, trust, and one that provides the ease of use we all want when assembling the pieces of our aggregate needs. Our transformation of Progressive from a transaction brand to a destination brand is well underway. The combination of excellent consumer-facing technology, a product array designed for all customer life stages, and a decision brand, makes for an effective portal to attract long-term customers and develop a relationship that meaningfully addresses their specific needs over their lifetime. The potential here is far greater than the to-date realization, but is exciting both in numeric reach and strategic breadth. More and more of our customers, especially our direct customers, are now multi-product customers with combinations of auto, special lines, home, or renters.

Our relationship with American Strategic Insurance (ASI), our key provider for the PHA experience through agents, flourished in 2013, with PHA available to Agency customers in 23 states and Washington D.C., with several more states planned for 2014.

Working closely with ASI, our goal, as it is in general, is to design in the product features that make its use more consumer intuitive versus the all too often rough edges associated with different products attempting to work together. Our Agent's customers are a tremendous source of the multi-product business we seek, and we fully appreciate the need to bring them a strong product portfolio to earn a greater share of this business. Our strong brand is now seen by most agents as a huge positive and a business-generating asset they value and can effectively leverage.

In 2013, our claims organization was able to make what was already a strong track record of extraordinary results in claims resolution even better — quality, efficiency, and customer experience all improved from previously very high benchmarks. In addition to normal claim volume, fires, tornadoes, flooding, hail, and late season snow storms all left their mark on the year, each demanding greater and immediate commitment of our people. Thankfully, the Atlantic hurricane season was not of much note. We opened

nine new Service Centers during the year, expanding our footprint to sixty three countrywide. The quality of the claims experience provided at these facilities has from the very first implementation been a model that we believed consumers would come to expect if they only knew how easy it was to use and could take advantage of it. Our work in 2013 was directed squarely at communicating the benefits and increasing our responsiveness and availability so more customers could use the option. As a selected method of repair, the Service Centers now represent more than a third of our physical damage features in the areas served and one of the best benefits of being a Progressive customer. We believe, for those non-customers using the center, being involved in an accident with a Progressive customer is better than alternatives, as demonstrated by their subsequent switching behavior.

Loss and loss adjustment expense is such a dominant percentage of our economics that we never think of claims handling as anything other than directly integral to the business success. Even seemingly marginal gains in claim quality, efficiency, and customer experience translate disproportionately to continued attractive pricing and gains in customer retention. I'm happy to report 2013 was another very good year for our claims organization.

#### **OUR PEOPLE AND CULTURE**

Sadly, late in the year our Chairman and friend Peter B. Lewis died. Peter's life work was largely centered on Progressive, the only company he ever worked for. Since drawing his first paycheck in 1945 for stuffing envelopes for the company's first-ever direct mail campaign until his death, he never wavered in his commitment to the essential elements that have come to make Progressive, progressive and our culture so special. Any attempt to recap the depth of what he meant to Progressive would fall short, but there can be no doubt Progressive lost its best cheerleader of all time. I have traditionally closed my letter with an appropriate tribute to our people and the work environment that make all that we do possible. This year, in honor of Peter, I would like to yield that same task to Peter's own words selectively chosen from his last shareholders letter in 2000 and reprinted on the following page.

To all the people of Progressive, our agents, customers, shareholders, and perhaps most of all Peter B. Lewis — Thanks for making Progressive, progressive.



Glenn M. Renwick  
President and Chief Executive Officer

*I feel a sweet sadness writing this my last letter to shareholders as CEO. I will miss being a key person in the day-to-day work of Progressive's becoming a greater company.*

*The bedrock of Progressive's success is its Core Values, its Vision of reducing human trauma and economic costs of auto accidents and the challenging Financial Objectives against which we evaluate performance. The Vision, Values and Objectives provide the clarity that lets excellent people perform well. The Vision affirms our benefit to society and drives our single-minded focus on U.S. auto insurance buyers. The Values guide behavior. The demanding Objectives attract the special people who enjoy working hard, performing well, being rewarded competitively and growing constantly.*

*Thanks to every person who ever contributed energy and intelligence to Progressive. Neither the company nor I would be where we are without you.*

*Joe Howe and Rose  
Peter Blewett*

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



# OBJECTIVES POLICIES & OPERATIONS SUMMARY

## OBJECTIVES

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

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

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

## FINANCIAL POLICIES

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

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

### Operating

Maintain pricing and reserving discipline

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

### Investing

Maintain a liquid, diversified, high-quality investment portfolio

- *Manage on a total return basis*
- *Manage interest rate, credit, prepayment, extension, and concentration risk*
- *Allocate portfolio between two groups:*

**Group I: Target 0% to 25% (common equities; nonredeemable preferred stocks; redeemable preferred stocks, except for 50% of investment-grade redeemable preferred stocks with cumulative dividends; and all other non-investment-grade fixed-maturity securities)**

**Group II: Target 75% to 100% (short-term securities and all other fixed-maturity securities)**

### Financing

Maintain sufficient capital to support insurance operations

- *Maintain debt below 30% of total capital at book value*
- *Neutralize dilution from equity-based compensation in the year of issuance through share repurchases*
- *Use underleveraged capital to repurchase shares and pay dividends (special or variable based on annual underwriting results)*

## OBJECTIVES AND POLICIES SCORECARD

Financial Results		Target	2013	2012	2011	5 Years <sup>1</sup>	10 Years <sup>1</sup>
Underwriting margin	–Progressive <sup>2</sup>	4%	6.5%	4.4%	7.0%	6.7%	8.5%
	–Industry <sup>3</sup>	na		(1.6)%	(1.6)%	(.9)%	1.7%
Net premiums written growth	–Progressive	(a)	6%	8%	5%	5%	4%
	–Industry <sup>3</sup>	na		3%	2%	1%	2%
Policies in force growth	–Personal auto	(a)	3%	4%	5%	5%	5%
	–Special lines	(a)	1%	4%	5%	4%	7%
	–Commercial Lines	(a)	(1)%	2%	0%	(1)%	3%
Companywide premiums-to-surplus ratio		(b)	2.9	2.9	2.9	na	na
Investment allocation	–Group I	(c)	22%	21%	21%	na	na
	–Group II	(c)	78%	79%	79%	na	na
Debt-to-total capital ratio		<30%	23.1%	25.6%	29.6%	na	na
Return on average shareholders' equity							
	–Net income	(d)	17.7%	14.5%	16.5%	17.3%	18.8%
	–Comprehensive income	(d)	19.0%	17.4%	15.0%	21.2%	20.1%

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

(b) Determined separately for each insurance subsidiary.

(c) Allocate portfolio between two groups:

Group I: Target 0% to 25% (common equities; nonredeemable preferred stocks; redeemable preferred stocks, except for 50% of investment-grade redeemable preferred stocks with cumulative dividends; and all other non-investment-grade fixed-maturity securities)

Group II: Target 75% to 100% (short-term securities and all other fixed-maturity securities)

(d) Progressive does not have a predetermined target for return on average shareholders' equity.

na = not applicable

<sup>1</sup>Represents results over the respective time period; growth represents average annual compounded rate of increase (decrease).

<sup>2</sup>Expressed as a percentage of net premiums earned. Underwriting profit is calculated by subtracting losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses from the total of net premiums earned and fees and other revenues.

<sup>3</sup>Represents private passenger auto insurance market data as reported by A.M. Best Company, Inc. The industry underwriting margin excludes the effect of policyholder dividends. Final comparable industry data for 2013 will not be available until our third quarter report. The 5- and 10-year growth rates are presented on a one-year lag basis for the industry.

## ACHIEVEMENTS

We are convinced that the best way to maximize shareholder value is to achieve these financial objectives and policies consistently. A shareholder who purchased 100 shares of Progressive for \$1,800 in our first public stock offering on April 15, 1971, would have owned 153,651 shares, including dividend reinvestment, on December 31, 2013, with a market value of \$4,190,063, for a 19.9% compounded annual return, compared to the 10.3% return achieved by investors in the S&P 500 during the same period.

In the ten years since December 31, 2003, Progressive shareholders have realized compounded annual returns, including dividend reinvestment, of 5.4%, compared to 7.4% for the S&P 500. In the five years since December 31, 2008, Progressive shareholders' returns were 16.6%, compared to 17.9% for the S&P 500. In 2013, the returns were 30.9% on Progressive shares and 32.4% for the S&P 500.

We have consistently paid dividends since we went public in 1971. Assuming dividends were not reinvested, a shareholder who bought 100 shares at the initial public offering would now hold 92,264 shares and would have received cumulative dividends of \$535,239, including \$26,249 in 2013. In addition to paying dividends, over the years when we have had adequate capital and believed it to be appropriate, we have repurchased our shares. As our Financial Policies state, we will repurchase shares to neutralize the dilution from equity-based compensation programs and return any underleveraged capital to investors. During 2013, we repurchased 11,023,202 common shares. The total cost to repurchase these shares was \$273 million, with an average cost of \$24.80 per share. Since 1971, we have spent \$8.2 billion repurchasing our shares, at an average cost of \$6.96 per share.

## OPERATIONS SUMMARY

**Personal Lines** Financial results for our Personal Lines business were very consistent with our expectations going into 2013. Adjustments we made to our pricing during 2012 to address accelerating loss trends led to a 2.2 point improvement in our combined ratio versus 2012, driven predominantly by an increase in average premium per policy of 4%. Loss cost trends increased, but less so than we forecasted and priced into our products. Personal Lines, which includes auto and special lines products, had a combined ratio for the year of 93.4. Unit growth of 3%, or approximately 321,000 more policies in force, together with the average premium increase, allowed us to increase total earned premiums 7% or nearly \$1 billion.

Customer retention in 2013 was an added challenge given our rate adjustments initiated mid-to-late 2012 that applied to customers generally on a subsequent six-month basis. We're pleased to report most underlying retention metrics, including our Net Promoter® Score, have recovered. Our policy life expectancy (PLE) measure that is based on a trailing 12-month view is also trending upward. We will always remain diligent in keeping our forward-looking pricing levels consistent with our outlook for loss cost trends and our 96 calendar-year combined ratio target. Our current outlook calls for modestly increasing our pricing levels in 2014 and, if true, we would expect more stability in customer retention based solely on more moderate price increases.

Non-loss cost progress is another reason we are more comfortable with our pricing levels. Naturally, the average premium per policy increase helped our expense ratio move down 0.4 points to 20.4. Underlying cost reduction efforts also assisted here with policies in force per FTE up 6% within Personal Lines, and what we define as "work content per policy in force" down 4% due predominantly to process re-engineering. Improving customer retention also helps our cost structure and we expect to enjoy more of that in 2014 and beyond.

New customer acquisition was slightly positive for 2013 versus 2012 in our auto business and down more than 7% for our special

lines products. Overall conversion of new prospective customers was down for the year and especially so in the first half of the year. In the latter half of the year, it would appear that competitor rate actions caught up with our previous rate actions, and our conversion rate reached levels similar to previous years. In our Direct channel, prospective customer demand was the strongest we've ever seen, reflecting our strong brand, compelling creative execution, and increased media spending. New customer quoting in our agents' offices was also strong, even after adjusting for material shifts in quoting activity to third-party comparative rating systems, most notably in California.

The shift to mobile device interactions with our agents, customers, and prospective customers continued at a very rapid pace during 2013. Volume in most categories essentially doubled from 2012. We continue to invest heavily in mobile and mobile-friendly systems but frankly still have more investments we need to make. The great news is that we are contending for the lead in mobile in our industry, and our performance metrics in mobile now rival those in our "traditional desktop" web offerings, which is critical given the shift in demand.

Another key shift in our customer and agent experiences with Progressive continues to be our shift towards orienting our offerings to customer households versus just vehicles. We are getting better at taking a household approach and utilizing tools and systems we've built to meet the broader needs of our customers. At year-end, almost a million of our customers enjoyed a policy through Progressive Home Advantage®, and an additional 700,000 customers enjoyed both an auto policy along with some other Progressive product in the same household. These "bundled" households stay with us longer than similar unbundled customers and also show better loss characteristics. Our intent is to expand this strategy further and ensure we can meet all of the Personal Lines needs of our customers going forward.

In 2014, we will test increasing consideration and trial amongst the bundled consumer segment by expanding upon our very successful offering of comparison rates. Historically, we have

## OPERATING RESULTS

	2013	2012	Change
<b>Personal Lines</b>			
Net premiums written (in billions)	\$ 15.6	\$ 14.6	6%
Net premiums earned (in billions)	\$ 15.3	\$ 14.4	7%
Loss and loss adjustment expense ratio	73.0	74.8	(1.8) pts.
Underwriting expense ratio	20.4	20.8	(.4) pts.
Combined ratio	93.4	95.6	(2.2) pts.
Policies in force (in thousands)	13,056.4	12,735.3	3%
<b>Commercial Lines</b>			
Net premiums written (in billions)	\$ 1.8	\$ 1.7	2%
Net premiums earned (in billions)	\$ 1.8	\$ 1.6	7%
Loss and loss adjustment expense ratio	71.9	72.6	(.7) pts.
Underwriting expense ratio	21.6	22.2	(.6) pts.
Combined ratio	93.5	94.8	(1.3) pts.
Policies in force (in thousands)	514.6	519.6	(1)%

provided these comparison rates from leading competitors only for auto insurance. Our 2014 test will offer the Progressive Home Advantage bundle alongside a comparison of rates for auto/home bundles from leading competitors. If we are successful in shifting perception and demand with the bundled customer segment within our trial states, we will roll this feature out further.

Snapshot®, our usage-based rating system, continues to enjoy solid growth and surpassed the \$2 billion mark for the year. We met our combined ratio goal on a customer life-time basis for those customers selecting Snapshot and were profitable on a calendar-year basis. Our calendar-year, Snapshot-specific expense ratio dropped another 60 basis points and we are now performing, on a customer lifetime basis, at about 1% added expense for the monitoring feature.

We expect to begin offering a revised Snapshot program tailored towards a more competitive environment later in 2014.

Needless to say, the data processing requirements for more than 9 billion driving miles captured at one second intervals are material. Similar processing needs exist in our web marketing organization where we deliver billions of advertising impressions annually. Less similar, but equally complex processing opportunities exist in fighting claims fraud. All of these opportunities rely on our

ability to process “big data” and we’re glad to report we continue to make headway here and believe our abilities are matching our opportunities.

We continue to make other pricing segmentation and feature enhancements beyond usage-based ratings in our auto and special lines programs. In 2013, we expanded our offering of a Deductible Savings Bank® in our auto programs and refined our approach to rating existing customers that exhibit less-than-optimal loss and payment performance. In our special lines programs, we began rating based on consumer channel choice. We also refined and expanded our new and existing customer underwriting efforts.

Our 2014 agenda focuses heavily on continuing to improve customer retention — ensuring we meet our customers’ product needs and ensuring their interactions with us enhance their confidence that we should be their ultimate destination for all their personal lines insurance. More robust mobile offerings, a new auto and usage-based product offering, moving closer to completion of our new auto policy processing system, entry into the Agency channel for auto insurance in Massachusetts, and some greater participation in our broadening product offerings round out key initiatives that will position us well for 2014 and beyond.

**Commercial Lines** Progressive's Commercial Lines business in 2013 was characterized by an unevenness of market conditions, environmental influences, cost trends, and outcomes across the various business market targets we serve. This challenged our product management driven organization and affirmed our earlier decision to organize our product design, key processes, and customer service around specific targeted business markets. The ability to implement a range of action plans, both proactive and reactive, to different circumstances and opportunities by market is an important design element of our operating model.

Commercial Lines achieved net premiums written growth of 2% and earned premium growth of 7%. Premium growth was down from 2012, which produced corresponding gains of 13% and 12%. The slower revenue growth can be directly attributed to pricing

and underwriting actions taken in our high average premium for-hire transportation (FHT) and for-hire specialty (FHS) business market targets. Those steps collectively slowed new customer acquisition and led to the selective non-renewal or cancellation of about 3,000 accounts. The reduction in FHT and FHS accounts was partially offset by double digit gains in average written premium per policy. We also experienced modestly lower sales conversion rates in our contractors and towing businesses as we completed 109 program rate revisions during the year and placed some restrictions on nonstandard business where we could not charge an adequate rate. The combined ratio was 93.5 for 2013, an improvement of 1.3 points over the prior year and in line with our target. We continued to recalibrate rate and underwriting decisions throughout the year and are beginning to see more stability in our segment results.

The for-hire transportation business saw a continuation of the persistent increasing loss cost trends that emerged in 2010 as the economy came out of recession. This was one of the first business segments to see accident frequency increase as upticks in consumer confidence and consumption spurred recovery in freight transport. Our most aggressive rate and underwriting actions of 2013 were made within FHT as loss trends showed no indication of moderating in the first half of the year. As a result, we experienced a reduction of policies in force of 19%. This was an acceptable outcome as we refocus this business on owner/operators with average, or better, safety and accident histories, but by necessity diverges from a Progressive principle of finding the right rate for any risk. Toward the end of the year, FHT results improved and began to track with our expectations for profitability. Unlike other commercial auto markets where industry level rate increases have begun to slow, transportation is continuing to see reductions in capacity, rising rates, and restrictive underwriting. We ended 2013 with a hard market for transportation business and a reasonable belief that we can again grow our share selectively and profitably in FHT.

Improvement in the housing and construction sectors led to increased prospect flow for our contractors business and the emergence of higher loss cost trends for the for-hire specialty business. Our contractor segment grew slightly in policies in force with solid margins. Growing the contractor business is an area of emphasis and we enter 2014 in a position of relative strength.

For-hire specialty was more challenging as we experienced higher than normal variance in loss patterns, which made pricing at the local level challenging. Concern over fast-rising loss costs led us to curtail the FHS business in Texas and some other key markets as we moved to implement rate increases that averaged 20%. In addition to general increases in claims, we saw spikes in frequency tied to major infrastructure projects coming on line in a number of states. In some cases, heavy dump trucks that had been operating at less than full capacity began running extended hours, dramatically changing the exposure base. For-hire specialty policies in force declined by 8% as we adjusted rates for each local

environment. Our prospect flow for FHS has historically tracked closely with U.S. aggregate production, but in the second half of 2013 we broke from this pattern, suggesting a real opportunity cost associated with our remedial actions. Specialty trucking is a core component of our Commercial Lines franchise and one we will look to rebuild as the new rate level earns in and results stabilize.

The more broadly based business auto market target performed well in 2013 with 4% year-over-year growth in new business and a 3% gain in policies in force. Policy retention held steady. Our focus on profitability and the high degree of variability we encountered in the other Commercial Lines business market targets undoubtedly lent a degree of conservatism to our pricing and management of business auto in the first half of 2013, leaving us less competitive than we desired to be on business we want and on which we can earn good margins. We began to make adjustments on a state-by-state basis toward the end of the year and look forward to competing even more effectively as we enter the 2014 peak season.

We continued to make progress in addressing the other business insurance needs of our customers and developing broader brand awareness with small business owners. Our in-house agency, Progressive Commercial Advantage<sup>SM</sup>, added commercial lines markets in 2013 and now has a national footprint for business owners policies and general liability policies, and offers workers' compensation insurance, written by unaffiliated underwriters, in all voluntary market states. Revenue more than doubled as the agency achieved greater than 75% growth in both total policies in force and, importantly, policy bundles.

Continued investment in broad market advertising to small business owners and enhancement of our capabilities for mobile quoting and policy service helped Progressive become the #1 Commercial Auto brand in 2013 based on a third-party assessment of unaided awareness. More importantly, the increased reach of our brand led to substantial growth in visits to *progressivecommercial.com* and a healthy year-over-year gain in direct prospects quoted. We are gaining confidence in our ability to efficiently generate and manage direct demand in the small business owner space, adding meaningfully to the growth prospects for our direct business.

*Basis of Presentation:* The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries, and affiliates. These financial statements should be read in conjunction with the complete Consolidated Financial Statements, including the complete Notes to the Consolidated Financial Statements, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations and Supplemental Information, which are included in Progressive's 2013 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2014 Proxy Statement.



# CONSOLIDATED FINANCIAL STATEMENTS

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Progressive's management is responsible for establishing and maintaining adequate internal control over financial reporting. Based on Progressive's evaluation under the framework in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), management concluded that Progressive's internal control over financial reporting was effective as of December 31, 2013. The complete "Management's Report on Internal Control over Financial Reporting," as required by Section 404 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations, along with the related report of PricewaterhouseCoopers LLP, is presented in the 2013 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2014 Proxy Statement.

#### **CEO AND CFO CERTIFICATIONS**

Glenn M. Renwick, President and Chief Executive Officer of The Progressive Corporation, and Brian C. Domeck, Vice President and Chief Financial Officer of The Progressive Corporation, have issued the certifications required by Sections 302 and 906 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations with respect to Progressive's 2013 Annual Report on Form 10-K, including the financial statements provided in this Report and in the 2013 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2014 Proxy Statement. Among other matters required to be included in those certifications, Mr. Renwick and Mr. Domeck have each certified that, to the best of his knowledge, the financial statements, and other financial information included in the Annual Report on Form 10-K, fairly present in all material respects the financial condition, results of operations, and cash flows of Progressive as of, and for, the periods presented. See Exhibits 31 and 32 to Progressive's Annual Report on Form 10-K for the complete Section 302 and 906 Certifications, respectively.

# Consolidated Statements of COMPREHENSIVE INCOME

(millions—except per share amounts)

For the years ended December 31,

	2013	2012	2011
<b>Revenues</b>			
Net premiums earned	\$ 17,103.4	\$ 16,018.0	\$ 14,902.8
Investment income	422.0	443.0	480.0
Net realized gains (losses) on securities:			
Other-than-temporary impairment (OTTI) losses:			
Total OTTI losses	(6.0)	(7.3)	(6.0)
Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses	(.1)	(.7)	.5
Net impairment losses recognized in earnings	(6.1)	(8.0)	(5.5)
Net realized gains (losses) on securities	324.5	314.8	108.1
Total net realized gains (losses) on securities	318.4	306.8	102.6
Fees and other revenues	291.8	281.8	266.5
Service revenues	39.6	36.1	22.8
Gains (losses) on extinguishment of debt	(4.3)	(1.8)	(.1)
Total revenues	18,170.9	17,083.9	15,774.6
<b>Expenses</b>			
Losses and loss adjustment expenses	12,472.4	11,948.0	10,634.8
Policy acquisition costs	1,451.8	1,436.6	1,399.2
Other underwriting expenses	2,350.9	2,206.3	2,088.0
Investment expenses	18.8	15.4	13.5
Service expenses	38.8	36.1	19.4
Interest expense	118.2	123.8	132.7
Total expenses	16,450.9	15,766.2	14,287.6
<b>Net Income</b>			
Income before income taxes	1,720.0	1,317.7	1,487.0
Provision for income taxes	554.6	415.4	471.5
Net income	\$ 1,165.4	\$ 902.3	\$ 1,015.5
<b>Other Comprehensive Income (Loss), Net of Tax</b>			
Net unrealized gains (losses) on securities:			
Net non-credit related OTTI losses, adjusted for valuation changes	\$ .3	\$ 5.1	\$ (3.6)
Other net unrealized gains (losses) on securities	84.0	174.8	(80.9)
Total net unrealized gains (losses) on securities	84.3	179.9	(84.5)
Net unrealized gains on forecasted transactions	(2.0)	(1.8)	(6.8)
Foreign currency translation adjustment	(1.6)	.4	.1
Other comprehensive income (loss)	80.7	178.5	(91.2)
Comprehensive income	\$ 1,246.1	\$ 1,080.8	\$ 924.3
<b>Computation of Net Income Per Share</b>			
Average shares outstanding—Basic	599.1	603.3	632.3
Net effect of dilutive stock-based compensation	4.5	4.5	4.6
Total equivalent shares—Diluted	603.6	607.8	636.9
Basic: Net income per share	\$ 1.95	\$ 1.50	\$ 1.61
Diluted: Net income per share	\$ 1.93	\$ 1.48	\$ 1.59

Notes to the Consolidated Financial Statements are included in Progressive's 2013 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2014 Proxy Statement.

# Consolidated BALANCE SHEETS

(millions)

December 31,	2013	2012
<b>Assets</b>		
Investments—Available-for-sale, at fair value:		
Fixed maturities (amortized cost: \$13,415.3 and \$11,373.9)	\$ 13,540.4	\$ 11,774.1
Equity securities:		
Nonredeemable preferred stocks (cost: \$445.7 and \$404.0)	711.2	812.4
Common equities (cost: \$1,451.1 and \$1,370.3)	2,530.5	1,899.0
Short-term investments (amortized cost: \$1,272.6 and \$1,990.0)	1,272.6	1,990.0
Total investments	18,054.7	16,475.5
Cash	75.1	179.1
Accrued investment income	89.8	90.0
Premiums receivable, net of allowance for doubtful accounts of \$142.4 and \$138.6	3,310.7	3,183.7
Reinsurance recoverables, including \$44.3 and \$38.9 on paid losses and loss adjustment expenses	1,090.2	901.0
Prepaid reinsurance premiums	74.9	66.3
Deferred acquisition costs	447.6	434.5
Property and equipment, net of accumulated depreciation of \$680.4 and \$625.0	960.9	933.7
Net deferred income taxes	0	109.4
Other assets	304.3	321.5
Total assets	<u>\$ 24,408.2</u>	<u>\$ 22,694.7</u>
<b>Liabilities and Shareholders' Equity</b>		
Unearned premiums	\$ 5,174.5	\$ 4,930.7
Loss and loss adjustment expense reserves	8,479.7	7,838.4
Net deferred income taxes	28.4	0
Dividends payable	890.2	172.0
Accounts payable, accrued expenses, and other liabilities <sup>1</sup>	1,785.0	1,683.5
Debt <sup>2</sup>	1,860.9	2,063.1
Total liabilities	18,218.7	16,687.7
Common shares, \$1.00 par value (authorized 900.0; issued 797.6 and 797.7, including treasury shares of 201.8 and 193.1)	595.8	604.6
Paid-in capital	1,142.0	1,077.0
Retained earnings	3,500.0	3,454.4
Accumulated other comprehensive income, net of tax:		
Net non-credit related OTTI losses, adjusted for valuation changes	0	(.3)
Other net unrealized gains (losses) on securities	947.0	863.0
Total net unrealized gains (losses) on securities	947.0	862.7
Net unrealized gains on forecasted transactions	4.1	6.1
Foreign currency translation adjustment	.6	2.2
Total accumulated other comprehensive income	951.7	871.0
Total shareholders' equity	6,189.5	6,007.0
Total liabilities and shareholders' equity	<u>\$ 24,408.2</u>	<u>\$ 22,694.7</u>

<sup>1</sup>See Note 12—Litigation and Note 13—Commitments and Contingencies for further discussion.

<sup>2</sup>Consists of both short- and long-term debt. See Note 4—Debt for further discussion.

Notes to the Consolidated Financial Statements are included in Progressive's 2013 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2014 Proxy Statement.

# Consolidated Statements of CHANGES IN SHAREHOLDERS' EQUITY

(millions—except per share amounts)

For the years ended December 31,

	2013	2012	2011
<b>Common Shares, \$1.00 par value</b>			
Balance, Beginning of year	\$ 604.6	\$ 613.0	\$ 662.4
Stock options exercised	0	.1	2.0
Treasury shares purchased <sup>1</sup>	(11.0)	(8.6)	(51.3)
Net restricted equity awards issued/vested/(forfeited)	2.2	.1	(.1)
Balance, End of year	\$ 595.8	\$ 604.6	\$ 613.0
<b>Paid-In Capital</b>			
Balance, Beginning of year	\$ 1,077.0	\$ 1,006.2	\$ 1,007.1
Stock options exercised	0	.4	20.4
Tax benefit from exercise/vesting of equity-based compensation	10.3	5.8	6.4
Treasury shares purchased <sup>1</sup>	(20.4)	(14.5)	(80.7)
Net restricted equity awards (issued)/(vested)/forfeited	(2.2)	(.1)	.1
Amortization of equity-based compensation	64.9	62.4	50.3
Reinvested dividends on restricted stock units	12.4	11.2	2.6
Other	0	5.6	0
Balance, End of year	\$ 1,142.0	\$ 1,077.0	\$ 1,006.2
<b>Retained Earnings</b>			
Balance, Beginning of year	\$ 3,454.4	\$ 3,495.0	\$ 3,595.7
Net income	1,165.4	902.3	1,015.5
Treasury shares purchased <sup>1</sup>	(242.0)	(151.1)	(865.8)
Cash dividends declared on common shares (\$1.4929, \$1.2845, and \$.4072 per share)	(889.2)	(772.5)	(248.1)
Reinvested dividends on restricted stock units	(12.4)	(11.2)	(2.6)
Other, net	23.8	(8.1)	.3
Balance, End of year	\$ 3,500.0	\$ 3,454.4	\$ 3,495.0
<b>Accumulated Other Comprehensive Income, Net of Tax</b>			
Balance, Beginning of year	\$ 871.0	\$ 692.5	\$ 783.7
Other comprehensive income (loss)	80.7	178.5	(91.2)
Balance, End of year	\$ 951.7	\$ 871.0	\$ 692.5
Total Shareholders' Equity	\$ 6,189.5	\$ 6,007.0	\$ 5,806.7

<sup>1</sup>In December 2013, we purchased 4.0 million shares at a price of \$25.50 per share in a privately negotiated transaction with the "Peter B. Lewis Trust under Agreement dated December 21, 1994, as modified." Mr. Lewis was our non-executive Chairman of the Board until his death in November 2013.

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

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

Notes to the Consolidated Financial Statements are included in Progressive's 2013 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2014 Proxy Statement.

# Consolidated Statements of CASH FLOWS

(millions)

For the years ended December 31,	2013	2012	2011
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 1,165.4	\$ 902.3	\$ 1,015.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	101.3	94.4	88.5
Amortization of fixed-income securities	134.0	186.7	233.0
Amortization of equity-based compensation	64.9	63.4	50.5
Net realized (gains) losses on securities	(318.4)	(306.8)	(102.6)
Net (gains) losses on disposition of property and equipment	5.6	7.1	8.7
(Gains) losses on extinguishment of debt	4.3	1.8	.1
Changes in:			
Premiums receivable	(127.4)	(253.8)	(191.4)
Reinsurance recoverables	(189.2)	(83.0)	(76.5)
Prepaid reinsurance premiums	(8.6)	3.5	18.3
Deferred acquisition costs	(13.1)	(.9)	(16.4)
Income taxes	57.8	19.8	28.4
Unearned premiums	244.8	351.1	225.6
Loss and loss adjustment expense reserves	641.6	592.6	174.8
Accounts payable, accrued expenses, and other liabilities	165.0	123.6	35.5
Other, net	(28.1)	(10.4)	5.9
Net cash provided by operating activities	1,899.9	1,691.4	1,497.9
<b>Cash Flows from Investing Activities</b>			
Purchases:			
Fixed maturities	(7,100.6)	(5,199.2)	(6,032.4)
Equity securities	(322.2)	(463.1)	(582.0)
Sales:			
Fixed maturities	3,083.9	3,705.6	4,442.6
Equity securities	369.2	793.0	423.5
Maturities, paydowns, calls, and other:			
Fixed maturities	1,859.6	1,488.9	1,540.9
Equity securities	21.5	16.0	0
Net sales (purchases) of short-term investments	716.6	(438.2)	(461.0)
Net unsettled security transactions	152.2	(44.0)	(.6)
Purchases of property and equipment	(140.4)	(127.7)	(78.9)
Sales of property and equipment	3.7	3.8	3.0
Net cash used in investing activities	(1,356.5)	(264.9)	(744.9)
<b>Cash Flows from Financing Activities</b>			
Proceeds from exercise of stock options	0	.5	22.4
Tax benefit from exercise/vesting of equity-based compensation	10.3	5.8	6.4
Net proceeds from debt issuance	0	0	491.9
Payment of debt	(150.0)	(350.0)	0
Reacquisition of debt	(58.1)	(32.5)	(15.0)
Dividends paid to shareholders	(175.6)	(853.7)	(263.6)
Acquisition of treasury shares	(273.4)	(174.2)	(997.8)
Net cash used in financing activities	(646.8)	(1,404.1)	(755.7)
Effect of exchange rate changes on cash	(.6)	1.0	(.5)
Increase (decrease) in cash	(104.0)	23.4	(3.2)
Cash, Beginning of year	179.1	155.7	158.9
Cash, End of year	\$ 75.1	\$ 179.1	\$ 155.7

Notes to the Consolidated Financial Statements are included in Progressive's 2013 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2014 Proxy Statement.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Progressive Corporation and its subsidiaries as of December 31, 2013 and December 31, 2012, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013 (not presented herein) appearing in The Progressive Corporation's 2013 Annual Report to Shareholders, which is attached as an Appendix to The Progressive Corporation's 2014 Proxy Statement. In our report date February 26, 2014, we expressed an unqualified opinion on those consolidated financial statements.

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



Cleveland, Ohio  
February 26, 2014

**COMMON SHARES AND DIVIDENDS**

The Progressive Corporation's common shares are traded on the New York Stock Exchange (symbol PGR). Progressive currently has an annual variable dividend policy. We expect the Board to declare the next annual variable dividend, subject to policy limitations, in December 2014, with a record date in January 2015 and payment shortly thereafter. A complete description of our annual variable dividend policy can be found at: [progressive.com/dividend](http://progressive.com/dividend).

Quarter	Stock Price			Rate of Return	Dividends Declared per Share
	High	Low	Close		
<b>2013</b>					
1	\$ 25.38	\$ 21.36	\$ 25.27		\$ 0
2	26.39	23.99	25.42		0
3	27.55	24.86	27.23		0
4	28.54	25.81	27.27		1.4929
	\$ 28.54	\$ 21.36	\$ 27.27	30.9%	\$ 1.4929
<b>2012</b>					
1	\$ 23.37	\$ 19.01	\$ 23.18		\$ 0
2	23.41	20.22	20.83		0
3	21.28	19.17	20.74		0
4	23.19	20.68	21.10		1.2845
	\$ 23.41	\$ 19.01	\$ 21.10	15.4%	\$ 1.2845

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

Statements in this report that are not historical fact are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. These risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions, and projections generally; inflation and changes in economic conditions (including changes in interest rates and financial markets); the possible failure of one or more governmental, corporate, or other entities to make scheduled debt payments or satisfy other obligations; the potential or actual downgrading by one or more rating agencies of our securities or governmental, corporate, or other securities we hold; the financial condition of, and other issues relating to the strength of and liquidity available to, issuers of securities held in our investment portfolios and other companies with which we have ongoing business relationships, including counterparties to certain financial transactions; the accuracy and adequacy of our pricing and loss reserving methodologies; the competitiveness of our pricing and the effectiveness of our initiatives to attract and retain more customers; initiatives by competitors and the effectiveness of our response; our ability to obtain regulatory approval for requested rate changes and the timing thereof; the effectiveness of our brand strategy and advertising campaigns relative to those of competitors; legislative

and regulatory developments at the state and federal levels, including, but not limited to, health care reform and tax law changes; the outcome of disputes relating to intellectual property rights; the outcome of litigation or governmental investigations that may be pending or filed against us; weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail, and winter conditions); changes in driving patterns and loss trends; acts of war and terrorist activities; our ability to maintain the uninterrupted operation of our facilities, systems (including information technology systems), and business functions, and safeguard personal and sensitive information in our possession; our continued access to and functionality of third-party systems that are critical to our business; court decisions and trends in litigation and health care and auto repair costs; and other matters described from time to time in our releases and publications, and in our periodic reports and other documents filed with the United States Securities and Exchange Commission. In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for one or more contingencies. Also, our regular reserve reviews may result in adjustments of varying magnitude as additional information regarding claims activity becomes known. Reported results, therefore, may be volatile in certain accounting periods.



# CORPORATE Information

## **Principal Office**

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

**Annual Meeting** The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, Studio 96, 6671 Beta Drive, Mayfield Village, Ohio 44143 on May 16, 2014, at 10 a.m. eastern time. There were 2,896 shareholders of record on December 31, 2013.

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

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

For all other company information, call: 440-461-5000 or access our website at: [progressive.com/contactus](http://progressive.com/contactus).

**Corporate Governance** Progressive's Corporate Governance Guidelines and Board Committee Charters are available at: [progressive.com/governance](http://progressive.com/governance).

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

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

**Registered Trademark** Net Promoter<sup>®</sup> is a registered trademark of Satmetrix Systems, Inc.

**Online Annual Report and Proxy Statement** Our 2013 Annual Report to Shareholders can be found at: [progressive.com/annualreport](http://progressive.com/annualreport).

We have also posted copies of our 2014 Proxy Statement and 2013 Annual Report to Shareholders, in a "PDF" format, at: [progressiveproxy.com](http://progressiveproxy.com).

## **Transfer Agent and Registrar**

**Registered Shareholders:** If you have questions or changes to your account and your Progressive shares are registered in your name, write to: American Stock Transfer & Trust Company, Attn: Operations Center, 6201 15th Avenue, Brooklyn, NY 11219; phone: 1-866-709-7695; email: [info@amstock.com](mailto:info@amstock.com); or visit their website at: [amstock.com](http://amstock.com).

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

**Counsel** Baker & Hostetler LLP, Cleveland, Ohio

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

Stephen R. Hardis, Lead Independent Director, The Progressive Corporation, email: [stephen\\_hardis@progressive.com](mailto:stephen_hardis@progressive.com).

Charles E. Jarrett, Secretary, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or email: [chuck\\_jarrett@progressive.com](mailto:chuck_jarrett@progressive.com).

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

**Accounting Complaint Procedure** Any employee or other interested party with a complaint or concern regarding accounting, internal accounting controls, or auditing matters relating to Progressive may report such complaint or concern directly to the Chairman of the Audit Committee, as follows: Patrick H. Nettles, Ph.D., Chairman of the Audit Committee, [patrick\\_nettnles@progressive.com](mailto:patrick_nettnles@progressive.com).

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

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

# DIRECTORS and OFFICERS

## DIRECTORS

**Stuart B. Burgdoerfer**<sup>1,6</sup>

Executive Vice President and Chief Financial Officer, L Brands, Inc. (retailing)

**Charles A. Davis**<sup>4,5,6</sup>

Chief Executive Officer, Stone Point Capital LLC (private equity investing)

**Roger N. Farah**<sup>3,6</sup>

Executive Vice Chairman, Ralph Lauren Corporation (lifestyle products)

**Lawton W. Fitt**<sup>2,4,5,6</sup>

Retired Partner, Goldman Sachs Group (financial services)

**Stephen R. Hardis**<sup>2,4,5,6</sup>

Lead Independent Director, The Progressive Corporation

**Jeffrey D. Kelly**<sup>3,6</sup>

Executive Vice President and Chief Financial Officer, RenaissanceRe Holdings Ltd. (reinsurance services)

**Heidi G. Miller, Ph.D.**<sup>1,6</sup>

Retired President of International, JPMorgan Chase & Co. (financial services)

**Patrick H. Nettles, Ph.D.**<sup>1,6</sup>

Executive Chairman, Ciena Corporation (telecommunications)

**Glenn M. Renwick**<sup>2</sup>

Chairman of the Board, President, and Chief Executive Officer, The Progressive Corporation

**Bradley T. Sheares, Ph.D.**<sup>3,6</sup>

Former Chief Executive Officer, Reliant Pharmaceuticals, Inc. (pharmaceuticals)

## CORPORATE OFFICERS

**Glenn M. Renwick**

Chairman of the Board, President, and Chief Executive Officer

**Brian C. Domeck**

Vice President and Chief Financial Officer

**Charles E. Jarrett**

Vice President, Secretary, and Chief Legal Officer

**Thomas A. King**

Vice President and Treasurer

**Jeffrey W. Basch**

Vice President and Chief Accounting Officer

**Mariann Wojtkun Marshall**

Assistant Secretary

<sup>1</sup>Audit Committee Member

<sup>2</sup>Executive Committee Member

<sup>3</sup>Compensation Committee Member

<sup>4</sup>Investment and Capital Committee Member

<sup>5</sup>Nominating and Governance Committee Member

<sup>6</sup>Independent Director

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

	<b>Personal autos, motorcycles, and recreational vehicles</b>	<b>Commercial autos/trucks</b>
<b>To Receive a Quote</b>	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-888-806-9598 progressivecommercial.com
<b>To Report a Claim</b>	1-800-274-4499 progressive.com <sup>1</sup>	1-800-274-4499
<b>For Customer Service:</b> If you bought your policy through an independent agent or broker	1-800-925-2886 (1-800-300-3693 in California) progressiveagent.com	1-800-444-4487 progressivecommercial.com
If you bought your policy directly through Progressive online or by phone	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-895-2886 progressivecommercial.com
If you have a complaint or concern regarding any claim handling or other claims-related issue <sup>2</sup>	1-800-274-4641 email: claims@email.progressive.com	1-800-274-4641 email: claims@email.progressive.com

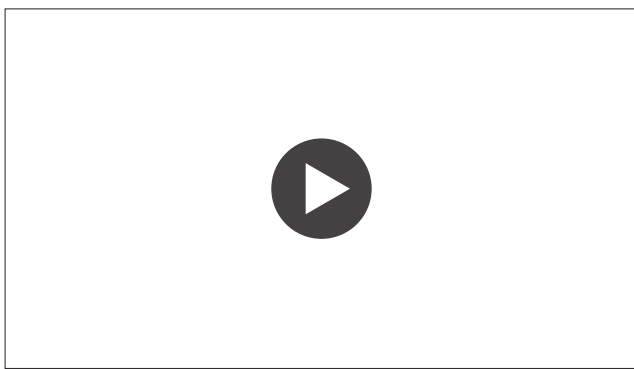
<sup>1</sup>Claims reporting via the website is currently only available for personal auto policies.

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

In addition, iPhone® and Android users can download the Progressive App to obtain insurance that is quick and easy to buy and use.

## BEHIND THE SCENES

To see *Engagement: The Making of the 2013 Progressive Annual Report Artwork*, please visit: [progressive.com/annualreport2013video](http://progressive.com/annualreport2013video)



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## ARTWORK

- 2 *Twelve disks over sixteen hollowed halves and four quarters*  
Mayfield Village, Ohio
- 4 *Seventeen orange eccentric circles*  
Limoges, France
- 6 *Twenty-five blue squares in a checked pattern*  
Limoges, France
- 9 *Five open ellipses, blue; Double trapezoid for four triangles; Four triangles for two windows*  
Paris, France
- 11 *Three pentagons in three eccentric disks*  
Lugano, Switzerland
- 12 *Diagonal red ellipse for two columns*  
Ermatingen, Switzerland
- 15 *Off-axis trapezoid around a rectangle*  
Nancy, France
- 16 *Orange ellipse hollowed out by seven disks*  
Nancy, France
- 19 *Blue, black, red, and yellow square with white disk*  
Paris, France
- 21 *Disk in the ellipse*  
Nantes, France
- 23 *Two circles via a rectangle*  
Basel, Switzerland
- 25 *30-32, Rue de Lappe*  
Nantes, France
- 26 *Horizontal, vertical*  
Sérignan, France
- 29 *Seven eccentric rings*  
Château d'Olonne, France
- 35 *Ellipse in the trapezoid, red*  
Strasbourg, France
- 38 *Twelve disks over sixteen hollowed halves and four quarters*  
Mayfield Village, Ohio



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