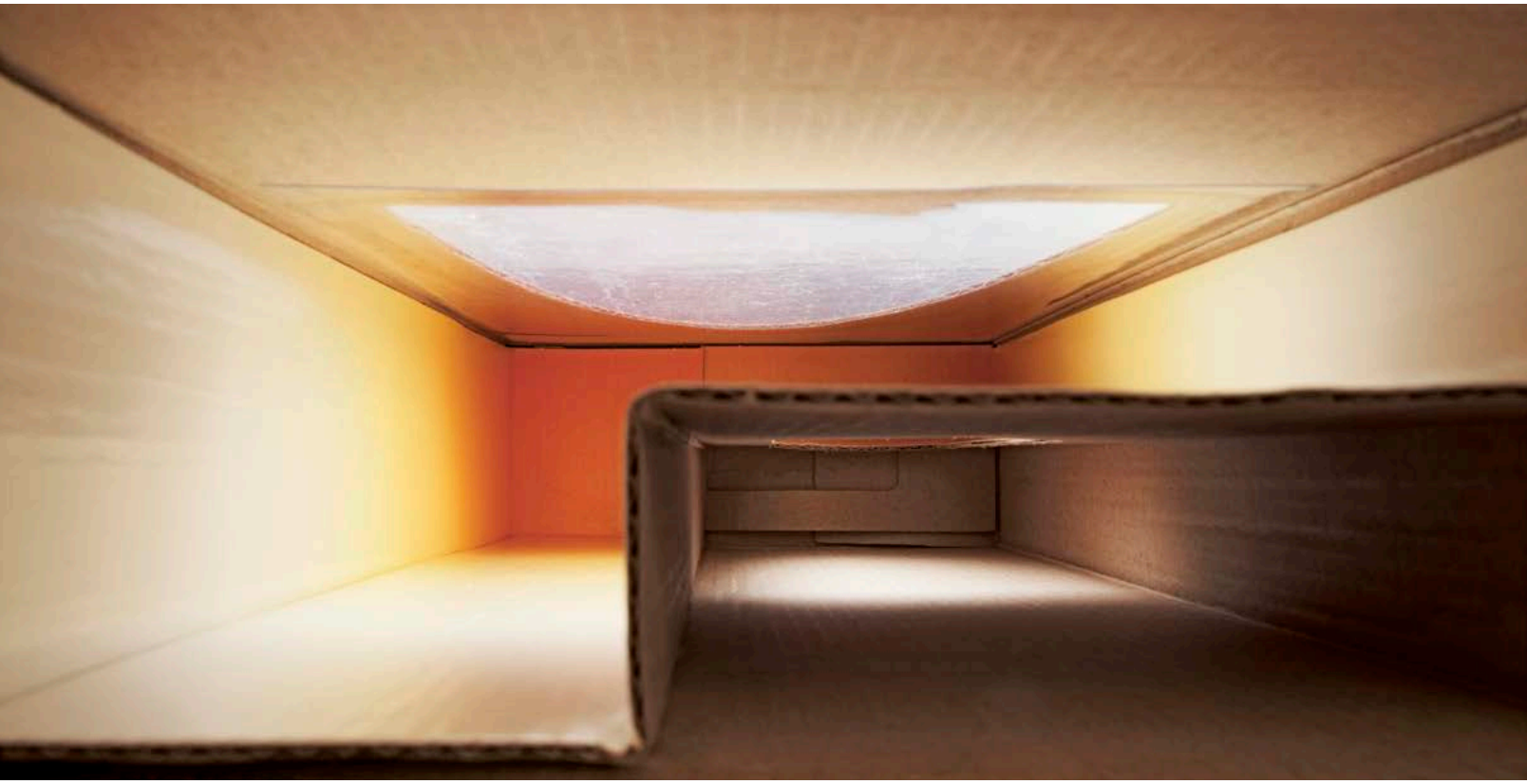
2017 Third Quarter Report



THE PROGRESSIVE CORPORATION

The Progressive Corporation and Subsidiaries

Financial Highlights

	Nine Months Ended September 30,		Years Ended December 31,			
(billions - except per share amounts)						
	2017	2016	2016	2015	2014	2013
Net premiums written	$ 20.4	$ 17.8	$ 23.4	$ 20.6	$ 18.7	$ 17.3
Growth over prior period	14%	13%	14%	10%	8%	6 %
Net premiums earned	$ 18.9	$ 16.6	$ 22.5	$ 19.9	$ 18.4	$ 17.1
Growth over prior period	14%	13%	13%	8%	8%	7 %
Total revenues	$ 19.7	$ 17.3	$ 23.4	$ 20.9	$ 19.4	$ 18.2
Net income attributable to Progressive	$ 1.02	$ 0.65	$ 1.03	$ 1.27	$ 1.28	$ 1.17
Per share	$ 1.73	$ 1.11	$ 1.76	$ 2.15	$ 2.15	$ 1.93
Underwriting margin	5.8%	4.0%	4.9%	7.5%	7.7%	6.5 %
(billions - except shares outstanding, per share amounts, and policies in force)						
At Period-End						
Common shares outstanding (millions)	581.6	580.8	579.9	583.6	587.8	595.8
Book value per share	$ 15.97	$ 13.94	$ 13.72	$ 12.49	$ 11.79	$ 10.39
Consolidated shareholders' equity	$ 9.3	$ 8.1	$ 8.0	$ 7.3	$ 6.9	$ 6.2
Market capitalization	$ 28.2	$ 18.3	$ 20.6	$ 18.6	$ 15.9	$ 16.2
Return on average shareholders' equity						
Net income attributable to Progressive	16.3%	12.8%	13.2%	17.2%	19.1%	17.7 %
Comprehensive income attributable to Progressive	18.4%	16.4%	14.9%	14.2%	20.1%	19.0 %
Policies in force (thousands)						
Vehicle businesses:						
Personal Lines						
Agency - auto	5,515.3	4,980.1	5,045.4	4,737.1	4,725.5	4,841.9
Direct - auto	5,889.6	5,324.0	5,348.3	4,916.2	4,505.5	4,224.2
Special lines	4,396.1	4,291.1	4,263.1	4,111.4	4,030.9	3,990.3
Total Personal Lines	15,801.0	14,595.2	14,656.8	13,764.7	13,261.9	13,056.4
Growth over prior year	8%	6%	6%	4%	2%	3 %
Commercial Lines	638.6	612.7	607.9	555.8	514.7	514.6
Growth over prior year	4%	12%	9%	8%	0%	(1)%
Property	1,375.6	1,184.7	1,201.9	1,076.5		
Growth over prior year	16%	11%	12%	NM		
Private passenger auto insurance market[1]	NA	NA	$ 206.6	$ 192.8	$ 183.5	$ 174.9
Market share[2]	NA	NA	9.4%	9.0%	8.9%	8.7 %
Stock Price Appreciation[3]						
Progressive	38.8%	1.8%	14.7%	20.9%	5.3%	30.9 %
S&P 500	14.2%	7.8%	11.9%	1.4%	13.7%	32.4 %

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

[1] Represents net premiums written as reported by A.M. Best Company, Inc.
[2] Represents Progressive's private passenger auto business, including motorcycle insurance, as a percent of the private passenger auto insurance market.
[3] Represents average annual compounded rate of increase and assumes dividend reinvestment.

Letter to Shareholders
Third Quarter 2017

Had anyone foreshadowed how the quarter would unfold after our stellar July results, I would have been skeptical. That said, this is the business we are in and I often say that we can't control the weather, only how we react after it comes our way. More on that in a moment. We grew net premiums written (NPW) 18% over last year and ended the quarter with a 97.4 combined ratio (CR), even with catastrophe losses of $430 million, or 6.6 points, including two of the largest storms in our history hitting two of our largest states. We did benefit from catastrophe reinsurance on our Property business, which limited our homeowners' losses to $50 million for Hurricane Irma. Our YTD CR is a very healthy 94.2 with NPW growth of 14%. I'm thrilled with these results.

Policies in force growth continues to be strong with both our Agency and Direct auto at 11%, Property at 16%, Commercial Auto at 4%, and special lines at 2%.

There is continued momentum in Robinson (bundled home and auto) growth, with strong new business applications and year-over-year policies in force growth of about 30%. In the Agency channel, we experienced ongoing gains in bundled volume across our Platinum states. In Direct, HomeQuote Explorer (HQX), our online quoting platform for home insurance, continued to improve in overall yield as we rolled out new features, such as improved mobile quote functionality and online buy capabilities. As a reminder, we will do a deep dive into Property during our next Investor Webcast scheduled for Friday, November 3rd from 10-11:30 a.m. As always, that session will be followed with time allotted for questions.

Our Direct auto new applications grew 25% for the third quarter compared to last year. During the quarter, we kept our advertising costs on pace with the first half of the year. However, on a year-over-year basis, our media spend was up significantly for the quarter, reflecting the cost reduction efforts we put in place for the second half of last year. In any event, I'm pleased with the recent Direct auto growth and the efficiency of our media spend.

The third quarter saw us continue the retention momentum we've seen for the past two years, outside of a small decline in the first quarter of this year. We have set a new all-time high for total auto policy life expectancy (PLE). Our trailing 12-month total auto PLE increased 5% over last year with strength across both the Agency and Direct auto businesses. We continue to focus on having a very competitive and preferred product available and, through our service philosophy, to make sure we give our customers a reason to stay. We believe having the right balance of nature and nurture is very positively affecting our retention results.

In Commercial Lines, we continue to feel good about our overall rate level though we continue to make state and coverage adjustments and respond to our most current assessment of trend. New business volume was strong this quarter, especially in September. The great news is that this isn't primarily a denominator effect as last year's underwriting restrictions didn't take complete hold until October and were lifted beginning at the end of the first quarter this year. We closely monitor business that was previously restricted and like what we are seeing. We believe new segmentation and underwriting are helping a lot.

We will be launching our usage-based insurance (UBI) program for Federal Motor Carriers in December, offering discounts from 3-18%. It is essentially a device-agnostic approach designed to work with multiple Electronic Logging Device (ELD) vendors.

During the third quarter, we completed the rollout of the Snapshot® mobile app that we introduced in late 2016 to all currently eligible states. Direct and Agency shoppers in 41 states and the District of Columbia can now choose either the mobile app or the plug-in device to participate in Snapshot. Consumer adoption continues to increase with more than half of new UBI customers in the Direct channel using the mobile app when it is available. Since the mobile app was introduced, we have collected a little over 11 million trips and 116 million miles driven. We will continue to update our product design and work with regulators with the goal of adding the mobile app in the remaining 9 states.

For the third quarter, our investment portfolio earned a fully taxable equivalent (FTE) total return of 1.1%, with our equity portfolio continuing to lead the way at 4.3% and our fixed-income portfolio at 0.7%. On a year-to-date basis, our FTE total return is 4.2%. The economy continued to grow at a solid pace. The Federal Open Market Committee of the Federal Reserve announced that they continue to expect to raise rates in December and three more times in 2018, which should have a favorable impact on our portfolio yields over time.

A few weeks ago, I, along with other senior leaders, flew down to Texas and Florida to get a first-hand look at the devastation and get a sense of how both our employees and customers were faring. We have our full-time catastrophe team in full force and deployed almost 1,300 reservists due to the number of losses. As of the writing of this letter, we have closed just over 95% of Harvey vehicle claims and 90% of Irma vehicle claims. Homes generally take longer, but to date, we closed about 95% of Harvey property claims and 70% of Irma claims, which is well ahead of the rest of the industry. We are pleased that we have been able to get the claims resolved quickly so our customers can get back to their lives.

Though not surprised, I am always amazed at what our employees are able to accomplish for our customers even while many of them are in the same position, replacing their own vehicles and homes from the wind and floods.

One piece of the claims employee engagement definition is Purpose. We define purpose as making sure every claims employee clearly understands how what they do every day fits into the broader Progressive objectives and how what they do makes a difference in our customers' lives. I was honored to witness this multiple times during my travels.

As I reflect on the entire company and how we have come together over these past few months, the one word that I continue to come back to is Pride. I'm so proud of each and every employee of both Progressive and ASI and honored to work with each of them.

Best,

Tricia Griffith
President and Chief Executive Officer

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.

Operating Maintain pricing and reserving discipline

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

Investing Maintain a liquid, diversified, high-quality investment portfolio

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

Financing Maintain sufficient capital to support insurance operations

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

Objectives and Policies Scorecard

Financial Results	Target	Nine Months Ended September 30, 2017	Years Ended December 31, 2016	2015	2014	5 Years[1]	10 Years[1]
Underwriting margin:							
Progressive[2]	4%	5.8 %	4.9 %	7.5 %	7.7 %	6.2 %	6.6 %
Industry[3]	na		(5.9)%	(4.1)%	(1.8)%	(3.0)%	(1.6)%
Net premiums written growth:							
Progressive	(a)	14 %	14 %	10 %	8 %	9 %	5 %
Industry[3]	na		7 %	5 %	5 %	5 %	3 %
Policies in force growth:							
Personal auto	(a)	11 %	8 %	5 %	2 %	4 %	4 %
Special lines	(a)	2 %	4 %	2 %	1 %	2 %	4 %
Commercial Lines	(a)	4 %	9 %	8 %	0 %	4 %	2 %
Property	(a)	16 %	12 %	nm	nm	nm	nm
Companywide premiums-to-surplus ratio	(b)	na	2.7	2.7	2.9	na	na
Investment allocation:							
Group I	(c)	17 %	18 %	20 %	23 %	na	na
Group II	(c)	83 %	82 %	80 %	77 %	na	na
Debt-to-total capital ratio	<30%	26.3 %	28.3 %	27.1 %	23.8 %	na	na
Return on average shareholders' equity:							
Net income attributable to Progressive	(d)	16.3 %	13.2 %	17.2 %	19.1 %	16.3 %	15.8 %
Comprehensive income attributable to Progressive	(d)	18.4 %	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.
[1] Represents results over the respective time period; growth represents average annual compounded rate of increase (decrease).
[2] 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.
[3] Industry results 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.

The Progressive Corporation and Subsidiaries
Operations Summary

Personal Lines

	Nine Months Ended September 30,		
	2017	**2016**	**Change**
Net premiums written (billions)	$ 17.23	$ 15.03	15 %
Net premiums earned (billions)	$ 16.13	$ 14.19	14 %
Loss and loss adjustment expense ratio	74.3	76.2	(1.9) pts.
Underwriting expense ratio	19.6	19.6	0 pts.
Combined ratio	93.9	95.8	(1.9) pts.
Policies in force (thousands)	15,801.0	14,595.2	8 %

Commercial Lines

	Nine Months Ended September 30,		
	2017	**2016**	**Change**
Net premiums written (billions)	$ 2.34	$ 2.05	14 %
Net premiums earned (billions)	$ 2.03	$ 1.77	15 %
Loss and loss adjustment expense ratio	69.8	72.4	(2.6) pts.
Underwriting expense ratio	22.0	22.1	(0.1) pts.
Combined ratio	91.8	94.5	(2.7) pts.
Policies in force (thousands)	638.6	612.7	4 %

Property

	Nine Months Ended September 30,		
	2017	**2016**	**Change**
Net premiums written (billions)	$ 0.81	$ 0.72	13 %
Net premiums earned (billions)	$ 0.72	$ 0.64	13 %
Loss and loss adjustment expense ratio	73.4	70.7	2.7 pts.
Underwriting expense ratio[1]	34.6	33.6	1.0 pts.
Combined ratio[1]	108.0	104.3	3.7 pts.
Policies in force (thousands)	1,375.6	1,184.7	16 %

[1]Underwriting expense and combined ratios for 2017 include 6.7 points of amortization expense predominately associated with the acquisition of a controlling interest in ARX; 2016 ratios include 7.3 points of amortization expenses, as well as 0.7 points related to a loss on an exchange transaction.

Financial Statements

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

	Three Months			Nine Months		
Periods Ended September 30,	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
(millions—except per share amounts)						
Revenues						
Net premiums earned	$ 6,544.0	$ 5,723.4	14	$ 18,884.0	$ 16,602.6	14
Investment income	142.9	119.3	20	410.9	352.7	17
Net realized gains (losses) on securities:						
Net impairment losses recognized in earnings	(43.0)	(61.6)	(30)	(57.8)	(61.8)	(6)
Net realized gains (losses) on securities	18.3	40.9	(55)	117.1	90.8	29
Total net realized gains (losses) on securities	(24.7)	(20.7)	19	59.3	29.0	104
Fees and other revenues	96.3	86.8	11	270.3	248.2	9
Service revenues	33.3	26.2	27	94.5	77.7	22
Gains on extinguishment of debt	0	0	NM	0.2	1.6	(88)
Total revenues	6,791.8	5,935.0	14	19,719.2	17,311.8	14
Expenses						
Losses and loss adjustment expenses	5,050.5	4,398.2	15	13,928.8	12,554.6	11
Policy acquisition costs	540.1	475.4	14	1,557.2	1,374.6	13
Other underwriting expenses	877.7	739.6	19	2,568.3	2,262.2	14
Investment expenses	5.8	4.8	21	18.0	14.9	21
Service expenses	28.9	23.2	25	81.8	68.5	19
Interest expense	37.4	35.3	6	117.6	103.8	13
Total expenses	6,540.4	5,676.5	15	18,271.7	16,378.6	12
Net Income						
Income before income taxes	251.4	258.5	(3)	1,447.5	933.2	55
Provision for income taxes	36.6	53.0	(31)	429.7	274.1	57
Net income	214.8	205.5	5	1,017.8	659.1	54
Net (income) loss attributable to noncontrolling interest (NCI)	9.2	(6.8)	(235)	(1.9)	(11.3)	(83)
Net income attributable to Progressive	$ 224.0	$ 198.7	13	$ 1,015.9	$ 647.8	57
Other Comprehensive Income (Loss)						
Changes in:						
Total net unrealized gains (losses) on securities	$ 75.5	$ 87.1	(13)	$ 300.5	$ 248.2	21
Net unrealized losses on forecasted transactions	0.1	(0.3)	(133)	(5.6)	(0.9)	NM
Foreign currency translation adjustment	0.6	0.3	100	0.8	0.7	14
Other comprehensive income	76.2	87.1	(13)	295.7	248.0	19
Other comprehensive (income) loss attributable to NCI	(0.7)	1.2	(158)	(2.9)	(2.3)	26
Comprehensive income attributable to Progressive	$ 299.5	$ 287.0	4	$ 1,308.7	$ 893.5	46
Computation of Per Share Earnings Attributable to Progressive						
Average shares outstanding - Basic	581.3	581.5	0	580.7	582.4	0
Net effect of dilutive stock-based compensation	4.3	3.1	39	5.0	3.2	56
Total average equivalent shares - Diluted	585.6	584.6	0	585.7	585.6	0
Basic: Earnings per share	$ 0.39	$ 0.34	13	$ 1.75	$ 1.11	57
Diluted: Earnings per share	$ 0.38	$ 0.34	13	$ 1.73	$ 1.11	57
Dividends declared per share[1]	$ 0	$ 0		$ 0	$ 0	

NM = Not Meaningful
[1] Progressive maintains an annual dividend program. See *Note 9 – Dividends* for further discussion.
See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Consolidated Balance Sheets
(unaudited)

(millions)	September 30, 2017	September 30, 2016	December 31, 2016
Assets			
Investments - Available-for-sale, at fair value:			
Fixed maturities (amortized cost: $18,583.1, $13,708.0, and $16,287.1)	$ 18,660.0	$ 13,916.9	$ 16,243.8
Equity securities:			
Nonredeemable preferred stocks (cost: $700.6, $726.6, and $734.2)	813.7	860.1	853.5
Common equities (cost: $1,485.5, $1,576.1, and $1,437.5)	3,209.5	2,868.0	2,812.4
Short-term investments (amortized cost: $4,311.5, $5,876.2, and $3,572.9)	4,311.5	5,876.2	3,572.9
Total investments	26,994.7	23,521.2	23,482.6
Cash	224.9	143.4	211.5
Restricted cash[1]	31.4	22.3	14.9
Accrued investment income	113.0	97.3	103.9
Premiums receivable, net of allowance for doubtful accounts of $189.3, $176.8, and $186.8	5,519.9	4,743.6	4,509.2
Reinsurance recoverables, including $76.4, $67.5, and $83.8 on paid losses and loss adjustment expenses	2,701.1	1,901.7	1,884.8
Prepaid reinsurance premiums	211.7	174.4	170.5
Deferred acquisition costs	782.6	675.4	651.2
Property and equipment, net of accumulated depreciation of $908.4, $830.1, and $845.8	1,129.4	1,115.0	1,177.1
Goodwill	452.7	449.4	449.4
Intangible assets, net of accumulated amortization of $157.7, $94.0, and $109.5	384.6	448.3	432.8
Other assets	386.6	328.8	339.6
Total assets	$ 38,932.6	$ 33,620.8	$ 33,427.5
Liabilities			
Unearned premiums	$ 9,005.3	$ 7,792.4	$ 7,468.3
Loss and loss adjustment expense reserves	13,353.3	11,228.2	11,368.0
Net deferred income taxes	201.5	156.9	111.3
Dividends payable	0	0	395.4
Accounts payable, accrued expenses, and other liabilities	3,272.7	2,722.2	2,495.5
Debt[2]	3,312.2	3,153.9	3,148.2
Total liabilities	29,145.0	25,053.6	24,986.7
Redeemable noncontrolling interest (NCI)[3]	498.2	472.5	483.7
Shareholders' Equity			
Common shares, $1.00 par value (authorized 900.0; issued 797.5, including treasury shares of 215.9, 216.7, and 217.6)	581.6	580.8	579.9
Paid-in capital	1,365.1	1,284.7	1,303.4
Retained earnings	6,116.5	5,183.1	5,140.4
Accumulated other comprehensive income:			
Net unrealized gains (losses) on securities	1,240.1	1,057.2	939.6
Net unrealized losses on forecasted transactions	(15.0)	(9.1)	(9.4)
Foreign currency translation adjustment	(0.3)	(0.8)	(1.1)
Accumulated other comprehensive (income) loss attributable to NCI	1.4	(1.2)	4.3
Total accumulated other comprehensive income attributable to Progressive	1,226.2	1,046.1	933.4
Total shareholders' equity	9,289.4	8,094.7	7,957.1
Total liabilities, redeemable NCI, and shareholders' equity	$ 38,932.6	$ 33,620.8	$ 33,427.5

[1] See *Note 7 – Supplemental Cash Flow Information* for further discussion.
[2] Consists of both short-term and long-term debt. See *Note 4 – Debt* for further discussion.
[3] See *Note 12 – Redeemable Noncontrolling Interest* for further discussion.
See notes to consolidated financial statements.

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

Nine Months Ended September 30,		
(millions — except per share amounts)	**2017**	**2016**
Common Shares, $1.00 Par Value		
Balance, Beginning of period	$ 579.9	$ 583.6
Treasury shares purchased	(1.5)	(5.2)
Net restricted equity awards issued/vested	3.2	2.4
Balance, End of period	$ 581.6	$ 580.8
Paid-In Capital		
Balance, Beginning of period	$ 1,303.4	$ 1,218.8
Tax benefit from vesting of equity-based compensation	0	8.0
Treasury shares purchased	(3.4)	(11.4)
Net restricted equity awards issued/vested	(3.2)	(2.4)
Amortization of equity-based compensation	74.3	64.6
Reinvested dividends on restricted stock units	0.3	1.1
Adjustment to carrying amount of redeemable noncontrolling interest	(6.3)	6.0
Balance, End of period	$ 1,365.1	$ 1,284.7
Retained Earnings		
Balance, Beginning of period	$ 5,140.4	$ 4,686.6
Net income attributable to Progressive	1,015.9	647.8
Treasury shares purchased	(57.2)	(147.0)
Cash dividends declared on common shares	0	0.2
Reinvested dividends on restricted stock units	(0.3)	(1.1)
Other, net	17.7	(3.4)
Balance, End of period	$ 6,116.5	$ 5,183.1
Accumulated Other Comprehensive Income Attributable to Progressive		
Balance, Beginning of period	$ 933.4	$ 800.4
Attributable to noncontrolling interest	(2.9)	(2.3)
Other comprehensive income	295.7	248.0
Balance, End of period	$ 1,226.2	$ 1,046.1
Total Shareholders' Equity	$ 9,289.4	$ 8,094.7

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

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

Nine Months Ended September 30,	2017	2016
Cash Flows From Operating Activities		
Net income	$ 1,017.8	$ 659.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	126.7	94.6
Amortization of intangible assets	48.2	46.6
Net amortization of fixed-income securities	67.5	57.1
Amortization of equity-based compensation	76.6	64.6
Net realized (gains) losses on securities	(59.3)	(29.0)
Net (gains) losses on disposition of property and equipment	5.3	4.1
(Gains) losses on extinguishment of debt	(0.2)	(1.6)
Net loss on exchange transaction	0	4.5
Changes in:		
Premiums receivable	(1,010.3)	(752.8)
Reinsurance recoverables	(816.1)	(405.1)
Prepaid reinsurance premiums	(41.2)	44.9
Deferred acquisition costs	(131.4)	(128.0)
Income taxes	(111.2)	(121.2)
Unearned premiums	1,536.7	1,154.6
Loss and loss adjustment expense reserves	1,985.1	1,183.2
Accounts payable, accrued expenses, and other liabilities	622.1	464.8
Restricted cash	(16.5)	(22.0)
Other, net	(93.2)	(42.6)
Net cash provided by operating activities	3,206.6	2,275.8
Cash Flows From Investing Activities		
Purchases:		
Fixed maturities	(9,623.6)	(7,364.6)
Equity securities	(155.2)	(367.1)
Sales:		
Fixed maturities	3,431.7	4,746.1
Equity securities	150.6	278.2
Maturities, paydowns, calls, and other:		
Fixed maturities	3,872.5	4,189.0
Equity securities	50.0	0
Net sales (purchases) of short-term investments	(721.8)	(3,665.2)
Net unsettled security transactions	210.5	208.4
Purchases of property and equipment	(109.7)	(162.1)
Sales of property and equipment	13.8	4.5
Net cash disposed in exchange transaction[1]	0	(7.7)
Acquisition of an insurance company, net of cash acquired	(18.1)	0
Net cash used in investing activities	(2,899.3)	(2,140.5)
Cash Flows From Financing Activities		
Proceeds from exercise of equity options	0.5	0
Tax benefit from vesting of equity-based compensation	0	8.0
Net proceeds from debt issuance	841.1	495.6
Payments of debt	(42.8)	(19.2)
Redemption/reacquisition of subordinated debt	(635.6)	(18.2)
Dividends paid to shareholders	(395.4)	(519.0)
Acquisition of treasury shares for restricted stock tax liabilities	(57.2)	(24.7)
Acquisition of treasury shares acquired in open market	(4.9)	(138.9)
Net cash used in financing activities	(294.3)	(216.4)
Effect of exchange rate changes on cash	0.4	0.4
Increase (decrease) in cash	13.4	(80.7)
Cash, January 1	211.5	224.1
Cash, September 30	$ 224.9	$ 143.4

[1] See *Note 7 – Supplemental Cash Flow Information* for further discussion.
See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited)

Note 1 ***Basis of Presentation*** — The accompanying consolidated financial statements include the accounts of The Progressive Corporation and ARX Holding Corp. (ARX), and their respective wholly owned insurance and non-insurance subsidiaries and affiliates in which Progressive or ARX has a controlling financial interest. The Progressive Corporation owned 69.0% of the outstanding capital stock of ARX at September 30, 2017 and 69.2% at September 30, 2016 and December 31, 2016. The decrease reflects ARX employee stock options that were exercised during the first quarter 2017. All intercompany accounts and transactions are eliminated in consolidation.

The consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, were necessary for a fair statement of the results for the interim periods presented. The results of operations for the period ended September 30, 2017, are not necessarily indicative of the results expected for the full year. These consolidated financial statements and the notes thereto should be read in conjunction with Progressive's audited financial statements and accompanying notes included in Exhibit 13 to our Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Annual Report to Shareholders").

Other assets on the consolidated balance sheets include properties that are considered "held for sale," if any. The fair value of these properties, less the estimated cost to sell them, was $5.3 million at September 30, 2017, and $8.7 million at both September 30, 2016 and December 31, 2016.

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

The following tables present the composition of our investment portfolio by major security type, consistent with our classification of how we manage, monitor, and measure the portfolio. The net holding period gains (losses) represent the amounts realized on our hybrid securities only.

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
September 30, 2017						
Fixed maturities:						
U.S. government obligations	$ 4,612.2	$ 3.0	$ (20.2)	$ 0	$ 4,595.0	17.0%
State and local government obligations	2,332.2	35.0	(3.1)	0.1	2,364.2	8.7
Foreign government obligations	24.2	0	0	0	24.2	0.1
Corporate debt securities	5,195.7	32.7	(4.2)	1.4	5,225.6	19.4
Residential mortgage-backed securities	911.3	12.2	(3.2)	0	920.3	3.4
Agency residential pass-through obligations	35.7	0	(0.4)	0	35.3	0.1
Commercial mortgage-backed securities	2,763.7	17.0	(12.8)	0	2,767.9	10.3
Other asset-backed securities	2,485.6	6.4	(2.0)	0.2	2,490.2	9.2
Redeemable preferred stocks	222.5	16.4	(2.0)	0.4	237.3	0.9
Total fixed maturities	18,583.1	122.7	(47.9)	2.1	18,660.0	69.1
Equity securities:						
Nonredeemable preferred stocks	700.6	120.4	(7.3)	0	813.7	3.0
Common equities	1,485.5	1,729.5	(5.5)	0	3,209.5	11.9
Short-term investments	4,311.5	0	0	0	4,311.5	16.0
Total portfolio[1,2]	$ 25,080.7	$ 1,972.6	$ (60.7)	$ 2.1	$ 26,994.7	100.0%

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
September 30, 2016						
Fixed maturities:						
U.S. government obligations	$ 726.0	$ 8.9	$ (0.3)	$ 0	$ 734.6	3.1%
State and local government obligations	2,508.9	58.7	(1.6)	0	2,566.0	10.9
Foreign government obligations	25.4	0	0	0	25.4	0.1
Corporate debt securities	4,327.5	76.9	(1.8)	0.7	4,403.3	18.7
Residential mortgage-backed securities	1,582.6	25.3	(15.5)	1.8	1,594.2	6.8
Agency residential pass-through obligations	43.6	0.5	0	0	44.1	0.2
Commercial mortgage-backed securities	2,249.4	35.1	(6.1)	0	2,278.4	9.7
Other asset-backed securities	2,037.5	7.9	(0.3)	0.3	2,045.4	8.7
Redeemable preferred stocks	207.1	19.6	(1.2)	0	225.5	1.0
Total fixed maturities	13,708.0	232.9	(26.8)	2.8	13,916.9	59.2
Equity securities:						
Nonredeemable preferred stocks	726.6	146.2	(13.9)	1.2	860.1	3.6
Common equities	1,576.1	1,296.3	(4.4)	0	2,868.0	12.2
Short-term investments	5,876.2	0	0	0	5,876.2	25.0
Total portfolio[1,2]	$ 21,886.9	$ 1,675.4	$ (45.1)	$ 4.0	$ 23,521.2	100.0%

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

[1]Our portfolio reflects the effect of unsettled security transactions and collateral on open derivative positions; at September 30, 2017 and 2016, and December 31, 2016, we had $238.3 million, $185.3 million, and $27.8 million, respectively, included in "other liabilities."

[2]The total fair value of the portfolio at September 30, 2017 and 2016, and December 31, 2016, included $1.1 billion, $1.0 billion, and $1.3 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

Short-Term Investments Our short-term investments may include commercial paper and other investments that are expected to mature within one year. We did not enter into any repurchase commitment transactions during the first nine months of 2017 or 2016, and we had no open repurchase commitments at September 30, 2017 and 2016, or December 31, 2016.

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

We had no open reverse repurchase commitments at September 30, 2017 or December 31, 2016, compared to $68.0 million open at September 30, 2016. We did not enter into any reverse repurchase commitments for the nine months ended September 30, 2017. During the nine months ended September 30, 2016, our largest outstanding balance of reverse repurchase commitments was $265.0 million, which was open for one day. For the 28 days we invested in these transactions, the average daily balance of reverse repurchase commitments was $122.6 million.

To the extent we enter into repurchase or reverse repurchase transactions, and consistent with past practice, we would elect not to offset these transactions and would report them on a gross basis on our balance sheets despite the option to elect to offset these transactions as long as they were with the same counterparty and subject to an enforceable master netting arrangement.

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

(millions)	September 30, 2017	September 30, 2016	December 31, 2016
Fixed maturities:			
State and local government obligations	$ 2.4	$ 0	$ 0
Corporate debt securities	114.9	31.2	40.1
Residential mortgage-backed securities	0	175.3	170.5
Other asset-backed securities	7.1	9.5	8.9
Redeemable preferred stocks	35.5	0	0
Total fixed maturities	159.9	216.0	219.5
Equity securities:			
Nonredeemable preferred stocks	0	13.6	0
Total hybrid securities	$ 159.9	$ 229.6	$ 219.5

The state and local government obligations in the table above were acquired at a premium and contain a contingently exercisable call feature that allows the issuer, at its discretion, to call the securities at par based on a provision that is unrelated to the economic characteristics of the issuer.

Certain corporate debt securities are accounted for as hybrid securities since they were acquired at a premium and contain a change-in-control put option (derivative) that permits the investor, at its sole option if and when a change in control is triggered, to put the security back to the issuer at a 1% premium to par. Due to this change-in-control put option and the substantial market premium paid to acquire these securities, there is the potential that the election to put, upon the change in control, would result in an acceleration of the recognition of the remaining premium paid on these securities in our results of operations. The put feature limits the potential loss in value that could be experienced in the event a corporate action occurs that results in a change in control that materially diminishes the credit quality of the issuer. Exercises of the puts would result in a loss of $9.6 million as of September 30, 2017, if all of the bonds experienced a simultaneous change in control and we elected to exercise all of our put options. We are under no obligation to exercise the put option we hold if a change in control occurs.

The residential mortgage-backed securities accounted for as hybrid securities are obligations of the issuer with payments of principal based on the performance of a reference pool of loans. This embedded derivative results in the securities incorporating the risk of default from both the issuer and the related loan pool. These securities were sold during 2017.

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

The redeemable preferred stock in the table above represents one hybrid security acquired in 2017 with a provision that requires the issuer, in the event of bankruptcy, to convert the security into an equivalent number of shares of a newly-issued perpetual preferred stock. This embedded derivative has the potential to result in the security converting from a debt instrument to an equity instrument.

During 2016, we sold the nonredeemable preferred stocks referred to in the table above. These securities were perpetual preferred stocks with fixed-rate coupons that have call features, whereby the change in value of the call features was a component of the overall change in value of the preferred stocks.

Fixed Maturities The composition of fixed maturities by maturity at September 30, 2017, was:

(millions)	Cost	Fair Value
Less than one year	$ 4,088.1	$ 4,105.7
One to five years	11,476.9	11,508.8
Five to ten years	2,873.9	2,901.3
Ten years or greater	144.2	144.2
Total	$ 18,583.1	$ 18,660.0

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

Gross Unrealized Losses As of September 30, 2017, we had $55.2 million of gross unrealized losses in our fixed-income securities (i.e., fixed-maturity securities and nonredeemable preferred stocks) and $5.5 million in our common equities. We currently do not intend to sell the fixed-income securities and determined that it is more likely that we will not be required to sell these securities for the period of time necessary to recover their cost bases. A review of our fixed-income securities indicated that the issuers were current with respect to their interest obligations and that there was no evidence of any deterioration of the current cash flow projections that would indicate we would not receive the remaining principal at maturity.

For common equities, 95% of our common stock portfolio was indexed to the Russell 1000; as such, this portfolio may contain securities in a loss position for an extended period of time, subject to possible write-downs, as described below. We may retain these securities as long as the portfolio and index correlation remain similar. To the extent there is issuer-specific deterioration, we may write down the securities of that issuer. The remaining 5% of our common stocks were part of a managed equity strategy selected and administered by an external investment advisor. If our review of loss position securities were to indicate there was a fundamental, or market, impairment on these securities that was determined to be other-than-temporary, we would recognize a write-down in accordance with our stated policy.

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

($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months			12 Months or Greater		
				No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
September 30, 2017									
Fixed maturities:									
U.S. government obligations	54	$ 3,804.0	$ (20.2)	31	$ 2,302.2	$ (7.1)	23	$ 1,501.8	$ (13.1)
State and local government obligations	169	610.4	(3.1)	40	141.0	(0.7)	129	469.4	(2.4)
Corporate debt securities	113	1,523.8	(4.2)	59	636.0	(1.1)	54	887.8	(3.1)
Residential mortgage-backed securities	126	308.8	(3.2)	14	37.4	(0.1)	112	271.4	(3.1)
Agency residential pass-through obligations	65	32.7	(0.4)	12	1.8	0	53	30.9	(0.4)
Commercial mortgage-backed securities	105	1,588.9	(12.8)	61	1,073.5	(4.6)	44	515.4	(8.2)
Other asset-backed securities	148	1,393.2	(2.0)	103	920.8	(1.0)	45	472.4	(1.0)
Redeemable preferred stocks	2	21.4	(2.0)	1	10.9	0	1	10.5	(2.0)
Total fixed maturities	782	9,283.2	(47.9)	321	5,123.6	(14.6)	461	4,159.6	(33.3)
Equity securities:									
Nonredeemable preferred stocks	3	72.4	(7.3)	0	0	0	3	72.4	(7.3)
Common equities	67	52.0	(5.5)	62	49.3	(4.9)	5	2.7	(0.6)
Total equity securities	70	124.4	(12.8)	62	49.3	(4.9)	8	75.1	(7.9)
Total portfolio	852	$ 9,407.6	$ (60.7)	383	$ 5,172.9	$ (19.5)	469	$ 4,234.7	$ (41.2)

($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months			12 Months or Greater		
				No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
September 30, 2016									
Fixed maturities:									
U.S. government obligations	4	$ 104.8	$ (0.3)	4	$ 104.8	$ (0.3)	0	$ 0	$ 0
State and local government obligations	151	512.0	(1.6)	117	409.6	(1.0)	34	102.4	(0.6)
Corporate debt securities	52	598.3	(1.8)	42	541.5	(0.8)	10	56.8	(1.0)
Residential mortgage-backed securities	138	915.8	(15.5)	26	108.8	(0.4)	112	807.0	(15.1)
Agency residential pass-through obligations	15	4.2	0	7	1.9	0	8	2.3	0
Commercial mortgage-backed securities	56	610.6	(6.1)	17	194.7	(1.7)	39	415.9	(4.4)
Other asset-backed securities	43	488.7	(0.3)	16	219.5	(0.1)	27	269.2	(0.2)
Redeemable preferred stocks	2	31.8	(1.2)	0	0	0	2	31.8	(1.2)
Total fixed maturities	461	3,266.2	(26.8)	229	1,580.8	(4.3)	232	1,685.4	(22.5)
Equity securities:									
Nonredeemable preferred stocks	7	187.5	(13.9)	1	9.9	(0.2)	6	177.6	(13.7)
Common equities	86	53.4	(4.4)	83	49.5	(4.2)	3	3.9	(0.2)
Total equity securities	93	240.9	(18.3)	84	59.4	(4.4)	9	181.5	(13.9)
Total portfolio	554	$ 3,507.1	$ (45.1)	313	$ 1,640.2	$ (8.7)	241	$ 1,866.9	$ (36.4)

($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months			12 Months or Greater		
				No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
December 31, 2016									
Fixed maturities:									
U.S. government obligations	30	$ 2,774.0	$ (29.1)	30	$ 2,774.0	$ (29.1)	0	$ 0	$ 0
State and local government obligations	618	1,497.9	(20.7)	584	1,404.3	(19.6)	34	93.6	(1.1)
Corporate debt securities	184	2,615.1	(24.3)	175	2,559.9	(24.0)	9	55.2	(0.3)
Residential mortgage-backed securities	178	917.7	(15.0)	69	175.8	(1.1)	109	741.9	(13.9)
Agency residential pass-through obligations	55	36.0	(0.6)	48	33.9	(0.6)	7	2.1	0
Commercial mortgage-backed securities	111	1,347.3	(25.5)	85	1,061.2	(22.9)	26	286.1	(2.6)
Other asset-backed securities	103	1,605.2	(4.4)	89	1,423.3	(3.9)	14	181.9	(0.5)
Redeemable preferred stocks	2	31.0	(2.0)	0	0	0	2	31.0	(2.0)
Total fixed maturities	1,281	10,824.2	(121.6)	1,080	9,432.4	(101.2)	201	1,391.8	(20.4)
Equity securities:									
Nonredeemable preferred stocks	13	329.6	(16.1)	8	175.2	(3.8)	5	154.4	(12.3)
Common equities	75	22.1	(2.1)	69	19.7	(1.7)	6	2.4	(0.4)
Total equity securities	88	351.7	(18.2)	77	194.9	(5.5)	11	156.8	(12.7)
Total portfolio	1,369	$ 11,175.9	$ (139.8)	1,157	$ 9,627.3	$ (106.7)	212	$ 1,548.6	$ (33.1)

Since September 30, 2016, the number of securities in our fixed-maturity portfolio with unrealized losses increased, primarily the result of rising interest rates during the latter part of 2016. A narrowing of credit spreads for the first nine months of 2017 resulted in a decrease in the number of fixed-maturity securities with unrealized losses since December 31, 2016. We had no material decreases in valuation as a result of credit rating downgrades on our fixed-maturity securities. All of the fixed-maturity securities in an unrealized loss position at September 30, 2017 in the table above are current with respect to required principal and interest payments.

Since December 31, 2016, our nonredeemable preferred stocks with unrealized losses decreased to three securities, averaging approximately 9% of their total cost. The decrease in the number of securities is the result of valuation increases in the portfolio. We reviewed these securities and concluded that the unrealized losses are market-related adjustments to the values, which we determined not to be other-than-temporary; we expect to recover our initial investments on these securities. The number of issuers with unrealized losses in our common stock portfolio decreased during the first nine months of 2017. A review of the securities in a loss position did not uncover fundamental issues with the issuers that would indicate other-than-temporary impairments existed. Additionally, market expectations for recovery in the next 12 months would put the fair values at or above our current book values. Lastly, we determined, as of the balance sheet date, that it was not likely these securities would be sold prior to that recovery.

Other-Than-Temporary Impairment (OTTI) The following table shows the total non-credit portion of the OTTI recorded in accumulated other comprehensive income, reflecting the original non-credit loss at the time the credit impairment was determined (i.e., unadjusted for valuation changes subsequent to the original write-down):

(millions)	September 30, 2017	September 30, 2016	December 31, 2016
Fixed maturities:			
Residential mortgage-backed securities	$ (19.7)	$ (43.3)	$ (43.3)
Commercial mortgage-backed securities	(0.4)	(0.6)	(0.6)
Total fixed maturities	$ (20.1)	$ (43.9)	$ (43.9)

The following tables provide rollforwards of the amounts related to credit losses recognized in earnings for the periods ended September 30, 2017 and 2016, for which a portion of the OTTI losses were also recognized in accumulated other comprehensive income at the time the credit impairments were determined and recognized:

	Three Months Ended September 30, 2017		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at June 30, 2017	$ 0.2	$ 0.1	$ 0.3
Credit losses for which an OTTI was not previously recognized	0	0.4	0.4
Reductions for securities sold/matured	0	0	0
Change in recoveries of future cash flows expected to be collected[1]	0	0	0
Balance at September 30, 2017	$ 0.2	$ 0.5	$ 0.7

	Nine Months Ended September 30, 2017		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at December 31, 2016	$ 11.1	$ 0.4	$ 11.5
Credit losses for which an OTTI was not previously recognized	0	0.4	0.4
Reductions for securities sold/matured	(10.9)	(0.3)	(11.2)
Change in recoveries of future cash flows expected to be collected[1]	0	0	0
Balance at September 30, 2017	$ 0.2	$ 0.5	$ 0.7

	Three Months Ended September 30, 2016		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at June 30, 2016	$ 11.8	$ 0.4	$ 12.2
Credit losses for which an OTTI was not previously recognized	0	0	0
Reductions for securities sold/matured	0	0	0
Change in recoveries of future cash flows expected to be collected[1]	(0.3)	0	(0.3)
Balance at September 30, 2016	$ 11.5	$ 0.4	$ 11.9

	Nine Months Ended September 30, 2016		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at December 31, 2015	$ 12.4	$ 0.4	$ 12.8
Credit losses for which an OTTI was not previously recognized	0	0	0
Reductions for securities sold/matured	0	0	0
Change in recoveries of future cash flows expected to be collected[1]	(0.9)	0	(0.9)
Balance at September 30, 2016	$ 11.5	$ 0.4	$ 11.9

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

Although we determined it is more likely that we will not be required to sell the securities prior to the recovery of their respective cost bases (which could be maturity), we are required to measure the amount of potential credit losses on the securities that were in an unrealized loss position. In that process, we considered a number of factors and inputs related to the individual securities. The methodology and significant inputs used to measure the amount of credit losses in our portfolio included: current performance indicators on the business model or underlying assets (e.g., delinquency rates, foreclosure rates, and default rates); credit support (via current levels of subordination); historical credit ratings; and updated cash flow expectations based upon these performance indicators. In order to determine the amount of credit loss, if any, the net present value of the cash flows expected (i.e., expected recovery value) was calculated using the current book yield for each security, and was compared to its current amortized value. In the event that the net present value was below the amortized value, a credit loss would be deemed to exist, and the security would be written down. We did not have any credit impairment write-downs for the nine months ended September 30, 2016.

Realized Gains (Losses) The components of net realized gains (losses) for the three and nine months ended September 30, were:

	Three Months		Nine Months	
(millions)	**2017**	**2016**	**2017**	**2016**
Gross realized gains on security sales				
Fixed maturities:				
U.S. government obligations	$ 0.9	$ 6.4	$ 5.8	$ 24.1
State and local government obligations	4.0	0.6	7.1	16.0
Corporate and other debt securities	5.1	15.6	16.5	38.1
Residential mortgage-backed securities	2.8	0.2	23.8	1.9
Agency residential pass-through obligations	0	0	0	0.1
Commercial mortgage-backed securities	0	5.5	2.4	12.0
Other asset-backed securities	0	0	0.3	0
Redeemable preferred stocks	7.7	0	8.0	0
Total fixed maturities	20.5	28.3	63.9	92.2
Equity securities:				
Nonredeemable preferred stocks	3.0	4.9	54.6	11.9
Common equities	5.7	14.4	23.0	43.3
Short-term investments	0	0.1	0	0.1
Subtotal gross realized gains on security sales	29.2	47.7	141.5	147.5
Gross realized losses on security sales				
Fixed maturities:				
U.S. government obligations	(1.0)	(0.8)	(4.6)	(1.2)
State and local government obligations	0	0	(0.1)	(1.6)
Corporate and other debt securities	(1.8)	(0.2)	(4.6)	(1.9)
Residential mortgage-backed securities	(0.1)	0	(0.4)	0
Agency residential pass-through obligations	0	0	0	(0.2)
Commercial mortgage-backed securities	(0.5)	0	(3.6)	(4.1)
Redeemable preferred stocks	(6.4)	(6.5)	(6.4)	(6.5)
Total fixed maturities	(9.8)	(7.5)	(19.7)	(15.5)
Equity securities:				
Nonredeemable preferred stocks	(0.1)	(0.4)	(5.9)	(3.1)
Common equities	(0.2)	(0.3)	(0.3)	(5.3)
Subtotal gross realized losses on security sales	(10.1)	(8.2)	(25.9)	(23.9)
Net realized gains (losses) on security sales				
Fixed maturities:				
U.S. government obligations	(0.1)	5.6	1.2	22.9
State and local government obligations	4.0	0.6	7.0	14.4
Corporate and other debt securities	3.3	15.4	11.9	36.2
Residential mortgage-backed securities	2.7	0.2	23.4	1.9
Agency residential pass-through obligations	0	0	0	(0.1)
Commercial mortgage-backed securities	(0.5)	5.5	(1.2)	7.9
Other asset-backed securities	0	0	0.3	0
Redeemable preferred stocks	1.3	(6.5)	1.6	(6.5)
Total fixed maturities	10.7	20.8	44.2	76.7
Equity securities:				
Nonredeemable preferred stocks	2.9	4.5	48.7	8.8
Common equities	5.5	14.1	22.7	38.0
Short-term investments	0	0.1	0	0.1
Subtotal net realized gains (losses) on security sales	19.1	39.5	115.6	123.6
Other-than-temporary impairment losses				
Fixed maturities:				
Commercial mortgage-backed securities	(0.4)	0	(0.4)	0
Redeemable preferred stocks	0	(25.4)	0	(25.4)
Total fixed maturities	(0.4)	(25.4)	(0.4)	(25.4)
Equity securities:				
Common equities	(8.9)	(1.4)	(12.5)	(1.6)
Subtotal investment other-than-temporary impairment losses	(9.3)	(26.8)	(12.9)	(27.0)
Other asset impairment	(33.7)	(34.8)	(44.9)	(34.8)
Subtotal other-than-temporary impairment losses	(43.0)	(61.6)	(57.8)	(61.8)
Other gains (losses)				
Hybrid securities	(0.9)	0.6	0.3	2.9
Derivative instruments	0	0.7	0	(35.8)
Litigation settlements	0.1	0.1	1.2	0.1
Subtotal other gains (losses)	(0.8)	1.4	1.5	(32.8)
Total net realized gains (losses) on securities	$ (24.7)	$ (20.7)	$ 59.3	$ 29.0

Gross realized gains and losses were predominantly the result of sales transactions in our fixed-income portfolio related to movements in credit spreads and interest rates and sales from our equity portfolios. Our preferred stock portfolio reflects a large realized gain due primarily to one issue called by the issuer at par. This security was held at a deep discount due to previous other-than-temporary impairment write-downs taken during the market crisis of 2008. Subsequent to the write-down, the security experienced significant recovery and was trading near its anticipated call price. Upon call, we recognized the difference between the consideration received and our book value as a realized gain.

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

Net Investment Income The components of net investment income for the three and nine months ended September 30, were:

	Three Months		Nine Months	
(millions)	**2017**	**2016**	**2017**	**2016**
Fixed maturities:				
U.S. government obligations	$ 18.4	$ 3.3	$ 48.1	$ 12.4
State and local government obligations	12.9	12.6	39.3	39.3
Foreign government obligations	0.1	0.1	0.3	0.3
Corporate debt securities	32.2	27.3	93.1	81.9
Residential mortgage-backed securities	7.8	11.1	27.3	34.9
Agency residential pass-through obligations	0.2	0.3	0.6	0.9
Commercial mortgage-backed securities	20.0	22.4	57.1	62.6
Other asset-backed securities	12.1	6.8	33.8	18.7
Redeemable preferred stocks	2.8	3.8	9.1	11.5
Total fixed maturities	106.5	87.7	308.7	262.5
Equity securities:				
Nonredeemable preferred stocks	10.9	12.4	33.0	36.8
Common equities	14.9	13.9	42.8	42.0
Short-term investments	10.6	5.3	26.4	11.4
Investment income	142.9	119.3	410.9	352.7
Investment expenses	(5.8)	(4.8)	(18.0)	(14.9)
Net investment income	$ 137.1	$ 114.5	$ 392.9	$ 337.8

The amount of investment income (interest and dividends) we recognize varies from year to year based on the average assets held during the year and the book yields of the securities in our portfolio. The increase in income year-over-year for the three and nine months was mainly the result of an increase in assets, as yields remained relatively consistent.

Trading Securities At September 30, 2017 and 2016, and December 31, 2016, we did not hold any trading securities and did not have any net realized gains (losses) on trading securities for the three and nine months ended September 30, 2017 and 2016.

Derivative Instruments The following table shows the status of our derivative instruments at September 30, 2017 and 2016, and December 31, 2016, and for the three and nine months ended September 30, 2017 and 2016:

(millions)					Balance Sheet[2]				Comprehensive Income Statement			
						Assets (Liabilities) Fair Value			Pretax Net Realized Gains (Losses)			
	Notional Value[1]								Three Months Ended		Nine Months Ended	
	September 30,		Dec. 31,			September 30,		Dec. 31,	September 30,		September 30,	
Derivatives designated as:	**2017**	**2016**	**2016**	**Purpose**	**Classification**	**2017**	**2016**	**2016**	**2017**	**2016**	**2017**	**2016**
Hedging instrument												
Closed:												
Ineffective cash flow hedge	$ 31	$ 370	$ 370	Manage interest rate risk	NA	$ 0	$ 0	$ 0	$ 0	$ (1.4)	$ 0	$ (1.3)
Non-hedging instruments												
Liabilities:												
Interest rate swaps	0	315	0	Manage portfolio duration	Other liabilities	0	(13.0)	0	0	1.7	0	(17.8)
Closed:												
Interest rate swaps	0	435	750	Manage portfolio duration	NA	0	0	0	0	0.3	0	(17.0)
U.S. Treasury Note futures	0	135	135	Manage portfolio duration	NA	0	0	0	0	0.1	0	0.3
Total	NA	NA	NA			$ 0	$(13.0)	$ 0	$ 0	$ 0.7	$ 0	$ (35.8)

NA= Not applicable

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

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

CASH FLOW HEDGES

During March 2017, we entered into a forecasted debt issuance hedge, against a possible rise in interest rates, in conjunction with the $850 million of 4.125% Senior Notes due 2047 issued in April 2017. Upon issuance, we closed the hedge and recognized, as part of accumulated other comprehensive income, a pretax loss of $8.0 million in April 2017.

During the third quarter 2016, we entered into a $350 million forecasted transaction to hedge against a possible rise in interest rates in anticipation of a debt offering under which we issued $500 million of 2.45% Senior Notes due 2027. When the contract was closed, the $1.4 million loss on the derivative was immediately recognized as a realized loss. The $31 million in 2017 and the remaining $20 million in 2016 of our ineffective cash flow hedge resulted from the repurchase of a portion of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067, and we reclassified the unrealized gain on forecasted transactions to net realized gains on securities. The portion repurchased in 2017 resulted in an immaterial gain.

See *Note 4 – Debt* for further discussion.

INTEREST RATE SWAPS and U.S. TREASURY FUTURES

We use interest rate swaps and treasury futures contracts from time to time to manage the fixed-income portfolio duration. We did not hold any interest rate swap positions at September 30, 2017 or December 31, 2016. At September 30, 2016, we held interest rate swap positions for which we were paying a fixed rate and receiving a variable rate, effectively shortening the duration of our fixed-income portfolio. As of September 30, 2016, the balance of the cash collateral that we delivered to the applicable counterparties on the then open interest rate swaps was $15.1 million. We did not open any U.S. treasury futures during 2017. During 2016, we opened and closed treasury futures; no positions were outstanding at the end of the third quarter or year end.

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

- *Level 1*: Inputs are unadjusted quoted prices in active markets for identical instruments at the measurement date (e.g., U.S. government obligations, active exchange-traded equity securities, and certain short-term securities).

- *Level 2*: Inputs (other than quoted prices included within Level 1) that are observable for the instrument either directly or indirectly (e.g., certain corporate and municipal bonds and certain preferred stocks). This includes: (i) quoted prices for similar instruments in active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- *Level 3*: Inputs that are unobservable. Unobservable inputs reflect our subjective evaluation about the assumptions market participants would use in pricing the financial instrument (e.g., certain structured securities and privately held investments).

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

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

(millions)	Fair Value Level 1	Level 2	Level 3	Total	Cost
September 30, 2017					
Fixed maturities:					
U.S. government obligations	$ 4,595.0	$ 0	$ 0	$ 4,595.0	$ 4,612.2
State and local government obligations	0	2,364.2	0	2,364.2	2,332.2
Foreign government obligations	24.2	0	0	24.2	24.2
Corporate debt securities	0	5,225.6	0	5,225.6	5,195.7
Subtotal	4,619.2	7,589.8	0	12,209.0	12,164.3
Asset-backed securities:					
Residential mortgage-backed	0	920.3	0	920.3	911.3
Agency residential pass-through obligations	0	35.3	0	35.3	35.7
Commercial mortgage-backed	0	2,767.9	0	2,767.9	2,763.7
Other asset-backed	0	2,490.2	0	2,490.2	2,485.6
Subtotal asset-backed securities	0	6,213.7	0	6,213.7	6,196.3
Redeemable preferred stocks:					
Financials	0	63.8	0	63.8	61.4
Utilities	0	31.9	0	31.9	30.5
Industrials	0	141.6	0	141.6	130.6
Subtotal redeemable preferred stocks	0	237.3	0	237.3	222.5
Total fixed maturities	4,619.2	14,040.8	0	18,660.0	18,583.1
Equity securities:					
Nonredeemable preferred stocks:					
Financials	82.2	726.5	0	808.7	695.6
Industrials	0	0	5.0	5.0	5.0
Subtotal nonredeemable preferred stocks	82.2	726.5	5.0	813.7	700.6
Common equities:					
Common stocks	3,209.2	0	0	3,209.2	1,485.2
Other risk investments	0	0	0.3	0.3	0.3
Subtotal common equities	3,209.2	0	0.3	3,209.5	1,485.5
Total fixed maturities and equity securities	7,910.6	14,767.3	5.3	22,683.2	20,769.2
Short-term investments	3,175.4	1,136.1	0	4,311.5	4,311.5
Total portfolio	$ 11,086.0	$ 15,903.4	$ 5.3	$ 26,994.7	$ 25,080.7
Debt	$ 0	$ 3,574.6	$ 43.3	$ 3,617.9	$ 3,312.2

(millions)	Fair Value Level 1	Level 2	Level 3	Total	Cost
September 30, 2016					
Fixed maturities:					
U.S. government obligations	$ 734.6	$ 0	$ 0	$ 734.6	$ 726.0
State and local government obligations	0	2,566.0	0	2,566.0	2,508.9
Foreign government obligations	25.4	0	0	25.4	25.4
Corporate debt securities	0	4,403.3	0	4,403.3	4,327.5
Subtotal	760.0	6,969.3	0	7,729.3	7,587.8
Asset-backed securities:					
Residential mortgage-backed	0	1,594.2	0	1,594.2	1,582.6
Agency residential pass-through obligations	0	44.1	0	44.1	43.6
Commercial mortgage-backed	0	2,277.8	0.6	2,278.4	2,249.4
Other asset-backed	0	2,045.4	0	2,045.4	2,037.5
Subtotal asset-backed securities	0	5,961.5	0.6	5,962.1	5,913.1
Redeemable preferred stocks:					
Financials	0	95.7	0	95.7	77.1
Utilities	0	30.4	0	30.4	30.6
Industrials	0	99.4	0	99.4	99.4
Subtotal redeemable preferred stocks	0	225.5	0	225.5	207.1
Total fixed maturities	760.0	13,156.3	0.6	13,916.9	13,708.0
Equity securities:					
Nonredeemable preferred stocks:					
Financials	154.6	705.5	0	860.1	726.6
Industrials	0	0	0	0	0
Subtotal nonredeemable preferred stocks	154.6	705.5	0	860.1	726.6
Common equities:					
Common stocks	2,867.6	0	0	2,867.6	1,575.7
Other risk investments	0	0	0.4	0.4	0.4
Subtotal common equities	2,867.6	0	0.4	2,868.0	1,576.1
Total fixed maturities and equity securities	3,782.2	13,861.8	1.0	17,645.0	16,010.7
Short-term investments	5,051.5	824.7	0	5,876.2	5,876.2
Total portfolio	$ 8,833.7	$ 14,686.5	$ 1.0	$ 23,521.2	$ 21,886.9
Debt	$ 0	$ 3,371.6	$ 133.6	$ 3,505.2	$ 3,153.9

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

Our portfolio valuations, excluding short-term investments, classified as either Level 1 or Level 2 in the above tables are priced exclusively by external sources, including: pricing vendors, dealers/market makers, and exchange-quoted prices. We did not have any transfers between Level 1 and Level 2 during 2017 or 2016. We recognize transfers between levels at the end of the reporting period.

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

At September 30, 2017, vendor-quoted prices represented 59% of our Level 1 classifications (excluding short-term investments), compared to 24% and 52% at September 30, 2016 and December 31, 2016, respectively. The securities quoted by vendors in Level 1 primarily represent our holdings in U.S. Treasury Notes, which are frequently traded, and the quotes are considered similar to exchange-traded quotes. The balance of our Level 1 pricing comes from quotes obtained directly from trades made on active exchanges.

At September 30, 2017 and 2016, and December 31, 2016, vendor-quoted prices comprised 98%, 99%, and 99%, respectively, of our Level 2 classifications (excluding short-term investments), while dealer-quoted prices represented 2%, 1%, and 1%, respectively. In our process for selecting a source (e.g., dealer, pricing service) to provide pricing for securities in our portfolio, we reviewed documentation from the sources that detailed the pricing techniques and methodologies used by these sources and determined if their policies adequately considered market activity, either based on specific transactions for the particular security type or based on modeling of securities with similar credit quality, duration, yield, and structure that were recently transacted. Once a source is chosen, we continue to monitor any changes or modifications to their processes by reviewing their documentation on internal controls for pricing and market reviews. We review quality control measures of our sources as they become available to determine if any significant changes have occurred from period to period that might indicate issues or concerns regarding their evaluation or market coverage.

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

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

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

For our corporate debt and preferred stock (redeemable and nonredeemable) portfolios, as well as the notes and debentures issued by The Progressive Corporation (see *Note 4 – Debt*), we review securities by duration, coupon, and credit quality, as well as changes in interest rate and credit spread movements within that stratification. The review also includes recent trades, including: volume traded at various levels that establish a market, issuer specific fundamentals, and industry specific economic news as it comes to light.

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

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

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

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

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

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

After all the valuations are received and our review is complete, if the inputs used by vendors are determined to not contain sufficient observable market information, we will reclassify the affected security valuations to Level 3. At September 30, 2017 and 2016, and December 31, 2016, securities in our fixed-maturity portfolio listed as Level 3 were comprised substantially of securities that were either: (i) private placements, (ii) thinly held and/or traded securities, or (iii) non-investment-grade or non-rated securities with little liquidity. Based on these factors, it was difficult to independently verify observable market inputs that were used to generate the external valuations we received. Despite the lack of sufficient observable market information for our Level 3 securities, we believe the valuations received in conjunction with our procedures for evaluating third-party prices support the fair values reported in the financial statements.

At September 30, 2017, we held one private nonredeemable preferred security with a value of $5.0 million that was priced internally. The security was purchased during the third quarter 2017 and the value at September 30, 2017 equals the cost at acquisition. We did not hold any internally-priced securities at September 30, 2016 or December 31, 2016.

We review the prices from our external sources for reasonableness using internally developed assumptions to derive prices for the securities, which are then compared to the prices we received. During 2017 or 2016, there were no material assets or liabilities measured at fair value on a nonrecurring basis. Based on our review, all prices received from external sources remained unadjusted.

The following tables provide a summary of changes in fair value associated with Level 3 assets for the three and nine months ended September 30, 2017 and 2016:

	Level 3 Fair Value							
	Three Months Ended September 30, 2017							
(millions)	**Fair Value at June 30, 2017**	**Calls/ Maturities/ Paydowns**	**Purchases**	**Sales**	**Net Realized (Gain) Loss on Sales**	**Change in Valuation**	**Net Transfers In (Out)**	**Fair Value at September 30, 2017**
Fixed maturities:								
Asset-backed securities:								
Commercial mortgage-backed	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Total fixed maturities	0	0	0	0	0	0	0	0
Equity securities:								
Nonredeemable preferred stocks:								
Industrials	0	0	5.0	0	0	0	0	5.0
Common equities:								
Other risk investments	0.3	0	0	0	0	0	0	0.3
Total Level 3 securities	$ 0.3	$ 0	$ 5.0	$ 0	$ 0	$ 0	$ 0	$ 5.3

	Level 3 Fair Value							
	Nine months ended September 30, 2017							
(millions)	**Fair Value at Dec. 31, 2016**	**Calls/ Maturities/ Paydowns**	**Purchases**	**Sales**	**Net Realized (Gain) Loss on Sales**	**Change in Valuation**	**Net Transfers In (Out)**	**Fair Value at September 30, 2017**
Fixed maturities:								
Asset-backed securities:								
Commercial mortgage-backed	$ 0.3	$ (0.3)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Total fixed maturities	0.3	(0.3)	0	0	0	0	0	0
Equity securities:								
Nonredeemable preferred stocks:								
Industrials	0	0	5.0	0	0	0	0	5.0
Common equities:								
Other risk investments	0.4	(0.1)	0	0	0	0	0	0.3
Total Level 3 securities	$ 0.7	$ (0.4)	$ 5.0	$ 0	$ 0	$ 0	$ 0	$ 5.3

(millions)	Level 3 Fair Value Three Months Ended September 30, 2016							
	Fair Value at June 30, 2016	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain) Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at September 30, 2016
Fixed maturities:								
Asset-backed securities:								
Commercial mortgage-backed	$ 9.2	$ (8.7)	$ 0	$ 0	$ 0	$ 0.1	$ 0	$ 0.6
Total fixed maturities	9.2	(8.7)	0	0	0	0.1	0	0.6
Equity securities:								
Nonredeemable preferred stocks:								
Industrials	0	0	0	0	0	0	0	0
Common equities:								
Other risk investments	0.3	0	0	0	0	0.1	0	0.4
Total Level 3 securities	$ 9.5	$ (8.7)	$ 0	$ 0	$ 0	$ 0.2	$ 0	$ 1.0

(millions)	Level 3 Fair Value Nine months ended September 30, 2016							
	Fair Value at Dec. 31, 2015	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain) Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at September 30, 2016
Fixed maturities:								
Asset-backed securities:								
Commercial mortgage-backed	$ 9.9	$ (9.3)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0.6
Total fixed maturities	9.9	(9.3)	0	0	0	0	0	0.6
Equity securities:								
Nonredeemable preferred stocks:								
Industrials	0	0	0	0	0	0	0	0
Common equities:								
Other risk investments	0.3	0	0	0	0	0.1	0	0.4
Total Level 3 securities	$ 10.2	$ (9.3)	$ 0	$ 0	$ 0	$ 0.1	$ 0	$ 1.0

The following tables provide a summary of the quantitative information about Level 3 fair value measurements for our applicable securities at September 30, 2017 and 2016, and December 31, 2016:

($ in millions)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at September 30, 2017	Valuation Technique	Unobservable Input	Unobservable Input Assumption
Fixed maturities:				
Asset-backed securities:				
Commercial mortgage-backed	$ 0	NA	NA	NA
Total fixed maturities	0			
Equity securities:				
Nonredeemable preferred stocks:				
Industrials[1]	5.0	Internal price	Purchase price	3.9
Subtotal Level 3 securities	5.0			
Pricing exemption securities[2]	0.3			
Total Level 3 securities	$ 5.3			

NA= Not applicable, since we did not hold any commercial mortgage-backed Level 3 securities at September 30, 2017.
[1]The security was internally-priced since it is privately held and it was valued at September 30, 2017 using the purchase price.
[2]The fair values for these securities were determined with unobservable inputs not reasonably available to us.

($ in millions)	Fair Value at September 30, 2016	Valuation Technique	Unobservable Input	Unobservable Input Assumption
	Quantitative Information about Level 3 Fair Value Measurements			
Fixed maturities:				
Asset-backed securities:				
Commercial mortgage-backed	$ 0.6	External vendor	Prepayment rate[1]	0%
Total fixed maturities	0.6			
Equity securities:				
Nonredeemable preferred stocks:				
Industrials	0	NA	NA	NA
Subtotal Level 3 securities	0.6			
Pricing exemption securities[2]	0.4			
Total Level 3 securities	$ 1.0			

NA= Not applicable, since we did not hold any nonredeemable preferred stock Level 3 securities at September 30, 2016.
[1]Assumes that one security has 0% of the principal amount of the underlying loans that will be paid off prematurely in each year.
[2] The fair values for these securities were determined with unobservable inputs not reasonably available to us.

($ in millions)	Fair Value at Dec. 31, 2016	Valuation Technique	Unobservable Input	Unobservable Input Assumption
	Quantitative Information about Level 3 Fair Value Measurements			
Fixed maturities:				
Asset-backed securities:				
Commercial mortgage-backed	$ 0.3	External vendor	Prepayment rate[1]	0%
Total fixed maturities	0.3			
Equity securities:				
Nonredeemable preferred stocks:				
Industrials	0	NA	NA	NA
Subtotal Level 3 securities	0.3			
Pricing exemption securities[2]	0.4			
Total Level 3 securities	$ 0.7			

NA= Not applicable, since we did not hold any nonredeemable preferred stock Level 3 securities at December 31, 2016.
[1]Assumes that one security has 0% of the principal amount of the underlying loans that will be paid off prematurely in each year.
[2] The fair values for these securities were determined with unobservable inputs not reasonably available to us.

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

Note 4 ***Debt*** — Debt at each of the balance sheet periods consisted of:

(millions)	September 30, 2017 Carrying Value	September 30, 2017 Fair Value	September 30, 2016 Carrying Value	September 30, 2016 Fair Value	December 31, 2016 Carrying Value	December 31, 2016 Fair Value
3.75% Senior Notes due 2021	$ 498.7	$ 525.7	$ 498.4	$ 544.2	$ 498.4	$ 528.8
2.45% Senior Notes due 2027	496.0	475.3	495.6	497.5	495.8	464.6
6 5/8% Senior Notes due 2029	296.0	388.3	295.8	402.6	295.9	380.1
6.25% Senior Notes due 2032	395.3	518.7	395.1	533.3	395.2	499.0
4.35% Senior Notes due 2044	346.5	379.8	346.4	403.0	346.4	362.3
3.70% Senior Notes due 2045	395.2	392.6	395.1	418.7	395.1	372.5
4.125% Senior Notes due 2047	841.2	894.2	0	0	0	0
6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067	0	0	593.9	572.3	594.1	581.2
Other debt instruments	43.3	43.3	133.6	133.6	127.3	127.3
Total	$ 3,312.2	$ 3,617.9	$ 3,153.9	$ 3,505.2	$ 3,148.2	$ 3,315.8

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

($ in millions) Type of debt instrument	September 30, 2017 Number of Instruments	September 30, 2017 Carrying Value	September 30, 2016 Number of Instruments	September 30, 2016 Carrying Value	December 31, 2016 Number of Instruments	December 31, 2016 Carrying Value	Stated Maturity Date(s)
Term loans	2	$ 43.3	2	$ 68.4	2	$ 62.1	December 2018 and 2019
Junior subordinated notes[1]	0	0	2	41.2	2	41.2	June 2036 and 2037
Senior notes[1]	0	0	4	24.0	4	24.0	Various[2]
Total		$ 43.3		$ 133.6		$ 127.3	

[1] The notes were redeemed during the third quarter 2017 (discussed below).
[2] The senior notes original maturity dates were May 2033, April 2034, December 2034, and June 2035.

The Progressive Corporation Debt

During the second quarter of 2017, we issued $850 million of 4.125% Senior Notes due 2047 (the "4.125% Senior Notes") in an underwritten public offering. We received proceeds, after deducting underwriter's discounts, commissions and other issuance costs, of approximately $841.1 million. In addition, upon issuance of the 4.125% Senior Notes, we closed a forecasted debt issuance hedge, which was entered into to hedge against a possible rise in interest rates, and recognized an $8.0 million pretax loss as part of accumulated other comprehensive income (loss); the loss will be recognized as an adjustment to interest expense and amortized over the life of the 4.125% Senior Notes.

During the second quarter 2017, we redeemed our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 (the "6.70% Debentures"), at par, in the aggregate principal amount of $563.7 million. During the first quarter of 2017 and the full year 2016, we repurchased, in the open market, $30.9 million and $19.8 million, respectively, in aggregate principal amount of our 6.70% Debentures. Since the carrying value of the debt we repurchased differed from the amount paid to extinguish the debt, we recognized a gain of $0.2 million during the first quarter 2017 and $1.6 million in 2016.

During the third quarter 2016, we issued $500 million of our 2.45% Senior Notes due 2027 in an underwritten public offering. We received proceeds, after deducting underwriter's discounts, commissions, and other issuance costs, of approximately $495.6 million.

Consistent with the other senior notes issued by Progressive, interest on the 4.125% Senior Notes and the 2.45% Senior Notes is payable semiannually and both notes are redeemable, in whole or in part, at any time.

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

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

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

During the third quarter 2017, ARX redeemed their junior subordinated notes and senior notes, in their entirety, in the aggregate principal amount of $65.2 million, with proceeds from a 5-year, fixed-rate loan made by The Progressive Corporation to fund the redemptions; this intercompany transaction was eliminated in consolidation.

The Progressive Corporation Line of Credit

During the second quarter 2017, The Progressive Corporation entered into a new line of credit with PNC Bank, National Association (PNC) in the maximum principal amount of $250 million. This line of credit replaced a previous line of credit with a maximum principal amount of $100 million that expired in the second quarter 2017. Subject to the terms and conditions of the line of credit documents, advances under the line of credit (if any) will bear interest at a variable rate equal to the higher of PNC's Prime Rate or the sum of the Federal Funds Open Rate plus 50 basis points. Each advance must be repaid on the 30th day after the advance or, if earlier, on April 30, 2018, the expiration date of the line of credit. Prepayments are permitted without penalty. All advances under the line of credit are subject to PNC's discretion. We had no borrowings under either line of credit during the first nine months of 2017 or throughout 2016.

Note 5 ***Income Taxes*** — At September 30, 2017 and 2016, and December 31, 2016, we determined that we did not need a valuation allowance on our gross deferred tax assets. Although realization of the deferred tax assets is not assured, management believes that it is more likely than not that the deferred tax assets will be realized based on our expectation that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes. For the nine months ended September 30, 2017, there have been no material changes in our uncertain tax positions.

The effective tax rates for the three and nine months ended September 30, 2017, were 14.6% and 29.7%, respectively, compared to 20.5% and 29.4% for the same periods in 2016. On January 1, 2017, we began recording the excess tax benefits from stock-based compensation to the tax provision in accordance with the adoption of the new accounting standard update (see *Note 14 – New Accounting Standards* for additional discussion). Previously these benefits were recorded directly to paid-in capital. In addition, during the third quarter of both 2017 and 2016, we recorded the ratable portion of the tax benefits related to federal renewable energy tax credit fund investments that were entered into during the periods.

Note 6 ***Loss and Loss Adjustment Expense Reserves*** — Activity in the loss and loss adjustment expense reserves during the nine month periods is summarized as follows:

(millions)	September 30, 2017	September 30, 2016
Balance, Beginning of period	$ 11,368.0	$ 10,039.0
Less reinsurance recoverables on unpaid losses	1,801.0	1,442.7
Net balance, Beginning of period	9,567.0	8,596.3
Net loss and loss adjustment expense reserves disposed[1]	0	(2.5)
Total beginning reserves	9,567.0	8,593.8
Incurred related to:		
Current year	13,886.3	12,577.5
Prior years	42.5	(22.9)
Total incurred	13,928.8	12,554.6
Paid related to:		
Current year	8,379.4	7,768.2
Prior years	4,387.8	3,986.2
Total paid	12,767.2	11,754.4
Net balance, End of period	10,728.6	9,394.0
Plus reinsurance recoverables on unpaid losses	2,624.7	1,834.2
Balance, End of period	$ 13,353.3	$ 11,228.2

[1] During 2016, $2.5 million net reserves were disposed by ARX in an exchange transaction.

We experienced unfavorable reserve development of $42.5 million and favorable reserve development of $22.9 million for the first nine months of 2017 and 2016, respectively, which is reflected as "Incurred related to prior years" in the table above.

Year-to-date 2017

- Approximately $51 million of unfavorable prior year reserve development was attributable to accident years 2016 and 2015. This unfavorable development was partially offset by $8 million of favorable development attributable to accident year 2014 and prior accident years.
- Our personal auto businesses incurred $76 million of unfavorable loss and loss adjustment expense (LAE) reserve development for the first nine months of 2017, primarily in the Agency business, in part reflecting an increase in costs related to property damage and higher LAE costs.
- Our Property business experienced $24 million in favorable development primarily due to the identification of prior year losses eligible to be ceded under our catastrophe bond reinsurance program and lower severity and frequency than anticipated for accident year 2016.
- The remaining favorable development for the first nine months was attributable to both our special lines and commercial auto products.

Year-to-date 2016

- Approximately $30 million of the favorable prior year reserve development was attributable to accident year 2015, partially offset by $26 million of unfavorable development attributable to accident year 2014; we had favorable development for 2013 and prior accident years.
- Our Personal Lines and Property businesses incurred $9 million and $46 million, respectively, of favorable loss and LAE reserve development for the first nine months of 2016, partially offset by the unfavorable loss and LAE reserve development in our Commercial Lines business of $31 million. In our Property business, both the severity and frequency of late reported claims was less than anticipated.
- Our personal auto product favorable development was in our Direct auto businesses.
- Our personal auto and Commercial Lines businesses incurred unfavorable IBNR loss reserve development, primarily due to a higher severity and frequency of late reported claims than anticipated for accident year 2015, driven in part by storms in late December 2015, resulting in a greater number of claims being reported in January 2016 than anticipated.
- In addition, our Commercial Lines business experienced unfavorable case reserve development for accident year 2014 primarily due to a higher severity than anticipated on our largest limits, while case reserve development for accident years 2015 and 2013 and prior was favorable.

Note 7 ***Supplemental Cash Flow Information*** — Cash includes only bank demand deposits. We paid the following in the respective periods:

(millions)	Nine Months Ended September 30, 2017	2016
Income taxes	$ 538.7	$ 380.8
Interest	107.4	98.0

Restricted cash on our consolidated balance sheets represents cash that is restricted to pay flood claims under the National Flood Insurance Program's "Write Your Own" program, for which American Strategic Insurance and other subsidiaries of ARX (ASI) are administrators.

The cash transferred in the exchange transaction, which occurred in June 2016, was revised to correct the reclassification of a non-cash transaction; there was no overall impact on the decrease in cash that was reported in our consolidated statement of cash flows for the nine months ended September 30, 2016.

Note 8 ***Segment Information*** — Our Personal Lines segment writes insurance for personal autos and recreational vehicles (our special lines products). Our Commercial Lines segment writes primary liability and physical damage insurance for automobiles and trucks owned and/or operated predominantly by small businesses in the business auto, for-hire transportation, contractor, for-hire specialty, tow, and for-hire livery markets. Our Property segment writes residential property insurance for homeowners, other property owners, and renters. Our other indemnity businesses manage our run-off businesses. Our service businesses provide insurance-related services, including processing Commercial Automobile Insurance Procedures/Plans (CAIP) business and serving as an agent for homeowners, general liability, and workers' compensation insurance through our programs with ASI and unaffiliated insurance companies. All segment revenues are generated from external customers; all intercompany transactions, including those between Progressive and ASI, are eliminated in consolidation.

Following are the operating results for the respective periods:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
(millions)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)
Personal Lines								
Agency	$ 2,840.0	$ 69.5	$ 2,474.3	$ 98.6	$ 8,224.0	$ 524.7	$ 7,245.5	$ 354.5
Direct	2,734.8	128.7	2,391.2	84.4	7,908.5	466.7	6,946.7	237.5
Total Personal Lines[1]	5,574.8	198.2	4,865.5	183.0	16,132.5	991.4	14,192.2	592.0
Commercial Lines	714.0	42.8	630.2	4.4	2,031.2	166.4	1,772.4	96.7
Property[2]	255.2	(69.0)	227.7	10.4	720.3	(57.5)	638.0	(27.7)
Other indemnity	0	0	0	(0.8)	0	(0.3)	0	(1.6)
Total underwriting operations	6,544.0	172.0	5,723.4	197.0	18,884.0	1,100.0	16,602.6	659.4
Fees and other revenues[3]	96.3	NA	86.8	NA	270.3	NA	248.2	NA
Service businesses	33.3	4.4	26.2	3.0	94.5	12.7	77.7	9.2
Investments[4]	118.2	112.4	98.6	93.8	470.2	452.2	381.7	366.8
Gains on extinguishment of debt	0	0	0	0	0.2	0.2	1.6	1.6
Interest expense	NA	(37.4)	NA	(35.3)	NA	(117.6)	NA	(103.8)
Consolidated total	$ 6,791.8	$ 251.4	$ 5,935.0	$ 258.5	$ 19,719.2	$ 1,447.5	$ 17,311.8	$ 933.2

NA = Not applicable

[1] Personal auto insurance accounted for 93% of the total Personal Lines segment net premiums earned in the three and nine months ended September 30, 2017, and 92% for the same periods in 2016; insurance for our special lines products (e.g., motorcycles, watercraft, and RVs) accounted for the balance of the Personal Lines net premiums earned.

[2] For the three and nine months ended September 30, 2017, pretax profit (loss) includes $17.2 million and $48.2 million, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX and $15.5 million and $46.6 million for the same periods in 2016.

[3] Pretax profit (loss) for fees and other revenues are attributable to operating segments.

[4] Revenues represent recurring investment income and total net realized gains (losses) on securities; pretax profit is net of investment expenses.

Our management uses underwriting margin and combined ratio as primary measures of underwriting profitability. Underwriting profitability is calculated by subtracting losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses from the total of net premiums earned and fees and other revenues. The underwriting margin is the pretax underwriting profit (loss) expressed as a percentage of net premiums earned (i.e., revenues from underwriting operations). Combined ratio is the complement of the underwriting margin. Following are the underwriting margins and combined ratios for our underwriting operations for the respective periods:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
	Under-writing Margin	Combined Ratio	Under-writing Margin	Combined Ratio	Under-writing Margin	Combined Ratio	Under-writing Margin	Combined Ratio
Personal Lines								
Agency	2.4%	97.6	4.0%	96.0	6.4%	93.6	4.9%	95.1
Direct	4.7	95.3	3.5	96.5	5.9	94.1	3.4	96.6
Total Personal Lines	3.6	96.4	3.8	96.2	6.1	93.9	4.2	95.8
Commercial Lines	6.0	94.0	0.7	99.3	8.2	91.8	5.5	94.5
Property[1]	(27.0)	127.0	4.6	95.4	(8.0)	108.0	(4.3)	104.3
Other indemnity[2]	NM	NM	NM	NM	NM	NM	NM	NM
Total underwriting operations	2.6	97.4	3.4	96.6	5.8	94.2	4.0	96.0

[1] Included in both the three and nine months ended September 30, 2017 are 6.7 points of amortization expense predominately associated with the acquisition of a controlling interest in ARX and 6.8 points and 7.3 points, respectively, for the three and nine months ended September 30, 2016. The nine months ended September 30, 2016, also include 0.7 points of expense related to the loss on the exchange transaction that occurred in 2016.

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

Note 9 *Dividends* — We maintain a policy of paying an annual variable dividend that, if declared, would be payable shortly after the close of the year. This annual variable dividend is based on a target percentage of after-tax underwriting income multiplied by a performance factor (Gainshare factor), which, beginning in 2017, is determined by reference to the Agency auto, Direct auto, special lines, Commercial Lines, and Property business units, with minor exclusions and subject to the limitations discussed below. The target percentage is determined by our Board of Directors on an annual basis and announced to shareholders and the public. In December 2016, the Board determined the target percentage for 2017 to be 33-1/3% of annual after-tax underwriting income, which is unchanged from the 2016 target percentage.

The Gainshare factor can range from zero to two and is determined by comparing our operating performance for the specified business units for the year to certain predetermined profitability and growth objectives approved by the Compensation Committee of the Board. This Gainshare factor is also used in the annual cash bonus program currently in place for our employees (our "Gainsharing program"). On a year-to-date basis, as of September 30, 2017, the Gainshare factor was 1.67. Since the final factor will be determined based on our results for the full year, the final factor may vary from the current factor.

Our annual dividend program will result in a variable payment to shareholders each year, subject to certain limitations. If the Gainshare factor is zero or if our comprehensive income is less than after-tax underwriting income, no dividend would be payable under our annual variable dividend policy. In addition, the ultimate decision on whether or not a dividend will be paid is in the discretion of the Board of Directors. The Board could decide to alter our policy, or not to pay the annual variable dividend, at any time prior to the declaration of the dividend for the year. Such an action by the Board could result from, among other reasons, changes in the insurance marketplace, changes in our performance or capital needs, changes in federal income tax laws, disruptions of national or international capital markets, or other events affecting our business, liquidity, or financial position.

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

(millions, except per share amounts)			Amount	
Dividend Type	Declared	Paid	Per Share	Total[1]
Annual – Variable	December 2016	February 2017	$ 0.6808	$ 395.4
Annual – Variable	December 2015	February 2016	$ 0.8882	$ 519.2

[1] Based on an estimate of shares outstanding as of the record date. For the dividends declared in December 2016 and 2015, we paid $395.4 million and $519.0 million, respectively.

Note 10 ***Other Comprehensive Income (Loss)*** **—** The components of other comprehensive income (loss), including reclassification adjustments by income statement line item, were as follows:

				Components of Changes in Accumulated Other Comprehensive Income (after tax)			
(millions)	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	(Income)loss attributable to NCI
Balance at June 30, 2017	**$ 1,774.1**	**$ (623.4)**	**$ 1,150.7**	**$ 1,164.6**	**$ (15.1)**	**$ (0.9)**	**$ 2.1**
Other comprehensive income (loss) before reclassifications:							
Investment securities	122.7	(43.0)	79.7	79.7	0	0	0
Net non-credit related OTTI losses, adjusted for valuation changes	0	0	0	0	0	0	0
Forecasted transactions	0	0	0	0	0	0	0
Foreign currency translation adjustment	0.9	(0.3)	0.6	0	0	0.6	0
Loss attributable to noncontrolling interest (NCI)	(1.1)	0.4	(0.7)	0	0	0	(0.7)
Total other comprehensive income (loss) before reclassifications	122.5	(42.9)	79.6	79.7	0	0.6	(0.7)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(9.3)	3.3	(6.0)	(6.0)	0	0	0
Net realized gains (losses) on securities	15.7	(5.5)	10.2	10.2	0	0	0
Interest expense	(0.2)	0.1	(0.1)	0	(0.1)	0	0
Total reclassification adjustment for amounts realized in net income	6.2	(2.1)	4.1	4.2	(0.1)	0	0
Total other comprehensive income (loss)	116.3	(40.8)	75.5	75.5	0.1	0.6	(0.7)
Balance at September 30, 2017	**$ 1,890.4**	**$ (664.2)**	**$ 1,226.2**	**$ 1,240.1**	**$ (15.0)**	**$ (0.3)**	**$ 1.4**

(millions)	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Components of Changes in Accumulated Other Comprehensive Income (after tax)			
				Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	(Income)loss attributable to NCI
Balance at December 31, 2016	**$ 1,439.5**	**$ (506.1)**	**$ 933.4**	**$ 939.6**	**$ (9.4)**	**$ (1.1)**	**$ 4.3**
Other comprehensive income (loss) before reclassifications:							
Investment securities	554.4	(194.3)	360.1	360.1	0	0	0
Net non-credit related OTTI losses, adjusted for valuation changes	0	0	0	0	0	0	0
Forecasted transactions	(8.0)	2.8	(5.2)	0	(5.2)	0	0
Foreign currency translation adjustment	1.2	(0.4)	0.8	0	0	0.8	0
Loss attributable to noncontrolling interest (NCI)	(4.5)	1.6	(2.9)	0	0	0	(2.9)
Total other comprehensive income (loss) before reclassifications	543.1	(190.3)	352.8	360.1	(5.2)	0.8	(2.9)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(12.9)	4.6	(8.3)	(8.3)	0	0	0
Net realized gains (losses) on securities	104.5	(36.6)	67.9	67.9	0	0	0
Interest expense	0.6	(0.2)	0.4	0	0.4	0	0
Total reclassification adjustment for amounts realized in net income	92.2	(32.2)	60.0	59.6	0.4	0	0
Total other comprehensive income (loss)	450.9	(158.1)	292.8	300.5	(5.6)	0.8	(2.9)
Balance at September 30, 2017	**$ 1,890.4**	**$ (664.2)**	**$ 1,226.2**	**$ 1,240.1**	**$ (15.0)**	**$ (0.3)**	**$ 1.4**

(millions)	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Components of Changes in Accumulated Other Comprehensive Income (after tax)			
				Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	(Income)loss attributable to NCI
Balance at June 30, 2016	**$ 1,477.0**	**$ (519.2)**	**$ 957.8**	**$ 970.1**	**$ (8.8)**	**$ (1.1)**	**$ (2.4)**
Other comprehensive income (loss) before reclassifications:							
Investment securities	146.8	(51.4)	95.4	95.4	0	0	0
Net non-credit related OTTI losses, adjusted for valuation changes	0	0	0	0	0	0	0
Forecasted transactions	0	0	0	0	0	0	0
Foreign currency translation adjustment	0.4	(0.1)	0.3	0	0	0.3	0
Loss attributable to noncontrolling interest (NCI)	1.8	(0.6)	1.2	0	0	0	1.2
Total other comprehensive income (loss) before reclassifications	149.0	(52.1)	96.9	95.4	0	0.3	1.2
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(26.8)	9.4	(17.4)	(17.4)	0	0	0
Net realized gains (losses) on securities	39.6	(13.9)	25.7	25.7	0	0	0
Interest expense	0.5	(0.2)	0.3	0	0.3	0	0
Total reclassification adjustment for amounts realized in net income	13.3	(4.7)	8.6	8.3	0.3	0	0
Total other comprehensive income (loss)	135.7	(47.4)	88.3	87.1	(0.3)	0.3	1.2
Balance at September 30, 2016	**$ 1,612.7**	**$ (566.6)**	**$ 1,046.1**	**$ 1,057.2**	**$ (9.1)**	**$ (0.8)**	**$ (1.2)**

(millions)	Pretax total accumulated other comprehensive income	Total tax (provision) benefit	After tax total accumulated other comprehensive income	Components of Changes in Accumulated Other Comprehensive Income (after tax): Total net unrealized gains (losses) on securities	Net unrealized gains on forecasted transactions	Foreign currency translation adjustment	(Income)loss attributable to NCI
Balance at December 31, 2015	**$ 1,234.5**	**$ (434.1)**	**$ 800.4**	**$ 809.0**	**$ (8.2)**	**$ (1.5)**	**$ 1.1**
Other comprehensive income (loss) before reclassifications:							
Investment securities	470.4	(165.2)	305.2	305.2	0	0	0
Net non-credit related OTTI losses, adjusted for valuation changes	(0.1)	0.1	0	0	0	0	0
Forecasted transactions	0	0	0	0	0	0	0
Foreign currency translation adjustment	1.0	(0.3)	0.7	0	0	0.7	0
Loss attributable to noncontrolling interest (NCI)	(3.7)	1.4	(2.3)	0	0	0	(2.3)
Total other comprehensive income (loss) before reclassifications	467.6	(164.0)	303.6	305.2	0	0.7	(2.3)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(27.0)	9.5	(17.5)	(17.5)	0	0	0
Net realized gains (losses) on securities	114.9	(40.4)	74.5	74.5	0	0	0
Interest expense	1.5	(0.6)	0.9	0	0.9	0	0
Total reclassification adjustment for amounts realized in net income	89.4	(31.5)	57.9	57.0	0.9	0	0
Total other comprehensive income (loss)	378.2	(132.5)	245.7	248.2	(0.9)	0.7	(2.3)
Balance at September 30, 2016	**$ 1,612.7**	**$ (566.6)**	**$ 1,046.1**	**$ 1,057.2**	**$ (9.1)**	**$ (0.8)**	**$ (1.2)**

In an effort to manage interest rate risk, we entered into forecasted transactions on each of Progressive's outstanding debt issuances. Upon issuing the debt, the gains (losses) recognized on the effective cash flow hedges are recorded as unrealized gains (losses) in accumulated other comprehensive income and amortized into interest expense over the term of the related debt issuance. We expect to reclassify $1.0 million (pretax) into interest expense during the next 12 months, related to net unrealized losses on forecasted transactions.

For the three and nine months ended September 30, 2016, the net impairment losses recognized in earnings were revised to reflect a decrease in a reclassification adjustment rather than an increase as previously disclosed. The offset was to other comprehensive income before reclassifications-investment securities.The impacts to classification within the table are immaterial. Overall, this revision had no impact on the total other comprehensive income (loss) reported for these periods.

Note 11 ***Litigation*** — The Progressive Corporation and/or its insurance subsidiaries are named as defendants in various lawsuits arising out of claims made under insurance policies written by our insurance subsidiaries in the ordinary course of business. We consider all legal actions relating to such claims in establishing our loss and loss adjustment expense reserves. In addition, The Progressive Corporation and/or its insurance subsidiaries are named as defendants in a number of class action or individual lawsuits that challenge certain of the operations of the insurance subsidiaries.

These cases include those alleging damages as a result of our subsidiaries' practices in evaluating or paying medical or injury claims or benefits, including, but not limited to, personal injury protection, medical payments, and bodily injury benefits; the utilization, content, or appearance of policy documents; labor rates paid to auto body repair shops; wage and hour issues; and cases challenging other aspects of our subsidiaries' claims or marketing practices or other business operations. Other insurance companies face many of these same issues.

The nature and volume of litigation to which The Progressive Corporation is subject is similar to that which was disclosed in *Note 12 – Litigation* in our 2016 Annual Report to Shareholders.

We plan to contest the pending lawsuits vigorously, but may pursue settlement negotiations in some cases, if appropriate. The outcomes of pending cases are uncertain at this time. We establish accruals for these lawsuits when it is probable that a loss has been or will be incurred and we can reasonably estimate potential loss exposure, which may include a range of loss. As to lawsuits for which the loss is considered neither probable or estimable, or is considered probable but not estimable, we do not establish an accrual. Nevertheless, we continue to evaluate this pending litigation to determine if any losses not deemed

probable and estimable become so, at which point we would establish an accrual at our best estimate of the loss or range of loss.

With respect to our pending lawsuits that are not related to claims under insurance policies, the accruals that we have established, if any, were not material at September 30, 2017 or 2016, and there were no material settlements during the first nine months of 2017 or 2016. For most of these lawsuits, we do not consider any losses to be both probable and estimable, and we are unable to estimate a meaningful range of loss, if any, at this time, due to the factors discussed in *Note 12 – Litigation* in our 2016 Annual Report to Shareholders. In the event that any one or more of these lawsuits results in a substantial judgment against or settlement by us, or if our accruals (if any) prove to be inadequate by a significant amount, the resulting liability could have a material adverse effect on our consolidated financial condition, cash flows, and/or results of operations. For a further discussion on our pending litigation and related reserving policies, see *Note 12 – Litigation* in our 2016 Annual Report to Shareholders.

Note 12 ***Redeemable Noncontrolling Interest*** — In connection with the April 2015 acquisition of a controlling interest in ARX, The Progressive Corporation entered into a stockholders' agreement with the other ARX stockholders. As part of the stockholders' agreement, the minority ARX shareholders have the right to "put" their ARX shares to Progressive in two installments, one in early 2018 and one in early 2021, and Progressive has the ability to "call" a portion of the outstanding shares shortly thereafter. If these rights are exercised in full when available, our ownership stake in ARX capital stock will exceed 80% in 2018 and will reach 100% in 2021. See *Note 15 – Redeemable Noncontrolling Interest* in our 2016 Annual Report to Shareholders for a discussion of the purchase prices for shares to be purchased by Progressive pursuant to these put or call rights.

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

In addition to these minority shares, at September 30, 2017, ARX employees hold options to purchase 22,550 ARX shares. These options and any shares issued upon exercise are subject to the stockholders' agreement, including the right to "put" these shares to Progressive, as described above. Until the options are exercised, the underlying obligation of approximately $32.2 million is not recorded as part of redeemable NCI.

The changes in the components of redeemable NCI during the nine months ended September 30, 2017 and 2016, and the year ended December 31, 2016, were:

(millions)	September 30, 2017	September 30, 2016	December 31, 2016
Balance, Beginning of period	$ 483.7	$ 464.9	$ 464.9
Net income attributable to NCI	1.9	11.3	26.2
Other comprehensive income (loss) attributable to NCI	2.9	2.3	(3.2)
Exercise of employee stock options	3.4	0	0
Change in redemption value of NCI	6.3	(6.0)	(4.2)
Balance, End of period	$ 498.2	$ 472.5	$ 483.7

Note 13 ***Goodwill and Intangible Assets***

Goodwill

The carrying amount of goodwill increased $3.3 million as a result of the acquisition of a small excess and surplus lines insurance company during the second quarter 2017, which will provide us flexibility in our Commercial Lines business going forward. Goodwill recorded at September 30, 2017, was $452.7 million. No accumulated goodwill impairment losses exist.

Intangible Assets

The following table is a summary of the net carrying amount of other intangible assets as of September 30, 2017 and 2016, and December 31, 2016:

(millions)	September 30, 2017	September 30, 2016	December 31, 2016
Intangible assets subject to amortization	$ 372.2	$ 435.9	$ 420.4
Indefinite-lived intangible assets[1]	12.4	12.4	12.4
Total	$ 384.6	$ 448.3	$ 432.8

[1] Indefinite-lived intangible assets are comprised of state insurance and agent licenses. State insurance licenses were previously subject to amortization under superseded accounting guidance and have $0.6 million of accumulated amortization for all periods presented.

Intangible assets subject to amortization consisted of the following:

(millions)	September 30, 2017			September 30, 2016			December 31, 2016		
Category	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Policies in force	$ 256.2	$ 91.5	$ 164.7	$ 256.2	$ 55.0	$ 201.2	$ 256.2	$ 64.1	$ 192.1
Agency relationships	159.2	28.4	130.8	159.2	17.1	142.1	159.2	19.9	139.3
Software rights	79.1	26.8	52.3	79.1	16.1	63.0	79.1	18.8	60.3
Trade name	34.8	10.4	24.4	34.8	5.2	29.6	34.8	6.1	28.7
Total	$ 529.3	$ 157.1	$ 372.2	$ 529.3	$ 93.4	$ 435.9	$ 529.3	$ 108.9	$ 420.4

Amortization expense was $17.2 million and $48.2 million for the three and nine months ended September 30, 2017, respectively, compared to $15.5 million and $46.6 million during the same period last year.

During the third quarter 2017, we revised our estimate of the economic useful life of our trade name intangible asset from an original life of 10 years to a remaining life of 2 years. The decrease in the useful life represents the estimated length of time that it is expected to take to transition the branding of our Property business from the ASI trade name to “Progressive Home.” As of September 30, 2017, the remaining average life of all of our intangible assets is 5.2 years.

Note 14 ***New Accounting Standards***

Issued

In March 2017, the Financial Accounting Standards Boards (FASB) issued an accounting standards update (ASU) related to premium amortization on purchased callable debt securities. The intent of the standard is to shorten the amortization period for certain purchased callable debt securities held at a premium. Under the ASU, the premium is required to be amortized to the earliest call date. The ASU more closely aligns interest income recorded on bonds held at a premium with the economics of the underlying instrument. The ASU, which is required to be applied on a modified retrospective basis, is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Since we have historically used a yield-to-worst scenario for our securities that were purchased at a premium, and the first call on a premium security most often produces the lowest and most conservative yield, we do not expect this standard to have a significant impact on our financial condition, cash flows, or results of operations.

Adopted

On January 1, 2017, we adopted the ASU to simplify the accounting for employee share-based payment transactions. There were several provisions that could be adopted under this ASU. We did not elect to make any changes to our method of recording forfeitures and are continuing to withhold taxes at the minimum statutory tax rate. We did elect, on a retrospective basis, to disclose the payment of cash to a taxing authority for which we withheld shares for this purpose as a financing activity. Lastly, during the first nine months of 2017, we recognized $23.1 million of excess tax benefits as an income tax benefit in our consolidated statements of comprehensive income; this provision was adopted on a prospective basis.

Management's Discussion and Analysis of Financial Condition and Results of Operations

I. OVERVIEW

The Progressive Corporation's insurance subsidiaries recognized growth in both premiums and policies in force in the third quarter 2017, compared to the same period last year. During the third quarter 2017, companywide net premiums written and earned increased 18% and 14%, respectively, and policies in force grew 9%. Pretax income was down 3% on a quarter-over-prior-year quarter basis with underwriting income down 13% and investment income up 20%. During the third quarter 2017, we incurred significant catastrophe losses, primarily from Hurricanes Harvey and Irma. For the third quarter 2017, catastrophe losses, net of reinsurance, were $431.1 million, or 6.6 points on the companywide combined ratio, compared to $158.7 million, or 2.8 points, in the same period last year. The increase in investment income primarily reflects an increase in average assets. Even though pretax income decreased, net income attributable to Progressive increased 13% for the third quarter compared to last year, reflecting primarily the excess tax benefit we recognized in the third quarter 2017 on our employee share-based transactions as a result of a new accounting standard adopted in 2017; previously this benefit was booked directly to paid-in capital instead of the tax provision. During the third quarter 2017, our total capital (debt plus shareholders' equity) increased $227 million, to $12.6 billion.

A. Insurance Operations

Our Personal Lines and Commercial Lines operating segments were profitable during the third quarter 2017, while our Property operating segment generated an underwriting loss during the quarter. Our Personal Lines underwriting margin was 3.6% and Commercial Lines was 6.0%. During the third quarter 2017, in addition to the normal seasonality, the special lines products were significantly affected by the hurricanes. As a result, the special lines products unfavorably impacted our total Personal Lines combined ratio by 2.7 points for the third quarter 2017. Our Property business combined ratio was 127.0 for the quarter. On a net basis (i.e., after reinsurance), our Property business incurred catastrophe losses during the third quarter 2017 of $96.9 million, or 38.0 points on their combined ratio.

During the third quarter 2017, our Personal Lines, Commercial Lines, and Property segments each contributed to our premium growth and each had solid increases in policies in force.

During the quarter, total new personal auto applications (i.e., issued policies) increased 25% on a quarter-over-prior-year quarter basis, with both our Agency and Direct auto businesses increasing 25%. The personal auto businesses continued to benefit from our advertising campaigns, competitive product offerings, and position in the marketplace. We continued to generate strong new business application growth in our "Robinsons" (bundled home and auto) customers through our Platinum agents and, in our Direct business, through our in-house agency as well as through HomeQuote Explorer, our online quoting platform for home insurance. New applications for our special lines products were up 4% during the third quarter 2017, compared to the same period last year. During the third quarter 2017, we completed the roll out, to our currently eligible states (41 states and the District of Columbia), of our new Snapshot® mobile app that we introduced in late 2016. The introduction of the mobile app, which is in addition to the plug-in device, is increasing consumer adoption of Snapshot.

For the Commercial Lines business, new applications increased 5% on a quarter-over-prior-year quarter basis during the third quarter 2017. During the quarter, we experienced substantial improvement over the first half of 2017. During the second half of 2016, we imposed underwriting restrictions, which we began to lift at the end of the first quarter of 2017. For the first nine months of 2017, Commercial Lines new applications decreased 6%, compared to the same period in 2016.

The Property business had a 46% increase in new applications for the third quarter 2017, compared to the same period last year. The growth is largely attributable to state expansion that occurred throughout 2016 and 2017 in business written by both ARX and Progressive (i.e., renters business), more competitive product offerings, as well as growth in the Platinum agency offerings.

During the quarter, on a quarter-over-prior-year quarter basis, our written premium per policy for our personal auto businesses increased 5%, primarily reflecting the rate increases taken during the last 12 months. Written premium per policy increased 4% for our special lines products and increased 13% for our Commercial Lines business. The Commercial Lines increase reflects rate actions taken in late 2016 and early 2017. The written premium per policy for our Property business decreased 1%, reflecting an increase in the renters business, which has lower premiums per policy.

We ended the third quarter 2017 with 11.4 million auto policies in force, with both Agent and Direct auto growing 11% over the the same period last year. Our special lines products policies in force grew 2% over the end of the third quarter last year and Commercial Lines grew 4%. On a year-over-year basis, total Personal Lines increased policies in force by about 1.2 million policies and Commercial Lines increased policies by nearly 26,000. Our Property segment reported nearly 1.4 million policies in force, a 16% increase over the end of the third quarter last year.

To further grow policies in force, it is critical that we retain our customers for longer periods. Consequently, increasing retention is one of our most important priorities, and we continue to focus on having a very competitive and preferred product

available and, through our service philosophy, to make sure to give our customers a reason to stay. Policy life expectancy, which is our actuarial estimate of the average length of time that a policy will remain in force before cancellation or lapse in coverage, is one measure of customer retention in our vehicle businesses. Our trailing 12-month total auto policy life expectancy increased 5% over last year with strength across both the Agent and Direct auto businesses.

B. Investments

The fair value of our investment portfolio was $27.0 billion at September 30, 2017. Our asset allocation strategy is to maintain 0%-25% of our portfolio in Group I securities, with the balance (75%-100%) of our portfolio in Group II securities (the securities allocated to Group I and II are defined below under *Results of Operations – Investments*). At September 30, 2017, 17% of our portfolio was allocated to Group I securities and 83% to Group II securities, compared to 18% and 82%, respectively, at December 31, 2016.

Our recurring investment income generated a pretax book yield of 2.3% for the third quarter 2017, compared to 2.2% for the same period in 2016. Our investment portfolio produced a fully taxable equivalent (FTE) total return of 1.1% for the third quarter 2017, compared to 1.3% for the same period in 2016. Our fixed-income and common stock portfolios had FTE total returns of 0.7% and 4.3%, respectively, for the third quarter 2017, compared to 0.9% and 4.1% last year.

At September 30, 2017, the fixed-income portfolio had a weighted average credit quality of A+ and a duration of 2.2 years, which was unchanged from December 31, 2016. We maintain our fixed-income portfolio strategy of investing in high-quality, liquid securities. We remain confident in our preference for shorter duration positioning during times of low interest rates as a means to limit any decline in portfolio value from an increase in rates.

II. FINANCIAL CONDITION

A. Liquidity and Capital Resources

Progressive's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. Operations generated positive cash flows of about $3.2 billion and $2.3 billion for the first nine months of 2017 and 2016, respectively. We continue to hold a sufficient amount of short-term and U.S. Treasury securities to provide ample liquidity to pay claims, including claims from Hurricanes Harvey and Irma, without disrupting our portfolio allocation or investment strategies.

Our total capital (debt plus shareholders' equity) was $12.6 billion, at book value, at September 30, 2017, compared to $11.2 billion at September 30, 2016 and $11.1 billion at December 31, 2016. Our interest expense increased 6% on quarter-over-prior-year quarter basis, primarily from the following debt transactions. We issued $850 million of 4.125% Senior Notes due 2047 in April 2017, and $500 million of 2.45% Senior Notes due 2027 in August 2016. In June 2017, we redeemed our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures, at par, in the aggregate principal amount of $563.7 million. During the third quarter 2017, ARX redeemed their junior subordinated notes and senior notes in aggregate principal amount of $65.2 million. Our debt-to-total capital ratio, which reflects debt as a percent of debt plus shareholders' equity and excludes redeemable noncontrolling interest, was 26.3% at September 30, 2017, 28.0% at September 30, 2016, and 28.3% at December 31, 2016.

As part of the stockholders' agreement related to the ARX Holding Corp. acquisition, Progressive has the ability to achieve 100% ownership of ARX by the end of the second quarter of 2021. In addition, the minority ARX shareholders have the right to "put" their ARX shares to Progressive, at various times and in varying amounts, prior to that date. The estimated cost to acquire the additional ARX shares is represented by the redeemable noncontrolling interest reflected on our consolidated balance sheets (see *Note 12 – Redeemable Noncontrolling Interest*).

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

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

During the first nine months of 2017 and at all times during 2016, our total capital exceeded the sum of our regulatory capital layer plus our self-constructed extreme contingency layer, as described in our Annual Report to Shareholders for the year ended December 31, 2016.

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

- *Repurchases of our common shares.* In accordance with our financial policies, we will repurchase our common shares when it is prudent to do so. As of September 30, 2017, we had 24.2 million shares remaining under our 2017 Board repurchase authorization. The following table shows our share repurchase activity during the respective periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(millions, except per share amounts)	**2017**	**2016**	**2017**	**2016**
Total number of shares purchased	0.8	1.6	1.5	5.2
Total cost	$ 38.0	$ 51.5	$ 62.1	$ 163.6
Average price paid per share	$ 45.77	$ 31.70	$ 41.57	$ 31.58

- *Dividends.* As part of our capital management activities, in February 2017 and 2016, we paid annual variable dividends of $0.6808 per share and $0.8882 per share, respectively, which were each declared in December of the prior year.

We have an outstanding line of credit with PNC Bank, National Association (PNC) in the maximum principal amount of $250 million. Subject to the terms and conditions of the line of credit documents, advances under the line of credit (if any) will bear interest at a variable rate equal to the higher of PNC's Prime Rate or the sum of the Federal Funds Open Rate plus 50 basis points. Each advance must be repaid on the 30th day after the advance or, if earlier, on April 30, 2018, the expiration date of the line of credit. Prepayments are permitted without penalty. All advances under the line of credit are subject to PNC's discretion.

Short-Term Borrowings

We did not engage in short-term borrowings, including any borrowings under our discretionary line of credit, to fund our operations or for liquidity purposes during the nine months ended September 30, 2017 or at any point in 2016. As discussed above, our insurance operations create liquidity by collecting and investing insurance premiums in advance of paying claims. Information concerning our insurance operations can be found below under *Results of Operations – Underwriting*, and details about our investment portfolio can be found below under *Results of Operations – Investments*.

We did not enter into any repurchase commitment transactions during the first nine months of 2017 or 2016, and we had no open repurchase commitments at September 30, 2017 or 2016, or December 31, 2016.

B. Commitments and Contingencies

Contractual Obligations

During the first nine months of 2017, our contractual obligations have not changed materially from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2016, other than the debt transactions described above.

Off-Balance-Sheet Arrangements

Our off-balance-sheet leverage includes derivative positions, operating leases, and purchase obligations. See the "Derivative Instruments" section of *Note 2 – Investments* and of this *Management's Discussion and Analysis* for a summary of our derivative activity since year-end 2016. There have been no material changes in the other off-balance-sheet items since the discussion in the notes to the financial statements in Progressive's Annual Report on Form 10-K for the year ended December 31, 2016.

III. RESULTS OF OPERATIONS – UNDERWRITING

A. Segment Overview

We report our underwriting operations in three segments: Personal Lines, Commercial Lines, and Property. As a component of our Personal Lines segment, we report our Agency and Direct business results to provide further understanding of our products by distribution channel. Our other indemnity business represents our run-off businesses.

Our Personal Lines business writes insurance for personal autos and special lines products (e.g., motorcycles, watercraft, and RVs) and represented about 84% and 85% of our total net premiums written in the third quarter and first nine months of 2017, respectively, compared to 85% and 84% for the same periods last year. We currently write our Personal Lines products in all 50 states. We also offer our personal auto product (not special lines products) in the District of Columbia.

Personal auto represented 93% and 92% of our total Personal Lines net premiums written in the third quarter and first nine months of 2017, respectively, compared to 92% and 91% for the same periods last year. These auto policies are primarily written for 6-month terms. The remaining Personal Lines business is comprised of special lines products, which are written for 12-month terms.

Our Commercial Lines business writes primary liability, physical damage, and other auto-related insurance for automobiles and trucks owned and/or operated predominantly by small businesses. Our Commercial Lines business represented 12% and 11% of our total net premiums written in the third quarter and first nine months of 2017, respectively, compared to 11% and 12% for the same periods last year. We write Commercial Lines business in all 50 states and the majority of our policies are written for 12-month terms.

Our Property business writes residential property insurance (e.g., single family homes, condominium unit owners, rental coverage) for homeowners, other property owners, and renters. Our Property business represented 4% of our total net premiums written in both the third quarter and first nine months of 2017, and during the same periods last year. Our Property business primarily consists of the operations of the ARX organization. ARX wholly owns or controls the insurance companies that we refer to in the aggregate as "ASI." ASI, principally in the Agency channel, writes residential property in 40 states and the District of Columbia and flood insurance in 43 states and the District of Columbia. Progressive also writes renters insurance in 40 states and the District of Columbia. Florida and Texas represented nearly half of the year-to-date premium volume in the Property business. Property policies are generally written on a 12-month term.

B. Profitability

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
	Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)	
($ in millions)	$	Margin	$	Margin	$	Margin	$	Margin
Personal Lines								
Agency	$ 69.5	2.4%	$ 98.6	4.0%	$ 524.7	6.4%	$ 354.5	4.9%
Direct	128.7	4.7	84.4	3.5	466.7	5.9	237.5	3.4
Total Personal Lines	198.2	3.6	183.0	3.8	991.4	6.1	592.0	4.2
Commercial Lines	42.8	6.0	4.4	0.7	166.4	8.2	96.7	5.5
Property[1]	(69.0)	(27.0)	10.4	4.6	(57.5)	(8.0)	(27.7)	(4.3)
Other indemnity[2]	0	NM	(0.8)	NM	(0.3)	NM	(1.6)	NM
Total underwriting operations	$ 172.0	2.6%	$ 197.0	3.4%	$ 1,100.0	5.8%	$ 659.4	4.0%

[1] For the three and nine months ended September 30, 2017, amounts include $17.2 million and $48.2 million, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX, and $15.5 million and $46.6 million for the respective periods last year. The increase in amortization expense reflects a change in the economic useful life life of the trade name intangible asset; see *Note 13 – Goodwill and Intangible Assets* for further discussion.

[2] Underwriting margins for our other indemnity businesses are not meaningful (NM) due to the lack of premiums earned by, and the variability of loss costs in, such businesses.

Our underwriting profit for the third quarter 2017 was adversely impacted by significant catastrophe losses, primarily from Hurricanes Harvey and Irma. Even after adjustments for amortization expense, Property operated at a loss for the quarter. Our underwriting profit for the nine months ended September 30, 2017 was favorably impacted by lower than anticipated frequency throughout the year, compared to last year, as well as higher earned premium per policy on both our personal and commercial auto products, on a year-over-year basis, reflecting rate increases taken during 2016 and into 2017. This favorable benefit was offset somewhat by the catastrophe losses during the year. For the current nine month period, our aggregate underwriting profit met our 4% or better profitability goal, despite the fact that Property operated at a loss for the period.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
Underwriting Performance[1]	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Personal Lines—Agency						
Loss & loss adjustment expense ratio	78.3	76.4	1.9 pts.	74.1	75.5	(1.4) pts.
Underwriting expense ratio	19.3	19.6	(0.3) pts.	19.5	19.6	(0.1) pts.
Combined ratio	97.6	96.0	1.6 pts.	93.6	95.1	(1.5) pts.
Personal Lines—Direct						
Loss & loss adjustment expense ratio	75.7	78.1	(2.4) pts.	74.4	77.0	(2.6) pts.
Underwriting expense ratio	19.6	18.4	1.2 pts.	19.7	19.6	0.1 pts.
Combined ratio	95.3	96.5	(1.2) pts.	94.1	96.6	(2.5) pts.
Total Personal Lines						
Loss & loss adjustment expense ratio	76.9	77.2	(0.3) pts.	74.3	76.2	(1.9) pts.
Underwriting expense ratio	19.5	19.0	0.5 pts.	19.6	19.6	0 pts.
Combined ratio	96.4	96.2	0.2 pts.	93.9	95.8	(1.9) pts.
Commercial Lines						
Loss & loss adjustment expense ratio	72.2	78.2	(6.0) pts.	69.8	72.4	(2.6) pts.
Underwriting expense ratio	21.8	21.1	0.7 pts.	22.0	22.1	(0.1) pts.
Combined ratio	94.0	99.3	(5.3) pts.	91.8	94.5	(2.7) pts.
Property						
Loss & loss adjustment expense ratio	95.0	63.8	31.2 pts.	73.4	70.7	2.7 pts.
Underwriting expense ratio[2]	32.0	31.6	0.4 pts.	34.6	33.6	1.0 pts.
Combined ratio[2]	127.0	95.4	31.6 pts.	108.0	104.3	3.7 pts.
Total Underwriting Operations[3]						
Loss & loss adjustment expense ratio	77.2	76.9	0.3 pts.	73.8	75.6	(1.8) pts.
Underwriting expense ratio	20.2	19.7	0.5 pts.	20.4	20.4	0 pts.
Combined ratio	97.4	96.6	0.8 pts.	94.2	96.0	(1.8) pts.
Accident year loss & loss adjustment expense ratio[4]	77.7	77.8	(0.1) pts.	73.6	75.7	(2.1) pts.

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

[2] Underwriting expense and combined ratios include amortization expense predominately associated with the acquisition of a controlling interest in ARX of 6.7 points for both the three and nine months ended September 30, 2017 and 6.8 points and 7.3 points for the three and nine months ended September 30, 2016, respectively. In addition, for the nine months ended September 30, 2016, results include 0.7 points of expense related to a loss on an exchange transaction. Excluding the amortization expense, for the three months ended September 30, 2017 and 2016, the Property business would have reported an expense ratio of 25.3 and 24.8, respectively, and combined ratios of 120.3 and 88.6, respectively. For the nine months ended September 30, 2017 and 2016, excluding the amortization expense and the loss on the exchange, the expense ratio would have been 27.9 and 25.6, respectively, and the combined ratio would have been 101.3 and 96.3, respectively.

[3] Combined ratios for the other indemnity businesses are not presented separately due to the low level of premiums earned by, and the variability of loss costs in, such businesses. These businesses generated no underwriting profit or loss for the three months ended September 30, 2017, compared to an underwriting loss of $0.8 million for the same period in 2016. For the nine months ended September 30, 2017 and 2016, the other indemnity businesses generated an underwriting loss of $0.3 million and $1.6 million, respectively.

[4] The accident year ratios include only the losses that occurred during the period noted. As a result, accident period results will change over time, either favorably or unfavorably, as we revise our estimates of loss costs when payments are made or reserves for that accident period are reviewed.

Losses and Loss Adjustment Expenses (LAE)

(millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Change in net loss and LAE reserves	$ 616.1	$ 320.9	$ 1,161.6	$ 806.0
Paid losses and LAE	4,434.4	4,077.3	12,767.2	11,748.6
Total incurred losses and LAE	$ 5,050.5	$ 4,398.2	$ 13,928.8	$ 12,554.6

Claims costs, our most significant expense, represent payments made, and estimated future payments to be made, to or on behalf of our policyholders, including expenses needed to adjust or settle claims. Claims costs are a function of loss severity and frequency and, for our vehicle businesses, are influenced by inflation and driving patterns, among other factors, some of which are discussed below. In our Property business, claim severity is primarily a function of construction costs and the age of the structure. Accordingly, anticipated changes in these factors are taken into account when we establish premium rates and loss reserves. Loss reserves are estimates of future costs and our reserves are adjusted as underlying assumptions change and information develops.

Our total loss and LAE ratio increased 0.3 points for the third quarter 2017, compared to the third quarter 2016. The increase in catastrophe losses on a quarter-over-prior-year quarter basis were partially offset by lower auto frequency. For the first nine months, the loss and LAE ratio decreased 1.8 points, compared to the same period in 2016, primarily due to lower auto frequency.

The following table shows our consolidated catastrophe losses, excluding loss adjustment expenses, incurred during the periods:

($ in millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Vehicle businesses	$ 334.2	$ 124.9	$ 557.6	$ 330.4
Property business, net of reinsurance (excluding ASL)	81.2	33.8	306.3	147.2
Reinsurance (recoverable)/reversal on ASL[1]	15.7	—	(86.2)	—
Property business, net	96.9	33.8	220.1	147.2
Total net catastrophe losses incurred	$ 431.1	$ 158.7	$ 777.7	$ 477.6
Increase to combined ratio	6.6 pts.	2.8 pts.	4.1 pts.	2.9 pts.

[1] Represents the reinsurance recoverable recorded, or the change in the reinsurance recoverable, on the losses under our aggregate stop-loss agreement (ASL); including LAE costs, the balance in our reinsurance recoverable on the ASL at September 30, 2017, was $95.5 million, a decrease of $17.4 million during the third quarter 2017.

The catastrophe losses in the third quarter 2017 were primarily due to Hurricane Harvey in Texas and Hurricane Irma, primarily in Florida. In our Property business, we maintain catastrophe reinsurance, which limited our losses from Hurricane Irma to $50 million. On a gross basis, including losses and LAE, the Property business had losses from Hurricane Irma of $330.0 million.

As shown in the table above, during the third quarter 2017, we recorded a partial reversal of our reinsurance recoverable on our losses under our aggregate stop-loss agreement in our Property business for the three months ended September 30, 2017. This agreement, which became effective on January 1, 2017, covers all current accident year losses, except those from named storms and liability claims, and a portion of the LAE associated with those losses and provides $200 million of coverage if ASI's applicable loss and LAE ratio for the full year exceeds 63%. The current $95.5 million recoverable is based on our year-to-date results through September 30, 2017. To the extent our year-to-date loss and LAE ratio falls below 63%, we would reverse a portion of the reinsurance recoverable, which would result in the reported catastrophe losses on our Property business being greater than the actual amount of incurred losses in applicable periods. As a result, due to the structure of the agreement, the amount of the reinsurance recoverable will fluctuate from period-to-period until the end of 2017, when full year results are known.

At September 30, 2017, the balance in reinsurance recoverables, including recoverables on both paid and unpaid losses, was $2.7 billion, an increase of about $800 million when compared to both September 30, 2016 and December 31, 2016. As of the end of the third quarter 2017, our Property business had $280.0 million of recoverables under our catastrophe reinsurance programs, due to losses incurred from Hurricane Irma, and $95.5 million under the aggregate stop-loss agreement, as discussed above; we did not have any recoverables from these reinsurance programs in 2016. In addition, at September 30, 2017, the Property business had $344.2 million from the National Flood Insurance Program (NFIP) for losses primarily related to Hurricanes Harvey and Irma, which is an increase of $115.2 million from September 30, 2016 and $265.7 million from

December 31, 2016. The remainder of the reinsurance recoverables is primarily attributable to the state-provided reinsurance facilities (e.g., Michigan Catastrophic Claims Association). See *Note 7 – Reinsurance* in our 2016 Annual Report to Shareholders for a further discussion of our reinsurance.

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

Total personal auto incurred severity (i.e., average cost per claim, including both paid losses and the change in case reserves) on a calendar-year basis increased about 1% and 3% for the three and nine months ended September 30, 2017, respectively, compared to the same periods last year. Following are the changes we experienced in severity in our auto coverages on a year-over-year basis:

- Bodily injury increased about 2% for the third quarter and 3% for the first nine months of 2017.
- Auto property damage increased about 6% for both periods.
- Personal injury protection (PIP) decreased 10% for the third quarter, partially due to the timing of adjuster set reserves and unusually high severity during the third quarter of 2016. PIP severity increased about 3% year to date.

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

Our incurred frequency of auto accidents, on a calendar-year basis, decreased about 5% and 4% for the three and nine months ended September 30, 2017, respectively, compared to the same periods last year. Following are our frequency changes by coverage on a year-over-year basis:

- Bodily injury decreased about 3% for the third quarter and 2% for the first nine months of 2017.
- Auto property damage decreased about 5% for the third quarter and 3% for the first nine months of 2017.
- Collision decreased about 6% for the third quarter and 4% for the first nine months of 2017.
- PIP decreased about 7% for the third quarter and 6% for the first nine months of 2017.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in millions)	**2017**	**2016**	**2017**	**2016**
ACTUARIAL ADJUSTMENTS				
Reserve decrease (increase)				
Prior accident years	$ 21.9	$ 27.3	$ 92.8	$ 75.0
Current accident year	3.0	(19.9)	(13.4)	(22.6)
Calendar year actuarial adjustment	$ 24.9	$ 7.4	$ 79.4	$ 52.4
PRIOR ACCIDENT YEARS DEVELOPMENT				
Favorable (unfavorable)				
Actuarial adjustment	$ 21.9	$ 27.3	$ 92.8	$ 75.0
All other development	9.8	25.2	(135.3)	(52.1)
Total development	$ 31.7	$ 52.5	$ (42.5)	$ 22.9
(Increase) decrease to calendar year combined ratio	0.5 pts.	0.9 pts.	(0.2) pts.	0.1 pts.

Total development consists of both actuarial adjustments and "all other development." The actuarial adjustments represent the net changes made by our actuarial staff to both current and prior accident year reserves based on regularly scheduled reviews. Through these reviews, our actuaries identify and measure variances in projected frequency and severity trends, which allow them to adjust reserves to reflect current cost expectations. For our Property business, 100% of the outstanding reserves are

reviewed monthly and, as such, include any development on catastrophe losses as part of the actuarial adjustments. For the vehicle businesses, only a subset of our reserves is reviewed monthly as part of the actuarial adjustment process. Catastrophe losses for the vehicle businesses would be reflected in the all other development, discussed below, to the extent they related to prior year reserves. We report these actuarial adjustments separately for the current and prior accident years to reflect these adjustments as part of the total prior accident years development.

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

Our objective is to establish case and IBNR reserves that are adequate to cover all loss costs, while incurring minimal variation from the date that the reserves are initially established until the losses are fully developed. As reflected in the table above, we experienced favorable development during the third quarter of 2017 and 2016, and the first nine months of 2016. We experienced unfavorable development in the first nine months of 2017. See *Note 6 – Loss and Loss Adjustment Expense Reserves*, for a more detailed discussion of our prior accident year development.

We continue to focus on our loss reserve analysis, attempting to enhance accuracy and to further our understanding of our loss costs.

Underwriting Expenses

Progressive's underwriting expense ratio (i.e., policy acquisition costs and other underwriting expenses, net of fees and other revenues, expressed as a percentage of net premiums earned) was 0.5 points higher for the third quarter of 2017 and flat for the first nine months of 2017, compared to the same periods last year. Our advertising spend on a quarter-over-prior-year quarter basis increased significantly, reflecting the reduction of our advertising in the third quarter 2016 as part of our cost-cutting actions initiated last year to help meet our profitability goal. For both the three and nine months ended September 30, 2017, other than our advertising, our underwriting expenses are growing at a slower rate than net premiums earned, due in part to an increase in earned premium per policy as a result of rate increases taken over the last 12 months.

C. Growth

For our underwriting operations, we analyze growth in terms of both premiums and policies. Net premiums written represent the premiums from policies written during the period, less any premiums ceded to reinsurers. Net premiums earned, which are a function of the premiums written in the current and prior periods, are earned as revenue over the life of the policy using a daily earnings convention. Policies in force, our preferred measure of growth since it removes the variability due to rate changes or mix shifts, represents all policies under which coverage was in effect as of the end of the period specified.

	Three Months Ended September 30,			Nine Months Ended September 30,		
($ in millions)	2017	2016	% Growth	2017	2016	% Growth
NET PREMIUMS WRITTEN						
Personal Lines						
Agency	$ 3,028.8	$ 2,590.3	17%	$ 8,765.9	$ 7,628.4	15%
Direct	2,987.2	2,545.8	17	8,461.5	7,401.6	14
Total Personal Lines	6,016.0	5,136.1	17	17,227.4	15,030.0	15
Commercial Lines	825.7	669.9	23	2,343.7	2,055.5	14
Property[1]	300.7	243.0	24	808.4	716.5	13
Total underwriting operations	$ 7,142.4	$ 6,049.0	18%	$ 20,379.5	$17,802.0	14%
NET PREMIUMS EARNED						
Personal Lines						
Agency	$ 2,840.0	$ 2,474.3	15%	$ 8,224.0	$ 7,245.5	14%
Direct	2,734.8	2,391.2	14	7,908.5	6,946.7	14
Total Personal Lines	5,574.8	4,865.5	15	16,132.5	14,192.2	14
Commercial Lines	714.0	630.2	13	2,031.2	1,772.4	15
Property	255.2	227.7	12	720.3	638.0	13
Total underwriting operations	$ 6,544.0	$ 5,723.4	14%	$ 18,884.0	$16,602.6	14%

[1]Adjusting for the termination of a 10% quota share reinsurance contract in June 2016, net premiums written growth would have been 25% for the nine months ended September 30, 2017, compared to the same period last year.

	September 30,		
(thousands)	2017	2016	% Growth
POLICIES IN FORCE			
Agency auto	5,515.3	4,980.1	11%
Direct auto	5,889.6	5,324.0	11
Total auto	11,404.9	10,304.1	11
Special lines[1]	4,396.1	4,291.1	2
Personal Lines - total	15,801.0	14,595.2	8%
Commercial Lines	638.6	612.7	4%
Property	1,375.6	1,184.7	16%

[1] Includes insurance for motorcycles, watercraft, RVs, and similar items.

At September 30, 2017, we had approximately 1.4 million more policies in force than in the comparable period last year. The increase reflects both an increase in new applications and lengthening retention.

Although new policies are necessary to maintain a growing book of business, we continue to recognize the importance of retaining our current customers as a critical component of our continued growth. As shown in the tables below, we measure retention by policy life expectancy and the renewal ratio (i.e., the percent of policies that came up for renewal during the year that actually renewed). We disclose our changes in policy life expectancy using a trailing 12-month period, since we believe this measure is indicative of recent experience, mitigates the effects of month-to-month variability, and addresses seasonality. We also review our customer retention for our personal auto products using a trailing 3-month period. Although using a trailing 3-month measure does not address seasonality and can reflect more volatility, this measure is more responsive to current experience and can be an indicator of how our retention rates are moving.

To analyze growth, we review new policies, rate levels, and the retention characteristics of our segments.

D. Personal Lines

The following table shows our year-over-year changes for our Personal Lines business:

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2017	2016	2017	2016
APPLICATIONS				
New	20 %	9%	11%	13%
Renewal	7 %	5%	7%	4%
WRITTEN PREMIUM PER POLICY - AUTO	5 %	5%	6%	4%
RETENTION MEASURES - AUTO				
Policy life expectancy				
Trailing 3-months	10 %	7%		
Trailing 12-months	5 %	6%		
Renewal ratio	(0.1)%	0.1%		

In our Personal Lines business, the increase in both new and renewal applications primarily reflected increases in our personal auto products. In the auto businesses, the increase in new applications was primarily attributed to our competitive product offerings and position in the marketplace, which, in part, reflects our increase in advertising spend during 2017. Rate increases taken in our auto businesses during 2016 and into 2017 contributed to the increase we experienced in written premium per policy. For both the third quarter and the nine months ended September 30, 2017, written premium per policy increased about 4% for new auto business and 6% for renewal auto business, compared to the same periods last year.

We report our Agency and Direct business results separately as components of our Personal Lines segment to provide further understanding of our products by distribution channel.

The Agency Business

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2017	2016	2017	2016
Auto: new applications	25 %	16%	19%	17%
renewal applications	8 %	1%	7%	0%
written premium per policy	5 %	5%	6%	5%
Auto retention measures:				
policy life expectancy - trailing 3-months	10 %	10%		
trailing 12-months	6 %	7%		
renewal ratio	(0.1)%	0.2%		

The Agency business includes business written by more than 35,000 independent insurance agencies that represent Progressive, as well as brokerages in New York and California. New and renewal applications increased on a year-over-year basis during the third quarter 2017, primarily reflecting our competitiveness in the marketplace as a result of many of our competitors taking higher rate increases than we have during the year. During the third quarter 2017, we continued to experience new business application growth and strong policy in force growth in our bundled home and auto product (i.e., Robinsons), primarily driven by our Platinum agents. During the year, we generated new Agency auto application growth in 37 states, including eight of our top 10 largest Agency states.

Our Agency auto rate of conversion (i.e., converting a quote to a sale) increased about 15% for the third quarter and 8% for the nine months ended September 30, 2017, compared to last year. Written premium per policy for new and renewal Agency auto business increased 4% and 6%, respectively, for both the third quarter and the first nine months of 2017, as compared to the same periods last year, primarily reflecting rate increases taken during 2016 and 2017.

The Direct Business

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2017	2016	2017	2016
Auto: new applications	25 %	4 %	10%	13%
renewal applications	9 %	9 %	9%	9%
written premium per policy	5 %	5 %	5%	4%
Auto retention measures:				
policy life expectancy - trailing 3-months	8 %	5 %		
trailing 12-months	2 %	6 %		
renewal ratio	(0.1)%	(0.1)%		

The Direct business includes business written directly by Progressive on the Internet, through mobile devices, and over the phone. New and renewal applications increased during the third quarter and the nine months ended September 30, 2017, compared to last year, primarily reflecting our competitiveness in the marketplace and an increase in advertising spend on a year-over-year basis, primarily in the third quarter. We reduced advertising spend in the second half of 2016 to help meet our profitability goal. During the current year, we generated new Direct auto application growth in 38 states, including nine of our top 10 largest Direct states.

Our Direct auto rate of conversion increased about 4% for the third quarter and the nine months ended September 30, 2017, compared to last year. Written premium per policy for new and renewal Direct auto business increased 3% and 5%, respectively, for the third quarter 2017, and 4% and 6% for the first nine months, as compared to the same periods last year, primarily reflecting rate increases taken during the last 12 months.

E. Commercial Lines

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2017	2016	2017	2016
New applications	5 %	8%	(6)%	17%
Renewal applications	8 %	8%	9 %	6%
Written premium per policy	13 %	12%	10 %	12%
Policy life expectancy - trailing 12-months	(3)%	7%		

Our Commercial Lines business operates in the business auto, for-hire transportation, contractor, for-hire specialty, tow, and for-hire livery markets and is primarily written in the agency channel. Commercial Lines experienced positive year-over-year new application growth in the third quarter of 2017. This change was driven by the lifting of underwriting restrictions beginning at the end of the first quarter of 2017. These restrictions were imposed during the second half of 2016 to address business markets not meeting profitability targets. In addition to the underwriting restrictions, we increased rates during the second half of 2016 and into 2017, which contributed to the increase in our written premium per policy during the quarter and the year.

The strong new business application growth we generated in 2016 led to solid growth in renewal applications during the third quarter and first nine months of 2017. These applications primarily consisted of 12-month policies that have started to renew in 2017.

F. Property

	Growth Over Prior Year		
	Quarter		Year-to-date[1]
	2017	2016	2017
New applications	46 %	19 %	38 %
Renewal applications	11 %	8 %	17 %
Written premium per policy	(1)%	(7)%	(5)%

[1] We are not reporting results for 2016 since the year-over-year results are not comparable to the same period in 2015 due to the fact that we only began reporting our Property business as a segment on April 1, 2015, and, therefore, the nine months ended September 30, 2015 only includes six months of results.

Our Property business writes residential property insurance for homeowners, other property owners, and renters primarily in the Agency channel. While the significant growth in new applications was aided by the exchange transaction in June of last year, it is largely attributable to state expansion that occurred during the last 12 months in both Property business written by ARX and Progressive's renters business, more competitive product offerings, as well as momentum in growing Robinsons through our Platinum agency offering. As a result of the exchange, ARX's insurance subsidiaries started writing more residential property insurance in June 2016, which has significantly more applications and lower premiums per policy than the commercial property insurance it stopped writing.

G. Income Taxes

A deferred tax asset or liability is a tax benefit or expense that is expected to be realized in a future tax year. At September 30, 2017 and 2016, and December 31, 2016, we reported net deferred tax liabilities. At September 30, 2017 and 2016, we had net current income taxes receivable of $12.1 million and $6.2 million, respectively, which were reported as part of "other assets." At December 31, 2016, we had current income taxes payable of $41.2 million, which are reported as part of "other liabilities."

In January 2017, we adopted a new accounting standard, which requires us to book the excess tax benefits related to employee share-based transactions directly as a benefit to the tax provision instead of to paid-in capital as previously required. As a result of this change, we will experience more volatility in our effective tax rates, especially in the quarters where we typically have applicable employee share-based transactions, which historically have been in the first and third quarters. The effective tax rates for the three and nine months ended September 30, 2017, were 14.6% and 29.7%, respectively, compared to 20.5% and 29.4% for the same periods in 2016.

There were no material changes in our uncertain tax positions during the nine months ended September 30, 2017.

IV. RESULTS OF OPERATIONS – INVESTMENTS

A. Investment Results

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

Our investment portfolio produced an FTE total return of 1.1% for the three months ended September 30, 2017, compared to 1.3% for the same period in 2016. Our fixed-income and common stock portfolios had FTE total returns of 0.7% and 4.3%, respectively, for the three months ended September 30, 2017, and 0.9% and 4.1%, for the same period in 2016. During the third quarter of 2017, the U.S. treasury yield curve flattened, pushing short rates up and longer rates a little lower, while credit spread compression generated the majority of the increase in the valuation of our securities. Additionally, the higher yields on short-term securities also added to our returns for the quarter. Strong returns in common stocks during the first nine months of 2017, compared to the first nine months of 2016, provided the increase in our total portfolio return for the year.

The following summarizes investment results for the periods ended September 30:

	Three Months		Nine Months	
	2017	2016	2017	2016
Pretax recurring investment book yield (annualized)	2.3%	2.2%	2.3%	2.3%
Weighted average FTE book yield (annualized)	2.5%	2.5%	2.6%	2.6%
FTE total return:				
Fixed-income securities	0.7%	0.9%	2.8%	3.3%
Common stocks	4.3%	4.1%	14.6%	8.4%
Total portfolio	1.1%	1.3%	4.2%	4.0%

A further break-down of our FTE total returns for our portfolio, including any net gains (losses) on our derivative positions, for the periods ended September 30, follows:

	Three Months		Nine Months	
	2017	2016	2017	2016
Fixed-income securities:				
U.S. Treasury Notes	0.3%	0 %	1.7%	0.5%
Municipal bonds	1.3%	0.3 %	4.7%	3.8%
Corporate bonds	0.8%	1.0 %	2.8%	5.7%
Commercial mortgage-backed securities	0.6%	1.1 %	3.4%	4.9%
Collateralized mortgage obligations	1.0%	0.8 %	3.4%	2.2%
Other asset-backed securities and home-equity bonds	0.6%	1.0 %	2.0%	2.3%
Agency residential pass-through obligations	0.9%	0.4 %	2.2%	3.5%
Agency debt	0.2%	0.1 %	1.3%	0.1%
Preferred stocks	1.5%	5.6 %	11.2%	10.0%
Common stock portfolios:				
Indexed	4.6%	4.2 %	15.0%	8.1%
Actively managed	0.2%	3.4 %	7.7%	13.6%

B. Portfolio Allocation

The composition of the investment portfolio at September 30, 2017 and 2016, and December 31, 2016 was:

($ in millions)	Fair Value	% of Total Portfolio	Duration (years)	Rating[1]
September 30, 2017				
Fixed maturities	$ 18,660.0	69.1%	2.6	A+
Nonredeemable preferred stocks	813.7	3.0	3.5	BBB-
Short-term investments	4,311.5	16.0	0.1	AA
Total fixed-income securities	23,785.2	88.1	2.2	A+
Common equities	3,209.5	11.9	na	na
Total portfolio[2,3]	$ 26,994.7	100.0%	2.2	A+
September 30, 2016				
Fixed maturities	$ 13,916.9	59.2%	2.4	A
Nonredeemable preferred stocks	860.1	3.6	3.1	BBB-
Short-term investments	5,876.2	25.0	0.1	AA+
Total fixed-income securities	20,653.2	87.8	1.8	A+
Common equities	2,868.0	12.2	na	na
Total portfolio[2,3]	$ 23,521.2	100.0%	1.8	A+
December 31, 2016				
Fixed maturities	$ 16,243.8	69.2%	2.6	A+
Nonredeemable preferred stocks	853.5	3.6	3.1	BBB-
Short-term investments	3,572.9	15.2	0.2	AA-
Total fixed-income securities	20,670.2	88.0	2.2	A+
Common equities	2,812.4	12.0	na	na
Total portfolio[2,3]	$ 23,482.6	100.0%	2.2	A+

na = not applicable

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

[2]Our portfolio reflects the effect of unsettled security transactions and collateral on open derivative positions; at September 30, 2017 and 2016, and December 31, 2016, we had $238.3 million, $185.3 million, and $27.8 million, respectively, included in "other liabilities."

[3]The total fair value of the portfolio at September 30, 2017 and 2016, and December 31, 2016, included $1.1 billion, $1.0 billion, and $1.3 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

Our asset allocation strategy is to maintain 0%-25% of our portfolio in Group I securities, with the balance (75%-100%) of our portfolio in Group II securities.

We define Group I securities to include:

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

Group II securities include:

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

We believe this asset allocation strategy allows us to appropriately assess the risks associated with these securities for capital purposes and is in line with the treatment by our regulators.

The following table shows the composition of our Group I and Group II securities at September 30, 2017 and 2016, and December 31, 2016:

($ in millions)		Fair Value	% of Total Portfolio
September 30, 2017			
Group I securities:			
Non-investment-grade fixed maturities	$	445.5	1.6%
Redeemable preferred stocks[1]		159.5	0.6
Nonredeemable preferred stocks		813.7	3.0
Common equities		3,209.5	11.9
Total Group I securities		4,628.2	17.1
Group II securities:			
Other fixed maturities[2]		18,055.0	66.9
Short-term investments		4,311.5	16.0
Total Group II securities		22,366.5	82.9
Total portfolio	$	26,994.7	100.0%
September 30, 2016			
Group I securities:			
Non-investment-grade fixed maturities	$	427.1	1.8%
Redeemable preferred stocks[1]		151.6	0.7
Nonredeemable preferred stocks		860.1	3.6
Common equities		2,868.0	12.2
Total Group I securities		4,306.8	18.3
Group II securities:			
Other fixed maturities[2]		13,338.2	56.7
Short-term investments		5,876.2	25.0
Total Group II securities		19,214.4	81.7
Total portfolio	$	23,521.2	100.0%
December 31, 2016			
Group I securities:			
Non-investment-grade fixed maturities	$	356.2	1.5%
Redeemable preferred stocks[1]		135.3	0.6
Nonredeemable preferred stocks		853.5	3.6
Common equities		2,812.4	12.0
Total Group I securities		4,157.4	17.7
Group II securities:			
Other fixed maturities[2]		15,752.3	67.1
Short-term investments		3,572.9	15.2
Total Group II securities		19,325.2	82.3
Total portfolio	$	23,482.6	100.0%

[1]Includes non-investment-grade redeemable preferred stocks of $81.7 million, $77.7 million, and $78.7 million at September 30, 2017 and 2016, and December 31, 2016, respectively.
[2]Includes investment-grade redeemable preferred stocks, with cumulative dividends, of $77.8 million, $73.9 million, and $56.6 million at September 30, 2017 and 2016, and December 31, 2016, respectively.

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

Unrealized Gains and Losses

As of September 30, 2017, our portfolio had pretax net unrealized gains, recorded as part of accumulated other comprehensive income, of $1,911.9 million, compared to $1,630.3 million and $1,449.1 million at September 30, 2016 and December 31, 2016, respectively.

The net unrealized gains in our fixed-income portfolio decreased $150.5 million since September 30, 2016 and increased $113.7 million since December 31, 2016. The change since September 30, 2016 was affected by sales of securities with net realized gains (most notably in redeemable and nonredeemable preferred stocks of $68.9 million, residential mortgage-backed securities of $23.9 million, and corporate debt securities of $16.5 million), as well as valuation declines in our U.S. Treasury, municipal, corporate, and commercial mortgage-backed portfolios. The increase in our fixed-income portfolio since December 31, 2016 was primarily the result of a tightening in credit spreads in our non-treasury securities, partially offset by sales of securities with net realized gains in our nonredeemable preferred stock, residential mortgage-backed, and corporate portfolios. The net unrealized gains in our common stock portfolio increased $432.1 million and $349.1 million since September 30, 2016 and December 31, 2016, respectively, reflecting changes in the broad equity market over these periods, adjusting for net gains recognized on security sales.

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

Other-Than-Temporary Impairment (OTTI)

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

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

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

In general, our policy for common equity securities with market- or sector-related declines is to recognize impairment losses on individual securities with losses we cannot reasonably conclude will recover in the near term under historical conditions when: (i) we are able to objectively determine that the loss is other-than-temporary, or (ii) the security has been in such a loss position for three consecutive quarters.

The write-down activity recorded in the comprehensive income statements was as follows:

(millions)	Three Months Ended September 30, Total Write-downs	Write-downs on Securities Sold	Write-downs on Securities Held at Period End	Nine Months Ended September 30, Total Write-downs	Write-downs on Securities Sold	Write-downs on Securities Held at Period End
2017						
Commercial mortgage-backed securities	$ 0.4	$ 0	$ 0.4	$ 0.4	$ 0	$ 0.4
Redeemable preferred stocks	0	0	0	0	0	0
Total fixed-income	0.4	0	0.4	0.4	0	0.4
Common equities	8.9	0	8.9	12.5	0	12.5
Total investment portfolio	9.3	0	9.3	12.9	0	12.9
Other assets[1]	33.7	0	33.7	44.9	0	44.9
Total write-downs	$ 43.0	$ 0	$ 43.0	$ 57.8	$ 0	$ 57.8
2016						
Commercial mortgage-backed securities	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Redeemable preferred stocks[2]	25.4	0	25.4	25.4	0	25.4
Total fixed-income	25.4	0	25.4	25.4	0	25.4
Common equities	1.4	0	1.4	1.6	0	1.6
Total investment portfolio	26.8	0	26.8	27.0	0	27.0
Other assets[1]	34.8	0	34.8	34.8	0	34.8
Total write-downs	$ 61.6	$ 0	$ 61.6	$ 61.8	$ 0	$ 61.8

[1]Reflects impairments of renewable energy investments under which the future pretax cash flows are expected to be less than the carrying value of the assets.
[2]Reflects a change in our intent to hold the securities to a recovery of their respective cost bases.

The following table stratifies the gross unrealized losses in our fixed-income and common equity portfolios at September 30, 2017, by duration in a loss position and magnitude of the loss as a percentage of the cost of the security.

(millions)	Fair Value	Total Gross Unrealized Losses	Decline of Investment Value >15%	>25%	>35%	>45%
Fixed Income:						
Unrealized loss for less than 12 months	$ 5,123.6	$ 14.6	$ 0	$ 0	$ 0	$ 0
Unrealized loss for 12 months or greater	4,232.0	40.6	2.0	0	0	0
Total	$ 9,355.6	$ 55.2	$ 2.0	$ 0	$ 0	$ 0
Common Equity:						
Unrealized loss for less than 12 months	$ 49.3	$ 4.9	$ 1.4	$ 0.5	$ 0.5	$ 0
Unrealized loss for 12 months or greater	2.7	0.6	0.3	0.3	0.3	0.3
Total	$ 52.0	$ 5.5	$ 1.7	$ 0.8	$ 0.8	$ 0.3

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

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

Fixed-Income Securities

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

	September 30, 2017		September 30, 2016		December 31, 2016	
($ in millions)	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
Investment-grade fixed maturities:[1]						
Short/intermediate term	$ 21,850.3	95.1%	$ 18,710.0	94.5%	$ 18,883.7	95.3%
Long term	139.5	0.6	118.2	0.6	49.6	0.2
Non-investment-grade fixed maturities:[1,2]						
Short/intermediate term	977.0	4.3	948.3	4.8	866.8	4.4
Long term	4.7	0	16.6	0.1	16.6	0.1
Total	$ 22,971.5	100.0%	$ 19,793.1	100.0%	$ 19,816.7	100.0%

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

[2]Non-investment-grade fixed-maturity securities are non-rated or have a credit quality rating of an equivalent BB+ or lower, classified by ratings from NRSROs. The non-investment-grade securities based upon NAIC ratings and our Group I modeling were $527.2 million, $504.8 million, and $434.9 million at September 30, 2017 and 2016, and December 31, 2016, respectively.

A primary exposure for the fixed-income portfolio is interest rate risk, which includes the change in value resulting from movements in the underlying market rates of debt securities held. We manage this risk by maintaining the portfolio's duration (a measure of the portfolio's exposure to changes in interest rates) between 1.5 and 5 years. The duration of the fixed-income portfolio was 2.2 years at September 30, 2017, compared to 1.8 years at September 30, 2016 and 2.2 years at December 31, 2016, reflecting our preference for shorter duration positioning during times of low interest rates. The distribution of duration and convexity (i.e., a measure of the speed at which the duration of a security is expected to change based on a rise or fall in interest rates) is monitored on a regular basis.

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

Duration Distribution	**September 30, 2017**	**September 30, 2016**	**December 31, 2016**
1 year	22.3%	28.9%	25.9%
2 years	15.9	15.6	13.4
3 years	26.8	22.6	24.2
5 years	26.1	22.8	25.8
10 years	8.9	9.9	10.9
20 years	0	(0.1)	(0.2)
30 years	0	0.3	0
Total fixed-income portfolio	100.0%	100.0%	100.0%

The negative duration in the 20-year category at September 30, 2016 and December 31, 2016 arose from the variable rate nature of the dividends on some of our preferred stocks. If not called at their call dates, the dividends on these securities would reset from a fixed rate to a lower floating rate, which could cause these securities to trade at a discount and, therefore, with a negative duration as the securities' valuation would likely rise if the floating rate moves higher.

Another primary exposure related to the fixed-income portfolio is credit risk. This risk is managed by maintaining an A+ minimum weighted average portfolio credit quality rating, as defined by NRSROs, which was successfully maintained during the first nine months of 2017 and all of 2016.

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

Rating	September 30, 2017	September 30, 2016	December 31, 2016
AAA	41.9%	37.1%	35.7%
AA	15.5	18.1	19.1
A	12.7	14.8	15.3
BBB	24.6	23.9	24.3
Non-investment grade/non-rated[1]	5.3	6.1	5.6
Total fixed-income portfolio	100.0%	100.0%	100.0%

[1]The ratings in the table above are assigned by NRSROs. The non-investment-grade fixed-income securities based upon our Group I classification represented 3.0% of the total fixed-income portfolio at September 30, 2017, compared to 3.9% at September 30, 2016 and 3.4% at December 31, 2016.

The changes in credit quality profile from September 30, 2016 were the result of transactions in our portfolio that shifted the mix within the various credit categories.

Our portfolio is also exposed to concentration risk. Our investment constraints limit investment in a single issuer, other than U.S. Treasury Notes or a state's general obligation bonds, to 2.5% of shareholders' equity, while the single issuer guideline on preferred stocks and/or non-investment-grade debt is 1.25% of shareholders' equity. Additionally, the guideline applicable to any state's general obligation bonds is 6% of shareholders' equity. We also consider sector concentration a risk, and we frequently evaluate the portfolio's sector allocation with regard to internal requirements and external market factors. We consider concentration risk both overall and in the context of individual asset classes, including but not limited to common equities, residential and commercial mortgage-backed securities, municipal bonds, and high-yield bonds. We were within all of the constraints described above during the first nine months of 2017 and all of 2016.

We monitor prepayment and extension risk, especially in our structured product and preferred stock portfolios. Prepayment risk includes the risk of early redemption of security principal that may need to be reinvested at less attractive rates. Extension risk includes the risk that a security will not be redeemed when anticipated, and that the security that is extended will have a lower yield than a security we might be able to obtain by reinvesting the expected redemption principal. Our holdings of different types of structured debt and preferred securities help manage this risk. During the first nine months of 2017 and all of 2016, we did not experience significant prepayment or extension of principal relative to our cash flow expectations in the portfolio.

Liquidity risk is another risk factor we monitor. Our overall portfolio remains very liquid and we believe that it is sufficient to meet expected near-term liquidity requirements. The short-to-intermediate duration of our portfolio provides a source of liquidity, as we expect approximately $4.8 billion, or 32%, of principal repayment from our fixed-income portfolio, excluding U.S. Treasury Notes and short-term investments, during the remainder of 2017 and all of 2018. Cash from interest and dividend payments provides an additional source of recurring liquidity.

The duration of our U.S. government obligations, which are included in the fixed-income portfolio, was comprised of the following at September 30, 2017:

($ in millions)	Fair Value	Duration (years)
U.S. Treasury Notes		
Less than two years	$ 270.6	1.3
Two to five years	3,626.1	3.5
Five to ten years	698.3	6.3
Total U.S. Treasury Notes	$ 4,595.0	3.8

As of September 30, 2017, we had no interest rate swaps or treasury futures.

ASSET-BACKED SECURITIES

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

($ in millions)	Fair Value	Net Unrealized Gains (Losses)	% of Asset-Backed Securities	Duration (years)	Rating (at period end)
September 30, 2017					
Residential mortgage-backed securities:					
Prime collateralized mortgage obligations	$ 290.9	$ (0.7)	4.7%	0.9	AA
Alt-A collateralized mortgage obligations[1]	117.6	0.6	1.9	0.8	BBB-
Collateralized mortgage obligations	408.5	(0.1)	6.6	0.9	A+
Home equity (sub-prime bonds)	511.8	9.1	8.2	0.5	BBB
Residential mortgage-backed securities	920.3	9.0	14.8	0.7	A-
Agency residential pass-through obligations	35.3	(0.4)	0.6	3.4	AAA
Commercial mortgage-backed securities:					
Commercial mortgage-backed securities	2,636.6	2.0	42.4	2.9	A-
Commercial mortgage-backed securities: interest only	131.3	2.2	2.1	2.2	AAA-
Commercial mortgage-backed securities	2,767.9	4.2	44.5	2.9	A-
Other asset-backed securities:					
Automobile	1,212.2	(0.2)	19.5	0.6	AAA-
Credit card	72.1	0	1.2	0.9	AAA
Student loan	583.7	4.8	9.4	1.2	AA-
Other[2]	622.2	(0.2)	10.0	2.4	A+
Other asset-backed securities	2,490.2	4.4	40.1	1.2	AA+
Total asset-backed securities	$ 6,213.7	$ 17.2	100.0%	1.9	A+

($ in millions)	Fair Value	Net Unrealized Gains (Losses)	% of Asset-Backed Securities	Duration (years)	Rating (at period end)
September 30, 2016					
Residential mortgage-backed securities:					
Prime collateralized mortgage obligations	$ 641.5	$ (2.8)	10.8%	0.7	A
Alt-A collateralized mortgage obligations[1]	191.5	(0.5)	3.2	1.4	BBB
Collateralized mortgage obligations	833.0	(3.3)	14.0	0.8	A-
Home equity (sub-prime bonds)	761.2	13.1	12.7	<0.1	BBB
Residential mortgage-backed securities	1,594.2	9.8	26.7	0.4	BBB+
Agency residential pass-through obligations	44.1	0.5	0.7	2.6	AAA
Commercial mortgage-backed securities:					
Commercial mortgage-backed securities	2,128.9	26.4	35.7	3.8	A-
Commercial mortgage-backed securities: interest only	149.5	2.6	2.5	2.6	AAA-
Commercial mortgage-backed securities	2,278.4	29.0	38.2	3.7	A
Other asset-backed securities:					
Automobile	1,029.0	2.1	17.3	1.0	AAA-
Credit card	236.5	0	4.0	0.6	AAA
Student loan	426.3	5.3	7.2	1.1	AA-
Other[2]	353.6	0.2	5.9	1.3	AAA-
Other asset-backed securities	2,045.4	7.6	34.4	1.0	AAA-
Total asset-backed securities	$ 5,962.1	$ 46.9	100.0%	1.9	A+

($ in millions)	Fair Value	Net Unrealized Gains (Losses)	% of Asset-Backed Securities	Duration (years)	Rating (at period end)
December 31, 2016					
Residential mortgage-backed securities:					
Prime collateralized mortgage obligations	$ 609.9	$ (3.9)	10.0%	0.9	A
Alt-A collateralized mortgage obligations[1]	170.8	(0.4)	2.8	1.0	BBB-
Collateralized mortgage obligations	780.7	(4.3)	12.8	0.9	A-
Home equity (sub-prime bonds)	678.0	13.0	11.1	<0.1	BBB
Residential mortgage-backed securities	1,458.7	8.7	23.9	0.4	BBB+
Agency residential pass-through obligations	40.6	(0.6)	0.7	4.1	AAA
Commercial mortgage-backed securities:					
Commercial mortgage-backed securities	2,115.2	(13.7)	34.6	3.7	A-
Commercial mortgage-backed securities: interest only	138.2	0.2	2.3	2.4	AAA-
Commercial mortgage-backed securities	2,253.4	(13.5)	36.9	3.7	A
Other asset-backed securities:					
Automobile	1,074.9	(0.4)	17.6	0.8	AAA-
Credit card	435.3	(0.4)	7.1	0.5	AAA
Student loan	526.4	2.4	8.6	1.0	AA-
Other[2]	314.5	(1.4)	5.2	1.5	AA+
Other asset-backed securities	2,351.1	0.2	38.5	0.9	AAA-
Total asset-backed securities	$ 6,103.8	$ (5.2)	100.0%	1.8	A+

[1]Represents structured securities with primary residential loans as collateral for which documentation standards for loan approval were less stringent than conventional loans; the collateral loans are often referred to as low documentation or no documentation loans.
[2]Includes equipment leases, manufactured housing, and other types of structured debt.

Collateralized Mortgage Obligations (CMO) The following table details the credit quality rating and fair value of our CMOs, along with the loan classification and a comparison of the fair value at September 30, 2017, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Collateralized Mortgage Obligations (at September 30, 2017)

($ in millions) Rating[1]	Non-Agency Prime	Alt-A	Government/GSE[2]	Total	% of Total
AAA	$ 116.9	$ 6.0	$ 61.5	$ 184.4	45.2%
AA	35.2	32.0	1.0	68.2	16.7
A	20.4	16.0	0	36.4	8.9
BBB	16.0	0	0	16.0	3.9
Non-investment grade	39.9	63.6	0	103.5	25.3
Total	$ 228.4	$ 117.6	$ 62.5	$ 408.5	100.0%
Increase (decrease) in value[3]	(0.1)%	0.5%	(0.7)%	0%	

[1]The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings for our CMOs, $79.8 million of our non-investment-grade securities are rated investment-grade and classified as Group II and $23.7 million, or 5.8% of our total CMOs, are not rated by the NAIC and are classified as Group I.
[2]The securities in this category are insured by a Government Sponsored Entity (GSE) and/or collateralized by mortgage loans insured by the Federal Housing Administration (FHA) or the U.S. Department of Veteran Affairs (VA).
[3]Excludes net holding period gains and losses on certain hybrid securities.

The majority of our CMO portfolio is composed of non-GSE/FHA/VA mortgage securities. In the largest part of this portfolio, we took advantage of the securitization structure to have an underlying bond split into senior and subordinated classes. We own the senior classes, which provide extra credit support to our position. During the third quarter 2017, we exited our agency credit risk transfer positions as, in our view, the spreads on offer did not adequately compensate for the risks.

Home-Equity Securities The following table shows the credit quality rating of our home-equity securities, along with a comparison of the fair value at September 30, 2017, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Home-Equity Securities (at September 30, 2017)

($ in millions) Rating[1]	Total	% of Total
AAA	$ 40.1	7.8%
AA	20.0	3.9
A	187.3	36.6
BBB	46.4	9.1
Non-investment grade	218.0	42.6
Total	$ 511.8	100.0%
Increase (decrease) in value	1.8%	

[1]The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings for our home-equity securities, $182.3 million of our non-investment-grade securities are rated investment-grade and classified as Group II and $35.7 million, or 7.0% of our total home-equity securities, are not rated by the NAIC and are classified as Group I.

Our home-equity loan-backed security portfolio decreased in value during the quarter due to returns of principal. We have not been adding to this portfolio as current pricing is not offering meaningful potential returns.

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

Commercial Mortgage-Backed Securities (at September 30, 2017)[1]

($ in millions) Category	AAA	AA	A	BBB	Non-Investment Grade	Total	% of Total
Multi-borrower	$ 97.3	$ 0	$ 0	$ 0	$ 10.4	$ 107.7	3.9%
Single-borrower	379.5	416.3	600.5	846.4	286.2	2,528.9	91.4
Total CMBS bonds	476.8	416.3	600.5	846.4	296.6	2,636.6	95.3
IO	129.3	0.9	0	0	1.1	131.3	4.7
Total fair value	$ 606.1	$ 417.2	$ 600.5	$ 846.4	$ 297.7	$ 2,767.9	100.0%
% of Total fair value	21.9%	15.1%	21.7%	30.6%	10.7%	100.0%	

[1]The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings, $192.4 million of our non-investment-grade CMBS securities are rated investment-grade and classified as Group II and $104.2 million, or 4.0% of our total CMBS bonds, are not rated by the NAIC and are classified as Group I, and all non-investment-grade IO securities are classified as Group I.

We continue to focus on single-borrower CMBS because we believe these transactions provide an opportunity to select investments based on real estate and underwriting criteria that fit our preferred credit risk and duration profile. Our multi-borrower, fixed-rate CMBS portfolio is concentrated in vintages with conservative underwriting. During the quarter, we increased our CMBS bond portfolio by $394.0 million in cost, which increased our allocation of single-borrower CMBS from 89.6% to 91.4% and reduced our allocation of multi-borrower CMBS from 5.1% to 3.9%. At September 30, 2017, the duration was 2.9 years and the weighted average credit quality was A-, compared to 3.6 years and A-, respectively, at June 30, 2017.

With the exception of $128.2 million in Freddie Mac senior multi-family IOs, we have no multi-borrower deal IOs originated after 2006.

MUNICIPAL SECURITIES

Included in the fixed-income portfolio at September 30, 2017 and 2016, and December 31, 2016, were $2,364.2 million, $2,566.0 million, and $2,502.6 million, respectively, of state and local government obligations. These securities had a duration of 2.9 years at September 30, 2017, compared to 3.1 years at September 30, 2016 and 3.0 years at December 31, 2016; the weighted average credit quality rating (excluding the benefit of credit support from bond insurance) was AA for all three periods. These securities had net unrealized gains of $31.9 million at September 30, 2017, compared to net unrealized gains of $57.1 million at September 30, 2016 and net unrealized losses of $6.9 million at December 31, 2016.

The following table details the credit quality rating of our municipal securities at September 30, 2017, without the benefit of credit or bond insurance:

Municipal Securities (at September 30, 2017)

(millions) Rating	General Obligations	Revenue Bonds	Total
AAA	$ 269.4	$ 528.7	$ 798.1
AA	370.8	845.4	1,216.2
A	2.1	306.3	308.4
BBB	38.7	2.8	41.5
Total	$ 681.0	$ 1,683.2	$ 2,364.2

Included in revenue bonds were $934.8 million of single family housing revenue bonds issued by state housing finance agencies, of which $660.3 million were supported by individual mortgages held by the state housing finance agencies and $274.5 million were supported by mortgage-backed securities. Of the programs supported by mortgage-backed securities, approximately 25% were collateralized by Fannie Mae and Freddie Mac mortgages; the remaining 75% were collateralized by Ginnie Mae loans, which are fully guaranteed by the U.S. government. Of the programs supported by individual mortgages held by the state housing finance agencies, the weighted average credit quality rating was AA+. Most of these mortgages were supported by FHA, VA, or private mortgage insurance providers.

CORPORATE SECURITIES

Included in our fixed-income securities at September 30, 2017 and 2016, and December 31, 2016, were $5,225.6 million, $4,403.3 million, and $4,550.9 million, respectively, of corporate securities. These securities had a duration of 2.5 years at September 30, 2017, compared to 3.2 years at September 30, 2016 and 2.7 years at December 31, 2016, and a weighted average credit quality rating of BBB at September 30, 2017 and 2016, and December 31, 2016. These securities had net unrealized gains of $28.5 million and $75.1 million at September 30, 2017 and 2016, respectively, and net unrealized losses of $7.0 million at December 31, 2016.

Our allocation to corporate bonds increased during the third quarter of 2017 as we were able to find some attractive opportunities in certain new issues in the high-grade bond market, especially in the communications sector.

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

Corporate Securities (at September 30, 2017)

(millions) Sector	AAA	AA	A	BBB	Non-Investment Grade/Non-Rated	Total
Consumer	$ 0	$ 0	$ 327.9	$ 1,814.2	$ 67.5	$ 2,209.6
Industrial	0	0	143.9	908.9	67.1	1,119.9
Communications	0	0	48.5	434.7	55.9	539.1
Financial Services	64.4	75.3	319.0	316.8	38.0	813.5
Agency	0.5	1.2	0	0	0	1.7
Technology	0.1	0.1	5.2	183.0	1.0	189.4
Basic Materials	0	0	31.8	106.9	9.6	148.3
Energy	0	33.1	43.1	125.9	2.0	204.1
Total	$ 65.0	$ 109.7	$ 919.4	$ 3,890.4	$ 241.1	$ 5,225.6

At September 30, 2017, we held $972.2 million of U.S. dollar-denominated corporate bonds issued by companies that are domiciled, or whose parent companies are domiciled, in the U.K. ($189.8 million) and other European countries ($782.4 million), primarily in the consumer, financial, and communications industries. We had no direct exposure to southern European-domiciled companies at September 30, 2017.

PREFERRED STOCKS – REDEEMABLE AND NONREDEEMABLE

We hold both redeemable (i.e., mandatory redemption dates) and nonredeemable (i.e., perpetual with call dates) preferred stocks. At September 30, 2017, we held $237.3 million in redeemable preferred stocks and $813.7 million in nonredeemable preferred stocks, compared to $225.5 million and $860.1 million, respectively, at September 30, 2016, and $191.9 million and $853.5 million at December 31, 2016.

Our preferred stock portfolio had net unrealized gains of $127.5 million, $150.7 million, and $122.4 million, at September 30, 2017 and 2016, and December 31, 2016, respectively.

Our preferred stock securities continued to produce strong returns in the third quarter of 2017 due to a combination of solid dividend yields and a small increase in price. Although we continue to view preferred stocks as a relatively attractive sector, the increase in prices this year has diminished the attractiveness somewhat. We were able to find a few opportunities to add to the portfolio this quarter, but we are being very selective in this environment.

Approximately 70% of our preferred stock securities are fixed-rate securities, and 30% are floating-rate securities. All of our preferred securities have call or mandatory redemption features. All of our fixed-rate securities will convert to floating-rate dividend payments if not called at their initial call date, providing some interest rate protection against extension risk in the event the issuer elects not to call such securities at their initial call date.

Our preferred stock portfolio had a duration of 2.9 years at September 30, 2017, compared to 2.2 years at September 30, 2016, and 2.4 years at December 31, 2016. The interest rate duration of our preferred securities is calculated to reflect the call, floor, and floating rate features. Although a preferred security will remain outstanding if not called, its interest rate duration will reflect the variable nature of the dividend. The weighted average credit quality rating was BBB- at September 30, 2017, September 30, 2016, and December 31, 2016. Our non-investment-grade preferred stocks were primarily with issuers that maintain investment-grade senior debt ratings.

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

Preferred Stocks (at September 30, 2017)

(millions) Sector	A	BBB	Non-Investment Grade/Non-Rated	Total
Financial Services				
U.S. banks	$ 48.3	$ 329.0	$ 236.0	$ 613.3
Insurance holdings	0	63.5	41.8	105.3
Other financial institutions	59.8	57.1	37.0	153.9
Total financial services	108.1	449.6	314.8	872.5
Industrials	0	101.7	44.9	146.6
Utilities	0	31.9	0	31.9
Total	$ 108.1	$ 583.2	$ 359.7	$ 1,051.0

We also face the risk that dividend payments on our preferred stock holdings could be deferred for one or more periods or skipped entirely. As of September 30, 2017, all of our preferred securities continued to pay their dividends in full and on time. Approximately 81% of our preferred stock securities pay dividends that have tax preferential characteristics, while the balance pay dividends that are fully taxable.

At September 30, 2017, we held $77.4 million of U.S. dollar-denominated redeemable preferred stocks issued by financial institutions that are domiciled, or whose parent companies are domiciled, in foreign countries. We had no direct exposure to U.K. or southern European-domiciled companies at September 30, 2017.

Common Equities

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

($ in millions)	September 30, 2017		September 30, 2016		December 31, 2016	
Indexed common stocks	$ 3,061.9	95.4%	$ 2,736.9	95.4%	$ 2,676.2	95.1%
Managed common stocks	147.3	4.5	130.7	4.5	135.8	4.8
Total common stocks	3,209.2	99.9	2,867.6	99.9	2,812.0	99.9
Other risk investments	0.3	0.1	0.4	0.1	0.4	0.1
Total common equities	$ 3,209.5	100.0%	$ 2,868.0	100.0%	$ 2,812.4	100.0%

In our indexed common stock portfolio, our individual holdings are selected based on their contribution to the correlation with the index. For all three periods reported in the table above, the GAAP basis total return was within the desired tracking error of +/- 50 basis points when compared to the Russell 1000 Index. We held 858 out of 981, or 87%, of the common stocks comprising the Russell 1000 Index at September 30, 2017, which made up 94% of the total market capitalization of the index.

The actively managed common stock portfolio is currently managed by one external investment manager. At September 30, 2017, the fair value of the actively managed portfolio was $147.3 million, compared to an adjusted cost basis of $98.7 million.

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

Derivative Instruments

We use interest rate swaps and treasury futures to manage the fixed-income portfolio. We did not have any interest rate swaps or treasury futures at September 30, 2017 or December 31, 2016, that were used to manage duration. At September 30, 2016, we held $315 million notional value swaps and we did not hold any treasury futures. We closed swaps with a notional value of $435 million and treasury futures with a notional value of $135 million during the first nine months of 2016.

During March 2017, we entered into a forecasted debt issuance hedge, against a possible rise in interest rates, in conjunction with the $850 million of 4.125% Senior Notes due 2047 issued in April 2017. Upon issuance, we closed the hedge and recognized, as part of accumulated other comprehensive income, a pretax loss of $8.0 million in April 2017.

See *Note 2 – Investments* for further discussion on our derivative instruments.

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.*

Quantitative and Qualitative Disclosures About Market Risk

The duration of the financial instruments held in our portfolio that are subject to interest rate risk was 2.2 years at September 30, 2017 and December 31, 2016. The weighted average beta of the equity portfolio was 1.04 at September 30, 2017, compared to 1.02 at December 31, 2016. Although components of the portfolio have changed, no material changes have occurred in the total interest rate or market risk compared to the tabular presentations of our interest rate and market risk sensitive instruments in our Annual Report on Form 10-K for the year ended December 31, 2016.

Controls and Procedures

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

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

We are not aware of any material change in Progressive's internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Progressive Corporation and Subsidiaries
Quarterly Financial and Common Share Data
(unaudited)

(millions - except per share amounts)

Quarter	Total Revenues	Net Income	Net Income Attributable to Progressive[2]	Per Share[3]	Stock Price[1] High	Stock Price[1] Low	Stock Price[1] Close	Stock Price[1] Rate of Return[4]	Dividends Declared Per Share[5]
2017									
1	$ 6,321.7	$ 430.3	$ 424.3	$ 0.73	$ 40.74	$ 35.23	$ 39.18		$ 0
2	6,605.7	372.7	367.6	0.63	45.03	38.61	44.09		0
3	6,791.8	214.8	224.0	0.38	49.01	43.59	48.42		0
	$ 19,719.2	$ 1,017.8	$ 1,015.9	$ 1.73	$ 49.01	$ 35.23	$ 48.42		$ 0
2016									
1	$ 5,557.5	$ 258.7	$ 258.2	$ 0.44	$ 35.27	$ 29.32	$ 35.14		$ 0
2	5,819.3	194.9	190.9	0.33	35.54	31.14	33.50		0
3	5,935.0	205.5	198.7	0.34	34.29	30.54	31.50		0
4	6,129.6	398.1	383.2	0.66	35.95	30.66	35.50		0.6808
	$ 23,441.4	$ 1,057.2	$ 1,031.0	$ 1.76	$ 35.95	$ 29.32	$ 35.50	14.7 %	$ 0.6808
2015									
1	$ 4,895.3	$ 295.6	$ 295.6	$ 0.50	$ 27.90	$ 25.23	$ 27.20		$ 0
2	5,283.3	368.5	363.3	0.62	28.50	26.44	27.83		0
3	5,273.8	286.5	278.3	0.47	31.70	27.23	30.64		0
4	5,401.4	349.9	330.4	0.56	33.95	30.09	31.80		0.8882
	$ 20,853.8	$ 1,300.5	$ 1,267.6	$ 2.15	$ 33.95	$ 25.23	$ 31.80	20.9 %	$ 0.8882

[1] Prices are as reported on the consolidated transaction reporting system. Progressive's common shares are listed on the New York Stock Exchange under the symbol PGR.
[2] Prior to the April 1, 2015 acquisition of a controlling interest in ARX, net income attributable to Progressive was equivalent to net income.
[3] Based on net income attributable to Progressive. The sum may not equal the total because the average equivalent shares differ in the quarterly and annual periods.
[4] Represents annual rate of return, assuming dividend reinvestment.
[5] Progressive maintains an annual variable dividend policy under which a dividend is typically declared each December and paid early the following year.