

# DESTINATION AHEAD



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, and a market leader in commercial auto insurance based on premiums written. Progressive is committed to becoming consumers' #1 choice for auto insurance by providing competitive rates and innovative products and services that meet drivers' 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 auto insurance policies. Progressive offers its products, including personal and commercial auto, motorcycle, boat, and recreational vehicle insurance, through more than 35,000 independent insurance agencies throughout the U.S. and directly from the Company online, by phone, or on mobile devices.

To illustrate the evolving nature of our business, we chose “eras” as the theme for this year's annual report. Iconic photographer Lee Friedlander has been photographing the American social landscape for over six decades. In that time, he has shown us a look at the road ahead while keeping an eye on the rearview mirror — an appropriate parallel to our business strategy. A selection of Friedlander's photographs will join Progressive's growing collection of contemporary art.







## FIVE-YEAR Financial Highlights

(billions—except per share amounts)

|                        | 2014    | 2013    | 2012    | 2011    | 2010    |
|------------------------|---------|---------|---------|---------|---------|
| <b>FOR THE YEAR</b>    |         |         |         |         |         |
| Net premiums written   | \$ 18.7 | \$ 17.3 | \$ 16.4 | \$ 15.1 | \$ 14.5 |
| Growth over prior year | 8%      | 6%      | 8%      | 5%      | 3%      |
| Net premiums earned    | \$ 18.4 | \$ 17.1 | \$ 16.0 | \$ 14.9 | \$ 14.3 |
| Growth over prior year | 8%      | 7%      | 7%      | 4%      | 2%      |
| Total revenues         | \$ 19.4 | \$ 18.2 | \$ 17.1 | \$ 15.8 | \$ 15.2 |
| Net income             | \$ 1.28 | \$ 1.17 | \$ 0.90 | \$ 1.02 | \$ 1.07 |
| Per share              | \$ 2.15 | \$ 1.93 | \$ 1.48 | \$ 1.59 | \$ 1.61 |
| Underwriting margin    | 7.7%    | 6.5%    | 4.4%    | 7.0%    | 7.6%    |

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

|  | 2014     | 2013     | 2012     | 2011     | 2010     |
|--|----------|----------|----------|----------|----------|
| <b>AT YEAR-END</b>                         |          |          |          |          |          |
| Common shares outstanding (millions)       | 587.8    | 595.8    | 604.6    | 613.0    | 662.4    |
| Book value per share                       | \$ 11.79 | \$ 10.39 | \$ 9.94  | \$ 9.47  | \$ 9.13  |
| Consolidated shareholders' equity          | \$ 6.9   | \$ 6.2   | \$ 6.0   | \$ 5.8   | \$ 6.0   |
| Market capitalization                      | \$ 15.9  | \$ 16.2  | \$ 12.8  | \$ 12.0  | \$ 13.2  |
| Return on average shareholders' equity     |          |          |          |          |          |
| Net income                                 | 19.1%    | 17.7%    | 14.5%    | 16.5%    | 17.1%    |
| Comprehensive income                       | 20.1%    | 19.0%    | 17.4%    | 15.0%    | 22.3%    |
| Policies in force (thousands)              |          |          |          |          |          |
| Personal Lines                             |          |          |          |          |          |
| Agency—auto                                | 4,725.5  | 4,841.9  | 4,790.4  | 4,648.5  | 4,480.1  |
| Direct—auto                                | 4,505.5  | 4,224.2  | 4,000.1  | 3,844.5  | 3,610.4  |
| Special lines                              | 4,030.9  | 3,990.3  | 3,944.8  | 3,790.8  | 3,612.2  |
| Total Personal Lines                       | 13,261.9 | 13,056.4 | 12,735.3 | 12,283.8 | 11,702.7 |
| Growth over prior year                     | 2%       | 3%       | 4%       | 5%       | 7%       |
| Commercial Lines                           | 514.7    | 514.6    | 519.6    | 509.1    | 510.4    |
| Growth over prior year                     | 0%       | (1)%     | 2%       | 0%       | 0%       |
| Industry net premiums written <sup>1</sup> | NA       | 174.5    | 168.0    | \$ 163.3 | \$ 160.1 |
| Market share <sup>2</sup>                  | NA       | 8.7%     | 8.5%     | 8.1%     | 7.9%     |

### STOCK PRICE APPRECIATION<sup>3</sup>

|             | 1-Year | 3-Year | 5-Year |
|-------------|--------|--------|--------|
| Progressive | 5.3%   | 16.7%  | 13.3%  |
| S&P 500     | 13.7%  | 20.3%  | 15.4%  |

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

<sup>1</sup>Represents private passenger auto insurance market net premiums written as reported by A.M. Best Company, Inc.

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

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

### Establishing a Product Portfolio

- › Built a product management organization and reporting capabilities
- › Developed broad agent distribution and infrastructure
- › Built claims management and claims training capacity

*“There are no uninsurable drivers as long as the rate reflects the risk.”*

### Building a Consumer Brand

- › Introduced Immediate Response® and claims service centers
- › Built staffed call centers to conduct direct marketing
- › Offered a comparative rate experience

*“Meeting customer needs when, where, and how they want them met.”*

MANUFACTURER/  
WHOLESALE ERA

RETAIL ERA

# ERAS

Viewing Progressive as a series of interconnected eras for years since our founding and into the foreseeable future is our way to reflect on how we have and will continue striving to evolve as a contemporary solution to consumers' insurance needs.

## Developing Products Based on Customers' Preferred Characteristics

› Introduced Progressive Home Advantage®

› Utilized household view and customer data integration

› Created a Progressive Advantage Agency for multi-policy coverage

› Formed wide and varied product distribution agreements for products we don't manufacture

› Leveraged co-located claims offices and service centers

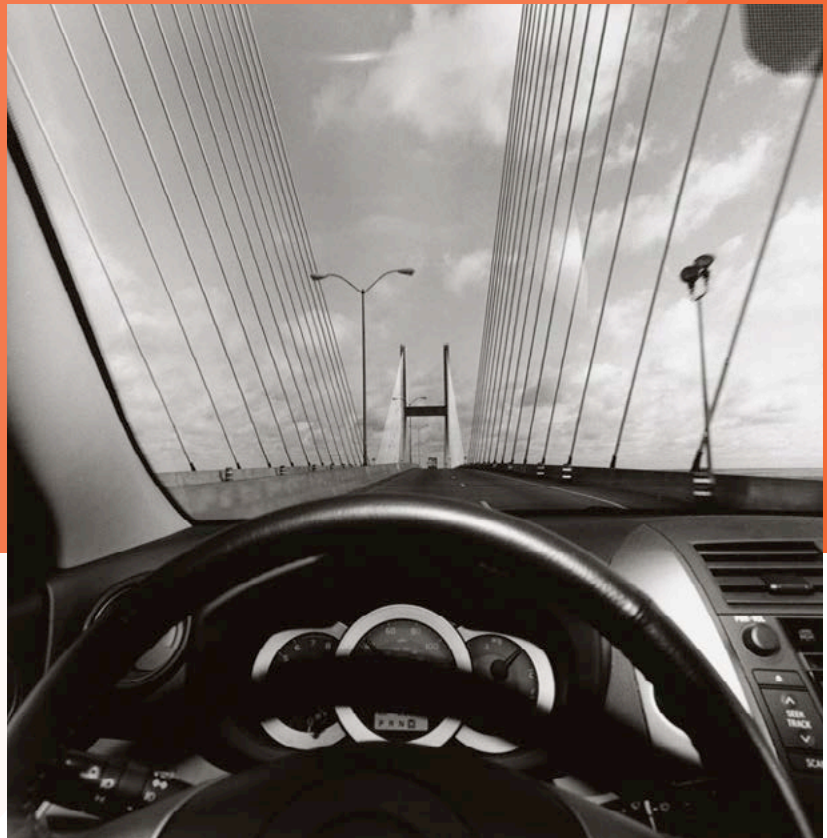
*"The currency of success is greatly expanded policy life and customer tenure."*

› Developed capability to sell on the Internet

DESTINATION ERA

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

# VISION and VALUES





## VISION

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.

## 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. Growth and change provide new perspective, requiring regular refinement of our Core Values.

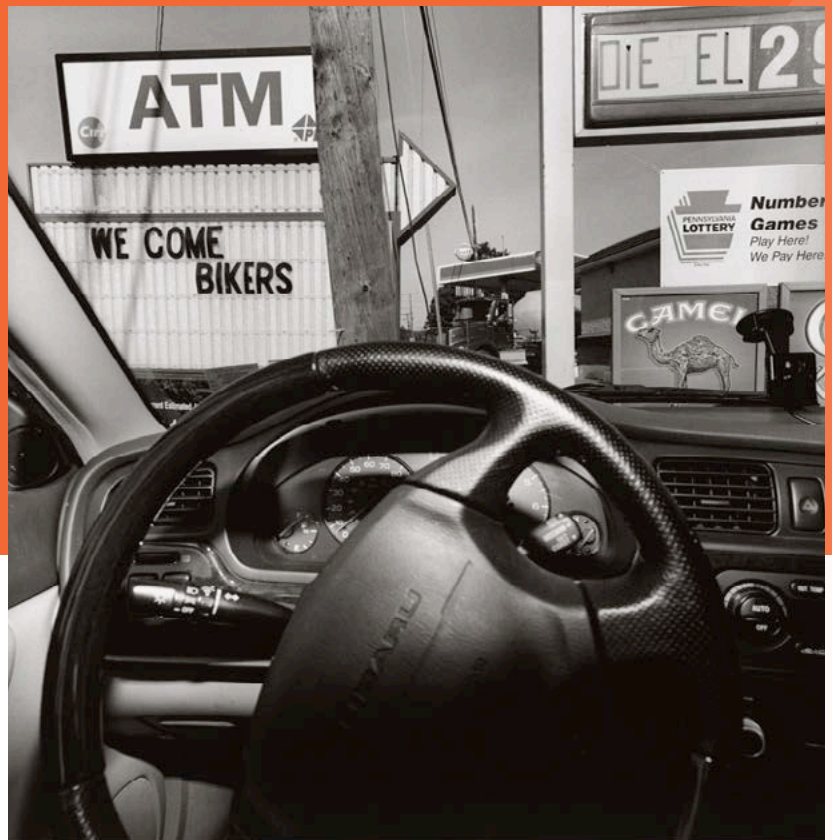
**Integrity** We revere honesty. We adhere to high ethical standards, provide timely, accurate, and complete financial reporting, encourage disclosing bad news, and welcome disagreement.

**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.





**LOOK**

**BOTH WAYS**















e·ra (îr'ă, ěr'ă) *n.*

1. A period of time as reckoned from a specific date serving as the basis of its chronological system. 2a. A period of time characterized by particular circumstances, events, or personages: *the Colonial era of U.S. history; the Reagan era.* b. A point that marks the beginning of such a period of time. See synonyms at PERIOD. 3. The longest division of geologic time, made up of one or more periods. [Late Latin *æra*, from Latin, counters, pl. of *æs*, *aer-*, bronze coin.]

# LETTER to SHAREHOLDERS



Viewing Progressive as a series of interconnected eras for years since our founding and into the foreseeable future proved to be an interesting way to reflect on how we have been, and will continue, striving to evolve as a contemporary solution to consumers' insurance needs. Maintaining relevance in a consumer, technology, and marketing driven world is paramount and a constant but rewarding challenge.

Our examination characterized the first era of Progressive as the *Manufacturer/Wholesale Era* where our reverence to underwriting segmentation, and belief that there were no

uninsurable drivers as long as the rate offered reflected the risk, provided a needed solution to agents and to an underserved consumer segment. In the early nineties, the second era of Progressive, the *Retail Era*, emerged, building on the pricing, claims, and technology skills developed in the first, but expanding our reach to consumers and, more importantly, building the consumer marketing skills en route to a significant elevation of the Progressive brand and consumer profile. As fuzzy as the boundaries may be between eras, the third era has been forming in recent years, and in 2014 we more formally coined the *Destination Era* moniker and, with that, the growth potential and continuing evolution of Progressive's consumer driven journey.

The art in this year's report has been selected as a metaphor for looking forward while reflective of the past, much in the same way Progressive views shaping our future by respecting and building on the past. I'll enjoy expanding on that future state in greater detail later in this letter, but for now a recap of present accomplishments will set the stage.









## LOOKING BACK

A retrospective review of 2014 would suggest we had a lot to be pleased with, and as often is the case, the opportunity to formulate even greater aspirations. Our multi-year trend of crossing a new billion dollar threshold continued with 2014 written premiums of \$18.7 billion. With no implied estimate of timing, the numerical milestone of \$20 billion is now one we can well envision, and I look forward to experiencing the same pride we felt as a company when passing both the \$1 billion and \$10 billion marks.

While choosing to report premium growth first, it is not in fact our most important goal. Profitability that meets or exceeds our target 96 combined ratio is our non-negotiable job one. We achieved a very desirable 92.3 combined ratio for the year and a resulting pretax underwriting income of \$1.4 billion, both notably better than last year, but more importantly clearly meeting or exceeding our benchmark underwriting objective.

Complementing our underwriting income, our investment group contributed \$408 million of interest and dividend income, \$224 million in realized gains, and about \$115 million in unrealized gains for the year, reflecting a 4.5% total return on our \$19 billion portfolio. The total return trailed last year's equivalent, reflecting in large part market conditions, a less robust equities rally, and our continued disciplined fixed-income duration strategy.

The all-in measures of net income per share and, our preferred, comprehensive income per share were \$2.15 and \$2.27, both improvements over their equivalents last year by 11% and 10%. Our return on shareholders' equity using both measures was a touch over 19% and 20%, results we would assess as very acceptable, while providing room for even superior outcomes, if and when financial market returns strengthen. Both results are approximately a point better than last year and an important contribution to our long-term track record on this critical financial dimension of our business.

We would welcome an improved investment environment with interest rates more comfortably matching our longer-term investment income preference, but, by design, we are not dependent on it. We enter 2015 with a strong, well-structured capital position, bolstered by a \$350 million debt offering we completed early in 2014, for a 30-year term at a coupon interest rate of 4.35%. Our debt-to-total capital ratio ended the year at 23.8%, considerably 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. However, several actions late in 2014 will likely move the pieces and parts of our capital model early in 2015. The most significant was our December 16th announcement that we would be acquiring a controlling interest in ARX, the parent entity of our strategic homeowners' provider ASI. Once the acquisition is complete, we expect to hold approximately two thirds of the equity and purchase the remainder over the next six years. Given our strong capital position, we will be paying for this transaction, which I'll discuss in greater detail later, from current funds on-hand when it is expected to close in early April 2015.

We have consistently stated that capital in excess of regulatory requirements and any contingencies we can envision is available for share repurchases, acquisitions, or shareholder dividends. For 2014 we had some of each. We used \$271 million to repurchase 11.1 million shares during the year, the anticipated close of the ARX transaction will require approximately \$875 million, and, based on our 2014 underwriting performance and Gainshare score of 1.32, we will pay, in February 2015, a variable dividend of approximately \$404 million, or about 69 cents per share.

As breaking news while drafting this letter in mid-January, we capitalized on our debt capacity flexibility and a very favorable interest rate environment, by issuing \$400 million of 30-year bonds at a 3.70% coupon. Our strong capital position just got stronger.

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

## BUSINESS UPDATE

With our commitment to monthly reporting, these numerical results are often well known before publication of this letter; however, a review of the market dynamics throughout the year may serve to throw additional light on them.

After an early continuation of the strong new business growth we ended with in 2013, the trajectories for our auto product in our Agency and Direct consumer offerings went in very different directions. By the third



quarter, I had characterized our Agency auto growth as flat-out disappointing, with both new application levels and retention measures lagging our plans and expectations from early in the year. We ended the year with a 2% reduction in policyholders in the Agency channel with modest written premium growth. As noted often in this letter, our preferred measure of growth is policies and vehicles in force and, as such, this has our full attention. We are acutely aware of the contributing reasons and are responding with product design, underwriting, and ease-of-use modifications where it makes sense to do so. Our commitment to this channel, and to winning in this channel, should not be underestimated.

The Direct trajectory, predictable from the aggregate results, was much more pleasing. We sold over 2 million policies in 2014, a new high watermark for us. Our advertising expenditures and consumer messaging have also produced prospects in numbers representing new highs. More importantly, our advertising effectiveness measures were strong, notably our incremental cost per sale, and thus very encouraging as we enter 2015. Simple math skills will quickly highlight the difference between additions and the net increase in policies and, while I can report meaningfully improved policy life extension for our Direct customers in 2014, based on the trailing 12-month measure, there remains significant opportunity to retain at levels we know are possible, but to-date have not been a hallmark of Progressive. Our *Destination Era* thinking will address this head-on for a class of customers who are most open to a longer-term relationship.

The rating environment in 2014, never easily summarized at other than at the state and coverage level, was not inconsistent with other sources of consumer inflation or wage growth and, for us, about 3-4%.

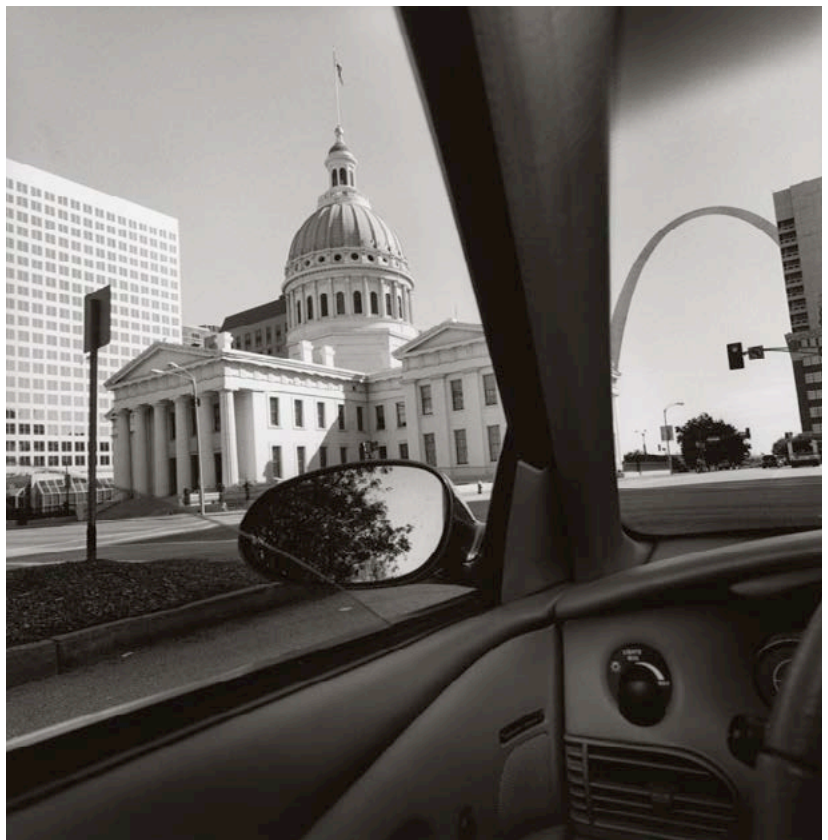
the ordered pair of balanced growth and profitability we seek. Weaker profitability and stronger growth, a dangerous combination, and stronger profitability, suggesting opportunities for growth, have all been experienced en route to our now reporting a very healthy balance. Our challenges, outlined in our investor meeting for the year, were in selected vehicle and use tiers of our broad commercial vehicle offerings and the solution, never as simple as the after-the-fact diagnosis, took some time, but we end 2014 with high confidence in our corrective actions and the emerging results. The year finished with very strong profitability, but equally with growth now beginning to follow.

*Greater insights for the year in both our Personal and Commercial Lines are highlighted in the Operations Summary section of this report.*

Our Special Lines and Commercial Lines products each had notable years and, in large part, contributed disproportionately to the overall outperformance on margin over our target 96.

Hail storms in the first half of the year were definitely notable and our claims response, as always, was our first priority, but the year overall would not be characterized by significant catastrophes, especially the relative absence of hurricanes. With no major storms for boats and motorhomes to weather, and an unremarkable number of riding days for motorcycles, we benefitted from even stronger than planned margins on our special lines products. We take the good years knowing there will always be the exceptions. If the economy strengthens over time, we would hope to see and benefit from increasing sales of discretionary products like RVs, boats, motorcycles, and other “toy” like products where we hold significant market shares and offer recognized market leading products.

At any point over the last couple of years, reading a summary of our Commercial Lines business, it may have appeared that we always had one stronger and one weaker factor in



2014 was a year of some notable milestones and continued execution on several key initiatives I've outlined over the years in this letter. Here are a few of those milestones, at least the ones that top my list.

We ended the year with an expense ratio of 20% and, while not as regularly reported, our loss adjustment expense (LAE) was approximately 10%. Both of these measures will move by some basis points in any given time period, but the central message is that these measures respectively represent very significant accomplishments. It perhaps is a little embarrassing to say that these levels were envisioned some 20 plus years ago and at times it seemed that we would only approach them asymptotically from above. Now, like so many once held barriers or constraints, we see opportunities to break through to an even greater degree. Our LAE is certainly among the best and, similar to the expense ratio, has been attained by understanding every aspect of our business and taking a process and quality driven approach to optimize operations, while holding customer service as an inviolate. Our expense ratio is among the top few in the industry, and with an even greater push on customer retention, we assuredly hold the potential for more. It goes without saying how important price is in our business. However, as with most things, there is a balance and efficient cost reductions are welcome, but we take extraordinary measures to be assured they are not traded-off against our commitment to customer care.

A second milestone of some note is that the superstore advertising campaign, starring “the now needs no introduction” Flo, created and debuted its 100th commercial. While the milestone itself is only of interest to a select audience, the commercial we chose to mark the event, we think, was quite fitting. Flo was not in the store at the time, but rather at home with her

extended family for an evening dinner. Believing slightly dysfunctional families are something many can relate to, we see Flo expressing her accomplishments in auto insurance marketing to a somewhat disinterested family. I'll leave the details to the commercial, but suffice it to say the actress playing Flo also played all the other family members in a marathon of make-up and filming. Quite a performance and one many have expressed to me as having taken them some number of viewings to catch onto—all part of the planned intrigue. Flo's costume has become quite a “go-to” outfit for many on Halloween, with this year LeBron James donning the uniform and making the switch with Flo and performing on-court antics that probably don't get much air time in NBA practice sessions. The switch and the social media postings have received over three hundred million views—as Flo might say—Wow!

Rounding out my top milestones for the year would be two product initiatives. We entered Massachusetts with an Agency auto product, which we delayed after our Direct entry some years ago gave us good reason to further understand the market. This entry now has us with an Agency and Direct auto offering in every state in the nation. Massachusetts is one of the larger Independent Agent markets in the country and we are delighted to be out of the gates and serving those agents. The second was the introduction of a renters insurance product providing coverage for those of our auto customers wishing to protect assets, often prior to homeownership. More about renters when I discuss the *Destination Era*.







For notable continued execution in 2014, my list would start with Snapshot®, our in-vehicle data collection initiative, reporting individual driving behavior that takes a giant step from classical group statistics to the “statistics of one.” Our numerical milestones continue to click-up (over 12 billion miles of recorded driving data and 2.5 million participants), but much more so the growing acceptance in society, and within the industry, that this type of data collection is becoming more the norm versus the exception. We remain extraordinarily bullish on Snapshot and whatever forms it will evolve into over time, simply based on the quality of the data, the more direct and less proxy association with the risk, and the costs and availability curves all bending in our favor. Taken alone, the data collected provides significant insight, but in a world of “Big Data” where data set size, data source, and processing complexity all seem almost trivial compared to just a few years ago, the power is dramatically enhanced. We concatenate our collected data with external data sets, that range from historical accident frequency by GPS location, to matching speed limits and daily local weather data. While not every insight is directly transferable to the product,



the analysis and underwriting curiosity is in a different league than when I once fancied myself doing similar work. Our Big Data initiatives now include media analysis and fraud detection, in addition to our vehicle usage-based data, and the methods and tools are emerging as an essential skill to contemporary analysis.

A challenge I have documented previously is getting our Agency channel customer acceptance rate for Snapshot as high as we believe it could be based on comparable results from consumers directly accessing the product. A modified form of the product, advancing part of the expected discount to the point of sale, proved to be a welcomed modification in our introduction of the product to our new Massachusetts agents. Not without risks of rate adjustment for those whose actual driving behavior does not match our a priori estimate, early results suggest this will go a long way to making the concept more agent and consumer friendly. Our expansion of the modification will be ongoing during 2015.



Our mobile device offerings, now for most consumer businesses a necessity, advanced very nicely during the year. Writing in last year's letter, I noted after some mixed efforts earlier that "our intensive effort to redirect was released late in the year and now forms the basis for our mobile servicing initiative that is fully extensible for 2014." That proved to be very accurate and the year saw expansion of consumer functionality, matched well with top ratings from the app store and significant increases in feature usage. As we rapidly approach a world in which functionality differences from any type of device are more and more minimal, we never lose sight of the all-important base website design, and we were again pleased to be recognized for our tenth year running by Keynote Competitive Research as the No. 1 website in the insurance industry.

The Service Center initiative in claims is an enduring initiative, as is our support of the notion that the ease of resolution provided for damaged cars will become a consumer expectation of the future. We opened six

additional Service Center locations during the year, bringing our total number to 67. We have successfully retrofitted the majority of our Service Centers to a co-location design, incorporating a fully functional claims office, improving both the economics and operations. We now see about 25% of all repairable vehicles nationwide in our Service Centers and, as previously noted, we are operating at our lowest level of loss adjustment expense matched with maintaining the highest standard of claim quality measures. The synergies and refinement of the concept have now more than met expectations, while continuing to exceed customer expectations. The presence of these centers operating as they now do is an important factor in the expanding customer focus central to the *Destination Era*. After many years of attempting to capture a summary of consumers' reactions to using these facilities and the difference in customer experience possible, I recognize that unless the emotive factors surrounding a loss are present, that effort can simply be words, so I'll attempt an alternative by providing a perspective offered from an interested party in this selected quote from a letter to one of our Service Centers:

*My claim was extremely well handled. I am an executive for one of your competitors... The work you are doing is helping change the public opinion of the insurance industry.*

## DESTINATION ERA

We have been communicating for some time what we mean by our consumer “Destination Strategy,” and made the topic the exclusive highlight of our 2014 Investor Relations Meeting in May. During my introduction to that meeting, I very clearly reinforced our commitment to current market segments where we over-index and expect continued future growth. But we decided to dedicate the meeting content to a customer segment we intend to make a meaningful addition to the future Progressive. For simplicity, we called them the “Robinsons,” in a high-level segmentation model, and sized the segment at over 40% of measured auto premium. Historically, our focused product strategy was not well matched to the evolving life cycle needs of these customers, who typically are multi-insurance product customers, more loyal, less price sensitive, and a lower loss frequency book of business. In and of itself that was not our greatest concern, since those consumers are relatively inert and highly retentive in their current situations. Our far greater interest was that we have for many years been what I referred to as the “Prep School” for these customers. Those future Robinsons, for whom we are a leading supplier given the auto product is often the first need met, have often felt the subsequent need to shop for additional products as their lives and needs change, terminating their tenure with Progressive for reasons far from product quality or satisfaction concerns.

For perspective, we have just short of 9% share of the U.S. auto insurance market, but



our share of Robinsons is less than 1%. We are confident we can serve a greater share of this segment and continue to earn the financial returns we expect of ourselves.

Most of you are well aware of our efforts over the last several years to become a distributor of those additional insurance products, primarily renters, home, umbrella, classic car, event, collectibles, mechanical breakdown, identity theft, term life, and a long list of other low frequency

products, which we continue to round out and, by virtue of those actions, remove a point of inflection for our customers as they become Robinsons and retain them as our customers. Simply put, while we may not choose to manufacture the product, we never want to send our customers off looking for solutions to fulfill their needs—if they wish, we will do the looking for them.

We know after several years of in-market testing that:

Customers are very willing to combine their product needs under the Progressive brand, a brand which for currently emerging Robinsons has real meaning. This is more so to date in the Direct channel, but the ASI transaction should allow us to build on our desire to match our bundling success in the Agency channel.

Retention of multi-product customers is, as has been shown in so many other circumstances, meaningfully extended by bundling and, while we observe this in our current measures, our results may well yet be underestimating the long-term potential and cost advantages.

Progressive has become an important contemporary brand for a new generation of consumers and our matching that brand with distinctive and exemplary customer service for claims and policy matters will continue to have Progressive, and in my opinion few others, feature disproportionately in consumers' selection of auto insurance.

We like our current product focus and fully intend to maintain it. We also like having other focused providers, such as Homesite and Ameriprise along with the other homeowners insurance companies we currently work with, to provide an underwriting and channel distribution breadth to the products we do not intend to produce. Thus, an integral part of our business model will be to continue to invite and attract participation from other quality providers of products our consumers will want and need, all a privilege derived from the consumer brand asset we can now leverage. And while commission income is important, the **currency of success for the targeted segment is Policy Life Extension** and a longer tenured customer relationship with auto at the core. Just one month of book-level policy life extension represents significant premium, underwriting profit, and cost leverage. I want to stress the point—ours is a market-segmented strategy. We love and expect to grow our traditional segments and have the economic model and all the assets we need to do that, but with this strategy extension, we expect to significantly penetrate an additional larger market segment, and our success will be dependent on a brand and product offerings that result in long-lasting customer relationships. Our long-held goal to be consumers' #1 choice for auto insurance has not changed.

Without diminishing any of the prior statements, we needed to “ensure the success” of our long-term business expansion strategy. The single most important component for this strategy is a reliable and continuous relationship for home insurance—all other products, as important as they may be in their own right, are in a different league in the overall “Progressive Advantage” strategy. If we were in manufacturing, the analogue might be a reliable supply of quality raw materials that may or may not be from an exclusive provider, or some form of hedge to build greater certainty. In ASI, we found not only a great producer of a product some of our customers need in their transition to Robinson status, but a rare example of the fanatical focus we admire, a demonstrated ability to produce strong returns on equity, and a culture that fits hand in glove with Progressive.

Establishing a balance between our focused business model and the now established need for quality, reliable homeowner's capacity to

expand our market relevance, for me had only one solution, and we are delighted that collectively we could make that happen. I should note here that we have no intention of changing critical attributes of the ASI business model — their reinsurance philosophy will continue to be designed to expose only a prudent percentage of ASI's surplus and, by definition, much less of the combined entity; we want their underwriting focus to remain as is and produce results similar to their track record. We intend to actively use and grow with other homeowner product providers, all doing what they do best. ASI will, however, be our exclusive provider in the Agency channel.

Our comfort with ASI, and I believe theirs with us, comes from a long-standing relationship, which has included shared design and sales efforts, healthy exchanges of market perceptions and needs, joint expansion planning, as the servicing carrier for our Agency renters product mentioned earlier, operational reviews of claims handling, and full access to their financials since our initial investment. Consistently, this has confirmed our unqualified respect for ASI's operations and management. Progressive is an unusual organization, and I am unaware of very many firms that offer the same prospects of working so effectively with us.

We view the success of this transaction to be measured by increased success and penetration of multi-product customers and notably so in the Agency channel. Making a better product bundle for consumers, and one agents will want to sell, is the game plan. Thinking and acting fast is a quality we both admire, and I'm confident we can learn from one another without losing the benefits of both organizations.

We approach 2015 and beyond with a wider aperture for growth and the long-term positioning of Progressive.

## OUR PEOPLE AND CULTURE

The formulation of a future era for Progressive is an exciting step in our consumer evolution. However, the foundations of Progressive's success have always been our Vision, Values, and Objectives and they will continue to guide our evolution as a company. Our Vision is squarely focused on our aspiration to become Consumers' #1 Choice for Auto Insurance; our Values guide our behavior; and our Objectives allow us to attract special people who enjoy working hard, performing well, and constantly growing. Our people, culture, and aspirations are what make us special. Our work environment is continuously evolving with a shared goal of also being a *Destination*, and one that others want to join.

Nothing we have achieved has been without the efforts of so many. I deeply appreciate the people of Progressive, our agents and brokers, customers, and shareholders for their support in making all this possible.

Thanks for making Progressive, progressive.



Glenn M. Renwick  
President and Chief Executive Officer





We write personal auto and other specialty property-casualty insurance and provide related services throughout the United States. Our Personal Lines segment writes insurance for personal autos and recreational vehicles. Our Commercial Lines segment writes primarily liability and physical damage insurance for automobiles and trucks owned and/or operated predominantly by small businesses in the business auto, for-hire transportation, contractor, for-hire specialty, tow, and for-hire livery markets. We distribute our Personal and Commercial Lines products through both the Agency and Direct channels.

# OPERATIONS SUMMARY





## PERSONAL LINES

2014 was the third year in a row in which we added close to \$1 billion in net written premium in our Personal Lines business. We continue to execute very well against our operational goal of growing policies in force as fast as we can while not exceeding a 96 combined ratio. As importantly, we enhanced our longer-term ability to grow within this construct by continuing to advance our pricing segmentation, improve our cost structure, and broaden our target markets.

Our current auto product model has performed well. This program improved segmentation for preferred customers, adjusted pricing for our highest risk in-force customers, and improved the on-boarding experience for our Direct customers through a redesigned electronic signature process. Refinement of segmentation and underwriting for us is a continuous effort. We released our next generation product model in its initial state in December. This model features even more competitive preferred pricing, increasingly sophisticated pricing for households that insure more than one product through Progressive, and some important enhancements to our Snapshot® usage-based rating program.

We wrote over \$2.6 billion of premium in 2014 with customers who are part of our usage-based rating program and, once again, did so profitably. The Snapshot portion of our business continues to grow at a rate considerably faster than the business as a whole.

In recent years, we have employed a “discount only” model for usage-based rating. This approach has not maximized the full segmentation power of Snapshot, but it has facilitated consumer adoption. In our latest model, introduced in one state in December of 2014, we are taking a significant step by affording more customers discounts for their good driving behavior, while offsetting with surcharges for a small segment of drivers whose driving behavior is clearly indicative of such rates. We’re also offering a Snapshot enrollment discount that varies at the customer segment level—higher for more preferred drivers. We are excited by the competitive benefits and growth potential we foresee.

The competitive landscape within our Agency auto business during 2014 turned less favorable in the second quarter, especially for new preferred customers. We have been taking steps to address this positioning and are doing so in an actuarially sound manner and one consistent with the long-term stability of prices for our customers in mind. Another ongoing challenge for us in the Agency channel is the preference for agents to bundle home and auto for their customers. Our pending acquisition of a controlling interest in the parent company of American Strategic Insurance, an agency-focused, monoline property carrier, is intended to help us here.

One further note we're happy to share around our Agency distribution is that during the year we began selling our auto program through independent agents in Massachusetts, adding to our previously introduced Commercial and Special Lines products. This completes our distribution framework in all 51 U.S. jurisdictions for auto. Growth since our entry has been modestly behind expectations and something we expect to improve over time.

We achieved 12% premium growth in our Direct channel, driven by increases in the number of consumers quoting with us, the conversion rate of those shoppers, the length of time our customers stay with us, and the average amount they pay. Needless to say, this is a nice combination of results.

We increased our advertising spend close to 10% during 2014 and, if current yield conditions continue, we have room to increase it more. We also continued to invest heavily in our mobile experience for current and prospective customers. Given the continued and fairly dramatic shift to mobile usage, we are pleased that our experience and metrics for mobile users now approximate those for more mature avenues, such as the phone and desktop Internet.

Our Special Lines products (motorcycle, boat, recreational vehicle, and manufactured home) had a very profitable year driven in part by weather that was favorable to claims frequency. We continue to enjoy the market leader position in motorcycle, and we believe we are



approaching the same with boat. Our understanding of the needs of special lines customers is excellent and we have been introducing distinctive ancillary coverages for these customers, such as Propulsion Plus® and Sign & Glide®, with considerable success.

Our foundation is based on competitive prices in combination with distinctive products and services. We fully understand competitive pricing is driven, to a large degree, by our cost structure and we have been taking steps to improve it. A notable achievement for us during 2014 was getting total Personal Lines below the 20.0 expense ratio mark, an improvement of 0.5 points from last year.

We've accomplished this by reducing what we refer to as our "non-acquisition expense ratio." Our non-acquisition expenses exclude our advertising and agency commission costs. This structural improvement in costs naturally affords us more competitive prices which, in turn, afford us more ability to reduce the expense ratio further through growth.



### Personal Lines Operating Results

|  | 2014     | 2013     | Change     |
|--|----------|----------|------------|
| Net premiums written (in billions)     | \$ 16.8  | \$ 15.6  | 8%         |
| Net premiums earned (in billions)      | \$ 16.6  | \$ 15.3  | 8%         |
| Loss and loss adjustment expense ratio | 73.4     | 73.0     | 0.4 pts.   |
| Underwriting expense ratio             | 19.9     | 20.4     | (0.5) pts. |
| Combined ratio                         | 93.3     | 93.4     | (0.1) pts. |
| Policies in force (in thousands)       | 13,261.9 | 13,056.4 | 2%         |

It is also important to note that this has been achieved while we are making big long-term and capital intensive investments in our business, such as the rebuild of our core policy processing system, now deployed in 45 jurisdictions for our auto programs, and the addition of “Big Data” analytical capacity, which we’ve now successfully deployed in several areas of our business.

In addition to industry leading segmentation and a competitive cost structure, we are focusing on broadening our target customer set in order to grow. We do this with new customers in mind, but more so with an eye towards graduating our current customer set as their insurance needs evolve. Our goal is to be the destination for all their personal lines insurance needs. Our average customer age is around 42 years old. Their remaining insurable life is thankfully long and we intend to serve their needs far longer than our historical monoline auto offerings have afforded us the ability.

We are nearing a million, out of our more than 12 million customer households, that now insure their homes through third-party insurers in our Progressive Home Advantage® program. When customers bundle their homes, autos, and other vehicles through us, they stay with us a lot longer. These customers also are more likely to consider us when their needs extend

beyond home and auto. We have been a leader in the industry in meeting consumers’ auto and other vehicle insurance needs where, when, and how they want them met. Our plan is to do the same with property and other personal insurance needs of our customers.



We believe we are the leader in the U.S. in initiating quotes for residential property insurance online. We also provide quotes over the phone, predominantly through third-party carriers. In addition, to better meet the broad needs of our customers, we built an in-house agency of Progressive employees to offer a suite of property products written by other insurance carriers. This helps ensure our strategy of being able to meet all of our customers' personal insurance needs.

The majority of preferred customers in the U.S. buy their personal insurance through agents. As yet, our bundling position with our agents has not been all we aspire to. One step we have taken to address this is to offer renters insurance through the majority of our agency force. A significant portion of our historical customer set is renters and bundling renters with auto is the first step on the journey of being the destination for these customers. As of year-end, we underwrote renters in three states and expect to introduce this program in another eight states in the first quarter of 2015.

We've now committed to taking a bigger step in becoming the destination carrier for our agents with the announced acquisition of a controlling interest in the parent of American Strategic Insurance (ASI), which is expected to close in April 2015. Together with ASI, today we have around 2,000 Progressive Home Advantage agencies that sell our products as a bundle in 26 states and D.C. We are working on expanding this set of agents and providing them a unique, very user-friendly, and more competitive bundling offering for their customers. Our market share in the monoline, more nonstandard end of the spectrum with our agents is around 25%. For the preferred and bundled segment, it approximates 1%. We look forward to working with ASI and our agents to grow our preferred market share.

## COMMERCIAL LINES

Progressive's Commercial Lines business in 2014 achieved broad-based growth in net premiums written, which accelerated on a quarter-to-quarter basis. The growth was welcome and not unexpected, though the timing and amplitude can be hard to predict. We began the year confronted by different challenges and opportunities in each of our target business markets and, accordingly, responded with different product, pricing, and marketing actions to address them.

Foremost in our execution mindset was ensuring rate adequacy and appropriate underwriting standards were in place for what was clearly a marketplace that was losing capacity and becoming more restrictive in our for-hire transportation and for-hire specialty markets. Our decisive early actions, while initially a drag on policy and revenue growth, ultimately yielded low double-digit growth in written premium and better-than-target profitability for the year in these important business market targets (BMTs) and we are now well positioned for 2015 and beyond. The insurance market for these two BMTs remains relatively constrained as evidenced by the substantial increase in quote submissions we experienced toward the end of 2014. Our focus for this year is managing growth to levels we can continue to service well and improving our competitiveness on the most preferred trucking risks.

The challenge of maintaining profitability and enhancing our competitive position in our core business auto BMT was met head on with a series of state- and territory-based rate adjustments and continued investment in broad market advertising geared toward small business owners





across a range of vocations. The results were very acceptable and encouraging for the future. Net premiums written and policies in force both grew by 4% in the business auto BMT, with a combined ratio substantially better than target. Business auto is the foundation of our Commercial Lines business, and achieving year-over-year growth in policies in force while meeting or exceeding profitability targets is essential to building on our destination strategy for small businesses.

Overall, our Commercial Lines business experienced net premiums written growth of 7% and earned premium growth of 4%, compared to 2% and 7% in the prior year. The positive change in written premium reflects gains in average written premium per policy from prior year rate increases and new business unit growth which improved throughout the year. Our total Commercial Lines combined ratio was 82.8, a 10.7 point improvement over the prior year. While a combined ratio substantially lower than target could suggest lost opportunity for profitable growth, we are satisfied with this result when we assess the growth rate and profitability of individual business markets relative to the market conditions, volatility, and loss trends specific to each. Importantly, all five of our major BMTs finished 2014 with solid margins and positive momentum for written premium, reflecting a well-balanced and healthy portfolio.

Our newest and sixth BMT, for-hire livery (FHL), moved from pilot phase to rollout phase and we finished 2014 with active programs in 22 states. The program is focused on small

### Commercial Lines Operating Results

|  | 2014   | 2013   | Change      |
|--|--------|--------|-------------|
| Net premiums written (in billions)     | \$ 1.9 | \$ 1.8 | 7%          |
| Net premiums earned (in billions)      | \$ 1.8 | \$ 1.8 | 4%          |
| Loss and loss adjustment expense ratio | 61.7   | 71.9   | (10.2) pts. |
| Underwriting expense ratio             | 21.1   | 21.6   | (0.5) pts.  |
| Combined ratio                         | 82.8   | 93.5   | (10.7) pts. |
| Policies in force (in thousands)       | 514.7  | 514.6  | 0%          |

owner/operators in the taxi cab and black car service space. Underwriting results have been favorable with all key metrics in line with expectations. We continue to add distribution points for FHL within our independent agency system and intend to add additional states in 2015. This is an example of how we continue to use our targeted business market approach to understand distinct customer groups and enter new markets in a measured and responsible way.

Our Direct Commercial Lines business had a solid year building on our position as the #1 commercial auto brand and it remains a strategically important and differentiating part of what we do. Direct channel written premium increased by 13% with growth across all five major BMTs. Sluggish Direct new business sales in the early part of the year rebounded nicely reaching low double-digit growth in the fourth quarter as our Commercial Lines Direct marketing gained traction and our competitive position improved. Over the course of the year, we realized substantial gains in website traffic, online quoting, and sales efficiency. Internet-sourced business grew much faster than the Direct business in total, an encouraging development as small business owners migrate to that channel. We also see the Direct channel contributing to operational improvements and savings that can be reinvested in marketing.

The growing influence of the Progressive brand with small business customers, objectively measured for awareness and resonance with key purchasing attributes, is now a distinctive business generating asset. In our quest to better meet small business customers' other insurance



needs, we continue to improve Progressive Commercial Advantage<sup>SM</sup> (PCA), our platform for providing product access for general liability, worker's compensation, and business owners insurance through unaffiliated insurers. Strong growth, particularly in the second half of the year, allowed us to expand staff in our Colorado Springs location. PCA product quotes and sales were up 23% and 24%, respectively, year over year, though those numbers somewhat mask the strong second half gains. In 2014, we added three new business providers to our network. These additions increased product choice and competitiveness while improving the overall economics of the platform. Our commitment to PCA remains strong as we seek to extend Commercial Lines policy life expectancy through the bundling of PCA products.



To ensure we continue to deliver great value to small business owners, can react with speed and dexterity to changes in market conditions, and maintain our low cost position for commercial auto, we initiated a multi-year effort to replace and modernize our core Commercial Lines processing and policy issuance system. While this effort will require sustained management attention and draw on subject matter expertise and other resources across our Commercial Lines business, we are confident in our ability to manage this significant investment without disruption to our business, agents, or customers. When completed, the new system will be an essential component of what we expect will be an industry leading platform for small business insurance. With new or improved capabilities and greater efficiency, this technology will support our Commercial Lines growth, enhance customer experiences, and further enable our strategic partnering capabilities. This is another important investment in our journey to becoming a destination insurer for small business owners.

**DETOUR**

**PROCEED TO BACK COVER**

# **TURN AROUND**

**PROCEED TO BACK COVER**

**DETOUR**

# **TURN AROUND**











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 and POLICIES



## 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 and Commercial Lines 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.

## 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. If, in our view, future opportunities meet our financial objectives and policies, we will invest capital in expanding business operations. 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 | 2014  | 2013   | 2012   | 5 Years <sup>1</sup> | 10 Years <sup>1</sup> |
|--|---------------------------|--------|-------|--------|--------|----------------------|-----------------------|
| Underwriting margin                    | –Progressive <sup>2</sup> | 4%     | 7.7%  | 6.5%   | 4.4%   | 6.6%                 | 7.9%                  |
|  | –Industry <sup>3</sup>    | na     |       | (1.0)% | (1.6)% | (1.1)%               | 1.4%                  |
| Net premiums written growth            | –Progressive              | (a)    | 8%    | 6%     | 8%     | 6%                   | 3%                    |
|  | –Industry <sup>3</sup>    | na     |       | 4%     | 3%     | 2%                   | 1%                    |
| Policies in force growth               | –Personal auto            | (a)    | 2%    | 3%     | 4%     | 4%                   | 4%                    |
|  | –Special lines            | (a)    | 1%    | 1%     | 4%     | 3%                   | 6%                    |
|  | –Commercial Lines         | (a)    | 0%    | (1)%   | 2%     | 0%                   | 2%                    |
| Companywide premiums-to-surplus ratio  |                           | (b)    | 2.9   | 2.9    | 2.9    | na                   | na                    |
| Investment allocation                  | –Group I                  | (c)    | 23%   | 22%    | 21%    | na                   | na                    |
|  | –Group II                 | (c)    | 77%   | 78%    | 79%    | na                   | na                    |
| Debt-to-total capital ratio            |                           | <30%   | 23.8% | 23.1%  | 25.6%  | na                   | na                    |
| Return on average shareholders' equity |                           |        |       |        |        |                      |                       |
|  | –Net income               | (d)    | 19.1% | 17.7%  | 14.5%  | 17.0%                | 17.8%                 |
|  | –Comprehensive income     | (d)    | 20.1% | 19.0%  | 17.4%  | 18.8%                | 19.1%                 |

(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

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

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

<sup>3</sup>Represents 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 2014 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 163,568 shares, including dividend reinvestment, on December 31, 2014, with a market value of \$4,414,700, for a 19.6% compounded annual return, compared to the 10.4% return achieved by investors in the S&P 500 during the same period.

In the ten years since December 31, 2004, Progressive shareholders have realized compounded annual returns, including dividend reinvestment, of 5.8%, compared to 7.7% for

the S&P 500. In the five years since December 31, 2009, Progressive shareholders' returns were 13.3%, compared to 15.4% for the S&P 500. In 2014, the returns were 5.3% on Progressive shares and 13.7% 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 \$672,980, including \$137,741 in 2014. 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 2014, we repurchased 11,052,751 common shares. The total cost to repurchase these shares was \$271 million, with an average cost of \$24.56 per share. Since 1971, we have spent \$8.4 billion repurchasing our shares, at an average cost of \$7.13 per share.





## OUR BUSINESS MODEL

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

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

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

**Extend policy life expectancy.** Our preference is for the flexibility of shorter policy periods,

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

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

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

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

***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 2014 Annual Report to Shareholders, which is attached as an Appendix to Progressive’s 2015 Proxy Statement.

# CONSOLIDATED FINANCIAL STATEMENTS

## CEO AND CFO CERTIFICATIONS

Glenn M. Renwick, President and Chief Executive Officer of The Progressive Corporation, and Brian C. Domeck, 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 2014 Annual Report on Form 10-K, including the financial statements provided in this Report and in the 2014 Annual Report to Shareholders, which is attached as an Appendix to Progressive’s 2015 Proxy Statement. Among other matters required to be included in those certifications, Mr. Renwick and Mr. Domeck 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.

## 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, 2014. 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 2014 Annual Report to Shareholders, which is attached as an Appendix to Progressive’s 2015 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, 2014 and December 31, 2013, 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, 2014 (not presented herein) appearing in The Progressive Corporation's 2014 Annual Report to Shareholders, which is attached as an Appendix to The Progressive Corporation's 2015 Proxy Statement; and in our report dated March 2, 2015, 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

March 2, 2015





# Consolidated Statements of COMPREHENSIVE INCOME

|  | (millions—except per share amounts) |                   |                   |
|--|-------------------------------------|-------------------|-------------------|
| For the years ended December 31,   | 2014                                | 2013              | 2012              |
| <b>REVENUES</b>  |                                     |                   |                   |
| Net premiums earned  | \$ 18,398.5                         | \$ 17,103.4       | \$ 16,018.0       |
| Investment income  | 408.4                               | 422.0             | 443.0             |
| Net realized gains (losses) on securities:   |                                     |                   |                   |
| Other-than-temporary impairment (OTTI) losses:   |                                     |                   |                   |
| Total OTTI losses  | (7.9)                               | (6.0)             | (7.3)             |
| Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses | 0                                   | (0.1)             | (0.7)             |
| Net impairment losses recognized in earnings   | (7.9)                               | (6.1)             | (8.0)             |
| Net realized gains (losses) on securities  | 232.1                               | 324.5             | 314.8             |
| Total net realized gains (losses) on securities  | 224.2                               | 318.4             | 306.8             |
| Fees and other revenues  | 309.1                               | 291.8             | 281.8             |
| Service revenues   | 56.0                                | 39.6              | 36.1              |
| Gains (losses) on extinguishment of debt   | (4.8)                               | (4.3)             | (1.8)             |
| <b>Total revenues</b>  | <b>19,391.4</b>                     | <b>18,170.9</b>   | <b>17,083.9</b>   |
| <b>EXPENSES</b>  |                                     |                   |                   |
| Losses and loss adjustment expenses  | 13,306.2                            | 12,472.4          | 11,948.0          |
| Policy acquisition costs   | 1,524.0                             | 1,451.8           | 1,436.6           |
| Other underwriting expenses  | 2,467.1                             | 2,350.9           | 2,206.3           |
| Investment expenses  | 18.9                                | 18.8              | 15.4              |
| Service expenses   | 50.9                                | 38.8              | 36.1              |
| Interest expense   | 116.9                               | 118.2             | 123.8             |
| <b>Total expenses</b>  | <b>17,484.0</b>                     | <b>16,450.9</b>   | <b>15,766.2</b>   |
| <b>NET INCOME</b>  |                                     |                   |                   |
| Income before income taxes   | 1,907.4                             | 1,720.0           | 1,317.7           |
| Provision for income taxes   | 626.4                               | 554.6             | 415.4             |
| <b>Net income</b>  | <b>\$ 1,281.0</b>                   | <b>\$ 1,165.4</b> | <b>\$ 902.3</b>   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>   |                                     |                   |                   |
| Net unrealized gains (losses) on securities:   |                                     |                   |                   |
| Net non-credit related OTTI losses, adjusted for valuation changes                               | \$ 0                                | \$ 0.3            | \$ 5.1            |
| Other net unrealized gains (losses) on securities  | 74.9                                | 84.0              | 174.8             |
| Total net unrealized gains (losses) on securities  | 74.9                                | 84.3              | 179.9             |
| Net unrealized gains on forecasted transactions  | (2.6)                               | (2.0)             | (1.8)             |
| Foreign currency translation adjustment  | (0.9)                               | (1.6)             | 0.4               |
| <b>Other comprehensive income</b>  | <b>71.4</b>                         | <b>80.7</b>       | <b>178.5</b>      |
| <b>Comprehensive income</b>  | <b>\$ 1,352.4</b>                   | <b>\$ 1,246.1</b> | <b>\$ 1,080.8</b> |
| <b>COMPUTATION OF NET INCOME PER SHARE</b>   |                                     |                   |                   |
| Average shares outstanding—Basic   | 590.6                               | 599.1             | 603.3             |
| Net effect of dilutive stock-based compensation  | 4.2                                 | 4.5               | 4.5               |
| <b>Total equivalent shares—Diluted</b>   | <b>594.8</b>                        | <b>603.6</b>      | <b>607.8</b>      |
| Basic: Net income per share  | \$ 2.17                             | \$ 1.95           | \$ 1.50           |
| Diluted: Net income per share  | \$ 2.15                             | \$ 1.93           | \$ 1.48           |

Notes to the Consolidated Financial Statements are included in Progressive's 2014 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2015 Proxy Statement.

# Consolidated BALANCE SHEETS

(millions)

December 31,

2014

2013

## ASSETS

Investments—Available-for-sale, at fair value:

Fixed maturities (amortized cost: \$13,374.2 and \$13,415.3)

\$13,549.2 \$ 13,540.4

Equity securities:

Nonredeemable preferred stocks (cost: \$590.4 and \$445.7)

827.5 711.2

Common equities (cost: \$1,289.2 and \$1,451.1)

2,492.3 2,530.5

Short-term investments (amortized cost: \$2,149.0 and \$1,272.6)

2,149.0 1,272.6

Total investments

19,018.0 18,054.7

Cash

108.4 75.1

Accrued investment income

87.3 89.8

Premiums receivable, net of allowance for doubtful accounts of \$152.2 and \$142.4

3,537.5 3,310.7

Reinsurance recoverables, including \$46.0 and \$44.3 on paid losses  
and loss adjustment expenses

1,231.9 1,090.2

Prepaid reinsurance premiums

85.3 74.9

Deferred acquisition costs

457.2 447.6

Property and equipment, net of accumulated depreciation of \$731.0 and \$680.4

960.6 960.9

Other assets

301.4 304.3

Total assets

\$ 25,787.6 \$ 24,408.2

## LIABILITIES AND SHAREHOLDERS' EQUITY

Unearned premiums

\$ 5,440.1 \$ 5,174.5

Loss and loss adjustment expense reserves

8,857.4 8,479.7

Net deferred income taxes

98.9 28.4

Dividends payable

404.1 890.2

Accounts payable, accrued expenses, and other liabilities<sup>1</sup>

1,893.8 1,785.0

Debt<sup>2</sup>

2,164.7 1,860.9

Total liabilities

18,859.0 18,218.7

Common shares, \$1.00 par value (authorized 900.0; issued 797.6,  
including treasury shares of 209.8 and 201.8)

587.8 595.8

Paid-in capital

1,184.3 1,142.0

Retained earnings

4,133.4 3,500.0

Accumulated other comprehensive income, net of tax:

Net non-credit related OTTI losses, adjusted for valuation changes

0 0

Other net unrealized gains (losses) on securities

1,021.9 947.0

Total net unrealized gains (losses) on securities

1,021.9 947.0

Net unrealized gains on forecasted transactions

1.5 4.1

Foreign currency translation adjustment

(0.3) 0.6

Total accumulated other comprehensive income

1,023.1 951.7

Total shareholders' equity

6,928.6 6,189.5

Total liabilities and shareholders' equity

\$ 25,787.6 \$ 24,408.2

<sup>1</sup>See Note 12—Litigation and Note 13—Commitments and Contingencies for further discussion.

<sup>2</sup>Consists of long-term debt. See Note 4—Debt for further discussion.

Notes to the Consolidated Financial Statements are included in Progressive's 2014 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2015 Proxy Statement.

# Consolidated Statements of CHANGES IN SHAREHOLDERS' EQUITY

(millions—except per share amounts)

| For the years ended December 31,  | 2014       | 2013       | 2012       |
|---|------------|------------|------------|
| <b>COMMON SHARES, \$1.00 PAR VALUE</b>  |            |            |            |
| Balance, Beginning of year  | \$ 595.8   | \$ 604.6   | \$ 613.0   |
| Stock options exercised   | 0          | 0          | 0.1        |
| Treasury shares purchased <sup>1</sup>  | (11.1)     | (11.0)     | (8.6)      |
| Net restricted equity awards issued/vested/(forfeited)                                | 3.1        | 2.2        | 0.1        |
| Balance, End of year  | \$ 587.8   | \$ 595.8   | \$ 604.6   |
| <b>PAID-IN CAPITAL</b>  |            |            |            |
| Balance, Beginning of year  | \$ 1,142.0 | \$ 1,077.0 | \$ 1,006.2 |
| Stock options exercised   | 0          | 0          | 0.4        |
| Tax benefit from exercise/vesting of equity-based compensation                        | 12.8       | 10.3       | 5.8        |
| Treasury shares purchased <sup>1</sup>  | (21.6)     | (20.4)     | (14.5)     |
| Net restricted equity awards (issued)/(vested)/forfeited                              | (3.1)      | (2.2)      | (0.1)      |
| Amortization of equity-based compensation   | 51.4       | 64.9       | 62.4       |
| Reinvested dividends on restricted stock units  | 2.8        | 12.4       | 11.2       |
| Other   | 0          | 0          | 5.6        |
| Balance, End of year  | \$ 1,184.3 | \$ 1,142.0 | \$ 1,077.0 |
| <b>RETAINED EARNINGS</b>  |            |            |            |
| Balance, Beginning of year  | \$ 3,500.0 | \$ 3,454.4 | \$ 3,495.0 |
| Net income  | 1,281.0    | 1,165.4    | 902.3      |
| Treasury shares purchased <sup>1</sup>  | (238.7)    | (242.0)    | (151.1)    |
| Cash dividends declared on common shares (\$0.6862, \$1.4929, and \$1.2845 per share) | (402.6)    | (889.2)    | (772.5)    |
| Reinvested dividends on restricted stock units  | (2.8)      | (12.4)     | (11.2)     |
| Other, net  | (3.5)      | 23.8       | (8.1)      |
| Balance, End of year  | \$ 4,133.4 | \$ 3,500.0 | \$ 3,454.4 |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAX</b>                             |            |            |            |
| Balance, Beginning of year  | \$ 951.7   | \$ 871.0   | \$ 692.5   |
| Other comprehensive income  | 71.4       | 80.7       | 178.5      |
| Balance, End of year  | \$ 1,023.1 | \$ 951.7   | \$ 871.0   |
| Total Shareholders' Equity  | \$ 6,928.6 | \$ 6,189.5 | \$ 6,007.0 |

<sup>1</sup>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 2014 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2015 Proxy Statement.



# Consolidated Statements of CASH FLOWS

|   | (millions) |            |           |
|---|------------|------------|-----------|
| For the years ended December 31,  | 2014       | 2013       | 2012      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |            |            |           |
| Net income  | \$ 1,281.0 | \$ 1,165.4 | \$ 902.3  |
| Adjustments to reconcile net income to net cash provided by operating activities: |            |            |           |
| Depreciation  | 97.1       | 101.3      | 94.4      |
| Net amortization of fixed-income securities                                       | 78.2       | 134.0      | 186.7     |
| Amortization of equity-based compensation   | 51.4       | 64.9       | 63.4      |
| Net realized (gains) losses on securities   | (224.2)    | (318.4)    | (306.8)   |
| Net (gains) losses on disposition of property and equipment                       | 5.4        | 5.6        | 7.1       |
| (Gains) losses on extinguishment of debt  | 4.8        | 4.3        | 1.8       |
| Changes in:   |            |            |           |
| Premiums receivable   | (227.1)    | (127.4)    | (253.8)   |
| Reinsurance recoverables  | (141.7)    | (189.2)    | (83.0)    |
| Prepaid reinsurance premiums  | (10.4)     | (8.6)      | 3.5       |
| Deferred acquisition costs  | (9.6)      | (13.1)     | (0.9)     |
| Income taxes  | 97.5       | 57.8       | 19.8      |
| Unearned premiums   | 266.4      | 244.8      | 351.1     |
| Loss and loss adjustment expense reserves   | 378.0      | 641.6      | 592.6     |
| Accounts payable, accrued expenses, and other liabilities                         | 92.0       | 165.0      | 123.6     |
| Other, net  | (13.2)     | (28.1)     | (10.4)    |
| Net cash provided by operating activities   | 1,725.6    | 1,899.9    | 1,691.4   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |            |            |           |
| Purchases:  |            |            |           |
| Fixed maturities  | (7,967.5)  | (7,100.6)  | (5,199.2) |
| Equity securities   | (369.7)    | (322.2)    | (463.1)   |
| Sales:  |            |            |           |
| Fixed maturities  | 5,637.5    | 3,083.9    | 3,705.6   |
| Equity securities   | 560.1      | 369.2      | 793.0     |
| Maturities, paydowns, calls, and other:   |            |            |           |
| Fixed maturities  | 2,296.6    | 1,859.6    | 1,488.9   |
| Equity securities   | 14.3       | 21.5       | 16.0      |
| Net sales (purchases) of short-term investments                                   | (876.0)    | 716.6      | (438.2)   |
| Net unsettled security transactions   | (30.0)     | 152.2      | (44.0)    |
| Purchases of property and equipment   | (108.1)    | (140.4)    | (127.7)   |
| Sales of property and equipment   | 5.9        | 3.7        | 3.8       |
| Net cash used in investing activities   | (836.9)    | (1,356.5)  | (264.9)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |            |            |           |
| Proceeds from exercise of stock options   | 0          | 0          | 0.5       |
| Tax benefit from exercise/vesting of equity-based compensation                    | 12.8       | 10.3       | 5.8       |
| Net proceeds from debt issuance   | 344.7      | 0          | 0         |
| Payment of debt   | 0          | (150.0)    | (350.0)   |
| Reacquisition of debt   | (48.9)     | (58.1)     | (32.5)    |
| Dividends paid to shareholders  | (892.6)    | (175.6)    | (853.7)   |
| Acquisition of treasury shares  | (271.4)    | (273.4)    | (174.2)   |
| Net cash used in financing activities   | (855.4)    | (646.8)    | (1,404.1) |
| Effect of exchange rate changes on cash   | 0          | (0.6)      | 1.0       |
| Increase (decrease) in cash   | 33.3       | (104.0)    | 23.4      |
| Cash, Beginning of year   | 75.1       | 179.1      | 155.7     |
| Cash, End of year   | \$ 108.4   | \$ 75.1    | \$ 179.1  |

Notes to the Consolidated Financial Statements are included in Progressive's 2014 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2015 Proxy Statement.

## 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 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 and loss reserving 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; weather conditions (including the severity and frequency of storms, hurricanes, floods, snowfalls, hail, and winter conditions); changes in driving patterns, including vehicle usage as influenced by the level of oil and gas prices, among other factors; 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; 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.

## 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 2015, with a record date in early 2016 and payment shortly thereafter. A complete description of our annual variable dividend policy can be found at: [progressive.com/dividend](http://progressive.com/dividend).

| Quarter     | Stock Price |          |          | Rate of Return | Dividends Declared per Share |
|-------------|-------------|----------|----------|----------------|------------------------------|
|             | High        | Low      | Close    |                |                              |
| <b>2014</b> |             |          |          |                |                              |
| 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                    |
| <b>2013</b> |             |          |          |                |                              |
| 1           | \$ 25.38    | \$ 21.36 | \$ 25.27 |                | \$ 0                         |
| 2           | 26.39       | 23.99    | 25.42    |                | 0                            |
| 3           | 27.55       | 24.86    | 27.23    |                | 0                            |
| 4           | 28.54       | 25.81    | 27.27    |                | 1.4929                       |
|             | \$ 28.54    | \$ 21.36 | \$ 27.27 | 30.9%          | \$ 1.4929                    |







## 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 15, 2015, at 10 a.m. eastern time. There were 2,359 shareholders of record on December 31, 2014.

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

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

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

### Online Annual Report and Proxy Statement

Our 2014 Annual Report to Shareholders can be found at: [progressive.com/annualreport](http://progressive.com/annualreport).

We have also posted copies of our 2015 Proxy Statement and 2014 Annual Report to Shareholders, in a PDF format, at: [progressiveproxy.com](http://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](mailto:info@amstock.com); or visit their website at: [amstock.com](http://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\\_nettnles@progressive.com](mailto:patrick_nettnles@progressive.com).

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

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

**Counsel** Baker & Hostetler LLP, Cleveland, Ohio

**Charitable Contributions** Progressive contributes 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 contribute.

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

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## DIRECTORS and OFFICERS

### DIRECTORS

**Stuart B. Burgoerfer**<sup>1, 6</sup>  
Executive Vice President and  
Chief Financial Officer,  
L Brands, Inc.  
(retailing)

**Charles A. Davis**<sup>4, 5, 6</sup>  
Chief Executive Officer,  
Stone Point Capital LLC  
(private equity investing)

**Roger N. Farah**<sup>3, 5, 6</sup>  
Co-Chief Executive Officer,  
Tory Burch, LLC  
(retailing)

**Lawton W. Fitt**<sup>2, 4, 5, 6</sup>  
Retired Partner,  
Goldman Sachs Group  
(financial services)

**Stephen R. Hardis**<sup>2, 4, 5, 6</sup>  
Lead Independent Director,  
The Progressive Corporation

**Jeffrey D. Kelly**<sup>1, 6</sup>  
Chief Operating Officer and  
Chief Financial Officer,  
RenaissanceRe Holdings Ltd.  
(reinsurance services)

**Patrick H. Nettles, Ph.D.**<sup>1, 6</sup>  
Executive Chairman,  
Ciena Corporation  
(telecommunications)

**Glenn M. Renwick**<sup>2</sup>  
Chairman of the Board, President,  
and Chief Executive Officer,  
The Progressive Corporation

**Bradley T. Sheares, Ph.D.**<sup>3, 6</sup>  
Former Chief Executive Officer,  
Reliant Pharmaceuticals, Inc.  
(pharmaceuticals)

**Barbara R. Snyder**<sup>6</sup>  
President,  
Case Western Reserve University  
(higher education)

<sup>1</sup>Audit Committee Member

<sup>2</sup>Executive Committee member

<sup>3</sup>Compensation Committee Member

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

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

<sup>6</sup>Independent Director

### CORPORATE OFFICERS

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

**Brian C. Domeck**  
Vice President and  
Chief Financial Officer

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

**Thomas A. King**  
Vice President and Treasurer

**Jeffrey W. Basch**  
Vice President and  
Chief Accounting Officer

**Mariann Wojtkun Marshall**  
Assistant Secretary

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

**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](mailto: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](mailto:chuck_jarrett@progressive.com).

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



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

|  | PERSONAL AUTOS, MOTORCYCLES,<br>AND RECREATIONAL VEHICLES                              | COMMERCIAL AUTOS/TRUCKS   |
|--|--|---|
| <b>TO RECEIVE A QUOTE</b>  | <b>1-800-PROGRESSIVE</b> (1-800-776-4737)<br><b>progressive.com</b>                    | <b>1-888-806-9598</b><br><b>progressivecommercial.com</b>           |
| <b>TO REPORT A CLAIM</b>   | <b>1-800-PROGRESSIVE</b> (1-800-776-4737)<br><b>progressive.com<sup>1</sup></b>        | <b>1-800-PROGRESSIVE</b> (1-800-776-4737)                           |
| <b>FOR CUSTOMER SERVICE</b><br>If you bought your policy through an independent agent or broker            | <b>1-800-925-2886</b><br>(1-800-300-3693 in California)<br><b>progressiveagent.com</b> | <b>1-800-444-4487</b><br><b>progressivecommercial.com</b>           |
| If you bought your policy directly through Progressive online or by phone                                  | <b>1-800-PROGRESSIVE</b> (1-800-776-4737)<br><b>progressive.com</b>                    | <b>1-800-895-2886</b><br><b>progressivecommercial.com</b>           |
| If you have a complaint or concern regarding any claim handling or other claims-related issue <sup>2</sup> | <b>1-800-274-4641</b><br>email: <b>claims@email.progressive.com</b>                    | <b>1-800-274-4641</b><br>email: <b>claims@email.progressive.com</b> |

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

<sup>2</sup>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.

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



# The PHOTOGRAPHS

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PRINTING AGS Custom Graphics  
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# WAY WRONG



This publication was printed at an FSC®-certified printer (Certification No. TT-COC-004624). This paper has been certified to meet the environmental and social standards of the Forest Stewardship Council® (FSC®) and comes from well-managed forests and other responsible sources. Acid-Free, paper that contains recycled fiber and recyclable papers were employed throughout this publication.

# LOOKING BACK