Interpreting The Progressive Corporation's Monthly Financial Reporting Package

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PROGRESSIVE

NEWS RELEASE

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PROGRESSIVE REPORTS MONTHLY RESULTS

MAYFIELD VILLAGE, OHIO—The Progressive Corporation (NYSE:PGR) today reported the following results for the current month:

(millions, except per share amounts and ratios; unaudited)
Net premiums written
Net premiums earned
Net income available to Progressive
Per share available to common shareholders
Total pretax net realized gains (losses) on securities
Combined ratio
Average diluted equivalent common shares

(thousands; unaudited)
Policies in Force:
Vehicles:
Agency—auto
Direct—auto
Total personal auto
Total special lines
Total Personal Lines business
Total Commercial Lines business
Property business

Progressive offers personal and commercial insurance throughout the United States. Our Personal Lines business writes insurance for personal autos and special lines products. Our Commercial Lines business writes primary liability, physical damage, and other auto-related insurance for autos and trucks owned and/or operated predominantly by small businesses. Our Property business writes residential property insurance for homeowners, other property owners, and renters.

See the "Comprehensive Income Statements" and "Supplemental Information" for further month and year-to-date information and the "Monthly Commentary" at the end of this release for additional discussion.

Progressive's Investor Relations Program seeks to provide stakeholders with information necessary to make reasoned investment decisions about our debt and equity securities. We report financial performance monthly in order to give investors and creditors some of the same information Progressive's management uses to assess business performance.

Questions received since we began this practice suggest some financial statement users are not familiar with financial reporting terms used by the property-casualty insurance industry. We provide this guide to help readers better understand our monthly reporting package. Further information can be found in our publicly filed documents, which are located in the Investors section of Progressive's website at: http://investors.progressive.com.

Progressive operates on a 52-week year with 13-week quarters. The first month of each calendar quarter is five weeks (January, April, July and October), followed by two four-week months. A traditional consequence of this timing is that the first month of each quarter has higher premium volume and lower expense ratios, reflecting the fixed cost component of the business. An additional consequence, is that every five or six years Progressive reports a year that consists of 53 weeks. Monthly commentary will note the occurrence of the extra week when appropriate.

Please share comments and suggestions for improvement with Julia Hornack, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, OH 44143 (email: julia_hornack@progressive.com; phone: 440-395-2164).

Policies in Force. The number of outstanding insurance contracts as of the balance sheet date.

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
COMPREHENSIVE INCOME STATEMENT

(millions)
(unaudited)

Net premiums written

Revenues:
Net premiums earned
Investment income
Net realized gains (losses) on securities:
Net realized gains (losses) on security sales
Net holding period gains (losses) on securities
Other-than-temporary impairment (OTTI) losses:
Total OTTI losses
Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses
Net impairment losses recognized in earnings
Total net realized gains (losses) on securities
Fees and other revenues
Service revenues
Other gains (losses)
Total revenues

Net premiums written. The dollar value of all new and renewal insurance policies sold during the reporting period (Direct premiums written) less the share of policy proceeds ceded to reinsurers who assume some of the underwriting risk borne by Progressive. Assuming there is no reinsurance arrangement, a six-month auto insurance policy with a price of $600 sold on October 1 would cause $600 of net premiums written during the month of October. Mix shifts across geography and underwriting tiers can affect average premium dollars per policy and distort attempts to decompose revenue growth into unit (i.e., policies in force) and price changes.

Net premiums earned. The share of policy proceeds exposed to loss within a reporting period. A $600, six-month policy written on October 1 would result in $100 of premiums earned for each of the next six months. Earned premium results from reduction of the balance sheet's *unearned premiums* liability.

Investment income. Income from financial instruments in our investment portfolio. Major components include bond interest, as well as dividend income from preferred and common stocks.

Net realized gains (losses) on securities. This section represents realized gains (losses) on security activity (e.g., security sales, holding period valuation changes) and other activity such as other-than-temporary impairment losses on fixed-maturity securities.

Net realized gains (losses) on security sales. Represents the difference between proceeds received from investment securities sold during the reporting period and the amortized cost of those securities. In addition, it includes recoveries from litigation settlements.

Net holding period gains (losses) on securities. This item includes valuation changes on equity securities, derivative instruments, and certain hybrid securities that are required to be reported as a component of realized gains and losses.

Other-than-temporary impairment (OTTI) losses. Companies are required to perform periodic reviews of fixed-maturity securities in their investment portfolios to determine whether a decline in the value of a security is other-than-temporary. If we intend to sell, or if it is more likely than not that we will be required to sell, the security prior to recovery, the entire amount of the OTTI loss will be recorded in earnings. To the extent that it is more likely than not that we will hold the debt security until recovery, we need to determine if any of the decline in value is due to a credit loss (i.e., where the present value of cash flows expected to be collected are lower than the amortized cost basis of the security) and, if so, we would recognize that portion of the impairment in earnings, with the balance (i.e., non-credit-related impairment) recognized as part of our net unrealized gains (losses) in other comprehensive income.

Total OTTI losses. Represents total OTTI losses recognized in earnings during the periods presented.

Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses. Represents non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses recognized in earnings during the periods presented. A negative amount for the period reflects credit losses reclassified from other comprehensive income that exceeded the amount of non-credit OTTI losses recognized in other comprehensive income during the period.

Net impairment losses recognized in earnings. Represents the OTTI losses recognized in the Comprehensive Income Statement.

Total net realized gains (losses) on securities. The total of all gains (losses) on securities, including certain OTTI losses, recognized in the Comprehensive Income Statement.

Fees and other revenues. Primarily represents fees collected from policyholders relating to installment charges in accordance with our bill plans, as well as late payment and insufficient funds fees. Other revenues may include revenue from the sale of tax credits, rental income, and other revenue transactions.

Service revenues. Revenue recognized for non-insurance services provided to customers. Progressive is a sizable third-party administrator for state-run plans providing commercial automobile insurance to fleets that cannot buy coverage in traditional insurance markets. Service revenues also include commissions received from our alliances with unaffiliated homeowner and other insurance companies who offer customers home, condo, renters, and other insurance and with unaffiliated commercial auto insurance companies who offer customers general liability, business owner, and workers' compensation insurance as well as fees for providing third-party claims and underwriting services and co-brokerage commission income related to reinsurance transactions.

Other gains (losses). From time to time, we may recognize gains or losses outside of the ordinary course of business. The company will describe significant items reported on this line item in the monthly release.

Comprehensive Income Statement (continued)

Expenses:

Losses and loss adjustment expenses

Policy acquisition costs

Other underwriting expenses

Investment expenses

Service expenses

Interest expense

Total expenses

Income before income taxes

Provision for income taxes

Net income

Net (income) loss attributable to noncontrolling interest (NCI)

Net income attributable to Progressive

Losses and loss adjustment expenses. Claim payments and claims handling costs recognized during the reporting period. Also referred to as incurred losses, these expenses include both cash payments and changes in *loss and loss adjustment expense reserves*. Incurred losses less the change in *net loss and loss adjustment expense reserves* (defined on page 11) equals the amount of paid losses during the period.

Policy acquisition costs. Commissions, premium taxes, payroll, and other expenses relating to the successful acquisition of new and renewal insurance contracts. *Policy acquisition costs* represent the amortization of *deferred acquisition costs (DAC)*, which is an asset recognized on the Balance Sheet, over the policy period in which the related premiums are earned.

Other underwriting expenses. Overhead expenses associated with running an insurance company. Includes payroll for employees in servicing and administrative functions and advertising costs.

Investment expenses. Payroll, custodian, brokerage, information technology, and administrative costs associated with managing the investment portfolio and capital planning.

Service expenses. Costs matched with *service revenues* that are primarily payroll expenses. Expenses also include costs for our alliance with homeowner insurance companies, including advertising costs.

Interest expense. Interest and amortization incurred on outstanding debt, net of interest capitalized for construction projects, and certain computer software development. In addition, we entered into forecasted debt issuance hedges against possible rises in interest rates prior to issuing certain of our debt instruments. The gains (losses) on these hedges were deferred and are being amortized as adjustments to interest expense over the life of the related debt issuances.

Provision for income taxes. Estimated U.S. federal and state income taxes associated with earnings of the reporting period. Tax deductions, such as municipal bond interest income and the corporate dividends received deductions, and investment tax credits reduce the provision from the statutory tax rate.

Net (income) loss attributable to noncontrolling interest (NCI). Progressive consolidates the financial results of all subsidiaries in which it owns greater than 50% of the company's capital stock and is able to demonstrate that it exercises control over the company's operations. To the extent Progressive owns less than 100% of a consolidated subsidiary it needs to attribute that subsidiary's net income to the shareholders in proportion to their percentage ownership. For example, if Progressive exercises control over a company in which it owns 75% of the company's capital stock and the company generated net income of $100, then Progressive would include $100 in its net income, attribute $25 to the noncontrolling shareholders who own 25% of the company and report $75 within the **Net income attributable to Progressive**.

Comprehensive Income Statement (continued)

Other comprehensive income (loss), net of tax:

Changes in:
  Net unrealized gains (losses) on securities:
    Net non-credit-related OTTI losses,
      adjusted for valuation changes
    Other net unrealized gains (losses) on securities
  Total net unrealized gains (losses) on securities
  Net unrealized gains (losses) on forecasted transactions
Other comprehensive income (loss)
Other comprehensive (income) loss attributable to NCI
Total comprehensive income (loss) attributable to Progressive

Net unrealized gains (losses) on securities. This section represents the change during the period between the fair value and amortized cost of our fixed-maturity security holdings.

Net non-credit-related OTTI losses, adjusted for valuation changes. Represents the sum of (a) after-tax amount of the Comprehensive Income Statement line item called "Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses" and (b) valuation changes on previously recorded non-credit losses.

Other net unrealized gains (losses) on securities. Represents the change during the period between the fair value and amortized cost of our fixed-maturity security holdings, excluding the net non-credit-related OTTI losses and valuation changes on previously recorded non-credit losses.

Total net unrealized gains (losses) on securities. The sum of the above two amounts.

Net unrealized gains (losses) on forecasted transactions. In connection with our debt issuances, or for other purposes, we may invest in forecasted transactions. The amount reflects the change in the unrealized gains (losses) on any open forecasted transactions, as well as the amortization into income of the gains (losses) on the closed transactions.

Other comprehensive income (loss). The sum of the above three amounts. It represents the total of certain gains (losses) of the company which are recognized in an equity account instead of recognized in a profit or loss account.

Other comprehensive (income) loss attributable to NCI. Similar to income attributable to noncontrolling interest (see page 3), amount represents the allocation of changes in accumulated other comprehensive income during the period to shareholders who own a noncontrolling interest in a consolidated subsidiary of Progressive.

Total comprehensive income (loss) attributable to Progressive. The sum of *net income (loss)* and *other comprehensive income (loss)*. The line item includes all changes in accumulated other comprehensive income during the period. Comprehensive income attempts to measure the sum total of all operating and financial events that have changed the value of an owner's interest in a business.

Computation of Net Income and Comprehensive Income Per Share & Investment Results

The following table sets forth the computation of per share results:

Net income attributable to Progressive
Less: Preferred share dividends
Net income attributable to common shareholders
Per common share:
Basic
Diluted

Comprehensive income (loss) attributable to Progressive
Less: Preferred share dividends
Comprehensive income (loss) attributable to common shareholders
Per common share:
Diluted

Average common shares outstanding—Basic
Net effect of dilutive stock-based compensation
Total average equivalent common shares—Diluted

Preferred share dividends. The holders of our Series B Fixed-to-Floating Rate Cumulative Perpetual Serial Preferred Shares are entitled to receive a semi-annual cash dividend at a rate of 5.375% per annum during the fixed-rate period. As the cash required to pay preferred Series B dividends is ineligible for distribution to common shareholders, the preferred dividend amount is excluded from net income and comprehensive income attributable to Progressive when calculating per share amounts.

Per common share. The amount of earnings attributable to the average number of *basic* or *diluted* common shares outstanding during the reporting period. We disclose both *net income* per share and *comprehensive income (loss)* per share.

Basic. Average common shares outstanding for the calculation of basic per share amounts begins with the *common shares outstanding* (see page 12) at the beginning of the period (excluding unvested restricted equity awards) and time-weights the activity for the period. Activity may include share repurchases, which reduce *common shares outstanding*, and restricted equity vesting, which increase this amount.

Net effect of dilutive stock-based compensation. Represents eligible restricted stock unit awards granted using the Treasury Stock method prescribed by current accounting guidance.

Diluted. The sum of *average common shares outstanding—basic* and the *net effect of dilutive stock-based compensation*.

The following table sets forth the investment results for the period:

Fully taxable equivalent (FTE) total return:
Fixed-income securities
Common stocks

Total portfolio

Pretax annualized investment income book yield

Fully taxable equivalent total return. A pretax measure of portfolio return during the reporting period which includes investment income, realized capital gains (losses) plus unrealized changes in the market value of security holdings, using a time-weighted measure of security positions. We gross up investment income to eliminate distortions caused by tax preferences described in *provision for income taxes* on page 3.

Fixed-income securities:	bonds and preferred stocks
Common stocks:	primarily large/mid capitalization domestic equities (e.g., Russell 1000 Index)

Pretax annualized investment income book yield. A measure whereby investment income for the respective period (e.g., month, year-to-date) is annualized and expressed as a percent of the average book value of the portfolio, excluding net unsettled security transactions, for the same period.

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION
($ in millions)
(unaudited)

Current Month						
	Vehicles					
	Personal Lines Business			Commercial Lines Business	Property Business	Companywide Total
	Agency	Direct	Total			

Personal Lines Business. Vehicle insurance policies sold to households. Major lines of business include private passenger auto, motorcycle, recreational vehicle, and boat insurance.

Agency. The portion of our Personal Lines business sold through independent agents, as well as brokers in New York and California. We pay a commission to these intermediaries while their customer remains insured with Progressive.

Direct. The balance of our Personal Lines business, which is written directly by Progressive online, by phone, or on a mobile device.

Companywide Total. The sum of all consolidated insurance results. Balances tie to the consolidated Comprehensive Income Statement. Includes the results for our other indemnity businesses, which manage our run-off businesses.

Property Business. Property insurance policies sold primarily to households for homes, condos, and renters. Policies in this segment are sold mainly through independent agents.

Commercial Lines Business. Policies sold to small businesses requiring liability and physical damage coverage for cars and trucks used in operations in the business auto, for-hire transportation, contractor, for-hire specialty, tow, and for-hire livery markets. Policies in this segment are sold mainly through independent agents.

Supplemental Information (continued)

Net Premiums Written
% Growth in NPW
Net Premiums Earned
% Growth in NPE

The top section of Supplemental Information presents growth rates by business segment relative to the same reporting period in the previous year. Growth in *net premiums written* compares the dollar value of new and renewal policies sold in reporting periods. Dollar amounts represent the number of policies sold multiplied by the dollar value of individual insurance policies.

Mix changes across geography and underwriting tiers complicate comparisons. If we reduced prices in a densely populated state with high average premiums, we would likely sell proportionately more policies in that jurisdiction and raise the countrywide average dollars per policy even though we lowered rates.

Assuming a constant mix of policy periods (six-month and annual policies), a *net premiums written* (NPW) balance greater than a *net premiums earned* (NPE) balance indicates growth in the dollar value of insurance policies sold during the reporting period.

Also assuming a constant mix of policy periods, a higher growth rate in NPW compared to that for NPE suggests accelerating expansion. A growth rate for NPE that exceeds that for NPW may suggest slower period-over-period growth. In other words, differences in growth rates among the account balances may indicate inflection points in volume trends. Seasonal patterns (e.g., proportionally fewer motorcycle policies sold in the winter) can distort this relationship.

GAAP Ratios
Loss/LAE ratio
Expense ratio
Combined ratio

GAAP ratios. Measure underwriting profitability when results are recorded using Generally Accepted Accounting Principles, which emphasize matching revenues with expenses over an indefinite time horizon.

Loss/LAE ratio. This measure represents management's estimate of the share of premiums that will be used to settle claims and is calculated by dividing incurred *losses and loss adjustment expenses* (LAE) by net premiums earned. Higher ratios can suggest adverse selection, rate inadequacy, or degradation in claims handling quality.

Expense ratio. The sum of policy acquisition and other underwriting expenses, net of fees and other revenues, divided by net premiums earned. This measure estimates the share of collected premium used to run the underwriting part of the business. Lower values suggest greater efficiency.

Combined ratio. Arguably, this is the most important diagnostic measure of property-casualty insurance companies. This profitability measure is the sum of the *Loss/LAE* and *expense ratios*. For example, a 96 *combined ratio* means the insurer has earned a 4% pretax profit on underwriting activity for the reporting period.

Supplemental Information (continued)

Actuarial Adjustments

Reserve Decrease/(Increase)

Prior accident years

Current accident year

Calendar year actuarial adjustment

Actuarial Adjustments. Actuaries continually review patterns of how adjusters settle claims and monitor variables such as changes in inflation rates and state insurance laws. As actuaries gather information, they may revise previously established reserve estimates. Progressive reports net actuarial adjustments by business segment.

Prior accident years. The subset of actuarial adjustments applicable to claims that occurred (but were not necessarily reported) before January 1 of the current year.

Current accident year. The balance of actuarial adjustments made in the reporting period which apply to claims that occurred on or after January 1.

Calendar year actuarial adjustment. The sum of all actuarial adjustments recorded during the current accounting period.

In a perfect world, cash payments to settle claims would equal amounts previously reserved on the Balance Sheet. A claim payment *below* a previously established reserve balance gives rise to an *increase* in reported earnings and *favorable* reserve development. Claim payments *exceeding* previously established loss reserves cause *reductions* in reported earnings and *unfavorable* loss reserve development. Such credits and charges flow through the Comprehensive Income Statement's *losses and loss adjustment expenses* line item.

If an insurer secures additional information about a claim, but is not ready to settle the loss, a claims adjuster in the field or an actuary at the home office may adjust a previously established reserve balance. Reserve reductions increase reported earnings (and reserve increases reduce reported earnings) with changes flowing through the Comprehensive Income Statement's *losses and loss adjustment expenses* line item.

"Accident year" and "calendar year" are concepts used to parse claims data into reporting periods. GAAP statements use the calendar year concept that records claims in the period a loss is reported to Progressive and subsequent reserve adjustments on claims that happened in prior years in the period that we become aware of the newly received information. On an annual basis, Progressive discloses accident year data, which allocates all known reserve adjustments on claims back to the years losses occurred.

A smaller difference between calendar and accident year loss ratios suggests more effective loss reserving practices.

A more detailed discussion of our loss reserving practices can be found in our *Report on Loss Reserving Practices*, which is filed periodically in a Form 8-K with the Securities and Exchange Commission.

Supplemental Information (continued)

Prior Accident Years Development

Favorable/(Unfavorable)

Actuarial adjustment

All other development

Total development

Calendar year loss/LAE ratio

Accident year loss/LAE ratio

Prior Accident Years Development. This section shows all loss reserve development arising from information gathered during the year on claims that occurred before January 1. If we had the benefit of this information as of the previous year-end, we would have recorded the favorable or unfavorable adjustment in prior year financial statements.

All other development. This line shows loss development on prior years' claims arising from events outside of actuarial reviews. Includes claims adjusters settling losses for amounts different than the amount reserved (and creating a gain or loss on settlement) or from Incurred But Not Recorded (IBNR) emergence in which we receive more or less late-reported claims than had been reserved as of the prior year-end.

Represents the amount of prior accident years development reflected in the current reporting period's earnings.

Calendar year loss/LAE ratio & Accident year loss/LAE ratio.

These two figures show the effect of prior year development on the current year's loss ratio. A smaller difference suggests better reserve accuracy. The *accident year ratio* includes losses that occurred during the current year; calendar year results include losses that occurred during the current year, as well as development recognized in the current year that arose from losses that took place before January 1.

Example:

Accident year loss/LAE Ratio	69.0%
Calendar year loss/LAE Ratio	67.0%
Favorable/(Unfavorable) development	2.0%
Net premiums earned	$1,000.0
Prior accident years development	$20.0

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
BALANCE SHEET AND OTHER INFORMATION
(millions—except per share amounts)
(unaudited)

CONDENSED GAAP BALANCE SHEET:

Investments, at fair value:

Available-for-sale securities:

Fixed maturities[1] (amortized cost: $_____)

Short-term investments (amortized cost: $_____)

Total available-for-sale securities

Equity securities:

Nonredeemable preferred stocks[1] (cost: $_____)

Common equities (cost: $_____)

Total equity securities

Total investments[2,3]

Net premiums receivable

Deferred acquisition costs

Goodwill and intangible assets

Other assets[2,4]

Total assets

[1,2,3,4]These footnotes are explained on page 13 of this guide.

Available-for-sale. This is a security valuation method which adjusts portfolio holdings to fair value as of the balance sheet date and records changes in value, net of anticipated income taxes, to net unrealized gains (losses) as part of *shareholders' equity*.

Fixed maturities. Interest-bearing or discounted securities, including redeemable preferred stock, that obligate issuers to pay investors specified sums of money.

Short-term investments. Cash and securities with redemptions or maturities occurring within one year, including receivables from securities lending activity.

Amortized cost. The purchase price of a security, adjusted for amortization of any premium or discount as the bond approaches maturity.

Equity securities. Common stock, non-redeemable preferred stock, and any alternative investments such as private equity. For Progressive, the vast majority of common stocks represents U.S. equity holdings designed to mimic performance of the Russell 1000 Index. The Russell 1000 Index is comprised of the S&P 500 (large cap) and the S&P 400 (mid cap) securities. A small amount of common stocks are managed actively against the S&P 500 Index. The security valuation method for these securities adjust portfolio holdings to fair value as of the balance sheet date and changes in value flow through the Comprehensive Income Statement's *net holding period gains (losses) on securities* line item.

Net premiums receivable. The amount to be collected on previously sold policies. Premiums receivable goes down when policyholders pay billing invoices. This balance is independent of changes in the *unearned premiums* liability. The amount is also net of an allowance for receivables that we estimate we will not be able to collect.

Deferred acquisition costs. Represents capitalized expenses associated with the successful acquisition of new and renewal insurance contracts and is amortized to the Comprehensive Income Statement through *policy acquisition costs*. Progressive amortizes all acquisition costs over the policy period, which is generally six months for personal auto and 12 months for commercial auto and the property business. Use of this account allows better matching of expenses with revenue recognition arising from amortization of the *unearned premiums* liability balance. Progressive does not defer advertising costs.

Goodwill and intangible assets. Goodwill represents the future economic benefits that arose from other assets acquired in a business combination that are not individually identified and separately recognized. Simply stated, it is the amount of consideration paid to acquire a company in excess of its book value, after adjusting assets and liabilities to fair value. Intangible assets lack physical substance and are recognized separately from goodwill in a business combination. Intangible assets can include such items as the value attributable to agency relationships, state licenses, policies in force, and trade names of the acquired company. The intangible assets are generally amortized over their estimated economic useful life. Goodwill is not amortized but will be tested periodically for impairment.

Other assets. Includes property and equipment, receivables from reinsurers, and prepaid expenses. Other assets may also include *net unsettled security transactions* on collateral on open derivative positions (see footnote 2 on page 13).

Balance Sheet and Other Information (continued)

Unearned premiums
Loss and loss adjustment expense reserves[4]
Other liabilities[2]
Debt
Total liabilities
Redeemable noncontrolling interest (NCI)
Shareholders' equity
Total liabilities, NCI, and shareholders' equity

[2,4]These footnotes are explained on page 13 of this guide.

Unearned premiums. A non-monetary liability measuring the value of insurance coverage to be provided on previously sold policies. Amortization of *unearned premiums* is reported on the Comprehensive Income Statement as *premiums earned*. For example, a $600, six-month policy written on October 1 would have a $500 remaining *unearned premiums* balance as of November 1.

Loss and loss adjustment expense reserves (Gross). This line represents management's estimate of the liability to settle claims that have not yet been paid. We do not discount these reserves to reflect the time value of money. Claims adjusters or corporate actuaries may revise previously established reserve balances as they receive new information or may apply inflation factors to increase the reserves automatically as reserves age.

Loss and loss adjustment expense reserves (Net). Represents gross loss and loss adjustment expense (LAE) reserves as shown on the Balance Sheet less reinsurance recoverable on unpaid losses (see footnote 4 on page 13). The change in net loss and LAE reserves for the period plus claims paid during the same period equals the total incurred losses reported on the Comprehensive Income Statement (see page 3).

Other liabilities. Includes accounts payable, accrued operating expenses, and liabilities associated with securities lending or repurchase transactions. See footnote 2 on page 13 of this guide for further explanation.

Debt. The amortized cost of outstanding debt financing provided by bond investors.

Redeemable noncontrolling interest (NCI). Often referred to as mezzanine equity, redeemable NCI reflects the current fair value of the commitment Progressive has to purchase the remaining capital stock of ARX Holding Corp. from its minority shareholders. Progressive expects to own 100% of ARX Holding Corp. by April 2021.

Shareholders' equity. Assets minus liabilities, as valued by Generally Accepted Accounting Principles. Represents the equity capital available to absorb adverse loss reserve development, financial market corrections, litigation, weather catastrophes, and other events that could affect capital adequacy.

Balance Sheet and Other Information (continued)

Common shares outstanding
Common shares repurchased—current month
  Average cost per common share
Book value per common share
Trailing 12-month return on average common shareholders' equity
  Net income attributable to Progressive
  Comprehensive income attributable to Progressive
Net unrealized pretax gains (losses) on fixed-maturity securities
  Increase (decrease) from prior month
  Increase (decrease) from prior year-end
Debt-to-total capital ratio
Fixed-income portfolio duration
Weighted average credit quality
Year-to-date Gainshare factor

Common shares outstanding. Common stock of Progressive that is currently held by its investors. This amount may increase (e.g., restricted stock grants to directors and restricted unit vestings) or decrease (e.g., share repurchases) during the period. Common shares outstanding are the starting point for the *basic* and *diluted* average common shares outstanding used in our net income and comprehensive income (loss) *per share* calculations (see page 4).

Common shares repurchased. Represents shares of common stock repurchased by the company. Progressive's financial policies state that we will repurchase shares to neutralize dilution from equity-based compensation in the year of issuance and to return underleveraged capital to investors.

Book value per common share. This value represents *shareholders' equity*, excluding Preferred Shares, divided by the number of *common shares outstanding*. Underwriting profit, investment income, realized gains on securities, and unrealized gains on fixed-maturity securities increase this number. Realized losses on securities, unrealized losses on fixed-maturity securities, shareholder dividends, and share repurchases (when prices are greater than *book value*) reduce this number. Recognition of other-than-temporary impairments does not affect book value per share, as such recognition reclassifies the loss from accumulated other comprehensive income to retained earnings (i.e., net income), both of which are equity accounts.

Trailing 12-month return on average common shareholders' equity.

Net income attributable to Progressive. This percentage measures how effectively management employed equity capital, and is calculated by dividing aggregate net income attributable to common shareholders for the trailing 12 months by the average common shareholders' equity for the same period.

Comprehensive income attributable to Progressive. Another measure of how effectively management employed equity capital, and is calculated using aggregate comprehensive income attributable to common shareholders for the trailing 12-month period, instead of net income.

Net unrealized pretax gains (losses) on fixed-maturity securities. This number represents the difference between the fair value of fixed-maturity security holdings as of the balance sheet date and their amortized cost, excluding certain hybrid securities (see footnote 1 on page 13).

Debt-to-total capital ratio. Calculated as the fraction of debt divided by the sum of debt plus total shareholders' equity (including serial preferred shares), all measured at book value. This figure allows readers to monitor management's target to maintain a financial leverage ratio below 30%. Debt would include 100% of the outstanding indebtedness of all subsidiaries in which Progressive has a controlling financial interest. The ratio does not include redeemable NCI in the numerator or denominator.

Fixed-income portfolio duration. Reflects the fixed-income portfolio's sensitivity to changes in interest rates on its valuation at market. The longer the duration of a portfolio, the greater the impact to its market value for interest rate increases and decreases.

Weighted average credit quality. Credit quality ratings are assigned by nationally recognized securities rating organizations (e.g., Moody's, S&P). Individual securities are weighted based on fair value and a numeric score is assigned to each credit rating based on a scale of 0-5.

Year-to-date Gainshare factor. This factor is used in the determination of our current variable common shareholder dividend payment. The factor, which can vary from 0.0 to 2.0, changes during the course of the year as growth and profitability change in our business units. The variable dividend payment will be based on the final factor through December of each year. The factor will be multiplied by a Board-selected target percentage of after-tax underwriting income, which the Board sets annually as part of their review of the policy. Subject to the limitations discussed below, the dividend would be calculated as follows:

Net premiums earned
Plus: Fees and other revenues
Less: Losses and loss adjustment expenses
  Policy acquisition costs
  Other underwriting expenses
= Pretax underwriting income
x 79% (1-statutory tax rate of 21%)
= After-tax underwriting income
x Gainshare factor through December
x Board-selected target percentage
= Annual variable dividend
÷ Common shares outstanding at dividend record date
= Annual variable dividend per common share

However, if the Gainshare factor is zero or if our after-tax *comprehensive income* (which includes net investment income, as well as both realized gains (losses) in securities and the change in unrealized gains (losses) during the period) is less than after-tax underwriting income, no dividend would be payable under our variable dividend policy. However, the ultimate decision on whether or not a dividend will be paid is at the discretion of the Board.

Footnotes to Balance Sheet and Other Information

[1]We held certain hybrid securities and recognized the change in fair value as a realized gain or loss during the period we held these securities.

[2]Total investments includes/excludes net unsettled security transactions and collateral on open derivative transactions.

[3]Includes investments in a consolidated, non-insurance subsidiary of the holding company.

[4]Loss and loss adjustment expense reserves are stated gross of reinsurance recoverables on unpaid losses, which are included in "other assets."

Footnote 1. Certain fixed-maturity hybrid securities are reported at fair value with the change in fair value recorded as a component of net realized gains (losses) on securities. Hybrid securities have call features with fixed-rate coupons, whereby the value of the call features can change with respect to the overall change in value of the securities.

Footnote 2. *Net unsettled security transactions*—Progressive keeps its investment records on a trade date instead of a settlement date basis. Security purchases that have not settled as of the balance sheet date give rise to an increase in *other liabilities,* whereas security sales that have not settled as of the balance sheet date give rise to an increase in *other assets*. Included in net unsettled securities is collateral, either received or delivered, on open derivative contracts which reduces counterparty exposure risk due to valuation changes that occur on these contracts.

Repurchase commitment transactions—This is a form of security lending (borrowing) where Progressive elects to sell to a counterparty certain high-quality assets for cash, at their current fair value, including accrued interest, with the express intent of reacquiring those same securities on a stated later date. The cash borrowed on the securities sold is invested at rates that exceed those of the borrowing rates, generating additional profits, with limited credit risk and no duration (extension) risk. These transactions also include reverse repurchase transactions, whereby we lend cash to a counterparty in exchange for general collateral notes that are backed by certain U.S. Treasury Notes.

Footnote 3. Represents the amount of investments held in a non-insurance subsidiary, a portion of which could be used to provide flexibility to repurchase stock or other securities, consider acquisitions, and pay dividends to shareholders, among other purposes. This information is provided on a quarterly basis.

Footnote 4. Generally Accepted Accounting Principles provide that insurers cannot reduce their own loss reserves with receivables from reinsurers. Reinsurance does not extinguish an insurer's liability to its customers. This disclosure helps readers assess the scope of reinsurance activity and implications of credit risk from reinsurance transactions.