THE PROGRESSIVE CORPORATION 2015 ANNUAL REPORT

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The Progressive Group of Insurance Companies, in business since 1937, is one of the country's largest auto insurance groups, the largest seller of motorcycle policies, a market leader in commercial auto insurance based on premiums written and, through its majority-owned subsidiary, American Strategic Insurance (ASI), one of the top 20 homeowners carriers. Progressive is committed to becoming consumers' #1 choice and destination for auto and other insurance by providing competitive rates and innovative products and services that meet customers' needs throughout their lifetimes, including superior online and in-person customer service, and best-in-class, 24-hour claims service, such as its concierge level of claims service available at service centers located in major metropolitan areas throughout the United States.

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

THE
PROGRESSIVE
CORPORATION
2015
ANNUAL
REPORT

CONTINUITY

We strive to retain a continuous relationship with each customer by positioning ourselves to meaningfully address their lifetime insurance needs. To highlight this strategic agenda, we selected "continuity" as the theme for this year's annual report. We commissioned painter and sculptor Jason Middlebrook—who describes his work as a relationship between man and nature—to respond to this theme. The artist chooses natural pieces of wood as a medium for his paintings, which are inspired by the form and grain of each tree over its lifetime. A selection of Middlebrook's paintings will join Progressive's growing collection of contemporary art.

FIVE-YEAR FINANCIAL HIGHLIGHTS

(billions–except per share amounts)

	2015	2014	2013	2012	2011
FOR THE YEAR					
Net premiums written	$ 20.6	$ 18.7	$ 17.3	$ 16.4	$ 15.1
Growth over prior year	10%	8%	6%	8%	5%
Net premiums earned	$ 19.9	$ 18.4	$ 17.1	$ 16.0	$ 14.9
Growth over prior year	8%	8%	7%	7%	4%
Total revenues	$ 20.9	$ 19.4	$ 18.2	$ 17.1	$ 15.8
Net income attributable to Progressive	$ 1.27	$ 1.28	$ 1.17	$ 0.90	$ 1.02
Per share	$ 2.15	$ 2.15	$ 1.93	$ 1.48	$ 1.59
Underwriting margin	7.5%	7.7%	6.5%	4.4%	7.0%

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

<table>
<tr><th></th><th>2015</th><th>2014</th><th>2013</th><th>2012</th><th>2011</th></tr>
<tr><td>AT YEAR-END</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Common shares outstanding (millions)</td><td>583.6</td><td>587.8</td><td>595.8</td><td>604.6</td><td>613.0</td></tr>
<tr><td>Book value per share</td><td>$ 12.49</td><td>$ 11.79</td><td>$ 10.39</td><td>$ 9.94</td><td>$ 9.47</td></tr>
<tr><td>Consolidated shareholders’ equity</td><td>$ 7.3</td><td>$ 6.9</td><td>$ 6.2</td><td>$ 6.0</td><td>$ 5.8</td></tr>
<tr><td>Market capitalization</td><td>$ 18.6</td><td>$ 15.9</td><td>$ 16.2</td><td>$ 12.8</td><td>$ 12.0</td></tr>
<tr><td>Return on average shareholders’ equity</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Net income attributable to Progressive</td><td>17.2%</td><td>19.1%</td><td>17.7%</td><td>14.5%</td><td>16.5%</td></tr>
<tr><td>Comprehensive income attributable to Progressive</td><td>14.2%</td><td>20.1%</td><td>19.0%</td><td>17.4%</td><td>15.0%</td></tr>
<tr><td>Policies in force (thousands)</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Personal Lines</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Agency–auto</td><td>4,737.1</td><td>4,725.5</td><td>4,841.9</td><td>4,790.4</td><td>4,648.5</td></tr>
<tr><td>Direct–auto</td><td>4,916.2</td><td>4,505.5</td><td>4,224.2</td><td>4,000.1</td><td>3,844.5</td></tr>
<tr><td>Special lines</td><td>4,111.4</td><td>4,030.9</td><td>3,990.3</td><td>3,944.8</td><td>3,790.8</td></tr>
<tr><td>Total Personal Lines</td><td>13,764.7</td><td>13,261.9</td><td>13,056.4</td><td>12,735.3</td><td>12,283.8</td></tr>
<tr><td>Growth over prior year</td><td>4%</td><td>2%</td><td>3%</td><td>4%</td><td>5%</td></tr>
<tr><td>Commercial Lines</td><td>555.8</td><td>514.7</td><td>514.6</td><td>519.6</td><td>509.1</td></tr>
<tr><td>Growth over prior year</td><td>8%</td><td>0%</td><td>(1)%</td><td>2%</td><td>0%</td></tr>
<tr><td>Property</td><td>1,076.5</td><td>|||||||</td><td>|||||||</td><td>|||||||</td><td>|||||||</td></tr>
<tr><td>Growth over prior year</td><td>NM</td><td>|||||||</td><td>|||||||</td><td>|||||||</td><td>|||||||</td></tr>
<tr><td>Private passenger auto insurance market[1]</td><td>NA</td><td>$ 183.5</td><td>$ 174.9</td><td>$ 168.0</td><td>$ 163.3</td></tr>
<tr><td>Market share[2]</td><td>NA</td><td>8.9%</td><td>8.7%</td><td>8.5%</td><td>8.1%</td></tr>
</table>

	1-Year	3-Year	5-Year
STOCK PRICE APPRECIATION[3]			
Progressive	20.9%	18.5%	14.0%
S&P 500	1.4%	15.1%	12.5%

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

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

[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.

VISION, STRATEGY AND VALUES

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

VISION

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

MISSION

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

CUSTOMER VALUE PROPOSITION

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

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

STRATEGY

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

CORE VALUES

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

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

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

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

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

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

LETTER TO SHAREHOLDERS

Marketers aspire to coin catch phrases that capture great emotion and expand brand influence into welcomed but untargeted domains —"Where's the beef?" Reality suggests they defy an engineered approach and resonate or not much like a viral video.

In some small way we may have created a contender in 2015 with "Sprinkles are for Winners," a pithy ending to one of our commercials where the character Jamie has been unable to present Progressive as the lowest price option to a customer, recognizing an alternative was for the moment lower. As Flo consoles his disappointed state, but recognizes the transparency of our approach, he's offered ice cream; when sprinkles are requested the reality sets in that certain spoils do in fact go to the victor and hence "Sprinkles are for Winners" took on a life of its own. Used in everything from song lyrics to sports team mantras, we found an accidental host of untargeted but welcome extensions. Equally welcome is the opportunity to describe Progressive's business year as deserving of Sprinkles, and I'll enjoy breaking that down in some detail in this letter, along with our efforts and outlook to ensure the accolade remains relevant for a long time to come.

HIGHLIGHT REEL

We added $1.9 billion in net premiums written to top $20 billion in 2015—a 10% growth rate over 2014, with net premiums earned just short of that mark. Operating profitability reflected in our combined ratio was a very solid 92.5, comfortably ahead of our 96 target and comparable to last year's performance. Together these results produced a pretax operating income of $1.5 billion, about 6% ahead of similarly strong results last year. Investment returns were less notable on an absolute basis, but within our design parameters represent a considerably stronger relative performance—ice cream, perhaps no sprinkles. We added $455 million of interest and dividend income, up 11% from last year, $113 million in realized gains, half of last year's, and a less exciting $324 million unrealized loss for the year, reflecting about a 1.6% total return on our $21 billion portfolio.

Combined, these results produced net income for the year of $1.3 billion, or $2.15 per share, both comparable to 2014, and represent a return on shareholders' equity of 17.2%. The unrealized loss, in part, pressured our more preferred measure of comprehensive income and we lagged last year by some 50 cents per share on that basis.

The $20 billion threshold, deservedly so, had special meaning within the company and for many we re-experienced the same pride when passing both the $1 and $10 billion marks and now immediately set our sights on the next significant round number. To be fair, the growth this year, while very solid from year-over-year organic expansion, was aided by the inclusion of nine months of the property premium from ASI—the controlling interest acquisition we closed in April.

I've stated before that we would welcome an improved investment environment with interest rates and valuations more comfortably matching our longer-term investment income preference, and perhaps a little less volatility for good measure, but by design we are not dependent on it and our commitment to an investment strategy that supports and enhances the primary asset of the operating company remains central to our long-term thinking.

Gainshare, our best measure of company-wide operating performance, valued in a range between 0 and 2, completed the year at 1.6, the highest in some time, and for me a fair and accurate reflection of the year with notable strengthening in the second half and, even more importantly, carrying attractive momentum forward into 2016. Gainshare is the basis for variable compensation for Progressive people and shareholders. Our variable dividend formulation met all criteria required to be declared and based on our post-tax underwriting income and the Gainshare score, we declared a dividend of 89 cents per share, or an approximate yield of 2.8% at year end.

We enter 2016 with a strong, well-structured capital position, bolstered by the $400 million debt offering we completed earlier in the year. Our debt-to-total capital ratio ended the year around 27%, below our self-imposed guideline of not to exceed 30% for any extended period of time and thus preserving significant debt capacity should we need or choose to use it. Our capital management philosophy remains consistent with our long-standing view that capital in excess of regulatory requirements and any contingencies we can envision is available for share repurchases, acquisitions, or shareholder dividends. Our share repurchases during the year were somewhat modest, at 7.3 million shares, in part due to a stronger performance of our stock. The ARX transaction, discussed in greater detail in last year's letter, consumed $877 million, and the shareholder dividend for 2015 performance happily returned $519 million to our shareholders.

A synopsis of our business model in a little more detail is provided in the Objectives, Policies and Operations Summary section of this report.

TALE OF THE TAPE

Now we know the aggregate results worked out well, it is worth a moment to dissect our primary product offerings and provide a little color commentary.

With no great joy, at this time last year, I characterized our Agency auto growth as flat-out disappointing and suggested it had our full attention and that our commitment to winning in the channel should not be underestimated. More so after such a statement, it's rewarding when planned actions and results align to tell a more favorable story. Our Agency business found a higher gear in the second half of the year and has sustained momentum through year-end with expectations of continuing into 2016. What changed? We executed on a multi-point agenda to address opportunities, much of which we outlined in our Investor meeting in May. The details are not for now, but headlines include a significant advance in product design as we continually use our best data and knowledge to meet competitive market demands and a demonstrably improved bundling option for agents as we deepen our relationship with our ASI property solution. We've reversed the erosion in policy counts we'd not enjoyed reporting during the year, while advancing premium growth. Our new business inflow developed during the course of the year into some of the strongest we have seen in recent times, suggesting that in the incredibly price efficient agency market our product is attractive, and our loss results provide support that the rate level is for now sustainable—a considerably stronger positioning we look forward to building upon.

While not yet a massive contribution to the Agency results, strategically a highlight of 2015 was the market introduction of Platinum. Platinum, in its simplest form, is the integration at the market level of ASI and Progressive's product lines. The multi-provider approach to homeowners that works so well for us in our Direct business is simply not an option within the Agency channel, and with ASI we have the perfect combination. The product provides agents a single offering, with compensation and coordinated policy periods, along with other features, that reflect the needs and desires of agents that we are now very well suited to address. The product is by design focused on those agents who have the target customers and are prepared to accept the proposition that ASI and Progressive, with this introduction and what is sure to follow, will be a "must have" bundled offering in their agency. Our excitement is obvious for the growth potential, and the engagement we can have with agents in our development of the Destination Era, outlined more fully in this communication last year. However, perhaps most importantly for those of us who enjoy the science of rating, this will provide a data set of customers for whom we have had limited prior auto history and thus presents an incredible opportunity as we do what we do best—use that data to refine and improve our offering over the years ahead. Early results are just that, but very encouraging would be a fair assessment.

This paints a much brighter picture in the Agency space and deservedly so, but direction and early responses need to be supported with continued execution, higher customer retention, and consistent economic performance. All the pieces look to be in place to offer even greater value in a channel we enjoy serving.

Building on a strong 2014, our Direct channel had what might be described in sports terms as back-to-back winning years. With low double-digit premium growth rates, and just short of double-digit unit growth, there is little to be upset about—not suggesting that outside the scope of this letter we don't have our wish list. Taking advantage of market opportunities to grow also means we will run our combined ratio, reflecting new business loss costs and front loaded acquisition costs, much closer to our acceptable maximum and the combination of a 95.1 combined ratio with 11% written premium growth proved to be a strong combination of profit and growth for the year and one I would readily sign-up for again.

Our Direct to the consumer delivery channel has been built, in part, on skills developed from the Agency business that is at our core. We have, however, developed considerable expertise in marketing creative and placement, consumer experience and presentation, along with the economics of acquisition and customer life expectancy. Less by any designed outcome, but more a reflection of consumer choice and technology, our Direct channel and Agency channel for auto are now about equally balanced. Metrics of premium and units will produce slightly different allocations, but an equal split of the auto business is a reasonable way to think, and we're confident we can continue to grow in both distributions. Our Special Lines and Commercial Lines businesses are considerably more agent favored, but are well positioned for any similar trends.

Special Lines had a great year with loss costs slightly lower than expectation, absent a major storm or hurricane to cause havoc with our boats or even recreational vehicles. Given our significant market share in motorcycle and the other products within this grouping, we don't expect outsized growth and enjoyed the 3% or so growth in the product line and look forward to any effects of a recovering economy and reduced gas prices to fuel additional discretionary "toy" purchases in future years.

Our Commercial Lines business gets the award for outsized performance this year. Strong mid-teen growth and a combined ratio of 84 certainly is a rare combination and contributed significantly to our aggregate results for the year. Now just north of $2 billion in written premium, Commercial is fully 10% of the enterprise and, at that premium, we're expecting when industrywide results are tabulated that we may be adding commercial auto to the list of products with a #1 market share designation. While the story leading to these results has played out over several years, the essential message is when results are not what you want, act with purpose and ensure profitability before growth. The Commercial group did exactly that and by the time we were operating with rate levels that were more reflective of market conditions, we found that others having less comfort with their rates were limiting their market involvement and our extraordinary results followed. Market dynamics and competition are our constant gravity, and we expect these results to become more consistent with our long-term targets over time, but appreciate when opportunity knocks, to expand our influence in this important part of our business.

Regardless of the specific product, our organizational imperative is to continuously improve our ability to segment customers into smaller homogeneous groups and advance our ability to best match expected loss costs to those groupings. Over time those groupings have become more and more complex and may now be defined, in part, by driving behaviors, such as hard braking, or technology preferences for policy quoting or servicing. The ability to do this well is at the heart of any success we may have had and made possible with people who enjoy doing so and finding relationships in data that could provide yet marginal improvements to an age old concept. Data is our central asset, and our ability to analyze data, now in some cases in massive quantities, and find correlations and causal relationships, is the Progressive statistics factory I often describe to those outside our industry.

Consumer sensitivity to changes in their insurance premium is for many very high. Consistent with our desire to keep customers a long time, we want to be sure that any rate change is needed, surgical, and, where possible, smaller in magnitude, even to the point of several smaller changes over time, which are appreciated more than a singular adjustment. As illustrative examples of our commitment to advancing rating science and achieving that objective, we have developed significant ability, by ingesting weather data from hundreds of monitoring stations around the U.S. several times an hour, to help recognize the difference between an observed weather influence and an expected weather influence in an attempt to ensure we do not let a more obvious rationale for elevated loss costs disguise a more substantial trend that needs to be addressed, or equally important resist reacting to a false positive for rate need. An accurate historical perspective has come into play more than once in this El Niño year. Similarly, with a longer-term trend toward lower frequency, intermittent increases in frequency trends need to be explained in some detail to respond appropriately. This year we experienced much more favorable pricing for gasoline and numerous sources confirmed increased mileage resulted. We were in a position to use a significant sample of our Snapshot® users to more accurately understand the types of mileage increases and associated frequency, effectively in real-time versus delayed and aggregated reporting sources. The specifics here are less the point to be made and much more so the value of data and an ability to have that data be converted into a commercial advantage. We don't intend to stop looking for opportunities anytime soon and expect to carry that forward into our Destination Era product line up.

Progressive and ASI's Technology, Claims, Marketing, and Customer Relationship Management groups all had very successful years and, while their specific accomplishments deserve greater recognition, suffice it to say that each group is focusing on the types of issues that will advance the company versus fixing in-place processes, and that's a foundation that makes all we expect to achieve possible. Our expense ratio of 20% is an attractive position relative to the industry and in no small way contributes to our success, without restricting the ability of each group to create experiences that foster long-term promoters with confidence in us. Accepting that, we see opportunities for yet greater leverage, in large part through longer customer relationships.

WHERE TO FROM HERE?

Forces of change are all around us, and almost any industry will have challenges and opportunities advanced usually through technology and consumer behavior. Our industry will not be immune and, while some will have longer enactment periods, they will present real and exciting opportunities for those prepared to embrace them.

Media consumption, and a shift to more addressable media in forums other than network television, will both attract more of our acquisition budget and provide far greater ability to analyze yield and spending effectiveness for those suited to the newer models. Advancing our brand, more so to the right audiences, is critical to the future we see for Progressive in the Destination Era and we're excited by the prospects.

Car ownership or temporary vehicle use options, headlined by names like Zipcar to Uber, will challenge the foundations of driver-to-car matching, which, while not perfect in current schemas, is not as widely variant as we must accept as possible in the future. We enjoy embracing change and the potential for new products and will look for ways to avoid putting square pegs in rounds holes, rather taking opportunities available for us to lead in designing solutions more responsive to contemporary realities.

Vehicle technology is certain to challenge the notion of driving we've held for the last hundred years or so and, as such, we must position Progressive to be advantaged in the product shifts and opportunities that will surely follow. Recognizing vehicles as moving IP addresses and being in the data flow was an early and remains an ongoing objective, and our Snapshot offering is exactly that. We remain very excited by our Snapshot program and have even higher hopes in 2016 of reaching a greater proportion of our policyholder base, with the introduction of a smartphone application capable of meeting the data integrity standards we have been seeking for several years. Long-term accident frequency reduction has been a fact of life for our industry for the last 30 plus years, with great societal value. The outlook with current and expected vehicle technology features, up to and including autonomous features, is for continued reductions. We must be intensely focused on our segmentation science and assigning pricing accurately during what will be a long period of mixed-mode technology vehicles on the road. Disruptive change we believe will play well to our strengths for a long time to come.

Accepting change can be a catalyst for Progressive to grow; it's equally rational to accept that premium per vehicle could decline, potentially materially—interestingly enough that has not been the case to date with claims costs more than offsetting the frequency declines over many years; however, I'm only prepared to accept that outcome as one of several that seem possible. I do, however, sense that new "insurance" products will develop alongside the changes in vehicle technology (who might have envisioned a sizable market in cell phone insurance 15 years ago or the need for cyber insurance?). Progressive will be true to its name in managing change to our immediate advantage and positioning for longer term shifts as they eventuate.

A feature of this report and last year's letter was the evolution of Progressive through eras described as Manufacturing/ Wholesaling, to Retail, and now to the consumer centric Destination Era. The substance of the Destination Era gained additional and significant institutional energy in 2015 with every area of the company examining in greater depth the operating and systems implications needed to execute in that model with the same intensity we've attained in our core products. Now, with bonafide solutions to meet consumer needs beyond the initial auto insurance product, we have positioned Progressive to meaningfully address the lifetime needs of customers. They can now look to us for protection products including all property needs, umbrella, flood, classic car, special event, travel, pet, life, ID protection, and more. Historically, we didn't have these assets and thus were less well positioned to keep the continuity of relationship that so often starts with an auto insurance purchase, but develops into a broader product array. Simple models are just that, but the customer label of "Robinsons" for us is reflective of the customer with home and auto insurance, and often a selection of one or more other products suited to their life style. Referenced internally as Auto+, our nomenclature is a fitting designation for the positioning and one we're finding can also start with a non-auto relationship.

We've reported that we under index on Robinsons and over index, relative to our aggregate market share, on those in life stages leading toward a more Robinson-like status. Graduating the future Robinsons, we believe, is highly rational given our advantaged position of a brand that has shown appeal to new buyers, the positive first product experience we provide, and now a product line-up that encourages continuity of relationship as their needs expand. Again a simple model, but highly reflective of our positioning, is to think: Acquire, Anchor, Bundle, and Extend. Acquire—enhance the brand appeal in every way we do business; Anchor—a great first product experience often through auto; Bundle—be responsive to individual life lanes and add product needs seamlessly; Extend—an optimal state for both the customer and Progressive. By retaining customers for decades and attracting those Robinsons who find our proposition compelling, implies for us a significant addition to our addressable market, perhaps as much as 50% for just the auto product, and more so with our entry into the property market and recognition of the Commercial Lines analogue to the Destination Era. Auto and Property are the lion's share of the personal lines property and casualty insurance premium base, but other products are important complements when needed for long-term retention. Our focus on auto insurance and the skills we have honed will certainly be central to our business model for as far forward as anyone can reasonably see, but our business model is without question evolving toward being a contemporary solution for our customers with a wider aperture and greater diversification of insurance products.

Our product requirements to execute effectively in the Destination Era are expansive and we don't intend to manufacture them all, but rather "rent" both the capital and expertise from those who are leaders in their field. In some cases a single product provider will be the desired solution—ASI in the Agency channel for Property is a perfect example, along with our classic car solution for Direct customers with Hagerty Insurance, in our minds the leader in the space—or we may seek diversification within a product line to meet the broadest range of situations, such as the line-up of homeowners providers in the Direct channel. We have marketing opportunities through our agents, our online presence, and a greatly expanded in-house agency to offer customers greater access to the products they seek and have opportunities for presentation, relationship building, and "just-in-time" marketing, all expanding our repertoire of customer experiences. We will take indemnity risk and use our capital where it makes sense to do so and receive commission income on other products where that's more appealing. As time and experience develops, we may offer other combinations that are also mutually appealing. Noted last year and worth reinforcing, Progressive is becoming a consumer company with auto insurance at its core and the currency of success is customer life expectancy (an appropriate restatement of the earlier positioning of policy life expectancy).

The times they are a-changin—not quite "Sprinkles are for Winners," but a Dylan lyric no one would readily reject—and Progressive's adaption to those changes embodied in our Destination Era's positioning provides for us a gamut of challenges, but equally, for me, the feeling of never being more optimistic about what lies ahead. (A feeling I've been lucky enough to experience more than a few times in Progressive's evolution as a company).

OUR PEOPLE AND CULTURE

The artistic theme visually complementing this year's report is ***continuity*** and while its selection was primarily to amplify the positioning of Progressive as a continuous and contemporary solution to a range of consumer insurance needs over time, it applies equally well to the continuity of the cultural foundation of Progressive.

Our Vision, Values, and Objectives are the bedrock of the Progressive culture. The Vision and Mission affirm our benefit to society and drive our aspiration to be consumers' number one choice for auto and other insurance needs. Our Values unambiguously guide behavior. Demanding Objectives attract and retain special people who enjoy working hard, performing well, being rewarded competitively, and growing constantly.

Our people, culture, and aspirations are what make us special.

Nothing we have achieved has been without the efforts of so many—Progressive and ASI people, our agents, customers, and shareholders.

To those who make Progressive, progressive—Thank you; *definitely add sprinkles!*

Glenn M. Renwick
President and Chief Executive Officer

OBJECTIVES, POLICIES AND OPERATIONS SUMMARY

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

OBJECTIVES

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

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

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

OUR BUSINESS MODEL

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

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

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

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

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

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

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

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	2015	2014	2013	5 Years[1]	10 Years[1]
Underwriting margin	- Progressive[2]	4%	7.5%	7.7%	6.5%	6.7%	7.5%
	- Industry[3]	na	|||||||	(1.8)%	(1.0)%	(1.3)%	0.6%
Net premiums written growth	- Progressive	(a)	10%	8%	6%	7%	4%
	- Industry[3]	na	|||||||	5%	4%	3%	2%
Policies in force growth	- Personal auto	(a)	5%	2%	3%	4%	4%
	- Special lines	(a)	2%	1%	1%	3%	4%
	- Commercial Lines	(a)	8%	0%	(1)%	2%	2%
Companywide premiums-to-surplus ratio		(b)	2.7	2.9	2.9	na	na
Investment allocation	- Group I	(c)	20%	23%	22%	na	na
	- Group II	(c)	80%	77%	78%	na	na
Debt-to-total capital ratio		<30%	27.1%	23.8%	23.1%	na	na
Return on average shareholders' equity							
– Net income attributable to Progressive		(d)	17.2%	19.1%	17.7%	17.0%	17.1%
– Comprehensive income attributable to Progressive		(d)	14.2%	20.1%	19.0%	17.1%	18.1%

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

(b) Determined separately for each insurance subsidiary.

(c) Allocate portfolio between two groups:

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

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

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

na = not applicable

[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 for 2014 and 2013 represent private passenger auto insurance market data as reported by A.M. Best Company, Inc. The industry underwriting margin excludes the effect of policyholder dividends. Final comparable industry data for 2015 will not be available until our third quarter report. The 5- and 10-year growth rates are presented on a one-year lag basis for the industry.

ACHIEVEMENTS

We are convinced that the best way to maximize shareholder value is to achieve these financial objectives and policies consistently. A shareholder who purchased 100 shares of Progressive for $1,800 in our first public stock offering on April 15, 1971, would have owned 167,709 shares, including dividend reinvestment, on December 31, 2015 with a market value of $5,333,146, for a 19.6% compounded annual return, compared to the 10.2% return achieved by investors in the S&P 500 during the same period.

In the ten years since December 31, 2005, Progressive shareholders have realized compounded annual returns, including dividend reinvestment, of 4.4%, compared to 7.3% for the S&P 500. In the five years since December 31, 2010, Progressive shareholders' returns were 14.0%, compared to 12.5% for the S&P 500. In 2015, the returns were 20.9% on Progressive shares and 1.4% for the S&P 500.

We have consistently paid dividends since we went public in 1971. Assuming dividends were not reinvested, a shareholder who bought 100 shares at the initial public offering would now hold 92,264 shares and would have received cumulative dividends of $736,292, including $63,312 in 2015. In addition to paying dividends, over the years when we have had adequate capital and believed it to be appropriate, we have repurchased our shares. As our Financial Policies state, we will repurchase shares to neutralize the dilution from equity-based compensation programs and return any underleveraged capital to investors. During 2015, we repurchased 7,340,630 common shares. The total cost to repurchase these shares was $209 million, with an average cost of $28.41 per share. Since 1971, we have spent $8.7 billion repurchasing our shares, at an average cost of $7.26 per share.

Personal Lines Our Personal Lines operating philosophy is to grow as fast as possible, subject to the constraints of our 96 combined ratio goal and our ability to provide excellent customer service. Through this lens, 2015 was another very good year for Personal Lines as net premiums written grew 6% at healthy profit margins, while building foundational elements of future growth through enhanced segmentation, broader product offerings, and restored growth in our Agency business.

Given the competitive U.S. personal lines property and casualty market, it's critical that we consistently provide a broad suite of product offerings to meet the needs of both consumers and agents. During 2015, we made good progress making our products more competitive, broadening our offerings, and better matching our rates to the underlying consumer risks.

During 2015, we reduced our expense ratio and continued to deploy our latest auto product, which was first introduced in December 2014 and is currently available to more than one-third of U.S. households. This product leverages additional rating variables and external data in order to provide more competitive rates for preferred households, a redesigned package discount that encourages bundling property and auto, and better segmentation amongst no-prior-insurance and repeat customers. Market response has been excellent, with quote volume increases, conversion improvements for more preferred customers, and many agents quoting a greater share of their preferred customers with Progressive. A key element of this new product is our enhanced Snapshot® offering that provides immediate consumer value through an upfront participation discount. Segmentation is enhanced at renewal by confirmation of, or adjustments to, good driving discounts and surcharging a small segment of drivers based on their cost to insure. We saw increased use of our Snapshot program during 2015, as the new upfront discount contributed to higher purchase rates and broader discount distribution drove up overall customer retention. During the year, we also completed a successful pilot of a mobile app that can supplement Snapshot's current hardware-based monitoring with a software version that can lower hardware costs and improve user experience, while also reducing monitoring costs through the elimination of our data transmission charges. This offering is expected to deploy more broadly in late 2016.

Beyond more competitive product offerings, we've been investing in both the breadth of the products we offer consumers and where we offer those products. During the year, we increased the number of agents selling our Progressive Home Advantage® (PHA) property offering from American Strategic Insurance (ASI) by 27%, expanded our offering across distribution channels by entering 5 additional Agency states with ASI homeowners and 19 additional states with Progressive renters, and adding 28 new states to our Progressive Advantage Agency, the in-house agency that sells property insurance direct to consumers. The acquisition of a controlling interest in the parent company of ASI in April now affords us the opportunity to participate in the agency bundled home/auto market in a way never before possible. In conjunction with ASI, we designed a bundled home/auto solution with both agent and consumer benefits never before available from Progressive and began deploying this "Platinum" offering to a select group of agents across several states. Market response has been strong, with volume increases in both quotes and sold policies, higher rates of home/auto bundling, and an overall shift to more preferred customers. Finally, in pursuit of becoming consumers' destination for Personal Lines insurance, during 2015, we expanded our portfolio of Progressive Advantage products (underwritten by unaffiliated insurers and sold directly by Progressive) by launching travel insurance, wedding/event insurance, and expanding our classic car insurance offering.

As we communicated during our investor day in May, the competitive environment in the independent agency channel resulted in disappointing new application and policy in force declines during 2014, and turning those results around was a top priority for 2015. During the year, the combination of more competitive auto products, more broadly distributed and competitive property offerings, and active management by our field sales organization resulted in positive new policy growth and the restoration of overall policy in force growth for our Agency auto business. A 4% increase in written premium per policy resulted in net premiums written growth in our Agency auto business during the year.

Total Personal Lines growth in 2015 was driven by strong performance of our Direct auto business, which grew new applications close to 13%, added more than 400,000 policies, and increased net written premium 11% over 2014. Growth in the channel was primarily driven by mid-teen increases in the number of consumers shopping with Progressive, resulting from increased media spend and strong consumer response to our messages. From a channel perspective, the vast majority of this shopping increase was due to continued rapid growth of consumers shopping via mobile devices, which now represent about 40% of our Direct auto quotes. Recognizing these ongoing trends, during the year we completed the replacement of our Direct auto quoting systems to improve the mobile shopping experience.

Our special lines products (motorcycle, boat, recreational vehicle, and manufactured home) enjoyed very profitable growth across all products and continue to contribute both a substantial portion of our annual underwriting profit and a large book of preferred customers to whom we can cross-market our auto and expanding property offerings. Providing our multi-product customers a consistent customer experience across our product offerings is essential to building long-term confidence in Progressive, and as we complete the rebuild of our core auto policy processing system, we've commenced deployment of the same system to our special lines products.

Customer retention remains disappointing. Our trailing 12-month auto policy life expectancy declined by about 1%, driven primarily by our Agency business, while Direct retention remained essentially flat. During the year, we reorganized several groups within Personal Lines in order to focus additional resources on decomposing and resolving our customer retention challenges. On a brighter note, our more responsive trailing 3-month retention metrics do indicate improvements in the 5% range for auto customers in both distribution channels, so we have some evidence that things are moving in the right direction.

On top of strong business results during the year, we feel very good about the Destination Era investments we made in people, products, and systems to ensure we continue to offer broad distribution of the suite of highly competitive products, which are essential to meeting our customers' needs throughout their lifetimes.

OPERATING RESULTS

PERSONAL LINES	2015	2014	Change
Net premiums written (in billions)	$ 17.7	$ 16.8	6%
Net premiums earned (in billions)	$ 17.3	$ 16.6	4%
Loss and loss adjustment expense ratio	73.7	73.4	0.3 pts.
Underwriting expense ratio	19.8	19.9	(0.1) pts.
Combined ratio	93.5	93.3	0.2 pts.
Policies in force (in thousands)	13,764.7	13,261.9	4%
COMMERCIAL LINES			
Net premiums written (in billions)	$ 2.2	$ 1.9	15%
Net premiums earned (in billions)	$ 2.0	$ 1.8	9%
Loss and loss adjustment expense ratio	62.4	61.7	0.7 pts.
Underwriting expense ratio	21.7	21.1	0.6 pts.
Combined ratio	84.1	82.8	1.3 pts.
Policies in force (in thousands)	555.8	514.7	8%

Commercial Lines The Commercial Lines business built on the positive momentum and strong underwriting results of the previous year to reach new highs for written premiums, policies in force, market position, and earnings contribution in 2015. These results, and our optimism about the future of Commercial Lines, are grounded in adherence to the basic operating principles we have embraced for several years: intense focus on commercial auto as our core product; understanding loss cost and other expense drivers at the Business Market Target (BMT) level; measured expansion into new business segments; and delivering products and services that provide an ease-of-use advantage for our agents and customers. Competitive market conditions and macroeconomic influences will always be variable, and our exploration of new growth opportunities will require new disciplines. However, we expect these tenets to be unchanging as we pursue growth well into the future.

Commercial Lines written premium increased 15% over 2014 to $2.2 billion on the strength of broad-based policy growth and a shift to higher average premium policies. The fact that year-over-year policy growth ranged from solid to exceptional across all five of our primary BMTs speaks to the underlying strength of the business and the acceptance of Progressive as a favored commercial auto insurance solution for small businesses. Based on trailing 12-month industry results through third quarter 2015, we expect to become the U.S. commercial auto market share leader when final 2015 industry results are published. While never an explicitly stated business objective, #1 is a mantle we will embrace and use as inspiration going forward.

The Commercial Lines combined ratio was 84, an increase of a little more than a point from the prior year, and a number that benefitted from approximately 3 points of favorable prior year loss development. Much like growth in policies and premium, margins were strong across all BMTs. While we expect margins will move closer to our long-term targets, we enter 2016 without any identifiable rate deficiencies and able to capitalize on the strong demand we are experiencing and some interesting new opportunities.

For-Hire Transportation (FHT) has been an area of significant investment and focus for the last several years. In 2015, we began deployment of a new scoring model for all businesses registered with the U.S. Department of Transportation (USDOT). While the score applies to any business with a USDOT number, the most immediate impact is on the FHT BMT. The new model provides a meaningful price segmentation benefit, while it reduces our dependence on post-binding audit and intervention; it's an ease-of-use enhancement that is being embraced by agents. Early results are encouraging, as we are realizing conversion improvements on the preferred business and are earning more premium on the higher-cost accounts. As the rollout continues, research is well underway on score enhancements specifically addressing additional segmentation opportunities with businesses registered as Federal Motor Carriers.

Progressive is the recognized leader in usage-based insurance (UBI) with our Snapshot® program for personal auto. For a few years we have been working with customers in our truck-oriented BMTs to collect driving data through telematics devices. We now have several million miles and over a billion data records to match with actual loss experience. These data reveal interesting insights on driver behavior, vehicle use, route patterns, and driving location and suggest predictive power beyond any currently used rating variables. The recently enacted Federal mandate for all trucking operations currently maintaining hours of service logs to install an operational electronic logging device by December 2017 should remove a major obstacle to UBI adoption—getting customers to install a device capable of recording telematics information. We now have a running start on delivering a best-in-class UBI product for non-fleet owner operators in advance of the Federal mandate.

In 2014, we decided on a multi-year effort to replace our core Commercial Lines processing system with the anticipated benefits of lowering our operating costs, increasing our business dexterity and speed to market, and reinforcing our ease-of-use advantage with agents and customers. 2015 was the first full year of effort in what we expect will be a four-year program to complete full product and state deployment. The demands of a program of this magnitude at a time when the business is growing rapidly tested the full capacity of our systems, services and, most especially, our people who responded remarkably throughout. Great progress was made, running on time and under budget, and we anticipate the completion of core systems integration and the elevation of the first state on the new system this year. That state will be Hawaii, which will effectively complete the U.S. state map for Commercial Lines.

CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries, and affiliates. These financial statements should be read in conjunction with the complete Consolidated Financial Statements, including the complete Notes to the Consolidated Financial Statements, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations and Supplemental Information, which are included in Progressive's 2015 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2016 Proxy Statement.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Progressive's management is responsible for establishing and maintaining adequate internal control over financial reporting. Based on Progressive's evaluation under the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), management concluded that Progressive's internal control over financial reporting was effective as of December 31, 2015. The complete "Management's Report on Internal Control over Financial Reporting," as required by Section 404 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations, along with the related report of PricewaterhouseCoopers LLP, is presented in the 2015 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2016 Proxy Statement.

CEO AND CFO CERTIFICATIONS

Glenn M. Renwick, President and Chief Executive Officer of The Progressive Corporation, and John P. Sauerland, Vice President and Chief Financial Officer of The Progressive Corporation, have issued the certifications required by Sections 302 and 906 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations with respect to Progressive's 2015 Annual Report on Form 10-K, including the financial statements provided in this Report and in the 2015 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2016 Proxy Statement. Among other matters required to be included in those certifications, Mr. Renwick and Mr. Sauerland have each certified that, to the best of his knowledge, the financial statements, and other financial information included in the Annual Report on Form 10-K, fairly present in all material respects the financial condition, results of operations, and cash flows of Progressive as of, and for, the periods presented. See Exhibits 31 and 32 to Progressive's Annual Report on Form 10-K for the complete Section 302 and 906 Certifications, respectively.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions–except per share amounts)

For the years ended December 31,	2015	2014	2013
REVENUES			
Net premiums earned	$ 19,899.1	$ 18,398.5	$ 17,103.4
Investment income	454.6	408.4	422.0
Net realized gains (losses) on securities:			
Other-than-temporary impairment (OTTI) losses:			
Total OTTI losses	(23.8)	(7.9)	(6.0)
Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses	0	0	(0.1)
Net impairment losses recognized in earnings	(23.8)	(7.9)	(6.1)
Net realized gains (losses) on securities	136.5	232.1	324.5
Total net realized gains (losses) on securities	112.7	224.2	318.4
Fees and other revenues	302.0	309.1	291.8
Service revenues	86.3	56.0	39.6
Gains (losses) on extinguishment of debt	(0.9)	(4.8)	(4.3)
Total revenues	20,853.8	19,391.4	18,170.9
EXPENSES			
Losses and loss adjustment expenses	14,342.0	13,306.2	12,472.4
Policy acquisition costs	1,651.8	1,524.0	1,451.8
Other underwriting expenses	2,712.1	2,467.1	2,350.9
Investment expenses	22.8	18.9	18.8
Service expenses	77.5	50.9	38.8
Interest expense	136.0	116.9	118.2
Total expenses	18,942.2	17,484.0	16,450.9
NET INCOME			
Income before income taxes	1,911.6	1,907.4	1,720.0
Provision for income taxes	611.1	626.4	554.6
Net income	1,300.5	1,281.0	1,165.4
Net income attributable to noncontrolling interest (NCI), net of tax	32.9	0	0
Net income attributable to Progressive	$ 1,267.6	$ 1,281.0	$ 1,165.4
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX			
Changes in:			
Net unrealized gains (losses) on securities:			
Net non-credit related OTTI losses, adjusted for valuation changes	$ 0	$ 0	$ 0.3
Other net unrealized gains (losses) on securities	(212.9)	74.9	84.0
Total net unrealized gains (losses) on securities	(212.9)	74.9	84.3
Net unrealized gains (losses) on forecasted transactions	(9.7)	(2.6)	(2.0)
Foreign currency translation adjustment	(1.2)	(0.9)	(1.6)
Other comprehensive income (loss)	(223.8)	71.4	80.7
Other comprehensive (income) loss attributable to NCI	1.1	0	0
Comprehensive income attributable to Progressive	$ 1,044.9	$ 1,352.4	$ 1,246.1
COMPUTATION OF NET INCOME PER SHARE			
Average shares outstanding–Basic	585.5	590.6	599.1
Net effect of dilutive stock-based compensation	3.7	4.2	4.5
Total equivalent shares–Diluted	589.2	594.8	603.6
Basic: Net income per share	$ 2.16	$ 2.17	$ 1.95
Diluted: Net income per share	$ 2.15	$ 2.15	$ 1.93

Notes to the Consolidated Financial Statements are included in Progressive's 2015 Annual Report to shareholders, which is attached as an Appendix to Progressive's 2016 Proxy Statement.

CONSOLIDATED BALANCE SHEETS

(millions)

December 31,	2015	2014
ASSETS		
Investments–Available-for-sale, at fair value:		
Fixed maturities (amortized cost: $15,347.9 and $13,374.2)	$ 15,332.2	$ 13,549.2
Equity securities:		
Nonredeemable preferred stocks (cost: $674.2 and $590.4)	782.6	827.5
Common equities (cost: $1,494.3 and $1,289.2)	2,650.5	2,492.3
Short-term investments (amortized cost: $2,172.0 and $2,149.0)	2,172.0	2,149.0
Total investments	20,937.3	19,018.0
Cash	224.4	108.4
Accrued investment income	102.2	87.3
Premiums receivable, net of allowance for doubtful accounts of $164.8 and $152.2	3,987.7	3,537.5
Reinsurance recoverables, including $46.1 and $46.0 on paid losses and loss adjustment expenses	1,488.8	1,231.9
Prepaid reinsurance premiums	199.3	85.3
Deferred acquisition costs	564.1	457.2
Property and equipment, net of accumulated depreciation of $778.3 and $731.0	1,037.2	960.6
Goodwill	447.6	1.6
Intangible assets, net of accumulated amortization of $47.4 and $0.6	494.9	11.3
Other assets	335.8	288.5
Total assets	$ 29,819.3	$ 25,787.6
LIABILITIES		
Unearned premiums	$ 6,621.8	$ 5,440.1
Loss and loss adjustment expense reserves	10,039.0	8,857.4
Net deferred income taxes	109.3	98.9
Dividends payable	519.2	404.1
Accounts payable, accrued expenses, and other liabilities[1]	2,067.8	1,893.8
Debt[2]	2,707.9	2,164.7
Total liabilities	22,065.0	18,859.0
REDEEMABLE NONCONTROLLING INTEREST (NCI)[3]	464.9	0
SHAREHOLDERS' EQUITY		
Common shares, $1.00 par value (authorized 900.0; issued 797.6, including treasury shares of 214.0 and 209.8)	583.6	587.8
Paid-in capital	1,218.8	1,184.3
Retained earnings	4,686.6	4,133.4
Accumulated other comprehensive income, net of tax:		
Net unrealized gains (losses) on securities	809.0	1,021.9
Net unrealized gains (losses) on forecasted transactions	(8.2)	1.5
Foreign currency translation adjustment	(1.5)	(0.3)
Accumulated other comprehensive (income) loss attributable to noncontrolling interest	1.1	0
Total accumulated other comprehensive income	800.4	1,023.1
Total shareholders' equity	7,289.4	6,928.6
Total liabilities, redeemable NCI, and shareholders' equity	$ 29,819.3	$ 25,787.6

[1]See *Note 12–Litigation* and *Note 13–Commitments and Contingencies* for further discussion.

[2]Consists of both short-term and long-term debt. See *Note 4–Debt* for further discussion.

[3]See *Note 15–Acquistion* and *Note 16–Redeemable Noncontrolling Interest* for further discussion.

Notes to the Consolidated Financial Statements are included in Progressive's 2015 Annual Report to shareholders, which is attached as an Appendix to Progressive's 2016 Proxy Statement.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(millions–except per share amounts)

For the years ended December 31,	2015	2014	2013
COMMON SHARES, $1.00 PAR VALUE			
Balance, Beginning of year	$ 587.8	$ 595.8	$ 604.6
Treasury shares purchased[1]	(7.3)	(11.1)	(11.0)
Net restricted equity awards issued/vested/(forfeited)	3.1	3.1	2.2
Balance, End of year	$ 583.6	$ 587.8	$ 595.8
PAID-IN CAPITAL			
Balance, Beginning of year	$ 1,184.3	$ 1,142.0	$ 1,077.0
Tax benefit from exercise/vesting of equity-based compensation	16.8	12.8	10.3
Treasury shares purchased[1]	(15.2)	(21.6)	(20.4)
Net restricted equity awards (issued)/(vested)/forfeited	(3.1)	(3.1)	(2.2)
Amortization of equity-based compensation	64.5	51.4	64.9
Reinvested dividends on restricted stock units	5.7	2.8	12.4
Adjustment to carrying amount of noncontrolling interest	(34.2)	0	0
Balance, End of year	$ 1,218.8	$ 1,184.3	$ 1,142.0
RETAINED EARNINGS			
Balance, Beginning of year	$ 4,133.4	$ 3,500.0	$ 3,454.4
Net income attributable to Progressive	1,267.6	1,281.0	1,165.4
Treasury shares purchased[1]	(186.0)	(238.7)	(242.0)
Cash dividends declared on common shares ($0.8882, $0.6862, and $1.4929 per share)	(520.5)	(402.6)	(889.2)
Reinvested dividends on restricted stock units	(5.7)	(2.8)	(12.4)
Other, net	(2.2)	(3.5)	23.8
Balance, End of year	$ 4,686.6	$ 4,133.4	$ 3,500.0
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAX			
Balance, Beginning of year	$ 1,023.1	$ 951.7	$ 871.0
Attributable to noncontrolling interest	1.1	0	0
Other comprehensive income	(223.8)	71.4	80.7
Balance, End of year	$ 800.4	$ 1,023.1	$ 951.7
Total Shareholders' Equity	$ 7,289.4	$ 6,928.6	$ 6,189.5

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

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

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

Notes to the Consolidated Financial Statements are included in Progressive's 2015 Annual Report to shareholders, which is attached as an Appendix to Progressive's 2016 Proxy Statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions)

For the years ended December 31,	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,300.5	$ 1,281.0	$ 1,165.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	103.7	97.1	101.3
Net amortization of intangible assets	46.8	0	0
Net amortization of fixed-income securities	98.4	78.2	134.0
Amortization of equity-based compensation	66.2	51.4	64.9
Net realized (gains) losses on securities	(112.7)	(224.2)	(318.4)
Net (gains) losses on disposition of property and equipment	2.0	5.4	5.6
(Gains) losses on extinguishment of debt	0.9	4.8	4.3
Changes in:			
Premiums receivable	(421.1)	(227.1)	(127.4)
Reinsurance recoverables	(202.6)	(141.7)	(189.2)
Prepaid reinsurance premiums	32.5	(10.4)	(8.6)
Deferred acquisition costs	(42.3)	(9.6)	(13.1)
Income taxes	(107.2)	97.5	57.8
Unearned premiums	632.4	266.4	244.8
Loss and loss adjustment expense reserves	917.7	378.0	641.6
Accounts payable, accrued expenses, and other liabilities	37.9	92.0	165.0
Other, net	(60.2)	(13.2)	(28.1)
Net cash provided by operating activities	2,292.9	1,725.6	1,899.9
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases:			
Fixed maturities	(9,311.1)	(7,967.5)	(7,100.6)
Equity securities	(647.1)	(369.7)	(322.2)
Sales:			
Fixed maturities	4,913.5	5,637.5	3,083.9
Equity securities	402.4	560.1	369.2
Maturities, paydowns, calls, and other:			
Fixed maturities	3,579.5	2,296.6	1,859.6
Equity securities	12.0	14.3	21.5
Net sales (purchases) of short-term investments	20.5	(876.0)	716.6
Net unsettled security transactions	(8.2)	(30.0)	152.2
Purchases of property and equipment	(130.7)	(108.1)	(140.4)
Sales of property and equipment	10.6	5.9	3.7
Acquistion of ARX Holding Corp., net of cash acquired	(752.7)	0	0
Acquistion of additional shares of ARX Holding Corp.	(12.6)	0	0
Net cash used in investing activities	(1,923.9)	(836.9)	(1,356.5)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of equity options	0.2	0	0
Tax benefit from exercise/vesting of equity-based compensation	16.8	12.8	10.3
Net proceeds from debt issuance	382.0	344.7	0
Payment of debt	(20.4)	0	(150.0)
Reacquistion of debt	(19.3)	(48.9)	(58.1)
Dividends paid to shareholders	(403.6)	(892.6)	(175.6)
Acquisition of treasury shares	(208.5)	(271.4)	(273.4)
Net cash used in financing activities	(252.8)	(855.4)	(646.8)
Effect of exchange rate changes on cash	(0.2)	0	(0.6)
Increase (decrease) in cash	116.0	33.3	(104.0)
Cash, Beginning of year	108.4	75.1	179.1
Cash, End of year	$ 224.4	$ 108.4	$ 75.1

Notes to the Consolidated Financial Statements are included in Progressive's 2015 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2016 Proxy Statement.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Progressive Corporation and its subsidiaries as of December 31, 2015 and December 31, 2014, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015 (not presented herein) appearing in The Progressive Corporation's 2015 Annual Report to Shareholders, which is attached as an Appendix to The Progressive Corporation's 2016 Proxy Statement; and in our report dated February 29, 2016, we expressed an unqualified opinion on those consolidated financial statements.

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

PricewaterhouseCoopers LLP

Cleveland, Ohio
February 29, 2016

COMMON SHARES AND DIVIDENDS

The Progressive Corporation's common shares are traded on the New York Stock Exchange (symbol PGR). Progressive currently has an annual variable dividend policy. We expect the Board to declare the next annual variable dividend, subject to policy limitations, in December 2016, with a record date in early 2017 and payment shortly thereafter. A complete description of our annual variable dividend policy can be found at: *progressive.com/dividend*.

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

Statements in this report that are not historical fact are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. These risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions, and projections generally; inflation and changes in 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 driving and residential occupancy patterns; 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.

Quarter	Stock Price High	Stock Price Low	Stock Price Close	Rate of Return	Dividends Declared per Share
2015					
1	$ 27.90	$ 25.23	$ 27.20		$ 0
2	28.50	26.44	27.83		0
3	31.70	27.23	30.64		0
4	33.95	30.09	31.80		0.8882
	$ 33.95	$ 25.23	$ 31.80	20.9%	$ 0.8882
2014					
1	$ 27.30	$ 22.53	$ 24.22		$ 0
2	26.03	23.40	25.36		0
3	25.63	23.20	25.28		0
4	27.52	24.16	26.99		0.6862
	$ 27.52	$ 22.53	$ 26.99	5.3%	$ 0.6862

CORPORATE INFORMATION

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

Annual Meeting The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, Studio 96, 6671 Beta Drive, Mayfield Village, Ohio 44143 on May 13, 2016, at 10 a.m. eastern time. There were 2,255 shareholders of record on December 31, 2015.

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

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

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

Corporate Governance Progressive's Corporate Governance Guidelines and Board Committee Charters are available at: progressive.com/governance.

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

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

Registered Trademark Net Promoter® is a registered trademark of Satmetrix Systems, Inc.

Online Annual Report and Proxy Statement Our 2015 Annual Report to Shareholders can be found at: progressive.com/annualreport.

We have also posted copies of our 2016 Proxy Statement and 2015 Annual Report to Shareholders, in a PDF format, at: progressiveproxy.com.

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

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

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

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

View the complete procedures at: progressive.com/governance.

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

Counsel Baker & Hostetler LLP, Cleveland, Ohio

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

*Stephen R. Hardis, Lead Independent Director, The Progressive Corporation, email: stephen_hardis@progressive.com.

Charles E. Jarrett, Secretary, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or email: chuck_jarrett@progressive.com.

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

DIRECTORS AND OFFICERS

DIRECTORS

Stuart B. Burgdoerfer [1, 6]
Executive Vice President and
Chief Financial Officer,
L Brands, Inc.
(retailing)

Charles A. Davis [4, 5, 6]
Chief Executive Officer,
Stone Point Capital LLC
(private equity investing)

Roger N. Farah [3, 5, 6]
Co-Chief Executive Officer,
Tory Burch LLC
(retailing)

Lawton W. Fitt [2, 4, 5, 6]
Retired Partner,
Goldman Sachs Group
(financial services)

*Stephen R. Hardis [2, 4, 5, 6]
Lead Independent Director,
The Progressive Corporation

Jeffrey D. Kelly [1, 6]
Chief Operating Officer and
Chief Financial Officer,
RenaissanceRe Holdings Ltd.
(reinsurance services)

Patrick H. Nettles, Ph.D. [1, 6]
Executive Chairman,
Ciena Corporation
(telecommunications)

Glenn M. Renwick [2]
Chairman of the Board, President,
and Chief Executive Officer,
The Progressive Corporation

Bradley T. Sheares, Ph.D. [3, 6]
Former Chief Executive Officer,
Reliant Pharmaceuticals, Inc.
(pharmaceuticals)

Barbara R. Snyder [1, 6]
President,
Case Western Reserve University
(higher education)

[1] Audit Committee Member
[2] Executive Committee member
[3] Compensation Committee Member
[4] Investment and Capital Committee Member
[5] Nominating and Governance Committee Member
[6] Independent Director

CORPORATE OFFICERS

Glenn M. Renwick
Chairman of the Board,
President, and
Chief Executive Officer

John P. Sauerland
Vice President and
Chief Financial Officer

Susan Patricia Griffith
Vice President and
Personal Lines
Chief Operating Officer

Charles E. Jarrett
Vice President, Secretary,
and Chief Legal Officer

Jeffrey W. Basch
Vice President and
Chief Accounting Officer

Thomas A. King
Vice President

Patrick S. Brennan
Treasurer

Mariann Wojtkun Marshall
Assistant Secretary

* In May 2016, Stephen R. Hardis will retire after 28 years of service, in accordance with the Board's retirement policy. Progressive would like to thank Mr. Hardis for his dedicated service and the many contributions he made during his tenure on the Board. It is expected that a new Lead Independent Director will be appointed at that time.

24-HOUR INSURANCE QUOTES, CLAIMS REPORTING, AND CUSTOMER SERVICE	Personal Autos, Motorcycles, and Recreational Vehicles	Commercial Autos/Trucks
To Receive a Quote	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-888-806-9598 progressivecommercial.com
To Report a Claim	1-800-PROGRESSIVE (1-800-776-4737) progressive.com[1]	1-800-PROGRESSIVE (1-800-776-4737)
For Customer Service If you bought your policy through an independent agent or broker	1-800-925-2886 (1-800-300-3693 in California) progressiveagent.com	1-800-444-4487 progressivecommercial.com
If you bought your policy directly through Progressive online or by phone	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-895-2886 progressivecommercial.com
If you have a complaint or concern regarding any claim handling or other claims-related issue [2]	1-800-274-4641 email: claims@email.progressive.com	1-800-274-4641 email: claims@email.progressive.com
Homeowners To receive a quote, report a claim, or speak to a customer service representative, please call 1-800-PROGRESSIVE or visit progressive.com and your inquiry will be routed to the appropriate contact center.		

In addition, iPhone® and Android® users can download the Progressive App to start a quote, report a claim, or service a policy.

[1] Claims reporting via the website is currently only available for personal auto policies.

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

ARTWORK

artwork Jason Middlebrook

design Nesnadny + Schwartz

photography Karen Pearson

printing AGS Custom Graphics

MIX
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