

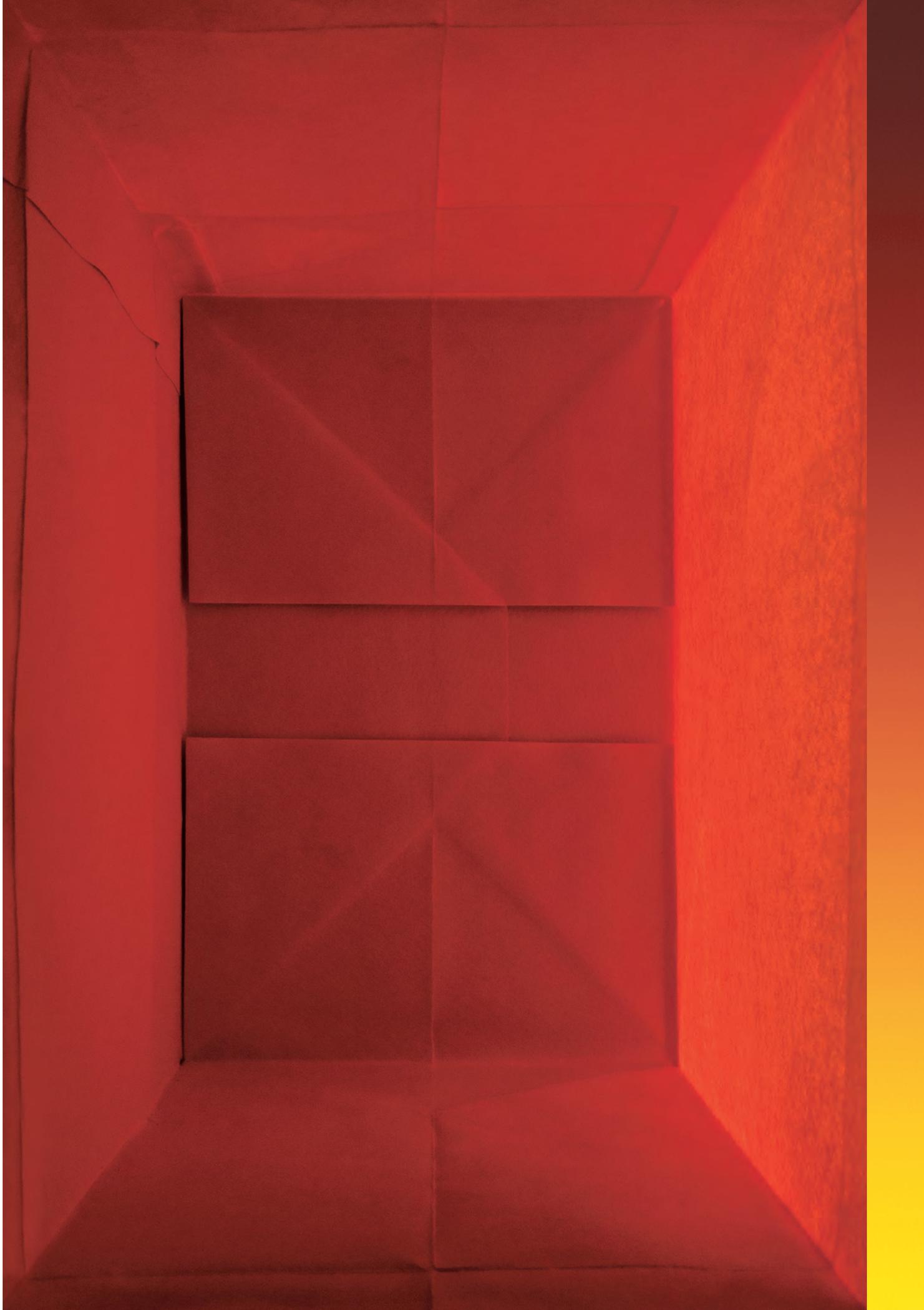


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**The Progressive Group of Insurance Companies, in business since 1937, is one of the country’s largest auto insurance groups, the largest seller of motorcycle policies, the market leader in commercial auto insurance based on premiums written and, through its majority-owned subsidiary, American Strategic Insurance (ASI), one of the top 20 homeowners carriers. Progressive is committed to becoming consumers’ number one choice and destination for auto and other insurance by providing competitive rates and innovative products and services that meet customers’ needs throughout their lifetimes, including superior online and in-person customer service, and best-in-class, 24-hour claims service, such as its concierge level of claims service available at service centers located in major metropolitan areas throughout the United States.**

**Progressive companies offer consumers choices in how to shop for, buy, and manage their insurance policies. Progressive offers personal and commercial auto, motorcycle, boat, recreational vehicle and home insurance. We operate our Personal and Commercial Lines businesses through more than 35,000 independent insurance agencies throughout the U.S. and directly from the Company online, by phone, or on mobile devices. Our homeowners business is underwritten by select carriers, including ASI, throughout the United States.**







# FIVE-YEAR FINANCIAL HIGHLIGHTS

(billions—except per share amounts)

	2016	2015	2014	2013	2012
<b>FOR THE YEAR</b>					
Net premiums written	\$ 23.4	\$ 20.6	\$ 18.7	\$ 17.3	\$ 16.4
Growth over prior year	14%	10%	8%	6%	8%
Net premiums earned	\$ 22.5	\$ 19.9	\$ 18.4	\$ 17.1	\$ 16.0
Growth over prior year	13%	8%	8%	7%	7%
Total revenues	\$ 23.4	\$ 20.9	\$ 19.4	\$ 18.2	\$ 17.1
Net income attributable to Progressive	\$ 1.03	\$ 1.27	\$ 1.28	\$ 1.17	\$ 0.90
Per share	\$ 1.76	\$ 2.15	\$ 2.15	\$ 1.93	\$ 1.48
Underwriting margin	4.9%	7.5%	7.7%	6.5%	4.4%

**This year marks an important moment for Progressive. While we continue to make progress on our Destination Era strategy, we now have a new CEO leading the effort. In light of this move, the theme transition was chosen for this year's annual report. Artist Lucia Koch explores how we can change the spaces we inhabit through subtle means—whether it's through her large-scale photographs of the inside of consumer packaging that create the illusion of rooms or the site-specific installations where she transforms spaces through color and light. To represent our theme, she has created two site-specific installations in the Visitors Center of Progressive's headquarters, itself a transition space into the campus. Using color filters, she paints the space with natural light, providing a new experience of the space for all who move through it. This work is a permanent addition to Progressive's growing collection of contemporary art.**

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

	2016	2015	2014	2013	2012
Common shares outstanding (millions)	579.9	583.6	587.8	595.8	604.6
Book value of shares	\$ 13.72	\$ 12.49	\$ 11.79	\$ 10.39	\$ 9.94
Consolidated shareholders' equity	\$ 8.0	\$ 7.3	\$ 6.9	\$ 6.2	\$ 6.0
Market capitalization	\$ 20.6	\$ 18.6	\$ 15.9	\$ 16.2	\$ 12.8
Return on average common equity	13.2%	17.2%	19.1%	17.7%	14.5%
Return on equity attributable to Progressive	14.9%	14.2%	20.1%	19.0%	17.4%
Private passenger auto policies in force	5,045.4	4,737.1	4,725.5	4,841.9	4,790.4
Commercial policies in force	5,348.3	4,916.2	4,505.5	4,224.2	4,000.1
Total policies in force	4,263.1	4,111.4	4,030.9	3,990.3	3,944.8
Rate of change	14,656.8	13,764.7	13,261.9	13,056.4	12,735.3
Growth over prior year	6%	4%	2%	3%	4%
Private passenger auto revenue	607.9	555.8	514.7	514.6	519.6
Growth over prior year	9%	8%	0%	(1)%	2%
Commercial revenue	1,201.9	1,076.5	1,000.0	900.0	800.0
Growth over prior year	12%	NM	10%	10%	10%
Private passenger auto insurance market <sup>1</sup>	NA	\$ 192.5	\$ 183.5	\$ 174.9	\$ 168.0
Market share <sup>2</sup>	NA	9.0%	8.9%	8.7%	8.5%

## STOCK PRICE APPRECIATION

Progressive	14.7%	13.5%	17.1%
S&P 500	11.9%	8.9%	14.8%

NM = Not meaningful; Property business written by Progressive prior to April 2015 was negligible.

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

<sup>1</sup>Represents net premiums written as reported by A.M. Best Company, Inc.

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

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

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

	2016	2015	2014	2013	2012
<b>AT YEAR-END</b>					
Common shares outstanding (millions)	579.9	583.6	587.8	595.8	604.6
Book value per share	\$ 13.72	\$ 12.49	\$ 11.79	\$ 10.39	\$ 9.94
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Market capitalization	\$ 20.6	\$ 18.6	\$ 15.9	\$ 16.2	\$ 12.8
Return on average shareholders' equity					
Net income attributable to Progressive	13.2%	17.2%	19.1%	17.7%	14.5%
Comprehensive income attributable to Progressive	14.9%	14.2%	20.1%	19.0%	17.4%
Policies in force (thousands)					
Vehicle businesses:					
Personal Lines					
Agency – auto	5,045.4	4,737.1	4,725.5	4,841.9	4,790.4
Direct – auto	5,348.3	4,916.2	4,505.5	4,224.2	4,000.1
Special lines	4,263.1	4,111.4	4,030.9	3,990.3	3,944.8
Total Personal Lines	14,656.8	13,764.7	13,261.9	13,056.4	12,735.3
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## STOCK PRICE APPRECIATION<sup>3</sup>

	1-Year	3-Year	5-Year
Progressive	14.7%	13.5%	17.1%
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## VISION

Become consumers' number one choice and destination for auto and other insurance.

## MISSION

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

## CUSTOMER VALUE PROPOSITION

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

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

## STRATEGY

Progressive people and culture are collectively our most powerful source of competitive advantage. We will achieve our Vision by: 1) maintaining a leading brand recognized for innovative offerings and supported by experiences that instill confidence; 2) offering competitive prices driven by industry-leading segmentation, claims accuracy, and operational efficiency; and, 3) meeting the broader needs of our customers throughout their lifetimes.

# VISION STRATEGY & VALUES

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

## CORE VALUES

Progressive's Core Values serve as the foundation for our corporate culture. They govern our decisions and define the manner in which we conduct our business and how we interact with all interested parties. We want them understood and embraced by all Progressive people.

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

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

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

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

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



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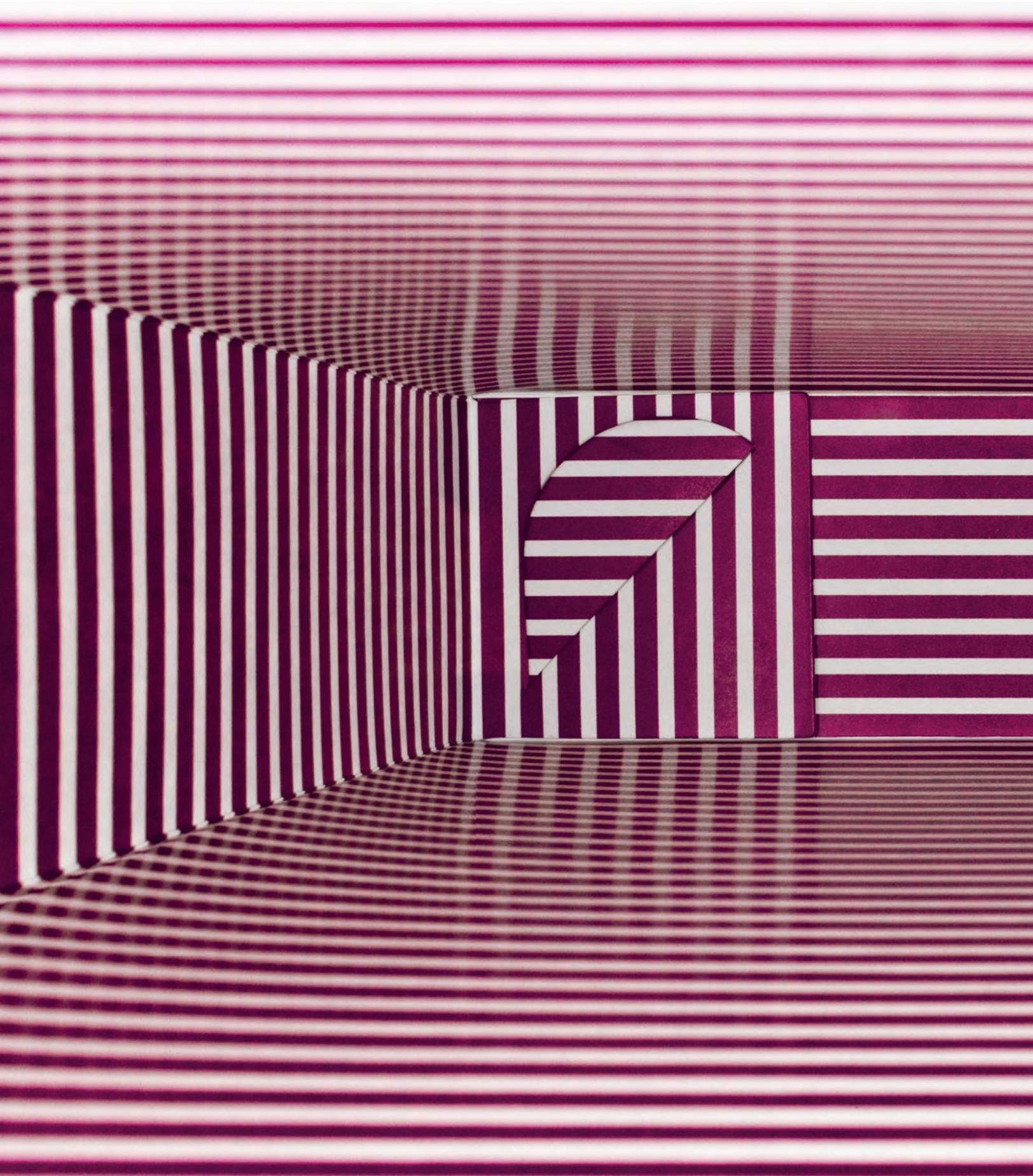
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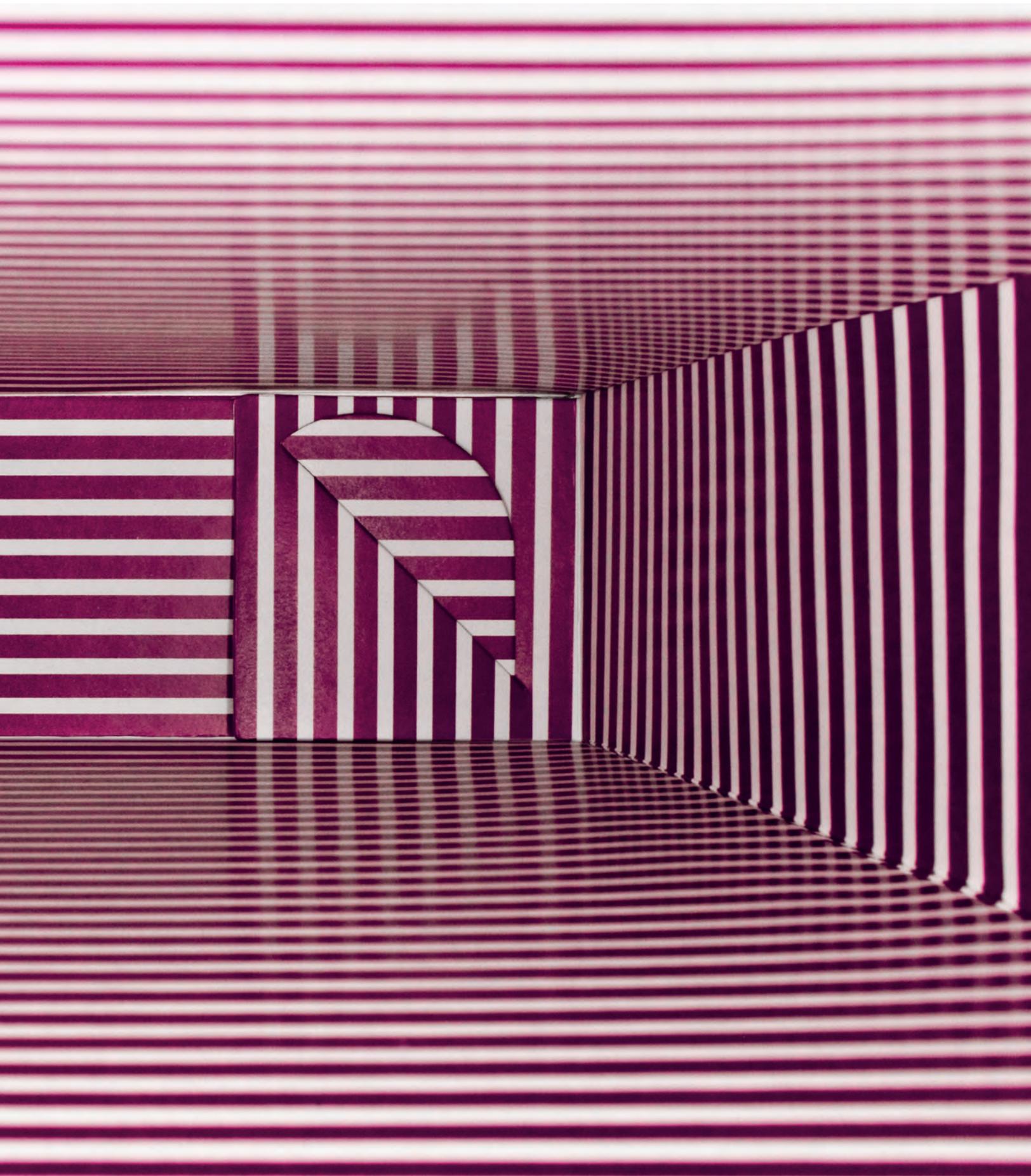
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# LETTER TO SHAREHOLDERS

**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 *tran-si-tion: 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.

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## 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



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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.



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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.



# ormation

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.

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**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.



# Transaction

**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<sup>SM</sup> 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.



**Tricia Griffith**

President and Chief Executive Officer



# transcend

In October 2016, Progressive invited Brazilian artist Lucia Koch to its corporate headquarters in Mayfield Village, Ohio to create two site-specific installations for the Visitors Center lobby. Once Ms. Koch observed the formal qualities of the space, she covered the vestibule in gradients of azure and sun-orange to create the *Sunset Box* (pages 10 and 13). Also prominently featured in the lobby, is one of the artist's large-scale photographs titled *Popcorn* (page 16) that creates the illusion of an extra room that extends from the back wall. In the skylight (above), Ms. Koch installed *The Sky Looks Very Different Today* — its brilliant reds and yellows observable from the surrounding offices. As the light from the sun passes through the lobby, the artworks tint the sunlight and intensify the space, illuminating both the transition between inside and outside, and the transition of time.

## OBJECTIVES

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

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

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



# OBJECTIVES & POLICIES

## FINANCIAL POLICIES

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

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

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

### **Operating: Maintain pricing and reserving discipline**

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

### **Investing: Maintain a liquid, diversified, high-quality investment portfolio**

- Manage on a total return basis
- Manage interest rate, credit, prepayment, extension, and concentration risk
- Allocate portfolio between two groups:
  - *Group I:* Target 0% to 25% (common equities; nonredeemable preferred stocks; redeemable preferred stocks, except for 50% of investment-grade redeemable preferred stocks with cumulative dividends; and all other non-investment-grade fixed-maturity securities)
  - *Group II:* Target 75% to 100% (short-term securities and all other fixed-maturity securities)

### **Financing: Maintain sufficient capital to support insurance operations**

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



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## OBJECTIVES AND POLICIES SCORECARD

FINANCIAL RESULTS		Target	2016	2015	2014	5 Years <sup>1</sup>	10 Years <sup>1</sup>
Underwriting margin	- Progressive <sup>2</sup>	4%	4.9%	7.5%	7.7%	6.2%	6.6%
	- Industry <sup>3</sup>	na		(4.1)%	(1.8)%	(2.1)%	(0.4)%
Net premiums written growth	- Progressive	(a)	14%	10%	8%	9%	5%
	- Industry <sup>3</sup>	na		5%	5%	4%	2%
Policies in force growth	- Personal auto	(a)	8%	5%	2%	4%	4%
	- Special lines	(a)	4%	2%	1%	2%	4%
	- Commercial Lines	(a)	9%	8%	0%	4%	2%
	- Property	(a)	12%	nm	nm	nm	nm
Companywide premiums-to-surplus ratio		(b)	2.7	2.7	2.9	na	na
Investment allocation	- Group I	(c)	18%	20%	23%	na	na
	- Group II	(c)	82%	80%	77%	na	na
Debt-to-total capital ratio		<30%	28.3%	27.1%	23.8%	na	na
Return on average shareholders' equity							
	- Net income attributable to Progressive	(d)	13.2%	17.2%	19.1%	16.3%	15.8%
	- Comprehensive income attributable to Progressive	(d)	14.9%	14.2%	20.1%	17.0%	16.6%

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

(b) Determined separately for each insurance subsidiary.

(c) Allocate portfolio between two groups:

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

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

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

na = not applicable

nm = not meaningful; Property business written by Progressive prior to April 2015 was negligible.

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

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

<sup>3</sup>Industry results for 2015 and 2014 represent private passenger auto insurance market data as reported by A.M. Best Company, Inc. The industry underwriting margin excludes the effect of policyholder dividends. Final comparable industry data for 2016 will not be available until our third quarter report. The 5- and 10-year growth rates are presented on a one-year lag basis for the industry.

## ACHIEVEMENTS

We are convinced that the best way to maximize shareholder value is to achieve these financial objectives and policies consistently. A shareholder who purchased 100 shares of Progressive for \$1,800 in our first public stock offering on April 15, 1971, would have owned 172,456 shares, including dividend reinvestment, on December 31, 2016 with a market value of \$6,122,188, for a 19.5% compounded annual return, compared to the 10.2% return achieved by investors in the S&P 500 during the same period.

In the ten years since December 31, 2006, Progressive shareholders have realized compounded annual returns,

including dividend reinvestment, of 7.8%, compared to 6.9% for the S&P 500. In the five years since December 31, 2011, Progressive shareholders' returns were 17.1%, compared to 14.6% for the S&P 500. In 2016, the returns were 14.7% on Progressive shares and 11.9% for the S&P 500.

We have consistently paid dividends since we went public in 1971. Assuming dividends were not reinvested, a shareholder who bought 100 shares at the initial public offering would now hold 92,264 shares and would have received cumulative dividends of \$818,240, including \$81,949 in 2016. In addition to paying dividends, over the years

when we have had adequate capital and believed it to be appropriate, we have repurchased our shares. As our Financial Policies state, we will repurchase shares to neutralize the dilution from equity-based compensation programs and return any underleveraged capital to investors. During 2016, we repurchased 6,093,814 common shares. The total cost to repurchase these shares was \$192 million, with an average cost of \$31.59 per share. Since 1971, we have spent \$8.9 billion repurchasing our shares, at an average cost of \$7.38 per share.

## OUR BUSINESS MODEL

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

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

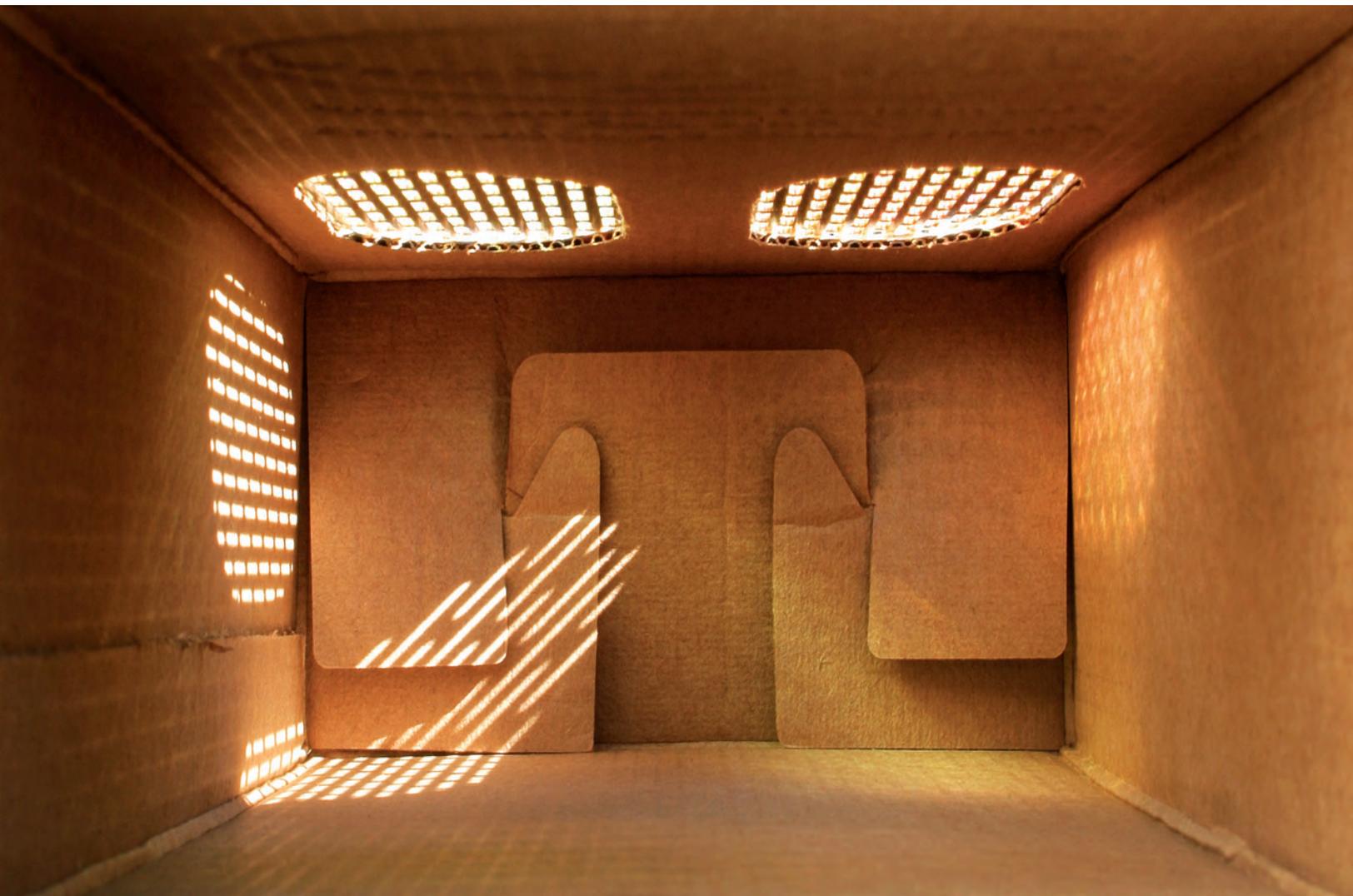
**Grow as fast as we can** subject to our ability to provide high-quality service. Our preferred measure of growth is in customers, best measured by policies in force.

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

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

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

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









# OPERATIONS

## SUMMARY

**We write personal and commercial auto insurance, residential property insurance, and other specialty property-casualty insurance and provide related services throughout the United States. Our Personal Lines segment writes insurance for personal autos and recreational vehicles. Our Commercial Lines segment writes primarily liability and physical damage insurance for automobiles and trucks owned and/or operated predominantly by small businesses. Our Property segment writes insurance for single family homes, condominium units, etc. for homeowners, other property owners, and renters. We distribute our products through both the Agency and Direct channels.**

### PERSONAL LINES

Our operating philosophy is to grow as fast as possible, subject to the constraints of our 96 combined ratio goal and our ability to provide excellent customer service. Despite this consistent approach to operating the business, market conditions and weather volatility can result in varied outcomes from year-to-year and 2016 was a prime example. In 2016, we grew Personal Lines net premiums written 12% at just above a 95 combined ratio, illustrating our disciplined approach to maximizing growth while ensuring we continue to meet profit and customer service expectations. Additionally, during the year we continued to make significant investments towards future profitable growth by advancing

our product segmentation and risk selection, strengthening our Agency distribution channel, and deepening our relationships with customers through expanded product and service offerings.

Profit margins within our Personal Lines business were about 2 points lower for 2016, as compared to 2015, driven by higher loss ratios that were partially offset by lower expense ratios. The elevated loss ratio resulted from a combination of higher catastrophe losses (about \$368 million or 2 points), increased underlying loss frequency and severity trends, and the calendar year effect of rapid Direct auto new business growth. Our lower expenses were primarily due to reductions in media spend during the second half of the year.

In June, we introduced our next generation auto product and, during the second half of the year, expanded it to 12 additional states that in total make up more than 32% of U.S. households. 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 at new business while providing more stable rates for our longer-tenured customers. Market response has been solid, with improved conversion for more preferred consumer segments, particularly in the Direct channel.



# SUMMARY

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We continue to invest to bring our Snapshot® program to more customers, enjoying more than 20% growth in new participants and achieving a milestone of more than 2 million policies in force that have used Snapshot. More than a third of our new Direct customers sign up for Snapshot, and our Agency take rate has doubled in states where the participation discount is available. As of year-end, this version of the Snapshot product is available in 39 states accounting for 85% of our UBI auto premiums. During the year, we also successfully launched the Snapshot mobile app, which will supplement Snapshot's current hardware-based monitoring with a software version that improves user experience while also reducing monitoring costs through the elimination of our hardware and data transmission costs. Our Snapshot mobile app is available in four states as of year-end 2016 and will be deployed as permitted to all remaining states during 2017.

On a year-over-year basis, our Agency auto business grew net premiums written 10% and policies in force 7%, the strongest growth we've seen from the Agency channel in more than a decade. This growth was driven by a combination of an 18% increase in new applications for the year and a 7% increase in policyholder retention. During the year, we added more than 1,500 new agencies and streamlined our onboarding process to accelerate new business production. Quote growth on our proprietary agent systems was faster than on comparative raters, indicating agents are increasingly coming to us first to meet their clients' needs. Also, when agents quoted us via comparative raters, our conversion was up more than 20% during the year, confirming our strong competitive position. During the year, we grew new applications and total policies in force across all consumer segments, although growth in our more preferred Wrights and Robinsons segments significantly outpaced that of our Sams and Dianes. Acknowledging a much smaller base, Robinsons new applications in Agency grew five times faster than Sams during the year, due in part to the expansion of our property offerings and dedicated sales team focusing on auto/home bundled growth, which we'll cover in more detail in the Property operating summary.

Our Direct auto business continued its strong track record in 2016 as we grew both new applications and policies in force 9% and net premiums written by 15%, while remaining below our 96 calendar year combined ratio. Growth in the channel was driven by a combination of more efficient acquisition of new customers during the first half of the year and 4% better customer retention. During the latter part of the year, we adjusted advertising spending to ensure profit margin delivery, which resulted in slower growth during that timeframe. Despite the decrease in advertising, we grew new policies in force across our Dianes, Wrights, and Robinsons segments while we saw low, single digit declines in new applications from our Sam segment during the year. We grew policies in force across all consumer segments, despite a year-over-year decline in Sams new business, and experienced our strongest growth coming from our Robinsons segment. As our mix of Direct customers shifts towards more complex, multi-product customers, it's essential that we continue to expand the Destination Era products we offer or make available. To this end, during the year we made it easier for consumers to secure life insurance protection underwritten by other carriers, launched auto finance and refinance products from a prominent, national finance company, and made significant progress towards introducing a third-party mobile device protection offering in early 2017.

Our special lines products (motorcycle, boat, recreational vehicle, and manufactured home) experienced both weather-related challenges and elevated severity during the year, which resulted in compromised profit margin contribution relative to prior years. Weather-related losses almost doubled for these products during 2016, adding 3 points to its full year combined ratio. Despite lower margins this year, the overall business met our target profit margins and continued to deliver profitable boat and motorcycle growth. Unlike boat and motorcycle, our recreational vehicle (motorhomes and travel trailer) business was unprofitable in 2016, due in part to more than double the weather-related losses in 2016 compared to 2015, combined with more than 20% growth in new policies, which run at lower profit margins during their first term. Expenses within special lines were also up slightly during the year as we replaced our Direct quoting systems and commenced deployment of a new core policy processing system to ensure we provide our multi-product customers a consistent customer experience across our product offerings. Special lines continues to provide a strategic advantage for Progressive as it delivers a substantial portion of Personal Lines annual underwriting profit while also attracting and retaining a large book of preferred customers to whom we can cross-market our auto and expanding property offerings.

Through the lens of maximizing growth at or below our 96 combined ratio, 2016 was an excellent year for Personal Lines as we delivered strong double-digit premium growth below our target combined ratio. In addition to solid financial performance, during 2016 we continued to accelerate our leadership in risk selection and segmentation by advancing our product designs and delivering those designs to market faster than ever before. This powerful combination of product innovation and delivery pace is a robust source of sustainable competitive advantage that enables continued progress towards our vision of becoming consumers' number one choice and destination for auto and other insurance.

## OPERATING RESULTS

### PERSONAL LINES

	2016	2015	CHANGE
Net premiums written (in billions)	\$ 19.8	\$ 17.7	12%
Net premiums earned (in billions)	\$ 19.2	\$ 17.3	11%
Loss and loss adjustment expense ratio	76.1	73.7	2.4 pts.
Underwriting expense ratio	19.2	19.8	(0.6) pts.
Combined ratio	95.3	93.5	1.8 pts.
Policies in force (in thousands)	14,656.8	13,764.7	6%

### COMMERCIAL LINES

Net premiums written (in billions)	\$ 2.6	\$ 2.2	20%
Net premiums earned (in billions)	\$ 2.4	\$ 2.0	21%
Loss and loss adjustment expense ratio	71.9	62.4	9.5 pts.
Underwriting expense ratio	21.7	21.7	0.0 pts.
Combined ratio	93.6	84.1	9.5 pts.
Policies in force (in thousands)	607.9	555.8	9%

### PROPERTY

Net premiums written (in billions)	\$ 0.9	\$ 0.7	NA
Net premiums earned (in billions)	\$ 0.9	\$ 0.6	NA
Loss and loss adjustment expense ratio	63.2	57.3	5.9 pts.
Underwriting expense ratio	33.0	32.6	0.4 pts.
Combined ratio	96.2	89.9	6.3 pts.
Policies in force (in thousands)	1,201.9	1,076.5	12%

NA = Not applicable. Premiums only include business written after April 1, 2015, the date we acquired a controlling financial interest in ARX Holding Corp.; any Property business written by Progressive prior to April 1, 2015, was negligible.

## COMMERCIAL LINES

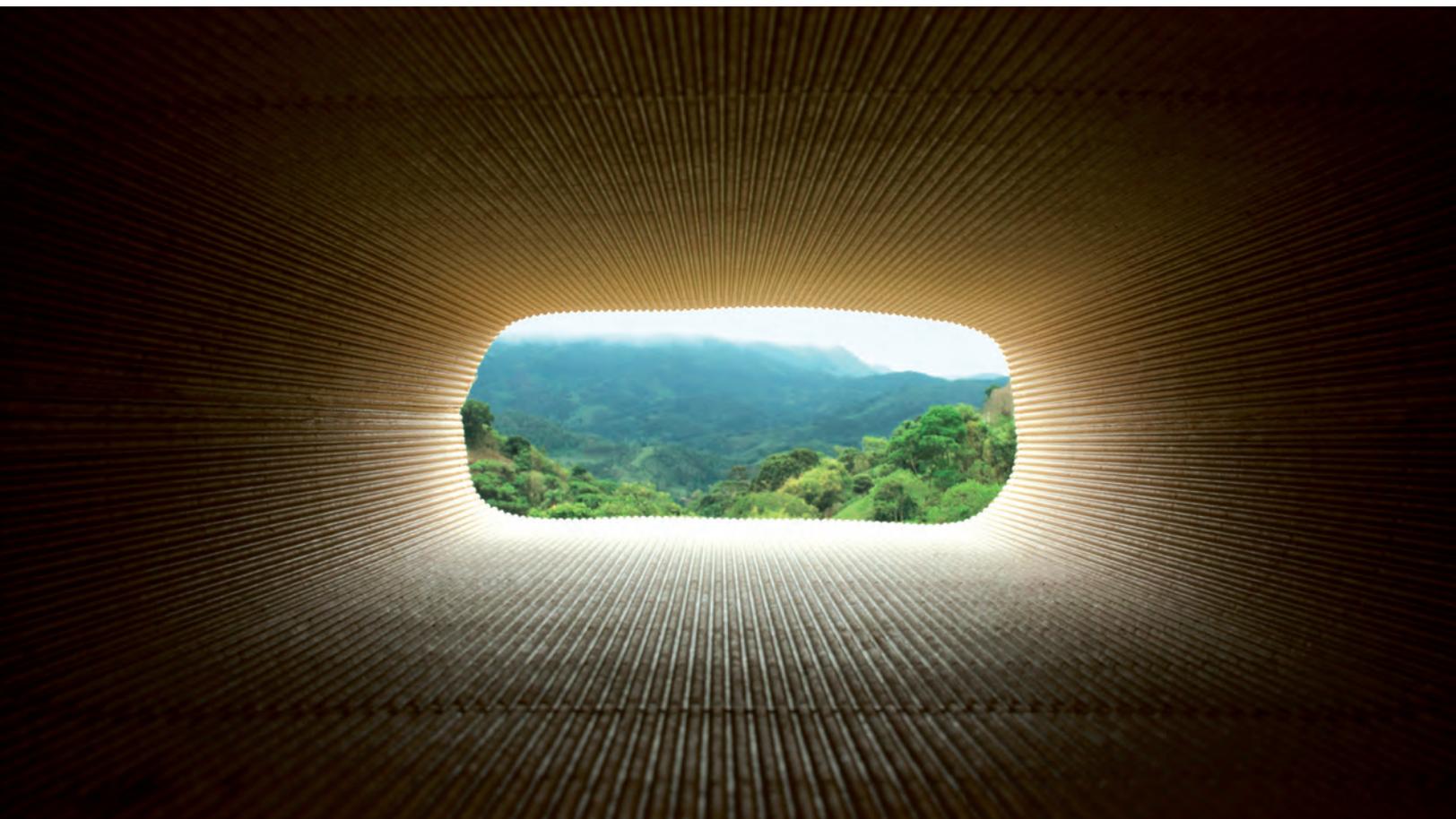
The Commercial Lines business experienced strong premium growth in 2016, widely outperforming the industry in commercial auto profitability and achieving our internal underwriting profit objective. These strong results somewhat belie the current state of the commercial auto insurance market and the challenges encountered throughout the year. Our enduring commitment to achieve our underwriting profit target regardless of prevailing market conditions and only grow as fast as we can subject to that constraint guided our actions throughout 2016. Achieving the right balance was an area of focus in the second half of the year and remains so as we head into 2017.

Top line growth was exceptional with net premiums written increasing 20% to a market leading \$2.6 billion. Premium growth was driven by a robust 9% year-over-year increase in policies in force and continued gains on average written premium per policy. Agents

continue to value Progressive's commercial auto products for being broadly available, competitive, and easy to use, and more small business owners are finding Progressive to be the right choice on a direct purchase basis. The latter is a particularly exciting development as other industry players ramp up investment in cultivating the direct channel for small business insurance. A shift in preference to the direct channel should benefit Progressive disproportionately given our current brand position and ongoing investment in this area. While our distribution, product, and branding strategies were, and remain, essential to growing the business, we cannot overlook the role market forces played in increasing our demand in 2016.

The Commercial Lines combined ratio was 93.6, a quite satisfactory result given strong growth in new business and general degradation in commercial auto market results. The U.S. commercial auto insurance industry will produce its sixth consecutive calendar year underwriting loss in 2016 and is not likely to show any improvement from 2015's dismal result. For Progressive, strong new business sales, improving policy retention, and diminishing outside market availability was met by a greater than anticipated uptick in accident frequency in June, producing a few months of above target combined ratios. We responded quickly by restricting certain high-frequency business classes and adjusting rates across the portfolio to levels more appropriate for the environment. With accident frequency beginning to stabilize at a new higher level, we enter 2017 comfortable with our rate adequacy. As always, we will continue to monitor and respond to changes with alacrity. Our history in commercial auto has shown that decisive and disciplined action in the face of deteriorating market conditions can provide the foundation for a period of sustained, profitable growth.

We aspire to be a highly efficient and low cost provider of commercial auto insurance and other business protection to America's small business owners. We have maintained a very competitive commercial auto expense ratio for several years and this remains an ongoing point of emphasis and comparative advantage. In 2016, we increased investment in a number of strategically important areas including core systems replacement, new product development, and small business owner brand building. These investments created upward pressure on expenses throughout the year. The increased spending was paired with proportional gains in premium, leaving our year-over-year operating expense ratio unchanged. Nonetheless, we remain committed to lowering our operating expenses over time and are confident these investments will propel us along that path by providing long-term gains in scalable growth, sustainable customer relationships, and an even more efficient operating model.



In April 2016, we entered into an agreement to provide commercial auto insurance and claims service to an Uber Technologies subsidiary in the State of Texas. We are excited for the opportunity to learn alongside a leading technology platform in the sharing economy while simultaneously creating new auto insurance opportunities, both commercial and personal, with ridesharing and other vehicle matching service models.

The fusion of new vehicle technologies, increased connectivity of people and things, and the corresponding proliferation of large data sets through telematics and other similar devices will continue to drive change in commercial lines and create the need for new products. In the near term, new revenue from these emerging products and technologies are uncertain and, in any event, likely to be limited relative to the size of our Commercial Lines business. However, we continue to invest in developing the data, relationships, and capabilities that will allow us to capitalize on the oncoming disruption. Most notable among these changes may be the slow, but determined, march towards autonomous vehicles, a phenomenon likely to first take hold in the commercial space as businesses seek to reduce driver-related costs.

The strength and momentum of our foundational commercial auto business, combined with core capabilities in claims resolution, risk segmentation, and big data management, leave us well positioned and excited about our future in Commercial Lines.

## PROPERTY

Our property strategy is meant to complement our multi-channel auto offerings with leading property products in order to increase our share of the bundled home and auto market. In the Agency channel, we offer residential property insurance for homeowners, other property owners, and renters primarily through our majority-owned insurance company, American Strategic Insurance (ASI). In the Direct channel, we distribute residential property insurance policies underwritten by ASI and other non-affiliated carriers directly to consumers both on and offline through our Progressive Home Advantage® (PHA) program.

During 2016, our Property business, which includes ASI property insurance and Progressive's renters insurance, had net premiums written of \$935.7 million and a combined ratio of 96.2. Higher than average catastrophe losses contributed about 19.7 points to the Property business combined ratio in 2016. According to data collected by the Insurance Services Office (ISO), 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. The non-catastrophe loss ratio, a more stable indicator of recurring results, outperformed our annualized target. In addition, the combined ratio included about 7.2 points of amortization expense, predominately associated with our acquisition of a controlling interest in ARX Holding Corp. (ARX) and not its ongoing operations.

ASI purchases substantial levels of reinsurance to reduce volatility and increase the likelihood of achieving target profit margins. During 2016, the amount of our reinsurance recoverable was limited to severe thunderstorms. The nature of those severe thunderstorms and ASI's other weather-related losses and their geographic distribution resulted in most losses falling short of the reinsurance coverage thresholds and thus impacted the Property business' bottom line for 2016. For 2017, ASI added

"aggregate stop loss" reinsurance protection to better insulate the business from volatility in losses. This protection will reimburse ASI for losses (excluding named hurricanes and named tropical storms and liability coverages) above a specified loss ratio subject to a maximum pay out. Named storm protection is reinsured to similar limits as in previous years with possibly smaller retention amounts for third and subsequent named storms.

Policies in force for our Property business increased 12% in 2016, compared to 2015. About 9 percentage points of the increase is a result of the June 1, 2016 exchange transaction in which ARX acquired an insurance company that writes residential property insurance and disposed of an insurance subsidiary that writes commercial property insurance. This transaction added a net 96,000 Florida policies and allowed us to focus on the residential property business and divest the non-strategic commercial business.



The four key priorities in support of our property strategy include: 1) expanding ASI's product availability and agent distribution in new and recently entered states; 2) increasing the competitiveness of Progressive auto and ASI home bundles; 3) improving agent ease of use for quoting and selling bundled ASI/Progressive policies; and 4) expanding our PHA property offering through investing resources to increase consumer awareness and maximize sales yield. Against this landscape, 2016 saw significant progress toward each of these priorities.

During the year, ASI expanded to seven additional states, including two of the largest property markets, New York and California, bringing the total to 38 states and the District of Columbia, which represents nearly 95% of U.S. homes. In these states, we continued to expand our Platinum offering which enhances home and auto bundling through a unique combination of agent and customer benefits. We now offer the Platinum program in 34 states, where we more than tripled the number of Platinum agents during the year. We also increased our non-Platinum Property agent count by more than 30% in order to ensure we're available where, when, and how consumers want to purchase property protection. In addition, during 2016, we expanded our Progressive renters program to 12 additional states for a total of 34 states. This program is strategically important to our long-term strategy as it provides a future pipeline of home and auto bundlers.

The agencies that target the Wrights and Robinsons have a wide variety of choices when it comes to property carriers, especially for the preferred properties targeted by ASI. To this end, our property and auto product management teams work closely together to explore solutions that improve both auto and property competitiveness for those customers seeking to bundle. Specific progress on the Property side during the year included the introduction of expanded coverage options for select agencies via our Platinum endorsement, expanded acceptability and underwriting criteria in several states, and unique property rating segmentation that affords more competitive pricing for bundled customers. Throughout the year, we also completed research that facilitates more competitive rates for older homes through new rating variables and updated underwriting requirements, and we implemented these enhancements in a handful of states. Early results are encouraging and these changes will be more broadly implemented in the future.

As we expand ASI from a successful writer of newer, preferred homes in coastal markets to becoming, along with Progressive, a leading writer of preferred bundled auto and home business nationwide, its mix of states, distributors, and policy contracts will continue to evolve. During 2016, ASI shifted its mix of policies in force by growing faster in traditional independent agencies than with some of its larger national partners and increasing its mix of bundled home and auto policies. We expect the geographic concentration of ASI's Property business to shift over time. For 2016, ASI's business in Florida represented 19% of new homeowners' policies, Texas represented 18%, and the rest of the country accounted for the balance. ASI's Florida direct premium concentration increased by about 4.5 points this year, aided by the exchange transaction, while their concentration in Texas was reduced about 3 points. As ASI gains traction in new markets, we expect the percent of business written in Florida and Texas to decline.

Competitive home and auto products are necessary, but alone are not sufficient to win business in the highly competitive agency marketplace. We must also strive to provide simple and easy to use agent-facing technology and underwriting processes. During 2016, ASI launched a pilot of streamlined underwriting verification processes for certain property types and piloted a new home and auto quoting system that leverages external data-fill to make it faster and easier for agents to quote the auto/home bundle. After piloting this system in three states over several months, we are using the learnings to continue to make improvements to our agency quoting platforms.

Beyond the Agency channel, we continue investing in PHA to increase consumer awareness of our direct-to-consumer property offering and expanding our capabilities both online and offline to better meet consumers' needs. During the year, we expanded marketing of property products within our online auto quoting applications and enhanced our quoting experience for multi-product shoppers. Offline we continued to optimize the routing of traffic to maximize sales yield and invest to expand the capabilities within our in-house agency. These investments include technology and process improvements, adding staff, and expanding product availability through additional state and carrier combinations. These actions are expected to improve overall sales yield and should enable us to better meet our Direct customers' property needs.

We feel very good about the investments made throughout the year in support of more closely integrating ASI as part of our Destination Era strategy and expanding the capacity and competitiveness of our direct to consumer offerings. Progressive has made significant progress during 2016, transforming into a national writer of bundled auto and home business and, more importantly, we have laid the foundation for the growth and profitability we hope to achieve in 2017 and beyond. We enter 2017 with tremendous momentum and optimism.



# CONSOLIDATED FINANCIAL STATEMENTS

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Progressive's management is responsible for establishing and maintaining adequate internal control over financial reporting. Based on Progressive's evaluation under the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), management concluded that Progressive's internal control over financial reporting was effective as of December 31, 2016. The complete "Management's Report on Internal Control over Financial Reporting," as required by Section 404 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations, along with the related report of PricewaterhouseCoopers LLP, is presented in the 2016 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2017 Proxy Statement.

**BASIS OF PRESENTATION** The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries, and affiliates. These financial statements should be read in conjunction with the complete Consolidated Financial Statements, including the complete Notes to the Consolidated Financial Statements, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations and Supplemental Information, which are included in Progressive's 2016 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2017 Proxy Statement.

## 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 and in the 2016 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2017 Proxy Statement. 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.



# STATEMENTS

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Progressive's management is responsible for establishing and maintaining adequate internal control over financial reporting. Based on Progressive's evaluation under the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), management concluded that Progressive's internal control over financial reporting was effective as of December 31, 2016. The complete "Management's Report on Internal Control over Financial Reporting," as required by Section 404 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations, along with the related report of PricewaterhouseCoopers LLP, is presented in the 2016 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2017 Proxy Statement.

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# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions—except per share amounts)

For the years ended December 31,	2016	2015	2014
<b>REVENUES</b>			
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
<b>EXPENSES</b>			
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
<b>NET INCOME</b>			
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
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
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
<b>COMPUTATION OF PER SHARE EARNINGS ATTRIBUTABLE TO PROGRESSIVE</b>			
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

Notes to the Consolidated Financial Statements are included in Progressive's 2016 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2017 Proxy Statement.

# CONSOLIDATED BALANCE SHEETS

(millions)

For the years ended December 31,

	2016	2015
<b>ASSETS</b>		
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 <sup>1</sup>	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
<b>LIABILITIES</b>		
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 <sup>2</sup>	2,495.5	2,067.8
Debt <sup>3</sup>	3,148.2	2,707.9
Total liabilities	24,986.7	22,065.0
<b>REDEEMABLE NONCONTROLLING INTEREST (NCI)<sup>4</sup></b>	483.7	464.9
<b>SHAREHOLDERS' EQUITY</b>		
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

<sup>1</sup>See Note 1—Reporting and Accounting Policies – Supplemental Cash Flow Information for further discussion.

<sup>2</sup>See Note 12—Litigation and Note 13—Commitments and Contingencies for further discussion.

<sup>3</sup>Consists of both short-term and long-term debt. See Note 4—Debt for further discussion.

<sup>4</sup>See Note 15—Redeemable Noncontrolling Interest for further discussion.

Notes to the Consolidated Financial Statements are included in Progressive's 2016 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2017 Proxy Statement.

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(millions—except per share amounts)

For the years ended December 31,	2016	2015	2014
<b>COMMON SHARES, \$1.00 PAR VALUE</b>			
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
<b>PAID-IN CAPITAL</b>			
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
<b>RETAINED EARNINGS</b>			
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
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
<b>ATTRIBUTABLE TO PROGRESSIVE</b>			
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.

Notes to the Consolidated Financial Statements are included in Progressive's 2016 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2017 Proxy Statement.

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# CONSOLIDATED BALANCE SHEETS

(millions)

For the years ended December 31,

	2016	2015
<b>ASSETS</b>		
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 <sup>1</sup>	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
<b>LIABILITIES</b>		
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 <sup>2</sup>	2,495.5	2,067.8
Debt <sup>3</sup>	3,148.2	2,707.9
Total liabilities	24,986.7	22,065.0
<b>REDEEMABLE NONCONTROLLING INTEREST (NCI)<sup>4</sup></b>	483.7	464.9
<b>SHAREHOLDERS' EQUITY</b>		
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	4,685.6
Accumulated other comprehensive income:		
Net unrealized gains (losses) on securities	93.5	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	93.4	800.4
Total shareholders' equity	7,957.1	7,289.4
Total liabilities, redeemable NCI, and shareholders' equity	\$ 33,427.5	\$ 29,819.3

<sup>1</sup>See Note 1—Reporting and Accounting Policies – Supplemental Cash Flow Information for further discussion.

<sup>2</sup>See Note 12—Litigation and Note 13—Commitments and Contingencies for further discussion.

<sup>3</sup>Consists of both short-term and long-term debt. See Note 4—Debt for further discussion.

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# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(millions—except per share amounts)

For the years ended December 31,	2016	2015	2014
<b>COMMON SHARES, \$1.00 PAR VALUE</b>			
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
<b>Balance, End of year</b>	<b>\$ 579.9</b>	<b>\$ 583.6</b>	<b>\$ 587.8</b>
<b>PAID-IN CAPITAL</b>			
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
<b>Balance, End of year</b>	<b>\$ 1,303.4</b>	<b>\$ 1,218.8</b>	<b>\$ 1,184.3</b>
<b>RETAINED EARNINGS</b>			
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)
<b>Balance, End of year</b>	<b>\$ 5,140.4</b>	<b>\$ 4,686.6</b>	<b>\$ 4,133.4</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
<b>ATTRIBUTABLE TO PROGRESSIVE</b>			
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
<b>Balance, End of year</b>	<b>\$ 933.4</b>	<b>\$ 800.4</b>	<b>\$ 1,023.1</b>
<b>Total Shareholders' Equity</b>	<b>\$ 7,957.1</b>	<b>\$ 7,289.4</b>	<b>\$ 6,928.6</b>

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

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

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# CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions)

For the years ended December 31,	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
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

Notes to the Consolidated Financial Statements are included in Progressive's 2016 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2017 Proxy Statement.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Progressive Corporation and its subsidiaries as of December 31, 2016 and December 31, 2015, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016 (not presented herein) appearing in The Progressive Corporation's 2016 Annual Report to Shareholders, which is attached as an Appendix to The Progressive Corporation's 2017 Proxy Statement; and in our report dated March 1, 2017, we expressed an unqualified opinion on those consolidated financial statements.

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



Cleveland, Ohio  
March 1, 2017

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](http://progressive.com/dividend).

Quarter	Stock Price			Rate of Return	Dividends Declared per Share
	High	Low	Close		
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	14.7%	\$ 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	20.9%	\$ 0.8882

## 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.

# DIRECTORS AND OFFICERS

## DIRECTORS AND OFFICERS

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

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

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

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

### Roger N. Farah <sup>3, 5, 6</sup>

Executive Director, Tory Burch LLC (retailing)

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

Lead Independent Director, Retired Partner, Goldman Sachs Group (financial services)

### Susan Patricia Griffith <sup>2</sup>

President and Chief Executive Officer, The Progressive Corporation

### Jeffrey D. Kelly <sup>1, 6</sup>

Retired Chief Operating Officer and Chief Financial Officer, RenaissanceRe Holdings Ltd. (reinsurance services)

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

Executive Chairman, Ciena Corporation (telecommunications)

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

Executive Chairman of the Board, The Progressive Corporation

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

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

### Barbara R. Snyder <sup>1, 6</sup>

President, Case Western Reserve University (higher education)

## 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

<sup>1</sup>Audit Committee Member

<sup>2</sup>Executive Committee Member

<sup>3</sup>Compensation Committee Member

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

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

<sup>6</sup>Independent Director

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

### Personal Autos, Motorcycles, and Recreational Vehicles

### Commercial Autos/Trucks

<b>To Receive a Quote</b>	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-888-806-9598 progressivecommercial.com
<b>To Report a Claim</b>	1-800-PROGRESSIVE (1-800-776-4737) progressive.com <sup>1</sup>	1-800-PROGRESSIVE (1-800-776-4737)
<b>For Customer Service</b> If you bought your policy through an independent agent or broker	1-800-925-2886 (1-800-300-3693 in California) progressiveagent.com	1-800-444-4487 progressivecommercial.com
If you bought your policy directly through Progressive online or by phone	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-895-2886 progressivecommercial.com

### 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.

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

# CORPORATE INFORMATION

## Principal Office

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

**Annual Meeting** The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, Studio 96, 6671 Beta Drive, Mayfield Village, Ohio 44143 on May 12, 2017, at 10 a.m. eastern time. There were 2,152 shareholders of record on December 31, 2016.

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

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

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

## 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@astfinancial.com](mailto:info@astfinancial.com); or visit their website at: [astfinancial.com](http://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.

## Online Annual Report and Proxy Statement

Our 2016 Annual Report to Shareholders can be found at: [progressive.com/annualreport](http://progressive.com/annualreport).

We have also posted copies of our 2017 Proxy Statement and 2016 Annual Report to Shareholders, in a PDF format, at: [progressiveproxy.com](http://progressiveproxy.com).

**Copyright** Definition on page 11 from the online version of the *Oxford Dictionary* and the *Merriam-Webster Dictionary*.

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

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**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](mailto: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](mailto: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](mailto: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](http://www.progressivealertline.com). Progressive will not retaliate against any individual by reason of his or her having made such a complaint or reported such a concern in good faith. View the complete procedures at: [progressive.com/governance](http://progressive.com/governance).

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

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



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