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

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2016

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission file number 1-9518

THE PROGRESSIVE CORPORATION

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of
incorporation or organization)

6300 Wilson Mills Road, Mayfield Village, Ohio

(Address of principal executive offices)

34-0963169

(I.R.S. Employer
Identification No.)

44143

(Zip Code)

(440) 461-5000

(Registrant's telephone number, including area code)

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

Title of each class

Common Shares, \$1.00 Par Value

Name of each exchange on which registered

New York Stock Exchange

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

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

☒

Non-accelerated filer

☐

(Do not check if a smaller reporting company)

Accelerated filer

☐

Smaller reporting company

☐

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

The aggregate market value of the voting common shares held by non-affiliates of the registrant at June 30, 2016 : \$19,214,447,523

The number of the registrant's Common Shares, \$1.00 par value, outstanding as of January 31, 2017 : 580,803,030

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 12 , 2017 , and the Annual Report to Shareholders of The Progressive Corporation and subsidiaries for the year ended December 31, 2016 , included as Exhibit 13 to this Form 10-K, are incorporated by reference in Parts I, II, III, and IV hereof.

PART I

ITEM 1. BUSINESS

(a) General Development of Business

The Progressive insurance organization began business in 1937. The Progressive Corporation, an insurance holding company formed in 1965, currently has insurance and non-insurance subsidiaries and affiliates. Our insurance subsidiaries and affiliates provide personal and commercial auto insurance, residential property insurance, and other specialty property-casualty insurance and related services. Our vehicle insurance products protect our customers against losses due to physical damage to their motor vehicles, uninsured and underinsured bodily injury, and liability to others for personal injury or property damage arising out of the use of those vehicles. Our residential property insurance products protect our customers against losses due to damages to their structure or possessions within the structure, as well as liability for accidents occurring in the structure or on the property. Our non-insurance subsidiaries and affiliates generally support our insurance and investment operations. We operate our vehicle businesses and our property business in a majority of the United States. We also sell personal auto physical damage and auto property damage liability insurance in Australia.

The Progressive Corporation acquired a controlling interest in ARX Holding Corp. (“ARX”), the parent company of American Strategic Insurance and other insurance subsidiaries and affiliates (“ASI”) in April 2015, and we now write residential property insurance for homeowners, other property owners, and renters. As a result of this acquisition, we began reporting the Property business as a separate segment as of the acquisition date.

The Progressive Corporation and the other ARX stockholders and stock option holders are parties to a stockholders’ agreement, which addresses the parties’ respective rights and obligations. Among other provisions, the stockholders’ agreement allows, and in certain circumstances requires, The Progressive Corporation to acquire 100% of the outstanding equity of ARX by the end of 2021. These provisions are described in *Note 15 – Redeemable Noncontrolling Interest* to our financial statements included in our 2016 Annual Report to Shareholders, which is filed as Exhibit 13 to this Form 10-K (the “Annual Report”). Until The Progressive Corporation owns 100% of the outstanding equity of ARX, the interests of the minority stockholders in ARX’s income and assets are reflected in our financial statements as noncontrolling interest.

(b) Financial Information About Segments

Incorporated by reference from *Note 10 – Segment Information* in our Annual Report.

(c) Narrative Description of Business

We had net premiums written of \$ 23.4 billion in 2016 , compared to \$ 20.6 billion in 2015 , and \$ 18.7 billion in 2014 . Our combined ratio, which we calculate by dividing the sum of our loss and loss adjustment expenses, policy acquisition costs, and other underwriting expenses, less fees and other revenues, by our net premiums earned, was 95.1 in 2016 , 92.5 in 2015 , and 92.3 in 2014 .

Organization

Our operations are run by our executive team, which consists of our Chief Executive Officer and the heads of our major business areas that report to the CEO, including a Chief Financial Officer, Chief Investment Officer, Chief Legal Officer, Chief Information Officer, Chief Human Resource Officer, and Chief Marketing Officer, along with the Presidents of Personal Lines, Commercial Lines, Claims, and Customer Relationships. Our Property business is headed by the President and Chief Executive Officer of ARX, who reports to the ARX Board of Directors; Progressive appoints three of the five members of the ARX Board.

Our insurance and claims organizations are generally managed on a state-by-state basis, due to the nature of insurance, legal and regulatory requirements, and other local factors, and are supplemented by national operations and supported by our corporate functions. State-specific organizations typically report to a regional general manager, who then reports to the applicable group president. Separate managers and organizations are responsible for our California Agency and Australian operations.

Personal Lines

Our Personal Lines segment writes insurance for personal autos and recreational and other vehicles, which we refer to as our special lines products. This business generally offers more than one program in a single state, with each program targeted to a specific distribution channel, market, or customer group. As of December 31, 2016, we wrote personal auto insurance in all 50 states and the District of Columbia and we write the majority of our special lines products in all 50 states. We also write

personal auto insurance in Australia. The Personal Lines business accounted for 85% of total net premiums written in 2016, 86% in 2015, and 90% in 2014.

The Personal Lines segment consists of our personal auto insurance products, as well as our special lines products.

- Personal auto insurance represented approximately 92% of our total Personal Lines net premiums written in 2016, 2015, and 2014. We ranked fourth in market share in the U.S. private passenger auto market for 2015 based on net premiums written and believe that we continued to hold that position for 2016. There are approximately 300 competitors in this market. Progressive and the other leading 15 private passenger auto insurers, each of which writes over \$2.0 billion of premiums annually, comprise about 80% of this market. All industry data, including ranking and market share, was obtained directly from data reported by either SNL Financial or A.M. Best Company, Inc. ("A.M. Best"), or was estimated using A.M. Best data as the primary source.
- Special lines products include insurance for motorcycles, ATVs, RVs, manufactured homes, watercraft, snowmobiles, and similar items, and represented about 8% of our Personal Lines net premiums written for 2016, 2015, and 2014. Due to the nature of these products, we typically experience higher losses during the warmer weather months. Our competitors are specialty companies and large multi-line insurance carriers. Although industry figures are not available, based on our analysis of this market, we believe that we are one of the largest providers of most of these products, and that we have been the market share leader for the motorcycle product since 1998.

Our Personal Lines products are sold through both the Agency and Direct channels.

- The Agency business includes business written by our network of more than 35,000 independent insurance agencies located throughout the United States, including brokerages in New York and California. These independent insurance agents and brokers have the ability to place business with Progressive for specified insurance coverages within prescribed underwriting guidelines, subject to compliance with company-mandated procedures. The agents and brokers do not have authority on behalf of Progressive to establish underwriting guidelines, develop rates, settle or adjust claims, or enter into other transactions or commitments. The Agency business also writes insurance through strategic alliance business relationships with other insurance companies, financial institutions, and national agencies. The total net premiums written through the Agency channel represented 51% of our Personal Lines volume in 2016, compared to 52% in 2015 and 54% in 2014.
- The Direct business includes business written directly by us on the Internet, through mobile devices, and over the phone. The total net premiums written by the Direct business represented 49% of our Personal Lines volume in 2016, compared to 48% in 2015 and 46% in 2014.

Our Personal Lines strategy is to be a competitively priced provider of a broad range of personal auto and special lines insurance products with distinctive service, distributed through whichever channel the customer prefers, and combined with property insurance and other products when appropriate to match our customers' needs. Volume potential is driven by our price competitiveness, brand recognition, quality service, and the actions of our competitors, among other factors. See "Competitive Factors" below for further discussion.

We seek to refine our personal auto segmentation, underwriting models, and pricing over time. In mid-2016, we introduced our next generation auto product and will continue to roll this product out during 2017. This product version expands our use of prior claims information, adds billing and vehicle history segmentation, and expands our tiering mechanisms to afford more competitive rates for new business while providing more stable rates for our longer-tenured customers.

We also continue to invest to bring Snapshot[®], our usage-based insurance program, to more customers. Snapshot provides customers in both the Agency and Direct channels the opportunity to improve their auto insurance rates based on their personal driving behavior. During 2016, we launched the Snapshot mobile app, which supplements the current device that customers plug into their cars. This new app improves the user experience while also reducing monitoring costs. Snapshot is currently available to our auto customers nationwide, except in California and North Carolina due to the regulatory environment.

In addition, our Personal Lines business is focused on efforts to form deeper and longer-term relationships with our customers in a strategy we call the Destination Era. In this program, we seek to leverage our Property business and products offered by unaffiliated third parties, to offer our customers access to a range of products addressing their diverse insurance needs and, if the customer chooses, to "bundle" multiple products together. Bundled products are becoming an integral part of our consumer offerings and an important part of our strategic agenda. Customers who prefer to bundle represent a sizable segment of the

market, and our experience is that they tend to stay with us longer and generally have lower claims costs. Our Destination Era strategy involves a number of initiatives, including:

- In the Direct channel, Progressive Home Advantage[®] (PHA) is the program in which we bundle our auto product with homeowners and renters insurance provided by unaffiliated insurance carriers or ASI.
- Together with ASI as our exclusive provider, we also offer a PHA program in our Agency business. Our two organizations now have dedicated, coordinated sales teams focusing on auto/home (and auto/renters) bundled growth in this channel.
- In addition, we offer the Platinum product to those select agents who have the appropriate customers and believe our bundled offering is a "must have" for their agency. This product is a single offering that combines home insurance from ASI and auto insurance from Progressive with compensation, coordinated policy periods, single event deductible, and other features that meet the needs and desires that our agents have expressed. During 2016, we expanded Platinum in both the number of agents that have access to the product as well as the number of states where it is available.
- Our special lines products and umbrella insurance can be combined with any of the auto, home, or renters coverages that we offer, in either the Direct or Agency businesses.
- As our mix of Direct customers shifts towards more complex, multi-product customers, we are further expanding the roster of products that we make available to consumers through other companies. As a result, visitors to our website can now be connected to unaffiliated insurance carriers that provide life, health, or travel insurance, among others insurance products, as well as to third parties providing vehicle extended warranties, or finance or refinance products.

Commercial Lines

The Commercial Lines segment writes primary liability, physical damage, and other auto-related insurance for automobiles and trucks owned and/or operated predominately by small businesses as a part of the commercial auto market. We offer these products in 49 states; we do not currently write Commercial Lines products in Hawaii or the District of Columbia. This business represented 11% of our total net premiums written in 2016 and 2015 and 10% in 2014. Our Commercial Lines customers on average insure approximately two vehicles. Even though we continue to write over 90% of our Commercial Lines business through the Agency channel, we are seeing more small business owners purchasing their insurance on a direct basis. For 2016, net premiums written through the Direct channel increased by 14%.

The Commercial Lines 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.

Just as in the personal auto business, we also want to be the destination insurer for small business owners. Through our Progressive Advantage[®] program, we offer our commercial auto customers general liability and business owners' policies and workers' compensation coverage written by unaffiliated insurance companies or agencies. The products are generally offered throughout the continental United States.

During 2016, we provided commercial auto and claims service to an Uber Technologies subsidiary on a pilot basis in Texas. We are learning alongside a leading technology platform in the sharing economy, while simultaneously creating new auto insurance opportunities with ridesharing and other vehicle matching service models. We will continue to evaluate this relationship before we expand to other states.

There are approximately 325 competitors in the total U.S. commercial auto market. We primarily compete with about 45 other large companies/groups, each with about \$150 million or more of commercial auto premiums written annually. These leading commercial auto insurers comprise about 80% of this market. Our Commercial Lines business ranked number one in the commercial auto insurance market for 2015 based on net premiums written, and we believe that we continued to hold that position for 2016.

Property

ASI, one of the 20 largest homeowners carriers in the United States, specializes in residential property insurance, personal umbrella insurance, and primary and excess flood insurance. There are approximately 375 competitors in the homeowners insurance market nationwide. The top 20 carriers comprise about 75% of the market.

Our Property segment writes homeowners and renters insurance, primarily in the Agency channel in 38 states and the District of Columbia. ASI also acts as a participant in the "Write Your Own" program for the National Flood Insurance Program under which they write flood insurance in 40 states and the District of Columbia. Property policies are generally written on a 12-month basis. As discussed above, ASI's Property business is an important component of our Destination Era strategy.

Our Property business represented about 4% of our total net premiums written in 2016 and 3% in 2015. We tend to see more business written during the second and third quarters based on the cyclical nature of property sales. Losses also tend to be higher during the warmer weather months when storms are more prevalent. For 2016, Texas and Florida comprised 56% of our Property business based on direct premiums written.

ASI has exposure to losses from catastrophes and other severe storms. To help mitigate these risks, ASI enters into reinsurance arrangements. See the "Reinsurance" section below for further discussion of our reinsurance programs.

Other Indemnity

Our other indemnity businesses consist of managing our run-off businesses, including the run-off of our professional liability business. We had only three professional liability policies in force as of December 31, 2016, although we continue to process claims on expired policies.

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 Automobile Insurance Procedures/Plans (CAIP)* – We are the only servicing carrier on a nationwide basis for CAIP plans, which are state-supervised plans servicing the involuntary market in 42 states and the District of Columbia. 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. Reimbursements to us from the CAIP plans are required by state laws and regulations, subject to contractual service standards. Any changes in our participation as a CAIP service provider would not materially affect our financial condition, results of operations, or cash flows.
- *Commission-based businesses* – We earn commissions as an agent for other insurance companies, as follows:

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

In our Commercial Lines business, 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 December 31, 2016. We receive commissions for the policies written under this program, all of which are used to offset the expenses associated with maintaining this program.

Reinsurance

We cede a portion of our direct premiums written to reinsurance plans. We participate in several mandatory state pools, including the Michigan Catastrophic Claims Association, Florida Hurricane Catastrophe Fund, and North Carolina Reinsurance Facility, as well as act as a servicing agent for state-mandated involuntary plans for commercial vehicles (CAIP plans) and as a participant in the "Write Your Own" program for federally regulated plans for flood (National Flood Insurance Program), all of which are governed by insurance regulations. We also have voluntary contractual arrangements that primarily relate to the Property business underwritten by insurance subsidiaries of ARX.

The reinsurance program in our Property business is designed to reduce overall risk while, to an extent, protecting capital from the costs associated with catastrophes. This reinsurance program has two parts: an occurrence excess of loss program and an aggregate stop-loss agreement, generally from unaffiliated reinsurance companies, most of which are "A" rated by A.M. Best. The occurrence excess of loss program supports the goal of maintaining adequate capital within ARX's insurance subsidiaries

while sustaining at least two one-in-one hundred year events in a single contract period. It contains several layers: privately-placed reinsurance, a catastrophe bond, and coverage obtained through the Florida Hurricane Catastrophe Fund, among other arrangements. ARX is responsible for all losses where the losses and loss adjustment expenses (LAE) do not reach the reinsurance threshold of \$50 million, and for the first \$50 million in loss and LAE from each of the first and second events in the same contract period that exceed the threshold. ASI may be responsible for additional losses if we experience more than two such events or if claims incurred exceed the maximum limits of the reinsurance coverage.

ARX also entered into an aggregate stop-loss agreement, effective January 1, 2017, that covers all losses except those from named storms (both hurricanes and tropical storms) and liability claims. This agreement provides \$200 million of coverage if ARX's insurance subsidiaries net loss and LAE ratio for the full year exceeds 63%. The aggregate stop-loss agreement reduces the likelihood that ARX will experience a net underwriting loss in 2017 for reasons other than named storms.

See *Note 7 – Reinsurance* in our Annual Report for further discussion.

Claims

We manage our vehicle claims handling on a companywide basis through approximately 200 stand-alone claims offices located throughout the United States. In addition, we operate 68 Service Centers in 51 metropolitan areas across the country, of which 55 have combined claims offices and Service Centers to improve our efficiency and manage costs. Insureds and other claimants can elect to have their vehicles repaired by repair shops of their choosing, have their vehicles repaired by one of our network shops, or have the entire repair process coordinated by representatives in one of our Service Centers. If a customer elects to repair their vehicle through a Service Center, we provide end-to-end resolution for auto physical damage losses. Customers can choose to bring their vehicles to one of these sites, where they can pick up a rental vehicle. Our representatives will arrange the repair, including pick-up and delivery of the vehicle, and inspect the vehicle once the repairs are complete. This innovative, patented approach to the vehicle repair process increases consumer satisfaction and our productivity and improves the cycle time in comparison to our other claims settlement processes. Under the Service Center and network shop options, we guarantee the repairs for as long as the customer owns or leases their car. If a customer decides not to repair their vehicle, our representatives will write an estimate and the customer can receive payment on the spot. ASI handles property claims separately through a network primarily of independent claims adjusters.

Competitive Factors

The automobile insurance and other property-casualty insurance markets in which we operate are highly competitive. Property-casualty insurers generally compete on the basis of price, agent commission rates, consumer recognition and confidence, coverages offered and other product features, claims handling, financial stability, customer service, and geographic coverage. Vigorous competition is provided by large, well-capitalized national companies in both the Agency and Direct channels, and by smaller regional insurers. In the Agency channel, some of our competitors have broad distribution networks of employed or captive agents. With widely available comparative rating services, consumers can easily compare prices among competitors. Many competitors invest heavily in advertising and marketing efforts and/or expanding their online or mobile service offerings. Over the past decade, these changes have further intensified the competitive nature of the property-casualty insurance markets in which we operate.

We rely heavily on technology and extensive data gathering and analysis to segment markets and price accurately according to risk potential. We have remained competitive by refining our risk measurement and price segmentation skills, closely managing expenses, and achieving operating efficiencies. High-quality customer service, fair and accurate claims adjusting, and strong brand recognition are also important factors in our competitive strategy. Competition in our insurance markets is affected by the pace of technological developments. An insurer's ability to adapt to change, innovate, develop, and implement new applications and other technologies can affect its competitive position.

In addition, there has been a proliferation of patents related to new ways in which technologies can affect competitive positions in the insurance industry. Some of our competitors have many more patents than we do. We hold a U.S. patent (expiring in 2021), and have a U.S. patent application pending, on the innovative approach to vehicle repair service used in our Service Centers, as described above, and two U.S. patents (expiring in 2028) on the Name Your Price[®] functionality on our website. In addition, we hold two patents (expiring in 2019) related to our online policy self-service technology.

We have a substantial amount of "know-how" developed from years of experience with usage-based insurance, and from analyzing the data from over 18 billion driving miles derived from usage-based devices. We believe this intellectual property provides us with a competitive advantage in the usage-based insurance market.

State Insurance Licenses

Our insurance subsidiaries operate under licenses issued by various state insurance authorities. These licenses may be of perpetual duration or renewable periodically, provided the holder continues to meet applicable regulatory requirements. Our licenses govern the kinds of insurance coverages that may be written by our insurance subsidiaries in the issuing state. Such licenses are normally issued only after the filing of an appropriate application and the satisfaction of prescribed criteria. All licenses that are material to our subsidiaries' businesses are in good standing.

Insurance Regulation

Our insurance subsidiaries are generally subject to regulation and supervision by insurance departments of the jurisdictions in which they are domiciled or licensed to transact business. At least one of our insurance subsidiaries is licensed and subject to regulation in each of the 50 states and the District of Columbia. The nature and extent of such regulation and supervision varies from jurisdiction to jurisdiction. Generally, an insurance company is subject to a higher degree of regulation and supervision in its state of domicile. Our insurance subsidiaries and our mutual insurance company and Lloyds (together our mutual insurance company affiliates) are domiciled in the states of Delaware, Florida, Indiana, Louisiana, Michigan, New Jersey, New York, Ohio, Texas, and Wisconsin. In addition, California and Florida treat certain of our subsidiaries as domestic insurers for certain purposes under their "commercial domicile" laws.

State insurance laws impose numerous requirements, conditions, and limitations on the operations of insurance companies. Insurance departments have broad regulatory powers relating to those operations. Regulated areas include, among others:

- Licensing of insurers and agents,
- Capital and surplus requirements,
- Statutory accounting principles specific to insurance companies and the content of required financial and other reports,
- Requirements for establishing insurance reserves,
- Investments,
- Acquisitions of insurers and transactions between insurers and their affiliates,
- Limitations on rates of return or profitability,
- Rating criteria, rate levels, and rate changes,
- Insolvencies of insurance companies,
- Assigned risk programs,
- Authority to exit a business, and
- Numerous requirements relating to other areas of insurance operations, including: required coverages, policy forms, underwriting standards, and claims handling.

Insurance departments are authorized to conduct periodic and other examinations of regulated insurers' financial condition and operations to monitor the financial stability of the insurers and to ensure adherence to statutory accounting principles and compliance with state insurance laws and regulations. In addition, in some states, the attorney general's office may exercise certain supervisory authority over insurance companies and, from time to time, may investigate certain insurance company practices.

Insurance departments establish and monitor compliance with capital and surplus requirements. Although the ratio of written premiums to surplus that the regulators will allow is a function of a number of factors (including applicable law, the type of business being written, the adequacy of the insurer's reserves, and the quality of the insurer's assets), the annual net premiums that an insurer may write historically have been perceived to be limited to a specified multiple of the insurer's total surplus, generally 3 to 1 for property and casualty insurance, which is the target for our vehicle businesses; our Property business maintains a lower premiums-to-surplus ratio. Thus, the amount of an insurer's statutory surplus, in certain cases, may limit its ability to grow its business. At year-end 2016, we had net premiums written of \$ 23.4 billion and statutory surplus of \$8.6 billion. The combined premiums-to-surplus ratio for all of our insurance companies was 2.7 to 1. In addition, as of December 31, 2016, we had access to \$1.3 billion of securities held in a non-insurance subsidiary, portions of which could be contributed to the capital of our insurance subsidiaries to support growth or for other purposes. The National Association of Insurance Commissioners (NAIC) also has developed a risk-based capital (RBC) program to enable regulators to identify and take appropriate and timely regulatory actions relating to insurers that show signs of weak or deteriorating financial condition. RBC is a series of dynamic surplus-related formulas that contain a variety of factors that are applied to financial balances based on the degree of certain risks, such as asset, credit, and underwriting risks. At December 31, 2016, our RBC ratios were well in excess of minimum requirements.

Insurance companies are generally required to file detailed annual and other reports with the insurance department of each jurisdiction in which they conduct business. These reports include:

- the insurer's financial statements under statutory accounting principles,
- details concerning claims reserves held by the insurer,
- specific investments held by the insurer, and
- numerous other disclosures about the insurer's financial condition and operations.

State insurance laws and insurance departments also regulate investments that insurers are permitted to make. Limitations are placed on the amounts an insurer may invest in a particular issuer, as well as the aggregate amount an insurer may invest in certain types of investments. Certain investments are prohibited.

Insurance holding company laws enacted in many jurisdictions authorize insurance departments to regulate acquisitions of insurers and certain other transactions and to require periodic disclosure of specified information. These laws impose prior approval requirements for certain transactions between insurers and their affiliates and generally regulate dividend and other distributions, including loans and cash advances, between insurers and their affiliates. See the "Dividends" discussion in Item 5(c) below for further information on these dividend limitations. The scope of insurance holding company regulation has expanded as states have adopted the revised model holding company act promulgated by the NAIC in 2010.

Under state insolvency and guaranty laws, insurers can be assessed or required to contribute to state guaranty funds to cover policyholder losses resulting from the insolvency of other insurers. Insurers are also required by many states, as a condition of doing business in the state, to provide coverage to certain risks that cannot find coverage in the voluntary market. These "assigned risk" plans generally specify the types of insurance and the level of coverage that must be offered to such involuntary risks, as well as the allowable premium. Many states also have involuntary market plans, which hire a limited number of servicing carriers to provide insurance to involuntary risks. These plans, through assessments, pass underwriting and administrative expenses on to insurers that write voluntary coverages in those states.

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

As mentioned above, insurance departments have regulatory authority over many other aspects of an insurer's insurance operations, including coverages, forms, rating criteria, and rate levels. The ability to implement changes to these items on a timely basis is critical to our ability to compete effectively in the marketplace. Rate regulation varies from "use and file," to "file and use," to prior approval.

Regulation of insurance constantly changes as real or perceived issues and developments arise. Some changes may be due to economic developments, such as changes in investment laws made to recognize new investment products or to respond to perceived investment risks, while others reflect concerns about consumer privacy, insurance availability, prices, allegations of discriminatory pricing, underwriting practices, and solvency. In recent years, legislation, regulatory measures, and voter initiatives have been introduced, and in some cases adopted, which deal with use of non-public consumer information, cybersecurity, use of credit information in underwriting and rating, insurance rate development, rate of return limitations, and the ability of insurers to cancel or non-renew insurance policies. In addition, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary. Since 2010, the Federal Insurance Office has been required to collect information about the insurance industry and monitor the industry for systemic risk.

In addition to our U.S. operations, we write personal auto physical damage and auto property damage liability insurance in Australia through a branch of one of our U.S. insurance subsidiaries. This insurance is primarily offered through the Internet. We do not write auto bodily injury liability or medical payment insurance in Australia. There are two primary agencies that regulate insurance in Australia: the Australian Securities and Investment Commission, which regulates consumer disclosures, and the Australian Prudential Regulatory Authority, which regulates solvency. Both agencies enforce laws within their jurisdictions, issue regulations, take enforcement actions, and, in general, have broad regulatory powers. Progressive Direct Insurance Company has been issued licenses by both agencies and the licenses are in good standing.

Statutory Accounting Principles

Our results are reported in accordance with accounting principles generally accepted in the United States of America (GAAP), which differ in certain respects from amounts reported under statutory accounting principles (SAP) prescribed by insurance regulatory authorities. Certain significant differences are described below:

Category	GAAP Accounting	SAP Accounting
Acquisition Expenses	Commissions, premium taxes, and other variable costs incurred in connection with the successful acquisition of new and renewal business are capitalized and amortized pro rata over the policy term as premiums are earned.	Commissions, premium taxes, and all other acquisition expenses are expensed as incurred.
Non-admitted Assets	Premiums receivable are reported net of an allowance for doubtful accounts.	Premiums receivable over 90 days past due are “non-admitted,” which means they are excluded from surplus. For premiums receivable less than 90 days past due, we also estimate a bad debt reserve.
	Furniture, equipment, application software, leasehold improvements, and prepaid expenses are capitalized and amortized over their useful lives or periods benefited.	Excluding computer equipment and operating software, the value of all other furniture, equipment, application software, leasehold improvements, and prepaid expenses, net of accumulated depreciation or amortization, is non-admitted against surplus. Computer equipment and operating software are capitalized, subject to statutory limitations based on surplus, and depreciated over three years.
	Deferred tax assets are recorded based on estimated future tax effects attributable to temporary differences. A valuation allowance would be recorded for any tax benefits that are not expected to be realized.	The accounting for deferred tax assets is consistent with GAAP, except for deferred tax assets that do not meet statutory requirements for recognition, which are non-admitted against surplus.
Reinsurance	Ceded reinsurance balances are shown as an asset on the balance sheet as “prepaid reinsurance premiums” and “reinsurance recoverables.”	Ceded unearned premiums are netted against the “unearned premiums” liability. Ceded unpaid loss and loss adjustment expense (LAE) amounts are netted against “loss and LAE reserves.” Only ceded paid loss and LAE are shown as a “reinsurance recoverables” asset.
Investment Valuation	Fixed-maturity securities, which are classified as available-for-sale, are reported at fair values.	Fixed-maturity securities are reported at amortized cost or the lower of amortized cost or fair value, depending on the NAIC designation of the security.
	Preferred stocks, both redeemable and nonredeemable, are reported at fair values.	Redeemable preferred stocks are reported at amortized cost or the lower of amortized cost or fair value, depending on the NAIC designation of the security. Nonredeemable preferred stocks are reported at fair value, consistent with GAAP.
Federal Income Taxes	The income tax provision includes both current and deferred income taxes.	For income statement reporting, the income tax provision only includes current tax expense. Deferred taxes are recorded directly to surplus. Deferred tax assets are subject to certain limitations on admissibility.
State Income Taxes	The income tax provision includes both current and deferred income taxes.	Current income taxes are recorded as a component of underwriting expenses. Deferred income taxes are not recorded.

Investments

Our principal investment goals are to manage our portfolio on a total return basis to support all of the insurance premiums that we can profitably write and contribute to our comprehensive income. Our portfolio is invested primarily in short-term and intermediate-term, investment-grade fixed-income securities. Our investment portfolio had a fair value of \$23.5 billion at December 31, 2016, compared to \$20.9 billion at December 31, 2015. Investment income is affected by the variability of cash flows to or from the portfolio, shifts in the type and quality of investments in the portfolio, changes in yield, and other factors. For securities held in our investment portfolios, the total investment income, including net realized gains (losses) on securities, before expenses and taxes, was \$589.7 million in 2016, compared to \$567.3 million in 2015 and \$632.6 million in 2014. For our investment portfolio, on a pretax total return basis (i.e., total investment income plus changes in unrealized gains/losses), investment income was \$791.0 million, \$242.9 million, and \$747.9 million for the years ended December 31, 2016, 2015, and 2014, respectively. Outside of our investment portfolio, we recognized a \$59.7 million other-than-temporary impairment loss resulting from two renewable energy tax credit investments entered into during 2016. For more detailed discussion, see

Note 2 – Investments, Note 3 – Fair Value, and Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report.

Employees

The number of employees at December 31, 2016 was 31,721, all of whom were employed by subsidiaries of The Progressive Corporation, including 692 employees employed by ARX and its subsidiaries and affiliates.

Liability for Property-Casualty Losses and Loss Adjustment Expenses

The consolidated financial statements include the estimated liability for unpaid losses and loss adjustment expenses (LAE) of our insurance subsidiaries. Our objective is to ensure that total reserves (i.e., case reserves and incurred but not recorded reserves, or “IBNR”) are adequate to cover all loss costs, while sustaining minimal variation from the time reserves are initially established until losses are fully developed. The liabilities for losses and LAE are determined using actuarial and statistical procedures and represent undiscounted estimates of the ultimate net cost of all unpaid losses and LAE incurred through December 31 of each year. These estimates are subject to the effect of future trends on claims settlement, among other factors.

These estimates are continually reviewed and adjusted as experience develops and new information becomes known. Adjustments, if any, relating to accidents that occurred in prior years are reflected in the current year results of operations and are referred to as “development” of the prior year estimates. In establishing loss reserves, we take into account projected changes in claim severity caused by anticipated inflation and a number of factors that vary with the individual type of policy written. These severities are projected based on historical trends, adjusted for anticipated changes in underwriting standards, inflation, policy provisions, claims resolution practices, and general economic trends. These anticipated trends are reconsidered periodically based on actual development and are modified if necessary.

We have not entered into any loss reserve transfers or similar transactions having a material effect on earnings or reserves.

See *Note 6 – Loss and Loss Adjustment Expense Reserves* in the Annual Report for a detailed discussion of our loss reserving practices and a reconciliation of our loss and LAE reserve activity, along with incurred and paid claims development by accident year for our segments, based on statutory definition. In addition, further information about our loss reserving practices can be found in our “Report on Loss Reserving Practices,” which was filed with the Securities and Exchange Commission (SEC) on Form 8-K on August 12, 2016.

(d) Financial Information About Geographic Areas

We operate our businesses throughout the United States; we also sell personal auto physical damage and auto property damage liability insurance in Australia. For the years ended December 31, 2016, 2015, and 2014, net premiums earned in our Australian business were \$20.3 million, \$15.9 million, and \$17.1 million, respectively. The amount of Australian assets is immaterial to our consolidated financial condition.

(e) Available Information

Our website is located at progressive.com. As soon as reasonably practicable, we make all documents that we file with, or furnish to, the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, available free of charge via our website at progressive.com/investors. These reports are also available on the SEC's website: <http://www.sec.gov>.

ITEM 1A. RISK FACTORS

Our business involves various risks and uncertainties, certain of which are discussed in this section. Management divides these risks into four broad categories in assessing how they may affect our financial condition, cash flows, and results of operations, as well as our ability to achieve our business objectives:

- **Insurance Risks** - risks associated with assuming, or indemnifying for, the losses or liabilities incurred by policyholders
- **Operating Risks** - risks stemming from external or internal events or circumstances that directly or indirectly may affect our insurance operations
- **Market Risks** - risks that may cause changes in the value of assets held in our investment portfolios, and
- **Credit and Other Financial Risks** - risks that the other party to a transaction will fail to perform according to the terms of a contract, or that we will be unable to satisfy our obligations when due or obtain capital when necessary.

Although we have organized risks generally according to these categories in the discussion below, many of the risks may have ramifications in more than one category. For example, although presented as an Operating Risk below, governmental regulation of insurance companies also affects our underwriting, investing, and financing activities, which are addressed separately under Insurance Risks, Market Risks, and Credit and Other Financial Risks below. These categories, therefore, should be viewed as a starting point for understanding the significant risks facing us and not as a limitation on the potential impact of the matters discussed.

It also should be noted that our business and that of other insurers may be adversely affected by a downturn in general economic conditions and other forces beyond our control. Issues such as unemployment rates, the number of vehicles sold, home ownership trends, inflation or deflation, consumer confidence, and construction spending, among a host of other factors, will have a bearing on the amount of insurance that is purchased by consumers and small businesses and the costs that we incur. Also, to the extent that we have a concentration of business in one or more states or regions of the country, general economic conditions in those states or regions may have a greater impact on our business.

We cannot predict whether the risks and uncertainties discussed in this section, or other risks not presently known to us or that we currently believe to be immaterial, may develop into actual events and impact our businesses. If any one or more of them does so, the events could materially adversely affect our financial condition, cash flows, or results of operations, and the market prices of our common shares or debt securities could decline.

This information should be considered carefully together with the other information contained in this report and in the other reports and materials filed by us with the SEC, as well as news releases and other information we publicly disseminate from time to time.

I. Insurance Risks

Our success depends on our ability to underwrite and price risks accurately and to charge adequate rates to policyholders.

Our financial condition, cash flows, and results of operations depend on our ability to underwrite and set rates accurately for a full spectrum of risks. A primary role of the pricing function is to ensure that rates are adequate to generate sufficient premiums to pay losses, loss adjustment expenses, and underwriting expenses, and to earn a profit.

Pricing involves the acquisition and analysis of historical data regarding vehicle accidents, other insured events, and associated losses, and the projection of future trends for such accidents and events, loss costs, expenses, and inflation, among other factors, for each of our products in multiple risk tiers and many different markets. Our ability to price accurately is subject to a number of risks and uncertainties, including, without limitation:

- the availability of sufficient, reliable data
- our ability to conduct a complete and accurate analysis of available data
- uncertainties inherent in estimates and assumptions, generally
- our ability to timely recognize changes in trends and to predict both the severity and frequency of future losses with reasonable accuracy
- our ability to predict changes in operating expenses with reasonable accuracy
- the development, selection, and application of appropriate rating formulae or other pricing methodologies
- our ability to innovate with new pricing strategies and the success of those strategies
- our ability to implement rate changes and obtain any required regulatory approvals on a timely basis
- our ability to predict policyholder retention accurately
- unanticipated court decisions, legislation, or regulatory actions
- the frequency and severity of catastrophe events
- our ability to understand the impact of ongoing changes in our claims settlement practices
- changing vehicle usage and driving patterns, which may be influenced by oil and gas prices among other factors, changes in residential occupancy patterns, and the emerging sharing economy
- advancements in vehicle or home technology or safety features, such as accident and loss prevention technologies or the development of autonomous or partially autonomous vehicles
- unexpected changes in the medical sector of the economy, including medical costs and systemic changes resulting from national or state health care laws or regulations
- unforeseen disruptive technologies and events, and
- unanticipated changes in auto repair costs, auto parts prices, used car prices, or construction requirements or labor and materials costs.

The realization of one or more of these risks may result in our pricing being based on inadequate or inaccurate data or inappropriate analyses, assumptions, or methodologies, and may cause us to estimate incorrectly future changes in the frequency or severity of claims. As a result, we could underprice risks, which would negatively affect our underwriting profit margins, or we could overprice risks, which could reduce our competitiveness and growth prospects. In either event, our financial condition, cash flows, and results of operations could be materially adversely affected. In addition, underpricing insurance policies over time could erode the capital position of one or more of our insurance subsidiaries, thereby constraining our ability to write new business.

Our success depends on our ability to establish accurate loss reserves.

Our financial statements include loss reserves, which represent our best estimate as of the date of the financial statements of the amounts that our insurance subsidiaries ultimately will pay on claims that have been incurred, and the related costs of adjusting those claims. There is inherent uncertainty in the process of establishing property and casualty insurance loss reserves, which can arise from a number of factors, including:

- the availability of sufficient, reliable data
- the difficulty in predicting the rate and direction of changes in frequency and severity trends, including the effects of future inflation rates, for multiple products in multiple markets
- unexpected changes in medical costs, auto repair costs, or the costs of construction labor and materials
- unanticipated changes in governing statutes and regulations
- new or changing interpretations of insurance policy provisions and coverage-related issues by courts
- the effects of changes in our claims settlement practices
- our ability to recognize fraudulent or inflated claims
- the accuracy of our estimates regarding claims that have been incurred but not recorded as of the date of the financial statements
- the accuracy and adequacy of actuarial techniques and databases used in estimating loss reserves
- the accuracy and timeliness of our estimates of loss and loss adjustment expenses as determined for different categories of claims, and
- The ultimate paid losses and loss adjustment expenses may deviate, perhaps substantially, from point-in-time estimates of such losses and expenses, as reflected in the loss reserves included in our financial statements. Consequently, ultimate losses paid could materially exceed reported loss reserves and have a material adverse effect on our financial condition, cash flows, or results of operations. Further information on our loss reserves can be found in *Note 6 - Loss and Loss Adjustment Expense Reserves* in our Annual Report.

Our insurance operating results may be materially adversely affected by severe weather conditions or other catastrophe events.

Catastrophes can be caused by natural events, such as hurricanes, tornadoes, windstorms, floods, earthquakes, hailstorms, severe winter weather, and fires, or by other events, such as explosions, terrorist attacks, riots, and hazardous material releases. The frequency and severity of such events are inherently unpredictable. Moreover, changing climate conditions, whether due to an increase in average temperatures (global climate change) or other causes, may increase how often severe weather events and other natural disasters occur and how much insured damage they cause. Catastrophe losses may adversely affect the results of our Property segment more than they affect the results of our other businesses.

The extent of insured losses from a catastrophe is a function of both our total net insured exposure in the area affected by the event and the nature and severity of the event. We use catastrophe modeling tools to help estimate our exposure to such events. Those tools are based on historical data and other assumptions that limit their reliability and predictive value, and they may become even less reliable as climatic conditions change. As a result, our forecasting efforts may generate projections that prove to be materially inaccurate. An increase in the frequency or severity of catastrophes could materially adversely affect our financial condition, cash flows, and results of operations.

Our success will depend on our ability to continue to accurately predict our reinsurance needs, obtain sufficient reinsurance coverage for our homeowners and other businesses at reasonable cost, and collect under our reinsurance contracts.

Like many homeowners insurance companies, our Property business relies on reinsurance contracts, state reinsurance funding, and catastrophe bonds (collectively, “reinsurance arrangements”) to reduce its exposure to certain catastrophe events. We also use reinsurance contracts to reinsure portions of our Commercial Lines and umbrella insurance businesses. Reinsurance arrangements are often subject to a threshold below which reinsurance does not apply, so that we are responsible for all losses below the threshold from a covered event, and to an aggregate dollar coverage limit, so that our claims liabilities arising from a covered event may exceed our reinsurance coverage. In addition, although the reinsurer is liable to the insurer to the extent of the reinsurance coverage, the original insurer remains liable under the policies to the insured as the direct insurer on all risks reinsured. As a result, we are subject to the risk that reinsurers will be unable to pay, or will dispute, 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). We may not be able to obtain reinsurance coverage in the future at commercially reasonable rates or at all. The availability and cost of reinsurance could adversely affect our business volume, profitability, or financial condition.

II. Operating Risks

We compete in property-casualty markets that are highly competitive.

We write insurance for personal autos and recreational vehicles, commercial autos and trucks for small businesses, homeowners, and renters. All of these markets are highly competitive. We face vigorous competition from large, well-capitalized national and international companies, as well as smaller regional insurers. Other large insurance or financial services companies also may enter these markets in the future. Many of our competitors have substantial resources, experienced management, and strong marketing, underwriting, and pricing capabilities. The property and casualty insurance industry is a relatively mature industry, in which brand recognition, marketing skills, operational effectiveness, pricing, scale, and cost control are major competitive factors. If our competitors offer similar insurance products at lower prices, offer such insurance products bundled with other products or services that we do not offer, or engage in other successful competitive initiatives, our ability to generate new business or to retain a sufficient number of our existing customers could be compromised. In addition, because auto insurance constitutes a significant portion of our overall business, we may be more sensitive than other insurers to, and more adversely affected by, trends that could decrease auto insurance rates or reduce demand for auto insurance over time, such as advances in autonomous vehicles and vehicle sharing arrangements.

Historically, the auto and property insurance markets have been described as cyclical, with periods of relatively strong profitability being followed by increased pricing competition among insurers. This price competition, which is sometimes referred to as a “soft market,” can adversely affect revenue and profitability levels. As insurers recognize this situation (which can occur at different times for different companies), the historical reaction has been for insurers to raise their rates (sometimes referred to as a “hard market”) in an attempt to restore profitability to acceptable levels. As more insurers react in this way, profit levels in the industry may increase to a point where some insurers begin to lower their rates, starting the cycle over again. In the past, this cycle has generally played out over a number of years. We cannot be certain whether and to what extent such cyclicity is currently impacting the auto or property insurance markets, nor can we predict whether it will do so in the future.

The highly competitive nature of the insurance marketplace could result in consolidation within the industry, or in the failure of one or more competitors. The concentration of premium volume in a reduced number of major competitors could significantly increase the level of competition in a manner that is not favorable to us. In addition, in the event of a failure of a major insurer or a state-sponsored catastrophe fund, our company and other insurance companies may be required by law to absorb the losses of the failed insurer or fund, resulting in a potentially significant increase in our costs. We might also be faced with an unexpected surge in new business from a failed insurer’s former policyholders. Such events could materially adversely affect our financial results, brand, and future business prospects.

Our success depends on our ability to innovate effectively and respond to our competitors’ initiatives.

Our ability to develop and implement innovative products and services that are accepted and valued by our customers and independent agents is critical to maintaining and enhancing our competitive position. Innovations must be implemented in compliance with applicable insurance regulations and may require extensive modifications to our systems and processes and extensive coordination with and reliance on the systems of third parties. As a result, if we do not handle these transitions effectively and efficiently, the quality of our products, our relationships with our customers and agents, and our business prospects, may be materially adversely affected. In addition, innovations by competitors or other market participants may increase the level of competition in the industry. If we fail to respond appropriately to those innovations, our competitive position and results may be materially adversely affected.

We must effectively manage complexity as we develop and deliver high quality products and customer experiences.

Ongoing competitive, technological, regulatory, informational, and other developments result in significant levels of complexity in our products and in the systems and processes we use to run our business. These risks include our increasing reliance on third-party systems, the development of new modes of communication, changing insurance shopping trends, and the availability of very large volumes of data (i.e., Big Data) and the challenges relating to analyzing those data sets. Complexity may create barriers to innovation or the provision of high-quality products and customer and agent experiences, may require us to modify our business practices, to adopt new systems, or to upgrade or replace outdated systems, each at significant expense, and may lead to increased difficulty in executing our business strategies.

Intellectual property rights could affect our competitiveness and our business operations.

There has been a proliferation of patents, both inside and outside the insurance industry, that significantly impacts our businesses. The existence of such patents, and other claimed intellectual property rights, may result in legal challenges to certain of our business practices by other insurance companies and non-insurance entities alleging that we are violating their rights. Such legal challenges could result in costly legal proceedings, substantial monetary damages, or expensive changes in our business processes and practices. Similarly, we may seek or obtain patent protection for innovations developed by us. However, we may not be able to obtain patents on these processes and practices, and defending our patents and other intellectual property rights against challenges, and enforcing and defending our rights, including if necessary through litigation, can be time consuming and expensive, and the results are inherently uncertain, which can further complicate business plans.

Our success depends on our ability to adjust claims accurately.

We must accurately evaluate and pay claims that are made under our insurance policies. Our failure to pay claims fairly, accurately, and in a timely manner, or to deploy claims resources appropriately and in a cost-effective manner, could result in unanticipated costs to us, lead to material litigation, undermine customer goodwill and our reputation in the marketplace, and impair our brand and, as a result, materially adversely affect our competitiveness, customer retention, financial results, prospects, and liquidity.

We must develop and maintain a brand that is recognized and trusted by consumers.

It is critical to our business that consumers recognize and trust the Progressive brand. We undertake distinctive advertising and marketing campaigns and other efforts to improve brand recognition, enhance perceptions of us, generate new business, and increase the retention of our current customers. We believe that improving the effectiveness of our advertising and marketing campaigns relative to those of our competitors is particularly important given the significance of brand and reputation in the marketplace and the continuing high level of advertising and marketing efforts and related expenditures within the insurance market. If our marketing campaigns are unsuccessful or are less effective than those of competitors, or if our reliance on a particular spokesperson or character is compromised, our business could be materially adversely affected.

Our brand also could be adversely affected by incidents that reflect negatively on us, whether due to our business practices, the conduct of our officers or employees, the actions of businesses with which we do business, including unaffiliated insurers through which we offer bundled products (such as homeowners insurance), or other causes. The negative impacts of these or other events may be aggravated as the perceptions of consumers and others are formed based on modern communication and social media tools over which we have no control.

Our ability to attract, develop, and retain talented employees, managers, and executives, and to maintain appropriate staffing levels, is critical to our success.

Our success depends on our ability to attract, develop, compensate, motivate, and retain talented employees, including executives, other key managers, and employees with strong technological, analytical, and other skills and know-how necessary for us to run our vehicle and property insurance businesses. Our loss of certain officers and key employees, or the failure to attract or develop talented employees, executives and managers with diverse backgrounds and experiences, could have a material adverse effect on our business.

In addition, we must forecast sales and claims volume and other factors in changing business environments (for multiple products and business units and in many geographic markets) with reasonable accuracy and adjust our hiring and training programs and employment levels accordingly. Our failure to recognize the need for such adjustments, or our failure or inability to react appropriately on a timely basis, could lead either to over-staffing or under-staffing in one or more business units or locations. In either such event, our financial results, customer relationships, employee morale, and brand could be materially adversely affected.

Our success also depends, in large part, on our ability to maintain and improve the staffing effectiveness and culture that we have developed over the years. Our ability to do so may be impaired as a result of litigation against us, other judicial decisions, legislation or regulations, or other factors in the employment marketplace, as well as our failure to recognize and respond to changing trends and other circumstances that affect our employees. In such events, the productivity of our workers and the efficiency of our operations could be adversely affected, which could lead to an erosion of our operating performance and margins.

We are subject to a variety of complex laws and regulations.

Our insurance businesses operate in highly regulated environments. Our insurance subsidiaries are subject to regulation and supervision by state insurance departments in all 50 states, the District of Columbia, and Australia, each of which has a unique and complex set of laws and regulations. In addition, certain federal laws impose additional requirements on businesses, including insurers, in a wide range of areas, such as the use of credit information, privacy, and the reimbursement of certain medical costs incurred by the government. Our insurance subsidiaries' ability to implement business plans and remain competitive while complying with these laws and regulations, and to obtain necessary regulatory action in a timely manner, is and will continue to be critical to our success.

Most jurisdictions impose restrictions on, or require prior regulatory approval of, various actions by regulated insurers, which may adversely affect our insurance subsidiaries' ability to operate, innovate, and obtain necessary rate adjustments in a timely manner. Our compliance efforts are further complicated by changes in laws or regulations applicable to insurance companies, or by judicial interpretations of those laws or regulations. Insurance laws and regulations may limit, among other things, our insurance subsidiaries' ability to underwrite and price risks accurately, prevent our subsidiaries from obtaining timely rate changes to respond to increased or decreased costs, restrict our subsidiaries' ability to discontinue unprofitable businesses or exit unprofitable markets, prevent insurers from terminating policies under certain circumstances, and dictate or limit the types of investments that an insurance company may hold. Moreover, inconsistencies between requirements at the state and federal level may further complicate our compliance efforts, potentially resulting in additional costs being imposed on us. In addition, laws in certain jurisdictions mandate that insurance companies pay assessments in a number of circumstances, including assessments to pay claims upon the insolvency of other insurance companies or to cover losses in government-provided insurance programs for high risk auto and homeowners coverages. Compliance with laws and regulations often results in increased costs, which can be substantial, to our insurance subsidiaries. These costs, in turn, may adversely affect our profitability or our ability or desire to grow or operate our business in the applicable jurisdictions.

The actual or alleged failure to comply with this complex variety of laws and regulations by us or other companies in the insurance, financial services, or related industries, also could result in actions or investigations by regulators, state attorneys general, federal officials, or other law enforcement officials. Such actions and investigations, and any determination that we have not complied with an applicable law or regulation, could potentially lead to significant monetary payments, fines and penalties, adverse publicity and damage to our reputation in the marketplace, and in certain cases, revocation of a subsidiary's authority to do business in one or more jurisdictions. In addition, The Progressive Corporation and its subsidiaries could face individual and class action lawsuits by insureds and other parties for alleged violations of certain of these laws or regulations.

New federal or state legislation or regulations may be adopted in the future that could materially adversely affect our operations or ability to write business profitably in one or more jurisdictions.

For further information on these risks and uncertainties, see the "Insurance Regulation" discussion included in this report.

Lawsuits challenging our business practices, and those of our competitors and other companies, are pending and more may be filed in the future.

The Progressive Corporation and/or its subsidiaries are named as defendants in class action and other lawsuits challenging various aspects of the subsidiaries' business operations. Additional litigation may arise in the future concerning similar or other business practices. These lawsuits have included cases alleging damages as a result of our subsidiaries' use of credit in underwriting and related requirements under the U.S. Fair Credit Reporting Act; methods used for evaluating and paying certain bodily injury, personal injury protection, and medical payment claims or for reimbursing medical costs incurred by Medicare beneficiaries; other claims handling procedures; challenges relating to our network of repair facilities or our Service Center program; interpretations of the provisions of our insurance policies; policy implementation and renewal procedures; and employment-related litigation, including federal wage and hour claims, among other matters. Additional litigation may be filed against us concerning allegations of other general liability theories. In addition, lawsuits have been filed, and other lawsuits may be filed in the future, against our competitors and other businesses, and although we are not a party to such litigation, the results of those cases may create additional risks for, and/or impose additional costs and/or limitations on, our subsidiaries' business operations.

Lawsuits against us often seek significant monetary damages and injunctive relief. The potential for injunctive relief can threaten our use of important business practices. Moreover, the resolution of individual or class action litigation in insurance or related fields may lead to a new layer of judicial regulation, resulting in material increases in our costs of doing business.

Litigation is inherently unpredictable. Adverse court decisions or significant settlements of pending or future cases could have a material adverse effect on our financial condition, cash flows, and results of operations. For further information on the risks of pending litigation, see *Note 12 – Litigation* in the Annual Report.

Our business could be materially adversely affected by a security breach or other attack involving our computer systems or the systems of one or more of our vendors.

Our business requires that we develop and maintain large and complex computer systems to run our operations and to store the significant volume of data that we acquire, including the personal confidential information of our customers and employees and our intellectual property, trade secrets, and other sensitive business and financial information. All of these systems are subject to “cyber attacks” by sophisticated third parties with substantial computing resources and capabilities, and to unauthorized or illegitimate actions by employees, consultants, agents and other persons with legitimate access to our systems. Such attacks or actions may include attempts to:

- steal, corrupt, or destroy data, including our intellectual property, financial data or the personal information of our customers or employees
- misappropriate funds
- disrupt or shut down our systems
- deny customers, agents, brokers, or others access to our systems, or
- infect our systems with viruses or malware.

Some of our systems rely on third-party vendors, through either a connection to, or an integration with, those third-parties’ systems. This approach may increase the risk of loss, corruption, or unauthorized publication of our information or the confidential information of our customers and employees or other cyber attack. Third-party risks may include, among other factors, the vendor’s lax security measures, data location uncertainty, and the possibility of data storage in inappropriate jurisdictions, where laws or security measures may be inadequate.

We undertake substantial efforts to protect our systems and sensitive or confidential information. These efforts include internal processes and technological defenses that are preventative or detective, and other controls designed to provide multiple layers of security protection. In addition, we seek to protect the security and confidentiality of information provided to our vendors under “cloud computing” or other arrangements through appropriate risk evaluation, security and financial due diligence, contracts designed to require high security and confidentiality standards, and review of third-party compliance with the required standards. While we expend significant resources on these defensive measures, there can be no assurance that we will be successful in preventing attacks or detecting and stopping them once they have begun.

Our business could be significantly damaged by a security breach, data loss or corruption, or cyber attack. In addition to the potentially high costs of investigating and stopping such an event and implementing necessary fixes, we could incur substantial liability if confidential customer or employee information is stolen. In addition, such an event could cause a significant disruption of our ability to conduct our insurance operations, adversely affect our competitive position if material trade secrets or other confidential information are stolen, and have severe ramifications on our reputation and brand, potentially causing customers to refrain from buying insurance from us or other businesses to refrain from doing business with us. We have elected to self-insure these risks at this time. Therefore, the occurrence of a security breach, data loss or corruption, or cyber-attack, if sufficiently severe, could have a material adverse effect on our business results, prospects, and liquidity.

If we were not able to send or accept electronic payments, our business and financial results could be adversely affected.

We rely on access to various financial networks to process payments received from our customers. These include credit card and debit card networks and the Automated Clearing House (ACH) network. Our ability to participate in these networks is dependent on our compliance with applicable laws and regulations and with the complex rules of each network and any related industry supervisory groups. If we fail to comply with legal requirements or rules and best practices established by a network or industry group, including those related to data security, we could be assessed significant monetary fines and other penalties, including, in certain cases, the termination of our right to use the applicable network or system. Such fines and penalties, and any disruption in or termination of our ability to process customer payments electronically, could materially adversely affect our business and our brand.

Our business depends on the secure and uninterrupted operation of our facilities, systems, and business functions.

Our business is highly dependent upon our ability to perform, in an efficient and uninterrupted manner, necessary business functions. The shut-down or unavailability of one or more of our systems or facilities for any reason could significantly impair our ability to perform critical business functions on a timely basis. In addition, many of our critical business systems interface with and depend on third-party systems; an interruption of service from a third-party system for any reason could significantly impair our ability to perform critical business functions. If sustained or repeated, and if an alternate system, process, or vendor is not immediately available to us, such events could result in a deterioration of our ability to write and process policies, provide customer service, resolve claims in a timely manner, make payments when required, or perform other necessary business functions. Any such event could have a material adverse effect on our financial results and business prospects, as well as cause damage to our brand and customer goodwill.

The ARX acquisition may not produce the anticipated benefits to the company, and our goodwill or intangible assets may become impaired.

The ARX acquisition may not produce the anticipated benefits to us, or such benefits may be delayed longer than anticipated. In addition, as we identify opportunities for integration of ARX's products, employees, operations or systems with our own, we may be unable to execute on such opportunities and generate the benefits identified, the costs of those efforts may be greater than expected, or those efforts may cause difficulties or unintended consequences that could adversely impact our operations and results.

At the time of the ARX acquisition, we recorded goodwill and intangible assets at fair value. We review goodwill and intangible assets for impairment at least annually. Valuing these assets, and evaluating their recoverability, requires us to make estimates and assumptions related to future returns on equity, margins, growth rates, discount rates, and other matters, and our estimates may change over time, potentially resulting in write-downs of the assets. Goodwill and intangible assets impairment charges could result from declines in operating results, divestitures or sustained market declines, among other factors, and could materially affect our financial condition and results of operations in the period in which they are recognized.

III. Market Risks

The performance of our fixed-income and equity investment portfolios is subject to a variety of investment risks.

Our investment portfolio consists principally of fixed-income securities and common equities. General economic conditions and other factors beyond our control can adversely affect the value of our investments and the amount and realization of investment income, or result in realized or unrealized investment losses.

Our fixed-income portfolio is actively managed by our investment group and includes short-term investments, fixed-maturity securities, and preferred stocks. The performance of the fixed-income portfolio is subject to a number of risks, including:

- *Interest rate risk* - the risk of adverse changes in the value of fixed-income securities as a result of increases in market interest rates.
- *Investment credit risk* - the risk that the value of certain investments may decrease due to a deterioration in the financial condition, operating performance or business prospects of, or the liquidity available to, one or more issuers of those securities or, in the case of asset-backed securities, due to the deterioration of the loans or other assets that underlie the securities.
- *Concentration risk* - the risk that the portfolio may be too heavily concentrated in the securities of one or more issuers, sectors, or industries, which could result in a significant decrease in the value of the portfolio in the event of a deterioration of the financial condition or performance of, or outlook for, those issuers, sectors, or industries.
- *Prepayment or extension risk* - applicable to certain securities in the portfolio, such as residential mortgage-backed securities and other bonds with call provisions, prepayment risk is the risk that, as interest rates change, the principal of such securities may be repaid earlier than anticipated, requiring that we reinvest the proceeds at less attractive rates. Extension risk is the risk that a security may not be redeemed when anticipated, adversely affecting the value of the security and preventing the reinvestment of the principal at higher market rates.
- *Liquidity risk* - the risk that we will not be able to convert investment securities into cash on favorable terms and on a timely basis, or that we will not be able to sell them at all, when we desire to do so.

In addition, the success of our investment strategies and asset allocations in the fixed-income portfolio may vary depending on the market environment. The fixed-income portfolio's performance also may be adversely impacted if, among other factors:

there is a deterioration in the underlying businesses of the issuers of the securities that we hold; credit ratings assigned to such securities by nationally recognized statistical rating organizations are based on incomplete or inaccurate information or otherwise prove unwarranted; or our risk mitigation strategies are ineffective for the applicable market conditions.

The common equity portfolio is primarily managed externally to track the Russell 1000 Index, with a small portion actively managed by an external investment advisor. Our equity investments are subject to general movements in the values of equity markets and to the changes in the prices of the securities we hold. An investment portfolio that is designed to track an index, such as the Russell 1000, or that follows a specific investment discipline, such as value investing, is not necessarily less risky than other equity investment strategies. Equity markets, sectors, industries, and individual securities may be subject to high volatility and to long periods of depressed or declining valuations, and are also subject to most of the same risks that affect our fixed-income portfolio, as discussed above. In addition, even though the Russell 1000 Index is broadly diversified, significant portions of the index may be concentrated in one or more sectors, reducing our ability to manage our concentration risk through sector diversification. The actively managed equity portfolio is also subject to risks arising from the investment decisions of the investment advisor.

Both the fixed-income and the common equity portfolios are also subject to risks inherent in the nation's and world's capital markets. Any disruption in the functioning of those markets or our ability to liquidate investments when desired could have a material adverse effect on our financial condition, cash flows, and results of operations. In addition, if the fixed-income or equity portfolios, or both, were to suffer a substantial decrease in value, our liquidity, financial position, and financial results could be materially adversely affected. Under these circumstances, our income from these investments could be materially reduced, and declines in the value of our securities could further reduce our reported earnings and capital levels. A decrease in value of an insurance subsidiary's investment portfolio could also put the subsidiary at risk of failing to satisfy regulatory minimum capital requirements and could limit the subsidiary's ability to write new business. In any such event, our business could be materially adversely affected.

See *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the Annual Report for additional discussion of the composition of our investment portfolio as of December 31, 2016, and of the market risks associated with our investment portfolio.

IV. Credit and Other Financial Risks

Our financial condition may be adversely affected if one or more parties with which we enter into significant contracts become insolvent, experience other financial difficulties, or default in the performance of contractual obligations.

Our business is dependent on the performance by third parties of their responsibilities under various contractual or service arrangements. These include, for example: agreements with other insurance carriers to bundle products that we do not offer, and arrangements for transferring certain of our risks (including reinsurance arrangements used by us, our corporate insurance policies, and the performance of state reinsurance facilities/associations). In addition, from time to time, we enter into significant financial transactions, such as derivative instruments, with major banks, other financial institutions, or security clearinghouses. If one or more of these parties were to default in the performance of their obligations under their respective contracts or determine to abandon or terminate support for a system, product, obligation, or service that is significant to our business, we could suffer significant financial losses or other problems, which in turn could materially adversely affect our financial condition, cash flows, or results of operations and cause damage to our brand and reputation.

Our insurance subsidiaries may be limited in the amount of dividends that they can pay, which in turn may limit our ability to repay indebtedness, make capital contributions to other subsidiaries or affiliates, pay dividends to shareholders, repurchase securities, or meet other obligations.

The Progressive Corporation is a holding company with no business operations of its own. Consequently, if its subsidiaries are unable to pay dividends or make other distributions, or are able to pay only limited amounts, The Progressive Corporation may be unable to make payments on its indebtedness, make capital contributions to or otherwise fund its subsidiaries or affiliates, pay dividends to its shareholders, or meet its other obligations. Each insurance subsidiary's ability to pay dividends may be limited by one or more of the following factors:

- insurance regulatory authorities require insurance companies to maintain specified minimum levels of statutory capital and surplus
- insurance regulations restrict the amounts available for distribution based on either net income or surplus of the insurance company
- competitive pressures require our insurance subsidiaries to maintain high financial strength ratings, and

- in certain jurisdictions, prior approval must be obtained from regulatory authorities for the insurance subsidiaries to pay dividends or make other distributions to affiliated entities, including the parent holding company.

In addition, under the ARX stockholders' agreement, ARX cannot pay a dividend without the consent of Progressive and other specified ARX stockholders. Further information on insurance laws and regulations that may limit the ability of our insurance subsidiaries to pay dividends can be found in Item 5(c), "Dividends," of this report.

If we are unable to obtain capital when necessary to support our business, our financial condition could be materially adversely affected.

We may need to acquire additional capital from time to time as a result of many factors. These could include increased regulatory requirements, losses in our insurance or investment operations, or significant growth in the insurance premiums that we write, among others. If we are unable to obtain capital at favorable rates when needed, whether due to our results, volatility or disruptions in debt and equity markets beyond our control, or other reasons, our financial condition could be materially adversely affected. In such an event, unless and until additional sources of capital are secured, we may be limited in our ability, or unable, to service our debt obligations, pay dividends, grow our business, pay our other obligations when due or engage in other corporate transactions. Such a deterioration of our financial condition could adversely affect the perception of our company by insurance regulators, potentially resulting in regulatory actions, and the price of our common shares or debt securities could fall significantly.

Our access to capital markets, ability to obtain or renew financing arrangements, obligations to post collateral under certain derivative contracts, and business operations are dependent on favorable evaluations and ratings by credit and other rating agencies.

Our credit and financial strength are evaluated and rated by various rating agencies, such as Standard & Poor's, Moody's Investors Service, Fitch Ratings, and A.M. Best. Downgrades in our credit ratings could adversely affect our ability to access the capital markets and/or lead to increased borrowing costs in the future (although the interest rates we pay on our current indebtedness would not be affected), as would adverse recommendations by equity analysts at the various brokerage houses and investment firms. Perceptions of our company by other businesses and consumers could also be significantly impaired. In addition, a downgrade could trigger contractual obligations in certain derivative transactions requiring us to post substantial amounts of additional collateral or allow a third party to liquidate the derivative transaction. Downgrades in the ratings of our insurance subsidiaries could likewise negatively impact our operations, potentially resulting in lower or negative premium growth. In any such event, our financial performance could be materially adversely affected.

Our annual dividend policy will result in a variable payment to shareholders each year, or no payment in some years, and the dividend program ultimately may be changed in the discretion of the Board of Directors.

We have previously announced our intention to pay a dividend to shareholders on an annual basis under a formula that multiplies our annual after-tax underwriting income by a percentage factor set by the Board of Directors (33-1/3% for 2016 and 2017) and then by the Gainshare factor (determined under our Gainsharing (cash bonus) plans for most of our employees and based on the operating performance of our vehicle insurance businesses for 2016, and our vehicle and our Property businesses, with minor exclusions, for 2017). If our Gainshare factor for the year is zero or after-tax comprehensive income (which includes the change in unrealized investment gains and losses, among other items) is less than after-tax underwriting income, no dividend will be paid under our annual variable dividend policy.

Because the dividend calculation is performance-based, the amount (if any) to be paid in any particular year may not be subject to accurate prediction and will likely vary, perhaps significantly, from the amounts paid in the preceding year(s). As a result, the amount paid may be inconsistent with some shareholders' expectations. In addition, although we have announced our intent to repeat the annual variable dividend in 2017 (to be paid early in 2018), the dividend, if any, would not be declared by the Board until late 2017 or early 2018, and the Board retains the discretion, at any time, to alter our policy or not to pay the annual dividend for 2017 or future years. Such an action by the Board could result from, among other reasons, changes in the insurance marketplace, changes in our performance or capital needs, changes in U.S. federal income tax laws, disruptions of national or international capital markets, or other events affecting our liquidity, financial position or prospects, as described above under "Market Risks." Any such change could adversely affect investors' perceptions of the company and the value of, or the total return of an investment in, our common shares.

Our investments in certain tax-advantaged projects may not generate the anticipated returns.

We invest in certain projects that are entitled to tax-advantaged treatment under applicable federal or state law, including renewable energy development, historic property rehabilitation and affordable housing, and we may make other tax-advantaged investments from time to time. Our investments in these projects are designed to generate a return through the realization of tax credits and, in some cases, through other tax benefits and cash flows from the project. Certain of these investments are subject to the risk that previously recorded tax credits can be challenged or are subject to recapture by the applicable taxing authorities if specific requirements are not satisfied. Many of the factors that could lead to a challenge or recapture of tax credits are beyond our control. The inability to realize these tax credits and other tax benefits could have a material adverse impact on our financial condition.

We do not manage to short-term earnings expectations; our goal is to maximize the long-term value of the enterprise, which, at times, may adversely affect short-term results.

We believe that shareholder value will be increased in the long run if we meet or exceed the financial goals and policies that we establish each year. We do not manage our business to maximize short-term stock performance or the amount of the dividend that may be paid under our annual variable dividend policy or otherwise. We report earnings and other operating results on a monthly basis. We also do not provide earnings estimates to the market and do not comment on earnings estimates by analysts. As a result, our reported results for a particular period may vary, perhaps significantly, from investors' expectations, which could result in significant volatility in the price of our common shares or debt securities. The addition of our Property business, which includes the results of our homeowners business, beginning in April 2015, may introduce additional volatility in our consolidated results compared to prior periods.

In addition, due to our focus on the long-term value of the enterprise, we may undertake business strategies and establish related financial goals for a specific year that are designed to enhance our longer-term performance, while understanding that such strategies may not always similarly benefit short-term results, such as our annual underwriting profit or earnings per share. Consequently, these strategies may adversely affect short-term performance or the amount of our variable dividend for a given year, and may result in additional volatility in the price of our common shares or debt securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We currently do not have any unresolved comments from the SEC staff.

ITEM 2. PROPERTIES

All of our properties are owned or leased by subsidiaries of The Progressive Corporation and are used for office functions (corporate, claims, and business unit), as call centers, for training, for warehouse space, or as Service Centers.

We own 93 buildings located throughout the United States. Nearly two-thirds of our owned buildings are for our Service Centers, the majority of which are combined with a claims office. Our owned facilities, which contain approximately 4.9 million square feet of space, are generally not segregated by industry segment. We own significant locations in Mayfield Village, Ohio and surrounding suburbs (including our corporate headquarters), Colorado Springs, Colorado; St. Petersburg, Florida; Tampa, Florida; and Tempe, Arizona.

We lease approximately 2.1 million square feet of space throughout the United States and one location in Australia. These leases are generally short-term to medium-term leases of commercial space.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information

Progressive’s Common Shares, \$1.00 par value, are traded on the New York Stock Exchange under the symbol PGR. The high and low prices set forth below are as reported on the consolidated transaction reporting system.

Year	Quarter		High		Low		Close		Dividends Declared Per Share
2016	1	\$	35.27	\$	29.32	\$	35.14	\$	0
	2		35.54		31.14		33.50		0
	3		34.29		30.54		31.50		0
	4		35.95		30.66		35.50		0.6808
		\$	35.95	\$	29.32	\$	35.50	\$	0.6808
2015	1	\$	27.90	\$	25.23	\$	27.20	\$	0
	2		28.50		26.44		27.83		0
	3		31.70		27.23		30.64		0
	4		33.95		30.09		31.80		0.8882
		\$	33.95	\$	25.23	\$	31.80	\$	0.8882

The closing price of our common shares on January 31, 2017 , was \$37.44.

(b) Holders

We had 2,152 shareholders of record on December 31, 2016 .

(c) 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 2015 , the Board determined the target percentage for 2016 to be 33-1/3% of annual after-tax underwriting income, which is unchanged from the target percentage in both 2015 and 2014 . The Board also determined that this target will remain at 33-1/3% for 2017 .

The Gainshare factor can range from zero to two and is determined by comparing our operating performance for the vehicle businesses for the year to certain predetermined profitability and growth objectives, as approved by the Compensation Committee of the Board. Beginning in 2017, the operating performance of our Property business, with minor exclusions, will also be a component in determining the Gainshare factor. This Gainshare factor is also used in the annual cash incentive program currently in place for our employees (our “Gainsharing program”). 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.

Although it is our intent to calculate an annual variable dividend based on the formula outlined above, the Board could decide to alter our policy, or not to pay the annual variable dividend for 2017 or future years, at any time prior to the declaration of the dividend for the year. Such an action by the Board could result from, among other reasons, changes in the insurance marketplace, changes in our performance or capital needs, changes in federal income tax laws, disruptions of national or international capital markets, or other events affecting our business, liquidity, or financial position.

Following is a summary of our shareholder dividends that were declared in the last three years:

(millions, except per share amounts)

Dividend Type	Declared	Paid	Amount	
			Per Share	Total ¹
Annual – Variable	December 2016	February 2017	\$ 0.6808	\$ 395.4
Annual – Variable	December 2015	February 2016	0.8882	519.2
Annual – Variable	December 2014	February 2015	0.6862	404.1

¹ Based on an estimate of shares outstanding as of the record date. For the dividends declared in December 2015 and 2014, we paid \$519.0 million and \$404.1 million, respectively.

Consolidated statutory surplus was \$8.6 billion on December 31, 2016, and \$7.6 billion on December 31, 2015. At December 31, 2016, \$722.7 million of consolidated statutory surplus represented net admitted assets of Progressive's insurance subsidiaries and affiliate that are required to meet minimum statutory surplus requirements in such entities' states of domicile. The companies may be licensed in states other than their states of domicile, however, which may have higher minimum statutory surplus requirements. Generally, the net admitted assets of insurance companies that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the companies are licensed. Based on the dividend laws currently in effect, the insurance subsidiaries could pay aggregate dividends of \$1,161.5 million in 2017 without prior approval from regulatory authorities, provided the dividend payments are not made within 12 months of previous dividends paid by the applicable subsidiary.

In connection with the acquisition of a controlling interest in ARX, The Progressive Corporation entered into a stockholders' agreement with the other ARX stockholders. Among other provisions, the stockholders' agreement prohibits ARX from taking a number of actions, including the payment of dividends, without the consent of The Progressive Corporation and two other stockholders.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

See Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information about securities authorized for issuance under our equity compensation plans.

(e) Performance Graph

See the *Performance Graph* section in our Annual Report.

(f) Recent Sales of Unregistered Securities

None.

(g) Share Repurchases

ISSUER PURCHASES OF EQUITY SECURITIES

2016 Calendar Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October	502,507	\$ 31.91	68,026,454	6,973,546
November	406,145	31.28	68,432,599	6,567,401
December	3,817	33.49	68,436,416	6,563,584
Total	912,469	\$ 31.64		

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. Share repurchases under this authorization may be accomplished through open market purchases, privately negotiated transactions, pursuant to our equity incentive plans, 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. In the fourth quarter 2016, 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 use underleveraged capital. See *Note 9 – Employee Benefit Plans*, “Incentive Compensation Plans” in our Annual Report, for a summary of our restricted equity grants.

ITEM 6. SELECTED FINANCIAL DATA

(millions - except per share amounts)

	For the years ended December 31,				
	2016	2015	2014	2013	2012
Total revenues	\$ 23,441.4	\$ 20,853.8	\$ 19,391.4	\$ 18,170.9	\$ 17,083.9
Net income attributable to Progressive	1,031.0	1,267.6	1,281.0	1,165.4	902.3
Per share:					
Net income attributable to Progressive	1.76	2.15	2.15	1.93	1.48
Dividends declared	0.6808	0.8882	0.6862	1.4929	1.2845
Comprehensive income attributable to Progressive	1,164.0	1,044.9	1,352.4	1,246.1	1,080.8
Total assets	33,427.5	29,819.3	25,787.6	24,408.2	22,694.7
Debt outstanding	3,148.2	2,707.9	2,164.7	1,860.9	2,063.1
Total shareholders' equity	7,957.1	7,289.4	6,928.6	6,189.5	6,007.0
Redeemable noncontrolling interest	483.7	464.9	--	--	--

See *Note 15 – Redeemable Noncontrolling Interest* in the Annual Report, for a discussion of the acquisition of a controlling interest in ARX on April 1, 2015.

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

Incorporated by reference from *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The quantitative and qualitative disclosures about market risk are incorporated by reference from section “IV. Results of Operations – Investments” in our *Management's Discussion and Analysis of Financial Condition and Results of Operations*, as described in Item 7 above, and from the *Quantitative Market Risk Disclosures* section in our Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of Progressive, along with the related Notes, Supplemental Information, and Report of the Independent Registered Public Accounting Firm, are incorporated by reference from our Annual Report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Progressive, under the direction of our Chief Executive Officer and our 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 Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Our Chief Executive Officer and our 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 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.

Management's Report on Internal Control over Financial Reporting and the attestation of the independent registered public accounting firm are incorporated by reference from our Annual Report.

We are not aware of any material 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.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information relating to our directors is incorporated herein by reference from the section entitled “Item 1: Election of Directors” in The Progressive Corporation's Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2017 (the "Proxy Statement").

Information relating to executive officers of Progressive follows. Unless otherwise indicated, the executive officer has held the position(s) indicated for at least the last five years.

Name	Age	Offices Held and Last Five Years' Business Experience
Susan Patricia Griffith	52	President and Chief Executive Officer since July 2016; Vice President from May 2015 to June 2016; Personal Lines Chief Operating Officer from April 2015 to June 2016; President of Customer Operations from April 2014 to March 2015; Claims Group President prior to April 2014
John P. Sauerland	52	Vice President since May 2015; Chief Financial Officer since April 2015; Personal Lines Group President prior to April 2015
John F. Auer	62	President, Chief Executive Officer, and Treasurer of ARX Holding Corp.
John A. Barbagallo	57	Commercial Lines President; Commercial Lines Group President, including Agency Operations prior to May 2015
Jeffrey W. Basch	58	Vice President and Chief Accounting Officer
Steven A. Broz	46	Chief Information Officer since February 2016; Claims Process General Manager from March 2015 to January 2016; Enterprise Project Management Office Leader prior to March 2015
Patrick K. Callahan	46	Personal Lines President since April 2015; Direct Acquisition Business Leader from March 2013 to March 2015; Special Lines General Manager prior to March 2013
M. Jeffrey Charney	57	Chief Marketing Officer
William M. Cody	54	Chief Investment Officer
Daniel P. Mascaro	53	Vice President, Secretary, and Chief Legal Officer beginning March 1, 2017; Claims Legal business leader from January 2013 to February 2017; Personal Lines General Manager prior to January 2013
John Murphy	47	Customer Relationship Management President since January 2016; Customer Relationship Management Business Leader from February 2015 to January 2016; Corporate Process Business Leader prior to February 2015
Lori Niederst	43	Chief Human Resource Officer since November 2016; Senior Human Resource Business Leader prior to November 2016
Michael D. Sieger	55	Claims President since January 2015; Claims Process General Manager prior to January 2015
Glenn M. Renwick	61	Executive Chairman of the Board since July 2016; Chairman of the Board from November 2013 to June 2016; President and Chief Executive Officer prior to July 2016

Section 16(a) Beneficial Ownership Reporting Compliance . Incorporated by reference from the "Section 16(a) Beneficial Ownership Reporting Compliance" section of the Proxy Statement (which can be found in "Security Ownership of Certain Beneficial Owners and Management").

Code of Ethics. Progressive has a Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and other senior financial officers. This Code of Ethics is available at: progressive.com/governance. We intend to continue to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, and waivers from, the provisions of the foregoing Code of Ethics by posting such information on our Internet website at: progressive.com/governance.

Shareholder-Proposed Candidate Procedures. There were no material changes during 2016 to Progressive's procedures by which shareholder can recommend a director candidate during 2016 . The description of those procedures is incorporated by reference from the “To Recommend a Candidate for our Board of Directors” section of the Proxy Statement (which can be found in “Procedures for Recommendations and Nominations of Directors and Shareholder Proposals”).

Audit Committee. Incorporated by reference from the “Audit Committee” section of the Proxy Statement.

Financial Expert. Incorporated by reference from the “Audit Committee Financial Experts” section of the Proxy Statement (which can be found in “Audit Committee”).

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the sections of the Proxy Statement entitled “Compensation Discussion and Analysis,” “Executive Compensation,” “Other Board of Directors Information: Compensation Committee Interlocks and Insider Participation,” “Compensation Committee Report,” and “Compensation Programs and Risk Management.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding ownership of Common Shares by certain beneficial owners and management is incorporated by reference from the section of the Proxy Statement entitled “Security Ownership of Certain Beneficial Owners and Management.”

The following information is set forth with respect to our equity compensation plans at December 31, 2016 .

EQUITY COMPENSATION PLAN INFORMATION			
Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders:			
<u>Employee Plans :</u>			
2015 Equity Incentive Plan	1,736,643 ^{1,2}	NA	10,253,079 ³
2010 Equity Incentive Plan	5,214,730 ^{1,2}	NA	3,885,005 ³
Subtotal Employee Plans	6,951,373	NA	14,138,084
<u>Director Plans :</u>			
2003 Directors Equity Incentive Plan	55,839	NA	250,039
Subtotal Director Plans	55,839	NA	250,039
Equity compensation plans not approved by security holders:			
None			
Total	7,007,212	NA	14,388,123

NA = Not applicable because restricted stock unit awards do not have an exercise price.

¹ Reflects restricted stock unit awards, including reinvested dividend equivalents, under which, upon vesting, the holder has the right to receive common shares on a one-to-one basis.

² Performance-based restricted stock unit awards, including dividend equivalents, if applicable, of 1,228,597 and 664,327 units, are included under the 2010 Equity Incentive Plan and the 2015 Equity Incentive Plan, respectively, at their target value. Maximum potential payout for the performance awards outstanding under the 2010 Equity Incentive Plan and the 2015 Equity Incentive Plan were 3,004,906 and 1,543,343, respectively. For a description of the performance-based awards, including the performance measurement and vesting ranges, see *Note 9 — Employee Benefit Plans* in our Annual Report.

³ Gives effect to reservation of common shares subject to performance-based awards at maximum potential payout.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from the section of the Proxy Statement entitled “Other Board of Directors Information,” subsections “Board of Directors Independence Determinations” and “Transactions with Related Parties.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from the section of the Proxy Statement entitled “Other Independent Registered Public Accounting Firm Information.”

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Listing of Financial Statements

The following consolidated financial statements are included in our Annual Report and are incorporated by reference in Item 8:

- Report of Independent Registered Public Accounting Firm
- Consolidated Statements of Comprehensive Income - For the Years Ended December 31, 2016 , 2015 , and 2014
- Consolidated Balance Sheets - December 31, 2016 and 2015
- Consolidated Statements of Changes in Shareholders' Equity - For the Years Ended December 31, 2016 , 2015 , and 2014
- Consolidated Statements of Cash Flows - For the Years Ended December 31, 2016 , 2015 , and 2014
- Notes to Consolidated Financial Statements
- Supplemental Information (Unaudited)

(a)(2) Listing of Financial Statement Schedules

The following financial statement schedules, Report of Independent Registered Public Accounting Firm and Consent of Independent Registered Public Accounting Firm are included in Item 15(c):

- Schedule I - Summary of Investments - Other than Investments in Related Parties
- Schedule II - Condensed Financial Information of Registrant
- Schedule III - Supplementary Insurance Information
- Schedule IV - Reinsurance
- Report of Independent Registered Public Accounting Firm on Financial Statement Schedules
- Consent of Independent Registered Public Accounting Firm
- No other schedules are required to be filed herewith pursuant to Article 7 of Regulation S-X.

(a)(3) Listing of Exhibits

See exhibit index contained herein beginning at page 40. Management contracts and compensatory plans and arrangements are identified in the Exhibit Index as Exhibit Nos. 10.2 through 10.100.

(b) Exhibits

The exhibits in response to this portion of Item 15 are submitted concurrently with this report.

(c) Financial Statement Schedules

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

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Type of Investment	December 31, 2016		
	Cost	Fair Value	Amount At Which Shown In The Balance Sheet
Available-for-sale			
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	\$ 2,899.2	\$ 2,870.1	\$ 2,870.1
States, municipalities, and political subdivisions	2,509.5	2,502.6	2,502.6
Foreign government obligations	24.5	24.5	24.5
Public utilities	135.6	135.1	135.1
Corporate and other debt securities	4,422.2	4,415.8	4,415.8
Asset-backed securities	6,107.3	6,103.8	6,103.8
Redeemable preferred stocks	188.8	191.9	191.9
Total fixed maturities	16,287.1	16,243.8	16,243.8
Equity securities:			
Common stocks:			
Public utilities	106.7	168.6	168.6
Banks, trusts, and insurance companies	265.5	558.2	558.2
Industrial, miscellaneous, and all other	1,065.3	2,085.6	2,085.6
Nonredeemable preferred stocks	734.2	853.5	853.5
Total equity securities	2,171.7	3,665.9	3,665.9
Short-term investments	3,572.9	3,572.9	3,572.9
Total investments	\$ 22,031.7	\$ 23,482.6	\$ 23,482.6

Progressive did not have any securities of any one issuer, excluding U.S. government obligations, with an aggregate cost or fair value exceeding 10% of total shareholders' equity at December 31, 2016 .

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

THE PROGRESSIVE CORPORATION (PARENT COMPANY)

(millions)

	Years Ended December 31,		
	2016	2015	2014
Revenues			
Dividends from subsidiaries	\$ 375.5	\$ 852.5	\$ 1,000.2
Undistributed income (loss) from subsidiaries	741.9	500.0	358.3
Equity in net income of subsidiaries*	1,117.4	1,352.5	1,358.5
Intercompany investment income*	5.5	3.9	2.4
Gains (losses) on extinguishment of debt	1.6	(0.9)	(4.8)
Total revenues	1,124.5	1,355.5	1,356.1
Expenses			
Interest expense	140.4	136.1	120.2
Deferred compensation ¹	5.3	5.3	2.8
Other operating costs and expenses	4.2	5.4	4.4
Total expenses	149.9	146.8	127.4
Income before income taxes	974.6	1,208.7	1,228.7
Benefit for income taxes	56.4	58.9	52.3
Net income attributable to Progressive	1,031.0	1,267.6	1,281.0
Other comprehensive income (loss)	133.0	(222.7)	71.4
Comprehensive income attributable to Progressive	\$ 1,164.0	\$ 1,044.9	\$ 1,352.4

* Eliminated in consolidation.

¹ See *Note 4 – Employee Benefit Plans* in these condensed financial statements.

See notes to condensed financial statements.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

CONDENSED BALANCE SHEETS

THE PROGRESSIVE CORPORATION (PARENT COMPANY)

(millions)

	December 31,	
	2016	2015
Assets		
Investment in affiliate	\$ 5.0	\$ 5.0
Investment in subsidiaries*	10,280.9	9,192.3
Receivable from investment subsidiary*	1,121.9	1,200.5
Intercompany receivable*	443.3	406.0
Net deferred income taxes	97.1	90.6
Other assets	137.3	124.8
Total assets	\$ 12,085.5	\$ 11,019.2
Liabilities and Shareholders' Equity		
Accounts payable, accrued expenses, and other liabilities	\$ 228.4	\$ 202.7
Dividend payable	395.4	519.2
Debt	3,020.9	2,543.0
Total liabilities	3,644.7	3,264.9
Redeemable noncontrolling interest (NCI)	483.7	464.9
Shareholders' Equity		
Common shares, \$1.00 par value (authorized 900.0; issued 797.5 and 797.6 including treasury shares of 217.6 and 214.0)	579.9	583.6
Paid-in capital	1,303.4	1,218.8
Retained earnings	5,140.4	4,686.6
Total accumulated other comprehensive income attributable to Progressive	933.4	800.4
Total shareholders' equity	7,957.1	7,289.4
Total liabilities, redeemable NCI, and shareholders' equity	\$ 12,085.5	\$ 11,019.2

*Eliminated in consolidation.

See notes to condensed financial statements.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)**CONDENSED STATEMENTS OF CASH FLOWS****THE PROGRESSIVE CORPORATION (PARENT COMPANY)**

(millions)

	Years Ended December 31,		
	2016	2015	2014
Cash Flows From Operating Activities:			
Net income attributable to Progressive	\$ 1,031.0	\$ 1,267.6	\$ 1,281.0
Adjustments to reconcile net income attributable to Progressive to net cash provided by operating activities:			
Undistributed (income) loss from subsidiaries	(741.9)	(500.0)	(358.3)
Amortization of equity-based compensation	2.2	2.4	2.2
(Gains) losses on extinguishment of debt	(1.6)	0.9	4.8
Changes in:			
Intercompany receivable	(37.3)	7.0	(105.4)
Accounts payable, accrued expenses, and other liabilities	24.2	(46.2)	18.2
Income taxes	(5.0)	12.3	61.1
Other, net	(13.3)	(3.1)	0.4
Net cash provided by operating activities	258.3	740.9	904.0
Cash Flows From Investing Activities:			
Additional investments in equity securities of consolidated subsidiaries	(112.0)	(40.2)	(21.1)
Acquisition of ARX	0	(890.1)	0
(Paid to) received from investment subsidiary	78.6	409.1	(29.1)
Net cash used in investing activities	(33.4)	(521.2)	(50.2)
Cash Flows From Financing Activities:			
Tax benefit from vesting of equity-based compensation	9.2	16.8	12.8
Net proceeds from debt issuance	495.6	394.9	346.3
Reacquisitions of debt	(18.2)	(19.3)	(48.9)
Dividends paid to shareholders	(519.0)	(403.6)	(892.6)
Acquisition of treasury shares	(192.5)	(208.5)	(271.4)
Net cash used in financing activities	(224.9)	(219.7)	(853.8)
Change in cash	0	0	0
Cash, beginning of year	0	0	0
Cash, end of year	\$ 0	\$ 0	\$ 0

See notes to condensed financial statements.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

NOTES TO CONDENSED FINANCIAL STATEMENTS

The accompanying condensed financial statements of The Progressive Corporation (parent company) should be read in conjunction with the consolidated financial statements and notes thereto in the Annual Report to Shareholders of The Progressive Corporation and its subsidiaries, which is included as Exhibit 13 to this Form 10-K.

Note 1. Statements of Cash Flows — For the purpose of the Statements of Cash Flows, cash includes only bank demand deposits. The Progressive Corporation does not hold any cash but has unrestricted access to funds maintained in a non-insurance, investment subsidiary to meet its holding company obligations; at both year-end 2016 and 2015, \$1.3 billion of marketable securities were available in this subsidiary. Non-cash activity includes declared but unpaid dividends, the transfer of the previous 5% ownership interest in ARX to The Progressive Corporation from an investment subsidiary in 2015, and the change in redemption value of the redeemable NCI. For the years ended December 31, The Progressive Corporation paid the following:

(millions)	2016	2015	2014
Income taxes	\$ 450.2	\$ 625.0	\$ 515.0
Interest	134.2	128.2	116.0

Note 2. Income Taxes — The Progressive Corporation files a consolidated federal income tax return with all eligible subsidiaries and acts as an agent for the consolidated tax group when making payments to the Internal Revenue Service. Since The Progressive Corporation owns less than 80% of ARX's outstanding stock, ARX and its subsidiaries are not eligible to file on a consolidated basis with The Progressive Corporation. The Progressive Corporation consolidated group's net income taxes currently payable/recoverable are included in other liabilities/assets, respectively, in the accompanying Condensed Balance Sheets based on the balance at the end of the year. The Progressive Corporation and its eligible subsidiaries have adopted, pursuant to a written agreement, a method of allocating consolidated federal income taxes. Amounts allocated to the eligible subsidiaries under the written agreement are included in "Intercompany Receivable" in the accompanying Condensed Balance Sheets.

Note 3. Debt — The information relating to debt is incorporated by reference from *Note 4 – Debt* in our Annual Report.

Note 4. Employee Benefit Plans — The information relating to incentive compensation plans and deferred compensation is incorporated by reference from *Note 9 – Employee Benefit Plans* in our Annual Report.

Note 5. Other Comprehensive Income — On the condensed Statements of Comprehensive Income, other comprehensive income represents activity of the subsidiaries of The Progressive Corporation and includes net unrealized gains (losses) on securities, net unrealized gains on forecasted transactions, and foreign currency translation adjustments.

Note 6. Dividends — The information relating to our dividend policy is incorporated by reference from *Note 14 – Dividends* in our Annual Report.

SCHEDULE III — SUPPLEMENTARY INSURANCE INFORMATION

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Segment	Deferred policy acquisition costs ¹	Future policy benefits, losses, claims, and loss expenses ¹	Unearned premiums ¹	Other policy claims and benefits payable ¹	Premium revenue	Net investment income ^{1,2}	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses	Net premiums written
Year ended December 31, 2016:										
Personal Lines					\$ 19,188.2		\$ 14,591.1	\$ 1,446.6	\$ 2,549.2	\$ 19,819.5
Commercial Lines					2,421.3		1,741.0	266.7	285.4	2,598.3
Property					864.5		546.1	150.5	137.2	935.7
Other indemnity					0		1.4	0	0.2	0
Total	\$ 651.2	\$ 11,368.0	\$ 7,468.3	\$ 0	\$ 22,474.0	\$ 456.5	\$ 16,879.6	\$ 1,863.8	\$ 2,972.0	\$ 23,353.5
Year ended December 31, 2015:										
Personal Lines					\$ 17,294.5		\$ 12,748.7	\$ 1,331.3	\$ 2,379.9	\$ 17,703.6
Commercial Lines					1,995.9		1,244.5	219.4	232.6	2,171.2
Property					609.1		349.0	101.1	98.8	689.6
Other indemnity					(0.4)		(0.2)	0	0.8	(0.4)
Total	\$ 564.1	\$ 10,039.0	\$ 6,621.8	\$ 0	\$ 19,899.1	\$ 431.8	\$ 14,342.0	\$ 1,651.8	\$ 2,712.1	\$ 20,564.0
Year ended December 31, 2014:										
Personal Lines					\$ 16,561.0		\$ 12,161.2	\$ 1,322.9	\$ 2,262.6	\$ 16,759.2
Commercial Lines					1,837.5		1,133.4	201.1	204.2	1,895.4
Property					—		—	—	—	—
Other indemnity					0		11.6	0	0.3	0
Total	\$ 457.2	\$ 8,857.4	\$ 5,440.1	\$ 0	\$ 18,398.5	\$ 389.5	\$ 13,306.2	\$ 1,524.0	\$ 2,467.1	\$ 18,654.6

¹ Progressive does not allocate assets, liabilities, or investment income to operating segments.

² Excludes total net realized gains (losses) on securities.

SCHEDULE IV — REINSURANCE**THE PROGRESSIVE CORPORATION AND SUBSIDIARIES**

(millions)

Year Ended:	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
<u>December 31, 2016</u>					
Premiums earned:					
Property and liability insurance	\$ 23,111.2	\$ 637.2	\$ 0	\$ 22,474.0	0
<u>December 31, 2015</u>					
Premiums earned:					
Property and liability insurance	\$ 20,454.1	\$ 555.0	\$ 0	\$ 19,899.1	0
<u>December 31, 2014</u>					
Premiums earned:					
Property and liability insurance	\$ 18,648.4	\$ 249.9	\$ 0	\$ 18,398.5	0

Report of Independent Registered Public Accounting Firm on Financial Statement Schedules

To the Board of Directors and Shareholders of The Progressive Corporation

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated March 1, 2017 appearing in the 2016 Annual Report to Shareholders of The Progressive Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules listed in Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
March 1, 2017

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Forms:

Form	Filing No.	Filing Date
S-8	333-204406	May 22, 2015
S-8	333-185704	December 27, 2012
S-8	333-185703	December 27, 2012
S-8	333-172663	March 8, 2011
S-8	333-104653	April 21, 2003
S-8	333-41238	July 12, 2000
S-8	33-57121	December 29, 1994
S-8	33-51034	August 20, 1992
S-8	33-16509	August 14, 1987

of The Progressive Corporation of our report dated March 1, 2017 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the 2016 Annual Report to Shareholders, which is incorporated by reference in The Progressive Corporation's Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 1, 2017 relating to the financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
March 1, 2017

* John P. Sauerland, by signing his name hereto, does sign this document on behalf of the persons indicated above pursuant to powers of attorney duly executed by such persons.

By: /s/ John P. Sauerland
John P. Sauerland
Attorney-in-fact

March 1, 2017

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
3(i)	3.1	Amended Articles of Incorporation of The Progressive Corporation (as amended May 16, 2016)	Quarterly Report on Form 10-Q (filed on August 3, 2016; Exhibit 3.1 therein)
3(ii)	3.2	Code of Regulations of The Progressive Corporation (as amended January 29, 2016)	Current Report on Form 8-K (filed on February 2, 2016; Exhibit 3 therein)
4	4.1	Form of 3.75% Senior Notes due 2021, issued in the aggregate principal amount of \$500,000,000 under the 1993 Senior Indenture (see exhibit 4.8 below), as amended and supplemented	Filed herewith
4	4.2	Form of 6 5/8% Senior Notes due 2029, issued in the aggregate principal amount of \$300,000,000 under the 1993 Senior Indenture, as amended and supplemented	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 4.2 therein)
4	4.3	Form of 6.25% Senior Notes due 2032, issued in the aggregate principal amount of \$400,000,000 under the 1993 Senior Indenture, as amended and supplemented	Annual Report on Form 10-K (filed on February 26, 2013; Exhibit 4.4 therein)
4	4.4	Form of 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067, issued in the original aggregate principal amount of \$1,000,000,000 under the Junior Subordinated Indenture (see exhibit 4.17 below), as amended and supplemented	Annual Report on Form 10-K (filed on February 26, 2013; Exhibit 4.5 therein)
4	4.5	Form of 4.35% Senior Notes due 2044, issued in the aggregate principal amount of \$350,000,000 under the 1993 Senior Indenture, as amended and supplemented	Current Report on Form 8-K (filed on April 25, 2014; Exhibit 4.2 therein)
4	4.6	Form of 3.70% Senior Notes due 2045, issued in the aggregate principal amount of \$400,000,000 under the 1993 Senior Indenture, as amended and supplemented	Current Report on Form 8-K (filed on January 26, 2015; Exhibit 4.2 therein)
4	4.7	Form of 2.45% Senior Notes due 2027, issued in the aggregate principal amount of \$500,000,000 under the 1993 Senior Indenture, as amended and supplemented	Current Report on Form 8-K (filed on August 25, 2016; Exhibit 4.2 therein)
4	4.8	Indenture dated as of September 15, 1993 between The Progressive Corporation and State Street Bank and Trust Company (successor in interest to The First National Bank of Boston), as Trustee (“1993 Senior Indenture”) (including table of contents and cross-reference sheet)	Registration Statement No. 333-48935 (filed on March 31, 1998; Exhibit 4.1 therein)
4	4.9	First Supplemental Indenture dated March 15, 1996 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company	Registration Statement No. 333-01745 (filed on March 15, 1996; Exhibit 4.2 therein)
4	4.10	Second Supplemental Indenture dated February 26, 1999 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company, as Trustee	Registration Statement No. 333-100674 (filed on October 22, 2002; Exhibit 4.3 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
4	4.11	Fourth Supplemental Indenture dated November 21, 2002 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company, as Trustee	Registration Statement No. 333-143824 (filed on June 18, 2007; Exhibit 4.5 therein)
4	4.12	Fifth Supplemental Indenture dated June 13, 2007 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, evidencing the designation of U.S. Bank National Association as successor Trustee under the 1993 Senior Indenture	Registration Statement No. 333-143824 (filed on June 18, 2007; Exhibit 4.6 therein)
4	4.13	Sixth Supplemental Indenture dated August 22, 2011 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee	Filed herewith
4	4.14	Seventh Supplemental Indenture dated April 25, 2014 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee	Current Report on Form 8-K (filed on April 25, 2014; Exhibit 4.1 therein)
4	4.15	Eighth Supplemental Indenture dated January 26, 2015 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee	Current Report on Form 8-K (filed on January 26, 2015; Exhibit 4.1 therein)
4	4.16	Ninth Supplemental Indenture dated August 25, 2016 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee	Current Report on Form 8-K (filed on August 25, 2016; Exhibit 4.1 therein)
4	4.17	Junior Subordinated Indenture dated as of June 21, 2007 between The Progressive Corporation and The Bank of New York Trust Company, N.A., Trustee (“Junior Subordinated Indenture”) (including table of contents and cross-reference sheet)	Annual Report on Form 10-K (filed on February 26, 2013; Exhibit 4.12 therein)
4	4.18	First Supplemental Indenture dated June 21, 2007 to the Junior Subordinated Indenture between The Progressive Corporation and The Bank of New York Trust Company, N.A., as Trustee	Annual Report on Form 10-K (filed on February 26, 2013; Exhibit 4.13 therein)
4	4.19	Second Supplemental Indenture dated September 2, 2011, to the Junior Subordinated Indenture dated June 21, 2007, between The Progressive Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee	Filed herewith
4	4.20	Replacement Capital Covenant dated June 21, 2007, of The Progressive Corporation	Annual Report on Form 10-K (filed on February 26, 2013; Exhibit 4.15 therein)
4	4.21	Termination of Replacement Capital Covenant, dated June 23, 2010	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 4.19 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
4	4.22	Form of Confirmation Letter-Discretionary Line of Credit from PNC Bank, National Association to The Progressive Corporation	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 4.1 therein)
4	4.23	Form of Discretionary Line of Credit Note dated from The Progressive Corporation to PNC Bank, National Association	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 4.2 therein)
4	4.24	The Company agrees, upon request, to furnish to the U.S. Securities and Exchange Commission a copy of any instrument authorizing long-term debt that does not authorize debt in excess of 10% of the total assets of the Company and its subsidiaries on a consolidated basis.	
10(i)	10.1	Stock Purchase Agreement, dated as of December 15, 2014, among ARX Holding Corp., The Progressive Corporation and the selling shareholders identified therein, including Exhibit H, the form of Stockholders' Agreement to be executed at closing	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.1 therein)
10(iii)	10.2	The Progressive Corporation 2014 Gainsharing Plan	Annual Report on Form 10-K (filed on February 26, 2014; Exhibit 10.7 therein)
10(iii)	10.3	The Progressive Corporation 2015 Gainsharing Plan	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.8 therein)
10(iii)	10.4	The Progressive Corporation 2016 Gainsharing Plan	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.5 therein)
10(iii)	10.5	The Progressive Corporation 2017 Gainsharing Plan	Filed herewith
10(iii)	10.6	ARX Holding Corp 2017 Gainsharing Plan	Current Report on Form 8-K (filed on February 21, 2017; Exhibit 10.4 therein)
10(iii)	10.7	The Progressive Corporation 2007 Executive Bonus Plan	Annual Report on Form 10-K (filed on February 28, 2012; Exhibit 10.8 therein)
10(iii)	10.8	The Progressive Corporation 2017 Executive Annual Incentive Plan	Current Report on Form 8-K (filed on February 21, 2017; Exhibit 10.2 therein)
10(iii)	10.9	Form of Award Agreement under The Progressive Corporation 2017 Executive Annual Incentive Plan (2017 Fiscal Year)	Current Report on Form 8-K (filed on February 21, 2017; Exhibit 10.3 therein)
10(iii)	10.10	The Progressive Corporation 2003 Incentive Plan	Registration Statement No. 333-104646 (filed on April 21, 2003; Exhibit 4(a) therein)
10(iii)	10.11	First Amendment to The Progressive Corporation 2003 Incentive Plan	Annual Report on Form 10-K (filed on February 28, 2012; Exhibit 10.10 therein)
10(iii)	10.12	Second Amendment to The Progressive Corporation 2003 Incentive Plan	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.12 therein)

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.13	Third Amendment to The Progressive Corporation 2003 Incentive Plan	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.10 therein)
10(iii)	10.14	Fourth Amendment to The Progressive Corporation 2003 Incentive Plan	Quarterly Report on Form 10-Q (filed on May 7, 2012; Exhibit 10.4 therein)
10(iii)	10.15	Form of The Progressive Corporation 2003 Incentive Plan Restricted Stock Award Agreement (Performance-Based Award) (for 2004 through February 2007)	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.16 therein)
10(iii)	10.16	Form of The Progressive Corporation 2003 Incentive Plan Restricted Stock Award Agreement (Performance-Based Award) (for March 2007 through February 2009)	Annual Report on Form 10-K (filed on February 26, 2013; Exhibit 10.15 therein)
10(iii)	10.17	Form of Restricted Stock Unit Award Agreement for Time-Based Awards under The Progressive Corporation 2003 Incentive Plan	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.14 therein)
10(iii)	10.18	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards under The Progressive Corporation 2003 Incentive Plan	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.15 therein)
10(iii)	10.19	The Progressive Corporation 2010 Equity Incentive Plan	Registration Statement No. 333-172663 (filed on March 8, 2011; Exhibit 4.1 therein)
10(iii)	10.20	First Amendment to The Progressive Corporation 2010 Equity Incentive Plan	Registration Statement No. 333-172663 (filed on March 8, 2011; Exhibit 4.2 therein)
10(iii)	10.21	Second Amendment to The Progressive Corporation 2010 Equity Incentive Plan	Registration Statement No. 333-172663 (filed on March 8, 2011; Exhibit 4.3 therein)
10(iii)	10.22	Third Amendment to The Progressive Corporation 2010 Equity Incentive Plan	Registration Statement No. 333-172663 (filed on March 8, 2011; Exhibit 4.4 therein)
10(iii)	10.23	Fourth Amendment to The Progressive Corporation 2010 Equity Incentive Plan	Filed herewith
10(iii)	10.24	Fifth Amendment to The Progressive Corporation 2010 Equity Incentive Plan	Quarterly Report on Form 10-Q (filed on May 7, 2012; Exhibit 10.5 therein)
10(iii)	10.25	Sixth Amendment to The Progressive Corporation 2010 Equity Incentive Plan	Current Report on Form 8-K (filed on December 11, 2012; Exhibit 10.1 therein)
10(iii)	10.26	Form of Restricted Stock Unit Award Agreement for Time-Based Awards under The Progressive Corporation 2010 Equity Incentive Plan (for 2011 and 2012)	Filed herewith
10(iii)	10.27	Form of Restricted Stock Unit Award Agreement for Time-Based Awards under The Progressive Corporation 2010 Equity Incentive Plan (for 2013)	Current Report on Form 8-K (filed on March 22, 2013; Exhibit 10.1 therein)
10(iii)	10.28	Form of Restricted Stock Unit Award Agreement for Time-Based Awards under The Progressive Corporation 2010 Equity Incentive Plan (for 2014)	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.30 therein)
10(iii)	10.29	Form of Restricted Stock Unit Award Agreement for Time-Based Awards under The Progressive Corporation 2010 Equity Incentive Plan (for 2015)	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 10.1 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.30	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Insurance Results) under The Progressive Corporation 2010 Equity Incentive Plan (for 2011 and 2012)	Filed herewith
10(iii)	10.31	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Investment Performance) under The Progressive Corporation 2010 Equity Incentive Plan (for 2012)	Current Report on Form 8-K (filed on March 22, 2012; Exhibit 10.1 therein)
10(iii)	10.32	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Insurance Results) under The Progressive Corporation 2010 Equity Incentive Plan (for 2013)	Current Report on Form 8-K (filed on March 22, 2013; Exhibit 10.2 therein)
10(iii)	10.33	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Investment Results) under The Progressive Corporation 2010 Equity Incentive Plan (for 2013)	Current Report on Form 8-K (filed on March 22, 2013; Exhibit 10.3 therein)
10(iii)	10.34	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Insurance Results) under The Progressive Corporation 2010 Equity Incentive Plan (for 2014)	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.35 therein)
10(iii)	10.35	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Investment Results) under The Progressive Corporation 2010 Equity Incentive Plan (for 2014)	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.36 therein)
10(iii)	10.36	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Insurance Results) under The Progressive Corporation 2010 Equity Incentive Plan (for 2015)	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 10.2 therein)
10(iii)	10.37	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Investment Results) under The Progressive Corporation 2010 Equity Incentive Plan (for 2015)	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 10.3 therein)
10(iii)	10.38	The Progressive Corporation 2015 Equity Incentive Plan	Current Report on Form 8-K (filed on February 4, 2015; Exhibit 10.1 therein)
10(iii)	10.39	Restricted Stock Unit Award Agreement (2015 Performance-Based Award - Special Award) under the Progressive Corporation 2015 Equity Incentive Plan	Current Report on Form 8-K (filed on August 14, 2015; Exhibit 10.1 therein)
10(iii)	10.40	Form of Restricted Stock Unit Award Agreement for Time-Based Awards under The Progressive Corporation 2015 Equity Incentive Plan (for 2016)	Quarterly Report on Form 10-Q (filed on May 5, 2016 ; Exhibit 10.1)
10(iii)	10.41	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Performance versus Market) under The Progressive Corporation 2015 Equity Incentive Plan (for 2016)	Quarterly Report on Form 10-Q (filed on May 5, 2016; Exhibit 10.2 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.42	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Investment Results) under The Progressive Corporation 2015 Equity Incentive Plan (for 2016)	Quarterly Report on Form 10-Q (filed on May 5, 2016; Exhibit 10.3 therein)
10(iii)	10.43	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Robinsons) under The Progressive Corporation 2015 Equity Incentive Plan (for 2016)	Quarterly Report on Form 10-Q (filed on May 5, 2016; Exhibit 10.4 therein)
10(iii)	10.44	Employment Agreement, dated March 30, 2004, between ARX Holding Corp. and John F. Auer	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.37 therein)
10(iii)	10.45	The Progressive Corporation 2003 Directors Equity Incentive Plan	Registration Statement No. 333-104653 (filed on April 21, 2003; Exhibit 4(a) therein)
10(iii)	10.46	Amendment No. 1 to The Progressive Corporation 2003 Directors Equity Incentive Plan	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.35 therein)
10(iii)	10.47	Amendment No. 2 to The Progressive Corporation 2003 Directors Equity Incentive Plan	Filed herewith
10(iii)	10.48	Amendment No. 3 to The Progressive Corporation 2003 Directors Equity Incentive Plan	Quarterly Report on Form 10-Q (filed on May 7, 2012; Exhibit 10.3 therein)
10(iii)	10.49	Form of Restricted Stock Award Agreement under The Progressive Corporation 2003 Directors Equity Incentive Plan (for 2004 and thereafter)	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.42 therein)
10(iii)	10.50	The Progressive Corporation 2017 Directors Equity Incentive Plan	Current Report on Form 8-K (filed on February 21, 2017; Exhibit 10.1 therein)
10(iii)	10.51	The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.3 therein)
10(iii)	10.52	First Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.4 therein)
10(iii)	10.53	Second Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.5 therein)
10(iii)	10.54	Third Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.6 therein)
10(iii)	10.55	Fourth Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.7 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.56	The Progressive Corporation Executive Deferred Compensation Plan (2008 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.8 therein)
10(iii)	10.57	First Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2008 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.9 therein)
10(iii)	10.58	The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.10 therein)
10(iii)	10.59	First Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.11 therein)
10(iii)	10.60	Second Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)	Current Report on Form 8-K (filed on October 14, 2014; Exhibit 10 therein)
10(iii)	10.61	Third Amendment to the Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.53 therein)
10(iii)	10.62	Form of The Progressive Corporation Executive Deferred Compensation Plan Deferral Agreement (for 2005 through 2009)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.12 therein)
10(iii)	10.63	Form of The Progressive Corporation Executive Deferred Compensation Plan Gainsharing/Bonus Deferral Agreement (for 2010 and thereafter)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.13 therein)
10(iii)	10.64	Form of The Progressive Corporation Executive Deferred Compensation Plan Performance-Based Restricted Stock Deferral Agreement (for 2004)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.14 therein)
10(iii)	10.65	Form of The Progressive Corporation Executive Deferred Compensation Plan Performance-Based Restricted Stock Deferral Agreement (for 2005)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.15 therein)
10(iii)	10.66	Form of The Progressive Corporation Executive Deferred Compensation Plan Performance-Based Restricted Stock Deferral Agreement (for 2006 through 2009)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.16 therein)
10(iii)	10.67	Form of The Progressive Corporation Executive Deferred Compensation Plan Performance-Based Restricted Stock Unit Deferral Agreement (for 2010 through 2014)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.17 therein)
10(iii)	10.68	Form of The Progressive Corporation Executive Deferred Compensation Plan Time-Based Restricted Stock Deferral Agreement (for 2003)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.18 therein)
10(iii)	10.69	Form of The Progressive Corporation Executive Deferred Compensation Plan Time-Based Restricted Stock Deferral Agreement (for 2004)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.19 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.70	Form of The Progressive Corporation Executive Deferred Compensation Plan Time-Based Restricted Stock Deferral Agreement (for 2005)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.20 therein)
10(iii)	10.71	Form of The Progressive Corporation Executive Deferred Compensation Plan Time-Based Restricted Stock Deferral Agreement (for 2006 through 2009)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.21 therein)
10(iii)	10.72	Form of The Progressive Corporation Executive Deferred Compensation Plan Time-Based Restricted Stock Unit Deferral Agreement (for 2010 and thereafter)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.22 therein)
10(iii)	10.73	The Progressive Corporation Executive Deferred Compensation Trust (November 8, 2002 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.23 therein)
10(iii)	10.74	First Amendment to Trust Agreement between Fidelity Management Trust Company and Progressive	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.24 therein)
10(iii)	10.75	Second Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.25 therein)
10(iii)	10.76	Third Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.26 therein)
10(iii)	10.77	Fourth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.27 therein)
10(iii)	10.78	Fifth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.28 therein)
10(iii)	10.79	Sixth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.29 therein)
10(iii)	10.80	Seventh Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.30 therein)
10(iii)	10.81	Eighth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Annual Report on Form 10-K (filed on February 26, 2014; Exhibit 10.66 therein)
10(iii)	10.82	Ninth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 10.5 therein)
10(iii)	10.83	Tenth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 10.6 therein)
10(iii)	10.84	The Progressive Corporation Directors Deferral Plan (2008 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 26, 2013; Exhibit 10.62 therein)
10(iii)	10.85	The Progressive Corporation Directors Deferral Plan (2015 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.77 therein)
10(iii)	10.86	The Progressive Corporation Directors Restricted Stock Deferral Plan	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.76 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.87	The Progressive Corporation Directors Restricted Stock Deferral Plan (2008 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 26, 2013; Exhibit 10.63 therein)
10(iii)	10.88	First Amendment to The Progressive Corporation Directors Restricted Stock Deferral Plan (2008 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 26, 2014; Exhibit 10.69 therein)
10(iii)	10.89	Form of The Progressive Corporation Directors Restricted Stock Deferral Plan Deferral Agreement	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.76 therein)
10(iii)	10.90	Director Compensation Schedule for 2014 - 2015 Term	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.79 therein)
10(iii)	10.91	Director Compensation Schedule for 2015 - 2016 Term	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.84 therein)
10(iii)	10.92	Director Compensation Schedule for 2016 - 2017 Term	Filed herewith
10(iii)	10.93	The Progressive Corporation Executive Separation Allowance Plan (2015 Amendment and Restatement)	Current Report on Form 8-K (filed on August 11, 2015; Exhibit 10.1 therein)
10(iii)	10.94	First Amendment to the Progressive Corporation Executive Separation Allowance Plan (2015 Amendment and Restatement)	Current Report on Form 8-K (filed on February 2, 2016; Exhibit 10 therein)
10(iii)	10.95	Second Amendment to the Progressive Corporation Executive Separation Allowance Plan (2015 Amendment and Restatement)	Quarterly Report on Form 10-Q (filed on August 3, 2016; Exhibit 10.1 therein)
10(iii)	10.96	Third Amendment to the Progressive Corporation Executive Separation Allowance Plan (2015 Amendment and Restatement)	Filed herewith
10(iii)	10.97	2014 Progressive Capital Management Bonus Plan	Annual Report on Form 10-K (filed on February 26, 2014; Exhibit 10.82 therein)
10(iii)	10.98	2015 Progressive Capital Management Bonus Plan	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.90 therein)
10(iii)	10.99	2016 Progressive Capital Management Bonus Plan	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.90 therein)
10(iii)	10.100	2017 Progressive Capital Management Annual Incentive Plan	Filed herewith
11	11	Computation of Earnings Per Share	Filed herewith
13	13	The Progressive Corporation 2016 Annual Report to Shareholders	Filed herewith

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
21	21	Subsidiaries of The Progressive Corporation	Filed herewith
23	23	Consent of Independent Registered Public Accounting Firm	Incorporated herein by reference to page 37 of this Annual Report on Form 10-K
24	24	Powers of Attorney	Filed herewith
31	31.1	Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer, Susan Patricia Griffith	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, Susan Patricia Griffith	Furnished herewith
32	32.2	Section 1350 Certification of the Principal Financial Officer, John P. Sauerland	Furnished herewith
99	99	Letter to Shareholders from Susan Patricia Griffith, President and Chief Executive Officer	Furnished herewith
101	101.INS	XBRL Instance Document	Filed herewith
101	101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
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

(FACE OF SECURITY)

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC") to the Issuer or its agent for registration of transfer, exchange or payment, and such certificate is registered in the name of Cede & Co., or in such other name as requested by an authorized representative of DTC, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

REGISTERED NO. R-001

\$500,000,000

CUSIP No. 743315 AN3

THE PROGRESSIVE CORPORATION
3.75% SENIOR NOTE DUE 2021

THE PROGRESSIVE CORPORATION, an Ohio corporation (the "Issuer"), for value received, hereby promises to pay to CEDE & Co., c/o The Depository Trust Company, 55 Water Street, New York, New York 10041 or registered assigns, at the office or agency of the Issuer at the office of the Trustee in Boston, Massachusetts, the principal sum of FIVE HUNDRED MILLION DOLLARS (\$500,000,000) on August 23, 2021 (the "Maturity Date") in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest semiannually on February 23 and August 23 of each year (each, an "Interest Payment Date"), commencing on February 23, 2012, on said principal sum at said office or agency, in like coin or currency, at the rate per annum specified in the title of this Note, from the February 23 and August 23, as the case may be, next preceding the date of this Note to which interest has been paid, unless no interest has been paid on the Notes, in which case from August 22, 2011, until payment of said principal sum has been made or duly provided for at the office or agency maintained by the Issuer for such purpose; provided, that payment of interest may be made at the option of the Issuer by check mailed to the address of the person entitled thereto as such address shall appear on the Security Register. The interest so payable on any Interest Payment Date will, subject to certain exceptions provided in the Indenture referred to on the reverse hereof, be paid to the person in whose name this Note is registered at the close of business on the February 8 or August 8, as the case may be, next preceding the related Interest Payment Date except that any interest payable upon maturity or earlier redemption of the Notes will be payable to the person to whom the principal of the Notes is payable.

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

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

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

THE PROGRESSIVE CORPORATION

[CORPORATE SEAL]

By:

 Thomas A. King
 Treasurer

Attest:

 Charles E. Jarrett
 Secretary

Dated: August 22, 2011

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

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

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By:

 Authorized Signatory

(BACK OF SECURITY)
THE PROGRESSIVE CORPORATION
3.75% SENIOR NOTE DUE 2021

This Note is one of a duly authorized issue of debentures, notes, bonds or other evidences of indebtedness of the Issuer (hereinafter called the “Securities”) of the series hereinafter specified, all issued or to be issued under and pursuant to an indenture dated as of September 15, 1993, as heretofore supplemented and amended (herein called the “Indenture”), between the Issuer and U.S. Bank National Association, as Trustee (herein called the “Trustee”), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Issuer and the Holders of the Securities. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any) and may otherwise vary as in the Indenture provided. This Security is one of a series designated as the “3.75% Senior Notes due 2021” of the Issuer (herein called the “Notes”) initially limited in aggregate principal amount to \$500,000,000. The Issuer may, without the consent of Holders, increase the principal amount of the Notes in the future by issuing additional Notes on the same terms and conditions and with the same CUSIP Number(s) as the Notes.

If any Interest Payment Date or the Maturity Date or any earlier Redemption Date falls on any date that is not a Business Day, then the related payment will be made on the next succeeding Business Day, without any interest or other additional payment in respect of the delay. “Business Day” means any day, other than a Saturday or Sunday, that is not a day on which banking institutions or trust companies are generally authorized or required by law, regulation or executive order to close in The City of New York.

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

The Indenture contains provisions permitting the Issuer and the Trustee, with the consent of the Holders of not less than 66-2/3% in aggregate principal amount of the Securities at the time Outstanding (as defined in the Indenture) of all series to be affected (voting as one class), evidenced as in the Indenture provided, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or modifying in any manner the rights of the Holders of the Securities of each such series; provided, however, that no such supplemental indenture shall, among other things, (i) extend the final maturity of any Security, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of any interest thereon, or impair or affect the rights of any Holder to institute suit for the payment thereof, without the consent of the Holder of each Security so affected or (ii) reduce the aforesaid percentage of Securities, the Holders of which are required to consent to any such supplemental indenture, without the consent of the Holder of each Security so affected. It is also provided in the Indenture that, with respect to certain defaults or Events of Default regarding the Securities of any series, prior to any declaration accelerating the maturity of such Securities, the Holders of a majority in aggregate principal amount Outstanding of the Securities of such series may on behalf of the Holders of all the Securities of such series waive any such past default or Event of Default and its consequences. The preceding sentence shall not, however, apply to a default in the payment of the principal of or premium, if any, or interest on any of the Securities. Any such consent or waiver by the Holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Note and any Note which may be issued in exchange or substitution herefor, irrespective of whether or not any notation thereof is made upon this Note or such other Note.

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

The Notes are issuable in registered form without coupons in minimum denominations of \$2,000 and any integral multiple of \$1,000 at the office or agency of the Issuer at the office of the Trustee in Boston, Massachusetts, and in the manner and subject to the limitations provided in the Indenture, but without the payment of any service charge. Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations.

The Notes are subject to redemption upon not more than 60 or less than 30 days’ notice by mail, in whole at any time or in part from time to time at the option of the Issuer on any date (a “Redemption Date”), at a redemption price equal to the accrued and unpaid interest on the principal amount being redeemed to the redemption date plus the greater of (i) 100% of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the Remaining Scheduled Payments (as defined below) of the Notes to be redeemed, discounted to the redemption date, on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), at rate equal to the Treasury Rate (defined below), plus 30 basis points.

“Remaining Scheduled Payments” means, with respect to any redemption, the remaining scheduled payments of the principal and interest, exclusive of interest accrued to the Redemption Date, that would be due after the Redemption Date of the Notes to be redeemed assuming such Notes were not redeemed and were held until the Maturity Date.

“Treasury Rate” means, with respect to any redemption, an annual rate equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (as defined below), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Redemption Date.

“Comparable Treasury Issue” means, with respect to any redemption, the United States Treasury security selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

“Independent Investment Banker” means one of the Reference Treasury Dealers selected by the Issuer.

“Comparable Treasury Price” means, with respect to any redemption, (i) the average of three Reference Treasury Dealer Quotations (as defined below) obtained by the Trustee for the Redemption Date after excluding the highest and lowest of five Reference Treasury Dealer Quotations obtained or (ii) if the Trustee obtains fewer than five Reference Treasury Dealer Quotations, the average of all Reference Treasury Dealer Quotations obtained.

“Reference Treasury Dealer” means, with respect to any redemption, Credit Suisse Securities (USA) LLC or any of its affiliates (so long as it is and continues to be a primary U.S. Government securities dealer in The City of New York) and any four other primary U.S. Government securities dealers in The City of New York chosen by the Issuer. If any of the foregoing ceases to be a primary U.S. Government securities dealer in The City of New York, the Issuer will appoint in its place another nationally recognized investment banking firm that is a primary U.S. Government securities dealer in The City of New York.

“Reference Treasury Dealer Quotation” means, with respect to any redemption, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by a Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding the Redemption Date.

In the event of redemption of this Note in part only, a new Note or Notes of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

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

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

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

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

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

**PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE**

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS
INCLUDING POSTAL ZIP CODE OF ASSIGNEE)

the within Note and all rights thereunder, hereby irrevocably constituting and appointing attorney to transfer said Note on the books of the Issuer, with full power of substitution in the premises.

Dated _____

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

THE PROGRESSIVE CORPORATION
and
U.S. BANK NATIONAL ASSOCIATION, as
Trustee
SIXTH SUPPLEMENTAL INDENTURE
3.75% Senior Notes due 2021

THIS SIXTH SUPPLEMENTAL INDENTURE, dated as of August 22, 2011, between THE PROGRESSIVE CORPORATION, an Ohio corporation (the “Issuer”) and U.S. BANK NATIONAL ASSOCIATION, a national banking association (“U.S. Bank”), in its capacity as Trustee.

WITNESSETH:

WHEREAS, the Issuer entered into an Indenture dated as of September 15, 1993 (as supplemented from time to time, the “Indenture”), with the First National Bank of Boston, in its capacity as Trustee, pursuant to which the Issuer may from time to time issue its unsecured debentures, notes and other evidences of indebtedness in one or more series; and

WHEREAS, the Issuer entered into a First Supplemental Indenture dated as of March 15, 1996, confirming the succession of State Street Bank and Trust Company, a Massachusetts trust company, as trustee under the Indenture; and

WHEREAS, the Issuer entered into a Second Supplemental Indenture dated as of February 26, 1999;

WHEREAS, the Issuer entered into a Third Supplemental Indenture dated as of December 7, 2001;

WHEREAS, the Issuer entered into a Fourth Supplemental Indenture dated as of November 21, 2002;

WHEREAS, the Issuer entered into a Fifth Supplemental Indenture dated as of June 13, 2007 confirming the succession of U.S. Bank, as trustee under the Indenture;

WHEREAS, Article Eight of the Indenture provides for various matters with respect to any series of Securities issued under the Indenture to be established in an indenture supplemental to the Indenture; and

WHEREAS, Section 8.1(c) of the Indenture provides that the Issuer, when authorized by its Board of Directors, and the Trustee may from time to time and at any time enter into an indenture supplemental to the Indenture to add on to the covenants of the Issuer certain further covenants, restrictions, conditions or provisions.

NOW THEREFORE:

In consideration of the premises and other good and valuable consideration, the parties hereto mutually covenant and agree as follows:

ARTICLE 1

RELATION TO INDENTURE; DEFINITIONS

SECTION 1.01. Integral Part. This Sixth Supplemental Indenture constitutes an integral part of the Indenture.

SECTION 1.02. General Definitions. For all purposes of this Sixth Supplemental Indenture:

- (a) capitalized terms used herein without definition shall have the meanings specified in the Indenture;
- (b) all references herein to Articles and Sections, unless otherwise specified, refer to the corresponding Articles and Sections of this Sixth Supplemental Indenture; and
- (c) the terms “herein”, “hereof”, “hereunder” and other words of similar import refer to this Sixth Supplemental Indenture.

SECTION 1.03. Definitions. The following definitions shall apply to this Sixth Supplemental Indenture:

“Consolidated Tangible Net Worth” means, at any date, the total assets appearing on the consolidated balance sheet of the Issuer and its consolidated subsidiaries as of the end of the then most recent fiscal quarter of the Issuer, prepared in accordance with generally accepted accounting principles, less the sum of (a) the total liabilities appearing on such balance sheet and (b) intangible assets. “Intangible assets” means, for the purposes of this definition, the value, as shown on or reflected in such balance sheet, of (i) all trade names, trademarks, licenses, patents, copyrights and goodwill, (ii) organizational costs and (iii) unamortized debt discount and expense, less unamortized premium.

“Designated Securities” means the series of Securities designated by the Issuer as its “3.75% Senior Notes due 2021.”

“Designated Subsidiary” means (i) Progressive Casualty Insurance Company, an Ohio corporation, so long as it remains a subsidiary of the Issuer, (ii) any other consolidated subsidiary of the Issuer, the assets of which constitute 10% or more of the Total Assets, and (iii) any subsidiary that is a successor to all or substantially all of the business or properties of any such subsidiary.

“Depository” shall have the meaning specified in Section 4.01.

“DTC” shall have the meaning specified in Section 4.01.

“Global Security” or “Securities” shall have the meaning specified in Section 4.01.

“Total Assets” means, at any date, the total assets appearing on the consolidated balance sheet of the Issuer and its consolidated subsidiaries as of the end of the then most recent fiscal quarter of the Issuer, prepared in accordance with generally accepted accounting principles.

ARTICLE 2

ADDITIONAL COVENANTS

SECTION 2.01. Limitation on Liens. The Issuer will not, nor will it permit any Designated Subsidiary to, incur, issue, assume or guarantee any indebtedness for money borrowed if (i) that indebtedness is secured by a pledge, mortgage, deed of trust or other lien on any shares of stock or indebtedness of any Designated Subsidiary (a “lien”), and (ii) the aggregate amount of the indebtedness so secured exceeds an amount equal to 15% of the Issuer’s Consolidated Tangible Net Worth, unless the Designated Securities are also secured equally and ratably with such other indebtedness. For purposes of this restriction, a “lien” will not include the pledge to, or deposit with, any state or provincial insurance regulatory authorities of any investment securities by the Issuer or any of its subsidiaries.

The foregoing restriction shall not apply to indebtedness secured by:

- (a) Liens on any shares of stock or indebtedness of or acquired from a corporation merged or consolidated with or into, or otherwise acquired by, the Issuer or a Designated Subsidiary;
- (b) Liens to secure indebtedness of a Designated Subsidiary to the Issuer or to another Designated Subsidiary, but only as long as such indebtedness is owned or held by the Issuer or a Designated Subsidiary; and
- (c) Any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any lien referred to in (a) and (b).

SECTION 2.02. Consolidation, Merger, Sale, Conveyance and Lease. Clause (ii) of Section 9.1 of the Indenture is, with respect to the Designated Securities, amended to read as follows:

“(ii) immediately after giving effect to the transaction, no Event of Default exists.”

ARTICLE 3

REOPENING OF THE SERIES

SECTION 3.01. Reopening of the Series. The Issuer may at any time, without the consent of the holders of the Designated Securities, increase the principal amount of the Designated Securities.

ARTICLE 4

GLOBAL SECURITIES

SECTION 4.01. Global Securities. The Designated Securities shall be issued in the form of one or more global securities (“Global Securities”), which shall be deposited on behalf of the purchasers of the Designated Securities represented thereby with U.S. Bank National Association, at its Corporate Trust Office, as custodian for the depositary, The Depository Trust Company (“DTC”, and such depositary, or any successor thereto, being hereinafter referred to as the “Depository”), and registered in the name of DTC’s nominee, Cede & Co. (or any successor thereto), for the accounts of participants in the Depository.

SECTION 4.02. General. Each Global Security shall represent such of the outstanding Designated Securities as shall be specified therein and each shall provide that it shall represent the aggregate principal amount of outstanding Designated Securities from time to time endorsed thereon.

The Trustee and any agent thereof shall be entitled to deal with the Depository, and any nominee thereof, that is the registered Holder of any Global Security for all purposes of the Indenture relating to such Global Security (including the payment of principal and interest and the giving of instructions or directions by or to the owner or Holder of a beneficial ownership interest in such Global Security) as the sole Holder of such Global Security and shall have no obligations to the beneficial owners thereof. None of the Trustee or any agent shall have any responsibility or liability for any acts or omissions of the Depository with respect to such Global Security, for the records of any such depositary, including records in respect of beneficial ownership interests in respect of any such Global Security, for any transactions between the Depository and any members of, or participants, in the Depository (“Agent Members”) or between or among the Depository, any such Agent Member and/or any Holder or owner of a beneficial interest in such Global Security, or for any transfers of beneficial interests in any such Global Security. Notwithstanding the foregoing, nothing herein shall (1) prevent the Issuer, the Trustee or any agent of the Issuer or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or (2) impair, as between the Depository and its Agent Members, the operation of customary practices governing the exercise of the rights of a Holder of any Security. Subject to the foregoing, the registered Holder may grant proxies and otherwise authorize any Person to take any action which a Holder is entitled to take under the Indenture or the Designated Securities in accordance with the rules and procedures of such Depository.

SECTION 4.03. Book Entry Provisions. Each Global Security shall bear a legend substantially to the following effect:

“Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the Issuer or its agent for registration of transfer, exchange or payment, and such certificate is registered in the name of Cede & Co., or in such other name as requested by an authorized representative of DTC, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, inasmuch as the registered owner hereof, Cede & Co., has an interest herein.”

A Global Security may not be transferred, in whole or in part, to any Person other than the Depository or a nominee or any successor thereof, and no such transfer to any such other Person may be registered; provided that the foregoing shall not prohibit any transfer of a Designated Security that is issued in exchange for a Global Security but is not itself a Global Security.

A Global Security shall not be exchanged in whole or in part for a Designated Security registered, and no transfer of a Global Security in whole or in part shall be registered in the name of any Person other than the Depository or one or more nominees thereof; provided that a Global Security may be exchanged for Designated Securities registered in the names of any person designated by the Depository in the event that (A) the Depository has notified the Issuer that it is unwilling or unable to continue as Depository for such Global Security or such Depository has ceased to be a “clearing agency” registered under the Exchange Act, and in either case, a successor Depository is not appointed by the Issuer within 90 days after receiving such notice or becoming aware that the Depository has ceased to be a “clearing agency” or (B) the Issuer determines in its sole discretion to issue Designated Notes in exchange for a Global Security. Any Global Security exchanged pursuant to the preceding sentence shall be so exchanged as directed by the Depository. Any Designated Security issued in exchange for a Global Security or any portion thereof shall be a Global Security; provided, however, that any such Security so issued that is registered in the name of a Person other than the Depository or a nominee thereof shall not be a Global Security.

Designated Securities issued in exchange for a Global Security or any portion thereof that are not issued as a Global Security shall be issued in definitive, fully registered form, without interest coupons, shall have a principal amount equal to that of such Global Security or portion thereof to be so exchanged and shall be registered in such names and be in such authorized denominations as the Depository shall designate.

ARTICLE 4

MISCELLANEOUS PROVISIONS

SECTION 4.01. Applicability of this Sixth Supplemental Indenture. The provisions of this Sixth Supplemental Indenture will be applicable solely to the Designated Securities.

SECTION 4.02. Adoption, Ratification and Confirmation. The Indenture, as supplemented by this Sixth Supplemental Indenture, is in all respects hereby adopted, ratified and confirmed.

SECTION 4.03. Counterparts. This Sixth Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed an original; and all such counterparts shall together constitute but one and the same instrument.

SECTION 4.04. Governing Law. This Sixth Supplemental Indenture shall be governed by and construed in accordance with the laws of the state of New York.

SECTION 4.05. Trustee Makes No Representation. The Trustee makes no representation as to the validity or sufficiency of this Sixth Supplemental Indenture. The recitals contained herein are made by the Issuer and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof IN WITNESS WHEREOF, the parties hereto have caused this Sixth Supplemental Indenture to be duly executed and their respective corporate seals to be hereunto fixed and attested as of the day and year first written above.

THE PROGRESSIVE CORPORATION

By: /s/ Brian C. Domeck
Name: Brian C. Domeck
Title: Vice President and Chief Financial Officer

Attest

By: /s/ Charles E. Jarrett
Name: Charles E. Jarrett
Title: Secretary

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: /s/ S. Soltani
Name: Sam Soltani
Title: Officer

Attest

By: /s/ David J. Ganss
Name: David J. Ganss
Title: Vice President

STATE OF OHIO) ss:
COUNTY OF CUYAHOGA)

On this day of August, 2011, before me personally came Brian C. Domeck, to me personally known, who, being by me duly sworn, did depose and say that he is an officer of THE PROGRESSIVE CORPORATION, one of the corporations described in and which executed the above instrument; that he knows the corporate seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

Notary Public

My commission expires:

[Notarial Seal]

COMMONWEALTH OF MASSACHUSETTS

) ss:

COUNTY OF SUFFOLK

)

On this day of August, 2011, before me personally came , to me personally known, who, being by me duly sworn, did depose and say that he is a resident of SUFFOLK County, COMMONWEALTH OF MASSACHUSETTS; that he is an authorized officer of U.S. BANK NATIONAL ASSOCIATION, the corporation described in and which executed the above instrument; and that he signed his name thereto by authority of the Board of Directors of said corporation.

Notary Public

My commission expires:

[Notary Seal]

SECOND SUPPLEMENTAL INDENTURE

This Second Supplemental Indenture, dated as of September 2, 2011 (the “Second Supplemental Indenture”), between The Progressive Corporation, an Ohio corporation (the “Issuer”) and The Bank of New York Mellon Trust Company, N.A. (fka The Bank of New York Trust Company, N.A.), a national banking association, as trustee (the “Trustee”).

RECITALS OF THE ISSUER

The Issuer and the Trustee entered into a Junior Subordinated Indenture (the “Base Indenture”) and a First Supplemental Indenture (the “First Supplemental Indenture,” and together with the Base Indenture, the “Indenture”), each dated as of June 21, 2007. The First Supplemental Indenture established a series of Securities under the Indenture designated as the Issuer’s 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (the “Debentures”).

Section 8.1 of the Base Indenture, as modified by Section 7.01 of the First Supplemental Indenture, provides that with respect to the Debentures, the Issuer and the Trustee, without the consent of any Holder, may supplement or amend the Indenture, among other reasons, to surrender any right or power conferred upon the Issuer under the Indenture, and to cure any ambiguity, to correct or supplement provisions of the Indenture, or to make any other provisions with respect to matters or questions arising under the Indenture, provided such action does not adversely affect the interests of the Holders of Debentures in any material respect.

The Issuer has requested that the Trustee execute and deliver this Second Supplemental Indenture to surrender a right conferred on the Issuer by the First Supplemental Indenture and to make certain other changes thereto. The Issuer has delivered to the Trustee an Opinion of Counsel and an Officers’ Certificate to the effect, among other things, that all conditions precedent provided for in the Indenture to the Trustee’s execution and delivery of this Second Supplemental Indenture have been complied with. All acts and things necessary have been done and performed to make this Second Supplemental Indenture enforceable in accordance with its terms, and the execution and delivery of this Second Supplemental Indenture has been duly authorized in all respects.

NOW, THEREFORE, THIS SECOND SUPPLEMENTAL INDENTURE WITNESSETH: For and in consideration of the premises, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Debentures, as follows:

Section 1. Definitions

Except as otherwise expressly provided herein or unless the context otherwise requires, the terms defined in the Indenture have the same meanings when used in this Second Supplemental Indenture.

Section 2. Surrender of Right to Defer Interest

The Issuer hereby surrenders and relinquishes the right and power to defer the payment of interest on the Debentures, as provided in Section 2.05 of the First Supplemental Indenture. Section 2.05 of the First Supplemental Indenture is hereby deleted in its entirety.

Section 3. Conforming Changes

All references in the First Supplemental Indenture to the deferral of interest, the right to defer the payment of interest, deferred interest, the payment of deferred interest, or the like are hereby deleted therefrom. Without limiting the foregoing:

- a. Section 2.06 of the First Supplemental Indenture is hereby deleted in its entirety.
- b. Article THREE of the First Supplemental Indenture is hereby deleted in its entirety.

All corresponding references in the form of Debentures to the deferral of interest, the right to defer the payment of interest, deferred interest, the payment of deferred interest, or the like are hereby deleted therefrom.

Section 4. Clarification Relating to Certain Defined Terms

Notwithstanding the Issuer’s termination of the Replacement Capital Covenant on June 23, 2010, each term defined in the First Supplemental Indenture by reference to a corresponding definition in the Replacement Capital Covenant shall continue to be so defined, as if each such corresponding definition from the Replacement Capital Covenant had been set forth verbatim in the First Supplemental Indenture.

Section 5. Miscellaneous

- a. This Second Supplemental Indenture will become effective upon its execution and delivery.
- b. This Second Supplemental Indenture shall bind the Issuer’s successors and assigns.
- c. The recitals contained herein shall be taken as the statements of the Issuer, and the Trustee does not assume any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Second Supplemental Indenture.
- d. The Indenture, as supplemented and amended by this Second Supplemental Indenture, is in all respects ratified and confirmed, and this Second Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided.
- e. If any provision of the Indenture, as supplemented and amended by this Second Supplemental Indenture, shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatever.

* * *

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed as of the day and year first above written.

THE PROGRESSIVE CORPORATION

By: /s/ Brian C. Domeck
Name: Brian C. Domeck
Title: Vice President and Chief
Financial Officer

Attest:

By: /s/ Charles E. Jarrett
Name: Charles E. Jarrett
Title: Vice President and Secretary

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as
Trustee**

By: /s/ Linda Garcia
Name: Linda Garcia
Title: Vice President

THE PROGRESSIVE CORPORATION
2017 GAINSHARING PLAN

1. *The Plan*. The Progressive Corporation and its subsidiaries (other than ARX Holding Corp. and its subsidiaries and other entities directly or indirectly controlled by it (“collectively, “ARX”)) (collectively, “Progressive” or the “Company”) have adopted The Progressive Corporation 2017 Gainsharing Plan (the “Plan”) as part of their overall compensation program. The Plan is performance-based, is not a form of commission compensation, and is administered under the direction of the Compensation Committee of the Board of Directors of The Progressive Corporation (the “Committee”). Payment under the Plan, if any, is based on Company performance as defined by the Plan, not individual employee performance. Plan years will coincide with Progressive’s fiscal years.

2. *Participants*. Plan participants for each Plan year shall include all officers and regular employees of Progressive, unless determined otherwise by the Committee. Temporary employees and employees of ARX are not eligible to participate in the Plan. The Gainsharing opportunity, if any, for those executive officers who participate in The Progressive Corporation 2007 Executive Bonus Plan, the 2017 Executive Annual Incentive Plan or, in either case, a successor plan (each an “Executive Bonus Plan”) will be provided by the applicable Executive Bonus Plan, although participants in that plan may also participate in this Plan if and to the extent determined 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. *Gainsharing Formula*. Annual Gainsharing Payments under the Plan will be determined by application of the following formula:

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

4. *Paid Eligible Earnings*. Paid Eligible Earnings for any 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, overtime pay, military make-up pay, shift differential, and retroactive payments of any of the foregoing items, in each case 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, and notwithstanding the foregoing, 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 workers’ compensation benefit or award; any amounts paid pursuant to a judgment in, or settlement related to, any action, suit or proceeding, whether in law or equity, to any extent arising from or relating to a participant’s employment with the Company, or work or services performed for or on behalf of the Company; any amount paid under a separation allowance (or severance) plan; any bonus, Gainsharing or other incentive compensation award (whether denominated, or payable, in cash or equity), including, without limitation, payments from any discretionary cash fund; any dividend payments or dividend equivalent amounts; any unused Earned Time Benefit; and any other payment required by applicable law to be paid to a participant by the Company and intended to replace all or any portion of wages or earnings during a period of unemployment, whether due to illness, disability or otherwise (including, but not limited to, payments made pursuant to any statute, rule or regulation of a governmental authority relating to leave on account of maternity, paternity, parental status or responsibility, or sickness).

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

POSITION	TARGET %
Senior Executives and Executive Level Managers	60 - 150%
Business Leaders	35 - 60%
Directors and Senior Directors	20 - 35%
Middle Managers and Senior Managers	15 - 20%
Senior Professionals and Entry Level Managers	8 - 20%
Administrative Support and Entry Level Professionals	0 - 8%

Target Percentages will be established within the above ranges by, and may be changed with the approval of, the Chief Human Resource Officer; provided that the Chief Human Resource Officer may establish appropriate procedures to evaluate the need for, and if appropriate, implement individual exceptions to, the foregoing ranges. Target Percentages may be changed from year to year by the Chief Human Resource Officer. The Chief Human Resource Officer may consult with the Chief Executive Officer on any of the foregoing decisions. Notwithstanding anything herein to the contrary, only the Committee may establish or modify the Target Percentages for the Company’s executive officers.

If a participant’s Target Percentage changes during a Plan year, the Target Percentages used to calculate such participant’s Annual Gainsharing Payment hereunder shall be weighted appropriately to reflect such participant’s tenure in each such position during the Plan year.

6. *The Performance Factor*.

A. *Core Business Defined*

The Performance Factor shall be determined by the performance of the Core Business during the Plan year, pursuant to the procedures and calculations described below. The “Core Business” shall be comprised of the following:

- The Agency Auto business unit, consisting of the auto business produced by independent agents or brokers, including Strategic Alliances Agency auto, but excluding all Agency special lines businesses;
- The Direct Auto business unit, consisting of the personal auto business produced by phone, over the Internet, or via a mobile device, but excluding all Direct special lines businesses;

- The special lines business unit, consisting of special lines business generated by agents and brokers or directly by phone, over the Internet, or via a mobile device;
- The Commercial Lines business unit; and
- The Property business unit.

Each of the Agency Auto, Direct Auto, special lines, Commercial Lines and Property business units is referred to herein as a “Business Unit” or “Unit.” Notwithstanding the foregoing descriptions, for all purposes under this Plan, the following are excluded from the Core Business results (both growth and profitability): results of the Professional Liability business, the Midland Financial Group, Inc. and other businesses in run-off; results of the CAIP Servicing Group; results of the Company’s Australian operations; flood insurance policies, renters insurance policies, umbrella policies and related expenses; and any results of any Commercial Lines product or program pursuant to which the Company insures any transportation network company or other entity engaged in a ride, cartage, or vehicle sharing business, operation, platform, or program or in a business based on matching and/or sharing time, use and/or assets by and among people and/or businesses.

B. Matrices

For purposes of computing a performance score for the Core Business, operating performance results for each Business Unit are evaluated using a performance matrix for the Plan year. Each matrix assigns performance scores to various combinations of profitability and growth outcomes for the applicable Business Unit.

For 2017, and for each Plan year thereafter until otherwise determined by the Committee, each Business Unit will be evaluated according to the performance of the Business Units as a whole. Therefore, separate Gainsharing matrices will be established by the Committee for the following:

- Agency Auto;
- Direct Auto;
- Special lines;
- Commercial Lines; and
- Property.

C. Performance Measures

Growth. The growth measure for the Plan year under all matrices will be based on policies in force (“PIFs”).

For all matrices, growth will be measured by the percentage change in average PIFs for the Plan year compared to the average PIFs of the immediately preceding fiscal year. Average PIFs for the Plan year and for the immediately preceding fiscal year will be determined by adding the fiscal-month-end number of PIFs for each month during such year and dividing the total by twelve.

Assigned risk business will not be included in determining the growth of any Business Unit.

Profitability. For all Business Unit matrices, the measurement of profitability will be the combined ratio (calculated in accordance with U.S. generally accepted accounting principles) (the “GAAP Combined Ratio”) for the Plan year for the applicable Unit.

Assigned risk business will be included in determining the GAAP Combined Ratio for the applicable Business Unit. The net operating expense of Corporate Products (e.g., self-insurance) shall be apportioned among the appropriate Business Units in accordance with the respective amount(s) of net earned premiums generated by each such Business Unit and will be reflected in the calculation of the GAAP Combined Ratio for such Business Units.

D. Calculation of Performance Factor

Performance Scores

Using the actual performance results and the Gainsharing matrix for each Business Unit, the GAAP Combined Ratio for each such Unit will be matched with the growth levels achieved by such Unit, to determine the performance score for each such Unit. The performance score for each Business Unit, which will be used to calculate the Performance Factor as described further below, can vary from 0 to 2.0.

Performance Factor

The resulting performance scores for each of the Agency Auto, Direct Auto, special lines, Commercial Lines and Property Business Units will then be multiplied by a weighting factor, which shall be a fraction or decimal equivalent, determined by dividing the net earned premiums generated by such Business Unit during the Plan year by the net earned premiums generated by all of the Business Units comprising the Core Business in the aggregate. The sum of these weighted performance scores will be the Performance Factor for the Plan year.

E. Limitations

The final Performance Factor cannot exceed 2.0.

7. Payment Procedures; Deferral. Subject to Paragraphs 9 and 16 below, no later than December 31 of each Plan year, each participant will receive an initial payment in respect of his or her Annual Gainsharing Payment for that Plan year, if any, equal to 75% of an amount calculated on the basis of Paid Eligible Earnings for the first 24 pay periods of the Plan year, estimated earnings for the remainder of the Plan year, and an estimated performance factor determined using the performance data for each Business Unit through the first 11 months of the Plan year (estimated, if necessary), the applicable Gainsharing matrix and the calculations described above. Subject to Paragraphs 9 and 16 below, no later than February 28 of the following year, each participant will receive the amount equal to (x) his or her Annual Gainsharing Payment, if any, for such Plan year, based on his or her Paid Eligible Earnings and performance data for the entire Plan year, minus (y) the amount of the initial payment received by such participant pursuant to the immediately preceding sentence.

Any Plan participant who is then eligible to participate in The Progressive Corporation Executive Deferred Compensation Plan ("Deferral Plan") may elect to defer all or a portion of the Annual Gainsharing Payment otherwise payable to him/her under this Plan, subject to and in accordance with the terms of the Deferral Plan. If a Plan participant has made such an election under the Deferral Plan, then to the extent of such election, the Annual Gainsharing Payment will, instead of being paid to such participant as described in the immediately preceding paragraph, be credited to such participant's account under the Deferral Plan in accordance with the terms of the Deferral Plan.

8. Other Plans. If, for any Plan year, an employee has been selected to participate in both this Plan and another cash incentive plan offered by the Company, then with respect to such employee, the Gainsharing formula set forth in Paragraph 3 hereof shall be appropriately adjusted by applying a weighting factor to reflect the proportion of the employee's total annual incentive opportunity that is being provided by this Plan. The Committee shall have full authority to determine the incentive plan or plans in which any employee will participate during any plan year and, if an employee is selected to participate in more than one plan, the weighting factor that will apply to each such plan.

9. Qualification Date; Leave of Absence; Withholding. Unless otherwise determined by the Committee, and except as expressly provided herein, in order to be entitled to receive an Annual Gainsharing Payment for any Plan year, the participant must be an active officer or regular employee of the Company on November 30 of the Plan year ("Qualification Date"). An individual (i) who is hired on or after December 1 of any Plan year or (ii) whose employment terminates for any reason prior to the Qualification Date is not entitled to an Annual Gainsharing Payment for that Plan year. Annual Gainsharing Payments are not earned until paid.

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 Americans with Disabilities Act of 1991, as amended (or equivalent state or local law), personal leave of absence with the approval of 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 with respect to any Plan year will be entitled to receive an Annual Gainsharing Payment for such Plan year, calculated as provided in Paragraphs 3 through 6 above, based on the amount of Paid Eligible Earnings received by such participant during the Plan year and paid in the manner and at the times as are described in Paragraph 7 above but subject to Paragraph 16 below.

Any person whose employment with Progressive terminates during the Plan year as a result of a transfer of employment from Progressive to ARX, and who remains employed by ARX continuously from the date of such termination through the Qualification Date, shall be entitled to receive an Annual Gainsharing Payment for the portion of the Plan year during which the person was an employee of Progressive, based on the amount of Paid Eligible Earnings received by such participant during the Plan year and paid in the manner and at the times as are described in Paragraph 7 above but subject to Paragraph 16 below.

All payments made hereunder will be net of any legally required deductions and/or withholdings for federal, state and local taxes and other items.

10. Non-Transferability. The right to any Annual Gainsharing Payment 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.

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

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

Unless otherwise determined by the Committee, all of the authority of the Committee hereunder (including, without limitation, the authority to administer the Plan, select the persons entitled to participate herein, interpret the provisions thereof, waive any of the requirements specified herein and make determinations hereunder and to select, approve, establish, change or modify the Business Units and the Gainsharing formulae, weighting factors, performance targets and Target Percentages) may be exercised by the Chief Executive Officer and/or the Chief Human Resource Officer; provided, however, that only the Committee may take such actions or make such determinations with respect to the Company's executive officers. In the event of a dispute or conflict, the determination of the Committee will govern.

12. Miscellaneous.

- A. Recoupment. Progressive shall have the right to recoup any Annual Gainsharing Payment (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 Gainsharing Payment was predicated upon the achievement during such Plan year of certain financial or operating results (which includes, for purposes hereof, the Performance Factor described in Section 6); (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 Gainsharing Payment 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 such participant for such Plan year, and each such participant will refund to Progressive, the amount by which the Annual Gainsharing Payment 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 Gainsharing Payment 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 Gainsharing Payments 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 Gainsharing Payment 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

Gainsharing Payment 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 and Exchange Requirements. The Annual Gainsharing Payments 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 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 ("Exchange"), that the Company develop and implement a policy requiring the recovery of erroneously awarded compensation, and such regulations are applicable to any participant awarded Annual Gainsharing Payments pursuant to the Plan, then the Annual Gainsharing Payment paid to such participant shall be subject to recoupment by the Company pursuant to the terms of the rules of the SEC and any applicable Exchange and any policy of the Company adopted in response to such rules.
- 13. Termination; Amendment. 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.
 - 14. Unfunded Obligations. The Plan will be unfunded and all payments due under the Plan shall be made from Progressive's general assets.
 - 15. 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.
 - 16. Misconduct; Set-Off Rights. No Participant shall have the right to receive any portion of any Annual Gainsharing Payment 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 Annual Gainsharing Payment or other sums owed to any participant under the Plan any amounts owed by such participant to Progressive.
 - 17. Prior Plans. This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable to participants by or due from Progressive. Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 2016 Gainsharing Plan (the "Prior Plan"), which is and shall be deemed to have terminated on the last day of the Company's 2016 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.
 - 18. Effective Date. This Plan is adopted, and is to be effective, as of the first day of Progressive's 2017 fiscal year. This Plan shall be effective for the 2017 Plan year and for each Plan year thereafter unless and until terminated by the Committee.
 - 19. Governing Law. This Plan shall be interpreted and construed in accordance with the laws of the State of Ohio.

FOURTH AMENDMENT
TO
THE PROGRESSIVE CORPORATION
2010 EQUITY INCENTIVE PLAN

WHEREAS, The Progressive Corporation 2010 Equity Incentive Plan, as previously amended (the "Plan"), is currently in effect; and

WHEREAS, it is deemed desirable to amend the Plan;

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Subject to Paragraph 2 below, the definition of the term "Performance Goals" as set forth in Section 1(b) of the Plan, is hereby amended as follows:

a. The word "and" is hereby deleted from the last line of clause (ii) of such definition.

b. Clause (iii) of such definition is hereby renumbered as clause (iv).

c. A new clause (iii) is hereby inserted in such definition, as follows:

“(iii) Investments:

- Investment performance of one or more segments of the Company’s investment portfolio; and”

d. The text of such definition immediately following the newly renumbered clause (iv) is hereby deleted in its entirety and the following is substituted in its place:

“Performance goals may be measured on a company-wide, subsidiary or business unit basis, or any combination thereof. Performance goals may reflect absolute entity performance or a relative comparison of entity performance to the performance of a peer group of entities, an index, or other external measure. With respect to investment performance, such goals may also reflect risk adjustment and/or the benefit of any state premium tax abatements attributable to the Company’s investment portfolio.”

2. The addition of the new performance criterion included in Paragraph 1 above is subject to approval by the holders of The Progressive Corporation’s Common Shares, \$1.00 par value in accordance with the requirements of Section 162(m) of the Internal Revenue Code. If shareholders do not approve such new performance criterion at the Annual Meeting of Shareholders in April 2012, this Amendment shall automatically terminate and be of no further force or effect.

This Amendment will be effective as of January 27, 2012.

/s/ Charles E. Jarrett

Charles E. Jarrett

Secretary

RESTRICTED STOCK UNIT AWARD AGREEMENT**(<Year of Grant> Time-Based Award)**

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”).

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. 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:

- a. One-third of the Units shall vest on< Vesting Date>;
- b. One-third of the Units shall vest on <Vesting Date>; and
- c. One-third of the Units shall vest on <Vesting Date>.

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.

5. Dividend Equivalents. Subject to this Paragraph 5, Participant shall be credited with Dividend Equivalents with respect to outstanding Restricted Stock Units prior to the applicable vesting 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 and, if applicable, cash value resulting from the reinvestment of such Dividend Equivalents shall be subject to the same terms and conditions, and shall vest or be forfeited (if applicable) at the same time, as the Restricted Stock Units to which they relate.

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 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.

9. Distribution at Vesting. Subject to the provisions of the Plan and this Agreement, upon vesting of all or part of the Award, the Company shall distribute to the Participant one share of the Company's Stock in exchange for each such vested Restricted Stock Unit, and the applicable Restricted Stock Units shall be cancelled. Unless determined otherwise by the Company at any time prior to the applicable distribution, 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. If Participant requests that the Company withhold taxes in addition to the Minimum Withholding Obligations, such additional withholding must be satisfied by Participant either (x) by paying to the Company the appropriate amount in cash or, if acceptable to the Company, by check or other instrument, or (y) provided that Participant has obtained the approval of either the Company or the Committee (as required under rules adopted by the Committee) prior to the date of vesting, by surrendering unrestricted shares of the Company's Stock that are not being distributed to Participant as a result of the vesting event and that have then been owned by Participant in unrestricted form for more than six (6) months.

Under no circumstances will Participant be entitled to satisfy any such additional withholding by surrendering Restricted Stock Units, shares of the Company's Stock that are being distributed to Participant as a result of the vesting event, or other shares of Stock that have then been owned by Participant in unrestricted form for six (6) months or less. In addition, under no circumstances will Participant be entitled to satisfy any Minimum Withholding Obligations or additional withholding 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 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. 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**(<Year of Grant> Performance-Based Award)**

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 Subsidiaries and 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 (2) times the Initial Award Value (the “Maximum Award Value”).

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 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 <#>-year period comprised of the years <insert years>.
- 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:
 - 1. the extent to which the Company’s performance results have satisfied the performance criteria set forth in both Subparagraphs c. and d. below; and
 - 2. 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 <expiration date> (the “Expiration Date”). If the Committee certifies the vesting of a number of Units that is less than the Maximum Award Value, the Award will terminate and be forfeited automatically with respect to all other Units that could have been earned under this Agreement.

c. Profitability Requirement. The Award shall not vest unless the Company has achieved a combined ratio of 96 or less, determined in accordance with GAAP, for the twelve (12) consecutive fiscal months 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:

- 1. 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:

<Growth vesting goals/formulae>

2. 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.

3. For purposes of these determinations:

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

- i. "Written Premiums" shall mean premiums written directly during the applicable time period for the specified types of business, without taking into account reinsurance;
- ii. 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 <last year of the Growth Evaluation Period>, 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 <comparison year> as reported in A.M. Best's A2 Report; and
- iii. 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 <last year of the Growth Evaluation Period>, as reported in A.M. Best's A2 Report, with (b) such Written Premiums for <comparison year> as reported in A.M. Best's A2 Report, but excluding (in each case) the applicable Written Premiums of the Company;

B. If <comparison year/last year of the Growth Evaluation Period> 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 <last year of the Growth Evaluation Period> 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 industry-wide 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.

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 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 and, if applicable, cash value resulting from the reinvestment of such Dividend Equivalents 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.

7. 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.

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 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 death or 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 Participant has not satisfied the requirements for a Qualified Retirement, 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;

(b) if Participant has satisfied the requirements for a Qualified Retirement, 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 either case, that if, prior to certification by the Committee, the Committee determines that Participant is engaging in, or has engaged in, a Disqualifying Activity, the Award and all applicable Restricted Stock Units that are then unvested or subject to restriction shall be forfeited automatically as of the Disqualification Date determined by the Committee. 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.3.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. Distribution at Vesting. Subject to the provisions of the Plan and this Agreement, upon vesting of all or part of the Award, the Company shall distribute to Participant one share of the Company's Stock in exchange for each such vested Restricted Stock Unit, and the remaining Restricted Stock Units (if any) shall be cancelled. Unless determined otherwise by the Company at any time prior to the applicable distribution, 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. If Participant requests that the Company withhold taxes in addition to the Minimum Withholding Obligations, such additional withholding must be satisfied by Participant either (x) by paying to the Company the appropriate amount in cash or, if acceptable to the Company, by check or other instrument, or (y) provided that Participant has obtained the approval of either the Company or the Committee (as required under rules adopted by the Committee) prior to the date of vesting, by surrendering unrestricted shares of the Company's Stock that are not being distributed to Participant as a result of the vesting event and that have then been owned by Participant in unrestricted form for more than six (6) months.

Under no circumstances will Participant be entitled to satisfy any such additional withholding by surrendering Restricted Stock Units, shares of the Company's Stock that are being distributed to Participant as a result of the vesting event, or other shares of Stock that have then been owned by Participant in unrestricted form for six (6) months or less. In addition, under no circumstances will Participant be entitled to satisfy any Minimum Withholding Obligations or additional withholding 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 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.

13. Recoupment. If the Securities and Exchange Commission 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 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: (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

AMENDMENT NO. 2
TO
THE PROGRESSIVE CORPORATION
2003 DIRECTORS EQUITY INCENTIVE PLAN

The Progressive Corporation 2003 Directors Equity Incentive Plan, as previously amended (the “Plan”), is hereby amended as follows:

1. Section 12 of the Plan is hereby deleted in its entirety and the following is substituted in its place:

“SECTION 12 Term of Plan.

No Award shall be granted pursuant to the Plan on or after January 31, 2018, but Awards granted prior to such date may extend beyond such date.”

2. Section 6(c) of the Plan, entitled “Buyout Provisions,” is hereby deleted in its entirety.

3. In Section 7 of the Plan:

- a. Section 7(b), entitled “Definition of Change in Control,” is hereby deleted in its entirety, and the following is substituted in its place:

“(b) Definition of Change in Control. For purposes of Section 7(a), a “Change in Control” means a change in the ownership of the Company, a change in the effective control of the Company, or a change in the ownership of a substantial portion of the Company’s assets, each as defined in, and determined in accordance with, Section 409A of the Internal Revenue Code.”

- b. Section 7(c), entitled “Definition of Potential Change in Control,” is hereby deleted in its entirety, and the following is substituted in its place:

“(c) Intentionally omitted.”

In addition, all references to “Potential Change in Control” in Sections 7(a) and 7(d), and the defined term “Potential Change in Control” in Section 1(c), are hereby deleted from the Plan.

4. This Amendment is subject to approval by the holders of The Progressive Corporation’s Common Shares, \$1.00 par value, in accordance with the requirements of the New York Stock Exchange. If shareholders do not approve this Amendment at the Annual Meeting of Shareholders in April 2012, this Amendment shall automatically terminate and be of no further force or effect.

This Amendment will be effective as of January 27, 2012.

/s/ Charles E. Jarrett

Charles E. Jarrett
Secretary

THE PROGRESSIVE CORPORATION
DIRECTOR COMPENSATION

	2016-2017 Compensation
Lead Independent Director	\$25,000 additional
Audit Committee Chair	\$280,000
Audit Committee Member	\$255,000
Compensation Committee Chair	\$275,000
Compensation Committee Member	\$250,000
Investment Committee Chair	\$275,000
Investment Committee Member	\$250,000
Additional Committee Chair*	\$20,000 additional
Additional Committee Member*	\$15,000 additional

*Excludes Executive Committee

**THIRD AMENDMENT TO THE PROGRESSIVE CORPORATION EXECUTIVE SEPARATION ALLOWANCE PLAN
(2015 Amendment and Restatement)**

WHEREAS, The Progressive Corporation ("Company") currently maintains The Progressive Corporation Executive Separation Allowance Plan ("Plan") pursuant to the 2015 Amendment and Restatement; and

WHEREAS, the Company desires to amend the Plan further;

NOW, THEREFORE, the Plan is hereby amended as follows, effective as of February 15, 2017:

1. Section 7.2 of the Plan is hereby amended and restated in its entirety to provide as follows:

"7.2 Notwithstanding the provisions of Section 7.1, the Company may, by action of its Chief Legal Officer, modify or amend the Executive Separation Agreement and General Release at any time in response to developments in applicable law, without action of the Compensation Committee of its Board of Directors or any Affiliated Company or any other person."

1. The following is hereby added to the Plan as Section 7.3:

"7.3 Notwithstanding the provisions of Section 7.1 and 7.2, upon the occurrence of a Change in Control, neither the Plan nor the Executive Separation Agreement and General Release may be amended, modified or terminated in a way that impairs or reduces any of the rights or benefits of any individual who was an Eligible Employee as of the date such Change in Control occurred until after the third anniversary of the date such Change in Control occurred."

3. Exhibit A of the Plan is hereby amended and restated in its entirety as provided in the document attached to this Amendment as Exhibit A.

IN WITNESS WHEREOF, The Progressive Corporation has hereunto caused this Amendment to be executed by its duly authorized representative on the 15th day of February, 2017.

THE PROGRESSIVE CORPORATION

By: _____
Title: _____

EXHIBIT A

EXECUTIVE SEPARATION AGREEMENT AND GENERAL RELEASE

THIS AGREEMENT is entered into by and between you («Name») and Progressive «PayrollCompany» ("Progressive"), together with its parents, subsidiaries, affiliates, predecessors, successors and assigns (collectively, with Progressive, the "Progressive Group"), pursuant to The Progressive Corporation Executive Separation Allowance Plan ("Plan").

WHEREAS, your employment with Progressive ended effective «TermDate» (the "Separation Date"); and

WHEREAS, you desire to receive certain separation allowance benefits under the Plan; and

WHEREAS, the Plan provides separation allowance benefits only to employees who sign a Separation Agreement and General Release in the form specified in the Plan;

NOW, THEREFORE, you and the Progressive Group agree as follows:

1. **Final Wages and ETB Payment.** Progressive shall pay you for all hours of work performed and for all credited but unused Earned Time Benefit hours determined as of your Separation Date in accordance with Progressive's standard practices. These payments will be made within thirty (30) days of the Separation Date, or at such earlier time as may be required by law, regardless of whether you accept this Agreement.

2. **Severance Benefits.** In consideration of your acceptance of this Agreement and subject to your fully meeting your obligations under it, Progressive will provide you with following severance pay and benefits:

- a. Progressive shall pay you a separation allowance in the total gross amount of «SepText» Dollars (\$«SepNo») (representing «sevwks» weeks of Compensation), less applicable tax withholding, other legally required deductions and (except to the extent prohibited by law) amounts due Progressive for any reason. Such separation allowance shall be paid in a lump sum at the time specified in Section 3.2 of the Plan and subject to the limitations specified in the Plan.
- b. If you are participating in The Progressive Health, Life and Disability Benefits Plan ("Group Insurance Plan"), you may elect to continue your and your dependents' medical, dental and vision coverages under the Group Insurance Plan for the periods specified in the Group

Insurance Plan, subject to the terms, conditions and limitations of the Group Insurance Plan. If you elect to continue any of such coverages, Progressive shall pay the cost of continuing such coverages for a period not to exceed the number of weeks of Compensation used in computing the amount of your separation allowance under Paragraph 1 above, provided that you make payments at such times as and in such manner as Progressive shall specify equal to the contributions you would have had to make for those coverages for such period had you continued to receive those coverages as an active employee during such period, all as determined by Progressive. You also shall be entitled to the conversion privileges, if any, applicable to your life insurance and/or other coverages under the Group Insurance Plan.

- c. Progressive shall make outplacement services available to you for a period of [] months, in accordance with Section 2.5 of the Plan.
- d. If you are rehired by Progressive or any other Participating Employer as a regular employee within a period of time following your Separation Date that does not exceed the number of weeks of Compensation used in computing your separation allowance under the Plan, you shall repay to Progressive the amount specified in Section 3.7 of the Plan at the time and in the manner specified therein.
- e. **[DELETE IF SEPARATION DATE IS AFTER CHANGE OF CONTROL.]** You shall not be entitled to receive the severance pay and benefits described above, and this Agreement shall be considered null and void, if, at any time prior to payment to you of a separation allowance, Progressive determines that you have committed a violation of Progressive's Code of Business Conduct and Ethics that would have led Progressive to terminate your employment in accordance with Progressive's then current disciplinary practices with respect to the type of violation in question had you still been actively employed.

3. **Effect on Equity Incentives. [If not Qualified Retirement]** You acknowledge the forfeiture of any and all unvested Restricted Equity (whether Restricted Stock Awards or Restricted Stock Units) awarded to you under The Progressive Corporation 2003 Incentive Plan, The Progressive Corporation 2010 Equity Incentive Plan and/or The Progressive Corporation 2015 Equity Incentive Plan, in each case as amended (the "Incentive Plans"), except to the extent stated in any agreement between you and Progressive related to unvested and outstanding performance-based restricted stock award(s) for which the Evaluation Period or the Growth Evaluation Period has ended prior to the Separation Date. You rights, if any, under The Progressive Corporation Executive Deferred Compensation Plan and/or the Incentive Plans (collectively, the "Executive Compensation Programs") shall be determined in accordance with the governing provisions of the Executive Compensation Programs as in effect from time to time and any agreements entered into thereunder. For purposes of such Executive Compensation Programs, you shall be considered to have terminated employment with Progressive on the Separation Date.

[If Qualified Retirement] The termination of your employment shall be deemed to be a Qualified Retirement as that term is used in The Progressive Corporation 2003 Incentive Plan, The Progressive Corporation 2010 Equity Incentive Plan and/or The Progressive Corporation 2015 Equity Incentive Plan, in each case as amended (the "Incentive Plans"), and any Restricted Stock Award Agreement or Restricted Stock Unit Award Agreement between you and Progressive (the "Stock Agreements") and you shall enjoy such rights and be subject to such forfeitures and requirements as are contained in said Incentive Plans and Stock Agreements in accordance with the Incentive Plans and Stock Agreements. Your rights, if any, under The Progressive Corporation Executive Deferred Compensation Plan and/or the Incentive Plans (collectively, the "Executive Compensation Programs") shall be determined in accordance with the governing provisions of the Executive Compensation Programs as in effect from time to time and any agreements entered into thereunder. For purposes of such Executive Compensation Programs, the Separation Date shall be your Qualified Retirement Date.

4. **Acknowledgment of Full Payment and Status of Benefits.** You acknowledge that the payments described in Paragraph 1 of this Agreement are in complete satisfaction of any and all wages and payments due to you from the Progressive Group, whether for services provided or otherwise, through the Separation Date and that, except as expressly provided under this Agreement, no further compensation is owed to you. You further acknowledge that, except as expressly provided in Paragraphs 2(b) and 3 above, your participation in all employee benefit plans and programs will end as of the Separation Date, in accordance with the terms of those plans and programs. You acknowledge that you have no rights under The Progressive Corporation Separation Allowance Plan.

5. **Return of Documents and Other Property; Confidentiality; Trade Secrets.**

- a. You agree to continue to honor your obligations with respect to confidential and/or proprietary information belonging to the Progressive Group, including the Confidentiality Statement to which you agreed upon your hire, if any, and all applicable policies as set forth in Progressive's Code of Business Conduct and Ethics and Workplace Policies. You affirm and represent that you have not taken or misused any such confidential and/or proprietary information and that you have returned to Progressive any records containing such confidential and/or proprietary information and all records that are the Progressive Group's property.
- b. Notwithstanding anything in this Agreement to the contrary, you and Progressive acknowledge that you shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law. In addition, you shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Furthermore, in the event you file a lawsuit for retaliation by Progressive for reporting a suspected violation of law, you may disclose the trade secret to your attorney and use the trade secret information in the court proceeding, if you file any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

6. **Release of Claims.** In exchange for separation allowance and benefits provided to you under this Agreement, to which you would not otherwise be entitled, you, on your own behalf and on behalf of your heirs, executors, agents, representatives, administrators, survivors, assigns and anyone claiming by or through you, hereby release Progressive and the Progressive Group, along with each of their individual and respective current and former directors, officers, agents, attorneys and employees in their corporate as well as personal capacities (collectively, the "Releasees"), from any and all claims, liabilities, demands, actions, suits and causes of action, whether known or unknown, that you ever had or now may have against any of the Releasees, both in law and equity, arising from or relating to (a) your employment with Progressive and/or any other entity of the Progressive Group and/or (b) work or services you performed for or on behalf of Progressive or any other entity of the Progressive Group (collectively, "Claims"). Your released Claims include, without limitation: claims arising under the Age Discrimination in

Employment Act ("ADEA"), the Fair Labor Standards Act, Title VII of the Civil Rights Act of 1964, the Family and Medical Leave Act, the Americans with Disabilities Act, the National Labor Relations Act, the Uniformed Services Employment and Reemployment Rights Act and the Employee Retirement Income Security Act of 1974, each as may be amended; claims arising under state law [, including [recite any desired state statutes]]; claims for emotional distress and/or mental and/or physical injury; and any other claims relating in any way to your employment with Progressive and/or any other entity of the Progressive Group and its termination.

[If Executive is a California resident, include] You further acknowledge that you have read and understand California Civil code Section 1542, which reads as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in «HisHer» favor at the time of executing the release, which if known by him must have materially affected «HisHer» settlement with the debtor."

You hereby waive the provisions and protections of California Civil code Section 1542 and agree that the above release shall apply to all Claims that you ever had or now may have against the Releasees, regardless of whether you currently are aware of the Claims or suspect that they exist.

[IF EXECUTIVE IS A RESIDENT OF ANY OTHER STATE REQUIRING RECITAL, INCLUDE RECITAL.]

7. **No Pending or New Claims.** You agree that you will not instigate, initiate, promote or participate in any Claims against Releasees unless required to do so by law, excepting only such Claim(s) as are permitted under Paragraph 11 below. In the event that you do so, the Claim(s) shall be dismissed immediately upon the presentation of this Agreement, and you shall reimburse Releasees for all legal fees and expenses incurred in defending such Claim(s) and obtaining their dismissal.

8. **Cooperation.** You agree to cooperate with the Progressive Group and/or any entity thereof, as well as any entity operating on its or their behalf, in response to all reasonable requests relating to your former job duties, including requests for such information as the location of documents or information and disclosure of all passwords necessary or desirable to the Progressive Group's access of information that you password-protected on the information systems or the Progressive Group or any entity thereof. You further agree to cooperate with the Progressive Group and/or any entity thereof, as well as any entity operating on its or their behalf, in connection with any investigation or legal proceeding arising out of matters that were under your responsibility or that were related to, or caused by, your actions.

9. **Non-Disparagement.** You agree not to disparage the Progressive Group or Releasees, including by libel or defamation. You may, however, provide truthful information to any state or federal administrative agency and in response to formal legal process, such as a subpoena compelling your testimony.

10. **Non-Admission.** You agree and acknowledge that this Agreement is not and shall not be construed to be, or represented to others as, an admission that Releasees violated any federal, state or local law or regulation or duty owed to you.

11. **Right to Participate in Government Agency Proceedings.** Notwithstanding any term or provision of this Agreement to the contrary (including, but not limited to, Paragraphs 5, 6, 7, 8 and 9 above), nothing in this Agreement, in Progressive's Code of Business Conduct and Ethics and Workplace Policies, or in any other existing agreements between you and Progressive is intended or shall be construed to prohibit you, without notice to Progressive, from filing a charge with, or participating in any investigation or proceeding conducted by, the U.S. Equal Employment Opportunity Commission (or a comparable local, state or federal fair employment practices agency) or the U.S. Occupational Safety and Health Administration, from taking any actions protected by Section 7 of the National Labor Relations Act, from communicating directly with the Securities and Exchange Commission regarding any possible securities law violation, or from communicating with the Occupational Safety and Health Administration regarding a violation of any law it enforces. You acknowledge and agree, however, that, except with respect to any award pursuant to 15 U.S.C. § 78u-6 or any award administered by the U.S. Occupational Safety and Health Administration, this Agreement fully and finally resolves all monetary matters between you and Releasees, and you waive any right to monetary damages, attorneys' fees, costs, equitable remedies and any other individual relief related to or arising from any such charge, or any ensuing complaint or lawsuit, filed by you or on your behalf.

12. Miscellaneous.

- a. Unless defined herein, all capitalized terms used in this Agreement shall have the meanings given to them in the Plan. The captions and headings in this Agreement are for convenience only and do not define or describe the scope or content of any provision of this Agreement.
 - b. This Agreement, together with the Plan and the other documents referenced herein, constitutes the entire agreement between the parties and supersedes all prior and contemporaneous oral or written representations, agreements and understandings relating to your employment, its termination and all related matters, excluding only, and subject to Paragraph 11, above, (i) your continuing obligations under Progressive's Code of Business Conduct and Ethics and any existing agreements between you and Progressive with respect to Confidential Information and/or Proprietary Information and (ii) your rights, if any, under the Executive Compensation Programs and any agreements entered into thereunder. Any modifications or assignments of this Agreement must be in a writing signed by you and Progressive's Chief Legal Officer (or, in the event of a conflict of interest, Progressive's Chief Financial Officer) in order to be effective. This Agreement is subject to the terms, provisions and limitations of the Plan in all respects.
 - c. In the event any provision of this Agreement shall be held to be void, unlawful or for any reason unenforceable or otherwise at variance with the intentions of the parties as expressed herein, the remaining portions of the Agreement shall remain in full force and effect. In the event you breach this Agreement or any part of it, or fail to perform your obligations under this Agreement, the Plan or any other agreement relating to your employment that survives this Agreement, Progressive's obligations hereunder shall terminate but the Agreement otherwise shall remain in full force and effect, including your release of Claims. No waiver of any provision of this Agreement, or the breach thereof, shall be deemed a waiver of any other provision or breach.
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- d. This Agreement may be signed in counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute the same instrument, though this Agreement shall be of no force or effect until executed by both you and Progressive. A wet signature on an electronically transmitted copy of the Agreement and/or a wet signature transmitted electronically (i.e., a facsimile or scanned image) shall have the same effect as the original.
- d. This Agreement shall be interpreted, enforced and governed under the laws of the State of Ohio, in which State the Plan was adopted and is maintained.

13. **[INCLUDE IF EXECUTIVE IS 40 OR OVER AND PART OF GROUP (2 OR MORE) REORGANIZATION] Group Impact Attachment.** In accordance with the provisions of the Older Workers Benefit Protection Act, attached as Attachment A to this Agreement is statistical information regarding job titles and ages of the employees whose employment will and will not be terminated as a result of the reduction in force as of the date below.

14. **[INCLUDE IF EXECUTIVE IS 40 OR OVER] YOU FURTHER REPRESENT AND ACKNOWLEDGE:**

- A. The only consideration for signing this Agreement is that stated expressly herein. No person or entity has made other promises or agreements of any kind to cause you to sign this Agreement.
- B. You fully understand the meaning and intent of this Agreement. You have read the Agreement carefully, know its contents, understand its terms, their meaning and their effect upon your rights and duties. You enter into this Agreement knowingly and voluntarily, agree to all its terms and conditions, understand their final and binding effect, and sign THIS Agreement as your own free act with the full intent of releasing Releasees from all claims AS PROVIDED IN THIS AGREEMENT.
- C. THIS AGREEMENT DOES NOT WAIVE OR RELEASE ANY RIGHTS OR CLAIMS YOU MAY HAVE UNDER the ADEA THAT ARISE AFTER THE DATE YOU SIGN THIS AGREEMENT.
- D. The consideration provided to you under THIS AGREEMENT is in addition to anything of value to which you are entitled already.
- E. You have been advised by Progressive to consult with an attorney prior to executing this Agreement.

[INCLUDE IF EXECUTIVE IS 40 OR OVER] IMPORTANT! You have 45 days from receipt of this Agreement to consider whether to sign it. If you do not meet this deadline, you will not be eligible for a separation allowance. You may revoke the Agreement within seven (7) days after signing it, but you must do so by delivering written notification of such revocation to Progressive's Chief Legal Officer at 6300 Wilson Mills Road, Mayfield Village, Ohio, 44143. If you sign the Agreement within 45 days and do not revoke it, it will become effective immediately following the expiration of the seven-day revocation period.

[INCLUDE IF EXECUTIVE IS UNDER 40] IMPORTANT! You have 45 days after your Separation Date within which to sign this Agreement and return it to Progressive. This Agreement will become effective once you sign it. If you do not meet this deadline, you will not be eligible for a separation allowance.

Date this Agreement was Given to You

By: _____
HR/Manager Initials Date

PROGRESSIVE «PayrollCompany»

By: _____

Printed Name

Title: _____

I understand this Agreement and enter into it of my own free will. I understand that Progressive will not be required to provide any severance benefits under this Agreement until after this Agreement becomes effective.

[Name] Date: _____

**2017 PROGRESSIVE CAPITAL
MANAGEMENT ANNUAL INCENTIVE PLAN**

1. The Plan. The Progressive Corporation and its subsidiaries (collectively "Progressive" or the "Company") have adopted the 2017 Progressive Capital Management Annual Incentive Plan (the "Plan") as part of their compensation program for the Company's investment professionals for the Company's 2017 fiscal year (the "Plan year"). The Plan is performance-based, is not a form of commission compensation, and is administered under the direction of the Compensation Committee of the Board of Directors of The Progressive Corporation (the "Compensation Committee" or "Committee"). Payment under the Plan, if any, is based on Company performance as defined by the Plan, not individual employee performance. References in this Plan to the Company's portfolio mean the respective portfolios of the Company's subsidiaries and affiliates 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") or 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 of The Progressive Corporation within the meaning of any Securities and Exchange Commission ("SEC") or New York Stock Exchange rule applicable to the Company.

3. Annual Incentive Payment Determination.

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

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

- 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, in each case 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, and notwithstanding the foregoing, 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 amounts paid pursuant to a judgment in, or settlement related to, any action, suit or proceeding, whether in law or equity, to any extent arising from or relating to a participant's employment with the Company, or work or services performed for or on behalf of the Company; any amount paid under a separation allowance (or severance) plan; any bonus (including PCM Bonus Plan bonus or PCM Annual Incentive Plan payment), Gainsharing or other incentive compensation award (whether denominated, or payable, in cash or equity), including, without limitation, payments from any discretionary cash fund; any dividend payments or dividend equivalent amounts; any unused Earned Time Benefit; and any other payment required by applicable law to be paid to a participant by the Company and intended to replace all or any portion of wages or earnings during a period of unemployment, whether due to illness, disability or otherwise (including, but not limited to, payments made pursuant to any statute, rule or regulation of a governmental authority relating to leave on account of maternity, paternity, parental status or responsibility, or sickness).

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 (2017) and three-year period (2014-2017) 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:

Comparison Period	Score = 0 Rank at or below	Score = 1.0 Rank equal to	Score = 2.0 Rank at or above
One year	15 th Percentile	50 th Percentile	85 th Percentile
Three year	25 th Percentile	50 th Percentile	75 th 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, which may vary among participants; provided that under no circumstances may the Performance Factor for any participant 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 Incentive Payments 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 then 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 Incentive Payment otherwise payable under this Plan, subject to and in accordance with the terms of the Deferral Plan. If a Plan participant has made such an election under the Deferral Plan, then to the extent of such election, the Annual Incentive Payment will, instead of being paid to such participant as described in the immediately preceding paragraph, be credited to such participant's account under the Deferral Plan 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 expressly provided herein, in order to be entitled to receive an Annual Incentive Payment for the Plan year, the participant must be an active officer or regular employee of Progressive on November 30 of the Plan year ("Qualification Date"). An individual who (i) is hired on or after December 1 of any Plan year, or (ii) whose employment terminates for any reason prior to the Qualification Date is not entitled to an Annual Incentive Payment for that Plan year. Annual Incentive Payments are not earned until paid.

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 Incentive Payment for the Plan year based on the Paid Eligible Earnings received by the participant during the Plan year.

Any person whose employment with Progressive terminates during the Plan year as a result of a transfer of employment from Progressive to ARX, and who remains employed by ARX continuously from the date of such termination through the Qualification Date, shall be entitled to receive an Annual Incentive Payment for the portion of the Plan year during which the person was an employee of Progressive, based on the amount of Paid

Eligible Earnings received by such participant during the Plan year and paid in the manner and at the times as are described in Paragraph 4 above but subject to Paragraph 13 below. For purposes of this paragraph only, (i) "Progressive" means The Progressive Corporation and its subsidiaries, other than ARX Holding Corp. and its subsidiaries, and (ii) "ARX" means ARX Holding Corp. and its subsidiaries and the other entities which it controls.

Annual Incentive 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 Incentive Payments 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, 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 the Designated 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 Incentive Payment (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 Incentive 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 Incentive Payment 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 Incentive Payment 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 Incentive Payment 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 Incentive Payments 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 Incentive Payment 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 Incentive Payment 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 and Exchange Requirements. The Annual Incentive Payments 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 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 ("Exchange"), that the Company develop and implement a policy requiring the recovery of erroneously awarded compensation, and such regulations are applicable to any participant awarded an Annual Incentive Payment pursuant to the Plan, then the Annual Incentive Payment paid to such participant shall be subject to recoupment by the Company pursuant to the terms of the rules of the SEC and any applicable Exchange and any policy of the Company adopted in response to such rules.
 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.
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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 Incentive Payment 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 2016 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 2016 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 2017 fiscal year and will be effective for the 2017 Plan year (which coincides with Progressive's 2017 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 (%)	>= -1
Sector Allocation:	U.S. High Yield Corporate Debt <= 10%
Sector Allocation:	Mortgages <= 60%
Sector Allocation:	U.S. Investment Grade Corporate Debt <= 60%
Sector Allocation:	CMBS <= 60%
Sector Allocation:	ABS <= 60%
Sector Allocation:	Emerging Markets Debt <= 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% 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) / Number of positions from first participant after the top 15% ranking to the 1st 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:

$$\text{Performance score of firm below PCM return} + (\text{PCM's Return} - \text{Return below PCM}) / (\text{Return above PCM} - \text{Return below PCM}) * (\text{Performance score of firm above PCM} - \text{Performance score of firm below PCM})$$

Assuming the following data, using the 279 firm example:

<u>Firm</u>	<u>Performance score</u>	<u>Total return</u>
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.

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

	Years Ended December 31,		
	2016	2015	2014
Net income attributable to Progressive	\$ 1,031.0	\$ 1,267.6	\$ 1,281.0
Computation of Per Share Earnings Attributable to Progressive			
Average shares outstanding - Basic	581.7	585.5	590.6
Net effect of dilutive stock-based compensation	3.3	3.7	4.2
Total equivalent shares - Diluted	585.0	589.2	594.8
Basic: Earnings per share	\$ 1.77	\$ 2.16	\$ 2.17
Diluted: Earnings per share	\$ 1.76	\$ 2.15	\$ 2.15

THE PROGRESSIVE CORPORATION
2016 ANNUAL REPORT TO SHAREHOLDERS

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The Progressive Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended December 31,

(millions—except per share amounts)	2016	2015	2014
Revenues			
Net premiums earned	\$ 22,474.0	\$ 19,899.1	\$ 18,398.5
Investment income	478.9	454.6	408.4
Net realized gains (losses) on securities:			
Net impairment losses recognized in earnings	(86.8)	(23.8)	(7.9)
Net realized gains (losses) on securities	137.9	136.5	232.1
Total net realized gains (losses) on securities	51.1	112.7	224.2
Fees and other revenues	332.5	302.0	309.1
Service revenues	103.3	86.3	56.0
Gains (losses) on extinguishment of debt	1.6	(0.9)	(4.8)
Total revenues	23,441.4	20,853.8	19,391.4
Expenses			
Losses and loss adjustment expenses	16,879.6	14,342.0	13,306.2
Policy acquisition costs	1,863.8	1,651.8	1,524.0
Other underwriting expenses	2,972.0	2,712.1	2,467.1
Investment expenses	22.4	22.8	18.9
Service expenses	92.0	77.5	50.9
Interest expense	140.9	136.0	116.9
Total expenses	21,970.7	18,942.2	17,484.0
Net Income			
Income before income taxes	1,470.7	1,911.6	1,907.4
Provision for income taxes	413.5	611.1	626.4
Net income	1,057.2	1,300.5	1,281.0
Net (income) loss attributable to noncontrolling interest (NCI)	(26.2)	(32.9)	0
Net income attributable to Progressive	\$ 1,031.0	\$ 1,267.6	\$ 1,281.0
Other Comprehensive Income (Loss)			
Changes in:			
Total net unrealized gains (losses) on securities	\$ 130.6	\$ (212.9)	\$ 74.9
Net unrealized losses on forecasted transactions	(1.2)	(9.7)	(2.6)
Foreign currency translation adjustment	0.4	(1.2)	(0.9)
Other comprehensive income (loss)	129.8	(223.8)	71.4
Other comprehensive (income) loss attributable to NCI	3.2	1.1	0
Comprehensive income attributable to Progressive	\$ 1,164.0	\$ 1,044.9	\$ 1,352.4
Computation of Per Share Earnings Attributable to Progressive			
Average shares outstanding — Basic	581.7	585.5	590.6
Net effect of dilutive stock-based compensation	3.3	3.7	4.2
Total average equivalent shares — Diluted	585.0	589.2	594.8
Basic: Earnings per share	\$ 1.77	\$ 2.16	\$ 2.17
Diluted: Earnings per share	\$ 1.76	\$ 2.15	\$ 2.15

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Consolidated Balance Sheets
December 31,

(millions)	2016	2015
Assets		
Investments - Available-for-sale, at fair value:		
Fixed maturities (amortized cost: \$16,287.1 and \$15,347.9)	\$ 16,243.8	\$ 15,332.2
Equity securities:		
Nonredeemable preferred stocks (cost: \$734.2 and \$674.2)	853.5	782.6
Common equities (cost: \$1,437.5 and \$1,494.3)	2,812.4	2,650.5
Short-term investments (amortized cost: \$3,572.9 and \$2,172.0)	3,572.9	2,172.0
Total investments	23,482.6	20,937.3
Cash	211.5	224.1
Restricted cash ¹	14.9	0.3
Accrued investment income	103.9	102.2
Premiums receivable, net of allowance for doubtful accounts of \$186.8 and \$164.8	4,509.2	3,987.7
Reinsurance recoverables, including \$83.8 and \$46.1 on paid losses and loss adjustment expenses	1,884.8	1,488.8
Prepaid reinsurance premiums	170.5	199.3
Deferred acquisition costs	651.2	564.1
Property and equipment, net of accumulated depreciation of \$845.8 and \$778.3	1,177.1	1,037.2
Goodwill	449.4	447.6
Intangible assets, net of accumulated amortization of \$109.5 and \$47.4	432.8	494.9
Other assets	339.6	335.8
Total assets	\$ 33,427.5	\$ 29,819.3
Liabilities		
Unearned premiums	\$ 7,468.3	\$ 6,621.8
Loss and loss adjustment expense reserves	11,368.0	10,039.0
Net deferred income taxes	111.3	109.3
Dividends payable	395.4	519.2
Accounts payable, accrued expenses, and other liabilities ²	2,495.5	2,067.8
Debt ³	3,148.2	2,707.9
Total liabilities	24,986.7	22,065.0
Redeemable noncontrolling interest (NCI) ⁴	483.7	464.9
Shareholders' Equity		
Common shares, \$1.00 par value (authorized 900.0; issued 797.5 and 797.6 including treasury shares of 217.6 and 214.0)	579.9	583.6
Paid-in capital	1,303.4	1,218.8
Retained earnings	5,140.4	4,686.6
Accumulated other comprehensive income:		
Net unrealized gains (losses) on securities	939.6	809.0
Net unrealized losses on forecasted transactions	(9.4)	(8.2)
Foreign currency translation adjustment	(1.1)	(1.5)
Accumulated other comprehensive (income) loss attributable to NCI	4.3	1.1
Total accumulated other comprehensive income attributable to Progressive	933.4	800.4
Total shareholders' equity	7,957.1	7,289.4
Total liabilities, redeemable NCI, and shareholders' equity	\$ 33,427.5	\$ 29,819.3

¹ See Note 1 – Reporting and Accounting Policies - Supplemental Cash Flow information for further discussion .

² See Note 12 – Litigation and Note 13 – Commitments and Contingencies for further discussion.

³ Consists of both short-term and long-term debt. See Note 4 – Debt for further discussion .

⁴ See Note 15 – Redeemable Noncontrolling Interest for further discussion .

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31,

(millions — except per share amounts)	2016	2015	2014
Common Shares, \$1.00 Par Value			
Balance, Beginning of year	\$ 583.6	\$ 587.8	\$ 595.8
Treasury shares purchased	(6.1)	(7.3)	(11.1)
Net restricted equity awards issued/vested/(forfeited)	2.4	3.1	3.1
Balance, End of year	\$ 579.9	\$ 583.6	\$ 587.8
Paid-In Capital			
Balance, Beginning of year	\$ 1,218.8	\$ 1,184.3	\$ 1,142.0
Tax benefit from vesting of equity-based compensation	9.2	16.8	12.8
Treasury shares purchased	(13.4)	(15.2)	(21.6)
Net restricted equity awards (issued)/(vested)/forfeited	(2.4)	(3.1)	(3.1)
Amortization of equity-based compensation	80.9	64.5	51.4
Reinvested dividends on restricted stock units	6.1	5.7	2.8
Adjustment to carrying amount of redeemable noncontrolling interest	4.2	(34.2)	0
Balance, End of year	\$ 1,303.4	\$ 1,218.8	\$ 1,184.3
Retained Earnings			
Balance, Beginning of year	\$ 4,686.6	\$ 4,133.4	\$ 3,500.0
Net income attributable to Progressive	1,031.0	1,267.6	1,281.0
Treasury shares purchased	(173.0)	(186.0)	(238.7)
Cash dividends declared on common shares (\$0.6808, \$0.8882, and \$0.6862 per share)	(394.7)	(520.5)	(402.6)
Reinvested dividends on restricted stock units	(6.1)	(5.7)	(2.8)
Other, net	(3.4)	(2.2)	(3.5)
Balance, End of year	\$ 5,140.4	\$ 4,686.6	\$ 4,133.4
Accumulated Other Comprehensive Income Attributable to Progressive			
Balance, Beginning of year	\$ 800.4	\$ 1,023.1	\$ 951.7
Attributable to noncontrolling interest	3.2	1.1	0
Other comprehensive income (loss)	129.8	(223.8)	71.4
Balance, End of year	\$ 933.4	\$ 800.4	\$ 1,023.1
Total Shareholders' Equity	\$ 7,957.1	\$ 7,289.4	\$ 6,928.6

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
For the years ended December 31,

(millions)	2016	2015	2014
Cash Flows From Operating Activities			
Net income	\$ 1,057.2	\$ 1,300.5	\$ 1,281.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	137.4	103.7	97.1
Net amortization of intangible assets	62.1	46.8	0
Net amortization of fixed-income securities	77.2	98.4	78.2
Amortization of equity-based compensation	85.2	66.2	51.4
Net realized (gains) losses on securities	(51.1)	(112.7)	(224.2)
Net (gains) losses on disposition of property and equipment	6.6	2.0	5.4
(Gains) losses on extinguishment of debt	(1.6)	0.9	4.8
Net loss on exchange transaction	4.5	0	0
Changes in:			
Premiums receivable	(518.5)	(421.1)	(227.1)
Reinsurance recoverables	(388.2)	(202.6)	(141.7)
Prepaid reinsurance premiums	48.8	32.5	(10.4)
Deferred acquisition costs	(103.8)	(42.3)	(9.6)
Income taxes	(55.7)	(107.2)	97.5
Unearned premiums	830.7	632.4	266.4
Loss and loss adjustment expense reserves	1,323.2	917.7	378.0
Accounts payable, accrued expenses, and other liabilities	308.9	37.9	92.0
Restricted cash	(14.6)	(0.3)	0
Other, net	(106.4)	(60.2)	(13.2)
Net cash provided by operating activities	2,701.9	2,292.6	1,725.6
Cash Flows From Investing Activities			
Purchases:			
Fixed maturities	(11,610.6)	(9,311.1)	(7,967.5)
Equity securities	(434.2)	(647.1)	(369.7)
Sales:			
Fixed maturities	5,694.9	4,913.5	5,637.5
Equity securities	484.6	402.4	560.1
Maturities, paydowns, calls, and other:			
Fixed maturities	4,907.4	3,579.5	2,296.6
Equity securities	0	12.0	14.3
Net sales (purchases) of short-term investments	(1,357.2)	20.5	(876.0)
Net unsettled security transactions	50.9	(8.2)	(30.0)
Purchases of property and equipment	(215.0)	(130.7)	(108.1)
Sales of property and equipment	6.2	10.6	5.9
Net cash acquired in exchange transaction	8.5	0	0
Acquisition of ARX Holding Corp., net of cash acquired	0	(752.7)	0
Acquisition of additional shares of ARX Holding Corp.	0	(12.6)	0
Net cash used in investing activities	(2,464.5)	(1,923.9)	(836.9)
Cash Flows From Financing Activities			
Proceeds from exercise of equity options	0	0.2	0
Tax benefit from vesting of equity-based compensation	9.2	16.8	12.8
Net proceeds from debt issuance	495.6	382.0	344.7
Payments of debt	(25.5)	(20.4)	0
Reacquisitions of debt	(18.2)	(19.3)	(48.9)
Dividends paid to shareholders	(519.0)	(403.6)	(892.6)
Acquisition of treasury shares	(192.5)	(208.5)	(271.4)
Net cash used in financing activities	(250.4)	(252.8)	(855.4)
Effect of exchange rate changes on cash	0.4	(0.2)	0
Increase (decrease) in cash	(12.6)	115.7	33.3
Cash, Beginning of year	224.1	108.4	75.1

Cash, End of year	\$	211.5	\$	224.1	\$	108.4
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See notes to consolidated financial statements.

1. REPORTING AND ACCOUNTING POLICIES

Nature of Operations The Progressive insurance organization began business in 1937. The Progressive Corporation, an insurance holding company, was formed in 1965. The financial results of The Progressive Corporation include its subsidiaries and affiliates (references to “subsidiaries” in these notes include affiliates as well). Our insurance subsidiaries (collectively the Progressive Group of Insurance Companies) provide personal and commercial auto insurance, residential property insurance, and other specialty property-casualty insurance and related services. Our Personal Lines segment writes insurance for personal autos and recreational vehicles, which we refer to as our special lines products, through both an independent insurance agency channel and a direct channel. Our Commercial Lines segment writes primary liability and physical damage insurance for automobiles and trucks owned and/or operated predominantly by small businesses through both the independent agency and direct channels. Our Property segment writes residential property insurance for homeowners, other property owners, and renters, primarily through the independent insurance agency channel. We operate our businesses throughout the United States; we also sell personal auto physical damage and auto property damage liability insurance in Australia.

Basis of Consolidation and Reporting The accompanying consolidated financial statements include the accounts of The Progressive Corporation and ARX Holding Corp. (ARX), and their respective wholly owned insurance and non-insurance subsidiaries and affiliates, in which Progressive or ARX has a controlling financial interest. The Progressive Corporation owned 69.2% of the outstanding capital stock of ARX at December 31, 2016 and 2015. All intercompany accounts and transactions are eliminated in consolidation.

Estimates We are required to make estimates and assumptions when preparing our financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America (GAAP). As estimates develop into fact (e.g., losses are paid), results may, and will likely, differ from those estimates.

Investments Our fixed-maturity securities, equity securities, and short-term investments are accounted for on an available-for-sale basis. See *Note 2 – Investments* for details regarding the composition of our investment portfolio.

Fixed-maturity securities include debt securities and redeemable preferred stocks, which may have fixed or variable principal payment schedules, may be held for indefinite periods of time, and may be used as a part of our asset/liability strategy or sold in response to changes in interest rates, anticipated prepayments, risk/reward characteristics, liquidity needs, or other economic factors. These securities are carried at fair value with the corresponding unrealized gains (losses), net of deferred income taxes, reported in accumulated other comprehensive income. Fair values are obtained from recognized pricing services or are quoted by market makers and dealers, with limited exceptions discussed in *Note 3 – Fair Value*.

Included in the fixed-maturity portfolio are asset-backed securities. The asset-backed securities are generally accounted for under the retrospective method. The retrospective method recalculates yield assumptions (based on changes in interest rates or cash flow expectations) historically to the inception of the investment holding period, and applies the required adjustment, if any, to the cost basis, with the offset recorded to investment income. The prospective method is used primarily for interest-only securities, non-investment-grade asset-backed securities, and certain asset-backed securities with sub-prime loan exposure or where there is a greater risk of non-performance and where it is possible the initial investment may not be substantially recovered. The prospective method requires a calculation of expected future repayments and resets the yield to allow for future period adjustments; no current period impact to investment income or the security’s cost is made based on the cash flow update. Prepayment assumptions are based on market expectations and are updated quarterly.

Equity securities include common stocks, nonredeemable preferred stocks, and other risk investments, and are reported at fair values. Changes in fair value of these securities, net of deferred income taxes, are reflected as unrealized gains (losses) in accumulated other comprehensive income. To the extent we hold any foreign equities or foreign currency hedges, any change in value due to exchange rate fluctuations would be limited by foreign currency hedges, if any, and would be recognized in income in the current period.

Short-term investments may include Eurodollar deposits, commercial paper, repurchase transactions, and other securities expected to mature within one year. In addition, short-term investments can include auction rate securities (i.e., certain municipal bonds and preferred stocks). Due to the nature of auction rate securities, these securities are classified as short-term based upon their expected auction date (generally 7 - 49 days) rather than on their contractual maturity date (which is greater than one year at original issuance). In the event that an auction fails, the security may need to be reclassified from short-term.

Changes in fair value of these securities, net of deferred income taxes, are reflected as unrealized gains (losses) in accumulated other comprehensive income.

Trading securities are securities bought principally for the purpose of sale in the near term. To the extent we have trading securities, changes in fair value would be recognized in income in the current period. Derivative instruments, which may be used for trading purposes or classified as trading derivatives due to the characteristics of the transaction, are discussed below.

Derivative instruments may include futures, options, forward positions, foreign currency forwards, interest rate swap agreements, and credit default swaps and may be used in the portfolio for general investment purposes or to hedge the exposure to:

- Changes in fair value of an asset or liability (fair value hedge),
- Foreign currency of an investment in a foreign operation (foreign currency hedge), or
- Variable cash flows of a forecasted transaction (cash flow hedge).

To the extent we have derivatives held for general investment purposes, these derivative instruments are recognized as either assets or liabilities and measured at fair value, with changes in fair value recognized in income as a component of net realized gains (losses) on securities during the period of change.

Derivatives designated as hedges are required to be evaluated on established criteria to determine the effectiveness of their correlation to, and ability to reduce the designated risk of, specific securities or transactions. Effectiveness is required to be reassessed regularly. Hedges that are deemed to be effective would be accounted for as follows:

- *Fair value hedge:* changes in fair value of the hedge, as well as the hedged item, would be recognized in income in the period of change while the hedge is in effect.
- *Foreign currency hedge:* changes in fair value of the hedge, as well as the hedged item, would be reflected as a change in translation adjustment as part of accumulated other comprehensive income. Gains and losses on the foreign currency hedge would offset the foreign exchange gains and losses on the foreign investment as they are recognized into income.
- *Cash flow hedge:* changes in fair value of the hedge would be reported as a component of accumulated other comprehensive income and subsequently amortized into earnings over the life of the hedged transaction.

If a hedge is deemed to become ineffective or discontinued, the following accounting treatment would be applied:

- *Fair value hedge:* the derivative instrument would continue to be adjusted through income, while the adjustment in the change in value of the hedged item would be reflected as a change in unrealized gains (losses) as part of accumulated other comprehensive income.
- *Foreign currency hedge:* changes in the value of the hedged item would continue to be reflected as a change in translation adjustment as part of accumulated other comprehensive income, but the derivative instrument would be adjusted through income for the current period.
- *Cash flow hedge:* changes in fair value of the derivative instrument would be reported in income for the current period.

For all derivative positions, net cash requirements are limited to changes in fair values, which may vary as a result of changes in interest rates, currency exchange rates, and other factors. Exposure to credit risk is limited to the carrying value; collateral may be required to limit credit risk. We have elected not to offset fair value amounts that arise from derivative positions with the same counterparty under a master netting arrangement.

Investment securities are exposed to various risks such as interest rate, market, credit, and liquidity risk. Fair values of securities fluctuate based on the nature and magnitude of changing market conditions; significant changes in market conditions could materially affect the portfolio's value in the near term. We regularly monitor our portfolio for price changes, which 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 condition, business prospects, or other factors, (ii) market-related factors, such as interest rates or equity market declines, or (iii) credit-related losses, where the present value of cash flows expected to be collected are lower than the amortized cost basis of the security.

We analyze our debt securities that are in a loss position to determine if we intend to sell, or if it is more likely than not that we will be required to sell, the security prior to recovery and, if so, we write down the security to its current fair value, with the entire amount of the write-down recorded to earnings. To the extent that it is more likely than not that we will hold the debt security until recovery (which could be maturity), we determine if any of the decline in value is due to a credit loss (i.e., where the present value of future cash flows expected to be collected is lower than the amortized cost basis of the security) and, if so, we recognize that portion of the impairment as a component of net realized gains (losses) in the comprehensive income

statement, with the difference (i.e., non-credit related impairment) recognized as part of our net unrealized gains (losses) in accumulated other comprehensive income. When an equity security (common equity and nonredeemable preferred stock) in our investment portfolio has an unrealized loss in fair value that is deemed to be other-than-temporary, we reduce the book value of such security to its current fair value, recognizing the decline as a realized loss in the comprehensive income statement. Any future changes in fair value, either increases or decreases, are reflected as changes in unrealized gains (losses) as part of accumulated other comprehensive income.

Investment income consists of interest, dividends, and amortization. In addition to the discussion above for asset-backed securities, interest is recognized on an accrual basis using the effective yield method. Depending on the nature of the equity instruments, dividends are recorded at either the ex-dividend date or on an accrual basis.

Realized gains (losses) on securities are computed based on the first-in first-out method and include write-downs on available-for-sale securities considered to have other-than-temporary declines in fair value (excluding non-credit related impairments), as well as holding period valuation changes on derivatives, trading securities, and hybrid instruments (e.g., securities with embedded options, where the option is a feature of the overall change in the value of the instrument).

Insurance Premiums and Receivables Insurance premiums written are earned into income on a pro rata basis over the period of risk, based on a daily earnings convention. Accordingly, unearned premiums represent the portion of premiums written that are applicable to the unexpired risk. We provide insurance and related services to individuals and small commercial accounts and offer a variety of payment plans. Generally, premiums are collected prior to providing risk coverage, minimizing our exposure to credit risk.

For our vehicle businesses, we perform a policy level evaluation to determine the extent to which the premiums receivable balance exceeds the unearned premiums balance. We then age this exposure to establish an allowance for doubtful accounts based on prior experience.

For our Property business, we do not establish an allowance for doubtful accounts since the risk of uncollectibility is relatively low. If premiums are unpaid by the policy due date, we provide advance notice of cancellation in accordance with each state's requirements and, if the premiums remain unpaid after receipt of notice, cancel the policy and write off any remaining balance.

Deferred Acquisition Costs Deferred acquisition costs include commissions, premium taxes, and other variable underwriting and direct sales costs incurred in connection with the successful acquisition or renewal of insurance contracts. These acquisition costs, net of ceding allowances, are deferred and amortized over the policy period in which the related premiums are earned. We consider anticipated investment income in determining the recoverability of these costs. Management believes that these costs will be fully recoverable in the near term.

We do not defer any advertising costs. Total advertising costs, which are expensed as incurred, for the years ended December 31, were:

(millions)	Advertising Costs
2016	\$ 756.2
2015	748.3
2014	681.8

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

Reinsurance Our reinsurance transactions include premiums ceded to "Regulated" plans and "Non-Regulated" plans. The Regulated plans in which we participate are governed by insurance regulations and include state-provided reinsurance facilities (Michigan Catastrophic Claims Association, Florida Hurricane Catastrophe Fund, North Carolina Reinsurance Facility), as well as state-mandated involuntary plans for commercial vehicles (Commercial Automobile Insurance Procedures/Plans – "CAIP") and federally regulated plans for flood (National Flood Insurance Program – "NFIP"); we act as a servicing agent for CAIP and as a participant in the "Write Your Own" program for the NFIP. The Non-Regulated plans are voluntary contractual arrangements and primarily relate to our Property business. Prepaid reinsurance premiums are earned on a pro rata basis over

the period of risk, based on a daily earnings convention, which is consistent with premiums written. See *Note 7 – Reinsurance* for further discussion.

Income Taxes The income tax provision is calculated under the balance sheet approach. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal items giving rise to such differences are investment securities (e.g., net unrealized gains (losses), write-downs on securities determined to be other-than-temporarily impaired), loss and loss adjustment expense reserves, unearned premiums reserves, deferred acquisition costs, property and equipment, intangible assets, and non-deductible accruals. We review our deferred tax assets regularly for recoverability. See *Note 5 – Income Taxes* for further discussion.

Property and Equipment Property and equipment are recorded at cost, less accumulated depreciation, and include capitalized software developed or acquired for internal use. Depreciation is recognized over the estimated useful lives of the assets using accelerated methods for computer equipment and the straight-line method for all other fixed assets. We evaluate impairment whenever events or circumstances warrant such a review. Land and buildings comprised 65% and 75% of total property and equipment at December 31, 2016 and 2015, respectively.

The useful lives for property and equipment at December 31, 2016, were:

	Useful Lives
Computer equipment and laptops	3 years
Software licenses (internal use)	1-5 years
Capitalized software	3-10 years
Buildings, improvements, and integrated components	7-40 years
All other property and equipment	3-15 years

At December 31, 2016 and 2015, included in other assets in the consolidated balance sheets is \$8.7 million of "held for sale" property, which represents the fair value of this property less the estimated costs to sell.

Total capitalized interest, which primarily relates to capitalized software projects, for the years ended December 31, was:

(millions)	Capitalized Interest
2016	\$ 2.9
2015	2.4
2014	1.3

Goodwill and Intangible Assets Goodwill is the excess of the purchase price over the estimated fair value of the assets and liabilities acquired and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Substantially all of the goodwill recorded as of December 31, 2016 and 2015, relates to the April 1, 2015 acquisition of a controlling interest in ARX.

Intangible assets primarily arose through the acquisition of ARX and mainly represent the future premiums that will be recognized from the policies and agency relationships, the value of software acquired, and the value of its trade name, "American Strategic Insurance," in the marketplace at the acquisition date. The majority of the intangible assets have finite lives ranging from 7 to 14 years. See *Note 16 – Goodwill and Intangible Assets* for further discussion.

We evaluate our goodwill for impairment at least annually. If events or changes in circumstances indicate that the carrying value of goodwill or intangible assets may not be recoverable, we will evaluate such items for impairment.

Guaranty Fund Assessments We are subject to state guaranty fund assessments, which provide for the payment of covered claims or other insurance obligations of insurance companies deemed insolvent. These assessments are accrued after a formal determination of insolvency has occurred, and we have written the premiums on which the assessments will be based. Assessments that are available for recoupment from policyholders are capitalized when incurred; all other assessments are expensed.

Fees and Other Revenues Fees and other revenues primarily represent fees collected from policyholders relating to installment charges in accordance with our bill plans, as well as late payment and insufficient funds fees. Other revenues may include revenue from the sale of tax credits, rental income, and other revenue transactions.

Service Revenues and Expenses Our service businesses provide insurance-related services. Service revenues and expenses from our commission-based businesses are recorded in the period in which they are earned or incurred. Service revenues generated from processing business for involuntary CAIP plans are earned on a pro rata basis over the term of the related policies. Service expenses related to these CAIP plans are expensed as incurred.

Equity-Based Compensation We issue time-based and performance-based restricted stock unit awards to key members of management (other than management of ARX and its subsidiaries) as our form of equity compensation, and time-based restricted stock awards to non-employee directors. Collectively, we refer to these awards as “restricted equity awards.” Compensation expense for time-based restricted equity awards with installment vesting is recognized over each respective vesting period. For performance-based restricted equity awards, compensation expense is recognized over the respective estimated vesting periods. Dividend equivalent units are credited to outstanding restricted unit awards, both time-based and performance-based, at the time a dividend is paid to shareholders.

We record an estimate for expected forfeitures of restricted equity awards based on our historical forfeiture rates. In addition, we shorten the vesting periods of certain time-based restricted equity awards based on the “qualified retirement” provisions in our equity compensation plans, under which (among other provisions) if the participant is 55 years of age or older and satisfies certain years-of-service requirements, the vesting and distribution of 50% of outstanding time-based restricted equity awards accelerates upon reaching eligibility for a qualified retirement and shortly after the grant date for each subsequent award.

ARX has nonqualified and incentive stock options outstanding that were issued prior to April 2015 as a form of equity compensation to certain of the officers and employees of ARX and its subsidiaries. These outstanding stock options are subject to the put/call features contained in the current stockholders' agreement, pursuant to which The Progressive Corporation has the right, and can be required, to purchase a portion or all of the shares underlying these awards in 2018 and 2021. See *Note 15 – Redeemable Noncontrolling Interest*. These stock options, which are treated for accounting purposes as liability awards, are expensed over the respective vesting periods based on the Black-Scholes value determined at period end.

The total compensation expense recognized for equity-based compensation, both our equity and liability awards, for the years ended December 31, was:

(millions)		2016	2015	2014
Pretax expense	\$	85.2	\$ 66.2	\$ 51.4
Tax benefit		29.8	23.2	18.0

Earnings Per Share Net income attributable to Progressive is used in our calculation of the per share amounts. Basic earnings per share is computed using the weighted average number of common shares outstanding during the reporting period, excluding unvested time-based and performance-based restricted equity awards that are subject to forfeiture. Diluted earnings per share includes common stock equivalents assumed outstanding during the period. Our common stock equivalents include the incremental shares assumed to be issued for:

- earned but unvested time-based restricted equity awards, and
- certain unvested performance-based restricted equity awards that satisfied contingency conditions for common stock equivalents during the period.

Supplemental Cash Flow Information Cash includes only bank demand deposits. Non-cash activity includes declared but unpaid dividends. For the years ended December 31, we paid the following:

(millions)		2016	2015	2014
Income taxes	\$	459.4	\$ 701.8	\$ 515.0
Interest		139.2	132.0	116.0

Restricted cash on our consolidated balance sheets at December 31, 2016 and 2015, represents cash received from the National Flood Insurance Program, which is restricted to pay flood claims under the "Write Your Own" program, for which American Strategic Insurance and other subsidiaries of ARX (ASI) is an administrator.

New Accounting Standards

Issued

In June 2016, Financial Accounting Standards Board (FASB) issued an accounting standard update (ASU) intended to improve the timing, and enhance the accounting and disclosure, of credit losses on financial assets. Additionally, this update will modify the existing accounting guidance related to the impairment evaluation for available-for-sale debt securities and will result in the creation of an allowance for credit losses as a contra asset account. The ASU will require cumulative-effect changes to retained earnings in the period of adoption, if any occur, and will also require prospective changes on previously recorded impairments. This ASU is effective for fiscal years (including interim periods within those fiscal years) beginning after December 15, 2019 (2020 for calendar-year companies), with early adoption permissible (including interim periods within that fiscal year) beginning after December 15, 2018 (2019 for calendar-year companies). While the ASU creates additional accounting complexities related to the recognition of the impairment losses, and subsequent recoveries, through an allowance for credit losses account, we do not expect that the ASU will have a material impact on our current method of evaluating securities for credit losses or the timing or recognition of the amounts of the impairment losses.

In March 2016, the FASB issued an ASU to simplify the accounting for employee share-based payment transactions. This ASU is effective for fiscal years beginning after December 15, 2016 (2017 for calendar-year companies), with early adoption permitted. Several aspects of the ASU include income tax consequences, classification of awards as either equity or liability, and classification on the statement of cash flows. Under provisions of the ASU:

- All excess tax benefits and tax deficiencies should be recognized as income tax benefit or expense in the comprehensive income statement (applied prospectively) and classified in the statement of cash flows as an operating activity (applied using either a prospective or retrospective transition method).
- Companies are allowed to decide whether or not to record forfeitures of share-based awards when the forfeiture occurs or to record compensation expense over the vesting period net of estimated forfeitures (applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity upon adoption).
- Companies are permitted to withhold up to the maximum statutory tax rate and still maintain equity classification of share-based awards (applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity upon adoption).
- Companies are required to classify as a financing activity in the statement of cash flows the payment of cash to a taxing authority when the company withholds shares for such purpose (applied retrospectively).

We expect the change in the accounting for the excess tax benefits/deficiencies to impact our results of operations. Over the last three years, the tax benefit, which was recorded in paid in capital through December 31, 2016, was \$9.2 million in 2016, \$16.8 million in 2015, and \$12.8 million in 2014. We currently record estimated forfeitures over the vesting period and withhold at the minimum statutory tax rate, and we do not anticipate making any changes with respect to these items, upon adoption of the ASU.

In February 2016, the FASB released an ASU intended to eliminate the off-balance-sheet accounting for leases. The new guidance will require lessees to report their operating leases as both an asset and liability on the statement of financial position and disclose key information about leasing arrangements; the expense recognition will be consistent with existing guidance. The ASU, which is required to be applied on a modified retrospective basis, will be effective for fiscal years (including interim periods within those fiscal years) beginning after December 15, 2018 (2019 for calendar-year companies). Based on our lease portfolio at December 31, 2016, and in accordance with the accounting elections available in the ASU, the increase to assets and liabilities would have been approximately \$150 million, and there would have been no impact on our results of operations or cash flows. Therefore, we do not expect this standard to have a material impact on our financial condition.

In January 2016, the FASB released an ASU intended to improve the recognition and measurement of financial instruments. The new guidance will require the changes in fair value of equity securities to be recognized as a component of net income. The ASU will be effective for fiscal years beginning after December 15, 2017 (2018 for calendar-year companies) and requires prospective method of adoption with a cumulative-effect adjustment recorded to beginning retained earnings upon adoption. Although we are unable to predict the impact that this ASU will have upon adoption, had this guidance been effective for calendar year 2016, we would have recorded a cumulative-effect adjustment (i.e., reclass from accumulated other comprehensive income to retained earnings) of approximately \$821 million and, on a quarterly basis during 2016, recognized after-tax net realized gains ranging from approximately \$12 million to \$69 million. This ASU will have no impact on comprehensive income.

In May 2014, the FASB issued an ASU related to the accounting for revenue from contracts with customers. This standard is intended to help reduce diversity in practice and enhance comparability between entities related to revenue recognition and is

effective for fiscal years beginning after December 15, 2016 (2017 for calendar-year companies). Since the accounting for insurance contracts is outside of the scope of this ASU, we do not expect this standard to have a significant impact on our financial condition, cash flows, or results of operations. We are still evaluating the impact the standard might have on our service business operations, which represents less than 0.5% of our total revenues for 2016.

Adopted

In 2016, we adopted the following accounting standard updates that became effective for fiscal years beginning after December 15, 2015.

We adopted the ASU that clarified guidance regarding accounting for fees paid in a cloud computing arrangement and amended the accounting treatment for the acquisition of licenses from third-parties for internal use software. We adopted this ASU on a prospective basis and will apply the guidance for future cloud computing arrangements that we enter into. Upon adoption, we began including the costs of our fixed-term licenses as part of the total amount of capitalized software developed or acquired for internal use, rather than recording them as prepaid assets, when applicable, and established a liability for the unpaid portion of our licenses. At December 31, 2016, we have \$94 million of fixed-term licenses in our property and equipment, on a net basis, and have \$75 million in other liabilities. This standard did not have a material impact on our results of operations. A technical correction was issued in December 2016 that will not change our software accounting treatment.

Another ASU adopted is related to the accounting for share-based payments when the terms of an employee award can be achieved after the requisite service period. To the extent an equity award contains provisions that permit an employee who leaves the company before the performance targets are reached to receive some or all of the benefits of the award if and as the award later vests, this standard requires companies to recognize the compensation cost during the employee's remaining service period. Since we adopted this ASU prospectively, the requirements only apply to the performance-based restricted stock unit awards granted by Progressive to its executive officers and other select senior managers after January 1, 2016. The amount of expense that was accelerated pursuant to this ASU did not have a material impact on our financial condition, cash flows, or results of operations for 2016.

Lastly, we adopted the ASU that required additional disclosures about short-duration contracts. The additional disclosures are intended to provide users of financial statements with more transparent information about an insurance entity's initial claim estimates and subsequent adjustments to those estimates, the methodologies and judgments used to estimate claims, and the timing, frequency, and severity of claims. Other than the new disclosures added to *Note 6 – Loss and Loss Adjustment Expense Reserves*, there was no additional impact from this standard.

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 internal classification of how we manage, monitor, and measure the portfolio. The net holding period gains (losses) represent the amounts realized on our hybrid securities only.

(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses)	Fair Value	% of Total Fair Value
December 31, 2016						
Fixed maturities:						
U.S. government obligations	\$ 2,899.2	\$ 0	\$ (29.1)	\$ 0	\$ 2,870.1	12.2%
State and local government obligations	2,509.5	13.8	(20.7)	0	2,502.6	10.7
Foreign government obligations	24.5	0	0	0	24.5	0.1
Corporate debt securities	4,557.8	17.3	(24.3)	0.1	4,550.9	19.4
Residential mortgage-backed securities	1,448.5	23.7	(15.0)	1.5	1,458.7	6.2
Agency residential pass-through obligations	41.2	0	(0.6)	0	40.6	0.2
Commercial mortgage-backed securities	2,266.9	12.0	(25.5)	0	2,253.4	9.6
Other asset-backed securities	2,350.7	4.6	(4.4)	0.2	2,351.1	10.0
Redeemable preferred stocks	188.8	5.1	(2.0)	0	191.9	0.8
Total fixed maturities	16,287.1	76.5	(121.6)	1.8	16,243.8	69.2
Equity securities:						
Nonredeemable preferred stocks	734.2	135.4	(16.1)	0	853.5	3.6
Common equities	1,437.5	1,377.0	(2.1)	0	2,812.4	12.0
Short-term investments	3,572.9	0	0	0	3,572.9	15.2
Total portfolio ^{1,2}	\$ 22,031.7	\$ 1,588.9	\$ (139.8)	\$ 1.8	\$ 23,482.6	100.0%

(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses)	Fair Value	% of Total Fair Value
<u>December 31, 2015</u>						
Fixed maturities:						
U.S. government obligations	\$ 2,425.4	\$ 4.4	\$ (0.6)	\$ 0	\$ 2,429.2	11.6%
State and local government obligations	2,677.6	47.5	(3.7)	0	2,721.4	13.0
Foreign government obligations	18.6	0	0	0	18.6	0.1
Corporate debt securities	3,713.2	11.3	(33.0)	0.1	3,691.6	17.6
Residential mortgage-backed securities	1,726.0	22.1	(20.6)	(0.8)	1,726.7	8.3
Agency residential pass-through obligations	90.3	0.1	(1.1)	0	89.3	0.4
Commercial mortgage-backed securities	2,665.7	16.9	(29.4)	0	2,653.2	12.7
Other asset-backed securities	1,771.1	1.4	(5.1)	0.5	1,767.9	8.4
Redeemable preferred stocks	260.0	17.6	(43.3)	0	234.3	1.1
Total fixed maturities	15,347.9	121.3	(136.8)	(0.2)	15,332.2	73.2
Equity securities:						
Nonredeemable preferred stocks	674.2	122.8	(15.7)	1.3	782.6	3.7
Common equities	1,494.3	1,170.4	(14.2)	0	2,650.5	12.7
Short-term investments	2,172.0	0	0	0	2,172.0	10.4
Total portfolio ^{1,2}	\$ 19,688.4	\$ 1,414.5	\$ (166.7)	\$ 1.1	\$ 20,937.3	100.0%

¹ Our portfolio reflects the effect of unsettled security transactions and collateral on any open derivative positions; at December 31, 2016, \$27.8 million was included in "other liabilities," compared to \$23.1 million in "other assets" at December 31, 2015.

² The total fair value of the portfolio at both December 31, 2016 and 2015 included \$1.3 billion of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

At December 31, 2016, bonds and certificates of deposit in the principal amount of \$206.6 million were on deposit to meet state insurance regulatory and/or rating agency requirements. We did not hold any securities of any one issuer, excluding U.S. government obligations, with an aggregate cost or fair value exceeding 10% of total shareholders' equity at December 31, 2016 or 2015. At December 31, 2016, we did not hold any debt securities that were non-income producing during the preceding 12 months.

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 treasury bills issued by the Australian government at December 31, 2016, compared to \$2.5 million at December 31, 2015, which were included in short-term investments. We did not hold any repurchase transactions where we lent collateral at December 31, 2016 or 2015. During 2016, we entered into repurchase commitment transactions, which were open for a total of three days. In these transactions, we loaned U.S. Treasury securities to internally approved counterparties in exchange for cash equal to the fair value of the securities. These transactions were entered into as overnight arrangements. On the days that we invested in repurchase transactions, the largest single outstanding balance was \$240.0 million, which was open for two days; the average daily balance was \$217.0 million.

Also included in short-term investments are reverse repurchase commitment transactions, where we loan cash to 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 December 31, 2016 or December 31, 2015. During 2016, our largest outstanding balance of reverse repurchase commitments was \$265.0 million, which was open for one day. For the 38 days we invested in these transactions, the average daily balance of reverse repurchase commitments was \$113.8 million.

To the extent our repurchase and reverse 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.

Hybrid Securities Included in our fixed-maturity and equity securities are hybrid securities, which are reported at fair value at December 31 :

(millions)	2016	2015
Fixed maturities:		
Corporate debt securities	\$ 40.1	\$ 49.1
Residential mortgage-backed securities	170.5	144.3
Commercial mortgage-backed securities	0	17.3
Other asset-backed securities	8.9	11.3
Total fixed maturities	219.5	222.0
Equity securities:		
Nonredeemable preferred stocks	0	50.7
Total hybrid securities	\$ 219.5	\$ 272.7

Certain corporate debt securities are accounted for as hybrid securities since they were acquired at a substantial 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 \$3.0 million as of December 31, 2016, if all of these 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.

During 2016, we sold the commercial mortgage-backed securities referred to in the table above. These securities contained fixed interest rate reset features that would have increased the coupons in the event the securities were not fully paid off on the anticipated repayment date. These reset features had 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 had the potential to more than double our initial investment yield at acquisition.

During 2016, we sold the remaining nonredeemable preferred stocks referred to in the table above. These securities were perpetual preferred stocks with fixed-rate coupons that have call features, 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 December 31, 2016, was:

(millions)	Cost	Fair Value
Less than one year	\$ 3,680.5	\$ 3,682.1
One to five years	9,324.7	9,298.2
Five to ten years	3,226.9	3,197.3
Ten years or greater	55.0	66.2
Total	\$ 16,287.1	\$ 16,243.8

Asset-backed securities are classified in the maturity distribution table based upon their projected cash flows. All other securities that 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 December 31, 2016, we had \$137.7 million of gross unrealized losses in our fixed-income securities (i.e., fixed-maturity securities, nonredeemable preferred stocks, and short-term investments) and \$2.1 million in our common equities. We currently do not intend to sell the fixed-income securities and determined that it is more likely 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 deterioration of the current cash flow projections that would indicate we would not receive the remaining principal at maturity. For common equities, 95% 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 5% of our common stocks were part of a managed equity strategy selected and administered by an external investment advisor. If our review of loss position securities were to indicate 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 No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months			12 Months or Greater		
				No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
December 31, 2016									
Fixed maturities:									
U.S. government obligations	30	\$ 2,774.0	\$ (29.1)	30	\$ 2,774.0	\$ (29.1)	0	\$ 0	\$ 0
State and local government obligations	618	1,497.9	(20.7)	584	1,404.3	(19.6)	34	93.6	(1.1)
Corporate debt securities	184	2,615.1	(24.3)	175	2,559.9	(24.0)	9	55.2	(0.3)
Residential mortgage-backed securities	178	917.7	(15.0)	69	175.8	(1.1)	109	741.9	(13.9)
Agency residential pass-through obligations	55	36.0	(0.6)	48	33.9	(0.6)	7	2.1	0
Commercial mortgage-backed securities	111	1,347.3	(25.5)	85	1,061.2	(22.9)	26	286.1	(2.6)
Other asset-backed securities	103	1,605.2	(4.4)	89	1,423.3	(3.9)	14	181.9	(0.5)
Redeemable preferred stocks	2	31.0	(2.0)	0	0	0	2	31.0	(2.0)
Total fixed maturities	1,281	10,824.2	(121.6)	1,080	9,432.4	(101.2)	201	1,391.8	(20.4)
Equity securities:									
Nonredeemable preferred stocks	13	329.6	(16.1)	8	175.2	(3.8)	5	154.4	(12.3)
Common equities	75	22.1	(2.1)	69	19.7	(1.7)	6	2.4	(0.4)
Total equity securities	88	351.7	(18.2)	77	194.9	(5.5)	11	156.8	(12.7)
Total portfolio	1,369	\$ 11,175.9	\$ (139.8)	1,157	\$ 9,627.3	\$ (106.7)	212	\$ 1,548.6	\$ (33.1)

(\$ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months			12 Months or Greater		
				No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
December 31, 2015									
Fixed maturities:									
U.S. government obligations	22	\$ 897.1	\$ (0.6)	22	\$ 897.1	\$ (0.6)	0	\$ 0	\$ 0
State and local government obligations	290	606.7	(3.7)	264	500.7	(2.6)	26	106.0	(1.1)
Corporate debt securities	215	2,580.6	(33.0)	197	2,294.6	(25.2)	18	286.0	(7.8)
Residential mortgage-backed securities	188	1,294.7	(20.6)	115	493.4	(3.7)	73	801.3	(16.9)
Agency residential pass-through obligations	61	84.9	(1.1)	61	84.9	(1.1)	0	0	0
Commercial mortgage-backed securities	207	2,046.5	(29.4)	171	1,694.6	(25.8)	36	351.9	(3.6)
Other asset-backed securities	101	1,548.6	(5.1)	92	1,472.0	(4.5)	9	76.6	(0.6)
Redeemable preferred stocks	9	199.4	(43.3)	6	119.4	(14.5)	3	80.0	(28.8)
Total fixed maturities	1,093	9,258.5	(136.8)	928	7,556.7	(78.0)	165	1,701.8	(58.8)
Equity securities:									
Nonredeemable preferred stocks	10	301.8	(15.7)	5	124.2	(1.7)	5	177.6	(14.0)
Common equities	64	164.8	(14.2)	60	161.4	(14.2)	4	3.4	0
Total equity securities	74	466.6	(29.9)	65	285.6	(15.9)	9	181.0	(14.0)
Total portfolio	1,167	\$ 9,725.1	\$ (166.7)	993	\$ 7,842.3	\$ (93.9)	174	\$ 1,882.8	\$ (72.8)

During 2016, the number of securities in our fixed-maturity portfolio with unrealized losses increased, primarily in the less than 12 month segment of the table, as a result of rising interest rates since December 31, 2015. We had no material decreases in valuation as a result of credit rating downgrades on our fixed-maturity securities during the year. All of the fixed-maturity securities in an unrealized loss position at December 31, 2016 in the table above are current with respect to required principal and interest payments. Unrealized losses on our nonredeemable preferred stocks related to 13 issues with unrealized losses, averaging approximately 5% of our total cost of those securities. We reviewed these securities and concluded that the unrealized losses are market-related adjustments to the values, which were 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 2016. 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, market 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 (i.e., unadjusted for valuation changes subsequent to the original write-down):

(millions)	December 31,	
	2016	2015
Fixed maturities:		
Residential mortgage-backed securities	\$ (43.3)	\$ (43.3)
Commercial mortgage-backed securities	(0.6)	(0.6)
Total fixed maturities	\$ (43.9)	\$ (43.9)

The following tables provide rollforwards of the amounts related to credit losses recognized in earnings for the periods ended December 31, 2016 , 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)	Residential Mortgage- Backed	Commercial Mortgage- Backed	Total
Total at December 31, 2015	\$ 12.4	\$ 0.4	\$ 12.8
Reductions for securities sold/matured	0	0	0
Change in recoveries of future cash flows expected to be collected ^{1,2}	(1.3)	0	(1.3)
Total at December 31, 2016	\$ 11.1	\$ 0.4	\$ 11.5

(millions)	Residential Mortgage- Backed	Commercial Mortgage- Backed	Total
Total at December 31, 2014	\$ 12.7	\$ 0.4	\$ 13.1
Reductions for securities sold/matured	(1.4)	0	(1.4)
Change in recoveries of future cash flows expected to be collected ^{1,2}	1.1	0	1.1
Total at December 31, 2015	\$ 12.4	\$ 0.4	\$ 12.8

(millions)	Residential Mortgage- Backed	Commercial Mortgage- Backed	Total
Total at December 31, 2013	\$ 19.2	\$ 0.4	\$ 19.6
Reductions for securities sold/matured	(0.1)	0	(0.1)
Change in recoveries of future cash flows expected to be collected ^{1,2}	(6.4)	0	(6.4)
Total at December 31, 2014	\$ 12.7	\$ 0.4	\$ 13.1

¹ Reflects expected recovery of prior period impairments that will be accreted into income over the remaining life of the security.

² Includes \$1.9 million , \$2.9 million , and \$4.3 million at December 31, 2016 , 2015 , and 2014 , respectively, recognized in income in excess of the cash flows expected to be collected at the time of the write-downs.

During 2016, we recorded \$25.4 million in write-downs on securities in our redeemable preferred stock portfolio. These securities had been in an unrealized loss position for greater than 12 months. During the year, we determined that we did not intend to hold these securities for the period of time necessary to recover their respective cost bases, given our evaluation of the length of time for such recovery.

For the remaining securities in our fixed-income portfolio, although we determined it is more likely 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 business model or 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 would be deemed to exist, and the security would be written down. We did not have any credit impairment write-downs for the periods ended December 31, 2016 , 2015 or 2014.

Realized Gains (Losses) The components of net realized gains (losses) for the years ended December 31, were:

(millions)	2016	2015	2014
Gross realized gains on security sales			
Fixed maturities:			
U.S. government obligations	\$ 24.6	\$ 17.5	\$ 24.0
State and local government obligations	16.0	7.8	9.3
Corporate and other debt securities	43.3	31.2	37.2
Residential mortgage-backed securities	2.4	4.9	2.7
Agency residential pass-through obligations	0.1	0	0
Commercial mortgage-backed securities	13.3	15.7	17.0
Redeemable preferred stocks	20.9	0.1	2.7
Total fixed maturities	120.6	77.2	92.9
Equity securities:			
Nonredeemable preferred stocks	11.9	65.3	90.0
Common equities	61.3	50.4	107.3
Short-term investments	0.1	0	0
Subtotal gross realized gains on security sales	193.9	192.9	290.2
Gross realized losses on security sales			
Fixed maturities:			
U.S. government obligations	(2.4)	(0.9)	(7.6)
State and local government obligations	(1.6)	(0.3)	(0.5)
Corporate and other debt securities	(2.5)	(5.0)	(2.8)
Residential mortgage-backed securities	0	(0.4)	(0.2)
Agency residential pass-through obligations	(0.2)	(0.4)	0
Commercial mortgage-backed securities	(5.6)	(1.3)	(8.3)
Redeemable preferred stocks	(6.6)	0	(3.2)
Total fixed maturities	(18.9)	(8.3)	(22.6)
Equity securities:			
Nonredeemable preferred stocks	(5.3)	(3.2)	0
Common equities	(15.7)	(38.4)	(7.3)
Short-term investments	(0.1)	0	0
Subtotal gross realized losses on security sales	(40.0)	(49.9)	(29.9)
Net realized gains (losses) on security sales			
Fixed maturities:			
U.S. government obligations	22.2	16.6	16.4
State and local government obligations	14.4	7.5	8.8
Corporate and other debt securities	40.8	26.2	34.4
Residential mortgage-backed securities	2.4	4.5	2.5
Agency residential pass-through obligations	(0.1)	(0.4)	0
Commercial mortgage-backed securities	7.7	14.4	8.7
Redeemable preferred stocks	14.3	0.1	(0.5)
Total fixed maturities	101.7	68.9	70.3
Equity securities:			
Nonredeemable preferred stocks	6.6	62.1	90.0
Common equities	45.6	12.0	100.0
Subtotal net realized gains (losses) on security sales	153.9	143.0	260.3
Other-than-temporary impairment losses			
Fixed maturities:			
Redeemable preferred stocks	(25.3)	0	0
Total fixed maturities	(25.3)	0	0
Equity securities:			
Common equities	(0.3)	(8.7)	(7.2)
Subtotal investment other-than-temporary impairment losses	(25.6)	(8.7)	(7.2)
Other asset impairment	(59.7)	0	0
Subtotal other-than-temporary impairment losses	(85.3)	(8.7)	(7.2)
Other gains (losses)			
Hybrid securities	2.1	(1.3)	30.5
Derivative instruments	(20.0)	(20.7)	(64.1)
Litigation settlements	0.4	0.4	4.7
Subtotal other gains (losses)	(17.5)	(21.6)	(28.9)
Total net realized gains (losses) on securities	\$ 51.1	\$ 112.7	\$ 224.2

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 related to investments and holding period valuation changes on hybrids and derivatives. Also included are write-downs for securities determined to be other-than-temporarily impaired. The other asset impairment relates to renewable energy investments, which are reflected in "other assets" on the balance sheet, under which the future pretax cash flows are expected to be less than the carrying value of the assets.

Net Investment Income The components of net investment income for the years ended December 31, were:

(millions)	2016	2015	2014
Fixed maturities:			
U.S. government obligations	\$ 18.2	\$ 28.3	\$ 46.2
State and local government obligations	52.3	60.7	50.1
Foreign government obligations	0.4	0.4	0.4
Corporate debt securities	110.7	102.4	82.1
Residential mortgage-backed securities	46.1	52.2	44.9
Agency residential pass-through obligations	1.2	2.1	0
Commercial mortgage-backed securities	81.6	74.6	66.0
Other asset-backed securities	28.0	22.0	16.7
Redeemable preferred stocks	14.9	15.0	15.5
Total fixed maturities	353.4	357.7	321.9
Equity securities:			
Nonredeemable preferred stocks	48.6	43.7	38.6
Common equities	57.2	51.0	46.6
Short-term investments	19.7	2.2	1.3
Investment income	478.9	454.6	408.4
Investment expenses	(22.4)	(22.8)	(18.9)
Net investment income	\$ 456.5	\$ 431.8	\$ 389.5

The amount of investment income (interest and dividends) we recognize varies from year to year based on the average assets during the year and the book yields of the securities in our portfolio. In addition to proceeds from debt offerings in each of the last three years, the increase in our portfolio's average assets in 2016, compared to 2015, was the result of strong underwriting premium growth. The increase in investment income from our portfolio's growth was slightly offset by a lower portfolio yield due to the sharp decline in interest rates (which was prevalent during most of 2016), affecting investment yields on new cash and portfolio turnover, as well as our decision to shorten our portfolio duration early in the year and invest in a higher amount of short-term paper which have lower overall yields. The increase in income in 2015 over 2014 reflects the acquisition of a controlling interest in ARX, strong underwriting profitability, and a slight increase in portfolio yields compared to 2014.

Trading Securities At December 31, 2016 and 2015, we did not hold any trading securities and we did not have any net realized gains (losses) on trading securities for the years ended December 31, 2016, 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 holding period (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 December 31, 2016 and 2015 , and for the years ended December 31, 2016 , 2015 , and 2014 :

(millions)					Balance Sheet ²			Comprehensive Income Statement		
						Assets (Liabilities) Fair Value		Pretax Net Realized Gains (Losses)		
	Notional Value ¹							Years ended		
	December 31,					December 31,		December 31,		
Derivatives designated as:	2016	2015	2014	Purpose	Classification	2016	2015	2016	2015	2014
Hedging instruments										
Closed:										
				Manage interest rate risk						
Ineffective cash flow hedge	\$ 370	\$ 18	\$ 44		NA	\$ 0	\$ 0	\$ (1.3)	\$ 0.2	\$ 0.5
Non-hedging instruments										
Assets:										
				Manage portfolio duration						
Interest rate swaps	0	750	750		Investments - fixed maturities	0	4.4	0	(23.4)	(64.6)
Closed:										
				Manage portfolio duration						
Interest rate swaps	750	0	0		NA	0	0	(19.0)	0	0
U.S. Treasury Note futures	135	691	0	Manage portfolio duration	NA	0	0	0.3	2.5	0
Total	NA	NA	NA			\$ 0	\$ 4.4	\$ (20.0)	\$ (20.7)	\$ (64.1)

¹ The amounts represent the value held at year end for open positions and the maximum amount held during the year for closed positions.

² To the extent we held both derivative assets and liabilities with the same counterparty that were subject to an enforceable master netting arrangement, we reported them on a gross basis on our balance sheets, consistent with our historical presentation.

NA = Not Applicable

CASH FLOW HEDGES

During 2016 , we entered into a \$350 million forecasted transaction to hedge against a possible rise in interest rates in anticipation of a debt offering under which we issued \$500 million of 2.45% Senior Notes due 2027. When the contract was closed, the \$1.4 million loss on the derivative was immediately recognized as a realized loss.

The remaining portion of 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 all three years presented, and we reclassified the unrealized gain on forecasted transactions to net realized gains on securities.

During 2016 , we reclassified \$1.9 million from accumulated other comprehensive income to interest expense on our closed debt issuance cash flow hedges, compared to \$1.8 million during 2015 and \$2.0 million during 2014 .

See *Note 4 – Debt* for further discussion.

INTEREST RATE SWAPS and U.S. TREASURY FUTURES

We use interest rate swaps and treasury futures contracts from time to time to manage the fixed-income portfolio duration. During 2016 , we closed all of our remaining interest rate swap positions and, at December 31, 2016 , did not have a cash collateral balance. At December 31, 2015 and 2014 , we held interest rate swap positions for which we were paying a fixed rate and receiving a variable rate, effectively shortening the duration of our fixed-income portfolio. As of December 31, 2015 and 2014 , the balance of the cash collateral that we had received from the applicable counterparty on our then open positions was \$4.9 million and \$16.1 million , respectively. We opened and closed treasury futures during 2016 and 2015 ; no positions were outstanding at either year end.

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									
	Level 1		Level 2	Level 3	Total	Cost				
December 31, 2016										
Fixed maturities:										
U.S. government obligations	\$	2,870.1	\$	0	\$	0	\$	2,870.1	\$	2,899.2
State and local government obligations		0		2,502.6		0		2,502.6		2,509.5
Foreign government obligations		24.5		0		0		24.5		24.5
Corporate debt securities		0		4,550.9		0		4,550.9		4,557.8
Subtotal		2,894.6		7,053.5		0		9,948.1		9,991.0
Asset-backed securities:										
Residential mortgage-backed		0		1,458.7		0		1,458.7		1,448.5
Agency residential pass-through obligations		0		40.6		0		40.6		41.2
Commercial mortgage-backed		0		2,253.1		0.3		2,253.4		2,266.9
Other asset-backed		0		2,351.1		0		2,351.1		2,350.7
Subtotal asset-backed securities		0		6,103.5		0.3		6,103.8		6,107.3
Redeemable preferred stocks:										
Financials		0		59.5		0		59.5		59.8
Utilities		0		30.9		0		30.9		30.5
Industrials		0		101.5		0		101.5		98.5
Subtotal redeemable preferred stocks		0		191.9		0		191.9		188.8
Total fixed maturities		2,894.6		13,348.9		0.3		16,243.8		16,287.1
Equity securities:										
Nonredeemable preferred stocks:										
Financials		138.1		715.4		0		853.5		734.2
Subtotal nonredeemable preferred stocks		138.1		715.4		0		853.5		734.2
Common equities:										
Common stocks		2,812.0		0		0		2,812.0		1,437.1
Other risk investments		0		0		0.4		0.4		0.4
Subtotal common equities		2,812.0		0		0.4		2,812.4		1,437.5
Total fixed maturities and equity securities		5,844.7		14,064.3		0.7		19,909.7		18,458.8
Short-term investments		3,009.3		563.6		0		3,572.9		3,572.9
Total portfolio	\$	8,854.0	\$	14,627.9	\$	0.7	\$	23,482.6	\$	22,031.7
Debt	\$	0	\$	3,188.5	\$	127.3	\$	3,315.8	\$	3,148.2

(millions)	Fair Value					Cost
	Level 1	Level 2	Level 3	Total		
December 31, 2015						
Fixed maturities:						
U.S. government obligations	\$ 2,429.2	\$ 0	\$ 0	\$ 2,429.2	\$ 2,425.4	
State and local government obligations	0	2,721.4	0	2,721.4	2,677.6	
Foreign government obligations	18.6	0	0	18.6	18.6	
Corporate debt securities	0	3,691.6	0	3,691.6	3,713.2	
Subtotal	2,447.8	6,413.0	0	8,860.8	8,834.8	
Asset-backed securities:						
Residential mortgage-backed	0	1,726.7	0	1,726.7	1,726.0	
Agency residential pass-through obligations	0	89.3	0	89.3	90.3	
Commercial mortgage-backed	0	2,643.3	9.9	2,653.2	2,665.7	
Other asset-backed	0	1,767.9	0	1,767.9	1,771.1	
Subtotal asset-backed securities	0	6,227.2	9.9	6,237.1	6,253.1	
Redeemable preferred stocks:						
Financials	0	92.0	0	92.0	76.8	
Utilities	0	51.2	0	51.2	65.1	
Industrials	0	91.1	0	91.1	118.1	
Subtotal redeemable preferred stocks	0	234.3	0	234.3	260.0	
Total fixed maturities	2,447.8	12,874.5	9.9	15,332.2	15,347.9	
Equity securities:						
Nonredeemable preferred stocks:						
Financials	154.9	627.7	0	782.6	674.2	
Subtotal nonredeemable preferred stocks	154.9	627.7	0	782.6	674.2	
Common equities:						
Common stocks	2,650.2	0	0	2,650.2	1,494.0	
Other risk investments	0	0	0.3	0.3	0.3	
Subtotal common equities	2,650.2	0	0.3	2,650.5	1,494.3	
Total fixed maturities and equity securities	5,252.9	13,502.2	10.2	18,765.3	17,516.4	
Short-term investments	2,056.3	115.7	0	2,172.0	2,172.0	
Total portfolio	\$ 7,309.2	\$ 13,617.9	\$ 10.2	\$ 20,937.3	\$ 19,688.4	
Debt	\$ 0	\$ 2,722.9	\$ 164.9	\$ 2,887.8	\$ 2,707.9	

Our portfolio valuations, excluding 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. During 2016 and 2015, we did not have any transfers between Level 1 and Level 2.

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 December 31, 2016, vendor-quoted prices represented 52% of our Level 1 classifications (excluding short-term investments), compared to 49% at December 31, 2015. 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.

At December 31, 2016, vendor-quoted prices comprised 99% of our Level 2 classifications (excluding short-term investments), while dealer-quoted prices represented 1%, compared to 97% and 3% at December 31, 2015, respectively. 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, as well as the notes and debentures issued by The Progressive Corporation (see *Note 4 – Debt*), 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 each 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 inactivity, 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 December 31, 2016 and 2015, 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 or non-rated 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.

We did not hold any internally-priced securities at December 31, 2016 or 2015.

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 2016 or 2015, there were no material assets or liabilities measured at fair value on a nonrecurring basis. Based on our review, all the prices received from external sources remain unadjusted.

The following tables provide a summary of changes in fair value associated with Level 3 assets for the years ended December 31, 2016 and 2015:

(millions)	Level 3 Fair Value							
	Fair Value at Dec. 31, 2015	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain)/Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at Dec. 31, 2016
Fixed maturities:								
Asset-backed securities:								
Commercial mortgage-backed	\$ 9.9	\$ (9.6)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0.3
Total fixed maturities	9.9	(9.6)	0	0	0	0	0	0.3
Equity securities:								
Nonredeemable preferred stocks:								
Financials	0	0	0	0	0	0	0	0
Common equities:								
Other risk investments	0.3	0	0	0	0	0.1	0	0.4
Total Level 3 securities	\$ 10.2	\$ (9.6)	\$ 0	\$ 0	\$ 0	\$ 0.1	\$ 0	\$ 0.7

(millions)	Level 3 Fair Value							
	Fair Value at Dec. 31, 2014	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain)/Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at Dec. 31, 2015
Fixed maturities:								
Asset-backed securities:								
Commercial mortgage-backed	\$ 11.6	\$ (1.3)	\$ 0	\$ 0	\$ 0	\$ (0.4)	\$ 0	\$ 9.9
Total fixed maturities	11.6	(1.3)	0	0	0	(0.4)	0	9.9
Equity securities:								
Nonredeemable preferred stocks:								
Financials ¹	69.3	0	0	0	(39.4)	(1.4)	(28.5)	0
Common equities:								
Other risk investments	0.4	0	0	0	0	(0.1)	0	0.3
Total Level 3 securities	\$ 81.3	\$ (1.3)	\$ 0	\$ 0	\$ (39.4)	\$ (1.9)	\$ (28.5)	\$ 10.2

¹ The \$69.3 million decrease during the year reflects the reclassification of our 5% interest in ARX upon our acquisition of a controlling interest in ARX. The \$39.4 million reflects our inception-to-date gain recognized, including the \$1.4 million reduction in valuation that occurred during the first six months of 2015.

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

Quantitative Information about Level 3 Fair Value Measurements				
(\$ in millions)	Fair Value at Dec. 31, 2016	Valuation Technique	Unobservable Input	Unobservable Input Assumption
Fixed maturities:				
Asset-backed securities:				
Commercial mortgage-backed	\$ 0.3	External vendor	Prepayment rate ¹	0
Total fixed maturities	0.3			
Subtotal Level 3 securities	0.3			
Third-party pricing exemption securities ²	0.4			
Total Level 3 securities	\$ 0.7			

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

² 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. 31, 2015	Valuation Technique	Unobservable Input	Unobservable Input Assumption
Fixed maturities:				
Asset-backed securities:				
Commercial mortgage-backed	\$ 9.9	External vendor	Prepayment rate ¹	0
Total fixed maturities	9.9			
Subtotal Level 3 securities	9.9			
Third-party pricing exemption securities ²	0.3			
Total Level 3 securities	\$ 10.2			

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

² 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.

4. DEBT

Debt at December 31 consisted of:

(millions)	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
3.75% Senior Notes due 2021 (issued: \$500.0, August 2011)	\$ 498.4	\$ 528.8	\$ 498.1	\$ 528.7
2.45% Senior Notes due 2027 (issued: \$500.0, August 2016)	495.8	464.6	0	0
6 5/8% Senior Notes due 2029 (issued: \$300.0, March 1999)	295.9	380.1	295.7	376.0
6.25% Senior Notes due 2032 (issued: \$400.0, November 2002)	395.2	499.0	395.0	490.6
4.35% Senior Notes due 2044 (issued: \$350.0, April 2014)	346.4	362.3	346.4	352.8
3.70% Senior Notes due 2045 (issued: \$400.0, January 2015)	395.1	372.5	395.0	362.0
6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (issued: \$1,000.0, June 2007; outstanding: \$594.6 and \$614.4)	594.1	581.2	612.8	612.8
Other debt instruments	127.3	127.3	164.9	164.9
Total	\$ 3,148.2	\$ 3,315.8	\$ 2,707.9	\$ 2,887.8

The other debt instruments reported in the table above represent ARX indebtedness and consist of:

Type of debt instrument	December 31, 2016		December 31, 2015		Stated Maturity Date(s)
	Number of Instruments	Carrying Value	Number of Instruments	Carrying Value	
Term loans	2	\$ 62.1	2	\$ 87.1	December 2018 and 2019
Junior subordinated notes ¹	2	41.2	2	41.2	June 2036 and 2037
Senior notes	4	24.0	4	24.0	Various ²
Surplus note ³	0	0	1	12.6	November 2021
Total		\$ 127.3		\$ 164.9	

¹ ARX issued junior subordinated floating rate notes to trusts established by ARX in connection with issuances of trust preferred securities by the trust (discussed below).

² The senior notes mature in May 2033, April 2034, December 2034, and June 2035.

³ The surplus note was debt of the subsidiary disposed of by ARX in the exchange transaction during 2016 (see *Note 16 – Goodwill and Intangible Assets* for further discussion).

Aggregate required principal payments on debt outstanding at December 31, 2016, are as follows:

(millions) Year	Payments
2017	\$ 25.0
2018	25.0
2019	11.3
2020	0.8
2021	500.0
Thereafter	2,609.8
Total	\$ 3,171.9

The Progressive Corporation Debt

Excluding the other debt instruments, all of the outstanding debt was issued by The Progressive Corporation, the ultimate holding company. The holding company debt includes amounts that were borrowed and contributed to the capital of its insurance subsidiaries or used, or made available for use, for other business purposes. Fair values for these debt instruments are obtained from external sources. There are no restrictive financial covenants or credit rating triggers on The Progressive Corporation debt.

Interest on all debt issued by The Progressive Corporation is payable semiannually at the stated rates. However, the 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (the “6.70% Debentures”) will only bear interest at this fixed annual rate through June 14, 2017. Thereafter, the 6.70% Debentures will bear interest at an annual rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 2.0175%, and interest will be payable quarterly until the 6.70% Debentures are redeemed or retired.

Except for the 6.70% Debentures, all remaining principal on the Senior Notes is due at the maturity stated in the tables above. The Senior Notes are redeemable, in whole or in part, at any time; however, the redemption price will equal the greater of the principal amount of the Senior Notes or a “make whole” amount calculated by reference to the present values of remaining scheduled principal and interest payments under the Senior Notes. Commencing on June 15, 2017, we have the right to redeem the 6.70% Debentures at par. If not previously redeemed, the 6.70% Debentures will become due on June 15, 2037, the scheduled maturity date, but only to the extent that we have received sufficient net proceeds from the sale of certain qualifying capital securities. The Progressive Corporation must use its commercially reasonable efforts, subject to certain market disruption events, to sell enough qualifying capital securities to permit repayment of the 6.70% Debentures in full on the scheduled maturity date or, if sufficient proceeds are not realized from the sale of such qualifying capital securities by such date, on each interest payment date thereafter. Any remaining outstanding principal will be due on June 15, 2067, the final maturity date.

The Progressive Corporation issued \$500 million of our 2.45% Senior Notes due 2027 (the “2.45% Senior Notes”) in August 2016, and \$400 million of 3.70% Senior Notes due 2045 (the “3.70% Senior Notes”) in January 2015, in underwritten public offerings. We received proceeds, after deducting underwriter's discounts, commissions and other issuance costs, of approximately \$495.6 million and \$394.9 million, respectively, and paid approximately \$0.9 million and \$0.8 million of costs related to the issuance of the 2.45% Senior Notes and 3.70% Senior Notes, respectively.

Prior to issuance of our debt securities, we entered into forecasted transactions to hedge against possible rises in interest rates. When the contracts were closed upon issuance of the applicable debt securities, we recognized unrealized gains (losses) as part of accumulated other comprehensive income for all of the Senior Notes and 6.70% Debentures, except for the 2.45% Senior Notes. Upon issuance of the 2.45% Senior Notes, we recognized a realized loss of \$1.4 million (See *Note 2 – Investments* for further discussion). The following table shows the original gain (loss) recognized at debt issuance and the unamortized balance at December 31, 2016, on a pretax basis:

(millions)	Unrealized Gain (Loss) at Debt Issuance	Unamortized Balance at December 31, 2016
3.75% Senior Notes	\$ (5.1)	\$ (2.6)
6 5/8% Senior Notes	(4.2)	(2.9)
6.25% Senior Notes	5.1	3.7
4.35% Senior Notes	(1.6)	(1.5)
3.70% Senior Notes	(12.9)	(12.4)
6.70% Debentures	34.4	1.2

These unrealized gains (losses) are being amortized as adjustments to interest expense over the life of the related Senior Notes, and over the 10 -year fixed interest rate term for the 6.70% Debentures. In addition to this amortization, during 2016 and 2015, we reclassified \$0.1 million and \$0.2 million, respectively, on a pretax basis, from accumulated other comprehensive income on the balance sheet to net realized gains on securities on the comprehensive income statement, reflecting the portion of the unrealized gain on forecasted transactions that was related to the portion of the 6.70% Debentures repurchased during the periods.

During 2016 and 2015, we repurchased, in the open market, \$19.8 million and \$18.4 million, respectively, in aggregate principal amount of our 6.70% Debentures. Since the carrying value of the debt we repurchased differed from the amount paid to extinguish the debt, we recognized a gain of \$1.6 million during 2016 and a loss of \$0.9 million during 2015.

ARX Debt (i.e., Other debt instruments)

The other debt instruments were issued by ARX, prior to The Progressive Corporation acquiring a controlling interest in 2015. ARX, not The Progressive Corporation or any of its other subsidiaries, is responsible for the other debt, which includes amounts that were borrowed and contributed to the capital of ARX's insurance subsidiaries or used, or made available for use, for other business purposes.

In estimating the fair values of the other debt instruments, it was determined that the fair values of these notes are equal to the carrying value, based on the current rates offered for debt of similar maturities and interest rates.

The term loans require ARX and its subsidiaries to maintain specified debt leverage and fixed charge coverage ratios, as well as maintain a minimum risk-based capital ratio and minimum financial strength and credit ratings, as provided by A.M. Best Company, Inc. As of December 31, 2016, ARX was in compliance with these covenants.

Monthly interest and principal payments are made on the term loans, with interest calculated based on the 30-day LIBOR plus 2.25%. Principal payments of \$25.0 million are required to be paid during the next twelve months on these term loans. The term loans are secured by 100% of the outstanding common stock of four subsidiaries of ARX.

Interest on the junior subordinated notes and the senior notes is paid quarterly at a floating rate tied to the three-month LIBOR rate. The junior subordinated notes and senior notes can be redeemed, in whole or in part, at the option of ARX at par, plus accrued and unpaid interest, on any interest payment date.

Pursuant to agreements entered into by ARX relating to the trust preferred securities transactions, ARX established trusts that are entirely owned by ARX. The trusts, which are the holders of the junior subordinated notes, issued trust preferred securities to third parties. The shares in the trusts are not transferable. The trusts are considered special purpose variable interest entities for which ARX is not the primary beneficiary and, therefore, they are accounted for under the equity method of accounting and not consolidated with ARX. Our ownership interest of \$1.3 million in the variable interest entities is reported as a component of "other assets" on our consolidated balance sheets.

The Progressive Corporation Line of Credit

During 2016, 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 March 2015, had 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 must be repaid on the 30th day after the advance or, if earlier, on April 30, 2017, 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 in 2016 or 2015.

5. INCOME TAXES

The components of our income tax provision were as follows:

(millions)	2016	2015	2014
Current tax provision			
Federal	\$ 469.6	\$ 655.3	\$ 594.4
State	12.7	14.7	0
Deferred tax expense (benefit)			
Federal	(66.3)	(47.7)	32.0
State	(2.5)	(11.2)	0
Total income tax provision	\$ 413.5	\$ 611.1	\$ 626.4

As a result of our acquisition of a controlling interest in ARX in 2015, state income taxes are now being included in the income tax provision. In prior years, state income taxes were not significant. The provision for income taxes in the accompanying consolidated statements of comprehensive income differed from the statutory rate as follows:

(\$ in millions)	2016		2015		2014	
Income before income taxes	\$ 1,470.7		\$ 1,911.6		\$ 1,907.4	
Tax at statutory federal rate	\$ 514.8	35 %	\$ 669.1	35 %	\$ 667.6	35 %
Tax effect of:						
Tax credits	(62.2)	(4)	(1.9)	0	(2.2)	0
Dividends received deduction	(22.6)	(2)	(19.8)	(1)	(18.3)	(1)
Exempt interest income	(15.7)	(1)	(17.8)	(1)	(13.8)	(1)
Non-taxable gain ¹	0	0	(13.8)	(1)	0	0
Tax-deductible dividends	(6.1)	0	(7.9)	0	(6.5)	0
State income taxes, net of federal taxes	6.6	0	2.3	0	0	0
Other items, net	(1.3)	0	0.9	0	(0.4)	0
Total income tax provision	\$ 413.5	28 %	\$ 611.1	32 %	\$ 626.4	33 %

¹ Represents the tax effect of holding period gains on the 5% interest in ARX we owned prior to acquisition of a controlling interest on April 1, 2015.

The decrease in the effective tax rate during the year reflects \$58.7 million of federal tax benefits resulting from our investments in two federal renewable energy tax credit funds. All of the expected tax benefits from these investments were recorded in our income tax provision during the year.

Deferred income taxes reflect the effect for financial statement reporting purposes of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 2016 and 2015, the components of the net deferred tax asset (liability) were as follows:

(millions)	2016	2015
Federal deferred tax assets:		
Unearned premiums reserve	\$ 515.6	\$ 453.3
Investment basis differences	31.3	40.5
Non-deductible accruals	259.9	231.4
Loss and loss adjustment expense reserves	76.5	75.3
Hedges on forecasted transactions	5.1	4.4
Other	8.9	9.6
Federal deferred tax liabilities:		
Net unrealized gains on securities	(507.2)	(436.7)
Deferred acquisition costs	(227.9)	(197.4)
Property and equipment	(120.2)	(110.7)
Prepaid expenses	(9.2)	(11.9)
Intangible assets-ARX acquisition	(145.3)	(166.4)
Deferred gain on extinguishment of debt	(1.5)	(2.2)
Other	(7.7)	(7.0)
Net federal deferred tax liability	(121.7)	(117.8)
Net state deferred tax asset	10.4	8.5
Net deferred tax liability	\$ (111.3)	\$ (109.3)

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 and, therefore, no valuation allowance was needed at December 31, 2016 or 2015.

At December 31, 2016 and 2015, we had \$41.2 million and \$25.1 million, respectively, of net taxes payable (included in other liabilities on the balance sheet).

The Progressive Corporation and its wholly-owned subsidiaries file a consolidated income tax return. This group has been a participant in the Compliance Assurance Program (CAP) since 2007. Under CAP, the Internal Revenue Service (IRS) begins its examination process for the tax year before the tax return is filed, by examining significant transactions and events as they occur. The goal of the CAP program is to expedite the exam process and to reduce the level of uncertainty regarding a taxpayer's tax filing positions.

All federal income tax years prior to 2013 are closed to examination for both Progressive and ARX. The IRS exams for 2013-2015 for Progressive have been completed. We consider these years to be effectively settled. The 2016 tax year remains open.

ARX and its wholly owned subsidiaries file their own consolidated income tax return since we own less than 80% of their outstanding stock. This group was last examined by the IRS for the 2011 and 2012 tax years, which we consider to be effectively settled. The 2013-2016 tax years remain open to examination.

The statute of limitations for state income tax purposes generally remains open for three to four years from the return filing date, depending upon the jurisdiction. There has been no significant state income tax audit activity.

We recognize interest and penalties, if any, as a component of income tax expense. For the year ended December 31, 2016, less than \$0.1 million of interest and penalties expense has been recorded in the tax provision. For the year ended December 31, 2015, \$0.1 million of interest and penalties expense has been recorded in the tax provision. We have not recorded any unrecognized tax benefits, or any related interest and penalties, as of December 31, 2016 and 2015 .

6. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

We write personal and commercial auto insurance, residential property insurance, and other specialty property-casualty insurance and related services throughout the United States. As a property-casualty insurance company, we could be exposed to hurricanes or other catastrophes. To help mitigate this risk, we maintain catastrophic reinsurance coverage on our Property business. Although the occurrence of a major catastrophe could have a significant effect on our monthly or quarterly results, we believe that, based on historical experience, such an event would not be so material as to disrupt the overall normal operations of Progressive. We are unable to predict the frequency or severity of any such events that may occur in the near term or thereafter.

As we are primarily an insurer of motor vehicles and residential property, we have limited exposure to environmental, asbestos, and general liability claims. We have established reserves for such exposures, in amounts that we believe to be adequate based on information currently known. These claims are not expected to have a material effect on our liquidity, financial condition, cash flows, or results of operations.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense (LAE) reserves represent our best estimate of our ultimate liability for losses and LAE relating to events that occurred prior to the end of any given accounting period but have not yet been paid. For our vehicle businesses, which represent about 95% of our total carried reserves, Progressive's actuarial staff reviews over 400 subsets of business data, which are at a combined state, product, and line coverage level (the "products"), to calculate the needed loss and LAE reserves. We begin our review of a set of data by producing multiple estimates of needed reserves, using both paid and incurred data, to determine if a reserve change is required. In the event of a wide variation among results generated by the different projections, our actuarial group will further analyze the data using additional quantitative analysis. Each review develops a point estimate for a relatively small subset of the business, which allows us to establish meaningful reserve levels for that subset. We believe our comprehensive process of reviewing at a subsegment level provides us more meaningful estimates of our aggregate loss reserves.

The actuarial staff completes separate projections of needed case and incurred but not recorded (IBNR) reserves. Since a large majority of the parties involved in an accident report their claims within a short time period after the occurrence, we do not carry a significant amount of IBNR reserves for older accident years. Based on the methodology we use to estimate case reserves for our vehicle businesses, we do not have expected development on reported claims included in our IBNR reserves. We do, however, include anticipated salvage and subrogation recoveries in our IBNR reserves, which could result in negative carried IBNR reserves, primarily in our physical damage reserves.

Assumptions regarding needed reserve levels made by the actuarial staff take into consideration influences on available historical data that reduce the predictiveness of our projected future loss costs. Internal considerations that are process-related, which generally result from changes in our claims organization's activities, include claim closure rates, the number of claims that are closed without payment, and the level of the claims representatives' estimates of the needed case reserve for each claim.

These changes and their effect on the historical data are studied at the state level versus on a larger, less indicative, countrywide basis. External items considered include the litigation atmosphere, state-by-state changes in medical costs, and the availability of services to resolve claims. These also are better understood at the state level versus at a more macro, countrywide level.

Similar to our vehicle businesses, our actuarial staff analyzes loss and LAE property data on an accident period basis. Many of the methodologies and key parameters reviewed are similar. Unlike our vehicle businesses, primarily due to the low levels of reserves, data is reviewed at a macro level and a range of reserves are generated to determine a reasonable range. In addition, for our Property business, since claims adjusters primarily establish the case reserves, the actuarial staff includes expected development on case reserves as a component of the overall IBNR reserves.

Activity in the loss and loss adjustment expense reserves is summarized as follows:

(millions)	2016	2015	2014
Balance at January 1	\$ 10,039.0	\$ 8,857.4	\$ 8,479.7
Less reinsurance recoverables on unpaid losses	1,442.7	1,185.9	1,045.9
Net balance at January 1	8,596.3	7,671.5	7,433.8
Net loss and loss adjustment reserves (disposed) acquired ¹	(2.5)	222.4	0
Total beginning reserves	8,593.8	7,893.9	7,433.8
Incurred related to:			
Current year	16,967.1	14,657.1	13,330.3
Prior years	(87.5)	(315.1)	(24.1)
Total incurred	16,879.6	14,342.0	13,306.2
Paid related to:			
Current year	11,149.0	9,577.3	8,831.5
Prior years	4,757.4	4,062.3	4,237.0
Total paid	15,906.4	13,639.6	13,068.5
Net balance at December 31	9,567.0	8,596.3	7,671.5
Plus reinsurance recoverables on unpaid losses	1,801.0	1,442.7	1,185.9
Balance at December 31	\$ 11,368.0	\$ 10,039.0	\$ 8,857.4

¹ During 2016, \$2.5 million net reserves were disposed by ARX in the exchange transaction (see *Note 16 – Goodwill and Intangible Assets* for further discussion). During 2015, \$222.4 million net reserves were acquired in ARX acquisition.

We experienced favorable reserve development of \$87.5 million in 2016, \$315.1 million in 2015 and \$24.1 million in 2014, respectively, which is reflected as “Incurred related to prior years” in the table above.

2016

- Approximately \$56 million of the favorable prior year reserve development was attributable to accident year 2015, and approximately \$51 million of favorable development was attributable to accident years 2013 and prior. This favorable development was partially offset by \$19 million of unfavorable development attributable to accident year 2014.
- Our Personal Lines and Property businesses incurred \$54 million and \$52 million, respectively, of favorable loss and LAE reserve development, partially offset by the unfavorable loss and LAE development in Commercial Lines. In our Property business both the severity and frequency of late reported claims was less than anticipated.
- Our personal auto product developed favorably \$40 million, almost evenly split between Direct and Agency.
- Our personal auto business incurred favorable case development primarily in bodily injury due to a lower than anticipated severity.
- Our personal auto and Commercial Lines businesses incurred unfavorable IBNR loss reserve development, primarily due to a higher severity and frequency of late reported claims than anticipated for accident year 2015, due in part to storms in late December 2015, resulting in a greater number of claims being reported in January 2016 than anticipated.
- In addition, our Commercial Lines business experienced unfavorable case reserve development for accident year 2014 primarily due to a higher severity than anticipated on our largest limits, while case reserve development for accident years 2015 and 2013 and prior was favorable.

2015

- Approximately \$239 million of the favorable prior year reserve development was primarily attributable to accident year 2014.
- Favorable reserve development occurred in all segments; our combined Agency auto business and Direct auto business experienced approximately \$217 million of total development, with the remainder split between our Commercial Lines and Property businesses.
- 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.
- Our Property business development was favorable due to lower than anticipated severity and frequency across all products, primarily in accident years 2014 and 2013.

2014

- Approximately \$25 million of the favorable prior year reserve development was primarily attributable to accident year 2010.
- Favorable reserve development in our Commercial Lines business of \$49 million was partially offset by unfavorable development in our Agency auto business of \$24 million. Our Direct auto business experienced slight favorable development.
- The favorable reserve development in our Commercial Lines business was primarily related to favorable case reserve development on our high limit policies.
- In Agency auto, the unfavorable development was primarily attributable to personal injury protection loss reserves and adjusting and other LAE reserves.

Incurred and Paid Claims Development by Accident Year

The tables below present our incurred and paid claims development by accident year for the last five years, which generally represents the number of years for which claims incurred typically remain outstanding. The tables below include inception-to-date information for companies acquired and wholly exclude companies disposed of, rather than including information from the date of acquisition, or until the date of disposition. We believe that the most meaningful presentation of claims development is through the retrospective approach by presenting all relevant historical information for all periods presented.

We have elected to present our incurred and paid claims development consistent with our GAAP reportable segments (see *Note 10 – Segment Information* for a discussion of our segment reporting), with a further disaggregation of our Personal Lines and Commercial Lines claims development between liability and physical damage, since the loss patterns are significantly different between them. The other business primarily includes reserves for the business written in Australia and for our run-off products, which are not considered material, and, therefore, we are not including separate claims development tables.

The following tables show incurred and paid claims development, net of reinsurance, by accident year. Only the most recent year is audited; all prior years are considered required supplementary information and, therefore, are unaudited. Expected development on our case reserves is excluded from the IBNR reserves on our vehicle businesses, as discussed above. For the Property business, the IBNR reserves include expected case development based on the methodology used in establishing the case reserves for that segment. The cumulative number of incurred claims are based on accident coverages (e.g., bodily injury, collision, comprehensive, personal injury protection, property damage) related to opened claims. Coverage counts related to claims closed without payment are excluded from the cumulative number of incurred claims.

Personal Lines - Agency - Liability

(\$ in millions)

(\$ in millions)								As of						
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance								December 31, 2016						
For the years ended December 31,								Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts					
Accident Year	2012 ¹		2013 ¹		2014 ¹		2015 ¹			2016				
2012	\$	3,372.5	\$	3,375.9	\$	3,385.5	\$	3,395.0	\$	3,352.4	\$	0.1	691,743	
2013				3,506.0		3,520.9		3,518.2		3,528.0		53.9	696,614	
2014						3,702.1		3,627.7		3,633.2		57.3	701,611	
2015								3,774.9		3,773.8		142.1	702,917	
2016										4,082.9		555.6	724,842	
Total								\$	18,370.3					
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance														
For the years ended December 31,														
Accident Year	2012 ¹		2013 ¹		2014 ¹		2015 ¹		2016					
2012	\$	1,673.7	\$	2,690.0	\$	3,070.2	\$	3,238.2	\$	3,308.4				
2013				1,684.0		2,794.1		3,173.1		3,362.9				
2014						1,809.0		2,868.1		3,284.5				
2015								1,793.1		2,976.0				
2016										1,941.6				
Total								\$	14,873.4					
All outstanding liabilities before 2012, net of reinsurance								59.0						
Liabilities for claims and claim adjustment expenses, net of reinsurance								\$		3,555.9				

¹ Required supplementary information (unaudited)

Personal Lines - Agency - Physical Damage

(\$ in millions)

(\$ in millions)						As of							
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						December 31, 2016							
For the years ended December 31,						Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts						
Accident Year	2012 ¹		2013 ¹		2014 ¹			2015 ¹		2016			
2012	\$	1,948.7	\$	1,954.5	\$	1,956.6	\$	1,956.0	\$	1,958.0	\$	0	1,302,848
2013				2,014.0		2,001.4		2,000.1		1,999.4		(2.4)	1,347,820
2014						2,107.5		2,090.3		2,089.9		(2.0)	1,374,623
2015								2,136.8		2,137.2		(4.6)	1,336,089
2016										2,423.4		(87.4)	1,387,512
Total						\$	10,607.9						
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance													
For the years ended December 31,													
Accident Year	2012 ¹		2013 ¹		2014 ¹		2015 ¹		2016				
2012	\$	1,903.9	\$	1,958.4	\$	1,958.1	\$	1,957.9	\$	1,957.1			
2013				1,952.7		2,003.9		2,002.0		2,001.3			
2014						2,078.8		2,091.6		2,090.6			
2015								2,106.2		2,138.1			
2016										2,391.0			
Total						\$	10,578.1						
All outstanding liabilities before 2012, net of reinsurance						0.3							
Liabilities for claims and claim adjustment expenses, net of reinsurance						\$		30.1					

¹ Required supplementary information (unaudited)

Personal Lines - Direct - Liability

(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2016	
For the years ended December 31,						Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
Accident Year	2012 ¹	2013 ¹	2014 ¹	2015 ¹	2016		
2012	\$ 2,507.4	\$ 2,469.1	\$ 2,480.0	\$ 2,488.2	\$ 2,471.6	\$ (0.1)	526,665
2013		2,619.4	2,621.8	2,615.8	2,649.8	40.9	550,135
2014			2,946.8	2,887.4	2,898.1	44.0	592,017
2015				3,330.5	3,328.3	122.4	656,712
2016					3,819.0	488.9	722,585
Total					\$ 15,166.8		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
For the years ended December 31,							
Accident Year	2012 ¹	2013 ¹	2014 ¹	2015 ¹	2016		
2012	\$ 1,221.9	\$ 1,972.4	\$ 2,264.4	\$ 2,385.0	\$ 2,438.3		
2013		1,252.0	2,085.1	2,375.5	2,521.3		
2014			1,413.0	2,278.0	2,624.2		
2015				1,545.2	2,615.0		
2016					1,780.6		
Total					\$ 11,979.4		
All outstanding liabilities before 2012, net of reinsurance					31.7		
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 3,219.1		

¹ Required supplementary information (unaudited)

Personal Lines - Direct - Physical Damage

(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2016	
For the years ended December 31,						Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
Accident Year	2012 ¹	2013 ¹	2014 ¹	2015 ¹	2016		
2012	\$ 1,562.4	\$ 1,556.5	\$ 1,557.3	\$ 1,557.0	\$ 1,558.1	\$ 0	1,314,480
2013		1,653.7	1,635.6	1,634.6	1,633.4	(2.3)	1,367,281
2014			1,889.3	1,862.2	1,861.7	(2.2)	1,470,879
2015				2,110.7	2,097.7	(5.7)	1,539,503
2016					2,521.0	(115.0)	1,673,575
Total					\$ 9,671.9		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
For the years ended December 31,							
Accident Year	2012 ¹	2013 ¹	2014 ¹	2015 ¹	2016		
2012	\$ 1,540.1	\$ 1,560.2	\$ 1,559.1	\$ 1,558.4	\$ 1,557.9		
2013		1,612.9	1,638.2	1,636.2	1,635.3		
2014			1,874.6	1,864.1	1,862.7		
2015				2,094.7	2,100.1		
2016					2,505.0		
Total					\$ 9,661.0		
All outstanding liabilities before 2012, net of reinsurance					0.3		
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 11.2		

¹ Required supplementary information (unaudited)

Commercial Lines - Liability

(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2016	
Accident Year	For the years ended December 31,					Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
	2012 ¹	2013 ¹	2014 ¹	2015 ¹	2016		
2012	\$ 800.1	\$ 827.4	\$ 810.7	\$ 807.8	\$ 794.8	\$ 0	78,425
2013		864.2	864.6	865.4	865.0	23.3	78,090
2014			822.5	795.4	820.3	22.6	74,675
2015				897.6	911.1	51.0	77,263
2016					1,185.8	168.4	89,830
Total					\$ 4,577.0		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
Accident Year	For the years ended December 31,						
	2012 ¹	2013 ¹	2014 ¹	2015 ¹	2016		
2012	\$ 228.6	\$ 465.4	\$ 621.5	\$ 715.8	\$ 759.9		
2013		233.3	509.4	659.1	752.5		
2014			234.0	438.7	610.0		
2015				238.4	501.5		
2016					298.6		
Total					\$ 2,922.5		
All outstanding liabilities before 2012, net of reinsurance					20.8		
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 1,675.3		

¹ Required supplementary information (unaudited)

Commercial Lines - Physical Damage

(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2016	
Accident Year	For the years ended December 31,					Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
	2012 ¹	2013 ¹	2014 ¹	2015 ¹	2016		
2012	\$ 266.6	\$ 267.7	\$ 268.4	\$ 267.6	\$ 267.8	\$ 0	65,804
2013		256.2	254.2	254.5	253.7	(0.5)	62,654
2014			240.3	239.7	238.6	(0.1)	59,616
2015				274.4	274.1	(0.8)	62,609
2016					379.6	(4.6)	74,810
Total					\$ 1,413.8		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
Accident Year	For the years ended December 31,						
	2012 ¹	2013 ¹	2014 ¹	2015 ¹	2016		
2012	\$ 247.6	\$ 266.9	\$ 267.3	\$ 267.8	\$ 267.6		
2013		239.4	253.1	253.9	253.7		
2014			224.6	238.3	237.7		
2015				248.5	271.9		
2016					336.7		
Total					\$ 1,367.6		
All outstanding liabilities before 2012, net of reinsurance					0.4		
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 46.6		

¹ Required supplementary information (unaudited)

Property Business

(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2016	
For the years ended December 31,						Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
Accident Year	2012 ¹	2013 ¹	2014 ¹	2015 ¹	2016		
2012	\$ 296.4	\$ 273.4	\$ 260.8	\$ 252.9	\$ 253.5	\$ 1.5	33,236
2013		307.3	283.3	254.3	254.1	3.3	30,578
2014			415.5	389.1	379.7	9.5	40,957
2015				460.0	416.5	31.7	41,788
2016					568.6	98.1	50,159
					Total	\$ 1,872.4	
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
For the years ended December 31,							
Accident Year	2012 ¹	2013 ¹	2014 ¹	2015 ¹	2016		
2012	\$ 178.0	\$ 229.7	\$ 242.4	\$ 248.4	\$ 250.2		
2013		185.1	234.2	244.9	249.5		
2014			269.2	351.5	365.9		
2015				280.3	372.8		
2016					415.2		
					Total	\$ 1,653.6	
					All outstanding liabilities before 2012, net of reinsurance	5.9	
					Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 224.7	

¹ Required supplementary information (unaudited)

Subsequent to the date of acquisition, Progressive and ASI have worked together to refine the methodologies used by ASI in establishing their loss and LAE reserves. Therefore, past experience may not be indicative of future performance.

The following table reconciles the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses:

(millions)	2016
Net outstanding liabilities	
Personal Lines	
Agency, Liability	\$ 3,555.9
Agency, Physical Damage	30.1
Direct, Liability	3,219.1
Direct, Physical Damage	11.2
Commercial Lines	
Liability	1,675.3
Physical Damage	46.6
Property	224.7
Other business	37.1
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	8,800.0
Reinsurance recoverable on unpaid claims	
Personal Lines	
Agency, Liability	724.5
Agency, Physical Damage	0
Direct, Liability	724.3
Direct, Physical Damage	0
Commercial Lines	
Liability	59.5
Physical Damage	0
Property	132.7
Other business	154.9
Total reinsurance recoverable on unpaid claims	\$ 1,795.9
Unallocated claims adjustment expense related to:	
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	767.0
Reinsurance recoverable on unpaid claims	5.1
Total gross liability for unpaid claims and claim adjustment expense	\$ 11,368.0

The following table shows the average historical claims duration as of December 31, 2016 :

(Required Supplementary Information - Unaudited)

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance	Years				
	1	2	3	4	5
Personal Lines					
Agency, Liability	48.5%	30.6%	11.2%	5.2%	2.1%
Agency, Physical Damage	98.3%	1.8%	(0.1)%	—%	—%
Direct, Liability	47.6%	31.0%	11.6%	5.2%	2.2%
Direct, Physical Damage	99.5%	0.6%	(0.1)%	(0.1)%	—%
Commercial Lines					
Liability	26.9%	28.9%	19.2%	11.3%	5.5%
Physical Damage	91.7%	6.8%	0.1%	0.1%	(0.1)%
Property	70.9%	21.1%	4.3%	2.1%	0.7%

7. REINSURANCE

The effect of reinsurance on premiums written and earned for the years ended December 31, was as follows:

(millions)	2016		2015		2014	
	Written	Earned	Written	Earned	Written	Earned
Direct premiums	\$ 23,941.9	\$ 23,111.2	\$ 21,086.5	\$ 20,454.1	\$ 18,914.8	\$ 18,648.4
Ceded premiums:						
Regulated plans	(439.4)	(425.1)	(358.0)	(362.6)	(251.9)	(241.4)
Non-Regulated plans	(149.0)	(212.1)	(164.5)	(192.4)	(8.3)	(8.5)
Total ceded premiums	(588.4)	(637.2)	(522.5)	(555.0)	(260.2)	(249.9)
Net premiums	\$ 23,353.5	\$ 22,474.0	\$ 20,564.0	\$ 19,899.1	\$ 18,654.6	\$ 18,398.5

The Regulated plans primarily include the following:

- Federal reinsurance plan
 - National Flood Insurance Program (NFIP)
- State-provided reinsurance facilities
 - Michigan Catastrophic Claims Association (MCCA)
 - North Carolina Reinsurance Facility (NCRF)
 - Florida Hurricane Catastrophe Fund (FHCF)
- State-mandated involuntary plans
 - Commercial Automobile Insurance Procedures/Plans (CAIP)

The Non-Regulated plans primarily include amounts ceded on Property business under catastrophic and quota share reinsurance agreements. During 2016, ARX terminated its quota share reinsurance agreement.

During 2016, ceded written premiums increased 13% , partially reflecting reinsurance coverage on a pilot program we launched during the year to provide commercial auto insurance coverage to an Uber Technologies subsidiary in Texas. We are reinsuring this coverage to minimize our exposure. In addition, we recognized a full year of ceded premiums on the catastrophe reinsurance held by ASI, compared to nine months in 2015, which was partially offset by ASI's termination of a quota share reinsurance contract.

Losses and loss adjustment expenses were net of reinsurance ceded of \$764.4 million in 2016 , \$457.3 million in 2015 , and \$322.7 million in 2014 . The increase in losses and loss adjustment expenses ceded in 2016, compared to the prior years, is primarily driven by the impact of catastrophic flooding events on the business serviced by ARX, as part of its participation in NFIP.

Our prepaid reinsurance premiums and reinsurance recoverables were comprised of the following at December 31:

(\$ in millions)	Prepaid Reinsurance Premiums				Reinsurance Recoverables			
	2016		2015		2016		2015	
Regulated plans:								
MCCA	\$ 36.5	21%	\$ 31.4	16%	\$ 1,452.7	77%	\$ 1,217.6	82%
CAIP	40.2	24	37.1	19	170.6	9	134.0	9
NCRF	27.5	16	25.6	13	67.0	4	56.7	4
NFIP	49.1	29	45.0	22	78.5	4	10.4	1
Other	0.1	0	0	0	3.5	0	2.8	0
Total Regulated plans	153.4	90	139.1	70	1,772.3	94	1,421.5	96
Non-Regulated plans:								
Property	3.2	2	52.6	26	62.9	3	35.5	2
Other	13.9	8	7.6	4	49.6	3	31.8	2
Total Non-Regulated plans	17.1	10	60.2	30	112.5	6	67.3	4
Total	\$ 170.5	100%	\$ 199.3	100%	\$ 1,884.8	100%	\$ 1,488.8	100%

The year-over-year decrease in the prepaid reinsurance premiums in the Property business primarily reflects ARX's termination of its quota share reinsurance agreement and the disposition of an insurance subsidiary that wrote commercial property insurance that was reinsured.

The increase in reinsurance recoverables during 2016 reflects both new claims and development under the MCCA program, along with recoverables under the NFIP resulting from the severe flooding in Louisiana and under reinsurance provided in connection with a catastrophe bond transaction.

Reinsurance contracts do not relieve us from our obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to us. Our exposure to losses from the failure of Regulated plans is minimal, since these plans are funded by the federal government or by mechanisms supported by the insurance companies in the applicable state. We evaluate the financial condition of our other reinsurers and monitor concentrations of credit risk to minimize our exposure to significant losses from reinsurer insolvencies.

8. STATUTORY FINANCIAL INFORMATION

Consolidated statutory surplus was \$8,560.0 million and \$7,575.5 million at December 31, 2016 and 2015, respectively. Statutory net income was \$1,022.3 million, \$1,333.1 million, and \$1,289.5 million for the years ended December 31, 2016, 2015, and 2014, respectively.

At December 31, 2016, \$722.7 million of consolidated statutory surplus represented net admitted assets of our insurance subsidiaries and affiliates that are required to meet minimum statutory surplus requirements in such entities' states of domicile. The companies may be licensed in states other than their states of domicile, which may have higher minimum statutory surplus requirements. Generally, the net admitted assets of insurance companies that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the companies are licensed.

During 2016, the insurance subsidiaries paid aggregate cash dividends of \$389.5 million to their parent company. Based on the dividend laws currently in effect, the insurance subsidiaries could pay aggregate dividends of \$1,161.5 million in 2017 without prior approval from regulatory authorities, provided the dividend payments are not made within 12 months of previous dividends paid by the applicable subsidiary.

9. EMPLOYEE BENEFIT PLANS

Except to the extent specifically included, references in this *Note 9* to Progressive refer to The Progressive Corporation and its subsidiaries other than ARX and its subsidiaries, and references to ARX refer to ARX and its subsidiaries. ARX maintains employee benefit plans that are separate from the plans that cover employees of The Progressive Corporation's other subsidiaries.

Retirement Plans Progressive has a defined contribution pension plan (401(k) Plan) that covers most of its employees who are United States residents and have been employed with the company for at least 30 days. Under Progressive's 401(k) Plan, we match up to a maximum of 6% of an employee's eligible compensation contributed to the plan. Employee and company matching contributions are invested, at the direction of the employee, in a number of investment options available under the plan, including various mutual funds, a self-directed brokerage option, and a Progressive common stock fund. Progressive's common stock fund is an employee stock ownership program (ESOP) within the 401(k) Plan. At December 31, 2016, the ESOP held 25.2 million of our common shares, all of which are included in shares outstanding. Dividends on these shares are reinvested in common shares or paid out in cash, at the election of the participant, and the related tax benefit is recorded as part of our tax provision.

Matching contributions made by Progressive for its 401(k) Plan were \$85.6 million, \$78.4 million, and \$74.8 million for the years ended December 31, 2016, 2015, and 2014, respectively.

ARX employees are covered by separate qualified defined contribution plans. Matching contributions of up to 6% of each employee's eligible compensation are made each pay period. Contributions to these plans for the year ended December 31, 2016 and the nine months ended December 31, 2015 (the period of time subsequent to The Progressive Corporation acquiring a controlling interest in ARX) were \$1.2 million and \$0.7 million, respectively.

Postemployment Benefits Progressive provides various postemployment benefits to former or inactive employees who meet eligibility requirements, and to their beneficiaries and covered dependents. Postemployment benefits include salary continuation and disability-related benefits, including workers' compensation and, if elected, continuation of health-care benefits for specified limited periods. The liability for these benefits was \$21.7 million and \$22.6 million at December 31, 2016 and 2015, respectively.

Postretirement Benefits Progressive provides postretirement health and life insurance benefits to all employees who met age and length of service requirements at December 31, 1988. At December 31, 2016, there are approximately 100 people who are eligible for these postretirement benefits. Progressive's funding policy for these benefits is to contribute annually, to a 501(c)(9) trust, the maximum amount that can be deducted for federal income tax purposes.

Incentive Compensation Plans – Employees Progressive's incentive compensation programs include both non-equity incentive plans (cash) and equity incentive plans. Progressive's cash incentive compensation includes a cash bonus program for a limited number of senior executives and Progressive's Gainsharing program for other employees; the structures of these programs are similar in nature. Progressive's equity incentive compensation plans provide for the granting of restricted stock awards and restricted stock unit awards (collectively, "restricted equity awards") to key members of management. Since 2010, Progressive has only issued restricted stock units as the form of equity compensation.

ARX provides cash bonuses to its employees, both annual and periodic, and has an equity compensation plan under which it has granted stock option awards, exercisable for shares of ARX common stock, to certain of its key employees. These stock option awards include both nonqualified and incentive stock options; all such stock options are subject to the put and call provisions of the ARX stockholders' agreement (See *Note 15 – Redeemable Noncontrolling Interest*). As a result of these provisions, and the determination that the ultimate settlement of these awards would be in cash, the ARX stock options are treated as liability awards for accounting purposes.

The amounts charged to income for Progressive and ARX incentive compensation plans for the years ended December 31, were:

(millions)	2016		2015		2014	
	Pretax	After Tax	Pretax	After Tax	Pretax	After Tax
Non-equity incentive plans – cash	\$ 386.8	\$ 251.4	\$ 337.7	\$ 219.5	\$ 266.2	\$ 173.0
Equity incentive plans:						
Equity awards	80.9	52.6	64.5	41.9	51.4	33.4
Liability awards	4.3	2.8	1.7	1.1	0	0

The increase in expense for the equity awards during 2016 primarily reflects an increase in management's expectation of the percentage of certain performance-based awards that will ultimately vest (discussed below). For the liability awards, the increase reflects both revisions to the Black-Scholes values during the year, as well as recognizing 12 months of expense in 2016, compared to 9 months in 2015 (the period in which Progressive had a controlling financial interest in ARX).

Progressive's 2003 Incentive Plan has expired, and no new awards may be made under this plan; all awards granted prior to the plan's expiration have vested, been forfeited, or expired, prior to December 31, 2015. Progressive's 2010 Equity Incentive Plan and 2015 Equity Incentive Plan, which provide for the granting of equity-based compensation to officers and other key employees, originally authorized awards for up to 18.0 million shares and up to 13.0 million shares, respectively.

The restricted equity awards are issued as either time-based or performance-based awards. All restricted stock units are settled at or after vesting in Progressive common shares from existing treasury shares on a one-to-one basis. The time-based awards vest in equal installments upon the lapse of specified periods of time, typically three, four, and five years.

The performance-based awards were granted to approximately 45 Progressive executives and senior managers in 2016 in addition to their time-based awards, to provide additional incentive to achieve pre-established profitability and growth targets, relative investment performance, or specific growth measures.

Vesting of performance-based awards is contingent upon the achievement of predetermined performance goals within specified time periods. The targets for the performance-based awards, as well as the number of units that ultimately may vest, vary by grant. All performance-based awards include a specified number of units that will vest if performance meets a specified target and minimum performance goals. If at least the minimum performance goals are achieved, the range at which an award can vest is determined by the type of measurement goals included in the award, as follows:

Performance Measurement	Year(s) of Grant	Vesting range (as a percentage of target)
Growth of our personal and commercial auto businesses, compared to market	2013-2016	0-250%
	2012	0-200%
Investment results relative to peer group	2012-2016	0-200%
Growth in percentage of auto policies bundled with other specified types of policies (granted to two senior executive officers)	2015	0% or 100-200%
Unit growth in a particular customer segment (granted to nine senior level employees)	2016	85-150%

Generally, time-based and performance-based equity awards are expensed pro rata over their respective vesting periods based on the market value of the awards at the time of grant. Performance-based equity awards that contain variable vesting criteria are expensed based on management's expectation of the percentage of the award, if any, that will ultimately vest. These estimates can change periodically throughout the measurement period.

A summary of all employee restricted equity award activity during the years ended December 31, follows:

	2016		2015		2014	
	Number of Shares ¹	Weighted Average Grant Date Fair Value	Number of Shares ¹	Weighted Average Grant Date Fair Value	Number of Shares ¹	Weighted Average Grant Date Fair Value
Restricted Equity Awards						
Beginning of year	7,725,227	\$ 23.37	9,051,564	\$ 21.27	9,918,575	\$ 20.13
Add (deduct):						
Granted ²	1,870,660	31.54	2,489,976	25.20	3,542,984	19.32
Vested	(2,422,700)	21.50	(3,682,644)	19.53	(4,228,673)	16.99
Forfeited	(221,814)	24.64	(133,669)	21.63	(181,322)	20.75
End of year ^{3,4}	6,951,373	\$ 26.18	7,725,227	\$ 23.37	9,051,564	\$ 21.27

¹ Includes restricted stock units; 2015 and 2014 also include restricted stock. Upon vesting, all units will be converted on a one-for-one basis into Progressive common shares funded from existing treasury shares. All performance-based awards are included at their target amounts.

² We reinvest dividend equivalents on restricted stock units. For 2016, 2015, and 2014, the number of units "granted" shown in the table above includes 165,045, 196,947, and 538,749 of dividend equivalent units, respectively, at a weighted average grant date fair value of \$0, since the dividends were factored into the grant date fair value of the original grant.

³ At December 31, 2016, the number of shares included 1,892,924 performance-based units at their target amounts. We expect 3,186,065 units to vest based upon our current estimates of the likelihood of achieving the pre-determined performance goals applicable to each award.

⁴ At December 31, 2016, the total unrecognized compensation cost related to unvested equity awards was \$86.4 million, which includes performance-based awards at their currently estimated vesting value. This compensation expense will be recognized into the income statement over the weighted average vesting period of 2.1 years.

The aggregate fair value of the restricted equity awards that vested during the years ended December 31, 2016, 2015, and 2014, was \$77.0 million, \$105.4 million, and \$109.6 million, respectively, based on the actual stock price on the applicable vesting date.

As a result of the put and call rights described in *Note 15 – Redeemable Noncontrolling Interest*, all outstanding stock options awarded to ARX employees prior to April 1, 2015, are treated as liability awards for accounting purposes; however, the awards maintain the specific features per the original award agreements. The value of each option is based upon our good faith estimate of the fair market value as of the end of the reporting period and the pro rata expense is recognized.

A summary of all ARX employee stock option activity since acquisition, follows:

Options Outstanding	2016		2015	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Beginning of year	24,995	\$ 526.46	NA	NA
At acquisition date 4/1/2015	NA	NA	26,000	\$ 513.72
Add (deduct):				
Exercised ¹	0	0	(1,005)	197.01
End of year	24,995	\$ 526.46	24,995	\$ 526.46
Exercisable, end of year	16,995	\$ 438.77	12,995	\$ 386.69

NA = Not Applicable

¹ At the time of exercise in 2015, the value earned by the option holders was \$1.1 million .

Non-Vested Options Outstanding	2016		2015	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Beginning of year	12,000	\$ 677.81	NA	NA
At acquisition date 4/1/2015	NA	NA	14,800	\$ 675.55
Add (deduct):				
Vested	(4,000)	607.95	(2,800)	665.85
End of year ¹	8,000	\$ 712.74	12,000	\$ 677.81

NA = Not Applicable

¹ At December 31, 2016 and 2015, the remaining unrecognized compensation cost related to unvested options was \$1.6 million and \$2.9 million , respectively, and the remaining weighted average vesting period on the unvested awards was 1.36 years and 1.72 years, respectively.

Incentive Compensation Plans – Directors Progressive's 2003 Directors Equity Incentive Plan, which provides for the granting of equity-based awards, including restricted stock awards, to non-employee directors, originally authorized awards for up to 1.4 million shares.

Beginning in 2016, The Progressive Corporation provided their non-employee directors an option as to their form of compensation for serving as members of the Board of Directors. The directors can elect either to only receive restricted stock awards or a combination of restricted stock awards and cash. Prior to 2016, The Progressive Corporation granted restricted stock awards as the sole form of compensation to non-employee directors.

The restricted stock awards are issued as time-based awards. The vesting period (i.e., requisite service period) is typically 11 months from the date of each grant. To the extent a director is newly appointed during the year, or a director's committee assignments change, the vesting period may be shorter, but always at least equal to six months, one day as required by the terms of the plan. Both the restricted stock awards and cash, if elected, are expensed pro rata over their respective vesting periods based on the market value of the awards at the time of grant.

A summary of all directors' restricted stock activity during the years ended December 31, follows:

Restricted Stock	2016		2015		2014	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Beginning of year	89,427	\$ 27.23	81,579	\$ 25.45	93,254	\$ 26.19
Add (deduct):						
Granted	55,839	33.24	89,427	27.23	90,649	25.44
Vested	(89,427)	27.23	(81,579)	25.45	(93,254)	26.19
Forfeited	0	0	0	0	(9,070)	25.36
End of year	55,839	\$ 33.24	89,427	\$ 27.23	81,579	\$ 25.45

The aggregate fair value of the restricted stock vested, during the years ended December 31, 2016, 2015, and 2014, was \$3.0 million, \$2.2 million, and \$2.2 million, respectively, based on the actual stock price at time of vesting.

Deferred Compensation The Progressive Corporation Executive Deferred Compensation Plan (Deferral Plan) permits eligible Progressive executives to defer receipt of some or all of their annual bonuses and all of their annual equity awards. Deferred cash compensation is deemed invested in one or more investment funds, including Progressive common shares, offered under the Deferral Plan and elected by the participant. All Deferral Plan distributions attributable to deferred cash compensation will be paid in cash.

For all equity awards granted in or after March 2005, and deferred pursuant to the Deferral Plan, the deferred amounts are deemed invested in our common shares and are ineligible for transfer to other investment funds in the Deferral Plan; distributions of these deferred awards will be made in Progressive common shares. For all restricted stock awards granted prior to that date, the deferred amounts are eligible to be transferred to any of the investment funds in the Deferral Plan; distributions of these deferred awards will be made in cash. We reserved 11.1 million of our common shares for issuance under the Deferral Plan. An irrevocable grantor trust has been established to provide a source of funds to assist us in meeting our liabilities under the Deferral Plan.

The Deferral Plan Irrevocable Grantor Trust account held the following assets at December 31:

(millions)	2016	2015
Progressive common shares ¹	\$ 122.2	\$ 108.5
Other investment funds ²	136.9	124.8
Total	\$ 259.1	\$ 233.3

¹ Included 4.7 million and 4.4 million common shares as of December 31, 2016 and 2015, respectively, to be distributed in common shares.

² Amount is included in other assets on the balance sheet.

10. SEGMENT INFORMATION

We write personal and commercial auto insurance, residential property insurance, and other specialty property-casualty insurance and related services. Our Personal Lines segment writes insurance for personal autos and recreational vehicles (our special lines products). The Personal Lines segment is comprised of both the Agency and Direct businesses. The Agency business includes business written by our network of more than 35,000 independent insurance agencies, including brokerages in New York and California, and strategic alliance business relationships (other insurance companies, financial institutions, and national agencies). The Direct business includes business written directly by us online, by phone, or on mobile devices. We operate our personal auto businesses throughout the United States; we sell personal auto physical damage and auto property damage liability insurance in Australia and recognized net premiums earned on our Australian business of \$20.2 million, \$15.9 million, and \$17.1 million, in 2016, 2015, and 2014, respectively.

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. This segment operates in 49 states and is distributed through both the independent agency and direct channels.

Our Property segment writes residential property insurance for homeowners, other property owners, and renters primarily through the independent agency channel in 38 states and the District of Columbia as of December 31, 2016. Our Property business primarily consists of the operations of American Strategic Insurance (ASI) and other insurance subsidiaries. ASI also acts as a participant in the "Write Your Own" program for the National Flood Insurance Program and, as such, writes flood insurance in 40 states and the District of Columbia.

Our other indemnity businesses manage our run-off businesses.

Our service businesses provide insurance-related services, including processing CAIP business, and serving as an agent for homeowners, general liability, and workers' compensation insurance through our programs with ASI and unaffiliated insurance companies.

All segment revenues are generated from external customers and we do not have a reliance on any major customer. All intercompany transactions, including those between Progressive and ASI, are eliminated in consolidation.

We evaluate profitability based on pretax underwriting profit (loss) for the Personal Lines, Commercial Lines, and Property segments and for the other indemnity businesses. Pretax underwriting profit (loss) is calculated as net premiums earned plus fees and other revenues, less: (i) losses and loss adjustment expenses; (ii) policy acquisition costs; and (iii) other underwriting expenses. Service business pretax profit (loss) is the difference between service business revenues and service business expenses.

Expense allocations are based on certain assumptions and estimates primarily related to revenue and volume; stated segment operating results would change if different methods were applied. We do not allocate assets or income taxes to operating segments. In addition, we do not separately identify depreciation expense by segment, and such allocation would be impractical. Companywide depreciation expense was \$137.4 million in 2016, \$103.7 million in 2015, and \$97.1 million in 2014. The accounting policies of the operating segments are the same as those described in *Note 1 – Reporting and Accounting Policies*.

Following are the operating results for the years ended December 31:

(millions)	2016		2015		2014	
	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)
Personal Lines						
Agency	\$ 9,791.7	\$ 492.8	\$ 9,108.6	\$ 713.2	\$ 9,087.0	\$ 683.0
Direct	9,396.5	412.2	8,185.9	403.4	7,474.0	423.4
Total Personal Lines ¹	19,188.2	905.0	17,294.5	1,116.6	16,561.0	1,106.4
Commercial Lines	2,421.3	155.2	1,995.9	318.3	1,837.5	315.8
Property ²	864.5	32.5	609.1	61.3	—	—
Other indemnity ³	0	(1.6)	(0.4)	(1.0)	0	(11.9)
Total underwriting operations	22,474.0	1,091.1	19,899.1	1,495.2	18,398.5	1,410.3
Fees and other revenues ⁴	332.5	NA	302.0	NA	309.1	NA
Service businesses	103.3	11.3	86.3	8.8	56.0	5.1
Investments ⁵	530.0	507.6	567.3	544.5	632.6	613.7
Gains (losses) on extinguishment of debt	1.6	1.6	(0.9)	(0.9)	(4.8)	(4.8)
Interest expense	NA	(140.9)	NA	(136.0)	NA	(116.9)
Consolidated total	\$ 23,441.4	\$ 1,470.7	\$ 20,853.8	\$ 1,911.6	\$ 19,391.4	\$ 1,907.4

NA = Not Applicable

¹ Personal auto insurance accounted for 92% of the total Personal Lines segment net premiums earned in 2016, 2015, and 2014; insurance for our special lines products (e.g., motorcycles, ATVs, RVs, manufactured homes, watercraft, and snowmobiles) accounted for the balance of the Personal Lines net premiums earned.

² We began reporting our Property business as a segment on April 1, 2015, upon acquisition of a controlling interest in ARX; therefore, the year ended 2015 only includes results for nine months and is not comparable to results reported for 2016. During 2016 and 2015, pretax loss also includes \$62.1 million and \$46.8 million, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX. Although this expense is included in our Property segment, it is not reported in the consolidated results of ARX and, therefore, will not affect the value of the net income attributable to the noncontrolling interest.

³ Our professional liability group recognized \$0.4 million of reinstatement premiums paid to our reinsurers pursuant to their reinsurance contracts during 2015. This premium reduction was reflected in our companywide total results.

⁴ Pretax profit (loss) for fees and other revenues are allocated to operating segments.

⁵ 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 years ended December 31:

	2016		2015		2014	
	Underwriting Margin	Combined Ratio	Underwriting Margin	Combined Ratio	Underwriting Margin	Combined Ratio
Personal Lines						
Agency	5.0%	95.0	7.8%	92.2	7.5%	92.5
Direct	4.4	95.6	4.9	95.1	5.7	94.3
Total Personal Lines	4.7	95.3	6.5	93.5	6.7	93.3
Commercial Lines	6.4	93.6	15.9	84.1	17.2	82.8
Property ¹	3.8	96.2	10.1	89.9	NA	NA
Other indemnity ²	NM	NM	NM	NM	NM	NM
Total underwriting operations	4.9	95.1	7.5	92.5	7.7	92.3

NA = Not Applicable; Property business written prior to April 2015 was negligible.

¹ We began reporting our Property business as a segment on April 1, 2015, when we acquired a controlling interest in ARX; therefore, the year ended 2015 only includes results for nine months and is not comparable to results reported for 2016. Included in both 2016 and 2015 is 7.2 points and 7.7 points, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX.

² Underwriting margins/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.

11. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss), including reclassification adjustments by income statement line item, for the years ended December 31, were as follows:

(millions)	Components of Changes in Accumulated Other Comprehensive Income (after tax)						
	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	Loss attributable to NCI
Total at December 31, 2015	\$ 1,234.5	\$ (434.1)	\$ 800.4	\$ 809.0	\$ (8.2)	\$ (1.5)	\$ 1.1
Other comprehensive income (loss) before reclassifications:							
Investment securities	320.5	(112.6)	207.9	207.9	0	0	0
Net non-credit related OTTI losses, adjusted for valuation changes	(0.1)	0.1	0	0	0	0	0
Forecasted transactions	0	0	0	0	0	0	0
Foreign currency translation adjustment	0.6	(0.2)	0.4	0	0	0.4	0
Loss attributable to noncontrolling interest	5.1	(1.9)	3.2	0	0	0	3.2
Total other comprehensive income (loss) before reclassifications	326.1	(114.6)	211.5	207.9	0	0.4	3.2
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(27.1)	9.5	(17.6)	(17.6)	0	0	0
Net realized gains (losses) on securities	146.3	(51.4)	94.9	94.9	0	0	0
Interest expense	1.9	(0.7)	1.2	0	1.2	0	0
Total reclassification adjustment for amounts realized in net income	121.1	(42.6)	78.5	77.3	1.2	0	0
Total other comprehensive income (loss)	205.0	(72.0)	133.0	130.6	(1.2)	0.4	3.2
Total at December 31, 2016	\$ 1,439.5	\$ (506.1)	\$ 933.4	\$ 939.6	\$ (9.4)	\$ (1.1)	\$ 4.3

(millions)	Components of Changes in Accumulated Other Comprehensive Income (after tax)						
	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	Loss attributable to NCI
Total at December 31, 2014	\$ 1,574.0	\$ (550.9)	\$ 1,023.1	\$ 1,021.9	\$ 1.5	\$ (0.3)	\$ 0
Other comprehensive income (loss) before reclassifications:							
Investment securities	(198.7)	67.5	(131.2)	(131.2)	0	0	0
Net non-credit related OTTI losses, adjusted for valuation changes	0	0	0	0	0	0	0
Forecasted transactions	(12.9)	4.5	(8.4)	0	(8.4)	0	0
Foreign currency translation adjustment	(1.8)	0.6	(1.2)	0	0	(1.2)	0
Loss attributable to noncontrolling interest	1.6	(0.5)	1.1	0	0	0	1.1
Total other comprehensive income (loss) before reclassifications	(211.8)	72.1	(139.7)	(131.2)	(8.4)	(1.2)	1.1
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(23.8)	8.4	(15.4)	(15.4)	0	0	0
Net realized gains (losses) on securities	149.7	(52.5)	97.2	97.1	0.1	0	0
Interest expense	1.8	(0.6)	1.2	0	1.2	0	0
Total reclassification adjustment for amounts realized in net income	127.7	(44.7)	83.0	81.7	1.3	0	0
Total other comprehensive income (loss)	(339.5)	116.8	(222.7)	(212.9)	(9.7)	(1.2)	1.1
Total at December 31, 2015	\$ 1,234.5	\$ (434.1)	\$ 800.4	\$ 809.0	\$ (8.2)	\$ (1.5)	\$ 1.1

(millions)	Components of Changes in Accumulated Other Comprehensive Income (after tax)						
	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	Loss attributable to NCI
Total at December 31, 2013	\$ 1,464.1	\$ (512.4)	\$ 951.7	\$ 947.0	\$ 4.1	\$ 0.6	\$ 0
Other comprehensive income (loss) before reclassifications:							
Investment securities	362.1	(126.7)	235.4	235.4	0	0	0
Net non-credit related OTTI losses, adjusted for valuation changes	0	0	0	0	0	0	0
Forecasted transactions	(1.6)	0.6	(1.0)	0	(1.0)	0	0
Foreign currency translation adjustment	(1.3)	0.4	(0.9)	0	0	(0.9)	0
Loss attributable to noncontrolling interest	0	0	0	0	0	0	0
Total other comprehensive income (loss) before reclassifications	359.2	(125.7)	233.5	235.4	(1.0)	(0.9)	0
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(7.7)	2.7	(5.0)	(5.0)	0	0	0
Net realized gains (losses) on securities	255.0	(89.2)	165.8	165.5	0.3	0	0
Interest expense	2.0	(0.7)	1.3	0	1.3	0	0
Total reclassification adjustment for amounts realized in net income	249.3	(87.2)	162.1	160.5	1.6	0	0
Total other comprehensive income (loss)	109.9	(38.5)	71.4	74.9	(2.6)	(0.9)	0
Total at December 31, 2014	\$ 1,574.0	\$ (550.9)	\$ 1,023.1	\$ 1,021.9	\$ 1.5	\$ (0.3)	\$ 0

In an effort to manage interest rate risk, we entered into forecasted transactions on each of The Progressive Corporation's outstanding debt issuances. Upon issuing the Senior Notes (except the 2.45% Senior Notes) and the 6.70% Subordinated Debentures, 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 (see *Note 4 – Debt* for further discussion). We expect to reclassify \$0.4 million (pretax) into income during the next 12 months, related to net unrealized gains on forecasted transactions.

To the extent we repurchased any of our outstanding debt, a portion of the unrealized gain (loss) would need to be recognized as a realized gain (loss) since the cash flow hedge is deemed ineffective. During 2016, 2015, and 2014, we repurchased in the open market a portion of our 6.70% Debentures and reclassified \$0.1 million, \$0.2 million, and \$0.5 million, respectively, on a pretax basis, from accumulated other comprehensive income on the balance sheet to net realized gains on securities on the comprehensive income statement (see *Note 4 – Debt* for further discussion).

12. 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 that challenge certain of the operations of the insurance subsidiaries. Other insurance companies face many of these same issues.

We describe litigation contingencies for which a loss is probable. In addition, we establish accruals for these lawsuits when we can reasonably estimate potential loss exposure, which may include a range of loss. As to lawsuits for which the loss is considered probable but not estimable, we do not establish an accrual. Nevertheless, we continue to evaluate this pending litigation to determine if any losses not deemed probable and estimable become so, at which point we would establish an accrual at our best estimate of the loss or range of loss.

We also describe litigation contingencies for which a loss is reasonably possible (but not probable). When disclosing reasonably possible litigation contingencies, we will also disclose the amount or range of possible loss, if we are able to make that determination. We review all reasonably possible losses on an ongoing basis to determine whether the likelihood of incurring a loss has become probable, or whether the circumstances have changed such that we may now reasonably estimate a range of loss.

We may also be exposed to litigation contingencies that are remote. Remote litigation contingencies are those for which the likelihood of a loss is slight at period end. We do not disclose, or establish accruals for, remote litigation contingencies, but we evaluate these contingencies on an ongoing basis to determine whether the likelihood of a loss has increased.

Each year, certain of our pending litigation matters are brought to conclusion and/or settlement. Many of these concluded matters involve the same or similar fact patterns as the matters described below. For cases that have settled, but for which settlement is not complete, an accrual is established at our best estimate of the loss exposure. We regularly review these and other accruals to ensure they are adequate, and that there is not the possibility of material losses in excess of our accruals.

Settlements that are complete are fully reflected in our financial statements. The amounts accrued and/or paid for settlements during the periods presented were not material to our consolidated financial condition, cash flows, or results of operations.

The pending lawsuits summarized below are in various stages of development, and the outcomes are uncertain at this time. At period end, except to the extent an immaterial accrual has been established, we do not consider the losses from these pending cases to be both probable and estimable, and we are unable to estimate a range of loss at this time. It is not possible to determine loss exposure for a number of reasons, including, without limitation, one or more of the following: liability appears to be remote; putative class action lawsuits generally pose immaterial exposure until a class is actually certified, which, historically, has not been granted by the courts in the vast majority of our cases in which class certification has been sought; class definitions are often indefinite and preclude detailed exposure analysis; and complaints rarely state an amount sought as relief, and when such amount is stated, it is often a function of pleading requirements and may be unrelated to the potential exposure.

We plan to contest these suits vigorously, but may pursue settlement negotiations in some cases, if appropriate. In the event that any one or more of these cases results in a substantial judgment against, or settlement by, us or if our accruals (if any) prove to be inadequate, the resulting liability could have a material adverse effect on our consolidated financial condition, cash flows, and/or results of operations. Based on information currently known, we do not believe that the outcome of any pending cases described below will have a material impact on our consolidated financial condition, cash flows, and/or results of operations.

At December 31, 2016, pending lawsuits that challenge certain of the operations of the vehicle insurance subsidiaries included:

- Putative class actions:
 - alleging we sell or charge insureds for illusory coverage or coverage lower than amounts allowed by law for personal injury protection (PIP) coverage, uninsured motorist/underinsured motorist coverage and other coverages and pay related claims at levels lower than allowed by law.
 - challenging our practices in physical damage claims relating to how these claims are handled, adjusted and ultimately paid.
 - challenging our practice in Florida of adjusting PIP and first-party medical payments.
 - challenging our adjustment of medical bills submitted by insureds in bodily injury claims.
 - challenging the manner in which we grant a discount for anti-theft devices.
 - challenging general claim practices such as subrogation practices, interest payments in arbitration awards, use of deductibles, setting off certain claim payments based on other coverages and payments, and other claim practices.
- Certified or conditionally certified class action lawsuits:
 - alleging that we undervalued total loss claims through the use of certain valuation tools.
 - alleging that we fail to provide proper uninsured motorist coverage.
 - challenging our adjustment of medical bills submitted by insureds in bodily injury claims.
- *Qui tam* lawsuits alleging we did not comply with purported obligations to reimburse Medicare for medical payments made to Medicare beneficiaries.

13. COMMITMENTS AND CONTINGENCIES

We have certain noncancelable operating lease commitments with lease terms greater than one year for property and computer equipment. The minimum commitments under these agreements at December 31, 2016 , were as follows:

(millions)	Commitments
2017	\$ 49.8
2018	45.1
2019	32.6
2020	17.0
2021	8.1
Thereafter	2.3
Total	\$ 154.9

Some of the leases have options to renew at the end of the lease periods. The expense we incurred for the leases disclosed above, as well as other operating leases that may be cancelable or have terms less than one year, was:

(millions)	Expense
2016	\$ 72.9
2015	66.6
2014	63.4

We also have certain noncancelable purchase obligations. The minimum commitment under these agreements at December 31, 2016 , was \$481.8 million .

During 2016, the insurance operations of ARX entered into several multiple-layer property catastrophe excess of loss reinsurance contracts with various reinsurers with terms ranging from one to three years. The minimum commitment under these contracts was \$100.5 million at December 31, 2016.

As of December 31, 2016 , we had no open investment funding commitments; we had no uncollateralized lines or letters of credit as of December 31, 2016 or 2015 .

14. 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 performance factor (Gainshare factor), determined during 2016 and prior year by reference to the Agency auto, Direct auto, special lines, and Commercial Lines business units, 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 2015 , the Board determined the target percentage for 2016 to be 33-1/3% of annual after-tax underwriting income, which is unchanged from the target percentage in both 2015 and 2014 .

The Gainshare factor can range from zero to two and is determined by comparing our operating performance for the specified business units 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”). For 2016 , the Gainshare factor was 1.67 , compared to 1.60 in 2015 and 1.32 in 2014 .

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. The Board could decide to alter our policy, or not to pay the annual variable dividend, at any time prior to the declaration of the dividend for the year. Such an action by the Board could result from, among other reasons, changes in the insurance marketplace, changes in our performance or capital needs, changes in federal income tax laws, disruptions of national or international capital markets, or other events affecting our business, liquidity, or financial position.

Following is a summary of our shareholder dividends that were declared in the last three years:

(millions, except per share amounts)

Dividend Type	Declared	Paid	Amount	
			Per Share	Total ¹
Annual – Variable	December 2016	February 2017	\$ 0.6808	\$ 395.4
Annual – Variable	December 2015	February 2016	0.8882	519.2
Annual – Variable	December 2014	February 2015	0.6862	404.1

¹ Based on an estimate of shares outstanding as of the record date. For the dividends declared in December 2015 and 2014, we paid \$519.0 million and \$403.6 million, respectively.

15. REDEEMABLE NONCONTROLLING INTEREST

In connection with the April 2015 acquisition of a controlling interest in ARX, The Progressive Corporation entered into a stockholders' agreement with the other ARX stockholders. As part of the stockholders' agreement, the minority ARX shareholders have the right to "put" their ARX shares to Progressive in two installments, one in early 2018 and one in early 2021, and Progressive has the ability to "call" a portion of the outstanding shares shortly thereafter. If these rights are exercised in full when available, our ownership stake in ARX capital stock will exceed 80% in 2018 and will reach 100% in 2021. The purchase prices for shares to be purchased by Progressive pursuant to these put or call rights will be determined by adding (A) the price per share paid at the closing on April 1, 2015, to (B) the product of the change in the fully diluted net tangible book value per share of ARX between December 31, 2014 and December 31, 2017 (for the 2018 put or call purchases) or December 31, 2020 (for the 2021 put or call purchases) times a multiple of between 1.0 and 2.0. The multiple will be determined based on the growth and profitability of ARX's business over the applicable time period, pursuant to criteria included in the stockholders' agreement. Among other provisions, the stockholders' agreement also prohibits ARX from taking a number of actions, including the payment of dividends, without the consent of The Progressive Corporation and two other stockholders.

Since these securities are redeemable upon the occurrence of an event that is not solely within the control of Progressive, we have recorded the redeemable noncontrolling interest as mezzanine equity on our consolidated balance sheets, which represents the minority shares at the current estimated purchase price pursuant to the put and call provisions of the stockholders' agreement. The estimated purchase price is based, in part, on the change in tangible net book value of ARX from December 31, 2014 to the balance sheet dates.

The redeemable noncontrolling interest was initially recorded at a fair value of \$411.5 million, representing the minority shares at the net acquisition price adjusted for the fair value of the put and call rights. The value of the put and call rights on the acquisition date was based on an internally developed modified binomial model. Subsequent changes to the redeemable noncontrolling interest are based on the maximum redemption value at the end of the reporting period, as determined in accordance with the stockholders' agreement.

The changes in the components of redeemable NCI during the year ended December 31, 2016 and 2015, were:

(millions)	December 31, 2016	December 31, 2015
Balance, Beginning of period	\$ 464.9	\$ 0
Fair value at date of acquisition	0	411.5
Net income attributable to NCI	26.2	32.9
Other comprehensive income (loss) attributable to NCI	(3.2)	(1.1)
Purchase of shares from NCI	0	(12.6)
Change in redemption value of NCI	(4.2)	34.2
Balance, End of period	\$ 483.7	\$ 464.9

16. GOODWILL AND INTANGIBLE ASSETS

Goodwill

During 2016, the carrying amount of goodwill increased \$1.8 million as a result of an exchange transaction ARX entered into with a third party. Pursuant to the exchange, ARX acquired 100% of the equity interest in an insurance subsidiary (and an affiliated company) that writes residential property insurance and disposed of 100% of the equity interest in an insurance subsidiary (and an affiliated company) that writes commercial property insurance. The book values of the entities that were acquired and disposed of were approximately equal at the time of the exchange.

There were no goodwill impairment charges recognized during the years ended December 31, 2016 and 2015. Goodwill recorded at December 31, 2016 and 2015 was \$449.4 million and \$447.6 million, respectively.

Intangible Assets

The following table is a summary of the net carrying amount of other intangible assets as of December 31, 2016 and 2015:

(millions)	December 31, 2016		December 31, 2015	
Intangible assets subject to amortization	\$	420.4	\$	482.5
Indefinite-lived intangible assets ¹		12.4		12.4
Total	\$	432.8	\$	494.9

¹ Indefinite-lived intangible assets are comprised of state insurance and agent licenses.

Intangible assets subject to amortization consisted of the following:

(millions) Category	December 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization ¹	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization ¹	Net Carrying Amount
Policies in force	\$ 256.2	\$ 64.1	\$ 192.1	\$ 256.2	\$ 27.5	\$ 228.7
Agency relationships	159.2	19.9	139.3	159.2	8.5	150.7
Software rights	79.1	18.8	60.3	79.1	8.2	70.9
Trade name	34.8	6.1	28.7	34.8	2.6	32.2
Total	\$ 529.3	\$ 108.9	\$ 420.4	\$ 529.3	\$ 46.8	\$ 482.5

¹ Total does not include \$0.6 million of accumulated amortization related to state insurance licenses previously subject to amortization.

Amortization expense was \$62.1 million and \$46.8 million for the years ended December 31, 2016 and 2015, respectively. No amortization expense was incurred on intangible assets subject to amortization prior to the ARX acquisition on April 1, 2015.

The estimated aggregate amortization on these intangible assets for each of the next five years as of December 31, 2016, is as follows:

(millions) Year	Amortization Expense
2017	\$ 62.1
2018	62.1
2019	62.1
2020	60.4
2021	60.1

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of The Progressive Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows, present fairly, in all material respects, the financial position of The Progressive Corporation and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Cleveland, Ohio

March 1, 2017

Management's Report on Internal Control over Financial Reporting

Progressive's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control structure was designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control – Integrated Framework (2013)*, management concluded that our internal control over financial reporting was effective as of December 31, 2016 .

During the fourth quarter 2016 , there were no changes in our internal control over financial reporting identified in the internal control review process that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PricewaterhouseCoopers LLP, an independent registered public accounting firm that audited the financial statements included in this Annual Report, has audited, and issued an attestation report on the effectiveness of, our internal control over financial reporting as of December 31, 2016 ; such report appears herein.

CEO and CFO Certifications

Susan Patricia Griffith, President and Chief Executive Officer of The Progressive Corporation, and John P. Sauerland, Vice President and Chief Financial Officer of The Progressive Corporation, have issued the certifications required by Sections 302 and 906 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations with respect to Progressive's 2016 Annual Report on Form 10-K, including the financial statements provided in this Report. Among other matters required to be included in those certifications, Mrs. Griffith and Mr. Sauerland have each certified that, to the best of their knowledge, the financial statements, and other financial information included in the Annual Report on Form 10-K, fairly present in all material respects the financial condition, results of operations, and cash flows of Progressive as of, and for, the periods presented. See Exhibits 31 and 32 to Progressive's Annual Report on Form 10-K for the complete Section 302 and 906 certifications, respectively.

The Progressive Corporation and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations

Our consolidated financial statements and the related notes, together with the supplemental information, should be read in conjunction with the following discussion and analysis of our consolidated financial condition and results of operations.

I. OVERVIEW

The Progressive Corporation is a holding company that does not have any revenue producing operations, physical property, or employees of its own. The Progressive Group of Insurance Companies consists of our insurance subsidiaries and affiliates. The Progressive Group of Insurance Companies, together with our holding company and subsidiaries and affiliates, comprise what we refer to as Progressive.

We have been offering insurance to consumers since 1937. We estimate that we are the country's fourth largest private passenger auto insurer and the number one writer of commercial auto insurance based on premiums written. Our insurance companies offer personal and commercial auto insurance, residential property insurance, and other specialty property-casualty insurance and related services throughout the United States, as well as personal auto physical damage and auto property damage liability insurance in Australia. Our Personal Lines segment writes insurance for personal autos and recreational vehicles, which we refer to as our special lines products, through more than 35,000 independent insurance agencies and directly to consumers online, on mobile devices, and over the phone. Our Commercial Lines segment offers insurance for cars and trucks owned and/or operated predominantly by small businesses through both the independent agency and direct channels. Our Property segment writes residential property insurance for homeowners, other property owners, and renters predominantly in the independent agency channel. Our underwriting operations, combined with our service and investment operations, make up the consolidated group.

The Progressive Corporation receives cash through subsidiary dividends, security sales, borrowings, and other transactions, and uses these funds to contribute to its subsidiaries (e.g., to support growth), to make payments to shareholders and debt holders (e.g., dividends and interest, respectively), and to repurchase its common shares and debt, as well as for acquisitions and other business purposes that might arise.

During the year, The Progressive Corporation received cash from the following sources:

- Subsidiary dividends - received \$263.5 million of dividends, net of capital contributions, from our insurance and non-insurance subsidiaries, and
- Debt issuance - issued \$500 million of 2.45% Senior Notes due 2027 in August 2016, to take advantage of the low interest rate environment and to increase our financial flexibility.

Consistent with our policy to deploy underleveraged capital for share repurchases and shareholder dividends, and in light of our strong capital position, during 2016, The Progressive Corporation took the following actions:

- Dividends - declared a \$0.6808 per share annual variable dividend, which returned \$395.4 million of capital to our shareholders, and
- Repurchases - repurchased both our common shares and debt securities
 - Shares - bought back 6.1 million of our common shares at a total cost of \$192.5 million
 - Debt - repurchased \$19.8 million principal amount of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067.

We ended 2016 with \$11.1 billion of total capital (debt and equity). We continue to manage our investing and financing activities in order to maintain sufficient capital to support all the insurance we can profitably write, constrained only by our ability to provide high-quality customer service, and deploying underleveraged capital to shareholders.

A. Operating Results

We experienced strong growth across the board in 2016. We ended the year with \$23.4 billion of net premiums written, \$2.8 billion more than we wrote in 2015, which set a new company record for the increase in premiums during a single year. Our companywide policies in force grew 7% year-over-year to end the year with a total of 16.5 million policies in force. At the same time, we met our profitability objective and saw retention improve in both Personal and Commercial Lines as we made progress on our Destination Era strategy.

On a year-over-year basis, net income attributable to Progressive was down 19%, while comprehensive income was up 11%. Net income was \$1.0 billion, or \$1.76 per share, in 2016. Pretax underwriting profitability for the year was down 27%,

reflecting both higher catastrophe losses in 2016 and less favorable prior accident year development, in each case compared to the prior year.

Investment income (e.g., interest and dividends) increased 5% on a year-over-year basis, reflecting an increase in average assets partially offset by lower pretax book yield due to the sharp decline in interest rates available for investing new cash and portfolio turnover during much of the year. Higher other-than-temporary impairment losses in 2016, compared to 2015, contributed to the 55% decrease in net realized gains. The write-downs included \$59.7 million (\$38.8 million after tax) of "other asset" impairments, relating to two renewable energy tax credit investments made during the year, under which the future pretax cash flows are expected to be less than the original carrying value of the assets. As a result of these investments, we also recorded \$58.7 million of federal tax benefits in our income tax provision during 2016, which represented all of the expected tax benefits from these investments.

Comprehensive income was \$1.2 billion, an increase of \$119.1 million from last year, primarily due to unrealized gains on investments, reflecting, in large part, the significant return on our common stock portfolios.

B. Insurance Operations

For 2016, our companywide underwriting profit margin was 4.9%. All of our operating segments were profitable. Our underwriting profitability by segment was 4.7% for Personal Lines, 6.4% for Commercial Lines, and 3.8% for Property. Our special lines products also had a profitable year and favorably impacted our total Personal Lines combined ratio by about 0.6 points.

During the year, on a companywide basis, we recognized 2.5 loss ratio points related to catastrophe losses, which was almost double the point impact of catastrophes on 2015 results. The combined ratios for our Personal Lines and Property businesses were unfavorably impacted by 1.9 points and 19.7 points, respectively, as a results of these catastrophe losses. The catastrophe losses in 2016 were primarily due to severe storms in Florida, Louisiana, Texas, and Colorado, including Hurricane Matthew. According to data collected by the Insurance Services Office, a national aggregator of carrier data, industry losses from severe thunderstorm catastrophes were double the most recent 19-year average based on the state mix of our Property business.

For the year, our companywide prior accident year development was minimal at 0.4 points of favorable impact on our combined ratio, compared to 2015 when we recognized 1.6 points of favorable development. Our overall incurred severity in our personal auto businesses increased about 4%, while frequency increased about 1%, compared to the prior year. Our Commercial Lines profitability was negatively affected by an increase in accident frequency during the summer months, as well as unfavorable prior accident year loss reserve development. We responded quickly by adjusting rates and implementing underwriting restrictions where necessary. These actions aided Commercial Lines profitability for the year but restricted growth in the latter part of the year, as discussed below.

On a year-over-year basis, net premiums written and earned increased 14% and 13%, respectively. Changes in net premiums written are a function of new business applications, premium per policy, and retention.

During 2016, total new personal auto applications increased 13% on a year-over-year basis, including an 18% increase in our Agency auto business and a 9% increase in our Direct auto business, reflecting our improved competitive position in the marketplace from our latest auto product model. The Direct growth was tempered, however, by our reduction in advertising spending during the latter part of the year, as we took actions to ensure our profit margin goals were achieved.

For our Commercial Lines business, new applications increased 11% for the year; however, much of this increase occurred in the first half of the year. For the first six months of 2016, our Commercial Lines new applications grew 22%. As we started to see accident frequency rise, we raised rates and implemented underwriting restrictions mostly during the second half of the year. As a result, new applications increased 8% in third quarter 2016 and decreased 9% in the fourth quarter. We will continue to monitor market conditions and respond appropriately.

Since we did not acquire a controlling interest in ARX Holding Corp. (ARX) until April 2015, full year comparisons are not meaningful. Comparing the amount of new applications that the Property business wrote for the last nine months 2016, on a year-over-year basis, new applications increased 17%. The increase primarily reflects state expansion in the property business written by ARX as well as in Progressive's renters business.

During 2016, on a year-over-year basis, our written premium per policy for both our Agency and Direct auto businesses increased 5%, primarily reflecting rate increases taken during the year. Written premium per policy for our special lines products was relatively flat, compared to last year. Commercial Lines experienced a 10% increase in written premium per policy, which resulted primarily from rate changes as discussed previously. For the Property business, written premium per policy decreased 7%. The decrease primarily reflects the exchange transaction that occurred during 2016, where ARX acquired a residential property insurance company and divested a commercial property insurance company (discussed in more detail under *Results of Operations - Underwriting - Property* section). The written premium per policy on residential business is much lower than the written premium per policy on commercial business.

To 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 continue 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 in our vehicle businesses. We have seen our policy life expectancy increase in Personal Lines, both auto and special lines, as well as our Commercial Lines businesses during 2016. Through our Destination Era initiatives, we are seeing customers bundle their auto coverage with other products more often, which tends to translate to longer relationships with these customers.

C. Investments

The fair value of our investment portfolio was \$ 23.5 billion at December 31, 2016 . 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 our Group II securities (the securities allocated to Group I and II are defined below under *Results of Operations - Investments*). At December 31, 2016 , 18% of our portfolio was allocated to Group I securities and 82% to Group II securities, compared to 20% and 80% , respectively, at December 31, 2015 .

Our investment income generated a pretax book yield of 2.3% for 2016 , compared to 2.4% for 2015 . Our investment portfolio produced a fully taxable equivalent (FTE) total return of 4.0% for 2016 , compared to 1.6% for 2015 . Our fixed-income and common stock portfolios had FTE total returns of 2.9% and 12.8% , respectively, for 2016 , and 1.7% and 0.8% , for 2015 .

At December 31, 2016 , the fixed-income portfolio had a weighted average credit quality of A+ and a duration of 2.2 years, compared to A+ and 1.9 years at December 31, 2015 . During the year, our portfolio duration was as low as 1.8 years from the first quarter through the third quarter. We lengthened our portfolio duration modestly during the fourth quarter in response to higher interest rates. We maintain our fixed-income portfolio strategy of investing in high-quality, liquid securities. 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. Holding Company

The Progressive Corporation received dividends from its subsidiaries, net of capital contributions, of \$263.5 million in 2016 and \$2.1 billion for the three-year period ended December 31, 2016. Regulatory restrictions on subsidiary dividends are described in *Note 8 – Statutory Financial Information*.

During the last three years, we issued \$1.25 billion of senior notes to take advantage of attractive terms in the market and provide additional financial flexibility. The proceeds of these issuances, which were net of \$14.7 million of underwriting discounts and commissions and other expenses, have been and are intended to continued to be used for general corporate purposes.

During the last three years, we repurchased, in the open market, a portion of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures (6.70% Debentures) for a total cost of \$86.4 million, when management believed that the securities were attractively priced and there was adequate capital available for such purpose. Through February 2017, we acquired an additional \$26.3 million in principal amount of our 6.70% Debentures on the open market for a total cost, excluding interest, of \$26.1 million. As a result of these repurchases, we have also been able to reduce our future interest expense. Since the ARX acquisition in April 2015, ARX has repaid \$45.9 million of principal amount of their outstanding debt securities. See Note 4 – Debt and the Liquidity and Capital Resources section below for a further discussion of our debt activity. Our debt-to-total capital (debt plus shareholders' equity, which does not include redeemable noncontrolling interest) ratios at December 31, 2016, 2015, and 2014 were 28.3%, 27.1%, and 23.8%, respectively, and were below our financial policy of maintaining a ratio of less than 30%.

Over the last three years, we also continued our practice of repurchasing our common shares and paying dividends to our shareholders in accordance with our financial policies. As of December 31, 2016, we had 6.6 million shares remaining under our 2011 Board repurchase authorization. The following table shows our share repurchase activity during the last three years:

(millions, except per share amounts)	2016	2015	2014
Total number of shares purchased	6.1	7.3	11.1
Total cost	\$ 192.5	\$ 208.5	\$ 271.4
Average price paid per share	\$ 31.59	\$ 28.41	\$ 24.56

We maintain a policy of paying an annual variable dividend that, if declared, would be payable shortly after the close of the year. See *Note 14 – Dividends* for a further discussion of our annual variable dividend policy. Under this policy we declared dividends in each of the last three years. Following is a summary of our shareholder dividends that were declared in the last three years:

(millions, except per share amounts)			Amount	
Dividend Type	Declared	Paid	Per Share	Total Paid ¹
Annual – Variable	December 2016	February 2017	\$ 0.6808	\$ 395.4
Annual – Variable	December 2015	February 2016	\$ 0.8882	\$ 519.0
Annual – Variable	December 2014	February 2015	\$ 0.6862	\$ 403.6

¹ Amounts paid may differ from the year-end dividend accrual since our accrual was based on an estimate of shares outstanding as of the record date.

B. 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. As primarily an auto insurer, our claims liabilities are generally short in duration. Typically, at any point in time, approximately 50% of our outstanding loss and LAE reserves are paid within the following twelve months and less than 20% are still outstanding after three years. See *Note 6 – Loss and Loss Adjustment Expense Reserves* for further information on the timing of claims payments.

For the three years ended December 31, 2016, operations generated positive cash flows of about \$6.7 billion, and cash flows are expected to remain positive in both the short-term and reasonably foreseeable future. In 2016, operating cash flows increased \$409.3 million, compared to 2015, primarily due to an increase in premiums collected and a reduction in taxes paid, partially offset by an increase in paid losses and an increase in acquisition costs.

As of December 31, 2016, our consolidated statutory surplus was \$8.6 billion, compared to \$7.6 billion at December 31, 2015. Our net premiums written-to-surplus ratio was 2.7 to 1 at year-end 2016 and 2015, compared to 2.9 to 1 at the end of 2014. The decrease from 2014 is due to the fact that our Property business maintains a lower premiums written-to-surplus ratio than we maintain on our vehicle businesses. At year-end 2016, we also had access to \$1.3 billion of securities held in a non-insurance subsidiary, portions of which could be contributed to the capital of our insurance subsidiaries to support growth or for other purposes. We used \$395.4 million of available funds to pay the annual variable dividend in February 2017.

Our insurance subsidiaries' risk-based capital ratios are well in excess of minimum regulatory requirements. These ratios are series of dynamic surplus-related calculations required by the laws of various states that contain a variety of factors that are applied to financial balances based on the degree of certain risks (e.g., asset, credit, and underwriting). Nonetheless, the payment of dividends by our insurance subsidiaries may be subject to certain limitations. See *Note 8 – Statutory Financial Information* for additional information on insurance subsidiary dividends and *Note 15 – Redeemable Noncontrolling Interest* for information on the dividend restriction under the ARX stockholders' agreement.

As of December 31, 2016, we held \$6.4 billion in short-term investments and U.S. Treasury securities. Based on our portfolio allocation and investment strategies, we believe that we have sufficient readily available marketable securities to cover our claims payments in the event our cash flow from operations was negative. See Item 1A, "Risk Factors," in our Form 10-K filed with the Securities and Exchange Commission (SEC) for a discussion of certain matters that may affect our portfolios and capital position.

ARX has total scheduled principal payments of \$25 million in each of the next two years, which we expect will be funded through ARX's operating cash flows.

On and after June 15, 2017, we will have the right, at our discretion, to redeem our outstanding 6.70% Debentures at par, in whole or in part, together with any accrued and unpaid interest. At December 31, 2016, we had \$594.6 million in principal amount outstanding. If we do not choose to redeem at June 15, 2017, the Debentures will convert from their current fixed interest rate to a variable rate equal to the 3-month LIBOR plus 2.0175%. If not so redeemed, the 6.70% Debentures will become due on June 15, 2037, subject to certain limitations set forth in the Debenture documents. We are evaluating our options with respect to the redemption of the 6.70% Debentures and have not made a decision at this time.

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. 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, and other expected capital requirements. The covenants on The Progressive Corporation's 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.

Management views our capital position as consisting of three layers, each with a specific size and purpose:

- The first layer of capital, which we refer to as "regulatory capital," is the amount of capital we need to satisfy state insurance regulatory requirements and support our objective of writing all the business we can write and service, consistent with our underwriting discipline of achieving a combined ratio of 96 or better. This capital is held by our various insurance entities.
- The second layer of capital we call "extreme contingency." While our regulatory capital is, by definition, a cushion for absorbing financial consequences of adverse events, such as loss reserve development, litigation, weather catastrophes, and investment market corrections, we view that as a base and hold additional capital for even more extreme conditions. The modeling used to quantify capital needs for these conditions is extensive, including tens of thousands of simulations, representing our best estimates of such contingencies based on historical experience. This capital is held either at a non-insurance subsidiary of the holding company or in our insurance entities, where it is potentially eligible for a dividend up to the holding company. Regulatory restrictions on subsidiary dividends are discussed in *Note 8 – Statutory Financial Information*.
- The third layer is capital in excess of the sum of the first two layers and provides maximum flexibility to repurchase stock or other securities, satisfy acquisition-related commitments, and pay dividends to shareholders, among other purposes. This capital is largely held at a non-insurance subsidiary of the holding company.

At all times during the last two years, our total capital exceeded the sum of our regulatory capital layer plus our self-constructed extreme contingency layer. At December 31, 2016, we held total capital (debt plus shareholders' equity) of \$11.1 billion, compared to \$10.0 billion at December 31, 2015.

Short-Term Borrowings

During the last three years, we did not engage in short-term borrowings to fund our operations or for liquidity purposes. 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 2016, 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, which was entered into during 2015, had 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 must be repaid on the earlier of the 30th day after the advance or the expiration date of the facility, April 30, 2017. We incurred no debt issuance costs and had no borrowings under either line of credit throughout 2016 or 2015.

We had no open repurchase commitments at December 31, 2016 or 2015. During 2016 and 2015, we entered into repurchase commitment transactions, which were open for a total of three days and four days, respectively. In these transactions, we loaned U.S. Treasury securities to internally approved counterparties in exchange for cash equal to the fair value of the securities. These transactions were entered into as overnight arrangements. On the days that we invested in repurchase transactions in 2016, the largest single outstanding balance was \$240.0 million, which was open for two days; the average daily balance was \$217.0 million. For 2015, the largest single outstanding balance was \$40.4 million, which was open for one day; the average daily balance was \$29.0 million. These investment transactions were entered into to enhance the yield from our fixed-income portfolio and not as a source of liquidity or funding for our operations.

C. Commitments and Contingencies

Contractual Obligations

A summary of our noncancelable contractual obligations as of December 31, 2016, follows:

(millions)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt	\$ 3,171.9	\$ 25.0	\$ 36.3	\$ 500.8	\$ 2,609.8
Interest payments on debt ¹	1,806.5	129.8	220.9	220.2	1,235.6
Operating leases	154.9	49.8	77.7	25.1	2.3
Purchase obligations	481.8	390.9	78.6	6.6	5.7
Catastrophe excess of loss reinsurance contracts ²	100.5	73.8	26.7	0	0
Loss and loss adjustment expense reserves	11,368.0	5,822.0	3,516.5	1,022.7	1,006.8
Total	\$ 17,083.6	\$ 6,491.3	\$ 3,956.7	\$ 1,775.4	\$ 4,860.2

¹ Includes interest on the 6.70% Debentures at the fixed annual rate through, but excluding, June 15, 2017. Amounts also include variable rate interest on the ARX debt for which we made assumptions in calculating the amount of future interest payments. We used the rates in effect as of December 31, 2016, for all future periods. See *Note 4 – Debt* for further discussion on the interest rates and maturity dates.

² During 2016, the insurance operations of ARX entered into several multiple-layer property catastrophe excess of loss reinsurance contracts with various reinsurers with terms ranging from one to three years.

Purchase obligations represent our noncancelable commitments for goods and services (e.g., software licenses, maintenance on information technology equipment, and media placements). Unlike many other forms of contractual obligations, loss and loss adjustment expense (LAE) reserves do not have definitive due dates and the ultimate payment dates are subject to a number of variables and uncertainties. As a result, the total loss and LAE reserve payments to be made by period, as shown above, are estimates based on our recent payment patterns. To further understand our claims payments, see *Note 6 – Loss and Loss Adjustment Expense Reserves*. In addition, we annually publish a comprehensive *Report on Loss Reserving Practices*, which was most recently filed with the SEC on a Form 8-K on August 12, 2016, that further discusses our claims payment development patterns, primarily related to our vehicle businesses. The majority of the loss and LAE reserves in our Property business are paid in less than one year.

During the last three years, the only other significant new contractual commitments we entered outside the ordinary course of business were the issuance of \$500 million of our 2.45% Senior Notes due in 2027, \$400 million of our 3.70% Senior Notes due in 2045, and \$350 million of our 4.35% Senior Notes due in 2044, and the put and call rights included in the ARX stockholders' agreement, as discussed in more detail in *Note 15 – Redeemable Noncontrolling Interest*.

As discussed in the *Liquidity and Capital Resources* section above, we believe that we have sufficient liquid investments, borrowing capability, cash flows, and other capital resources to satisfy these contractual obligations.

Off-Balance-Sheet Arrangements

During the last two years, our off-balance-sheet leverage included derivative positions (as disclosed in *Note 2 – Investments* and the *Derivative Instruments* section of this Management's Discussion and Analysis), operating leases, and purchase obligations (disclosed in the table above and *Note 13 – Commitments and Contingencies*). During 2016 and 2015, we entered into futures contracts on both 5-year and 10-year Treasury notes as a means to manage the overall duration of our fixed-income portfolio. These positions were closed in the same year they were entered in both 2016 and 2015 and we recorded a net \$0.3 million and \$2.5 million realized gain, respectively, on these positions for the period they were open. We did not have any open derivative positions at December 31, 2016 and only held interest rate swaps at December 31, 2015.

III. RESULTS OF OPERATIONS – UNDERWRITING

A. Segment Overview

We report our underwriting operations in three segments: Personal Lines, Commercial Lines, and Property. As a component of our Personal Lines segment, we report our Agency and Direct business results to provide further understanding of our products by distribution channel. Our other indemnity business represents our run-off businesses.

Our Personal Lines business writes insurance for personal autos and recreational vehicles, which are our special lines products, and represented 85% of our total net premiums written for 2016, 86% for 2015, and 90% for 2014. The decrease from 2014 primarily resulted from the acquisition of a controlling interest in ARX in 2015. 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 Australia.

Personal auto represented 92% of our total Personal Lines net premiums written in 2016, 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.

Our 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. Our Commercial Lines business represented 11% of our total net premiums written in both 2016 and 2015, and 10% in 2014. While we continue to write over 90% of our Commercial Lines business through the Agency channel, net premiums written through the Direct channel increased by 14% in 2016.

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 Property business writes residential property insurance (single family homes, condominium unit owners, rental coverage, etc.) for homeowners, other property owners, and renters. Our Property business represented 4% of our total net premiums written for 2016 and 3% for 2015 and primarily consists of the operations of the ARX organization, in which we acquired a controlling interest in the second quarter 2015. ARX wholly owns or controls the insurance companies that we refer to in the aggregate as “ASI.” ASI, principally in the Agency channel, writes residential property insurance in 38 states and the District of Columbia and flood insurance in 40 states and the District of Columbia. Progressive also writes renters insurance in 34 states. Florida and Texas represented about half of the premium volume in the Property business. Property policies are generally written on a 12-month term.

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 three years ended December 31, our underwriting profitability results were as follows:

(\$ in millions)	2016		2015		2014	
	Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)	
	\$	Margin	\$	Margin	\$	Margin
Personal Lines						
Agency	\$ 492.8	5.0%	\$ 713.2	7.8%	\$ 683.0	7.5%
Direct	412.2	4.4	403.4	4.9	423.4	5.7
Total Personal Lines	905.0	4.7	1,116.6	6.5	1,106.4	6.7
Commercial Lines	155.2	6.4	318.3	15.9	315.8	17.2
Property ¹	32.5	3.8	61.3	10.1	—	—
Other indemnity ²	(1.6)	NM	(1.0)	NM	(11.9)	NM
Total underwriting operations	\$ 1,091.1	4.9%	\$ 1,495.2	7.5%	\$ 1,410.3	7.7%

¹ We began reporting our Property business as a segment on April 1, 2015, when we acquired a controlling interest in ARX. For the years ended December 31, 2016 and 2015, amounts include \$62.1 million and \$46.8 million, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX. Although this expense is included in our Property segment, it is not reported in the consolidated results of ARX and, therefore, does not affect the value of the noncontrolling interest and will not affect amounts payable pursuant to the put and call rights under the ARX stockholders' agreement.

² 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.

The lower underwriting profitability earned in 2016, compared to 2015 and 2014, primarily reflects higher catastrophe losses and less favorable prior accident year development. In addition, the Commercial Lines profitability was negatively impacted by an increase in accident frequency during 2016 and unfavorable prior accident year development.

Further underwriting results for our Personal Lines business, including results by distribution channel, the Commercial Lines business, the Property business, and our underwriting operations in total, as defined in *Note 10 – Segment Information*, were as follows:

Underwriting Performance ¹	2016	2015	2014
Personal Lines – Agency			
Loss & loss adjustment expense ratio	75.3	72.6	72.8
Underwriting expense ratio	19.7	19.6	19.7
Combined ratio	95.0	92.2	92.5
Personal Lines – Direct			
Loss & loss adjustment expense ratio	76.8	75.0	74.2
Underwriting expense ratio	18.8	20.1	20.1
Combined ratio	95.6	95.1	94.3
Total Personal Lines			
Loss & loss adjustment expense ratio	76.1	73.7	73.4
Underwriting expense ratio	19.2	19.8	19.9
Combined ratio	95.3	93.5	93.3
Commercial Lines			
Loss & loss adjustment expense ratio	71.9	62.4	61.7
Underwriting expense ratio	21.7	21.7	21.1
Combined ratio	93.6	84.1	82.8
Property			
Loss & loss adjustment expense ratio	63.2	57.3	—
Underwriting expense ratio ²	33.0	32.6	—
Combined ratio ²	96.2	89.9	—
Total Underwriting Operations ³			
Loss & loss adjustment expense ratio	75.1	72.1	72.3
Underwriting expense ratio	20.0	20.4	20.0
Combined ratio	95.1	92.5	92.3
Accident year-Loss & loss adjustment expense ratio ⁴	75.5	73.7	72.4

¹Ratios are expressed as a percentage of net premiums earned; fees and other revenues are deducted from underwriting expenses in the ratio calculations.

²Included in 2016 and 2015, are 7.2 points and 7.7 points, respectively, of amortization expense predominately associated with our acquisition of a controlling interest in ARX. Excluding this expense, the Property business would have reported expense ratios of 25.8 and 24.9 and combined ratios of 89.0 and 82.2 for 2016 and 2015, respectively.

³Combined 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. For the years ended December 31, 2016, 2015, and 2014, these businesses generated an underwriting loss of \$1.6 million, \$1.0 million, and \$11.9 million, respectively.

⁴The accident year ratios include 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)

(millions)	2016	2015	2014
Change in net loss and LAE reserves	\$ 973.2	\$ 702.4	\$ 237.7
Paid losses and LAE	15,906.4	13,639.6	13,068.5
Total incurred losses and LAE	\$ 16,879.6	\$ 14,342.0	\$ 13,306.2

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, for our vehicle businesses, are influenced by inflation and driving patterns, among other factors, some of which are discussed below. In our Property business, claim severity is primarily a function of construction costs and the age of the structure. Accordingly, anticipated changes in these factors are taken into account when we establish premium rates and loss reserves. Loss reserves are estimates of future costs and our reserves are adjusted as underlying assumptions change and information develops. See *Critical Accounting Policies* for a discussion of the effect of changing estimates.

Our total loss and loss adjustment expense ratio increased 3.0 points in 2016 and decreased 0.2 points in 2015, compared to the prior year. Our accident year loss and LAE ratio, which excludes the impact of prior accident year reserve development during each calendar year, increased 1.8 points and 1.3 points in 2016 and 2015, respectively. Several factors that contributed to the year-over-year changes are discussed below and include catastrophe losses, changes in severity and frequency, and prior accident year reserve development. For our Commercial Lines business, the increase in our loss and LAE ratio was due to unfavorable development in 2016, compared to favorable development in the prior year, as well as increases in frequency in our bodily injury coverage.

We experienced severe weather conditions in several areas of the country during each of the last three years. Hail storms, tornadoes, wind, and flooding contributed to catastrophe losses each year. The following table shows catastrophe losses incurred for the years ended December 31:

(\$ in millions)	2016	2015	2014
Vehicle businesses	\$ 381.1	\$ 152.6	\$ 192.2
Property business ¹	170.7	101.9	—
Total catastrophe losses incurred	\$ 551.8	\$ 254.5	\$ 192.2
Increase to combined ratio	2.5 pts.	1.3 pts.	1.0 pts.

¹ Net of reinsurance, if applicable. We began reporting our Property business as a segment on April 1, 2015, when we acquired a controlling interest in ARX; therefore, the year ended 2015 only include results for nine months and is not comparable to results reported for the year ended 2016.

The catastrophe losses in 2016 were primarily due to severe storms in Colorado, Florida, Louisiana, and Texas, including Hurricane Matthew. Although we reinsure most of our Property business against various risks, including, but not limited to, catastrophic losses, in general, the loss and LAE from a single catastrophic event has to exceed \$50 million before we are covered by our property catastrophe excess of loss reinsurance, and in 2016, we had to exceed \$175 million from severe thunderstorms in the aggregate before we would be covered by our catastrophe bond reinsurance. The aggregate severe thunderstorm activity in our Property business was \$204.5 million and, therefore, we recorded a \$29.5 million reinsurance recoverable under the reinsurance provided in connection with the catastrophe bond, including \$9.1 million recorded in January 2017. We have responded, and will continue to respond, promptly to catastrophic events when they occur in order to provide exemplary claims service to our customers.

The following discussion of our severity and frequency trends in our personal auto businesses excludes comprehensive coverage because of its inherent volatility, as it is typically linked to catastrophic losses generally resulting from adverse weather. For our commercial auto products, the reported frequency and severity trends include comprehensive coverage. 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 case reserves) on a calendar-year basis was up over the prior-year periods in the 1% to 4% range for the last three years.

- 2016 - Severity increased about 5% for our personal injury protection (PIP) coverage, about 3% for our property damage coverage, about 4% for collision coverage, and 2% for our bodily injury coverage.

- 2015 - Severity increased about 1% for our PIP coverage, about 3% for our property damage coverage, and about 4% for collision coverage, while severity in our bodily injury coverage was down about 2%.
- 2014 - Severity increased about 7% for our PIP coverage, about 5% for our property damage coverage, and approximately 3%-4% for our bodily injury and collision coverages.

On a calendar-year basis, our commercial auto products incurred severity increased 17% in 2016, compared to a 6% increase in 2015 and a decrease of 6% in 2014, as compared to the prior years. For 2016, in light of the significant growth in Commercial Lines, the increase in the commercial auto liability severity of about 10% on an accident year basis is a more meaningful measure. Almost half of the increase in severity reflects a shift in the mix of business to for-hire trucking, which has higher average severity than the business auto and contractor market tiers.

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 personal auto accidents, on a calendar-year basis, was relatively flat compared to the prior-year periods in both 2016 and 2014 and was up about 2% in 2015.

- 2016 - Our collision coverage had a decrease in frequency of about 1%. Our property damage coverage frequency was relatively flat, while our PIP and bodily injury coverages had an increase in frequency of about 1% and 3%, respectively.
- 2015 - Our property damage and collision coverages had an increase in frequency of about 1%, and approximately 2%-3% for our bodily injury and PIP coverages.
- 2014 - Our bodily injury coverage had a decrease in frequency of about 2%. Frequency in our PIP coverage was down about 1%. Our property damage coverage frequency was relatively flat, while our collision coverage experienced an increase in frequency of about 1%.

On a year-over-year basis, incurred frequency in our Commercial Lines business saw an increase of about 4% for 2016, was relatively flat in 2015, and decreased about 4% in 2014. We began seeing frequency rise about mid-year, with the largest increase in our bodily injury frequency, primarily in the for-hire businesses. Although we cannot be certain of the causes of the increase, we did see an increase in the number of miles driven as a result of the economic growth and a shift in our mix of business towards higher frequency for-hire business market targets.

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, to allow us to reserve more accurately for our loss exposure.

The table below presents the actuarial adjustments implemented and the loss reserve development experienced in the years ended December 31:

(\$ in millions)	2016	2015	2014
ACTUARIAL ADJUSTMENTS			
Reserve decrease (increase)			
Prior accident years	\$ 142.6	\$ 95.1	\$ 90.9
Current accident year	(6.2)	97.0	(81.3)
Calendar year actuarial adjustments	\$ 136.4	\$ 192.1	\$ 9.6
PRIOR ACCIDENT YEARS DEVELOPMENT			
Favorable (unfavorable)			
Actuarial adjustments	\$ 142.6	\$ 95.1	\$ 90.9
All other development	(55.1)	220.0	(66.8)
Total development	\$ 87.5	\$ 315.1	\$ 24.1
(Increase) decrease to calendar year combined ratio	0.4 pts.	1.6 pts.	0.1 pts.

Total development consists of both actuarial adjustments and "all other development." The actuarial adjustments represent the net changes made by our actuarial staff 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

allow them to adjust the reserves to reflect the current costs. For our Property business, 100% of the outstanding reserves are reviewed monthly and, as such, include any development on catastrophe losses as part of the actuarial adjustments. For the vehicle businesses, only a subset of our reserves is reviewed monthly as part of the actuarial adjustment process. Catastrophe losses for the vehicle businesses would be reflected in the all other development, discussed below, to the extent they related to prior year reserves. 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 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 during the last three years. For 2016, we incurred favorable reserve development in both our Personal Lines and Property businesses, which was partially offset by unfavorable IBNR loss reserve development in our Commercial Lines business due to higher severity and frequency of late reported claims than anticipated for accident year 2015. The favorable development incurred in 2015 occurred in all our segments, while for 2014, favorable development in Commercial Lines was slightly higher than the unfavorable development in Agency auto. See *Note 6 – Loss and Loss Adjustment Expense Reserves*, for a more detailed discussion of our prior accident year development.

We continue to focus on our loss reserve analysis, attempting to enhance accuracy and to further our understanding of our loss costs. A detailed discussion of our loss reserving practices, primarily related to our vehicle businesses, can be found in our *Report on Loss Reserving Practices*, which was filed in a Form 8-K on August 12, 2016.

Because we are primarily an insurer of motor vehicles and residential property insurance, our exposure as an insurer of environmental, asbestos, and general liability claims is limited. We have established reserves for these exposures, in amounts that we believe to be adequate based on information currently known. These exposures have not had and are not expected to have a material effect on our liquidity, financial condition, cash flows, or results of operations.

Underwriting Expenses

Our underwriting expense ratio (i.e., policy acquisition costs and other underwriting expenses, less fees and other revenues, expressed as a percentage of net premiums earned) was 0.4 points lower on a year-over-year basis for 2016, compared to 2015, primarily reflecting a decrease in advertising spending in the second half of 2016 to help us achieve our profitability goal.

C. Growth

For our underwriting operations, we analyze growth in terms of both premiums and policies. 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 since it removes the variability due to rate changes or mix shifts, represents all policies under which coverage was in effect as of the end of the period specified.

For the years ended December 31,	2016		2015		2014	
(\$ in millions)	\$	% Growth	\$	% Growth	\$	% Growth
NET PREMIUMS WRITTEN						
Personal Lines						
Agency	\$ 10,107.6	10%	\$ 9,230.1	1%	\$ 9,102.8	5 %
Direct	9,711.9	15%	8,473.5	11%	7,656.4	12 %
Total Personal Lines	19,819.5	12%	17,703.6	6%	16,759.2	8 %
Commercial Lines	2,598.3	20%	2,171.2	15%	1,895.4	7 %
Property	935.7	NA	689.6	NA	NA	NA
Total underwriting operations ¹	\$ 23,353.5	14%	\$ 20,564.0	10%	\$ 18,654.6	8 %
NET PREMIUMS EARNED						
Personal Lines						
Agency	\$ 9,791.7	7%	\$ 9,108.6	0%	\$ 9,087.0	6 %
Direct	9,396.5	15%	8,185.9	10%	7,474.0	11 %
Total Personal Lines	19,188.2	11%	17,294.5	4%	16,561.0	8 %
Commercial Lines	2,421.3	21%	1,995.9	9%	1,837.5	4 %
Property	864.5	NA	609.1	NA	NA	NA
Total underwriting operations ¹	\$ 22,474.0	13%	\$ 19,899.1	8%	\$ 18,398.5	8 %

December 31,	2016		2015		2014	
(thousands)	#	% Growth	#	% Growth	#	% Growth
POLICIES IN FORCE						
Agency auto	5,045.4	7%	4,737.1	0%	4,725.5	(2)%
Direct auto	5,348.3	9%	4,916.2	9%	4,505.5	7%
Total auto	10,393.7	8%	9,653.3	5%	9,231.0	2%
Special lines ²	4,263.1	4%	4,111.4	2%	4,030.9	1%
Personal Lines - total	14,656.8	6%	13,764.7	4%	13,261.9	2%
Commercial Lines	607.9	9%	555.8	8%	514.7	0%
Property	1,201.9	12%	1,076.5	NA	NA	NA

NA= not applicable since we began reporting our Property business as a segment on April 1, 2015, upon acquisition of a controlling interest in ARX; Property business written prior to that date was negligible.

¹ For 2015, total underwriting operations include negative \$0.4 million written and earned premiums from reinstatement premiums paid to the reinsurers of our professional liability group business pursuant to reinsurance contracts.

² Includes insurance for motorcycles, ATVs, RVs, manufactured homes, watercraft, snowmobiles, and similar items.

At year-end 2016, we had a total of 16.5 million policies in force. The increase reflects both an increase in new applications and lengthening retention. For the Property business, part of the increase in policies in force for 2016 reflects the net addition of approximately 96,000 policies during the year, as a result of ARX entering into an exchange transaction (discussed below).

Although new policies are necessary to maintain a growing book of business, we continue to recognize the importance of retaining our current customers as a critical component of our continued growth. As shown in the tables below, we measure retention by policy life expectancy and the renewal ratio (i.e., the percent of policies that came up for renewal during the year that actually renewed). We disclose 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. We also review our customer retention for our personal auto products using a trailing 3-month period. Although using a trailing 3-

month measure does not address seasonality and can reflect more volatility, this measure is more responsive to current experience and can be an indicator of how our retention rates are moving.

To analyze growth, we review new policies, rate levels, and the retention characteristics of our segments.

D. Personal Lines

The following table shows our year-over-year changes for our Personal Lines business:

		Growth Over Prior Year		
		2016	2015	2014
APPLICATIONS				
	New	12%	7 %	1 %
	Renewal	5%	1 %	5 %
WRITTEN PREMIUM PER POLICY - AUTO				
		5%	4 %	3 %
RETENTION MEASURES-AUTO				
	Policy life expectancy			
	Trailing 3-months	3%	5 %	(6)%
	Trailing 12-months	5%	(1)%	0 %
	Renewal ratio	0.0%	0.0 %	0.2 %

In our Personal Lines business, the increase in both new and renewal applications primarily reflected increases in our personal auto products, although our special lines businesses also had an increase in applications on a year-over-year basis for 2016. In the auto businesses, the increase in new applications was primarily attributed to the continued roll out of our latest product model and competitor price increases, while renewal applications reflected the increase that we experienced in policy life expectancy for the year.

We report our Agency and Direct business results separately as components of our Personal Lines segment to provide further understanding of our products by distribution channel.

The Agency Business

	Growth Over Prior Year		
	2016	2015	2014
Auto: new applications	18%	2 %	(7)%
renewal applications	2%	(4)%	3 %
written premium per policy	5%	4 %	4 %
Auto retention measures:			
policy life expectancy - trailing 3-months	5%	5 %	(7)%
trailing 12-months	7%	(2)%	(2)%
renewal ratio	0.1%	(0.1)%	0.1 %

The Agency business includes business written by more than 35,000 independent insurance agencies that represent Progressive, as well as brokerages in New York and California. The significant increase in new application growth for 2016, compared to 2015, was due in part to an increased competitive position in the marketplace this year, generated by the roll out of our current product model and efforts to streamline our onboarding process to accelerate new business production. As a result, we have seen a solid increase in both our Agency auto quotes and conversion rate on a year-over-year basis.

We are continuing to see our retention metrics improve. Although our inflow of new business growth during the year came from all of our consumer market tiers, the growth in our more preferred tiers (e.g., those that own homes or bundle their auto and home coverages) outpaced the growth in our auto only or auto and renters consumer tiers. These trends positively impacted our policy life expectancy and were tangible evidence of benefits from our new auto pricing model and other Destination Era efforts.

The Direct Business

	Growth Over Prior Year		
	2016	2015	2014
Auto: new applications	9 %	13%	10 %
renewal applications	10 %	5%	8 %
written premium per policy	5 %	4%	3 %
Auto retention measures:			
policy life expectancy - trailing 3-months	1 %	5%	(4)%
trailing 12-months	4 %	0%	3 %
renewal ratio	(0.1)%	0.0%	0.5 %

The Direct business includes business written directly by Progressive on the Internet, through mobile devices, and over the phone. Similar to the Agency business, the new application growth in the Direct business was attributable to the continued enhancements to our auto segmentation and underwriting models and Destination Era strategies.

Although both Agency and Direct auto benefited from the next generation of our auto product, the Direct growth was tempered by our reduction to advertising spending during the latter part of the year as we took actions to ensure our profit margin goals were achieved. During the second quarter 2016, we began to see the percentage growth in our Direct quotes decline and, toward the latter part of the year, quotes decreased on a year-over-year basis. Despite the decrease in the number of quotes, we did see that our conversion rate increased during this period. Our policies in force increased in all our consumer market tiers and, like in the Agency channel, experienced the strongest growth in our bundled auto/home customers.

E. Commercial Lines

	Growth Over Prior Year		
	2016	2015	2014
New applications	11%	15%	1%
Renewal applications	7%	0%	1%
Written premium per policy	10%	8%	4%
Policy life expectancy - trailing 12-months	6%	13%	0%

Our Commercial Lines business operates in the business auto, for-hire transportation, contractor, for-hire specialty, tow, and for-hire livery markets and is primarily written in the agency channel. Commercial Lines experienced positive new application growth in 2016. During the first half of 2016, there was a significant increase in our new application growth, reflecting strong demand and improved competitiveness in all of our business market targets. New application growth slowed during the second half of the year, in response to us raising rates and imposing underwriting restrictions, as claims costs increased, which allowed us to focus on targeted growth in more profitable business markets. These rate actions also contributed to the increase in our written premium per policy during the year.

Solid growth in renewal applications and the lengthening of policy life expectancy during 2016 primarily reflects the rate stability and improved competitive position, despite the actions taken during the second half of the year.

F. Property

	Growth Over Prior Year
	2016
New applications	17 %
Renewal applications	7 %
Written premium per policy	(7)%

Note: Property business prior to the April 1, 2015, acquisition of a controlling interest in ARX was negligible. New and renewal application growth was calculated using application counts from the last nine months of 2016, for comparability to application counts from 2015. Written premium per policy growth reflects 12 months of activity for 2016, compared to 9 months for 2015.

New application growth reflects state expansion during 2016 and the impact of an exchange transaction that occurred during the year. During 2016, ARX acquired 100% of the equity interest in an insurance subsidiary (and an affiliated company) that writes residential property insurance in Florida and disposed of 100% of the equity interest in an insurance subsidiary (and an affiliated company) that wrote commercial property insurance in three states. The residential property business we acquired writes significantly more applications, on average, each month, but at much lower rates than the commercial business we disposed. The commercial property business was not strategic to Progressive or ARX and presented a different risk profile from ASI's core residential property business. The exchange allows us to focus on growing the residential Property business.

ASI has exposure to catastrophe losses in the states in which it writes business. To help mitigate these risks, ASI purchases reinsurance from unaffiliated reinsurance companies (most of which are "A" rated by A.M. Best) and from a reinsurance company established as part of a catastrophe bond transaction. In addition, ASI purchases state-mandated hurricane reinsurance in Florida. During 2016, ASI ceded approximately 15% of the direct premiums written by it under these catastrophe reinsurance programs and ceded approximately 8% of direct premium written to the National Flood Insurance Program, compared to 10% and 7%, respectively, during the last nine months of 2015.

G. Other Indemnity

Our other indemnity businesses consist of managing our run-off businesses, including the run-off of our professional liability businesses. We only had three professional liability policies in force as of December 31, 2016, although we continue to process claims on expired policies. The operating losses that we incurred in each of the last three years primarily reflect actuarial reserve increases and adverse loss development on our run-off businesses, to the extent not reinsured.

H. Service Businesses

Our service businesses, which represent less than 0.5% of our total revenues and do not have a material effect on our overall operations, primarily include commercial automobile insurance procedures/plans (CAIP) and commission-based businesses.

I. Litigation

The Progressive Corporation and/or its insurance subsidiaries are named as defendants in various lawsuits arising out of claims made under insurance policies issued by the 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, various Progressive entities are named as defendants in a number of alleged 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 practices in evaluating or paying medical or injury claims or benefits, including, but not limited to, personal injury protection, medical payments, uninsured motorist/underinsured motorist (UM/UIM), and bodily injury benefits; the utilization, content, or appearance of UM/UIM rejection forms; labor rates paid to auto body repair shops; and cases challenging other aspects of our claims or marketing practices or other business operations. Other insurance companies face many of these same issues. During the last three years, we have settled several class action and individual lawsuits. These settlements did not have a material effect on our financial condition, cash flows, or results of operations. See *Note 12 – Litigation* for a more detailed discussion.

J. Income Taxes

A deferred tax asset or liability is a tax benefit or expense that is expected to be realized in a future tax return. At both December 31, 2016 and 2015, we reported net deferred tax liabilities. We determined that we did not need a valuation allowance on our gross deferred tax assets for either year. Although realization of the gross deferred tax assets is not assured, management believes it is more likely than not that the gross 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.

At December 31, 2016 and 2015, we had net current income taxes payable of \$41.2 million and \$25.1 million, respectively, which were reported as part of "other liabilities."

Our effective tax rate was 28% for 2016, compared to 32% and 33% for 2015 and 2014, respectively. The decrease in the effective rate during 2016 reflects \$58.7 million of federal tax benefits resulting from our investments in two renewable energy funds. All of the expected tax benefits from these investments were recorded in our income tax provision during the year.

There were no material changes in our uncertain tax positions.

See *Note 5 – Income Taxes* for further information.

IV. RESULTS OF OPERATIONS – INVESTMENTS

A. Portfolio Summary

At year-end 2016, the fair value of our investment portfolio was \$23.5 billion, approximately 12% greater than at year-end 2015, reflecting operating and investment returns and our debt issuance, which together more than offset our capital expenditures during the year, including share repurchases, debt servicing and repurchases, and shareholder dividends. Our investment income (interest and dividends) increased 5% in 2016 and 11% in 2015, as compared to the prior years, reflecting higher average assets in both periods. In 2016, we recognized \$110.8 million in net realized gains on securities held in our investment portfolios, compared to \$112.7 million and \$224.2 million in 2015 and 2014, respectively. During 2016, we also recorded a write-down of \$59.7 million related to an "other asset" impairment on two renewable energy tax credit fund investments.

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 for certain securities that receive preferential tax treatment (e.g., municipal securities), net realized gains (losses) on securities, and changes in unrealized gains (losses) on investments.

The following summarizes investment results for the years ended December 31:

	2016	2015	2014
Pretax recurring investment book yield	2.3%	2.4%	2.4%
Weighted average FTE book yield	2.6%	2.7%	2.7%
FTE total return:			
Fixed-income securities	2.9%	1.7%	3.2%
Common stocks	12.8%	0.8%	12.6%
Total portfolio	4.0%	1.6%	4.5%

The higher fixed-income returns in 2016, as compared to 2015, reflect a narrowing of credit spreads (additional yield on non-treasury bonds relative to comparable treasury securities similar in maturity), which resulted in increased valuations, despite the rise in benchmark treasury rates. The higher common stock return in 2016, compared to 2015, reflected a higher overall equity market return in 2016.

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

	2016	2015	2014
Fixed-income securities:			
U.S. Treasury Notes	(0.5)%	0 %	(0.3)%
Municipal bonds	2.3 %	4.2 %	6.0 %
Corporate bonds	4.6 %	2.7 %	3.8 %
Commercial mortgage-backed securities	3.9 %	1.7 %	5.1 %
Collateralized mortgage obligations	2.7 %	1.9 %	2.6 %
Other asset-backed securities and home-equity bonds	2.6 %	1.2 %	2.8 %
Agency residential pass-through obligations	1.8 %	0.6 %	NA
Agency debt	(1.6)%	0.2 %	NA
Preferred stocks	11.0 %	0.4 %	11.3 %
Common stocks:			
Indexed	12.4 %	1.8 %	14.3 %
Actively managed	20.8 %	(7.0)%	2.9 %

NA=Not applicable, since we did not hold these security types during 2014.

C. Portfolio Allocation

The composition of the investment portfolio at December 31, was:

(\$ in millions)	Fair Value	% of Total Portfolio	Duration (years)	Rating ¹
2016				
Fixed maturities	\$ 16,243.8	69.2%	2.6	A+
Nonredeemable preferred stocks	853.5	3.6	3.1	BBB-
Short-term investments	3,572.9	15.2	0.2	AA-
Total fixed-income securities	20,670.2	88.0	2.2	A+
Common equities	2,812.4	12.0	na	na
Total portfolio ^{2,3}	\$ 23,482.6	100.0%	2.2	A+
2015				
Fixed maturities	\$ 15,332.2	73.2%	2.1	A+
Nonredeemable preferred stocks	782.6	3.7	2.6	BBB-
Short-term investments	2,172.0	10.4	<0.1	A+
Total fixed-income securities	18,286.8	87.3	1.9	A+
Common equities	2,650.5	12.7	na	na
Total portfolio ^{2,3}	\$ 20,937.3	100.0%	1.9	A+

na = not applicable

¹ Represents ratings at December 31, 2016 and 2015 . Credit quality ratings are assigned by nationally recognized statistical rating organizations. 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 would assign an internal rating of AAA-.

² Our portfolio reflects the effect of unsettled security transactions and collateral on open derivative positions; at December 31, 2016 , \$27.8 million was included in "other liabilities," compared to \$23.1 million in "other assets" at December 31, 2015 .

³ The total fair value of the portfolio at both December 31, 2016 and 2015 , included \$1.3 billion 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.

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 investment-grade redeemable preferred stocks with cumulative dividends.

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 tables show the composition of our Group I and Group II securities at December 31, 2016 and 2015 :

(\$ in millions)	Fair Value	% of Total Portfolio
2016		
Group I securities:		
Non-investment-grade fixed maturities	\$ 356.2	1.5%
Redeemable preferred stocks ¹	135.3	0.6
Nonredeemable preferred stocks	853.5	3.6
Common equities	2,812.4	12.0
Total Group I securities	4,157.4	17.7
Group II securities:		
Other fixed maturities ²	15,752.3	67.1
Short-term investments	3,572.9	15.2
Total Group II securities	19,325.2	82.3
Total portfolio	\$ 23,482.6	100.0%
2015		
Group I securities:		
Non-investment-grade fixed maturities	\$ 611.7	2.9%
Redeemable preferred stocks ¹	155.1	0.7
Nonredeemable preferred stocks	782.6	3.7
Common equities	2,650.5	12.7
Total Group I securities	4,199.9	20.0
Group II securities:		
Other fixed maturities ²	14,565.4	69.6
Short-term investments	2,172.0	10.4
Total Group II securities	16,737.4	80.0
Total portfolio	\$ 20,937.3	100.0%

¹ Includes non-investment-grade redeemable preferred stocks of \$78.7 million and \$75.9 million at December 31, 2016 and 2015 , respectively.

² Includes investment-grade redeemable preferred stocks, with cumulative dividends, of \$56.6 million at December 31, 2016 and \$79.2 million at December 31, 2015 .

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 December 31, 2016 , our portfolio had pretax net unrealized gains, recorded as part of accumulated other comprehensive income, of \$ 1,449.1 million , compared to \$ 1,247.8 million at December 31, 2015 .

During the year, the net unrealized gains in our fixed-income portfolio decreased \$17.4 million , the result of valuation declines primarily in our U.S. Treasury and municipal portfolios, in addition to sales of securities with net realized gains primarily in our U.S. Treasury, municipal, corporate, and nonredeemable preferred stock portfolios. The net unrealized gains in our common stock portfolio increased \$218.7 million during 2016 , reflecting changes in the broad equity market during the year, adjusting for net gains recognized on security sales.

See *Note 2 – Investments* for further details on 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. The write-down activity recorded in the comprehensive income statements for the years ended December 31, was as follows:

(millions)	Total Write-downs	Write-downs on Securities Sold	Write-downs on Securities Held at Period End
2016			
Redeemable preferred stocks ¹	\$ 25.4	\$ (0.1)	\$ 25.3
Common equities	1.7	(1.4)	0.3
Total investment portfolio	27.1	(1.5)	25.6
Other assets ²	59.7	0	59.7
Total write-downs	\$ 86.8	\$ (1.5)	\$ 85.3
2015			
Common equities	\$ 23.8	\$ (15.1)	\$ 8.7
2014			
Common equities	\$ 7.9	\$ (0.7)	\$ 7.2

¹ Reflects a change in our intent to hold the securities to a recovery of their respective cost bases.

² Reflects impairments of renewable energy investments under which the future pretax cash flows are expected to be less than the carrying value of the assets.

See *Critical Accounting Policies, Other-Than-Temporary Impairment*, for a complete discussion on our analysis regarding our treatment of OTTI.

Fixed-Income Securities

The fixed-income portfolio is managed internally, with the exception of the ARX portfolio, which was managed externally during 2015, 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 at December 31, were comprised of the following:

(\$ in millions)	2016		2015	
Investment-grade fixed maturities: ¹				
Short/intermediate term	\$ 18,883.7	95.3%	\$ 16,136.0	92.2%
Long term	49.6	0.2	109.3	0.6
Non-investment-grade fixed maturities: ^{1,2}				
Short/intermediate term	866.8	4.4	1,246.3	7.1
Long term	16.6	0.1	12.6	0.1
Total	\$ 19,816.7	100.0%	\$ 17,504.2	100.0%

¹ 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.

² 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 \$434.9 million and \$687.6 million at December 31, 2016 and 2015, respectively.

A primary exposure for the fixed-income portfolio is interest rate risk, which includes the change in value resulting from movements in the underlying market rates of debt securities held. We manage this risk by maintaining the portfolio's duration (a measure of the portfolio's exposure to changes in interest rates) between 1.5 and 5 years. The duration of the fixed-income portfolio was 2.2 years at December 31, 2016, compared to 1.9 years at December 31, 2015, reflecting our preference for shorter duration positioning during times of low interest rates. 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.

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	2016	2015
1 year	25.9 %	28.4 %
2 years	13.4	15.6
3 years	24.2	18.1
5 years	25.8	27.7
10 years	10.9	10.4
20 years	(0.2)	0.1
30 years	0	(0.3)
Total fixed-income portfolio	100.0 %	100.0 %

The negative duration in the 20-year and 30-year categories arises from the variable rate nature of the dividends on some of our preferred stocks. If not called at their call dates, the dividends on these securities will reset from a fixed rate to a floating rate, which could cause these securities to trade at a discount and, therefore, with a negative duration as the securities' valuation will likely rise if the floating rate moves higher.

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, which was successfully maintained during both 2016 and 2015.

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

Rating	2016	2015
AAA	35.7%	37.2%
AA	19.1	14.2
A	15.3	15.3
BBB	24.3	24.7
Non-investment grade/non-rated ¹	5.6	8.6
Total fixed-income portfolio	100.0%	100.0%

¹ The ratings in the table above are assigned by NRSROs. The non-investment grade fixed-income securities based upon our Group I classification represented 3.4% of the total fixed-income portfolio at December 31, 2016, compared to 3.8% at December 31, 2015.

The changes in credit quality profile from December 31, 2015 were the result of transactions in our portfolio that shifted the mix within the various credit categories.

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 December 31, 2016 and 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 will have 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 manage these risks. During 2016, 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 we believe that it is sufficient to meet expected near-term liquidity requirements. The short-to-intermediate duration of our portfolio provides a source of liquidity, as we expect approximately \$3.8 billion, or 27%, of principal repayment from our fixed-income portfolio, excluding

U.S. Treasury Notes and short-term investments, during 2017 . Cash from interest and dividend payments provides an additional source of recurring liquidity.

The duration of our U.S. government obligations, which are included in the fixed-income portfolio, was comprised of the following at December 31, 2016 :

(\$ in millions)	Fair Value	Duration (years)
U.S. Treasury Notes		
Less than two years	\$ 259.5	1.4
Two to five years	1,943.0	3.8
Five to ten years	667.6	6.8
Total U.S. Treasury Notes	\$ 2,870.1	4.3

As of December 31, 2016 , we had no interest rate swaps or treasury futures.

ASSET-BACKED SECURITIES

Included in the fixed-income portfolio are asset-backed securities, which were comprised of the following at December 31 :

(\$ in millions)	Fair Value	Net Unrealized Gains (Losses)	% of Asset-Backed Securities	Duration (years)	Rating (at period end)
2016					
Residential mortgage-backed securities:					
Prime collateralized mortgage obligations	\$ 609.9	\$ (3.9)	10.0%	0.9	A
Alt-A collateralized mortgage obligations ¹	170.8	(0.4)	2.8	1.0	BBB-
Collateralized mortgage obligations	780.7	(4.3)	12.8	0.9	A-
Home equity (sub-prime bonds)	678.0	13.0	11.1	<0.1	BBB
Residential mortgage-backed securities	1,458.7	8.7	23.9	0.4	BBB+
Agency residential pass-through obligations	40.6	(0.6)	0.7	4.1	AAA
Commercial mortgage-backed securities:					
Commercial mortgage-backed securities	2,115.2	(13.7)	34.6	3.7	A-
Commercial mortgage-backed securities: interest only	138.2	0.2	2.3	2.4	AAA-
Commercial mortgage-backed securities	2,253.4	(13.5)	36.9	3.7	A
Other asset-backed securities:					
Automobile	1,074.9	(0.4)	17.6	0.8	AAA-
Credit card	435.3	(0.4)	7.1	0.5	AAA
Other ²	840.9	1.0	13.8	1.2	AA
Other asset-backed securities	2,351.1	0.2	38.5	0.9	AAA-
Total asset-backed securities	\$ 6,103.8	\$ (5.2)	100.0%	1.8	A+
2015					
Residential mortgage-backed securities:					
Prime collateralized mortgage obligations	\$ 583.2	\$ (3.1)	9.4%	0.9	A-
Alt-A collateralized mortgage obligations ¹	269.2	0.2	4.3	1.2	BBB
Collateralized mortgage obligations	852.4	(2.9)	13.7	1.0	A-
Home equity (sub-prime bonds)	874.3	4.4	14.0	<0.1	BBB-
Residential mortgage-backed securities	1,726.7	1.5	27.7	0.4	BBB
Agency residential pass-through obligations	89.3	(1.0)	1.4	4.8	AAA
Commercial mortgage-backed securities:					
Commercial mortgage-backed securities	2,476.7	(13.8)	39.7	3.4	A+
Commercial mortgage-backed securities: interest only	176.5	1.3	2.9	2.6	AAA-
Commercial mortgage-backed securities	2,653.2	(12.5)	42.6	3.3	A+
Other asset-backed securities:					
Automobile	925.4	(2.2)	14.8	1.0	AAA-
Credit card	140.0	(0.2)	2.2	0.5	AAA
Other ²	702.5	(1.3)	11.3	0.7	AA+
Other asset-backed securities	1,767.9	(3.7)	28.3	0.8	AAA-
Total asset-backed securities	\$ 6,237.1	\$ (15.7)	100.0%	1.8	A+

¹ Represents structured securities with primary residential loans as collateral for which documentation standards for loan approval were less stringent than conventional loans; the collateral loans are often referred to as low documentation or no documentation loans.

² Includes equipment leases, manufactured housing, and other types of structured debt.

The decrease in asset-backed securities since December 31, 2015, is primarily due to a combination of maturities and security sales in the commercial mortgage-backed sector and maturities in the residential mortgage-backed sector. During the latter half of 2016, we had the opportunity to add to our other asset-backed securities category. We added securities in each of the three segments that were of short duration, generally less than 1 year, and high credit quality. These securities provided us with additional yield over other short-term securities without adding significantly to either our duration or credit risk profile.

Collateralized Mortgage Obligations (CMO) 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 December 31, 2016 , to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Collateralized Mortgage Obligations (at December 31, 2016)									
(\$ in millions) Rating ¹	Non-agency prime		Alt-A	Government/GSE ²		Total	% of Total		
AAA	\$	166.5	\$	15.4	\$	75.4	\$	257.3	33.0%
AA		32.8		31.2		5.8		69.8	8.9
A		62.6		15.4		31.4		109.4	14.0
BBB		32.6		30.9		134.5		198.0	25.4
Non-investment grade		68.3		77.9		0		146.2	18.7
Total	\$	362.8	\$	170.8	\$	247.1	\$	780.7	100.0%
Increase (decrease) in value ³		(0.9)%		(0.2)%		(0.2)%		(0.5)%	

¹ The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings for our CMOs, \$112.3 million of our non-investment grade securities are rated investment grade and classified as Group II and \$33.9 million, or 4.3% of our total CMOs, are not rated by the NAIC and are classified as Group I.

² 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).

³ Excludes net holding period gains and losses on certain hybrid securities.

The majority of our CMO portfolio is composed of non-GSE/FHA/VA 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. We own the senior classes, which provide extra credit support to our position. Most of the additions to our CMO portfolio during the year were in securities backed by prime mortgages.

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 December 31, 2016 , to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Home-Equity Securities (at December 31, 2016)		
(\$ in millions) Rating ¹	Total	% of Total
AAA	\$ 30.7	4.5%
AA	18.9	2.8
A	258.9	38.2
BBB	68.3	10.1
Non-investment grade	301.2	44.4
Total	\$ 678.0	100.0%
Increase (decrease) in value	1.9%	

¹ The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings for our home-equity securities, \$248.1 million of our non-investment grade securities are rated investment grade and classified as Group II and \$53.1 million, or 7.8% of our total home-equity securities, are not rated by the NAIC and are classified as Group I.

Our home-equity loan-backed security portfolio decreased in value, primarily due to returns of principal throughout the year. While we continue to view this as an attractive segment of the market, we were unable to meaningfully add to this portfolio due to the overall shrinking secondary market of available securities. In addition, although still attractive, current pricing, due to the tightening of spreads, has diminished the return potential for this sector.

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

Commercial Mortgage-Backed Securities (at December 31, 2016) ¹									
(\$ in millions) Category		AAA		AA		A		BBB	Non-Investment Grade
Multi-borrower	\$	160.5	\$	30.8	\$	10.9	\$	0	10.3
Single-borrower		227.8		257.1		488.0		851.9	77.9
Total CMBS bonds		388.3		287.9		498.9		851.9	88.2
IO		136.9		0		0		0	1.3
Total fair value	\$	525.2	\$	287.9	\$	498.9	\$	851.9	89.5
% of Total fair value		23.3%		12.8%		22.1%		37.8%	4.0%
									100.0%

¹ 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, and all non-investment grade IO securities are classified as Group I.

We continue to focus on single-borrower CMBS because we believe these transactions provide an opportunity to select investments based on real estate and underwriting criteria that fit our preferred credit risk and duration profile. Our multi-borrower, fixed-rate CMBS portfolio is concentrated in vintages with conservative underwriting. During the year, we reduced our CMBS bond portfolio by \$361.6 million through security sales, principal payments, and maturities, which increased our allocation of single-borrower CMBS from 76.8% to 84.5% and reduced our allocation of multi-borrower CMBS from 16.5% to 9.4%. Duration increased from 3.4 to 3.7 years during the year. The average credit quality was A- at December 31, 2016, compared to A+ at December 31, 2015.

With the exception of \$134.3 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 December 31, 2016 and 2015, were \$2,502.6 million and \$2,721.4 million, respectively, of state and local government obligations. These securities had a duration of 3.0 years and an overall credit quality rating of AA (excluding the benefit of credit support from bond insurance) at December 31, 2016, compared to 3.2 years and AA at December 31, 2015. These securities had net unrealized losses of \$6.9 million at December 31, 2016, compared to net unrealized gains of \$43.8 million at December 31, 2015.

The following table details the credit quality rating of our municipal securities at December 31, 2016, without the benefit of credit or bond insurance:

Municipal Securities (at December 31, 2016)				
(millions) Rating		General Obligations	Revenue Bonds	Total
AAA	\$	358.8	\$ 538.0	\$ 896.8
AA		390.8	868.3	1,259.1
A		1.6	336.9	338.5
BBB		5.4	2.8	8.2
Total	\$	756.6	\$ 1,746.0	\$ 2,502.6

Included in revenue bonds were \$885.1 million of single family housing revenue bonds issued by state housing finance agencies, of which \$646.7 million were supported by individual mortgages held by the state housing finance agencies and \$238.4 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.

Approximately 78% of our preferred stock securities are fixed-rate securities, and 22% are floating-rate securities. All of our preferred securities have call or mandatory redemption features. All of our fixed-rate securities 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 2.4 years at December 31, 2016, compared to 2.1 years at December 31, 2015. 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 BBB- at both December 31, 2016 and December 31, 2015. Our non-investment-grade preferred stocks were primarily with issuers that maintain investment-grade senior debt ratings. The table below shows the exposure breakdown by sector and rating at year-end:

Preferred Stocks (at December 31, 2016)				
(millions) Sector	A	BBB	Non-Investment Grade/ Non- Rated	Total
Financial services				
U.S. banks	\$ 71.4	\$ 391.8	\$ 235.1	\$ 698.3
Foreign banks	0	0	10.5	10.5
Insurance	0	40.5	39.0	79.5
Other financial institutions	58.6	35.2	30.9	124.7
Total financial services	130.0	467.5	315.5	913.0
Industrials	0	61.8	39.7	101.5
Utilities	0	30.9	0	30.9
Total	\$ 130.0	\$ 560.2	\$ 355.2	\$ 1,045.4

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 December 31, 2016, all of our preferred securities continued to pay their dividends in full and on time. Approximately 79% of our preferred stock securities pay dividends that have tax preferential characteristics, while the balance pay dividends that are fully taxable.

At December 31, 2016, we held \$10.5 million of U.S. dollar-denominated nonredeemable preferred stocks issued by financial institutions that are domiciled, or whose parent companies are domiciled, in European countries. We had no direct exposure to U.K. and southern European-domiciled companies at December 31, 2016.

Common Equities

Common equities, as reported on the balance sheets at December 31, were comprised of the following:

(\$ in millions)	2016		2015	
Indexed common stocks	\$ 2,676.2	95.1%	\$ 2,532.3	95.5%
Managed common stocks	135.8	4.8	117.9	4.4
Total common stocks	2,812.0	99.9	2,650.2	99.9
Other risk investments	0.4	0.1	0.3	0.1
Total common equities	\$ 2,812.4	100.0%	\$ 2,650.5	100.0%

In our indexed common stock portfolio, our individual holdings are selected based on their contribution to the correlation with the Russell 1000 Index. For both periods reported in the table above, the GAAP basis total return was within the desired tracking error when compared to the index. We held 835 out of 999, or 84%, of the common stocks comprising the index at December 31, 2016, which made up 94% of the total market capitalization of the index. During the fourth quarter of 2016, we reallocated about \$150 million from our indexed portfolio into our fixed-income portfolio.

The actively managed common stock portfolio is managed by an external investment manager. At December 31, 2016, the fair value of the actively managed portfolio was \$135.8 million, compared to a cost basis of \$102.0 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.

The following is a summary of our indexed common stock portfolio holdings by sector compared to the Russell 1000 Index composition:

Sector	Equity Portfolio Allocation at December 31, 2016	Russell 1000 Allocation at December 31, 2016	Russell 1000 Sector Return in 2016
Consumer discretionary	13.9%	14.6%	6.3 %
Consumer staples	7.3	8.3	5.5
Financial services	19.7	20.4	16.5
Health care	12.6	12.6	(2.9)
Materials and processing	3.5	3.7	20.0
Other energy	7.5	7.2	25.9
Producer durable	10.0	10.6	19.4
Technology	17.9	16.9	14.1
Utilities	5.5	5.7	20.4
Other equity	2.1	NA	NA
Total common stocks	100.0%	100.0%	12.0 %

NA = Not Applicable

Derivative Instruments

We use interest rate swaps and treasury futures to manage the fixed-income portfolio. We did not have any interest rate swaps or treasury futures at December 31, 2016 . We closed interest rate swaps with a notional value of \$750 million and treasury futures with a notional value of \$135 million during 2016 . At both December 31, 2015 and 2014 , we held \$750 million notional value swaps. We closed treasury futures with a notional value of \$691 million during 2015 ; we did not have any treasury futures during 2014 . We recorded a net realized loss of \$19.0 million on our closed interest rate swap positions during 2016 , compared to net realized losses of \$23.4 million and \$64.6 million recorded on our open swap positions as of December 31, 2015 and 2014 , respectively. We recorded net realized gains of \$0.3 million and \$2.5 million on our treasury futures during 2016 and 2015 , respectively.

See *Note 2 – Investments* for further discussion on our derivative instruments.

V. CRITICAL ACCOUNTING POLICIES

Progressive is required to make certain estimates and assumptions when preparing its financial statements and accompanying notes in conformity with GAAP. Actual results could differ from those estimates in a variety of areas. The three areas that we view as most critical with respect to the application of estimates and assumptions are the establishment of our loss reserves, the method of determining impairments in our investment portfolio, and our analysis of goodwill for impairment.

A. Loss and LAE Reserves

Loss and loss adjustment expense (LAE) reserves represent our best estimate of our ultimate liability for losses and LAE relating to events that occurred prior to the end of any given accounting period but have not yet been paid. At December 31, 2016, we had \$9.6 billion of net loss and LAE reserves, which included \$7.7 billion of case reserves and \$1.9 billion of incurred but not recorded (IBNR) reserves. Personal auto liability and commercial auto liability reserves represent approximately 95% of our total carried net reserves. For this reason, the following discussion focuses on our vehicle businesses.

We do not review our loss reserves for the vehicle businesses on a macro level and, therefore, do not derive a companywide range of reserves to compare to a standard deviation. Instead, we review a large majority of our reserves by product/state combination on a quarterly time frame, with the remaining reserves generally reviewed on a semiannual basis. A change in our scheduled reviews of a particular subset of the business depends on the size of the subset or emerging issues relating to the product or state. By reviewing the reserves at such a detailed level, we have the ability to identify and measure variances in the trends by state, product, and line coverage that otherwise would not be seen on a consolidated basis. We believe our comprehensive process of reviewing at a subsegment level provides us more meaningful estimates of our aggregate loss reserves.

In analyzing the ultimate accident year loss and LAE experience, our actuarial staff reviews in detail, at the subsegment level, frequency (number of losses per earned car year), severity (dollars of loss per each claim), and average premium (dollars of premium per earned car year) of loss, as well as the frequency and severity of our LAE costs. The loss ratio, a primary measure of loss experience, is equal to the product of frequency times severity divided by the average premium. The average premium for personal and commercial auto businesses is not estimated. The actual frequency experienced will vary depending on the change in mix of class of drivers insured by Progressive, but the frequency projections for these lines of business are generally stable in the short term, because a large majority of the parties involved in an accident report their claims within a short time period after the occurrence. The severity experienced by Progressive is much more difficult to estimate, especially for injury claims, since severity is affected by changes in underlying costs, such as medical costs, jury verdicts, and regulatory changes. In addition, severity will vary relative to the change in our mix of business by limit.

Assumptions regarding needed reserve levels made by the actuarial staff take into consideration influences on available historical data that reduce the predictiveness of our projected future loss costs. Internal considerations that are process-related, which generally result from changes in our claims organization's activities, include claim closure rates, the number of claims that are closed without payment, and the level of the claims representatives' estimates of the needed case reserve for each claim. These changes and their effect on the historical data are studied at the state level versus on a larger, less indicative, countrywide basis.

External items considered include the litigation atmosphere, state-by-state changes in medical costs, and the availability of services to resolve claims. These also are better understood at the state level versus at a more macro, countrywide level.

The manner in which we consider and analyze the multitude of influences on the historical data, as well as how loss reserves affect our financial results, is discussed in more detail in our *Report on Loss Reserving Practices*, which was filed on August 12, 2016 via Form 8-K. There have been no significant changes to our reserving practices since this report was filed.

At December 31, 2016, Progressive had \$11.4 billion of carried gross reserves and \$9.6 billion of net reserves (net of reinsurance recoverables on unpaid losses). Our net reserve balance implicitly assumes that the loss and LAE severity for accident year 2016 over accident year 2015 would be 3.0% higher for personal auto liability and 9.9% higher for commercial auto liability. As discussed above, the severity estimates are influenced by many variables that are difficult to precisely quantify and which influence the final amount of claims settlement. That, coupled with changes in internal claims practices, the legal environment, and state regulatory requirements, requires significant judgment in the estimate of the needed reserves to be carried.

The following table highlights what the effect would be to our carried loss and LAE reserves, on a net basis, as of December 31, 2016 , if during 2017 we were to experience the indicated change in our estimate of severity for the 2016 accident year (i.e., claims that occurred in 2016):

(millions)	Estimated Changes in Severity for Accident Year 2016					
	-4%		-2%		As Reported	
Personal auto liability	\$	7,008.6	\$	7,188.6	\$	7,368.6
Commercial auto liability		1,707.2		1,733.2		1,759.2
Other ¹		439.2		439.2		439.2
Total	\$	9,155.0	\$	9,361.0	\$	9,567.0

¹ Includes reserves for personal and commercial auto physical damage claims and our non-auto lines of business; no change in estimates is presented due to the immaterial level of these reserves.

Note: Every percentage point change in our estimate of severity for the 2016 accident year would affect our personal auto liability reserves by \$90.0 million and our commercial auto reserves by \$13.0 million .

Our 2016 year-end loss and LAE reserve balance also includes claims from prior years. Claims that occurred in 2016, 2015, and 2014, in the aggregate, accounted for approximately 93% of our reserve balance. If during 2017 we were to experience the indicated change in our estimate of severity for the total of the prior three accident years (i.e., 2016, 2015, and 2014), the effect to our year-end 2016 reserve balances would be as follows:

(millions)	Estimated Changes in Severity for Accident Years 2016, 2015, and 2014					
	-4%		-2%		As Reported	
Personal auto liability	\$	6,389.4	\$	6,879.0	\$	7,368.6
Commercial auto liability		1,630.8		1,695.0		1,759.2
Other ¹		439.2		439.2		439.2
Total	\$	8,459.4	\$	9,013.2	\$	9,567.0

¹ Includes reserves for personal and commercial auto physical damage claims and our non-auto lines of business; no change in estimates is presented due to the immaterial level of these reserves.

Note: Every percentage point change in our estimate of severity for the 2016, 2015, and 2014 accident years would affect our personal auto liability reserves by \$244.8 million and our commercial auto reserves by \$32.1 million .

Our best estimate of the appropriate amount for our reserves as of year-end 2016 is included in our financial statements for the year. Our goal is to ensure that total reserves are adequate to cover all loss costs, while sustaining minimal variation from the time reserves are initially established until losses are fully developed. At the point in time when reserves are set, we have no way of knowing whether our reserve estimates will prove to be high or low, or whether one of the alternative scenarios discussed above is “reasonably likely” to occur. The above tables show the potential favorable or unfavorable development we will realize if our estimates miss by 2% or 4%.

B. Other-Than-Temporary Impairment (OTTI)

Realized losses may include write-downs of securities held in our investment portfolios determined to have had other-than-temporary declines in fair value. We routinely monitor our investment 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 available evidence, circumstances, and influences to estimate the potential for, and timing of, recovery of the investment's impairment. An OTTI 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 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 following table stratifies the gross unrealized losses in our fixed-income and common equity portfolios at December 31, 2016, by the 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	\$ 9,607.6	\$ 105.0	\$ 0	\$ 0	\$ 0	\$ 0
Unrealized loss for 12 months or greater	1,546.2	32.7	2.0	0	0	0
Total	\$ 11,153.8	\$ 137.7	\$ 2.0	\$ 0	\$ 0	\$ 0
Common equity:						
Unrealized loss for less than 12 months	\$ 19.7	\$ 1.7	\$ 0.7	\$ 0.1	\$ 0	\$ 0
Unrealized loss for 12 months or greater	2.4	0.4	0	0	0	0
Total	\$ 22.1	\$ 2.1	\$ 0.7	\$ 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 that we will not be required to sell these securities, for the periods of time necessary to recover the 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.

C. Goodwill

Substantially all of our goodwill relates to the April 1, 2015, acquisition of a controlling interest in ARX. We test our goodwill balance for impairment at the reporting unit level annually as of October 1, or more frequently if indicators of impairment exist. Below our reportable segment level, we have identified reporting units that are expected to receive the future economic benefits created through this acquisition. These reporting units represent the lowest operational level of our business for which management regularly reviews discrete financial operating results.

To test for impairment, we may elect to perform a qualitative or quantitative analysis, based on our judgment of the relevant qualitative factors that exist at the time we perform the valuation, including the consideration of the length of time lapsed since the previous quantitative assessment. For 2016, we elected to performed a quantitative analysis to test for impairment of the goodwill allocated to our Agency auto and ARX reporting units.

The quantitative goodwill impairment assessment consists of a two-step analysis, if necessary. The first step is to compare the fair value of a reporting unit to its carrying value, which includes the amount of goodwill allocated to the unit. We use discounted cash flow models to determine the fair value of a reporting unit. The assumptions used in these models are consistent with those we believe hypothetical marketplace participants would use. If the fair value of the reporting unit is less than its carrying value, the second step of the impairment test must be performed in order to determine whether impairment loss exists. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge must be recognized in an amount equal to that excess.

As of the evaluation date, we concluded that there were no indicators of impairment to goodwill in either of our reporting units. We believe the amount of goodwill recorded is recoverable for both our Agency auto and ARX reporting units; however, this does not provide assurance that goodwill will not be impaired in future periods. For additional information on goodwill, see *Note 16 – Goodwill and Intangible Assets*.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: Investors are cautioned that certain statements in this report not based upon historical fact are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements often use words such as “estimate,” “expect,” “intend,” “plan,” “believe,” and other words and terms of similar meaning, or are tied to future periods, in connection with a discussion of future operating or financial performance. Forward-looking statements are based on current expectations and projections about future events, and are subject to certain risks, assumptions 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 general economic conditions (including changes in interest rates and financial markets); the possible failure of one or more governmental, corporate, or other entities to make scheduled debt payments or satisfy other obligations; the potential or actual downgrading by one or more rating agencies of our securities or governmental, corporate, or other securities we hold; the financial condition of, and other issues relating to the strength of and liquidity available to, issuers of securities held in our investment portfolios and other companies with which we have ongoing business relationships, including reinsurers and other counterparties to certain financial transactions; the accuracy and adequacy of our pricing, loss reserving, and claims 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, for requested rate changes and the timing thereof and for any proposed acquisitions; 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; severe weather conditions and other catastrophe events; the effectiveness of our reinsurance programs; changes in vehicle usage and driving patterns, which may be influenced by oil and gas prices; changes in residential occupancy patterns and the effects of the emerging “sharing economy”; advancements in vehicle or home technology or safety features, such as accident and loss prevention technologies or the development of autonomous or partially autonomous vehicles; 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; restrictions on our subsidiaries’ ability to pay dividends to The Progressive Corporation; possible impairment of our goodwill or intangible assets if future results do not adequately support either, or both, of these items; 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.

Supplemental Information

The Progressive Corporation and Subsidiaries

Quarterly Financial and Common Share Data

(unaudited)

(millions – except per share amounts)

Quarter					Stock Price ¹							Dividends Declared Per Share ⁵
	Total Revenues	Net Income	Net Income Attributable to Progressive ²		Per Share ³	High	Low	Close	Rate of Return ⁴			
2016												
1	\$ 5,557.5	\$ 258.7	\$ 258.2	\$ 0.44	\$ 35.27	\$ 29.32	\$ 35.14		\$ 0			
2	5,819.3	194.9	190.9	0.33	35.54	31.14	33.50		0			
3	5,935.0	205.5	198.7	0.34	34.29	30.54	31.50		0			
4	6,129.6	398.1	383.2	0.66	35.95	30.66	35.50		0.6808			
	\$ 23,441.4	\$ 1,057.2	\$ 1,031.0	\$ 1.76	\$ 35.95	\$ 29.32	\$ 35.50	14.7%	\$ 0.6808			
2015												
1	\$ 4,895.3	\$ 295.6	\$ 295.6	\$ 0.50	\$ 27.90	\$ 25.23	\$ 27.20		\$ 0			
2	5,283.3	368.5	363.3	0.62	28.50	26.44	27.83		0			
3	5,273.8	286.5	278.3	0.47	31.70	27.23	30.64		0			
4	5,401.4	349.9	330.4	0.56	33.95	30.09	31.80		0.8882			
	\$ 20,853.8	\$ 1,300.5	\$ 1,267.6	\$ 2.15	\$ 33.95	\$ 25.23	\$ 31.80	20.9%	\$ 0.8882			
2014												
1	\$ 4,707.6	\$ 321.3	\$ 321.3	\$ 0.54	\$ 27.30	\$ 22.53	\$ 24.22		\$ 0			
2	4,741.5	293.4	293.4	0.49	26.03	23.40	25.36		0			
3	4,766.1	296.1	296.1	0.50	25.63	23.20	25.28		0			
4	5,176.2	370.2	370.2	0.63	27.52	24.16	26.99		0.6862			
	\$ 19,391.4	\$ 1,281.0	\$ 1,281.0	\$ 2.15	\$ 27.52	\$ 22.53	\$ 26.99	5.3%	\$ 0.6862			

¹ Prices are as reported on the consolidated transaction reporting system. Progressive's common shares are listed on the New York Stock Exchange under the symbol PGR.

² Prior to the April 1, 2015 acquisition of a controlling interest in ARX, net income attributable to Progressive was equivalent to net income.

³ Based on net income attributable to Progressive. The sum may not equal the total because the average equivalent shares differ in the quarterly and annual periods.

⁴ Represents annual rate of return, assuming dividend reinvestment.

⁵ Progressive maintains an annual variable dividend policy under which a dividend is typically declared each December and paid early the following year.

The Progressive Corporation and Subsidiaries
Ten Year Summary – Selected Financial Information
(unaudited)

(millions – except ratios, policies in force, per share amounts, and number of people employed)

amounts, and number of people employed)		2016		2015		2014		2013		2012	
Net premiums written	\$	23,353.5	\$	20,564.0	\$	18,654.6	\$	17,339.7	\$	16,372.7	
Growth		14%		10%		8%		6 %		8%	
Net premiums earned	\$	22,474.0	\$	19,899.1	\$	18,398.5	\$	17,103.4	\$	16,018.0	
Growth		13%		8%		8%		7 %		7%	
Policies in force (thousands):											
Personal Lines		14,656.8		13,764.7		13,261.9		13,056.4		12,735.3	
Growth		6%		4%		2%		3 %		4%	
Commercial Lines		607.9		555.8		514.7		514.6		519.6	
Growth		9%		8%		0%		(1)%		2%	
Property ¹		1,201.9		1,076.5		—		—		—	
Growth ¹		12%		NM		—		—		—	
Total revenues	\$	23,441.4	\$	20,853.8	\$	19,391.4	\$	18,170.9	\$	17,083.9	
Underwriting margins: ²											
Personal Lines		4.7%		6.5%		6.7%		6.6 %		4.4%	
Commercial Lines		6.4%		15.9%		17.2%		6.5 %		5.2%	
Property ¹		3.8%		10.1%		—		—		—	
Total underwriting operations		4.9%		7.5%		7.7%		6.5 %		4.4%	
Net income (loss) attributable to Progressive	\$	1,031.0	\$	1,267.6	\$	1,281.0	\$	1,165.4	\$	902.3	
Per share ³		1.76		2.15		2.15		1.93		1.48	
Average equivalent shares ³		585.0		589.2		594.8		603.6		607.8	
Comprehensive income (loss) attributable to Progressive	\$	1,164.0	\$	1,044.9	\$	1,352.4	\$	1,246.1	\$	1,080.8	
Total assets	\$	33,427.5	\$	29,819.3	\$	25,787.6	\$	24,408.2	\$	22,694.7	
Debt outstanding		3,148.2		2,707.9		2,164.7		1,860.9		2,063.1	
Redeemable noncontrolling interest		483.7		464.9		—		—		—	
Total shareholders' equity		7,957.1		7,289.4		6,928.6		6,189.5		6,007.0	
Statutory surplus		8,560.0		7,575.5		6,442.8		5,991.0		5,605.2	
Common shares outstanding		579.9		583.6		587.8		595.8		604.6	
Common share price:											
High	\$	35.95	\$	33.95	\$	27.52	\$	28.54	\$	23.41	
Low		29.32		25.23		22.53		21.36		19.01	
Close (at December 31)		35.50		31.80		26.99		27.27		21.10	
Market capitalization	\$	20,586.5	\$	18,558.5	\$	15,864.7	\$	16,247.5	\$	12,757.1	
Book value per common share		13.72		12.49		11.79		10.39		9.94	
Ratios:											
Return on average shareholders' equity:											
Net income (loss) attributable to Progressive		13.2%		17.2%		19.1%		17.7 %		14.5%	
Comprehensive income (loss) attributable to Progressive		14.9%		14.2%		20.1%		19.0 %		17.4%	
Debt to total capital ⁴		28.3%		27.1%		23.8%		23.1 %		25.6%	
Price to earnings		20.2		14.8		12.6		14.1		14.3	
Price to book		2.6		2.5		2.3		2.6		2.1	
Earnings to fixed charges		10.7x		14.2x		16.4x		14.7x		11.0x	
Net premiums written to statutory surplus		2.7		2.7		2.9		2.9		2.9	
Statutory combined ratio		94.8		91.8		92.1		93.4		95.2	
Dividends declared per share ⁵	\$	0.6808	\$	0.8882	\$	0.6862	\$	1.4929	\$	1.2845	
Number of people employed ¹		31,721		28,580		26,501		26,145		25,889	

¹ We began reporting our Property business as a segment on April 1, 2015, when we acquired a controlling interest in ARX; therefore, year-over-year growth in policies in force for 2015 is not meaningful (NM).

The number of people employed in 2016 and 2015 includes 692 and 620 ARX employees, respectively.

² Underwriting margins are calculated as pretax underwriting profit (loss), as defined in *Note 10 – Segment Information*, as a percentage of net premiums earned.

³ Amounts reflect basic earnings per share and basic average equivalent shares for 2008 since we reported a net loss; all other periods are presented on a diluted basis.

(millions – except ratios, policies in force, per share amounts, and number of people employed)	2011		2010		2009		2008		2007	
Net premiums written	\$	15,146.6	\$	14,476.8	\$	14,002.9	\$	13,604.3	\$	13,772.5
Growth		5%		3%		3 %		(1)%		(3)%
Net premiums earned	\$	14,902.8	\$	14,314.8	\$	14,012.8	\$	13,631.4	\$	13,877.4
Growth		4%		2%		3 %		(2)%		(2)%
Policies in force (thousands):										
Personal Lines		12,283.8		11,702.7		10,940.6		10,464.9		10,115.6
Growth		5%		7%		5 %		3 %		4 %
Commercial Lines		509.1		510.4		512.8		539.4		539.2
Growth		0%		0%		(5)%		0 %		7 %
Property ¹		—		—		—		—		—
Growth		—		—		—		—		—
Total revenues	\$	15,774.6	\$	15,215.5	\$	14,791.1	\$	13,049.0	\$	14,902.9
Underwriting margins: ²										
Personal Lines		6.8%		7.0%		7.6 %		5.4 %		7.0 %
Commercial Lines		9.1%		12.5%		14.2 %		5.3 %		10.1 %
Property ¹		—		—		—		—		—
Total underwriting operations		7.0%		7.6%		8.4 %		5.4 %		7.4 %
Net income (loss) attributable to Progressive	\$	1,015.5	\$	1,068.3	\$	1,057.5	\$	(70.0)	\$	1,182.5
Per share ³		1.59		1.61		1.57		(0.10)		1.65
Average equivalent shares ³		636.9		663.3		672.2		668.0		718.5
Comprehensive income (loss) attributable to Progressive	\$	924.3	\$	1,398.8	\$	1,752.2	\$	(614.7)	\$	1,071.0
Total assets	\$	21,844.8	\$	21,150.3	\$	20,049.3	\$	18,250.5	\$	18,843.1
Debt outstanding		2,442.1		1,958.2		2,177.2		2,175.5		2,173.9
Redeemable noncontrolling interest		—		—		—		—		—
Total shareholders' equity		5,806.7		6,048.9		5,748.6		4,215.3		4,935.5
Statutory surplus		5,269.2		5,073.0		4,953.6		4,470.6		4,587.3
Common shares outstanding		613.0		662.4		672.6		676.5		680.2
Common share price:										
High	\$	22.08	\$	22.13	\$	18.10	\$	21.31	\$	25.16
Low		16.88		16.18		9.76		10.29		17.26
Close (at December 31)		19.51		19.87		17.99		14.81		19.16
Market capitalization	\$	11,959.6	\$	13,161.9	\$	12,100.1	\$	10,019.0	\$	13,032.6
Book value per common share		9.47		9.13		8.55		6.23		7.26
Ratios:										
Return on average shareholders' equity:										
Net income (loss) attributable to Progressive		16.5%		17.1%		21.4 %		(1.5)%		19.5 %
Comprehensive income (loss) attributable to Progressive		15.0%		22.3%		35.5 %		(13.3)%		17.7 %
Debt to total capital ⁴		29.6%		24.5%		27.5 %		34.0 %		30.6 %
Price to earnings		12.3		12.3		11.5		NA		11.6
Price to book		2.1		2.2		2.1		2.4		2.6
Earnings to fixed charges		11.6x		11.9x		11.3x		NA		13.5x
Net premiums written to statutory surplus		2.9		2.9		2.8		3.0		3.0
Statutory combined ratio		92.9		92.5		91.6		94.6		92.7
Dividends declared per share ⁵	\$	0.4072	\$	1.3987	\$	0.1613	\$	0	\$	2.1450
Number of people employed ¹		25,007		24,638		24,661		25,929		26,851

⁴Ratio reflects debt as a percent of debt plus shareholders' equity; redeemable noncontrolling interest is not part of this calculation.

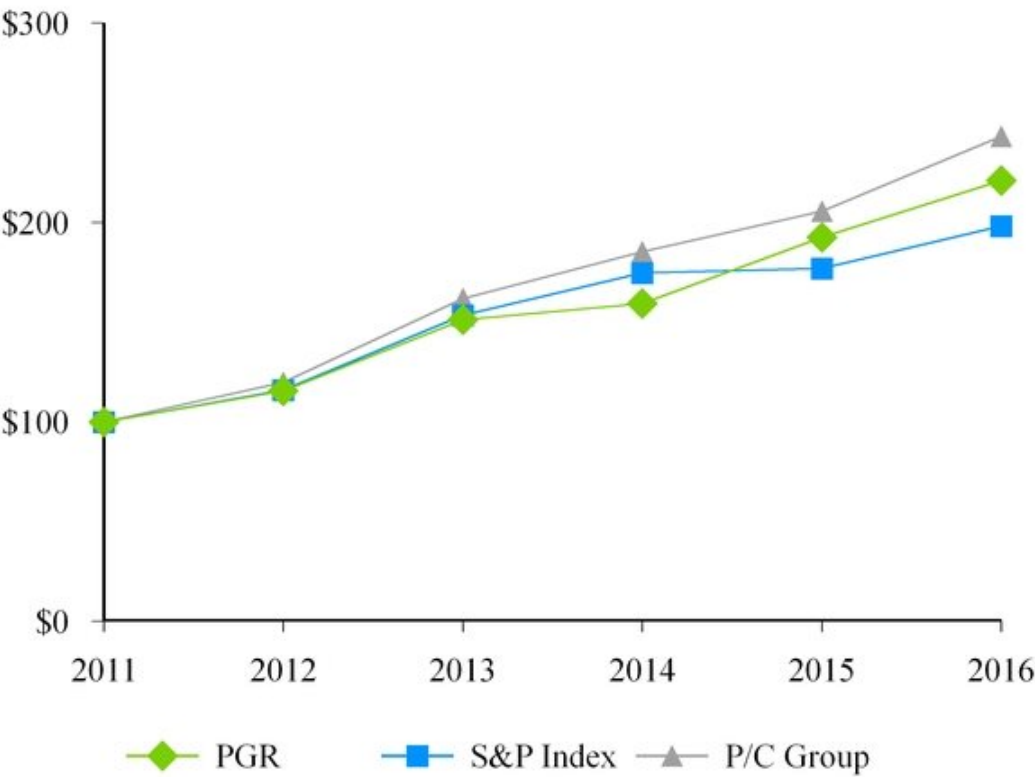
⁵Represents dividends pursuant to our annual variable dividend policy, plus special cash dividends of \$1.00 per common share in 2013, 2012, and 2010, and \$2.00 per common share in 2007. In 2008, comprehensive income was less than after-tax underwriting income; therefore, no dividend was declared in accordance with this policy.

NA = Not applicable due to the net loss reported for 2008.

The Progressive Corporation and Subsidiaries
Performance Graph
(unaudited)

The following performance graph compares the performance of Progressive’s Common Shares (“PGR”) to the Standard & Poor’s Index (“S&P Index”) and the Value Line Property/Casualty Industry Group (“P/C Group”) for the last five years.

Cumulative Five-Year Total Return*
PGR, S&P Index, P/C Group (Performance Results through 12/31/16)



(Assumes \$100 was invested at the close of trading on December 31, 2011)

	2012	2013	2014	2015	2016
PGR	\$ 115.51	\$ 151.17	\$ 159.26	\$ 192.61	\$ 221.00
S&P Index	116.00	153.57	174.60	177.04	198.16
P/C Group ¹	119.90	161.72	185.24	205.66	243.22

*Assumes reinvestment of dividends

¹ Per Value Line Publishing LLC

The Progressive Corporation and Subsidiaries
Quantitative Market Risk Disclosures
(unaudited)

Quantitative market risk disclosures are only presented for market risk categories when risk is considered material. Materiality is determined based on the fair value of the financial instruments at December 31, 2016, and the potential for near-term losses from reasonably possible near-term changes in market rates or prices. We had no trading financial instruments at December 31, 2016 and 2015. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* for our discussion of the qualitative information about market risk.

OTHER-THAN-TRADING FINANCIAL INSTRUMENTS

Financial instruments subject to interest rate risk were:

(millions)	Fair Value				
	-200 bps Change ¹	-100 bps Change ¹	Actual	+100 bps Change	+200 bps Change
U.S. government obligations	\$ 3,104.6	\$ 2,996.1	\$ 2,870.1	\$ 2,750.7	\$ 2,638.2
State and local government obligations	2,643.7	2,573.1	2,502.6	2,434.2	2,370.7
Foreign government obligations	24.8	24.7	24.5	24.4	24.2
Asset-backed securities	6,337.8	6,230.4	6,103.8	5,987.7	5,869.5
Corporate securities	4,718.4	4,674.2	4,550.9	4,429.4	4,312.9
Nonredeemable preferred stocks	896.6	877.7	853.5	830.0	808.4
Redeemable preferred stocks ²	188.5	190.7	191.9	192.3	192.5
Short-term investments	3,572.9	3,572.9	3,572.9	3,572.9	3,572.9
Total at December 31, 2016	\$ 21,487.3	\$ 21,139.8	\$ 20,670.2	\$ 20,221.6	\$ 19,789.3
Total at December 31, 2015	\$ 18,839.1	\$ 18,629.1	\$ 18,286.8	\$ 17,944.2	\$ 17,621.7

¹ The amounts reflect an interest rate of 1 basis point (bps) when the hypothetical decline in interest rates would have pushed yields to a negative level.

² The redeemable preferred stocks have a negative return in the -100 bps and -200 bps scenarios due to the floating rate nature of a majority of the securities resulting in a duration of -0.9 for that portfolio.

Exposure to risk is represented in terms of changes in fair value due to selected hypothetical movements in market rates. Bonds and preferred stocks are individually priced to yield to the worst case scenario, which includes any issuer-specific features, such as a call option. Asset-backed securities and state and local government housing securities are priced assuming deal specific prepayment scenarios, considering the deal structure, prepayment penalties, yield maintenance agreements, and the underlying collateral.

Financial instruments subject to equity market risk were:

(millions)	Fair Value		
	-10%	Actual	+10%
Common equities at December 31, 2016	\$ 2,524.4	\$ 2,812.4	\$ 3,100.4
Common equities at December 31, 2015	\$ 2,387.7	\$ 2,650.5	\$ 2,913.3

The model represents the estimated value of our common equity portfolio given a +/-10% change in the market, based on the common stock portfolio's weighted average beta of 1.02 for 2016 and 0.99 for 2015. The beta is derived from recent historical experience, using the S&P 500 as the market surrogate. The historical relationship of the common stock portfolio's beta to the S&P 500 is not necessarily indicative of future correlation, as individual company or industry factors may affect price movements. Betas are not available for all securities. In such cases, the change in fair value reflects a direct +/-10% change; the portion of our securities without betas is 0.1%.

The Progressive Corporation and Subsidiaries
Net Premiums Written by State
(unaudited)

(\$ in millions)	2016		2015		2014		2013		2012						
Florida	\$	3,305.1	14.1%	\$	2,839.6	13.8%	\$	2,399.0	12.9%	\$	2,188.1	12.6%	\$	2,000.1	12.2%
Texas		2,226.8	9.5		1,941.5	9.4		1,664.6	8.9		1,560.7	9.0		1,536.6	9.4
California		1,284.8	5.5		1,173.6	5.7		1,080.6	5.8		996.0	5.7		954.4	5.8
New York		1,279.4	5.5		1,095.6	5.3		1,000.7	5.4		882.8	5.1		782.3	4.8
Michigan		971.3	4.2		812.5	4.0		659.6	3.5		539.5	3.1		488.5	3.0
Georgia		939.4	4.0		813.2	4.0		774.0	4.1		771.6	4.5		757.1	4.6
Ohio		905.2	3.9		820.8	4.0		807.7	4.3		757.4	4.4		725.8	4.4
New Jersey		902.8	3.9		820.2	4.0		754.6	4.0		697.4	4.0		600.1	3.7
Pennsylvania		895.8	3.8		787.3	3.8		718.6	3.9		663.8	3.8		644.2	3.9
Louisiana		694.7	3.0		614.9	3.0		552.5	3.0		540.1	3.1		515.9	3.2
All other		9,948.2	42.6		8,844.8	43.0		8,242.7	44.2		7,742.3	44.7		7,367.7	45.0
Total	\$	23,353.5	100.0%	\$	20,564.0	100.0%	\$	18,654.6	100.0%	\$	17,339.7	100.0%	\$	16,372.7	100.0%

Principal Office

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

24-Hour Insurance Quotes, Claims Reporting, and Customer Service

	Personal autos, motorcycles, and recreational vehicles	Commercial autos/trucks
To receive a quote	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-888-806-9598 progressivecommercial.com
To report a claim	1-800-PROGRESSIVE (1-800-776-4737) progressive.com ¹	1-800-PROGRESSIVE (1-800-776-4737)
For customer service:		
If you bought your policy through an independent agent or broker	1-800-925-2886 (1-800-300-3693 in California) progressiveagent.com	1-800-444-4487 progressivecommercial.com
If you bought your policy directly through Progressive online or by phone	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-895-2886 progressivecommercial.com

Homeowners - to receive a quote, report a claim, or speak to a customer service representative, please call 1-800-PROGRESSIVE or visit progressive.com and your inquiry will be routed to the appropriate contact center.

In addition, iPhone[®] and Android[®] users can download the Progressive App to start a quote, report a claim, or service a policy.

¹ Claims reporting via the website is currently only available for personal auto policies.

Annual Meeting The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, Studio 96, 6671 Beta Drive, Mayfield Village, Ohio 44143 on May 12, 2017, at 10 a.m. eastern time. There were 2,152 shareholders of record on December 31, 2016.

Common Shares and Dividends The Progressive Corporation's common shares are traded on the New York Stock Exchange (symbol PGR). Progressive currently has an annual variable dividend policy. We expect the Board to declare the next annual variable dividend, subject to policy limitations, in December 2017, with a record date in early 2018 and payment shortly thereafter. A complete description of our annual variable dividend policy can be found at: progressive.com/dividend.

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

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

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

Transfer Agent and Registrar

Registered Shareholders: If you have questions or changes to your account and your Progressive shares are registered in your name, write to: American Stock Transfer & Trust Company, Attn: Operations Center, 6201 15th Avenue, Brooklyn, NY 11219; phone: 1-866-709-7695; email: info@amstock.com; or visit their website at: amstock.com (after March 6, 2017, email: info@astfinancial.com; or visit their website at: astfinancial.com).

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

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

Lawton W. Fitt, Lead Independent Director, The Progressive Corporation, email: lead_director@progressive.com; or

Daniel P. Mascaro, Secretary, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or email: secretary@progressive.com.

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

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

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

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

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

Counsel Baker & Hostetler LLP, Cleveland, Ohio

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

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

Online Annual Report and Proxy Statement Our 2016 Annual Report to Shareholders can be found at: progressive.com/annualreport.

Our 2017 Proxy Statement and 2016 Annual Report to Shareholders, in a PDF format, can be found at: progressiveproxy.com.

Directors

Stuart B. Burgdoerfer ^{1,6}

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

Charles A. Davis ^{4,5,6}

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

Roger N. Farah ^{3,5,6}

Executive Director,
Tory Burch LLC
(retailing)

Lawton W. Fitt ^{2,4,5,6}

Lead Independent Director,
Retired Partner,
Goldman Sachs Group
(financial services)

Susan Patricia Griffith ²

President and Chief Executive Officer,
The Progressive Corporation

Jeffrey D. Kelly ^{1,6}

Retired Chief Operating Officer and
Chief Financial Officer,
RenaissanceRe Holdings Ltd.
(reinsurance services)

Patrick H. Nettles, Ph.D. ^{1,6}

Executive Chairman,
Ciena Corporation
(telecommunications)

Glenn M. Renwick ²

Executive Chairman of the Board,
The Progressive Corporation

Bradley T. Sheares, Ph.D. ^{3,6}

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

Barbara R. Snyder ^{1,6}

President,
Case Western Reserve University
(higher education)

¹ Audit Committee Member

² Executive Committee Member

³ Compensation Committee Member

⁴ Investment and Capital Committee
Member

⁵ Nominating and Governance
Committee Member

⁶ Independent Director

Corporate Officers

Susan Patricia Griffith
President
and Chief Executive Officer

John P. Sauerland
Vice President
and Chief Financial Officer

Daniel P. Mascaro
Vice President, Secretary,
and Chief Legal Officer

Jeffrey W. Basch
Vice President
and Chief Accounting Officer

Patrick S. Brennan
Treasurer

Mariann Wojtkun Marshall
Assistant Secretary

Glenn M. Renwick
Executive Chairman of the Board

Other Executive Officers

John F. Auer
President and Chief Executive Officer,
ARX Holding Corp.

John A. Barbagallo
Commercial Lines President

Steven A. Broz
Chief Information Officer

Patrick K. Callahan
Personal Lines President

M. Jeffrey Charney
Chief Marketing Officer

William M. Cody
Chief Investment Officer

John Murphy
Customer Relationship Management
President

Lori Niederst
Chief Human Resource Officer

Michael D. Sieger
Claims President

SUBSIDIARIES OF THE PROGRESSIVE CORPORATION

Name of Subsidiary	Jurisdiction of Incorporation
ARX Holding Corp. (owns 69.2% of outstanding capital stock)	Delaware
American Strategic Insurance Corp.	Florida
ASI RE, LLC	Florida
Ark Royal Insurance Company	Florida
Ark Royal Underwriters, LLC	Florida
ASI Assurance Corp.	Florida
ASI Home Insurance Corp.	Florida
ASI Lloyds, Inc.	Texas
ASI Preferred Insurance, Corp. *	Florida
ASI Select Insurance Corp.	Delaware
ASI Services, Inc.	Florida
ASI Underwriters Corp.	Florida
ASI Underwriters of Texas, Inc.	Texas
e-Ins. LLC*	Florida
PropertyPlus Insurance Agency, Inc.	Delaware
Sunshine Security Insurance Agency, Inc.	Florida
Drive Insurance Holdings, Inc.	Delaware
Drive New Jersey Insurance Company	New Jersey
Progressive American Insurance Company	Ohio
Progressive Bayside Insurance Company	Ohio
Progressive Casualty Insurance Company	Ohio
PC Investment Company	Delaware
Progressive Gulf Insurance Company	Ohio
Progressive Specialty Insurance Company	Ohio
Trussville/Cahaba, AL, LLC	Ohio
Progressive Classic Insurance Company	Wisconsin
Progressive Commercial Advantage Agency, Inc.	Ohio
Progressive Commercial Casualty Company	Ohio
Progressive Hawaii Insurance Corp.	Ohio
Progressive Michigan Insurance Company	Michigan
Progressive Mountain Insurance Company	Ohio
Progressive Northern Insurance Company	Wisconsin
Progressive Northwestern Insurance Company	Ohio
Progressive Preferred Insurance Company	Ohio
Progressive Security Insurance Company	Louisiana
Progressive Southeastern Insurance Company	Indiana
Progressive West Insurance Company	Ohio
Garden Sun Insurance Services, Inc.	Hawaii
Pacific Motor Club	California
Progn Agency, Inc.	New York

Name of Subsidiary	Jurisdiction of Incorporation
Progressive Adjusting Company, Inc.	Ohio
Progressive Capital Management Corp.	New York
Progressive Commercial Holdings, Inc.	Delaware
Artisan and Truckers Casualty Company	Wisconsin
National Continental Insurance Company	New York
Progressive Express Insurance Company	Ohio
United Financial Casualty Company	Ohio
Progressive Direct Holdings, Inc.	Delaware
Mountain Laurel Assurance Company	Ohio
Progressive Advanced Insurance Company	Ohio
Progressive Auto Pro Insurance Agency, Inc.	Florida
Progressive Choice Insurance Company	Ohio
Progressive Direct Insurance Company	Ohio
Gadsden, AL, LLC	Ohio
Progressive Freedom Insurance Company	New Jersey
Progressive Garden State Insurance Company	New Jersey
Progressive Marathon Insurance Company	Michigan
Progressive Max Insurance Company	Ohio
Progressive Paloverde Insurance Company	Indiana
Progressive Premier Insurance Company of Illinois	Ohio
Progressive Select Insurance Company	Ohio
Progressive Specialty Insurance Agency, Inc.	Ohio
Progressive Universal Insurance Company	Wisconsin
Progressive Investment Company, Inc.	Delaware
Progressive Premium Budget, Inc.	Ohio
Progressive RSC, Inc.	Ohio
Progressive Vehicle Service Company	Ohio
Village Transport Corp.	Delaware
Wilson Mills Land Co.	Ohio

* Wholly owned by ARX Holding Corp.; however, ownership is shared by one or more ARX Holding Corp. subsidiary. Subsidiary is reported under the majority owned parent.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Andrew J. Kane, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2016, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 13th day of February, 2017.

/s/Jeffrey W. Basch

Jeffrey W. Basch

Vice President and Chief Accounting Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Jeffrey W. Basch, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Andrew J. Kane, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2016, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 13th day of February, 2017.

/s/John P. Sauerland
John P. Sauerland
Vice President and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Jeffrey W. Basch, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Andrew J. Kane, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2016, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 13th day of February, 2017.

/s/Susan Patricia Griffith
Director, President and Chief Executive Officer

Susan Patricia Griffith

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Jeffrey W. Basch, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Andrew J. Kane, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2016, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2017.

/s/Stuart B. Burgdoerfer
Stuart B. Burgdoerfer
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Jeffrey W. Basch, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Andrew J. Kane, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2016, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

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/ s/Charles A. Davis

Charles A. Davis

Director

POWER OF ATTORNEY

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IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2017.

/s/Roger N. Farah

Roger N. Farah

Director

POWER OF ATTORNEY

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IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2017.

/s/Lawton W. Fitt
Lawton W. Fitt

Director

POWER OF ATTORNEY

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IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2017.

/s/Glenn M. Renwick

Glenn M. Renwick

Director and Executive Chairman of the Board

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Jeffrey W. Basch, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Andrew J. Kane, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2016, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2017.

/s/Jeffrey D. Kelly

Jeffrey D. Kelly

Director

POWER OF ATTORNEY

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IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2017.

/s/Patrick H. Nettles, Ph.D.

Patrick H. Nettles, Ph.D.

Director

POWER OF ATTORNEY

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IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2017.

/s/Bradley T. Sheares, Ph.D.

Bradley T. Sheares, Ph.D.

Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Jeffrey W. Basch, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Andrew J. Kane, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2016, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 15th day of February, 2017.

/s/Barbara R. Snyder
Barbara R. Snyder

Director

CERTIFICATION

I, Susan Patricia Griffith, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 1, 2017

/s/ Susan Patricia Griffith

Susan Patricia Griffith

President and Chief Executive Officer

CERTIFICATION

I, John P. Sauerland, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 1, 2017

/s/ John P. Sauerland

John P. Sauerland

Vice President and Chief Financial Officer

SECTION 1350 CERTIFICATION

I, Susan Patricia Griffith, 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 Annual Report on Form 10-K of the Company for the period ended December 31, 2016 (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/ Susan Patricia Griffith

Susan Patricia Griffith

President and Chief Executive Officer

March 1, 2017

SECTION 1350 CERTIFICATION

I, John P. Sauerland, Vice President and 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 Annual Report on Form 10-K of the Company for the period ended December 31, 2016 (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

Vice President and Chief Financial Officer

March 1, 2017

LETTER TO SHAREHOLDERS

Each year our CEO chooses a theme surrounding the annual report and then selects art that reflects and complements that theme. When it was time for me to determine the theme for 2016, it was not difficult. I quickly landed on transition: the process or a period of changing from one state or condition to another; a movement, development, or evolution from one form, stage, or style to another.

In some companies, one might have chosen a theme like “reinvent” with the expectation that a new CEO starts with a blank slate for both strategy and talent. That was not the case for me. To use a runner’s analogy, Glenn smoothly handed the baton to me after sprinting with it for sixteen years. This transition was not about a “movement” and much more about our “evolution” as a company and my being able to use my leadership “style” to grab that baton and achieve the objectives that we collectively set as a team.

Our strategy around the Destination Era and the leadership team that I am privileged to lead going forward are incredibly strong. The way this transition was approached reflects our joint commitment to transparency around our business model and goals as well as the importance of continuity, the theme of the last annual report.

RESULTS OVERVIEW

There are two topics that are discussed during almost every meeting at Progressive, our financial goal of making at least four cents of underwriting profit on every dollar earned while growing as fast as we can and our Core Values. In 2016, the majority of our product lines met or exceeded this goal and the year ended with a 95.1 combined ratio at net premiums written growth of 14%. Our employee culture survey results improved in every single category versus the prior year. Having that balance of solid business results and a great place to work makes for a winning formula.

Having just commemorated reaching \$20 billion in premiums written at the end of 2015, adding an additional \$2.8 billion in 2016 is also something to be celebrated. We reward the success of Progressive, for both employees and shareholders, through a variable performance measure we call Gainshare. Our Gainshare score (on a possible scale between 0 and 2) was a 1.67 for 2016. This is the highest score we have seen since 2004. We declared a variable dividend of 68 cents per share, based on our publicly communicated formula that includes the Gainshare score.

Another area of note in 2016 was our retention performance. Though we have reached higher retention levels intra-year, 2016 marks the best year-end personal auto retention in our history. Our retention, as measured by our trailing 12-month policy life expectancy, was up 5% and maintained strength even with the headwind of rising loss costs and resulting rate increases. Despite the danger in conflating the causes of our retention gains, I feel comfortable reporting that our retention engine is firing on all cylinders. We continue to grow new policy applications and we’re seeing a shift to higher retaining consumer segments. Through our Destination Era initiatives, these customers are bundling more often. But even within these consumer segments, we are extending relationships with our customers. For example, our Robinsons segment (think bundled auto and home customers) has seen retention gains that now top 10%, which are a result of both more competitive prices relative to competitors and experience improvements. We are applying the same obsession to leveraging our use of customer data as we have with our pricing data. We believe this will result in further retention growth.

We are also at an all-time high relative to our goal of having more and more customers stay with us a decade or longer with an increase of nearly 10% in 2016. While price actions may cause wider shopping in the industry in 2017, we look forward to rising above this retention challenge.

We are extraordinarily proud of our operating results especially given the high volume of catastrophes in 2016 and the higher costs associated with bringing on so much new business. That said, we try not to talk in terms of excluding catastrophes because they are what they are and the important part is how we react. When we found ourselves slightly over our publicly stated profit goal, the entire company made adjustments to get us back on track. That’s one of many situations where our Core Values come into play - the desire to win, but doing so in the right way.

On the Investments side we produced a 4% total return on our \$23.5 billion portfolio, which added about \$515 million to our after-tax comprehensive income in 2016. Our investment results more than doubled last year's total return, helped by a strong late year rally in equities and our short duration in fixed-income as rates rose. Most importantly, we achieved these returns while protecting our ability to write all the profitable insurance we can.

While the economic and political environments were volatile and, as always, not exactly as we expected at the start of the year, it did provide us with some opportunities. We were well positioned to take advantage of opportunities in non-Treasury sectors early in the year when valuations were attractive, and later in the year to extend our fixed-income duration at higher rates. We are committed to maintaining our disciplined investment strategy and will only accept risks for which we feel we are being adequately compensated.

During the third quarter of 2016, we added to our capital base by issuing \$500 million of ten-year senior notes with a coupon of 2.45%. This added capital will support our future growth and allow us to maintain capital flexibility. Our debt-to-total capital ratio ended the year at 28.3%, which is well below our guideline to not exceed 30% for any significant period of time.

Headed into 2017, we're bullish on what we can accomplish based on having the right talent, infrastructure, and momentum in place to hit the ground running.

A CLOSER LOOK

The most impressive part of 2016 was the much awaited growth in our Agency channel. Having over 35,000 independent agents wanting to sell our products is a meaningful way to be able to reach and serve consumers from all of our segments and we don't take those relationships lightly. We grew Agency auto policies in force by an impressive 7%. One highlight this year, working collectively with the product groups from both Progressive and ASI, was our ability to have the data to understand the competitiveness, state-by-state and segment-by-segment, in our Robinsons cohort. We are confident that we have a firm grasp on when we are and are not competitive in either the auto or home market and, more importantly, have plans to address any issues through future product development and underwriting actions. We know what we need to do in order to increase our penetration with the auto and home bundled customers (aka the Robinsons), our biggest opportunity.

After a slower than desired start with our Platinum offering, growth in the Agency channel has really started to gain momentum as we are seeing policies in force growth for the Robinsons through the Platinum program in the +50% range. We are working en masse with ASI to make sure that we leverage what we both bring to the table--for Progressive a known brand and for ASI a preferred property product. Those attributes, together with great service on both sides, we believe are a winning combination.

On the Direct side, we continue to be pleased with our growth in auto policies in force up 9%. We set record sales each month through August. Sales growth in the first half of 2016 was in the high teens. In the second half of 2016, sales growth declined substantially due to our decision to reduce advertising spend in the last third of the year to ensure that we achieved our stated profit goal of an aggregate calendar year combined ratio of 96. In total, we ended the year at a very respectable 9% overall sales growth.

Within our in-house agency, known as Progressive Advantage Agency, we took the year to invest in talent and technology and test enhancements to our post acquisition customer experience. In addition, we continue to round out the options of what we have to offer customers in the agency including auto, motorcycle, recreational vehicles, boat, and umbrella as well as our Property offerings (home, condominium, and rental). We have been able to increase our Robinsons sales alone, through the agency, by close to 100%.

We will continue to invest in our in-house agency in 2017, in order to be available for both our customers who want additional protection and consumers who decide to become policyholders. Our aspiration is to be available when, how, and where they wish to shop with an easy process.

Our Commercial Lines business has outperformed the commercial auto insurance industry by a wide margin on profitability in recent years, and is currently holding the #1 market share position. Mid-year, we saw a material spike in accident frequency and took swift actions to slow growth and took additional rate while addressing high

frequency segments. While the rate actions will take some time to earn in due to the fact that the majority of these policies are annual, we feel positive where we are positioned going into 2017.

Special lines policies in force increased 4% year over year. The products that we sell under the heading of special lines (boats, motorcycles, recreational vehicles, and manufactured homes) had the same headwind from catastrophes that we saw with our other products and we still managed to meet our targeted profit goals.

We hired in advance of need in both our customer relationship and claims organizations this year. This served us well given our incoming sales and services volume were at all-time highs and the need for us to be there for our customers when they have a claim. In total, we hired over 6,600 new people in 2016 and the retention rate of our existing employees improved approximately 12%.

We strive to provide accurate, fast, and empathetic claims service every day. A catastrophic weather event places a premium on all the elements of claims delivery and at Progressive, we've developed a culture in claims where our people are proud to serve and want to help our customers get back to normal as quickly as possible. Catastrophe volume in 2016 will be remembered as a key contributor to overall results as we responded to 54 named weather events and more than double the catastrophe claim counts we experienced in 2015. Overall, catastrophe-related weather claim volume was 28% higher than the previous record set in 2012, which included Superstorm Sandy. Our full time CAT team, along with over 1,000 "reservists" from our field claims organization, was kept busy through most of the year.

Besides sheer volume, the significant difference between this year and last year was the type of perils and the size of the events. Flood events and high volume catastrophes require more resources and attention to logistics. The San Antonio hail event along with Louisiana's flood catastrophe are single event Progressive claim records for their respective perils. The year closed out with Progressive's first hurricane response since Hurricane Isaac in 2012 - Hurricane Matthew. Despite the complexity and volume, events like the Louisiana flood and Hurricane Matthew achieved 90% claims closure within 60 days of declaration - especially notable for fresh water flood and tropical events. 2016 effectively validated Progressive's catastrophe response infrastructure and readiness.

Our vision as a company is to become consumers' number one choice and destination for auto and other insurance. It is not lost on us that we must have a much deeper and longer-term relationship with our customers in order to successfully achieve this vision. We know we need to give them confidence that when they chose Progressive, they made the right choice. Our customer relationship management group has taken this challenge as their mantra - "Relationships. Lasting for Decades." While there is a lot more work to be accomplished to reach our goals, we are thrilled with our progress in this area.

The structure we have set up around the notion of acquiring customers by having competitive prices, anchoring customers with either an auto or a home product, bundling our customers with auto and home, and finally extending how long our customers stay with us continues to be our approach to growth. We want to meet the current product needs of shoppers with competitive prices and a great shopping experience, provide access to more products to current customers as their life and insurance needs change, and keep customers longer through great service and products.

Internally, we share a broad construct we call our Four Pillars in order to be clear on how we will reach our goals and gain traction on the strategic direction of the company. We see these as frameworks for thinking about how we will continue to be successful in the Destination Era.

Culture:

Our people are our most important asset. Our successful and vibrant culture is rooted in our five Core Values. These values inform our business decisions and govern our interactions with customers, business partners, our shareholders, and each other. We present and discuss our values to every new hire class in order to make sure a new employee understands that our values are the single most important part of our culture other than our people. Our culture and Core Values are essential pieces of the "how" behind the "what" we do every day for each other as Progressive and ASI employees and for our customers, agents, and our shareholders.

Having an environment that allows people to fully leverage their strengths is reflected in how we treat our customers and in our financial results. When we get this right, they reward us with their long-term business.

Culture isn't something I can quantify on a spreadsheet, but it is special to us and something we go to great lengths to preserve.

Be the Brand People Want:

Flo and the Superstore where she works, with her cast of characters, continue to be incredibly relevant. Examples include hip-hop artist Drake giving a nod to Flo during his "More than a Meme" monologue while hosting "Saturday Night Live" and a character in a Stephen King novel, *Doctor Sleep*, casually mentioning buying a policy from Flo in a dream just to name a couple. She represents what we strive to be for consumers-- helpful, unique, and providing a product that is competitive.

We have started to extend the tone of our marketing to focus on protection in addition to savings. Our identifiable Flotection sign reflects that we have the ability to protect the many assets of our customers with multiple products requiring us to make sure we have both great rates and consumer's confidence that they will be taken care of should something happen. We balance our marketing budget to drive new business growth for consumers and help retain our current customers.

As we continue to progress in our Destination Era strategy, we will evolve in the way we show that Progressive understands consumers and what they need when. Based on consumer feedback, we realized that when people buy their first home, life changes and new responsibilities set in. Some changes can be anticipated, like enjoying staying in on the weekend instead of going out, or hosting gatherings instead of traveling. Other changes just happen, like asking people to take their shoes off. We see it as flipping on the 'grown-up switch.'

For many individuals, the first time they realize they are grown up is when they catch themselves doing something their mom or dad always did. Specifically, for me, it was hearing me repeat to my children what my dad used to say when we left a room and didn't turn out the lights. "Do you think we own stock in the electric company?" was a common phrase in my house growing up. So, we aptly named this campaign "Parentamorphosis" because the event of buying a home can cause us to feel like we are becoming our parents. This campaign balances our competitive rates, focusing on the bundled package, with that secure feeling of protecting your most important asset. In addition, it complements the messages from Flo.

Competitive Prices:

We design and deliver a broad offering of innovative, competitive, and stable-priced products that leverage our segmentation expertise, risk selection, and cost structure. We continually gather, consume, and analyze data in order to evolve our product design. We rapidly deploy new products and that speed to market has been a stalwart part of our culture.

Our technology strategy at Progressive and ASI continues to be an integral part of how we run the business and find ways to gain a competitive advantage. Snapshot[®] has been and will continue to be a critical component of this advantage. We believe that with the evolution in technology, usage-based insurance (UBI) will be the norm over time. Having first mover advantage with UBI allows us to use those data capabilities to quickly evolve as necessary. We debuted our mobile device UBI application in 2016 and will continue with a countrywide roll out in 2017. We continue to make significant investments in R&D across the enterprise. The application of telematics for commercial vehicles, to improve segmentation and effectively underwrite and price small fleets, is a space where we are enthusiastic about playing in the future.

In claims, our four Guiding Principles include work environment, accuracy, efficiency, and customer service. Accuracy means paying the right amount and is critical to having competitive rates. Recruiting, training, and developing new hires into competent claims professionals is challenging under any circumstances let alone a year with record levels of catastrophes. We're proud to report that our claims organization responded to this challenge and did so while continuing to extend our track record of strong results and maintaining the high standards of claims resolution quality we strive for.

Finally, we have always focused on our cost structure and making sure that we remain lean. While we have made a lot of investments to support our growth in 2016, we still kept our eye on being efficient. This will be a continued focus for many years to come in order to be on the short list of companies that consumers consider as they are comparing rates when searching for insurance.

Meeting the Broader Needs of Customers:

Our goal is to sell our products where, when, and how people desire. We continue to leverage our position in the very important Agency channel with the combined ASI and Progressive product. We are enhancing our Direct business to focus on the needs of multi-product households and the multiple ways they choose to shop for auto, home, and other Progressive Advantage SM products.

In addition, we must weave the customer into every decision that we make and provide them with unexpected features along the way. More details on this in 2017.

THE FUTURE

Our stated mission outlines critical components of what we need to do every day in order to be successful. We use these words to guide us in our Destination Era. Our mission also looks out to the future and references words that focus on longer-term objectives. We use words like having an “enduring business” and being a “business-generating brand.” With that landscape in mind, we must continue to focus on surgically executing on our current strategy, while also thinking about new revenue generating opportunities. Some of these opportunities are known, like the sharing economy and changing technology in cars, and other opportunities are yet to be unveiled. What we do know is that disruption in our and other industries will continue and we need to embrace those changes using a combination of data and creativity.

A FEW CELEBRATIONS

I’m proud of many events that take place at Progressive, but thought this one was worthy of a special mention. On November 10, 2016, the day before Veterans Day, we held our fourth annual Keys to Progress [®] events to publicly recognize those who have dedicated their lives to serving our country and their communities. More than 100 veterans and their families were gifted newly-refurbished vehicles. The events were held at 63 locations across the country, with most being at Progressive's Service Centers. Through Keys to Progress, we're making a difference in the lives of some very deserving people and increasing awareness of our Service Centers as the local face of Progressive. The event is also an opportunity to team up with many of the business organizations we work with day in and day out to do something good together within our communities.

This year brought much to celebrate in Cleveland. Finally seeing the Cavaliers win a championship was incredible. Watching and rooting on the Cleveland Indians through a seven game World Series at Progressive Field was exceptional.

But the most spectacular part of this year was working side by side with the almost 32,000 Progressive people to position Progressive for a successful and prosperous long-term future.

Taking the words from Glenn’s many annual letter closings...To those who make Progressive, progressive-Thank you.

/s/ Tricia Griffith

Tricia Griffith

President and Chief Executive Officer