PROGRESSIVE CORP/OH/
Form 10-Q
August 02, 2017

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

FORM 1O-Q

(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2017
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 1-9518

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

Ohio	34-0963169
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6300 Wilson Mills Road, Mayfield Village, Ohio	44143
(Address of principal executive offices)	(Zip Code)

(440) 461-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

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

Common Shares, $1.00 par value: 581,048,285 outstanding at June 30, 2017

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements.
The Progressive Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(unaudited)

	Three Months			Six Months		
Periods Ended June 30,	2017	2016	% Change	2017	2016	% Change
(millions—except per share amounts)						
Revenues						
Net premiums earned	$6,313.3	$5,561.8	14	$12,340.0	$10,879.2	13
Investment income	138.8	114.6	21	268.0	233.4	15
Net realized gains (losses) on securities:						
Net impairment losses recognized in earnings	(13.8)	(0.2)	NM	(14.8)	(0.2)	NM
Net realized gains (losses) on securities	45.9	32.5	41	98.8	49.9	98
Total net realized gains (losses) on securities	32.1	32.3	(1)	84.0	49.7	69
Fees and other revenues	88.8	82.5	8	174.0	161.4	8
Service revenues	32.7	26.5	23	61.2	51.5	19
Gains on extinguishment of debt	0	1.6	(100)	0.2	1.6	(88)
Total revenues	6,605.7	5,819.3	14	12,927.4	11,376.8	14
Expenses						
Losses and loss adjustment expenses	4,614.9	4,243.0	9	8,878.3	8,156.4	9
Policy acquisition costs	514.2	458.9	12	1,017.1	899.2	13
Other underwriting expenses	845.0	766.8	10	1,690.6	1,522.6	11
Investment expenses	6.6	5.3	25	12.2	10.1	21
Service expenses	27.0	23.7	14	52.9	45.3	17
Interest expense	43.4	34.3	27	80.2	68.5	17
Total expenses	6,051.1	5,532.0	9	11,731.3	10,702.1	10
Net Income						
Income before income taxes	554.6	287.3	93	1,196.1	674.7	77
Provision for income taxes	181.9	92.4	97	393.1	221.1	78
Net income	372.7	194.9	91	803.0	453.6	77
Net (income) loss attributable to noncontrolling interest (NCI)	(5.1)	(4.0)	28	(11.1)	(4.5)	147
Net income attributable to Progressive	$367.6	$190.9	93	$791.9	$449.1	76
Other Comprehensive Income (Loss)						
Changes in:						
Total net unrealized gains (losses) on securities	$92.6	$91.6	1	$225.0	$161.1	40
Net unrealized losses on forecasted transactions	(8.0)	(0.3)	NM	(5.7)	(0.6)	NM
Foreign currency translation adjustment	(0.1)	(0.1)	0	0.2	0.4	(50)
Other comprehensive income	84.5	91.2	(7)	219.5	160.9	36
Other comprehensive (income) loss attributable to NCI	(1.3)	(1.4)	(7)	(2.2)	(3.5)	(37)
Comprehensive income attributable to Progressive	$450.8	$280.7	61	$1,009.2	$606.5	66
Computation of Per Share Earnings Attributable to Progressive						
Average shares outstanding - Basic	580.5	582.4	0	580.4	582.8	0
Net effect of dilutive stock-based compensation	3.3	2.7	22	3.1	2.5	24
Total average equivalent shares - Diluted	583.8	585.1	0	583.5	585.3	0
Basic: Earnings per share	$0.63	$0.33	93	$1.36	$0.77	77

Diluted: Earnings per share	$0.63	$0.33	93	$1.36	$0.77	77
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)	June 30, 2017	2016	December 31, 2016
Assets			
Investments - Available-for-sale, at fair value:			
Fixed maturities (amortized cost: $18,311.7, $13,409.6, and $16,287.1)	$18,388.1	$13,589.5	$ 16,243.8
Equity securities:			
Nonredeemable preferred stocks (cost: $666.0, $745.5, and $734.2)	783.1	858.5	853.5
Common equities (cost: $1,472.3, $1,558.6, and $1,437.5)	3,077.5	2,765.4	2,812.4
Short-term investments (amortized cost: $3,729.7, $5,166.4, and $3,572.9)	3,729.7	5,166.4	3,572.9
Total investments	25,978.4	22,379.8	23,482.6
Cash	161.0	134.7	211.5
Restricted cash[1]	0.8	0	14.9
Accrued investment income	112.1	93.9	103.9
Premiums receivable, net of allowance for doubtful accounts of $175.8, $159.1, and $186.8	5,091.3	4,522.2	4,509.2
Reinsurance recoverables, including $79.2, $73.8, and $83.8 on paid losses and loss adjustment expenses	2,027.1	1,669.7	1,884.8
Prepaid reinsurance premiums	212.6	178.0	170.5
Deferred acquisition costs	727.2	645.2	651.2
Property and equipment, net of accumulated depreciation of $894.7, $824.0, and $845.8	1,152.1	1,083.7	1,177.1
Goodwill	452.7	449.4	449.4
Intangible assets, net of accumulated amortization of $140.5, $78.5, and $109.5	401.8	463.8	432.8
Other assets	372.7	337.8	339.6
Total assets	$36,689.8	$31,958.2	$ 33,427.5
Liabilities			
Unearned premiums	$8,407.7	$7,470.1	$ 7,468.3
Loss and loss adjustment expense reserves	12,060.4	10,674.8	11,368.0
Net deferred income taxes	191.8	140.7	111.3
Dividends payable	0	0	395.4
Accounts payable, accrued expenses, and other liabilities	3,153.2	2,706.2	2,495.5
Debt[2]	3,383.4	2,664.1	3,148.2
Total liabilities	27,196.5	23,655.9	24,986.7
Redeemable noncontrolling interest (NCI)[3]	501.8	466.8	483.7
Shareholders' Equity			
Common shares, $1.00 par value (authorized 900.0; issued 797.5, including treasury shares of 216.5, 215.6, and 217.6)	581.0	581.9	579.9
Paid-in capital	1,351.0	1,264.6	1,303.4
Retained earnings	5,908.8	5,031.2	5,140.4
Accumulated other comprehensive income:			
Net unrealized gains (losses) on securities	1,164.6	970.1	939.6
Net unrealized losses on forecasted transactions	(15.1)	(8.8)	(9.4)
Foreign currency translation adjustment	(0.9)	(1.1)	(1.1)
Accumulated other comprehensive (income) loss attributable to NCI	2.1	(2.4)	4.3
Total accumulated other comprehensive income attributable to Progressive	1,150.7	957.8	933.4
Total shareholders' equity	8,991.5	7,835.5	7,957.1

Total liabilities, redeemable NCI, and shareholders' equity	$36,689.8	$31,958.2	$ 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)

Six Months Ended June 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	(0.7)	(3.6)
Net restricted equity awards issued/vested	1.8	1.9
Balance, End of period	$581.0	$581.9
Paid-In Capital		
Balance, Beginning of period	$1,303.4	$1,218.8
Tax benefit from vesting of equity-based compensation	0	6.7
Treasury shares purchased	(1.5)	(7.7)
Net restricted equity awards issued/vested	(1.8)	(1.9)
Amortization of equity-based compensation	52.2	42.1
Reinvested dividends on restricted stock units	0.1	0.5
Adjustment to carrying amount of redeemable noncontrolling interest	(1.4)	6.1
Balance, End of period	$1,351.0	$1,264.6
Retained Earnings		
Balance, Beginning of period	$5,140.4	$4,686.6
Net income attributable to Progressive	791.9	449.1
Treasury shares purchased	(21.9)	(100.8)
Cash dividends declared on common shares	0	0.2
Reinvested dividends on restricted stock units	(0.1)	(0.5)
Other, net	(1.5)	(3.4)
Balance, End of period	$5,908.8	$5,031.2
Accumulated Other Comprehensive Income Attributable to Progressive		
Balance, Beginning of period	$933.4	$800.4
Attributable to noncontrolling interest	(2.2)	(3.5)
Other comprehensive income	219.5	160.9
Balance, End of period	$1,150.7	$957.8
Total Shareholders' Equity	$8,991.5	$7,835.5

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)

Six Months Ended June 30,	2017	2016
Cash Flows From Operating Activities		
Net income	$803.0	$453.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	84.0	58.1
Amortization of intangible assets	31.0	31.1
Net amortization of fixed-income securities	44.1	42.1
Amortization of equity-based compensation	53.9	42.1
Net realized (gains) losses on securities	(84.0)	(49.7)
Net (gains) losses on disposition of property and equipment	3.2	1.2
(Gains) losses on extinguishment of debt	(0.2)	(1.6)
Net loss on exchange transaction	0	4.5
Changes in:		
Premiums receivable	(582.0)	(531.5)
Reinsurance recoverables	(142.4)	(173.1)
Prepaid reinsurance premiums	(42.1)	41.3
Deferred acquisition costs	(76.0)	(97.8)
Income taxes	(64.3)	(69.3)
Unearned premiums	939.0	832.6
Loss and loss adjustment expense reserves	692.3	630.0
Accounts payable, accrued expenses, and other liabilities	430.2	376.6
Restricted cash	14.1	0.3
Other, net	(67.1)	(19.2)
Net cash provided by operating activities	2,036.7	1,571.3
Cash Flows From Investing Activities		
Purchases:		
Fixed maturities	(6,803.3)	(4,489.6)
Equity securities	(89.5)	(290.5)
Sales:		
Fixed maturities	2,359.9	3,361.7
Equity securities	133.3	182.9
Maturities, paydowns, calls, and other:		
Fixed maturities	2,413.5	3,032.8
Equity securities	50.0	0
Net sales (purchases) of short-term investments	(146.8)	(2,959.1)
Net unsettled security transactions	259.3	270.0
Purchases of property and equipment	(73.2)	(109.1)
Sales of property and equipment	12.5	3.3
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	(1,902.4)	(1,005.3)
Cash Flows From Financing Activities		
Proceeds from exercise of equity options	0.5	0
Tax benefit from vesting of equity-based compensation	0	6.7
Net proceeds from debt issuance	841.1	0
Payments of debt	(12.5)	(13.0)

Redemption/reacquisition of subordinated debt	(594.4)	(18.2)
Dividends paid to shareholders	(395.4)	(519.0)
Acquisition of treasury shares for restricted stock tax liabilities	(24.1)	(20.6)
Acquisition of treasury shares acquired in open market	0	(91.5)
Net cash used in financing activities	(184.8)	(655.6)
Effect of exchange rate changes on cash	0	0.2
Decrease in cash	(50.5)	(89.4)
Cash, January 1	211.5	224.1
Cash, June 30	$161.0	$134.7

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

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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 June 30, 2017 and 69.2% at June 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 June 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. At June 30, 2017, no properties were held for sale. At June 30, 2016 and December 31, 2016, the fair value of these properties, less the estimated cost to sell them, was $8.7 million.

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
June 30, 2017						
Fixed maturities:						
U.S. government obligations	$4,166.4	$4.4	$(15.8)	$0	$4,155.0	16.0 %
State and local government obligations	2,473.3	32.5	(5.9)	0.2	2,500.1	9.7
Foreign government obligations	22.5	0	0	0	22.5	0.1
Corporate debt securities	4,991.6	29.4	(7.6)	0.4	5,013.8	19.3
Residential mortgage-backed securities	1,222.8	10.9	(5.4)	2.3	1,230.6	4.7
Agency residential pass-through obligations	37.5	0	(0.5)	0	37.0	0.1
Commercial mortgage-backed securities	2,364.9	19.8	(9.7)	0	2,375.0	9.1
Other asset-backed securities	2,843.3	6.4	(2.5)	0.2	2,847.4	11.0
Redeemable preferred stocks	189.4	19.0	(1.7)	0	206.7	0.8
Total fixed maturities	18,311.7	122.4	(49.1)	3.1	18,388.1	70.8
Equity securities:						
Nonredeemable preferred stocks	666.0	123.6	(6.5)	0	783.1	3.0
Common equities	1,472.3	1,611.7	(6.5)	0	3,077.5	11.8
Short-term investments	3,729.7	0	0	0	3,729.7	14.4
Total portfolio[1,2]	$24,179.7	$1,857.7	$(62.1)	$3.1	$25,978.4	100.0 %

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($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
June 30, 2016						
Fixed maturities:						
U.S. government obligations	$1,276.0	$ 20.0	$ 0	$ 0	$1,296.0	5.8 %
State and local government obligations	2,545.5	72.7	(0.6)	0	2,617.6	11.7
Foreign government obligations	24.9	0.1	0	0	25.0	0.1
Corporate debt securities	3,833.9	80.2	(3.7)	0.6	3,911.0	17.5
Residential mortgage-backed securities	1,672.8	22.7	(21.8)	1.2	1,674.9	7.5
Agency residential pass-through obligations	46.4	0.5	0	0	46.9	0.2
Commercial mortgage-backed securities	2,177.3	38.8	(5.7)	0	2,210.4	9.9
Other asset-backed securities	1,567.7	4.5	(1.0)	0.4	1,571.6	7.0
Redeemable preferred stocks	265.1	17.2	(46.2)	0	236.1	1.0
Total fixed maturities	13,409.6	256.7	(79.0)	2.2	13,589.5	60.7
Equity securities:						
Nonredeemable preferred stocks	745.5	130.2	(18.4)	1.2	858.5	3.8
Common equities	1,558.6	1,215.1	(8.3)	0	2,765.4	12.4
Short-term investments	5,166.4	0	0	0	5,166.4	23.1
Total portfolio[1,2]	$20,880.1	$ 1,602.0	$ (105.7)	$ 3.4	$22,379.8	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 June 30, 2017 and 2016, and December 31, 2016, we had $287.1 million, $246.9 million, and $27.8 million, respectively, included in “other liabilities.”

[2]The total fair value of the portfolio at June 30, 2017 and 2016, and December 31, 2016, included $1.1 billion, $0.6 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 six months of 2017 or 2016, and we had no open repurchase commitments at June 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 June 30, 2017 and 2016, or December 31, 2016. We did not enter into any reverse repurchase commitments for the six months ended June 30, 2017. During the six months ended June 30, 2016, our largest outstanding balance of reverse repurchase commitments was $265.0 million, which was open for one day. For the 12 days we invested in these transactions, the average daily balance of reverse repurchase commitments was $165.2 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:

	June 30,		December 31,
(millions)	2017	2016	2016
Fixed maturities:			
State and local government obligations	$6.6	$0	$ 0
Corporate debt securities	61.3	31.3	40.1
Residential mortgage-backed securities	189.7	173.3	170.5
Other asset-backed securities	7.7	10.2	8.9
Total fixed maturities	265.3	214.8	219.5
Equity securities:			
Nonredeemable preferred stocks	0	45.5	0
Total hybrid securities	$265.3	$260.3	$ 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 $4.6 million as of June 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.

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

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

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

(millions)	Cost	Fair Value
Less than one year	$4,514.4	$4,531.7
One to five years	10,871.3	10,902.4
Five to ten years	2,849.6	2,876.1
Ten years or greater	76.4	77.9
Total	$18,311.7	$18,388.1

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 June 30, 2017, we had $55.6 million of gross unrealized losses in our fixed-income securities (i.e., fixed-maturity securities, nonredeemable preferred stocks, and short-term investments) and $6.5 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 No. of Sec.	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater No. of Sec.	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses
June 30, 2017									
Fixed maturities:									
U.S. government obligations	41	$2,781.8	$ (15.8)	39	$2,725.1	$ (15.1)	2	$56.7	$ (0.7)
State and local government obligations	222	818.7	(5.9)	138	479.8	(3.3)	84	338.9	(2.6)
Corporate debt securities	143	1,905.2	(7.6)	122	1,599.6	(5.3)	21	305.6	(2.3)
Residential mortgage-backed securities	153	501.1	(5.4)	69	166.2	(0.7)	84	334.9	(4.7)
Agency residential pass-through obligations	67	34.6	(0.5)	57	31.6	(0.4)	10	3.0	(0.1)
Commercial mortgage-backed securities	74	905.6	(9.7)	52	679.5	(5.7)	22	226.1	(4.0)
Other asset-backed securities	160	2,077.8	(2.5)	145	1,823.8	(1.9)	15	254.0	(0.6)
Redeemable preferred stocks	1	10.8	(1.7)	0	0	0	1	10.8	(1.7)

Total fixed maturities	861	9,035.6	(49.1	) 622	7,505.6	(32.4	) 239	1,530.0	(16.7)
Equity securities:									
Nonredeemable preferred stocks	3	73.1	(6.5	) 0	0	0	3	73.1	(6.5)
Common equities	80	73.1	(6.5	) 74	72.3	(6.5	) 6	0.8	0
Total equity securities	83	146.2	(13.0	) 74	72.3	(6.5	) 9	73.9	(6.5)
Total portfolio	944	$9,181.8	$ (62.1	) 696	$7,577.9	$ (38.9	) 248	$1,603.9	$ (23.2)

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($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months No. of Sec.	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater No. of Sec.	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses
June 30, 2016									
Fixed maturities:									
U.S. government obligations	0	$0	$ 0	0	$0	$ 0	0	$0	$ 0
State and local government obligations	47	131.9	(0.6)	19	38.6	(0.2)	28	93.3	(0.4)
Corporate debt securities	37	269.0	(3.7)	23	147.1	(0.6)	14	121.9	(3.1)
Residential mortgage-backed securities	137	1,154.4	(21.8)	29	267.6	(1.3)	108	886.8	(20.5)
Agency residential pass-through obligations	18	5.4	0	6	1.6	0	12	3.8	0
Commercial mortgage-backed securities	55	530.3	(5.7)	9	70.8	(0.4)	46	459.5	(5.3)
Other asset-backed securities	53	502.1	(1.0)	22	194.6	(0.3)	31	307.5	(0.7)
Redeemable preferred stocks	8	181.6	(46.2)	0	0	0	8	181.6	(46.2)
Total fixed maturities	355	2,774.7	(79.0)	108	720.3	(2.8)	247	2,054.4	(76.2)
Equity securities:									
Nonredeemable preferred stocks	11	294.9	(18.4)	2	31.2	(0.7)	9	263.7	(17.7)
Common equities	113	107.0	(8.3)	108	100.7	(8.1)	5	6.3	(0.2)
Total equity securities	124	401.9	(26.7)	110	131.9	(8.8)	14	270.0	(17.9)
Total portfolio	479	$3,176.6	$ (105.7)	218	$852.2	$ (11.6)	261	$2,324.4	$ (94.1)

($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months No. of Sec.	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater No. of Sec.	12 Months or Greater Fair Value	12 Months or Greater 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 June 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 six 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 June 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 8% 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 increased during the first six 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):

	June 30,		December 31,
(millions)	2017	2016	2016
Fixed maturities:			
Residential mortgage-backed securities	$(19.7)	$(43.3)	$ (43.3)
Commercial mortgage-backed securities	(0.5)	(0.6)	(0.6)
Total fixed maturities	$(20.2)	$(43.9)	$ (43.9)

The following tables provide rollforwards of the amounts related to credit losses recognized in earnings for the periods ended June 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 June 30, 2017		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at March 31, 2017	$11.4	$ 0.1	$11.5
Reductions for securities sold/matured	(11.4)	0	(11.4)
Change in recoveries of future cash flows expected to be collected[1]	0.2	0	0.2
Balance at June 30, 2017	$0.2	$ 0.1	$0.3

	Six Months Ended June 30, 2017		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at December 31, 2016	$11.1	$ 0.4	$11.5
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 June 30, 2017	$0.2	$ 0.1	$0.3

(millions)	Three Months Ended June 30, 2016 Mortgage-Backed Residential	Commercial	Total
Balance at March 31, 2016	$12.1	$ 0.4	$12.5
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 June 30, 2016	$11.8	$ 0.4	$12.2

(millions)	Six Months Ended June 30, 2016 Mortgage-Backed Residential	Commercial	Total
Balance at December 31, 2015	$12.4	$ 0.4	$12.8
Reductions for securities sold/matured	0	0	0
Change in recoveries of future cash flows expected to be collected[1]	(0.6)	0	(0.6)
Balance at June 30, 2016	$11.8	$ 0.4	$12.2

[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 six months ended June 30, 2017 or 2016.

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

	Three Months		Six Months	
(millions)	2017	2016	2017	2016
Gross realized gains on security sales				
Fixed maturities:				
U.S. government obligations	$4.5	$3.4	$4.9	$17.7
State and local government obligations	2.6	4.5	3.1	15.4
Corporate and other debt securities	7.3	10.0	11.4	22.5
Residential mortgage-backed securities	20.9	0.8	21.0	1.7
Agency residential pass-through obligations	0	0.1	0	0.1
Commercial mortgage-backed securities	1.2	2.9	2.4	6.5
Other asset-backed securities	0	0	0.3	0
Redeemable preferred stocks	0	0	0.3	0
Total fixed maturities	36.5	21.7	43.4	63.9
Equity securities:				
Nonredeemable preferred stocks	6.2	5.4	51.6	7.0
Common equities	9.9	19.4	17.3	28.9
Subtotal gross realized gains on security sales	52.6	46.5	112.3	99.8
Gross realized losses on security sales				
Fixed maturities:				
U.S. government obligations	(0.4)	0	(3.6)	(0.4)
State and local government obligations	0	(1.5)	(0.1)	(1.6)
Corporate and other debt securities	(1.9)	(1.3)	(2.8)	(1.7)
Residential mortgage-backed securities	(0.3)	0	(0.3)	0
Agency residential pass-through obligations	0	(0.2)	0	(0.2)
Commercial mortgage-backed securities	(0.7)	(1.4)	(3.1)	(4.1)
Total fixed maturities	(3.3)	(4.4)	(9.9)	(8.0)
Equity securities:				
Nonredeemable preferred stocks	(4.6)	(1.7)	(5.8)	(2.7)
Common equities	0	(0.1)	(0.1)	(5.0)
Subtotal gross realized losses on security sales	(7.9)	(6.2)	(15.8)	(15.7)
Net realized gains (losses) on security sales				
Fixed maturities:				
U.S. government obligations	4.1	3.4	1.3	17.3
State and local government obligations	2.6	3.0	3.0	13.8
Corporate and other debt securities	5.4	8.7	8.6	20.8
Residential mortgage-backed securities	20.6	0.8	20.7	1.7
Agency residential pass-through obligations	0	(0.1)	0	(0.1)
Commercial mortgage-backed securities	0.5	1.5	(0.7)	2.4
Other asset-backed securities	0	0	0.3	0
Redeemable preferred stocks	0	0	0.3	0
Total fixed maturities	33.2	17.3	33.5	55.9
Equity securities:				
Nonredeemable preferred stocks	1.6	3.7	45.8	4.3
Common equities	9.9	19.3	17.2	23.9
Subtotal net realized gains (losses) on security sales	44.7	40.3	96.5	84.1
Other-than-temporary impairment losses				
Equity securities:				

Common equities	(2.6)	(0.2)	(3.6)	(0.2)
Subtotal investment other-than-temporary impairment losses	(2.6)	(0.2)	(3.6)	(0.2)
Other asset impairment	(11.2)	0	(11.2)	0
Subtotal other-than-temporary impairment losses	(13.8)	(0.2)	(14.8)	(0.2)
Other gains (losses)				
Hybrid securities	0.4	3.0	1.2	2.3
Derivative instruments	0	(10.8)	0	(36.5)
Litigation settlements	0.8	0	1.1	0
Subtotal other gains (losses)	1.2	(7.8)	2.3	(34.2)
Total net realized gains (losses) on securities	$32.1	$32.3	$84.0	$49.7

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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 a renewable energy investment, which is reflected in “other assets” on the balance sheet, under which the future pretax cash flow is expected to be less than the carrying value of the asset.

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

	Three Months		Six Months	
(millions)	2017	2016	2017	2016
Fixed maturities:				
U.S. government obligations	$17.0	$4.3	$29.7	$9.1
State and local government obligations	13.1	13.2	26.4	26.7
Foreign government obligations	0.1	0.1	0.2	0.2
Corporate debt securities	31.3	26.4	60.9	54.6
Residential mortgage-backed securities	10.1	11.6	19.5	23.8
Agency residential pass-through obligations	0.2	0.2	0.4	0.6
Commercial mortgage-backed securities	18.3	19.3	37.1	40.2
Other asset-backed securities	11.8	5.9	21.7	11.9
Redeemable preferred stocks	2.9	3.9	6.3	7.7
Total fixed maturities	104.8	84.9	202.2	174.8
Equity securities:				
Nonredeemable preferred stocks	10.6	12.6	22.1	24.4
Common equities	14.6	13.6	27.9	28.1
Short-term investments	8.8	3.5	15.8	6.1
Investment income	138.8	114.6	268.0	233.4
Investment expenses	(6.6)	(5.3)	(12.2)	(10.1)
Net investment income	$132.2	$109.3	$255.8	$223.3

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.

Trading Securities At June 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 six months ended June 30, 2017 and 2016.

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

(millions)	Notional Value[1]				Balance Sheet[2]	Assets (Liabilities) Fair Value			Comprehensive Income Statement Pretax Net Realized Gains (Losses)			
									Three Months Ended		Six Months Ended	
	June 30,		Dec. 31,			June 30,		Dec. 31,	June 30,		June 30,	
Derivatives designated as:	2017	2016	2016	Purpose	Classification	2017	2016	2016	2017	2016	2017	2016
Hedging instrument												
Closed:												
Ineffective cash flow hedge	$31	$ 20	$370	Manage interest rate risk	NA	$0	$0	$ 0	$ 0	$ 0.1	$ 0	$ 0.1
Non-hedging instruments												
Liabilities:												
Interest rate swaps	0	565	0	Manage portfolio duration	Other liabilities	0	(27.9)	0	0	(10.9)	0	(34.9)
Closed:												
Interest rate swaps	0	185	750	Manage portfolio duration	NA	0	0	0	0	0	0	(1.9)
U.S. Treasury Note futures	0	55	135	Manage portfolio duration	NA	0	0	0	0	0	0	0.2
Total	NA	NA	NA			$0	$(27.9)	$ 0	$ 0	$ (10.8)	$ 0	$ (36.5)

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 June 30, 2017 or December 31, 2016. At June 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 June 30, 2016, the balance of the cash collateral that we delivered to the applicable counterparties on the then open interest rate swaps was $30.6 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 second 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:

	Fair Value				
(millions)	Level 1	Level 2	Level 3	Total	Cost
June 30, 2017					
Fixed maturities:					
U.S. government obligations	$4,155.0	$0	$0	$4,155.0	$4,166.4
State and local government obligations	0	2,500.1	0	2,500.1	2,473.3
Foreign government obligations	22.5	0	0	22.5	22.5
Corporate debt securities	0	5,013.8	0	5,013.8	4,991.6
Subtotal	4,177.5	7,513.9	0	11,691.4	11,653.8
Asset-backed securities:					
Residential mortgage-backed	0	1,230.6	0	1,230.6	1,222.8
Agency residential pass-through obligations	0	37.0	0	37.0	37.5
Commercial mortgage-backed	0	2,375.0	0	2,375.0	2,364.9
Other asset-backed	0	2,847.4	0	2,847.4	2,843.3
Subtotal asset-backed securities	0	6,490.0	0	6,490.0	6,468.5
Redeemable preferred stocks:					
Financials	0	64.1	0	64.1	60.4
Utilities	0	32.2	0	32.2	30.5
Industrials	0	110.4	0	110.4	98.5
Subtotal redeemable preferred stocks	0	206.7	0	206.7	189.4
Total fixed maturities	4,177.5	14,210.6	0	18,388.1	18,311.7
Equity securities:					
Nonredeemable preferred stocks:					
Financials	85.3	697.8	0	783.1	666.0
Subtotal nonredeemable preferred stocks	85.3	697.8	0	783.1	666.0
Common equities:					
Common stocks	3,077.2	0	0	3,077.2	1,472.0
Other risk investments	0	0	0.3	0.3	0.3
Subtotal common equities	3,077.2	0	0.3	3,077.5	1,472.3
Total fixed maturities and equity securities	7,340.0	14,908.4	0.3	22,248.7	20,450.0
Short-term investments	2,448.0	1,281.7	0	3,729.7	3,729.7
Total portfolio	$9,788.0	$16,190.1	$0.3	$25,978.4	$24,179.7
Debt	$0	$3,564.4	$114.8	$3,679.2	$3,383.4

	Fair Value				
(millions)	Level 1	Level 2	Level 3	Total	Cost
June 30, 2016					
Fixed maturities:					
U.S. government obligations	$1,296.0	$0	$0	$1,296.0	$1,276.0
State and local government obligations	0	2,617.6	0	2,617.6	2,545.5
Foreign government obligations	25.0	0	0	25.0	24.9
Corporate debt securities	0	3,911.0	0	3,911.0	3,833.9
Subtotal	1,321.0	6,528.6	0	7,849.6	7,680.3
Asset-backed securities:					
Residential mortgage-backed	0	1,674.9	0	1,674.9	1,672.8
Agency residential pass-through obligations	0	46.9	0	46.9	46.4
Commercial mortgage-backed	0	2,201.2	9.2	2,210.4	2,177.3
Other asset-backed	0	1,571.6	0	1,571.6	1,567.7
Subtotal asset-backed securities	0	5,494.6	9.2	5,503.8	5,464.2
Redeemable preferred stocks:					
Financials	0	93.2	0	93.2	81.7
Utilities	0	53.8	0	53.8	65.2
Industrials	0	89.1	0	89.1	118.2
Subtotal redeemable preferred stocks	0	236.1	0	236.1	265.1
Total fixed maturities	1,321.0	12,259.3	9.2	13,589.5	13,409.6
Equity securities:					
Nonredeemable preferred stocks:					
Financials	156.5	702.0	0	858.5	745.5
Subtotal nonredeemable preferred stocks	156.5	702.0	0	858.5	745.5
Common equities:					
Common stocks	2,765.1	0	0	2,765.1	1,558.3
Other risk investments	0	0	0.3	0.3	0.3
Subtotal common equities	2,765.1	0	0.3	2,765.4	1,558.6
Total fixed maturities and equity securities	4,242.6	12,961.3	9.5	17,213.4	15,713.7
Short-term investments	5,041.2	125.2	0	5,166.4	5,166.4
Total portfolio	$9,283.8	$13,086.5	$9.5	$22,379.8	$20,880.1
Debt	$0	$2,842.3	$139.8	$2,982.1	$2,664.1

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

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 June 30, 2017, vendor-quoted prices represented 58% of our Level 1 classifications (excluding short-term investments), compared to 35% and 52% at June 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 June 30, 2017 and 2016, and December 31, 2016, vendor-quoted prices comprised 99%, 98%, and 99%, respectively, of our Level 2 classifications (excluding short-term investments), while dealer-quoted prices represented 1%, 2%, 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 received externally and research material valuation differences. We compare our results to index returns for each major sector adjusting for duration and credit quality differences to better understand our portfolio’s results. Additionally, we review on a monthly basis our external sales transactions and compare the actual final market sales price to a previous market valuation price. This review provides us further validation that our pricing sources are providing market level prices, since we are able to explain significant price changes (i.e., greater than 2%) as known events occur in the marketplace and affect a particular security’s price at sale.
This analysis provides us with additional comfort regarding the source’s process, the quality of its review, and its willingness to improve its analysis based on feedback from clients. We believe this effort helps ensure that we are reporting the most representative fair values for our securities.
Except as described below, our Level 3 securities are also priced externally; however, due to several factors (e.g., nature of the securities, level of activity, and lack of similar securities trading to obtain observable market level inputs), these valuations are more subjective in nature. Certain private equity investments and fixed-income investments included in the Level 3 category are valued using external pricing supplemented by internal review and analysis.
After all the valuations are received and our review is complete, if the inputs used by vendors are determined to not contain sufficient observable market information, we will reclassify the affected security valuations to Level 3. At June 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.
We did not hold any internally priced securities at June 30, 2017 and 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 six months ended June 30, 2017 and 2016:

	Level 3 Fair Value Three Months Ended June 30, 2017							
(millions)	Fair Value at March 31, 2017	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain) Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at June 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:								
Common equities:								
Other risk investments	0.3	0	0	0	0	0	0	0.3
Total Level 3 securities	$0.3	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0.3

	Level 3 Fair Value Six months ended June 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 June 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:								
Common equities:								
Other risk investments	0.4	(0.1)	0	0	0	0	0	0.3
Total Level 3 securities	$0.7	$ (0.4)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0.3

	Level 3 Fair Value Three Months Ended June 30, 2016							
(millions)	Fair Value at March 31, 2016	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain) Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at June 30, 2016
Fixed maturities:								
Asset-backed securities:								
Commercial mortgage-backed	$9.5	$ (0.3)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 9.2
Total fixed maturities	9.5	(0.3)	0	0	0	0	0	9.2
Equity securities:								
Common equities:								
Other risk investments	0.3	0	0	0	0	0	0	0.3
Total Level 3 securities	$9.8	$ (0.3)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 9.5

	Level 3 Fair Value Six months ended June 30, 2016							
(millions)	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 June 30, 2016
Fixed maturities:								
Asset-backed securities:								
Commercial mortgage-backed	$9.9	$ (0.6)	$ 0	$ 0	$ 0	$ (0.1)	$ 0	$ 9.2
Total fixed maturities	9.9	(0.6)	0	0	0	(0.1)	0	9.2
Equity securities:								
Common equities:								
Other risk investments	0.3	0	0	0	0	0	0	0.3
Total Level 3 securities	$10.2	$ (0.6)	$ 0	$ 0	$ 0	$ (0.1)	$ 0	$ 9.5

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

	Quantitative Information about Level 3 Fair Value Measurements			
($ in millions)	Fair Value at June 30, 2017	Valuation Technique	Unobservable Input	Unobservable Input Assumption
Fixed maturities:				
Asset-backed securities:				
Commercial mortgage-backed	$0	NA	NA	NA
Subtotal Level 3 securities	0			
Pricing exemption securities[1]	0.3			

Total Level 3 securities	$0.3

NA= Not applicable, since we did not hold any commercial mortgage-backed Level 3 securities at June 30, 2017.
[1]The fair values for these securities were determined with unobservable inputs not reasonably available to us.

($ in millions)	Quantitative Information about Level 3 Fair Value Measurements Fair Value at June 30, 2016	Valuation Technique	Unobservable Input	Unobservable Input Assumption	
Fixed maturities:					
Asset-backed securities:					
Commercial mortgage-backed	$9.2	External vendor	Prepayment rate[1]	0	%
Subtotal Level 3 securities	9.2				
Pricing exemption securities[2]	0.3				
Total Level 3 securities	$9.5				

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

[1]Assumes that one security has 0% of the principal amount of the underlying loans that will be paid off prematurely in each year.
[2] The fair values for these securities were 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)	June 30, 2017		June 30, 2016		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
3.75% Senior Notes due 2021	$498.6	$528.0	$498.3	$547.7	$498.4	$528.8
2.45% Senior Notes due 2027	496.0	474.2	0	0	495.8	464.6
6 5/8% Senior Notes due 2029	296.0	389.0	295.8	401.8	295.9	380.1
6.25% Senior Notes due 2032	395.2	522.7	395.1	535.0	395.2	499.0
4.35% Senior Notes due 2044	346.5	376.5	346.4	400.3	346.4	362.3
3.70% Senior Notes due 2045	395.2	389.7	395.1	412.0	395.1	372.5
4.125% Senior Notes due 2047	841.1	884.3	0	0	0	0

6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067	0	0	593.6	545.5	594.1	581.2
Other debt instruments	114.8	114.8	139.8	139.8	127.3	127.3
Total	$3,383.4	$3,679.2	$2,664.1	$2,982.1	$3,148.2	$3,315.8

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

	June 30, 2017		June 30, 2016		December 31, 2016		
($ in millions) Type of debt instrument	Number of Instruments	Carrying Value	Number of Instruments	Carrying Value	Number of Instruments	Carrying Value	Stated Maturity Date(s)
Term loans	2	$ 49.6	2	$ 74.6	2	$ 62.1	December 2018 and 2019
Junior subordinated notes[1]	2	41.2	2	41.2	2	41.2	June 2036 and 2037
Senior notes	4	24.0	4	24.0	4	24.0	Various[2]
Total		$ 114.8		$ 139.8		$ 127.3	

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

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 the carrying value, based on the current rates offered for debt of similar maturities and interest rates.

Pursuant to agreements entered into by ARX relating to the trust preferred securities transactions, ARX established trusts that are entirely owned by ARX. The trusts, which are the holders of the junior subordinated notes, issued trust preferred securities to third parties. The shares in the trusts are not transferable. The trusts are considered special purpose variable interest entities for which ARX is not the primary beneficiary and, therefore, they are accounted for under the equity method of accounting and not consolidated with ARX. Our ownership interest of $1.3 million at June 30, 2017 and 2016, and December 31, 2016, in the variable interest entities is reported as a component of “other assets” on our consolidated balance sheets.

During the third quarter 2017, ARX intends to redeem their junior subordinated notes and senior notes, in their entirety, with proceeds from a 5-year, fixed-rate loan expected to be made by The Progressive Corporation to fund the redemptions; this intercompany transaction will be eliminated in consolidation and is not expected to have a significant impact on the purchase price pursuant to the put and call provisions of the stockholders' agreement entered into between The Progressive Corporation and the ARX minority stockholders (see Note 12 – Redeemable Noncontrolling Interest for further discussion).

The Progressive Corporation Line of Credit

During the second quarter 2017, we entered into a new line of credit with PNC Bank, National Association (PNC), which replaced the line of credit that expired during the quarter, 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. We had no borrowings under the Line of Credit or the prior line of credit during the first six months of 2017 or throughout 2016.

Note 5 Income Taxes — At June 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 six months ended June 30, 2017, there have been no material changes in our uncertain tax positions or effective tax rate.

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

	June 30,	
(millions)	2017	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]	—	(2.5)
Total beginning reserves	9,567.0	8,593.8
Incurred related to:		
Current year	8,804.1	8,126.8
Prior years	74.2	29.6
Total incurred	8,878.3	8,156.4
Paid related to:		
Current year	4,951.0	4,611.5
Prior years	3,381.8	3,059.8
Total paid	8,332.8	7,671.3
Net balance, End of period	10,112.5	9,078.9
Plus reinsurance recoverables on unpaid losses	1,947.9	1,595.9
Balance, End of period	$12,060.4	$10,674.8

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

We experienced unfavorable reserve development of $74.2 million and $29.6 million for the first six months of 2017 and 2016, respectively, which is reflected as "Incurred related to prior years" in the table above.

Year-to-date 2017

- Approximately $56 million of the unfavorable prior year reserve development was attributable to accident year 2016 with the balance attributable to accident year 2015.
- Our commercial and personal auto businesses incurred about $102 million of unfavorable loss and loss adjustment expense (LAE) reserve development for the first six months of 2017, partially offset by the favorable loss and LAE reserve development of about $28 million in our special lines and Property businesses.
- Our Agency and Direct auto businesses incurred about $65 million and $29 million, respectively, of the total unfavorable reserve development, primarily due to an increase in costs related to property damage, more late reported bodily injury claims than anticipated, and higher LAE costs.
- Our Property business experienced about $20 million in favorable development primarily due to the identification of prior year losses eligible to be ceded under our catastrophe bond reinsurance program.

Year-to-date 2016

- Approximately $16 million of the unfavorable prior year reserve development was attributable to accident year 2015 and $23 million of the unfavorable development was attributable to accident year 2014; we had favorable development for accident year 2013 and prior accident years.

- Our commercial and personal auto businesses incurred unfavorable loss and LAE reserve development for the first six months of 2016, partially offset by the favorable loss and LAE reserve development in our Property business of $22 million. In our Property business, both the severity and frequency of late reported claims was less than anticipated.
- Our personal auto product developed unfavorably $29 million primarily from our Agency auto businesses.

- Our Commercial Lines business made up about $22 million of the unfavorable development.
- 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.

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

	Six Months Ended June 30,	
(millions)	2017	2016
Income taxes	$494.2	$275.4
Interest	73.3	70.1

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) is an administrator.

The cash transfered 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 six months ended June 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:

(millions)	Three Months Ended June 30, 2017 Revenues	2017 Pretax Profit (Loss)	2016 Revenues	2016 Pretax Profit (Loss)	Six Months Ended June 30, 2017 Revenues	2017 Pretax Profit (Loss)	2016 Revenues	2016 Pretax Profit (Loss)
Personal Lines								
Agency	$2,752.5	$205.5	$2,423.3	$84.5	$5,384.0	$455.2	$4,771.2	$255.9
Direct	2,650.0	162.7	2,334.8	73.6	5,173.7	338.0	4,555.5	153.1
Total Personal Lines[1]	5,402.5	368.2	4,758.1	158.1	10,557.7	793.2	9,326.7	409.0
Commercial Lines	671.7	56.2	593.4	31.2	1,317.2	123.6	1,142.2	92.3
Property[2]	239.1	3.7	210.3	(13.6)	465.1	11.5	410.3	(38.1)
Other indemnity	0	(0.1)	0	(0.1)	0	(0.3)	0	(0.8)
Total underwriting operations	6,313.3	428.0	5,561.8	175.6	12,340.0	928.0	10,879.2	462.4
Fees and other revenues[3]	88.8	NA	82.5	NA	174.0	NA	161.4	NA
Service businesses	32.7	5.7	26.5	2.8	61.2	8.3	51.5	6.2
Investments[4]	170.9	164.3	146.9	141.6	352.0	339.8	283.1	273.0
Gains on extinguishment of debt	0	0	1.6	1.6	0.2	0.2	1.6	1.6
Interest expense	NA	(43.4)	NA	(34.3)	NA	(80.2)	NA	(68.5)
Consolidated total	$6,605.7	$554.6	$5,819.3	$287.3	$12,927.4	$1,196.1	$11,376.8	$674.7

NA = Not applicable

[1] Personal auto insurance accounted for 93% of the total Personal Lines segment net premiums earned in the second quarter and six months ended June 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 six months ended June 30, 2017, pretax profit (loss) includes $15.5 million and $31.0 million, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX and $15.6 million and $31.1 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 June 30, 2017 Under-writing Margin	2017 Combined Ratio	2016 Under-writing Margin	2016 Combined Ratio	Six Months Ended June 30, 2017 Under-writing Margin	2017 Combined Ratio	2016 Under-writing Margin	2016 Combined Ratio
Personal Lines								
Agency	7.5 %	92.5	3.5 %	96.5	8.5 %	91.5	5.4 %	94.6
Direct	6.1	93.9	3.2	96.8	6.5	93.5	3.4	96.6
Total Personal Lines	6.8	93.2	3.3	96.7	7.5	92.5	4.4	95.6
Commercial Lines	8.4	91.6	5.3	94.7	9.4	90.6	8.1	91.9
Property[1]	1.5	98.5	(6.5)	106.5	2.5	97.5	(9.3)	109.3

Other indemnity[2]	NM	NM	NM	NM	NM	NM	NM	NM
Total underwriting operations	6.8	93.2	3.2	96.8	7.5	92.5	4.3	95.7

[1] Included in both the three and six months ended June 30, 2017, is 6.5 points and 6.7 points, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX and 7.4 points and 7.6 points, respectively, for the three and six months ended June 30, 2016. In addition, 2016 second quarter and year-to-date results include 2.1 points and 1.1 points, respectively, of expense related to a loss on an 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.

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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 June 30, 2017, the Gainshare factor was 1.79. 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.

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

(millions)	Pretax total 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 March 31, 2017	$ 1,645.9	$ (578.4)	$ 1,067.5	$ 1,072.0	$ (7.1)	$ (0.8)	$ 3.4
Other comprehensive income (loss) before reclassifications:							
Investment securities	177.2	(62.1)	115.1	115.1	0	0	0
Net non-credit related OTTI losses, adjusted for valuation changes	0	0	0	0	0	0	0
Forecasted transactions	(12.0)	4.2	(7.8)	0	(7.8)	0	0
Foreign currency translation adjustment	(0.2)	0.1	(0.1)	0	0	(0.1)	0
Loss attributable to noncontrolling interest (NCI)	(1.9)	0.6	(1.3)	0	0	0	(1.3)
Total other comprehensive income (loss) before reclassifications	163.1	(57.2)	105.9	115.1	(7.8)	(0.1)	(1.3)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(2.6)	0.9	(1.7)	(1.7)	0	0	0
Net realized gains (losses) on securities	37.2	(13.0)	24.2	24.2	0	0	0
Interest expense	0.3	(0.1)	0.2	0	0.2	0	0
Total reclassification adjustment for amounts realized in net income	34.9	(12.2)	22.7	22.5	0.2	0	0
Total other comprehensive income (loss)	128.2	(45.0)	83.2	92.6	(8.0)	(0.1)	(1.3)
Balance at June 30, 2017	$ 1,774.1	$ (623.4)	$ 1,150.7	$ 1,164.6	$ (15.1)	$ (0.9)	$ 2.1

(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	431.7	(151.3)	280.4	280.4	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	0.3	(0.1)	0.2	0	0	0.2	0
Loss attributable to noncontrolling interest (NCI)	(3.4)	1.2	(2.2)	0	0	0	(2.2)
Total other comprehensive income (loss) before reclassifications	420.6	(147.4)	273.2	280.4	(5.2)	0.2	(2.2)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(3.6)	1.3	(2.3)	(2.3)	0	0	0
Net realized gains (losses) on securities	88.8	(31.1)	57.7	57.7	0	0	0
Interest expense	0.8	(0.3)	0.5	0	0.5	0	0
Total reclassification adjustment for amounts realized in net income	86.0	(30.1)	55.9	55.4	0.5	0	0
Total other comprehensive income (loss)	334.6	(117.3)	217.3	225.0	(5.7)	0.2	(2.2)
Balance at June 30, 2017	$ 1,774.1	$ (623.4)	$ 1,150.7	$ 1,164.6	$ (15.1)	$ (0.9)	$ 2.1

(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 March 31, 2016	$ 1,338.7	$ (470.7)	$ 868.0	$ 878.5	$ (8.5)	$ (1.0)	$ (1.0)
Other comprehensive income (loss) before reclassifications:							
Investment securities	180.9	(63.5)	117.4	117.4	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	(0.1)	0	(0.1)	0	0	(0.1)	0
Loss attributable to noncontrolling interest (NCI)	(2.2)	0.8	(1.4)	0	0	0	(1.4)
Total other comprehensive income (loss) before reclassifications	178.6	(62.7)	115.9	117.4	0	(0.1)	(1.4)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(0.2)	0.1	(0.1)	(0.1)	0	0	0
Net realized gains (losses) on securities	40.0	(14.1)	25.9	25.9	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	40.3	(14.2)	26.1	25.8	0.3	0	0
Total other comprehensive income (loss)	138.3	(48.5)	89.8	91.6	(0.3)	(0.1)	(1.4)
Balance at June 30, 2016	$ 1,477.0	$ (519.2)	$ 957.8	$ 970.1	$ (8.8)	$ (1.1)	$ (2.4)

(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, 2015	$ 1,234.5	$ (434.1)	$ 800.4	$ 809.0	$ (8.2)	$ (1.5)	$ 1.1
Other comprehensive income (loss) before reclassifications:							
Investment securities	323.6	(113.8)	209.8	209.8	0	0	0
Net non-credit related OTTI losses, adjusted for valuation changes	(0.1)	0.1	0	0	0	0	0