

PROGRESSIVE CORP/OH/
Form 10-Q
May 03, 2017

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2017

or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 1-9518

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

Ohio 34-0963169
(State or other jurisdiction of (I.R.S.
incorporation or organization) Employer
Identification
No.)

6300 Wilson Mills Road, Mayfield Village, Ohio 44143
(Address of principal executive offices) (Zip Code)
(440) 461-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Emerging growth company

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

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

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

Common Shares, \$1.00 par value: 580,902,022 outstanding at March 31, 2017

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

Three Months Ended March 31,	2017	2016	% Change
(millions—except per share amounts)			
Revenues			
Net premiums earned	\$6,026.7	\$5,317.4	13
Investment income	129.2	118.8	9
Net realized gains (losses) on securities:			
Net impairment losses recognized in earnings	(1.0)	0	NM
Net realized gains (losses) on securities	52.9	17.4	204
Total net realized gains (losses) on securities	51.9	17.4	198
Fees and other revenues	85.2	78.9	8
Service revenues	28.5	25.0	14
Gains on extinguishment of debt	0.2	0	NM
Total revenues	6,321.7	5,557.5	14
Expenses			
Losses and loss adjustment expenses	4,263.4	3,913.4	9
Policy acquisition costs	502.9	440.3	14
Other underwriting expenses	845.6	755.8	12
Investment expenses	5.6	4.8	17
Service expenses	25.9	21.6	20
Interest expense	36.8	34.2	8
Total expenses	5,680.2	5,170.1	10
Net Income			
Income before income taxes	641.5	387.4	66
Provision for income taxes	211.2	128.7	64
Net income	430.3	258.7	66
Net (income) loss attributable to noncontrolling interest (NCI)	(6.0)	(0.5)	NM
Net income attributable to Progressive	\$424.3	\$258.2	64
Other Comprehensive Income (Loss)			
Changes in:			
Total net unrealized gains (losses) on securities	\$132.4	\$69.5	91
Net unrealized losses on forecasted transactions	2.3	(0.3)	NM
Foreign currency translation adjustment	0.3	0.5	(40)
Other comprehensive income	135.0	69.7	94
Other comprehensive (income) loss attributable to NCI	(0.9)	(2.1)	(57)
Comprehensive income attributable to Progressive	\$558.4	\$325.8	71
Computation of Per Share Earnings Attributable to Progressive			
Average shares outstanding - Basic	580.3	583.2	0
Net effect of dilutive stock-based compensation	3.0	2.3	30
Total average equivalent shares - Diluted	583.3	585.5	0
Basic: Earnings per share	\$0.73	\$0.44	65
Diluted: Earnings per share	\$0.73	\$0.44	65
Dividends declared per share ¹	\$0	\$0	

NM = Not Meaningful

¹ Progressive maintains an annual dividend program. See Note 9 – Dividends for further discussion.
See notes to consolidated financial statements.

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The Progressive Corporation and Subsidiaries
Consolidated Balance Sheets
(unaudited)

(millions)	March 31, 2017	2016	December 31, 2016
Assets			
Investments - Available-for-sale, at fair value:			
Fixed maturities (amortized cost: \$17,444.8, \$13,892.3, and \$16,287.1)	\$ 17,474.3	\$ 13,966.4	\$ 16,243.8
Equity securities:			
Nonredeemable preferred stocks (cost: \$710.3, \$731.9, and \$734.2)	809.8	832.2	853.5
Common equities (cost: \$1,451.5, \$1,524.0, and \$1,437.5)	2,978.1	2,705.0	2,812.4
Short-term investments (amortized cost: \$3,040.8, \$3,826.9, and \$3,572.9)	3,040.8	3,826.9	3,572.9
Total investments	24,303.0	21,330.5	23,482.6
Cash	214.5	203.9	211.5
Restricted cash ¹	0.5	6.0	14.9
Accrued investment income	110.1	93.6	103.9
Premiums receivable, net of allowance for doubtful accounts of \$174.5, \$157.6, and \$186.8	4,850.7	4,378.9	4,509.2
Reinsurance recoverables, including \$88.6, \$59.5, and \$83.8 on paid losses and loss adjustment expenses	1,939.0	1,568.2	1,884.8
Prepaid reinsurance premiums	182.7	216.7	170.5
Deferred acquisition costs	679.5	600.0	651.2
Property and equipment, net of accumulated depreciation of \$881.7, \$799.6, and \$845.8	1,166.0	1,061.9	1,177.1
Goodwill	449.4	447.6	449.4
Intangible assets, net of accumulated amortization of \$125.0, \$62.9, and \$109.5	417.3	479.4	432.8
Other assets	497.8	334.9	339.6
Total assets	\$ 34,810.5	\$ 30,721.6	\$ 33,427.5
Liabilities			
Unearned premiums	\$ 7,945.0	\$ 7,140.7	\$ 7,468.3
Loss and loss adjustment expense reserves	11,628.9	10,286.7	11,368.0
Net deferred income taxes	168.4	113.9	111.3
Dividends payable	0	0	395.4
Accounts payable, accrued expenses, and other liabilities	2,939.4	2,451.4	2,495.5
Debt ²	3,111.7	2,701.6	3,148.2
Total liabilities	25,793.4	22,694.3	24,986.7
Redeemable noncontrolling interest (NCI) ³	494.2	467.4	483.7
Shareholders' Equity			
Common shares, \$1.00 par value (authorized 900.0; issued 797.5, 797.6, and 797.5 including treasury shares of 216.6, 214.6, and 217.6)	580.9	583.0	579.9
Paid-in capital	1,331.1	1,231.3	1,303.4
Retained earnings	5,543.4	4,877.6	5,140.4
Accumulated other comprehensive income:			
Net unrealized gains (losses) on securities	1,072.0	878.5	939.6
Net unrealized losses on forecasted transactions	(7.1)	) (8.5)	) (9.4)
Foreign currency translation adjustment	(0.8)	) (1.0)	) (1.1)
Accumulated other comprehensive (income) loss attributable to NCI	3.4	(1.0)	) 4.3
Total accumulated other comprehensive income attributable to Progressive	1,067.5	868.0	933.4
Total shareholders' equity	8,522.9	7,559.9	7,957.1

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Total liabilities, redeemable NCI, and shareholders' equity	\$34,810.5	\$30,721.6	\$33,427.5
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¹ See Note 7 – Supplemental Cash Flow Information for further discussion.

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

³ See Note 12 – Redeemable Noncontrolling Interest for further discussion.

See notes to consolidated financial statements.

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

Three Months Ended March 31, (millions — except per share amounts)	2017	2016
Common Shares, \$1.00 Par Value		
Balance, Beginning of period	\$579.9	\$583.6
Treasury shares purchased	(0.6)	(2.3)
Net restricted equity awards issued/vested/(forfeited)	1.6	1.7
Balance, End of period	\$580.9	\$583.0
Paid-In Capital		
Balance, Beginning of period	\$1,303.4	\$1,218.8
Tax benefit from vesting of equity-based compensation	0	6.6
Treasury shares purchased	(1.3)	(4.8)
Net restricted equity awards (issued)/(vested)/forfeited	(1.6)	(1.7)
Amortization of equity-based compensation	30.5	12.8
Reinvested dividends on restricted stock units	0.3	(0.3)
Adjustment to carrying amount of redeemable noncontrolling interest	(0.2)	(0.1)
Balance, End of period	\$1,331.1	\$1,231.3
Retained Earnings		
Balance, Beginning of period	\$5,140.4	\$4,686.6
Net income attributable to Progressive	424.3	258.2
Treasury shares purchased	(19.5)	(63.2)
Cash dividends declared on common shares	0	0.2
Reinvested dividends on restricted stock units	(0.3)	0.3
Other, net	(1.5)	(4.5)
Balance, End of period	\$5,543.4	\$4,877.6
Accumulated Other Comprehensive Income Attributable to Progressive		
Balance, Beginning of period	\$933.4	\$800.4
Attributable to noncontrolling interest	(0.9)	(2.1)
Other comprehensive income	135.0	69.7
Balance, End of period	\$1,067.5	\$868.0
Total Shareholders' Equity	\$8,522.9	\$7,559.9
There are 20.0 million Serial Preferred Shares authorized; no such shares are issued or outstanding.		
There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.		
See notes to consolidated financial statements.		

The Progressive Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited) (millions)

Three Months Ended March 31,	2017		2016	
Cash Flows From Operating Activities				
Net income	\$	430.3	\$	258.7
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		41.0		27.5
Amortization of intangible assets		15.5		15.5
Net Amortization of fixed-income securities		22.1		20.5
Amortization of equity-based compensation		30.9		12.8
Net realized (gains) losses on securities	(51.9	)	(17.4)
Net (gains) losses on disposition of property and equipment		1.3		0.1
(Gains) losses on extinguishment of debt	(0.2	)		0
Changes in:				
Premiums receivable	(341.4	)	(391.1)
Reinsurance recoverables	(54.2	)	(79.4)
Prepaid reinsurance premiums	(12.2	)	(17.4)
Deferred acquisition costs	(28.3	)	(35.9)
Income taxes		212.7		91.8
Unearned premiums		476.3		518.6
Loss and loss adjustment expense reserves		260.8		247.6
Accounts payable, accrued expenses, and other liabilities		137.4		200.1
Restricted cash		14.4	(5.7)
Other, net	(35.7	)	(27.5)
Net cash provided by operating activities		1,118.8		818.8
Cash Flows From Investing Activities				
Purchases:				
Fixed maturities	(3,203.9	)	(2,468.2)
Equity securities	(52.5	)	(180.1)

Sales:

Fixed maturities	1,014.1		2,105.9	
Equity securities	86.5		97.9	
Maturities, paydowns, calls, and other:				
Fixed maturities	1,006.5		1,829.8	
Equity securities	26.6		0	
Net sales (purchases) of short-term investments	536.8		(1,653.0)
Net unsettled security transactions	83.2		70.4	
Collateral on derivative positions	(136.1	)	0	
Purchases of property and equipment	(35.0	)	(54.3)
Sales of property and equipment	11.2		2.0	
Net cash used in investing activities	(662.6	)	(249.6)
Cash Flows From Financing Activities				
Proceeds from exercise of equity options	0.5		0	
Tax benefit from vesting of equity-based compensation	0		6.6	
Payments of debt	(6.2	)	(6.8)
Reacquisition of debt	(30.7	)	0	
Dividends paid to shareholders	(395.4	)	(519.0)
Acquisition of treasury shares for restricted stock tax liabilities	(21.4	)	(18.9)
Acquisition of treasury shares acquired in open market	0		(51.4)
Net cash used in financing activities	(453.2	)	(589.5)
Effect of exchange rate changes on cash	0		0.1	
Increase (decrease) in cash	3.0		(20.2)
Cash, January 1	211.5		224.1	
Cash, March 31	\$ 214.5		\$ 203.9	

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 1 Basis of Presentation — The accompanying consolidated financial statements include the accounts of The Progressive Corporation and ARX Holding Corp. (ARX), and their respective wholly owned insurance and non-insurance subsidiaries and affiliates, in which Progressive or ARX has a controlling financial interest. The Progressive Corporation owned 69.0% of the outstanding capital stock of ARX at March 31, 2017 and 69.2% at March 31, 2016 and December 31, 2016. The decrease reflects ARX employee stock options that were exercised during the first quarter 2017. All intercompany accounts and transactions are eliminated in consolidation. The consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, were necessary for a fair statement of the results for the interim periods presented. The results of operations for the period ended March 31, 2017, are not necessarily indicative of the results expected for the full year. These consolidated financial statements and the notes thereto should be read in conjunction with Progressive's audited financial statements and accompanying notes included in Exhibit 13 to our Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Annual Report to Shareholders").

Other assets on the consolidated balance sheets include properties that are considered "held for sale," if any. At March 31, 2017, no properties were held for sale. At March 31, 2016 and December 31, 2016, the fair value of these properties, less the estimated cost to sell them, were \$8.7 million.

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

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

(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
March 31, 2017						
Fixed maturities:						
U.S. government obligations	\$3,345.5	\$ 0.9	\$ (20.6)	\$ 0	\$3,325.8	13.7 %
State and local government obligations	2,475.8	23.3	(10.7)	0	2,488.4	10.2
Foreign government obligations	22.9	0	0	0	22.9	0.1
Corporate debt securities	5,199.6	23.1	(15.0)	0.3	5,208.0	21.4
Residential mortgage-backed securities	1,393.9	24.6	(11.0)	2.1	1,409.6	5.8
Agency residential pass-through obligations	39.1	0.1	(0.7)	0	38.5	0.2
Commercial mortgage-backed securities	2,216.1	13.7	(16.3)	0	2,213.5	9.1
Other asset-backed securities	2,562.4	5.4	(3.1)	0.2	2,564.9	10.6
Redeemable preferred stocks	189.5	14.3	(1.1)	0	202.7	0.8
Total fixed maturities	17,444.8	105.4	(78.5)	2.6	17,474.3	71.9
Equity securities:						
Nonredeemable preferred stocks	710.3	111.3	(11.8)	0	809.8	3.3
Common equities	1,451.5	1,531.4	(4.8)	0	2,978.1	12.3
Short-term investments	3,040.8	0	0	0	3,040.8	12.5
Total portfolio ^{1,2}	\$22,647.4	\$ 1,748.1	\$ (95.1)	\$ 2.6	\$24,303.0	100.0 %

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(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
March 31, 2016						
Fixed maturities:						
U.S. government obligations	\$1,375.8	\$ 12.2	\$ 0	\$ 0	\$1,388.0	6.5 %
State and local government obligations	2,452.0	57.4	(1.2)	0	2,508.2	11.8
Foreign government obligations	21.9	0	0	0	21.9	0.1
Corporate debt securities	3,795.2	50.6	(6.2)	0.4	3,840.0	18.0
Residential mortgage-backed securities	1,810.9	19.5	(28.5)	(0.4)	1,801.5	8.4
Agency residential pass-through obligations	46.5	0.2	(0.1)	0	46.6	0.2
Commercial mortgage-backed securities	2,418.7	26.4	(18.9)	0	2,426.2	11.4
Other asset-backed securities	1,706.3	1.3	(4.2)	0.3	1,703.7	8.0
Redeemable preferred stocks	265.0	14.2	(48.9)	0	230.3	1.1
Total fixed maturities	13,892.3	181.8	(108.0)	0.3	13,966.4	65.5
Equity securities:						
Nonredeemable preferred stocks	731.9	124.7	(24.4)	0	832.2	3.9
Common equities	1,524.0	1,186.7	(5.7)	0	2,705.0	12.7
Short-term investments	3,826.9	0	0	0	3,826.9	17.9
Total portfolio ^{1,2}	\$19,975.1	\$ 1,493.2	\$ (138.1)	\$ 0.3	\$21,330.5	100.0 %

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

¹Our portfolio reflects the effect of unsettled security transactions and collateral on open derivative positions; at March 31, 2017 and 2016, and December 31, 2016, we had \$111.0 million, \$47.3 million, and \$27.8 million, respectively, included in "other liabilities." In addition, at March 31, 2017, we had \$136.1 million of margin collateral on an open derivative position, which was included in "other assets."

²The total fair value of the portfolio at March 31, 2017 and 2016, and December 31, 2016 included \$0.7 billion, \$0.7 billion, and \$1.3 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

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

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

We had no open reverse repurchase commitments at March 31, 2017 and 2016, or December 31, 2016. We did not enter into any reverse repurchase commitments for the three months ended March 31, 2017. During the three months ended March 31, 2016, our largest outstanding balance of reverse repurchase commitments was \$265.0 million, which was open for one day. For the 10 days we invested in these transactions, the average daily balance of reverse repurchase commitments was \$160.7 million.

To the extent our repurchase and reverse repurchase transactions were with the same counterparty and subject to an enforceable master netting arrangement, we could elect to offset these transactions. Consistent with past practice, we have elected not to offset these transactions and therefore report these transactions on a gross basis on our balance sheets.

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

(millions)	March 31,		December 31,
	2017	2016	2016
Fixed maturities:			
Corporate debt securities	\$44.5	\$39.2	\$ 40.1
Residential mortgage-backed securities	186.6	174.4	170.5
Other asset-backed securities	8.3	10.6	8.9
Total fixed maturities	239.4	224.2	219.5
Equity securities:			
Nonredeemable preferred stocks	0	49.5	0
Total hybrid securities	\$239.4	\$273.7	\$ 219.5

Certain corporate debt securities are accounted for as hybrid securities since they were acquired at a premium and contain a change-in-control put option (derivative) that permits the investor, at its sole option if and when a change in control is triggered, to put the security back to the issuer at a 1% premium to par. Due to this change-in-control put option and the substantial market premium paid to acquire these securities, there is the potential that the election to put, upon the change in control, would result in an acceleration of the recognition of the remaining premium paid on these securities in our results of operations. This would result in a loss of \$3.1 million as of March 31, 2017, if all of the bonds experienced a simultaneous change in control and we elected to exercise all of our put options. The put feature limits the potential loss in value that could be experienced in the event a corporate action occurs that results in a change in control that materially diminishes the credit quality of the issuer. We are under no obligation to exercise the put option we hold if a change in control occurs.

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

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

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

Fixed Maturities The composition of fixed maturities by maturity at March 31, 2017, was:

(millions)	Cost	Fair Value
Less than one year	\$4,370.5	\$4,382.3
One to five years	9,988.3	9,995.8
Five to ten years	3,030.3	3,030.0
Ten years or greater	55.7	66.2
Total	\$17,444.8	\$17,474.3

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

Gross Unrealized Losses As of March 31, 2017, we had \$90.3 million of gross unrealized losses in our fixed-income securities (i.e., fixed-maturity securities, nonredeemable preferred stocks, and short-term investments) and \$4.8 million in our common equities. We currently do not intend to sell the fixed-income securities and determined that it is more likely that we will not be required to sell these securities for the period of time necessary to recover their cost bases. A review of our fixed-income securities indicated that the issuers were current with respect to their interest obligations and that there was no evidence of any deterioration of the current cash flow projections that would indicate we would not receive the remaining principal at maturity. For common equities, 96% of our common stock portfolio was indexed to the Russell 1000; as such, this portfolio may contain securities in a loss position for an extended period of time, subject to possible write-downs, as described below. We may retain these securities as long as the portfolio and index correlation remain similar. To the extent there is issuer-specific deterioration, we may write down the securities of that issuer. The remaining 4% of our common stocks were part of a managed equity strategy selected and administered by an external investment advisor. If our review of loss position securities were to indicate there was a fundamental, or market, impairment on these securities that was determined to be other-than-temporary, we would recognize a write-down in accordance with our stated policy.

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

(\$ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months		12 Months or Greater			
				No. of Sec.	Fair Value	No. of Sec.	Fair Value	Unrealized Losses	
March 31, 2017									
Fixed maturities:									
U.S. government obligations	34	\$2,747.0	\$ (20.6)	34	\$2,747.0	\$ (20.6)	0	\$0	\$0
State and local government obligations	340	986.3	(10.7)	310	906.5	(9.5)	30	79.8	(1.2)
Corporate debt securities	147	2,494.7	(15.0)	139	2,415.1	(14.9)	8	79.6	(0.1)
Residential mortgage-backed securities	182	880.9	(11.0)	82	264.4	(1.1)	100	616.5	(9.9)
Agency residential pass-through obligations	65	35.4	(0.7)	56	32.7	(0.6)	9	2.7	(0.1)
Commercial mortgage-backed securities	92	1,131.9	(16.3)	73	985.7	(14.2)	19	146.2	(2.1)
Other asset-backed securities	118	1,601.6	(3.1)	112	1,521.4	(2.8)	6	80.2	(0.3)
Redeemable preferred stocks	1	11.4	(1.1)	0	0	0	1	11.4	(1.1)
Total fixed maturities	979	9,889.2	(78.5)	806	8,872.8	(63.7)	173	1,016.4	(14.8)

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Equity securities:

Nonredeemable preferred stocks	9	197.0	(11.8) 5	78.5	(0.7) 4	118.5	(11.1)
Common equities	68	49.2	(4.8	) 61	48.3	(4.8	) 7	0.9	0	
Total equity securities	77	246.2	(16.6) 66	126.8	(5.5) 11	119.4	(11.1)
Total portfolio	1,056	\$10,135.4	\$ (95.1) 872	\$8,999.6	\$ (69.2) 184	\$1,135.8	\$ (25.9)

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(\$ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months No. of Sec.	Fair Value	Unrealized Losses	12 Months or Greater No. of Sec.	Fair Value	Unrealized Losses
March 31, 2016									
Fixed maturities:									
U.S. government obligations	5	\$74.9	\$ 0	5	\$74.9	\$ 0	0	\$0	\$ 0
State and local government obligations	112	267.8	(1.2)	63	132.8	(0.3)	49	135.0	(0.9)
Corporate debt securities	60	672.3	(6.2)	21	169.2	(0.4)	39	503.1	(5.8)
Residential mortgage-backed securities	157	1,345.1	(28.5)	52	426.9	(3.9)	105	918.2	(24.6)
Agency residential pass-through obligations	25	9.1	(0.1)	3	0.4	0	22	8.7	(0.1)
Commercial mortgage-backed securities	130	1,185.4	(18.9)	49	395.4	(2.2)	81	790.0	(16.7)
Other asset-backed securities	86	1,175.2	(4.2)	70	999.3	(3.2)	16	175.9	(1.0)
Redeemable preferred stocks	9	198.8	(48.9)	4	88.0	(16.1)	5	110.8	(32.8)
Total fixed maturities	584	4,928.6	(108.0)	267	2,286.9	(26.1)	317	2,641.7	(81.9)
Equity securities:									
Nonredeemable preferred stocks	13	344.4	(24.4)	4	79.0	(2.6)	9	265.4	(21.8)
Common equities	73	87.4	(5.7)	67	84.3	(5.5)	6	3.1	(0.2)
Total equity securities	86	431.8	(30.1)	71	163.3	(8.1)	15	268.5	(22.0)
Total portfolio	670	\$5,360.4	\$(138.1)	338	\$2,450.2	\$(34.2)	332	\$2,910.2	\$(103.9)

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

Since March 31, 2016, the number of securities in our fixed-maturity portfolio with unrealized losses increased, primarily the result of rising interest rates during the latter part of 2016. A decline in credit spreads for the first three months of 2017 resulted in a decrease in the number of fixed-maturity securities with unrealized losses since December 31, 2016. We had no material decreases in valuation as a result of credit rating downgrades on our fixed-maturity securities. All of the fixed-maturity securities in an unrealized loss position at March 31, 2017 in the table above are current with respect to required principal and interest payments. Since December 31, 2016, our nonredeemable preferred stocks with unrealized losses decreased to nine securities, averaging approximately 6% of their total cost. The decrease in the number of securities is the result of valuation increases in the portfolio. We reviewed these securities and concluded that the unrealized losses are market-related adjustments to the values, which we determined not to be other-than-temporary; we expect to recover our initial investments on these securities. The number of issuers with unrealized losses in our common stock portfolio decreased during the first three months of 2017. A review of the securities in a loss position did not uncover fundamental issues with the issuers that would indicate other-than-temporary impairments existed. Additionally, market expectations for recovery in the next 12 months would put the

fair values at or above our current book values. Lastly, we determined, as of the balance sheet date, that it was not likely these securities would be sold prior to that recovery.

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

(millions)	March 31,		December 31,
	2017	2016	2016
Fixed maturities:			
Residential mortgage-backed securities	\$(43.3)	\$(43.3)	\$ (43.3)
Commercial mortgage-backed securities	(0.5)	(0.6)	(0.6)
Total fixed maturities	\$(43.8)	\$(43.9)	\$ (43.9)

The following tables provide rollforwards of the amounts related to credit losses recognized in earnings for the periods ended March 31, 2017 and 2016, for which a portion of the OTTI losses were also recognized in accumulated other comprehensive income at the time the credit impairments were determined and recognized:

(millions)	Three Months Ended March 31, 2017		
	Mortgage-Backed		
	Residential	Commercial	Total
Balance at December 31, 2016	\$11.1	\$ 0.4	\$11.5
Reductions for securities sold/matured	0	(0.3)	(0.3)
Change in recoveries of future cash flows expected to be collected ¹	0.3	0	0.3
Balance at March 31, 2017	\$11.4	\$ 0.1	\$11.5

(millions)	Three Months Ended March 31, 2016		
	Mortgage-Backed		
	Residential	Commercial	Total
Balance at December 31, 2015	\$12.4	\$ 0.4	\$12.8
Reductions for securities sold/matured	0	0	0
Change in recoveries of future cash flows expected to be collected ¹	(0.3)	0	(0.3)
Balance at March 31, 2016	\$12.1	\$ 0.4	\$12.5

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

Although we determined it is more likely that we will not be required to sell the securities prior to the recovery of their respective cost bases (which could be maturity), we are required to measure the amount of potential credit losses on the securities that were in an unrealized loss position. In that process, we considered a number of factors and inputs related to the individual securities. The methodology and significant inputs used to measure the amount of credit losses in our portfolio included: current performance indicators on the business model or underlying assets (e.g., delinquency rates, foreclosure rates, and default rates); credit support (via current levels of subordination); historical credit ratings; and updated cash flow expectations based upon these performance indicators. In order to determine the amount of credit loss, if any, the net present value of the cash flows expected (i.e., expected recovery value) was calculated using the current book yield for each security, and was compared to its current amortized value. In the event that the net present value was below the amortized value, a credit loss would be deemed to exist, and the security would be written down. We did not have any credit impairment write-downs for the three months ended March 31, 2017 or 2016.

Realized Gains (Losses) The components of net realized gains (losses) for the three months ended March 31, were:

(millions)	Three Months	
	2017	2016
Gross realized gains on security sales		
Fixed maturities:		
U.S. government obligations	\$0.4	\$14.3
State and local government obligations	0.5	10.9
Corporate and other debt securities	4.1	12.5
Residential mortgage-backed securities	0.1	0.9
Commercial mortgage-backed securities	1.2	3.6
Other asset-backed securities	0.3	0
Redeemable preferred stocks	0.3	0
Total fixed maturities	6.9	42.2
Equity securities:		
Nonredeemable preferred stocks	45.4	1.6
Common equities	7.4	9.5
Subtotal gross realized gains on security sales	59.7	53.3
Gross realized losses on security sales		
Fixed maturities:		
U.S. government obligations	(3.2)	(0.4)
State and local government obligations	(0.1)	(0.1)
Corporate and other debt securities	(0.9)	(0.4)
Commercial mortgage-backed securities	(2.4)	(2.7)
Total fixed maturities	(6.6)	(3.6)
Equity securities:		
Nonredeemable preferred stocks	(1.2)	(1.0)
Common equities	(0.1)	(4.9)
Subtotal gross realized losses on security sales	(7.9)	(9.5)
Net realized gains (losses) on security sales		
Fixed maturities:		
U.S. government obligations	(2.8)	13.9
State and local government obligations	0.4	10.8
Corporate and other debt securities	3.2	12.1
Residential mortgage-backed securities	0.1	0.9
Commercial mortgage-backed securities	(1.2)	0.9
Other asset-backed securities	0.3	0
Redeemable preferred stocks	0.3	0
Total fixed maturities	0.3	38.6
Equity securities:		
Nonredeemable preferred stocks		