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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

- ☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2015  
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

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**THE PROGRESSIVE CORPORATION**  
(Exact name of registrant as specified in its charter)

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| <b>Ohio</b><br>(State or other jurisdiction of<br>incorporation or organization)<br><br><b>6300 Wilson Mills Road, Mayfield Village, Ohio</b><br>(Address of principal executive offices)<br><br><b>(440) 461-5000</b><br>(Registrant's telephone number, including area code) | <b>34-0963169</b><br>(I.R.S. Employer<br>Identification No.)<br><br><b>44143</b><br>(Zip Code) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|

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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. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

|                         |                                                                        |  |                           |                          |
|-------------------------|------------------------------------------------------------------------|--|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/>                                    |  | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) |  | Smaller reporting company | <input type="checkbox"/> |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Shares, \$1.00 par value: 586,722,794 outstanding at April 30, 2015

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## PART I—FINANCIAL INFORMATION

### Item 1. Financial Statements.

The Progressive Corporation and Subsidiaries  
**Consolidated Statements of Comprehensive Income**  
(unaudited)

| Three months ended March 31,                                                                     | 2015        | 2014        | %<br>Change |
|--------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
| <b>(millions—except per share amounts)</b>                                                       |             |             |             |
| <b>Revenues</b>                                                                                  |             |             |             |
| Net premiums earned                                                                              | \$ 4,666.3  | \$ 4,402.3  | 6           |
| Investment income                                                                                | 105.1       | 103.3       | 2           |
| Net realized gains (losses) on securities:                                                       |             |             |             |
| Other-than-temporary impairment (OTTI) losses:                                                   |             |             |             |
| Total OTTI losses                                                                                | (7.9)       | 0           | NM          |
| Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses | 0           | 0           | NM          |
| Net impairment losses recognized in earnings                                                     | (7.9)       | 0           | NM          |
| Net realized gains (losses) on securities                                                        | 40.9        | 119.4       | (66)        |
| Total net realized gains (losses) on securities                                                  | 33.0        | 119.4       | (72)        |
| Fees and other revenues                                                                          | 73.7        | 72.8        | 1           |
| Service revenues                                                                                 | 17.2        | 9.8         | 76          |
| Total revenues                                                                                   | 4,895.3     | 4,707.6     | 4           |
| <b>Expenses</b>                                                                                  |             |             |             |
| Losses and loss adjustment expenses                                                              | 3,368.6     | 3,205.9     | 5           |
| Policy acquisition costs                                                                         | 379.4       | 369.0       | 3           |
| Other underwriting expenses                                                                      | 650.4       | 610.4       | 7           |
| Investment expenses                                                                              | 5.3         | 4.1         | 29          |
| Service expenses                                                                                 | 15.9        | 9.7         | 64          |
| Interest expense                                                                                 | 32.5        | 26.7        | 22          |
| Total expenses                                                                                   | 4,452.1     | 4,225.8     | 5           |
| <b>Net Income</b>                                                                                |             |             |             |
| Income before income taxes                                                                       | 443.2       | 481.8       | (8)         |
| Provision for income taxes                                                                       | 147.6       | 160.5       | (8)         |
| Net income                                                                                       | \$ 295.6    | \$ 321.3    | (8)         |
| <b>Other Comprehensive Income (Loss), Net of Tax</b>                                             |             |             |             |
| Changes in:                                                                                      |             |             |             |
| Net unrealized gains (losses) on securities:                                                     |             |             |             |
| Net non-credit related OTTI losses, adjusted for valuation changes                               | \$ 0        | \$ 0        | NM          |
| Other net unrealized gains (losses) on securities                                                | 35.4        | (0.1)       | NM          |
| Total net unrealized gains (losses) on securities                                                | 35.4        | (0.1)       | NM          |
| Net unrealized gains (losses) on forecasted transactions                                         | (8.7)       | (0.3)       | NM          |
| Foreign currency translation adjustment                                                          | (0.5)       | 0           | NM          |
| Other comprehensive income (loss)                                                                | 26.2        | (0.4)       | NM          |
| Comprehensive income                                                                             | \$ 321.8    | \$ 320.9    | 0           |
| <b>Computation of Net Income Per Share</b>                                                       |             |             |             |
| Average shares outstanding - Basic                                                               | 587.6       | 593.9       | (1)         |
| Net effect of dilutive stock-based compensation                                                  | 3.4         | 3.8         | (11)        |
| Total equivalent shares - Diluted                                                                | 591.0       | 597.7       | (1)         |
| Basic: Net income per share                                                                      | \$ 0.50     | \$ 0.54     | (7)         |
| Diluted: Net income per share                                                                    | \$ 0.50     | \$ 0.54     | (7)         |
| <b>Dividends declared per share<sup>1</sup></b>                                                  | <b>\$ 0</b> | <b>\$ 0</b> |             |

NM = Not Meaningful

<sup>1</sup>Progressive maintains an annual dividend program. See *Note 8 - Dividends* for further discussion.  
See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries  
**Consolidated Balance Sheets**  
(unaudited)

| (millions)                                                                                                             | March 31,   |             | December 31, |
|------------------------------------------------------------------------------------------------------------------------|-------------|-------------|--------------|
|                                                                                                                        | 2015        | 2014        | 2014         |
| <b>Assets</b>                                                                                                          |             |             |              |
| Investments - Available-for-sale, at fair value:                                                                       |             |             |              |
| Fixed maturities (amortized cost: \$13,997.5, \$12,335.8, and \$13,374.2)                                              | \$ 14,219.8 | \$ 12,506.2 | \$ 13,549.2  |
| Equity securities:                                                                                                     |             |             |              |
| Nonredeemable preferred stocks (cost: \$598.3, \$460.7, and \$590.4)                                                   | 828.1       | 737.9       | 827.5        |
| Common equities (cost: \$1,295.0, \$1,252.7, and \$1,289.2)                                                            | 2,515.7     | 2,278.7     | 2,492.3      |
| Short-term investments (amortized cost: \$2,267.0, \$1,872.9, and \$2,149.0)                                           | 2,267.0     | 1,872.9     | 2,149.0      |
| Total investments                                                                                                      | 19,830.6    | 17,395.7    | 19,018.0     |
| Cash                                                                                                                   | 101.5       | 96.7        | 108.4        |
| Accrued investment income                                                                                              | 84.7        | 82.3        | 87.3         |
| Premiums receivable, net of allowance for doubtful accounts of \$138.7, \$131.9, and \$152.2                           | 3,777.0     | 3,515.9     | 3,537.5      |
| Reinsurance recoverables, including \$50.8, \$34.5, and \$46.0 on paid losses and loss adjustment expenses             | 1,257.2     | 1,111.5     | 1,231.9      |
| Prepaid reinsurance premiums                                                                                           | 99.3        | 81.8        | 85.3         |
| Deferred acquisition costs                                                                                             | 484.0       | 466.9       | 457.2        |
| Property and equipment, net of accumulated depreciation of \$742.7, \$687.1, and \$731.0                               | 957.5       | 950.0       | 960.6        |
| Other assets                                                                                                           | 288.9       | 614.6       | 301.4        |
| Total assets                                                                                                           | \$ 26,880.7 | \$ 24,315.4 | \$ 25,787.6  |
| <b>Liabilities and Shareholders' Equity</b>                                                                            |             |             |              |
| Unearned premiums                                                                                                      | \$ 5,854.0  | \$ 5,460.1  | \$ 5,440.1   |
| Loss and loss adjustment expense reserves                                                                              | 9,001.6     | 8,592.6     | 8,857.4      |
| Net deferred income taxes                                                                                              | 97.2        | 51.1        | 98.9         |
| Dividends payable                                                                                                      | 0           | 0           | 404.1        |
| Accounts payable, accrued expenses, and other liabilities                                                              | 2,165.9     | 1,911.7     | 1,893.8      |
| Debt <sup>1</sup>                                                                                                      | 2,560.1     | 1,861.3     | 2,164.7      |
| Total liabilities                                                                                                      | 19,678.8    | 17,876.8    | 18,859.0     |
| Common Shares, \$1.00 par value (authorized 900.0; issued 797.6, including treasury shares of 210.3, 204.5, and 209.8) | 587.3       | 593.1       | 587.8        |
| Paid-in capital                                                                                                        | 1,196.7     | 1,159.0     | 1,184.3      |
| Retained earnings                                                                                                      | 4,368.6     | 3,735.2     | 4,133.4      |
| Accumulated other comprehensive income, net of tax:                                                                    |             |             |              |
| Net non-credit related OTTI losses, adjusted for valuation changes                                                     | 0           | 0           | 0            |
| Other net unrealized gains (losses) on securities                                                                      | 1,057.3     | 946.9       | 1,021.9      |
| Total net unrealized gains (losses) on securities                                                                      | 1,057.3     | 946.9       | 1,021.9      |
| Net unrealized gains (losses) on forecasted transactions                                                               | (7.2)       | 3.8         | 1.5          |
| Foreign currency translation adjustment                                                                                | (0.8)       | 0.6         | (0.3)        |
| Total accumulated other comprehensive income                                                                           | 1,049.3     | 951.3       | 1,023.1      |
| Total shareholders' equity                                                                                             | 7,201.9     | 6,438.6     | 6,928.6      |
| Total liabilities and shareholders' equity                                                                             | \$ 26,880.7 | \$ 24,315.4 | \$ 25,787.6  |

<sup>1</sup>Consists of long-term debt. See *Note 4 - Debt*.  
See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries  
**Consolidated Statements of Changes in Shareholders' Equity**  
(unaudited)

| Three months ended March 31,<br>(millions — except per share amounts) |           | 2015           | 2014              |
|-----------------------------------------------------------------------|-----------|----------------|-------------------|
| <b>Common Shares, \$1.00 Par Value</b>                                |           |                |                   |
| Balance, Beginning of period                                          | \$        | 587.8          | \$ 595.8          |
| Treasury shares purchased                                             |           | (2.5)          | (3.9)             |
| Net restricted equity awards issued/vested/(forfeited)                |           | 2.0            | 1.2               |
| Balance, End of period                                                | \$        | 587.3          | \$ 593.1          |
| <b>Paid-In Capital</b>                                                |           |                |                   |
| Balance, Beginning of period                                          | \$        | 1,184.3        | \$ 1,142.0        |
| Tax benefit from vesting of equity-based compensation                 |           | 6.3            | 10.7              |
| Treasury shares purchased                                             |           | (5.0)          | (7.5)             |
| Net restricted equity awards (issued)/(vested)/forfeited              |           | (2.0)          | (1.2)             |
| Amortization of equity-based compensation                             |           | 13.1           | 15.2              |
| Reinvested dividends on restricted stock units                        |           | 0              | (0.2)             |
| Balance, End of period                                                | \$        | 1,196.7        | \$ 1,159.0        |
| <b>Retained Earnings</b>                                              |           |                |                   |
| Balance, Beginning of period                                          | \$        | 4,133.4        | \$ 3,500.0        |
| Net income                                                            |           | 295.6          | 321.3             |
| Treasury shares purchased                                             |           | (58.4)         | (83.3)            |
| Cash dividends declared on common shares                              |           | 0              | 1.1               |
| Other, net                                                            |           | (2.0)          | (3.9)             |
| Balance, End of period                                                | \$        | 4,368.6        | \$ 3,735.2        |
| <b>Accumulated Other Comprehensive Income, Net of Tax</b>             |           |                |                   |
| Balance, Beginning of period                                          | \$        | 1,023.1        | \$ 951.7          |
| Other comprehensive income (loss)                                     |           | 26.2           | (0.4)             |
| Balance, End of period                                                | \$        | 1,049.3        | \$ 951.3          |
| <b>Total Shareholders' Equity</b>                                     | <b>\$</b> | <b>7,201.9</b> | <b>\$ 6,438.6</b> |

There are 20.0 million Serial Preferred Shares authorized; no such shares are issued or outstanding.  
There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.  
See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries  
**Consolidated Statements of Cash Flows**  
(unaudited)

| Three months ended March 31,                                                      | 2015      | 2014      |
|-----------------------------------------------------------------------------------|-----------|-----------|
| (millions)                                                                        |           |           |
| <b>Cash Flows From Operating Activities</b>                                       |           |           |
| Net income                                                                        | \$ 295.6  | \$ 321.3  |
| Adjustments to reconcile net income to net cash provided by operating activities: |           |           |
| Depreciation                                                                      | 23.8      | 22.8      |
| Amortization of fixed-income securities                                           | 17.3      | 19.0      |
| Amortization of equity-based compensation                                         | 13.1      | 15.2      |
| Net realized (gains) losses on securities                                         | (33.0)    | (119.4)   |
| Net (gains) losses on disposition of property and equipment                       | 0.1       | 2.1       |
| Changes in:                                                                       |           |           |
| Premiums receivable                                                               | (239.6)   | (205.2)   |
| Reinsurance recoverables                                                          | (25.3)    | (21.3)    |
| Prepaid reinsurance premiums                                                      | (14.0)    | (6.9)     |
| Deferred acquisition costs                                                        | (26.8)    | (19.3)    |
| Income taxes                                                                      | 80.6      | 149.6     |
| Unearned premiums                                                                 | 414.4     | 285.6     |
| Loss and loss adjustment expense reserves                                         | 144.4     | 112.9     |
| Accounts payable, accrued expenses, and other liabilities                         | 106.9     | 77.0      |
| Other, net                                                                        | 13.6      | 27.2      |
| Net cash provided by operating activities                                         | 771.1     | 660.6     |
| <b>Cash Flows From Investing Activities</b>                                       |           |           |
| Purchases:                                                                        |           |           |
| Fixed maturities                                                                  | (3,023.8) | (1,731.6) |
| Equity securities                                                                 | (77.2)    | (86.6)    |
| Sales:                                                                            |           |           |
| Fixed maturities                                                                  | 1,534.6   | 2,107.1   |
| Equity securities                                                                 | 88.9      | 362.5     |
| Maturities, paydowns, calls, and other:                                           |           |           |
| Fixed maturities                                                                  | 855.1     | 697.0     |
| Equity securities                                                                 | 0         | 14.3      |
| Net sales (purchases) of short-term investments                                   | (117.7)   | (600.4)   |
| Net unsettled security transactions                                               | 64.5      | (411.3)   |
| Purchases of property and equipment                                               | (22.2)    | (16.2)    |
| Sales of property and equipment                                                   | 1.4       | 2.2       |
| Net cash provided by (used in) investing activities                               | (696.4)   | 337.0     |
| <b>Cash Flows From Financing Activities</b>                                       |           |           |
| Tax benefit from vesting of equity-based compensation                             | 6.3       | 10.7      |
| Proceeds from debt issuance                                                       | 382.0     | 0         |
| Dividends paid to shareholders <sup>1</sup>                                       | (403.6)   | (892.6)   |
| Acquisition of treasury shares                                                    | (65.9)    | (94.7)    |
| Net cash used in financing activities                                             | (81.2)    | (976.6)   |
| Effect of exchange rate changes on cash                                           | (0.4)     | 0.6       |
| Increase (decrease) in cash                                                       | (6.9)     | 21.6      |
| Cash, January 1                                                                   | 108.4     | 75.1      |
| Cash, March 31                                                                    | \$ 101.5  | \$ 96.7   |

<sup>1</sup>Progressive maintains an annual dividend program. See *Note 8 - Dividends* for further discussion.  
See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

**Notes to Consolidated Financial Statements**

(unaudited)

**Note 1 Basis of Presentation** — The consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries, a mutual insurance company affiliate, and a limited partnership investment affiliate. All of the subsidiaries and affiliates are wholly owned or controlled. The consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, were necessary for a fair statement of the results for the interim periods presented. The results of operations for the period ended March 31, 2015, are not necessarily indicative of the results expected for the full year. These consolidated financial statements and the notes thereto should be read in conjunction with Progressive's audited financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Included in other assets in the consolidated balance sheets for March 31, 2015 and 2014 and December 31, 2014, is \$8.7 million of "held for sale" property, which represents the fair value of this property less the estimated costs to sell.

**Note 2 Investments** — Our securities are reported at fair value, with the changes in fair value of these securities (other than hybrid securities and derivative instruments) reported as a component of accumulated other comprehensive income, net of deferred income taxes. The changes in fair value of the hybrid securities and derivative instruments are recorded as a component of net realized gains (losses) on securities.

The following tables present the composition of our investment portfolio by major security type, consistent with our classification of how we manage, monitor, and measure the portfolio:

| (\$ in millions)                       | Cost        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Net<br>Realized<br>Gains<br>(Losses) <sup>1</sup> | Fair<br>Value | % of<br>Total<br>Fair<br>Value |
|----------------------------------------|-------------|------------------------------|-------------------------------|---------------------------------------------------|---------------|--------------------------------|
| <b>March 31, 2015</b>                  |             |                              |                               |                                                   |               |                                |
| Fixed maturities:                      |             |                              |                               |                                                   |               |                                |
| U.S. government obligations            | \$ 2,678.1  | \$ 30.1                      | \$ 0                          | \$ 0                                              | \$ 2,708.2    | 13.7%                          |
| State and local government obligations | 2,224.8     | 50.0                         | (1.0)                         | 0                                                 | 2,273.8       | 11.5                           |
| Foreign government obligations         | 20.0        | 0                            | 0                             | 0                                                 | 20.0          | 0.1                            |
| Corporate debt securities              | 2,851.6     | 54.4                         | (3.8)                         | 1.8                                               | 2,904.0       | 14.6                           |
| Residential mortgage-backed securities | 1,629.2     | 32.4                         | (13.1)                        | (0.3)                                             | 1,648.2       | 8.3                            |
| Commercial mortgage-backed securities  | 2,437.4     | 50.1                         | (1.1)                         | 0.7                                               | 2,487.1       | 12.5                           |
| Other asset-backed securities          | 1,896.1     | 4.9                          | (0.3)                         | 0.8                                               | 1,901.5       | 9.6                            |
| Redeemable preferred stocks            | 260.3       | 23.3                         | (6.6)                         | 0                                                 | 277.0         | 1.4                            |
| Total fixed maturities                 | 13,997.5    | 245.2                        | (25.9)                        | 3.0                                               | 14,219.8      | 71.7                           |
| Equity securities:                     |             |                              |                               |                                                   |               |                                |
| Nonredeemable preferred stocks         | 598.3       | 192.5                        | (5.9)                         | 43.2                                              | 828.1         | 4.2                            |
| Common equities                        | 1,295.0     | 1,226.7                      | (6.0)                         | 0                                                 | 2,515.7       | 12.7                           |
| Short-term investments                 | 2,267.0     | 0                            | 0                             | 0                                                 | 2,267.0       | 11.4                           |
| Total portfolio <sup>2,3</sup>         | \$ 18,157.8 | \$ 1,664.4                   | \$ (37.8)                     | \$ 46.2                                           | \$ 19,830.6   | 100.0%                         |

| (\$ in millions)                       | Cost        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Net<br>Realized<br>Gains<br>(Losses) <sup>1</sup> | Fair<br>Value | % of<br>Total<br>Fair<br>Value |
|----------------------------------------|-------------|------------------------------|-------------------------------|---------------------------------------------------|---------------|--------------------------------|
| <b>March 31, 2014</b>                  |             |                              |                               |                                                   |               |                                |
| Fixed maturities:                      |             |                              |                               |                                                   |               |                                |
| U.S. government obligations            | \$ 3,197.8  | \$ 39.0                      | \$ (6.8)                      | \$ 0                                              | \$ 3,230.0    | 18.5%                          |
| State and local government obligations | 2,131.0     | 33.1                         | (9.2)                         | 0                                                 | 2,154.9       | 12.4                           |
| Foreign government obligations         | 17.9        | 0                            | 0                             | 0                                                 | 17.9          | 0.1                            |
| Corporate debt securities              | 2,461.6     | 45.4                         | (7.2)                         | 1.8                                               | 2,501.6       | 14.4                           |
| Residential mortgage-backed securities | 1,286.7     | 32.6                         | (11.9)                        | 0                                                 | 1,307.4       | 7.5                            |
| Commercial mortgage-backed securities  | 2,037.7     | 41.5                         | (17.6)                        | 0                                                 | 2,061.6       | 11.9                           |
| Other asset-backed securities          | 936.2       | 6.6                          | (0.6)                         | 0.3                                               | 942.5         | 5.4                            |
| Redeemable preferred stocks            | 266.9       | 29.6                         | (6.2)                         | 0                                                 | 290.3         | 1.7                            |
| Total fixed maturities                 | 12,335.8    | 227.8                        | (59.5)                        | 2.1                                               | 12,506.2      | 71.9                           |
| Equity securities:                     |             |                              |                               |                                                   |               |                                |
| Nonredeemable preferred stocks         | 460.7       | 263.7                        | (1.2)                         | 14.7                                              | 737.9         | 4.2                            |
| Common equities                        | 1,252.7     | 1,028.8                      | (2.8)                         | 0                                                 | 2,278.7       | 13.1                           |
| Short-term investments                 | 1,872.9     | 0                            | 0                             | 0                                                 | 1,872.9       | 10.8                           |
| Total portfolio <sup>2,3</sup>         | \$ 15,922.1 | \$ 1,520.3                   | \$ (63.5)                     | \$ 16.8                                           | \$ 17,395.7   | 100.0%                         |

| (\$ in millions)                       | Cost        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Net<br>Realized<br>Gains<br>(Losses) <sup>1</sup> | Fair<br>Value | % of<br>Total<br>Fair<br>Value |
|----------------------------------------|-------------|------------------------------|-------------------------------|---------------------------------------------------|---------------|--------------------------------|
| <b>December 31, 2014</b>               |             |                              |                               |                                                   |               |                                |
| Fixed maturities:                      |             |                              |                               |                                                   |               |                                |
| U.S. government obligations            | \$ 2,641.1  | \$ 27.3                      | \$ (1.3)                      | \$ 0                                              | \$ 2,667.1    | 14.0%                          |
| State and local government obligations | 2,095.7     | 44.6                         | (1.1)                         | 0                                                 | 2,139.2       | 11.2                           |
| Foreign government obligations         | 14.2        | 0                            | 0                             | 0                                                 | 14.2          | 0.1                            |
| Corporate debt securities              | 2,813.9     | 32.9                         | (10.4)                        | 0.3                                               | 2,836.7       | 14.9                           |
| Residential mortgage-backed securities | 1,635.5     | 34.5                         | (10.8)                        | (0.7)                                             | 1,658.5       | 8.7                            |
| Commercial mortgage-backed securities  | 2,278.7     | 39.3                         | (2.6)                         | 0.2                                               | 2,315.6       | 12.2                           |
| Other asset-backed securities          | 1,634.9     | 3.8                          | (0.8)                         | 0.8                                               | 1,638.7       | 8.6                            |
| Redeemable preferred stocks            | 260.2       | 24.7                         | (5.7)                         | 0                                                 | 279.2         | 1.5                            |
| Total fixed maturities                 | 13,374.2    | 207.1                        | (32.7)                        | 0.6                                               | 13,549.2      | 71.2                           |
| Equity securities:                     |             |                              |                               |                                                   |               |                                |
| Nonredeemable preferred stocks         | 590.4       | 201.1                        | (6.4)                         | 42.4                                              | 827.5         | 4.4                            |
| Common equities                        | 1,289.2     | 1,213.2                      | (10.1)                        | 0                                                 | 2,492.3       | 13.1                           |
| Short-term investments                 | 2,149.0     | 0                            | 0                             | 0                                                 | 2,149.0       | 11.3                           |
| Total portfolio <sup>2,3</sup>         | \$ 17,402.8 | \$ 1,621.4                   | \$ (49.2)                     | \$ 43.0                                           | \$ 19,018.0   | 100.0%                         |

<sup>1</sup>Represents net holding period gains (losses) on certain hybrid securities (discussed below).

<sup>2</sup>Our portfolio reflects the effect of unsettled security transactions and collateral on open derivative positions; at March 31, 2015, \$95.8 million was included in "other liabilities," compared to \$350.0 million included in "other assets" at March 31, 2014 and \$31.3 million included in "other liabilities" at December 31, 2014.

<sup>3</sup>The total fair value of the portfolio at March 31, 2015 and 2014, and December 31, 2014 included \$1.7 billion, \$0.8 billion, and \$1.9 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

**Short-Term Investments** Our short-term investments may include commercial paper and other investments that are expected to mature within one year. We did not hold any repurchase transactions where we lent collateral at March 31, 2015, March 31, 2014, or December 31, 2014. To the extent our repurchase transactions were with the same counterparty and subject to an enforceable master netting arrangement, we could elect to offset these transactions. Consistent with past practice, we have elected not to offset these transactions and therefore report these transactions on a gross basis on our balance sheets.

Also included in short-term investments are reverse repurchase commitment transactions, where we loan cash to internally approved counterparties and receive U.S. Treasury Notes pledged as collateral against the cash borrowed. Our exposure to credit risk is limited due to the nature of the collateral (i.e., U.S. Treasury Notes) received. We have counterparty exposure on these trades in the event of a counterparty default to the extent the general collateral security's value is below the amount of cash we delivered to acquire the collateral. The short-term duration of the transactions (primarily overnight) reduces that exposure.

We had no open reverse repurchase commitments at March 31, 2015 or December 31, 2014, compared to \$140.0 million with one counterparty at March 31, 2014. For the three months ended March 31, 2015, our largest outstanding balance of reverse repurchase commitments was \$215.0 million, which was open for one day; the average daily balance of reverse repurchase commitments was \$137.7 million.

**Hybrid Securities** Included in our fixed-maturity and equity securities are hybrid securities, which are reported at fair value:

| (millions)                             | March 31, |          | December 31, |  |
|----------------------------------------|-----------|----------|--------------|--|
|                                        | 2015      | 2014     | 2014         |  |
| Fixed maturities:                      |           |          |              |  |
| Corporate debt securities              | \$ 132.9  | \$ 145.7 | \$ 139.8     |  |
| Residential mortgage-backed securities | 111.7     | 0        | 120.7        |  |
| Commercial mortgage-backed securities  | 18.0      | 0        | 31.2         |  |
| Other asset-backed securities          | 13.1      | 13.9     | 13.7         |  |
| Total fixed maturities                 | 275.7     | 159.6    | 305.4        |  |
| Equity securities:                     |           |          |              |  |
| Nonredeemable preferred stocks         | 137.2     | 63.8     | 122.3        |  |
| Total hybrid securities                | \$ 412.9  | \$ 223.4 | \$ 427.7     |  |

Certain corporate debt securities are accounted for as hybrid securities since they were acquired at a premium and contain a change-in-control put option (derivative) that permits the investor, at its sole option if and when a change in control is triggered, to put the security back to the issuer at a 1% premium to par. Due to this change-in-control put option and the substantial market premium paid to acquire these securities, there is the potential that the election to put, upon the change in control, would result in an acceleration of the recognition of the remaining premium paid on these securities in our results of operations. This would result in a loss of \$8.2 million as of March 31, 2015, if all of the bonds experienced a simultaneous change in control and we elected to exercise all of our put options. The put feature limits the potential loss in value that could be experienced in the event a corporate action occurs that results in a change in control that materially diminishes the credit quality of the issuer. We are under no obligation to exercise the put option we hold if a change in control occurs.

The residential mortgage-backed securities accounted for as hybrid securities are obligations of the issuer with payments of principal based on the performance of a reference pool of loans. This embedded derivative results in the securities incorporating the risk of default from both the issuer and the related loan pool.

The commercial mortgage-backed securities in the table above contain fixed interest rate reset features that will increase the coupons in the event the securities are not fully paid off on the anticipated repayment date. These reset features have the potential to more than double our initial purchase yield for each security.

The other asset-backed security in the table above represents one hybrid security that was acquired at a deep discount to par due to a failing auction, and contains a put option that allows the investor to put that security back to the auction at par if the auction is restored. This embedded derivative has the potential to more than double our initial investment yield at acquisition.

The hybrid securities in our nonredeemable preferred stock portfolio are perpetual preferred stocks that have call features with fixed-rate coupons, whereby the change in value of the call features is a component of the overall change in value of the preferred stocks.

**Fixed Maturities** The composition of fixed maturities by maturity at March 31, 2015, was:

| (millions)           | Cost        | Fair Value  |
|----------------------|-------------|-------------|
| Less than one year   | \$ 3,839.1  | \$ 3,878.2  |
| One to five years    | 6,771.6     | 6,848.9     |
| Five to ten years    | 3,318.8     | 3,413.5     |
| Ten years or greater | 67.9        | 79.1        |
| Total <sup>1</sup>   | \$ 13,997.4 | \$ 14,219.7 |

<sup>1</sup>Excludes \$0.1 million related to our open interest rate swap positions.

Asset-backed securities are classified in the maturity distribution table based upon their projected cash flows. All other securities which do not have a single maturity date are reported based upon expected average maturity. Contractual maturities may differ from expected maturities because the issuers of the securities may have the right to call or prepay obligations.

**Gross Unrealized Losses** As of March 31, 2015, we had \$31.8 million of gross unrealized losses in our fixed-income securities (i.e., fixed-maturity securities, nonredeemable preferred stocks, and short-term investments) and \$6.0 million in our common equities. We currently do not intend to sell the fixed-income securities and determined that it is more likely than not that we will not be required to sell these securities for the period of time necessary to recover their cost bases. A review of our fixed-income securities indicated that the issuers were current with respect to their interest obligations and that there was no evidence of any deterioration of the current cash flow projections that would indicate we would not receive the remaining principal at maturity. For common equities, 89% of our common stock portfolio was indexed to the Russell 1000; as such, this portfolio may contain securities in a loss position for an extended period of time, subject to possible write-downs, as described below. We may retain these securities as long as the portfolio and index correlation remain similar. To the extent there is issuer-specific deterioration, we may write-down the securities of that issuer. The remaining 11% of our common stocks were part of a managed equity strategy selected and administered by external investment advisors. If our review of loss position securities indicates there was a fundamental, or market, impairment on these securities that was determined to be other-than-temporary, we would recognize a write-down in accordance with our stated policy.

The following tables show the composition of gross unrealized losses by major security type and by the length of time that individual securities have been in a continuous unrealized loss position:

| (\$ in millions)                       | Total<br>No. of<br>Sec. | Total<br>Fair<br>Value | Gross<br>Unrealized<br>Losses | Less than 12 Months |               |                      | 12 Months or Greater |               |                      |
|----------------------------------------|-------------------------|------------------------|-------------------------------|---------------------|---------------|----------------------|----------------------|---------------|----------------------|
|                                        |                         |                        |                               | No. of<br>Sec.      | Fair<br>Value | Unrealized<br>Losses | No. of<br>Sec.       | Fair<br>Value | Unrealized<br>Losses |
| March 31, 2015                         |                         |                        |                               |                     |               |                      |                      |               |                      |
| Fixed maturities:                      |                         |                        |                               |                     |               |                      |                      |               |                      |
| U.S. government obligations            | 1                       | \$ 7.2                 | \$ 0                          | 1                   | \$ 7.2        | \$ 0                 | 0                    | \$ 0          | \$ 0                 |
| State and local government obligations | 57                      | 270.3                  | (1.0)                         | 42                  | 231.8         | (0.5)                | 15                   | 38.5          | (0.5)                |
| Corporate debt securities              | 25                      | 390.3                  | (3.8)                         | 17                  | 242.4         | (2.3)                | 8                    | 147.9         | (1.5)                |
| Residential mortgage-backed securities | 80                      | 1,013.9                | (13.1)                        | 34                  | 540.6         | (3.1)                | 46                   | 473.3         | (10.0)               |
| Commercial mortgage-backed securities  | 59                      | 564.2                  | (1.1)                         | 53                  | 560.8         | (1.0)                | 6                    | 3.4           | (0.1)                |
| Other asset-backed securities          | 30                      | 490.9                  | (0.3)                         | 29                  | 472.4         | (0.1)                | 1                    | 18.5          | (0.2)                |
| Redeemable preferred stocks            | 3                       | 102.1                  | (6.6)                         | 1                   | 33.0          | (1.0)                | 2                    | 69.1          | (5.6)                |
| Total fixed maturities                 | 255                     | 2,838.9                | (25.9)                        | 177                 | 2,088.2       | (8.0)                | 78                   | 750.7         | (17.9)               |
| Equity securities:                     |                         |                        |                               |                     |               |                      |                      |               |                      |
| Nonredeemable preferred stocks         | 5                       | 183.1                  | (5.9)                         | 2                   | 74.5          | (2.2)                | 3                    | 108.6         | (3.7)                |
| Common equities                        | 40                      | 58.3                   | (6.0)                         | 40                  | 58.3          | (6.0)                | 0                    | 0             | 0                    |
| Total equity securities                | 45                      | 241.4                  | (11.9)                        | 42                  | 132.8         | (8.2)                | 3                    | 108.6         | (3.7)                |
| Total portfolio                        | 300                     | \$ 3,080.3             | \$ (37.8)                     | 219                 | \$ 2,221.0    | \$ (16.2)            | 81                   | \$ 859.3      | \$ (21.6)            |

| (\$ in millions)                       | Total<br>No. of<br>Sec. | Total<br>Fair<br>Value | Gross<br>Unrealized<br>Losses | Less than 12 Months |               |                      | 12 Months or Greater |               |                      |
|----------------------------------------|-------------------------|------------------------|-------------------------------|---------------------|---------------|----------------------|----------------------|---------------|----------------------|
|                                        |                         |                        |                               | No. of<br>Sec.      | Fair<br>Value | Unrealized<br>Losses | No. of<br>Sec.       | Fair<br>Value | Unrealized<br>Losses |
| <u>March 31, 2014</u>                  |                         |                        |                               |                     |               |                      |                      |               |                      |
| Fixed maturities:                      |                         |                        |                               |                     |               |                      |                      |               |                      |
| U.S. government obligations            | 18                      | \$ 930.4               | \$ (6.8)                      | 5                   | \$ 163.1      | \$ (0.3)             | 13                   | \$ 767.3      | \$ (6.5)             |
| State and local government obligations | 106                     | 603.0                  | (9.2)                         | 28                  | 76.8          | (0.6)                | 78                   | 526.2         | (8.6)                |
| Corporate debt securities              | 31                      | 594.3                  | (7.2)                         | 7                   | 101.6         | (0.4)                | 24                   | 492.7         | (6.8)                |
| Residential mortgage-backed securities | 66                      | 812.6                  | (11.9)                        | 24                  | 359.7         | (1.9)                | 42                   | 452.9         | (10.0)               |
| Commercial mortgage-backed securities  | 59                      | 783.7                  | (17.6)                        | 19                  | 116.7         | (0.2)                | 40                   | 667.0         | (17.4)               |
| Other asset-backed securities          | 8                       | 112.7                  | (0.6)                         | 4                   | 36.8          | (0.1)                | 4                    | 75.9          | (0.5)                |
| Redeemable preferred stocks            | 3                       | 93.5                   | (6.2)                         | 0                   | 0             | 0                    | 3                    | 93.5          | (6.2)                |
| Total fixed maturities                 | 291                     | 3,930.2                | (59.5)                        | 87                  | 854.7         | (3.5)                | 204                  | 3,075.5       | (56.0)               |
| Equity securities:                     |                         |                        |                               |                     |               |                      |                      |               |                      |
| Nonredeemable preferred stocks         | 3                       | 84.3                   | (1.2)                         | 0                   | 0             | 0                    | 3                    | 84.3          | (1.2)                |
| Common equities                        | 9                       | 34.0                   | (2.8)                         | 7                   | 23.1          | (1.6)                | 2                    | 10.9          | (1.2)                |
| Total equity securities                | 12                      | 118.3                  | (4.0)                         | 7                   | 23.1          | (1.6)                | 5                    | 95.2          | (2.4)                |
| Total portfolio                        | 303                     | \$ 4,048.5             | \$ (63.5)                     | 94                  | \$ 877.8      | \$ (5.1)             | 209                  | \$ 3,170.7    | \$ (58.4)            |

| (\$ in millions)                       | Total<br>No. of<br>Sec. | Total<br>Fair<br>Value | Gross<br>Unrealized<br>Losses | Less than 12 Months |               |                      | 12 Months or Greater |               |                      |
|----------------------------------------|-------------------------|------------------------|-------------------------------|---------------------|---------------|----------------------|----------------------|---------------|----------------------|
|                                        |                         |                        |                               | No. of<br>Sec.      | Fair<br>Value | Unrealized<br>Losses | No. of<br>Sec.       | Fair<br>Value | Unrealized<br>Losses |
| <u>December 31, 2014</u>               |                         |                        |                               |                     |               |                      |                      |               |                      |
| Fixed maturities:                      |                         |                        |                               |                     |               |                      |                      |               |                      |
| U.S. government obligations            | 11                      | \$ 428.2               | \$ (1.3)                      | 5                   | \$ 150.7      | \$ (0.3)             | 6                    | \$ 277.5      | \$ (1.0)             |
| State and local government obligations | 46                      | 234.2                  | (1.1)                         | 28                  | 177.9         | (0.4)                | 18                   | 56.3          | (0.7)                |
| Corporate debt securities              | 53                      | 843.2                  | (10.4)                        | 43                  | 647.5         | (6.1)                | 10                   | 195.7         | (4.3)                |
| Residential mortgage-backed securities | 70                      | 844.2                  | (10.8)                        | 33                  | 465.2         | (3.1)                | 37                   | 379.0         | (7.7)                |
| Commercial mortgage-backed securities  | 63                      | 723.4                  | (2.6)                         | 54                  | 667.5         | (1.4)                | 9                    | 55.9          | (1.2)                |
| Other asset-backed securities          | 44                      | 741.8                  | (0.8)                         | 42                  | 715.7         | (0.7)                | 2                    | 26.1          | (0.1)                |
| Redeemable preferred stocks            | 3                       | 103.0                  | (5.7)                         | 1                   | 33.0          | (1.0)                | 2                    | 70.0          | (4.7)                |
| Total fixed maturities                 | 290                     | 3,918.0                | (32.7)                        | 206                 | 2,857.5       | (13.0)               | 84                   | 1,060.5       | (19.7)               |
| Equity securities:                     |                         |                        |                               |                     |               |                      |                      |               |                      |
| Nonredeemable preferred stocks         | 8                       | 231.4                  | (6.4)                         | 5                   | 143.2         | (3.6)                | 3                    | 88.2          | (2.8)                |
| Common equities                        | 20                      | 68.4                   | (10.1)                        | 19                  | 61.8          | (9.6)                | 1                    | 6.6           | (0.5)                |
| Total equity securities                | 28                      | 299.8                  | (16.5)                        | 24                  | 205.0         | (13.2)               | 4                    | 94.8          | (3.3)                |
| Total portfolio                        | 318                     | \$ 4,217.8             | \$ (49.2)                     | 230                 | \$ 3,062.5    | \$ (26.2)            | 88                   | \$ 1,155.3    | \$ (23.0)            |

Since both March 31, 2014 and December 31, 2014, the number of securities in our fixed-maturity portfolio with unrealized losses decreased, reflecting a combination of an increase in prices associated with a general decline in interest rates at certain maturities, as well as sales of securities for portfolio management reasons. We had no material decreases in valuation as a result of credit rating downgrades on our fixed-maturity securities. All of the fixed-maturity securities in an unrealized loss position at March 31, 2015 in the table above are current with respect to required principal and interest payments. Since December 31, 2014, our nonredeemable preferred stocks decreased to five securities with unrealized losses, averaging approximately 3% of their total cost. We reviewed these securities and concluded that the unrealized losses are market-related adjustments to the values, which we determined not to be other-than-temporary; we expect to recover our initial investments on these securities. The number of issuers with unrealized losses in our common stock portfolio increased during the first quarter 2015, though the total gross unrealized loss for the portfolio decreased during the period. A review of the securities in a loss position did not uncover fundamental issues with the issuers that would indicate other-than-temporary impairments existed. Additionally, expectations for recovery in the next 12 months would put the fair values at or above our current book values. Lastly, we determined, as of the balance sheet date, that it was not likely these securities would be sold prior to that recovery.

**Other-Than-Temporary Impairment (OTTI)** The following table shows the total non-credit portion of the OTTI recorded in accumulated other comprehensive income, reflecting the original non-credit loss at the time the credit impairment was determined:

| (millions)                             | March 31, |           | December 31, |  |
|----------------------------------------|-----------|-----------|--------------|--|
|                                        | 2015      | 2014      | 2014         |  |
| Fixed maturities:                      |           |           |              |  |
| Residential mortgage-backed securities | \$ (44.1) | \$ (44.1) | \$ (44.1)    |  |
| Commercial mortgage-backed securities  | (0.6)     | (0.9)     | (0.6)        |  |
| Total fixed maturities                 | \$ (44.7) | \$ (45.0) | \$ (44.7)    |  |

The following tables provide rollforwards of the amounts related to credit losses recognized in earnings for the periods ended March 31, 2015 and 2014, for which a portion of the OTTI losses were also recognized in accumulated other comprehensive income at the time the credit impairments were determined and recognized:

| (millions)                                                                      | Three Months Ended March 31, 2015 |            |         |  |
|---------------------------------------------------------------------------------|-----------------------------------|------------|---------|--|
|                                                                                 | Mortgage-Backed                   |            | Total   |  |
|                                                                                 | Residential                       | Commercial |         |  |
| Balance at December 31, 2014                                                    | \$ 12.7                           | \$ 0.4     | \$ 13.1 |  |
| Change in recoveries of future cash flows expected to be collected <sup>1</sup> | (0.5)                             | 0          | (0.5)   |  |
| Balance at March 31, 2015                                                       | \$ 12.2                           | \$ 0.4     | \$ 12.6 |  |

| (millions)                                                                      | Three Months Ended March 31, 2014 |            |         |  |
|---------------------------------------------------------------------------------|-----------------------------------|------------|---------|--|
|                                                                                 | Mortgage-Backed                   |            | Total   |  |
|                                                                                 | Residential                       | Commercial |         |  |
| Balance at December 31, 2013                                                    | \$ 19.2                           | \$ 0.4     | \$ 19.6 |  |
| Change in recoveries of future cash flows expected to be collected <sup>1</sup> | (0.1)                             | 0          | (0.1)   |  |
| Balance at March 31, 2014                                                       | \$ 19.1                           | \$ 0.4     | \$ 19.5 |  |

<sup>1</sup>Reflects the current period change in the expected recovery of prior impairments that will be accreted into income over the remaining life of the security.

Although we determined it is more likely than not that we will not be required to sell the securities prior to the recovery of their respective cost bases (which could be maturity), we are required to measure the amount of potential credit losses on the securities that were in an unrealized loss position. In that process, we considered a number of factors and inputs related to the individual securities. The methodology and significant inputs used to measure the amount of credit losses in our portfolio included: current performance indicators on the underlying assets (e.g., delinquency rates, foreclosure rates, and default rates); credit support (via current levels of subordination); historical credit ratings; and updated cash flow expectations based upon these performance indicators. In order to determine the amount of credit loss, if any, the net present value of the cash flows expected (i.e., expected recovery value) was calculated using the current book yield for each security, and was compared to its current amortized value. In the event that the net present value was below the amortized value, a credit loss was deemed to exist, and the security was written down. We did not have any credit impairment write-downs as of March 31, 2015 or 2014.

**Realized Gains (Losses)** The components of net realized gains (losses) for the three months ended March 31, were:

| (millions)                                             | 2015    | 2014     |
|--------------------------------------------------------|---------|----------|
| <u>Gross realized gains on security sales</u>          |         |          |
| Fixed maturities:                                      |         |          |
| U.S. government obligations                            | \$ 4.9  | \$ 6.5   |
| State and local government obligations                 | 0       | 4.4      |
| Corporate and other debt securities                    | 9.1     | 23.1     |
| Residential mortgage-backed securities                 | 0.1     | 1.0      |
| Commercial mortgage-backed securities                  | 10.8    | 6.1      |
| Total fixed maturities                                 | 24.9    | 41.1     |
| Equity securities:                                     |         |          |
| Nonredeemable preferred stocks                         | 15.8    | 25.9     |
| Common equities                                        | 17.8    | 83.0     |
| Subtotal gross realized gains on security sales        | 58.5    | 150.0    |
| <u>Gross realized losses on security sales</u>         |         |          |
| Fixed maturities:                                      |         |          |
| U.S. government obligations                            | (0.8)   | (4.7)    |
| State and local government obligations                 | 0       | (0.1)    |
| Corporate and other debt securities                    | (0.8)   | (2.2)    |
| Commercial mortgage-backed securities                  | (0.2)   | (2.7)    |
| Redeemable preferred stocks                            | 0       | (3.2)    |
| Total fixed maturities                                 | (1.8)   | (12.9)   |
| Equity securities:                                     |         |          |
| Common equities                                        | (0.4)   | (3.4)    |
| Subtotal gross realized losses on security sales       | (2.2)   | (16.3)   |
| <u>Net realized gains (losses) on security sales</u>   |         |          |
| Fixed maturities:                                      |         |          |
| U.S. government obligations                            | 4.1     | 1.8      |
| State and local government obligations                 | 0       | 4.3      |
| Corporate and other debt securities                    | 8.3     | 20.9     |
| Residential mortgage-backed securities                 | 0.1     | 1.0      |
| Commercial mortgage-backed securities                  | 10.6    | 3.4      |
| Redeemable preferred stocks                            | 0       | (3.2)    |
| Total fixed maturities                                 | 23.1    | 28.2     |
| Equity securities:                                     |         |          |
| Nonredeemable preferred stocks                         | 15.8    | 25.9     |
| Common equities                                        | 17.4    | 79.6     |
| Subtotal net realized gains (losses) on security sales | 56.3    | 133.7    |
| <u>Other-than-temporary impairment losses</u>          |         |          |
| Equity securities:                                     |         |          |
| Common equities                                        | (7.9)   | 0        |
| Subtotal other-than-temporary impairment losses        | (7.9)   | 0        |
| <u>Other gains (losses)</u>                            |         |          |
| Hybrid securities                                      | 3.3     | 3.8      |
| Derivative instruments                                 | (18.8)  | (19.3)   |
| Litigation settlements                                 | 0.1     | 1.2      |
| Subtotal other gains (losses)                          | (15.4)  | (14.3)   |
| Total net realized gains (losses) on securities        | \$ 33.0 | \$ 119.4 |

Gross realized gains and losses were predominantly the result of sales transactions in our fixed-income portfolio related to movements in credit spreads and interest rates and sales from our equity portfolios. In addition, gains and losses reflect recoveries from litigation settlements and holding period valuation changes on hybrids and derivatives. Also included are write-downs for securities determined to be other-than-temporarily impaired in our equity portfolio.

**Net Investment Income** The components of net investment income for the three months ended March 31, were:

| (millions)                             | 2015    | 2014    |
|----------------------------------------|---------|---------|
| Fixed maturities:                      |         |         |
| U.S. government obligations            | \$ 9.1  | \$ 13.0 |
| State and local government obligations | 11.9    | 12.8    |
| Foreign government obligations         | 0.1     | 0.1     |
| Corporate debt securities              | 22.9    | 22.0    |
| Residential mortgage-backed securities | 12.8    | 9.9     |
| Commercial mortgage-backed securities  | 16.9    | 16.7    |
| Other asset-backed securities          | 5.0     | 4.2     |
| Redeemable preferred stocks            | 3.8     | 4.1     |
| Total fixed maturities                 | 82.5    | 82.8    |
| Equity securities:                     |         |         |
| Nonredeemable preferred stocks         | 10.5    | 9.9     |
| Common equities                        | 11.7    | 10.4    |
| Short-term investments                 | 0.4     | 0.2     |
| Investment income                      | 105.1   | 103.3   |
| Investment expenses                    | (5.3)   | (4.1)   |
| Net investment income                  | \$ 99.8 | \$ 99.2 |

**Trading Securities** At March 31, 2015 and 2014, and December 31, 2014, we did not hold any trading securities and did not have any net realized gains (losses) on trading securities for the three months ended March 31, 2015 and 2014.

**Derivative Instruments** For all derivative positions discussed below, realized holding period gains and losses are netted with any upfront cash that may be exchanged under the contract to determine if the net position should be classified either as an asset or liability. To be reported as a net derivative asset and a component of the available-for-sale portfolio, the inception-to-date realized gain on the derivative position at period end would have to exceed any upfront cash received. On the other hand, a net derivative liability would include any inception-to-date realized loss plus the amount of upfront cash received (or netted, if upfront cash was paid) and would be reported as a component of other liabilities. These net derivative assets/liabilities are not separately disclosed on the balance sheet due to their immaterial effect on our financial condition, cash flows, and results of operations.

The following table shows the status of our derivative instruments at March 31, 2015 and 2014, and December 31, 2014, and for the three months ended March 31, 2015 and 2014:

| (millions)                  |  |  |  |  | Balance Sheet <sup>2</sup>         |  |  |  |  |           |  |  | Comprehensive Income Statement        |  |      |  |  |  |  |                           |  |  |  |  |                              |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
|-----------------------------|--|--|--|--|------------------------------------|--|--|--|--|-----------|--|--|---------------------------------------|--|------|--|--|--|--|---------------------------|--|--|--|--|------------------------------|--|--|--|--|---------|--|--|--|--|---------|--|--|--|--|-----------|--|--|--|--|-----------|--|--|--|--|--------|--|--|--|--|
|                             |  |  |  |  | Assets (Liabilities)<br>Fair Value |  |  |  |  |           |  |  | Pretax Net Realized<br>Gains (Losses) |  |      |  |  |  |  |                           |  |  |  |  |                              |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
| Notional Value <sup>1</sup> |  |  |  |  |                                    |  |  |  |  |           |  |  | Three Months Ended                    |  |      |  |  |  |  |                           |  |  |  |  |                              |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
| March 31,                   |  |  |  |  | Dec. 31,                           |  |  |  |  | March 31, |  |  |                                       |  |      |  |  |  |  |                           |  |  |  |  |                              |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
| Derivatives designated as:  |  |  |  |  | Classification                     |  |  |  |  |           |  |  | 2015                                  |  | 2014 |  |  |  |  |                           |  |  |  |  |                              |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
| 2015                        |  |  |  |  | 2014                               |  |  |  |  | 2014      |  |  |                                       |  | 2015 |  |  |  |  | 2014                      |  |  |  |  |                              |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
| Hedging instruments         |  |  |  |  |                                    |  |  |  |  |           |  |  |                                       |  |      |  |  |  |  |                           |  |  |  |  |                              |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
| Closed:                     |  |  |  |  |                                    |  |  |  |  |           |  |  |                                       |  |      |  |  |  |  |                           |  |  |  |  |                              |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
| Ineffective cash flow hedge |  |  |  |  | \$ 0                               |  |  |  |  | \$ 0      |  |  |                                       |  | \$ 0 |  |  |  |  | \$ 0                      |  |  |  |  | \$ 0                         |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
| Non-hedging instruments     |  |  |  |  |                                    |  |  |  |  |           |  |  |                                       |  |      |  |  |  |  |                           |  |  |  |  |                              |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
| Assets:                     |  |  |  |  |                                    |  |  |  |  |           |  |  |                                       |  |      |  |  |  |  |                           |  |  |  |  |                              |  |  |  |  |         |  |  |  |  |         |  |  |  |  |           |  |  |  |  |           |  |  |  |  |        |  |  |  |  |
| Interest rate swaps         |  |  |  |  | 750                                |  |  |  |  | 750       |  |  |                                       |  | 750  |  |  |  |  | Manage portfolio duration |  |  |  |  | Investments—fixed maturities |  |  |  |  | 0.1     |  |  |  |  | 51.9    |  |  |  |  | 15.8      |  |  |  |  | (18.8)    |  |  |  |  | (19.3) |  |  |  |  |
| Total                       |  |  |  |  | NA                                 |  |  |  |  | NA        |  |  |                                       |  | NA   |  |  |  |  |                           |  |  |  |  | \$ 0.1                       |  |  |  |  | \$ 51.9 |  |  |  |  | \$ 15.8 |  |  |  |  | \$ (18.8) |  |  |  |  | \$ (19.3) |  |  |  |  |        |  |  |  |  |

<sup>1</sup>The amounts represent the value held at quarter and year end for open positions and the maximum amount held during the period for closed positions.

<sup>2</sup>To the extent we hold both derivative assets and liabilities with the same counterparty that are subject to an enforceable master netting arrangement, we expect that we will report them on a gross basis on our balance sheets, consistent with our historical presentation.

NA= Not Applicable

#### CASH FLOW HEDGES

In January 2015, upon issuance of \$400 million of 3.70% Senior Notes due 2045 (the "3.70% Senior Notes"), we closed a forecasted debt issuance hedge, which was entered into to hedge against a possible rise in interest rates, and recognized a \$12.9 million pretax loss as part of accumulated other comprehensive income (loss); the loss will be recognized as an adjustment to interest expense and amortized over the life of the 3.70% Senior Notes.

Our ineffective cash flow hedge, which is reflected in the table above, resulted from the repurchase of a portion of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 during 2014, and we reclassified the unrealized gain on forecasted transactions to net realized gains on securities. There was no repurchase activity during the first quarter of 2015 or 2014.

See Note 4 – Debt for further discussion.

#### INTEREST RATE SWAPS

We use interest rate swap contracts primarily to manage the fixed-income portfolio duration. At March 31, 2015 and 2014, and December 31, 2014, we held interest rate swap positions for which we are paying a fixed rate and receiving a variable rate, effectively shortening the duration of our fixed-income portfolio. Since inception, interest rates have increased slightly; however, as interest rates fell during 2015, our fair value gain decreased by \$15.7 million.

As of March 31, 2015, the balance of the cash collateral that we delivered to the applicable counterparties on the positions was \$4.7 million. As of March 31, 2014 and December 31, 2014, the balance of the cash collateral that we had received from the applicable counterparties on the positions was \$43.3 million and \$16.1 million, respectively.

**Note 3 Fair Value** — We have categorized our financial instruments, based on the degree of subjectivity inherent in the method by which they are valued, into a fair value hierarchy of three levels, as follows:

- *Level 1:* Inputs are unadjusted quoted prices in active markets for identical instruments at the measurement date (e.g., U.S. government obligations, active exchange-traded equity securities, and certain short-term securities).
- *Level 2:* Inputs (other than quoted prices included within Level 1) that are observable for the instrument either directly or indirectly (e.g., certain corporate and municipal bonds and certain preferred stocks). This includes: (i) quoted prices for similar instruments in active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- *Level 3:* Inputs that are unobservable. Unobservable inputs reflect our subjective evaluation about the assumptions market participants would use in pricing the financial instrument (e.g., certain structured securities and privately held investments).

Determining the fair value of the investment portfolio is the responsibility of management. As part of the responsibility, we evaluate whether a market is distressed or inactive in determining the fair value for our portfolio. We review certain market level inputs to evaluate whether sufficient activity, volume, and new issuances exist to create an active market. Based on this evaluation, we concluded that there was sufficient activity related to the sectors and securities for which we obtained valuations.

The composition of the investment portfolio by major security type and our outstanding debt was:

| (millions)                                   | Fair Value |             |         |             |             | Cost |
|----------------------------------------------|------------|-------------|---------|-------------|-------------|------|
|                                              | Level 1    | Level 2     | Level 3 | Total       |             |      |
| March 31, 2015                               |            |             |         |             |             |      |
| Fixed maturities:                            |            |             |         |             |             |      |
| U.S. government obligations                  | \$ 2,708.2 | \$ 0        | \$ 0    | \$ 2,708.2  | \$ 2,678.1  |      |
| State and local government obligations       | 0          | 2,273.8     | 0       | 2,273.8     | 2,224.8     |      |
| Foreign government obligations               | 20.0       | 0           | 0       | 20.0        | 20.0        |      |
| Corporate debt securities                    | 0          | 2,904.0     | 0       | 2,904.0     | 2,851.6     |      |
| Subtotal                                     | 2,728.2    | 5,177.8     | 0       | 7,906.0     | 7,774.5     |      |
| Asset-backed securities:                     |            |             |         |             |             |      |
| Residential mortgage-backed                  | 0          | 1,648.2     | 0       | 1,648.2     | 1,629.2     |      |
| Commercial mortgage-backed                   | 0          | 2,475.7     | 11.4    | 2,487.1     | 2,437.4     |      |
| Other asset-backed                           | 0          | 1,901.5     | 0       | 1,901.5     | 1,896.1     |      |
| Subtotal asset-backed securities             | 0          | 6,025.4     | 11.4    | 6,036.8     | 5,962.7     |      |
| Redeemable preferred stocks:                 |            |             |         |             |             |      |
| Financials                                   | 0          | 98.2        | 0       | 98.2        | 77.3        |      |
| Utilities                                    | 0          | 64.4        | 0       | 64.4        | 65.0        |      |
| Industrials                                  | 0          | 114.4       | 0       | 114.4       | 118.0       |      |
| Subtotal redeemable preferred stocks         | 0          | 277.0       | 0       | 277.0       | 260.3       |      |
| Total fixed maturities                       | 2,728.2    | 11,480.2    | 11.4    | 14,219.8    | 13,997.5    |      |
| Equity securities:                           |            |             |         |             |             |      |
| Nonredeemable preferred stocks:              |            |             |         |             |             |      |
| Financials                                   | 181.7      | 576.5       | 69.9    | 828.1       | 598.3       |      |
| Subtotal nonredeemable preferred stocks      | 181.7      | 576.5       | 69.9    | 828.1       | 598.3       |      |
| Common equities:                             |            |             |         |             |             |      |
| Common stocks                                | 2,515.4    | 0           | 0       | 2,515.4     | 1,294.7     |      |
| Other risk investments                       | 0          | 0           | 0.3     | 0.3         | 0.3         |      |
| Subtotal common equities                     | 2,515.4    | 0           | 0.3     | 2,515.7     | 1,295.0     |      |
| Total fixed maturities and equity securities | 5,425.3    | 12,056.7    | 81.6    | 17,563.6    | 15,890.8    |      |
| Short-term investments                       | 2,267.0    | 0           | 0       | 2,267.0     | 2,267.0     |      |
| Total portfolio                              | \$ 7,692.3 | \$ 12,056.7 | \$ 81.6 | \$ 19,830.6 | \$ 18,157.8 |      |
| Debt                                         | \$ 0       | \$ 2,910.9  | \$ 0    | \$ 2,910.9  | \$ 2,560.1  |      |

| (millions)                                   | Fair Value |            |         |             | Cost        |
|----------------------------------------------|------------|------------|---------|-------------|-------------|
|                                              | Level 1    | Level 2    | Level 3 | Total       |             |
| March 31, 2014                               |            |            |         |             |             |
| Fixed maturities:                            |            |            |         |             |             |
| U.S. government obligations                  | \$ 3,230.0 | \$ 0       | \$ 0    | \$ 3,230.0  | \$ 3,197.8  |
| State and local government obligations       | 0          | 2,154.9    | 0       | 2,154.9     | 2,131.0     |
| Foreign government obligations               | 17.9       | 0          | 0       | 17.9        | 17.9        |
| Corporate debt securities                    | 0          | 2,501.6    | 0       | 2,501.6     | 2,461.6     |
| Subtotal                                     | 3,247.9    | 4,656.5    | 0       | 7,904.4     | 7,808.3     |
| Asset-backed securities:                     |            |            |         |             |             |
| Residential mortgage-backed                  | 0          | 1,307.4    | 0       | 1,307.4     | 1,286.7     |
| Commercial mortgage-backed                   | 0          | 2,033.0    | 28.6    | 2,061.6     | 2,037.7     |
| Other asset-backed                           | 0          | 942.5      | 0       | 942.5       | 936.2       |
| Subtotal asset-backed securities             | 0          | 4,282.9    | 28.6    | 4,311.5     | 4,260.6     |
| Redeemable preferred stocks:                 |            |            |         |             |             |
| Financials                                   | 0          | 107.4      | 0       | 107.4       | 84.2        |
| Utilities                                    | 0          | 65.2       | 0       | 65.2        | 64.9        |
| Industrials                                  | 0          | 117.7      | 0       | 117.7       | 117.8       |
| Subtotal redeemable preferred stocks         | 0          | 290.3      | 0       | 290.3       | 266.9       |
| Total fixed maturities                       | 3,247.9    | 9,229.7    | 28.6    | 12,506.2    | 12,335.8    |
| Equity securities:                           |            |            |         |             |             |
| Nonredeemable preferred stocks:              |            |            |         |             |             |
| Financials                                   | 284.0      | 411.8      | 42.1    | 737.9       | 460.7       |
| Subtotal nonredeemable preferred stocks      | 284.0      | 411.8      | 42.1    | 737.9       | 460.7       |
| Common equities:                             |            |            |         |             |             |
| Common stocks                                | 2,278.3    | 0          | 0       | 2,278.3     | 1,252.3     |
| Other risk investments                       | 0          | 0          | 0.4     | 0.4         | 0.4         |
| Subtotal common equities                     | 2,278.3    | 0          | 0.4     | 2,278.7     | 1,252.7     |
| Total fixed maturities and equity securities | 5,810.2    | 9,641.5    | 71.1    | 15,522.8    | 14,049.2    |
| Short-term investments                       | 1,611.7    | 261.2      | 0       | 1,872.9     | 1,872.9     |
| Total portfolio                              | \$ 7,421.9 | \$ 9,902.7 | \$ 71.1 | \$ 17,395.7 | \$ 15,922.1 |
| Debt                                         | \$ 0       | \$ 2,152.5 | \$ 0    | \$ 2,152.5  | \$ 1,861.3  |

| (millions)                                   | Fair Value |             |         |             |             | Cost |
|----------------------------------------------|------------|-------------|---------|-------------|-------------|------|
|                                              | Level 1    | Level 2     | Level 3 | Total       |             |      |
| December 31, 2014                            |            |             |         |             |             |      |
| Fixed maturities:                            |            |             |         |             |             |      |
| U.S. government obligations                  | \$ 2,667.1 | \$ 0        | \$ 0    | \$ 2,667.1  | \$ 2,641.1  |      |
| State and local government obligations       | 0          | 2,139.2     | 0       | 2,139.2     | 2,095.7     |      |
| Foreign government obligations               | 14.2       | 0           | 0       | 14.2        | 14.2        |      |
| Corporate debt securities                    | 0          | 2,836.7     | 0       | 2,836.7     | 2,813.9     |      |
| Subtotal                                     | 2,681.3    | 4,975.9     | 0       | 7,657.2     | 7,564.9     |      |
| Asset-backed securities:                     |            |             |         |             |             |      |
| Residential mortgage-backed                  | 0          | 1,658.5     | 0       | 1,658.5     | 1,635.5     |      |
| Commercial mortgage-backed                   | 0          | 2,304.0     | 11.6    | 2,315.6     | 2,278.7     |      |
| Other asset-backed                           | 0          | 1,638.7     | 0       | 1,638.7     | 1,634.9     |      |
| Subtotal asset-backed securities             | 0          | 5,601.2     | 11.6    | 5,612.8     | 5,549.1     |      |
| Redeemable preferred stocks:                 |            |             |         |             |             |      |
| Financials                                   | 0          | 97.9        | 0       | 97.9        | 77.3        |      |
| Utilities                                    | 0          | 65.3        | 0       | 65.3        | 65.0        |      |
| Industrials                                  | 0          | 116.0       | 0       | 116.0       | 117.9       |      |
| Subtotal redeemable preferred stocks         | 0          | 279.2       | 0       | 279.2       | 260.2       |      |
| Total fixed maturities                       | 2,681.3    | 10,856.3    | 11.6    | 13,549.2    | 13,374.2    |      |
| Equity securities:                           |            |             |         |             |             |      |
| Nonredeemable preferred stocks:              |            |             |         |             |             |      |
| Financials                                   | 204.1      | 554.1       | 69.3    | 827.5       | 590.4       |      |
| Subtotal nonredeemable preferred stocks      | 204.1      | 554.1       | 69.3    | 827.5       | 590.4       |      |
| Common equities:                             |            |             |         |             |             |      |
| Common stocks                                | 2,491.9    | 0           | 0       | 2,491.9     | 1,288.8     |      |
| Other risk investments                       | 0          | 0           | 0.4     | 0.4         | 0.4         |      |
| Subtotal common equities                     | 2,491.9    | 0           | 0.4     | 2,492.3     | 1,289.2     |      |
| Total fixed maturities and equity securities | 5,377.3    | 11,410.4    | 81.3    | 16,869.0    | 15,253.8    |      |
| Short-term investments                       | 1,937.0    | 212.0       | 0       | 2,149.0     | 2,149.0     |      |
| Total portfolio                              | \$ 7,314.3 | \$ 11,622.4 | \$ 81.3 | \$ 19,018.0 | \$ 17,402.8 |      |
| Debt                                         | \$ 0       | \$ 2,527.5  | \$ 0    | \$ 2,527.5  | \$ 2,164.7  |      |

Our portfolio valuations, excluding the other short-term investments, classified as either Level 1 or Level 2 in the above tables are priced exclusively by external sources, including: pricing vendors, dealers/market makers, and exchange-quoted prices. We did not have any transfers between Level 1 and Level 2 during the first quarter of 2015. During the first quarter of 2014, we had two nonredeemable preferred stocks with a value of \$41.7 million that were transferred from Level 2 to Level 1 due to the availability of a consistent exchange price; this was the only transfer during 2014. We recognize transfers between levels at the end of the reporting period.

Our short-term security holdings classified as Level 1 are highly liquid, actively marketed, and have a very short duration, primarily 30 days or less to redemption. These securities are held at their original cost, adjusted for any accretion of discount, since that value very closely approximates what an active market participant would be willing to pay for such securities. The remainder of our short-term securities are classified as Level 2 and are not priced externally since these securities continually trade at par value. These securities are classified as Level 2 since they are primarily longer-dated auction securities issued by municipalities that contain a redemption put feature back to the auction pool with a redemption period typically less than seven days. The auction pool is created by a liquidity provider and if the auction is not available at the end of the seven days, we have the right to put the security back to the issuer at par.

At both March 31, 2015 and December 31, 2014, vendor-quoted prices represented 50% of our Level 1 classifications (excluding short-term investments), compared to 55% at March 31, 2014. The securities quoted by vendors in Level 1 primarily represent our holdings in U.S. Treasury Notes, which are frequently traded and the quotes are considered similar to exchange-traded quotes. The balance of our Level 1 pricing comes from quotes obtained directly from trades made on active exchanges. The decline in vendor-quoted Level 1 prices since March 31, 2014 was due to a reduction of U.S. Treasury Notes with the funds deployed primarily to short-term investments.

At both March 31, 2015 and December 31, 2014, vendor-quoted prices comprised 97% of our Level 2 classifications (excluding short-term investments), while dealer-quoted prices represented 3%, compared to 96% and 4% at March 31, 2014. In our process for selecting a source (e.g., dealer, pricing service) to provide pricing for securities in our portfolio, we reviewed documentation from the sources that detailed the pricing techniques and methodologies used by these sources and determined if their policies adequately considered market activity, either based on specific transactions for the particular security type or based on modeling of securities with similar credit quality, duration, yield, and structure that were recently transacted. Once a source is chosen, we continue to monitor any changes or modifications to their processes by reviewing their documentation on internal controls for pricing and market reviews. We review quality control measures of our sources as they become available to determine if any significant changes have occurred from period to period that might indicate issues or concerns regarding their evaluation or market coverage.

As part of our pricing procedures, we obtain quotes from more than one source to help us fully evaluate the market price of securities. However, our internal pricing policy is to use a consistent source for individual securities in order to maintain the integrity of our valuation process. Quotes obtained from the sources are not considered binding offers to transact. Under our policy, when a review of the valuation received from our selected source appears to be outside of what is considered market level activity (which is defined as trading at spreads or yields significantly different than those of comparable securities or outside the general sector level movement without a reasonable explanation), we may use an alternate source's price. To the extent we determine that it may be prudent to substitute one source's price for another, we will contact the initial source to obtain an understanding of the factors that may be contributing to the significant price variance, which often leads the source to adjust their pricing input data for future pricing.

To allow us to determine if our initial source is providing a price that is outside of a reasonable range, we review our portfolio pricing on a weekly basis. We frequently challenge prices from our sources when a price provided does not match our expectations based on our evaluation of market trends and activity. Initially, we perform a review of our portfolio by sector to identify securities whose prices appear outside of a reasonable range. We then perform a more detailed review of fair values for securities disclosed as Level 2. We review dealer bids and quotes for these and/or similar securities to determine the market level context for our valuations. We then evaluate inputs relevant for each class of securities disclosed in the preceding hierarchy tables.

For our structured debt securities, including commercial, residential, and asset-backed securities, we evaluate available market-related data for these and similar securities related to collateral, delinquencies, and defaults for historical trends and reasonably estimable projections, as well as historical prepayment rates and current prepayment assumptions and cash flow estimates. We further stratify each class of our structured debt securities into more finite sectors (e.g., planned amortization class, first pay, second pay, senior, subordinated, etc.) and use duration, credit quality, and coupon to determine if the fair value is appropriate.

For our corporate debt and preferred stock (redeemable and nonredeemable) portfolios, we review securities by duration, coupon, and credit quality, as well as changes in interest rate and credit spread movements within that stratification. The review also includes recent trades, including: volume traded at various levels that establish a market, issuer specific fundamentals, and industry specific economic news as it comes to light.

For our municipal securities (e.g., general obligations, revenue, and housing), we stratify the portfolio to evaluate securities by type, coupon, credit quality, and duration to review price changes relative to credit spread and interest rate changes. Additionally, we look to economic data as it relates to geographic location as an indication of price-to-call or maturity predictors. For municipal housing securities, we look to changes in cash flow projections, both historical and reasonably estimable projections, to understand yield changes and their effect on valuation.

Lastly, for our short-term securities, we look at acquisition price relative to the coupon or yield. Since our short-term securities are typically 90 days or less to maturity, with the majority listed in Level 2 being seven days or less to redemption, we believe that acquisition price is the best estimate of fair value.

We also review data assumptions as supplied by our sources to determine if that data is relevant to current market conditions. In addition, we independently review each sector for transaction volumes, new issuances, and changes in spreads, as well as the overall movement of interest rates along the yield curve to determine if sufficient activity and liquidity exists to provide a credible source for our market valuations.

During each valuation period, we create internal estimations of portfolio valuation (performance returns), based on current market-related activity (i.e., interest rate and credit spread movements and other credit-related factors) within each major sector of our portfolio. We compare our internally generated portfolio results with those generated based on quotes we received externally and research material valuation differences. We compare our results to index returns for each major sector adjusting for duration and credit quality differences to better understand our portfolio's results. Additionally, we review on a monthly basis our external sales transactions and compare the actual final market sales price to a previous market valuation price. This review provides us further validation that our pricing sources are providing market level prices, since we are able to explain significant price changes (i.e., greater than 2%) as known events occur in the marketplace and affect a particular security's price at sale.

This analysis provides us with additional comfort regarding the source's process, the quality of its review, and its willingness to improve its analysis based on feedback from clients. We believe this effort helps ensure that we are reporting the most representative fair values for our securities.

Except as described below, our Level 3 securities are also priced externally; however, due to several factors (e.g., nature of the securities, level of activity, and lack of similar securities trading to obtain observable market level inputs), these valuations are more subjective in nature. Certain private equity investments and fixed-income investments included in the Level 3 category are valued using external pricing supplemented by internal review and analysis.

After all the valuations are received and our review is complete, if the inputs used by vendors are determined to not contain sufficient observable market information, we will reclassify the affected security valuations to Level 3. At March 31, 2015 and 2014, and December 31, 2014, securities in our fixed-maturity portfolio listed as Level 3 were comprised substantially of securities that were either: (i) private placements, (ii) thinly held and/or traded securities, or (iii) non-investment-grade securities with little liquidity. Based on these factors, it was difficult to independently verify observable market inputs that were used to generate the external valuations we received. Despite the lack of sufficient observable market information for our Level 3 securities, we believe the valuations received in conjunction with our procedures for evaluating third-party prices support the fair values reported in the financial statements.

At March 31, 2015, we held one private preferred equity security (in ARX Holding Corp.) with a value of \$69.9 million, that was priced internally. The same security had a value of \$42.1 million at March 31, 2014 and \$69.3 million at December 31, 2014. The increase in value is due primarily to a higher price to book ratio multiple included in the terms of the stock purchase agreement we entered into during December 2014 to purchase a majority interest in ARX Holding Corp. This was the only internally-priced security in the portfolio at March 31, 2015 and 2014, and December 31, 2014.

We review the prices from our external sources for reasonableness using internally developed assumptions to derive prices for the securities, which are then compared to the prices we received. During 2015 or 2014, there were no material assets or liabilities measured at fair value on a nonrecurring basis. Based on our review, all prices received from external sources remained unadjusted.

The following tables provide a summary of changes in fair value associated with Level 3 assets for the three months ended March 31, 2015 and 2014:

| Level 3 Fair Value                |                                       |                                   |           |       |                                         |                        |                              |                                    |      |      |      |  |
|-----------------------------------|---------------------------------------|-----------------------------------|-----------|-------|-----------------------------------------|------------------------|------------------------------|------------------------------------|------|------|------|--|
| Three Months Ended March 31, 2015 |                                       |                                   |           |       |                                         |                        |                              |                                    |      |      |      |  |
| (millions)                        | Fair Value at<br>December 31,<br>2014 | Calls/<br>Maturities/<br>Paydowns | Purchases | Sales | Net Realized<br>(Gain) Loss on<br>Sales | Change in<br>Valuation | Net<br>Transfers<br>In (Out) | Fair Value at<br>March 31,<br>2015 |      |      |      |  |
| Fixed maturities:                 |                                       |                                   |           |       |                                         |                        |                              |                                    |      |      |      |  |
| Asset-backed securities:          |                                       |                                   |           |       |                                         |                        |                              |                                    |      |      |      |  |
| Residential mortgage-backed       | \$ 0                                  | \$ 0                              | \$ 0      | \$ 0  | \$ 0                                    | \$ 0                   | \$ 0                         | \$ 0                               | \$ 0 | \$ 0 | \$ 0 |  |
| Commercial mortgage-backed        | 11.6                                  | (0.2)                             | 0         | 0     | 0                                       | 0                      | 0                            | 11.4                               |      |      |      |  |
| Total fixed maturities            | 11.6                                  | (0.2)                             | 0         | 0     | 0                                       | 0                      | 0                            | 11.4                               |      |      |      |  |
| Equity securities:                |                                       |                                   |           |       |                                         |                        |                              |                                    |      |      |      |  |
| Nonredeemable preferred stocks:   |                                       |                                   |           |       |                                         |                        |                              |                                    |      |      |      |  |
| Financials¹                       | 69.3                                  | 0                                 | 0         | 0     | 0                                       | 0.6                    | 0                            | 69.9                               |      |      |      |  |
| Common equities:                  |                                       |                                   |           |       |                                         |                        |                              |                                    |      |      |      |  |
| Other risk investments            | 0.4                                   | 0                                 | 0         | 0     | 0                                       | (0.1)                  | 0                            | 0.3                                |      |      |      |  |
| Total Level 3 securities          | \$ 81.3                               | \$ (0.2)                          | \$ 0      | \$ 0  | \$ 0                                    | \$ 0.5                 | \$ 0                         | \$ 81.6                            |      |      |      |  |

<sup>1</sup>The \$0.6 million represents net holding period gains on a hybrid security, which is reflected in net realized gains (losses) on securities in the comprehensive income statement.

| Level 3 Fair Value                |                                       |                                   |           |       |                                         |                        |                              |                                    |  |  |  |  |
|-----------------------------------|---------------------------------------|-----------------------------------|-----------|-------|-----------------------------------------|------------------------|------------------------------|------------------------------------|--|--|--|--|
| Three Months Ended March 31, 2014 |                                       |                                   |           |       |                                         |                        |                              |                                    |  |  |  |  |
| (millions)                        | Fair Value at<br>December 31,<br>2013 | Calls/<br>Maturities/<br>Paydowns | Purchases | Sales | Net Realized<br>(Gain) Loss on<br>Sales | Change in<br>Valuation | Net<br>Transfers<br>In (Out) | Fair Value at<br>March 31,<br>2014 |  |  |  |  |
| Fixed maturities:                 |                                       |                                   |           |       |                                         |                        |                              |                                    |  |  |  |  |
| Asset-backed securities:          |                                       |                                   |           |       |                                         |                        |                              |                                    |  |  |  |  |
| Residential mortgage-backed       | \$ 0.2                                | \$ 0                              | \$ 0      | \$ 0  | \$ 0                                    | \$ (0.2)               | \$ 0                         | \$ 0                               |  |  |  |  |
| Commercial mortgage-backed        | 29.0                                  | (0.5)                             | 0         | 0     | 0                                       | 0.1                    | 0                            | 28.6                               |  |  |  |  |
| Total fixed maturities            | 29.2                                  | (0.5)                             | 0         | 0     | 0                                       | (0.1)                  | 0                            | 28.6                               |  |  |  |  |
| Equity securities:                |                                       |                                   |           |       |                                         |                        |                              |                                    |  |  |  |  |
| Nonredeemable preferred stocks:   |                                       |                                   |           |       |                                         |                        |                              |                                    |  |  |  |  |
| Financials <sup>1</sup>           | 39.0                                  | 0                                 | 0         | 0     | 0                                       | 3.1                    | 0                            | 42.1                               |  |  |  |  |
| Common equities:                  |                                       |                                   |           |       |                                         |                        |                              |                                    |  |  |  |  |
| Other risk investments            | 0.5                                   | (0.1)                             | 0         | 0     | 0                                       | 0                      | 0                            | 0.4                                |  |  |  |  |
| Total Level 3 securities          | \$ 68.7                               | \$ (0.6)                          | \$ 0      | \$ 0  | \$ 0                                    | \$ 3.0                 | \$ 0                         | \$ 71.1                            |  |  |  |  |

<sup>1</sup>The \$3.1 million represents net holding period gains on a hybrid security, which is reflected in net realized gains (losses) on securities in the comprehensive income statement.

The following tables provide a summary of the quantitative information about Level 3 fair value measurements for our applicable securities at March 31, 2015 and 2014, and December 31, 2014:

| Quantitative Information about Level 3 Fair Value Measurements |                                 |                                     |                              |                                     |
|----------------------------------------------------------------|---------------------------------|-------------------------------------|------------------------------|-------------------------------------|
| (\$ in millions)                                               | Fair Value at<br>March 31, 2015 | Valuation Technique                 | Unobservable Input           | Unobservable<br>Input<br>Assumption |
| Fixed maturities:                                              |                                 |                                     |                              |                                     |
| Asset-backed securities:                                       |                                 |                                     |                              |                                     |
| Commercial mortgage-backed                                     | \$ 11.4                         | External vendor                     | Prepayment rate <sup>1</sup> | 0                                   |
| Total fixed maturities                                         | 11.4                            |                                     |                              |                                     |
| Equity securities:                                             |                                 |                                     |                              |                                     |
| Nonredeemable preferred stocks:                                |                                 |                                     |                              |                                     |
| Financials                                                     | 69.9                            | Multiple of tangible net book value | Price to book ratio multiple | 2.6                                 |
| Subtotal Level 3 securities                                    | 81.3                            |                                     |                              |                                     |
| Pricing exemption securities <sup>2</sup>                      | 0.3                             |                                     |                              |                                     |
| Total Level 3 securities                                       | \$ 81.6                         |                                     |                              |                                     |

<sup>1</sup>Assumes that one security has 0% of the principal amount of the underlying loans that will be paid off prematurely in each year.

<sup>2</sup>The fair values for these securities were obtained from non-binding external sources where unobservable inputs are not reasonably available to us.

| Quantitative Information about Level 3 Fair Value Measurements |                                 |                                     |                              |                                     |
|----------------------------------------------------------------|---------------------------------|-------------------------------------|------------------------------|-------------------------------------|
| (\$ in millions)                                               | Fair Value at<br>March 31, 2014 | Valuation Technique                 | Unobservable Input           | Unobservable<br>Input<br>Assumption |
| Fixed maturities:                                              |                                 |                                     |                              |                                     |
| Asset-backed securities:                                       |                                 |                                     |                              |                                     |
| Commercial mortgage-backed                                     | \$ 28.6                         | External vendor                     | Prepayment rate <sup>1</sup> | 0                                   |
| Total fixed maturities                                         | 28.6                            |                                     |                              |                                     |
| Equity securities:                                             |                                 |                                     |                              |                                     |
| Nonredeemable preferred stocks:                                |                                 |                                     |                              |                                     |
| Financials                                                     | 42.1                            | Multiple of tangible net book value | Price to book ratio multiple | 1.9                                 |
| Subtotal Level 3 securities                                    | 70.7                            |                                     |                              |                                     |
| Pricing exemption securities <sup>2</sup>                      | 0.4                             |                                     |                              |                                     |
| Total Level 3 securities                                       | \$ 71.1                         |                                     |                              |                                     |

<sup>1</sup>Assumes that two securities have 0% of the principal amount of the underlying loans that will be paid off prematurely in each year.

<sup>2</sup>The fair values for these securities were obtained from non-binding external sources where unobservable inputs are not reasonably available to us.

**Quantitative Information about Level 3 Fair Value Measurements**

| (\$ in millions)                          | Fair Value at Dec.<br>31, 2014 | Valuation Technique                 | Unobservable Input           | Unobservable<br>Input<br>Assumption |
|-------------------------------------------|--------------------------------|-------------------------------------|------------------------------|-------------------------------------|
| Fixed maturities:                         |                                |                                     |                              |                                     |
| Asset-backed securities:                  |                                |                                     |                              |                                     |
| Commercial mortgage-backed                | \$ 11.6                        | External vendor                     | Prepayment rate <sup>1</sup> | 0                                   |
| Total fixed maturities                    | 11.6                           |                                     |                              |                                     |
| Equity securities:                        |                                |                                     |                              |                                     |
| Nonredeemable preferred stocks:           |                                |                                     |                              |                                     |
| Financials                                | 69.3                           | Multiple of tangible net book value | Price to book ratio multiple | 2.6                                 |
| Subtotal Level 3 securities               | 80.9                           |                                     |                              |                                     |
| Pricing exemption securities <sup>2</sup> | 0.4                            |                                     |                              |                                     |
| Total Level 3 securities                  | \$ 81.3                        |                                     |                              |                                     |

<sup>1</sup> Assumes that one security has 0% of the principal amount of the underlying loans that will be paid off prematurely in each year.

<sup>2</sup> The fair values for these securities were obtained from non-binding external sources where unobservable inputs are not reasonably available to us.

Due to the relative size of the Level 3 securities' fair values compared to the total portfolio's fair value, any changes in pricing methodology would not have a significant change in valuation that would materially impact net or comprehensive income.

**Note 4 Debt** — Debt consisted of:

| (millions)                                                              | March 31, 2015    |               | March 31, 2014    |               | December 31, 2014 |               |
|-------------------------------------------------------------------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
|                                                                         | Carrying<br>Value | Fair<br>Value | Carrying<br>Value | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
| 3.75% Senior Notes due 2021                                             | \$ 497.9          | \$ 542.6      | \$ 497.6          | \$ 524.5      | \$ 497.8          | \$ 535.6      |
| 6 5/8% Senior Notes due 2029                                            | 295.6             | 393.6         | 295.4             | 381.8         | 295.5             | 400.6         |
| 6.25% Senior Notes due 2032                                             | 394.9             | 525.6         | 394.7             | 501.4         | 394.8             | 527.9         |
| 4.35% Senior Notes due 2044                                             | 346.3             | 387.1         | 0                 | 0             | 346.3             | 378.9         |
| 3.70% Senior Notes due 2045                                             | 394.9             | 394.8         | 0                 | 0             | 0                 | 0             |
| 6.70% Fixed-to-Floating Rate Junior Subordinated<br>Debentures due 2067 | 630.5             | 667.2         | 673.6             | 744.8         | 630.3             | 684.5         |
| Total                                                                   | \$ 2,560.1        | \$ 2,910.9    | \$ 1,861.3        | \$ 2,152.5    | \$ 2,164.7        | \$ 2,527.5    |

In January 2015, we issued \$400 million of our 3.70% Senior Notes due 2045 (the "3.70% Senior Notes") and, in April 2014, \$350 million of our 4.35% Senior Notes due 2044 (the "4.35% Senior Notes") in underwritten public offerings. We received proceeds, after deducting underwriter's discounts and commissions of approximately \$394.9 million and \$346.3 million, respectively. In addition, we incurred expenses of approximately \$0.8 million and \$0.7 million, respectively, related to the issuances. Upon issuance of the 3.70% Senior Notes and 4.35% Senior Notes, we also closed forecasted debt issuance hedges, which were entered into to hedge against a possible rise in interest rates, and recognized a \$12.9 million and a \$1.6 million pretax loss, respectively, as part of accumulated other comprehensive income (loss); the losses will be recognized as an adjustment to interest expense and amortized over the applicable life of the 3.70% and 4.35% Senior Notes.

We did not repurchase any debt securities in the first quarter of 2015 or 2014. During the year ended December 31, 2014, we repurchased, in the open market, \$44.3 million in aggregate principal amount of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (the "6.70% Debentures"). Since the amount paid exceeded the carrying value of the debt we repurchased, we recognized losses on these extinguishments of \$4.8 million. In addition, for the portion of the 6.70% Debentures we repurchased, we reclassified \$0.5 million on a pretax basis, of the unrealized gain on forecasted transactions from accumulated other comprehensive income on the balance sheet to net realized gains on securities on the comprehensive income statement.

During the first quarter 2015, we renewed the unsecured, discretionary line of credit (the "Line of Credit") with PNC Bank, National Association (PNC) in the maximum principal amount of \$100 million. The prior line of credit, entered into in the first quarter 2014, has expired. The Line of Credit is on substantially the same terms and conditions as the prior line of credit. Subject to the terms and conditions of the Line of Credit documents, advances under the Line of Credit (if any) will bear interest at a variable rate equal to the higher of PNC's Prime Rate or the sum of the Federal Funds Open Rate plus 50 basis points. Each advance would need to be repaid on the 30th day after the advance or, if earlier, on April 30, 2016, the expiration date of the Line of Credit. Prepayments are permitted without penalty. All advances under the Line of Credit are subject to PNC's discretion. We had no borrowings under the Line of Credit or the prior line of credit during the first three months of 2015 or throughout 2014.

**Note 5 Income Taxes** — At March 31, 2015 and 2014, and December 31, 2014, we determined that we did not need a valuation allowance on our gross deferred tax assets. Although realization of the deferred tax assets is not assured, management believes that it is more likely than not that the deferred tax assets will be realized based on our expectation that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes. For the three months ended March 31, 2015, there have been no material changes in our uncertain tax positions or effective tax rate.

**Note 6 Supplemental Cash Flow Information** — Cash includes only bank demand deposits. We paid the following in the respective periods:

| (millions)   | Three Months Ended March 31, |      |
|--------------|------------------------------|------|
|              | 2015                         | 2014 |
| Income taxes | \$ 60.0                      | \$ 0 |
| Interest     | 19.3                         | 19.3 |

**Note 7 Segment Information** — Our Personal Lines segment writes insurance for personal autos and recreational vehicles. Our Commercial Lines segment writes primary liability and physical damage insurance for automobiles and trucks owned and/or operated predominantly by small businesses in the business auto, for-hire transportation, contractor, for-hire specialty, tow, and for-hire livery markets. Our other indemnity businesses manage our run-off businesses, including the run-off of our professional liability insurance for community banks. Our service businesses provide insurance-related services, including processing Commercial Auto Insurance Procedures/Plans (CAIP) business and serving as an agent for homeowners, general liability, and workers' compensation insurance through our programs with unaffiliated insurance companies. All segment revenues are generated from external customers.

Following are the operating results for the respective periods:

| (millions)                           | Three Months Ended March 31, |                      |            |                      |
|--------------------------------------|------------------------------|----------------------|------------|----------------------|
|                                      | 2015                         |                      | 2014       |                      |
|                                      | Revenues                     | Pretax Profit (Loss) | Revenues   | Pretax Profit (Loss) |
| Personal Lines                       |                              |                      |            |                      |
| Agency                               | \$ 2,244.5                   | \$ 194.5             | \$ 2,203.2 | \$ 178.6             |
| Direct                               | 1,955.4                      | 68.2                 | 1,762.2    | 71.0                 |
| Total Personal Lines <sup>1</sup>    | 4,199.9                      | 262.7                | 3,965.4    | 249.6                |
| Commercial Lines                     | 466.4                        | 78.5                 | 436.9      | 40.9                 |
| Other indemnity                      | 0                            | 0.4                  | 0          | (0.7)                |
| Total underwriting operations        | 4,666.3                      | 341.6                | 4,402.3    | 289.8                |
| Fees and other revenues <sup>2</sup> | 73.7                         | NA                   | 72.8       | NA                   |
| Service businesses                   | 17.2                         | 1.3                  | 9.8        | 0.1                  |
| Investments <sup>3</sup>             | 138.1                        | 132.8                | 222.7      | 218.6                |
| Interest expense                     | NA                           | (32.5)               | NA         | (26.7)               |
| Consolidated total                   | \$ 4,895.3                   | \$ 443.2             | \$ 4,707.6 | \$ 481.8             |

NA = Not Applicable

<sup>1</sup>Personal auto insurance accounted for 92% of the total Personal Lines segment net premiums earned in both the first quarters of 2015 and 2014; insurance for our special lines products (e.g., motorcycles, ATVs, RVs, mobile homes, watercraft, and snowmobiles) accounted for the balance of the Personal Lines net premiums earned.

<sup>2</sup>Pretax profit (loss) for fees and other revenues is allocated to operating segments.

<sup>3</sup>Revenues represent recurring investment income and total net realized gains (losses) on securities; pretax profit is net of investment expenses.

Our management uses underwriting margin and combined ratio as primary measures of underwriting profitability. Underwriting profitability 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. The underwriting margin is the pretax underwriting profit (loss) expressed as a percentage of net premiums earned (i.e., revenues from underwriting operations). Combined ratio is the complement of the underwriting margin. Following are the underwriting margins/combined ratios for our underwriting operations for the respective periods:

|                               | Three Months Ended March 31, |                |                      |                |
|-------------------------------|------------------------------|----------------|----------------------|----------------|
|                               | 2015                         |                | 2014                 |                |
|                               | Under-writing Margin         | Combined Ratio | Under-writing Margin | Combined Ratio |
| Personal Lines                |                              |                |                      |                |
| Agency                        | 8.7%                         | 91.3           | 8.1%                 | 91.9           |
| Direct                        | 3.5                          | 96.5           | 4.0                  | 96.0           |
| Total Personal Lines          | 6.3                          | 93.7           | 6.3                  | 93.7           |
| Commercial Lines              | 16.8                         | 83.2           | 9.4                  | 90.6           |
| Other indemnity <sup>1</sup>  | NM                           | NM             | NM                   | NM             |
| Total underwriting operations | 7.3                          | 92.7           | 6.6                  | 93.4           |

<sup>1</sup>Underwriting margins and combined ratios are not meaningful (NM) for our other indemnity businesses due to the low level of premiums earned by, and the variability of loss costs in, such businesses.

**Note 8 Dividends** — We maintain a policy of paying an annual variable dividend that, if declared, would be payable shortly after the close of the year. This annual variable dividend is based on a target percentage of after-tax underwriting income multiplied by a companywide performance factor (Gainshare factor), subject to the limitations discussed below. The target percentage is determined by our Board of Directors on an annual basis and announced to shareholders and the public. In December 2014, the Board determined the target percentage for 2015 to be 33-1/3% of annual after-tax underwriting income, which is unchanged from the 2014 target percentage.

The Gainshare factor can range from zero to two and is determined by comparing our operating performance for the year to certain predetermined profitability and growth objectives approved by the Compensation Committee of the Board. This Gainshare factor is also used in the annual cash bonus program currently in place for our employees (our “Gainsharing program”). Although recalibrated every year, the structure of the Gainsharing program generally remains the same. On a year-to-date basis, as of March 31, 2015, the Gainshare factor was 0.95. Since the final factor will be determined based on our results for the full year, the final factor may vary from the current factor.

Our annual dividend program will result in a variable payment to shareholders each year, subject to certain limitations. If the Gainshare factor is zero or if our comprehensive income is less than after-tax underwriting income, no dividend would be payable under our annual variable dividend policy. In addition, the ultimate decision on whether or not a dividend will be paid is in the discretion of the Board of Directors. If a dividend for 2015 were to be paid, the Board would likely declare the 2015 annual dividend in December 2015, with a record date in early 2016 and payment shortly thereafter. For the three months ended March 31, 2015, our comprehensive income was \$321.8 million, which is higher than the \$222.0 million of after-tax underwriting income for the same period.

Following is a summary of our shareholder dividends, both variable and special, that were paid in the last two years:

| (millions, except per share amounts) |               | Amount        |           |          |
|--------------------------------------|---------------|---------------|-----------|----------|
| Dividend Type                        | Declared      | Paid          | Per Share | Total    |
| Annual – Variable                    | December 2014 | February 2015 | \$ 0.6862 | \$ 404.1 |
| Annual – Variable                    | December 2013 | February 2014 | 0.4929    | 293.9    |
| Special                              | December 2013 | February 2014 | 1.0000    | 596.3    |

**Note 9 Other Comprehensive Income (Loss)** — The components of other comprehensive income (loss), including reclassification adjustments by income statement line item, were as follows:

| (millions)                                                                                          | Pretax total<br>accumulated<br>other<br>comprehensive<br>income | Total tax<br>(provision)<br>benefit | After tax total<br>accumulated<br>other<br>comprehensive<br>income | Components of Changes in<br>Accumulated Other<br>Comprehensive Income (after tax) |                                                             |                                                  |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------|
|                                                                                                     |                                                                 |                                     |                                                                    | Total net<br>unrealized<br>gains (losses)<br>on securities                        | Net<br>unrealized<br>gains on<br>forecasted<br>transactions | Foreign<br>currency<br>translation<br>adjustment |
| <b>Balance at December 31, 2014</b>                                                                 | <b>\$ 1,574.0</b>                                               | <b>\$ (550.9)</b>                   | <b>\$ 1,023.1</b>                                                  | <b>\$ 1,021.9</b>                                                                 | <b>\$ 1.5</b>                                               | <b>\$ (0.3)</b>                                  |
| Other comprehensive income (loss) before reclassifications:                                         |                                                                 |                                     |                                                                    |                                                                                   |                                                             |                                                  |
| Investment securities                                                                               | 99.3                                                            | (34.7)                              | 64.6                                                               | 64.6                                                                              | 0                                                           | 0                                                |
| Net non-credit related OTTI losses, adjusted for valuation changes                                  | 0                                                               | 0                                   | 0                                                                  | 0                                                                                 | 0                                                           | 0                                                |
| Forecasted transactions                                                                             | (12.8)                                                          | 4.4                                 | (8.4)                                                              | 0                                                                                 | (8.4)                                                       | 0                                                |
| Foreign currency translation adjustment                                                             | (0.9)                                                           | 0.4                                 | (0.5)                                                              | 0                                                                                 | 0                                                           | (0.5)                                            |
| Total other comprehensive income (loss) before reclassifications                                    | 85.6                                                            | (29.9)                              | 55.7                                                               | 64.6                                                                              | (8.4)                                                       | (0.5)                                            |
| Less: Reclassification adjustment for amounts realized in net income by income statement line item: |                                                                 |                                     |                                                                    |                                                                                   |                                                             |                                                  |
| Net impairment losses recognized in earnings                                                        | (7.9)                                                           | 2.8                                 | (5.1)                                                              | (5.1)                                                                             | 0                                                           | 0                                                |
| Net realized gains (losses) on securities                                                           | 52.8                                                            | (18.5)                              | 34.3                                                               | 34.3                                                                              | 0                                                           | 0                                                |
| Interest expense                                                                                    | 0.5                                                             | (0.2)                               | 0.3                                                                | 0                                                                                 | 0.3                                                         | 0                                                |
| Total reclassification adjustment for amounts realized in net income                                | 45.4                                                            | (15.9)                              | 29.5                                                               | 29.2                                                                              | 0.3                                                         | 0                                                |
| Total other comprehensive income (loss)                                                             | 40.2                                                            | (14.0)                              | 26.2                                                               | 35.4                                                                              | (8.7)                                                       | (0.5)                                            |
| <b>Balance at March 31, 2015</b>                                                                    | <b>\$ 1,614.2</b>                                               | <b>\$ (564.9)</b>                   | <b>\$ 1,049.3</b>                                                  | <b>\$ 1,057.3</b>                                                                 | <b>\$ (7.2)</b>                                             | <b>\$ (0.8)</b>                                  |

| (millions)                                                                                          | Pretax total<br>accumulated<br>other<br>comprehensive<br>income | Total tax<br>(provision)<br>benefit | After tax total<br>accumulated<br>other<br>comprehensive<br>income | Components of Changes in<br>Accumulated Other<br>Comprehensive Income (after tax) |                                                             |                                                  |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------|
|                                                                                                     |                                                                 |                                     |                                                                    | Total net<br>unrealized<br>gains (losses)<br>on securities                        | Net<br>unrealized<br>gains on<br>forecasted<br>transactions | Foreign<br>currency<br>translation<br>adjustment |
| <b>Balance at December 31, 2013</b>                                                                 | <b>\$ 1,464.1</b>                                               | <b>\$ (512.4)</b>                   | <b>\$ 951.7</b>                                                    | <b>\$ 947.0</b>                                                                   | <b>\$ 4.1</b>                                               | <b>\$ 0.6</b>                                    |
| Other comprehensive income (loss) before reclassifications:                                         |                                                                 |                                     |                                                                    |                                                                                   |                                                             |                                                  |
| Investment securities                                                                               | 131.8                                                           | (46.1)                              | 85.7                                                               | 85.7                                                                              | 0                                                           | 0                                                |
| Net non-credit related OTTI losses, adjusted for valuation changes                                  | 0                                                               | 0                                   | 0                                                                  | 0                                                                                 | 0                                                           | 0                                                |
| Forecasted transactions                                                                             | 0                                                               | 0                                   | 0                                                                  | 0                                                                                 | 0                                                           | 0                                                |
| Foreign currency translation adjustment                                                             | 0                                                               | 0                                   | 0                                                                  | 0                                                                                 | 0                                                           | 0                                                |
| Total other comprehensive income (loss) before reclassifications                                    | 131.8                                                           | (46.1)                              | 85.7                                                               | 85.7                                                                              | 0                                                           | 0                                                |
| Less: Reclassification adjustment for amounts realized in net income by income statement line item: |                                                                 |                                     |                                                                    |                                                                                   |                                                             |                                                  |
| Net impairment losses recognized in earnings                                                        | 0                                                               | 0                                   | 0                                                                  | 0                                                                                 | 0                                                           | 0                                                |
| Net realized gains (losses) on securities                                                           | 131.9                                                           | (46.1)                              | 85.8                                                               | 85.8                                                                              | 0                                                           | 0                                                |
| Interest expense                                                                                    | 0.5                                                             | (0.2)                               | 0.3                                                                | 0                                                                                 | 0.3                                                         | 0                                                |
| Total reclassification adjustment for amounts realized in net income                                | 132.4                                                           | (46.3)                              | 86.1                                                               | 85.8                                                                              | 0.3                                                         | 0                                                |
| Total other comprehensive income (loss)                                                             | (0.6)                                                           | 0.2                                 | (0.4)                                                              | (0.1)                                                                             | (0.3)                                                       | 0                                                |
| <b>Balance at March 31, 2014</b>                                                                    | <b>\$ 1,463.5</b>                                               | <b>\$ (512.2)</b>                   | <b>\$ 951.3</b>                                                    | <b>\$ 946.9</b>                                                                   | <b>\$ 3.8</b>                                               | <b>\$ 0.6</b>                                    |

In an effort to manage interest rate risk, we entered into forecasted transactions on each of our outstanding debt issuances. Upon issuing the debt, the gains (losses) recognized on these cash flow hedges are recorded as unrealized gains (losses) in accumulated other comprehensive income and amortized into interest expense over the term of the related debt issuance. We expect to reclassify \$1.9 million (pretax) into income during the next 12 months, related to net unrealized gains on forecasted transactions.

**Note 10 Litigation** — The Progressive Corporation and/or its insurance subsidiaries are named as defendants in various lawsuits arising out of claims made under insurance policies written by our insurance subsidiaries in the ordinary course of business. We consider all legal actions relating to such claims in establishing our loss and loss adjustment expense reserves.

In addition, The Progressive Corporation and/or its insurance subsidiaries are named as defendants in a number of class action or individual lawsuits arising out of the operations of the insurance subsidiaries. These cases include those alleging damages as a result of our subsidiaries' practices in evaluating or paying medical or injury claims or benefits, including, but not limited to, personal injury protection, medical payments, and bodily injury benefits; the utilization, content, or appearance of policy documents; labor rates paid to auto body repair shops; wage and hour issues; and cases challenging other aspects of our subsidiaries' claims or marketing practices or other business operations. Other insurance companies face many of these same issues.

We plan to contest the pending lawsuits vigorously, but may pursue settlement negotiations in some cases, if appropriate. The outcomes of pending cases are uncertain at this time. We establish accruals for these lawsuits when it is probable that a loss has been or will be incurred and we can reasonably estimate its potential exposure, which may include a range of loss. As to lawsuits in which the loss is not considered both probable and estimable, or is considered probable but not estimable, we do not establish an accrual in accordance with current accounting guidance.

With respect to our pending lawsuits that are not related to claims under insurance policies, the accruals that we have established were not material at March 31, 2015. With respect to most of these lawsuits, we do not consider any losses to be both probable and estimable, and we are unable to estimate a range of loss, if any, at this time, due to the factors discussed in *Note 12 - Litigation* in our Annual Report to Shareholders for the year ended December 31, 2014, which is included as Exhibit 13 to our Annual Report on Form 10-K (the "Annual Report to Shareholders"). In the event that any one or more of these lawsuits results in a substantial judgment against, or settlement by, Progressive, or if our accruals prove to be inadequate by a significant amount, the resulting liability could have a material adverse effect on our consolidated financial condition, cash flows, and/or results of operations. For a further discussion on our pending litigation and related reserving policies, see *Note 12 - Litigation* to our consolidated financial statements in our Annual Report to Shareholders.

**Note 11 New Accounting Standard** — In April 2015, the Financial Accounting Standards Board issued an accounting standard update related to the presentation of the cost of issuing debt on balance sheets. This standard requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. This standard, which is required to be applied on a retrospective basis, is effective for fiscal years beginning after December 15, 2015 (2016 for calendar-year companies), with early adoption permitted. We have historically deducted the majority of our debt issuance costs from the carrying value of the debt, therefore, we do not expect this standard to have a significant impact on our financial condition, cash flows, or results of operations.

**Note 12 Subsequent Event** — On April 1, 2015, we acquired approximately 63.5% of the outstanding capital stock of ARX Holding Corp. (ARX), the parent company of American Strategic Insurance (ASI), primarily from non-management shareholders. ASI is one of the 20 largest homeowners insurance carriers in the United States. The total cost of this acquisition was approximately \$877 million and was funded with available cash on hand. As of March 31, 2015, ARX, on a consolidated basis, had assets of \$1.8 billion, which consists primarily of investments, and liabilities of \$1.3 billion, including unearned premiums of \$0.6 billion, loss and loss adjustment expense reserves of \$0.3 billion, and debt of \$0.2 billion. We are currently evaluating the initial accounting for the acquisition, including purchase price allocation.

Prior to this additional acquisition, we held a 5% interest in ARX that had a value of \$69.9 million at March 31, 2015. During the first quarter 2015, we recognized a \$0.6 million holding period gain on this position that was reflected in net realized gains (losses) on securities in our statement of comprehensive income (See *Note 3 - Fair Value*, for a discussion on the method used for valuing this security). Through the April 2015 acquisition, which brought our total ownership interest to 68.5%, we are able to build on the pre-existing relationship we had with ASI to further our bundling strategy in the Agency channel.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### I. OVERVIEW

During the first quarter 2015, The Progressive Corporation's insurance subsidiaries generated net premiums written and policies in force growth of 8% and 2%, respectively, on a year-over-year basis. Overall, our net income was down 8% to \$295.6 million, or \$.50 per share, reflecting a 72% decrease in net realized gains on securities recognized in the first quarter 2015, compared to the same period last year. Underwriting profitability for the quarter of 7.3%, or \$341.6 million, was up 0.7 points, or 18%, from last year, including favorable prior accident year development. Our investment income of \$105.1 million was up 2%, or \$1.8 million, on a year-over-year basis. Comprehensive income was relatively flat year-over-year. During the first quarter, our total capital position (debt plus equity) increased nearly \$700 million to \$9.8 billion, reflecting comprehensive income earned and the \$400 million 3.70% Senior Notes we issued during the quarter.

#### A. Insurance Operations

During the first quarter 2015, we realized an increase in net premiums written of 8% on a companywide basis, compared to the prior year period. Our Agency and Direct Personal Lines businesses increased 3% and 13%, respectively, and our Commercial Lines business grew 15%. To analyze growth, we review written premium per policy (i.e., rates), new business applications (i.e., issued policies), and customer retention.

For the first quarter, on a year-over-year basis, written premium per policy increased 4% in our Agency auto business, 5% in both our Direct auto and Commercial Lines businesses, and 1% for our special lines products. The increases resulted from both rate changes and shifts in our mix of business. Overall, rates are up slightly year-over-year. Adjusting rates is an ongoing process. We will continue to evaluate future rate needs and react quickly as we recognize loss cost trends at the state level.

Personal Lines new applications for the first quarter increased 6%, compared to the same period last year. Direct auto and special lines new applications increased 13% and 16%, respectively, while Agency auto new applications decreased by 4%. We are continuing to focus on improving our competitiveness in the Agency channel by focusing on product design and underwriting, and the development of modifications that make agencies' access to, and use of, our quoting systems easier. Our Commercial Lines new applications increased 19%, driven by growth in our truck products, reflecting rate increases and underwriting restrictions by our competitors, as well as increased conversion in business auto, resulting from modest rate reductions.

During the first quarter 2015, our renewal applications increased 4% in Personal Lines and 2% in Commercial Lines. The primary contributors to the Personal Lines increase were our Direct auto business and special lines products renewal applications, which grew 7% and 10%, respectively, while Agency auto renewal applications were down 1%.

We continue to look at ways to help stimulate growth and provide consumers with distinctive insurance options, including the following:

- We are continuing to roll out a new program in Snapshot®, our usage-based insurance product, which affords more customers discounts for their good driving behavior, while increasing rates at renewal for a small number of drivers based on their driving behavior. We are also offering a Snapshot enrollment discount that varies at the customer-segment level, such as a higher discount for more preferred drivers.
- Our efforts to provide additional insurance products through our strategy of "bundling" our auto coverages with other coverages, such as home, renters, and umbrella insurance, continue to be an important part of our strategy. On April 1, 2015, we acquired a controlling interest in the parent company of American Strategic Insurance (ASI), our current homeowners insurance provider in the Agency channel. Through this acquisition, we hope to solidify our auto-homeowners insurance package offered through this channel. In the Direct channel, we continue to work with our current unaffiliated providers, as well as ASI, for these products.
- We expanded our renters insurance product in the Agency channel, allowing agents the option to bundle renters and auto insurance, thereby increasing the propensity of our customers to stay with us.

On a companywide basis, year-over-year, policies in force grew 2%, with Personal Lines growing 2% and Commercial Lines growing 3%. Our Direct auto business grew 7% and our special lines products grew 2%, while our Agency auto business decreased 3% over last year. We ended the first quarter with 13.5 million Personal Lines policies in force, about 230,000 more policies in force than at the end of 2014.

To further grow policies in force, it is critical that we retain our customers for longer periods. Consequently, increasing retention is one of our most important priorities, and our efforts to increase the number of multi-product households continues to be a key initiative to support that goal. Policy life expectancy, which is our actuarial estimate of the average length of time that a policy will remain in force before cancellation or lapse in coverage, is one measure of customer retention. We have historically disclosed our changes in policy life expectancy using a trailing 12-month period since we believe this measure is indicative of recent experience, mitigates the effects of month-to-month variability, and addresses seasonality. Using a trailing 12-month measure, policy life expectancy decreased 5% for our Agency auto business and 1% for our Direct auto business, compared to last year. The policy life expectancy for our Commercial Lines business was up 4%, while our special lines products remained unchanged, compared to last year.

In 2014, we began to disclose policy life expectancy for our personal auto products using a trailing 3-month measure. Although using a trailing 3-month measure does not address seasonality and can create more volatility, this measure is more responsive to current experience and can be an indicator in how our retention rates are moving. Our trailing 3-month policy life expectancy at March 31, 2015, on a year-over-year basis, was down 8% in Agency auto and 6% in Direct auto, resulting primarily from increased rates in both channels. We will maintain our focus on providing customers with more stable rates and other insurance-related products and services they may need over time in our ongoing efforts to increase retention.

## **B. Investments**

The fair value of our investment portfolio was \$19.8 billion at March 31, 2015. Our asset allocation strategy is to maintain 0%-25% of our portfolio in Group I securities, with the balance (75%-100%) of our portfolio in Group II securities. We define Group I securities to include:

- common equities
- nonredeemable preferred stocks
- redeemable preferred stocks, except for 50% of investment-grade redeemable preferred stocks with cumulative dividends, which are included in Group II, and
- all other non-investment-grade fixed-maturity securities.

Group II securities include:

- short-term securities, and
- all other fixed-maturity securities, including 50% of the investment-grade redeemable preferred stocks with cumulative dividends.

We use the credit ratings from models provided by the National Association of Insurance Commissioners (NAIC) for classifying our residential and commercial mortgage-backed securities (excluding interest-only securities), and credit ratings from nationally recognized statistical rating organizations (NRSRO) for all other debt securities, in determining whether securities should be classified as Group I or Group II. At March 31, 2015, 22% of our portfolio was allocated to Group I securities and 78% to Group II securities, compared to 23% and 77%, respectively, at December 31, 2014.

Our investment portfolio produced a fully taxable equivalent (FTE) total return of 1.1% for the first quarter 2015, compared to 1.4% for the first quarter 2014. Our common stock and fixed-income portfolios both contributed to these total returns with FTE returns of 1.7% and 1.0%, respectively, for the first quarter 2015, and 2.1% and 1.3%, respectively, for the first quarter 2014. The return differential in 2015 compared to 2014 is a result of lower equity market returns and a slight decline in yields on fixed-income securities. At March 31, 2015, the fixed-income portfolio had a weighted average credit quality of A+, compared to AA- at March 31, 2014. We maintain our fixed-income portfolio strategy of investing in high-quality, liquid securities.

Our recurring investment income generated a pretax book yield of 2.4% during the first quarter 2015, compared to 2.5% during the first quarter 2014. At March 31, 2015, our duration was 1.8 years, compared to 1.7 years at March 31, 2014. We remain confident in our preference for shorter duration positioning during times of low interest rates as a means to limit any decline in portfolio value from an increase in rates, and we expect long-term benefits from any return to more substantial yields.

## **II. FINANCIAL CONDITION**

### **A. Liquidity and Capital Resources**

Progressive's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. Operations generated positive cash flows of about \$0.8 billion and \$0.7 billion for the first three months of 2015 and 2014, respectively.

Our total capital (debt plus equity) was \$9.8 billion, at book value, at March 31, 2015, compared to \$8.3 billion and \$9.1 billion at March 31, 2014 and December 31, 2014, respectively. Our interest expense increased 22% on a year-over-year basis, and our

debt-to-total capital ratio was 26.2%, 22.4%, and 23.8% at March 31, 2015 and 2014, and December 31, 2014, respectively, reflecting the impact of debt issuances, partially offset by debt repurchases, during the last 12 months. During the trailing 12 months, we issued a total of \$750 million of Senior Notes in two separate underwritten public offerings. We issued this debt to take advantage of attractive terms in the market and allow for financial flexibility. We did not repurchase any debt securities in the first quarter of 2015 or 2014. During the full year 2014, we repurchased \$44.3 million of our outstanding debt in the open market. We financed these transactions through available cash.

On April 1, 2015, we acquired an additional 63.5% ownership interest in ARX Holding Corp., the parent company of ASI, bringing our total ownership percentage to about 68.5%. As part of a related stockholders' agreement, we have the ability to achieve 100% ownership within six years. The total cost of the April acquisition was approximately \$877 million, which we funded with available cash. This acquisition solidifies the pre-existing relationship we had with ASI as our homeowners insurance provider in the Agency channel.

Based upon our capital planning and forecasting efforts, we believe that we have sufficient capital resources, cash flows from operations, and borrowing capacity to support our current and anticipated business, scheduled principal and interest payments on our debt, any declared dividends, acquisition-related commitments, and other expected capital requirements. The covenants on our existing debt securities do not include any rating or credit triggers that would require an adjustment of the interest rate or an acceleration of principal payments in the event our securities are downgraded by a rating agency.

We seek to deploy capital in a prudent manner and use multiple data sources and modeling tools to estimate the frequency, severity, and correlation of identified exposures, including, but not limited to, catastrophic and other insured losses, natural disasters, and other significant business interruptions, to estimate our potential capital needs.

During the first three months of 2015 and at all times during 2014, our total capital exceeded the sum of our regulatory capital layer plus our self-constructed extreme contingency layer as described in our Annual Report to Shareholders for the year ended December 31, 2014.

Our available capital allowed us to take several actions to deploy underleveraged capital, including:

- *Repurchases of our outstanding debt securities.* From time to time, we may elect to repurchase our outstanding debt securities in the open market or in privately negotiated transactions, reducing our future interest expense, when management believes that such securities are attractively priced and capital is available for such a purpose. We did not repurchase any debt securities in the first quarter of 2015 or 2014. During the full year 2014, we repurchased, in the open market, \$44.3 million in principal amount of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (the "6.70% Debentures"). Since the amounts paid exceeded the carrying value of the debt we repurchased, we recognized losses on these extinguishments of \$4.8 million.
- *Repurchases of our common shares.* In accordance with our financial policies, we continued our practice of repurchasing our common shares. As of March 31, 2015, we had 17.5 million shares remaining under our 2011 Board repurchase authorization. The following table shows our share repurchase activity during the respective periods:

| (millions, except per share amounts) | Three Months Ended March 31, |          |
|--------------------------------------|------------------------------|----------|
|                                      | 2015                         | 2014     |
| Total number of shares purchased     | 2.5                          | 3.9      |
| Total cost                           | \$ 65.9                      | \$ 94.7  |
| Average price paid per share         | \$ 26.80                     | \$ 24.37 |

- *Dividends.* As part of our capital management activities, in February 2015 and 2014, we paid annual variable dividends of \$0.6862 per share and \$0.4929 per share, respectively, which were each declared in December of the prior year. In addition to the annual variable dividend, the Board of Directors declared a \$1.00 per common share special dividend in December 2013, which was paid in February 2014.

### Short-Term Borrowings

We did not engage in short-term borrowings to fund our operations or for liquidity purposes during the three months ended March 31, 2015 or at any point in 2014. As discussed above, our insurance operations create liquidity by collecting and investing insurance premiums in advance of paying claims. Information concerning our insurance operations can be found

below under *Results of Operations—Underwriting*, and details about our investment portfolio can be found below under *Results of Operations—Investments*.

During the first quarter 2015, we renewed the unsecured, discretionary line of credit with PNC Bank, National Association (PNC) in the maximum principal amount of \$100 million. The prior line of credit, which was entered into during the first quarter 2014, has expired. The Line of Credit is on substantially the same terms and conditions as the prior line of credit. All advances under this agreement are subject to PNC's discretion, would bear interest at a variable, daily rate, and would need to be repaid on the earlier of the 30th day after the advance or the expiration date of the facility, April 30, 2016. We had no borrowings under either line of credit during the first three months of 2015 or throughout 2014.

We did not enter into any repurchase commitment transactions during the first three months of 2015 or 2014, and we had no open repurchase commitments at March 31, 2015 or 2014, or December 31, 2014.

## B. Commitments and Contingencies

### Contractual Obligations

During the first three months of 2015, our contractual obligations have not changed materially from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2014.

### Off-Balance-Sheet Arrangements

Our off-balance-sheet leverage includes derivative positions, operating leases, and purchase obligations. See the "Derivative Instruments" section of *Note 2 - Investments* and of this *Management's Discussion and Analysis* for a summary of our derivative activity since year-end 2014. There have been no material changes in the other off-balance-sheet items since the discussion in the notes to the financial statements in Progressive's Annual Report on Form 10-K for the year ended December 31, 2014.

## III. RESULTS OF OPERATIONS – UNDERWRITING

### A. Growth

| (\$ in millions)              | Three Months Ended March 31, |            |          |
|-------------------------------|------------------------------|------------|----------|
|                               | 2015                         | 2014       | % Change |
| <b>NET PREMIUMS WRITTEN</b>   |                              |            |          |
| Personal Lines                |                              |            |          |
| Agency                        | \$ 2,356.1                   | \$ 2,292.6 | 3        |
| Direct                        | 2,179.6                      | 1,926.6    | 13       |
| Total Personal Lines          | 4,535.7                      | 4,219.2    | 8        |
| Commercial Lines              | 531.1                        | 461.8      | 15       |
| Other indemnity               | 0                            | 0          | NM       |
| Total underwriting operations | \$ 5,066.8                   | \$ 4,681.0 | 8        |
| <b>NET PREMIUMS EARNED</b>    |                              |            |          |
| Personal Lines                |                              |            |          |
| Agency                        | \$ 2,244.5                   | \$ 2,203.2 | 2        |
| Direct                        | 1,955.4                      | 1,762.2    | 11       |
| Total Personal Lines          | 4,199.9                      | 3,965.4    | 6        |
| Commercial Lines              | 466.4                        | 436.9      | 7        |
| Other indemnity               | 0                            | 0          | NM       |
| Total underwriting operations | \$ 4,666.3                   | \$ 4,402.3 | 6        |

NM = Not Meaningful

Net premiums written represent the premiums from policies written during the period less any premiums ceded to reinsurers. Net premiums earned, which are a function of the premiums written in the current and prior periods, are earned as revenue over the life of the policy using a daily earnings convention.

Policies in force, our preferred measure of growth, represents all policies under which coverage was in effect as of the end of the period specified. As of March 31, our policies in force were:

| (thousands)                | 2015     | 2014     | %<br>Change |
|----------------------------|----------|----------|-------------|
| <b>POLICIES IN FORCE</b>   |          |          |             |
| Agency auto                | 4,765.6  | 4,911.8  | (3)         |
| Direct auto                | 4,679.8  | 4,384.1  | 7           |
| Total auto                 | 9,445.4  | 9,295.9  | 2           |
| Special lines <sup>1</sup> | 4,046.9  | 3,982.9  | 2           |
| Total Personal Lines       | 13,492.3 | 13,278.8 | 2           |
| Commercial Lines           | 522.6    | 509.4    | 3           |

<sup>1</sup>Includes insurance for motorcycles, ATVs, RVs, mobile homes, watercraft, snowmobiles, and similar items, as well as personal umbrella and renters products.

To analyze growth, we also review new policies, rate levels, and the retention characteristics of our books of business. The following table shows our year-over-year changes in new and renewal applications (i.e., issued policies):

|                     | Growth Over Prior Year |       |
|---------------------|------------------------|-------|
|                     | Quarter                |       |
|                     | 2015                   | 2014  |
| <b>APPLICATIONS</b> |                        |       |
| Personal Lines:     |                        |       |
| New                 | 6%                     | 5%    |
| Renewal             | 4%                     | 3%    |
| Commercial Lines:   |                        |       |
| New                 | 19%                    | (10)% |
| Renewal             | 2%                     | (2)%  |

The year-over-year growth in new applications in our Personal Lines business primarily reflected a significant increase in our Direct auto business, due to selective rate decreases taken in certain states and an improved competitive position. In addition, we saw growth as more consumers are using the Internet and mobile devices to shop and buy auto insurance. We also saw an increase in new applications in our special lines products primarily reflecting increased demand for motorcycle insurance and an overall growth in the RV market. The Agency channel new application growth continues to be negatively impacted by active competition in the marketplace.

The significant increase in our Commercial Lines new applications reflects an increase in our conversion rate in our business auto market target, along with growth we are generating in our for-hire transportation and for-hire specialty business market targets, as a result of our competitors raising rates and implementing underwriting restrictions.

We continue to refine our personal auto segmentation and underwriting models. Our previous model, which improved segmentation for preferred customers, adjusted pricing for our highest risk in-force customers, and improved the onboarding experience for our Direct customers through a redesigned electronic signature process, has performed well. Our current model, which is continuing to be rolled out across the country, features more competitive preferred pricing, more sophisticated pricing for households that insure more than one product through Progressive, and enhancements to our usage-based program.

Snapshot®, our usage-based insurance program, provides customers the opportunity to improve their auto insurance rates based on their personal driving behavior. Snapshot is currently available to our Agency and Direct auto customers in 45 states plus the District of Columbia. The Snapshot portion of our business continues to grow at a rate considerably faster than the business as a whole, and we continue to revise our product model to respond to demand. In our latest Snapshot program, which we began rolling out late in 2014, we are affording more customers discounts for their driving behavior, while increasing rates at renewal for a small number of drivers based on their driving behavior. We are also offering a Snapshot enrollment discount that varies at the customer-segment level, such as a higher discount for more preferred drivers.

We are also continuing with our efforts to further penetrate customer households through cross-selling auto policies with our special lines products and vice versa, as well as through Progressive Home Advantage® (PHA). PHA is the program in which we “bundle” our auto product with property insurance provided by ASI and unaffiliated insurance carriers. Bundled products are an integral part of our consumer offerings and an important part of our strategic agenda. These customers represent a sizable segment of the market, and our experience is that they tend to stay with us longer and generally have a better loss experience. An increasing number of our customers, especially Direct auto customers, are now multi-product customers with combinations of special lines, homeowners, or renters, as well as auto coverage.

As of March 31, 2015, PHA was available to Direct customers in 49 states, Agency customers in 27 states, including one state added during the first quarter 2015, and to both Direct and Agency customers in the District of Columbia. PHA is not yet available to customers in Alaska. In the Direct channel, PHA is provided by ASI, as well as nine active, unaffiliated insurance carriers.

To further our bundling strategy in the independent agency channel, on April 1, 2015, we acquired a controlling interest in ARX Holding Corp., the parent entity of our strategic homeowners provider, ASI, bringing our total ownership to 68.5% of ARX. As part of a related stockholders' agreement, we have the ability to achieve 100% ownership within six years. We believe this transaction will advance both companies and attract a market segment of bundled customers that is currently under-penetrated by both Progressive and ARX.

Another part of our bundling strategy is our offering of a renters product. We started writing our own renters insurance product in the Agency channel during 2014 and are currently offering this product in eight states. We intend to roll out this product to additional states during the year. The purpose of selling this renters insurance product is to write and retain more auto business.

Expanding our capabilities in the mobile space also remains an important initiative. Consumers want the ability to transact all forms of business when and where they want and on whatever device best suits their needs (e.g., smartphone, tablet). We provide consumers with the following capabilities:

- Obtain a quote for and buy an auto insurance policy on our mobile website in all states and the District of Columbia,
- Obtain a quote for at least five drivers and four vehicles and, in most states, quote up to 12 drivers and 12 vehicles,
- Use their phone's camera to photograph their driver license and/or current insurance card to provide easy data fill for quotes started from our mobile application in 36 states and the District of Columbia, and
- Receive the comparison rate experience in most of the country.

Our policyholders are able to use mobile devices for many of their insurance needs, including the ability to:

- Access their policy documents, make payments directly from their checking account, and view both their payment schedule and billing history,
- Add endorsements and make account changes,
- Receive text alerts for billing and severe weather,
- View, store, and share their digital insurance ID card, which can be used as legal proof of insurance in most of the country, and
- Report their claims and submit related photos using the application, as well as use their phone's GPS capabilities to specify the location of the claim.

Quotes, sales, payments, and document requests from mobile devices have been increasing and now represent low double-digit percentages of such transactions with Progressive. We recognize the importance of the mobile space and look for opportunities to add new functionality to our mobile websites and applications.

In addition, much of our agency-dedicated website, which includes quote/buy, servicing, and reporting capabilities, is accessible to agents through many brands of tablet computers.

Through our Progressive Commercial Advantage<sup>SM</sup> program, we offer general liability and business owners policies and workers' compensation coverage, all of which are written by unaffiliated insurance companies or agencies. The workers' compensation coverage is offered in 44 states, while the other products are offered throughout the continental United States.

We experienced the following changes in written premium per policy:

|                                   | Growth Over Prior Year |      |
|-----------------------------------|------------------------|------|
|                                   | Quarter                |      |
|                                   | 2015                   | 2014 |
| <b>WRITTEN PREMIUM PER POLICY</b> |                        |      |
| Personal Lines—auto               | 4%                     | 2%   |
| Commercial Lines                  | 5%                     | 4%   |

The increased written premium per policy in our personal auto business included higher written premium per policy in both our Agency and Direct auto businesses, reflecting rate increases taken during the last year as well as an increase in the number of vehicles per policy. For our Commercial Lines business, the increase in written premium per policy primarily reflected rate increases and a shift in a mix of business in our truck product tiers. Adjusting rates is a continuous process and we will continue to evaluate future rate needs and react quickly as we recognize changing trends at the state level.

Another important element affecting growth is customer retention. One measure of retention is policy life expectancy, which is our actuarial estimate of the average length of time that a policy (including any renewals) will remain in force before cancellation or lapse in coverage. The following table shows our year-over-year changes in policy life expectancy using both 3-month and 12-month measures. In addition, we are disclosing our quarterly year-over-year change in our renewal ratio in our personal auto business. The renewal ratio is the percent of policies that have come up for renewal during the quarter that have actually renewed.

|                                                                | Growth Over Prior Year |      |
|----------------------------------------------------------------|------------------------|------|
|                                                                | 2015                   | 2014 |
| <b>RETENTION MEASURES</b>                                      |                        |      |
| Personal Lines - auto                                          |                        |      |
| Policy life expectancy                                         |                        |      |
| Trailing 3-months                                              | (7)%                   | 10%  |
| Trailing 12-months                                             | (3)%                   | 0%   |
| Renewal ratio                                                  | (0.3)%                 | 1.1% |
| Commercial Lines - policy life expectancy (trailing 12-months) | 4%                     | (4)% |

The personal auto decline in trailing 3-month policy life expectancy, which reflects more recent experience, is primarily due to rate increases in certain states in both our Agency and Direct channels. In our Commercial Lines business, the increase in policy life expectancy reflects more rate stability, primarily in our for-hire transportation and business auto market tiers.

Recognizing the importance that retention has on our ability to continue to grow profitably, we emphasize competitive pricing for a given risk, quality service, and having the products and services available for our customers as their needs change during their insurable life.

## B. Profitability

Profitability for our underwriting operations is defined by pretax underwriting profit, which is calculated as net premiums earned plus fees and other revenues less losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses. We also use underwriting profit margin, which is underwriting profit expressed as a percentage of net premiums earned, to analyze our results. For the respective periods, our underwriting profitability results were as follows:

|                               | Three Months Ended March 31, |        |                            |        |
|-------------------------------|------------------------------|--------|----------------------------|--------|
|                               | 2015                         |        | 2014                       |        |
|                               | Underwriting Profit (Loss)   |        | Underwriting Profit (Loss) |        |
| (\$ in millions)              | \$                           | Margin | \$                         | Margin |
| Personal Lines                |                              |        |                            |        |
| Agency                        | \$ 194.5                     | 8.7%   | \$ 178.6                   | 8.1%   |
| Direct                        | 68.2                         | 3.5    | 71.0                       | 4.0    |
| Total Personal Lines          | 262.7                        | 6.3    | 249.6                      | 6.3    |
| Commercial Lines              | 78.5                         | 16.8   | 40.9                       | 9.4    |
| Other indemnity <sup>1</sup>  | 0.4                          | NM     | (0.7)                      | NM     |
| Total underwriting operations | \$ 341.6                     | 7.3%   | \$ 289.8                   | 6.6%   |

<sup>1</sup>Underwriting margins for our other indemnity businesses are not meaningful (NM) due to the low level of premiums earned by, and the variability of loss costs in, such businesses.

Our underwriting margin exceeded our long-term profitability target of at least 4% for both the first quarter of 2015 and 2014. Pricing and market conditions are always significant drivers of underwriting margins over any defined period. Our Personal Lines profitability increased 5%. Our Commercial Lines profitability nearly doubled, which reflected a lower loss ratio, primarily due to rate increases taken during the last two years and lower claims frequency, mainly in our truck business. On a year-over-year basis, in both our personal auto and Commercial Lines business, we incurred favorable case loss reserve

development primarily in bodily injury and uninsured motorist bodily injury due to lower than anticipated severity.

Further underwriting results for our Personal Lines business, including results by distribution channel, the Commercial Lines business, and our underwriting operations in total, were as follows:

| Underwriting Performance <sup>1</sup>                           | Three Months Ended March 31, |      |                |
|-----------------------------------------------------------------|------------------------------|------|----------------|
|                                                                 | 2015                         | 2014 | Change         |
| Personal Lines—Agency                                           |                              |      |                |
| Loss & loss adjustment expense ratio                            | 71.8                         | 72.3 | )<br>(0.5pts.) |
| Underwriting expense ratio                                      | 19.5                         | 19.6 | )<br>(0.1pts.) |
| Combined ratio                                                  | 91.3                         | 91.9 | )<br>(0.6pts.) |
| Personal Lines—Direct                                           |                              |      |                |
| Loss & loss adjustment expense ratio                            | 75.3                         | 74.4 | 0.9 pts.       |
| Underwriting expense ratio                                      | 21.2                         | 21.6 | )<br>(0.4pts.) |
| Combined ratio                                                  | 96.5                         | 96.0 | 0.5 pts.       |
| Total Personal Lines                                            |                              |      |                |
| Loss & loss adjustment expense ratio                            | 73.4                         | 73.2 | 0.2 pts.       |
| Underwriting expense ratio                                      | 20.3                         | 20.5 | )<br>(0.2pts.) |
| Combined ratio                                                  | 93.7                         | 93.7 | 0.0 pts.       |
| Commercial Lines                                                |                              |      |                |
| Loss & loss adjustment expense ratio                            | 61.0                         | 69.3 | )<br>(8.3pts.) |
| Underwriting expense ratio                                      | 22.2                         | 21.3 | 0.9 pts.       |
| Combined ratio                                                  | 83.2                         | 90.6 | )<br>(7.4pts.) |
| Total Underwriting Operations <sup>2</sup>                      |                              |      |                |
| Loss & loss adjustment expense ratio                            | 72.2                         | 72.8 | )<br>(0.6pts.) |
| Underwriting expense ratio                                      | 20.5                         | 20.6 | )<br>(0.1pts.) |
| Combined ratio                                                  | 92.7                         | 93.4 | )<br>(0.7pts.) |
| Accident year loss & loss adjustment expense ratio <sup>3</sup> | 74.3                         | 71.4 | 2.9 pts.       |

<sup>1</sup>Ratios are expressed as a percentage of net premiums earned; fees and other revenues are netted with underwriting expenses in the ratio calculations.

<sup>2</sup>Combined ratios for the other indemnity businesses are not presented separately due to the low level of premiums earned by, and the variability of loss costs in, such businesses. These businesses generated an underwriting profit of \$0.4 million for the three months ended March 31, 2015, compared to an underwriting loss of \$0.7 million for the three months ended March 31, 2014.

<sup>3</sup>The accident year ratio includes only the losses that occurred during the period noted. As a result, accident period results will change over time, either favorably or unfavorably, as we revise our estimates of loss costs when payments are made or reserves for that accident period are reviewed.

#### Losses and Loss Adjustment Expenses (LAE)

| (\$ in millions)                    | Three Months Ended March 31, |            |
|-------------------------------------|------------------------------|------------|
|                                     | 2015                         | 2014       |
| Change in net loss and LAE reserves | \$ 123.7                     | \$ 81.8    |
| Paid losses and LAE                 | 3,244.9                      | 3,124.1    |
| Total incurred losses and LAE       | \$ 3,368.6                   | \$ 3,205.9 |

Claims costs, our most significant expense, represent payments made, and estimated future payments to be made, to or on behalf of our policyholders, including expenses needed to adjust or settle claims. Claims costs are a function of loss severity and frequency and are influenced by inflation and driving patterns, among other factors. Accordingly, anticipated changes in these factors are taken into account when we establish premium rates and loss reserves. Our estimated needed reserves are adjusted as these underlying assumptions change.

Our total loss and loss adjustment expense ratio decreased 0.6 points for the first quarter 2015, compared to the first quarter 2014, reflecting more favorable reserve development compared to the first quarter 2014 on prior accident years in part offset by an increase in both frequency and severity on 2015 accident year losses.

The following discussion of our severity and frequency trends excludes comprehensive coverage because of its inherent volatility, as it is typically linked to catastrophic losses generally resulting from adverse weather. Comprehensive coverage insures against damage to a customer's vehicle due to various causes other than collision, such as windstorm, hail, theft, falling objects, and glass breakage.

Total personal auto incurred severity (i.e., average cost per claim, including both paid losses and the change in reserves) increased about 3% for the first quarter 2015, compared to the first quarter 2014. Following are the changes we experienced in severity in our auto coverages on a year-over-year basis:

- Bodily injury decreased about 1%.
- Property coverages increased with property damage and collision up about 5% to 6%.
- Personal injury protection (PIP) increased about 1%.

It is a challenge to estimate future severity, especially for bodily injury and PIP claims, but we continue to monitor changes in the underlying costs, such as medical costs, health care reform, and jury verdicts, along with regulatory changes and other factors that may affect severity.

Our incurred frequency of auto accidents, on a calendar year basis, increased about 1% for the first quarter 2015, compared to the same period last year. Following are our frequency changes by coverage on a year-over-year basis:

- Bodily injury, property damage, and PIP increased 1% to 2%.
- Collision decreased around 2%, primarily due to higher levels of weather-related claims in the midwestern and northeastern states during the first quarter 2014.

We closely monitor the changes in frequency, but the degree or direction of near-term frequency change is not something that we are able to predict with any certainty. We analyze trends to distinguish changes in our experience from external factors, such as changes in the number of vehicles per household, miles driven, gasoline prices, greater vehicle safety, and unemployment rates, versus those resulting from shifts in the mix of our business, as we attempt to reserve more accurately for our loss exposure.

The following table shows catastrophe losses incurred during the periods:

| (\$ in millions)            | Three Months Ended March 31, |          |
|-----------------------------|------------------------------|----------|
|                             | 2015                         | 2014     |
| Catastrophe losses incurred | \$ 9.4                       | \$ 9.2   |
| Increase to combined ratio  | 0.2 pts.                     | 0.2 pts. |

We respond promptly to catastrophic storms when they occur in order to provide exemplary claims service to our customers.

The table below presents the actuarial adjustments implemented and the loss reserve development experienced in the following periods:

| (millions)                                          | Three Months Ended March 31, |           |
|-----------------------------------------------------|------------------------------|-----------|
|                                                     | 2015                         | 2014      |
| <b>ACTUARIAL ADJUSTMENTS</b>                        |                              |           |
| Reserve decrease/(increase)                         |                              |           |
| Prior accident years                                | \$ 11.1                      | \$ 19.4   |
| Current accident year                               | (0.7)                        | (13.9)    |
| Calendar year actuarial adjustment                  | \$ 10.4                      | \$ 5.5    |
| <b>PRIOR ACCIDENT YEARS DEVELOPMENT</b>             |                              |           |
| Favorable/(Unfavorable)                             |                              |           |
| Actuarial adjustment                                | \$ 11.1                      | \$ 19.4   |
| All other development                               | 86.8                         | (82.3)    |
| Total development                                   | \$ 97.9                      | \$ (62.9) |
| (Increase) decrease to calendar year combined ratio | 2.1 pts.                     | (1.4pts.) |

Total development consists of both actuarial adjustments and “all other development.” The actuarial adjustments represent the net changes made by our actuarial department to both current and prior accident year reserves based on regularly scheduled reviews. Through these reviews, our actuaries identify and measure variances in the projected frequency and severity trends, which allows them to adjust the reserves to reflect the current costs. We report these actuarial adjustments separately for the current and prior accident years to reflect these adjustments as part of the total prior accident years’ development.

“All other development” represents claims settling for more or less than reserved, emergence of unrecorded claims at rates different than anticipated in our incurred but not recorded (IBNR) reserves, and changes in reserve estimates on specific claims. Although we believe that the development from both the actuarial adjustments and “all other development” generally results from the same factors, as discussed below, we are unable to quantify the portion of the reserve development that might be applicable to any one or more of those underlying factors.

Our objective is to establish case and IBNR reserves that are adequate to cover all loss costs, while incurring minimal variation from the date that the reserves are initially established until losses are fully developed. As reflected in the table above, we experienced favorable development in the first quarter 2015 and unfavorable development in the first quarter 2014.

#### First quarter 2015

- Approximately 75% of the favorable prior year reserve development was attributable to accident year 2014.
- The majority of our favorable reserve development was in our personal auto product. Our Direct and Agency auto businesses accounted for approximately 40% and 25%, respectively, of the favorable reserve development, with our Commercial Lines business making up the majority of the remainder.
- In our personal auto and Commercial Lines businesses, we incurred favorable case loss reserve development primarily in bodily injury and uninsured motorist bodily injury coverages, due to lower than anticipated severity.

#### First quarter 2014

- Approximately 90% of the unfavorable prior year reserve development was attributable to accident year 2013 and about 10% was related to accident years 2011 and prior. The aggregate reserve development for accident year 2012 was slightly favorable.
- The majority of our unfavorable reserve development was in our personal auto product. Our Agency and Direct auto businesses accounted for approximately 50% and 35%, respectively, of the unfavorable reserve development, with our Commercial Lines business making up the majority of the remainder.
- In our personal auto business, we incurred favorable case loss reserve development offset in large part by unfavorable IBNR loss development. In addition, we had unfavorable loss adjustment expense reserve development primarily effecting the 2013 accident year.
- In our Commercial Lines business, we experienced unfavorable development in our case and IBNR reserves principally in our higher limit, specialty truck business.

In our loss reserve analysis, we work to enhance accuracy and to further our understanding of our loss costs. A detailed discussion of our loss reserving practices can be found in our *Report on Loss Reserving Practices*, which was filed in a Form 8-K on August 8, 2014.

### ***Underwriting Expenses***

Progressive's policy acquisition costs and other underwriting expenses, net of fees and other revenues, expressed as a percentage of net premiums earned were relatively unchanged on a year-over-year basis.

### **C. Personal Lines**

|                      | <b>Growth 2015 vs. 2014 First Quarter</b> |
|----------------------|-------------------------------------------|
| Net premiums written | 8%                                        |
| Net premiums earned  | 6%                                        |
| Policies in force    | 2%                                        |

Progressive's Personal Lines business writes insurance for personal autos and recreational vehicles and represented 90% of our total net premiums written in both the first quarter 2015 and 2014. We currently write our Personal Lines products in all 50 states. We also offer our personal auto product (not special lines products) in the District of Columbia and on an Internet-only basis in Australia.

Personal auto represented 93% of our total Personal Lines net premiums written in the first three months of both 2015 and 2014. These auto policies are primarily written for 6-month terms. The remaining Personal Lines business is comprised of special lines products (e.g., motorcycles, watercraft, and RVs), which are written for 12-month terms, primarily in our Agency channel. The special lines products are typically used more during the warmer weather months and, therefore, would have a negative impact on our total Personal Lines results during those periods and a favorable impact on underwriting profitability during the off season.

Compared to March 31, 2014, policies in force grew 2% for both our auto and special lines products. Net premiums written for personal auto increased 7% and 6% for the first quarter 2015 and 2014, respectively; special lines net premiums written grew 13% in the first quarter 2015, compared to 1% growth in the first quarter of 2014. The growth in our special lines products reflects growth in our motorcycle business, as well as growth in our RV and boat products, which have higher average written premiums per policy.

Our total Personal Lines business generated combined ratios of 93.7 for the first quarter of both 2015 and 2014. In the first three months of 2015, 49 out of our 51 jurisdictions were profitable, including all of our top 10 states, compared to 41 states reporting profitability in the first quarter last year, including 8 of the top 10 states. The special lines products had about a 3 point favorable impact on the total Personal Lines combined ratio for both the first quarter 2015 and 2014.

The Personal Lines business is comprised of the Agency business and the Direct business.

### ***The Agency Business***

|                                            | <b>Growth 2015 vs. 2014 First Quarter</b> |
|--------------------------------------------|-------------------------------------------|
| Net premiums written                       | 3%                                        |
| Net premiums earned                        | 2%                                        |
| Auto: policies in force                    | (3)%                                      |
| new applications                           | (4)%                                      |
| renewal applications                       | (1)%                                      |
| written premium per policy                 | 4%                                        |
| Auto: retention measures:                  |                                           |
| policy life expectancy - trailing 3-months | (8)%                                      |
| trailing 12-months                         | (5)%                                      |
| renewal ratio                              | (0.4)%                                    |

The rate increases taken in our Agency auto business contributed to the increase we experienced in written premium per policy. Written premium per policy for Agency auto increased 2% for new business and 5% for renewal business, compared to the same period last year.

### *The Direct Business*

The Direct business includes business written directly by Progressive on the Internet, through mobile devices, and over the phone. As discussed above, during the first quarter 2015, new applications in the Direct channel increased due to greater demand by consumers to shop and buy on mobile devices and the Internet, rate decreases taken in certain states, and competitors raising rates. For the first quarter 2015, we experienced a year-over-year increase in new Direct auto applications in all but four states, with 9 of our top 10 Direct auto states generating an increase in new application growth.

On a year-over-year basis, the total number of quotes in the Direct business increased 9% for the first quarter 2015, as demand continues to increase for consumers using mobile devices and the Internet. The overall Direct business conversion rate saw a modest increase in the first quarter 2015, reflecting solid increases in business done via mobile devices and the Internet.

The underwriting expense ratio for our Direct business decreased 0.4 points for the first quarter 2015, compared to the same period last year, despite an increase in advertising costs year-over-year. We remain focused on maintaining a well-respected brand and will continue to spend on advertising as long as we achieve our profitability targets.

## D. Commercial Lines

|                                             | Growth 2015 vs. 2014 First Quarter |
|---------------------------------------------|------------------------------------|
| Net premiums written                        | 15%                                |
| Net premiums earned                         | 7%                                 |
| Policies in force                           | 3%                                 |
| New applications                            | 19%                                |
| Renewal applications                        | 2%                                 |
| Written premium per policy                  | 5%                                 |
| Policy life expectancy - trailing 12-months | 4%                                 |

Progressive's Commercial Lines business writes primary liability, physical damage, and other auto-related insurance for automobiles and trucks owned and/or operated predominantly by small businesses, with the majority of our customers insuring approximately two vehicles. Our Commercial Lines business represented 10% of our total net premiums written for both the first quarter 2015 and 2014. Even though we continue to write over 90% of our Commercial Lines business through the Agency channel, net premiums written through the Direct channel increased by 19% for the first quarter 2015, compared to the same period last year.

This business operates in the following business market targets:

- *Business auto* - autos, vans, and pick-up trucks used by small businesses, such as retailing, farming, services, and private trucking,
- *For-hire transportation* - tractors, trailers, and straight trucks primarily used by regional general freight and expeditor-type businesses and non-fleet long-haul operators,
- *Contractor* - vans, pick-up trucks, and dump trucks used by small businesses, such as artisans, heavy construction, and landscapers/snowplowers,
- *For-hire specialty* - dump trucks, log trucks, and garbage trucks used by dirt, sand and gravel, logging, and coal-type businesses,
- *Tow* - tow trucks and wreckers used in towing services and gas/service station businesses, and
- *For-hire livery* - non-fleet (i.e., five or fewer vehicles) taxis, black-car services, and airport taxis.

Business auto is the largest business market target, measured by premium volume, and accounts for approximately one third of our total Commercial Lines premiums, while the for-hire transportation and contractor business market targets each account for about another 25%. Business auto and contractor together account for approximately 75% of the vehicles we insure in this business, while for-hire transportation accounts for about 10%. We currently write our Commercial Lines business in 49 states; we do not write Commercial Lines in Hawaii or the District of Columbia. The majority of our policies in this business are written for 12-month terms.

Our Commercial Lines business experienced a significant increase in new applications year-over-year, reflecting an increase in conversions in our business auto market target, as well as growth from our for-hire transportation and for-hire specialty business market targets, as a result of our competitors in these tiers, raising rates and implementing underwriting restrictions.

Rate increases and a shift to business with higher average written premiums contributed to the increase in written premium per policy in our Commercial Lines business for the first quarter 2015. The written premium per policy for the new Commercial Lines business was up approximately 18% as a result of these actions, while renewal business saw a decrease of about 1%.

## E. Other Indemnity

Our other indemnity businesses consist of managing our run-off businesses, including the run-off of our professional liability businesses. We only have 12 professional liability policies in force as of March 31, 2015.

Our other indemnity businesses generated an operating profit of \$0.4 million for the first quarter 2015, compared to an operating loss of \$0.7 million for the same period last year.

## F. Service Businesses

Our service businesses, which represent less than 1% of our total revenues and do not have a material effect on our overall operations, primarily include:

- *Commercial Auto Insurance Procedures/Plans (CAIP)* - We are the only servicing carrier on a nationwide basis for CAIP, which are state-supervised plans servicing the involuntary market. As a service provider, we provide policy issuance and claims adjusting services and collect fee revenue that is earned on a pro rata basis over the terms of the related policies.

- *Commission-Based Businesses* - We have two commission-based service businesses.

In our Direct business, through Progressive Home Advantage®, we offer home, condominium, and renters insurance, among other products, written by unaffiliated insurance companies. We receive commissions for policies written under this program, all of which are used to offset the expenses associated with maintaining this program.

Through Progressive Commercial Advantage<sup>SM</sup>, we offer our customers the ability to package their auto coverage with other commercial coverages that are written by unaffiliated insurance companies or placed with additional companies through unaffiliated insurance agencies. This program offers general liability and business owners policies throughout the continental United States and workers' compensation coverage in 44 states as of March 31, 2015. We receive commissions for the policies written under this program, all of which are used to offset the expenses associated with maintaining this program.

## G. Income Taxes

Income taxes are comprised of net deferred tax assets and liabilities, as well as net current income taxes payable/recoverable. Net deferred income tax assets/liabilities are disclosed on the balance sheets. At March 31, 2015 and 2014, and December 31, 2014, we reported net deferred tax liabilities. The increase in our deferred tax liability from March 31, 2014, primarily reflects unrealized gains in the investment portfolio.

At March 31, 2015 and 2014, and December 31, 2014, we had net current income taxes payable of \$146.2 million, \$109.8 million, and \$49.4 million, respectively, which were reported as part of "other liabilities."

There were no material changes in our uncertain tax positions or effective tax rate during the quarter ended March 31, 2015.

#### IV. RESULTS OF OPERATIONS – INVESTMENTS

##### A. Portfolio Allocation

The composition of the investment portfolio was:

| (\$ in millions)               | Fair Value  | % of Total Portfolio | Duration (years) | Rating <sup>1</sup> |
|--------------------------------|-------------|----------------------|------------------|---------------------|
| <b>March 31, 2015</b>          |             |                      |                  |                     |
| Fixed maturities               | \$ 14,219.8 | 71.7%                | 2.0              | A+                  |
| Nonredeemable preferred stocks | 828.1       | 4.2                  | 2.7              | BB+                 |
| Short-term investments         | 2,267.0     | 11.4                 | <0.1             | AA+                 |
| Total fixed-income securities  | 17,314.9    | 87.3                 | 1.8              | A+                  |
| Common equities                | 2,515.7     | 12.7                 | na               | na                  |
| Total portfolio <sup>2,3</sup> | \$ 19,830.6 | 100.0%               | 1.8              | A+                  |
| <b>March 31, 2014</b>          |             |                      |                  |                     |
| Fixed maturities               | \$ 12,506.2 | 71.9%                | 2.0              | AA-                 |
| Nonredeemable preferred stocks | 737.9       | 4.2                  | 2.4              | BB+                 |
| Short-term investments         | 1,872.9     | 10.8                 | <0.1             | AA+                 |
| Total fixed-income securities  | 15,117.0    | 86.9                 | 1.7              | AA-                 |
| Common equities                | 2,278.7     | 13.1                 | na               | na                  |
| Total portfolio <sup>2,3</sup> | \$ 17,395.7 | 100.0%               | 1.7              | AA-                 |
| <b>December 31, 2014</b>       |             |                      |                  |                     |
| Fixed maturities               | \$ 13,549.2 | 71.2%                | 1.8              | A+                  |
| Nonredeemable preferred stocks | 827.5       | 4.4                  | 2.8              | BB+                 |
| Short-term investments         | 2,149.0     | 11.3                 | <0.1             | AA                  |
| Total fixed-income securities  | 16,525.7    | 86.9                 | 1.6              | A+                  |
| Common equities                | 2,492.3     | 13.1                 | na               | na                  |
| Total portfolio <sup>2,3</sup> | \$ 19,018.0 | 100.0%               | 1.6              | A+                  |

na = not applicable

<sup>1</sup>Represents ratings at period end. Credit quality ratings are assigned by nationally recognized statistical rating organizations (NRSRO). To calculate the weighted average credit quality ratings, we weight individual securities based on fair value and assign a numeric score of 0-5, with non-investment-grade and non-rated securities assigned a score of 0-1. To the extent the weighted average of the ratings falls between AAA and AA+, we assign an internal rating of AAA-.

<sup>2</sup>Our portfolio reflects the effect of unsettled security transactions and collateral on open derivative positions; at March 31, 2015, \$95.8 million was included in "other liabilities," compared to \$350.0 million in "other assets" at March 31, 2014 and \$31.3 million in "other liabilities" at December 31, 2014.

<sup>3</sup>The total fair value of the portfolio at March 31, 2015 and 2014, and December 31, 2014 included \$1.7 billion, \$0.8 billion, and \$1.9 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

Our asset allocation strategy is to maintain 0%-25% of our portfolio in Group I securities, with the balance (75%-100%) of our portfolio in Group II securities, as defined in the *Overview – Investments and Capital Management* section and as reflected in the following tables. We believe this asset allocation strategy allows us to appropriately assess the risks associated with these securities for capital purposes and is in line with the treatment by our regulators.

The following table shows the composition of our Group I and Group II securities at March 31, 2015 and 2014, and December 31, 2014:

| (\$ in millions)                         | Fair Value  | % of Total Portfolio |
|------------------------------------------|-------------|----------------------|
| <b>March 31, 2015</b>                    |             |                      |
| Group I securities:                      |             |                      |
| Non-investment-grade fixed maturities    | \$ 790.6    | 4.0%                 |
| Redeemable preferred stocks <sup>1</sup> | 177.2       | 0.9                  |
| Nonredeemable preferred stocks           | 828.1       | 4.2                  |
| Common equities                          | 2,515.7     | 12.7                 |
| Total Group I securities                 | 4,311.6     | 21.8                 |
| Group II securities:                     |             |                      |
| Other fixed maturities <sup>2</sup>      | 13,252.0    | 66.8                 |
| Short-term investments                   | 2,267.0     | 11.4                 |
| Total Group II securities                | 15,519.0    | 78.2                 |
| Total portfolio                          | \$ 19,830.6 | 100.0%               |
| <b>March 31, 2014</b>                    |             |                      |
| Group I securities:                      |             |                      |
| Non-investment-grade fixed maturities    | \$ 563.9    | 3.2%                 |
| Redeemable preferred stocks <sup>1</sup> | 184.3       | 1.1                  |
| Nonredeemable preferred stocks           | 737.9       | 4.2                  |
| Common equities                          | 2,278.7     | 13.1                 |
| Total Group I securities                 | 3,764.8     | 21.6                 |
| Group II securities:                     |             |                      |
| Other fixed maturities <sup>2</sup>      | 11,758.0    | 67.6                 |
| Short-term investments                   | 1,872.9     | 10.8                 |
| Total Group II securities                | 13,630.9    | 78.4                 |
| Total portfolio                          | \$ 17,395.7 | 100.0%               |
| <b>December 31, 2014</b>                 |             |                      |
| Group I securities:                      |             |                      |
| Non-investment-grade fixed maturities    | \$ 842.2    | 4.4%                 |
| Redeemable preferred stocks <sup>1</sup> | 178.6       | 0.9                  |
| Nonredeemable preferred stocks           | 827.5       | 4.4                  |
| Common equities                          | 2,492.3     | 13.1                 |
| Total Group I securities                 | 4,340.6     | 22.8                 |
| Group II securities:                     |             |                      |
| Other fixed maturities <sup>2</sup>      | 12,528.4    | 65.9                 |
| Short-term investments                   | 2,149.0     | 11.3                 |
| Total Group II securities                | 14,677.4    | 77.2                 |
| Total portfolio                          | \$ 19,018.0 | 100.0%               |

<sup>1</sup>Includes non-investment-grade redeemable preferred stocks of \$77.4 million, \$78.3 million, and \$78.0 million at March 31, 2015 and 2014, and December 31, 2014, respectively.

<sup>2</sup>Includes investment-grade redeemable preferred stocks, with cumulative dividends, of \$99.8 million, \$106.0 million, and \$100.6 million at March 31, 2015 and 2014, and December 31, 2014, respectively.

To determine the allocation between Group I and Group II, we use the credit ratings from models provided by the National Association of Insurance Commissioners (NAIC) for classifying our residential and commercial mortgage-backed securities, excluding interest-only securities, and the credit ratings from nationally recognized statistical rating organizations (NRSRO) for all other debt securities. NAIC ratings are based on a model that considers the book price of our securities when assessing the probability of future losses in assigning a credit rating. As a result, NAIC ratings can vary from credit ratings issued by NRSROs. Management believes NAIC ratings more accurately reflect our risk profile when determining the asset allocation between Group I and II securities.

#### ***Unrealized Gains and Losses***

As of March 31, 2015, our portfolio had pretax net unrealized gains, recorded as part of accumulated other comprehensive income, of \$1,626.6 million, compared to \$1,456.8 million and \$1,572.2 million at March 31, 2014 and December 31, 2014, respectively.

The net unrealized gains in our fixed-income portfolio decreased \$24.9 million since March 31, 2014 and increased \$36.8 million since December 31, 2014. The decrease since March 31, 2014 was primarily the result of sales of securities with net realized gains in our U.S. Treasury, corporate, commercial mortgage-backed, and nonredeemable preferred stock portfolios. The increase since December 31, 2014 reflects valuation increases in most fixed-income sectors, partially offset by net realized gains on security sales. The contributions by individual sectors to the fixed-income portfolio change in net unrealized gains are discussed below. The net unrealized gains in our common stock portfolio increased \$194.7 million and \$17.6 million since March 31, 2014 and December 31, 2014, respectively, reflecting the returns in the broad equity market over these periods, adjusting for net gains recognized on security sales.

See *Note 2 – Investments* for a further break-out of our gross unrealized gains and losses.

#### ***Other-Than-Temporary Impairment (OTTI)***

Realized losses may include write-downs of securities determined to have had other-than-temporary declines in fair value. We routinely monitor our portfolio for pricing changes that might indicate potential impairments and perform detailed reviews of securities with unrealized losses. In such cases, changes in fair value are evaluated to determine the extent to which such changes are attributable to: (i) fundamental factors specific to the issuer, such as financial conditions, business prospects, or other factors, (ii) market-related factors, such as interest rates or equity market declines (e.g., negative return at either a sector index level or at the broader market level), or (iii) credit-related losses, where the present value of cash flows expected to be collected is lower than the amortized cost basis of the security.

Fixed-income securities and common equities with declines attributable to issuer-specific fundamentals are reviewed to identify all available evidence, circumstances, and influences to estimate the potential for, and timing of, recovery of the investment's impairment. An other-than-temporary impairment loss is deemed to have occurred when the potential for recovery does not satisfy the criteria set forth in the current accounting guidance.

For fixed-income investments with unrealized losses due to market- or sector-related declines, the losses are not deemed to qualify as other-than-temporary if we do not have the intent to sell the investments, and it is more likely than not that we will not be required to sell the investments, prior to the periods of time that we anticipate to be necessary for the investments to recover their cost bases. In general, our policy for common equity securities with market- or sector-related declines is to recognize impairment losses on individual securities with losses we cannot reasonably conclude will recover in the near term under historical conditions when: (i) we are able to objectively determine that the loss is other-than-temporary, or (ii) the security has been in such a loss position for three consecutive quarters.

When a security in our fixed-maturity portfolio has an unrealized loss and we intend to sell the security, or it is more likely than not that we will be required to sell the security, we write-down the security to its current fair value and recognize the entire unrealized loss through the comprehensive income statement as a realized loss. If a fixed-maturity security has an unrealized loss and it is more likely than not that we will hold the debt security until recovery (which could be maturity), then we determine if any of the decline in value is due to a credit loss (i.e., where the present value of cash flows expected to be collected is lower than the amortized cost basis of the security) and, if so, we will recognize that portion of the impairment in net income as part of the comprehensive income statement as a realized loss; any remaining unrealized loss on the security is considered to be due to other factors (e.g., interest rate and credit spread movements) and is reflected in other comprehensive income as part of shareholders' equity, along with unrealized gains or losses on securities that are not deemed to be other-than-temporarily impaired. The write-down activity recorded in the comprehensive income statement was as follows:

| (millions)      | Three Months Ended March 31, |                                      |                                                       |
|-----------------|------------------------------|--------------------------------------|-------------------------------------------------------|
|                 | Total<br>Write-downs         | Write-downs<br>on Securities<br>Sold | Write-downs<br>on Securities<br>Held at<br>Period End |
| <b>2015</b>     |                              |                                      |                                                       |
| Common equities | \$ 7.9                       | \$ 0                                 | \$ 7.9                                                |
| Total portfolio | \$ 7.9                       | \$ 0                                 | \$ 7.9                                                |
| <b>2014</b>     |                              |                                      |                                                       |
| Common equities | \$ 0                         | \$ 0                                 | \$ 0                                                  |
| Total portfolio | \$ 0                         | \$ 0                                 | \$ 0                                                  |

The following table stratifies the gross unrealized losses in our fixed-income and common equity portfolios at March 31, 2015, by duration in a loss position and magnitude of the loss as a percentage of the cost of the security:

| (millions)                               | Fair Value | Total Gross Unrealized Losses | Decline of Investment Value |        |      |      |  |  |
|------------------------------------------|------------|-------------------------------|-----------------------------|--------|------|------|--|--|
|                                          |            |                               | >15%                        | >25%   | >35% | >45% |  |  |
| Fixed Income:                            |            |                               |                             |        |      |      |  |  |
| Unrealized loss for less than 12 months  | \$ 2,162.7 | \$ 10.2                       | \$ 0                        | \$ 0   | \$ 0 | \$ 0 |  |  |
| Unrealized loss for 12 months or greater | 859.3      | 21.6                          | 0                           | 0      | 0    | 0    |  |  |
| Total                                    | \$ 3,022.0 | \$ 31.8                       | \$ 0                        | \$ 0   | \$ 0 | \$ 0 |  |  |
| Common Equity:                           |            |                               |                             |        |      |      |  |  |
| Unrealized loss for less than 12 months  | \$ 58.3    | \$ 6.0                        | \$ 3.3                      | \$ 0.1 | \$ 0 | \$ 0 |  |  |
| Unrealized loss for 12 months or greater | 0          | 0                             | 0                           | 0      | 0    | 0    |  |  |
| Total                                    | \$ 58.3    | \$ 6.0                        | \$ 3.3                      | \$ 0.1 | \$ 0 | \$ 0 |  |  |

We completed a thorough review of the existing securities in these loss categories and determined that, applying the procedures and criteria discussed above, these securities were not other-than-temporarily impaired. We do not intend to sell these securities. We also determined that it is more likely than not that we will not be required to sell these securities, for the periods of time necessary to recover their respective cost bases of these securities, and that there are no additional credit-related impairments on our debt securities.

Since total unrealized losses are already a component of other comprehensive income and included in shareholders' equity, any recognition of these losses as additional OTTI losses would have no effect on our comprehensive income, book value, or reported investment total return.

### Fixed-Income Securities

The fixed-income portfolio is managed internally and includes fixed-maturity securities, short-term investments, and nonredeemable preferred stocks. The fixed-maturity securities and short-term investments, as reported on the balance sheets, were comprised of the following:

| (\$ in millions)                                      | March 31, 2015 |            | March 31, 2014 |            | December 31, 2014 |            |
|-------------------------------------------------------|----------------|------------|----------------|------------|-------------------|------------|
|                                                       | Fair Value     | % of Total | Fair Value     | % of Total | Fair Value        | % of Total |
| Investment-grade fixed maturities: <sup>1</sup>       |                |            |                |            |                   |            |
| Short/intermediate term                               | \$ 14,817.3    | 89.9%      | \$ 13,103.7    | 91.1%      | \$ 14,006.7       | 89.2%      |
| Long term                                             | 52.1           | 0.3        | 35.7           | 0.3        | 43.9              | 0.3        |
| Non-investment-grade fixed maturities: <sup>1,2</sup> |                |            |                |            |                   |            |
| Short/intermediate term                               | 1,590.4        | 9.6        | 1,210.2        | 8.4        | 1,625.6           | 10.4       |
| Long term                                             | 27.0           | 0.2        | 29.5           | 0.2        | 22.0              | 0.1        |
| Total                                                 | \$ 16,486.8    | 100.0%     | \$ 14,379.1    | 100.0%     | \$ 15,698.2       | 100.0%     |

<sup>1</sup>Long term includes securities with expected liquidation dates of 10 years or greater. Asset-backed securities are reported at their weighted average maturity based upon their projected cash flows, with the cash flows expected in periods of 10 years or greater reported as part of the long-term category. All other securities that do not have a single expected maturity date are reported at average maturity.

<sup>2</sup>Non-investment-grade fixed-maturity securities are non-rated or have a credit quality rating of an equivalent BB+ or lower, classified by ratings from NRSROs. The non-investment-grade securities based upon NAIC ratings and our Group I modeling were \$868.0 million, \$642.2 million, and \$920.2 million at March 31, 2015 and 2014, and December 31, 2014, respectively.

The increase in the dollar amount of our NRSRO non-investment-grade fixed maturities since March 31, 2014, was primarily due to purchases of corporate debt and residential mortgage-backed securities; our fixed-income portfolio did not have any material credit rating downgrades.

A primary exposure for the fixed-income portfolio is interest rate risk, which is managed by maintaining the portfolio's duration (a measure of the portfolio's exposure to changes in interest rates) between 1.5 and 5 years. Interest rate risk includes the change in value resulting from movements in the underlying market rates of debt securities held. The duration of the fixed-income portfolio was 1.8 years at March 31, 2015, compared to 1.7 years at March 31, 2014 and 1.6 years at December 31, 2014. The distribution of duration and convexity (i.e., a measure of the speed at which the duration of a security is expected to change based on a rise or fall in interest rates) is monitored on a regular basis. To further manage the duration of our fixed-income portfolio, in April we sold futures contracts on 5- and 10-year Treasury Notes.

The duration distribution of our fixed-income portfolio, represented by the interest rate sensitivity of the comparable benchmark U.S. Treasury Notes, was:

| Duration Distribution        | March 31, 2015 | March 31, 2014 | December 31, 2014 |
|------------------------------|----------------|----------------|-------------------|
| 1 year                       | 36.1%          | 22.5%          | 36.1%             |
| 2 years                      | 16.8           | 28.6           | 19.4              |
| 3 years                      | 14.6           | 22.7           | 15.0              |
| 5 years                      | 25.5           | 21.3           | 23.8              |
| 10 years                     | 7.0            | 4.9            | 5.7               |
| Total fixed-income portfolio | 100.0%         | 100.0%         | 100.0%            |

Another primary exposure related to the fixed-income portfolio is credit risk. This risk is managed by maintaining an A+ minimum average portfolio credit quality rating, as defined by NRSROs.

The credit quality distribution of the fixed-income portfolio was:

| Rating                                      | March 31, 2015 | March 31, 2014 | December 31, 2014 |
|---------------------------------------------|----------------|----------------|-------------------|
| AAA                                         | 46.6%          | 49.1%          | 45.5%             |
| AA                                          | 12.8           | 13.9           | 13.2              |
| A                                           | 10.5           | 8.6            | 10.2              |
| BBB                                         | 18.1           | 17.5           | 18.4              |
| Non-investment grade/non-rated <sup>1</sup> | 12.0           | 10.9           | 12.7              |
| Total fixed-income portfolio                | 100.0%         | 100.0%         | 100.0%            |

<sup>1</sup>The ratings in the table above are assigned by NRSROs. The non-investment grade fixed-income securities based upon our Group I classification represented 7.6% of the total fixed-income portfolio at March 31, 2015, compared to 7.0% at March 31, 2014 and 8.3% at December 31, 2014.

The changes in credit quality profile from March 31, 2014 were the result of a shift in the mix of the investment portfolio in the various credit categories and not due to downgrades in credit quality of the securities we held.

Our portfolio is also exposed to concentration risk. Our investment constraints limit investment in a single issuer, other than U.S. Treasury Notes or a state's general obligation bonds, to 2.5% of shareholders' equity, while the single issuer guideline on preferred stocks and/or non-investment-grade debt is 1.25% of shareholders' equity. Additionally, the guideline applicable to any state's general obligation bonds is 6% of shareholders' equity. We also consider sector concentration a risk, and we frequently evaluate the portfolio's sector allocation with regard to internal requirements and external market factors. We consider concentration risk both overall and in the context of individual asset classes, including but not limited to common equities, residential and commercial mortgage-backed securities, municipal bonds, and high-yield bonds. At March 31, 2015, we were within all of the constraints described above.

We monitor prepayment and extension risk, especially in our structured product and preferred stock portfolios. Prepayment risk includes the risk of early redemption of security principal that may need to be reinvested at less attractive rates. Extension risk includes the risk that a security will not be redeemed when anticipated, and that the security that is extended has a lower yield than a security we might be able to obtain by reinvesting the expected redemption principal. Our holdings of different types of structured debt and preferred securities help minimize this risk. During the first three months of 2015, we did not experience significant prepayment or extension of principal relative to our cash flow expectations in the portfolio.

Liquidity risk is another risk factor we monitor. Our overall portfolio remains very liquid and is sufficient to meet expected liquidity requirements. The short-to-intermediate duration of our portfolio provides a source of liquidity, as we expect approximately \$2.1 billion, or 16.8%, of principal repayment from our fixed-income portfolio, excluding U.S. Treasury Notes and short-term investments, during the remainder of 2015. Cash from interest and dividend payments provides an additional source of recurring liquidity.

Included in the fixed-income portfolio are U.S. government obligations, which include U.S. Treasury Notes and interest rate swaps. Although the interest rate swaps are not obligations of the U.S. government, they are recorded in this portfolio as the change in fair value is correlated to movements in the U.S. Treasury market. The duration of these securities was comprised of the following at March 31, 2015:

| (\$ in millions)                         | Fair Value | Duration (years) |
|------------------------------------------|------------|------------------|
| <u>U.S. Treasury Notes</u>               |            |                  |
| Less than two years                      | \$ 2,137.3 | 1.1              |
| Two to five years                        | 313.7      | 4.2              |
| Five to ten years                        | 257.1      | 7.5              |
| Total U.S. Treasury Notes                | 2,708.1    | 2.0              |
| <u>Interest Rate Swaps</u>               |            |                  |
| Five to ten years (\$750 notional value) | 0.1        | (8.1)            |
| Total U.S. government obligations        | \$ 2,708.2 | (0.2)            |

The interest rate swap positions show a fair value of \$0.1 million as they are in an overall asset position at quarter-end, which is fully collateralized by cash payments received from the counterparty. The liability associated with the cash collateral received is reported in the “other liabilities” section of the consolidated balance sheets. The negative duration of the interest rate swaps is due to the positions being short interest-rate exposure (i.e., receiving a variable-rate coupon). In determining duration, we add the interest rate sensitivity of our interest rate swap positions to that of our Treasury holdings, but do not add the notional value of the swaps to our Treasury holdings in order to calculate an unlevered duration for the portfolio.

#### ASSET-BACKED SECURITIES

Included in the fixed-income portfolio are asset-backed securities, which were comprised of the following at the balance sheet dates listed:

| (\$ in millions)                                     | Fair Value | Net Unrealized Gains (Losses) | % of Asset-Backed Securities | Duration (years) | Rating (at period end) |
|------------------------------------------------------|------------|-------------------------------|------------------------------|------------------|------------------------|
| <u>March 31, 2015</u>                                |            |                               |                              |                  |                        |
| Residential mortgage-backed securities:              |            |                               |                              |                  |                        |
| Prime collateralized mortgage obligations            | \$ 488.3   | \$ 0.1                        | 8.1%                         | 0.8              | A-                     |
| Alt-A collateralized mortgage obligations            | 214.3      | 2.0                           | 3.5                          | 0.9              | BBB                    |
| Collateralized mortgage obligations                  | 702.6      | 2.1                           | 11.6                         | 0.8              | A-                     |
| Home equity (sub-prime bonds)                        | 945.6      | 17.2                          | 15.7                         | <0.1             | BB+                    |
| Residential mortgage-backed securities               | 1,648.2    | 19.3                          | 27.3                         | 0.3              | BBB                    |
| Commercial mortgage-backed securities:               |            |                               |                              |                  |                        |
| Commercial mortgage-backed securities                | 2,301.3    | 41.1                          | 38.1                         | 3.1              | AA-                    |
| Commercial mortgage-backed securities: interest only | 185.8      | 7.9                           | 3.1                          | 2.8              | AAA-                   |
| Commercial mortgage-backed securities                | 2,487.1    | 49.0                          | 41.2                         | 3.1              | AA-                    |
| Other asset-backed securities:                       |            |                               |                              |                  |                        |
| Automobile                                           | 930.1      | 1.6                           | 15.4                         | 1.1              | AAA-                   |
| Credit card                                          | 322.5      | 0.4                           | 5.3                          | 0.5              | AAA                    |
| Other <sup>1</sup>                                   | 648.9      | 2.6                           | 10.8                         | 1.0              | AA+                    |
| Other asset-backed securities                        | 1,901.5    | 4.6                           | 31.5                         | 1.0              | AAA-                   |
| Total asset-backed securities                        | \$ 6,036.8 | \$ 72.9                       | 100.0%                       | 1.7              | AA-                    |

| (\$ in millions)                                     | Fair Value | Net Unrealized Gains (Losses) | % of Asset-Backed Securities | Duration (years) | Rating (at period end) |
|------------------------------------------------------|------------|-------------------------------|------------------------------|------------------|------------------------|
| <u>March 31, 2014</u>                                |            |                               |                              |                  |                        |
| Residential mortgage-backed securities:              |            |                               |                              |                  |                        |
| Prime collateralized mortgage obligations            | \$ 375.0   | \$ 5.7                        | 8.7%                         | 0.7              | A-                     |
| Alt-A collateralized mortgage obligations            | 191.9      | 3.4                           | 4.5                          | 1.1              | BBB+                   |
| Collateralized mortgage obligations                  | 566.9      | 9.1                           | 13.2                         | 0.8              | BBB+                   |
| Home equity (sub-prime bonds)                        | 740.5      | 11.6                          | 17.2                         | <0.1             | BBB-                   |
| Residential mortgage-backed securities               | 1,307.4    | 20.7                          | 30.4                         | 0.2              | BBB                    |
| Commercial mortgage-backed securities:               |            |                               |                              |                  |                        |
| Commercial mortgage-backed securities                | 1,910.3    | 17.3                          | 44.3                         | 3.1              | AA                     |
| Commercial mortgage-backed securities: interest only | 151.3      | 6.6                           | 3.5                          | 2.7              | AAA-                   |
| Commercial mortgage-backed securities                | 2,061.6    | 23.9                          | 47.8                         | 3.0              | AA                     |
| Other asset-backed securities:                       |            |                               |                              |                  |                        |
| Automobile                                           | 407.2      | 2.7                           | 9.4                          | 1.2              | AAA                    |
| Credit card                                          | 59.5       | 1.5                           | 1.4                          | 1.5              | AAA                    |
| Other <sup>1</sup>                                   | 475.8      | 1.8                           | 11.0                         | 1.2              | AA+                    |
| Other asset-backed securities                        | 942.5      | 6.0                           | 21.8                         | 1.2              | AAA-                   |
| Total asset-backed securities                        | \$ 4,311.5 | \$ 50.6                       | 100.0%                       | 1.8              | AA-                    |

| (\$ in millions)                                     | Fair Value | Net Unrealized Gains (Losses) | % of Asset-Backed Securities | Duration (years) | Rating (at period end) |
|------------------------------------------------------|------------|-------------------------------|------------------------------|------------------|------------------------|
| <u>December 31, 2014</u>                             |            |                               |                              |                  |                        |
| Residential mortgage-backed securities:              |            |                               |                              |                  |                        |
| Prime collateralized mortgage obligations            | \$ 499.8   | \$ 1.3                        | 8.9%                         | 0.8              | A-                     |
| Alt-A collateralized mortgage obligations            | 224.1      | 2.4                           | 4.0                          | 1.0              | BBB                    |
| Collateralized mortgage obligations                  | 723.9      | 3.7                           | 12.9                         | 0.9              | BBB+                   |
| Home equity (sub-prime bonds)                        | 934.6      | 20.0                          | 16.7                         | <0.1             | BBB-                   |
| Residential mortgage-backed securities               | 1,658.5    | 23.7                          | 29.6                         | 0.3              | BBB                    |
| Commercial mortgage-backed securities:               |            |                               |                              |                  |                        |
| Commercial mortgage-backed securities                | 2,139.6    | 30.3                          | 38.1                         | 3.2              | AA-                    |
| Commercial mortgage-backed securities: interest only | 176.0      | 6.4                           | 3.1                          | 2.8              | AAA-                   |
| Commercial mortgage-backed securities                | 2,315.6    | 36.7                          | 41.2                         | 3.2              | AA-                    |
| Other asset-backed securities:                       |            |                               |                              |                  |                        |
| Automobile                                           | 815.7      | 0.6                           | 14.5                         | 0.9              | AAA                    |
| Credit card                                          | 284.2      | 0.5                           | 5.1                          | 0.8              | AAA                    |
| Other <sup>1</sup>                                   | 538.8      | 1.9                           | 9.6                          | 1.1              | AAA-                   |
| Other asset-backed securities                        | 1,638.7    | 3.0                           | 29.2                         | 0.9              | AAA-                   |
| Total asset-backed securities                        | \$ 5,612.8 | \$ 63.4                       | 100.0%                       | 1.7              | AA-                    |

<sup>1</sup>Includes equipment leases, manufactured housing, and other types of structured debt.

The increase in asset-backed securities since December 31, 2014, was concentrated in our other asset-backed category and our commercial mortgage-backed securities sector. The securities acquired in the other asset-backed category are of high quality and generally around 1 year or less in duration, providing us a better overall investment yield than our traditional short-term investments without significantly adding credit risk to the portfolio. The commercial mortgage-backed securities added were also of high credit quality.

**Collateralized Mortgage Obligations** The following table details the credit quality rating and fair value of our CMOs, along with the loan classification and a comparison of the fair value at March 31, 2015, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

**Collateralized Mortgage Obligations (at March 31, 2015)**

| (\$ in millions)<br>Rating <sup>1</sup> | Non-Agency Prime | Alt-A    | Government/GSE <sup>2</sup> | Total    | % of Total |
|-----------------------------------------|------------------|----------|-----------------------------|----------|------------|
| AAA                                     | \$ 61.8          | \$ 0     | \$ 5.8                      | \$ 67.6  | 9.6%       |
| AA                                      | 37.7             | 26.8     | 1.5                         | 66.0     | 9.4        |
| A                                       | 232.2            | 94.7     | 0                           | 326.9    | 46.5       |
| BBB                                     | 66.9             | 36.6     | 0                           | 103.5    | 14.8       |
| Non-investment grade                    | 82.4             | 56.2     | 0                           | 138.6    | 19.7       |
| Total                                   | \$ 481.0         | \$ 214.3 | \$ 7.3                      | \$ 702.6 | 100.0%     |
| Increase (decrease) in value            | (0.2)%           | 0.9%     | 8.1%                        | 0.2%     |            |

<sup>1</sup>The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings, all of our CMOs are rated investment-grade securities and classified as Group II.

<sup>2</sup>The securities in this category are insured by a Government Sponsored Entity (GSE) and/or collateralized by mortgage loans insured by the Federal Housing Administration (FHA) or the U.S. Department of Veteran Affairs (VA).

The majority of our CMO portfolio is composed of non-agency mortgage securities. In the largest part of this portfolio, we took advantage of the securitization structure to have an underlying bond split into senior and subordinated classes. In this way, we added extra credit support to our position. We chose how much credit support we felt was necessary to attempt to protect our position from potential credit losses.

**Home-Equity Securities** The following table shows the credit quality rating of our home-equity securities, along with a comparison of the fair value at March 31, 2015, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

**Home Equity Securities (at March 31, 2015)**

| (\$ in millions)<br>Rating <sup>1</sup> | Total    | % of Total |
|-----------------------------------------|----------|------------|
| AAA                                     | \$ 24.8  | 2.6%       |
| AA                                      | 10.0     | 1.1        |
| A                                       | 128.4    | 13.6       |
| BBB                                     | 206.6    | 21.8       |
| Non-investment grade                    | 575.8    | 60.9       |
| Total                                   | \$ 945.6 | 100.0%     |
| Increase (decrease) in value            | 1.9%     |            |

<sup>1</sup>The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings, all of our home equity securities are rated investment-grade and classified as Group II.

We feel that the market for home equity loan-backed bonds continued to trade during the quarter with greater return potential than other sectors with comparable risk characteristics. We look for these securities where we feel potential losses are mitigated by credit support. It is getting harder to find these securities at attractive prices as more investors have become comfortable owning them.

Commercial Mortgage-Backed Securities The following table details the credit quality rating and fair value of our CMBS bond and IO portfolios:

| <b>Commercial Mortgage-Backed Securities (at March 31, 2015)<sup>1</sup></b> |            |           |          |            |                             |              |                   |
|------------------------------------------------------------------------------|------------|-----------|----------|------------|-----------------------------|--------------|-------------------|
| <b>(\$ in millions)</b>                                                      |            |           |          |            |                             |              |                   |
| <b>Category</b>                                                              | <b>AAA</b> | <b>AA</b> | <b>A</b> | <b>BBB</b> | <b>Non-Investment Grade</b> | <b>Total</b> | <b>% of Total</b> |
| Multi-borrower                                                               | \$ 399.3   | \$ 49.4   | \$ 0     | \$ 11.1    | \$ 11.3                     | \$ 471.1     | 18.9%             |
| Single-borrower                                                              | 696.4      | 306.2     | 346.3    | 457.5      | 23.8                        | 1,830.2      | 73.6              |
| Total CMBS bonds                                                             | 1,095.7    | 355.6     | 346.3    | 468.6      | 35.1                        | 2,301.3      | 92.5              |
| IO                                                                           | 181.8      | 0         | 0        | 0          | 4.0                         | 185.8        | 7.5               |
| Total fair value                                                             | \$ 1,277.5 | \$ 355.6  | \$ 346.3 | \$ 468.6   | \$ 39.1                     | \$ 2,487.1   | 100.0%            |
| % of Total fair value                                                        | 51.4%      | 14.3%     | 13.9%    | 18.8%      | 1.6%                        | 100.0%       |                   |

<sup>1</sup>The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings, all of our CMBS bonds are rated investment grade and classified as Group II.

During the quarter, we increased our allocation to single-borrower CMBS. We elected to add these securities to our portfolio mix because we believe these transactions provided for the opportunity to select investments based on real estate and underwriting that fit our preferred credit risk and duration profile. Our multi-borrower, fixed-rate CMBS portfolio is concentrated in vintages with more conservative underwriting. We have been very selective with regard to vintage in pre-crisis (legacy) issuances, with a very small allocation to the aggressive 2006-2008 vintages. Also, we have not purchased any new issue fixed-rate, multi-borrower securities since 2012, as we feel that underwriting standards were less stringent and these loans may have more difficulty refinancing at maturity.

With the exception of \$176.5 million in Freddie Mac senior multi-family IOs, we have no multi-borrower deal IOs originated after 2006.

#### *MUNICIPAL SECURITIES*

Included in the fixed-income portfolio at March 31, 2015 and 2014, and December 31, 2014, were \$2,273.8 million, \$2,154.9 million, and \$2,139.2 million, respectively, of state and local government obligations. These securities had a duration of 3.3 years and an overall credit quality rating of AA (excluding the benefit of credit support from bond insurance) at March 31, 2015, compared to 3.2 years and AA at March 31, 2014 and 3.0 years and AA at December 31, 2014. These securities had a net unrealized gain of \$49.0 million at March 31, 2015, compared to \$23.9 million and \$43.5 million at March 31, 2014 and December 31, 2014, respectively.

The following table details the credit quality rating of our municipal securities at March 31, 2015, without the benefit of credit or bond insurance:

| <b>Municipal Securities (at March 31, 2015)</b> |    |                            |                      |              |
|-------------------------------------------------|----|----------------------------|----------------------|--------------|
| <b>(millions)</b>                               |    |                            |                      |              |
| <b>Rating</b>                                   |    | <b>General Obligations</b> | <b>Revenue Bonds</b> | <b>Total</b> |
| AAA                                             | \$ | 345.6                      | \$ 450.3             | \$ 795.9     |
| AA                                              |    | 333.1                      | 728.7                | 1,061.8      |
| A                                               |    | 0                          | 393.8                | 393.8        |
| BBB                                             |    | 0                          | 22.1                 | 22.1         |
| Non-investment grade/non-rated                  |    | 0                          | 0.2                  | 0.2          |
| Total                                           | \$ | 678.7                      | \$ 1,595.1           | \$ 2,273.8   |

Included in revenue bonds were \$756.3 million of single family housing revenue bonds issued by state housing finance agencies, of which \$441.3 million were supported by individual mortgages held by the state housing finance agencies and \$315.0 million were supported by mortgage-backed securities. Of the programs supported by mortgage-backed securities, approximately 25% were collateralized by Fannie Mae and Freddie Mac mortgages; the remaining 75% were collateralized by Ginnie Mae loans, which are fully guaranteed by the U.S. government. Of the programs supported by individual mortgages held by the state housing finance agencies, the overall credit quality rating was AA+. Most of these mortgages were supported by FHA, VA, or private mortgage insurance providers.

## CORPORATE SECURITIES

Included in our fixed-income securities at March 31, 2015 and 2014, and December 31, 2014, were \$2,904.0 million, \$2,501.6 million, and \$2,836.7 million, respectively, of corporate securities. These securities had a duration of 3.6 years at March 31, 2015, compared to 3.1 years at March 31, 2014 and 3.3 years at December 31, 2014. The overall credit quality rating was BBB- at March 31, 2015 and 2014, and December 31, 2014. These securities had net unrealized gains of \$50.6 million, \$38.2 million, and \$22.5 million at March 31, 2015 and 2014, and December 31, 2014, respectively.

The first quarter of 2015 was characterized by a large amount of issuance in the investment grade market. We took advantage of the increase in supply to add exposure, especially in the healthcare sector. The high yield market rallied in the first quarter as a more stable energy market created a positive backdrop. Spreads in the high yield market became tighter in the first quarter of 2015 and therefore we have added less exposure than we did in the fourth quarter of 2014.

The table below shows the exposure break-down by sector and rating:

| Corporate Securities (at March 31, 2015) |     |      |    |      |    |         |                                       |
|------------------------------------------|-----|------|----|------|----|---------|---------------------------------------|
| (millions)<br>Sector                     | AAA |      | AA |      | A  |         | Non-Investment<br>Grade/Non-<br>Rated |
| Consumer                                 | \$  | 0    | \$ | 0    | \$ | 121.2   | \$ 338.9                              |
| Industrial                               |     | 0    |    | 0    |    | 36.9    | 216.6                                 |
| Communications                           |     | 0    |    | 0    |    | 76.6    | 61.1                                  |
| Financial Services                       |     | 50.9 |    | 20.2 |    | 113.7   | 170.0                                 |
| Technology                               |     | 0    |    | 9.9  |    | 0       | 0                                     |
| Basic Materials                          |     | 0    |    | 0    |    | 0       | 0                                     |
| Energy                                   |     | 0    |    | 0    |    | 30.5    | 0                                     |
| Total                                    | \$  | 50.9 | \$ | 30.1 | \$ | 378.9   | \$ 786.6                              |
|                                          |     |      |    |      |    | 1,657.5 | \$ 2,904.0                            |

At March 31, 2015, we held \$498.1 million of U.S. dollar-denominated corporate bonds issued by companies that are domiciled, or whose parent companies are domiciled, in the U.K. and other European companies, primarily in the consumer, financial, industrial, energy, and communications industries. We had no direct exposure to southern European-domiciled companies at March 31, 2015.

## PREFERRED STOCKS – REDEEMABLE AND NONREDEEMABLE

We hold both redeemable (i.e., mandatory redemption dates) and nonredeemable (i.e., perpetual with call dates) preferred stocks. At March 31, 2015, we held \$277.0 million in redeemable preferred stocks and \$828.1 million in nonredeemable preferred stocks, compared to \$290.3 million and \$737.9 million, respectively, at March 31, 2014, and \$279.2 million and \$827.5 million at December 31, 2014.

Our preferred stock portfolio had net unrealized gains of \$203.3 million, \$285.9 million, and \$213.7 million, at March 31, 2015 and 2014, and December 31, 2014, respectively.

Our preferred portfolio had a strong return in the first quarter of 2015. Because of their higher risk, preferred stocks offer a higher yield than the majority of the fixed-income portfolio. We continue to view preferred stocks as an attractive sector and, during the first quarter of 2015, we added selectively as new issues came to the market.

Approximately 62% of our preferred stock securities are fixed-rate securities, and 38% are floating-rate securities. All of our preferred securities have call or mandatory redemption features. Of our fixed-rate securities, approximately 97% will convert to floating-rate dividend payments if not called at their initial call date, providing some protection against extension risk in the event the issuer elects not to call such securities at their initial call date.

Our preferred stock portfolio had a duration of 2.1 years at March 31, 2015, compared to 2.2 years at March 31, 2014, and 2.3 years at December 31, 2014. The interest rate duration of our preferred securities is calculated to reflect the call, floor, and floating rate features. Although a preferred security may remain outstanding if not called, its interest rate duration will reflect the variable nature of the dividend. The overall credit quality rating was BB+ at March 31, 2015 and 2014, and December 31, 2014. Our non-investment-grade preferred stocks were with issuers that primarily maintain investment-grade senior debt ratings. The table below shows the exposure break-down by sector and rating at quarter end:

| Preferred Stocks (at March 31, 2015) |    |       |    |                                   |            |
|--------------------------------------|----|-------|----|-----------------------------------|------------|
| (millions)<br>Sector                 |    | BBB   |    | Non-Investment<br>Grade/Non-Rated | Total      |
| <u>Financial Services</u>            |    |       |    |                                   |            |
| U.S. banks                           | \$ | 340.6 | \$ | 268.9                             | \$ 609.5   |
| Foreign banks                        |    | 45.3  |    | 22.0                              | 67.3       |
| Insurance holdings                   |    | 42.4  |    | 167.1                             | 209.5      |
| Other financial institutions         |    | 5.9   |    | 34.1                              | 40.0       |
| Total financial services             |    | 434.2 |    | 492.1                             | 926.3      |
| Industrials                          |    | 72.9  |    | 41.5                              | 114.4      |
| Utilities                            |    | 64.4  |    | 0                                 | 64.4       |
| Total                                | \$ | 571.5 | \$ | 533.6                             | \$ 1,105.1 |

We also face the risk that dividend payments on our preferred stock holdings could be deferred for one or more periods or skipped entirely. As of March 31, 2015, all of our preferred securities continued to pay their dividends in full and on time. Approximately 66% of our preferred stock securities pay dividends that have tax preferential characteristics, while the balance pay dividends that are fully taxable.

We held \$77.4 million of U.S. dollar-denominated nonredeemable preferred stocks issued by financial institutions that are domiciled, or whose parent companies are domiciled, in the U.K. We had no direct exposure to southern European-domiciled companies at March 31, 2015.

#### Common Equities

Common equities, as reported on the balance sheet were comprised of the following:

| (\$ in millions)       | March 31, 2015 |         | March 31, 2014 |    | December 31, 2014 |        |    |         |        |
|------------------------|----------------|---------|----------------|----|-------------------|--------|----|---------|--------|
| Indexed common stocks  | \$             | 2,229.9 | 88.6%          | \$ | 1,974.8           | 86.6%  | \$ | 2,192.1 | 87.9%  |
| Managed common stocks  |                | 285.5   | 11.3           |    | 303.5             | 13.3   |    | 299.8   | 12.0   |
| Total common stocks    |                | 2,515.4 | 99.9           |    | 2,278.3           | 99.9   |    | 2,491.9 | 99.9   |
| Other risk investments |                | 0.3     | 0.1            |    | 0.4               | 0.1    |    | 0.4     | 0.1    |
| Total common equities  | \$             | 2,515.7 | 100.0%         | \$ | 2,278.7           | 100.0% | \$ | 2,492.3 | 100.0% |

In our indexed common stock portfolio, our individual holdings are selected based on their contribution to the correlation with the index. For all three periods reported in the table above, the GAAP basis total return was within the desired tracking error when compared to the Russell 1000 Index. We held 698 out of 1,038, or 67%, of the common stocks comprising the Russell 1000 Index at March 31, 2015, which made up 88% of the total market capitalization of the index.

The actively managed common stock portfolio is managed by two external investment managers. At March 31, 2015, the fair value of the actively managed portfolio was \$285.5 million, compared to a cost basis of \$232.3 million.

Other risk investments include private equity investments and limited partnership interests in private equity and mezzanine investment funds, which have no off-balance-sheet exposure or contingent obligations.

## Derivative Instruments

### CASH FLOW HEDGES

We issued \$400 million of 3.70% Senior Notes in January 2015. Upon issuance, we closed a forecasted debt issuance hedge and recognized a \$12.9 million pretax loss as part of accumulated other comprehensive income (loss). See *Note 2 – Investments* for further discussion.

### INTEREST RATE SWAPS

We invest in interest rate swaps primarily to manage the fixed-income portfolio duration. The \$750 million notional value swaps reflected a loss for the first three months of 2015 and 2014, as interest rates fell during each of these periods. The following table summarizes our interest rate swap activity:

| (millions)                | Date      |          | Coupon           | Notional Value |        | Net Realized Gains (Losses)  |           |
|---------------------------|-----------|----------|------------------|----------------|--------|------------------------------|-----------|
|                           |           |          |                  | March 31,      |        | Three Months Ended March 31, |           |
|                           | Effective | Maturity |                  | 2015           | 2014   | 2015                         | 2014      |
| 10-year                   | 04/2013   | 04/2023  | Receive variable | \$ 150         | \$ 150 | \$ (3.8)                     | \$ (3.9)  |
| 10-year                   | 04/2013   | 04/2023  | Receive variable | 185            | 185    | (4.6)                        | (4.7)     |
| 10-year                   | 04/2013   | 04/2023  | Receive variable | 415            | 415    | (10.4)                       | (10.7)    |
| Total interest rate swaps |           |          |                  | \$ 750         | \$ 750 | \$ (18.8)                    | \$ (19.3) |

## B. Investment Results

We report total return to reflect more accurately our management philosophy governing the portfolio and our evaluation of investment results. The fully taxable equivalent (FTE) total return includes recurring investment income, adjusted to a fully taxable amount, based on certain securities that receive preferential tax treatment (e.g., municipal securities), net realized gains (losses) on securities, and changes in net unrealized gains (losses) on investments.

Investment income (interest and dividends, before investment and interest expenses) increased 2% for the first three months of 2015, compared to the same period last year. The increase is primarily the result of an increase in average assets partially offset by a slight decrease in investment yields.

The following summarizes investment results for the periods ended March 31:

|                                                     | Three Months |      |
|-----------------------------------------------------|--------------|------|
|                                                     | 2015         | 2014 |
| Pretax recurring investment book yield (annualized) | 2.4%         | 2.5% |
| Weighted average FTE book yield (annualized)        | 2.6%         | 2.8% |
| FTE total return:                                   |              |      |
| Fixed-income securities                             | 1.0%         | 1.3% |
| Common stocks                                       | 1.7%         | 2.1% |
| Total portfolio                                     | 1.1%         | 1.4% |

A further break-down of our FTE total returns for our portfolio, including the net gains (losses) on our derivative positions, for the periods ended March 31, follows:

|                                       | Three Months |        |
|---------------------------------------|--------------|--------|
|                                       | 2015         | 2014   |
| <b>Fixed-income securities:</b>       |              |        |
| U.S. Treasury Notes                   | (0.1)%       | (0.1)% |
| Municipal bonds                       | 1.2 %        | 1.9 %  |
| Corporate bonds                       | 2.1 %        | 1.5 %  |
| Commercial mortgage-backed securities | 1.7 %        | 1.8 %  |
| Collateralized mortgage obligations   | 0.6 %        | 1.2 %  |
| Asset-backed securities               | 0.4 %        | 0.8 %  |
| Preferred stocks                      | 2.2 %        | 6.0 %  |
| <b>Common stock portfolios:</b>       |              |        |
| Indexed                               | 1.9 %        | 2.2 %  |
| Actively managed                      | 0.5 %        | 1.9 %  |

The return differential in 2015 compared to 2014 is a result of lower equity market returns and a slight decline in yields on fixed-income securities.

**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; our ability to reinsure against catastrophic events and to collect under any such reinsurance; 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 reinsurers and other 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 the introduction of products to new jurisdictions and 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, matters relating to vehicle and homeowners insurance, 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, floods, snowfalls, hail, and winter conditions); changes in driving patterns, including vehicle usage as influenced by the level of oil and gas prices, among other factors; our ability to accurately recognize and appropriately respond in a timely manner to changes in loss frequency and severity trends; technological advances; 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, new theories of insurer liability or interpretations of insurance policy provisions and other trends in litigation; changes in health care and auto and property 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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The duration of the financial instruments held in our portfolio that are subject to interest rate risk was 1.8 years and 1.6 years at March 31, 2015 and December 31, 2014, respectively. The weighted average beta of the equity portfolio was 1.01 at both March 31, 2015 and December 31, 2014. Although components of the portfolio have changed, no material changes have occurred in the total interest rate or market risk since that which was reported in the tabular presentations of our interest rate and market risk sensitive instruments in our Annual Report on Form 10-K for the year ended December 31, 2014.

**Item 4. Controls and Procedures.**

Progressive, under the direction of the Chief Executive Officer and the Chief Financial Officer, has established disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

The Chief Executive Officer and the Chief Financial Officer reviewed and evaluated Progressive's disclosure controls and procedures as of the end of the period covered by this report. Based on that review and evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that Progressive's disclosure controls and procedures are effectively serving the stated purposes as of the end of the period covered by this report.

There has been no change in Progressive's internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1A. Risk Factors.**

As described above, on April 1, 2015, we acquired a controlling interest in ARX Holding Corp. (“ARX”). ARX’s insurance subsidiaries (referred to herein as ASI) write homeowners insurance. Many of the risks related to vehicle insurance disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014 (“Form 10-K”), are equally applicable to homeowners insurance. For example, the homeowners insurance industry is highly competitive and highly regulated. The pricing of homeowners insurance and the establishment of loss reserves involve estimates and uncertainties similar to those disclosed in our Form 10-K with respect to vehicle insurance. In addition, the Form 10-K includes risks associated with and resulting from the ARX transaction, including reinsurance risk, which is described in more detail below.

***Our success will depend on our ability to continue to accurately predict our reinsurance needs, collect under our reinsurance contracts and reinsure our homeowners business at acceptable rates.***

Like many homeowners insurance companies, ASI relies on reinsurance contracts, state reinsurance funding and catastrophe bonds (collectively, “reinsurance contracts”) to reduce its exposure to certain catastrophe events. However, our claims liabilities may exceed our reinsurance coverage.

In addition, although the reinsurer is liable to ASI to the extent of the ceded reinsurance, ASI remains liable as the direct insurer on all risks reinsured. As a result, ceded reinsurance arrangements do not eliminate ASI’s obligation to pay claims. We are also subject to credit risk with respect to ASI’s reinsurers and the risk that reinsurers will dispute our reinsurance claims.

Further, the availability and cost of reinsurance are subject to prevailing reinsurance market conditions (which can be impacted by the occurrence of significant reinsured events), both in terms of price and available capacity, and ASI may not be able to obtain reinsurance coverage in the future at commercially reasonable rates. The availability and cost of reinsurance could affect our business volume, our profitability or both.

Our results of operations, cash flows and financial condition could be materially and adversely affected by these risks.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

#### **(c) Share Repurchases**

#### **ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>2015<br/>Calendar<br/>Month</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>Per Share</b> | <b>Total Number of Shares<br/>Purchased as Part of<br/>Publicly Announced<br/>Plans or Programs</b> | <b>Maximum Number of<br/>Shares That May Yet be<br/>Purchased Under the<br/>Plans or Programs</b> |
|------------------------------------|-----------------------------------------------------|-------------------------------------------------|-----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| January                            | 675,212                                             | \$ 27.01                                        | 55,677,184                                                                                          | 19,322,816                                                                                        |
| February                           | 928,290                                             | 26.59                                           | 56,605,474                                                                                          | 18,394,526                                                                                        |
| March                              | 855,951                                             | 26.86                                           | 57,461,425                                                                                          | 17,538,575                                                                                        |
| Total                              | 2,459,453                                           | \$ 26.80                                        |                                                                                                     |                                                                                                   |

In June 2011, the Board approved an authorization to repurchase up to 75 million of our common shares; this Board authorization does not have an expiration date. Repurchases under this authorization may be accomplished through open market purchases, privately negotiated transactions, or otherwise, and may include trading plans entered into with one or more brokerage firms in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. During the first quarter 2015, all repurchases were accomplished through the open market or in conjunction with our incentive compensation plans at the then-current market prices. Progressive’s financial policies state that we will repurchase shares to neutralize dilution from equity-based compensation in the year of issuance and as an option to effectively deploy underleveraged capital.

## Item 5. Other Information.

### I. GRANTS OF PLAN-BASED EQUITY AWARDS

In March 2015, Progressive granted 1,344,891 time-based restricted stock units to 634 employees, primarily management employees, including our executive officers, under Progressive's 2010 Equity Incentive Plan ("2010 Plan"), as amended. These awards were based on a \$27.53 closing price of our common shares on the date of grant, as reported on the New York Stock Exchange, and are scheduled to vest in equal installments on January 1 of 2018, 2019, and 2020, subject to earlier vesting and forfeiture provisions that apply to the awards. On the date of grant, these time-based awards had an aggregate dollar value of approximately \$37.0 million.

Pursuant to the 2010 Plan, in March 2015, we granted 562,308 performance-based restricted stock units to 44 executives and senior managers. At the date of grant, these performance-based awards had an aggregate dollar value of approximately \$15.5 million, assuming 100% of the initial award value will vest. These awards will vest either from 0 to 2.5 times the initial award value, for awards based on underwriting growth and profitability performance, or from 0 to 2.0 times the initial award value, for awards based on investment results, if and when the underlying performance criteria are achieved.

The following table discloses the restricted stock unit awards granted to each of the named executive officers ("NEO") identified in Progressive's 2015 Proxy Statement dated March 27, 2015:

| Name and Principal Position <sup>1</sup>                                 | Time-Based Award |                    | Performance-Based Award <sup>3</sup> |                    |
|--------------------------------------------------------------------------|------------------|--------------------|--------------------------------------|--------------------|
|                                                                          | Units            | Value <sup>2</sup> | Units                                | Value <sup>2</sup> |
| Glenn M. Renwick<br>Chairman, President, and Chief Executive Officer     | —                | \$ —               | 272,431 <sup>4</sup>                 | 7,500,025          |
| Brian C. Domeck<br>Vice President and Chief Financial Officer            | —                | —                  | 18,163                               | 500,027            |
| Susan Patricia Griffith<br>President Customer Operations                 | 18,891           | 520,069            | 37,777                               | 1,040,001          |
| John P. Sauerland<br>Personal Lines Group President                      | 18,891           | 520,069            | 37,777 <sup>4</sup>                  | 1,040,001          |
| Charles E. Jarrett<br>Vice President, Secretary, and Chief Legal Officer | 17,436           | 480,013            | 20,923                               | 576,010            |

<sup>1</sup>Principal position reflects the position held by the NEO on March 31, 2015.

<sup>2</sup>Value is based on the market value at the date of grant, which was \$27.53 per share on March 19, 2015, without discount for risk of forfeitures of the awards.

<sup>3</sup>Amount shown represents 100% of the initial award value.

<sup>4</sup>Amount includes 40,865 restricted stock units for Mr. Renwick and 3,777 restricted stock units for Mr. Sauerland, using investment-related performance criteria as a condition of vesting. Vesting of all other awards depends on the achievement of underwriting growth and profitability targets.

### II. OTHER

President and CEO Glenn M. Renwick's letter to shareholders with respect to our first quarter 2015 results is included as Exhibit 99 to this Quarterly Report on Form 10-Q. The letter is also posted on Progressive's website at [progressive.com/annualreport](http://progressive.com/annualreport).

## Item 6. Exhibits.

See exhibit index on pages 62 and 63.

**SIGNATURES**

Pursuant to the requirements 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**

(Registrant)

Date: May 11, 2015

By: /s/ Glenn M. Renwick

Glenn M. Renwick

President and Chief Executive Officer

By: /s/ John P. Sauerland

John P. Sauerland

Chief Financial Officer

## EXHIBIT INDEX

| Exhibit No.<br>Under<br>Reg. S-K,<br>Item 601 | Form 10-Q<br>Exhibit<br>Number | Description of Exhibit                                                                                                                                           | If Incorporated by Reference,<br>Documents with Which Exhibit was<br>Previously Filed with SEC |
|-----------------------------------------------|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| 4                                             | 4.1                            | Form of Confirmation Letter - Discretionary Line of Credit                                                                                                       | Filed herewith                                                                                 |
| 4                                             | 4.2                            | Form of Discretionary Line of Credit Note                                                                                                                        | Filed herewith                                                                                 |
| 10(iii)                                       | 10.1                           | Form of Restricted Stock Unit Award Agreement for Time-Based Awards under the Progressive Corporation 2010 Equity Incentive Plan                                 | Filed herewith                                                                                 |
| 10(iii)                                       | 10.2                           | Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Insurance Performance) under The Progressive Corporation 2010 Equity Incentive Plan  | Filed herewith                                                                                 |
| 10(iii)                                       | 10.3                           | Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Investment Performance) under The Progressive Corporation 2010 Equity Incentive Plan | Filed herewith                                                                                 |
| 10(iii)                                       | 10.4                           | The Progressive Corporation 2015 Equity Incentive Plan                                                                                                           | Current Report on Form 8-K (filed on February 4, 2015; Exhibit 10.1 therein)                   |
| 10(iii)                                       | 10.5                           | Ninth Amendment to The Progressive Corporation Executive Deferred Compensation Trust                                                                             | Filed herewith                                                                                 |
| 10(iii)                                       | 10.6                           | Tenth Amendment to The Progressive Corporation Executive Deferred Compensation Trust                                                                             | Filed herewith                                                                                 |
| 10(iii)                                       | 10.7                           | Form of Progressive Capital Management Bonus Plan                                                                                                                | Filed herewith                                                                                 |
| 31                                            | 31.1                           | Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer, Glenn M. Renwick                                                                      | Filed herewith                                                                                 |
| 31                                            | 31.2                           | Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer, John P. Sauerland                                                                     | Filed herewith                                                                                 |
| 32                                            | 32.1                           | Section 1350 Certification of the Principal Executive Officer, Glenn M. Renwick                                                                                  | Furnished herewith                                                                             |
| 32                                            | 32.2                           | Section 1350 Certification of the Principal Financial Officer, John P. Sauerland                                                                                 | Furnished herewith                                                                             |
| 99                                            | 99                             | Letter to Shareholders from Glenn M. Renwick, President and Chief Executive Officer (Regulation FD Disclosure)                                                   | Furnished herewith                                                                             |
| 101                                           | 101.INS                        | XBRL Instance Document                                                                                                                                           | Filed herewith                                                                                 |
| 101                                           | 101.SCH                        | XBRL Taxonomy Extension Schema Document                                                                                                                          | Filed herewith                                                                                 |

| Exhibit No.<br>Under<br>Reg. S-K,<br>Item 601 | Form 10-Q<br>Exhibit<br>Number | Description of Exhibit                                 | If Incorporated by Reference,<br>Documents with Which Exhibit was<br>Previously Filed with SEC |
|-----------------------------------------------|--------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------------------------|
| 101                                           | 101.CAL                        | XBRL Taxonomy Extension Calculation Linkbase Document  | Filed herewith                                                                                 |
| 101                                           | 101.DEF                        | XBRL Taxonomy Extension Definition Linkbase Document   | Filed herewith                                                                                 |
| 101                                           | 101.LAB                        | XBRL Taxonomy Extension Label Linkbase Document        | Filed herewith                                                                                 |
| 101                                           | 101.PRE                        | XBRL Taxonomy Extension Presentation Linkbase Document | Filed herewith                                                                                 |

CONFIRMATION LETTER - DISCRETIONARY LINE OF CREDIT

\_\_\_\_\_, 201\_\_

The Progressive Corporation  
6300 Wilson Mills Rd.  
Mayfield Village, OH 44143  
United States of America

Attention: Sara Stehlik

**Re: \$100,000,000 Discretionary Line of Credit**

Dear Sara:

I am pleased to confirm that PNC Bank, National Association (the "Bank") has approved a \$100,000,000 discretionary line of credit to The Progressive Corporation (the "Company"). Advances made under the line of credit, if any, shall be due and payable as provided in the Note (defined below) or following the occurrence of an Event of Default (as defined in the Note) in accordance with the terms of the Note, but in no event later than the Expiration Date (defined below). All advances will bear interest and be subject to the terms and conditions set forth herein and in the accompanying \$100,000,000 discretionary line of credit note to be executed by the Company in favor of the Bank (the "Note"). The "**Expiration Date**" shall mean \_\_\_\_\_, 201\_\_, or such later date as may be designated by the Bank by written notice from the Bank to the Borrower. The Borrower acknowledges and agrees that in no event will the Bank be under any obligation to extend or renew the line of credit or the Note beyond the Expiration Date.

This is not a committed line of credit. The Company acknowledges and agrees that advances made under this line of credit, if any, shall be made at the sole discretion of the Bank. The Bank may decline to make advances under the line at any time and for any reason without prior notice to the Company, or the Bank may terminate the line at any time and for any reason upon written notice to the Company. This letter sets forth certain terms and conditions solely to assure that the parties understand each other's expectations and to assist the Bank in evaluating the status, on an ongoing basis, of the line of credit.

The Bank's willingness to consider making advances under this facility is subject to the Company's ongoing agreement (a) to furnish the Bank with its audited annual financial statements within 90 days after the end of its fiscal year, its unaudited quarterly financial statements within 75 days after the end of each fiscal quarter and such other financial information as the Bank may reasonably request from time to time promptly after receipt of each request, (b) to notify the Bank as soon as practicable following the occurrence of any default (or event which, with the passage of

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time or giving of notice or both, would become a default) under any other indebtedness of the Company for borrowed money, and (c) upon the Bank's request, to furnish copies of any covenant compliance certificates prepared in connection with any such obligations.

To compensate the Bank for its periodic review and analysis of the Company's financial condition, the Company shall pay to the Bank a non-refundable administration fee in the amount of \$5,000.

Please indicate the Company's agreement to the terms and conditions of this letter by having the enclosed copy of this letter executed where indicated and returning it to me. Prior to the making of any advances hereunder, the Company must deliver to the Bank a duly executed original of the Note and a certified copy of resolutions and an incumbency certificate, each in form and substance satisfactory to the Bank.

I am pleased to offer support for your banking needs and look forward to working with you.

Very truly yours,

PNC BANK, NATIONAL ASSOCIATION

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Agreed and accepted this \_\_\_\_ day of \_\_\_\_\_, 201\_\_.

THE PROGRESSIVE CORPORATION

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_



## Discretionary Line of Credit Note

\$100,000,000.00 \_\_\_\_\_, 201\_\_

**FOR VALUE RECEIVED, THE PROGRESSIVE CORPORATION** (the “**Borrower**”), with an address at 6300 Wilson Mills Rd., Mayfield Village, OH 44143, United States of America, promises to pay to the order of **PNC BANK, NATIONAL ASSOCIATION** (the “**Bank**”), in lawful money of the United States of America in immediately available funds at its offices located at 1900 East Ninth Street, Cleveland, Ohio 44114, or at such other location as the Bank may designate from time to time, the principal sum of ONE HUNDRED MILLION AND 00/100 DOLLARS (\$100,000,000.00) (the “**Facility**”) or such lesser amount as may be advanced to or for the benefit of the Borrower hereunder, together with interest accruing on the outstanding principal balance from the date hereof, as provided below.

**1. Rate of Interest.** Each advance outstanding under this Note will bear interest at a rate per annum which is at all times equal to the Base Rate. Interest will be calculated based on the actual number of days that principal is outstanding over a year of 360 days. If and when the Base Rate (or any component thereof) changes, the rate of interest on this Note will change automatically without notice to the Borrower, effective on the date of any such change. In no event will the rate of interest hereunder exceed the maximum rate allowed by law.

For purposes hereof, the following terms shall have the following meanings:

“**Base Rate**” shall mean the highest of (A) the Prime Rate and (B) the sum of the Federal Funds Open Rate plus fifty (50) basis points (0.50%).

“**Business Day**” shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in Cleveland, Ohio.

“**Federal Funds Open Rate**” shall mean, for any day, the rate per annum (based on a year of 360 days and actual days elapsed) which is the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as set forth on the Bloomberg Screen BTMM for that day opposite the caption “OPEN” (or on such other substitute Bloomberg Screen that displays such rate), or as set forth on such other recognized electronic source used for the purpose of displaying such rate as selected by the Bank (an “Alternate Source”) (or if such rate for such day does not appear on the Bloomberg Screen BTMM (or any substitute screen) or on any Alternate Source, or if there shall at any time, for any reason, no longer exist a Bloomberg Screen BTMM (or any substitute screen) or any Alternate Source, a comparable replacement rate determined by the Bank at such time (which determination shall be conclusive absent manifest error); provided however, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the “open” rate on the immediately preceding Business Day. The rate of interest charged shall be adjusted as of each Business Day based on changes in the Federal Funds Open Rate without notice to the Borrower.

“**Prime Rate**” shall mean the rate publicly announced by the Bank from time to time as its prime rate. The Prime Rate is determined from time to time by the Bank as a means of pricing some loans to its borrowers. The Prime Rate is not tied to any external rate of interest or index, and does not necessarily reflect the lowest rate of interest actually charged by the Bank to any particular class or category of customers.

**2 . Discretionary Advances.** THIS IS NOT A COMMITTED LINE OF CREDIT AND ADVANCES UNDER THIS NOTE, IF ANY, SHALL BE MADE BY THE BANK IN ITS SOLE DISCRETION. NOTHING CONTAINED IN THIS NOTE OR ANY OTHER LOAN DOCUMENTS SHALL BE CONSTRUED TO OBLIGATE THE BANK TO MAKE ANY ADVANCES. THE BANK SHALL HAVE THE RIGHT TO REFUSE TO MAKE ANY ADVANCES AT ANY TIME WITHOUT PRIOR NOTICE TO THE BORROWER.

The Borrower may request advances, repay and request additional advances hereunder, subject to the terms and conditions of this Note and the Loan Documents (as defined herein). In no event shall the aggregate unpaid principal amount of advances under this Note exceed the face amount of this Note.

**3 . Advance Procedures.** A request for advance made by telephone or electronic mail shall be binding upon Borrower and must be promptly confirmed in writing by such method as the Bank may require. The Borrower authorizes the Bank to accept telephonic and electronic requests for advances, and the Bank shall be entitled to rely upon the authority of any person providing such instructions. The Borrower hereby indemnifies and holds the Bank harmless from and against any and all damages, losses, liabilities, costs and expenses (including reasonable attorneys' fees and expenses) which may arise or be created by the acceptance of such telephonic and electronic requests or by the making of such advances. The Bank will enter on its books and records, which entry when made will be presumed correct, the date and amount of each advance, the interest rate and interest period applicable thereto, as well as the date and amount of each payment made by the Borrower. Advances hereunder shall be in an aggregate amount that is an integral multiple of \$1,000,000.00 and not less than \$5,000,000.00.

**4 . Payment Terms.** The principal amount of each advance shall be due and payable on the earlier of (a) the date which is thirty (30) calendar days after the date of the advance and (b) the Expiration Date (as defined in the Loan Documents). Interest shall be due and payable monthly in arrears on the first day of each month.

If any payment under this Note shall become due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing interest in connection with such payment. Payments received will be applied to charges, fees and expenses (including reasonable attorneys' fees), accrued interest and principal in any order the Bank may choose, in its sole discretion.

**5 . Late Payments; Default Rate.** If the Borrower fails to make any payment of principal, interest or other amount coming due pursuant to the provisions of this Note within fifteen (15) calendar days of the date due and payable, the Borrower also shall pay to the Bank a late charge equal to the lesser of five percent (5%) of the amount of such payment or \$100.00 (the "**Late Charge**"). Such fifteen (15) day period shall not be construed in any way to extend the due date of any such payment. Upon maturity, whether by acceleration or otherwise, and at the Bank's option upon the occurrence of any Event of Default (as hereinafter defined) and during the continuance thereof, each advance outstanding under this Note shall bear interest at a rate per annum (based on the actual number of days that principal is outstanding over a year of 360 days) which shall be three percentage points (3%) in excess of the Prime Rate but not more than the maximum rate allowed by law (the "**Default Rate**"). As used herein, "**Prime Rate**" shall mean the rate publicly announced by the Bank from time to time as its prime rate. The Prime Rate is determined from time to time by the Bank as a means of pricing some loans to its borrowers. The Prime Rate is not tied to any external rate of interest or index, and does not necessarily reflect the lowest rate of interest actually charged by the Bank to any particular class or category of customers. If and when the Prime Rate changes, the rate of interest on this Note (if such rate is based on the Prime Rate) and the Default Rate will change automatically without notice to the Borrower, effective on the date of any such change. The Default Rate shall continue to apply whether or not judgment shall be entered on this Note. Both the Late Charge and the Default Rate are imposed as liquidated damages for the purpose of defraying the Bank's expenses incident to the handling of delinquent payments, but are in addition to, and not in lieu of, the Bank's exercise of any rights and remedies hereunder, under the other Loan Documents or under applicable law, and any reasonable fees and expenses of any agents or attorneys which the Bank may employ. In addition, the Default Rate reflects the increased credit risk to the Bank of carrying a loan that is in default. The Borrower agrees that the Late Charge and Default Rate are reasonable forecasts of just compensation for anticipated

and actual harm incurred by the Bank, and that the actual harm incurred by the Bank cannot be estimated with certainty and without difficulty.

**6. Prepayment.** The Borrower shall have the right to prepay any advance hereunder at any time and from time to time, in whole or in part without penalty; provided that each prepayment shall be in an aggregate amount that is an integral multiple of \$1,000,000.00 and not less than \$5,000,000.00.

**7. Increased Costs; Yield Protection.** The Borrower shall pay to the Bank, on written demand therefor, together with the written evidence of the justification therefor, all direct costs incurred, losses suffered or payments made by Bank by reason of any Change in Law (hereinafter defined) imposing any reserve, deposit, allocation of capital, or similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets relative to the Facility. "Change in Law" means the occurrence, after the date of this Note, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any governmental authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any governmental authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted or issued.

**8. Other Loan Documents.** This Note is issued pursuant to the confirmation letter between the Bank and the Borrower dated on or before the date hereof, and the other agreements and documents executed and/or delivered in connection therewith or referred to therein, the terms of which are incorporated herein by reference (as amended, modified or renewed from time to time, collectively the "**Loan Documents**"), and is secured by the property (if any) described in the Loan Documents and by such other collateral as previously may have been or may in the future be granted to the Bank to secure this Note.

**9. Anti-Money Laundering/International Trade Law Compliance.** The Borrower represents and warrants to the Bank, as of the date of this Note, the date of each advance of proceeds under the Facility, the date of any renewal, extension or modification of the Facility, and at all times until the Facility has been terminated and all amounts thereunder have been indefeasibly paid in full, that: (a) no Covered Entity (i) is a Sanctioned Person; (ii) has any of its assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person; or (iii) does business in or with, or derives any of its operating income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any law, regulation, order or directive enforced by any Compliance Authority; (b) the proceeds of the Facility will not be used to fund any operations in, finance any investments or activities in, or, make any payments to, a Sanctioned Country or Sanctioned Person in violation of any law, regulation, order or directive enforced by any Compliance Authority; (c) the funds used to repay the Facility are not derived from any unlawful activity; and (d) each Covered Entity is in compliance with, and no Covered Entity engages in any dealings or transactions prohibited by, any laws of the United States, including but not limited to any Anti-Terrorism Laws. Borrower covenants and agrees that it shall immediately notify the Bank in writing upon the occurrence of a Reportable Compliance Event.

As used herein: "**Anti-Terrorism Laws**" means any laws relating to terrorism, trade sanctions programs and embargoes, import/export licensing, money laundering, or bribery, all as amended, supplemented or replaced from time to time; "**Compliance Authority**" means each and all of the (a) U.S. Treasury Department/Office of Foreign Assets Control, (b) U.S. Treasury Department/Financial Crimes Enforcement Network, (c) U.S. State Department/Directorate of Defense Trade Controls, (d) U.S. Commerce Department/Bureau of Industry and Security, (e) U.S. Internal Revenue Service, (f) U.S. Justice Department, and (g) U.S. Securities and Exchange Commission; "**Covered Entity**" means the Borrower, its affiliates and subsidiaries, all guarantors, pledgors of collateral, all owners of the

foregoing, and all brokers or other agents of the Borrower acting in any capacity in connection with the Facility; “**Reportable Compliance Event**” means that any Covered Entity becomes a Sanctioned Person, or is indicted, arraigned or custodially detained in connection with any Anti-Terrorism Law or any predicate crime to any Anti-Terrorism Law, or self-discovers facts or circumstances implicating any aspect of its operations with the actual or possible violation of any Anti-Terrorism Law; “**Sanctioned Country**” means a country subject to a sanctions program maintained by any Compliance Authority; and “**Sanctioned Person**” means any individual person, group, regime, entity or thing listed or otherwise recognized as a specially designated, prohibited, sanctioned or debarred person or entity, or subject to any limitations or prohibitions (including but not limited to the blocking of property or rejection of transactions), under any order or directive of any Compliance Authority or otherwise subject to, or specially designated under, any sanctions program maintained by any Compliance Authority.

**10. Events of Default.** The occurrence of any of the following events will be deemed to be an “**Event of Default**” under this Note: (i) the nonpayment of any principal, interest or other indebtedness under this Note when due; (ii) the occurrence of any event of default or any default and the lapse of any notice or cure period under any Loan Document or any other document now or in the future evidencing or securing any debt, liability or obligation of any Obligor to the Bank; (iii) the filing by or against any Obligor of any proceeding in bankruptcy, receivership, insolvency, reorganization, liquidation, conservatorship or similar proceeding (and, in the case of any such proceeding instituted against any Obligor, such proceeding is not dismissed or stayed within 30 days of the commencement thereof); (iv) any assignment by any Obligor for the benefit of creditors, or any levy, garnishment, attachment or similar proceeding is instituted against any property of any Obligor held by or deposited with the Bank (and, in the case of any such proceeding instituted against any Obligor, such proceeding is not dismissed or stayed within 30 days of the commencement thereof); (v) a default with respect to any other indebtedness of any Obligor for borrowed money, if the effect of such default is to cause or permit the acceleration of such debt; (vi) the commencement of any foreclosure or forfeiture proceeding, execution or attachment against any collateral securing the obligations of any Obligor to the Bank if such proceeding is not dismissed or stayed within 30 days of the commencement thereof; (vii) the entry of one or more final judgments against any Obligor in an aggregate amount in excess of \$25,000,000.00 and the failure of such Obligor to discharge the judgment within ten (10) days of the entry thereof; (ix) any material adverse change in any Obligor’s business, assets, operations, financial condition or results of operations; (x) any Obligor ceases doing business as a going concern; (xi) any representation or warranty made by any Obligor to the Bank in any Loan Document or any other documents now or in the future evidencing or securing the obligations of any Obligor to the Bank, is false, erroneous or misleading in any material respect; (xii) if this Note or any guarantee executed by any Obligor is secured (other than as set forth in Section 12 hereof), the failure of any Obligor to provide the Bank with additional collateral if in the Bank’s opinion at any time or times, the market value of any of the collateral securing this Note or any guarantee has depreciated below that required pursuant to the Loan Documents or, if no specific value is so required, then in an amount deemed material by the Bank; (xiii) the revocation or attempted revocation, in whole or in part, of any guarantee by any Obligor; or (xiv) the death, incarceration, indictment or legal incompetency of any individual Obligor or, if any Obligor is a partnership or limited liability company, the death, incarceration, indictment or legal incompetency of any individual general partner or member. As used herein, the term “**Obligor**” means any Borrower and any guarantor of, or any pledgor, mortgagor, or other person or entity providing collateral support for, the Borrower’s obligations to the Bank existing on the date of this Note or arising in the future.

Upon the occurrence of an Event of Default: (a) if an Event of Default specified in clause (iii) or (iv) above shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder shall be immediately due and payable without demand or notice of any kind; (b) if any other Event of Default shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder, at the Bank’s option and without demand or notice of any kind, may be accelerated and become immediately due and payable; (c) at the Bank’s option, this Note will bear interest at the Default Rate from the date of the occurrence of the Event of Default; and (d) the Bank may exercise from time to time any of the rights and remedies available under the Loan Documents or under applicable law.

**11. Right of Setoff.** In addition to all liens upon and rights of setoff against the Borrower's money, securities or other property given to the Bank by law, the Bank shall have, with respect to the Borrower's obligations to the Bank under this Note and to the extent permitted by law, a contractual possessory security interest in and a contractual right of setoff against, and the Borrower hereby grants the Bank a security interest in, and hereby assigns, conveys, delivers, pledges and transfers to the Bank, all of the Borrower's right, title and interest in and to, all of the Borrower's deposits, moneys, securities and other property now or hereafter in the possession of or on deposit with, or in transit to, the Bank or any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise, excluding, however, all IRA, Keogh, and trust accounts. Every such security interest and right of setoff may be exercised without demand upon or notice to the Borrower. Every such right of setoff shall be deemed to have been exercised immediately upon the occurrence of an Event of Default hereunder without any action of the Bank, although the Bank may enter such setoff on its books and records at a later time.

**12. Indemnity.** The Borrower agrees to indemnify each of the Bank, each legal entity, if any, who controls, is controlled by or is under common control with the Bank, and each of their respective directors, officers and employees (the "**Indemnified Parties**"), and to defend and hold each Indemnified Party harmless from and against any and all claims, damages, losses, liabilities and expenses (including all reasonable fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation and preparation therefor) which any Indemnified Party may incur or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Borrower), in connection with or arising out of or relating to the matters referred to in this Note or in the other Loan Documents or the use of any advance hereunder, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Borrower, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to any claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Note, payment of any advance hereunder and the assignment of any rights hereunder. The Borrower may participate at its expense in the defense of any such action or claim.

**13. Miscellaneous.** All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("**Notices**") must be in writing (except as may be agreed otherwise above with respect to borrowing requests) and will be effective upon receipt. Notices may be given in any manner to which the parties may separately agree, including electronic mail. Without limiting the foregoing, first-class mail, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. Regardless of the manner in which provided, Notices may be sent to a party's address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this paragraph. No delay or omission on the Bank's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Bank's action or inaction impair any such right or power. The Bank's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity. No modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Note will be effective unless made in a writing signed by the Bank, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. The Borrower agrees to pay on demand, to the extent permitted by law, all costs and expenses incurred by the Bank in the enforcement of its rights in this Note and in any security therefor, including without limitation reasonable fees and expenses of the Bank's counsel. If any provision of this Note is found to be invalid by a court, all the other provisions of this Note will remain in full force and effect. The Borrower and all other makers and indorsers of this Note hereby forever waive presentment, protest, notice of dishonor and notice of non-payment. The Borrower also waives all defenses based on suretyship or impairment of collateral. If this Note is executed by more than one Borrower, the obligations of such persons or entities hereunder will be joint and several. This Note shall bind the Borrower and its heirs, executors, administrators, successors and assigns, and the benefits hereof shall inure to the benefit of the Bank and its successors and assigns; provided, however, that the Borrower

may not assign this Note in whole or in part without the Bank's written consent, and the Bank at any time may assign this Note in whole or in part to any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., but to no other party without the Borrower's written consent.

This Note has been delivered to and accepted by the Bank and will be deemed to be made in the State where the Bank's office indicated above is located. **THIS NOTE WILL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE BANK AND THE BORROWER DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE WHERE THE BANK'S OFFICE INDICATED ABOVE IS LOCATED, EXCLUDING ITS CONFLICT OF LAWS RULES.** The Borrower hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where the Bank's office indicated above is located; provided that nothing contained in this Note will prevent the Bank from bringing any action, enforcing any award or judgment or exercising any rights against the Borrower individually, against any security or against any property of the Borrower within any other county, state or other foreign or domestic jurisdiction. The Borrower acknowledges and agrees that the venue provided above is the most convenient forum for both the Bank and the Borrower. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Note.

**14. Commercial Purpose.** The Borrower represents that the indebtedness evidenced by this Note is being incurred by the Borrower solely for the purpose of acquiring or carrying on a business, professional or commercial activity, and not for personal, family or household purposes.

**15. USA Patriot Act Notice.** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each Borrower that opens an account. What this means: when the Borrower opens an account, the Bank will ask for the business name, business address, taxpayer identifying number and other information that will allow the Bank to identify the Borrower, such as organizational documents. For some businesses and organizations, the Bank may also need to ask for identifying information and documentation relating to certain individuals associated with the business or organization.

**16. WAIVER OF JURY TRIAL. THE BORROWER IRREVOCABLY WAIVES ANY AND ALL RIGHTS THE BORROWER MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS NOTE, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS NOTE OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE BORROWER ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.**

**The Borrower acknowledges that it has read and understood all the provisions of this Note, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.**

**WITNESS** the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

WITNESS / ATTEST:

THE PROGRESSIVE CORPORATION

(Corporation, Partnership or other Entity)

\_\_\_\_\_

By: \_\_\_\_\_  
(SEAL)

Print Name: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

(Include title only if an officer of entity signing to the right)

**RESTRICTED STOCK UNIT AWARD AGREEMENT**  
**(20\_\_ Time-Based Award)**

This Agreement ("Agreement") is made this <Grant Date> ("Grant Date") by and between <Participant Name> ("Participant") and The Progressive Corporation (the "Company").

1. Definitions. Unless otherwise defined in this Agreement, each capitalized term in this Agreement shall have the meaning given to it in The Progressive Corporation 2010 Equity Incentive Plan, as amended (collectively, the "Plan").

2. Award of Restricted Stock Units. The Company grants to Participant an award (the "Award") consisting of <# of Units> restricted stock units (the "Restricted Stock Units" or "Units"), pursuant and subject to the Plan.

3. Condition to Participant's Rights under this Agreement. This Agreement shall not become effective, and Participant shall have no rights with respect to the Award or the Restricted Stock Units, unless and until Participant has fully executed this Agreement and delivered it to the Company. In the Company's discretion, such execution and delivery may be accomplished through electronic means.

4. Restrictions: Vesting.

(a) Subject to the terms and conditions of the Plan and this Agreement, Participant's rights in and to the Units shall vest, if at all, according to the following schedule:

- i. One-third of the Units shall vest on January 1, \_\_\_\_\_;
- ii. One-third of the Units shall vest on January 1, \_\_\_\_\_; and
- iii. One-third of the Units shall vest on January 1, \_\_\_\_\_.

The Restricted Stock Units awarded under this Agreement shall vest in accordance with the schedule set forth above unless, prior to the vesting date set forth above, the Award and the applicable Units are forfeited or have become subject to accelerated vesting under the terms and conditions of the Plan or this Agreement.

(b) Notwithstanding Paragraph 4(a) above, but subject to Paragraph 4(c) below:

- i. If Participant's Qualified Retirement Eligibility Date occurred prior to the Grant Date specified above, then fifty percent (50%) of each Award Installment shall vest on the Specified Date (defined below) and the remaining fifty percent (50%) of each Award Installment shall remain unvested and subject to the terms of this Agreement;
- ii. If Participant's Qualified Retirement Eligibility Date occurs after the Grant Date but prior to the Specified Date:

- A. If Participant's employment terminates in a Qualified Retirement prior to the Specified Date, the provisions of Section 10 of the Plan will continue to govern the Award; and
  - B. If Participant's employment does not terminate in a Qualified Retirement prior to the Specified Date, then fifty percent (50%) of each Award Installment shall vest on the Specified Date and the remaining fifty percent (50%) of each Award Installment shall remain unvested and subject to the terms of this Agreement; and
- iii. If Participant's Qualified Retirement Eligibility Date occurs on or after the Specified Date but prior to any vesting date specified in Paragraph 4(a) above, then fifty percent (50%) of each unvested Award Installment shall vest on the Participant's Qualified Retirement Eligibility Date and the remaining fifty percent (50%) of each unvested Award Installment shall remain unvested and subject to the terms of this Agreement.
  - iv. For purposes of this Paragraph 4(b), Specified Date shall mean: May 1, 20\_\_ if the Grant Date is in March 20\_\_ ; August 1, 20\_\_ if the Grant Date is in July 20\_\_ ; November 1, 20\_\_ if the Grant Date is in October 20\_\_ ; and February 1, 20\_\_ if the Grant Date is in January 20\_\_ ; provided, however, in each case, that if no such sale of Stock occurs on the New York Stock Exchange (the "NYSE") on such date, then the next succeeding day on which the Stock is traded on the NYSE shall be the Specified Date.
- (c) Notwithstanding Paragraphs 4(a) and 4(b) above, if the Committee determines that on or before the Specified Date or any subsequent vesting date described in Paragraph 4(a) or 4(b) above, the Participant engaged or was engaging in any Disqualifying Activity, then:
- i. To the extent that the Award has not yet vested pursuant to Paragraph 4(b) prior to the Committee's determination, the Award shall terminate immediately and all related Units shall be forfeited automatically at that time; and
  - ii. To the extent that the Award has vested pursuant to Paragraph 4(b) prior to the Committee's determination, the Award shall be deemed to have automatically terminated and forfeited as of the Disqualification Date. Accordingly, promptly upon the Company's demand, the Participant shall transfer or pay to the Company all shares of Stock (or, if such Stock has been sold or otherwise transferred by the Participant, an equivalent number of shares of Stock or, at the Company's election, the value thereof as of the applicable vesting date) or other proceeds received or deferred by the Participant in connection with such vesting pursuant to Paragraph 4(b), and the Participant will be entitled to no consideration in connection therewith. If such shares of Stock or other proceeds are not transferred or paid to the Company promptly upon such demand, then the Company will have the right to recover from the Participant all such shares or other proceeds, plus the costs and expenses incurred by the Company in recovering such shares or other proceeds from the Participant and enforcing its rights hereunder, including, without limitation, reasonable attorneys' fees and court costs, plus interest at the rate of eight percent (8%) per annum or, if lower, the highest rate permitted by law, calculated from the applicable vesting date.

The Committee may act upon the recommendation of the Chief Executive Officer or other senior officer of the Company when addressing the possibility of Disqualifying Activity, and any determination by the Committee under this Paragraph 4(c) that the Participant has engaged or is engaging in any Disqualifying Activity, and as to the Disqualification Date, shall be final and conclusive.

5. Dividend Equivalents. Subject to this Paragraph 5, Participant shall be credited with Dividend Equivalents with respect to outstanding Restricted Stock Units with respect to dividends for which a record date occurs prior to the date on which the applicable vesting has occurred and all restrictions on the Award Installment have lapsed (the "Delivery Date"), including any Units resulting from prior reinvestments of Dividend Equivalents as provided in this Paragraph. All Dividend Equivalents so credited will be deemed to be reinvested in Restricted Stock Units on the date that the applicable dividend or distribution is made to the Company's shareholders, in the number of Units determined by dividing the value of the Dividend Equivalents by the Fair Market Value of the Company's Stock on such date (rounded to the nearest thousandth of a whole Unit or as otherwise reasonably determined by the Company); provided, however, that if Dividend Equivalents cannot be reinvested in Units due to the operation of Section 3(a) of the Plan, such Dividend Equivalents will be credited to Participant as a cash value, which shall be held by the Company (without interest) subject hereto. The Units resulting from the reinvestment of such Dividend Equivalents ("Dividend Equivalent Units") and, if applicable, cash value resulting from such reinvestment, shall be subject to the same terms and conditions, and shall vest or be forfeited (as applicable) at the same time, as the Restricted Stock Units to which they relate; provided, however, that if the Delivery Date occurs after the record date for, but before the payment date of, a dividend, then the Dividend Equivalent Units related to such dividend and to Units vesting on such vesting date will be paid in cash or in Stock, in the sole discretion of the Company, as soon as practicable following the payment date for such dividend.

6. Units Non-Transferable. No Restricted Stock Units (and no Dividend Equivalents credited hereunder) shall be transferable by Participant other than by will or by the laws of descent and distribution, and then only in accordance with the Plan. In the event any Award is transferred or assigned pursuant to a court order, such transfer or assignment shall be without liability to the Company, and the Company shall have the right to offset against such Award any expenses (including attorneys' fees) incurred by the Company in connection with such transfer or assignment.

7. Executive Deferred Compensation Plan. If Participant is eligible, and has made the appropriate election, to defer the Award into The Progressive Corporation Executive Deferred Compensation Plan (the "Deferral Plan"), at the time of vesting, the Restricted Stock Units that would otherwise vest under this Agreement (but not any Dividend Equivalent Units, which shall be delivered to Participant in accordance with Paragraph 9) shall be considered to be deferred pursuant to the Deferral Plan, subject to and in accordance with the terms and conditions of the Deferral Plan and any related deferral agreement.

8. Termination of Employment. Except as otherwise provided in the Plan or as determined by the Committee, if Participant's employment with the Company is terminated for any reason other than death or Qualified Retirement, the Award and all applicable Restricted Stock Units held by Participant that are unvested or subject to restriction at the time of such termination shall be forfeited automatically. Notwithstanding the foregoing, after the Participant's Qualified Retirement Eligibility Date, except as provided in Paragraph 4(b)(ii)(A) above, the Award and all applicable Restricted Stock Units held by

Participant that are unvested or subject to restriction at the time of Participant's termination of employment for any reason, including death, shall be forfeited automatically.

9. Delivery at Vesting. Subject to the provisions of the Plan and this Agreement, upon vesting of all or part of the Award, the Company shall deliver to the Participant one share of the Company's Stock in exchange for each such vested Restricted Stock Unit and for each Dividend Equivalent Unit related thereto, and the applicable Restricted Stock Units shall be cancelled. Unless determined otherwise by the Company at any time prior to the applicable delivery, each fractional Restricted Stock Unit shall vest and be settled in an equal fraction of a share of the Company's Stock.

10. Taxes. No later than the date as of which an amount relating to the Award first becomes taxable, Participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any federal, state and local taxes and other items of any kind required by law to be withheld with respect to such amount. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company and its Subsidiaries and Affiliates, to the extent permitted by law, shall have the right to deduct any such taxes from any payment of any kind otherwise due to Participant. At vesting, Restricted Stock Units awarded under this Agreement will be valued at the Fair Market Value of the Company's Stock on such date.

Participant must satisfy the minimum statutory tax withholding obligations resulting from the vesting of Restricted Stock Units ("Minimum Withholding Obligations") either (a) by surrendering to the Company Restricted Stock Units that are then vesting with a value sufficient to satisfy the Minimum Withholding Obligations, or (b) by paying to the Company the appropriate amount in cash or, if acceptable to the Company, by check or other instrument. Unless Participant advises the Company of his or her election to use an alternative payment method, Participant shall be deemed to have elected to surrender to the Company Restricted Stock Units that are then vesting with a value sufficient to satisfy the Minimum Withholding Obligations.

Under no circumstances will Participant be entitled to satisfy any Minimum Withholding Obligations by surrendering Restricted Stock Units that are not then vesting or any Restricted Stock Units that Participant has elected to defer under Paragraph 7 above. All payments, surrenders of Units or shares, elections or requests for approval must be made by Participant in accordance with such procedures as may be adopted by the Company in connection therewith, and subject to such rules as have been or may be adopted by the Committee.

11. Non-Solicitation. In consideration of the Award made to Participant under this Agreement, for a period of twelve (12) months immediately following Participant's "Separation Date" (defined below), Participant shall not directly or indirectly recruit or solicit for hire, or hire, or assist in any manner in the recruitment, solicitation for hire or hiring, of any employee or officer of the Company or its Subsidiaries or Affiliates, or in any way induce any such employee or officer to terminate his or her employment with the Company or any of its Subsidiaries or Affiliates. For purposes of this Paragraph, "Separation Date" means the date on which Participant's employment with the Company or its subsidiaries is terminated for any reason.

12. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes and cancels any other agreement, representation or communication, whether oral or in writing, between the parties relating to the Award, provided that the Agreement shall be at all times subject to the Plan.

13. Amendment. The Committee, in its sole discretion, may amend the terms of this Award, but no such amendment shall be made that would impair the rights of Participant, without Participant's consent.

14. Acknowledgments. Participant: (i) acknowledges receiving a copy of the Plan Description relating to the Plan, and represents that he or she is familiar with all of the material provisions of the Plan, as set forth in such Plan Description; (ii) accepts this Agreement and the Award subject to all provisions of the Plan and this Agreement; and (iii) agrees to accept as binding, conclusive and final all decisions and interpretations of the Committee relating to the Plan, this Agreement or the Award.

Participant evidences his or her agreement with the terms and conditions of this Agreement, and his or her intention to be bound by this Agreement, by electronically accepting the Award pursuant to the procedures adopted by the Company. **Upon such acceptance by Participant, this Agreement will be immediately binding and enforceable against Participant and the Company.**

THE PROGRESSIVE CORPORATION

By: /s/ Charles E. Jarrett  
Vice President & Secretary

**RESTRICTED STOCK UNIT AWARD AGREEMENT**  
**(20\_\_ Performance-Based Award – Insurance Results)**

This Agreement (“Agreement”) is made this <Grant Date> by and between <Participant Name> (“Participant”) and The Progressive Corporation (the “Company”).

1. Definitions. Unless otherwise defined in this Agreement, each capitalized term in this Agreement shall have the meaning given to it in The Progressive Corporation 2010 Equity Incentive Plan, as amended (collectively, the “Plan”). It is understood that references herein to any performance results of the Company mean the applicable operating results of the insurance Subsidiaries and mutual company Affiliate of the Company.

2. Award of Restricted Stock Units. The Company grants to Participant an award (the “Award”) of performance-based restricted stock units (“Restricted Stock Units” or “Units”), pursuant and subject to the Plan. The Award is based on an initial award value of <# of Units> Units (the “Initial Award Value”). The number of Restricted Stock Units that are ultimately earned pursuant to the Award (if any) will be determined based on the Initial Award Value and the procedures and calculations set forth in this Agreement. Under the calculations set forth below, the maximum potential Award is a number of Units equal to two and one-half (2.5) times the Initial Award Value (the “Maximum Award Value”) plus Dividend Equivalent Units (defined below).

3. Condition to Participant’s Rights under this Agreement. This Agreement shall not become effective, and Participant shall have no rights with respect to the Award or any Restricted Stock Units, unless and until Participant has fully executed this Agreement and delivered it to the Company. In the Company’s sole discretion, such execution and delivery may be accomplished through electronic means.

4. Restrictions; Vesting. Subject to the terms and conditions of the Plan and this Agreement, Participant’s rights in and to Restricted Stock Units shall vest, if at all, as follows:

a. *Growth Evaluation Period.* The “Growth Evaluation Period” shall be the three-year period comprised of the years 20\_\_, 20\_\_ and 20\_\_.

b. *Certification.* The Award shall vest (if at all) only if, to the extent, and when the Compensation Committee of the Board of Directors (the “Committee”) certifies:

i. the extent to which the Company’s performance results have satisfied the performance criteria set forth in both Subparagraphs c. and d. below; and

ii. the corresponding number of Restricted Stock Units (if any) that have vested as a result of such performance.

Such certification shall occur as soon as practicable after the end of the Growth Evaluation Period, but in any event must occur (if at all) on or before January 31, 20\_\_ (the “Expiration Date”). If the Committee certifies the vesting of a number of Units that is less than the Maximum Award Value, then with respect to all other Units that could have been earned under this Agreement, the Award will terminate and be forfeited automatically.

c. *Profitability Requirement.* The Award shall not vest unless the Company has achieved a combined ratio of 96 or less, calculated by reference to the Company's GAAP financial results, for the twelve (12) fiscal month period immediately preceding the date of the certification described in Subparagraph b. above (the "Profitability Requirement").

d. *Number of Units Vesting.* Provided that the Profitability Requirement has been satisfied, the number of Restricted Stock Units (if any) that vest in connection with the Award will be determined as follows:

i. The Company's compounded annual rate of growth in "Written Premiums" (defined below) for the Growth Evaluation Period for the Company's Private Passenger Auto and Commercial Auto businesses ("Company Growth Rate") will be compared to the compounded annual rate of growth of the Private Passenger Auto and Commercial Auto markets as a whole for the Growth Evaluation Period ("Market Growth Rate"), in each case determined as provided below. If the Company Growth Rate exceeds the Market Growth Rate, the applicable calculation required by the following table will determine the number of Restricted Stock Units vesting:

| <b>Performance vs. Market</b>                                                                                | <b>Determination of the Number of Units Vesting</b>                                                                                                                                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| If the Company Growth Rate exceeds the Market Growth Rate by 3.5 percentage points or more                   | Initial Award Value x 2.50 (i.e., the Maximum Award Value)                                                                                                                                                                                                                          |
| If the Company Growth Rate exceeds the Market Growth Rate by more than 2 but less than 3.5 percentage points | Initial Award Value x (1.00 + (Company Growth Rate – Market Growth Rate – 2.00))<br><u>Example:</u><br>Company Growth Rate = 2.50%; Market Growth Rate = 0.10%; Number of Units vesting will equal Initial Award Value x (1.00 + (2.50 - 0.10 - 2.00)) = Initial Award Value x 1.40 |
| If the Company Growth Rate exceeds the Market Growth Rate by exactly 2 percentage points                     | Initial Award Value                                                                                                                                                                                                                                                                 |
| If the Company Growth Rate exceeds the Market Growth Rate by less than 2 percentage points                   | Initial Award Value x ((Company Growth Rate – Market Growth Rate) / 2.00)<br><u>Example:</u><br>Company Growth Rate = 2.50%; Market Growth Rate = 1.10%; Number of Units vesting will equal Initial Award Value x ((2.50 – 1.10) / 2.00) = Initial Award Value x 0.70               |

ii. If the Company Growth Rate is equal to or less than the Market Growth Rate, or if the Profitability Requirement has not been satisfied with respect to the Award prior to the Expiration Date, none of the Award shall vest, and the Award shall be forfeited in its entirety.

iii. For purposes of these determinations:

A. Subject to the provisions of Subparagraphs B., C. and D. below:

1. "Written Premiums" shall mean premiums written directly during the applicable time period for the specified types of business, without taking into account reinsurance;

2. The Company Growth Rate will be the compounded annual rate of growth in Written Premiums during the Growth Evaluation Period, determined by comparing (a) the annual aggregate Written Premiums of the Company in its Private Passenger Auto and Commercial Auto businesses for 20\_\_, as reported by A.M. Best in its annual report currently known as the "A2 Report," with (b) such Written Premiums of the Company for 20\_\_ as reported in A.M. Best's A2 Report; and

3. The Market Growth Rate will be the compounded annual rate of growth in Written Premiums during the Growth Evaluation Period, determined by comparing (a) the aggregate Written Premiums of the U.S. Private Passenger Auto market and the Commercial Auto market for 20\_\_, as reported in A.M. Best's A2 Report, with (b) such Written Premiums for 20\_\_ as reported in A.M. Best's A2 Report, but excluding (in each case) the applicable Written Premiums of the Company;

B. If either 20\_\_ or 20\_\_ is a 53-week year under the Company's fiscal calendar, then in determining the Company Growth Rate as set forth in Subparagraph A. above, the aggregate Written Premiums for such year will be reduced by an amount equal to twenty percent (20%) of the Written Premiums of the Company in fiscal December 20\_\_ or 20\_\_, as applicable, in its Private Passenger Auto and Commercial Auto businesses, as determined from the Company's records;

C. In making the calculations required under this Agreement, the Company Growth Rate and the Market Growth Rate shall each be rounded to the nearest thousandth of a whole percentage point and (if applicable) the number of Restricted Stock Units vesting shall be rounded to the nearest thousandth of a whole Unit (or, in each case, as otherwise reasonably determined by the Company); and

D. In the event that A.M. Best ceases to publish the A2 Report, or modifies the A2 Report in such a way as to render the comparisons required by this Agreement to be not meaningful, in the Committee's sole judgment, the determinations required above shall be made using such comparable Company and industrywide data as may be then available from A.M. Best in any successor or replacement report or publication, or such comparable data as may be available from another nationally recognized provider of insurance industry data, in each case as the Committee may approve in its sole discretion.

e. *Committee Discretion.* Notwithstanding anything to the contrary contained in this Agreement, at or prior to the time of vesting, the Committee, in its sole discretion, may reduce the number of Restricted Stock Units that otherwise would vest according to this Agreement, or eliminate the Award in full. The Committee, in its sole discretion, may treat individual participants differently for these purposes. Any such determination by the Committee shall be final and binding on Participant. Under no circumstances shall the Committee have discretion to increase the award to any Participant in excess of the number of Units that would

have been awarded at vesting based on this Paragraph 4 (excluding adjustments required by Section 3(c) of the Plan).

The Award shall vest in accordance with and subject to the foregoing except to the extent that, prior to the Committee's certification of the Award, the Award has been forfeited under the terms and conditions of the Plan or this Agreement.

5. Expiration of Award. Notwithstanding anything to the contrary in this Agreement, if Participant's rights in and to the Award have not vested in accordance with Paragraph 4 of this Agreement on or before the Expiration Date, this Award shall expire at 11:59 p.m. on the Expiration Date. Upon such expiration, the Award shall terminate automatically, and Participant shall have no further rights with respect to the Award.

6. Dividend Equivalents. Subject to this Paragraph 6, Participant shall be credited with Dividend Equivalents with respect to the outstanding Award with respect to dividends for which a record date occurs prior to the applicable vesting date. All Dividend Equivalents so credited will be deemed to be reinvested in Restricted Stock Units on the date that the applicable dividend or distribution is made to the Company's shareholders, based on the Initial Award Value and any Units resulting from prior reinvestments of Dividend Equivalents, in the number of Units determined by dividing the value of the Dividend Equivalents by the Fair Market Value of the Company's Stock on such date (rounded to the nearest thousandth of a whole Unit or as otherwise reasonably determined by the Company); provided, however, that if Dividend Equivalents cannot be reinvested in Units due to the operation of Section 3(a) of the Plan, such Dividend Equivalents will be credited to Participant as a cash value based on the Initial Award Value and any Units resulting from prior reinvestments of Dividend Equivalents, which cash value shall be held by the Company (without interest) subject to this Agreement. The Units resulting from the reinvestment of such Dividend Equivalents ("Dividend Equivalent Units") and, if applicable, cash value resulting from such reinvestment, shall be subject to the same terms and conditions, and shall vest or be forfeited (as applicable) at the same time, upon the same conditions, and in the same proportion, as the Initial Award Value set forth in this Award; provided, however, that if a vesting date occurs after the record date for, but before the payment date of, a dividend, then the Dividend Equivalent Units related to such dividend and to Units vesting on such vesting date will be paid in cash or in Stock, in the sole discretion of the Company, as soon as practicable following the payment date for such dividend.

7. Units Non-Transferable. No Restricted Stock Units (and no Dividend Equivalent Units) shall be transferable by Participant other than by will or by the laws of descent and distribution, and then only in accordance with the Plan. In the event any Award is transferred or assigned pursuant to a court order, such transfer or assignment shall be without liability to the Company, and the Company shall have the right to offset against such Award any expenses (including attorneys' fees) incurred by the Company in connection with such transfer or assignment.

8. Deferral of Award. If Participant is eligible, and has made the appropriate election, to defer the Award into The Progressive Corporation Executive Deferred Compensation Plan (the "Deferral Plan"), at the time of vesting, the Restricted Stock Units that would otherwise vest under this Agreement (excluding any Dividend Equivalent Units, which shall be delivered to Participant in accordance with Paragraph 10) shall be considered to be deferred pursuant to the Deferral Plan, subject to and in accordance with the terms and conditions of the Deferral Plan and any related deferral agreement.

9. Termination of Employment. Except as otherwise provided in the Plan or in this Paragraph 9, or as determined by the Committee, if Participant's employment with the Company is

terminated for any reason other than death or Qualified Retirement, the Award and all Restricted Stock Units held by Participant that are unvested or subject to restriction at the time of such termination shall be forfeited automatically. In the event that any such termination of employment occurs, for any reason other than for Cause, after the end of the Growth Evaluation Period but prior to the “first opportunity to certify results” (defined below), the Award shall not be forfeited at the time of Participant’s termination, and:

- a. if the termination is a result of Participant’s death before his or her Qualified Eligibility Retirement Date, the provisions of Section 6(b)(v) of the Plan will continue to apply to the Award;
- b. if Participant has not satisfied the requirements for a Qualified Retirement at the time of termination, Participant shall be eligible to participate in the vesting of Restricted Stock Units under this Agreement only to the extent certified by the Committee at the time of such first opportunity to certify results, but if certification does not occur upon such first opportunity to certify results, the Award shall be forfeited automatically; or
- c. if Participant has satisfied the requirements for a Qualified Retirement at the time of termination (including a termination resulting from death on or after the Participant’s Qualified Eligibility Retirement Date), Participant shall be eligible to participate in the vesting of Restricted Stock Units under this Agreement only to the extent certified by the Committee at the time of such first opportunity to certify results, but if certification does not occur upon such first opportunity to certify results, then pursuant to Section 10 of the Plan, fifty percent (50%) of such Award shall remain in effect and fifty percent (50%) of the Award shall be forfeited (or in certain cases, if the applicable requirements are satisfied, all of such Award shall remain in effect), and the portion that remains in effect shall thereafter vest, if at all, in accordance with this Agreement, but subject at all times to Section 10 of the Plan;

provided, however, in any case, that if the Committee determines that Participant is engaging in, or has engaged in, a Disqualifying Activity and that Disqualifying Activity occurred prior to the vesting of the Award, the Award and all applicable Restricted Stock Units that are then unvested or subject to restriction shall be forfeited or deemed to be forfeited automatically as of the Disqualification Date determined by the Committee and, if the vesting has already occurred, the provisions of Section 10(d)(ii) of the Plan will apply (without regard to whether a Qualified Retirement has occurred). Any determination by the Committee that the Participant is engaging in, or has engaged in, any Disqualifying Activity, and of the Disqualification Date, shall be final and conclusive on Participant.

For purposes of this Paragraph 9, the phrase “first opportunity to certify results” means the date which is the earlier to occur of: (i) the last day of the calendar month immediately following the month in which A.M. Best publishes the A2 Report (or, if applicable, the calendar month immediately following the month in which the successor or replacement report or data described in Subparagraph 4.d.iii.D. above is published) for the third year of the Growth Evaluation Period, or (ii) a meeting of the Compensation Committee is held at which such report or data is reviewed (whether or not a certification occurs) or a written action is executed by the Committee in lieu of such a meeting.

10. Delivery at Vesting. Subject to the provisions of the Plan and this Agreement, upon vesting of all or part of the Award, the Company shall deliver to Participant one share of the Company’s Stock in exchange for each such vested Restricted Stock Unit and for each Dividend Equivalent Unit

related thereto, and the remaining Restricted Stock Units (if any) shall be cancelled. Unless determined otherwise by the Company at any time prior to the applicable delivery, each fractional Restricted Stock Unit shall vest and be settled in an equal fraction of a share of the Company's Stock.

11. Taxes. No later than the date as of which an amount relating to the Award first becomes taxable, Participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any federal, state and local taxes and other items of any kind required by law to be withheld with respect to such amount. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company and its Subsidiaries and Affiliate, to the extent permitted by law, shall have the right to deduct any such taxes from any payment of any kind otherwise due to Participant. At vesting, Restricted Stock Units awarded under this Agreement will be valued at the Fair Market Value of the Company's Stock on such date.

Participant must satisfy the minimum statutory tax withholding obligations resulting from the vesting of Restricted Stock Units ("Minimum Withholding Obligations") either (a) by surrendering to the Company Restricted Stock Units that are then vesting with a value sufficient to satisfy the Minimum Withholding Obligations, or (b) by paying to the Company the appropriate amount in cash or, if acceptable to the Company, by check or other instrument. Unless Participant advises the Company of his or her election to use an alternative payment method, Participant shall be deemed to have elected to surrender to the Company Restricted Stock Units that are then vesting with a value sufficient to satisfy the Minimum Withholding Obligations.

Under no circumstances will Participant be entitled to satisfy any Minimum Withholding Obligations by surrendering Restricted Stock Units that are not then vesting or any Restricted Stock Units that Participant has elected to defer under Paragraph 8 above. All payments, surrenders of Units or shares, elections or requests for approval must be made by Participant in accordance with such procedures as may be adopted by the Company in connection therewith, and subject to such rules as have been or may be adopted by the Committee.

12. Non-Solicitation. In consideration of the Award made to Participant under this Agreement, for a period of twelve (12) months immediately following Participant's "Separation Date" (defined below), Participant shall not directly or indirectly recruit or solicit for hire, or hire, or assist in any manner in the recruitment, solicitation for hire or hiring, of any employee or officer of the Company or any of its Subsidiaries or Affiliates, or in any way induce any such employee or officer to terminate his or her employment with the Company or any of its Subsidiaries or Affiliates. For purposes of this Paragraph, "Separation Date" means the date on which Participant's employment with the Company or its Subsidiaries is terminated for any reason.

13. Recoupment. If the Securities and Exchange Commission adopts final rules under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that require, as a condition to the Company's continued listing on a national securities exchange, that the Company develop and implement a policy requiring the recovery of erroneously awarded compensation, and such regulations are applicable to Participant and the Award granted pursuant to this Agreement, then the following shall apply:

In the event that the Company is required to prepare a restatement of one or more of its financial statements due to the material noncompliance of the Company with any financial reporting requirement under the federal securities laws, the Company will be entitled to recover from Participant, and Participant will promptly upon written demand return to the Company (whether

or not Participant remains an employee of the Company at the time of such restatement or thereafter), the amount of any Award granted hereunder that (i) was paid or distributed to Participant (or any assignee or transferee permitted under Paragraph 7 above) during the three year period preceding the date on which the Company is required to prepare such restatement, and (ii) is in excess of what would have been paid or distributed to Participant (or any such assignee or transferee) under the restatement, or such other amount as may be required by the rules of the Securities and Exchange Commission or, if applicable, the New York Stock Exchange.

The provisions of this Paragraph 13 are in addition to the rights of the Company as set forth in Section 14(h) of the Plan.

14. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes and cancels any other agreement, representation or communication, whether oral or in writing, between the parties relating to the Award, provided that the Agreement shall be at all times subject to the Plan.

15. Amendment. The Committee, in its sole discretion, may amend the terms of this Award, but no such amendment shall be made that would impair the rights of Participant, without Participant's consent.

16. Acknowledgments. Participant: (a) acknowledges receiving a copy of the Plan Description relating to the Plan, and represents that he or she is familiar with all of the material provisions of the Plan, as set forth in such Plan Description; (b) accepts this Agreement and the Award subject to all provisions of the Plan and this Agreement; and (c) agrees to accept as binding, conclusive and final all decisions and interpretations of the Committee relating to the Plan, this Agreement or the Award.

Participant evidences his or her agreement with the terms and conditions of this Agreement, and his or her intention to be bound by this Agreement, by electronically accepting the Award pursuant to the procedures adopted by the Company. **Upon such acceptance by Participant, this Agreement will be immediately binding and enforceable against Participant and the Company.**

THE PROGRESSIVE CORPORATION

By: /s/ Charles E. Jarrett  
Vice President & Secretary

**RESTRICTED STOCK UNIT AWARD AGREEMENT**  
**(20\_\_ Performance-Based Award – Investment Results)**

This Agreement (“Agreement”) is made this <Grant Date> by and between <Participant Name> (“Participant”) and The Progressive Corporation (the “Company”).

1. Definitions. Unless otherwise defined in this Agreement, each capitalized term in this Agreement shall have the meaning given to it in The Progressive Corporation 2010 Equity Incentive Plan, as amended (collectively, the “Plan”). References herein to performance results of the Company mean the applicable results achieved by the Subsidiaries and mutual company affiliate of the Company in the portfolio(s) to the extent directly managed by Progressive Capital Management Corp. during the Evaluation Period (“Managed Portfolios”).

2. Award of Restricted Stock Units. The Company grants to Participant an award (the “Award”) of performance-based restricted stock units (“Restricted Stock Units” or “Units”), pursuant and subject to the Plan. The Award is based on an initial award value of <# of Units> Units (the “Initial Award Value”). The number of Restricted Stock Units that are ultimately earned pursuant to the Award (if any) will be determined based on the Initial Award Value and the procedures and calculations set forth in this Agreement. The maximum potential Award is a number of Units equal to two (2) times the Initial Award Value (the “Maximum Award Value”) plus Dividend Equivalent Units (defined below).

3. Condition to Participant’s Rights under this Agreement. This Agreement shall not become effective, and Participant shall have no rights with respect to the Award or any Restricted Stock Units, unless and until Participant has fully executed this Agreement and delivered it to the Company. In the Company’s sole discretion, such execution and delivery may be accomplished through electronic means.

4. Restrictions; Vesting. Subject to the terms and conditions of the Plan and this Agreement, Participant’s rights in and to Restricted Stock Units shall vest, if at all, as follows:

a. Evaluation Period. The “Evaluation Period” shall be the three-year period comprised of the calendar years 20\_\_, 20\_\_ and 20\_\_.

b. Certification. The Award shall vest (if at all) only if, to the extent, and when the Compensation Committee of the Board of Directors (the “Committee”) certifies:

i. the Performance Ranking of, and Performance Factor for, the Company’s Fixed-Income Portfolio (as each of those terms are defined in Subparagraph c. below); and

ii. the corresponding number of Restricted Stock Units (if any) that have vested as a result of such performance.

If the Committee certifies the vesting of a number of Units that is less than the Maximum Award Value, then with respect to all other Units that could have been earned under this Agreement, the Award will terminate and be forfeited automatically.

c. *Number of Units Vesting.* The number of Restricted Stock Units (if any) that vest in connection with the Award will be determined by application of the following formula:

$$\text{Number of Units Vesting} = \text{Initial Award Value} \times \text{Performance Factor}$$

i. The Performance Factor will be determined after the expiration of the Evaluation Period based on the fully taxable equivalent total return of the segment(s) of the Company's fixed-income investment portfolio that constitute(s) Managed Portfolios (the "Fixed-Income Portfolio" or "Portfolio"), in comparison to the total returns of the group of comparable investment firms identified by Rogers Casey (the "Investment Benchmark"), each calculated for the three calendar years comprising the Evaluation Period. After the end of the Evaluation Period, Rogers Casey will determine the firms that are included in the Investment Benchmark in accordance with the criteria specified on Exhibit I hereto. Rogers Casey will also supply to the Company the monthly total return data for each of the Investment Benchmark firms for the three-year period ending on the last day of the Evaluation Period.

Investment results for the Fixed-Income Portfolio will be marked to market, including the benefit of any state premium tax abatements for municipal securities held in the Portfolio that are realized by the Company during the Evaluation Period, in order to calculate the Portfolio's fully taxable equivalent total return, compounded on a monthly basis, for the Evaluation Period. The investment performance achieved by the Fixed-Income Portfolio for the Evaluation Period will then be compared against the total returns of the firms included in the Investment Benchmark for the same period, also compounded on a monthly basis, as determined by the Company from the monthly performance data supplied by Rogers Casey for each firm in the Investment Benchmark, to determine where the Fixed-Income Portfolio's performance falls on a percentile basis when compared to the firms in the Investment Benchmark, as further described in Exhibit II hereto ("Performance Ranking").

The Portfolio's Performance Ranking will be used to determine a performance score of between 0.00 and 2.00 for the Evaluation Period, based on the following schedule:

| <b><u>Score = 0.00</u></b><br><b>Rank at or below</b> | <b><u>Score = 1.00</u></b><br><b>Rank equal to</b> | <b><u>Score = 2.00</u></b><br><b>Rank at or above</b> |
|-------------------------------------------------------|----------------------------------------------------|-------------------------------------------------------|
| 25 <sup>th</sup> Percentile                           | 50 <sup>th</sup> Percentile                        | 75 <sup>th</sup> Percentile                           |

A Performance Ranking between the values identified in the schedule will be interpolated on a straight-line basis to generate the Performance Factor, as further described on Exhibit II.

ii. The Company will work with Rogers Casey to ensure, to the extent practicable, that the list of firms comprising the Investment Benchmark and all data necessary to calculate the Performance Ranking and the Performance Factor are received by March 1<sup>st</sup> of the year immediately following the Evaluation Period. In all events, distributions under this Agreement must be made on or before March 15<sup>th</sup> of the year immediately following the Evaluation Period.

iii. In the event that Rogers Casey (or its successors or assigns) ceases to provide or publish the information required to calculate the Performance Factor, or modifies the information in such a way as to render the comparisons required by this Agreement to be not meaningful, in the Committee's sole judgment, the determinations required above shall be made using such comparable Company and other investment data as may be available from another recognized provider of investment industry data as the Committee may approve in its sole discretion.

d. *Committee Discretion.* Notwithstanding anything to the contrary contained in this Agreement, at or prior to the time of vesting, the Committee, in its sole discretion, may reduce the number of Restricted Stock Units that otherwise would vest according to this Agreement, or eliminate the Award in full. The Committee, in its sole discretion, may treat individual participants differently for these purposes. Any such determination by the Committee shall be final and binding on the Participant. Under no circumstances shall the Committee have discretion to increase the award to any Participant in excess of the number of Units that would have been awarded at vesting based on this Paragraph 4 (excluding Dividend Equivalent Units and adjustments required by Section 3(c) of the Plan).

The Award shall vest in accordance with and subject to the foregoing except to the extent that, prior to the Committee's certification of the Award, the Award has been forfeited under the terms and conditions of the Plan or this Agreement.

5. Dividend Equivalents. Subject to this Paragraph 5, Participant shall be credited with Dividend Equivalents with respect to the outstanding Award with respect to dividends for which a record date occurs prior to the applicable vesting date. All Dividend Equivalents so credited will be deemed to be reinvested in Restricted Stock Units on the date that the applicable dividend or distribution is made to the Company's shareholders, based on the Initial Award Value and any Units resulting from prior reinvestments of Dividend Equivalents, in the number of Units determined by dividing the value of the Dividend Equivalents by the Fair Market Value of the Company's Stock on such date (rounded to the nearest thousandth of a whole Unit or as otherwise reasonably determined by the Company); provided, however, that if Dividend Equivalents cannot be reinvested in Units due to the operation of Section 3(a) of the Plan, such Dividend Equivalents will be credited to Participant as a cash value based on the Initial Award Value and any Units resulting from prior reinvestments of Dividend Equivalents, which cash value shall be held by the Company (without interest) subject to this Agreement. The Units resulting from the reinvestment of such Dividend Equivalents ("Dividend Equivalent Units") and, if applicable, cash value resulting from such reinvestment, shall be subject to the same terms and conditions, and shall vest or be forfeited (if applicable) at the same time, upon the same conditions, and in the same proportion, as the Initial Award Value set forth in this Award; provided, however, that if a vesting date occurs after the record date for, but before the payment date of, a dividend, then the Dividend Equivalent Units related to such dividend will be paid in cash or in Stock, in the sole discretion of the Company, as soon as practicable following the payment date for such dividend.

6. Units Non-Transferable. No Restricted Stock Units (and no Dividend Equivalent Units) shall be transferable by Participant other than by will or by the laws of descent and distribution, and then only in accordance with the Plan. In the event any Award is transferred or assigned pursuant to a court order, such transfer or assignment shall be without liability to the Company, and the Company shall have the right to offset against such Award any expenses (including attorneys' fees) incurred by the Company in connection with such transfer or assignment.

7. Deferral of Award. If Participant is eligible, and has made the appropriate election, to defer the Award into The Progressive Corporation Executive Deferred Compensation Plan (the “Deferral Plan”), at the time of vesting, the Restricted Stock Units that would otherwise vest under this Agreement (excluding any Dividend Equivalent Units, which shall be delivered to Participant in accordance with Paragraph 9) shall be considered to be deferred pursuant to the Deferral Plan, subject to and in accordance with the terms and conditions of the Deferral Plan and any related deferral agreement.

8. Termination of Employment. Except as otherwise provided in the Plan or in this Paragraph 8, or as determined by the Committee, if Participant’s employment with the Company is terminated for any reason other than death or Qualified Retirement, the Award and all Restricted Stock Units held by Participant that are unvested or subject to restriction at the time of such termination shall be forfeited automatically. In the event that any such termination of employment occurs, for any reason other than for Cause, after the end of the Evaluation Period but prior to the Committee’s certification of results for the Evaluation Period, the Award shall not be forfeited at the time of Participant’s termination, and Participant shall be eligible to participate in the vesting of Restricted Stock Units under this Agreement only to the extent certified by the Committee, subject to the provisions of the Plan; provided, however, that if the Committee determines that Participant is engaging in, or has engaged in, a Disqualifying Activity and that such Disqualifying Activity occurred before the vesting of the Award, the Award and all applicable Restricted Stock Units that are then unvested or subject to restriction shall be forfeited or deemed to be forfeited automatically as of the Disqualification Date determined by the Committee and, if the vesting has already occurred, the provisions of Section 10(d)(ii) of the Plan will apply (without regard to whether a Qualified Retirement has occurred). Any determination by the Committee that the Participant is engaging in, or has engaged in, any Disqualifying Activity, and of the Disqualification Date, shall be final and conclusive on Participant.

9. Delivery at Vesting. Subject to the provisions of the Plan and this Agreement, upon vesting of all or part of the Award, the Company shall deliver to Participant one share of the Company’s Stock in exchange for each such vested Restricted Stock Unit and for each Dividend Equivalent Unit related thereto, and the remaining Restricted Stock Units (if any) shall be cancelled. Unless determined otherwise by the Company at any time prior to the applicable delivery, each fractional Restricted Stock Unit shall vest and be settled in an equal fraction of a share of the Company’s Stock.

10. Taxes. No later than the date as of which an amount relating to the Award first becomes taxable, Participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any federal, state and local taxes and other items of any kind required by law to be withheld with respect to such amount. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company and its Subsidiaries and Affiliate, to the extent permitted by law, shall have the right to deduct any such taxes from any payment of any kind otherwise due to Participant. At vesting, Restricted Stock Units awarded under this Agreement will be valued at the Fair Market Value of the Company’s Stock on such date.

Participant must satisfy the minimum statutory tax withholding obligations resulting from the vesting of Restricted Stock Units (“Minimum Withholding Obligations”) either (a) by surrendering to the Company Restricted Stock Units that are then vesting with a value sufficient to satisfy the Minimum Withholding Obligations, or (b) by paying to the Company the appropriate amount in cash or, if acceptable to the Company, by check or other instrument. Unless Participant advises the Company of his or her election to use an alternative payment method, Participant shall be deemed to have elected to

surrender to the Company Restricted Stock Units that are then vesting with a value sufficient to satisfy the Minimum Withholding Obligations.

Under no circumstances will Participant be entitled to satisfy any Minimum Withholding Obligations by surrendering Restricted Stock Units that are not then vesting or any Restricted Stock Units that Participant has elected to defer under Paragraph 7 above. All payments, surrenders of Units or shares, elections or requests for approval must be made by Participant in accordance with such procedures as may be adopted by the Company in connection therewith, and subject to such rules as have been or may be adopted by the Committee.

11. Non-Solicitation. In consideration of the Award made to Participant under this Agreement, for a period of twelve (12) months immediately following Participant's Separation Date (defined below), Participant shall not directly or indirectly recruit or solicit for hire, or hire, or assist in any manner in the recruitment, solicitation for hire or hiring, of any employee or officer of the Company or any of its Subsidiaries, or in any way induce any such employee or officer to terminate his or her employment with the Company or any of its Subsidiaries. For purposes of this Paragraph, "Separation Date" means the date on which Participant's employment with the Company or its Subsidiaries is terminated for any reason.

12. Recoupment. If the Securities and Exchange Commission adopts final rules under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that require, as a condition to the Company's continued listing on a national securities exchange, that the Company develop and implement a policy requiring the recovery of erroneously awarded compensation, and such regulations are applicable to Participant and the Award granted pursuant to this Agreement, then the following shall apply:

In the event that the Company is required to prepare a restatement of one or more of its financial statements due to the material noncompliance of the Company with any financial reporting requirement under the federal securities laws, the Company will be entitled to recover from Participant, and Participant will promptly upon written demand return to the Company (whether or not Participant remains an employee of the Company at the time of such restatement or thereafter), the amount of any Award granted hereunder that (i) was paid or distributed to Participant (or any assignee or transferee permitted under Paragraph 6 above) during the three year period preceding the date on which the Company is required to prepare such restatement, and (ii) is in excess of what would have been paid or distributed to Participant (or any such assignee or transferee) under the restatement, or such other amount as may be required by the rules of the Securities and Exchange Commission or, if applicable, the New York Stock Exchange.

The provisions of this Paragraph 12 are in addition to the rights of the Company as set forth in Section 14(h) of the Plan.

13. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes and cancels any other agreement, representation or communication, whether oral or in writing, between the parties relating to the Award, provided that the Agreement shall be at all times subject to the Plan.

14. Amendment. The Committee, in its sole discretion, may amend the terms of this Award, but no such amendment shall be made that would impair the rights of Participant, without Participant's consent.

15. Acknowledgments. Participant: (a) acknowledges receiving a copy of the Plan Description relating to the Plan, and represents that he or she is familiar with all of the material provisions of the Plan, as set forth in such Plan Description; (b) accepts this Agreement and the Award subject to all provisions of the Plan and this Agreement; and (c) agrees to accept as binding, conclusive and final all decisions and interpretations of the Committee relating to the Plan, this Agreement or the Award.

Participant evidences his or her agreement with the terms and conditions of this Agreement, and his or her intention to be bound by this Agreement, by electronically accepting the Award pursuant to the procedures adopted by the Company. **Upon such acceptance by Participant, this Agreement will be immediately binding and enforceable against Participant and the Company.**

THE PROGRESSIVE CORPORATION

By: /s/ Charles E. Jarrett  
Vice President & Secretary

## **EXHIBIT I**

### **INVESTMENT BENCHMARK CRITERIA**

After the end of the Evaluation Period, Rogers Casey will determine the firms comprising the Investment Benchmark for the Plan year from its records and will supply to the Company the monthly total returns and any other relevant data for each of those firms for the Evaluation Period.

A firm will be included in the Investment Benchmark if Rogers Casey is able to determine from its records that:

1. The firm has provided monthly data regarding its holdings and investment return, as necessary to determine or calculate such firm's monthly total return, and to evaluate such firm's compliance with each of the criteria set forth below, for the entire Evaluation Period; and
2. At all times during the Evaluation Period, the information provided by the firm shows, or Rogers Casey is able to calculate, that such firm's investment portfolio satisfies each of the following criteria:

|                        |                                                    |
|------------------------|----------------------------------------------------|
| Duration:              | Effective Duration between 1.5 years and 5.0 years |
| Credit Quality Average | = A, or = AA, or = AAA, or = AAA+                  |
| Convexity (%)          | $\geq -1$                                          |
| Sector Allocation:     | U.S. High-Yield Corporate Debt $\leq 10\%$         |
| Sector Allocation:     | Mortgages $\leq 60\%$                              |
| Sector Allocation:     | U.S. Investment-Grade Corporate Debt $\leq 60\%$   |
| Sector Allocation:     | CMBS $\leq 60\%$                                   |
| Sector Allocation:     | ABS $\leq 60\%$                                    |
| Sector Allocation:     | Emerging Markets Debt $\leq 5\%$                   |

3. The Company will have no discretion to alter the Investment Benchmark list after it is finalized by Rogers Casey.

## **EXHIBIT II**

### **DETERMINATION OF PERFORMANCE RANKING AND PERFORMANCE FACTOR**

Once all the total returns are calculated, the data is sorted in descending order from highest to lowest total return. From here, the process to compute the Performance Factor is as follows:

#### **INTERPOLATED VALUES FOR SETTING TOP AND BOTTOM 25% LEVELS**

The top 25% and bottom 25% total return rankings are computed based on the total number of firms in the Investment Benchmark, excluding the PCM Fixed-Income Portfolio return. For example, if there were 279 participants, the return required to earn a 2.00 portfolio performance factor would be determined by interpolating between the sixty-ninth and seventieth firm's returns, since 25% of 279 = 69.75. The same procedure would be used to determine the 0.00 portfolio performance factor.

The total returns, computed by Investment Accounting, for the interpolated positions are calculated as follows (continuing to use an example of 279 survey firms):

Interpolated Value = Firm 69 return - ((Firm 69 Return - Firm 70 Return)\*0.75)

Firm 69 = 18.35%

Firm 70 = 18.23%

Firm 69.75 (Interpolated Value) = 18.35% - ((18.35%-18.23%)\*0.75) = 18.26%.

In this case, the PCM Performance Factor will equal 2.00 if its total return equals the interpolated value for Firm 69.75 or 18.26%. A similar calculation is then used to determine the bottom 25% group and interpolated value for a 0.00 performance score.

Once the two groups are computed, top and bottom 25%, the remainder of the performance scores are calculated as follows:

Performance score variance = (2.00) / Number of positions from first participant after the top 25% ranking to the 1<sup>st</sup> participant in the bottom 25% ranking. In the case of 279 participants, the number of positions to divide the 2.00 performance factors by would be 142.

The calculation for the performance score variance from 2.00 – 0.00 would be:

$$2.00 / 142 = .014085 \text{ per position for 279 firms}$$

In the case of a tie in total returns between firms, each firm will have the same performance score, one step under the next higher position. The next lowest position would then be stepped down by a factor based on the number of participants who tie. In the case of a tie between two firms, the step down will be twice the performance score variance to maintain the proper stepping to the 0.00 performance score level.

Example: If firms 70 and 71 each had the same total return in the 279 firm example, then firms 70 and 71 would each have a Performance Factor of 1.985915, which is  $2.00 - .014085$ . The number 72 position in this example would have a performance score of 1.957746, which is the required step down from 70 to 72.

In addition, if the returns are tied between the interpolated value set for the 2.00 performance score and any position below the 2.00 level, those lower positions will also be set to a 2.00 performance score. The step down factor in the performance score will work similarly as noted in the example above. For the last 25% group, all firms with total returns equaling the last interpolated total return value would have the same performance score as the last interpolated value (.014085), and all others in the last 25% group would have a 0.00 Portfolio Performance Factor.

Once all the performance scores have been created, from 2.00 to 0.00, PCM's return is compared to the rankings to determine its Performance Factor. If the PCM return is not in the top or bottom 25% and does not match the return of any participant, then PCM's Performance Factor is an interpolated value between the firms with the next highest and next lowest returns.

The interpolation computation for the Performance Factor based on PCM's return is as follows:

Performance score of firm below PCM return + (PCM's Return – Return below PCM) / (Return above PCM – Return below PCM) \* (Performance score of firm above PCM – Performance score of firm below PCM)

Assuming the following data, using the 279 firm example:

| <b><u>Firm</u></b> | <b><u>Performance score</u></b> | <b><u>Total return</u></b> |
|--------------------|---------------------------------|----------------------------|
| Firm above PCM     | .90                             | 13.61                      |
| PCM                |                                 | 13.39                      |
| Firm below PCM     | .89                             | 13.34                      |

The calculation of PCM's Performance Factor is:

$$0.89 + (13.39-13.34) / (13.61-13.34) * (0.90-0.89) = 0.89$$

The final performance score is rounded to the nearest one-hundredth, if necessary.

**NINTH AMENDMENT TO THE PROGRESSIVE CORPORATION  
EXECUTIVE DEFERRED COMPENSATION TRUST  
(November 8, 2002 Amendment and Restatement)**

**THIS NINTH AMENDMENT**, dated and effective as of the sixteenth day of January, 2015, unless otherwise specified herein, by and between Fidelity Management Trust Company (the “Trustee”) and The Progressive Corporation (the “Company”);

**WITNESSETH:**

**WHEREAS**, the Trustee and the Company heretofore entered into a Trust Agreement dated November 8, 2002, with regard to The Progressive Corporation Executive Deferred Compensation Trust (the “Trust”); and

**WHEREAS**, the Company hereby directs the Trustee, in accordance with Sections 5 and 8(g) of the Agreement, as follows: (i) at the close of business (4:00 p.m. ET) (“Market Close”) on January 16, 2015, to transfer in kind all participant balances held in The Progressive Corporation Stock Fund (share accounted) to The Progressive Corporation Stock Fund (real time traded) at its net asset value on such day; (ii) to redirect all participant contributions directed to The Progressive Corporation Stock Fund (share accounted) after the Market Close on January 16, 2015 to be invested in The Progressive Corporation Stock Fund (real time traded) and (iii) to permit no further investments in The Progressive Corporation Stock Fund (share accounted) as an investment option for the Plan after the Market Close on January 16, 2015. The parties hereto agree that the Trustee shall have no discretionary authority with respect to the transfer in kind directed by the Company. Any variation from the procedure described herein may be instituted only at the express written direction of the Company; and

**WHEREAS**, effective January 16, 2015 the Company desires to remove the Share Accounted Trading language from the Trust Agreement and replace it with Real Time Traded language for The Progressive Corporation Stock Fund; and

**WHEREAS**, the Trustee and the Company now desire to amend said Trust Agreement as provided for in Section 12 thereof;

**NOW THEREFORE**, in consideration of the above premises, the Trustee and the Company hereby amend the Trust Agreement by:

- (1) Effective January 16, 2015, deleting the third sentence of **Section 5(c), Investment Directions**, and inserting in lieu thereof the following:

In such cases, Participants may provide directions with respect to their hypothetical investments under the Plan by use of the system maintained for such purposes by the Trustee or its agents, as may be agreed upon from time to time by the Company and the Trustee, and shall be processed in accordance with the fund exchange provisions set forth in the Plan Administration Manual . The Trustee shall not be liable for any loss or expense that arises from a Participant’s exercise or non-exercise of rights under this Section 5 over the assets in the Participant’s accounts. “Plan Administration Manual” shall mean the document which sets forth the mutually agreed upon, subject to the final review and approval by the Company, administrative and recordkeeping duties and procedures to be followed by the Trustee in administering the Plan, as such document may be amended and in effect from time to time.

(2) Effective January 16, 2015, restating **Section 5(e), Company Stock**, in its entirety as follows:

**(e) Company Stock.**

Trust investments in Company Stock shall be made via the Stock Fund.

**(i) Acquisition Limit.**

Pursuant to the Plan, the Trust may be invested in Company Stock to the extent necessary to comply with investment directions under this Agreement. The Company shall be responsible for providing specific direction on any acquisition limits required by the Plan or applicable law.

**(ii) Duty.**

The Company shall continually monitor the suitability of acquiring and holding Company Stock. The Trustee shall not be liable for any loss, or expense, which arises from the directions of the Company with respect to the acquisition and holding of Company Stock, unless it is clear on their face that the actions to be taken under those directions would be prohibited by any applicable law or would be contrary to the terms of this Agreement.

**(iii) Purchases and Sales of Company Stock for Batch Activity.**

Unless otherwise directed by the Company in writing pursuant to directions that the Trustee can administratively implement, the following provisions shall govern purchases and sales of Company Stock for contributions, distributions, or any other purchase or sale of Company Stock related to a transaction that the Company has directed the Trustee in writing to implement on a batch basis ("batch activity").

**(A) Open Market Purchases and Sales.** Purchases and sales of

Company Stock shall be made on the open market in accordance with the Trustee's standard trading guidelines, as they may be amended from time to time, as necessary to honor batch activity. Such general rules shall not apply in the following circumstances:

(1) If the Trustee is unable to purchase or sell the total number of shares required to be purchased or sold on such day as a result of market conditions; or

(2) If the Trustee is prohibited by the SEC, the NYSE or principal exchange on which the Company Stock is traded, or any other regulatory or judicial body from purchasing or selling any or all of the shares required to be purchased or sold on such day.

In the event of the occurrence of a circumstance described in (1) or (2) above, the Trustee shall purchase or sell such shares as soon thereafter as administratively feasible, and shall determine the price of such purchases or sales to be the average purchase or sales price of all such shares purchased or sold, respectively. The Trustee may follow written directions from the Company to deviate from the above purchase and sale procedures.

**(B) Purchases and Sales from or to Company.** If directed by the Company in writing prior to the trading date, the Trustee may purchase or sell Company Stock from or to the Company if the purchase or sale is for adequate consideration (within the meaning of section 3(18) of ERISA) and no commission is charged.

**(iv) Purchases and Sales of Company Stock for Participant-Initiated Exchanges (“Real Time” Trading).**

Unless otherwise directed by the Company in writing pursuant to directions that the Trustee can administratively implement, the following provisions shall govern purchases and sales of Company Stock for Participant-initiated exchanges of hypothetical investment in Company Stock.

(A) Purchases and Sales of Company Stock. Purchases and sales of Company Stock associated with individual Participant-initiated exchanges into or out of a Participant’s hypothetical interest in the Stock Fund shall be made on the open market pursuant to order types selected by the Participant in accordance with the Trustee’s procedures for “Real Time Trading.” The Company may instruct the Trustee to limit the order types available to Participants.

(1) Automated Order Entry. Company Stock trades associated with Participant-initiated exchanges of a Participant’s hypothetical interest in the Stock Fund shall be sent to market as soon as administratively feasible during regular trading hours via an electronic order entry system, unless such trade is treated as a block trade. Such electronic order entry system shall be deemed an Electronic Service for purposes of Section 13 of this Agreement.

(2) Limitations on Trades; Cancellation of Exchange Requests. Trades rejected under rules of the applicable securities exchange will not be executed. The Trustee will not submit orders (or will cancel orders) for stock trades that violate the provisions of this Trust Agreement. The Trustee shall not submit any trade order associated with a Participant-initiated exchange of a Participant’s hypothetical interest in the Stock Fund at any time when the Stock Fund has been closed to such activity. Trades associated with Participant-initiated exchanges of a Participant’s hypothetical interest in the Stock Fund shall not be transacted at any time when the regular market is closed, or when the SEC, the NYSE or principal exchange on which the Company Stock is traded, or any other regulatory or judicial body has prohibited purchases or sales of any or all of the shares requested to be traded pursuant to the Participant-initiated exchange of a Participant’s hypothetical interest in the Stock Fund. An exchange requested by the Participant in a Participant’s hypothetical interest in the Stock Fund shall be rejected or cancelled, as the case may be, to the extent any accompanying hypothetical trade is not submitted, not executed or cancelled.

(B) Reserve Requirements for Exchanges Into Stock Fund and Corrective Sales. The Participant’s ability to initiate hypothetical exchanges into the Stock Fund shall be subject to standard reserve requirements applicable to the investment options used to fund the exchange, as established by the Trustee from time to time (or such higher reserve requirements as may be established by the Company in written direction to the Trustee). Requests to exchange into the Stock Fund that exceed such reserves, and accompanying trade orders, may be rejected or cancelled. In the event that a buy trade associated with a request to exchange into Company Stock is executed, and the Participant does not have sufficient hypothetical interest in assets in the designated investment option to fund the trade, the Trustee will liquidate the hypothetical interest in the investment options (including those held in other sources eligible for liquidation) in the affected Participant’s account pro rata. In the event that the Participant does not have sufficient hypothetical interest in assets in any other investment option, the Trustee shall initiate a corrective sale, and shall debit the costs of such corrective trade from the Participant’s hypothetical account.

(C) Fractional Shares. Participants will be entitled make hypothetical exchanges out of hypothetical interests in fractional shares in the Stock Fund only in connection with a request to exchange out the entire hypothetical balance of their Stock Fund (or the entire hypothetical balance in a particular source, as applicable). Fractional shares will be transacted at the price determined by the stock trade order selected by the Participant.

**(v) Use of an Affiliated Broker.**

For all purchases and sales of Company Stock on the open market, whether Participant-initiated or otherwise, the Company hereby directs the Trustee to use Fidelity Brokerage Services LLC ("FBSLLC") to provide brokerage services. Subject to the provisions of this agreement, FBSLLC shall execute such trades directly or through any of its affiliates. The provision of brokerage services shall be subject to the following:

(1) Any successor organization of FBSLLC, through reorganization, consolidation, merger or similar transactions, shall, upon consummation of such transaction, become the successor broker in accordance with the terms of this direction provision. FBSLLC may assign its rights and obligations under this agreement to any affiliate, provided that the assignee is bound by the terms hereof, including the provisions concerning remuneration.

(2) The Trustee and FBSLLC shall continue to rely on this direction provision until notified to the contrary. The Company reserves the right to terminate this direction upon written notice to FBSLLC (or its successors or assigns) and the Trustee, in accordance with Section 11 of this Agreement.

(3) The Company acknowledges that FBSLLC (and its successors and assigns) may rely upon this Agreement in establishing an account in the name of the Trustee for the Plan, and in allowing each Participant to exercise limited trading authorization over such account, to the extent of his or her individual account balance in the Stock Fund subject to Participant direction.

**(vi) Securities Law Reports.**

The Company shall be responsible for filing all reports required under Federal or state securities laws with respect to the Trust's ownership of Company Stock, including, without limitation, any reports required under section 13 or 16 of the Securities Exchange Act of 1934, and shall immediately notify the Trustee in writing of any requirement to stop purchases or sales of Company Stock pending the filing of any report. The Company shall be responsible for the registration of any Plan interests to the extent required under Federal or state securities law. The Trustee shall provide to the Company such information on the Trust's ownership of Company Stock as the Company may reasonably request in order to comply with Federal or state securities laws.

**(vii) Voting and Tender Offers.**

Notwithstanding any other provision of this Agreement, the provisions of this Section shall govern the voting and tendering of Company Stock held under the Trust. The Company shall provide direction to the Trustee with respect to any proxy voting, any tender or exchange offer, or any other similar shareholder right, and the Trustee shall vote, tender or exchange shares of Company Stock in accordance with timely, written direction from the Company. Unless otherwise required by applicable law, the Trustee shall not take any action with respect to vote, tender, exchange or similar shareholder right in the absence of instruction from the Company. For these purposes, a timely direction is one that is received at a time that reasonably allows the Trustee to exercise its rights, through a custodian, if applicable.

**(viii) General.**

With respect to all shareholder rights other than the right to vote, the right to tender, and the right to withdraw shares previously tendered, in the case of Company Stock, the Trustee shall follow the procedures set forth in subsection (vii) above .

**(ix) Conversion.**

All provisions in this Section 5(e) shall also apply to any securities received as a result of a conversion of Company Stock.

- (3) Effective at Market Close on January 16, 2015, amending the “investment options” section of Schedule “A” to add the following:

The Progressive Corporation Stock Fund (Real Time Traded)

- (4) Effective at Market Close on January 16, 2015, amending the “investment options” section of Schedule “A” to delete the following:

The Progressive Corporation Stock Fund (Share Accounted)

- (5) Effective January 16, 2015, removing Schedule “E”, Exchange Guidelines, in its entirety.

**IN WITNESS WHEREOF**, the Trustee and the Company have caused this Ninth Amendment to be executed by their duly authorized officers effective as of the day and year first above written. By signing below, the undersigned represent that they are authorized to execute this document on behalf of the respective parties. Notwithstanding any contradictory provision of the agreement that this document amends, each party may rely without duty of inquiry on the foregoing representation.

**THE PROGRESSIVE CORPORATION FIDELITY MANAGEMENT TRUST  
COMPANY**

By: \_\_\_\_\_ By: \_\_\_\_\_  
Its Authorized Signatory Date FMTC Authorized Signatory Date

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**TENTH AMENDMENT TO THE PROGRESSIVE CORPORATION  
EXECUTIVE DEFERRED COMPENSATION TRUST  
(November 8, 2002 Amendment and Restatement)**

**THIS TENTH AMENDMENT**, effective as of the date set forth herein, is by and between Fidelity Management Trust Company (the “Trustee”) and The Progressive Corporation (the “Company”);

**WITNESSETH:**

**WHEREAS**, the Trustee and the Company heretofore entered into a Trust Agreement dated November 8, 2002 (the “Trust Agreement”), with regard to The Progressive Corporation Executive Deferred Compensation Trust (the “Trust”); and

**WHEREAS**, the Trustee and the Company now desire to amend said Trust Agreement as provided for in Section 12 thereof;

**NOW THEREFORE**, in consideration of the above premises, the Trustee and the Company hereby amend the Trust Agreement by:

- (1) Effective January 1, 2015, restating Section 9, Compensation and Expenses of Trustee, as follows:

Section 9. Compensation and Expenses of Trustee.

Company shall cause the Plan to pay or shall itself pay to Trustee, within thirty (30) days of receipt of the Trustee’s bill, the fees for services in accordance with Schedule B. Fees for services are specifically outlined in Schedule B and are based on any assumptions identified therein. The Trustee shall maintain its fees through December 31, 2019, provided, however, in the event that the Plan characteristics referenced in the assumptions outlined in Schedule B change significantly (which shall be defined as plus or minus 10%) by either falling below or exceeding current or projected levels, such fees may be subject to revision, upon mutual renegotiation.

Any overcharge by the Trustee, or underpayment of fees or expenses by the Company that is the result of a good-faith fee dispute, shall bear interest until paid by the appropriate party with such interest determined by calculating the average of the prime rates reported in the Wall Street Journal from the date of overpayment or underpayment until such corrective payment is made by the appropriate party. Any underpayment of fees or expenses by the Company that is not the subject of a good-faith fee dispute shall bear interest until paid at the rate of the lesser of (i) 1½% per month, or (ii) the maximum amount permitted by law.

All expenses of the Trustee relating directly to the acquisition and disposition of investments constituting part of the Trust, and all taxes of any kind whatsoever that may be levied or assessed under existing or future laws upon or in respect of the Trust or the income thereof, shall be a charge against and paid from the Trust.

- (2) Effective January 1, 2015, adding a new section, Section 16, Use of Omnibus Accounts, as follows:

Section 16. Use of Omnibus Accounts.

Notwithstanding any other provisions of this Agreement, Company understands, acknowledges and agrees that, (i) the Trustee utilizes omnibus accounts at unaffiliated banks to facilitate transactions for the plans it

services and commingles funds in transit to or from The Progressive Corporation Executive Deferred Compensation Trust, including other funds similarly in transit to or from other plans and trusts and (ii) if markets permit, omnibus account balances may be invested in short-term investments with the aim of earning a rate approximating the Target Federal Funds Rate and/or money market rates (such earnings are referred to as “float earnings”); and (iii) the Trustee will use these earnings to pay bank fees associated with the above-referenced defined contribution plan transactions and make other required adjustments and will retain any float earnings that exceed such fees and adjustments as compensation for its services (such earnings are referred to as “Net Float Earnings”), subject to the Revenue Credit as set forth in Schedule B. The Trustee shall pay bank fees to the extent they exceed float earnings.

The amount of float earnings generated depends on market conditions, as well as on the length of time that funds are held in the omnibus accounts. The following time frames apply with respect to funds held in these accounts:

- If contributions and instructions to purchase investment options are received by the Trustee In Good Order before the close of trading, the Trustee executes transactions in the investment options as of that day’s closing price (the “transaction date” or “T”). Contributions are held in the omnibus account until the following business day (“T+1”) for the vast majority of investment options. For share accounted company stock transactions, contributions may be held in the omnibus account until T+3.
- Instructions to exchange investment options received by the Trustee In Good Order before the close of trading are processed in that day's nightly cycle. For the vast majority of investment options, exchanges generate no overnight balances, as money is received from one investment option and conveyed to another investment option on the same business day. The limited exceptions to this would occur if investment options have different settlement rules and Fidelity Management Trust Company serves as trustee of the Plan, in which case balances attributable to the exchange may remain in an omnibus account for a few days.
- Instructions to make disbursements received In Good Order before the close of trading are processed in that day's nightly cycle and reflected as debits from the Trust as of that date (“T”). Proceeds attributable to the disbursement are received into the omnibus account based on the settlement period for the investment options, which in the substantial majority of investment options is T+1. After the deduction of tax withholding, if applicable, disbursements are typically made on T+2 or T+3 either through electronic funds transfers or by mailing a check. Disbursement proceeds distributed by check, net of any tax withholdings, remain in the omnibus account until the check is presented for payment.

Neither the Company nor the Plan shall be liable for any diminution in the value of such overnight investments. Provided that the Company has provided timely funding, neither the Company nor the Plan shall be responsible for any failure to settle or clear from such omnibus accounts any proper or timely trade or disbursement if such failure results from a decrease in the value, or temporary inaccessibility of funds attributable to either the use of a specific bank or the overnight investment of balances from such accounts.

- (3) Effective January 1, 2015, adding a new section, Section 17, Inspection and Audit, as follows:

Section 17. Inspection and Audit.

The Trustee will provide to auditors (including third-party auditors and Company's internal audit staff) as Company may designate in writing, access to any Trustee owned or managed facility at which the services are being performed, to appropriate Trustee management personnel, and to the data and records (and other documentation reasonably requested by the Company) maintained by the Trustee with respect to the services solely for the purpose of examining (i) all transactional records specific to the Company or the Plan generated by the Trustee in accordance with subparagraphs (a) and (b) above and all transactional books and records specific to the Company or the Plan maintained by the Trustee in order to provide the services, (ii) documentation of service level performance, and (iii) invoices to the Company. Any such audits will be conducted at the Company's expense. The Company and its auditors will first look to the most recent Service Organization Control I Report Type II ("Type II SOC"), formerly referred to as a Service Auditor's Report or SAS 70 Report, before conducting further audits. Type II SOC reports will be issued by the Trustee or its affiliate's independent public accounting firm in accordance with Statement on Standards for Attestation Engagements No. 16 ("SSAE 16"), Reporting on Controls at a Service Organization, or superseding standards set forth by the American Institute of Certified Public Accountants. Excepting audit requests from governmental or regulatory agencies, if a matter is not covered in such Type II SOC, then the Company will provide the Trustee not less than thirty (30) days prior written notice of an audit and will provide a proposed detailed scope and timeframe of the audit requested by the Company to the Trustee in writing at least thirty (30) days prior to date of the audit, unless the parties mutually agree in writing to a shorter notice period. The Company and its auditors will conduct such audits in a manner that does not unreasonably disrupt Trustee's operations. Audits may be conducted only during normal business hours and no more frequently than annually unless otherwise required as a matter of law or for compliance with regulatory or contractual requirements. Any audit assistance provided by the Trustee in excess of 35 hours per annum shall be provided on a fee-for-service basis at the Special Project Rate set forth in Schedule B. In addition, the Company will reimburse the Trustee for any preapproved out of pocket expenses incurred by the Trustee in connection with an audit conducted pursuant to this section. The Company and its auditors will be entitled to review or audit only relevant Company specific data, provided that such data does not include any (i) data or information of other customers or clients of the Trustee, (ii) any of Trustee's proprietary data, or (iii) any other Confidential Information of the Trustee that is not relevant for the purposes of the audit. The Trustee will make its personnel, who are reasonably needed to facilitate the audit, available to the Company. The Company and its auditors will not be entitled to logical access to the Trustee's networks and systems, nor unrestricted physical access to Trustee's facilities and personnel. Reviews of processes, controls, and support documentation will be facilitated with appropriate Trustee's personnel. The Trustee will reasonably cooperate in the audit, will make available on a timely basis the information reasonably required to conduct the audit and will assist the designated employees of the Company or its auditors as reasonably necessary. To the maximum extent possible, audits will be designed and conducted (in such manner and with such frequency) so as not to interfere with the provision of the services. The Company will not use any competitors of the Trustee (or any significant subcontractor of Trustee under this Trust Agreement) to conduct such audits. The auditors and other representatives of the Company will execute and deliver such confidentiality and non-disclosure agreements and comply with such security and confidentiality requirements as the Trustee may reasonably request in connection with such audits.

- (4) Effective January 1, 2015, adding a new section, Section 18, Assignment, as follows:

Section 18. Assignment.

This Trust Agreement, and any of the rights and obligations hereunder, may not be assigned by any party without the prior written consent of the other party(ies), and such consent may be withheld in any party's sole discretion. Notwithstanding the foregoing, Trustee may assign this Trust Agreement in whole or in part, and any of its rights and obligations hereunder, to a subsidiary or affiliate of Trustee. The Trustee shall provide notice to the Company within sixty (60) days after occurrence. In addition, Company may assign this Trust Agreement in whole or in part, and any of its rights and obligations hereunder, to an affiliate of the Company without the consent of the Trustee, provided that such assignee is sufficiently well capitalized to meet its obligations hereunder. All provisions in this Trust Agreement shall extend to and are binding upon the parties hereto and their respective successors and permitted assigns.

- (5) Effective January 1, 2015, adding a new section, Section 19, Resolution of Disputes, as follows:

Section 19. Resolution of Disputes.

- (a) Informal Dispute Resolution.

In the event that there is a dispute, claim, question or difference arising out of or relating to this Trust Agreement or any alleged breach hereof (a "Dispute") (except to the extent such Dispute is covered by Section 19(c) hereof), prior to the initiation of any action in a court of law, the parties will use reasonable efforts to settle such Dispute. During the course of such discussions, all reasonable requests made by one party to another for non-privileged information, reasonably related to the Dispute, will be honored in order that each of the parties may be fully apprised of the other's position. The specific format for such discussions will be left to the discretion of the parties, but may include the preparation of agreed-upon statements of fact or written statements of position.

- (b) Non-Binding Mediation.

Except as expressly provided otherwise in this Trust Agreement, if the parties do not reach a solution pursuant to the provisions of Section 19(a) within a period of twenty (20) business days, then upon written notice by a party to the other party delivered within ten (10) business days following the expiration of such twenty-day period, the parties will attempt in good faith to resolve the Dispute by non-binding mediation. Formal proceedings for the resolution of a Dispute may not be commenced until the earlier of (i) the good-faith determination by the appropriate senior executives of each party that amicable resolution through continued negotiation of the matter does not appear likely; or (ii) thirty (30) days following the date that the Dispute was first referred to the mediator. The mediator will be mutually agreed upon by the parties.

- (c) Exceptions to Dispute Resolution Procedure.

The provisions of this Section 19 will not be construed to prevent a party from (i) seeking a temporary restraining order or injunctive or other equitable relief with respect to a breach (or attempted or threatened breach) of this Trust Agreement by the other party, or (ii) making any claim or asserting any defense in litigation or other formal proceedings to the extent necessary (A) to avoid the expiration of any applicable limitations period, (B) to preserve a superior position with respect to other creditors, or (C) in the case of

claims involving third parties, to allow for an expeditious and orderly presentation of a party's claims or defenses.

- (6) Effective January 1, 2015, amending Other, of Schedule "A", Recordkeeping And Administrative Services, to add a new item as follows:

\* Special Projects. Special projects shall be the fulfillment of a client-specific request that is not included in the services as documented in this Agreement. Examples shall include, but not be limited to, the following:

- additional feeds, custom service features and special processing.
- Plan and program changes.
- Change in scope of existing services as documented in directions documents describing the services.
- Client specific processing requested as an alternative to Fidelity's standard solution including any additional resources to support said non-standard solution. Examples include change to data feeds, special offering windows and procedural changes.
- Support of Corporate Actions. Examples include reorganization, layoff, mergers, acquisitions and divestitures.
- Custom communications development.
- Investment option changes.

Fees for special projects are outlined in Schedule B, Fee Schedule, of this Agreement.

- (7) Effective January 1, 2015, amending the investment options section of Schedule A, Recordkeeping And Administrative Services, to add the following:

The Named Fiduciary hereby directs that the assets deposited in the Revenue Credit Account shall be invested in the Fidelity Retirement Money Market Portfolio.

- (8) Effective January 1, 2015, amending Schedule B, Fee Schedule, to add a new item, as follows:

Special Projects Rate: \$175.00 per hour

- (9) Effective January 1, 2015, amending Schedule B, Fee Schedule, to delete the following:

Annual Recordkeeping Fee \$0.

And add the following:

\$50 per Participant per year, billed and payable quarterly. This fee will be imposed pro rata for each calendar quarter, or any part thereof, that it remains necessary to keep a Participant's account(s) as part of the Plan's records, e.g., vested, deferred, forfeiture, top-heavy and terminated Participants who must remain on file through calendar year-end for 1099-R reporting purposes.

## **PARTICIPANT REVENUE CREDIT**

A. **Calculation.** The Trustee shall fund a Participant Revenue Credit each quarter, beginning with the first quarter of 2015, calculated as the sum of the following:

1. **Credits attributable to Fidelity investment products:**

Average quarterly balances held in the Plan of deemed investments into Fidelity investment products multiplied by one-quarter (1/4) of the following rates respectively:

- (a) Actively managed (non Class K) Fidelity equity Mutual Funds: 35 basis points per annum;
- (b) Actively managed (non Class K) Fidelity Freedom® Funds: 35 basis points per annum;
- (c) Actively managed (Class K) Fidelity equity Mutual Funds: 20 basis points per annum;
- (d) Fidelity Freedom® K Funds: 20 basis points per annum;
- (e) Fidelity Enhanced Equity Index Funds: 10 basis points per annum;
- (f) Actively managed Fidelity fixed income and money market Mutual Funds, except for certain Fidelity institutional money market Mutual Funds (e.g. FIMM Funds): 20 basis points per annum;
- (g) Actively managed Fidelity and Pyramis commingled pools (excluding all stable value commingled pools): 10 basis points per annum;
- (h) Managed Income Portfolio I: 20 basis points per annum.

Company agrees that if any additional deemed investments into Fidelity investment products are added to the Plan, as directed by the Company, that the standard credits for those products at that time shall apply.

2. **Credits attributable to deemed investments into Non-Fidelity investment products:**

Average quarterly balances held in the Plan of deemed investments into non-Fidelity investment products multiplied by the quarterly rate that the non-Fidelity vendor has agreed to use to determine payments to FIIOC.

B. **Allocation.** The Participant Revenue Credit shall be allocated to Eligible Participants (defined below) as follows:

1. **Crediting Date:** Participant Revenue Credits shall be allocated to the accounts of Eligible Participants as soon as administratively feasible (generally within 15 business days) after a quarterly recordkeeping invoice has been prepared and sent.

2. Eligible Participants. For the quarterly allocation attributable to any investment product listed in (A), an Eligible Participant shall be any participant or beneficiary with a balance greater than zero in such deemed investment product on the Crediting Date.
3. Allocation Method: Allocations shall be made to Eligible Participants pro rata based on the ratio of each Participant's balance in the deemed investment fund on the Crediting Date to the total balances for all Eligible Participants in such deemed investment fund on the Crediting Date. The Allocations will be used to purchase whole and fractional shares of the deemed investments in the Eligible Participant Accounts. In the event a residual amount is insufficient to purchase a fractional share it will not be funded.
4. Directions: In allocating to Eligible Participants, the Trustee shall follow directions attached as Schedule B-2.

#### **REVENUE CREDIT – NET FLOAT EARNINGS**

- A. Calculation and Funding. The Trustee shall make a payment each quarter ("Revenue Credit") to a suspense account in the Plan Trust ("Revenue Credit Account"), beginning with the first quarter of 2015, calculated as the net float earnings attributable to the Plan Trust for such quarter.
- B. Investment. The Revenue Credit Account shall be invested in the fund specified for such purpose on Schedule C, Investment Options.
- C. Application of Account. The Company may direct Fidelity to use amounts held in the Revenue Credit Account to reimburse the Company for fees and expenses associated with services provided to the Plan, or pay such vendors, including Fidelity or third parties, directly. Procedures in accordance with Schedule B-1 shall govern payment of third parties.
- D. Directions. The Company shall provide direction to Fidelity when it wishes to use amounts held in the Revenue Credit Account for the payment of Plan expenses. In providing any direction to pay expenses, the Company shall have concluded that the payments are permissible under the Plan and meet the requirements of applicable laws, including ERISA and the Code.

#### **12b-1 PROVISIONS**

- A. 12b-1 Provisions. To the extent any Participant Revenue Credits or Revenue Credits described above are deemed to be attributable to investments in Fidelity Mutual Funds that have adopted a plan pursuant to Rule 12b-1 under the Investment Company Act of 1940 ("1940 Act") at the time such Participant Revenue Credits or Revenue Credits are made, such Participant Revenue Credits or Revenue Credits shall be made available pursuant to such plan ("12b-1 Payments"), and the following conditions shall apply:
  1. The obligation to make 12b-1 Payments shall continue in effect for one year from the Effective Date of this amendment, and shall continue for successive annual periods only upon at least annual approval by a vote of the majority of the Trustees for each of those Fidelity Mutual Funds that have adopted such plans, including a majority of those Trustees that are not "interested persons" (as defined in the 1940 Act) of such Mutual Funds and who have no direct or indirect financial interest in the operation of the plan or any agreement related thereto ("Qualified Trustees").

2. Notwithstanding any provision hereof to the contrary, the obligation to make these 12b-1 Payments with respect to any plan may be terminated without penalty at any time, upon either a vote of a majority of the Qualified Trustees, or upon a vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the applicable Fidelity Mutual Fund to terminate or not continue the plan for the applicable Fidelity Mutual Fund.
  3. Upon assignment of this Agreement, the obligation to make 12b-1 Payments shall automatically terminate.
- (10) Effective January 1, 2015, amending to add Schedules B-1 and B-2 in their entirety as attached hereto.

**IN WITNESS WHEREOF**, the Trustee and the Company have caused this Tenth Amendment to be executed by their duly authorized officers effective as of the day and year first above written. By signing below, the undersigned represent that they are authorized to execute this document on behalf of the respective parties. Notwithstanding any contradictory provision of the agreement that this document amends, each party may rely without duty of inquiry on the foregoing representation.

**THE PROGRESSIVE CORPORATION FIDELITY MANAGEMENT TRUST  
COMPANY**

By: \_\_\_\_\_ By: \_\_\_\_\_  
Its Authorized Signatory Date FMTC Authorized Signatory Date

## **SCHEDULE B-1 - *Procedures Governing Revenue Credit Account***

The following procedures govern the funding and use of the Revenue Credit Account.

### **Payment to Third Parties or Reimbursements to Company**

(1) Upon receipt of payment instructions in good order from an authorized signer for the Company, Trustee shall redeem shares or units of investment options held in the Revenue Credit Account necessary to make such payments, and shall issue payment as soon as administratively feasible thereafter (typically within 5 business days).

(2) Trustee shall have no obligation to process payment instructions that alone, or in aggregate with other instructions issued on the same date or already pending, exceed the amount of the Revenue Credit Account. Trustee will promptly notify the Company if the direction is not in good order or if the payment has been returned, but it shall be the responsibility of the party providing the direction to correct and resubmit any requested payment instructions.

(3) The Revenue Credit Account may not be used to offset, reimburse or pay: (i) expenses that have been deducted from Participant accounts; or (ii) expenses that are accrued in the net asset value or mil rate of an investment option.

(4) The directing party shall have the sole responsibility to issue timely payment instructions. Trustee is not responsible for any late charges, interest or penalties that may accrue owing to untimely submission to Trustee of directions in good order or Fidelity's processing of such instructions in accordance herewith. Trustee shall not be responsible for calculating amounts owed for any Plan payment (other than amounts owed to Trustee or its affiliates) and shall not use amounts held in the Revenue Credit Account to defray amounts requiring calculation (such as late charges, interest or penalties) unless such charges have been calculated and included in a specific amount Trustee has been directed to pay.

(5) Directions to make payment from the Revenue Credit Account shall be submitted through Trustee's internet application for Company.

### **Payment to Trustee**

The Company may direct Trustee to use Revenue Credits, to the extent available, to pay invoices for Trustee -provided services. Any charges for Trustee -provided services not paid by Revenue Credits shall be due and payable pursuant to applicable invoice and contract terms.

**SCHEDULE B-2 - *Directions Governing Revenue Credits and Participant Revenue Credits***

The Company hereby directs as follows:

- 1.Participant Revenue Credits allocated to Eligible Participant accounts shall be deemed to be invested: (Choose one option listed below)

Pro rata across current investments and sources

- 2.Deposits in the Revenue Credit Account will be invested in the first available source in the Plan's source hierarchy, which can be viewed on Fidelity Plan Sponsor Webstation®, unless the box is checked below and another source is specified. Please note that the source used will not impact testing and reporting.

Use the following source for allocations to the Revenue Credit Account: **[Source Number & Name]**

\_\_\_\_\_

Trustee shall be responsible for implementing the directions provided above, but has no responsibility for the legality or appropriateness of such directions. The Company may alter these directions at any time with reasonable advance notice and after consultation concerning the administrative feasibility of alternative directions.

**COMPANY**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**20\_\_ PROGRESSIVE CAPITAL  
MANAGEMENT BONUS PLAN**

1. The Plan. The Progressive Corporation and its subsidiaries (collectively "Progressive" or the "Company") have adopted the 20\_\_ Progressive Capital Management Bonus Plan (the "Plan") as part of their compensation program for the Company's investment professionals for the Company's 20\_\_ fiscal year (the "Plan year"). The Plan is performance-based and is administered under the direction of the Compensation Committee of the Board of Directors of The Progressive Corporation (the "Compensation Committee" or "Committee"). References in this Plan to the Company's portfolio mean the respective portfolios of the Company's subsidiaries and mutual insurance company affiliate that are actively managed by Progressive Capital Management Corp., and references in this Plan to the Company's investment results mean the investment results of those portfolios only.

The Company's investment professionals invest the funds of the Company in accordance with investment guidelines approved from time to time by the Investment and Capital Committee of the Board of Directors. Those guidelines address such matters as minimum average credit quality and the duration of the portfolio, as well as limitations on the extent to which the portfolio can be concentrated in individual issuers. Compliance with the guidelines is routinely monitored and variations therefrom must be reported to, and approved by, the Investment and Capital Committee.

2. Participants. Progressive employees who are assigned primarily to the Company's capital management function, including the Company's Chief Investment Officer ("CIO"), are eligible to be selected for participation in the Plan. Eligible employees in addition to the CIO will be selected by the CIO in consultation with the Chief Executive Officer ("CEO") and Chief Human Resource Officer ("CHRO") (the "Designated Executives") to participate in the Plan. Participants may also participate in other Gainsharing, bonus or incentive compensation plans maintained by Progressive, if so determined by the Designated Executives (or in the case of the CIO or any other executive officer, by the Compensation Committee). Other eligible employees of the Company may be selected for participation in the Plan for or at any time during the Plan year by the Designated Executives. In such cases, the Designated Executives will determine the new participant's Target Percentage (described below) and other terms of participation (except with respect to the CIO or any other executive officer, as to whom all determinations must be made by the Committee). Throughout this Plan, references to "executive officers" refer to executive officers within the meaning of any Securities and Exchange Commission ("SEC") or New York Stock Exchange rule applicable to the Company.

3. Annual Bonus Determination.

- A. Annual Bonus. Each participant may earn an annual cash bonus (the "Annual Bonus"), subject to the terms of this Plan. The amount of the Annual Bonus earned by any participant will be determined by application of the following formula:

$$\text{Annual Bonus} = \text{Paid Eligible Earnings} \times \text{Target Percentage} \times \text{Performance Factor}$$

- B. Paid Eligible Earnings. Paid Eligible Earnings for the Plan year shall mean and include the following: regular, Earned Time Benefit pay (excluding the payout of unused Earned Time

Benefit pay at termination), sick pay, holiday pay, funeral pay, military make-up pay, overtime pay, shift differential, and retroactive payments of any of the foregoing items, received by the participant during the Plan year for work or services performed as an officer or employee of Progressive.

For purposes of the Plan, Paid Eligible Earnings shall exclude all other types of compensation, including, without limitation, any short-term or long-term disability payments made to the participant, the earnings replacement component of any worker's compensation benefit or award, any bonus (including PCM Bonus Plan bonus), Gainsharing or other incentive compensation or equity-based award, including, without limitation, payments from any discretionary cash fund, any dividend payments and any unused Earned Time Benefit.

C. Target Percentage. The Target Percentages for participants in the Plan shall be determined by or under the direction of the Committee, but will not exceed 125% for any participant. Target Percentages may vary among Plan participants and may be changed from year to year by or under the direction of the Designated Executives (or in the case of the CIO or any other executive officer, by the Compensation Committee).

D. Performance Factor. The Performance Factor will be determined by the Committee after the expiration of the Plan year based on the performance of the Company's fixed-income investment portfolio (the "Fixed-Income Portfolio" or "Portfolio"), and such other factors and information relating to the performance of the Company's investment professionals as the Committee shall determine.

First, an indicated performance factor will be determined based on the fully taxable equivalent total return of the Fixed-Income Portfolio, in comparison to the total returns of the group of comparable investment firms identified by Rogers Casey (the "Investment Benchmark"), over the one- and three-year periods ending on December 31 of the Plan year, as described below. After the end of the Plan year, Rogers Casey will determine the firms that are included in the Investment Benchmark in accordance with the criteria specified on Exhibit I hereto. Rogers Casey will also provide to the Company the monthly total return data for each of the Investment Benchmark firms for the three-year period ending on December 31 of the Plan year.

Investment results for the Fixed-Income Portfolio will be marked to market, including the benefit of any state premium tax abatements for municipal securities held in the Portfolio that are realized by the Company during the Plan year, in order to calculate the Portfolio's fully taxable equivalent total return for the one-year (20\_\_-20\_\_) and three-year period (20\_\_-20\_\_) periods, in each case compounded on a monthly basis. The investment performance achieved by the Fixed-Income Portfolio for the one- and three-year periods (each, a "comparison period") will then be compared against the total returns of the firms included in the Investment Benchmark for the same periods, also compounded on a monthly basis, as determined by the Company from the monthly performance data supplied by Rogers Casey for each firm in the Investment Benchmark, to determine, for each comparison period, where the Fixed Income Portfolio's performance falls on a percentile basis when compared to the firms in the Investment Benchmark, as further described on Exhibit II ("Performance Ranking").

The Portfolio's Performance Ranking will be used to determine a performance score of between 0 and 2.0 for each comparison period, based on the following schedule:

| <b><u>Comparison Period</u></b> | <b><u>Score = 0</u><br/>Rank at or below</b> | <b><u>Score = 1.0</u><br/>Rank equal to</b> | <b><u>Score = 2.0</u><br/>Rank at or above</b> |
|---------------------------------|----------------------------------------------|---------------------------------------------|------------------------------------------------|
| One year                        | 15 <sup>th</sup> Percentile                  | 50 <sup>th</sup> Percentile                 | 85 <sup>th</sup> Percentile                    |
| Three year                      | 25 <sup>th</sup> Percentile                  | 50 <sup>th</sup> Percentile                 | 75 <sup>th</sup> Percentile                    |

A Performance Ranking between the values identified in the schedule will be interpolated on a straight-line basis to generate the applicable performance score, as further described on Exhibit II. Once these performance scores are determined, an overall indicated performance factor will be determined by averaging the performance scores for the one- and three-year comparison periods.

The overall indicated performance factor will be reported to the Compensation Committee after the expiration of the Plan year, together with such supporting documentation as the Committee may require. The Committee may consider such additional information as it deems necessary or appropriate in its discretion. Such information may include, without limitation:

- the primary investment factors that are responsible for favorable or unfavorable results relative to the peer group, such as the Company's duration and yield curve position and the extent of its exposure to sectors of the fixed-income markets, including corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities, government bonds, preferred stocks and non-investment-grade bonds;
- the Company's holdings within each sector relative to the general market composition of each sector;
- the extent to which material investment decisions may have been driven by Company strategic or capital considerations; and
- the impact on investment results of significant portfolio cash flows driven by Company operations, strategic decisions or capital transactions.

In addition, the Committee may choose to consult with others, including, without limitation, management, the Board's Investment and Capital Committee, other Board members, and outside compensation and investment professionals, in evaluating the performance of the Company's investment professionals for the year. The Committee will then determine the Performance Factor, provided that under no circumstances may the Performance Factor exceed 2.0 for the year.

E. In the event that Rogers Casey (or its successor or assigns) discontinues providing the data that is necessary to make the calculations required by this Plan, or modifies the information in such a way as to render the comparisons required by this Plan to be not meaningful, in the Committee's sole judgment, the determinations required above shall be made using investment return data for comparable firms satisfying the criteria set forth on Exhibit I as may be available from another recognized provider of investment industry data as the Committee may approve in its sole discretion.

4. Payment Procedures; Deferral. The Annual Bonuses will be determined and paid to Plan participants as soon as practicable after the Performance Factor has been determined by the Committee, but no later than March 15th following the Plan year.

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

5. Qualification Date; Leave of Absence; Withholding. Unless otherwise determined by the Committee, and except as otherwise provided herein, in order to be entitled to receive an Annual Bonus for the Plan year, the participant must be an active regular employee of Progressive on November 30 of the Plan year ("Qualification Date"). Individuals who are hired on or after December 1 of any Plan year are not entitled to an Annual Bonus for that Plan year. Any participant who is on a leave of absence covered by the Family and Medical Leave Act of 1993, as amended (or equivalent state or local law), the American with Disabilities Act of 1991, as amended (or equivalent state or local law), personal leave approved by the Company, military leave or short- or long-term disability (provided that, in the case of a long-term disability, the participant is still an employee of the Company) on the Qualification Date relating to the Plan year will be entitled to receive an Annual Bonus for the Plan year based on the Paid Eligible Earnings received by the participant during the Plan year. Annual Bonus payments made to participants will be net of any legally required deductions and/or withholdings for federal, state and local taxes and other items.
6. Other Plans. Participants may be selected to participate in this Plan and in one or more other incentive plans offered by the Company. In the case of the CIO or any other executive officer, all determinations with respect to such incentive plans and the executive's participation therein shall be made by the Compensation Committee. In all other cases, the Designated Executives shall have full authority to determine the incentive plan or plans in which any employee shall participate during the Plan year and the weighting factor (if any) that will apply to each such plan.
7. Non-Transferability. The right to any Annual Bonuses hereunder may not be sold, 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.
8. Administration. The Plan will be administered by or under the direction of the Committee. The Committee will have the authority to adopt, alter, amend, modify 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.

Unless otherwise determined by the Committee and except as provided in the immediately succeeding paragraph, 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 hereof, waive any of the requirements specified herein and make determinations

hereunder and to establish, approve, change or modify Investment Benchmarks, Performance Targets and Target Percentages) may be exercised by the Designated Officers. If one or more of said officers is unavailable or unable to participate, or if such position is vacant, the Chief Financial Officer may act instead of such officer.

Notwithstanding anything in this Plan to the contrary: (a) all determinations made under this Plan with respect to the CIO or any other individual deemed to be an executive officer of the Company must be made only by the Compensation Committee; and (b) only the Committee may make the determination of the Performance Factor required by Section 3.D. above.

9. Miscellaneous.

- A. Recoupment. Progressive shall have the right to recoup any Annual Bonus (or an appropriate portion thereof, as hereinafter provided) with respect to any Plan year paid to a participant hereunder who was an executive officer of Progressive at any time during such Plan year, if: (i) the Annual Bonus payment was predicated upon the achievement during such Plan year of certain financial or operating results (which includes, for purposes hereof, the performance of the Fixed-Income Portfolio); (ii) such financial or operating results were incorrect and were subsequently the subject of a restatement by Progressive within three (3) years after the date on which such Annual Bonus was paid to the participant; and (iii) a lower payment would have been made to the participant if the restated financial or operating results had been known at the time the payment was made. Such recoupment right shall be available to Progressive whether or not the participant in question was at fault or responsible in any way in causing such restatement. In such circumstances, Progressive will have the right to recover from each participant for such Plan year, and each such participant will refund to Progressive, the amount by which the Annual Bonus paid to such participant for the Plan year in question exceeded the lower payment that would have been made based on the restated results, without interest; provided, however, that Progressive will not seek to recover such amounts unless the amount due would exceed the lesser of five percent (5%) of the Annual Bonus previously paid or twenty-thousand dollars (\$20,000). Such recovery, at the Committee's discretion, may be made by lump sum payment, installment payments, credits against future bonus payments, or other appropriate mechanism.
- B. Further Rights. Notwithstanding the foregoing subsection A., if any participant that was an executive officer at any time during such Plan year engaged in fraud or other misconduct (as determined by the Committee or the Board, in their respective sole discretion) resulting, in whole or in part, in a restatement of the financial or operating results used hereunder to determine the Annual Bonuses for a specific Plan year, Progressive will further have the right to recover from such participant, and the participant will refund to Progressive upon demand, an amount equal to the entire Annual Bonus paid to such participant for such Plan year plus interest at the rate of eight percent (8%) per annum or, if lower, the highest rate permitted by law, calculated from the date that such bonus was paid to the participant. Progressive shall further have the right to recover from such participant Progressive's costs and expenses incurred in connection with recovering such Annual Bonus from the participant, including, without limitation, reasonable attorneys' fees. There shall be no time limit on the Company's right to recover such amounts under this subsection B., except as otherwise provided by applicable law.
- C. Rights Not Exclusive. The rights contained in the foregoing subsections A. and B. shall be in addition to, and shall not limit, any other rights or remedies that the Company may have under any applicable law or regulation.

- D. Compliance with Law. The Annual Bonuses determined and paid pursuant to the Plan shall be subject to all applicable laws and regulations. Without limiting the foregoing, and notwithstanding anything to the contrary contained in this Plan, if the SEC promulgates rules under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that require, as a condition to the Company's continued listing on a national securities exchange, that the Company develop and implement a policy requiring the recovery of erroneously awarded compensation, and such regulations are applicable to the Annual Bonuses awarded pursuant to the Plan, then the following shall apply:

In the event that the Company is required to prepare a restatement of one or more of its financial statements due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, the Company will be entitled to recover from each participant hereunder who was at the time of grant or payment of an Annual Bonus an executive officer of the Company under applicable SEC rules (whether or not such participant remains an executive officer of the Company at the time of such restatement or thereafter), the amount of any Annual Bonus that (i) was paid during the three year period preceding the date on which the Company is required to prepare such restatement and (ii) is in excess of what would have been paid to the participant under the restatement, or as may otherwise be required by such rules to be promulgated by the SEC.

10. Termination; Amendments. 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.
11. Unfunded Obligations. The Plan will be unfunded and all payments due under the Plan will be made from Progressive's general assets.
12. No Employment Rights. 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.
13. Misconduct; Set-off Rights. No Participant shall have the right to receive any Annual Bonus if, prior to such payment being made, Participant's employment is terminated as a result of any action or inaction that, under Progressive's employment practices or policies as then in effect, constitutes grounds for immediate termination of employment, as determined by Progressive (or, in the case of an executive officer, the Committee) in its sole discretion. 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.
14. Prior Plans. 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 with respect to the performance of Progressive's investment portfolio. Without limiting the generality of the foregoing, this Plan supersedes and replaces the 20\_\_ Progressive Capital Management Bonus Plan (the "Prior Plan"), which is and shall be deemed to have terminated on the last day of the Company's 20\_\_ fiscal year (the "Prior Plan Termination Date"); provided, however, that any bonuses or other sums earned and payable under the Prior Plan with respect to any Plan year ended on or prior to the Prior Plan Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder.

15. Effective Date. This Plan is adopted, and is effective, as of the first day of the Company's 20\_\_ fiscal year and will be effective for the 20\_\_ Plan year (which coincides with Progressive's 20\_\_ fiscal year, except that investment returns are calculated on a calendar year basis).
16. Governing Law. This Plan shall be interpreted and construed in accordance with the laws of the State of Ohio.

## **EXHIBIT I**

### **INVESTMENT BENCHMARK CRITERIA**

After the end of the Plan year, Rogers Casey will determine the firms comprising the Investment Benchmark for the Plan year from its records and will supply to the Company the monthly total returns and any other relevant data for each of those firms for the three-year period ending on December 31 of the Plan year.

A firm will be included in the Investment Benchmark if Rogers Casey is able to determine from its records that:

1. The firm has provided monthly data regarding its holdings and investment return, as necessary to determine or calculate such firm's monthly total return, and to evaluate such firm's compliance with each of the criteria set forth below, for the entire three-year period ending on December 31 of the Plan year; and
2. At all times during the three-year period ending on December 31 of the Plan year, the information provided by the firm shows, or Rogers Casey is able to calculate, that such firm's investment portfolio satisfies each of the following criteria:

|                        |                                                    |
|------------------------|----------------------------------------------------|
| Duration:              | Effective Duration between 1.5 years and 5.0 years |
| Credit Quality Average | = A, or = AA, or = AAA, or = AAA+                  |
| Convexity (%)          | $\geq -1$                                          |
| Sector Allocation:     | U.S. High Yield Corporate Debt $\leq 10\%$         |
| Sector Allocation:     | Mortgages $\leq 60\%$                              |
| Sector Allocation:     | U.S. Investment Grade Corporate Debt $\leq 60\%$   |
| Sector Allocation:     | CMBS $\leq 60\%$                                   |
| Sector Allocation:     | ABS $\leq 60\%$                                    |
| Sector Allocation:     | Emerging Markets Debt $\leq 5\%$                   |

3. The Company will have no discretion to alter the Investment Benchmark list after it is finalized by Rogers Casey.

## **EXHIBIT II**

### **DETERMINATION OF PERFORMANCE RANKING AND PERFORMANCE SCORES**

Once all the total returns are calculated, the data is sorted in descending order from highest to lowest total return. From here, the process to compute the Performance Factor is as follows (this Exhibit shows the procedures and related calculations for the 1-year comparison period required by the Plan; the calculations for the 3-year comparison period would follow the same procedures, except that necessary adjustments would be made to determine the top and bottom 25% levels and the performance score variances between those levels):

#### **INTERPOLATED VALUES FOR SETTING TOP AND BOTTOM 15% LEVELS**

The top 15% and bottom 15% total return rankings are computed based on the total number of firms in the Investment Benchmark, excluding the PCM Fixed-Income Portfolio return. For example, if there were 279 participants, the return required to earn a 2.0 portfolio performance factor would be determined by interpolating between the forty-first and forty-second firm's returns, since  $15\% \text{ of } 279 = 41.85$ . The same procedure would be used to determine the 0.0 portfolio performance factor.

The total returns, computed by Investment Accounting, for the interpolated positions are calculated as follows (continuing to use an example of 279 survey firms):

$$\begin{aligned}\text{Interpolated Value} &= \text{Firm 41 return} - ((\text{Firm 41 Return} - \text{Firm 42 Return}) * 0.85) \\ \text{Firm 41} &= 18.35\% \\ \text{Firm 42} &= 18.23\%\end{aligned}$$

$$\text{Firm 41.85 (Interpolated Value)} = 18.35\% - ((18.35\% - 18.23\%) * 0.85) = 18.25\%.$$

In this case, the PCM Performance Factor will equal 2.0 if its total return equals the interpolated value for Firm 41.85 of 18.25%. A similar calculation is then used to determine the bottom 15% group and interpolated value for a 0.0 performance score.

Once the two groups are computed, top and bottom 15%, the remainder of the performance scores are calculated as follows:

Performance score variance =  $(2.00) / \text{Number of positions from first participant after the top 15\% ranking to the 1}^{\text{st}}$  participant in the bottom 15% ranking. In the case of 279 participants, the number of positions to divide the 2.00 performance factors by would be 198.

The calculation for the performance score variance from 2.00 – 0.00 would be:

$$2.00 / 198 = .010101 \text{ per position for 279 firms}$$

In the case of a tie in total returns between firms, each firm will have the same performance score, one step under the next higher position. The next lowest position would then be stepped down by a factor based on the number of participants who tie. In the case of a tie between two firms, the step down will be twice the performance score variance to maintain the proper stepping to the 0.00 performance score level.

Example: If firms 42 and 43 each had the same total return in the 279 firm example, then firms 42 and 43 would each have a Performance Factor of 1.989899, which is  $2.00 - .0010101$ . The number 44

position in this example would have a performance score of 1.969697, which is the required step down from 42 to 44.

In addition, if the returns are tied between the interpolated value set for the 2.00 performance score and any position below the 2.00 level, those lower positions will also be set to a 2.00 performance score. The step down factor in the performance score will work similarly as noted in the example above. For the last 15% group, all firms with total returns equaling the last interpolated total return value would have the same performance score as the last interpolated value (.0101012), and all others in the last 15% group would have a 0.00 Portfolio Performance Factor.

Once all the performance scores have been created, from 2.00 to 0.00, PCM's return is compared to the rankings to determine its Performance Factor. If the PCM return is not in the top or bottom 15% and does not match the return of any participant, then PCM's Performance Factor is an interpolated value between the firms with the next highest and next lowest returns.

The interpolation computation for the Performance Factor based on PCM's return is as follows:

Performance score of firm below PCM return + (PCM's Return – Return below PCM) / (Return above PCM – Return below PCM) \* (Performance score of firm above PCM – Performance score of firm below PCM)

Assuming the following data, using the 279 firm example:

| <b><u>Firm</u></b> | <b><u>Performance score</u></b> | <b><u>Total return</u></b> |
|--------------------|---------------------------------|----------------------------|
| Firm above PCM     | .90                             | 13.61                      |
| PCM                |                                 | 13.39                      |
| Firm below PCM     | .89                             | 13.34                      |

The calculation of PCM's Performance Factor is:

$$0.89 + (13.39-13.34) / (13.61-13.34) * (0.90-0.89) = 0.89$$

The final performance score is rounded to the nearest one-hundredth, if necessary.

**CERTIFICATION**

I, Glenn M. Renwick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Progressive Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2015

/s/ Glenn M. Renwick

Glenn M. Renwick  
President and Chief Executive Officer

**CERTIFICATION**

I, John P. Sauerland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Progressive Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2015

/s/ John P. Sauerland  
John P. Sauerland  
Chief Financial Officer

SECTION 1350 CERTIFICATION

I, Glenn M. Renwick, President and Chief Executive Officer of The Progressive Corporation (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2015 (the “Report”), which this certification accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Glenn M. Renwick

Glenn M. Renwick  
President and Chief Executive Officer  
May 11, 2015

SECTION 1350 CERTIFICATION

I, John P. Sauerland, Chief Financial Officer of The Progressive Corporation (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2015 (the “Report”), which this certification accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John P. Sauerland

John P. Sauerland  
Chief Financial Officer  
May 11, 2015

Letter to Shareholders  
First Quarter 2015

Depending on where you were, when, perhaps Boston, your perspective on our recent winter could vary dramatically. For Progressive, the first two months of the year were notable, more so in personal auto, but not overly concerning. A more favorable March, and strong contributions from special lines and Commercial Lines, plus a little development tailwind, made for a very acceptable first quarter with our top line operating results for the quarter coming in at 8.2% written premium growth and a 92.7 combined ratio.

We have developed significant ability to recognize the difference between an *observed* weather influence and an *expected* weather influence in an attempt to ensure we do not let a more obvious rationale for elevated loss costs disguise a more sustainable trend that needs to be addressed, or equally important, resist reacting to a false positive for rate need. The first quarter is a time this analysis becomes increasingly important, and applied at the very local level, is crucial to the sustained balance of growth and profit we seek. The aggregate results have a few puts and takes over the quarter with special lines operating at predictably low loss costs proportional to winter use of the products and auto higher for the reasons offered. This was true for 2015's first quarter and, while the composition of results will change as we enter the second, the goal of an aggregate combined ratio at or below a 96 while growing as fast as possible remains in place.

Building on the same theme from my 2014 letter to shareholders, our Agency auto business remains our greatest area of concern and greatest opportunity for even faster aggregate growth. We'll discuss a few actions in more detail at our investor day in May, but our bigger actions center on a new product design, now market tested and, based on our comfort with test results, scheduled for current year roll-out to a further 16 states, representing 40% of our auto premium; and a more segmented approach to restoring profitable production, at current rate levels, with select online "aggregator" agencies. Our joint go-to-market strategy for Agent home and auto bundling with ASI, our homeowners affiliate, offers us further, and to some extent incremental, opportunities. None of these issues are immediate resolves, but they offer greater sustainability in a channel we enjoy serving.

Direct auto continues to be a growth engine for us. The quarter saw strong overall performance with prospects and conversion both increasing, leading to a low double-digit sales increase. Our marketing yield is very strong and easily supports the incremental spend in the quarter. We will push our marketing to higher spend levels as long as the incremental cost per sale is consistent with our yield and pricing models for this business.

Our current outlook for future rate need is modest, helping maintain this momentum for some time to come and, in the case of Agency, not counteracting some of the more growth positive actions being taken. Our outlook for rate is, as always, market by market and subject to change as we see trends emerging, but for now nothing significant to report. Our ability to measure the effect of gas price movement on miles driven and the more important frequency change is greatly enhanced by our large sample size of Snapshot® users, and we now model future rate need in states with gas price as an input variable. Like most statistical and correlation work we do, the results are more valuable as indicative than absolutes, but we feel privileged to have a data set with a refresh rate we believe is faster than competitive sources. Our retention measures have largely been tracking with rate actions we took mid-2014 to address profitability trends in our auto programs. More recent rate actions, along with the modest rate need noted, leave us with a more positive outlook on customer retention going forward.

Our Commercial Lines business continues to reap the rewards of past efforts to price and position our product to accept significant growth. In a derivative version of the line "build it and they will come," this part of our business is now a big contributor to overall results. For the quarter, 15% growth and an 83.2 combined ratio is quite a combination, and while we expect profitability results to trend over time toward outcomes more consistent with our pricing expectations, the premium growth and the positive build in policies in force are all very welcome.

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Our fully taxable equivalent total return for the quarter was 1.1%, trailing the comparable result from last year by 30 basis points. While we remain as uncertain as many regarding the future timing and degree of interest rate movement, we have maintained a very short duration in our fixed-income portfolio, and look forward to significant extension if and when the time is appropriate.

Our capital position ended the quarter in a very strong position, boosted in part by our \$400 million debt issuance in January, and well prepared for the now-closed ARX transaction. Our next quarter and interim monthly reporting will reflect the control position in ARX, the parent company of ASI, with disclosures highlighting the Property results. We expect to prototype the format at our May investor meeting.

Internal technology efforts are always numerous, but a particularly notable delivery in the quarter was a significant phase of our unified quoting experience platform, whereby consumers will now have a single quoting experience regardless of the device of choice - laptop, desktop, phone, or tablet. The subtleties of the consumer quoting experience and correlation to ultimate conversion are very significant, and this technology will provide us even greater responsiveness to our findings and increased testing capabilities than its predecessors.

This was the last quarter that Brian Domeck served as our CFO, as he moves toward retirement this month. While the opportunity to have very healthy movement in the senior management group is in fact welcome, there is no doubt Brian has been a great CFO and great colleague for me over the last eight years and we wish him all the best going forward.

It is always a plus to start the year off well and the first quarter, as much as any, presents its share of challenges. I like where we are and our start. I'm looking for confirmation of retention trends behaving as we expect, Agency auto improvements, and continued execution on our Destination Strategy. Combined with strong operational measures, we have every reason to feel the rest of the year could be a strong build from here.

/s/ Glenn M. Renwick

Glenn M. Renwick  
President and Chief Executive Officer