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

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2019

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 001-09518

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, $1.00 Par Value	PGR	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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 every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	☐	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 Act). ☐ Yes ☒ No

The aggregate market value of the voting common shares held by non-affiliates of the registrant at June 30, 2019: $46,188,157,681

The number of the registrant's Common Shares, $1.00 par value, outstanding as of January 31, 2020: 585,253,659

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2020, and the Annual Report to Shareholders of The Progressive Corporation and subsidiaries for the year ended December 31, 2019, included as Exhibit 13 to this Form 10-K, are incorporated by reference in Parts I, II, III, and IV hereof.

PART I

ITEM 1. BUSINESS

General Development of Business

The Progressive insurance organization began business in 1937. The Progressive Corporation, an insurance holding company formed in 1965, currently has insurance and non-insurance subsidiaries and affiliates. Our insurance subsidiaries and affiliates provide personal and commercial auto insurance, personal residential and commercial property insurance, general liability insurance, and other specialty property-casualty insurance and related services. Our auto insurance products protect our customers against losses due to physical damage to their motor vehicles, uninsured and underinsured bodily injury, and liability to others for personal injury or property damage arising out of the use of those vehicles. Our property insurance products protect our customers against losses due to damages to their structure or possessions within the structure, as well as liability for accidents occurring in the structure or on the property. Our non-insurance subsidiaries and affiliates generally support our insurance and investment operations. We operate throughout the United States.

The Progressive Corporation ("Progressive") acquired a controlling interest in ARX Holding Corp. ("ARX") in 2015, the parent company of insurance subsidiaries and affiliates that comprise the vast majority of our Property segment. Progressive and the other ARX stockholders, including stock option holders, are parties to a stockholders' agreement, which addresses the parties' respective rights and obligations. Among other provisions, the stockholders' agreement allows, and in certain circumstances requires, Progressive to acquire 100% of the outstanding equity of ARX by the second quarter of 2021. In February 2020, however, Progressive and the minority ARX shareholders signed a stock purchase agreement that requires Progressive to acquire the minority stockholders' ARX shares, including those to be issued under outstanding stock options. This transaction, which remains subject to normal closing conditions, would bring Progressive's ownership stake to 100% in April 2020, instead of the second quarter 2021 under the stockholders' agreement. For additional information, see *Note 15 – Redeemable Noncontrolling Interest* and *Note 17 – Subsequent Event* to our financial statements included in our 2019 Annual Report to Shareholders, which is filed as Exhibit 13 to this Form 10-K (the "Annual Report"). Until Progressive owns 100% of the outstanding equity of ARX, the interests of the minority stockholders in ARX's income and assets are reflected in our financial statements as noncontrolling interest.

Narrative Description of Business

Organization

Our operations are run by our executive team, which consists of our Chief Executive Officer and the heads of our major business areas that report to the CEO, including a Chief Financial Officer, Chief Legal Officer, Chief Information Officer, Chief Human Resource Officer, Chief Marketing Officer, and Chief Strategy Officer, along with the Presidents of Personal Lines, Commercial Lines, Claims, and Customer Relationship Management. Our Chief Investment Officer reports to our Chief Financial Officer, and the head of our Property business reports to our President of Personal Lines.

Our insurance and claims organizations are generally managed on a state-by-state basis due to the nature of insurance, legal and regulatory requirements, and other local factors, and are supplemented by national operations and supported by our corporate functions. State-specific organizations typically report to a regional general manager, who then reports to the applicable group president. In California, we operate a separate agency auto organization with its own management.

Personal Lines

Our Personal Lines segment writes insurance for personal autos and recreational and other vehicles, which we refer to as our special lines products. This business generally offers more than one program in a single state, with each program targeted to a specific distribution channel, market, or customer group. As of December 31, 2019, we wrote personal auto insurance in all 50 states and the District of Columbia, and we wrote the majority of our special lines products in all 50 states. The Personal Lines business accounted for 83% of total net premiums written in both 2019 and 2018, and 85% in 2017.

The Personal Lines segment consists of personal auto and special lines products.

- Personal auto insurance represented approximately 94% of our total Personal Lines net premiums written in both 2019 and 2018, and 93% in 2017. We ranked third in market share in the U.S. private passenger auto market for 2018, based on premiums written, and we believe we continued to hold that position for 2019. There are approximately 290 competitors in this market. Progressive and the other leading 16 private passenger auto insurers, each of which writes over $2.5 billion of premiums annually, comprise about 80% of this market. All industry data, including ranking and market share, has been obtained directly from data reported by either SNL Financial or A.M. Best Company, Inc. ("A.M. Best"), or was estimated using A.M. Best data as the primary source.
- Special lines products, which include insurance for motorcycles, ATVs, RVs, watercraft, snowmobiles, and similar items, represented the remaining Personal Lines net premiums written for 2019, 2018, and 2017, respectively. Due to the nature of these products, we typically experience higher losses during the warmer weather months. Our competitors are specialty companies and large multi-line insurance carriers. Although industry figures are not available, based on our analysis of this market, we believe that we have been the market share leader for the motorcycle product since 1998 and that we are one of the largest providers of specialty RV and boat insurance.

Our Personal Lines products are sold through both the Agency and Direct channels.

- The Agency business includes business written by our network of more than 35,000 independent insurance agencies located throughout the United States, including brokerages in New York and California. These independent insurance agents and brokers have the ability to place business with Progressive for specified insurance coverages within prescribed underwriting guidelines, subject to compliance with our mandated procedures. The agents and brokers do not have authority to establish underwriting guidelines, develop rates, settle or adjust claims, or enter into other transactions or commitments. The Agency business also writes insurance through strategic alliance business relationships with other insurance companies, financial institutions, and national agencies. The total net premiums written through the Agency channel represented 49% of our Personal Lines volume in 2019, 50% in 2018, and 51% in 2017.
- The Direct business includes business written directly by us on the Internet, through mobile devices, and over the phone. The total net premiums written by the Direct business represented the remaining Personal Lines volume in 2019, 2018, and 2017, respectively.

Our Personal Lines strategy is to be a competitively priced provider of a broad range of personal auto and special lines insurance products with distinctive service, distributed through whichever channel the customer prefers, and combined with property insurance and other products when appropriate to match our customers' needs. Volume potential is driven by our price competitiveness, brand recognition, quality service, and the actions of our competitors, among other factors. See "Competitive Factors" below for further discussion.

We seek to refine our personal auto segmentation, underwriting models, and pricing over time. In mid-2019, we introduced our next generation auto product and expect to continue to roll this product out during 2020. This product version has improved the accuracy of matching rate to risk and introduced new risk verification variables that we believe has improved our competitiveness, especially in more preferred segments.

We continue to provide customers in both the Agency and Direct channels the opportunity to improve their auto insurance rates based on their personal driving behavior through Snapshot®, our usage-based insurance program. We offer Snapshot through our traditional hardware-based version, which is available nationwide except for California and North Carolina due to the regulatory environment, as well as through our mobile-app version, which is available in 42 states and the District of Columbia. This mobile app is intended to improve the user experience while also reducing our monitoring costs. In addition to the personal benefits for our customers, the data collected via the mobile app affords us a unique perspective on mobile device usage, vehicle operations, and accidents. Our next generation auto product model, discussed above, also included Snapshot enhancements to broaden its applicability.

Our Personal Lines business is focused on efforts to form deeper and longer-term relationships with our customers through our Destination Era strategy. Through this strategy, we seek to leverage our Property business, as well as insurance and non-insurance products offered by unaffiliated third parties, to provide our customers access to a range of products addressing their diverse needs and, if the customer chooses, to "bundle" certain of the products together. Bundled products are an integral part of our consumer offerings and an important part of our strategic agenda. Customers who prefer to bundle represent a sizable segment of the insurance market, and our experience is that they tend to stay with us longer and generally have lower claims costs. Our Destination Era strategy involves a number of initiatives, including:

- In our Agency channel, we offer customers the opportunity to bundle our auto and property insurance.
- To further drive bundling in the Agency channel, we offer the Platinum program to those select agents who have the appropriate customers and who believe our bundled offering is a “must have” for their agency. This program combines our auto and home insurance with compensation, coordinated policy periods, single event deductible, and other features that meet the needs and desires that our agents have expressed. We currently have just over 3,700 Platinum agents.
- We offer independent agents an agency quoting system that makes it easier for them to bundle multiple policies with us. Our "Portfolio" quoting system reduces data entry, displays all available products eligible for bundled quotes, simplifies the comparative rater experience, and provides agents and their customers an overview of premium, bundle savings, and applied discounts to allow them to add or remove products with one click. Portfolio is currently available for all agents appointed to write new business in 33 states with plans to roll out to agents countrywide in 2020.
- In the Direct channel, we bundle Progressive auto with Progressive Home products, as well as with homeowners and renters products provided by unaffiliated insurance carriers. We offer these bundles by providing a single destination to which consumers may come for both their auto and property insurance needs. In many cases, we may offer discounts to incentivize or reward this bundling.
- HomeQuote Explorer® (HQX) is our multi-carrier, direct-to-consumers online property offering. Through HQX, consumers are able to quickly and easily quote and compare homeowners insurance online from Progressive and other carriers. During 2019, we expanded the availability of the online buy button for Progressive Home shoppers and are now active in 14 states, with plans to continue to expand over time.
- As we increase our penetration of the more complex, multi-product customers who are critical to our Destination Era success, we are further expanding the roster of products provided by unaffiliated companies that we make available through online and telephonic referrals and for which we receive commission or other compensation that are reported as service revenues. During 2019, we added personal loan financing to our existing list of unaffiliated company products that also include auto financing, home security, home warranty, and life, health, and travel insurance.
- Our special lines products and umbrella insurance can be combined with any of the auto, home, or renters coverages that we offer, in either the Direct or Agency channel.

Commercial Lines

The Commercial Lines segment writes auto-related primary liability and physical damage insurance, and business-related general liability and property insurance, each predominately for small businesses. This business represented 13% of our total net premiums written in 2019, 12% in 2018, and 11% in 2017. We offer our auto products in 50 states, and do not currently write Commercial Lines products in the District of Columbia. Our Commercial Lines auto customers insure approximately two vehicles on average. Even though we continue to write about 85% of our Commercial Lines business through the agency channel, we are seeing more small business owners purchasing their insurance on a direct basis.

There are approximately 330 competitors in the total U.S. commercial auto market. We primarily compete with about 50 other large companies/groups, each with over $200 million of commercial auto premiums written annually. These leading commercial auto insurers comprise about 80% of this market. Our Commercial Lines business ranked number one in the commercial auto insurance market for 2018 based on premiums written, and we believe that we continued to hold that position for 2019.

The Commercial Lines business operates in the following commercial auto business market targets:

- *Business auto* – autos, vans, pick-up trucks used by small businesses, such as retailing, farming, services, and private trucking, and for-hire livery (non-fleet (i.e., five or fewer vehicles) taxis, black-car services, and airport taxis),
- *For-hire transportation* – tractors, trailers, and straight trucks primarily used by regional general freight and expeditor-type businesses and non-fleet long-haul operators,
- *Contractor* – vans, pick-up trucks, and dump trucks used by small businesses, such as artisans, heavy construction, and landscapers/snowplowers,
- *For-hire specialty* – dump trucks, log trucks, and garbage trucks used by dirt, sand and gravel, logging, and coal-type businesses, and
- *Tow* – tow trucks and wreckers used in towing services and gas/service station businesses.

In late 2019, we introduced our next generation commercial auto product and expect to continue to roll this product out through 2020 and beyond. This product version continues to improve our pricing accuracy through segmentation.

During 2019, we increased our participation in the transportation network company (TNC) business, where we provide commercial auto coverage. We currently provide this coverage to Uber Technologies subsidiaries in 13 states and to Lyft's rideshare operations in 3 states. TNC is a growing and important part of our business and represented about 7% of our Commercial Lines net premiums written for 2019, with profitability that continues to meet our internal expectations. We plan to expand this part of our business where we are able to do so.

During 2019, we launched our business owners policy (BOP) insurance, offering general liability and property insurance. This product is geared specifically to small businesses and currently available to agents in eight states, with plans to expand to additional states during the remainder of 2020. We also continue to act as an agent for business customers to place BOP, general liability, professional liability, and workers' compensation coverage through unaffiliated insurance carriers and are compensated through commissions, which are reported as service revenues. To further help our direct customers, we offer BusinessQuote Explorer® (BQX), a digital application that allows small business owners to obtain quotes for these products from a select group of unaffiliated carriers. We plan to add our BOP product to our BQX platform later in 2020.

Similar to Snapshot in the personal auto business, the Commercial Lines business continues to invest in Smart Haul®, a usage-based insurance program for motor carriers. Smart Haul allows owner operators to earn discounts for agreeing to share their electronic logging device generated data with us. Smart Haul is currently available in 45 states.

Property

Our Property segment, which we began reporting in 2015 after we acquired a majority interest in ARX, writes residential property insurance in 44 states and the District of Columbia, and renters insurance in 45 states and the District of Columbia primarily in the independent agency channel, and through select agents under our Platinum program to drive home and auto bundling. We also act as a participant in the "Write Your Own" program for the National Flood Insurance Program under which we write flood insurance in 44 states and the District of Columbia.

Our Property business represented about 4% of our total net premiums written in both 2019 and 2017, and 5% in 2018. We tend to see more business written during the second and third quarters of the year based on the cyclical nature of property sales. Losses also tend to be higher during the warmer weather months when storms are more prevalent. As a property insurer, we have exposure to losses from catastrophes, including hurricanes, and other severe storms. To help mitigate these risks, we enter into reinsurance arrangements. See the "Reinsurance" section below for further discussion of our reinsurance programs.

As one of the 15 largest homeowners carriers in the United States, we specialize in property insurance for homes, condos, manufactured homes, and renters, as well as personal umbrella insurance and primary and excess flood insurance. There are approximately 380 competitors in the homeowners insurance market nationwide and we compete with many of these companies. The top 15 carriers comprise about 70% of the market.

As discussed above, our Property business is an important component of our Destination Era strategy.

Service Businesses

Our service businesses, which represent less than 1% of our total revenues and do not have a material effect on our overall operations, primarily include:

- *Commercial Automobile Insurance Procedures/Plans (CAIP)* – We are the only servicing carrier on a nationwide basis for CAIP plans, which are state-supervised plans servicing the involuntary market in 43 states and the District of Columbia. As a service provider, we provide policy issuance and claims adjusting services and collect fee revenue. Reimbursements to us from the CAIP plans are required by state laws and regulations, subject to contractual service standards. Any changes in our participation as a CAIP service provider would not materially affect our financial condition, results of operations, or cash flows.
- *Commission-based businesses* – We act as an agent for other insurance companies. We offer home, condominium, and renters insurance, among other products, written by unaffiliated insurance companies in the continental United States in the direct channel. We also offer our customers the ability to package their commercial auto coverage with other commercial coverages that are written by unaffiliated insurance companies. We receive commissions for the policies written under this program, all of which are used to offset the expenses associated with maintaining this program.

Reinsurance

We cede a portion of our direct premiums written to regulated reinsurance plans. We participate in several mandatory state pools, including the Michigan Catastrophic Claims Association, Florida Hurricane Catastrophe Fund, and North Carolina Reinsurance Facility. We also act as servicing agent for state-mandated involuntary plans for commercial vehicles (CAIP plans) and as a participant in the "Write Your Own" program for federally regulated plans for flood (National Flood Insurance Program). All of these programs are governed by insurance regulations.

We also have voluntary contractual arrangements that primarily relate to the Property business and to our transportation network company (TNC) business written by our Commercial Lines business. The reinsurance program in our Property business is designed to reduce overall risk while, to the extent of coverage purchased, protecting capital from the costs associated with catastrophes and severe storms. The largest parts of this reinsurance program are excess of loss programs and, for 2019, 2018, and 2017, aggregate stop loss agreements. These reinsurance programs are with unaffiliated reinsurance companies, most of which are rated "A" or better by A.M. Best.

The occurrence excess of loss program supports the goal of maintaining adequate capital while sustaining at least two one-in-one hundred year events in a single contract period. It contains several layers: privately-placed reinsurance, a catastrophe bond, and coverage obtained through the Florida Hurricane Catastrophe Fund, among other arrangements. The program includes layers that are purchased for multi-year periods, and layers as to which we have prepaid premiums for reinstatement of coverage after the first covered event to ensure coverage for the second event. Under the current program, we are responsible for all losses and allocated loss adjustment expenses (ALAE) that do not reach the reinsurance threshold of $60 million, and for the first $60 million in losses and ALAE from each event that exceeds the threshold. We may be responsible for additional losses if we experience more than two such events or if claims incurred exceed the maximum limits of the reinsurance coverage that is then in place. Coverage limits for a first event in Florida would be $1.8 billion, while coverage for a first event outside of Florida would be $1.35 billion; coverage for a second event (and, potentially, for subsequent covered events) would depend on a number of factors, including the severity and location of the earlier events in the contract period. We expect that in mid-2020 our retention threshold for this program will increase to at least $70 million and that the maximum coverage limits may also be increased, subject to our ongoing negotiations with reinsurers.

We have aggregate stop-loss reinsurance agreements (ASL), which are in effect for accident years 2019, 2018, and 2017, with substantially the same terms. The ASL agreements for 2017 and 2018 cover accident year Property losses and certain ALAE except those from named storms (both hurricanes and tropical storms) and liability claims, for business written by ARX subsidiaries that write Property business. As such, it provides protection for losses and ALAE incurred by our Property business in the ordinary course, including those resulting from other significant severe weather events, such as hail, tornadoes, etc. This agreement provides $200 million of coverage to the extent that the net loss and ALAE ratio for the full accident year exceeds 63%. The ASL reduced the likelihood that we would experience a net underwriting loss for reasons other than named storms and liability claims. The ASL agreement for 2019 accident year losses has substantially the same terms as those discussed above for the 2017 and 2018 agreements with the exception that the 2019 ASL also covers an additional $100 million of retained losses and ALAE from named storms.

We did not renew our ASL program for 2020. Instead, we entered into a property catastrophe aggregate excess of loss program in January 2020. This agreement contains two layers, each with a retention threshold of $375 million. The first layer provides $130 million of coverage for catastrophe losses and ALAE, except those from named storms (both hurricanes and tropical

storms). The second layer provides $60 million of coverage through May 31, 2020, and $70 million for the remainder of the year, for our retained losses and ALAE from both named and non-named storms. The first layer does not have to be exhausted before the second layer can be applied. For example, if we incurred non-named catastrophe losses and ALAE of $350 million and named storm losses of $50 million, we would have no reinsurance coverage under the first layer since the non-named catastrophe losses did not exceed the retention threshold; however, we would recognize a reinsurance recoverable of $25 million under the second layer, representing the amount that our total losses of $400 million ($350 million of non-named and $50 million of named catastrophe losses) exceeded the $375 million retention threshold.

For the TNC business written by Commercial Lines, we have quota share reinsurance agreements, under which we cede a portion of premium, losses, and loss adjustment expenses. Some portion of that reinsurance is with captive reinsurers and a portion is with a panel of third-party reinsurers, which are rated "A" or better by A.M. Best. Cession rates vary by state, with recoverables collateralized at a target of over 100%.

Claims

We manage our Personal and Commercial Lines claims handling on a companywide basis through approximately 250 stand-alone claims offices and just over 2,500 network shops located throughout the United States. For our Property business, we manage claims adjusting primarily through a network of independent claims field adjusters, while internal claims representatives manage the overall claims process. We currently employ about 370 internal Property claim representatives. During 2020, we plan to increase our internal claims staff.

Competitive Factors

The insurance markets in which we operate are highly competitive. Property-casualty insurers generally compete on the basis of price, agent commission rates, consumer recognition and confidence, coverages offered and other product features, claims handling, financial stability, customer service, and geographic coverage. Vigorous competition is provided by large, well-capitalized national companies in both the Agency and Direct channels, and by smaller regional insurers. In the Agency channel, some of our competitors have broad distribution networks of employed or captive agents. With widely available comparative rating services, consumers can easily compare prices among competitors. Many competitors invest heavily in advertising and marketing efforts and/or expanding their online or mobile service offerings. Over the past decade, these changes have further intensified the competitive nature of the property-casualty insurance markets in which we operate.

We rely heavily on technology to operate our business and on extensive data gathering and analysis to segment markets and price accurately according to risk. We have remained competitive by refining our risk measurement and price segmentation skills, closely managing expenses, and achieving operating efficiencies. High-quality customer service, fair and accurate claims adjusting, and strong brand recognition are also important factors in our competitive strategy. Competition in our insurance markets is also affected by the pace of technological developments. An insurer's ability to adapt to change, innovate, develop, and implement new applications and other technologies can affect its competitive position. In addition, our competitive position could be adversely impacted if we sustain security breaches or other "cyber attacks" on our systems or are unable to maintain uninterrupted access to our systems, business functions, and the systems of certain third-party providers. See *Item 1A, Risk Factors*, for more information.

In addition, there has been a proliferation of patents related to new ways in which technologies can affect competitive positions in the insurance industry. Some of our competitors have many more patents than we do. Some of the patents we currently hold include a usage-based insurance patent (expiring in 2024), two patents for the system we use for securing e-signature transactions (expiring in 2025), two U.S. patents on the Name Your Price® functionality on our website (expiring in 2028), two multi-product quoting patents (expiring in 2032), two patents for our implementation of a mobile insurance platform and architecture (expiring in 2032), a patent on our system of providing customized insurance quotes based on user's price and/or coverage preferences (expiring in 2033), two patents for our loyalty call routing system (expiring in 2033), a patent for a multivariate predictive system that processes usage-based data (expiring in 2035), and two patents for the implementation of a chatbot in online quoting and servicing (expiring in 2038 and 2039).

We have a substantial amount of "know-how" developed from years of experience with usage-based insurance, and from analyzing the data from almost 33 billion driving miles derived from our usage-based devices and our mobile app. We believe this intellectual property provides us with a competitive advantage in the usage-based insurance market.

State Insurance Licenses

Our insurance subsidiaries operate under licenses issued by various state insurance authorities. These licenses may be of perpetual duration or renewable periodically, provided the holder continues to meet applicable regulatory requirements. Our licenses govern the kinds of insurance coverages that may be written by our insurance subsidiaries in the issuing state. Such licenses are normally issued only after the filing of an appropriate application and the satisfaction of prescribed criteria. All licenses that are material to our subsidiaries' businesses are in good standing.

Insurance Regulation

Our insurance subsidiaries are generally subject to regulation and supervision by insurance departments of the jurisdictions in which they are domiciled or licensed to transact business. At least one of our insurance subsidiaries is licensed and subject to regulation in each of the 50 states and the District of Columbia. The nature and extent of such regulation and supervision varies from jurisdiction to jurisdiction. Generally, an insurance company is subject to a higher degree of regulation and supervision in its state of domicile. Our insurance subsidiaries, mutual insurance company, and Lloyds company are domiciled in the states of California, Delaware, Florida, Illinois, Indiana, Louisiana, Michigan, New Jersey, New York, Ohio, Texas, and Wisconsin. In addition, California and Florida treat certain of our subsidiaries as domestic insurers for certain purposes under their "commercial domicile" laws. We also have a subsidiary that writes excess and surplus lines; these activities do not require a license but are regulated.

State insurance laws impose numerous requirements, conditions, and limitations on the operations of insurance companies. Insurance departments have broad regulatory powers relating to those operations. Regulated areas include, among others:

- Licensing of insurers and agents,
- Capital and surplus requirements,
- Statutory accounting principles specific to insurance companies and the content of required financial and other reports,
- Requirements for establishing insurance reserves,
- Investments,
- Acquisitions of insurers and transactions between insurers and their affiliates,
- Limitations on rates of return or profitability,
- Rating criteria, rate levels, and rate changes,
- Insolvencies of insurance companies,
- Assigned risk programs,
- Authority to exit a business, and
- Numerous requirements relating to other areas of insurance operations, including: required coverages, policy forms, underwriting standards, and claims handling.

Insurance departments are authorized to conduct periodic and other examinations of regulated insurers' financial condition and operations to monitor the financial stability of the insurers and to ensure adherence to statutory accounting principles and compliance with state insurance laws and regulations. In addition, in some states, the attorney general's office may exercise certain supervisory authority over insurance companies and, from time to time, may investigate certain insurance company practices.

Insurance departments establish and monitor compliance with capital and surplus requirements. Although the ratio of written premiums to surplus that the regulators will allow is a function of a number of factors (including applicable law, the type of business being written, the adequacy of the insurer's reserves, and the quality of the insurer's assets), the annual net premiums that an insurer may write historically have been perceived to be limited to a specified multiple of the insurer's total surplus, generally 3 to 1 for property and casualty insurance, which is the target for our vehicle businesses; our Property business maintains a lower premiums-to-surplus ratio. Thus, the amount of an insurer's statutory surplus, in certain cases, may limit its ability to grow its business. At year-end 2019, we had net premiums written of $37.6 billion and statutory surplus of $13.7 billion. The combined premiums-to-surplus ratio for all of our insurance companies was 2.7 to 1. In addition, as of December 31, 2019, we had access to $3.2 billion of securities held in a non-insurance subsidiary, portions of which could be contributed to the capital of our insurance subsidiaries to support growth or for other purposes. In January 2020, we used $1.4 billion of these securities to pay our common share dividends.

The National Association of Insurance Commissioners (NAIC) also has developed a risk-based capital (RBC) program to enable regulators to identify and take appropriate and timely regulatory actions relating to insurers that show signs of weak or deteriorating financial condition. RBC is determined by a series of dynamic surplus-related formulas that contain a variety of factors that are applied to financial balances based on the degree of certain risks, such as asset, credit, and underwriting risks. At December 31, 2019, our RBC ratios were in excess of minimum requirements.

Insurance companies are generally required to file detailed annual and other reports with the insurance department of each jurisdiction in which they conduct business. These reports include:

- the insurer's financial statements under statutory accounting principles,
- details concerning claims reserves held by the insurer,
- specific investments held by the insurer, and
- numerous other disclosures about the insurer's financial condition and operations.

State insurance laws and insurance departments also regulate investments that insurers are permitted to make. Limitations are placed on the amounts an insurer may invest in a particular issuer, as well as the aggregate amount an insurer may invest in certain types of investments. Certain investments are prohibited.

Insurance holding company laws enacted in many jurisdictions authorize insurance departments to regulate acquisitions of insurers and certain other transactions and to require periodic disclosure of specified information. These laws impose prior approval requirements for certain transactions between insurers and their affiliates and generally regulate dividend and other distributions, including loans and cash advances, between insurers and their affiliates. See *Note 8 – Statutory Financial Information* in our Annual Report for further discussion.

Under state insolvency and guaranty laws, insurers can be assessed or required to contribute to state guaranty funds to cover policyholder losses resulting from the insolvency of other insurers. Insurers are also required by many states, as a condition of doing business in the state, to provide coverage to certain risks that cannot find coverage in the voluntary market. These "assigned risk" plans generally specify the types of insurance and the level of coverage that must be offered to such involuntary risks, as well as the allowable premium. Many states also have involuntary market plans, which hire a limited number of servicing carriers to provide insurance to involuntary risks. These plans, through assessments, pass underwriting and administrative expenses on to insurers that write voluntary coverages in those states.

Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit an insurer's ability to cancel or non-renew policies. Certain states also prohibit an insurer from withdrawing one or more lines of business from the state, except pursuant to a plan that is approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. Laws and regulations that limit the cancellation or non-renewal of policies, or that subject program withdrawals to prior approval requirements, may restrict an insurer's ability to exit unprofitable markets or businesses.

As mentioned above, insurance departments have regulatory authority over many other aspects of an insurer's insurance operations, including coverages, forms, rating criteria, and rate levels. The ability to implement changes to these items on a timely basis is critical to our ability to compete effectively in the marketplace. Rate regulation varies from "use and file," to "file and use," to prior approval.

Regulation of insurance constantly changes as real or perceived issues and developments arise. Some changes may be due to economic developments, such as changes in investment laws made to recognize new investment products or to respond to perceived investment risks, while others reflect concerns about consumer privacy, insurance availability, prices, allegations of unfair-discriminatory pricing, underwriting practices, and solvency. In recent years, legislation, regulatory measures, and voter initiatives have been introduced, and in some cases adopted, which deal with use of non-public consumer information, cybersecurity, use of credit information in underwriting and rating, insurance rate development, rate of return limitations, and the ability of insurers to cancel or non-renew insurance policies. In addition, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary. The Federal Insurance Office is required to collect information about the insurance industry and monitor the industry for systemic risk.

Statutory Accounting Principles

Our results are reported in accordance with accounting principles generally accepted in the United States of America (GAAP), which differ in certain respects from amounts reported under statutory accounting principles (SAP) prescribed by insurance regulatory authorities. Certain significant differences are described below:

Category	GAAP Accounting	SAP Accounting
Acquisition Expenses	Commissions, premium taxes, and other variable costs incurred in connection with the successful acquisition of new and renewal business are capitalized and amortized pro rata over the policy term as premiums are earned.	Commissions, premium taxes, and all other acquisition costs are expensed as incurred.
Nonadmitted Assets	Premiums receivable are reported net of an allowance for doubtful accounts.	Premiums receivable over 90 days past due are “nonadmitted,” which means they are excluded from surplus. For premiums receivable less than 90 days past due, we also record a bad debt reserve.
	Furniture, equipment, application software and implementation costs, leasehold improvements, and prepaid expenses are capitalized and amortized over their useful lives or periods benefited.	Excluding computer equipment and operating software, the value of all other furniture, equipment, application software and implementation costs, leasehold improvements, and prepaid expenses, net of accumulated depreciation or amortization, is nonadmitted against surplus. Computer equipment and operating software are capitalized, subject to statutory limitations based on surplus, and depreciated over three years.
	Deferred tax assets are recorded based on estimated future tax effects attributable to temporary differences. A valuation allowance would be recorded for any tax benefits that are not expected to be realized.	The accounting for deferred tax assets is consistent with GAAP, except for deferred tax assets that do not meet statutory requirements for recognition, which are nonadmitted against surplus.
Reinsurance	Ceded reinsurance balances are shown as an asset on the balance sheet as “prepaid reinsurance premiums” and “reinsurance recoverables,” net of an allowance for expected credit losses.	Ceded unearned premiums are netted against the “unearned premiums” liability. Ceded unpaid loss and loss adjustment expense (LAE) amounts are netted against “loss and LAE reserves.” Only ceded paid loss and LAE are shown as a “reinsurance recoverables” asset. A credit loss write down is recorded when incurred; an allowance for expected credit losses is not established.
Investment Valuation	Fixed-maturity securities, which are classified as available-for-sale and presented net of an allowance for expected credit losses, are reported at fair values.	Fixed-maturity securities are reported at amortized cost or the lower of amortized cost or fair value, depending on the NAIC designation of the security. A credit loss write down is recorded when events indicating impairment occur; an allowance for expected credit losses is not established.
	Preferred stocks, both redeemable and nonredeemable, are reported at fair values.	Redeemable preferred stocks are reported at amortized cost or the lower of amortized cost or fair value, depending on the NAIC designation of the security. Nonredeemable preferred stocks are reported at fair value, consistent with GAAP.
Operating Leases	Operating leases are reported on the balance sheet as both an asset and liability.	Operating leases are considered off-balance-sheet items.
Federal Income Taxes	The income tax provision includes both current and deferred income taxes.	For income statement reporting, the income tax provision only includes current tax expense. Deferred taxes are recorded directly to surplus. Deferred tax assets are subject to certain limitations on admissibility.
State Income Taxes	The income tax provision includes both current and deferred income taxes.	Current income taxes are recorded as a component of underwriting expenses. Deferred income taxes are not recorded.

Investments

Our investment portfolio, which had a fair value of $39.3 billion at December 31, 2019, compared to $33.6 billion at December 31, 2018, consists of fixed-maturity securities, short-term investments, and equity securities (nonredeemable preferred stocks and common equity securities). Our fixed-maturity securities, short-term investments, and nonredeemable preferred stocks are collectively referred to as fixed-income securities. Our principal investment goals are to manage our portfolio on a total return basis to support all of the insurance premiums that we can profitably write and contribute to our comprehensive income. Our portfolio is invested primarily in short-term and intermediate-term, investment-grade fixed-income securities.

Investment income is affected by the variability of cash flows to or from the portfolio, shifts in the type and quality of investments in the portfolio, changes in yield, and other factors. For securities held in our investment portfolios, total investment income includes interest and dividends, net realized gains (losses) on securities sold, net holding period gains (losses) on securities, which for 2019 and 2018 was composed primarily of valuation changes on equity securities, and write-downs on securities held in our investment portfolio. Total investment income, before expenses and taxes, was $2,134.5 million in 2019, compared to $483.3 million in 2018, and $662.3 million in 2017. For our investment portfolio, on a pretax total return basis (i.e., total investment income plus changes in net unrealized gains (losses)), investment income was $2,728.1 million, $357.5 million, and $1,210.8 million for the years ended December 31, 2019, 2018, and 2017, respectively. Outside of our investment portfolio, but reported in impairment losses in the consolidated statements of comprehensive income, were $63.3 million, $68.3 million, and $49.6 million of other-than-temporary impairment losses resulting from renewable energy tax credit investments during 2019, 2018, and 2017, respectively. For more detailed discussion of our investment portfolio, see *Note 2 – Investments, Note 3 – Fair Value,* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the Annual Report.

Employees

The number of employees at December 31, 2019, was 41,571, all of whom were employed by subsidiaries of The Progressive Corporation.

Liability for Property-Casualty Losses and Loss Adjustment Expenses

The consolidated financial statements include the estimated liability for unpaid losses and loss adjustment expenses (LAE) of our insurance subsidiaries. Our objective is to ensure that total reserves (i.e., case reserves and incurred but not recorded reserves, or IBNR) are adequate to cover all loss costs, while sustaining minimal variation from the time reserves are initially established until losses are fully developed. The liabilities for losses and LAE are determined using actuarial and statistical procedures and represent undiscounted estimates of the ultimate net cost of all unpaid losses and LAE incurred through December 31 of each year. These estimates are subject to the effect of future trends on claims settlement, among other factors.

These estimates are continually reviewed and adjusted as experience develops and new information becomes known. Adjustments, if any, relating to accidents that occurred in prior years are reflected in the current year results of operations and are referred to as "development" of the prior year estimates. In establishing loss reserves, we take into account projected changes in claim severity caused by anticipated inflation and a number of factors that vary with the individual type of policy written. These severities are projected based on historical trends, adjusted for anticipated changes in underwriting standards, inflation, policy provisions, claims resolution practices, and general economic trends. These anticipated trends are reconsidered periodically based on actual development and are modified if necessary.

See *Note 6 – Loss and Loss Adjustment Expense Reserves* in the Annual Report for a detailed discussion of our loss reserving practices and a reconciliation of our loss and LAE reserve activity, along with incurred and paid claims development by accident year for our segments, based on definitions pursuant to statutory accounting principles.

Available Information

Our website is located at progressive.com. As soon as reasonably practicable, we make all documents that we file with, or furnish to, the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, available free of charge via our website at progressive.com/investors. These reports are also available on the SEC's website: http://www.sec.gov. Information on our website does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Progressive filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate such information by reference in such a filing.

ITEM 1A. RISK FACTORS

Our business involves various risks and uncertainties, certain of which are discussed in this section. Management divides these risks into five broad categories in assessing how they may affect our financial condition, cash flows, and results of operations, as well as our ability to achieve our business objectives:

- **Insurance Risks -** risks associated with assuming, or indemnifying for, the losses or liabilities incurred by policyholders
- **Operating Risks -** risks stemming from external or internal events or circumstances that directly or indirectly may affect our insurance operations
- **Market Risks -** risks that may cause changes in the value of assets held in our investment portfolios
- **Liquidity Risk -** risk that our financial condition will be adversely affected by the inability to meet our short-term cash, collateral, or other financial obligations, and
- **Credit and Other Financial Risks** - risks that the other party to a transaction will fail to perform according to the terms of a contract, or that we will be unable to satisfy our obligations when due or obtain capital when necessary.

Although we have organized risks generally according to these categories in the discussion below, many of the risks may have ramifications in more than one category. For example, although presented as an Operating Risk below, governmental regulation of insurance companies also affects our underwriting, investing, and financing activities, which are addressed separately under Insurance Risks, Market Risks, and Credit and Other Financial Risks below. These categories, therefore, should be viewed as a starting point for understanding the significant risks facing us and not as a limitation on the potential impact of the matters discussed.

It also should be noted that our business and that of other insurers may be adversely affected by a downturn in general economic conditions and other forces beyond our control. Issues such as unemployment rates, the number of vehicles sold, technological advances, home ownership trends, inflation or deflation, consumer confidence, and construction spending, among a host of other factors, will have a bearing on the amount of insurance that is purchased by consumers and small businesses and the costs that we incur. Also, to the extent that we have a concentration of business in one or more states or regions of the country, general economic conditions in those states or regions may have a greater impact on our business.

We cannot predict whether the risks and uncertainties discussed in this section, or other risks not presently known to us or that we currently believe to be immaterial, may develop into actual events and impact our businesses. If any one or more of them does so, the events could materially adversely affect our financial condition, cash flows, or results of operations, and the market prices of our equity or debt securities could decline.

This information should be considered carefully together with the other information contained in this report and in the other reports and materials filed by us with the SEC, as well as news releases and other information we publicly disseminate from time to time.

I. Insurance Risks

***Our success depends on our ability to underwrite and price risks accurately and to charge adequate rates to policyholders*.**

Our financial condition, cash flows, and results of operations depend on our ability to underwrite and set rates accurately for a full spectrum of risks. A primary role of the pricing function is to ensure that rates are adequate to generate sufficient premiums to pay losses, loss adjustment expenses, and underwriting expenses, and to earn a profit.

Pricing involves the acquisition and analysis of historical data regarding vehicle accidents, other insured events, and associated losses, and the projection of future trends for such accidents and events, loss costs, expenses, and inflation, among other factors, for each of our products in multiple risk tiers and many different markets. Our ability to price accurately is subject to a number of risks and uncertainties, including, without limitation:

- the availability of sufficient, reliable data
- our ability to conduct a complete and accurate analysis of available data
- uncertainties inherent in estimates and assumptions, generally
- our ability to timely recognize changes in trends and to predict both the severity and frequency of future losses with reasonable accuracy
- our ability to predict changes in operating expenses with reasonable accuracy
- our ability to reflect changes in reinsurance costs in a timely manner
- the development, selection, and application of appropriate rating formulae or other pricing methodologies
- our ability to innovate with new pricing strategies and the success of those strategies
- our ability to implement rate changes and obtain any required regulatory approvals on a timely basis
- our ability to predict policyholder retention accurately
- unanticipated court decisions, legislation, or regulatory actions
- the frequency, severity, duration, and geographic location and scope of catastrophe events
- our ability to understand the impact of ongoing changes in our claim settlement practices
- changing vehicle usage and driving patterns, which may be influenced by oil and gas prices among other factors, changes in residential occupancy patterns, and the emerging sharing economy
- advancements in vehicle or home technology or safety features, such as accident and loss prevention technologies or the development of autonomous or partially autonomous vehicles
- unexpected changes in the medical sector of the economy, including medical costs and systemic changes resulting from national or state health care laws or regulations
- unforeseen disruptive technologies and events,
- the ability to understand the risk profile of significant customers, such as transportation network companies, and
- unanticipated changes in auto repair costs, auto parts prices, used car prices, or construction requirements or labor and materials costs, or the imposition and impacts of tariffs.

The realization of one or more of these risks may result in our pricing being based on inadequate or inaccurate data or inappropriate analyses, assumptions, or methodologies, and may cause us to estimate incorrectly future changes in the frequency or severity of claims. As a result, we could underprice risks, which would negatively affect our underwriting profit margins, or we could overprice risks, which could reduce our competitiveness and growth prospects. In either event, our financial condition, cash flows, and results of operations could be materially adversely affected. In addition, underpricing insurance policies over time could erode the capital position of one or more of our insurance subsidiaries, thereby constraining our ability to write new business.

Our success depends on our ability to establish accurate loss reserves.

Our financial statements include loss reserves, which represent our best estimate as of the date of the financial statements of the amounts that our insurance subsidiaries ultimately will pay on claims that have been incurred, and the related costs of adjusting those claims. There is inherent uncertainty in the process of establishing property and casualty insurance loss reserves, which can arise from a number of factors, including:

- the availability of sufficient, reliable data
- the difficulty in predicting the rate and direction of changes in frequency and severity trends, including the effects of future inflation rates, for multiple products in multiple markets
- unexpected changes in medical costs, auto repair costs, or the costs of construction labor and materials, and the imposition and impacts of tariffs
- unanticipated changes in governing statutes and regulations
- new or changing interpretations of insurance policy provisions and coverage-related issues by courts
- the effects of changes in our claims settlement practices
- our ability to recognize fraudulent or inflated claims
- the accuracy of our estimates regarding claims that have been incurred but not recorded as of the date of the financial statements
- the accuracy and adequacy of actuarial techniques and databases used in estimating loss reserves, and
- the accuracy and timeliness of our estimates of loss and loss adjustment expenses as determined for different categories of claims.

The ultimate paid losses and loss adjustment expenses may deviate, perhaps substantially, from point-in-time estimates of such losses and expenses, as reflected in the loss reserves included in our financial statements. Consequently, ultimate losses paid could materially exceed reported loss reserves and have a material adverse effect on our financial condition, cash flows, or results of operations.

Our insurance operating results may be materially adversely affected by severe weather or other catastrophe events, and changing climate conditions may be exacerbating these impacts.

Our insurance operating results could be materially adversely affected by natural events, such as hurricanes, tornadoes, windstorms, floods, earthquakes, hailstorms, severe winter weather, and fires, or by other events, such as explosions, terrorist attacks, cyber attacks, epidemics, pandemics, riots, and hazardous material releases. The frequency, severity, duration, and geographic location and scope of such events are inherently unpredictable. Moreover, changing climate conditions, whether due to global climate change or other causes, may increase how often severe weather events and other natural disasters occur, how long they last, and how much insured damage they cause, and may change where the events occur. Catastrophe losses may adversely affect the results of our Property segment more than they affect the results of our other businesses.

The extent of insured losses from a catastrophe event is a function of our total insured exposure in the area affected by the event, the nature, severity, and duration of the event, and the extent of reinsurance that we have obtained with respect to such an event. We use catastrophe modeling tools to help estimate our exposure to such events. Those tools are based on historical data and other assumptions that limit their reliability and predictive value, and they may become even less reliable as climatic conditions change. As a result, our forecasting efforts may generate projections that prove to be materially inaccurate. An increase in the frequency, severity or duration, or unanticipated changes in geographic location or scope, of catastrophes could materially adversely affect our financial condition, cash flows, and results of operations.

Our success will depend on our ability to continue to accurately predict our reinsurance needs, obtain sufficient reinsurance coverage for our Property and other businesses at reasonable cost, and collect under our reinsurance contracts.

Our Property business relies on reinsurance contracts, state reinsurance funding, and catastrophe bonds (collectively, “reinsurance arrangements”) to reduce its exposure to certain catastrophe events. We also use reinsurance contracts to reinsure portions of our Commercial Lines businesses, including the transportation network company business, and our umbrella insurance business. Reinsurance arrangements are often subject to a threshold below which reinsurance does not apply, so that we are responsible for all losses below the threshold from a covered event, and to an aggregate dollar coverage limit, so that our claims liabilities arising from a covered event may exceed our reinsurance coverage. In addition, although the reinsurer is liable to us to the extent of the reinsurance coverage, we remain liable under our policies to the insured as the direct insurer on

all risks reinsured. As a result, we are subject to the risk that reinsurers will be unable to pay, or will dispute, our reinsurance claims. Further, the availability and cost of reinsurance are subject to prevailing reinsurance market conditions, which have been and in the future could be impacted by the occurrence of significant reinsured events, such as catastrophes. We may not be able to obtain reinsurance coverage in the future at commercially reasonable rates or at all. The unavailability and/or cost of reinsurance could adversely affect our business volume, profitability, or financial condition.

II. Operating Risks

We compete in property-casualty markets that are highly competitive.

The markets in which we sell insurance are highly competitive. We face vigorous competition from large, well-capitalized national and international companies, as well as smaller regional insurers. Other companies, potentially including existing insurance companies, vehicle manufacturing companies, other well-financed companies seeking new opportunities, or new competitors with technological or other innovations, also have entered these markets and may continue to do so in the future. Many of our competitors have substantial resources, experienced management, and strong marketing, underwriting, and pricing capabilities. The property and casualty insurance industry is a relatively mature industry, in which brand recognition, marketing skills, innovation, operational effectiveness, pricing, scale, and cost control are major competitive factors. If our competitors offer similar insurance products at lower prices, offer such insurance products bundled with other products or services that we do not offer, are permitted to offer their products under different legal and regulatory constraints than those that apply to us, or engage in other successful competitive initiatives, our ability to generate new business or to retain a sufficient number of our existing customers could be compromised. In addition, because auto insurance constitutes a significant portion of our overall business, we may be more sensitive than other insurers to, and more adversely affected by, trends that could decrease auto insurance rates or reduce demand for auto insurance over time, such as advances in vehicle technology, autonomous or semi-autonomous vehicles, or vehicle sharing arrangements.

We expect similar, and perhaps greater, competitive pressures with respect to any new insurance or non-insurance businesses that we decide to enter in the future. In such cases, we would be selling products or services that are new to us, while our competitors could include large, well-financed companies with significant product and marketing experience in such businesses.

Historically, the auto and property insurance markets have been described as cyclical, with periods of relatively strong profitability being followed by increased pricing competition among insurers. This price competition, which is sometimes referred to as a “soft market,” can adversely affect revenue and profitability levels. As insurers recognize this situation (which can occur at different times for different companies), the historical reaction has been for insurers to raise their rates (sometimes referred to as a “hard market”) in an attempt to restore profitability to acceptable levels. As more insurers react in this way, profit levels in the industry may increase to a point where some insurers begin to lower their rates, starting the cycle over again. The ability to discern at any point in time whether we are in a “hard” or “soft” market is often difficult, as such a conclusion represents an assessment of innumerable data points including, among others, the operating results of, and the dynamic competitive actions taken by, us and many competitors in multiple markets involving a variety of products. Often detailed information on our competitors becomes available on a delayed basis, and the nature of the market becomes apparent only in retrospect. Our ability to predict future competitive conditions is also constrained as a result.

The highly competitive nature of the insurance marketplace could result in consolidation within the industry, or in the failure of one or more competitors. The concentration of insurance business in a reduced number of major competitors could significantly increase the level of competition in a manner that is not favorable to us. In addition, in the event of a failure of a major insurer or a state-sponsored catastrophe fund, our company and other insurance companies may be required by law to absorb the losses of the failed insurer or fund, resulting in a potentially significant increase in our costs. We might also be faced with an unexpected surge in new business from a failed insurer’s former policyholders. Such events could materially adversely affect our financial results, brand, and future business prospects.

Our success depends on our ability to innovate effectively and respond to our competitors’ initiatives.

Our ability to develop and implement innovative products and services that are accepted and valued by our customers and independent agents is critical to maintaining and enhancing our competitive position. Innovations must be implemented in compliance with applicable insurance regulations and may require extensive modifications to our systems and processes and extensive coordination with and reliance on the systems of third parties. As a result, if we do not handle these transitions effectively and bring such innovations to market with the requisite speed, the quality of our products, our relationships with our customers and agents, and our business prospects, may be materially adversely affected. In addition, innovations by competitors or other market participants may increase the level of competition in the industry. If we fail to respond appropriately to those innovations on a timely basis, our competitive position and results may be materially adversely affected.

We must effectively manage complexity as we develop and deliver high quality products and customer experiences.

Ongoing competitive, technological, regulatory, informational, and other developments result in significant levels of complexity in our products and in the systems and processes we use to run our businesses. These risks include our increasing reliance on third-party systems, the development of new modes of communication, changing insurance shopping trends, our understanding of the operations and needs of significant customers, and the availability of very large volumes of data (i.e., Big Data) and the challenges relating to analyzing those data sets. Complexity may create barriers to innovation or the provision of high-quality products and customer and agent experiences, may require us to modify our business practices, to adopt new systems, or to upgrade or replace outdated systems, each at significant expense, and may lead to increased difficulty in executing our business strategies.

Intellectual property rights could affect our competitiveness and our business operations.

There has been a proliferation of patents, both inside and outside the insurance industry, that significantly impacts our businesses. The existence of such patents, and other claimed intellectual property rights, from time to time has resulted in legal challenges to certain of our business practices by other insurance companies and non-insurance entities alleging that we are violating their rights. Such legal challenges could result in costly legal proceedings, substantial monetary damages, or expensive changes in our business processes and practices. Similarly, we may seek or obtain patent protection for innovations developed by us. However, we may not be able to obtain patents on these processes and practices, and defending our patents and other intellectual property rights against challenges, and enforcing and defending our rights, including if necessary through litigation, can be time consuming and expensive, and the results are inherently uncertain, which can further complicate business plans.

Our success depends on our ability to adjust claims accurately.

We must accurately evaluate and pay claims that are made under our insurance policies. Our failure to pay claims fairly, accurately, and in a timely manner, or to deploy claims resources appropriately and in a cost-effective manner, could result in unanticipated costs to us, lead to material litigation, undermine customer goodwill and our reputation in the marketplace, and impair our brand and, as a result, materially adversely affect our competitiveness, customer retention, financial results, prospects, and liquidity.

We must maintain a brand that is recognized and trusted by consumers.

We have made significant investments in our brand over many years, and we believe it is critical to our business that consumers recognize and trust the Progressive brand. We undertake distinctive advertising and marketing campaigns and other efforts to maintain and improve brand recognition, enhance perceptions of us, generate new business, and increase the retention of our current customers. We believe that maintaining and improving the effectiveness of our advertising and marketing campaigns relative to those of our competitors is particularly important given the significance of brand and reputation in the marketplace and the continuing high level of advertising and marketing efforts and related expenditures within the insurance market. If our marketing campaigns are unsuccessful or are less effective than those of competitors, or if our reliance on a particular spokesperson or character is compromised, our business could be materially adversely affected.

Our brand also could be adversely affected by situations that reflect negatively on us, whether due to our business practices, adverse financial developments, perceptions of our corporate governance or social responsibility, the conduct of our officers or employees, the actions of a significant customer or other businesses with which we do business, including unaffiliated insurers whose products we offer or make available to our customers, or other causes. The negative impacts of these or other events may be aggravated as consumers and other stakeholders increase their expectations regarding corporate conduct and responsibility. These impacts may be further complicated by the fact that their perceptions are formed through rapid and broad interactions using modern communication and social media tools over which we have no control. Any such event could decrease demand for our products, reduce our ability to recruit and retain employees, and lead to greater regulatory scrutiny of our businesses.

Our ability to attract, develop, and retain talent, including employees, managers, and executives, and to maintain appropriate staffing levels, is critical to our success.

Our success depends on our ability to attract, develop, compensate, motivate, and retain talented employees, including executives, other key managers, and employees with strong technological, analytical, and other skills and know-how necessary for us to run our vehicle and property insurance businesses and assess potential expansion into new products and business areas. Our loss of certain officers and key employees, or the failure to attract or develop talented executives, managers, and employees with diverse backgrounds and experiences, could have a material adverse effect on our business.

In addition, we must forecast sales and claims volume and other factors in changing business environments (for multiple products and business units and in many geographic markets) with reasonable accuracy, and we must adapt to increases in business due to additions of or expansions with significant customers, such as transportation network companies. In any such case, we must adjust our hiring and training programs and staffing levels appropriately. Our failure to recognize the need for such adjustments, or our failure or inability to react on a timely basis, could lead either to over-staffing or under-staffing in one or more business units or locations. In either such event, our financial results, customer relationships, employee morale, and brand could be materially adversely affected.

We use third-party labor to meet a portion of our staffing needs. Any significant loss in access to qualified external talent on a cost-effective basis could have an adverse effect on our business.

Our success also depends, in large part, on our ability to maintain and improve the staffing effectiveness and culture that we have developed over the years. Our ability to do so may be impaired as a result of litigation against us, other judicial decisions, legislation or regulations, or other factors in the employment marketplace, as well as our failure to recognize and respond to changing trends and other circumstances that affect our employees. In such events, the productivity of our workers and the efficiency of our operations could be adversely affected, which could lead to an erosion of our operating performance and margins.

We are subject to a variety of complex laws and regulations.

Our insurance businesses operate in highly regulated environments. Our insurance subsidiaries are subject to regulation and supervision by state insurance departments in all 50 states and the District of Columbia, each of which has a unique and complex set of laws and regulations. In addition, certain federal laws impose additional requirements on businesses, including insurers, in a wide range of areas, such as the use of credit information, methods of customer communications, employment practices, and the reimbursement of certain medical costs incurred by the government. Our insurance subsidiaries' ability to implement business plans and remain competitive while complying with these laws and regulations, and to obtain necessary regulatory action in a timely manner, is and will continue to be critical to our success.

Most jurisdictions impose restrictions on, or require prior regulatory approval of, various actions by regulated insurers, which may adversely affect our insurance subsidiaries' ability to operate, innovate, and obtain necessary rate adjustments in a timely manner. Our compliance efforts are further complicated by changes in laws or regulations applicable to insurance companies, or by judicial interpretations of those laws or regulations. Insurance laws and regulations may limit, among other things, an insurer's ability to underwrite and price risks accurately, prevent the insurer from obtaining timely rate changes to respond to increased or decreased costs, restrict the ability to discontinue unprofitable businesses or exit unprofitable businesses, prevent insurers from terminating policies under certain circumstances, dictate or limit the types of investments that an insurance company may hold, and impose specific requirements relating to information technology systems and related cybersecurity risks. Moreover, inconsistencies between requirements at the state and federal level may further complicate our compliance efforts, potentially resulting in additional costs for us. In addition, laws in certain jurisdictions mandate that insurance companies pay assessments in a number of circumstances, including potentially material assessments to pay claims upon the insolvency of other insurance companies or to cover losses in government-provided insurance programs for high risk auto and homeowners coverages. Compliance with laws and regulations often results in increased costs, which can be substantial, to our insurance subsidiaries. These costs, in turn, may adversely affect our profitability or our ability or desire to grow or operate our business in the applicable jurisdictions.

In addition, data privacy and security regulations impose complex compliance and reporting requirements and challenges. For example, California's new consumer privacy protection legislation became effective in 2020. Compliance with this new legislation is challenging as it has required us to modify our current business systems and operations in a short time frame and without the benefit of related regulations, which are not required to be issued in final form until six months after the legislation's effective date. Other states have enacted or are considering privacy and security legislation or regulations, and variations in requirements across the states present ongoing compliance challenges. Compliance with these laws and regulations will result in increased costs, which may be substantial and may adversely affect our profitability or our ability or desire to grow or operate our business in certain jurisdictions.

The actual or alleged failure to comply with this complex variety of laws and regulations by us or other companies in the insurance, financial services, or related industries, also could result in actions or investigations by regulators, state attorneys general, federal officials, or other law enforcement officials. Such actions and investigations, and any determination that we have not complied with an applicable law or regulation, could potentially lead to significant monetary payments, fines and penalties, adverse publicity and damage to our reputation in the marketplace, and in certain cases, revocation of a subsidiary's authority to do business in one or more jurisdictions. In addition, The Progressive Corporation and its subsidiaries could face individual and class action lawsuits by insureds and other parties for alleged violations of certain of these laws or regulations.

New federal or state legislation or regulations may be adopted in the future that could materially adversely affect our operations or ability to write business profitably in one or more jurisdictions.

Lawsuits challenging our business practices, and those of our competitors and other companies, are pending and more may be filed in the future.

The Progressive Corporation and/or its subsidiaries are named as defendants in class/collective/representative actions and other lawsuits challenging various aspects of the subsidiaries' business operations. These lawsuits have included cases alleging damages as a result of, among other things, our subsidiaries' methods used for evaluating and paying medical or injury claims or benefits, including, but not limited to, certain bodily injury, personal injury protection, uninsured motorist/underinsured motorist (UM/UIM), and medical payment claims and for reimbursing medical costs incurred by Medicare/Medicaid beneficiaries; other claims handling procedures, including, but not limited to, challenges relating to our network of repair facilities, our methods used for estimating physical damage to vehicles for repair purposes and for evaluating the actual cash value of total loss vehicles, our payment of fees and taxes, our subrogation practices, and our handling of diminution of value claims; our assessment of fees related to insufficient funds or reversed payments; interpretations of the provisions of our insurance policies; rating practices; certain policy marketing, sales, services, implementation and renewal practices and procedures, including with respect to accessibility; our Snapshot program; certain relationships with independent insurance agents; patent matters, and certain employment practices, including claims relating to pay practices and fair employment practices, among other matters. Additional litigation may be filed against us in the future challenging similar or other of our business practices. In addition, lawsuits have been filed, and other lawsuits may be filed in the future, against our competitors and other businesses, and although we are not a party to such litigation, the results of those cases may create additional risks for, and/or impose additional costs and/or limitations on, our subsidiaries' business operations.

Lawsuits against us often seek significant monetary damages and injunctive relief. The potential for injunctive relief can threaten our use of important business practices. In addition, the resolution of individual or class action litigation in insurance or related fields may lead to a new layer of judicial regulation, resulting in material increases in our costs of doing business.

Litigation is inherently unpredictable. Adverse court decisions or significant settlements of pending or future cases could have a material adverse effect on our financial condition, cash flows, and results of operations. For further information on the risks of pending litigation, see *Note 12 - Litigation* in the Annual Report.

Our business could be materially adversely affected by a security breach or other attack involving our computer systems or the systems of one or more of our vendors.

Our business requires that we develop and maintain large and complex computer systems to run our operations and to store the significant volume of data that we acquire, including the personal confidential information of our customers and employees and our intellectual property, trade secrets, and other sensitive business and financial information. All of these systems are subject to "cyber attacks" by sophisticated third parties with substantial computing resources and capabilities, and to unauthorized or illegitimate actions by employees, consultants, agents and other persons with legitimate access to our systems. Such attacks or actions may include attempts to:

- steal, corrupt, or destroy data, including our intellectual property, financial data, or the personal information of our customers or employees
- misappropriate funds
- disrupt or shut down our systems
- deny customers, agents, brokers, or others access to our systems, or
- infect our systems with viruses or malware.

Some of our systems rely on third-party vendors, through either a connection to, or an integration with, those third-parties' systems. This approach may increase the risk of loss, corruption, or unauthorized publication of our information or the confidential information of our customers and employees or other cyber attack, and although we may review and assess third-party vendor cyber security controls, our efforts may not be successful in preventing or mitigating the effects of such events. Third-party risks may include, among other factors, the vendor's lax security measures, data location uncertainty, and the possibility of data storage in inappropriate jurisdictions where laws or security measures may be inadequate.

We undertake substantial efforts to protect our systems and sensitive or confidential information. These efforts include internal processes and technological defenses that are preventative or detective, and other controls designed to provide multiple layers of security protection. In addition, we seek to protect the security and confidentiality of information provided to our vendors under "cloud computing" or other arrangements through appropriate risk evaluation, security and financial due diligence,

contracts designed to require high security and confidentiality standards, and review of third-party compliance with the required standards. While we expend significant resources on these defensive measures, our systems are being threatened on a regular basis, we have experienced minor incidents in the past, and there can be no assurance that we will be successful in preventing future attacks or detecting and stopping them once they have begun.

Our business could be significantly damaged by a security breach, data loss or corruption, or cyber attack. In addition to the potentially high costs of investigating and stopping such an event and implementing necessary fixes, we could incur substantial liability if confidential customer or employee information is stolen. In addition, such an event could cause a significant disruption of our ability to conduct our insurance operations, adversely affect our competitive position if material trade secrets or other confidential information are stolen, and have severe ramifications on our reputation and brand, potentially causing customers to refrain from buying insurance from us or other businesses to refrain from doing business with us. Therefore, the occurrence of a security breach, data loss or corruption, or cyber attack, if sufficiently severe, could have a material adverse effect on our business results, prospects, and liquidity.

Our business depends on the secure and uninterrupted operation of our facilities, systems, and business functions and the operation of various third-party systems.

Our business is highly dependent upon our ability to perform, in an efficient and uninterrupted manner, necessary business functions. The shut-down or unavailability of one or more of our systems or facilities for any reason could significantly impair our ability to perform critical business functions on a timely basis. In addition, many of our critical business systems interface with and depend on third-party systems; an interruption of service from a third-party system for any reason could significantly impair our ability to perform critical business functions. If sustained or repeated, and if an alternate system, process, or vendor is not immediately available to us, such events could result in a deterioration of our ability to write and process policies, provide customer service, resolve claims in a timely manner, make payments when required, or perform other necessary business functions. Any such event could have a material adverse effect on our financial results and business prospects, as well as cause damage to our brand and customer goodwill.

Efforts to develop new products or enter new areas of business may not be successful and may create enhanced risks.

We are developing, and may develop in the future, new insurance products, including those that insure risks that we have not previously insured, contain new coverages, or change coverage terms. These new products may not be as profitable as our existing products and may not perform as well as we expect. In addition, these new products may change our risk exposures, and the business systems, data, and models we use to manage those exposures may be less accurate or less effective than those we use with existing products.

In addition, we are evaluating other business models, both insurance and non-insurance related, and are considering investments in different business areas. These activities may take the form of internal development, equity investments, targeted mergers or acquisitions, joint ventures, or strategic partnerships. These new ventures may require us to make significant expenditures, which may negatively impact our results in the near term, and if not successful, could materially and adversely affect our results of operations. While at the onset of the venture we would expect these projects to provide long-term value, there can be no assurance that our expectations will be realized.

If we were not able to send or accept electronic payments, our business and financial results could be adversely affected.

We rely on access to various financial networks to process payments received from our customers. These include credit card and debit card networks and the Automated Clearing House (ACH) network. Our ability to participate in these networks depends on our compliance with applicable laws and regulations and with the complex rules of each network and any related industry supervisory groups. If we fail to comply with legal requirements or rules and best practices established by a network or industry group, including those related to data security, we could be assessed significant monetary fines and other penalties, including, in certain cases, the termination of our right to use the applicable network or system. Such fines and penalties, and any disruption in or termination of our ability to process customer payments electronically, could materially adversely affect our business and our brand.

We may be required to recognize impairments in the value of the goodwill or intangible assets recorded in our financial statements.

As a result of business acquisitions, we have recorded goodwill (generally representing the amount paid in excess of the fair value of the assets acquired) and certain intangible assets (at fair value at the time of acquisition) and we may record additional goodwill and intangible assets in the future. We review goodwill and intangible assets for impairment at least annually. Valuing these assets, and evaluating their recoverability, requires us to make estimates and assumptions related to future returns on equity, margins, growth rates, discount rates, and other matters, and our estimates may change over time, potentially resulting

in asset write-downs. Goodwill and intangible assets impairment charges could result from declines in operating results, divestitures or sustained market declines, among other factors, and could materially affect our financial condition and results of operations in the period in which they are recognized.

III. Market Risks

The performance of our fixed-income and equity investment portfolios is subject to a variety of investment risks.

Our investment portfolio consists principally of fixed-income securities and common equities. General economic conditions and other factors beyond our control can adversely affect the value of our investments and the amount and realization of investment income, or result in realized or unrealized investment losses. Our fixed-income portfolio is actively managed by our investment group and includes short-term investments, fixed-maturity securities, and preferred stocks. The performance of the fixed-income portfolio is subject to a number of risks, including:

- *Interest rate risk* - the risk of adverse changes in the value of fixed-income securities as a result of increases in market interest rates.
- *Investment credit risk* - the risk that the value of certain investments may decrease due to a deterioration in the financial condition, operating performance or business prospects of, or the liquidity available to, one or more issuers of those securities or, in the case of asset-backed securities, due to the deterioration of the loans or other assets that underlie the securities.
- *Concentration risk* - the risk that the portfolio may be too heavily concentrated in the securities of one or more issuers, sectors, or industries, which could result in a significant decrease in the value of the portfolio in the event of a deterioration of the financial condition or performance of, or outlook for, those issuers, sectors, or industries.
- *Prepayment or extension risk* - applicable to certain securities in the portfolio, such as residential mortgage-backed securities and other bonds with call provisions, prepayment risk is the risk that, as interest rates change, the principal of such securities may be repaid earlier than anticipated, requiring that we reinvest the proceeds at less attractive rates. Extension risk is the risk that a security may not be redeemed when anticipated, adversely affecting the value of the security and preventing the reinvestment of the principal at higher market rates.
- *Liquidity risk* - discussed separately below.

In addition, the success of our investment strategies and asset allocations in the fixed-income portfolio may vary depending on the market environment. The fixed-income portfolio's performance also may be adversely impacted if, among other factors: credit ratings assigned to such securities by nationally recognized statistical rating organizations are based on incomplete or inaccurate information or otherwise prove unwarranted; or our risk mitigation strategies are ineffective for the applicable market conditions.

Our common equity portfolio is primarily managed externally to track the Russell 1000 Index, although we anticipate that during 2020 we will add exchange traded funds or similar securities designed to track the Russell 1000 or the Standard & Poor's 500 ("S&P 500") Index. Our equity investment strategies may not successfully replicate the performance of the Indexes that they seek to track. Our equity investments are also subject to general movements in the values of equity markets and to the changes in the prices of the securities we hold. An investment portfolio or exchange traded fund that is designed to track an index, such as the Russell 1000 or S&P 500, is not necessarily less risky than other equity investment strategies. Equity markets, sectors, industries, and individual securities may be subject to high volatility and to long periods of depressed or declining valuations, and they are also subject to most of the same risks that affect our fixed-income portfolio, as discussed above. In addition, even though the Russell 1000 and S&P 500 Indexes are generally considered to be broadly diversified, significant portions of each index may be concentrated in one or more sectors, reducing our ability to manage our concentration risk through sector diversification.

If the fixed-income or equity portfolios, or both, were to suffer a substantial decrease in value, our financial position, and financial results could be materially adversely affected. Under these circumstances, our income from these investments could be materially reduced, and declines in the value of our securities could further reduce our reported earnings and capital levels. A decrease in value of an insurance subsidiary's investment portfolio could also put the subsidiary at risk of failing to satisfy regulatory minimum capital requirements and could limit the subsidiary's ability to write new business. In any such event, our business could be materially adversely affected and our financial flexibility could be substantially constrained.

See *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the Annual Report for additional discussion of the composition of our investment portfolio as of December 31, 2019, and of the market risks associated with our investment portfolio.

The elimination of or change in the London Interbank Offered Rate (LIBOR) may adversely affect the interest rates on and value of certain floating rate securities and other instruments that we hold.

LIBOR is a common benchmark interest rate (or reference rate) used to set and make adjustments to interest rates for certain floating rate securities and other financial instruments. Published reports have indicated that regulatory authorities and/or financial institutions may change how LIBOR is calculated or discontinue its calculation and publication after 2021. Alternative reference rates have been developed, including The Federal Reserve Bank of New York's Secured Overnight Financing Rate (SOFR), but the acceptance of such alternative rates and their applicability to existing instruments is uncertain. If LIBOR ceases to exist or if the methods of calculating LIBOR change from current methods for any reason, outstanding securities with interest rates tied to LIBOR may be adversely affected if those securities either do not provide for the automatic substitution of another reference rate or convert to another reference rate or a fixed rate that could be less favorable to us. Outstanding securities and contracts that could be affected include certain preferred stocks and other floating rate securities, fixed rate securities that may convert to LIBOR-based floating rate instruments in the future, certain derivatives, and any other assets or liabilities whose value is tied to LIBOR. Any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could also adversely affect the value of those instruments.

IV. Liquidity Risk

The inability to access our cash accounts or to convert investments into cash on favorable terms when we desire to do so may materially and adversely affect our business.

We rely on our ability to access our cash accounts at banks and other financial institutions to operate our business. If we are unable to access the cash in those accounts as needed, whether due to our own systems difficulties, an institution-specific issue at the bank or financial institution (such as a cybersecurity breach), a broader disruption in banking, financial or wire transfer systems, or otherwise, our ability to pay insurance claims and other financial obligations when due and otherwise operate our business could be materially adversely affected. Likewise, our investment portfolios are subject to risks inherent in the nation's and world's capital markets. Any disruption in the functioning of those markets or in our ability to liquidate investments or specific categories of investments on favorable terms when desired, could impair our ability to pay claims or other financial obligations when due. Any such event or series of such events could result in significant operational difficulties, reputational harm and adverse actions by regulators and have a material adverse effect on our financial condition, cash flows, and results of operations.

V. Credit and Other Financial Risks

Our financial condition may be adversely affected if one or more parties with which we enter into significant contracts or transact business (including under certain government programs) become insolvent, experience other financial difficulties, or default in the performance of contractual or reimbursement obligations.

Our business is dependent on the performance by third parties of their responsibilities under various contractual or service arrangements and government programs. These include, for example, agreements with other insurance carriers to sell their products to our customers in bundled packages or otherwise, arrangements for transferring certain of our risks (including reinsurance arrangements used by us, our corporate insurance policies, and the performance of state reinsurance facilities/associations), and reimbursement obligations under various state or federal programs, such as the Michigan Catastrophic Claims Association or the National Flood Insurance Program. In addition, from time to time, we enter into significant financial transactions, such as derivative instruments, with major banks, other financial institutions, or security clearinghouses. If one or more of these parties were to default in the performance of their obligations under their respective contracts or programs or determine to abandon or terminate support for a system, product, obligation, or service that is significant to our business, we could suffer significant financial losses or other problems, which in turn could materially adversely affect our financial condition, cash flows, or results of operations and cause damage to our brand and reputation.

Our insurance subsidiaries may be limited in the amount of dividends that they can pay, which in turn may limit our ability to repay indebtedness, make capital contributions to other subsidiaries or affiliates, pay dividends to shareholders, repurchase securities, or meet other obligations.

The Progressive Corporation is a holding company with no business operations of its own. Consequently, if its subsidiaries are unable to pay dividends or make other distributions, or are able to pay only limited amounts, The Progressive Corporation may be unable to make payments on its indebtedness, make capital contributions to or otherwise fund its subsidiaries or affiliates,

pay dividends to its shareholders, or meet its other obligations. Each insurance subsidiary's ability to pay dividends may be limited by one or more of the following factors:

- insurance regulatory authorities require insurance companies to maintain specified minimum levels of statutory capital and surplus
- insurance regulations restrict the amounts available for distribution based on either net income or surplus of the insurance company
- competitive pressures require our insurance subsidiaries to maintain high financial strength ratings, and
- in certain jurisdictions, prior approval must be obtained from regulatory authorities for the insurance subsidiaries to pay dividends or make other distributions to affiliated entities, including the parent holding company.

In addition, under the ARX stockholders' agreement, ARX cannot pay a dividend without the consent of Progressive and another specified ARX stockholder.

The terms of our outstanding preferred shares prohibit us from paying a dividend on our common shares in certain circumstances.

The terms of our outstanding preferred shares prohibit us from declaring or paying dividends or distributions on our common shares while our preferred shares are outstanding, unless all accrued and unpaid dividends on the preferred shares, including the full dividends for all current dividend periods, have been declared and paid or a sum sufficient for payment thereof set apart, subject to certain exceptions.

If we are unable to obtain capital when necessary to support our business, our financial condition and our ability to grow could be materially adversely affected.

We may need to acquire additional capital from time to time as a result of many factors. These could include increased regulatory requirements, losses in our insurance or investment operations, or significant growth in the insurance premiums that we write, among others. If we are unable to obtain capital at favorable rates when needed, whether due to our results, volatility or disruptions in debt and equity markets beyond our control, or other reasons, our financial condition could be materially adversely affected. In such an event, unless and until additional sources of capital are secured, we may be limited in our ability, or unable, to service our debt obligations, pay dividends, grow our business, pay our other obligations when due or engage in other corporate transactions. Such a deterioration of our financial condition could adversely affect the perception of our company by insurance regulators, potentially resulting in regulatory actions, and the price of our equity or debt securities could fall significantly.

Our access to capital markets, ability to obtain or renew financing arrangements, obligations to post collateral under certain derivative contracts, and business operations are dependent on favorable evaluations and ratings by credit and other rating agencies.

Our credit and financial strength are evaluated and rated by various rating agencies, such as Standard & Poor's, Moody's Investors Service, Fitch Ratings, and A.M. Best. Downgrades in our credit ratings could adversely affect our ability to access the capital markets and/or lead to increased borrowing costs in the future (although the interest rates we pay on our current indebtedness would not be affected), as would adverse recommendations by equity analysts at the various brokerage houses and investment firms. Perceptions of our company by other businesses and consumers could also be significantly impaired. In addition, a downgrade could trigger contractual obligations in certain derivative transactions requiring us to post substantial amounts of additional collateral or allow a third party to liquidate the derivative transaction. Downgrades in the ratings of our insurance subsidiaries could likewise negatively impact our operations, potentially resulting in lower or negative premium growth. In any such event, our financial performance could be materially adversely affected.

Our dividend policy may result in varying amounts being paid to our common shareholders, or no payment in some periods, and the dividend policy ultimately may be changed in the discretion of the Board of Directors.

We have announced our intention to pay a dividend on our common shares on a quarterly basis and to consider paying a variable dividend on at least an annual basis. The amount of dividends, if any, may vary, perhaps significantly, from the amounts paid in preceding periods. In addition, the Board retains the discretion to alter our policy or not to pay such dividends at any time. Such an action by the Board could result from, among other reasons, changes in the insurance marketplace, changes in our performance or capital needs, changes in U.S. federal income tax laws, disruptions of national or international capital markets, or other events affecting our liquidity, financial position or prospects, as described above. Any such change could adversely affect investors' perceptions of the company and the value of, or the total return of an investment in, our common shares.

Our investments in certain tax-advantaged projects may not generate the anticipated tax benefits and related returns.

We may invest in certain projects that we believe are entitled to tax-advantaged treatment under applicable federal or state law, including renewable energy development, historic property rehabilitation, and affordable housing, and we may make other tax-advantaged investments from time to time. Our investments in these projects are designed to generate a return through the realization of tax credits and, in some cases, through other tax benefits and cash flows from the project. These investments are subject to the risk that the underlying tax credits and related benefits may not be valid, and in some cases previously recorded tax credits can be challenged or are subject to recapture by the applicable taxing authorities if specific requirements are not satisfied. Many of the factors that could lead to the invalidity, challenge, or recapture of tax credits are beyond our control. The inability to realize these tax credits and other tax benefits could have a material adverse impact on our financial condition.

We do not manage to short-term earnings expectations; our goal is to maximize the long-term value of the enterprise, which, at times, may adversely affect short-term results.

We believe that shareholder value will be increased in the long run if we meet or exceed the financial goals and policies that we establish each year. We do not manage our business to maximize short-term stock performance or the amount of any dividend that may be paid. We report earnings and other operating results on a monthly basis. We do not provide earnings estimates to the market and do not comment on earnings estimates by analysts. As a result, our reported results for a particular period may vary, perhaps significantly, from investors' expectations, which could result in significant volatility in the price of our equity or debt securities. Our Property business may cause additional volatility in our consolidated results.

In addition, due to our focus on the long-term value of the enterprise, we may undertake business strategies and establish related financial goals for a specific year that are designed to enhance our longer-term performance, while understanding that such strategies may not always similarly benefit short-term results, such as our annual underwriting profit or earnings per share. Consequently, these strategies may adversely affect short-term performance or the payment of dividends, and may result in additional volatility in the price of our equity or debt securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We currently do not have any unresolved comments from the SEC staff.

ITEM 2. PROPERTIES

All of our properties are owned or leased by subsidiaries of The Progressive Corporation and are used for office functions (corporate, claims, and business unit), as call centers, as data centers, for training, or for warehouse space.

We own 88 buildings located throughout the United States. Nearly two-thirds of these buildings are claims offices. Our owned facilities, which contain approximately 5.0 million square feet of space, are generally not segregated by segment. We own significant locations in Mayfield Village, Ohio and surrounding suburbs (including our corporate headquarters); Colorado Springs, Colorado; St. Petersburg, Florida; and Tampa, Florida.

We lease approximately 2.2 million square feet of space throughout the United States. These leases are generally short-term to medium-term leases of commercial space.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Incorporated by reference from information with respect to executive officers of The Progressive Corporation and its subsidiaries set forth in Item 10 in Part III of this Form 10-K.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Progressive’s Common Shares, $1.00 par value, are traded on the New York Stock Exchange (NYSE) under the symbol PGR.

Holders

We had 1,965 shareholders of record on December 31, 2019.

Securities Authorized for Issuance Under Equity Compensation Plans

See Part III, Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters,” for information about securities authorized for issuance under our equity compensation plans.

Performance Graph

See the *Performance Graph* section in our Annual Report.

Recent Sales of Unregistered Securities

None.

Share Repurchases

ISSUER PURCHASES OF EQUITY SECURITIES

2019 Calendar Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October	41,459	$ 76.79	784,239	24,215,761
November	89	69.67	784,328	24,215,672
December	0	0	784,328	24,215,672
Total	41,548	$ 76.77		

In May 2019, the Board of Directors approved an authorization for the Company to repurchase up to 25 million of its common shares. This authorization does not have an expiration date. Share repurchases under this authorization may be accomplished through open market purchases, through privately negotiated transactions, pursuant to our equity incentive plans, or otherwise, and may include trading plans entered into with one or more brokerage firms in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. During the fourth quarter 2019, all repurchases were accomplished in conjunction with our incentive compensation plans at the then-current market prices; there were no open market purchases during the quarter.

Progressive’s financial policies state that we will repurchase shares to neutralize dilution from equity-based compensation in the year of issuance and as an option to effectively use underleveraged capital. See *Note 9 – Employee Benefit Plans*, “Incentive Compensation Plans” in our Annual Report, for a summary of our restricted equity grants.

ITEM 6. SELECTED FINANCIAL DATA

(millions - except per share amounts)

	For the years ended December 31,				
	2019	2018	2017	2016	2015
Total revenues	$ 39,022.3	$ 31,979.0	$ 26,839.0	$ 23,441.4	$ 20,853.8
Net income attributable to Progressive	3,970.3	2,615.3	1,592.2	1,031.0	1,267.6
Per common share:					
Net income attributable to Progressive - diluted	6.72	4.42	2.72	1.76	2.15
Dividends declared per common share	2.65	2.5140	1.1247	0.6808	0.8882
Comprehensive income attributable to Progressive	4,432.9	2,520.1	1,941.0	1,164.0	1,044.9
Total assets	54,895.3	46,575.0	38,701.2	33,427.5	29,819.3
Debt outstanding	4,407.1	4,404.9	3,306.3	3,148.2	2,707.9
Total shareholders' equity	13,673.2	10,821.8	9,284.8	7,957.1	7,289.4
Redeemable noncontrolling interest	225.6	214.5	503.7	483.7	464.9

See *Note 15 – Redeemable Noncontrolling Interest* and *Note 17 – Subsequent Event* in the Annual Report, for additional discussion of controlling interest in ARX.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Incorporated by reference from *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The quantitative and qualitative disclosures about market risk are incorporated by reference from section "IV. Results of Operations – Investments" in our *Management's Discussion and Analysis of Financial Condition and Results of Operations,* and *Quantitative Market Risk Disclosures* sections in our Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of Progressive, along with the related Notes, Supplemental Information, and Report of the Independent Registered Public Accounting Firm, are incorporated by reference from our Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Under the direction of our Chief Executive Officer and our Chief Financial Officer, we have established disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Our Chief Executive Officer and our Chief Financial Officer reviewed and evaluated Progressive's disclosure controls and procedures as of the end of the period covered by this report. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Progressive's disclosure controls and procedures are effectively serving the stated purposes as of the end of the period covered by this report.

Management's Report on Internal Control over Financial Reporting and the attestation of the independent registered public accounting firm are incorporated by reference from our Annual Report.

There have not been any material changes in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information relating to our directors is incorporated herein by reference from the section entitled "Item 1: Election of Directors" in The Progressive Corporation's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2020 (the "Proxy Statement").

Information relating to executive officers of Progressive follows. Unless otherwise indicated, the executive officer has held the position(s) indicated for at least the last five years.

Name	Age	Offices Held and Last Five Years' Business Experience
Susan Patricia Griffith	55	President and Chief Executive Officer since July 2016; Vice President from May 2015 to June 2016; Personal Lines Chief Operating Officer from April 2015 to June 2016; President of Customer Operations prior to April 2015
John P. Sauerland	55	Vice President since May 2015; Chief Financial Officer since April 2015; Personal Lines Group President prior to April 2015
John A. Barbagallo	60	Commercial Lines President since May 2015; Commercial Lines Group President, including Agency Operations prior to May 2015
Jonathan S. Bauer	42	Chief Investment Officer since January 2020; Portfolio Manager prior to January 2020
Steven A. Broz	49	Chief Information Officer since February 2016; Claims Process General Manager from March 2015 to January 2016; Enterprise Project Management Office Leader prior to March 2015
Patrick K. Callahan	49	Personal Lines President since April 2015; Direct Acquisition Business Leader prior to April 2015
M. Jeffrey Charney	60	Chief Marketing Officer
Mariann Wojtkun Marshall	57	Assistant Secretary; Vice President and Chief Accounting Officer since March 2019; Director of Financial Reporting - GAAP prior to March 2019
Daniel P. Mascaro	56	Vice President, Secretary, and Chief Legal Officer since March 2017; Claims Legal Business Leader prior to March 2017
John Murphy	50	Customer Relationship Management President since January 2016; Customer Relationship Management Business Leader prior to January 2016
Lori Niederst	46	Chief Human Resource Officer since November 2016; Senior Human Resource Business Leader prior to November 2016
Andrew J. Quigg	40	Chief Strategy Officer since July 2018; Customer Experience General Manager from May 2015 to June 2018; Direct Media Business Leader prior to May 2015
Michael D. Sieger	58	Claims President

Delinquent Section 16(a) Reports. Delinquent filings will be incorporated by reference from the "Delinquent Section 16(a) Reports" section of the Proxy Statement, if applicable.

Code of Ethics. Progressive has a Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and other senior financial officers. This Code of Ethics is available at: progressive.com/governance. We intend to continue to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, and waivers from, the provisions of the foregoing Code of Ethics by posting such information on our Internet website at: progressive.com/ethics.

Shareholder-Proposed Candidate Procedures. There were no material changes during 2019 to Progressive's procedures by which a shareholder can recommend a director candidate. The description of those procedures is incorporated by reference from the "To Recommend a Candidate for our Board of Directors" section of the Proxy Statement (which can be found in "Procedures for Recommendations and Nominations of Directors and Shareholder Proposals").

Audit Committee. Incorporated by reference from the "Other Board of Director Information - Board Committees - Audit Committee" section of the Proxy Statement.

Financial Expert. Incorporated by reference from the "Other Board of Director Information - Board Committees - Audit Committee" section of the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the sections of the Proxy Statement entitled "Compensation Discussion and Analysis," "Executive Compensation," "Other Board of Directors Information: Compensation Committee Interlocks and Insider Participation," "Compensation Committee Report," and "Compensation Programs and Risk Management."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding ownership of Common Shares by certain beneficial owners and management is incorporated by reference from the section of the Proxy Statement entitled "Security Ownership of Certain Beneficial Owners and Management."

The following information is set forth with respect to our equity compensation plans at December 31, 2019.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders:			
Employee Plans:			
2015 Equity Incentive Plan	3,536,391 [1,2]	NA	9,993,099 [3]
2010 Equity Incentive Plan	342,686 [1]	NA	97,929 [4]
Subtotal Employee Plans	3,879,077	NA	10,091,028
Director Plans:			
2017 Directors Equity Incentive Plan	38,451	NA	366,559
Equity compensation plans not approved by security holders:			
None			
Total	3,917,528	NA	10,457,587

NA = Not applicable because restricted stock unit awards do not have an exercise price.

[1] Reflects restricted stock unit awards, including reinvested dividend equivalents, under which, upon vesting, the holder has the right to receive common shares on a one-to-one basis. As of January 1, 2020, all outstanding awards made from the 2010 Plan have vested.

[2] Performance-based restricted stock unit awards, including dividend equivalents, of 726,712 units are included under the 2015 Equity Incentive Plan at their target value. Maximum potential payout for the performance awards outstanding under the 2015 Equity Incentive Plan was 1,778,315. For a description of the performance-based awards, including the performance measurement and vesting ranges, see *Note 9 — Employee Benefit Plans* in our Annual Report.

[3] Gives effect to reservation of common shares subject to performance-based awards at maximum potential payout.

[4] As of January 31, 2020, no new awards can be made from this plan and during January 2020 no awards were made under this plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from the section of the Proxy Statement entitled "Other Board of Directors Information," subsections "Board of Directors Independence Determinations," and "Transactions with Related Persons."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from the section of the Proxy Statement entitled "Other Independent Registered Public Accounting Firm Information."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Listing of Financial Statements

The following consolidated financial statements are included in our Annual Report and are incorporated by reference in Item 8:

- Report of Independent Registered Public Accounting Firm
- Consolidated Statements of Comprehensive Income - For the Years Ended December 31, 2019, 2018, and 2017
- Consolidated Balance Sheets - December 31, 2019 and 2018
- Consolidated Statements of Changes in Shareholders' Equity - For the Years Ended December 31, 2019, 2018, and 2017
- Consolidated Statements of Cash Flows - For the Years Ended December 31, 2019, 2018, and 2017
- Notes to Consolidated Financial Statements
- Supplemental Information (Unaudited)

(a)(2) Listing of Financial Statement Schedules

The following financial statement schedules, Report of Independent Registered Public Accounting Firm and Consent of Independent Registered Public Accounting Firm are included in Item 15(c):

- Schedule I - Summary of Investments - Other than Investments in Related Parties
- Schedule II - Condensed Financial Information of Registrant
- Schedule III - Supplementary Insurance Information
- Schedule IV - Reinsurance
- Report of Independent Registered Public Accounting Firm on Financial Statement Schedules
- No other schedules are required to be filed herewith pursuant to Article 7 of Regulation S-X.

(a)(3) Listing of Exhibits

See exhibit index contained herein beginning at page 41. Management contracts and compensatory plans and arrangements are identified in the Exhibit Index as Exhibit Nos. 10.3 through 10.49.

(b) Exhibits

The exhibits in response to this portion of Item 15 are submitted concurrently with this report.

(c) Financial Statement Schedules

SCHEDULE I — SUMMARY OF INVESTMENTS — OTHER THAN INVESTMENTS IN RELATED PARTIES

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
(millions)

	December 31, 2019		
Type of Investment	**Cost**	**Fair Value**	**Amount At Which Shown In The Balance Sheet**
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	$ 13,100.7	$ 13,251.1	$ 13,251.1
States, municipalities, and political subdivisions	1,686.0	1,713.3	1,713.3
Public utilities	303.8	314.1	314.1
Corporate and other debt securities	6,556.5	6,753.6	6,753.6
Asset-backed securities	10,810.4	10,883.2	10,883.2
Redeemable preferred stocks	185.7	195.0	195.0
Total fixed maturities	32,643.1	33,110.3	33,110.3
Equity securities:			
Common stocks:			
Public utilities	81.6	172.7	172.7
Banks, trusts, and insurance companies	220.9	664.9	664.9
Industrial, miscellaneous, and all other	823.0	2,468.7	2,468.7
Nonredeemable preferred stocks	971.3	1,038.9	1,038.9
Total equity securities	2,096.8	4,345.2	4,345.2
Short-term investments	$ 1,798.8	$ 1,798.8	$ 1,798.8
Total investments	$ 36,538.7	$ 39,254.3	$ 39,254.3

Progressive did not have any securities of any one issuer, excluding U.S. government obligations, with an aggregate cost or fair value exceeding 10% of total shareholders' equity at December 31, 2019.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

THE PROGRESSIVE CORPORATION (PARENT COMPANY)
(millions)

	Years Ended December 31,		
	2019	**2018**	**2017**
Revenues			
Dividends from subsidiaries	$ 2,277.9	$ 939.1	$ 867.3
Undistributed income (loss) from subsidiaries	1,821.3	1,770.7	866.3
Equity in net income of subsidiaries	4,099.2	2,709.8	1,733.6
Intercompany investment income	31.1	39.4	11.3
Gains (losses) on extinguishment of debt	0	0	0.2
Total revenues	4,130.3	2,749.2	1,745.1
Expenses			
Interest expense	190.4	166.8	151.1
Deferred compensation[1]	16.6	7.5	23.2
Other operating costs and expenses	5.5	5.1	4.6
Total expenses	212.5	179.4	178.9
Income before income taxes	3,917.8	2,569.8	1,566.2
Benefit for income taxes	52.5	45.5	26.0
Net income attributable to Progressive	3,970.3	2,615.3	1,592.2
Other comprehensive income (loss)	462.6	(95.2)	348.8
Comprehensive income attributable to Progressive	$ 4,432.9	$ 2,520.1	$ 1,941.0

[1] See *Note 4 – Employee Benefit Plans* in these condensed financial statements.

See notes to condensed financial statements.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

CONDENSED BALANCE SHEETS

THE PROGRESSIVE CORPORATION (PARENT COMPANY)
(millions)

	December 31,	
	2019	**2018**
Assets		
Investment in affiliate	$ 5.0	$ 5.0
Investment in subsidiaries	16,186.8	13,652.2
Receivable from investment subsidiary	2,912.0	2,658.9
Intercompany receivable	678.6	651.1
Net deferred income taxes	70.3	68.2
Other assets	303.8	124.2
Total assets	$ 20,156.5	$ 17,159.6
Liabilities		
Accounts payable, accrued expenses, and other liabilities	$ 475.2	$ 250.5
Dividend payable	1,375.4	1,467.9
Debt	4,407.1	4,404.9
Total liabilities	6,257.7	6,123.3
Redeemable noncontrolling interest (NCI)	225.6	214.5
Shareholders' Equity		
Serial Preferred Shares (authorized 20.0)		
Serial Preferred Shares, Series B, no par value (cumulative, liquidation preference $1,000 per share) (authorized, issued, and outstanding 0.5)	493.9	493.9
Common shares, $1.00 par value (authorized 900.0; issued 797.5, including treasury shares of 212.9 and 214.3)	584.6	583.2
Paid-in capital	1,573.4	1,479.0
Retained earnings	10,679.6	8,386.6
Total accumulated other comprehensive income attributable to Progressive	341.7	(120.9)
Total shareholders' equity	13,673.2	10,821.8
Total liabilities, redeemable NCI, and shareholders' equity	$ 20,156.5	$ 17,159.6

See notes to condensed financial statements.

SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

THE PROGRESSIVE CORPORATION (PARENT COMPANY)
(millions)

	Years Ended December 31,		
	2019	**2018**	**2017**
Cash Flows From Operating Activities:			
Net income attributable to Progressive	$ 3,970.3	$ 2,615.3	$ 1,592.2
Adjustments to reconcile net income attributable to Progressive to net cash provided by operating activities:			
Undistributed (income) loss from subsidiaries	(1,821.3)	(1,770.7)	(866.3)
Amortization of equity-based compensation	2.9	2.4	2.1
(Gains) losses on extinguishment of debt	0	0	(0.2)
Changes in:			
Intercompany receivable	(14.1)	77.5	(71.3)
Accounts payable, accrued expenses, and other liabilities	47.1	(29.6)	53.6
Income taxes	175.5	(14.2)	37.3
Other, net	(179.8)	47.8	(22.6)
Net cash provided by operating activities	2,180.6	928.5	724.8
Cash Flows From Investing Activities:			
Additional investments in equity securities of consolidated subsidiaries	(152.8)	(178.3)	(86.7)
Acquisition of additional shares - ARX	(5.4)	(287.9)	0
Acquisition of an insurance company	0	0	(18.7)
(Paid to) received from investment subsidiary	(253.1)	(1,192.8)	(344.2)
Net cash used in investing activities	(411.3)	(1,659.0)	(449.6)
Cash Flows From Financing Activities:			
Net proceeds from debt issuance	0	1,134.0	841.1
Net proceeds from preferred stock issuance	0	493.9	0
Reacquisitions of debt	0	0	(594.4)
Dividends paid to common shareholders	(1,643.2)	(654.9)	(395.4)
Dividends paid to preferred shareholders	(26.8)	(13.5)	0
Acquisition of treasury shares for restricted stock tax liabilities	(84.4)	(78.6)	(57.6)
Acquisition of treasury shares acquired in open market	(6.9)	(0.4)	(4.9)
Loan to ARX Holding Corp.	(8.0)	(150.0)	(64.0)
Net cash provided by (used in) financing activities	(1,769.3)	730.5	(275.2)
Change in cash, cash equivalents, and restricted cash	0	0	0
Cash, cash equivalents, restricted cash - Beginning of year	0	0	0
Cash, cash equivalents, restricted cash - End of year	$ 0	$ 0	$ 0

See notes to condensed financial statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS

The accompanying condensed financial statements of The Progressive Corporation (parent company) should be read in conjunction with the consolidated financial statements and notes thereto in the Annual Report to Shareholders of The Progressive Corporation and its subsidiaries, which is included as Exhibit 13 to this Form 10-K.

Note 1. Statements of Cash Flows — For the purpose of the Statements of Cash Flows, cash includes only bank demand deposits. The Progressive Corporation does not hold any cash but has unrestricted access to funds maintained in a non-insurance investment subsidiary to meet its holding company obligations; at December 31, 2019, 2018, and 2017, $3.2 billion, $2.9 billion, and $1.6 billion, respectively, of marketable securities were available in this subsidiary. Non-cash activity includes declared but unpaid dividends, and the change in redemption value of the redeemable NCI. For the years ended December 31, The Progressive Corporation paid the following:

(millions)	2019	2018	2017
Income taxes	$ 925.0	$ 679.2	$ 669.7
Interest	184.9	153.6	142.2

Note 2. Income Taxes — The Progressive Corporation files a consolidated federal income tax return with its eligible subsidiaries and acts as an agent for the consolidated tax group when making payments to the Internal Revenue Service. Effective April 2018, The Progressive Corporation acquired additional shares of ARX to increase its ownership above 80%. As a result, ARX and its subsidiaries were included in The Progressive Corporation consolidated federal income tax return for the period from April to December 31, 2018. The Progressive Corporation consolidated group's net income taxes currently payable/recoverable are included in other liabilities/assets, respectively, in the accompanying Condensed Balance Sheets based on the balance at the end of the year. The Progressive Corporation and its eligible subsidiaries have adopted, pursuant to a written agreement, a method of allocating consolidated federal income taxes. Amounts allocated to the eligible subsidiaries under the written agreement are included in "Intercompany Receivable" in the accompanying Condensed Balance Sheets.

On December 22, 2017, legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") was signed into law. One of the provisions of the 2017 Tax Act reduced the corporate federal income tax rate from 35% to 21% effective January 1, 2018. Pursuant to current accounting guidance, all deferred tax assets and liabilities were revalued at December 31, 2017, to recognize the tax rate that is expected to apply when the tax effects are ultimately recognized in future periods. The impact of revaluing the deferred tax assets and liabilities from 35% to 21% was a net increase to The Progressive Corporation's income tax expense of $44.7 million in 2017.

Note 3. Debt — The information relating to debt is incorporated by reference from *Note 4 – Debt* in our Annual Report.

Note 4. Employee Benefit Plans — The information relating to incentive compensation and deferred compensation plans is incorporated by reference from *Note 9 – Employee Benefit Plans* in our Annual Report.

Note 5. Other Comprehensive Income — On the condensed Statements of Comprehensive Income, other comprehensive income represents activity of the subsidiaries of The Progressive Corporation and includes net unrealized gains (losses) on securities, net unrealized gains on forecasted transactions, and foreign currency translation adjustments.

Note 6. Dividends — The information relating to our dividend policy is incorporated by reference from *Note 14 – Dividends* in our Annual Report.

SCHEDULE III — SUPPLEMENTARY INSURANCE INFORMATION

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Segment	Deferred policy acquisition costs[1]	Future policy benefits, losses, claims, and loss expenses[1]	Unearned premiums[1]	Other policy claims and benefits payable[1]	Premium revenue	Net investment income[1,2]	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses[1]	Net premiums written
Year ended December 31, 2019:										
Personal Lines					$ 30,210.0		$ 21,329.7	$ 2,273.6	$ 4,227.6	$ 31,102.2
Commercial Lines					4,427.6		3,034.8	481.2	523.5	4,791.8
Property					1,554.8		1,106.0	268.4	224.0	1,683.9
Other indemnity					0		0	0	0	0
Total	$ 1,056.5	$ 18,105.4	$ 12,388.8	$ 0	$ 36,192.4	$ 1,017.4	$ 25,470.5	$ 3,023.2	$ 4,975.1	$ 37,577.9
Year ended December 31, 2018:										
Personal Lines					$ 26,034.7		$ 18,389.8	$ 1,964.4	$ 3,563.3	$ 27,157.6
Commercial Lines					3,610.9		2,394.0	396.0	396.0	3,996.4
Property					1,287.7		937.0	213.3	237.2	1,455.9
Other indemnity					0		0.2	0	(0.7)	0
Total	$ 951.6	$ 15,400.8	$ 10,686.5	$ 0	$ 30,933.3	$ 796.2	$ 21,721.0	$ 2,573.7	$ 4,195.8	$ 32,609.9
Year ended December 31, 2017:										
Personal Lines					$ 21,947.2		$ 16,141.4	$ 1,656.4	$ 2,954.8	$ 22,928.4
Commercial Lines					2,793.9		1,966.4	309.3	335.3	3,112.7
Property					988.8		700.2	159.2	190.4	1,091.0
Other indemnity					0		0	0	0.2	0
Total	$ 780.5	$ 13,086.9	$ 8,903.5	$ 0	$ 25,729.9	$ 539.2	$ 18,808.0	$ 2,124.9	$ 3,480.7	$ 27,132.1

[1] Progressive does not allocate assets, liabilities, or investment income to operating segments. Expense allocations are based on certain assumptions and estimates primarily related to revenue and volume; stated segment operating results would change if different methods were applied.

[2] Excludes total net realized gains (losses) on securities.

SCHEDULE IV — REINSURANCE

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
(millions)

Year Ended:	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
December 31, 2019					
Premiums earned:					
Property and liability insurance	$ 37,519.7	$ 1,327.3	$ 0	$ 36,192.4	0%
December 31, 2018					
Premiums earned:					
Property and liability insurance	$ 31,970.2	$ 1,036.9	$ 0	$ 30,933.3	0%
December 31, 2017					
Premiums earned:					
Property and liability insurance	$ 26,425.7	$ 695.8	$ 0	$ 25,729.9	0%

Report of Independent Registered Public Accounting Firm on Financial Statement Schedules

To the Board of Directors and Shareholders of The Progressive Corporation

Our audits of the consolidated financial statements referred to in our report dated March 2, 2020 appearing in the 2019 Annual Report to Shareholders of The Progressive Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the schedule of summary of investments - other than investments in related parties as of December 31, 2019, the schedule of condensed financial information of registrant which includes the condensed balance sheets as of December 31, 2019 and 2018 and the condensed statements of comprehensive income and of cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the condensed financial statements, the schedule of supplementary insurance information for each of the three years in the period ended December 31, 2019, and the schedule of reinsurance for each of the three years in the period ended December 31, 2019 (collectively "the financial statement schedules") appearing under Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
March 2, 2020

ITEM 16. FORM 10-K SUMMARY

We have elected not to include a summary of information as permitted under this item.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		THE PROGRESSIVE CORPORATION
March 2, 2020	By:	/s/ Susan Patricia Griffith
		Susan Patricia Griffith
		President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Susan Patricia Griffith Susan Patricia Griffith	Director, President and Chief Executive Officer	March 2, 2020
/s/ John P. Sauerland John P. Sauerland	Vice President and Chief Financial Officer	March 2, 2020
/s/ Mariann Wojtkun Marshall Mariann Wojtkun Marshall	Vice President and Chief Accounting Officer	March 2, 2020
* Lawton W. Fitt	Chairperson of the Board	March 2, 2020
* Philip Bleser	Director	March 2, 2020
* Stuart B. Burgdoerfer	Director	March 2, 2020
* Pamela J. Craig	Director	March 2, 2020
* Charles A. Davis	Director	March 2, 2020
* Roger N. Farah	Director	March 2, 2020
* Jeffrey D. Kelly	Director	March 2, 2020
* Patrick H. Nettles, Ph.D.	Director	March 2, 2020
* Barbara R. Snyder	Director	March 2, 2020
* Jan E. Tighe	Director	March 2, 2020
* Kahina Van Dyke	Director	March 2, 2020

* Daniel P. Mascaro, by signing his name hereto, does sign this document on behalf of the persons indicated above pursuant to powers of attorney duly executed by such persons.

By:	/s/ Daniel P. Mascaro	March 2, 2020
	Daniel P. Mascaro	
	Attorney-in-fact	

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
3(i)	3.1	Amended Articles of Incorporation of The Progressive Corporation (as amended March 13, 2018)	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 3.1 therein)
3(ii)	3.2	Code of Regulations of The Progressive Corporation (as amended March 18, 2019)	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 3.2 therein)
4	4.1	Form of 3.75% Senior Notes due 2021, issued in the aggregate principal amount of $500,000,000 under the 1993 Senior Indenture (see exhibit 4.8 below), as amended and supplemented	Annual Report on Form 10-K (filed on March 1, 2017; Exhibit 4.1 therein)
4	4.2	Form of 6 5/8% Senior Notes due 2029, issued in the aggregate principal amount of $300,000,000 under the 1993 Senior Indenture, as amended and supplemented	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 4.2 therein)
4	4.3	Form of 6.25% Senior Notes due 2032, issued in the aggregate principal amount of $400,000,000 under the 1993 Senior Indenture, as amended and supplemented	Annual Report on Form 10-K (filed on February 27, 2018; Exhibit 4.3 therein)
4	4.4	Form of 4.35% Senior Notes due 2044, issued in the aggregate principal amount of $350,000,000 under the 1993 Senior Indenture, as amended and supplemented	Current Report on Form 8-K (filed on April 25, 2014; Exhibit 4.2 therein)
4	4.5	Form of 3.70% Senior Notes due 2045, issued in the aggregate principal amount of $400,000,000 under the 1993 Senior Indenture, as amended and supplemented	Current Report on Form 8-K (filed on January 26, 2015; Exhibit 4.2 therein)
4	4.6	Form of 2.45% Senior Notes due 2027, issued in the aggregate principal amount of $500,000,000 under the 1993 Senior Indenture, as amended and supplemented	Current Report on Form 8-K (filed on August 25, 2016; Exhibit 4.2 therein)
4	4.7	Form 4.125% Senior Note Due 2047, issued in the aggregate principal amount of $ 850,000,000 under the 1993 Senior Indenture, as amended and supplemented	Current Report on Form 8-K (filed on April 6, 2017; Exhibit 4.2 therein)
4	4.8	Form 4.20% Senior Note Due 2048, issued in the aggregate principal amount of $600,000,000 under the 1993 Senior Indenture, as amended and supplemented	Current Report on Form 8-K (filed on March 14, 2018; Exhibit 4.2 therein)
4	4.9	Form 4.00% Senior Note Due 2029, issued in the aggregate principal amount of $550,000,000	Current Report on Form 8-K (filed on October 23, 2018; Exhibit 4.2 therein)
4	4.10	Form of certificate representing Series B Fixed-to-Floating Rate Cumulative Perpetual Serial Preferred Shares	Current Report on Form 8-K (filed on March 14, 2018; Exhibit 4.3 therein)
4	4.11	Indenture dated as of September 12, 2018 between The Progressive Corporation and U.S. Bank National Association, Trustee (including table of contents and cross-reference sheet)	Registration Statement No. 333-227315 (filed on September 13, 2018; exhibit 4.2 therein)
4	4.12	First Supplemental Indenture dated October 23, 2018 between The Progressive Corporation and U.S. Bank National	Current Report on Form 8-K (filed on October 23, 2018; Exhibit 4.1 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
4	4.13	Indenture dated as of September 15, 1993 between The Progressive Corporation and State Street Bank and Trust Company (successor in interest to The First National Bank of Boston), as Trustee ("1993 Senior Indenture") (including table of contents and cross-reference sheet)	Registration Statement No. 333-48935 (filed on March 31, 1998; Exhibit 4.1 therein)
4	4.14	First Supplemental Indenture dated March 15, 1996 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company	Registration Statement No. 333-01745 (filed on March 15, 1996; Exhibit 4.2 therein)
4	4.15	Second Supplemental Indenture dated February 26, 1999 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company, as Trustee	Registration Statement No. 333-100674 (filed on October 22, 2002; Exhibit 4.3 therein)
4	4.16	Fourth Supplemental Indenture dated November 21, 2002 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company, as Trustee	Registration Statement No. 333-143824 (filed on June 18, 2007; Exhibit 4.5 therein)
4	4.17	Fifth Supplemental Indenture dated June 13, 2007 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, evidencing the designation of U.S. Bank National Association as successor Trustee under the 1993 Senior Indenture.	Registration Statement No. 333-143824 (filed on June 18, 2007; Exhibit 4.6 therein)
4	4.18	Sixth Supplemental Indenture dated August 22, 2011 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee	Annual Report on Form 10-K (filed on March 1, 2017; Exhibit 4.13 therein)
4	4.19	Seventh Supplemental Indenture dated April 25, 2014 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee	Current Report on Form 8-K (filed on April 25, 2014; Exhibit 4.1 therein)
4	4.20	Eighth Supplemental Indenture dated January 26, 2015 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee	Current Report on Form 8-K (filed on January 26, 2015; Exhibit 4.1 therein)
4	4.21	Ninth Supplemental Indenture dated August 25, 2016 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee	Current Report on Form 8-K (filed on August 25, 2016; Exhibit 4.1 therein)
4	4.22	Tenth Supplemental Indenture dated April 6, 2017 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee	Current Report on Form 8-K (filed on April 6, 2017; Exhibit 4.1 therein)
4	4.23	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	Filed herewith

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
4	4.24	Eleventh Supplemental Indenture dated March 14, 2018 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee	Current Report on Form 8-K (filed on March 14, 2018; Exhibit 4.1 therein)
4	4.25	Form of Confirmation Letter-Discretionary Line of Credit from PNC Bank, National Association to The Progressive Corporation	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 4.1 therein)
4	4.26	Form of Discretionary Line of Credit Note from The Progressive Corporation to PNC Bank, National Association	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 4.2 therein)
10(i)	10.1	Stock Purchase Agreement, dated as of December 15, 2014, among ARX Holding Corp., The Progressive Corporation and the selling shareholders identified therein, including Exhibit H, the form of Stockholders' Agreement to be executed at closing	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 10.1 therein)
10(i)	10.2	Amendment No. 1 to Fourth Amended and Restated Stockholder's Agreement, dated April 1, 2015	Quarterly Report on Form 10-Q (filed on May 2, 2018; Exhibit 10.4 therein)
10(iii)	10.3	The Progressive Corporation 2020 Gainsharing Plan	Filed herewith
10(iii)	10.4	The Progressive Corporation 2015 Equity Incentive Plan	Current Report on Form 8-K (filed on February 4, 2015; Exhibit 10.1 therein)
10(iii)	10.5	Form of Restricted Stock Unit Award Agreement for Time-Based Awards under The Progressive Corporation 2015 Equity Incentive Plan (for 2019)	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 10.1 therein)
10(iii)	10.6	Form of Restricted Stock Unit Award Agreement for 2018 Time-Based Awards under The Progressive Corporation 2015 Equity Incentive Plan	Current Report on Form 8-K (filed on March 21, 2018; Exhibit 10.1 therein)
10(iii)	10.7	Form of Restricted Stock Unit Award Agreement (2018 Special Time-Based Award) under The Progressive Corporation 2015 Equity Incentive Plan	Current Report on Form 8-K (filed on August 23, 2018; Exhibit 10 therein)
10(iii)	10.8	Form of Restricted Stock Unit Award Agreement for 2017 Time-Based Awards under The Progressive Corporation 2015 Equity Incentive Plan	Current Report on Form 8-K (filed on March 27, 2017; Exhibit 10.1 therein)
10(iii)	10.9	Form of Restricted Stock Unit Award Agreement for Time-Based Awards under The Progressive Corporation 2015 Equity Incentive Plan (for 2016)	Quarterly Report on Form 10-Q (filed on May 5, 2016; Exhibit 10.1 therein)
10(iii)	10.10	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Performance versus Market) under The Progressive Corporation 2015 Equity Incentive Plan (for 2019)	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 10.3 therein)
10(iii)	10.11	Form of Restricted Stock Unit Award Agreement for 2018 Performance-Based Awards (Performance Versus Market) under The Progressive Corporation 2015 Equity Incentive Plan	Current Report on Form 8-K (filed on March 21, 2018; Exhibit 10.2 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.12	Form of Restricted Stock Unit Award Agreement for 2017 Performance-Based Awards (Performance versus Market) under The Progressive Corporation 2015 Incentive Plan	Current Report on Form 8-K (filed on March 27, 2017; Exhibit 10.2 therein)
10(iii)	10.13	Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Investment Results) under The Progressive Corporation 2015 Equity Incentive Plan (for 2019)	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 10.2 therein)
10(iii)	10.14	Form of Restricted Stock Unit Award Agreement for 2018 Performance-Based Awards (Investment Results) under The Progressive Corporation 2015 Equity Incentive Plan	Current Report on Form 8-K (filed on March 21, 2018; Exhibit 10.3 therein)
10(iii)	10.15	The Progressive Corporation 2017 Directors Equity Incentive Plan	Current Report on Form 8-K (filed on February 21, 2017; Exhibit 10.1 therein)
10(iii)	10.16	Form of Restricted Stock Award Agreement under The Progressive Corporation 2017 Directors Equity Incentive Plan (for 2019)	Quarterly Report on Form 10-Q (filed on August 7, 2019; Exhibit 10 therein)
10(iii)	10.17	The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.3 therein)
10(iii)	10.18	First Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.4 therein)
10(iii)	10.19	Second Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.5 therein)
10(iii)	10.20	Third Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.6 therein)
10(iii)	10.21	Fourth Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.7 therein)
10(iii)	10.22	The Progressive Corporation Executive Deferred Compensation Plan (2008 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.8 therein)
10(iii)	10.23	First Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2008 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.9 therein)
10(iii)	10.24	The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.10 therein)
10(iii)	10.25	First Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.11 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.26	Second Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)	Current Report on Form 8-K (filed on October 14, 2014; Exhibit 10 therein)
10(iii)	10.27	Third Amendment to the Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.53 therein)
10(iii)	10.28	Fourth Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)	Quarterly Report on Form 10-Q (filed on November 2, 2017; Exhibit 10 therein)
10(iii)	10.29	The Progressive Corporation Executive Deferred Compensation Plan (2018 Amendment and Restatement)	Quarterly Report on Form 10-Q (filed on July 31, 2018; Exhibit 10 therein)
10(iii)	10.30	The Progressive Corporation Executive Deferred Compensation Trust (November 8, 2002 Amendment and Restatement)	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.23 therein)
10(iii)	10.31	First Amendment to Trust Agreement between Fidelity Management Trust Company and Progressive	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.24 therein)
10(iii)	10.32	Second Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.25 therein)
10(iii)	10.33	Third Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.26 therein)
10(iii)	10.34	Fourth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.27 therein)
10(iii)	10.35	Fifth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.28 therein)
10(iii)	10.36	Sixth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.29 therein)
10(iii)	10.37	Seventh Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.30 therein)
10(iii)	10.38	Eighth Amendment to The Progressive Corporation Executive Deferred Compensation Trust (2002 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 27, 2019; Exhibit 10.49 therein)
10(iii)	10.39	Ninth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 10.5 therein)
10(iii)	10.40	Tenth Amendment to The Progressive Corporation Executive Deferred Compensation Trust	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 10.6 therein)
10(iii)	10.41	The Progressive Corporation Directors Deferral Plan (2008 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 27, 2018; Exhibit 10.91 therein)

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.42	The Progressive Corporation Directors Deferral Plan (2015 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.77 therein)
10(iii)	10.43	The Progressive Corporation Directors Restricted Stock Deferral Plan (2008 Amendment and Restatement)	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 10.4 therein)
10(iii)	10.44	First Amendment to The Progressive Corporation Directors Restricted Stock Deferral Plan (2008 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 27, 2019; Exhibit 10.56 therein)
10(iii)	10.45	Director Compensation Schedule for 2019-2020 Term	Filed herewith
10(iii)	10.46	The Progressive Corporation Executive Separation Allowance Plan (2017 Amendment and Restatement)	Current Report on Form 8-K (filed on May 16, 2017; Exhibit 10 therein)
10(iii)	10.47	First Amendment to The Progressive Corporation Executive Separation Allowance Plan (2017 Amendment and Restatement)	Annual Report on Form 10-K (filed on February 27, 2019; Exhibit 10.60 therein)
10(iii)	10.48	Second Amendment to The Progressive Corporation Executive Separation Allowance Plan (2017 Amendment and Restatement)	Quarterly Report on Form 10-Q (filed on October 31, 2018; Exhibit 10.1 therein)
10(iii)	10.49	2020 Progressive Capital Management Annual Incentive Plan	Filed herewith
13	13	The Progressive Corporation 2019 Annual Report to Shareholders	Filed herewith
21	21	Subsidiaries of The Progressive Corporation	Filed herewith
23	23	Consent of Independent Registered Public Accounting Firm	Filed herewith
24	24	Powers of Attorney	Filed herewith
31	31.1	Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer, Susan Patricia Griffith	Filed herewith
31	31.2	Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer, John P. Sauerland	Filed herewith
32	32.1	Section 1350 Certification of the Principal Executive Officer, Susan Patricia Griffith	Filed herewith
32	32.2	Section 1350 Certification of the Principal Financial Officer, John P. Sauerland	Filed herewith
99	99	Letter to Shareholders from Susan Patricia Griffith, President and Chief Executive Officer	Filed herewith
101	101.INS	XBRL Instance Document	Filed herewith
101	101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101	101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101	101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith

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Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
101	101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

Exhibit 4.23

Description of the Registrant's Securities
Registered Pursuant to Section 12 of the
Securities Exchange Act of 1934

The Progressive Corporation (the "company") has one class of securities registered under Section 12(b) of the Securities Exchange Act of 1934, as amended: our common shares, par value $1.00 per share (our "common shares").

The following summarizes briefly some of the general terms of our common shares and does not purport to be complete. It is subject to and qualified in its entirety by reference to the applicable provisions of our amended articles of incorporation, as amended (the "Articles") and our code of regulations, as amended (the "Code of Regulations"), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit is a part, and the Ohio Revised Code. We encourage you to read our Articles and Code of Regulations and the applicable provisions of the Ohio Revised Code.

General

Our authorized capital stock at December 31, 2019 includes 900,000,000 common shares.

Our common shares are traded on the New York Stock Exchange under the ticker symbol "PGR".

The transfer agent for our common shares is American Stock Transfer & Trust Company, LLC, Attn: Operations Center, 6201 15th Avenue, Brooklyn, NY 11219 (phone: 1-866-709-7695).

Dividend and Voting Rights

Subject to the express rights of the holders of serial preferred shares (the "serial preferred shares") and any series thereof, to the express rights of holders of voting preference shares, without par value, and any series thereof (the "voting preference shares"), and to the express rights of the holders of any other class of shares ranking senior to our common shares that may be issued and outstanding, the holders of common shares are entitled:

- to receive dividends when, as and if declared by our Board of Directors out of funds legally available therefor; however, the terms of our outstanding preferred shares prohibit us from declaring or paying dividends or distributions on our common shares while our preferred shares are outstanding, unless all accrued and unpaid dividends on the preferred shares, including the full dividends for all current dividend periods, have been declared and paid or a sum sufficient for payment thereof set apart, subject to certain exceptions; and

- in the event of liquidation of the company, to participate equally in all distributions of assets remaining after payment of liabilities and satisfaction of the liquidation preferences, if any, of the then-outstanding serial preferred shares and of the then-outstanding voting preference shares, as provided in our Articles.

Each holder of common shares is entitled to one vote for each common share on all matters presented. No holder of common shares will have any preemptive right to purchase, have offered for purchase or subscribe for any of the company's shares or other securities of any class, whether now or hereafter authorized. The holders of common shares have cumulative voting rights in certain circumstances and subject to certain procedures. There are no conversion rights or redemption or sinking fund provisions with respect to our common shares.

Anti-Takeover Protections

Section 1701.831 of the Ohio Revised Code requires the prior authorization of the shareholders of certain corporations in order for any person to acquire, either directly or indirectly, shares of that corporation that would entitle the acquiring person to exercise or direct the exercise of 20% or more of the voting power of that corporation in the election of directors or to exceed specified other percentages of voting power. In the event an acquiring person proposes to make such an acquisition, the person is required to deliver to the corporation a statement disclosing, among other things, the number of shares owned, directly or indirectly, by the person, the range of voting power that may result from the proposed acquisition and the identity of the acquiring person. Within ten days after receipt of this statement, the corporation must call a special meeting of shareholders to vote on the proposed acquisition. The acquiring person may complete the proposed acquisition only if the acquisition is approved by the affirmative vote of the holders of at least a majority of the voting power of all shares entitled to vote in the election of directors represented at the meeting excluding the voting power of all "interested shares." Interested shares include

any shares held by the acquiring person and those held by officers and directors of the corporation. Each corporation has the ability to “opt out” of the application of Section 1701.831.

Chapter 1704 of the Ohio Revised Code prohibits certain business combinations and transactions between an “issuing public corporation” and an “interested shareholder” for at least three years after the interested shareholder attains 10% ownership, unless the board of directors of the issuing public corporation approves the transaction before the interested shareholder attains 10% ownership. An “issuing public corporation” is an Ohio corporation with 50 or more shareholders that has its principal place of business, principal executive offices, or substantial assets within the State of Ohio, and as to which no close corporation agreement exists. An “interested shareholder” is a beneficial owner of 10% or more of the shares of a corporation. Examples of transactions regulated by Chapter 1704 include the disposition of assets, mergers and consolidations, voluntary dissolutions and the transfer of shares.

Subsequent to the three-year period, a transaction subject to Chapter 1704 may take place provided that certain conditions are satisfied, including:

(i) before the interested shareholder’s share acquisition date, the board of directors approved the purchase of shares by the interested shareholder;

(ii) the transaction is approved by the holders of shares with at least 66 2/3% of the voting power of the corporation (or a different proportion set forth in the articles of incorporation), including at least a majority of the outstanding shares after excluding shares controlled by the Ohio law interested shareholder; or

(iii) the business combination results in shareholders, other than the Ohio law interested shareholder, receiving a fair price plus interest for their shares.

Each issuing public corporation has the ability to “opt out” of the application of Chapter 1704.

We have not opted out of the application of either Chapter 1704 or Section 1701.831.

Section 1707.041 of the Ohio Revised Code regulates certain tender offer “control bids” for corporations in Ohio with 50 or more shareholders that have significant Ohio contacts (as defined in that statute) and permits the Ohio Division of Securities to suspend a control bid if certain information is not provided to offerees.

Our Articles contain requirements for approval of certain business combinations involving the company. These provisions require that any merger and certain other business combination transactions involving the company and any holder of 20% or more of our common shares (“Related Party”) cannot be completed unless the transaction is approved by the affirmative vote of the holders of a majority of our common shares having voting power with respect to any such proposal. Our Articles further provide, however, that this shareholder approval requirement will not apply if either (i) the transaction is approved by a majority of our “Continuing Directors” (as defined in our Articles), or (ii) a “fair price” requirement has been satisfied. Under the “fair price” provision, the cash or other consideration to be paid for each of our common shares acquired in the transaction cannot be less than the highest per share price paid by the Related Party in acquiring any of our common shares. These provisions may not be amended or repealed except by the vote of holders of a majority of our common shares having voting power with respect to any such proposal.

Exhibit 10.3

THE PROGRESSIVE CORPORATION
2020 GAINSHARING PLAN

1. **The Plan**. The Progressive Corporation and its wholly-owned and majority-owned subsidiaries and down-stream affiliates (collectively, "Progressive" or the "Company") have adopted The Progressive Corporation 2020 Gainsharing Plan (the "Plan") as part of their overall compensation program. The Plan is performance-based, is not a form of commission compensation, and is administered under the direction of the Compensation Committee of the Board of Directors of The Progressive Corporation (the “Committee”). Payment under the Plan, if any, is based on Company performance as defined by the Plan, not individual employee performance. Plan years will coincides with Progressive’s fiscal years.

2. **Participants**. Plan participants for each Plan year shall include all officers and regular employees of Progressive, unless determined otherwise by the Committee. Temporary employees are not eligible to participate in the Plan. Throughout this Plan, references to “executive officers” refer to executive officers of The Progressive Corporation within the meaning of any Securities and Exchange Commission (“SEC”) or New York Stock Exchange rule applicable to the Company.

3. **Gainsharing Formula**. Subject to the terms of the Plan, Annual Gainsharing Payments will be determined by application of the following formula:

Annual Gainsharing = Paid Eligible Earnings x Target Percentage x Performance Factor
Payment

4. **Paid Eligible Earnings**. Paid Eligible Earnings for any Plan year shall mean and include the following: regular, Earned Time Benefit pay (including Protected ETB-PSL but excluding the payout of unused Earned Time Benefit pay at termination), sick pay, holiday pay, funeral pay, overtime pay, military make-up pay, shift differential, and retroactive payments of any of the foregoing items, in each case received by the participant during the Plan year for work or services performed as an officer or employee of Progressive.

For purposes of the Plan, and notwithstanding the foregoing, Paid Eligible Earnings shall exclude all other types of compensation, including, without limitation: any short-term or long-term disability payments made to the participant; the earnings replacement component of any workers’ compensation benefit or award; any amounts paid pursuant to a judgment in, or settlement related to, any action, suit or proceeding, whether in law or equity, to any extent arising from or relating to a participant’s employment with the Company, or work or services performed for or on behalf of the Company; any amount paid under a separation allowance (or severance) plan; any bonus, Gainsharing or other incentive compensation award (whether denominated, or payable, in cash or equity), including, without limitation, payments from any discretionary cash fund; any dividend payments or dividend equivalent amounts; any unused Earned Time Benefit; and any other payment required by applicable law to be paid to a participant by the Company and intended to replace all or any portion of wages or earnings during a period of unemployment, whether due to illness, disability or otherwise (including, but not limited to, payments made pursuant to any statute, rule or regulation of a governmental authority relating to leave on account of maternity, paternity, parental status or responsibility, or sickness).

5. **Target Percentages**. Target Percentages vary by position. Target Percentages for Plan participants typically are as follows:

POSITION	TARGET %
Chief Executive Officer and Other Executive Officers	Determined by the Compensation Committee
Other Senior Executives and Executive Level Managers	60 - 150%
Business Leaders	35 - 60%
Directors and Senior Directors	20 - 35%
Middle Managers and Senior Managers	15 - 20%
Senior Professionals and Entry Level Managers	8 - 20%
Administrative Support and Entry Level Professionals	0 - 8%

Target Percentages will be established within the above ranges by, and may be changed with the approval of, the Chief Human Resource Officer; provided that the Chief Human Resource Officer may establish appropriate procedures to evaluate the need for, and if appropriate, implement individual exceptions to, the foregoing ranges. Target Percentages may be changed from year to year by the Chief Human Resource Officer. The Chief Human Resource Officer may consult with the Chief Executive Officer on any of the foregoing decisions. Notwithstanding anything herein to the contrary, only the Committee may establish or modify the Target Percentages for the Company's executive officers.

If a participant's Target Percentage changes during a Plan year, the Target Percentages used to calculate such participant's Annual Gainsharing Payment hereunder shall be weighted appropriately to reflect such participant's tenure in each such position during the Plan year.

6. **The Performance Factor**.

A. *Core Business Defined*

The Performance Factor shall be determined by the performance of the Core Business during the Plan year, pursuant to the procedures and calculations described below. The "Core Business" shall be comprised of the following:

- The Agency Auto business unit, consisting of the auto business produced by independent agents or brokers, including Strategic Alliances Agency auto, but excluding all Agency special lines businesses;
- The Direct Auto business unit, consisting of the personal auto business produced by phone, over the Internet, or via a mobile device, but excluding all Direct special lines businesses;
- The special lines business unit, which shall consist of special lines businesses generated by agents and brokers or directly by phone, over the Internet, or via a mobile device;
- The Commercial Lines business unit; and
- The Property business unit.

Each of the Agency Auto, Direct Auto, special lines, Commercial Lines and Property business units is referred to herein as a "Business Unit" or "Unit." Notwithstanding the foregoing

descriptions, for all purposes under this Plan, the following are excluded from the Core Business results (both growth and profitability): results of the Professional Liability business, the Midland Financial Group, Inc. and other businesses in run-off; results of the CAIP Servicing Group; flood insurance policies, renters insurance policies, umbrella policies and related expenses; business owners' policies and related expenses; and any results of any Commercial Lines product or program pursuant to which the Company insures any transportation network company or other entity engaged in a ride, cartage, or vehicle sharing business, operation, platform, or program or in a business based on matching and/or sharing time, use and/or assets by and among people and/or businesses. For purposes of this Plan, any business or entity acquired during the Plan year will be excluded to the extent determinable.

B. *Matrices*

For purposes of computing a performance score for the Core Business, operating performance results for each Business Unit are evaluated using a performance matrix for the Plan year. Each matrix assigns performance scores to various combinations of profitability and growth outcomes for the applicable Business Unit. Those scores are then weighted and combined to produce a Performance Factor as described in 6.D. below.

For 2020, and for each Plan year thereafter until otherwise determined by the Committee, each Business Unit will be evaluated, and separate Gainsharing matrices will be established by the Committee for the following:

- Agency Auto;
- Direct Auto;
- Special lines;
- Commercial Lines; and
- Property.

C. *Performance Measures*

Growth. The growth measure for the Plan year under all matrices will be based on policies in force ("PIFs").

For all matrices, growth will be measured by the percentage change in average PIFs for the Plan year compared to the average PIFs of the immediately preceding fiscal year. Average PIFs for the Plan year and for the immediately preceding fiscal year will be determined by adding the fiscal-month-end number of PIFs for each month during such year and dividing the total by twelve.

Assigned risk business will not be included in determining the growth of any Business Unit.

Profitability. For all Business Unit matrices, the measurement of profitability will be the combined ratio (calculated in accordance with U.S. generally accepted accounting principles) (the "GAAP Combined Ratio") for the Plan year for the applicable Unit.

Assigned risk business will be included in determining the GAAP Combined Ratio for the applicable Business Unit. The net operating expense of Corporate Products (e.g., self-insurance) shall be apportioned among the appropriate Business Units in accordance with the respective

amount(s) of net earned premiums generated by each such Business Unit and will be reflected in the calculation of the GAAP Combined Ratio for such Business Units.

D. *Calculation of Performance Factor*

Performance Scores

Using the actual performance results and the Gainsharing matrix for each Business Unit, the GAAP Combined Ratio for each such Unit will be matched with the growth levels achieved by such Unit, to determine the performance score for each such Unit. The performance score for each Business Unit, which will be used to calculate the Performance Factor as described further below, can vary from 0 to 2.00.

Performance Factor

The resulting performance scores for each of the Agency Auto, Direct Auto, special lines, Commercial Lines and Property Business Units will then be multiplied by a weighting factor, which shall be a fraction or decimal equivalent, determined by dividing the net earned premiums generated by such Business Unit during the Plan year by the net earned premiums generated by all of the Business Units comprising the Core Business in the aggregate. The sum of these weighted performance scores will be the Performance Factor for the Plan year.

E. *Limitations*

The final Performance Factor cannot exceed 2.00.

7. **Payment Procedures; Deferral**.

A. *Executive Team*.

In the case of a participant who is the Chief Executive Officer or any other executive officer (other than the Chief Accounting Officer) within the meaning of Rule 16a-1(f) or otherwise for purposes of Section 16 of the Securities Exchange Act of 1934 as of February 13, 2020 (collectively, the “Executive Team”), subject to Paragraphs 9 and 16 below, Annual Gainsharing Payments shall be paid after the Committee determines the Performance Factor but in any event prior to March 15th of the year immediately following the Plan year; provided, however, that the Committee may, in its sole discretion, reduce the amount of, or eliminate in full, any Annual Gainsharing Payment to a member of the Executive Team at any time before payment, for any or no reason. The Committee may, in its sole discretion, treat individual members of the Executive Team differently for these purposes. Any such determination by the Committee shall be final and binding on each participant whose Annual Gainsharing Payment is affected thereby and on such participant’s estate and beneficiaries.

B. *Other Participants*.

In the case of participants who are not members of the Executive Team, subject to Paragraphs 9 and 16 below, no later than December 31 of each Plan year, each participant will receive an initial payment in respect of his or her Annual Gainsharing Payment for that Plan year, if any, equal to 75% of an amount calculated on the basis of Paid Eligible Earnings for the first 24 pay periods of the Plan year, estimated earnings for the remainder of the Plan year, and an

estimated performance factor determined using the performance data for each Business Unit through the first 11 months of the Plan year (estimated, if necessary), the applicable Gainsharing matrix and the calculations described above. Subject to Paragraphs 9 and 16 below, no later than February 28 of the following year, each participant will receive the amount equal to (x) his or her Annual Gainsharing Payment, if any, for such Plan year, based on his or her Paid Eligible Earnings and performance data for the entire Plan year, minus (y) the amount of the initial payment received by such participant pursuant to the immediately preceding sentence.

C. *Deferral.*

Any Plan participant who is then eligible to participate in The Progressive Corporation Executive Deferred Compensation Plan ("Deferral Plan") may elect to defer all or a portion of the Annual Gainsharing Payment otherwise payable to him/her under this Plan, subject to and in accordance with the terms of the Deferral Plan. If a Plan participant has made such an election under the Deferral Plan, then to the extent of such election, the Annual Gainsharing Payment will, instead of being paid to such participant as described in the immediately preceding paragraphs, be credited to such participant's account under the Deferral Plan in accordance with the terms of the Deferral Plan.

8. **Other Plans**. If, for any Plan year, an employee has been selected to participate in both this Plan and another cash incentive plan offered by the Company, then with respect to such employee, the Gainsharing formula set forth in Paragraph 3 hereof shall be appropriately adjusted by applying a weighting factor to reflect the proportion of the employee's total annual incentive opportunity that is being provided by this Plan. The Committee shall have full authority to determine the incentive plan or plans in which any employee will participate during any Plan year and, if an employee is selected to participate in more than one plan, the weighting factor that will apply to each such plan.

9. **Qualification Date; Leave of Absence; Withholding**. Unless otherwise determined by the Committee, and except as expressly provided herein, in order to be entitled to receive an Annual Gainsharing Payment for any Plan year, the participant must be an active officer or regular employee of the Company on November 30 of the Plan year ("Qualification Date"). An individual (i) who is hired on or after December 1 of any Plan year or (ii) whose employment terminates for any reason prior to the Qualification Date is not entitled to an Annual Gainsharing Payment for that Plan year. Annual Gainsharing Payments are not earned until paid.

Any participant who is on a leave of absence covered by the Family and Medical Leave Act of 1993, as amended (or equivalent state or local law), the Americans with Disabilities Act of 1991, as amended (or equivalent state or local law), personal leave of absence with the approval of the Company, military leave or short- or long-term disability (provided that, in the case of a long-term disability, the participant is still an employee of the Company) on the Qualification Date with respect to any Plan year will be entitled to receive an Annual Gainsharing Payment for such Plan year, calculated as provided in Paragraphs 3 through 6 above, based on the amount of Paid Eligible Earnings received by such participant during the Plan year and paid in the manner and at the times as are described in Paragraph 7 above but subject to Paragraph 16 below.

Progressive shall have the right to deduct from any Annual Gainsharing Payment, prior to payment, the amount of any taxes required to be withheld by any federal, state, local or foreign government with respect to such payments.

10. **Non-Transferability**. Annual Gainsharing Payments shall be payable only to the participant or, in the event of the participant's death, to the participant's estate. The right to any Annual Gainsharing Payment hereunder may not be sold, transferred, assigned or encumbered, voluntarily or involuntarily, other than by will or the laws of descent or distribution. Nothing herein shall prevent any participant's interest hereunder from being subject to involuntary attachment, levy or other legal process.

11. **Administration**. The Plan shall be administered by or under the direction of the Committee. The Committee shall have the authority to adopt, alter, amend, modify, revise and repeal such rules, guidelines, procedures and practices governing the Plan as it shall, from time to time, in its sole discretion, deem advisable.

The Committee shall have full authority to determine the manner in which the Plan will operate, to interpret the provisions of the Plan and to make all determinations hereunder. All such interpretations and determinations shall be final and binding on Progressive, all Plan participants, their estates and beneficiaries and all other parties. No such interpretation or determination shall be relied on as a precedent for any similar action or decision. No member of the Committee shall incur any liability for any action taken or omitted, or any determination made, in good faith with respect to the Plan.

Unless otherwise determined by the Committee, all of the authority of the Committee hereunder (including, without limitation, the authority to administer the Plan, select the persons entitled to participate herein, interpret the provisions thereof, waive any of the requirements specified herein and make determinations hereunder and to select, approve, establish, change or modify the Business Units and the Gainsharing formulae, weighting factors, performance targets and Target Percentages) may be exercised by the Chief Executive Officer and/or the Chief Human Resource Officer; provided, however, that only the Committee may take such actions or make such determinations with respect to the Company's executive officers. In the event of a dispute or conflict, the determination of the Committee will govern.

12. **Miscellaneous.**

A. *Recoupment.* Progressive shall have the right to recoup any Annual Gainsharing Payment (or an appropriate portion thereof, as hereinafter provided) with respect to any Plan year paid to a participant hereunder who was an executive officer of Progressive at any time during such Plan year, if: (i) the Annual Gainsharing Payment was calculated by reference to the achievement during such Plan year of certain financial or operating results (which includes, for purposes hereof, the Performance Factor described in Section 6); (ii) such financial or operating results were incorrect and were subsequently the subject of a restatement by Progressive within three (3) years after the date on which such Annual Gainsharing Payment was paid to the participant; and (iii) the Annual Gainsharing Payment would not have been paid, in whole or in part, to the participant if the restated financial or operating results had been known at the time the payment was made. Such recoupment right shall be available to Progressive whether or not the participant in question was at fault or responsible in any way in causing such restatement. In such circumstances, Progressive will have the right to recover from each such participant for such Plan year, and each such participant will refund to Progressive promptly upon demand, the amount by which the Annual Gainsharing Payment paid to such participant for the Plan year in question exceeded the payment that would have been made if the Annual Gainsharing Payment had been calculated by reference to the restated results, without interest; provided, however, that Progressive will not seek to recover such amounts from any participant who is not a member of the Executive Team unless the amount due would exceed the lesser of five percent (5%) of the Annual Gainsharing Payment previously paid or twenty-thousand dollars ($20,000). Such recovery, at the Committee's

discretion, may be made by lump sum payment, installment payments, credits against future Annual Gainsharing Payments or other bonus payments, credits against any other compensation or other appropriate mechanism. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited into the Deferral Plan as a result of an election by the participant.

B. *Further Rights*. Notwithstanding the foregoing subsection A., if any participant that was an executive officer at any time during such Plan year engaged in fraud or other misconduct (as determined by the Committee or the Board, in their respective sole discretion) resulting, in whole or in part, in a restatement of the financial or operating results used hereunder to determine the Annual Gainsharing Payments for a specific Plan year, Progressive will further have the right to recover from such participant, and the participant will refund to Progressive upon demand, an amount equal to the entire Annual Gainsharing Payment paid to such participant for such Plan year plus interest at the rate of eight percent (8%) per annum or, if lower, the highest rate permitted by law, calculated from the date that such bonus was paid to the participant. Progressive shall further have the right to recover from such participant Progressive's costs and expenses incurred in connection with recovering such Annual Gainsharing Payment from the participant and enforcing its rights under this subsection B., including, without limitation, reasonable attorneys' fees. There shall be no time limit on the Company's right to recover such amounts under this subsection B., except as otherwise provided by applicable law. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited into the Deferral Plan as a result of an election by the participant.

C. *Compliance with Law and Exchange Requirements*. The Annual Gainsharing Payments determined and paid pursuant to the Plan shall be subject to all applicable laws and regulations. Without limiting the foregoing, and notwithstanding anything to the contrary contained in this Plan, if the SEC adopts final rules under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that require, as a condition to the Company's continued listing on a national securities exchange ("Exchange"), that the Company develop and implement a policy requiring the recovery of erroneously awarded compensation, and such regulations are applicable to a participant awarded Annual Gainsharing Payments pursuant to the Plan, then the Annual Gainsharing Payment paid to such participant (and any payment made to a participant pursuant to a similar plan or an award under The Progressive Corporation 2017 Executive Annual Incentive Plan) shall be subject to recoupment by the Company pursuant to the terms of the rules of the SEC and any applicable Exchange and any policy of the Company adopted in response to such rules. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited into the Deferral Plan as a result of an election by the participant.

D. *Rights Not Exclusive*. The rights contained in the foregoing subsections A. through C. shall be in addition to, and shall not limit, any other rights or remedies that the Company may have under any applicable law or regulation. Nothing contained in subsections A. through C. shall be deemed to limit any additional legal or equitable rights or remedies the Company may have under applicable law with respect to any participant who may have caused or contributed to the Company's need to restate its financial results. If any of the provisions of subsections A. through C., or any part thereof, are held to be unenforceable, the court making such determination shall have the power to revise or modify such provision to make it enforceable to the maximum extent permitted by applicable law and, in its revised or modified form, said provision shall then be enforceable.

13. **Termination; Amendment**. The Plan may be suspended, terminated, amended or revised, in whole or in part, at any time and from time to time by the Committee, in its sole discretion.

14. **Unfunded Obligations**. The Plan will be unfunded and all payments due under the Plan shall be made from Progressive's general assets.

15. **No Employment Rights**. Nothing in the Plan, and no action hereunder, shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties, authority or compensation, at any time and without assigning a reason therefor.

16. **Set-Off Rights**. Progressive shall have the unrestricted right to set off against or recover out of any Annual Gainsharing Payment or other sums owed to any participant under the Plan any amounts owed by such participant (including pursuant to Section 12) to Progressive.

17. **Misconduct**. No Participant shall have the right to receive any portion of any Annual Gainsharing Payment if, prior to such payment being made, Participant's employment is terminated as a result of any action or inaction that, under Progressive's employment practices or policies as then in effect, constitutes grounds for immediate termination of employment, as determined by Progressive (or, in the case of an executive officer, the Committee) in its sole discretion. In addition, no participant who is a member of the Executive Team shall have the right to receive any Annual Gainsharing Payment if, prior to such payment being made, participant's employment is terminated by Progressive for Cause, or if there occurs any action or inaction that constitutes grounds for termination for Cause or otherwise constitutes grounds for immediate termination of employment under the Company's employment practices or policies as then in effect, as determined by the Committee in its sole discretion. For purposes of this Section 17, "Cause" shall mean a felony conviction of a participant or the failure of a participant to contest prosecution for a felony; a participant's willful misconduct or dishonesty, any of which, in the judgment of the Committee, is harmful to the business or reputation of Progressive; or any material violation (in the judgment of the Committee (with respect to the Executive Team) or the Chief Executive Officer and/or Chief Human Resources Officer (with respect to other participants)) of any of the provisions of the Company's Code of Business Conduct and Ethics or the Chief Executive Officer/Senior Financial Officer's Code of Ethics (if applicable to the participant), or any confidentiality agreement, non-solicitation agreement, non-competition agreement or other agreement between the participant and Progressive.

18. **Employees Subject to Foreign Jurisdictions.** To the extent the Committee deems it necessary, appropriate or desirable to comply with foreign law or practice or taxation and to further the purposes of the Plan, the Committee may, without amending the Plan, exclude any employee not temporarily or permanently residing in the United States from participating in the Plan or establish rules applicable to Annual Gainsharing Payments to participants who are foreign nationals or foreign residents, are employed outside the United States, or both, including rules that differ from those set forth in this Plan.

19. **Section 409A.** Payments under the Plan are intended to be exempt from Section 409A because no legally binding right to any Annual Gainsharing Payment arises until the payment date, and, in the alternative, because any payment is a short term deferral under Section 409A; the Plan shall be administered and interpreted accordingly. Notwithstanding any provision of the Plan to the contrary, if the Committee determines that any payment under the Plan may constitute deferred compensation subject

to Section 409A, the Committee may take any actions necessary to preserve the intended tax treatment of the benefits provided with respect to such payment. Any benefit under the Plan that is subject to Section 409A because deferred pursuant to the terms of the Deferral Plan shall be paid according to the terms of such plan.

20. **Prior Plans**. This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable to participants by, or due from, Progressive with respect to the 2020 and future Plan years (other than "stand-up" bonuses provided to employees of ARX Holding Corp. and its downstream subsidiaries and affiliates ("ARX") and commissions provided to ARX employees involved in agency operations). Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 2019 Gainsharing Plan (the "Prior Plan"), which is and shall be deemed to have terminated on the last day of the Company's 2019 fiscal year (the "Prior Plan Termination Date"); provided, however, that (i) any bonuses or other sums earned and payable under the Prior Plan with respect to the 2019 Plan year shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder, and (ii) any provisions regarding recoupment of payments from executive officers and the administrative and interpretive authority of the Committee, the Chief Executive Officer and/or the Chief Human Resource Officer under the Prior Plan shall survive such termination.

21. **Effective Date**. This Plan is adopted, and is to be effective, as of the first day of Progressive's 2020 fiscal year. This Plan shall be effective for the 2020 Plan year and for each Plan year thereafter unless and until terminated by the Committee.

22. **Governing Law**. This Plan shall be governed by, and interpreted and construed in accordance with, the laws of the State of Ohio applicable to contracts made and performed wholly within such state by residents thereof.

Exhibit 10.45

Board of Directors' Compensation

Board of Directors for the 2019-2020 term:

Chairperson of the Board	$450,000
Audit Committee Chair	300,000
Audit Committee Member	275,000
Compensation Committee Chair	290,000
Compensation Committee Member	265,000
Investment and Capital Committee Chair	290,000
Investment and Capital Committee Member	265,000
New Director without a committee assignment	265,000
Nominating and Governance Committee Chair[1]	20,000
Nominating and Governance Committee Member[1]	15,000

[1] Each member of the Nominating and Governance Committee has a primary assignment on one of the other Committees and receives additional compensation for service in these positions.

Exhibit 10.49

2020 PROGRESSIVE CAPITAL
MANAGEMENT ANNUAL INCENTIVE PLAN

1. **The Plan.** The Progressive Corporation and its subsidiaries (collectively "Progressive" or the “Company”) have adopted the 2020 Progressive Capital Management Annual Incentive Plan (the “Plan”) as part of their compensation program for the Company’s investment professionals for the Company’s 2020 fiscal year (the “Plan year”). The Plan is performance-based, is not a form of commission compensation, and is administered under the direction of the Compensation Committee of the Board of Directors of The Progressive Corporation (the “Compensation Committee” or “Committee”). Payment under the Plan, if any, is based on Company performance as defined by the Plan, not individual employee performance. References in this Plan to the Company’s portfolio mean the respective portfolios of the Company’s subsidiaries and affiliates that are actively managed by Progressive Capital Management Corp. (“PCM”) and references in this Plan to the Company’s investment results mean the investment results of those portfolios only.

   The Company’s investment professionals invest the funds of the Company in accordance with investment guidelines approved from time to time by the Investment and Capital Committee of the Board of Directors. Those guidelines address such matters as minimum average credit quality and the duration of the portfolio, as well as limitations on the extent to which the portfolio can be concentrated in individual issuers. Compliance with the guidelines is routinely monitored and variations therefrom must be reported to, and approved by, the Investment and Capital Committee.

2. **Participants.** Progressive employees who are assigned primarily to the Company’s capital management function, including the Company’s Chief Investment Officer (“CIO”), are eligible to be selected for participation in the Plan. Eligible employees in addition to the CIO will be selected by the CIO in consultation with the Chief Executive Officer (“CEO”) or Chief Human Resource Officer (“CHRO”) (the “Designated Executives”) to participate in the Plan. Participants may also participate in other gainsharing, bonus or incentive compensation plans maintained by Progressive, if so determined by the Designated Executives (or in the case of the CIO or any other executive officer, by the Compensation Committee). Other eligible employees of the Company may be selected for participation in the Plan for or at any time during the Plan year by the Designated Executives. In such cases, the Designated Executives will determine the new participant’s Target Percentage (described below) and other terms of participation (except with respect to the CIO or any other executive officer, as to whom all determinations must be made by the Committee). Throughout this Plan, references to “executive officers” refer to executive officers of The Progressive Corporation within the meaning of any Securities and Exchange Commission (“SEC”) or New York Stock Exchange rule applicable to the Company.

3. **Annual Incentive Payment Determination.**

   A. *Annual Incentive Payment*. Each participant may earn an annual cash bonus (the “Annual Incentive Payment”), subject to the terms of this Plan. The amount of the Annual Incentive Payment earned by any participant will be determined by application of the following formula:

   Annual Incentive = Paid Eligible Earnings x Target Percentage x Performance Factor
   Payment

   B. *Paid Eligible Earnings*. Paid Eligible Earnings for the Plan year shall mean and include the following: regular, Earned Time Benefit pay (including Protected ETB-PSL but excluding

the payout of unused Earned Time Benefit pay at termination), sick pay, holiday pay, funeral pay, military make-up pay, overtime pay, shift differential, and retroactive payments of any of the foregoing items, in each case received by the participant during the Plan year for work or services performed as an officer or employee of Progressive.
For purposes of the Plan, and notwithstanding the foregoing, Paid Eligible Earnings shall exclude all other types of compensation, including, without limitation: any short-term or long-term disability payments made to the participant; the earnings replacement component of any workers' compensation benefit or award; any amounts paid pursuant to a judgment in, or settlement related to, any action, suit or proceeding, whether in law or equity, to any extent arising from or relating to a participant's employment with the Company, or work or services performed for or on behalf of the Company; any amount paid under a separation allowance (or severance) plan; any bonus (including PCM Bonus Plan bonus or PCM Annual Incentive Plan payment), gainsharing or other incentive compensation award (whether denominated, or payable, in cash or equity), including, without limitation, payments from any discretionary cash fund; any dividend payments or dividend equivalent amounts; any unused Earned Time Benefit; and any other payment required by applicable law to be paid to a participant by the Company and intended to replace all or any portion of wages or earnings during a period of unemployment, whether due to illness, disability or otherwise (including, but not limited to, payments made pursuant to any statute, rule or regulation of a governmental authority relating to leave on account of maternity, paternity, parental status or responsibility, or sickness).

C. *Target Percentage*. The Target Percentages for participants in the Plan shall be determined by or under the direction of the Committee, but will not exceed 125% for any participant. Target Percentages may vary among Plan participants and may be changed from year to year by or under the direction of the Designated Executives (or in the case of the CIO or any other executive officer, by the Compensation Committee).

D. *Performance Factor*. The Performance Factor will be determined by the Committee after the expiration of the Plan year based on the performance of the Company's fixed-income investment portfolio (the "Fixed-Income Portfolio" or "Portfolio"), and such other factors and information relating to the performance of the Company's investment professionals as the Committee shall determine.

First, an indicated performance factor will be determined based on the fully taxable equivalent total return of the Fixed-Income Portfolio, in comparison to the total returns of the group of comparable investment firms identified by the Independent Data Source (the "Investment Benchmark"), over the one- and three-year periods ending on December 31 of the Plan year, as described below. For purposes of this Agreement, the "Independent Data Source" shall be a third party independent data source determined by the Committee. After the end of the Plan year, the Independent Data Source will determine the firms that are included in the Investment Benchmark in accordance with the criteria specified on Exhibit I hereto. The Independent Data Source will also provide to the Company the monthly total return data for each of the Investment Benchmark firms for the three-year period ending on December 31 of the Plan year.

Investment results for the Fixed-Income Portfolio will be marked to market, including 50% of the benefit of any state premium tax abatements for municipal securities held in the Portfolio beginning with 2019 and 100% of such benefit for 2018 that are realized by the

Company during the Plan year, in order to calculate the Portfolio's fully taxable equivalent total return for the one-year (2020) and three-year period (2018-2020) periods, in each case compounded on a monthly basis. The investment performance achieved by the Fixed-Income Portfolio for the one- and three-year periods (each, a "comparison period") will then be compared against the total returns of the firms included in the Investment Benchmark for the same periods, also compounded on a monthly basis, as determined by the Company from the monthly performance data supplied by the Independent Data Source for each firm in the Investment Benchmark, to determine, for each comparison period, where the Fixed Income Portfolio's performance falls on a percentile basis when compared to the firms in the Investment Benchmark, as further described on Exhibit II ("Performance Ranking").

The Portfolio's Performance Ranking will be used to determine a performance score of between 0 and 2.0 for each comparison period, based on the following schedule:

Comparison Period	**Score = 0** **Rank at or below**	**Score = 1.0** **Rank equal to**	**Score = 2.0** **Rank at or above**
One year	15th Percentile	50th Percentile	85th Percentile
Three year	25th Percentile	50th Percentile	75th Percentile

A Performance Ranking between the values identified in the schedule will be interpolated on a straight-line basis to generate the applicable performance score, as further described on Exhibit II. Once these performance scores are determined, an overall indicated performance factor will be determined by averaging the performance scores for the one- and three-year comparison periods.

The overall indicated performance factor will be reported to the Committee after the expiration of the Plan year, together with such supporting documentation as the Committee may require. The Committee may consider such additional information as it deems necessary or appropriate in its discretion. Such information may include, without limitation:

- the primary investment factors that are responsible for favorable or unfavorable results relative to the peer group, such as the Company's duration and yield curve position and the extent of its exposure to sectors of the fixed-income markets, including corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities, government bonds, preferred stocks and non-investment-grade bonds;
- the Company's holdings within each sector relative to the general market composition of each sector;
- the extent to which material investment decisions may have been driven by Company strategic or capital considerations; and
- the impact on investment results of significant portfolio cash flows driven by Company operations, strategic decisions or capital transactions.

In addition, the Committee may choose to consult with others, including, without limitation, management, the Board's Investment and Capital Committee, other Board members, and outside compensation and investment professionals, in evaluating the performance of the Company's investment professionals for the year. The Committee will then determine the Performance Factor, which may vary among participants; provided that under no circumstances may the Performance Factor for any participant exceed 2.0 for the year.

E. In the event that the Independent Data Source (or its successor or assigns) discontinues providing the data that is necessary to make the calculations required by this Plan, or modifies the information in such a way as to render the comparisons required by this Plan to be not meaningful, in the Committee's sole judgment, the determinations required above shall be made using investment return data for comparable firms satisfying the criteria set forth on Exhibit I as may be available from another recognized provider of investment industry data as the Committee may approve in its sole discretion.

F. Notwithstanding any other provision of this Plan, the Fixed Income Portfolio shall not include any portfolio managed by, or any investment made at the direction of, any business unit or area other than PCM.

4. **Payment Procedures; Deferral.** The Annual Incentive Payments will be determined and paid to Plan participants as soon as practicable after the Performance Factor has been determined by the Committee, but no later than March 15th of the year immediately following the Plan year.

Any Plan participant who is then eligible to participate in The Progressive Corporation Executive Deferred Compensation Plan ("Deferral Plan") may elect to defer all or any portion of his or her Annual Incentive Payment otherwise payable to him/her under this Plan, subject to and in accordance with the terms of the Deferral Plan. If a Plan participant has made such an election under the Deferral Plan, then to the extent of such election, the Annual Incentive Payment will, instead of being paid to such participant as described in the immediately preceding paragraph, be credited to such participant's account under the Deferral Plan in accordance with the terms of the Deferral Plan.

5. **Qualification Date; Leave of Absence; Withholding.** Unless otherwise determined by the Committee, and except as otherwise expressly provided herein, in order to be entitled to receive an Annual Incentive Payment for the Plan year, the participant must be an active officer or regular employee of the Company on November 30 of the Plan year ("Qualification Date"). An individual who (i) is hired on or after December 1 of any Plan year, or (ii) whose employment terminates for any reason prior to the Qualification Date is not entitled to an Annual Incentive Payment for that Plan year. Annual Incentive Payments are not earned until paid.

Any participant who is on a leave of absence covered by the Family and Medical Leave Act of 1993, as amended (or equivalent state or local law), the American with Disabilities Act of 1991, as amended (or equivalent state or local law), personal leave of absence with the approval of the Company, military leave or short- or long-term disability (provided that, in the case of a long-term disability, the participant is still an employee of the Company) on the Qualification Date relating to the Plan year will be entitled to receive an Annual Incentive Payment for the Plan year based on the Paid Eligible Earnings received by the participant during the Plan year.

Progressive shall have the right to deduct from any Annual Incentive Payment, prior to payment, the amount of any taxes required to be withheld by any federal, state, local or foreign government with respect to such payments.

6. **Other Plans.** Participants may be selected to participate in this Plan and in one or more other incentive plans offered by the Company. In the case of the CIO or any other executive officer, all determinations with respect to such incentive plans and the executive's participation therein shall be made by the Compensation Committee. In all other cases, the Designated Executives shall have full

authority to determine the incentive plan or plans in which any employee shall participate during the Plan year and the weighting factor (if any) that will apply to each such plan.

7. **Non-Transferability.** Annual Incentive Payments shall be payable only to the participant or, in the event of the participant's death, to the participant's estate. The right to any Annual Incentive Payment hereunder may not be sold, transferred, assigned or encumbered, voluntarily or involuntarily, other than by will or the laws of descent or distribution. Nothing herein shall prevent any participant's interest hereunder from being subject to involuntary attachment, levy or other legal process.

8. **Administration.** The Plan will be administered by or under the direction of the Committee. The Committee will have the authority to adopt, alter, amend, modify, revise and repeal such rules, guidelines, procedures and practices governing the Plan as it, from time to time, in its sole discretion deem advisable.

The Committee will have full authority to determine the manner in which the Plan will operate, to interpret the provisions of the Plan and to make all determinations hereunder. All such interpretations and determinations shall be final and binding on Progressive, all Plan participants, their estates and beneficiaries and all other parties. No such interpretation or determination shall be relied on as a precedent for any similar action or decision. No member of the Committee shall incur any liability for any action taken or omitted, or any determination made, in good faith with respect to the Plan.

Unless otherwise determined by the Committee, all of the authority of the Committee hereunder (including, without limitation, the authority to administer the Plan, select the persons entitled to participate herein, interpret the provisions hereof, waive any of the requirements specified herein and make determinations hereunder and to select, approve, establish, , change or modify the Investment Benchmarks, Performance Targets and Target Percentages) may be exercised by the Designated Officers. If one or more of the Designated Officers is unavailable or unable to participate, or if such position is vacant, the Chief Financial Officer may act instead of such officer.

Notwithstanding anything in this Plan to the contrary: (a) all determinations made under this Plan with respect to the CIO or any other individual deemed to be an executive officer of the Company must be made only by the Compensation Committee; and (b) only the Committee may make the determination of the Performance Factor required by Section 3.D. above.

9. **Miscellaneous.**

A. *Recoupment*. Progressive shall have the right to recoup any Annual Incentive Payment (or an appropriate portion thereof, as hereinafter provided) with respect to any Plan year paid to a participant hereunder who was an executive officer of Progressive at any time during such Plan year, if: (i) the Annual Incentive Payment was calculated by reference to the achievement during such Plan year of certain financial or operating results (which includes, for purposes hereof, the performance of the Fixed-Income Portfolio); (ii) such financial or operating results were incorrect and were subsequently the subject of a restatement by Progressive within three (3) years after the date on which such Annual Incentive Payment was paid to the participant; and (iii) the Annual Incentive Payment would have been paid, in whole or in part, to the participant if the restated financial or operating results had been known at the time the payment was made. Such recoupment right shall be available to Progressive whether or not the participant in question was at fault or responsible in any way in causing such restatement. In such

circumstances, Progressive will have the right to recover from each such participant for such Plan year, and each such participant will refund to Progressive promptly upon demand, the amount by which the Annual Incentive Payment paid to such participant for the Plan year in question exceeded the payment that would have been made if the Annual Incentive Payment had been calculated by reference to the restated results, without interest; provided, however, that Progressive will not seek to recover such amounts from any participant who was not an executive officer at any time during the Plan year unless the amount due would exceed the lesser of five percent (5%) of the Annual Incentive Payment previously paid or twenty-thousand dollars ($20,000). Such recovery, at the Committee's discretion, may be made by lump sum payment, installment payments, credits against future Annual Incentive Payments, annual gainsharing payments or other bonus payments, credits against any other compensation, or other appropriate mechanism. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited in the Deferral Plan as a result of an election by the participant.

B. *Further Rights*. Notwithstanding the foregoing subsection A., if any participant that was an executive officer at any time during such Plan year engaged in fraud or other misconduct (as determined by the Committee or the Board, in their respective sole discretion) resulting, in whole or in part, in a restatement of the financial or operating results used hereunder to determine the Annual Incentive Payments for a specific Plan year, Progressive will further have the right to recover from such participant, and the participant will refund to Progressive upon demand, an amount equal to the entire Annual Incentive Payment paid to such participant for such Plan year plus interest at the rate of eight percent (8%) per annum or, if lower, the highest rate permitted by law, calculated from the date that such bonus was paid to the participant. Progressive shall further have the right to recover from such participant Progressive's costs and expenses incurred in connection with recovering such Annual Incentive Payment from the participant and enforcing its rights under this subsection B., including, without limitation, reasonable attorneys' fees. There shall be no time limit on the Company's right to recover such amounts under this subsection B., except as otherwise provided by applicable law. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited into the Deferral Plan as a result of an election by the participant.

C. *Compliance with Law and Exchange Requirements*. The Annual Incentive Payments determined and paid pursuant to the Plan shall be subject to all applicable laws and regulations. Without limiting the foregoing, and notwithstanding anything to the contrary contained in this Plan, if the SEC adopts final rules under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that require, as a condition to the Company's continued listing on a national securities exchange ("Exchange"), that the Company develop and implement a policy requiring the recovery of erroneously awarded compensation, and such regulations are applicable to a participant awarded an Annual Incentive Payment pursuant to the Plan, then the Annual Incentive Payment paid to such participant (and any payment made to such participant pursuant to a similar plan) shall be subject to recoupment by the Company pursuant to the terms of the rules of the SEC and any applicable Exchange and any policy of the Company adopted in response to such rules. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited into the Deferral Plan as a result of an election by the participant.

D. *Rights Not Exclusive*. The rights contained in the foregoing subsections A. through C. shall be in addition to, and shall not limit, any other rights or remedies that the Company may have under any applicable law or regulation. Nothing contained in subsections A. through C. shall be

deemed to limit any additional legal or equitable rights or remedies the Company may have under applicable law with respect to any participant who may have caused or contributed to the Company's need to restate its financial results. If any of the provisions of subsections A. through C., or any part thereof, are held to be unenforceable, the court making such determination shall have the power to revise or modify such provision to make it enforceable to the maximum extent permitted by applicable law and, in its revised or modified form, said provision shall then be enforceable.

10. **Termination; Amendments.** The Plan may be suspended, terminated, amended or revised, in whole or in part, at any time and from time to time by the Committee, in its sole discretion.

11. **Unfunded Obligations.** The Plan will be unfunded and all payments due under the Plan will be made from Progressive's general assets.

12. **No Employment Rights.** Nothing in the Plan, and no action hereunder, shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties, authority or compensation, at any time and without assigning a reason therefor.

13. **Set-off Rights.** Progressive shall have the unrestricted right to set off against or recover out of any Annual Incentive Payment or other sums owed to any participant under the Plan any amounts owed by such participant (including pursuant to Section 9) to Progressive.

14. **Misconduct.** No participant shall have the right to receive any Annual Incentive Payment if, prior to such payment being made, participant’s employment is terminated as a result of any action or inaction that, under Progressive’s employment practices or policies as then in effect, constitutes grounds for immediate termination of employment, as determined by Progressive (or, in the case of an executive officer, the Committee) in its sole discretion. In addition, no participant who is an executive officer shall have the right to receive any Annual Incentive Payment if, prior to such payment being made, participant’s employment is terminated by Progressive for Cause, or if there occurs any action or inaction that constitutes grounds for termination for Cause or otherwise constitutes grounds for immediate termination of employment under the Company’s employment practices or policies as then in effect, as determined by the Committee in its sole discretion. For purposes of this Section 14, “Cause” shall mean a felony conviction of a participant or the failure of a participant to contest prosecution for a felony; a participant’s willful misconduct or dishonesty, any of which, in the judgment of the Committee, is harmful to the business or reputation of Progressive; or any material violation (in the judgment of the Committee) of any of the provisions of the Company’s Code of Business Conduct and Ethics or the Chief Executive Officer/Senior Financial Officer’s Code of Ethics (if applicable to the participant), or any confidentiality agreement, non-solicitation agreement, non-competition agreement or other agreement between the participant and Progressive.

15. **Employees Subject to Foreign Jurisdictions.** To the extent the Committee deems it necessary, appropriate or desirable to comply with foreign law or practice or taxation and to further the purposes of the Plan, the Committee may, without amending the Plan, exclude any employee not temporarily or permanently residing in the United States from participating in the Plan or establish rules applicable to Annual Incentive Payments to participants who are foreign nationals or foreign residents, are employed outside the United States, or both, including rules that differ from those set forth in this Plan.

16. **Section 409A.** Payments under the Plan are intended to be exempt from Section 409A because no legally binding right to any Annual Incentive Payment arises until the payment date, and, in the alternative, because any payment is a short term deferral under Section 409A; the Plan shall be administered and interpreted accordingly. Notwithstanding any provision of the Plan to the contrary, if the Committee determines that any payment under the Plan may constitute deferred compensation subject to Section 409A, the Committee may take any actions necessary to preserve the intended tax treatment of the benefits provided with respect to such payment. Any benefit under the Plan that is subject to Section 409A because deferred pursuant to the terms of the Deferral Plan shall be paid according to the terms of such plan.

17. **Prior Plans.** This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable or due to any participant from Progressive with respect to the performance of Progressive's investment portfolio. Without limiting the generality of the foregoing, this Plan supersedes and replaces the 2019 Progressive Capital Management Annual Incentive Plan (the "Prior Plan"), which is and shall be deemed to have terminated on the last day of the Company's 2019 fiscal year (the "Prior Plan Termination Date"); provided, however, that (a) any bonuses or other sums earned and payable under the Prior Plan with respect to any Plan year ended on or prior to the Prior Plan Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder, and (b) any provisions regarding recoupment of payments from executive officers and the administrative and interpretive authority of the Committee and/or the Designated Officers under the Prior Plan shall survive.

18. **Effective Date.** This Plan is adopted, and is effective, as of the first day of the Company's 2020 fiscal year and will be effective for the 2020 Plan year (which coincides with Progressive's 2020 fiscal year, except that investment returns are calculated on a calendar year basis).

19. **Governing Law.** This Plan shall be governed by, and interpreted and construed in accordance with, the laws of the State of Ohio applicable to contracts made and performed wholly within such state by residents thereof.

EXHIBIT I

INVESTMENT BENCHMARK CRITERIA

After the end of the Plan year, the Independent Data Source will determine the firms comprising the Investment Benchmark for the Plan year from its records and will supply to the Company the monthly total returns and any other relevant data for each of those firms for the three-year period ending on December 31 of the Plan year.

A firm will be included in the Investment Benchmark if the Independent Data Source is able to determine from its records that:

1. The firm has provided monthly data regarding its holdings and investment return, as necessary to determine or calculate such firm's monthly total return, and to evaluate such firm's compliance with each of the criteria set forth below, for the entire three-year period ending on December 31 of the Plan year; and

2. At all times during the three-year period ending on December 31 of the Plan year, the information provided by the firm shows, or the Independent Data Source is able to calculate, that such firm's investment portfolio satisfies each of the following criteria:

Duration:	Effective Duration between 1.5 years and 5.0 years
Credit Quality Average	= A, or = AA, or = AAA, or = AAA+
Convexity (%)	>= -1
Sector Allocation:	U.S. High Yield Corporate Debt <= 10%
Sector Allocation:	Mortgages <= 60%
Sector Allocation:	U.S. Investment Grade Corporate Debt <= 60%
Sector Allocation:	CMBS <= 60%
Sector Allocation:	ABS <= 60%
Sector Allocation:	Emerging Markets Debt <= 5%

3. The Company will have no discretion to alter the Investment Benchmark list after it is finalized by the Independent Data Source.

EXHIBIT II

DETERMINATION OF PERFORMANCE RANKING AND PERFORMANCE SCORES

Once all the total returns are calculated, the data is sorted in descending order from highest to lowest total return. From here, the process to compute the Performance Factor is as follows (this Exhibit shows the procedures and related calculations for the 1-year comparison period required by the Plan; the calculations for the 3-year comparison period would follow the same procedures, except that necessary adjustments would be made to determine the top and bottom 25% levels and the performance score variances between those levels):

INTERPOLATED VALUES FOR SETTING TOP AND BOTTOM 15% LEVELS
The top 15% and bottom 15% total return rankings are computed based on the total number of firms in the Investment Benchmark, excluding the PCM Fixed-Income Portfolio return. For example, if there were 279 participants, the return required to earn a 2.0 portfolio performance factor would be determined by interpolating between the forty-first and forty-second firm's returns, since 15% of 279 = 41.85. The same procedure would be used to determine the 0.0 portfolio performance factor.

The total returns, computed by Investment Accounting, for the interpolated positions are calculated as follows (continuing to use an example of 279 survey firms):

> Interpolated Value = Firm 41 return – ((Firm 41 Return - Firm 42 Return)*0.85)
>> Firm 41 = 18.35%
>> Firm 42 = 18.23%
>
> Firm 41.85 (Interpolated Value) = 18.35% - ((18.35%-18.23%)*0.85) = 18.25%.

In this case, the PCM Performance Factor will equal 2.0 if its total return equals the interpolated value for Firm 41.85 of 18.25%. A similar calculation is then used to determine the bottom 15% group and interpolated value for a 0.0 performance score.

Once the two groups are computed, top and bottom 15%, the remainder of the performance scores are calculated as follows:

Performance score variance = (2.00) / Number of positions from first participant after the top 15% ranking to the 1st participant in the bottom 15% ranking. In the case of 279 participants, the number of positions to divide the 2.00 performance factors by would be 198.

The calculation for the performance score variance from 2.00 – 0.00 would be:

> 2.00 / 198 = .010101 per position for 279 firms

In the case of a tie in total returns between firms, each firm will have the same performance score, one step under the next higher position. The next lowest position would then be stepped down by a factor based on the number of participants who tie. In the case of a tie between two firms, the step down will be twice the performance score variance to maintain the proper stepping to the 0.00 performance score level.

> Example: If firms 42 and 43 each had the same total return in the 279 firm example, then firms 42 and 43 would each have a Performance Factor of 1.989899, which is 2.00 - .0010101. The number

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44 position in this example would have a performance score of 1.969697, which is the required step down from 42 to 44.

In addition, if the returns are tied between the interpolated value set for the 2.00 performance score and any position below the 2.00 level, those lower positions will also be set to a 2.00 performance score. The step down factor in the performance score will work similarly as noted in the example above. For the last 15% group, all firms with total returns equaling the last interpolated total return value would have the same performance score as the last interpolated value (.0101012), and all others in the last 15% group would have a 0.00 Portfolio Performance Factor.

Once all the performance scores have been created, from 2.00 to 0.00, PCM's return is compared to the rankings to determine its Performance Factor. If the PCM return is not in the top or bottom 15% and does not match the return of any participant, then PCM's Performance Factor is an interpolated value between the firms with the next highest and next lowest returns.

The interpolation computation for the Performance Factor based on PCM's return is as follows:

Performance score of firm below PCM return + (PCM's Return – Return below PCM) / (Return above PCM – Return below PCM) * (Performance score of firm above PCM –Performance score of firm below PCM)

Assuming the following data, using the 279 firm example:

Firm	**Performance score**	**Total return**
Firm above PCM	.90	13.61
PCM		13.39
Firm below PCM	.89	13.34

The calculation of PCM's Performance Factor is:

0.89 + (13.39-13.34) / (13.61-13.34) * (0.90-0.89) = 0.89

The final performance score is rounded to the nearest one-hundredth, if necessary.

THE PROGRESSIVE CORPORATION

2019 ANNUAL REPORT TO SHAREHOLDERS

The Progressive Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(millions - except per share amounts)	2019	2018	2017
Revenues			
Net premiums earned	$ 36,192.4	$ 30,933.3	$ 25,729.9
Investment income	1,042.0	820.5	563.1
Net realized gains (losses) on securities:			
Net realized gains (losses) on security sales	334.6	170.7	115.7
Net holding period gains (losses) on securities	757.9	(507.9)	(1.6)
Net impairment losses recognized in earnings	(63.3)	(68.3)	(64.5)
Total net realized gains (losses) on securities	1,029.2	(405.5)	49.6
Fees and other revenues	563.7	472.2	370.6
Service revenues	195.0	158.5	126.8
Other gains (losses)	0	0	(1.0)
Total revenues	39,022.3	31,979.0	26,839.0
Expenses			
Losses and loss adjustment expenses	25,470.5	21,721.0	18,808.0
Policy acquisition costs	3,023.2	2,573.7	2,124.9
Other underwriting expenses	4,975.1	4,195.8	3,480.7
Investment expenses	24.6	24.3	23.9
Service expenses	178.9	134.1	109.5
Interest expense	189.7	166.5	153.1
Total expenses	33,862.0	28,815.4	24,700.1
Net Income			
Income before income taxes	5,160.3	3,163.6	2,138.9
Provision for income taxes	1,180.3	542.6	540.8
Net income	3,980.0	2,621.0	1,598.1
Net (income) loss attributable to noncontrolling interest (NCI)	(9.7)	(5.7)	(5.9)
Net income attributable to Progressive	3,970.3	2,615.3	1,592.2
Other Comprehensive Income (Loss)			
Changes in:			
Total net unrealized gains (losses) on fixed-maturity securities	466.4	(99.3)	355.4
Net unrealized losses on forecasted transactions	0.8	0.8	(5.4)
Foreign currency translation adjustment	0	0	1.1
Other comprehensive income (loss)	467.2	(98.5)	351.1
Other comprehensive (income) loss attributable to NCI	(4.6)	3.3	(2.3)
Comprehensive income attributable to Progressive	$ 4,432.9	$ 2,520.1	$ 1,941.0
Computation of Earnings Per Common Share			
Net income attributable to Progressive	$ 3,970.3	$ 2,615.3	$ 1,592.2
Less: Preferred share dividends	26.9	21.4	0
Net income available to common shareholders	$ 3,943.4	$ 2,593.9	$ 1,592.2
Average common shares outstanding - Basic	583.8	582.4	580.8
Net effect of dilutive stock-based compensation	3.4	4.3	4.9
Total average equivalent common shares - Diluted	587.2	586.7	585.7
Basic: Earnings per common share	$ 6.75	$ 4.45	$ 2.74
Diluted: Earnings per common share	$ 6.72	$ 4.42	$ 2.72

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

Consolidated Balance Sheets

December 31,

(millions - except per share amount)	2019	2018
Assets		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost: $32,643.1 and $28,255.9)	$ 33,110.3	$ 28,111.5
Short-term investments (amortized cost: $1,798.8 and $1,795.9)	1,798.8	1,795.9
Total available-for-sale securities	34,909.1	29,907.4
Equity securities, at fair value:		
Nonredeemable preferred stocks (cost: $971.3 and $1,002.6)	1,038.9	1,033.9
Common equities (cost: $1,125.5 and $1,148.9)	3,306.3	2,626.1
Total equity securities	4,345.2	3,660.0
Total investments	39,254.3	33,567.4
Cash and cash equivalents	226.2	69.5
Restricted cash	1.2	5.5
Total cash, cash equivalents, and restricted cash	227.4	75.0
Accrued investment income	181.3	190.8
Premiums receivable, net of allowance for doubtful accounts of $283.2 and $252.1	7,507.3	6,497.1
Reinsurance recoverables	3,378.9	2,696.1
Prepaid reinsurance premiums	626.5	309.7
Deferred acquisition costs	1,056.5	951.6
Property and equipment, net of accumulated depreciation of $1,138.1 and $1,033.2	1,213.7	1,131.7
Goodwill	452.7	452.7
Intangible assets, net of accumulated amortization of $314.0 and $247.7	228.3	294.6
Net deferred income taxes	0	43.2
Other assets	768.4	365.1
Total assets	$ 54,895.3	$ 46,575.0
Liabilities		
Unearned premiums	$ 12,388.8	$ 10,686.5
Loss and loss adjustment expense reserves	18,105.4	15,400.8
Net deferred income taxes	132.5	0
Accounts payable, accrued expenses, and other liabilities[1]	5,962.7	5,046.5
Debt[2]	4,407.1	4,404.9
Total liabilities	40,996.5	35,538.7
Redeemable noncontrolling interest (NCI)[3]	225.6	214.5
Shareholders' Equity		
Serial Preferred Shares (authorized 20.0)		
Serial Preferred Shares, Series B, no par value (cumulative, liquidation preference $1,000 per share) (authorized, issued, and outstanding 0.5)	493.9	493.9
Common shares, $1.00 par value (authorized 900.0; issued 797.5, including treasury shares of 212.9 and 214.3)	584.6	583.2
Paid-in capital	1,573.4	1,479.0
Retained earnings	10,679.6	8,386.6
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on fixed-maturity securities	360.8	(105.6)
Net unrealized losses on forecasted transactions	(16.4)	(17.2)
Accumulated other comprehensive (income) loss attributable to NCI	(2.7)	1.9
Total accumulated other comprehensive income (loss) attributable to Progressive	341.7	(120.9)
Total shareholders' equity	13,673.2	10,821.8
Total liabilities, redeemable NCI, and shareholders' equity	$ 54,895.3	$ 46,575.0

[1] See *Note 1 – Reporting and Accounting Policies* for commitments and contingencies and *Note 12 – Litigation* for further discussion.
[2] Consists of long-term debt. See *Note 4 – Debt* for further discussion.
[3] See *Note 15 – Redeemable Noncontrolling Interest* for further discussion.
See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31,

(millions - except per share amounts)	2019	2018	2017
Serial Preferred Shares, No Par Value			
Balance, beginning of year	$ 493.9	$ 0	$ 0
Issuance of Serial Preferred Shares, Series B	0	493.9	0
Balance, end of year	493.9	493.9	0
Common Shares, $1.00 Par Value			
Balance, beginning of year	583.2	581.7	579.9
Treasury shares purchased	(1.3)	(1.4)	(1.5)
Net restricted equity awards issued/vested	2.7	2.9	3.3
Balance, end of year	584.6	583.2	581.7
Paid-In Capital			
Balance, beginning of year	1,479.0	1,389.2	1,303.4
Amortization of equity-based compensation	90.1	76.2	92.9
Treasury shares purchased	(3.2)	(3.3)	(3.4)
Net restricted equity awards issued/vested	(2.7)	(2.9)	(3.3)
Reinvested dividends on restricted stock units	10.6	12.2	8.0
Adjustment to carrying amount of redeemable noncontrolling interest	(0.4)	7.6	(8.4)
Balance, end of year	1,573.4	1,479.0	1,389.2
Retained Earnings			
Balance, beginning of year	8,386.6	6,031.7	5,140.4
Net income attributable to Progressive	3,970.3	2,615.3	1,592.2
Treasury shares purchased	(86.8)	(74.3)	(57.6)
Cash dividends declared on common shares ($2.65, $2.5140, and $1.1247 per share)	(1,548.4)	(1,466.0)	(654.2)
Cash dividends declared on Serial Preferred Shares, Series B ($53.75, $27.024, and $0 per share)	(26.8)	(13.5)	0
Reinvested dividends on restricted stock units	(10.6)	(12.2)	(8.0)
Cumulative effect of change in accounting principle	0	1,300.2	0
Reclassification of disproportionate tax effects	0	4.3	0
Other, net	(4.7)	1.1	18.9
Balance, end of year	10,679.6	8,386.6	6,031.7
Accumulated Other Comprehensive Income (Loss) Attributable to Progressive			
Balance, beginning of year	(120.9)	1,282.2	933.4
Attributable to noncontrolling interest	(4.6)	(0.1)	(2.3)
Other comprehensive income (loss)	467.2	(98.5)	351.1
Cumulative effect of change in accounting principle	0	(1,300.2)	0
Reclassification of disproportionate tax effects	0	(4.3)	0
Balance, end of year	341.7	(120.9)	1,282.2
Total shareholders' equity	$ 13,673.2	$ 10,821.8	$ 9,284.8

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
For the years ended December 31,

(millions)	2019	2018	2017
Cash Flows From Operating Activities			
Net income	$ 3,980.0	$ 2,621.0	$ 1,598.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	239.8	190.4	169.9
Amortization of intangible assets	66.3	72.0	66.2
Net amortization of fixed-income securities	33.3	34.3	86.2
Amortization of equity-based compensation	90.2	77.2	95.4
Net realized (gains) losses on securities	(1,029.2)	405.5	(49.6)
Net (gains) losses on disposition of property and equipment	11.0	32.1	7.2
Other (gains) losses	0	0	1.0
Changes in:			
Premiums receivable	(1,010.2)	(1,074.6)	(913.2)
Reinsurance recoverables	(682.8)	(422.7)	(388.6)
Prepaid reinsurance premiums	(316.8)	(106.4)	(32.8)
Deferred acquisition costs	(104.9)	(171.1)	(129.3)
Income taxes	227.2	(158.7)	(172.6)
Unearned premiums	1,702.3	1,783.0	1,434.9
Loss and loss adjustment expense reserves	2,704.6	2,313.9	1,718.8
Accounts payable, accrued expenses, and other liabilities	611.6	746.6	400.0
Other, net	(260.8)	(57.7)	(134.8)
Net cash provided by operating activities	6,261.6	6,284.8	3,756.8
Cash Flows From Investing Activities			
Purchases:			
Fixed maturities	(28,765.2)	(21,153.0)	(14,587.8)
Equity securities	(379.9)	(538.8)	(255.6)
Sales:			
Fixed maturities	18,412.7	7,835.6	5,382.5
Equity securities	471.4	823.5	252.9
Maturities, paydowns, calls, and other:			
Fixed maturities	6,145.5	5,099.8	5,215.8
Equity securities	49.9	26.6	50.0
Net sales of short-term investments	31.5	1,116.3	727.6
Net unsettled security transactions	6.0	11.7	(33.6)
Purchases of property and equipment	(363.5)	(266.0)	(155.7)
Sales of property and equipment	53.3	9.4	15.3
Acquisition of an insurance company, net of cash acquired	0	0	(18.1)
Net cash used in investing activities	(4,338.3)	(7,034.9)	(3,406.7)
Cash Flows From Financing Activities			
Dividends paid to common shareholders	(1,643.2)	(654.9)	(395.4)
Dividends paid to preferred shareholders	(26.8)	(13.5)	0
Acquisition of treasury shares for restricted stock tax liabilities	(84.4)	(78.6)	(57.6)
Acquisition of treasury shares acquired in open market	(6.9)	(0.4)	(4.9)
Acquisition of additional shares of ARX Holding Corp.	(11.2)	(296.9)	0
Net proceeds from debt issuance	0	1,134.0	841.1
Net proceeds from issuance of Serial Preferred Shares, Series B	0	493.9	0
Payments of debt	0	(37.1)	(49.0)
Proceeds from exercise of equity options	1.6	3.3	0.5
Redemption/reacquisition of subordinated debt	0	0	(635.6)
Net cash provided by (used in) financing activities	(1,770.9)	549.8	(300.9)
Effect of exchange rate changes on cash	0	0	(0.3)
Increase (decrease) in cash, cash equivalents, and restricted cash	152.4	(200.3)	48.9
Cash, cash equivalents, and restricted cash - beginning of year	75.0	275.3	226.4

Cash, cash equivalents, and restricted cash - end of year	$ 227.4	$ 75.0	$ 275.3

See notes to consolidated financial statements.

1. REPORTING AND ACCOUNTING POLICIES

Nature of Operations The Progressive insurance organization began business in 1937. The financial results of The Progressive Corporation include its subsidiaries and affiliates (references to "subsidiaries" in these notes include affiliates as well). Our insurance subsidiaries provide personal and commercial auto insurance, personal residential and commercial property insurance, general liability insurance, and other specialty property-casualty insurance and related services. Our Personal Lines segment writes insurance for personal autos and recreational vehicles, which we refer to as our special lines products. Our Commercial Lines segment writes auto-related primary liability and physical damage insurance, and general liability and property insurance, predominately for small businesses. Our Property segment writes residential property insurance for homeowners, other property owners, and renters. We operate our businesses throughout the United States through both the independent agency and direct channels.

Basis of Consolidation and Reporting 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. All intercompany accounts and transactions are eliminated in consolidation. All revenues are generated from external customers and we do not have a reliance on any major customer.

The Progressive Corporation owned 87.1% of the outstanding capital stock of ARX at December 31, 2019, 86.8% at December 31, 2018, and 69.0% at December 31, 2017. The increase in Progressive's ownership of ARX in 2018 is primarily due to the minority ARX stockholders exercising their rights to "put" a portion of their shares, including exercised stock options, to Progressive pursuant to the ARX stockholders' agreement. See *Note 15 – Redeemable Noncontrolling Interest* and *Note 17 – Subsequent Event* for further discussion.

Estimates We are required to make estimates and assumptions when preparing our financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America (GAAP). As estimates develop into fact, results may, and will likely, differ from those estimates.

Investments Our fixed-maturity securities and short-term investments are accounted for on an available-for-sale basis. Fixed-maturity securities include debt securities and redeemable preferred stocks, which may have fixed or variable principal payment schedules, may be held for indefinite periods of time, and may be used as a part of our asset/liability strategy or sold in response to changes in interest rates, anticipated prepayments, risk/reward characteristics, liquidity needs, or other economic factors. These securities are carried at fair value with the corresponding unrealized gains (losses), net of deferred income taxes, reported in accumulated other comprehensive income. Fair values are obtained from recognized pricing services or are quoted by market makers and dealers, with limited exceptions discussed in *Note 3 – Fair Value*.

Short-term investments may include Eurodollar deposits, commercial paper, repurchase transactions, and other securities expected to mature within one year. From time to time, we may also invest in municipal bonds that have maturity dates that are longer than one year but have either liquidity facilities or mandatory put features within one year.

Equity securities include common stocks, nonredeemable preferred stocks, and other risk investments. These securities are carried at fair value, with the changes in fair value reported as a component of net holding period gains (losses) on securities reported in net income.

Derivative instruments may include futures, options, forward positions, interest rate swap agreements, and credit default swaps and may be used in the portfolio for general investment purposes or to hedge the exposure to variable cash flows of a forecasted transaction (cash flow hedge).

We did not have any derivatives outstanding at December 31, 2019 and 2018. To the extent we have derivatives held for general investment purposes, these derivative instruments would be recognized as either assets or liabilities and measured at fair value, with changes in fair value recognized in income as a component of net holding period gains (losses) on securities during the period of change.

Derivatives designated as hedges are required to be evaluated on established criteria to determine the effectiveness of their correlation to, and ability to reduce the designated risk of, specific securities or transactions. Effectiveness is required to be reassessed regularly. For cash flow hedges that are deemed to be effective, the changes in fair value of the hedge would be reported as a component of accumulated other comprehensive income and subsequently amortized into earnings over the life of the hedged transaction. If a hedge is deemed to become ineffective or discontinued, changes in fair value of the derivative instrument would be reported in income for the current period.

For derivatives settled through a clearinghouse, we will need cash to post initial margin and are subject to increases in margin beyond changes in fair value. Exposure to credit risk is limited to the carrying value; collateral may be required to limit credit risk. For bi-lateral derivative positions, net cash requirements are limited to changes in fair values, which may vary as a result of changes in interest rates, currency exchange rates, and other factors. We have elected not to offset fair value amounts that arise from derivative positions with the same counterparty under a master netting arrangement.

Investment securities are exposed to various risks such as interest rate, market, credit, and liquidity risk. Fair values of securities fluctuate based on the nature and magnitude of changing market conditions; significant changes in market conditions could materially affect the portfolio's value in the near term. We regularly monitor our portfolio for price changes, which might indicate potential impairments, and perform detailed reviews of fixed-maturity securities with unrealized losses. In such cases, changes in fair value are evaluated to determine the extent to which such changes are attributable to: (i) fundamental factors specific to the issuer, such as financial condition, business prospects, or other factors, (ii) market-related factors, such as interest rates, or (iii) credit-related losses, where the present value of cash flows expected to be collected are lower than the amortized cost basis of the security.

We analyze our investment in fixed-maturity securities that are in a loss position to determine 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 and, if so, we write down the security to its current fair value, with the entire amount of the write-down recorded to earnings. To the extent that it is more likely than not that we will hold the debt security until recovery (which could be maturity), we determine if any of the decline in value is due to a credit loss (i.e., where the present value of future cash flows expected to be collected is lower than the amortized cost basis of the security) and, if so, we recognize that portion of the impairment as a component of net realized gains (losses) in the consolidated statements of comprehensive income, with the difference (i.e., non-credit related impairment) recognized as part of our net unrealized gains (losses) in accumulated other comprehensive income. For a discussion of the modifications to the accounting guidance relative to the impairment evaluation for available-for-sale securities, which is effective January 1, 2020, see the "*New Accounting Standards*" section of this Note 1, below.

Investment income consists of interest, dividends, and accretion (net of amortization). Interest is recognized on an accrual basis using the effective yield method, except for asset-backed securities, discussed below. Depending on the nature of the equity instruments, dividends are recorded at either the ex-dividend date or on an accrual basis.

Asset-backed securities, which are included in our fixed-maturity portfolio, are generally accounted for under the retrospective method. The retrospective method recalculates yield assumptions (based on changes in interest rates or cash flow expectations) historically to the inception of the investment holding period, and applies the required adjustment, if any, to the cost basis, with the offset recorded to investment income. The prospective method is used primarily for interest-only securities, asset-backed securities below high investment-grade status (i.e., below AA-), and certain asset-backed securities with sub-prime loan exposure or where there is a greater risk of non-performance and where it is possible the initial investment may not be substantially recovered. The prospective method requires a calculation of expected future repayments and resets the yield to allow for future period adjustments; no current period impact to investment income or the security's cost is made based on the cash flow update. Prepayment assumptions are updated quarterly.

Realized gains (losses) on securities are computed based on the first-in first-out method and include write-downs on available-for-sale securities considered to have other-than-temporary declines in fair value (excluding non-credit related impairments), as well as holding period valuation changes on equity securities, hybrid instruments (e.g., securities with embedded options, where the option is a feature of the overall change in the value of the instrument), and derivatives.

Insurance Premiums and Receivables Insurance premiums written are earned into income on a pro rata basis over the period of risk, based on a daily earnings convention. Accordingly, unearned premiums represent the portion of premiums written that are applicable to the unexpired risk. We provide insurance and related services to individuals and commercial accounts and offer a variety of payment plans. Generally, premiums are collected prior to providing risk coverage, minimizing our exposure to credit risk.

For our Personal Lines and Commercial Lines businesses, we perform a policy level evaluation to determine the extent to which the premiums receivable balance exceeds the unearned premiums balance. We then age this exposure to establish an allowance for doubtful accounts based on prior experience.

For our Property business, the risk of uncollectibility is relatively low. If premiums are unpaid by the policy due date, we provide advance notice of cancellation in accordance with each state's requirements and, if the premiums remain unpaid after receipt of notice, cancel the policy and write off any remaining balance.

Deferred Acquisition Costs Deferred acquisition costs include commissions, premium taxes, and other variable underwriting and direct sales costs incurred in connection with the successful acquisition or renewal of insurance

contracts. These acquisition costs, net of ceding allowances, are deferred and amortized over the policy period in which the related premiums are earned. We consider anticipated investment income in determining the recoverability of these costs. Management believes these costs will be fully recoverable in the near term.

We do not defer any advertising costs. Total advertising costs, which are expensed as incurred, for the years ended
December 31, were:

(millions)		Advertising Costs
2019	$	1,837.3
2018		1,422.4
2017		1,005.4

Loss and Loss Adjustment Expense Reserves Loss reserves represent the estimated liability on claims reported to us, plus reserves for losses incurred but not recorded (IBNR). These estimates are reported net of amounts estimated to be recoverable from salvage and subrogation. Loss adjustment expense reserves represent the estimated expenses required to settle these claims. The methods of making estimates and establishing these reserves are reviewed regularly, and resulting adjustments are reflected in income in the current period. Such loss and loss adjustment expense reserves are susceptible to change in the near term.

Reinsurance Our reinsurance activity includes transactions which are categorized as Regulated and Non-Regulated. Regulated refers to plans in which we participate that are governed by insurance regulations and include state-provided reinsurance facilities (e.g., Michigan Catastrophic Claims Association, North Carolina Reinsurance Facility, Florida Hurricane Catastrophe Fund), as well as state-mandated involuntary plans for commercial vehicles (Commercial Automobile Insurance Procedures/Plans – CAIP) and federally regulated plans for flood (National Flood Insurance Program – NFIP); we act as a servicing agent for CAIP and as a participant in the "Write Your Own" program for the NFIP. Non-Regulated includes voluntary contractual arrangements primarily related to our Property business and to the transportation network company business written by our Commercial Lines segment. Prepaid reinsurance premiums are earned on a pro rata basis over the period of risk, based on a daily earnings convention, which is consistent with premiums earned. See *Note 7 – Reinsurance* for further discussion.

Income Taxes The income tax provision is calculated under the balance sheet approach. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal items giving rise to such differences are investment securities (e.g., net unrealized gains (losses), net holding period gains (losses) on securities, write-downs on securities determined to be other-than-temporarily impaired), loss and loss adjustment expense reserves, unearned premiums reserves, deferred acquisition costs, property and equipment, intangible assets, and non-deductible accruals. We review our deferred tax assets regularly for recoverability. See *Note 5 – Income Taxes* for further discussion.

Property and Equipment Property and equipment are recorded at cost, less accumulated depreciation, and include capitalized software developed or acquired for internal use. Depreciation is recognized over the estimated useful lives of the assets using accelerated methods for computer equipment and the straight-line method for all other fixed assets. We evaluate impairment whenever events or circumstances warrant such a review and write-off the impaired assets if appropriate.

The cost and useful lives for property and equipment at December 31, were:

($ in millions)		2019		2018	Useful Lives
Land	$	161.6	$	177.0	NA
Buildings, improvements, and integrated components		927.1		928.8	7-40 years
Capitalized software		367.1		327.0	3-10 years
Software licenses (internal use)		286.8		259.1	1-5 years
Computer equipment		223.3		123.2	3 years
All other property and equipment		385.9		349.8	3-10 years
Total cost		2,351.8		2,164.9	
Accumulated depreciation		(1,138.1)		(1,033.2)	
Balance at end of year	$	1,213.7	$	1,131.7	

NA = Not applicable

At December 31, 2019 and 2018, included in other assets in the consolidated balance sheets is $32.9 million and $39.3 million, respectively, of "held for sale" property, which represents the fair value of these properties less the estimated costs to sell.

Goodwill and Intangible Assets Goodwill is the excess of the purchase price over the estimated fair value of the assets and liabilities acquired and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized.

Intangible assets primarily arose through the acquisition of ARX and mainly represent the future premiums that will be recognized from the policies and agency relationships that existed at the acquisition date. See *Note 16 – Goodwill and Intangible Assets* for further discussion.

We evaluate our goodwill for impairment at least annually using a qualitative approach. If events or changes in circumstances indicate that the carrying value of goodwill or intangible assets may not be recoverable, we will evaluate such items for impairment using a quantitative approach.

Guaranty Fund Assessments We are subject to state guaranty fund assessments, which provide for the payment of covered claims or other insurance obligations of insurance companies deemed insolvent. These assessments are accrued after a formal determination of insolvency has occurred, and we have written the premiums on which the assessments will be based. Assessments that are available for recoupment from policyholders are capitalized when incurred; all other assessments are expensed.

Fees and Other Revenues Fees and other revenues primarily represent fees collected from policyholders relating to installment charges in accordance with our bill plans, as well as late payment and insufficient funds fees and revenue from ceding commissions. Fees and other revenues are generally earned when invoiced, except for excess ceding commissions, which are earned over the policy period.

Service Revenues and Expenses Our service businesses provide insurance-related services. Service revenues and expenses from our commission-based businesses are recorded in the period in which they are earned or incurred. Service revenues generated from processing business for involuntary CAIP plans are earned on a pro rata basis over the term of the related policies. Service expenses related to these CAIP plans are expensed as incurred.

Equity-Based Compensation We issue time-based and performance-based restricted stock unit awards to key members of management as our form of equity compensation, and time-based restricted stock awards to non-employee directors. Collectively, we refer to these awards as "restricted equity awards." Compensation expense for time-based restricted equity awards with installment vesting is recognized over each respective vesting period. For performance-based restricted equity awards, compensation expense is recognized over the respective estimated vesting periods. Dividend equivalent units are credited to outstanding restricted stock unit awards, both time-based and performance-based, at the time a dividend is paid to shareholders and paid upon vesting of the underlying award.

We record an estimate for expected forfeitures of restricted equity awards based on our historical forfeiture rates. In addition, we shorten the vesting periods of certain restricted equity awards based on the "qualified retirement" provisions in our equity compensation plans, under which (among other provisions) if the participant satisfies certain age and years-of-service requirements, the vesting and distribution of 50% of outstanding restricted equity awards accelerates upon reaching eligibility for a qualified retirement and shortly after the grant date for each subsequent award.

ARX also has nonqualified and incentive stock options outstanding that were issued prior to April 2015 as a form of equity compensation to certain of the officers and employees of ARX and its subsidiaries. These outstanding stock options are subject to the put/call features contained in the ARX stockholders' agreement, pursuant to which The Progressive Corporation has the right, and can be required, to purchase all the shares underlying these awards. The vested stock options, and the shares issuable upon exercise of the stock options, are also subject to repurchase by ARX if the holder's employment terminates. See *Note 15 – Redeemable Noncontrolling Interest* and *Note 17 – Subsequent Event* for further discussion. These stock options, which are treated for accounting purposes as liability awards, are expensed over the respective vesting periods based on the Black-Scholes value determined at period end.

The total compensation expense recognized for equity-based compensation, including both equity and liability awards, for the years ended December 31, was:

(millions)	2019	2018	2017
Pretax expense	$ 90.2	$ 77.2	$ 95.4
Tax benefit[1]	18.9	16.2	33.4

[1]Calculated using the corporate federal tax rate of 21% for 2019 and 2018 and 35% for 2017.

Earnings Per Common Share Net income attributable to Progressive is reduced by preferred share dividends to determine net income available to common shareholders, and is used in our calculation of the per common share amounts. Basic earnings per common share is computed using the weighted average number of common shares outstanding during the reporting period, excluding unvested time-based restricted stock awards. Diluted earnings per common share includes common stock equivalents assumed outstanding during the period. Our common stock equivalents include the incremental shares assumed to be issued for:

- earned but unvested time-based restricted equity awards, and
- performance-based restricted equity awards that satisfied certain contingency conditions for

unvested common stock equivalents during the period and are highly likely to continue to satisfy the conditions until the date of vesting.

Supplemental Cash Flow Information Cash and cash equivalents include bank demand deposits and daily overnight reverse repurchase commitments of funds held in bank demand deposit accounts by ARX's subsidiaries, and are not considered part of the investment portfolio. The amount of reverse repurchase commitments held by ARX's subsidiaries at December 31, 2019, 2018, and 2017, were $46.3 million, $117.3 million, and $247.2 million, respectively. Restricted cash on our consolidated balance sheets represents cash that is restricted to pay flood claims under the National Flood Insurance Program's "Write Your Own" program, for which subsidiaries of ARX are administrators. For the year ended December 31, 2019, non-cash activity includes declared but unpaid dividends of $1,375.4 million and operating lease liabilities arising from obtaining right-of-use assets of $63.1 million (see *Note 13 – Leases* for further discussion).

Our consolidated statement of cash flows for the year ended December 31, 2018, was revised to correct the classification of our acquisition of additional shares of ARX Holding Corp. from an investing activity to a financing activity; there was no overall impact on the decrease in cash, cash equivalents, and restricted cash that was reported for 2018.

For the years ended December 31, we paid the following:

(millions)	2019	2018	2017
Income taxes	$ 954.3	$ 702.6	$ 715.6
Interest	184.9	154.0	146.3
Operating lease liabilities	84.0	NA	NA

NA = Not applicable prior to the adoption of the new accounting standard in 2019.

Commitments and Contingencies We have certain noncancelable purchase obligations for goods and services with minimum commitments of $857.0 million at December 31, 2019. In addition, we have several multiple-layer property catastrophe reinsurance contracts with various reinsurers with terms ranging from one to three years; the minimum commitment under these agreements at December 31, 2019, was $96.1 million.

New Accounting Standards

Adopted

On January 1, 2019, we adopted the Accounting Standards Update (ASU) that requires lessees to report their operating leases as both an asset and liability on the statement of financial position and to disclose key information about leasing arrangements in the financial statement footnotes. We are reporting our operating leased assets and liabilities as a component of "other assets" and "accounts payable, accrued expenses, and other liabilities," respectively. We did not restate prior year information. Upon adoption of the ASU, based on our lease portfolio on January 1, 2019, and after applying the practical expedient under which we were not required to reassess any of our existing contracts, classification of our leases, or the initial direct costs for existing leases, we recorded a transition adjustment of $213.0 million for leased assets and $217.6 million for liabilities. The adoption of this ASU had no impact on our results of operations or cash flows. See *Note 13 – Leases* for further information.

On January 1, 2019, we adopted the ASU related to premium amortization on purchased callable debt securities. Under the ASU, the premium is required to be amortized to the earliest call date, which more closely aligns interest income recorded on bonds held at a premium with the economics of the underlying instrument. We applied the ASU on a modified retrospective basis, as required under the standard. Since we have historically used a yield-to-worst scenario for our securities that were purchased at a premium, and the first call on a premium security most often produces the lowest and most conservative yield, the adoption of this standard did not have an impact on our financial condition, cash flows, or results of operations.

Issued

In August 2018, the Financial Accounting Standards Board (FASB) issued an ASU, which provides additional guidance on the requirements for capitalizing and amortizing implementation costs incurred in a cloud computing arrangement that does not include a software license. This ASU is effective for fiscal years (including interim periods within those fiscal years) beginning after December 15, 2019 (2020 for calendar-year companies). We adopted this standard on January 1, 2020, on a prospective basis, and do not expect this standard to have a material impact on our financial condition, cash flows, or results of operations.

In August 2018, the FASB issued an ASU, which amends the disclosure requirements for fair value measurements. The ASU requires companies to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The ASU also removes current disclosure requirements for the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. The ASU is effective for fiscal years beginning after December 15, 2019 (2020 for calendar-year companies), and should be applied prospectively for the additions to the disclosure requirements and applied retrospectively to all periods presented for all other amendments. As permitted by the

ASU, in 2018, we elected to partially early adopt the removal of current disclosure requirements and adopted the remaining disclosure requirements as of January 1, 2020. Since this standard only affected disclosure, there was no impact on our financial condition, cash flows, or results of operations.

In January 2017, the FASB issued an ASU, which eliminates the requirement to determine the implied fair value of goodwill in measuring an impairment loss. Upon adoption, the measurement of a goodwill impairment will represent the excess of the reporting unit's carrying value over fair value, limited to the carrying value of goodwill. This ASU is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019 (2020 for calendar-year companies), with early adoption permitted. This standard was adopted on January 1, 2020 and is not expected to have a material impact on our financial position or results of operations.

In June 2016, the FASB issued an ASU intended to improve the timing, and enhance the accounting and disclosure, of credit losses on financial assets. This update modified the existing accounting guidance related to the impairment evaluation for available-for-sale debt securities, reinsurance recoverables, and premiums receivables and could result in the creation of an allowance for credit losses as a contra asset account. The ASU requires a cumulative-effect change to retained earnings in the period of adoption and prospective changes on previously recorded impairments, to the extent applicable. This ASU is effective for fiscal years (including interim periods within those fiscal years) beginning after December 15, 2019 (2020 for calendar-year companies). We adopted this standard as of January 1, 2020. To determine the existence of any credit-related impairment losses on our available-for-sale debt securities, we reviewed all such securities at December 31, 2019, by applying estimates of future cash flows and performance of those securities in a loss position and identifying market-related versus performance-related losses. For our reinsurance recoverables, we assessed the current credit quality and credit outlook for reinsurers with at-risk uncollateralized recoverables. In assessing premium receivables, which are short-term in nature, we assessed customer balances leveraging our current process for analyzing uncollectibility of premium receivables. Based on these analyses, we determined that no allowance for credit losses was necessary relative to our available-for-sale debt securities, reinsurance recoverables, or premiums receivable upon adoption of the ASU.

2. INVESTMENTS

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. Our securities are reported in our consolidated balance sheets at fair value. The changes in fair value for our fixed-maturity securities (other than hybrid securities) are reported as a component of accumulated other comprehensive income, net of deferred income taxes, in our consolidated balance sheets.

The net holding period gains (losses) reported below represent the inception-to-date changes in fair value of the securities. The changes in the net holding period gains (losses) between periods for the hybrid securities and equity securities are recorded as a component of net realized gains (losses) on securities in our consolidated statements of comprehensive income.

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
December 31, 2019						
Available-for-sale securities:						
Fixed maturities:						
U.S. government obligations	$ 13,100.7	$ 194.1	$ (43.7)	$ 0	$ 13,251.1	33.7%
State and local government obligations	1,686.0	30.0	(2.7)	0	1,713.3	4.4
Corporate debt securities	6,860.3	206.6	(0.5)	1.3	7,067.7	18.0
Residential mortgage-backed securities	625.0	4.5	(2.0)	0	627.5	1.6
Commercial mortgage-backed securities	5,020.7	61.5	(6.0)	0	5,076.2	12.9
Other asset-backed securities	5,164.7	16.2	(1.4)	0	5,179.5	13.2
Redeemable preferred stocks	185.7	4.1	(1.3)	6.5	195.0	0.5
Total fixed maturities	32,643.1	517.0	(57.6)	7.8	33,110.3	84.3
Short-term investments	1,798.8	0	0	0	1,798.8	4.6
Total available-for-sale securities	34,441.9	517.0	(57.6)	7.8	34,909.1	88.9
Equity securities:						
Nonredeemable preferred stocks	971.3	0	0	67.6	1,038.9	2.7
Common equities	1,125.5	0	0	2,180.8	3,306.3	8.4
Total equity securities	2,096.8	0	0	2,248.4	4,345.2	11.1
Total portfolio[1,2]	$ 36,538.7	$ 517.0	$ (57.6)	$ 2,256.2	$ 39,254.3	100.0%

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
December 31, 2018						
Fixed maturities:						
U.S. government obligations	$ 9,897.4	$ 71.2	$ (52.1)	$ 0	$ 9,916.5	29.5%
State and local government obligations	1,654.6	7.3	(12.8)	0	1,649.1	4.9
Corporate debt securities	8,808.5	13.6	(125.3)	(2.5)	8,694.3	25.9
Residential mortgage-backed securities	733.5	6.0	(5.1)	0	734.4	2.2
Commercial mortgage-backed securities	3,332.8	7.8	(39.0)	0	3,301.6	9.8
Other asset-backed securities	3,585.4	3.6	(11.8)	0.1	3,577.3	10.7
Redeemable preferred stocks	243.7	5.9	(3.5)	(7.8)	238.3	0.7
Total fixed maturities	28,255.9	115.4	(249.6)	(10.2)	28,111.5	83.7
Short-term investments	1,795.9	0	0	0	1,795.9	5.4
Total fixed maturities and short-term	30,051.8	115.4	(249.6)	(10.2)	29,907.4	89.1
Equity securities:						
Nonredeemable preferred stocks	1,002.6	0	0	31.3	1,033.9	3.1
Common equities	1,148.9	0	0	1,477.2	2,626.1	7.8
Total equity securities	2,151.5	0	0	1,508.5	3,660.0	10.9
Total available-for-sale portfolio[1,2]	$ 32,203.3	$ 115.4	$ (249.6)	$ 1,498.3	$ 33,567.4	100.0%

[1] Our portfolio reflects the effect of net unsettled security transactions; at December 31, 2019, $11.9 million was included in “other liabilities,” compared to $5.9 million at December 31, 2018.
[2] The total fair value of the portfolio at December 31, 2019 and 2018 included $3.2 billion and $2.9 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

At December 31, 2019, bonds and certificates of deposit in the principal amount of $281.0 million were on deposit to meet state insurance regulatory requirements. We did not hold any securities of any one issuer, excluding U.S. government obligations, with an aggregate cost or fair value exceeding 10% of total shareholders’ equity at December 31, 2019 or 2018. At December 31, 2019, we did not hold any debt securities that were non-income producing during the preceding 12 months.

Short-Term Investments Our short-term investments may include commercial paper and other investments that are expected to mature or are redeemable within one year.

Although we did invest in repurchase and reverse repurchase transactions during 2019 and 2018, we did not have any open positions at December 31, 2019 or 2018. To the extent we enter into repurchase or reverse repurchase transactions, consistent with past practice, we would elect not to offset these transactions and would report them on a gross basis on our consolidated balance sheets, despite the option to elect to offset these transactions as long as they were with the same counterparty and subject to an enforceable master netting arrangement.

Hybrid Securities Included in our fixed maturities are hybrid securities, which are reported at fair value at December 31:

(millions)	2019	2018
Fixed Maturities:		
State and local government obligations	$ 3.5	$ 3.6
Corporate debt securities	91.2	158.9
Other asset-backed securities	2.6	4.5
Redeemable preferred stocks	92.1	77.7
Total hybrid securities	$ 189.4	$ 244.7

Certain securities in our portfolio are accounted for as hybrid securities because they contain embedded derivatives that are not deemed to be clearly and closely related to the host investments. Since the embedded derivatives (e.g., change-in-control put option, debt-to-equity conversion, or any other feature unrelated to the credit quality or risk of default of the issuer that could impact the amount or timing of our expected future cash flows) do not have observable intrinsic values, we have elected to record the changes in fair value of these securities through income as a component of realized gains or losses.

Fixed Maturities The composition of fixed maturities by maturity at December 31, 2019, was:

(millions)		Cost		Fair Value
Less than one year	$	6,700.1	$	6,712.6
One to five years		16,898.3		17,158.4
Five to ten years		9,010.8		9,203.9
Ten years or greater		33.9		35.4
Total	$	32,643.1	$	33,110.3

Asset-backed securities are classified in the maturity distribution table based upon their projected cash flows. All other securities that 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 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:

				Less than 12 Months			12 Months or Greater		
($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
December 31, 2019									
U.S. government obligations	23	$ 5,152.4	$ (43.7)	19	$ 5,057.2	$ (43.6)	4	$ 95.2	$ (0.1)
State and local government obligations	67	314.3	(2.7)	52	287.5	(2.6)	15	26.8	(0.1)
Corporate debt securities	16	247.6	(0.5)	12	191.4	(0.5)	4	56.2	0
Residential mortgage-backed securities	41	292.8	(2.0)	12	163.7	(0.9)	29	129.1	(1.1)
Commercial mortgage-backed securities	98	1,742.4	(6.0)	79	1,400.0	(5.3)	19	342.4	(0.7)
Other asset-backed securities	61	1,000.6	(1.4)	43	938.5	(0.9)	18	62.1	(0.5)
Redeemable preferred stocks	1	11.2	(1.3)	0	0	0	1	11.2	(1.3)
Total fixed maturities	307	$ 8,761.3	$ (57.6)	217	$ 8,038.3	$ (53.8)	90	$ 723.0	$ (3.8)

				Less than 12 Months			12 Months or Greater		
($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
December 31, 2018									
U.S. government obligations	51	$ 4,438.0	$ (52.1)	2	$ 126.6	$ (0.1)	49	$ 4,311.4	$ (52.0)
State and local government obligations	299	972.4	(12.8)	49	192.7	(0.3)	250	779.7	(12.5)
Corporate debt securities	368	6,723.3	(125.3)	133	2,613.3	(33.4)	235	4,110.0	(91.9)
Residential mortgage-backed securities	228	450.2	(5.1)	32	248.8	(0.8)	196	201.4	(4.3)
Commercial mortgage-backed securities	140	2,328.5	(39.0)	48	741.2	(8.9)	92	1,587.3	(30.1)
Other asset-backed securities	203	2,691.3	(11.8)	84	1,551.7	(3.2)	119	1,139.6	(8.6)
Redeemable preferred stocks	3	48.5	(3.5)	1	18.9	(0.6)	2	29.6	(2.9)
Total fixed maturities	1,292	$ 17,652.2	$ (249.6)	349	$ 5,493.2	$ (47.3)	943	$ 12,159.0	$ (202.3)

During 2019, the number of securities in our fixed-maturity portfolio with unrealized losses decreased, primarily due to valuation increases in nearly all sectors as interest rates declined and credit spreads tightened. For both 2019 and 2018, we had no material decreases in valuation as a result of credit rating downgrades. A review of the securities in the table above indicated that the issuers were current with respect to their interest obligations and that there was no evidence of deterioration of the current cash flow projections that would indicate we would not receive the remaining principal at maturity.

Other-Than-Temporary Impairment (OTTI) At December 31, 2019, 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) was $19.6 million, compared to $19.8 million at December 31, 2018.

At December 31, 2019, 2018, and 2017, the balance for the amount related to credit losses recognized in earnings, 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, was $0.5 million.

We did not have any credit loss rollforward activity during 2019 or 2018. The following table shows the rollforward activity for 2017:

(millions)		Total
Total at December 31, 2016	$	11.5
Credit losses for which an OTTI was not previously recognized		0.4
Reductions for securities sold/matured		(11.2)
Change in recoveries of future cash flows expected to be collected[1]		(0.2)
Total at December 31, 2017	$	0.5

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

Although it is not likely that we will 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 year ended December 31, 2019.

Realized Gains (Losses) The components of net realized gains (losses) for the years ended December 31, were:

(millions)	2019	2018	2017
Gross realized gains on security sales			
Available-for-sale securities:			
U.S. government obligations	$ 164.4	$ 6.7	$ 6.2
State and local government obligations	6.1	9.5	10.5
Corporate and other debt securities	100.1	2.4	20.3
Residential mortgage-backed securities	0.2	0	23.8
Commercial mortgage-backed securities	8.1	2.0	4.9
Other asset-backed securities	0.8	0.1	0.3
Redeemable preferred stocks	2.2	4.5	8.5
Total available-for-sale securities	281.9	25.2	74.5
Equity securities:			
Nonredeemable preferred stocks	36.2	4.1	58.4
Common equities	61.7	286.6	43.0
Total equity securities	97.9	290.7	101.4
Subtotal gross realized gains on security sales	379.8	315.9	175.9
Gross realized losses on security sales			
Available-for-sale securities:			
U.S. government obligations	(20.4)	(98.7)	(28.7)
State and local government obligations	(0.7)	(2.9)	(0.1)
Corporate and other debt securities	(7.9)	(10.4)	(5.1)
Residential mortgage-backed securities	(2.3)	(0.1)	(0.4)
Commercial mortgage-backed securities	(2.2)	(6.3)	(5.3)
Other asset-backed securities	(0.1)	(1.1)	(0.4)
Redeemable preferred stocks	(0.4)	(0.1)	(6.4)
Short-term investments	0	0	(0.2)
Total available-for-sale securities	(34.0)	(119.6)	(46.6)
Equity securities:			
Nonredeemable preferred stocks	(3.2)	(3.9)	(5.9)
Common equities	(8.0)	(21.7)	(12.2)
Total equity securities	(11.2)	(25.6)	(18.1)
Subtotal gross realized losses on security sales	(45.2)	(145.2)	(64.7)
Net realized gains (losses) on security sales			
Available-for-sale securities:			
U.S. government obligations	144.0	(92.0)	(22.5)
State and local government obligations	5.4	6.6	10.4
Corporate and other debt securities	92.2	(8.0)	15.2
Residential mortgage-backed securities	(2.1)	(0.1)	23.4
Commercial mortgage-backed securities	5.9	(4.3)	(0.4)
Other asset-backed securities	0.7	(1.0)	(0.1)
Redeemable preferred stocks	1.8	4.4	2.1
Short-term investments	0	0	(0.2)
Total available-for-sale securities	247.9	(94.4)	27.9
Equity securities:			
Nonredeemable preferred stocks	33.0	0.2	52.5
Common equities	53.7	264.9	30.8
Total equity securities	86.7	265.1	83.3
Litigation settlements and other gains (losses)	0	0	1.2
Subtotal net realized gains (losses) on security sales	334.6	170.7	112.4
Net holding period gains (losses)			
Hybrid securities	18.0	(10.4)	(1.6)
Equity securities	739.9	(497.5)	0
Subtotal net holding period gains (losses)	757.9	(507.9)	(1.6)
Other-than-temporary impairment losses			
Fixed maturities:			
Commercial mortgage-backed securities	0	0	(0.4)
Total fixed maturities	0	0	(0.4)
Equity securities:			
Common equities	0	0	(11.2)
Subtotal investment other-than-temporary impairment losses	0	0	(11.6)

Other asset impairment	(63.3)	(68.3)	(49.6)
Subtotal other-than-temporary impairment losses	(63.3)	(68.3)	(61.2)
Total net realized gains (losses) on securities	$ 1,029.2	$ (405.5)	$ 49.6

For all three periods, the other asset impairment losses related to federal renewable energy tax credit fund investments, which were reported in “other assets” on the consolidated balance sheets, based on an analysis that our investments in those funds will not generate the cash flows that we anticipated. See *Note 5 – Income Taxes* for additional discussion related to 2019 activity.

The following table reflects our holding period realized gains (losses) on equity securities recognized for the respective years ended December 31, for equity securities held at the respective year end:

(millions)	2019	2018
Total net gains (losses) recognized during the period on equity securities	$ 826.6	$ (232.4)
Less: Net gains (losses) recognized on equity securities sold during the period	86.7	265.1
Net holding period gains (losses) recognized during the period on equity securities held at period end	$ 739.9	$ (497.5)

Note: Comparative disclosure for 2017 is not meaningful.

Net Investment Income The components of net investment income for the years ended December 31, were:

(millions)	2019	2018	2017
Available-for-sale securities:			
Fixed maturities:			
U.S. government obligations	$ 268.6	$ 196.8	$ 72.7
State and local government obligations	36.5	37.7	51.5
Foreign government obligations	0	0	0.3
Corporate debt securities	268.9	217.9	125.2
Residential mortgage-backed securities	21.6	27.6	34.7
Commercial mortgage-backed securities	150.1	93.9	79.6
Other asset-backed securities	117.3	75.7	47.1
Redeemable preferred stocks	19.0	12.3	11.8
Total fixed maturities	882.0	661.9	422.9
Short-term investments	41.7	52.9	37.8
Total available-for-sale securities	923.7	714.8	460.7
Equity securities:			
Nonredeemable preferred stocks	61.8	45.9	44.1
Common equities	56.5	59.8	58.3
Total equity securities	118.3	105.7	102.4
Investment income	1,042.0	820.5	563.1
Investment expenses	(24.6)	(24.3)	(23.9)
Net investment income	$ 1,017.4	$ 796.2	$ 539.2

The amount of investment income we recognize varies based on the average assets held during the year and the book yields of the securities in our portfolio. The year-over-year increases in net investment income in 2019 and 2018, were due to a combination of an increase in average assets and an increase in portfolio yields. The increase in average assets was due to strong premium growth, underwriting profitability, and portfolio returns, as well as the proceeds from debt and preferred stock issuances during 2018, partially offset by the payment of common and preferred share dividends and the interest on our debt. The increase in portfolio yields was a result of our decisions to hold a short-duration portfolio, which allowed us to take advantage of opportunities to invest in higher yielding securities with cash from operations, portfolio maturities, and paydowns, and to increase the portfolio duration. The portfolio duration at December 31, 2019 was 3.0 years, compared to 2.8 years and 2.5 years at December 31, 2018 and 2017, respectively.

Derivative Instruments At December 31, 2019, 2018, and 2017, we had no open derivative positions.

During both 2019 and 2018, we reclassified $1.0 million, respectively, of net unrealized losses from accumulated other comprehensive income to interest expense on our closed debt issuance cash flow hedges, compared to net unrealized gains of $0.3 million during 2017.

During March 2017, we entered into a forecasted debt issuance hedge, against a possible rise in interest rates, in conjunction with the $850 million of 4.125% Senior Notes due 2047 issued in April 2017. Upon issuance, we closed the hedge and recognized, as part of accumulated other comprehensive income, a pretax unrealized loss of $8.0 million in April 2017.

3. FAIR VALUE

We have categorized our financial instruments, based on the degree of subjectivity inherent in the method by which they are valued, into a fair value hierarchy of three levels, as follows:

- *Level 1*: Inputs are unadjusted, quoted prices in active markets for identical instruments at the measurement date (e.g., U.S. government obligations, which are continually priced on a daily basis, active exchange-traded equity securities, and certain short-term securities).
- *Level 2*: Inputs (other than quoted prices included within Level 1) that are observable for the instrument either directly or indirectly (e.g., certain corporate and municipal bonds and certain preferred stocks). This includes: (i) quoted prices for similar instruments in active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- *Level 3*: Inputs that are unobservable. Unobservable inputs reflect our subjective evaluation about the assumptions market participants would use in pricing the financial instrument (e.g., certain structured securities and privately held investments).

Determining the fair value of the investment portfolio is the responsibility of management. As part of the responsibility, we evaluate whether a market is distressed or inactive in determining the fair value for our portfolio. We review certain market level inputs to evaluate whether sufficient activity, volume, and new issuances exist to create an active market. Based on this evaluation, we concluded that there was sufficient activity related to the sectors and securities for which we obtained valuations.

The composition of the investment portfolio by major security type and our outstanding debt was:

(millions)	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total	Cost
December 31, 2019					
Fixed maturities:					
U.S. government obligations	$ 13,251.1	$ 0	$ 0	$ 13,251.1	$ 13,100.7
State and local government obligations	0	1,713.3	0	1,713.3	1,686.0
Corporate debt securities	0	7,067.7	0	7,067.7	6,860.3
Subtotal	13,251.1	8,781.0	0	22,032.1	21,647.0
Asset-backed securities:					
Residential mortgage-backed	0	627.5	0	627.5	625.0
Commercial mortgage-backed	0	5,076.2	0	5,076.2	5,020.7
Other asset-backed	0	5,179.5	0	5,179.5	5,164.7
Subtotal asset-backed securities	0	10,883.2	0	10,883.2	10,810.4
Redeemable preferred stocks:					
Financials	0	51.7	0	51.7	51.5
Utilities	0	11.1	0	11.1	10.0
Industrials	11.1	121.1	0	132.2	124.2
Subtotal redeemable preferred stocks	11.1	183.9	0	195.0	185.7
Total fixed maturities	13,262.2	19,848.1	0	33,110.3	32,643.1
Short-term investments	1,797.4	1.4	0	1,798.8	1,798.8
Total available-for-sale securities	15,059.6	19,849.5	0	34,909.1	34,441.9
Equity securities:					
Nonredeemable preferred stocks:					
Financials	77.4	850.7	27.1	955.2	891.3
Utilities	0	42.3	0	42.3	39.9
Industrials	0	25.4	16.0	41.4	40.1
Subtotal nonredeemable preferred stocks	77.4	918.4	43.1	1,038.9	971.3
Common equities:					
Common stocks	3,306.0	0	0	3,306.0	1,125.2
Other risk investments	0	0	0.3	0.3	0.3
Subtotal common equities	3,306.0	0	0.3	3,306.3	1,125.5
Total equity securities	3,383.4	918.4	43.4	4,345.2	2,096.8
Total portfolio	$ 18,443.0	$ 20,767.9	$ 43.4	$ 39,254.3	$ 36,538.7
Debt	$ 0	$ 5,119.6	$ 0	$ 5,119.6	$ 4,407.1

(millions)	Fair Value Level 1	Level 2	Level 3	Total	Cost
December 31, 2018					
Fixed maturities:					
U.S. government obligations	$ 9,916.5	$ 0	$ 0	$ 9,916.5	$ 9,897.4
State and local government obligations	0	1,649.1	0	1,649.1	1,654.6
Corporate debt securities	0	8,694.3	0	8,694.3	8,808.5
Subtotal	9,916.5	10,343.4	0	20,259.9	20,360.5
Asset-backed securities:					
Residential mortgage-backed	0	734.4	0	734.4	733.5
Commercial mortgage-backed	0	3,301.6	0	3,301.6	3,332.8
Other asset-backed	0	3,577.3	0	3,577.3	3,585.4
Subtotal asset-backed securities	0	7,613.3	0	7,613.3	7,651.7
Redeemable preferred stocks:					
Financials	0	78.2	0	78.2	79.3
Utilities	0	0	0	0	0
Industrials	9.5	150.6	0	160.1	164.4
Subtotal redeemable preferred stocks	9.5	228.8	0	238.3	243.7
Total fixed maturities	9,926.0	18,185.5	0	28,111.5	28,255.9
Short-term investments	1,722.1	73.8	0	1,795.9	1,795.9
Total fixed maturities and short-term	11,648.1	18,259.3	0	29,907.4	30,051.8
Equity securities:					
Nonredeemable preferred stocks:					
Financials	71.9	887.1	25.1	984.1	951.6
Utilities	0	44.8	0	44.8	46.0
Industrials	0	0	5.0	5.0	5.0
Subtotal nonredeemable preferred stocks	71.9	931.9	30.1	1,033.9	1,002.6
Common equities:					
Common stocks	2,625.8	0	0	2,625.8	1,148.6
Other risk investments	0	0	0.3	0.3	0.3
Subtotal common equities	2,625.8	0	0.3	2,626.1	1,148.9
Total equity securities	2,697.7	931.9	30.4	3,660.0	2,151.5
Total available-for-sale portfolio	$ 14,345.8	$ 19,191.2	$ 30.4	$ 33,567.4	$ 32,203.3
Debt	$ 0	$ 4,532.3	$ 0	$ 4,532.3	$ 4,404.9

Our portfolio valuations, excluding short-term investments, classified as either Level 1 or Level 2 in the above tables are priced exclusively by external sources, including: pricing vendors, dealers/market makers, and exchange-quoted prices.

Our short-term investments classified as Level 1 are highly liquid, actively marketed, and have a very short duration, primarily 90 days or less to redemption. These securities are held at their original cost, adjusted for any accretion of discount, since that value very closely approximates what an active market participant would be willing to pay for such securities. The remainder of our short-term investments are classified as Level 2 and are not priced externally since these securities continually trade at par value. These securities are classified as Level 2 since they are primarily longer-dated securities issued by municipalities that contain either liquidity facilities or mandatory put features within one year.

At December 31, 2019, vendor-quoted prices represented 80% of our Level 1 classifications (excluding short-term investments), compared to 79% at December 31, 2018. The securities quoted by vendors in Level 1 primarily represent our holdings in U.S. Treasury Notes, which are frequently traded and the quotes are considered similar to exchange-traded quotes. The balance of our Level 1 pricing comes from quotes obtained directly from trades made on active exchanges.

At both December 31, 2019 and 2018, vendor-quoted prices comprised 99% of our Level 2 classifications

(excluding short-term investments), while dealer-quoted prices represented 1%. In our process for selecting a source (e.g., dealer or pricing service) to provide pricing for securities in our portfolio, we reviewed documentation from the sources that detailed the pricing techniques and methodologies used by these sources and determined if their policies adequately considered market activity, either based on specific transactions for the particular security type or based on modeling of securities with similar credit quality, duration, yield, and structure that were recently transacted. Once a source is chosen, we continue to monitor any changes or modifications to their processes by reviewing their documentation on internal controls for pricing and market reviews. We review quality control measures of our sources as they become available to determine if any significant changes have occurred from period to period that might indicate issues or concerns regarding their evaluation or market coverage.

As part of our pricing procedures, we obtain quotes from more than one source to help us fully evaluate the market price of securities. However, our internal pricing policy is to use a consistent source for individual securities in order to maintain the integrity of our valuation process. Quotes obtained from the sources are not considered binding offers to transact. Under our policy, when a review of the valuation received from our selected source appears to be outside of what is considered market level activity (which is defined as trading at spreads or yields significantly different than those of comparable securities or outside the general sector level movement without a reasonable explanation), we may use an alternate source's price. To the extent we determine that it may be prudent to substitute one source's price for another, we will contact the initial source to obtain an understanding of the factors that may be contributing to the significant price variance.

To allow us to determine if our initial source is providing a price that is outside of a reasonable range, we review our portfolio pricing on a weekly basis. When necessary, we challenge prices from our sources when a price provided does not match our expectations based on our evaluation of market trends and activity. Initially, we perform a review of our portfolio by sector to identify securities whose prices appear outside of a reasonable range. We then perform a more detailed review of fair values for securities disclosed as Level 2. We review dealer bids and quotes for these and/or similar securities to determine the market level context for our valuations. We then evaluate inputs relevant for each class of securities disclosed in the preceding hierarchy tables.

For our structured debt securities, including commercial, residential, and other asset-backed securities, we evaluate available market-related data for these and similar securities related to collateral, delinquencies, and defaults for historical trends and reasonably estimable projections, as well as historical prepayment rates and current prepayment assumptions and cash flow estimates. We further stratify each class of our structured debt securities into more finite sectors (e.g., planned amortization class, first pay, second pay, senior, subordinated, etc.) and use duration, credit quality, and coupon to determine if the fair value is appropriate.

For our corporate debt and preferred stock (redeemable and nonredeemable) portfolios, as well as the notes issued by The Progressive Corporation (see *Note 4 – Debt*), we review securities by duration, coupon, and credit quality, as well as changes in interest rate and credit spread movements within that stratification. The review also includes recent trades, including: volume traded at various levels that establish a market, issuer specific fundamentals, and industry specific economic news as it comes to light.

For our municipal securities (e.g., general obligations, revenue, and housing), we stratify the portfolio to evaluate securities by type, coupon, credit quality, and duration to review price changes relative to credit spread and interest rate changes. Additionally, we look to economic data as it relates to geographic location as an indication of price-to-call or maturity predictors. For municipal housing securities, we look to changes in cash flow projections, both historical and reasonably estimable projections, to understand yield changes and their effect on valuation.

Lastly, for our short-term securities, we look at acquisition price relative to the coupon or yield. Since our short-term securities are typically 90 days or less to maturity, with the majority listed in Level 2 being 30 days or less to redemption, we believe that acquisition price is the best estimate of fair value.

We also review data assumptions as supplied by our sources to determine if that data is relevant to current market conditions. In addition, we independently review each sector for transaction volumes, new issuances, and changes in spreads, as well as the overall movement of interest rates along the yield curve to determine if sufficient activity and liquidity exists to provide a credible source for our market valuations.

During each valuation period, we create internal estimations of portfolio valuation (performance returns), based on current market-related activity (i.e., interest rate and credit spread movements and other credit-related factors) within each major sector of our portfolio. We compare our internally generated portfolio results with those generated based on quotes we receive externally and research material valuation differences. We compare our results to index returns for each major sector adjusting for duration and credit quality differences to better understand our portfolio's results. Additionally, we review on a monthly basis our external sales transactions and compare the actual final market sales prices to previous market valuation prices. This review provides us further validation that our pricing sources are providing market level prices, since we are able to explain significant price changes (i.e.,

greater than 2%) as known events occur in the marketplace and affect a particular security's price at sale.

This analysis provides us with additional comfort regarding the source's process, the quality of its review, and its willingness to improve its analysis based on feedback from clients. We believe this effort helps ensure that we are reporting the most representative fair values for our securities.

Except as described below, our Level 3 securities are also priced externally; however, due to several factors (e.g., nature of the securities, level of activity, and lack of similar securities trading to obtain observable market level inputs), these valuations are more subjective in nature. Certain private equity investments included in the Level 3 category are valued using external pricing supplemented by internal review and analysis.

After all the valuations are received and our review is complete, if the inputs used by vendors are determined to not contain sufficient observable market information, we will reclassify the affected security valuations to Level 3. At December 31, 2019 and 2018, we did not have any securities in our fixed-maturity portfolio listed as Level 3.

At December 31, 2019, we owned three private nonredeemable preferred securities that were priced internally or by a pricing firm and we held two private nonredeemable preferred securities that were priced internally at December 31, 2018. At both December 31, 2019 and 2018, we held one Level 3 other risk investment that was priced using the equity method.

To the extent we receive prices from external sources for the Level 3 securities, we would review those prices for reasonableness using internally developed assumptions and then compare our derived prices to the prices we received. During 2019 or 2018, there were no material assets or liabilities measured at fair value on a nonrecurring basis. Based on our review, all prices received from external sources remained unadjusted. Due to the relative size of the Level 3 securities' fair values compared to the total portfolio's fair value, any changes in pricing methodology would not have a significant change in valuation that would materially impact net or comprehensive income.

The following tables provide a summary of changes in fair value associated with Level 3 assets for the years ended December 31, 2019 and 2018:

	Level 3 Fair Value							
(millions)	**Fair Value at Dec. 31, 2018**	**Calls/ Maturities/ Paydowns**	**Purchases**	**Sales**	**Net Realized (Gain)/Loss on Sales**	**Change in Valuation**	**Net Transfers In (Out)**	**Fair Value at Dec. 31, 2019**
Equity securities:								
Nonredeemable preferred stocks:								
Financials	$ 25.1	$ 0	$ 2.0	$ 0	$ 0	$ 0	$ 0	$ 27.1
Industrials	5.0	0	10.0	0	0	1.0	0	16.0
Common equities:								
Other risk investments	0.3	0	0	0	0	0	0	0.3
Total Level 3 securities	$ 30.4	$ 0	$ 12.0	$ 0	$ 0	$ 1.0	$ 0	$ 43.4

	Level 3 Fair Value							
(millions)	**Fair Value at Dec. 31, 2017**	**Calls/ Maturities/ Paydowns**	**Purchases**	**Sales**	**Net Realized (Gain)/Loss on Sales**	**Change in Valuation**	**Net Transfers In (Out)**	**Fair Value at Dec. 31, 2018**
Equity securities:								
Nonredeemable preferred stocks:								
Financials	$ 0	$ 0	$ 25.1	$ 0	$ 0	$ 0	$ 0	$ 25.1
Industrials	5.0	0	0	0	0	0	0	5.0
Common equities:								
Other risk investments	0.3	0	0	0	0	0	0	0.3
Total Level 3 securities	$ 5.3	$ 0	$ 25.1	$ 0	$ 0	$ 0	$ 0	$ 30.4

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

	Quantitative Information about Level 3 Fair Value Measurements			
($ in millions)	**Fair Value at Dec. 31, 2019**	**Valuation Technique**	**Unobservable Input**	**Unobservable Input Assumption**
Equity securities:				
Nonredeemable preferred stocks:				
Financials	$ 27.1	Pricing firm	Recent transaction price	9.0
Industrials	6.0	Pricing firm	Performance-based transaction price adjustment	4.8
Industrials[1]	10.0	Internal price	Unadjusted purchase price	4.9
Subtotal Level 3 securities	43.1			
Pricing exemption securities	0.3			
Total Level 3 securities	$ 43.4			

[1] The security was purchased in November 2019.

	Quantitative Information about Level 3 Fair Value Measurements			
($ in millions)	**Fair Value at Dec. 31, 2018**	**Valuation Technique**	**Unobservable Input**	**Unobservable Input Assumption**
Equity securities:				
Nonredeemable preferred stocks:				
Financials[1]	$ 25.1	Internal price	Unadjusted purchase price	9.0
Industrials	5.0	Internal price	Price-to-sales ratio	5.5
Subtotal Level 3 securities	30.1			
Pricing exemption securities	0.3			
Total Level 3 securities	$ 30.4			

[1] The security was purchased in December 2018.

4. DEBT

Debt at December 31, consisted of:

(millions)	2019 Carrying Value	2019 Fair Value	2018 Carrying Value	2018 Fair Value
3.75% Senior Notes due 2021 (issued: $500.0, August 2011)	$ 499.4	$ 515.6	$ 499.1	$ 506.5
2.45% Senior Notes due 2027 (issued: $500.0, August 2016)	496.9	501.5	496.5	455.5
6 5/8% Senior Notes due 2029 (issued: $300.0, March 1999)	296.6	392.5	296.4	368.5
4.00% Senior Notes due 2029 (issued: $550.0, October 2018)	545.0	614.3	544.5	562.4
6.25% Senior Notes due 2032 (issued: $400.0, November 2002)	395.7	552.6	395.5	496.6
4.35% Senior Notes due 2044 (issued: $350.0, April 2014)	346.7	417.0	346.6	350.2
3.70% Senior Notes due 2045 (issued: $400.0, January 2015)	395.4	434.2	395.3	366.7
4.125% Senior Notes due 2047 (issued: $850.0, April 2017)	841.6	986.1	841.4	831.9
4.20% Senior Notes due 2048 (issued: $600.0, March 2018)	589.8	705.8	589.6	594.0
Total	$ 4,407.1	$ 5,119.6	$ 4,404.9	$ 4,532.3

All of the outstanding debt was issued by The Progressive Corporation and includes amounts that were borrowed and contributed to the capital of its insurance subsidiaries or used, or made available for use, for other business purposes. Fair values for these debt instruments are obtained from external sources. There are no restrictive financial covenants or credit rating triggers on the outstanding debt.

Interest on all debt is payable semiannually at the stated rates. All principal is due at the stated maturity. Each note is redeemable, in whole or in part, at any time; however, the redemption price will equal the greater of the principal amount of the note or a "make whole" amount calculated by reference to the present values of remaining scheduled principal and interest payments under the note.

Aggregate required principal payments on debt outstanding at December 31, 2019, are as follows:

(millions) Year	Payments
2020	$ 0
2021	500
2022	0
2023	0
2024	0
Thereafter	3,950
Total	$ 4,450

We issued $550 million of 4.00% Senior Notes due 2029 in October 2018 and $600 million of 4.20% Senior Notes due 2048 in March 2018, in underwritten public offerings. The net proceeds from these issuances, after deducting underwriters' discounts, commissions, and other issuance costs, were approximately $544.5 million and $589.5 million, respectively.

Prior to certain issuances of our debt securities, we entered into forecasted transactions to hedge against possible rises in interest rates. When the contracts were closed upon the issuance of the applicable debt securities, we recognized the unrealized gains (losses) on these contracts as part of accumulated other comprehensive income (see *Note 1 – Reporting and Accounting Policies* for further discussion). These unrealized gains (losses) are being amortized as adjustments to interest expense over the life of the related notes. The following table shows the original gain (loss) recognized at debt issuance and the unamortized balance at December 31, 2019, on a pretax basis:

(millions)	Unrealized Gain (Loss) at Debt Issuance	Unamortized Balance at December 31, 2019
3.75% Senior Notes	$ (5.1)	$ (1.0)
6 5/8% Senior Notes	(4.2)	(2.4)
6.25% Senior Notes	5.1	3.3
4.35% Senior Notes	(1.6)	(1.4)
3.70% Senior Notes	(12.9)	(11.7)
4.125% Senior Notes	(8.0)	(7.6)

During 2019, we renewed the line of credit with PNC Bank, National Association (PNC) in the maximum principal amount of $250 million on the same terms and conditions as the prior line of credit entered into in 2018. Subject to the terms and conditions of the line of credit documents, advances under the line of credit (if any) will bear interest at a variable rate equal to the higher of PNC's Prime Rate or the sum of the Federal Funds Open Rate plus 50 basis points. Each advance must be repaid on the 30th day after the advance or, if earlier, on April 30, 2020, the expiration date of the line of credit. Prepayments are permitted without penalty. The line of credit is uncommitted and, as such, all advances are subject to PNC's discretion. We had no borrowings under either line of credit in 2019 or 2018.

5. INCOME TAXES

The components of our income tax provision were as follows:

(millions)	2019	2018	2017
Current tax provision			
Federal	$ 1,104.7	$ 673.1	$ 680.9
State	27.3	21.5	12.8
Deferred tax expense (benefit)			
Federal	45.3	(145.9)	(149.4)
State	3.0	(6.1)	(3.5)
Total income tax provision	$ 1,180.3	$ 542.6	$ 540.8

The provision for income taxes in the accompanying consolidated statements of comprehensive income differed from the statutory rate as follows:

(millions)	2019		2018		2017	
Income before income taxes	$ 5,160.3		$ 3,163.6		$ 2,138.9	
Tax at statutory federal rate	$ 1,083.7	21 %	$ 664.4	21 %	$ 748.6	35 %
Tax effect of:						
Reversal of prior year tax credits	163.2	3	0	0	0	0
Tax credits[1]	(43.9)	(1)	(76.3)	(2)	(52.4)	(2)
Stock-based compensation	(25.9)	(1)	(25.1)	(1)	(25.1)	(1)
Tax-deductible dividends	(14.6)	0	(14.6)	(1)	(9.7)	0
Dividends received deduction[2,3]	(10.4)	0	(9.7)	0	(20.7)	(1)
Exempt interest income[3]	(3.6)	0	(5.9)	0	(16.9)	(1)
Net deferred tax liability revaluation[4]	0	0	0	0	(99.5)	(5)
Nondeductible compensation expense[5]	8.1	0	(0.2)	0	10.1	0
State income taxes, net of federal taxes	24.0	1	12.2	0	6.0	0
Other items, net	(0.3)	0	(2.2)	0	0.4	0
Total income tax provision	$ 1,180.3	23 %	$ 542.6	17 %	$ 540.8	25 %

[1] Includes $38.1 million, $71.0 million, and $48.7 million for 2019, 2018, and 2017, respectively, of benefits on investments in federal renewable energy tax credit funds.
[2] 2019 and 2018 amounts reflect a dividends received deduction percentage of 50% under the 2017 Tax Act. In 2017, the deduction percentage was 70%.
[3] 2019 and 2018 amounts reflect a proration percentage of 25% for such income attributable to investments held by our insurance companies. In 2017, the proration percentage was 15%.
[4] Pursuant to the 2017 Tax Act.
[5] Decrease in 2018 reflects our updated interpretation regarding compensation that qualifies for deduction under the 2017 Tax Act based on additional guidance issued. See further discussion below.

In late December 2018 and during the first two months of 2019, we learned of allegations of potential fraudulent conduct by the sponsor of three tax credit fund investments we made from 2016 through 2018, including information about ongoing federal investigations. Based on our investigations and other information that became available to us, we concluded the sponsor had committed fraud through these tax credit funds and that all the tax credits and other tax benefits related to those investments were not valid. As a result, during 2019, we increased our provision for income taxes by $163.2 million ($252.0 million current income taxes payable, offset by $88.8 million reduction of deferred tax liability), principally reflecting the total reversal of the tax credits and other tax benefits previously recognized from certain renewable energy investments, plus interest. In addition, we paid $100.0 million related to the 2018 tax year, which reduced net taxes payable, and made protective deposits of $152.1 million for tax years 2017 and 2016. The protective deposits are included in other assets on our consolidated balance sheets. As of early 2020, the principals of the sponsor and various other individuals have pleaded guilty to federal criminal charges relating to the fraudulent tax credit funds.

On December 22, 2017, legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”) was signed into law. One of the provisions of the 2017 Tax Act reduced the corporate federal income tax rate from

35% to 21% effective January 1, 2018. Pursuant to current accounting guidance, all deferred tax assets and liabilities at December 31, 2017, were revalued to recognize the tax rate that is expected to apply when the tax effects are ultimately recognized in future periods. The impact of revaluing the deferred tax assets and liabilities from 35% to 21% was a net reduction to income tax expense of $99.5 million in 2017, as disclosed in the table above.

As of December 31, 2018, we updated our accounting for the tax effects of the enactment of the 2017 Tax Act, which we were not able to fully complete at December 31, 2017, with regards to the following:

- We reversed $3.9 million of the $4.5 million provisional tax amount that we recorded in 2017 related to deductibility of compensation expense for certain covered executives due to uncertainty surrounding the appropriate tax treatment of outstanding performance-based awards at that time. The IRS issued additional guidance during 2018 that clarified the treatment of these awards. We also recorded a benefit of $0.3 million in 2018 related to compensation expense for time-based awards granted to the chief financial officer that we had treated as nondeductible at December 31, 2017. The benefit of both of these amounts is reflected in the nondeductible compensation expense line item in the table above for the 2018 year.

- We recorded an increase to the deferred tax asset for loss and loss adjustment expense reserves of $67.1 million and an offsetting deferred tax liability in the same amount for the transition adjustment, which is recognized over an 8-year period as required by the 2017 Tax Act. At December 31, 2017, we did not record any amounts related to the changes in loss reserve discounting required by the 2017 Tax Act since the IRS had not yet published new discount factors based on loss payment patterns and interest rates determined under the 2017 Tax Act and we were unable to make a reasonable estimate. The IRS published the new discount factors in 2018, which allowed us to compute the adjustments. The impact of these amounts are reflected in the 2018 deferred tax assets and liabilities in the table below.

Deferred income taxes reflect the effect for financial statement reporting purposes of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The following table shows the components of the net deferred tax asset (liability) at December 31, 2019 and 2018, respectively.

(millions)	**2019**	**2018**
Federal deferred tax assets:		
Unearned premiums reserve	$ 498.2	$ 439.9
Non-deductible accruals	181.8	169.3
Loss and loss adjustment expense reserves	153.3	134.6
Operating lease liabilities	42.3	0
Net unrealized losses on fixed-maturity securities	0	28.2
Hedges on forecasted transactions	4.4	4.6
Other	15.3	16.2
Federal deferred tax liabilities:		
Net holding period gains on equity securities	(472.2)	(316.8)
Deferred acquisition costs	(221.9)	(199.8)
Property and equipment	(108.6)	(85.7)
Net unrealized gains on fixed-maturity securities	(96.5)	0
Loss and loss adjustment expense reserve transition adjustment	(47.2)	(58.5)
Operating lease assets	(42.3)	0
Intangible assets	(38.9)	(52.2)
Investment basis differences	(1.1)	(43.3)
Prepaid expenses	(4.8)	(4.7)
Other	(8.3)	(8.9)
Net federal deferred tax asset (liability)	(146.5)	22.9
Net state deferred tax asset	14.0	20.3
Net deferred tax asset (liability)	$ (132.5)	$ 43.2

Although realization of the deferred tax assets is not assured, management believes that it is more likely than not that the deferred tax assets will be realized based on our expectation that we will be able to fully utilize the

deductions that are ultimately recognized for tax purposes and, therefore, no valuation allowance was needed at December 31, 2019 or 2018.

At December 31, 2019 and 2018, we had $195.5 million and $16.8 million, respectively, of net taxes payable (included in other liabilities on the consolidated balance sheets). The increase in 2019 primarily results from the reversal of the tax credits benefits for 2017 and 2016.

The Progressive Corporation and its subsidiaries file a consolidated federal income tax return. Effective April 2018, we acquired additional shares of ARX to increase our ownership above 80%. As a result, ARX and its subsidiaries were first included in The Progressive Corporation consolidated federal income tax return for the period from April 2018 to December 31, 2018. ARX filed a final consolidated federal income tax return with its subsidiaries for the period from January to March 2018.

The Progressive Corporation and its eligible subsidiaries participated in the Compliance Assurance Program (CAP) from 2007 through 2018. Under CAP, the IRS begins its examination process for the tax year before the tax return is filed, by examining significant transactions and events as they occur; however, a CAP examination does not include equity investments in pass-through entities in which the taxpayer owns less than 100% (e.g., partnerships, joint ventures, etc.). The goal of the CAP program is to expedite the exam process and to reduce the level of uncertainty regarding a taxpayer's tax filing positions.

All federal income tax years prior to 2016 are closed to examination for The Progressive Corporation. The IRS CAP exams for 2016-2018 for The Progressive Corporation have been completed and the returns were accepted as filed. We consider these years to be effectively settled (other than with respect to equity investments in pass-through entities). The 2019 tax year remains open to examination.

For the tax year ended March 2018, and for 2017 and prior years, ARX and its eligible subsidiaries filed their own consolidated federal income tax returns. All tax years prior to 2016 are closed and the 2016, 2017, and short 2018 tax years remain open to examination.

The statute of limitations for state income tax purposes generally remains open for three to four years from the return filing date, depending upon the jurisdiction. There has been no significant state income tax audit activity.

We recognize interest and penalties, if any, as a component of income tax expense. For the years ended December 31, 2019, 2018, and 2017, $9.9 million, $0, and $0.2 million, respectively, of interest and penalties expense has been recorded in the tax provision. We have not recorded any unrecognized tax benefits, or any related interest and penalties, as of December 31, 2019 and 2018.

6. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

We write personal and commercial auto insurance, residential property insurance, and other specialty property-casualty insurance and related services throughout the United States. As a property-casualty insurance company, we are exposed to hurricanes or other catastrophes. To help mitigate this risk, we maintained excess of loss and aggregate stop-loss reinsurance coverage on our Property business during 2019, 2018, and 2017. Although the occurrence of a major catastrophe could have a significant effect on our monthly or quarterly results, we believe that, based on historical experience, such an event would not be so material as to disrupt the overall normal operations of Progressive. We are unable to predict the frequency or severity of any such events that may occur in the near term or thereafter.

As we are primarily an insurer of motor vehicles and residential property, we have limited exposure to environmental, asbestos, and general liability claims. We have established reserves for such exposures, which represent about 0.06% of our total loss and loss adjustment expense reserves. We believe these reserves to be adequate based on information currently known. These claims are not expected to have a material effect on our liquidity, financial condition, cash flows, or results of operations.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense (LAE) reserves represent our best estimate of our ultimate liability for losses and LAE relating to events that occurred prior to the end of any given accounting period but have not yet been paid. For our Personal and Commercial Lines vehicle businesses, which represent about 96% of our total carried reserves, we establish loss and LAE reserves after completing reviews at a disaggregated level of grouping. Progressive's actuarial staff reviews over 400 subsets of business data, which are at a combined state, product, and line coverage level, to calculate the needed loss and LAE reserves. During a reserve review, ultimate loss amounts are estimated using several industry standard actuarial projection methods. These methods take into account historical comparable loss data at the subset level and estimate the impact of various loss development factors, such as the frequency (number of losses per earned car year), severity (dollars of loss per each claim), and average premium (dollars of premium per earned car year), as well as the frequency and severity of loss adjustment expense costs.

We begin our review of a set of data by producing multiple estimates of needed reserves, using both paid and incurred

data, to determine if a reserve change is required. In the event of a wide variation among results generated by the different projections, our actuarial group will further analyze the data using additional quantitative analysis. Each review develops a point estimate for a relatively small subset of the business, which allows us to establish meaningful reserve levels for that subset. We believe our comprehensive process of reviewing at a subset level provides us more meaningful estimates of our aggregate loss reserves.

The actuarial staff completes separate projections of needed case and incurred but not recorded (IBNR) reserves. Since a large majority of the parties involved in an accident report their claims within a short time period after the occurrence, we do not carry a significant amount of IBNR reserves for older accident years. Based on the methodology we use to estimate case reserves for our vehicle businesses, we do not have expected development on reported claims included in our IBNR reserves. We do, however, include anticipated salvage and subrogation recoveries in our IBNR reserves, which could result in negative carried IBNR reserves, primarily in our physical damage reserves.

Changes from historical data may reduce the predictiveness of our projected future loss costs. Internal considerations that are process-related, which generally result from changes in our claims organization's activities, include claim closure rates, the number of claims that are closed without payment, and the level of the claims representatives' estimates of the needed case reserve for each claim. These changes and their effect on the historical data are studied at the state level versus on a larger, less indicative, countrywide basis. External items considered include the litigation atmosphere, state-by-state changes in medical costs, and the availability of services to resolve claims. These also are better understood at the state level versus at a more macro, countrywide level. The actuarial staff takes these changes into consideration when making their assumptions to determine needed reserve levels.

Similar to our vehicle businesses, our actuarial staff analyzes loss and LAE data for our Property business on an accident period basis. Many of the methodologies and key parameters reviewed are similar. In addition, for our Property business, since claims adjusters primarily establish the case reserves, the actuarial staff includes expected development on case reserves as a component of the overall IBNR reserves.

Activity in the loss and LAE reserves is summarized as follows:

(millions)	2019	2018	2017
Balance at January 1	$ 15,400.8	$ 13,086.9	$ 11,368.0
Less reinsurance recoverables on unpaid losses	2,572.7	2,170.1	1,801.0
Net balance at January 1	12,828.1	10,916.8	9,567.0
Incurred related to:			
Current year	25,238.2	21,632.5	18,782.1
Prior years	232.3	88.5	25.9
Total incurred	25,470.5	21,721.0	18,808.0
Paid related to:			
Current year	16,105.0	13,792.1	12,201.5
Prior years	7,300.4	6,017.6	5,256.7
Total paid	23,405.4	19,809.7	17,458.2
Net balance at December 31	14,893.2	12,828.1	10,916.8
Plus reinsurance recoverables on unpaid losses	3,212.2	2,572.7	2,170.1
Balance at December 31	$ 18,105.4	$ 15,400.8	$ 13,086.9

We experienced unfavorable reserve development of $232.3 million, $88.5 million, and $25.9 million in 2019, 2018, and 2017, respectively, which is reflected as "Incurred related to prior years" in the table above.

2019

- Approximately $131 million of the unfavorable prior year reserve development was attributable to accident year 2018, $73 million to accident year 2017, and the remainder to 2016 and prior accident years.
- Our personal auto products incurred about $121 million of unfavorable loss and LAE reserve development, with the Agency and Direct auto businesses each contributing about half, primarily reflecting increased injury severity, a higher than anticipated frequency of reopened personal injury protection (PIP) claims, primarily in Florida, and late reported losses occurring late 2018 but not reported until 2019.

- Our Commercial Lines business experienced about $83 million of unfavorable development, primarily due to increased injury severity and more emergence of large injury claims than originally anticipated.
- Our special lines business experienced about $14 million of unfavorable development, primarily due to less salvage and subrogation recoveries than originally anticipated and increased severity of late reported claims.
- Our Property businesses experienced about $12 million of unfavorable development, primarily due to higher than originally anticipated homeowner and dwelling costs and fire liability costs.

2018

- Approximately $99 million of unfavorable prior year reserve development was attributable to accident years 2017 and 2016. This unfavorable development was offset by about $10 million of favorable development attributable to accident year 2015 and prior accident years.
- Our personal auto products incurred almost $85 million of unfavorable loss and LAE reserve development, with approximately 70% attributable to the Agency business and 30% attributable to the Direct business, primarily reflecting unfavorable development from reopened Florida PIP claims.
- Our special lines and Property businesses experienced about $5 million and $3 million of unfavorable development, respectively, while our commercial auto products had about $4 million of favorable reserve development.

2017

- Approximately $64 million of unfavorable prior year reserve development was attributable to accident years 2016 and 2015. This unfavorable development was offset by $38 million of favorable development attributable to accident year 2014 and prior accident years.
- Our personal auto products incurred $70 million of unfavorable loss and LAE reserve development, primarily in the Agency business, in part reflecting an increase in costs related to property damage and higher LAE costs, primarily due to an increase in incentive compensation and defense counsel spend.
- Our Property business experienced $37 million in favorable development primarily due to lower severity and frequency than anticipated for accident year 2016 and development of losses eligible to be ceded under our catastrophe bond reinsurance program.
- Our commercial auto products had less than $1 million of unfavorable reserve development.

Incurred and Paid Claims Development by Accident Year

The following tables present our incurred, net of reinsurance, and paid claims development by accident year for the last five years, which generally represents the maximum development period for claims in any of our segments. The tables below include inception-to-date information for companies acquired and wholly exclude companies disposed of, rather than including information from the date of acquisition, or until the date of disposition. We believe the most meaningful presentation of claims development is through the retrospective approach by presenting all relevant historical information for all periods presented.

We have elected to present our incurred and paid claims development consistent with our GAAP reportable segments (see *Note 10 – Segment Information* for a discussion of our segment reporting), with a further disaggregation of our Personal Lines and Commercial Lines claims development between liability and physical damage, since the loss patterns are significantly different between them. The other business primarily includes reserves for our run-off products, which are not considered material, and, therefore, we are not including separate claims development tables.

Only 2019 is audited; all prior years are considered required supplementary information and, therefore, are unaudited. Expected development on our case reserves is excluded from the IBNR reserves on our vehicle businesses, as discussed above. For the Property business, the IBNR reserves include expected case development based on the methodology used in establishing the case reserves for that segment. The cumulative number of incurred claims are based on accident coverages (e.g., bodily injury, collision, comprehensive, personal injury protection, property damage) related to opened claims. Coverage counts related to claims closed without payment are excluded from the cumulative number of incurred claims.

Personal Lines - Agency - Liability

($ in millions)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance					As of December 31, 2019	
	For the years ended December 31,						
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
2015	$ 3,774.9	$ 3,773.8	$ 3,798.8	$ 3,815.6	$ 3,776.0	$ 0	704,986
2016		4,082.9	4,130.0	4,152.0	4,177.3	62.3	740,385
2017			4,474.8	4,485.8	4,511.1	82.5	779,082
2018				5,141.8	5,182.1	224.2	854,146
2019					5,885.0	871.8	909,050
				Total	$ 23,531.5		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				
	For the years ended December 31,				
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019
2015	$ 1,793.1	$ 2,976.0	$ 3,416.5	$ 3,623.3	$ 3,715.4
2016		1,941.6	3,231.5	3,723.1	3,969.5
2017			2,074.0	3,478.5	4,048.5
2018				2,378.0	4,028.7
2019					2,715.2
				Total	$ 18,477.3
				All outstanding liabilities before 2015, net of reinsurance[1]	63.2
				Liabilities for claims and claim adjustment expenses, net of reinsurance	$ 5,117.4

[1] Required supplementary information (unaudited)

Personal Lines - Agency - Physical Damage

($ in millions)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance					As of December 31, 2019	
	For the years ended December 31,						
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
2015	$ 2,136.8	$ 2,137.2	$ 2,134.4	$ 2,131.5	$ 2,134.5	$ 0	1,336,520
2016		2,423.4	2,398.9	2,401.8	2,400.1	(3.8)	1,399,077
2017			2,635.5	2,638.5	2,643.5	(2.9)	1,514,531
2018				2,819.0	2,822.6	(12.3)	1,694,380
2019					3,277.9	(167.6)	1,872,822
				Total	$ 13,278.6		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				
	For the years ended December 31,				
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019
2015	$ 2,106.2	$ 2,138.1	$ 2,134.4	$ 2,134.1	$ 2,133.6
2016		2,391.0	2,406.9	2,402.1	2,402.2
2017			2,599.8	2,643.2	2,640.9
2018				2,769.1	2,827.4
2019					3,242.5
				Total	$ 13,246.6
				All outstanding liabilities before 2015, net of reinsurance[1]	0.4
				Liabilities for claims and claim adjustment expenses, net of reinsurance	$ 32.4

[1] Required supplementary information (unaudited)

Personal Lines - Direct - Liability

($ in millions)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance					As of December 31, 2019	
	For the years ended December 31,						
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
2015	$ 3,330.5	$ 3,328.3	$ 3,354.2	$ 3,399.3	$ 3,368.7	$ 0	659,243
2016		3,819.0	3,843.9	3,871.2	3,897.8	53.9	735,653
2017			4,209.5	4,209.9	4,229.3	70.9	772,712
2018				4,904.8	4,980.9	204.4	868,604
2019					5,756.5	811.4	953,154
				Total	$ 22,233.2		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				
	For the years ended December 31,				
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019
2015	$ 1,545.2	$ 2,615.0	$ 3,021.0	$ 3,238.2	$ 3,323.1
2016		1,780.6	2,991.1	3,476.9	3,714.6
2017			1,912.6	3,255.2	3,808.3
2018				2,235.1	3,863.5
2019					2,630.3
				Total	$ 17,339.8
				All outstanding liabilities before 2015, net of reinsurance[1]	43.4
				Liabilities for claims and claim adjustment expenses, net of reinsurance	$ 4,936.8

[1] Required supplementary information (unaudited)

Personal Lines - Direct - Physical Damage

($ in millions)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance					As of December 31, 2019	
	For the years ended December 31,						
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
2015	$ 2,110.7	$ 2,097.7	$ 2,093.5	$ 2,090.8	$ 2,093.9	$ 0	1,540,071
2016		2,521.0	2,475.4	2,477.7	2,475.6	(4.3)	1,676,343
2017			2,750.6	2,743.7	2,749.0	(4.1)	1,791,190
2018				3,202.3	3,181.9	(18.8)	2,069,525
2019					3,787.9	(237.7)	2,282,681
				Total	$ 14,288.3		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				
	For the years ended December 31,				
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019
2015	$ 2,094.7	$ 2,100.1	$ 2,094.7	$ 2,093.7	$ 2,093.1
2016		2,505.0	2,485.8	2,479.3	2,478.5
2017			2,742.1	2,753.5	2,748.4
2018				3,170.0	3,193.8
2019					3,782.6
				Total	$ 14,296.4
				All outstanding liabilities before 2015, net of reinsurance[1]	0.4
				Liabilities for claims and claim adjustment expenses, net of reinsurance	$ (7.7)

[1] Required supplementary information (unaudited)

Commercial Lines - Liability

($ in millions)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance					As of December 31, 2019	
	For the years ended December 31,						
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
2015	$ 897.6	$ 911.1	$ 914.8	$ 899.7	$ 891.3	$ 0	77,819
2016		1,185.8	1,204.8	1,231.1	1,238.9	17.2	92,684
2017			1,374.1	1,366.6	1,393.3	30.8	97,297
2018				1,700.8	1,736.5	97.7	111,146
2019					2,103.1	343.7	124,829
				Total	$ 7,363.1		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				
	For the years ended December 31,				
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019
2015	$ 238.4	$ 501.5	$ 675.0	$ 786.3	$ 848.9
2016		298.6	639.9	886.0	1,073.3
2017			325.8	712.9	1,027.3
2018				382.7	913.4
2019					455.4
				Total	$ 4,318.3
				All outstanding liabilities before 2015, net of reinsurance[1]	36.0
				Liabilities for claims and claim adjustment expenses, net of reinsurance	$ 3,080.8

[1] Required supplementary information (unaudited)

Commercial Lines - Physical Damage

($ in millions)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance					As of December 31, 2019	
	For the years ended December 31,						
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
2015	$ 274.4	$ 274.1	$ 273.5	$ 272.4	$ 272.4	$ 0	62,593
2016		379.6	379.8	378.2	377.8	(0.7)	74,193
2017			415.4	412.1	411.0	(0.6)	77,163
2018				475.0	478.2	(2.4)	82,183
2019					577.8	(14.3)	91,920
				Total	$ 2,117.2		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				
	For the years ended December 31,				
Accident Year	2015[1]	2016[1]	2017[1]	2018[1]	2019
2015	$ 248.5	$ 271.9	$ 272.0	$ 272.2	$ 272.3
2016		336.7	376.9	376.8	377.5
2017			369.0	409.4	409.2
2018				426.0	475.1
2019					516.9
				Total	$ 2,051.0
				All outstanding liabilities before 2015, net of reinsurance[1]	0.4
				Liabilities for claims and claim adjustment expenses, net of reinsurance	$ 66.6

[1] Required supplementary information (unaudited)

Property Business

($ in millions)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance					As of December 31, 2019	
	For the years ended December 31,						
Accident Year	**2015[1]**	**2016[1]**	**2017[1]**	**2018[1]**	**2019**	**Total of IBNR Liabilities Plus Expected Development on Reported Claims**	**Cumulative Number of Incurred Claim Counts**
2015	$ 460.0	$ 416.5	$ 403.6	$ 398.8	$ 396.3	$ 0.9	41,998
2016		568.6	541.2	537.1	536.5	5.1	53,665
2017			672.8	680.9	683.4	4.1	72,728
2018				839.0	845.2	34.9	63,243
2019					971.7	160.2	66,824
				Total	$ 3,433.1		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				
	For the years ended December 31,				
Accident Year	**2015[1]**	**2016[1]**	**2017[1]**	**2018[1]**	**2019**
2015	$ 280.3	$ 372.8	$ 383.5	$ 390.1	$ 393.5
2016		415.2	498.2	516.9	526.4
2017			506.7	647.1	670.1
2018				595.9	781.2
2019					708.0
				Total	$ 3,079.2
				All outstanding liabilities before 2015, net of reinsurance[1]	3.3
				Liabilities for claims and claim adjustment expenses, net of reinsurance	$ 357.2

[1] Required supplementary information (unaudited)

The following table reconciles the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses:

(millions)	2019	2018
Net outstanding liabilities		
Personal Lines		
Agency, Liability	$ 5,117.4	$ 4,509.0
Agency, Physical Damage	32.4	43.3
Direct, Liability	4,936.8	4,258.6
Direct, Physical Damage	(7.7)	18.4
Commercial Lines		
Liability	3,080.8	2,504.2
Physical Damage	66.6	53.9
Property	357.2	314.7
Other business	30.8	42.9
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	13,614.3	11,745.0
Reinsurance recoverable on unpaid claims		
Personal Lines		
Agency, Liability	930.7	836.8
Agency, Physical Damage	0	0
Direct, Liability	1,314.1	1,070.4
Direct, Physical Damage	0	0
Commercial Lines		
Liability	482.6	287.4
Physical Damage	0.5	0
Property	184.1	145.4
Other business	288.1	222.1
Total reinsurance recoverable on unpaid claims	3,200.1	2,562.1
Unallocated claims adjustment expense related to:		
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	1,278.9	1,083.1
Reinsurance recoverable on unpaid claims	12.1	10.6
Total gross liability for unpaid claims and claim adjustment expense	$ 18,105.4	$ 15,400.8

The following table shows the average historical claims duration as of December 31, 2019:

(Required Supplementary Information - Unaudited)

	Years				
Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance	**1**	**2**	**3**	**4**	**5**
Personal Lines					
Agency, Liability	46.3%	31.3%	12.1%	5.7%	2.4%
Agency, Physical Damage	98.7	1.5	(0.2)	0	0
Direct, Liability	45.4	31.9	12.6	6.3	2.5
Direct, Physical Damage	100.0	0.2	(0.2)	0	0
Commercial Lines					
Liability	23.1	28.9	20.8	14.0	7.0
Physical Damage	89.6	9.9	0	0.1	0
Property	73.0	20.4	3.2	1.7	0.9

7. REINSURANCE

The effect of reinsurance on premiums written and earned for the years ended December 31, was as follows:

	2019		2018		2017	
(millions)	Written	Earned	Written	Earned	Written	Earned
Direct premiums	$ 39,222.0	$ 37,519.7	$ 33,753.1	$ 31,970.2	$ 27,860.7	$ 26,425.7
Ceded premiums:						
Regulated	(711.1)	(670.8)	(596.4)	(557.5)	(505.9)	(479.6)
Non-Regulated	(933.0)	(656.5)	(546.8)	(479.4)	(222.7)	(216.2)
Total ceded premiums	(1,644.1)	(1,327.3)	(1,143.2)	(1,036.9)	(728.6)	(695.8)
Net premiums	$ 37,577.9	$ 36,192.4	$ 32,609.9	$ 30,933.3	$ 27,132.1	$ 25,729.9

Regulated refers to federal or state run plans and primarily include the following:

- Federal reinsurance plan
  - National Flood Insurance Program (NFIP)
- State-provided reinsurance facilities
  - Michigan Catastrophic Claims Association (MCCA)
  - North Carolina Reinsurance Facility (NCRF)
  - Florida Hurricane Catastrophe Fund (FHCF)
- State-mandated involuntary plans
  - Commercial Automobile Insurance Procedures/Plans (CAIP)

Non-Regulated represents voluntary external reinsurance contracts entered into by the company. These include amounts ceded on our Commercial Lines business primarily related to transportation network company (TNC) business under quota-share reinsurance agreements and amounts ceded on our Property business under catastrophic excess of loss reinsurance agreements and aggregate stop-loss reinsurance agreements. During 2019, we expanded our TNC business to seventeen states, from four states in 2018 and one state in 2017.

Our reinsurance recoverables and prepaid reinsurance premiums were comprised of the following at December 31:

	Reinsurance Recoverables				Prepaid Reinsurance Premiums			
($ in millions)	2019		2018		2019		2018	
Regulated:								
MCCA	$ 2,247.1	67%	$ 1,903.9	71%	$ 71.8	12%	$ 55.3	18%
CAIP	332.4	10	254.7	9	93.8	15	72.9	24
FHCF[1]	86.0	3	18.5	1	0	0	0	0
NCRF	84.4	2	78.1	3	33.8	5	34.0	11
NFIP	11.6	0	27.8	1	58.7	9	55.9	18
Other	3.1	0	2.9	0	1.0	0	0.6	0
Total Regulated	2,764.6	82	2,285.9	85	259.1	41	218.7	71
Non-Regulated:								
Commercial Lines	459.5	14	254.2	10	352.9	56	79.2	25
Property	146.8	4	147.7	5	14.5	3	11.8	4
Other	8.0	0	8.3	0	0	0	0	0
Total Non-Regulated	614.3	18	410.2	15	367.4	59	91.0	29
Total	$ 3,378.9	100%	$ 2,696.1	100%	$ 626.5	100%	$ 309.7	100%

[1]Prior year amounts were reclassified from "Other" to conform to the current year presentation.

Reinsurance contracts do not relieve us from our obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to us. Our exposure to losses from the failure of Regulated plans is minimal, since these plans are funded by the federal government or by mechanisms supported by insurance companies in applicable states. We evaluate the financial condition of our other reinsurers and monitor concentrations of credit risk to minimize our exposure to significant losses from reinsurer insolvencies.

8. STATUTORY FINANCIAL INFORMATION

Consolidated statutory surplus was $13,671.1 million and $11,571.8 million at December 31, 2019 and 2018, respectively. Statutory net income was $3,489.7 million, $2,643.0 million, and $1,416.2 million for the years ended December 31, 2019, 2018, and 2017, respectively.

At December 31, 2019, $1,063.2 million of consolidated statutory surplus represented net admitted assets of our insurance subsidiaries and affiliates that are required to meet minimum statutory surplus requirements in such entities' states of domicile. The companies may be licensed in states other than their states of domicile, which may have higher minimum statutory surplus requirements. Generally, the net admitted assets of insurance companies that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the companies are licensed.

During 2019, the insurance subsidiaries paid aggregate cash dividends of $2,277.9 million to their parent company. Based on the dividend laws in effect at December 31, 2019, the insurance subsidiaries could pay aggregate dividends of $3,319.3 million in 2020 without prior approval from regulatory authorities, provided the dividend payments are not made within 12 months of previous dividends paid by the applicable subsidiary.

9. EMPLOYEE BENEFIT PLANS

Beginning July 1, 2017, employees of ARX and its subsidiaries were included in the benefit plans described below. Prior to July 1, 2017, ARX maintained employee benefit plans that were separate from the plans that covered employees of The Progressive Corporation's other subsidiaries. References in this *Note 9* to Progressive refer to The Progressive Corporation and its subsidiaries, including ARX and its subsidiaries.

Retirement Plans Progressive has a defined contribution pension plan (401(k) Plan) that covers employees who have been employed with the company for at least 30 days. Under Progressive's 401(k) Plan, we match up to a maximum of 6% of an employee's eligible compensation contributed to the plan. Employee and company matching contributions are invested, at the direction of the employee, in a number of investment options available under the plan, including various mutual funds, a self-directed brokerage option, and a Progressive common stock fund.

Progressive's common stock fund is an employee stock ownership program (ESOP) within the 401(k) Plan. At December 31, 2019, the ESOP held 23.0 million of our common shares, all of which are included in shares outstanding. Dividends on these shares are reinvested in common shares or paid out in cash, at the election of the participant, and the related tax benefit is recorded as part of our tax provision. Matching contributions to these plans for the years ended December 31, 2019, 2018, and 2017 were $120.8 million, $106.8 million, and $97.3 million, respectively.

Postemployment Benefits Progressive provides various postemployment benefits to former or inactive employees who meet eligibility requirements, and to their beneficiaries and covered dependents. Postemployment benefits include salary continuation and disability-related benefits, including workers' compensation and, if elected, continuation of health-care benefits for specified limited periods. The liability for these benefits was $22.2 million and $20.2 million at December 31, 2019 and 2018, respectively.

Incentive Compensation Plans – Employees Progressive's incentive compensation programs include both non-equity incentive plans (cash) and equity incentive plans. Progressive's cash incentive compensation included an annual cash incentive program (i.e., Gainsharing Program) for virtually all employees. Progressive's equity incentive compensation plans provide for the granting of restricted stock unit awards to key members of management.

Prior to 2019, ARX provided periodic cash bonuses to its employees. ARX also has an equity compensation plan under which it had granted stock option awards, exercisable for shares of ARX common stock, to certain of its key employees. These stock option awards include both nonqualified and incentive stock options; all such stock options are subject to the put and call provisions of the ARX stockholders' agreement (see *Note 15 – Redeemable Noncontrolling Interest* and *Note 17 – Subsequent Event* for further discussion). As a result of these provisions, and the determination that the ultimate settlement of these awards would be in cash, the ARX stock options are treated as liability awards for accounting purposes.

The amounts charged to expense for Progressive and ARX incentive compensation plans for the years ended December 31, were:

	2019		2018		2017	
(millions)	Pretax	After Tax	Pretax	After Tax	Pretax	After Tax
Non-equity incentive plans – cash	$ 598.4	$ 472.7	$ 539.5	$ 426.2	$ 461.3	$ 299.8
Equity incentive plans:						
Equity awards	90.1	71.2	76.2	60.2	92.9	60.4
Liability awards	0.1	0.1	1.0	0.8	2.5	1.6

Generally, time-based and performance-based equity awards are expensed pro rata over their respective vesting periods, based on the market value of the awards at the time of grant, with accelerated expense for participants who reach qualified retirement provisions. Performance-based equity awards that contain variable vesting criteria are expensed based on management's expectation of the percentage of the award, if any, that will ultimately vest. These estimates can change periodically throughout the measurement period. The after-tax amounts are determined using the corporate federal tax rate of 21% for 2019 and 2018, and 35% for 2017.

Progressive's 2015 Equity Incentive Plan, which provides for the granting of equity-based compensation to officers and other key employees, currently has authorized awards for up to 17.0 million shares, which includes 4.0 million shares transferred from the 2010 Equity Incentive Plan in accordance with the terms of the 2015 Equity Incentive Plan. No awards have been granted under the 2010 Equity Incentive Plan since January 2016 and none will be granted in the future.

The restricted equity awards are issued as either time-based or performance-based awards. All restricted equity awards are settled at or after vesting in Progressive common shares from existing treasury shares on a one-to-one basis. The time-based awards vest in equal installments upon the lapse of specified periods of time, typically three, four, and five years, absent the retirement provisions in the plan.

The performance-based awards were granted to approximately 40 Progressive executives and senior managers in 2019 in addition to their time-based awards to provide additional incentive to achieve pre-established profitability and growth targets, and relative investment performance.

Vesting of performance-based awards is contingent upon the achievement of predetermined performance goals within specified time periods. The targets for the performance-based awards, as well as the number of units that ultimately may vest, vary by grant. All performance-based awards include a specified number of units that will vest if performance meets a specified target and minimum performance goals. If at least the minimum performance goals are achieved, the range at which an award can vest is determined by the type of measurement goals included in the award, as follows:

Performance Measurement	Year(s) of Grant	Vesting range (as a percentage of target)
Growth of our personal auto and commercial auto businesses and homeowners multi-peril business, each compared to its respective market	2018-2019	0-250%
Growth of our personal auto and commercial auto businesses, compared to the combined personal and commercial auto market	2014-2017	0-250%
Investment results relative to peer group	2014-2019	0-200%
Unit growth in a specified customer segment	2016-2017	0% or 85-150%

A summary of all employee restricted equity award activity during the years ended December 31, follows:

Restricted Equity Awards	2019 Number of Shares[1]		2019 Weighted Average Grant Date Fair Value	2018 Number of Shares[1]		2018 Weighted Average Grant Date Fair Value	2017 Number of Shares[1]		2017 Weighted Average Grant Date Fair Value
Beginning of year	4,856,356	$	38.56	5,858,848	$	30.47	6,951,373	$	26.18
Add (deduct):									
Granted[2]	1,835,145		49.61	1,876,109		45.55	2,383,475		32.01
Vested	(2,691,337)		31.85	(2,811,070)		26.41	(3,220,671)		22.53
Forfeited	(121,087)		43.98	(67,531)		36.10	(255,329)		28.03
End of year[3,4]	3,879,077	$	48.28	4,856,356	$	38.56	5,858,848	$	30.47

[1] Includes restricted stock units. All performance-based awards are included at their target amounts.
[2] We reinvest dividend equivalents on restricted stock units. For 2019, 2018, and 2017, the number of units “granted” shown in the table above includes 210,159, 144,668, and 157,396 of dividend equivalent units, respectively, at a weighted average grant date fair value of $0, since the dividends were factored into the grant date fair value of the original grant.
[3] At December 31, 2019, the number of shares included 726,712 performance-based units at their target amounts. We expect 1,740,712 units to vest based upon our current estimates of the likelihood of achieving the pre-determined performance goals applicable to each award.
[4] At December 31, 2019, the total unrecognized compensation cost related to unvested equity awards was $95.9 million, which includes performance-based awards at their currently estimated vesting value. This compensation expense will be recognized into the consolidated statements of comprehensive income over the weighted average vesting period of 2.3 years.

The aggregate fair value of the restricted equity awards that vested during the years ended December 31, 2019, 2018, and 2017, was $191.6 million, $162.7 million, and $130.5 million, respectively, based on the actual stock price on the applicable vesting date.

As a result of the put and call rights described in *Note 15 – Redeemable Noncontrolling Interest*, all outstanding stock options awarded to ARX employees prior to April 1, 2015, are treated as liability awards for accounting purposes; however, the awards maintain the specific features per the original award agreements. The value of each option is based upon our good faith estimate of the fair market value as of the end of the reporting period and the pro rata expense is recognized.

A summary of all ARX employee stock option activity during the years ended December 31, follows:

Options Outstanding	2019 Number of Shares		2019 Weighted Average Exercise Price	2018 Number of Shares		2018 Weighted Average Exercise Price	2017 Number of Shares		2017 Weighted Average Exercise Price
Beginning of year	16,067	$	588.15	22,550	$	564.60	24,995	$	526.46
Add (deduct):									
Exercised[1]	(5,329)		353.67	(6,483)		506.26	(2,445)		174.65
Forfeited	(300)		803.64	0		0	0		0
End of year	10,438	$	701.66	16,067	$	588.15	22,550	$	564.60
Exercisable, end of year	10,438	$	701.66	13,967	$	562.17	17,950	$	517.75

[1] At the time of exercise, the value earned by the option holders was $5.9 million, $6.2 million, and $2.9 million in 2019, 2018, and 2017, respectively.

Non-Vested Options Outstanding	2019 Number of Shares		2019 Weighted Average Exercise Price	2018 Number of Shares		2018 Weighted Average Exercise Price	2017 Number of Shares		2017 Weighted Average Exercise Price
Beginning of year	2,100	$	760.93	4,600	$	747.45	8,000	$	712.74
Add (deduct):									
Vested	(1,800)		753.82	(2,500)		736.12	(3,400)		665.79
Forfeited	(300)		803.64	0		0	0		0
End of year	0	$	0	2,100	$	760.93	4,600	$	747.45

Incentive Compensation Plans – Directors Progressive's 2017 Directors Equity Incentive Plan, which provides for the granting of equity-based awards, including restricted stock awards, to non-employee directors, was approved by shareholders in 2017 and originally authorized awards for up to 0.5 million shares.

The Progressive Corporation permits each non-employee director to indicate a preference to receive either 100% of their compensation in the form of a restricted stock award or 60% in the form of a restricted stock award and 40% in the form of cash. If the director does not state a preference, it is presumed that he or she preferred to receive 100% of their compensation in the form of restricted stock. After considering such preferences, the Compensation Committee of the Board of Directors determines the awards (restricted stock, or restricted stock and cash) for each non-employee director.

The restricted stock awards are issued as time-based awards. The vesting period (i.e., requisite service period) is typically 11 months from the date of each grant. To the extent a director is newly appointed during the year, or a director's committee assignments change, the vesting period may be shorter. Both the restricted stock awards and cash, if elected, are expensed pro rata over their respective vesting periods based on the market value of the awards at the time of grant.

A summary of all directors' restricted stock activity during the years ended December 31, follows:

	2019		2018		2017	
Restricted Stock	**Number of Shares**	**Weighted Average Grant Date Fair Value**	**Number of Shares**	**Weighted Average Grant Date Fair Value**	**Number of Shares**	**Weighted Average Grant Date Fair Value**
Beginning of year	41,706	$ 62.23	53,284	$ 40.54	55,839	$ 33.24
Add (deduct):						
Granted	38,451	73.43	41,706	62.23	53,284	40.54
Vested	(41,706)	62.23	(53,284)	40.54	(55,839)	33.24
End of year[1]	38,451	$ 73.43	41,706	$ 62.23	53,284	$ 40.54

[1] At December 31, 2019, 2018, and 2017, the remaining unrecognized compensation cost related to restricted stock awards was $0.8 million, $0.9 million, and $0.7 million, respectively.

The aggregate fair value of the restricted stock vested, during the years ended December 31, 2019, 2018, and 2017, was $3.0 million, $3.2 million, and $2.2 million, respectively, based on the actual stock price at time of vesting.

Deferred Compensation The Progressive Corporation Executive Deferred Compensation Plan (Deferral Plan) permits eligible Progressive executives to defer receipt of some or all of their annual incentive payments and all of their annual equity awards. Deferred cash compensation is deemed invested in one or more investment funds, including Progressive common shares, offered under the Deferral Plan and elected by the participant. All Deferral Plan distributions attributable to deferred cash compensation will be paid in cash.

For all equity awards granted in or after March 2005, and deferred pursuant to the Deferral Plan, the deferred amounts are deemed invested in our common shares and are ineligible for transfer to other investment funds in the Deferral Plan; distributions of these deferred awards will be made in Progressive common shares. For all restricted stock awards granted prior to that date, the deferred amounts are eligible to be transferred to any of the investment funds in the Deferral Plan; distributions of these deferred awards will be made in cash. We reserved 11.1 million of our common shares for issuance under the Deferral Plan.

An irrevocable grantor trust has been established to provide a source of funds to assist us in meeting our liabilities under the Deferral Plan. The Deferral Plan Irrevocable Grantor Trust account held the following assets at December 31:

(millions)	**2019**	**2018**
Progressive common shares[1]	$ 121.6	$ 114.7
Other investment funds[2]	151.2	124.0
Total	$ 272.8	$ 238.7

[1] Included 3.2 million and 3.6 million common shares as of December 31, 2019 and 2018, respectively, to be distributed in common shares, and are reported at grant date fair value.
[2] Amount is included in other assets on the consolidated balance sheets.

10. SEGMENT INFORMATION

We write personal and commercial auto insurance, personal residential and commercial property insurance, general liability insurance, and other specialty property-casualty insurance and related services. Our Personal Lines segment writes insurance for personal autos and recreational vehicles (our special lines products). The Personal Lines segment is comprised of both the Agency and Direct businesses. The Agency business includes business written by our network of more than 35,000 independent insurance agencies, including brokerages in New York and California, and strategic alliance business relationships (other insurance companies, financial institutions, and national agencies). The Direct business includes business written directly by us online, by phone, or on mobile devices. We operate our Personal Lines businesses throughout the United States.

Our Commercial Lines segment writes auto-related primary liability and physical damage insurance, and general liability and property insurance, predominately for small businesses. This segment operates throughout the United States and is distributed through both the independent agency and direct channels.

Our Property segment writes residential property insurance for homeowners, other property owners, and renters through both the independent agency and direct channel, and writes flood insurance through the "Write Your Own" program for the National Flood Insurance Program, through the agency channel. Our Property segment operates throughout the majority of the United States.

Our service businesses provide insurance-related services, including processing CAIP business and serving as an agent for homeowners, general liability, and workers' compensation insurance, among other products, through our programs with Progressive Home and unaffiliated insurance companies.

We evaluate profitability based on pretax underwriting profit (loss) for the Personal Lines, Commercial Lines, and Property segments. Pretax underwriting profit (loss) is calculated as net premiums earned plus fees and other revenues, less: (i) losses and loss adjustment expenses; (ii) policy acquisition costs; and (iii) other underwriting expenses. Service business pretax profit (loss) is the difference between service business revenues and service business expenses.

Expense allocations are based on certain assumptions and estimates primarily related to revenue and volume; stated segment operating results would change if different methods were applied. We do not allocate assets or income taxes to operating segments. In addition, we do not separately identify depreciation expense by segment, and such allocation would be impractical. Companywide depreciation expense was $239.8 million in 2019, $190.4 million in 2018, and $169.9 million in 2017. The accounting policies of the operating segments are the same as those described in *Note 1 – Reporting and Accounting Policies*.

Following are the operating results for the years ended December 31:

(millions)	2019 Revenues	2019 Pretax Profit (Loss)	2018 Revenues	2018 Pretax Profit (Loss)	2017 Revenues	2017 Pretax Profit (Loss)
Personal Lines						
Agency	$ 14,904.1	$ 1,673.2	$ 13,017.2	$ 1,435.7	$ 11,177.6	$ 839.6
Direct	15,305.9	1,181.4	13,017.5	1,088.5	10,769.6	683.7
Total Personal Lines[1]	30,210.0	2,854.6	26,034.7	2,524.2	21,947.2	1,523.3
Commercial Lines	4,427.6	458.8	3,610.9	478.6	2,793.9	214.1
Property[2]	1,554.8	(26.1)	1,287.7	(88.7)	988.8	(50.3)
Other indemnity	0	0	0	0.9	0	(0.2)
Total underwriting operations	36,192.4	3,287.3	30,933.3	2,915.0	25,729.9	1,686.9
Fees and other revenues[3]	563.7	NA	472.2	NA	370.6	NA
Service businesses	195.0	16.1	158.5	24.4	126.8	17.3
Investments[4]	2,071.2	2,046.6	415.0	390.7	612.7	588.8
Other gains (losses)	0	0	0	0	(1.0)	(1.0)
Interest expense	NA	(189.7)	NA	(166.5)	NA	(153.1)
Consolidated total	$ 39,022.3	$ 5,160.3	$ 31,979.0	$ 3,163.6	$ 26,839.0	$ 2,138.9

NA = Not applicable

[1] Personal auto insurance accounted for 94% of the total Personal Lines segment net premiums earned in 2019 and 2018, compared to 93% in 2017; insurance for our special lines products (e.g., motorcycles, ATVs, RVs, watercraft, and snowmobiles) accounted for the balance of the Personal Lines net premiums earned.

[2] During 2019, 2018, and 2017, pretax profit (loss) includes $66.3 million, $72.0 million, and $66.2 million, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX. Although this expense is included in our Property segment, it is not reported in the consolidated results of ARX and, therefore, does not affect the value of net income attributable to noncontrolling interest.

[3] Pretax profit (loss) for fees and other revenues are allocated to operating segments.

[4] Revenues represent recurring investment income and total net realized gains (losses) on securities; pretax profit is net of investment expenses.

Our management uses underwriting margin and combined ratio as primary measures of underwriting profitability, as defined above. The underwriting margin is the pretax underwriting profit (loss) expressed as a percentage of net premiums earned (i.e., revenues from underwriting operations). Combined ratio is the complement of the underwriting margin. Following are the underwriting margins and combined ratios for our underwriting operations for the years ended December 31:

	2019 Underwriting Margin	2019 Combined Ratio	2018 Underwriting Margin	2018 Combined Ratio	2017 Underwriting Margin	2017 Combined Ratio
Personal Lines						
Agency	11.2 %	88.8	11.0 %	89.0	7.5 %	92.5
Direct	7.7	92.3	8.4	91.6	6.3	93.7
Total Personal Lines	9.5	90.5	9.7	90.3	6.9	93.1
Commercial Lines	10.4	89.6	13.3	86.7	7.7	92.3
Property[1]	(1.7)	101.7	(6.9)	106.9	(5.1)	105.1
Total underwriting operations	9.1	90.9	9.4	90.6	6.6	93.4

[1] Included in 2019, 2018, and 2017, are 4.3 points, 5.6 points, and 6.7 points, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX.

11. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss), including reclassification adjustments by income statement line item, for the years ended December 31, were as follows:

				Components of Changes in Accumulated Other Comprehensive Income (after tax)			
(millions)	Pretax total accumulated other comprehensive income (loss)	Total tax (provision) benefit	After tax total accumulated other comprehensive income (loss)	Total net unrealized gains (losses) on securities	Net unrealized gains (losses) on forecasted transactions	Foreign currency translation adjustment	(Income) loss attributable to NCI
Balance at December 31, 2018	$ (153.0)	$ 32.1	$ (120.9)	$ (105.6)	$ (17.2)	$ 0	$ 1.9
Other comprehensive income (loss) before reclassifications:							
Investment securities	825.8	(174.9)	650.9	650.9	0	0	0
Forecasted transactions	0	0	0	0	0	0	0
Foreign currency translation adjustment	0	0	0	0	0	0	0
(Income) loss attributable to noncontrolling interest (NCI)	(5.9)	1.3	(4.6)	0	0	0	(4.6)
Total other comprehensive income (loss) before reclassifications	819.9	(173.6)	646.3	650.9	0	0	(4.6)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	0	0	0	0	0	0	0
Net realized gains (losses) on securities	232.2	(47.7)	184.5	184.5	0	0	0
Other gains (losses)	0	0	0	0	0	0	0
Interest expense	(1.0)	0.2	(0.8)	0	(0.8)	0	0
Total reclassification adjustment for amounts realized in net income	231.2	(47.5)	183.7	184.5	(0.8)	0	0
Total other comprehensive income (loss)	588.7	(126.1)	462.6	466.4	0.8	0	(4.6)
Balance at December 31, 2019	$ 435.7	$ (94.0)	$ 341.7	$ 360.8	$ (16.4)	$ 0	$ (2.7)

(millions)	Pretax total accumulated other comprehensive income (loss)	Total tax (provision) benefit	After tax total accumulated other comprehensive income (loss)	Components of Changes in Accumulated Other Comprehensive Income (after tax) Total net unrealized gains (losses) on securities	Net unrealized gains (losses) on forecasted transactions	Foreign currency translation adjustment	(Income) loss attributable to NCI
Balance at December 31, 2017	$ 1,977.8	$ (695.6)	$ 1,282.2	$ 1,295.0	$ (14.8)	$ 0	$ 2.0
Cumulative effect adjustment[1]	(2,006.0)	705.8	(1,300.2)	(1,300.2)	0	0	0
Reclassification of disproportionate amounts[2]	(4.3)	(3.4)	(7.7)	(1.1)	(3.2)	0	(3.4)
Adjusted balance at December 31, 2017	(32.5)	6.8	(25.7)	(6.3)	(18.0)	0	(1.4)
Other comprehensive income (loss) before reclassifications:							
Investment securities	(224.1)	47.0	(177.1)	(177.1)	0	0	0
Forecasted transactions	0	0	0	0	0	0	0
Foreign currency translation adjustment	0	0	0	0	0	0	0
(Income) loss attributable to noncontrolling interest (NCI)	4.3	(1.0)	3.3	0	0	0	3.3
Total other comprehensive income (loss) before reclassifications	(219.8)	46.0	(173.8)	(177.1)	0	0	3.3
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	0	0	0	0	0	0	0
Net realized gains (losses) on securities	(98.3)	20.5	(77.8)	(77.8)	0	0	0
Other gains (losses)	0	0	0	0	0	0	0
Interest expense	(1.0)	0.2	(0.8)	0	(0.8)	0	0
Total reclassification adjustment for amounts realized in net income	(99.3)	20.7	(78.6)	(77.8)	(0.8)	0	0
Total other comprehensive income (loss)	(120.5)	25.3	(95.2)	(99.3)	0.8	0	3.3
Balance at December 31, 2018	$ (153.0)	$ 32.1	$ (120.9)	$ (105.6)	$ (17.2)	$ 0	$ 1.9

[1] Reflects the fair value changes on equity securities as of December 31, 2017, which are reported as realized gains (losses) under the new accounting guidance. See *Note 1 – Reporting and Accounting Policies* for additional information.

[2] Reflects the effect of the change in the U.S. federal tax rate on our available-for-sale fixed-maturity securities and our hedges on forecasted transactions as of December 31, 2017 (see *Note 1 – Reporting and Accounting Policies* for additional information) and the adjustment to reflect the change in value on (income) loss attributable to NCI in conjunction with the "put" transaction (see *Note 15 – Redeemable Noncontrolling Interest* for additional information).

(millions)	Pretax total accumulated other comprehensive income (loss)	Total tax (provision) benefit	After tax total accumulated other comprehensive income (loss)	Components of Changes in Accumulated Other Comprehensive Income (after tax): Total net unrealized gains (losses) on securities	Net unrealized gains (losses) on forecasted transactions	Foreign currency translation adjustment	(Income) loss attributable to NCI
Total at December 31, 2016	$ 1,439.5	$ (506.1)	$ 933.4	$ 939.6	$ (9.4)	$ (1.1)	$ 4.3
Other comprehensive income (loss) before reclassifications:							
Investment securities	636.9	(224.0)	412.9	412.9	0	0	0
Forecasted transactions	(8.0)	2.8	(5.2)	0	(5.2)	0	0
Foreign currency translation adjustment	0.4	(0.1)	0.3	0	0	0.3	0
(Income) loss attributable to noncontrolling interest (NCI)	(3.5)	1.2	(2.3)	0	0	0	(2.3)
Total other comprehensive income (loss) before reclassifications	625.8	(220.1)	405.7	412.9	(5.2)	0.3	(2.3)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net impairment losses recognized in earnings	(14.9)	5.3	(9.6)	(9.6)	0	0	0
Net realized gains (losses) on securities	103.3	(36.2)	67.1	67.1	0	0	0
Other gains (losses)[1]	(1.2)	0.4	(0.8)	0	0	(0.8)	0
Interest expense	0.3	(0.1)	0.2	0	0.2	0	0
Total reclassification adjustment for amounts realized in net income	87.5	(30.6)	56.9	57.5	0.2	(0.8)	0
Total other comprehensive income (loss)	538.3	(189.5)	348.8	355.4	(5.4)	1.1	(2.3)
Total at December 31, 2017	$ 1,977.8	$ (695.6)	$ 1,282.2	$ 1,295.0	$ (14.8)	$ 0	$ 2.0

[1] During 2017, we ceased writing insurance in Australia resulting in a loss of $1.2 million relating to the foreign currency translation adjustment. The loss is netted with other gains (losses) on our consolidated statements of comprehensive income for the year end December 31, 2017.

In an effort to manage interest rate risk, we often enter into forecasted transactions on Progressive's debt issuances. We expect to reclassify $1.1 million (pretax) into interest expense during the next 12 months, related to net unrealized losses on forecasted transactions (see *Note 4 – Debt* for further discussion).

12. LITIGATION

The Progressive Corporation and/or its insurance subsidiaries are named as defendants in various lawsuits arising out of claims made under insurance policies written by our insurance subsidiaries in the ordinary course of business. We consider all legal actions relating to such claims in establishing our loss and loss adjustment expense reserves.

In addition, The Progressive Corporation and/or its subsidiaries are named as defendants in a number of class action or individual lawsuits that challenge certain of the operations of the subsidiaries. Other insurance companies face many of these same issues.

We describe litigation contingencies for which a loss is probable. In addition, we establish accruals for these lawsuits when we can reasonably estimate potential loss exposure, which may include a range of loss, and we will disclose such amount or range of loss if material. As to lawsuits for which the loss is considered probable but not estimable, we do not establish an accrual. Nevertheless, we continue to evaluate this pending litigation to determine if any losses not deemed probable and estimable become so, at which point we would establish an accrual at our best estimate of the loss or range of loss.

We also describe litigation contingencies for which a loss is reasonably possible (but not probable). When disclosing reasonably possible litigation contingencies, we will disclose the amount or range of possible loss, if we are able to make that determination and if material. We review all reasonably possible losses on an ongoing basis to determine whether the likelihood of incurring a loss has become probable, or whether the circumstances have changed such that we may now reasonably estimate a range of loss.

We may also be exposed to litigation contingencies that are remote. Remote litigation contingencies are those for which the likelihood of a loss is slight at period end. We do not disclose, or establish accruals for, remote litigation

contingencies, but we evaluate these contingencies on an ongoing basis to determine whether the likelihood of a loss has increased.

Each year, certain of our pending litigation matters are brought to conclusion. For cases that have settled, but for which settlement is not complete, an accrual is established at our best estimate of the loss exposure. We regularly review these and other accruals to ensure they are adequate, and that there is not the possibility of material losses in excess of our accruals.

Settlements that are complete are fully reflected in our financial statements. The amounts accrued and/or paid for settlements during the periods presented were not material to our consolidated financial condition, cash flows, or results of operations.

The pending lawsuits summarized below are in various stages of development, and the outcomes are uncertain as of December 31, 2019. At period end, except to the extent an immaterial accrual has been established, we do not consider the losses from these pending cases to be both probable and estimable, and we are unable to estimate a range of loss at this time. It is not possible to determine loss exposure for a number of reasons, including, without limitation, one or more of the following: liability appears to be remote; putative class action lawsuits generally pose immaterial exposure until a class is actually certified, which, historically, has not been granted by courts in the vast majority of our cases in which class certification has been sought; class definitions are often indefinite and preclude detailed exposure analysis; and complaints rarely state an amount sought as relief, and when such amount is stated, it often is a function of pleading requirements and may be unrelated to the potential exposure.

We plan to contest these suits vigorously, but may pursue settlement negotiations in some cases, as we deem appropriate. In the event that any one or more of these cases results in a substantial judgment against, or settlement by, us or if our accruals (if any) prove to be inadequate, the resulting liability could have a material adverse effect on our consolidated financial condition, cash flows, and/or results of operations. Based on information currently known, we do not believe that the outcome of any pending cases described below will have a material impact on our consolidated financial condition, cash flows, and/or results of operations.

At December 31, 2019, pending lawsuits as described above that challenge certain of the operations of our subsidiaries included:

Lawsuits seeking class/collective action status:

- alleging we sell or charge insureds for illusory coverage or coverage lower than amounts allowed by law for personal injury protection (PIP) coverage and pay related claims at levels lower than allowed by law.
- challenging how physical damage claims are handled, adjusted, and ultimately paid, including how we value total loss claims, the payment of fees and taxes associated with total losses, and the payment of diminution damages.
- challenging our practice in Florida of adjusting PIP payments.
- challenging our assessment of fees.
- challenging our adjustment of medical bills submitted by insureds or medical providers in medical claims.
- challenging our payment and reimbursement practices to Medicare Advantage Plans on first party medical, PIP, and bodily injury claims.
- alleging we improperly sell secondary PIP coverage to Medicare and Medicaid beneficiaries in New Jersey.
- challenging our acceptance of uninsured motorist (UM) rejection.
- alleging we sell illusory underinsured motorist (UIM) coverage.
- alleging that we wrongly pursue subrogation of medical payments paid directly to providers and not to insureds.
- alleging that we must pay an insured the pre-loss actual cash value of a totaled vehicle in addition to the value of the salvage vehicle if we take ownership of the salvage vehicle.
- alleging legal malpractice by tort counsel appointed by and paid by Progressive to defend our insureds in civil cases.
- alleging that we improperly adjust property claims by depreciating labor costs.
- alleging that we improperly calculate basic economic loss as it relates to wage loss coverage in New York.
- alleging that we violated the Telephone Consumer Protection Act.
- challenging certain pay practices with respect to our non-exempt employee population.

Lawsuits certified or conditionally certified as class/collective actions:

- alleging that we undervalued total loss claims through the use of certain valuation tools.
- challenging the manner in which we grant a discount for anti-theft devices.
- alleging that we fail to pay overtime to certain employees who we classify as exempt from overtime pay requirements.
- challenging our compliance with certain provisions of the California Labor Code with respect to our non-exempt California employee population.

Individual lawsuits:

- challenging the estimation of physical damage and payment practices for physical damage repairs, and allegations of tortious interference with contract and insurance industry antitrust practice asserted by body shops outside our network program.
- claiming that we and other shareholders were overpaid for stock as part of a leveraged buy-out that preceded the entity's bankruptcy.
- claiming patent infringement.
- alleging that we are vicariously liable for the fraudulent acts of an agent.
- challenging, on a representative basis, certain of our pay practices.
- challenging various employment practices.

13. LEASES

At the beginning of 2019, we adopted the new lease accounting standard that requires operating leases be reported on the balance sheet, on a prospective basis (see *Note 1 – Reporting and Accounting Policies* for further discussion). Included in our consolidated balance sheet at December 31, 2019, are certain operating leases for office space, computer equipment, and vehicles that are reported as a component of other assets and accounts payable, accrued expenses, and other liabilities. The leased assets represent our right to use an underlying asset for the lease term and the lease liabilities represent our obligation to make lease payments arising from the lease. We use an incremental borrowing rate to calculate the present value of the remaining lease payments. At December 31, 2019, we had operating lease assets of $188.2 million and operating lease liabilities of $201.5 million.

At December 31, 2019, the following table shows our operating lease liabilities, on an undiscounted basis for the periods indicated, along with key inputs used to discount our lease liabilities:

(millions)		Commitments
2020	$	77.6
2021		64.3
2022		33.1
2023		18.5
2024		11.9
Thereafter		6.1
Total		211.5
Interest		(10.0)
Present value of lease liabilities	$	201.5
Weighted-average remaining term		3.3 years
Weighted-average discount rate		3.0%

We review each contract at inception to determine if it contains a lease and whether the lease qualifies as an operating or financing lease. Operating leases are expensed on a straight-line basis over the term of the lease. In determining the lease term, we consider the probability of exercising renewal options. We elected to account for leases with both lease and non-lease components as a single lease component and to apply a portfolio approach to account for our vehicle leases.

The operating lease expense for the years ended December 31, was as follows:

(millions)		Expense
2019	$	102.0
2018		77.3
2017		77.2

Prior to adopting the new lease accounting standard, we had certain noncancelable operating lease commitments with lease terms greater than one year for property and computer equipment. The minimum commitments under these agreements at December 31, 2018, were as follows:

(millions)		Commitments
2019	$	64.1
2020		65.5
2021		52.8
2022		24.3
2023		8.5
Thereafter		3.8
Total	$	219.0

14. DIVIDENDS

Following is a summary of our common and preferred share dividends that were declared and/or paid in the last three years:

(millions, except per share amounts)		Amount	
Declared	Payable	Per Share	Accrued[1]
Common - Annual Variable Dividends:			
December 2019	January 2020	$ 2.25	$ 1,316.9
December 2018	February 2019	2.5140	1,467.9
December 2017	February 2018	1.1247	655.1
December 2016	February 2017	0.6808	395.4
Common - Quarterly Dividends:			
December 2019	January 2020	0.10	58.5
August 2019	October 2019	0.10	58.5
May 2019	July 2019	0.10	58.4
February 2019	April 2019	0.10	58.4
Preferred Dividends:			
August 2019	September 2019	26.875	13.4
February 2019	March 2019	26.875	13.4
August 2018	September 2018	27.024	13.5

[1] The accrual is based on an estimate of shares outstanding as of the record date and is recorded as a component of accounts payable, accrued expenses, and other liabilities on the consolidated balance sheets.

Common Share Dividends
The Board of Directors adopted a policy of declaring regular quarterly common share dividends, and on at least an annual basis, to consider declaring an additional common share dividend, which was effective beginning in 2019.

During 2018 and 2017, we maintained a policy of paying an annual variable dividend. Under the policy, the dividend was based on a target percentage of 33-1/3%, as determined by the Board, of after-tax underwriting income multiplied by a performance factor (Gainshare factor). The Gainshare factor was 1.91 and 1.79 for the dividends declared in 2018 and 2017, respectively.

Preferred Share Dividends
In March 2018, we issued 500,000 Series B Fixed-to-Floating Rate Cumulative Perpetual Serial Preferred Shares, without par value (the “Series B Preferred Shares”), with a liquidation preference of $1,000 per share (the “stated amount”). Holders of the Series B Preferred Shares will be entitled to receive cumulative cash dividends semi-annually in March and September, if and when declared by the Board of Directors. Until March 15, 2023 (the “fixed-rate period”), the annual dividend rate is fixed at 5.375% of the stated amount per share. Beginning March 15, 2023, the annual dividend rate switches to a floating rate equal to the three-month London Interbank Offered Rate (LIBOR) (or comparable successor base rate) plus a spread of 2.539% applied to the stated amount per share. After the fixed-rate period and up until redemption of the Series B Preferred Shares, the dividends would be payable quarterly, if and when declared by the Board of Directors. The Series B Preferred Shares are perpetual and have no stated maturity date. After the fixed-rate period, we may redeem the Series B Preferred Shares at the stated amount plus all accrued and unpaid dividends.

15. REDEEMABLE NONCONTROLLING INTEREST

In connection with the April 2015 acquisition of a controlling interest in ARX, The Progressive Corporation entered into a stockholders’ agreement with the other ARX stockholders. Pursuant to the stockholders’ agreement, the minority ARX stockholders “put” a portion of their ARX shares to Progressive in 2018, and, as of December 31, 2019, had the right to put all of their remaining shares to Progressive in 2021. During 2018, minority ARX stockholders put 204,527 shares, including 5,483 shares that were issued upon the exercise of outstanding stock options. Progressive acquired these additional shares, in a cash transaction, for a total cost of $295.9 million. As of December 31, 2019, if ARX stockholders do not put all of their shares to Progressive in 2021 Progressive has the

ability to "call" all of the outstanding shares shortly thereafter and to bring its ownership stake to 100% in 2021. Progressive's purchase prices for shares, pursuant to these put or call rights, will be determined by adding (A) the price per share paid at the closing on April 1, 2015, to (B) the product of the change in the fully diluted net tangible book value per share of ARX between December 31, 2014, and December 31, 2020, times a multiple of between 1.0 and 2.0. The multiple will be determined based on the growth and profitability of ARX's business over the applicable time period, pursuant to criteria included in the stockholders' agreement. Among other provisions, the stockholders' agreement also prohibits ARX from taking a number of actions, including the payment of dividends, without the consent of The Progressive Corporation and one other stockholder.

Since these securities are redeemable upon the occurrence of an event that is not solely within the control of Progressive, we have recorded the redeemable noncontrolling interest (NCI) as mezzanine equity on our consolidated balance sheets, which represents the minority shares at the current estimated purchase price pursuant to the put and call provisions, calculated as described above, of the stockholders' agreement.

The redeemable noncontrolling interest was initially recorded at a fair value of $411.5 million, representing the minority shares at the net acquisition price adjusted for the fair value of the put and call rights. The value of the put and call rights on the acquisition date was based on an internally developed modified binomial model. Subsequent changes to the redeemable noncontrolling interest are based on the maximum redemption value at the end of the reporting period, as determined in accordance with the stockholders' agreement.

In addition to these minority shares, at December 31, 2019, ARX employees held options to purchase 10,438 ARX shares. These options and any shares issued upon exercise are subject to the stockholders' agreement, including the "put" and "call" rights described above. As the options are not exercised, the underlying obligation of approximately $16.0 million is not recorded as part of redeemable NCI.

The changes in the components of redeemable NCI during the years ended December 31, were:

(millions)	2019	2018	2017
Balance, beginning of year	$ 214.5	$ 503.7	$ 483.7
Net income attributable to NCI	9.7	5.7	5.9
Other comprehensive income (loss) attributable to NCI[1]	4.6	(3.3)	2.3
Exercise of stock options	7.7	9.4	3.4
Purchase/change of ARX minority shares	(11.2)	(298.2)	0
Change in redemption value	0.3	(2.8)	8.4
Balance, end of year	$ 225.6	$ 214.5	$ 503.7

[1] Amount represents the other comprehensive income (loss) attributable to NCI, as reflected on the consolidated statements of comprehensive income; changes in accumulated other comprehensive income (loss) attributable to NCI due to a change in the minority ownership percentage does not impact the amount of redeemable NCI.

In February 2020, Progressive and the minority ARX stockholders entered into an agreement requiring Progressive to purchase all remaining minority shares in the second quarter 2020. See *Note 17 – Subsequent Event* for further discussion.

16. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill recorded at December 31, 2019, and 2018, was $452.7 million. The majority of the goodwill recorded as of December 31, 2019, relates to the April 1, 2015, acquisition of a controlling interest in ARX. No impairment losses have been recorded on any of the outstanding goodwill.

Intangible Assets

The following table is a summary of the net carrying amount of other intangible assets as of December 31:

(millions)	2019	2018
Intangible assets subject to amortization	$ 215.9	$ 282.2
Indefinite-lived intangible assets[1]	12.4	12.4
Total	$ 228.3	$ 294.6

[1] Indefinite-lived intangible assets are comprised of state insurance and agent licenses. State insurance licenses were previously subject to amortization under superseded accounting guidance and have $0.6 million of accumulated amortization for both years presented.

Intangible assets subject to amortization for the years ended December 31, consisted of the following:

(millions)	2019			2018		
Category	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Policies in force	$ 256.2	$ 173.9	$ 82.3	$ 256.2	$ 137.3	$ 118.9
Agency relationships	159.2	54.0	105.2	159.2	42.6	116.6
Software rights	79.1	50.7	28.4	79.1	40.1	39.0
Trade name	34.8	34.8	0	34.8	27.1	7.7
Total	$ 529.3	$ 313.4	$ 215.9	$ 529.3	$ 247.1	$ 282.2

Amortization expense was $66.3 million, $72.0 million, and $66.2 million for the years ended December 31, 2019, 2018, and 2017, respectively. During 2017, we revised our estimate of the economic useful life of our trade name intangible asset from an original life of 10 years to a remaining life of 2 years. The decrease in the useful life reflected the transition of our branding for the Property business, from the ASI trade name to the Progressive brand. The majority of the intangible assets have finite lives, which, at December 31, 2019, had a remaining life range from 2 months to 9 years, with an average remaining life of 3.7 years.

The estimated aggregate amortization on these intangible assets for each of the next five years as of December 31, 2019, follows:

(millions) Year	Amortization Expense
2020	$ 56.9
2021	56.6
2022	29.2
2023	13.5
2024	11.4

17. SUBSEQUENT EVENT

In February 2020, Progressive and the minority ARX stockholders, including employees holding vested stock options, signed a stock purchase agreement requiring Progressive to acquire all outstanding shares and shares to be issued under outstanding stock options. This transaction, which is subject to normal closing conditions, would bring Progressive's ownership stake to 100% early in the second quarter of 2020, instead of 2021 as originally planned. The total cost of this transaction is estimated to be $242 million.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of The Progressive Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Progressive Corporation and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Loss and Loss Adjustment Expense Reserves

As described in Notes 1 and 6 to the consolidated financial statements, as of December 31, 2019, the Company reported a $18.1 billion loss and loss adjustment expense ("LAE") reserve liability of which 97% relate to Personal and Commercial Lines vehicle businesses. Reserves are based on estimates of ultimate liability for losses and LAE relating to events that occurred prior to the end of any given accounting period but have not yet been paid. Management establishes loss and LAE reserves after completing reviews at a disaggregated level of grouping. During a reserve review, ultimate loss amounts are estimated using several industry standard actuarial projection methods. These methods take into account historical comparable loss data at the subset level and estimate the impact of various loss development factors, such as the frequency (number of losses per earned car year), severity (dollars of loss per each claim), and average premium (dollars of premium per earned car year), as well as the frequency and severity of LAE costs.

The principal considerations for our determination that performing procedures relating to the valuation of loss and LAE reserves is a critical audit matter are (i) there was significant judgment by management when developing their estimate of loss and LAE reserves, which in turn led to a significant degree of auditor judgment and subjectivity in performing procedures relating to the valuation; (ii) there was significant auditor effort and judgment in evaluating audit evidence relating to the various actuarial projection methods, historical comparable loss data and aforementioned loss development factors; and (iii) the audit effort included the involvement of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the Company's valuation of loss and LAE reserves, including controls over the various projection methods and development of the loss development factors. These procedures also included, among others, testing the completeness and accuracy of historical data provided by management and the involvement of professionals with specialized skill and knowledge to assist in (i) independently estimating reserves for certain lines of businesses using actual historical comparable loss data, independently derived loss development factors, and industry data and comparing this independent estimate to management's actuarial determined reserves and (ii) evaluating the appropriateness of the actuarial methods and reasonableness of the loss development factors, including the aforementioned frequency, severity, and average premium as well as the frequency and severity of LAE costs, for determining the reserve balances for certain lines of businesses.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
March 2, 2020

We have served as the Company's auditor since 1984.

Management’s Report on Internal Control over Financial Reporting

Progressive’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control structure was designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control – Integrated Framework (2013),* management concluded that our internal control over financial reporting was effective as of December 31, 2019.

PricewaterhouseCoopers LLP, an independent registered public accounting firm that audited the financial statements included in this Annual Report, has audited, and issued an attestation report on the effectiveness of, our internal control over financial reporting as of December 31, 2019; such report appears herein.

CEO and CFO Certifications

Susan Patricia Griffith, President and Chief Executive Officer of The Progressive Corporation, and John P. Sauerland, Vice President and Chief Financial Officer of The Progressive Corporation, have issued the certifications required by Sections 302 and 906 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations with respect to Progressive’s 2019 Annual Report on Form 10-K, including the financial statements provided in this Report. Among other matters required to be included in those certifications, Mrs. Griffith and Mr. Sauerland have each certified that, to the best of their 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 Sections 302 and 906 certifications, respectively.

Our consolidated financial statements and the related notes, together with the supplemental information, should be read in conjunction with the following discussion and analysis of our consolidated financial condition and results of operations.

I. OVERVIEW

The Progressive insurance organization has been offering insurance to consumers since 1937. The Progressive Corporation is a holding company that does not have any revenue producing operations, physical property, or employees of its own. The Progressive Corporation, together with its insurance and non-insurance subsidiaries and affiliates, comprise what we refer to as Progressive.

We report three operating segments. Our Personal Lines segment writes insurance for personal autos and recreational vehicles (referred to as our special lines products). Our Commercial Lines segment offers auto-related primary liability and physical damage insurance, general liability insurance, and property insurance, predominately for small businesses. Lastly, our Property segment writes residential property insurance for homeowners, other property owners, and renters. We operate throughout the United States through both the independent agency and direct distribution channels. We are the third largest private passenger auto insurer in the country, the number one writer of commercial auto insurance, and one of the top 15 homeowners insurance carriers, in each case, based on premiums written.

Our underwriting operations, combined with our service and investment operations, make up the consolidated group.

A. Operating Results

We recognized strong growth in both premiums and policies in force in 2019 across all of our segments. On a year-over-year basis, net premiums written grew 15% to $37.6 billion and net premiums earned grew 17% to $36.2 billion, respectively. During the year, we generated $5.0 billion more in net premiums written than in 2018, reflecting both unit growth and an increase in average written premiums per policy. We had 22.4 million companywide policies in force at December 31, 2019, an increase of 10%, or 2.0 million policies, over the prior year.

On a year-over-year basis, net income and comprehensive income attributable to Progressive increased 52% and 76%, respectively. In addition to a 13% increase in underwriting income, we recognized a significant increase in net investment income and realized gains, compared to 2018.

Investment income, including interest and dividends, increased 27% on a year-over-year basis, primarily reflecting an increase in both average assets and portfolio yields. On a year-over-year basis, comprehensive income increased more than net income due to the recognition of net unrealized gains on our fixed-maturity securities during 2019, compared to net unrealized losses in the prior year, reflecting a decline in interest rates in nearly all sectors during the year, most notably in our U.S. Treasury, corporate, and commercial mortgage-backed portfolios.

The impairment losses for the year reflected write-downs on investments related to renewable energy tax credits, which are held outside of our investment portfolio and are reported in other assets. As a result of these investments, we also recorded $38.1 million of federal tax benefits in our income tax provision during 2019, which represented all of the expected tax benefits from these investments.

We ended 2019 with total capital (debt plus shareholders' equity) of $18.1 billion, $2.9 billion more than 2018. The year-over-year increase primarily reflects comprehensive income generated in 2019, in part offset by our quarterly and annual common share dividends of $1.6 billion declared during the year.

B. Insurance Operations

For 2019, our companywide underwriting profit margin was 9.1%, compared to 9.4% in 2018. Our Personal and Commercial Lines operating segments were profitable with underwriting margins of 9.5% and 10.4%, respectively, while our Property segment had an underwriting loss of 1.7% for the year, which included 4.3 points of amortization expense, predominately related to the acquisition of a controlling interest in ARX Holding Corp. ("ARX") in 2015. Our special lines products also had a profitable year, contributing a 0.7 point favorable impact on our total Personal Lines combined ratio.

During the year, on a companywide basis, we recognized 1.5 loss ratio points related to catastrophe losses, compared to 2.0 points in 2018. While the Personal Lines results benefited 0.2 points from the lower catastrophe losses this year, the Property business results saw more benefit from lower storm losses. In 2019, our Property business results included 13.8 points due to catastrophe losses, compared to 20.9 points last year. The majority of our catastrophe losses in 2019 were due primarily to wind and hail throughout the United States, whereas in 2018, in addition to severe storms in several states, we also incurred significant losses from Hurricane Michael.

The unfavorable prior accident year development we incurred in 2019 was 0.3 points greater than the unfavorable development recognized last year. Just over half of the development was in our Personal Lines business and primarily reflected increased injury severity, more reopened personal injury protection claims, and more late reported losses with increased severity. Our overall incurred severity in our personal auto businesses increased about 7%, while frequency decreased about 3%, compared to the prior year. Our Commercial Lines results included 1.9 points of unfavorable development primarily due to increased injury severity and increased late emerging losses, while our Property business had about a 0.8 point impact from unfavorable development in 2019.

On a year-over-year basis, net premiums written grew in each of our segments with Personal Lines growing 15%, Commercial Lines 20%, and Property 16%. Changes in net premiums written are a function of new business applications (i.e., policies sold), premium per policy, and retention. Policies in force grew 10% companywide, with Personal Lines, Commercial Lines, and Property growing 9%, 8%, and 14%, respectively.

During 2019, total new personal auto applications increased 8% on a year-over-year basis, including a 7% increase in our Agency auto business and a 9% increase in our Direct auto business. The increase in new applications was primarily attributable to our competitive product offerings and position in the marketplace, our increase in advertising expense during the year, and a focus on quoting system enhancements in the Agency auto channel. We will continue to spend on marketing when we believe it is an efficient use of our dollars. We continued to generate new business application growth in our bundled auto and home customers (i.e., Robinsons) in both the Agency and Direct channels. While we experienced solid year-over-year new application growth in our auto products, the rate of growth was lower than the significant growth we experienced in 2018. The slowdown in new application growth in part reflects competitors lowering rates in 2019, which contributed to less shopping during the year.

The increase in net premiums written in our Commercial Lines business in part reflects the expansion of our transportation network company business (TNC) during 2019. We added ten states on the Uber and Uber Eats platform and three states for Lyft’s rideshare operations. While the premium impact is significant, contributing about 4 points of the total Commercial Lines net premiums written growth for the year, the expansion did not impact application growth since we write only one TNC policy per period, per state. For our Commercial Lines business, new applications increased 11% for the year. This increase was primarily driven by increased quote volume and conversion. On average we modestly raised rates in 2019, while competitors also took rate increases, particularly in the second half of 2019 to respond to accelerating loss severity trends and unfavorable prior year loss development.

Our Property business new applications decreased 1% for the year. The decline primarily reflects the impact of targeted underwriting changes made in 2019 and the significant growth experienced in 2018. Throughout 2017 and the first half of 2018, we increased our state footprint and generated additional new applications in 2018 when an unaffiliated carrier non-renewed a large portion of their book of business and our new business applications were temporarily inflated as we wrote some of that business directly. During 2019, we expanded our direct Property offerings through investing resources to increase consumer awareness and maximize sales yield. HomeQuote Explorer® provides online quoting for homeowners shoppers on a nationwide basis and gives these shoppers the ability to buy directly online in 14 states at year end, with plans to roll out to additional states in 2020. We expect this to have a favorable impact on new application growth.

During 2019, on a year-over-year basis, written premium per policy increased 3% for our Agency auto and 2% for our Direct personal auto businesses, primarily due to a shift in the mix of business and an increase in insured vehicles per policy. We did not have any significant rate activity in 2019 in our Personal Lines business. In addition, for our Agency auto policies, part of the increase reflects an increase in the percentage of bundled Agency auto policies written for 12-month terms, which have higher written premiums than policies written for 6-month terms. Written premium per policy for our special lines products increased 3%, compared to the prior year.

Commercial Lines experienced an 8% increase in written premium per policy, which reflects a shift in our mix of businesses to higher premium products, which began in 2018 and continued into 2019, and modest rate increases. During 2019, we raised rates, on average, 1.4%.

For the Property business, written premium per policy increased 2%. We increased rates during 2019, across our Property products, but primarily on the homeowners product in hail-prone states. We will continue to adjust pricing and coverage requirements to ensure that we are adequately priced to cover expected losses from these severe convective storms.

To grow policies in force, it is critical that we retain our customers for longer periods. Consequently, increasing retention continues to be one of our most important priorities. Our efforts to increase our share of multi-product households remains a key initiative to support that goal. Policy life expectancy, which is our actuarial estimate of the average length of time that a policy will remain in force before cancellation or lapse in coverage, is our primary measure of customer retention in our Personal Lines and Commercial Lines businesses. Our trailing 12-month total

auto policy life expectancy and trailing 3-month total auto policy life expectancy, which does not address seasonality and can reflect more volatility, were both flat compared to last year. While our Agency auto trailing 12-month policy life expectancy was up 3% year over year, our Direct auto product retention decreased 3%. Our policy life expectancy increased 3% for special lines and decreased 2% for Commercial Lines. We remain focused on improving retention through increased rate stability and making investments to improve the customer experience.

C. Investments
The fair value of our investment portfolio was $39.3 billion at December 31, 2019, compared to $33.6 billion at December 31, 2018. On a year-over-year basis, our invested assets increased 17%. Over the last 12 months, the size of our portfolio grew as a result of significant cash inflows from growth and profitability of our insurance operations and investment portfolio returns. At December 31, 2019, 12% of our portfolio was allocated to Group I securities and 88% to Group II securities, compared to 14% and 86%, respectively, at December 31, 2018. Our asset allocation strategy is to maintain 0-25% of our portfolio in Group I securities, with the balance (75%-100%) of our portfolio in our Group II securities (the securities allocated to Group I and II are defined below under *Results of Operations – Investments*).

Our recurring investment income generated a pretax book yield of 3.1% for 2019, compared to 2.8% for 2018 and 2.4% for 2017. The increase in portfolio yields was a result of our decision to hold a short-duration portfolio, which allowed us to take advantage of opportunities to invest in higher yielding securities with cash from operations, portfolio maturities, and paydowns, and to slightly increase the portfolio duration. Our investment portfolio produced a fully taxable equivalent (FTE) total return, which includes tax adjusted investment income and both realized and changes in unrealized gains (losses) on securities, of 7.9% for 2019, compared to 1.2% for 2018. Our fixed-income and common stock portfolios had FTE total returns of 6.0% and 30.5%, respectively, for 2019, and 1.5% and (4.4)%, for 2018. We generated a positive return in the fixed-income portfolio this year as interest rates and risk premium pricing declined resulting in valuation increases of our securities and from interest income. The equity market recovered from a sharp fourth quarter 2018 decline, resulting in a significant positive equity return for the year.

At December 31, 2019, the fixed-income portfolio had a weighted average credit quality of AA and a duration of 3.0 years, compared to AA- and 2.8 years at December 31, 2018. We lengthened our portfolio duration modestly during the year. Even after lengthening, our duration remains below the mid-point of our range, which we are using as a means to limit a substantial decline in portfolio valuation from a significant increase in rates from current levels.

Based on uncertainty of whether the London Interbank Offered Rate (LIBOR) will continue to be available after 2021, we reviewed our portfolio and determined that at December 31, 2019, we held about $3.3 billion of securities that could be affected by the proposed LIBOR change (i.e., reset to a fixed rate from a LIBOR-based rate or change to a LIBOR-replacement rate). We currently have approximately $1.1 billion of securities in our preferred stock portfolio the terms of which we believe create the potential for price volatility should LIBOR no longer be available. We also hold asset-backed and corporate securities that have LIBOR exposure, but we believe these securities are unlikely to experience significant price volatility in connection with the change. We currently believe all of these securities provide adequate compensation for the risks associated with the possibility of LIBOR no longer being quoted or used in the calculation of their coupon rates. We continue to monitor ongoing discussions and updates to the planned migration and its potential effects on the LIBOR-linked securities in our portfolio. As of year-end 2019, we had no exposure to derivative investments linked to LIBOR.

II. FINANCIAL CONDITION

A. Liquidity and Capital Resources
The Progressive Corporation receives cash through subsidiary dividends, security sales, borrowings, and other transactions, and uses these funds to contribute to its subsidiaries (e.g., to support growth), to make payments to shareholders and debt holders (e.g., dividends and interest, respectively), and to repurchase its common shares and debt, as well as for acquisitions and other business purposes that might arise.

During 2019, The Progressive Corporation received cash dividends of $2.1 billion, net of capital contributions, from our insurance and non-insurance subsidiaries. There were no security sales or borrowings during the year.

The Progressive Corporation deployed capital through the following actions in 2019:

- Dividends
  - Common shares - declared aggregate dividends of $2.65 per common share, or $1.55 billion.
  - Preferred shares - declared aggregate Series B Preferred dividends of
$26.8 million.
- Share Repurchases - acquired 1.3 million of our common shares at a total cost of $91.3 million, primarily pursuant to our equity compensation plans and to neutralize dilution from equity-based compensation in the year of issuance as stated in our financial policies.

Over the last three years, The Progressive Corporation received dividends from its subsidiaries, net of capital contributions, of $3.7 billion, and issued $2.0 billion of senior notes and $500 million of our Series B Preferred Shares. Regulatory restrictions on subsidiary dividends are described in *Note 8 – Statutory Financial Information*. The covenants on The Progressive Corporation's existing debt securities do not include any rating or credit triggers that would require an adjustment of the interest rate or an acceleration of principal payments in the event that our debt securities are downgraded by a rating agency. While we have had an unsecured discretionary line of credit available to us during the last three years in the aggregate amount of $250 million, we did not borrow under these agreements, or engage in other short-term borrowings, during this period to fund our operations or for liquidity purposes.

In the aggregate for the last three years, we made the following payments:
- $2.7 billion for common and preferred share dividends;
- $0.7 billion to redeem outstanding debt; we have no debt that will mature during the next 12 months;
- $0.5 billion for interest on our outstanding debt;
- $0.3 billion to acquire additional shares and increase our ownership of ARX; and
- $0.2 billion to repurchase our common shares.

For the three years ended December 31, 2019, operations generated positive cash flows of about $16.3 billion, and cash flows are expected to remain positive in both the short-term and reasonably foreseeable future. In 2019, operating cash flows were fairly consistent with 2018. As of December 31, 2019, we held $15.0 billion in short-term investments and U.S. Treasury securities. Based on our portfolio allocation and investment strategies, we believe that we have sufficient readily available marketable securities to cover our claims payments in the event our cash flow from operations were to be negative. See Item 1A, "Risk Factors," in our 2019 Form 10-K filed with the Securities and Exchange Commission for a discussion of certain matters that may affect our portfolios and capital position.

Progressive's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. As primarily an auto insurer, our claims liabilities are generally short in duration. Typically, at any point in time, approximately 50% of our outstanding loss and LAE reserves are paid within the following twelve months and less than 20% are still outstanding after three years. See *Note 6 – Loss and Loss Adjustment Expense Reserves* for further information on the timing of claims payments.

Insurance companies are required to satisfy regulatory surplus and premiums written-to-surplus ratio requirements. As of December 31, 2019, our consolidated statutory surplus was $13.7 billion, compared to $11.6 billion at December 31, 2018. Our net premiums written-to-surplus ratio was 2.7 to 1 at year-end 2019, and 2.8 to 1 at year-end 2018 and 2017. At year-end 2019, we also had access to $3.2 billion of securities held in a non-insurance subsidiary, portions of which could be contributed to the capital of our insurance subsidiaries to support growth or for other purposes. In January 2020, we used $1.4 billion of available funds to pay the common share dividends declared by the Board in December 2019. See *Note 14 – Dividends* for further discussion of our dividend policy.

Insurance companies are also required to satisfy risk-based capital ratios. These ratios are determined by a series of dynamic surplus-related calculations required by the laws of various states that contain a variety of factors that are applied to financial balances based on the degree of certain risks (e.g., asset, credit, and underwriting). Our insurance subsidiaries' risk-based capital ratios are in excess of applicable minimum regulatory requirements. Nonetheless, the payment of dividends by our insurance subsidiaries are subject to certain limitations. See *Note 8 – Statutory Financial Information* for additional information on insurance subsidiary dividends and *Note 15 – Redeemable Noncontrolling Interest* for information on the dividend restriction under the ARX stockholders' agreement.

In accordance with the stockholder's agreement between the minority ARX stockholders and Progressive, the minority ARX stockholders have the right to "put" their remaining shares to Progressive in 2021, and Progressive has the ability to "call" all of the outstanding shares shortly thereafter. In February 2020, however, Progressive and the minority ARX stockholders signed a stock purchase agreement requiring Progressive to acquire all outstanding shares and the shares to be issued under outstanding stock options. This transaction, which is subject to normal closing conditions, would bring Progressive's ownership stake in ARX to 100% early in the second quarter of 2020, instead of 2021 as originally planned. We believe the acceleration of the ARX minority stock purchase will be mutually beneficial in our continued efforts to expand our reach and grow our bundled auto and home Robinsons

consumer segment. The total cost of this transaction is estimated to be $242 million. This transaction is expected to be funded with cash from operations. See *Note 15 – Redeemable Noncontrolling Interest* and *Note 17 – Subsequent Event* for further information.

We seek to deploy our capital in a prudent manner and use multiple data sources and modeling tools to estimate the frequency, severity, and correlation of identified exposures, including, but not limited to, catastrophic and other insured losses, natural disasters, and other significant business interruptions, to estimate our potential capital needs. Management views our capital position as consisting of three layers, each with a specific size and purpose:

- The first layer of capital, which we refer to as "regulatory capital," is the amount of capital we need to satisfy state insurance regulatory requirements and support our objective of writing all the business we can write and service, consistent with our underwriting discipline of achieving a combined ratio of 96 or better. This capital is held by our various insurance entities.

- The second layer of capital we call "extreme contingency." While our regulatory capital is, by definition, a cushion for absorbing financial consequences of adverse events, such as loss reserve development, litigation, weather catastrophes, and investment market corrections, we view that as a base and hold additional capital for even more extreme conditions. The modeling used to quantify capital needs for these conditions is extensive, including tens of thousands of simulations, representing our best estimates of such contingencies based on historical experience. This capital is held either at a non-insurance subsidiary of the holding company or in our insurance entities, where it is potentially eligible for a dividend up to the holding company.

- The third layer is capital in excess of the sum of the first two layers and provides maximum flexibility to fund other business opportunities, repurchase stock or other securities, satisfy acquisition-related commitments, and pay dividends to shareholders, among other purposes. This capital is largely held at a non-insurance subsidiary of the holding company.

At all times during the last two years, our total capital exceeded the sum of our regulatory capital layer plus our self-constructed extreme contingency layer. At December 31, 2019, we held total capital (debt plus shareholders' equity) of $18.1 billion, compared to $15.2 billion at December 31, 2018. Our debt-to-total capital (debt plus shareholders' equity, which does not include redeemable noncontrolling interest) ratios at December 31, 2019, 2018, and 2017 were 24.4%, 28.9%, and 26.3%, respectively, and were consistent with our financial policy of maintaining a ratio of less than 30%, which we target to meet annually.

Based upon our capital planning and forecasting efforts, we believe we have sufficient capital resources and cash flows from operations to support our current business, scheduled principal and interest payments on our debt, anticipated dividends on our common shares and Series B Preferred Shares, our contractual obligations, and other expected capital requirements for the foreseeable future. Nevertheless, we may determine to raise additional capital to take advantage of attractive terms in the market and provide additional financial flexibility. We have an effective shelf registration with the U.S. Securities and Exchange Commission so that we may periodically offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depositary shares, common stock, purchase contracts, warrants, and units. The shelf registration enables us to raise funds from the offering of any securities covered by the shelf registration as well as any combination thereof, subject to market conditions.

B. Commitments, Contingencies, and Other Off-Balance-Sheet Arrangements

Contractual Obligations

A summary of our noncancelable contractual obligations as of December 31, 2019, follows:

	Payments due by period				
(millions)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt	$ 4,450.0	$ 0	$ 500.0	$ 0	$ 3,950.0
Interest payments on debt	3,284.8	188.2	357.5	338.8	2,400.3
Operating lease obligations	211.5	77.6	97.4	30.4	6.1
Purchase obligations	857.0	722.8	125.3	8.8	0.1
Catastrophe excess of loss reinsurance contracts[1]	96.1	84.6	11.5	0	0
Loss and loss adjustment expense reserves	18,105.4	8,931.2	6,013.6	1,569.9	1,590.7
Total	$ 27,004.8	$ 10,004.4	$ 7,105.3	$ 1,947.9	$ 7,947.2

[1] Our Property business has several multiple-layer property catastrophe reinsurance contracts with various reinsurers with terms ranging from one to three years.

Purchase obligations represent our noncancelable commitments for goods and services (e.g., software licenses, maintenance on information technology equipment, and media placements). Unlike many other forms of contractual obligations, loss and LAE reserves do not have definitive due dates and the ultimate payment dates are subject to a number of variables and uncertainties. As a result, the total loss and LAE reserve payments to be made by period, as shown above, are estimates based on our recent payment patterns. To further understand our claims payments, see *Note 6 – Loss and Loss Adjustment Expense Reserves*.

Off-Balance-Sheet Arrangements

During 2019, our only off-balance-sheet leverage included purchase obligations and catastrophe excess of loss reinsurance contracts (see *Note 1 – Reporting and Accounting Policies* for further discussion). We did not have any open derivative positions or U.S. Treasury futures contracts at December 31, 2019 and 2018.

III. RESULTS OF OPERATIONS – UNDERWRITING

A. Segment Overview

We report our underwriting operations in three segments: Personal Lines, Commercial Lines, and Property. As a component of our Personal Lines segment, we report our Agency and Direct business results to provide further understanding of our products by distribution channel.

The following table shows the composition of our companywide net premiums written, by segment, for the years ended December 31:

	2019	2018	2017
Personal Lines			
Agency	41%	41%	43%
Direct	42	42	42
Total Personal Lines	83	83	85
Commercial Lines	13	12	11
Property	4	5	4
Total underwriting operations	100%	100%	100%

Our Personal Lines segment writes insurance for personal autos (which accounts for about 94% of the segment's net written premiums) and special lines products (e.g., motorcycles, watercraft, and RVs). While our personal auto policies are primarily written for 6-month terms, we have started writing 12-month auto policies in our Platinum Agencies to promote bundled auto and home growth. At year-end 2019, 10% of our Agency auto policies in force were 12-month policies, compared to about 8% a year earlier. While the shift to 12-month policies is slow, as our Agency new business application mix of annual policies grows, that shift in policy term could inflate our written premium mix by channel as 12-month policies naturally have about twice the amount of net premiums written compared to 6-month policies. The special lines products are written for 12-month terms.

Our Commercial Lines business writes auto-related primary liability and physical damage insurance, and other liability and property insurance, predominately for small businesses. The majority of our Commercial Lines business is written through the independent agency channel. The amount of business written through the direct channel continues to grow and represented about 14% of premiums written for 2019, compared to 12% and 9% for

2018 and 2017, respectively. About 90% of our policies are written for 12-month terms.

Our Property business writes residential property insurance for single family homes, condominium unit owners, renters, etc. We write the majority of our Property business through the independent agency channel; however, we continue to expand the distribution of our Property product offerings in the direct channel, which represented about 16% of premiums written for 2019, compared to 13% and 3% for 2018 and 2017, respectively. Property policies are written for 12-month terms. We write flood insurance primarily through the National Flood Insurance Program. While Florida and Texas remain the largest states for the Property business, comprising approximately 36% of the 2019 written premium volume, this concentration has decreased from 50% in 2015, which is when we acquired ARX, reflecting the expanding state footprint of our Property business.

B. Profitability

Profitability for our underwriting operations is defined by pretax underwriting profit, which is calculated as net premiums earned plus fees and other revenues less losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses. We also use underwriting margin, which is underwriting profit or loss expressed as a percentage of net premiums earned, to analyze our results. For the three years ended December 31, our underwriting profitability results were as follows:

	2019		2018		2017	
	Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)	
($ in millions)	**$**	**Margin**	**$**	**Margin**	**$**	**Margin**
Personal Lines						
Agency	$ 1,673.2	11.2 %	$ 1,435.7	11.0 %	$ 839.6	7.5%
Direct	1,181.4	7.7	1,088.5	8.4	683.7	6.3
Total Personal Lines	2,854.6	9.5	2,524.2	9.7	1,523.3	6.9
Commercial Lines	458.8	10.4	478.6	13.3	214.1	7.7
Property[1]	(26.1)	(1.7)	(88.7)	(6.9)	(50.3)	(5.1)
Other indemnity[2]	0	NM	0.9	NM	(0.2)	NM
Total underwriting operations	$ 3,287.3	9.1 %	$ 2,915.0	9.4 %	$ 1,686.9	6.6%

[1] During 2019, 2018, and 2017, pretax profit (loss) includes $66.3 million, $72.0 million, and $66.2 million, respectively, of amortization expense predominately associated with our 2015 acquisition of a controlling interest in ARX. Although this expense is included in our Property segment, it is not reported in the consolidated results of ARX and, therefore, does not affect the value of net income attributable to noncontrolling interest.

[2] Underwriting margins for our other indemnity businesses are not meaningful (NM) due to the low level of premiums earned by, and the variability of loss costs in, such businesses.

The underwriting profit margin was relatively consistent between 2019 and 2018, down only 0.3 points in the current year. The increase in the profit margin for 2018, compared to 2017, reflected decreased claims frequency and catastrophe losses, as well as higher earned premium per policy in both the Personal Lines and Commercial Lines businesses, as a result of increases in rates and shifts in the mix of business during 2018.

Underwriting results for our Personal Lines business, including results by distribution channel, the Commercial Lines business, the Property business, and our underwriting operations in total, as defined in *Note 10 – Segment Information*, were as follows:

Underwriting Performance[1]	**2019**	**2018**	**2017**
Personal Lines – Agency			
Loss & loss adjustment expense ratio	69.8	69.8	73.0
Underwriting expense ratio	19.0	19.2	19.5
Combined ratio	88.8	89.0	92.5
Personal Lines – Direct			
Loss & loss adjustment expense ratio	71.4	71.4	74.1
Underwriting expense ratio	20.9	20.2	19.6
Combined ratio	92.3	91.6	93.7
Total Personal Lines			
Loss & loss adjustment expense ratio	70.6	70.6	73.6
Underwriting expense ratio	19.9	19.7	19.5
Combined ratio	90.5	90.3	93.1
Commercial Lines			
Loss & loss adjustment expense ratio	68.5	66.3	70.3
Underwriting expense ratio	21.1	20.4	22.0
Combined ratio	89.6	86.7	92.3
Property			
Loss & loss adjustment expense ratio	71.2	72.8	70.8
Underwriting expense ratio[2]	30.5	34.1	34.3
Combined ratio[2]	101.7	106.9	105.1
Total Underwriting Operations			
Loss & loss adjustment expense ratio	70.4	70.2	73.1
Underwriting expense ratio	20.5	20.4	20.3
Combined ratio	90.9	90.6	93.4
Accident year – Loss & loss adjustment expense ratio[3]	69.8	69.9	73.0

[1] Ratios are expressed as a percentage of net premiums earned; fees and other revenues are deducted from underwriting expenses in the ratio calculations.

[2] Included in 2019, 2018, and 2017, are 4.3 points, 5.6 points, and 6.7 points, respectively, of amortization expense predominately associated with our 2015 acquisition of a controlling interest in ARX. Excluding this expense, the Property business would have reported expense ratios of 26.2, 28.5, and 27.6, and combined ratios of 97.4, 101.3, and 98.4, for 2019, 2018, and 2017, respectively.

[3] The accident year ratios include only the losses that occurred during the period noted. As a result, accident period results will change over time, either favorably or unfavorably, as we revise our estimates of loss costs when payments are made or reserves for that accident period are reviewed.

Losses and Loss Adjustment Expenses (LAE)

(millions)	2019	2018	2017
Change in net loss and LAE reserves	$ 2,065.1	$ 1,911.3	$ 1,349.8
Paid losses and LAE	23,405.4	19,809.7	17,458.2
Total incurred losses and LAE	$ 25,470.5	$ 21,721.0	$ 18,808.0

Claims costs, our most significant expense, represent payments made, and estimated future payments to be made, to or on behalf of our policyholders, including expenses needed to adjust or settle claims. Claims costs are a function of loss severity and frequency and, for our vehicle businesses, are influenced by inflation and driving patterns, among other factors, some of which are discussed below. In our Property business, severity is primarily a function of construction costs and the age of the structure. Accordingly, anticipated changes in these factors are taken into account when we establish premium rates and loss reserves. Loss reserves are estimates of future costs and our reserves are adjusted as underlying assumptions change and information develops. See *Critical Accounting Policies* for a discussion of the effect of changing estimates.

Our total loss and LAE ratio increased 0.2 points in 2019 and decreased 2.9 points in 2018, compared to the prior year. Our accident year loss and LAE ratio, which excludes the impact of prior accident year reserve development during each calendar year, decreased 0.1 points and 3.1 points in 2019 and 2018, respectively. Several factors that contributed to the year-over-year changes are discussed below and include the impact of catastrophe losses, changes in severity and frequency, and prior accident year reserve development.

We experienced severe weather conditions in several areas of the country during each of the last three years. Hail storms, tornadoes, wind, flooding, and hurricane activity contributed to catastrophe losses each year. The following table shows catastrophe losses incurred for the years ended December 31:

($ in millions)	2019	2018	2017
Personal Lines	$ 323.4	$ 326.2	$ 510.1
Commercial Lines	13.6	10.9	21.1
Property			
Property business, net of reinsurance (excluding ASL)	267.2	274.4	303.5
Reinsurance recoverable on ASL[1]	(52.7)	(5.6)	(4.2)
Property business, net	214.5	268.8	299.3
Total catastrophe losses incurred	$ 551.5	$ 605.9	$ 830.5
Combined ratio effect	1.5 pts.	2.0 pts.	3.2 pts.

[1] Represents the reinsurance recoverable recorded on the losses under our aggregate stop-loss agreement (ASL); see table below for further information.

The catastrophe losses in 2019 were primarily due to wind and hail throughout the United States. We have responded, and plan to continue to respond, promptly to catastrophic events when they occur in order to provide exemplary claims service to our customers.

We do not have catastrophe-specific reinsurance for our Personal Lines or Commercial Lines businesses, but we reinsure portions of our Property business against various risks, including, but not limited to, catastrophic losses.

During the last three years our Property business was covered by multi-year catastrophe excess of loss reinsurance programs, which carried retention thresholds for losses and ALAE from a single catastrophic event of $60 million for 2019 and 2018 and $50 million for 2017. It is expected that this reinsurance arrangement will be renewed during 2020 with an increase in the retention threshold to at least $70 million.

During 2019, our Property business gross losses and ALAE did not exceed the retention threshold for any single event under the catastrophe excess of loss program. In 2018 and 2017, we incurred gross losses and ALAE that exceeded the applicable retention threshold from Hurricanes Michael and Irma, respectively. As a result, through December 31, 2019, we ceded to reinsurers $160 million of these costs related to Hurricane Michael and $300 million related to Hurricane Irma, in the aggregate.

In addition, we have aggregate stop-loss reinsurance agreements (ASL), which are in effect for accident years 2019, 2018, and 2017, with substantially the same terms, except as noted below. These agreements cover accident year Property losses and a portion of LAE, known as allocated loss adjustment expenses (ALAE), except those from named storms (both hurricanes and tropical storms) and liability claims. As such, the ASL provides protection for losses and ALAE incurred by our Property business in the ordinary course, including those resulting from other

significant severe weather events, such as hail, tornadoes, etc. These agreements provide $200 million of coverage to the extent that the net loss and ALAE ratio for the full accident year exceeds 63%. The ASL reduced the likelihood that we would experience a net underwriting loss for the applicable accident year for reasons other than

recognize a reinsurance recoverable of $25 million under the second layer, representing the amount that our total losses of $400 million ($350 million of non-named and $50 million of named catastrophe losses) exceeded the $375 million retention threshold.

The following discussion of our severity and frequency trends in our personal auto businesses excludes comprehensive coverage because of its inherent volatility, as it is typically linked to catastrophic losses generally resulting from adverse weather. For our commercial auto products, the reported frequency and severity trends include comprehensive coverage. Comprehensive coverage insures against damage to a customer’s vehicle due to various causes other than collision, such as windstorm, hail, theft, falling objects, and glass breakage.

Total personal auto incurred severity (i.e., average cost per claim, including both paid losses and the change in case

named storms and liability claims.

The ASL agreement for 2019 accident year losses has an additional feature that covers $100 million of retained losses and ALAE from named storms, to the extent we are below the aggregate $200 million coverage. We ceded $12.2 million of 2019 named-storm losses and ALAE to

the reinsurers under this feature.

We did not have any covered losses that exceeded the threshold under the 2018 ASL agreement. The following table shows the total reinsurance recoverables activity, under the aggregate stop-loss agreements:

	Calendar Year	
(millions)	**2019**	**2018**
Reinsurance recoverable on ASL, balance at January 1	$ 12.5	$ 4.6
Reinsurance recoverables recognized on losses		
Accident year:		
2019	48.8	NA
2018	0	0
2017	3.9	5.6
Total	52.7	5.6
Reinsurance recoverables recognized on ALAE		
Accident year:		
2019	5.7	NA
2018	0	0
2017	(1.2)	2.3
Total	4.5	2.3
Total reinsurance recoverables recognized		
Accident year:		
2019	54.5	NA
2018	0	0
2017	2.7	7.9
Total	57.2	7.9
Reinsurance recoverable on ASL, balance at December 31	$ 69.7	$ 12.5

NA = Not applicable

We did not renew our ASL program for accident year 2020. Instead, we entered into a property catastrophe aggregate excess of loss program in January 2020. This agreement contains two layers, each with a retention threshold of $375 million. The first layer provides $130 million of coverage for catastrophe losses and ALAE, except those from named storms (both hurricanes and tropical storms). The second layer provides $60 million of coverage through May 31, 2020, and $70 million for the remainder of the year, for our retained losses and ALAE from both named and non-named storms. The first layer does not have to be exhausted before the second layer can be applied. For example, if we incur non-named catastrophe losses and ALAE of $350 million and named storm losses of $50 million, we would have no reinsurance coverage under the first layer since the non-named catastrophe losses did not exceed the retention threshold; however, we would

reserves) on a calendar-year basis was up over the prior-year periods in the 3% to 7% range for the last three years.

- 2019 - Severity increased about 8% for our bodily injury coverages, 7% for our personal injury protection (PIP) coverage, and 6% for our collision and property damage coverages.
- 2018 - Severity increased about 8% for our collision coverage, about 4% for our property damage and bodily injury coverages, and about 2% for our PIP coverage.
- 2017 - Severity increased about 5% for our property damage coverage, about 4% for our PIP coverage, and 2% for our bodily injury coverage, while collision coverage was flat.

On a calendar-year basis, our commercial auto products incurred severity increased 19% in 2019, compared to 10% in 2018 and 7% in 2017. In addition to general trends in the marketplace, the increase in our commercial auto products severity reflects increased medical costs and actuarially determined reserves due to paid loss trends and shifts in the mix of business to for-hire trucking, which has higher average severity than the business auto and contractor market tiers.

It is a challenge to estimate future severity, especially for bodily injury and PIP claims, but we continue to monitor changes in the underlying costs, such as medical costs, health care reform, and jury verdicts, along with regulatory changes and other factors that may affect severity.

in the projected frequency and severity trends, which allow them to adjust the reserves to reflect the current cost trends. For our Property business, 100% of catastrophe losses are reviewed monthly, and any development on catastrophe reserves are included as part of the actuarial adjustments. For the Personal Lines and Commercial Lines businesses, development for catastrophe losses for the vehicle businesses would be reflected in "all other

Our personal auto incurred frequency, on a calendar-year basis, was down about 3% in 2019, 2018, and 2017.

- 2019 - Frequency decreased 5% for our PIP coverage, 4% for our collision and property damage coverages, and 3% for our bodily injury coverages.
- 2018 - Frequency decreased about 3% for all coverages (PIP, collision, property damage, and bodily injury).
- 2017 - Frequency decreased about 5% for our PIP coverage, about 4% for our collision coverage, about 3% for our property damage coverage, and 2% for our bodily injury coverage.

On a year-over-year basis, incurred frequency in our Commercial Lines business saw a decrease of about 4% in 2019 and 3% in both 2018 and 2017. The 2019 frequency decrease was in part due to continued product segmentation and underwriting restrictions, which created a mix shift toward more preferred, lower-frequency, business.

We closely monitor the changes in frequency, but the degree or direction of near-term frequency change is not something that we are able to predict with any certainty. We analyze trends to distinguish changes in our experience from external factors, such as changes in the number of vehicles per household, miles driven, gasoline prices, advances in vehicle safety, and unemployment rates, versus those resulting from shifts in the mix of our business, to

allow us to reserve more accurately for our loss exposures.

The table below presents the actuarial adjustments implemented and the loss reserve development experienced on a
companywide basis in the years ended December 31:

($ in millions)	2019	2018	2017
ACTUARIAL ADJUSTMENTS			
Reserve decrease (increase)			
Prior accident years	$ (65.8)	$ (25.0)	$ 138.5
Current accident year	(120.4)	17.0	(19.8)
Calendar year actuarial adjustments	$ (186.2)	$ (8.0)	$ 118.7
PRIOR ACCIDENT YEARS DEVELOPMENT			
Favorable (unfavorable)			
Actuarial adjustments	$ (65.8)	$ (25.0)	$ 138.5
All other development	(166.5)	(63.5)	(164.4)
Total development	$ (232.3)	$ (88.5)	$ (25.9)
(Increase) decrease to calendar year combined ratio	) (0.6pts.	) (0.3pts.	) (0.1pts.

Total development consists of both actuarial adjustments and "all other development" on prior accident years. The actuarial adjustments represent the net changes made by our actuarial staff to both current and prior accident year reserves based on regularly scheduled reviews. Through these reviews, our actuaries identify and measure variances

development," discussed below, to the extent they relate to prior year reserves. We report these actuarial adjustments separately for the current and prior accident years to reflect these adjustments as part of the total prior accident years development.

“All other development” represents claims settling for more or less than reserved, emergence of unrecorded claims at rates different than anticipated in our incurred but not recorded (IBNR) reserves, and changes in reserve estimates on specific claims. Although we believe the development from both the actuarial adjustments and “all other development” generally results from the same factors, we are unable to quantify the portion of the reserve development that might be applicable to any one or more of those underlying factors.

Our objective is to establish case and IBNR reserves that are adequate to cover all loss costs, while incurring minimal variation from the date the reserves are initially established until losses are fully developed. As reflected in the table above, we experienced unfavorable prior year development during each of these years. For 2019, we incurred unfavorable reserve development primarily attributable to higher than anticipated claims occurring in late 2018 but not reported until 2019, a higher than anticipated frequency of reopened PIP claims in our personal auto business, and increased bodily injury severity. For 2018, we incurred unfavorable reserve development primarily due to reopened PIP claims in our personal auto business. For 2017, we incurred unfavorable reserve development in our Agency personal auto business, which was partially offset by favorable development in our Property business. See *Note 6 – Loss and Loss Adjustment Expense Reserves* for a more detailed discussion of our prior accident year development. We continue to focus on our loss reserve analysis, attempting to enhance accuracy and to further our understanding of our loss costs.

Underwriting Expenses

On a companywide basis, our total underwriting expenses increased 19% in 2019 and 21% in 2018; however, our underwriting expense ratio (i.e., policy acquisition costs plus other underwriting expenses, less fees and other revenues, expressed as a percentage of net premiums earned) were relatively flat, in part reflecting the increase in earned premiums we realized during the same periods.

On a year-over-year basis, our advertising expenditures increased 29% and 41% in 2019 and 2018, respectively. We will continue to invest in advertising as long as we generate sales at a cost below the maximum amount we are willing to spend to acquire a new customer.

C. Growth

For our underwriting operations, we analyze growth in terms of both premiums and policies. Net premiums written represent the premiums from policies written during the period less any premiums ceded to reinsurers. Net premiums earned, which are a function of the premiums written in the current and prior periods, are earned as revenue over the life of the policy using a daily earnings convention. Policies in force, our preferred measure of growth since it removes the variability due to rate changes or mix shifts, represent all policies under which coverage was in effect as of the end of the period specified.

For the years ended December 31,	2019		2018		2017	
($ in millions)	$	% Growth	$	% Growth	$	% Growth
NET PREMIUMS WRITTEN						
Personal Lines						
Agency	$ 15,336.5	13%	$ 13,562.3	16%	$ 11,685.4	16%
Direct	15,765.7	16	13,595.3	21	11,243.0	16
Total Personal Lines	31,102.2	15	27,157.6	18	22,928.4	16
Commercial Lines	4,791.8	20	3,996.4	28	3,112.7	20
Property	1,683.9	16	1,455.9	33	1,091.0	17
Total underwriting operations	$ 37,577.9	15%	$ 32,609.9	20%	$ 27,132.1	16%
NET PREMIUMS EARNED						
Personal Lines						
Agency	$ 14,904.1	14%	$ 13,017.2	16%	$ 11,177.6	14%
Direct	15,305.9	18	13,017.5	21	10,769.6	15
Total Personal Lines	30,210.0	16	26,034.7	19	21,947.2	14
Commercial Lines	4,427.6	23	3,610.9	29	2,793.9	15
Property	1,554.8	21	1,287.7	30	988.8	14
Total underwriting operations	$ 36,192.4	17%	$ 30,933.3	20%	$ 25,729.9	14%

December 31,	2019		2018		2017	
(# in thousands)	#	% Growth	#	% Growth	#	% Growth
POLICIES IN FORCE						
Agency auto	6,994.3	10%	6,358.3	12%	5,670.7	12%
Direct auto	7,866.5	12	7,018.5	16	6,039.1	13
Total auto	14,860.8	11	13,376.8	14	11,709.8	13
Special lines[1]	4,547.8	4	4,382.2	0	4,365.7	2
Personal Lines - total	19,408.6	9	17,759.0	10	16,075.5	10
Commercial Lines	751.4	8	696.9	8	646.8	6
Property	2,202.1	14	1,936.5	32	1,461.7	22
Companywide total	22,362.1	10%	20,392.4	12%	18,184.0	10%

[1] Includes insurance for motorcycles, watercraft, RVs, and similar items.

At year-end 2019, we had 2.0 million more policies in force than the year-ended 2018. The increase primarily reflects an increase in new applications (i.e., policies sold) in our Personal Lines and Commercial Lines businesses.

Although new policies are necessary to maintain a growing book of business, we continue to recognize the importance of retaining our current customers as a critical component of our continued growth. As shown in the tables below, we measure retention by policy life expectancy. We disclose our changes in policy life expectancy using a trailing 12-month period, since we believe this measure is indicative of recent experience, mitigates the effects of month-to-month variability, and addresses seasonality. We also review our customer retention for our personal auto products using a trailing 3-month period. Although using a trailing 3-month measure does not address seasonality and can reflect more volatility, this measure is more responsive to current experience and can be an indicator of how our retention rates are moving.

To analyze growth, we review new policies, rate levels, and the retention characteristics of our segments.

D. Personal Lines

The following table shows our year-over-year changes for our Personal Lines business:

	Growth Over Prior Year		
	2019	2018	2017
Applications			
New	8%	17 %	15%
Renewal	13	11	7
Written premium per policy - Auto	2	4	5
Policy life expectancy - Auto			
Trailing 3-months	0	(4)	12
Trailing 12-months	0	3	7

In our Personal Lines business, the increase in both new and renewal applications during 2019 resulted from increases in both our personal auto and special lines products. Beginning at the end of 2018 and continuing through much of 2019, rate increases in the private passenger auto insurance marketplace slowed, which reduced consumer shopping and created a more challenging growth environment than during recent years. We focused our efforts in the Agency channel on quoting system enhancements and in the Direct channel we increased our advertising spend. While overall quote volumes were flat, new policy growth resulted from a year-over-year increase in our rate of conversion (i.e., converting a quote to a sale), evidencing our ability to better meet the needs of end consumers.

Shifts in business mix to products and consumer segments with higher premiums and an increase in insured vehicles per policy, contributed to the increase we experienced in written premium per policy for 2019. For the year ended December 31, 2019, written premium per policy increased 3% and 2% in the new and renewal auto businesses, respectively, compared to 2018. Although we did not experience lengthening in policy life expectancy on either a 3-month or 12-month basis in 2019 compared to 2018, we continue to focus our efforts to improve the customer experience through many of our Destination Era initiatives, which we believe will ultimately have a positive impact on our retention.

We report our Agency and Direct business results separately as components of our Personal Lines segment to provide further understanding of our products by distribution channel.

The Agency Business

	Growth Over Prior Year		
	2019	2018	2017
Applications - Auto			
New	7%	14 %	21%
Renewal	12	12	7
Written premium per policy - Auto	3	5	6
Policy life expectancy - Auto			
Trailing 3-months	4	(2)	14
Trailing 12-months	3	4	8

The Agency business includes business written by more than 35,000 independent insurance agencies that represent Progressive, as well as brokerages in New York and California. During 2019, we generated new Agency auto application growth in 34 states, including five of our top 10 largest Agency states. We analyze growth in each of our four consumers segments (e.g., inconsistently insured, consistently insured and maybe a renter, homeowners who do not bundle auto and home, and homeowners who bundle auto and home). We experienced double-digit new auto application growth on a year-over-year basis in each of our consumer segments except our inconsistently insured segment (i.e., Sams), which experienced a modest decrease in applications. The largest percentage of new application increases were from our non-bundled homeowner (i.e., Wrights) and bundled auto and home consumer segments (i.e., Robinsons).

While quote volume was flat during 2019, we experienced an increase in quotes in all of our consumer segments except, our Sam segment, where we saw a single digit decline in quotes. Growth in our Robinson segment was a result of expanding our Platinum agent footprint by 12% and implementing our Integrated Agency Quoting system, which provides a faster, more intuitive system to quote multiple products.

Our overall rate of conversion increased 7% and was up substantially across our Agency quoting systems. The increased rate of conversion confirms that our product offering in the Agency channel continues to meet agents' and their clients' needs.

Written premium per policy for new and renewal Agency auto business increased 4% and 2%, respectively, during 2019, compared to last year, primarily reflecting a shift in the mix of business toward higher premium coverages and more vehicles per policy. During the year, we also experienced an increase in the percentage of bundled Agency auto policies written for 12-month terms, which have higher written premiums than policies written for 6-month terms. In 2019, we started to see improvement in our 3-month retention metric and also continued to see our 12-month retention metric improve, resulting from the shift in the mix of business.

The Direct Business

	Growth Over Prior Year		
	2019	2018	2017
Applications - Auto			
New	9 %	25 %	16%
Renewal	17	15	9
Written premium per policy - Auto	2	4	5
Policy life expectancy - Auto			
Trailing 3-months	(3)	(5)	10
Trailing 12-months	(3)	1	4

The Direct business includes business written directly by Progressive on the Internet, through mobile devices, and over the phone. During 2019, we generated new Direct auto application growth in 40 states, including seven of our top 10 largest Direct states. New and renewal applications increased on a year-over-year basis, primarily reflecting our competitiveness in the marketplace.

We continued to grow our new Direct auto applications across all consumer segments. As a result of the marketing investments that targeted auto/home bundlers, we grew our Direct Robinsons applications at a rate about two and half times faster than the other consumer segments combined, albeit on a smaller base. We continue to invest to enhance the performance of the HomeQuote Explorer® (HQX) application, our direct online homeowner insurance shopping experience launched in 2017, by adding more unaffiliated property insurance company partners and expanding the availability of the online buy button, which was available in 14 states at December 31, 2019.

Similar to Agency, our Direct auto quote growth varied across consumer segments. Our total year-over-year Direct quote volume increase of 3%, with a conversion rate growth of 6%.

Written premium per policy for both new and renewal Direct auto business increased 2% during 2019, compared to last year, primarily reflecting a shift in the mix of business toward higher premium coverages and more vehicles per policy. We continue to focus our efforts on retention, especially given the year-over-year decrease in both the trailing 3-month and trailing 12-month policy life expectancy.

E. Commercial Lines

	Growth Over Prior Year		
	2019	2018	2017
Applications			
New	11 %	12%	1 %
Renewal	9	6	8
Written premium per policy	8	14	12
Policy life expectancy - trailing 12-months	(2)	1	(4)

Our Commercial Lines business operates in five traditional business markets, which include business auto, for-hire transportation, contractor, for-hire specialty, and tow markets and is primarily written through the agency channel.

Commercial Lines experienced solid year-over-year new application growth in 2019, reflecting an increase in both quote volume and conversion, a generally strong economy, and our competitiveness in the marketplace. We continue to monitor the growth and profitability across all of our business market targets and will impose underwriting restrictions when we believe it is necessary to meet our profitability objectives. Our policy life expectancy decreased slightly, primarily attributable to the prior year underwriting restrictions and a shift to business market targets with lower policy life expectancy.

During the year, we expanded our footprint in the transportation network company (TNC) business. We added 10 additional states where we insure drivers on the Uber and Uber Eats platforms, bringing the total number of states to 14 at year-end 2019, and began providing coverage for Lyft's rideshare operations in three states. In addition to our growing TNC business, we continue to believe we are well positioned to offer competitive rates to the best owners/operators and small fleets through Smart Haul®, our predictive usage-based insurance program for our for-hire transportation policyholders. During 2019, we also launched our business owners policy (BOP), geared specifically to small businesses typically with fewer than 20 employees, in four states and plan to expand to additional states in 2020. We also plan to add our BOP product to our digital BusinessQuote Explorer® platform later in 2020 to serve the direct small business consumer.

F. Property

	Growth Over Prior Year		
	2019	2018	2017
Applications			
New	(1)%	53 %	48 %
Renewal	22	25	16
Written premium per policy	2	(3)	(5)

Our Property business writes residential property insurance for homeowners, other property owners, and renters, in the agency and direct channels. During 2019, the Property business experienced a decrease in new applications, primarily reflecting the significant growth experienced in 2018 and the impact of targeted underwriting changes made primarily in hail-prone states during the year. The significant growth in new applications during 2018 and 2017 was largely attributable to state expansion, more competitive product offerings, momentum in growing Robinsons through our Platinum agency offering, and business we began writing through our in-house agency when an unaffiliated carrier stopped offering homeowners' insurance during 2018.

Our Property business experienced a slight increase in written premium per policy on a year-over-year basis, primarily attributable to rate increases taken throughout 2018 and 2019. We will continue to increase rates where needed to get us in line with our profitability target.

Our Property growth continues to benefit from HQX. During 2018, we began offering the ability to buy certain of our homeowners policies online through the HQX platform and the online buy button functionality is now available in 14 states, with plans to continue to expand over time.

G. Litigation

The Progressive Corporation and/or its insurance subsidiaries are named as defendants in various lawsuits arising out of claims made under insurance policies issued by its subsidiaries in the ordinary course of business. We consider all legal actions relating to such claims in establishing our loss and loss adjustment expense reserves.

In addition, various Progressive entities are named as defendants in a number of alleged class/collective/representative actions or individual lawsuits arising out of the operations of the insurance subsidiaries. These cases include those alleging damages as a result of, among other things, our practices in evaluating or paying medical or injury claims or benefits, including, but not limited to, personal injury protection, medical payments, uninsured motorist/underinsured motorist (UM/UIM), and bodily injury benefits, and for reimbursing medical costs incurred by Medicare/Medicaid beneficiaries; our practices in evaluating or paying physical damage claims, including, but not limited to, our payment of total loss claims and labor rates paid to auto body repair shops; patent matters; employment matters; and cases challenging other aspects of our claims or marketing practices or other business operations. Other insurance companies and/or large employers face many of these same issues. During the last three years, we have settled several class/collective action and individual lawsuits. These settlements did not have a material effect on our financial condition, cash flows, or results of operations. See *Note 12 – Litigation* for a more detailed discussion.

H. Income Taxes

At December 31, 2019 and 2018, we had net current income taxes payable of $195.5 million and $16.8 million, respectively, which were reported as part of "other liabilities." The increase in 2019 primarily results from the reversal of tax credits for prior years. In late December 2018 and during the first two months of 2019, we learned of allegations of potential fraudulent conduct by the sponsor of three tax credit fund investments we made from 2016 through 2018, including information about ongoing federal investigations. As a result, during 2019, we increased our provision for income taxes by $163.2 million and made protective deposits of $152.1 million during 2019. In early 2020, the principals of the sponsor and various other individuals have pleaded guilty to federal criminal charges relating to the fraudulent tax credit funds. See *Note 5 – Income Taxes* for further information.

A deferred tax asset or liability is a tax benefit or expense that is expected to be realized in a future tax return. At December 31, 2019, we reported a net deferred tax liability, and a net deferred tax asset at December 31, 2018. The change from a net deferred asset to a net deferred liability during the year was primarily attributable to equity net holding period gains and unrealized gains on fixed-income securities during the year, offset by a reduction in deferred tax liabilities related to the tax credit partnership investments. We determined that we did not need a valuation allowance on our gross deferred tax assets for either year. Although realization of the gross deferred tax assets is not assured, management believes it is more likely than not that the gross deferred tax assets will be realized based on our expectation we will be able to fully utilize the deductions that are ultimately recognized for tax purposes.

Our effective tax rate was 23% for 2019, compared to 17% and 25% for 2018 and 2017, respectively. The increase in the effective rate during 2019, compared to 2018, was primarily attributable to the reversal of prior year tax credits discussed above. The decrease in the effective rate during 2018, compared to 2017, primarily reflects the reduction in the federal corporate income tax rate to 21%, from the prior 35%, under the legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"). The effective rate in 2019, 2018, and 2017 also reflects $38.1 million, $71.0 million, $48.7 million, respectively, of federal tax benefits resulting from our investments in renewable energy; all of the tax benefits from these investments were recorded in our income tax provision during 2019, 2018, and 2017, respectively.

Consistent with prior years, we had no uncertain tax positions. See *Note 5 – Income Taxes* for further information.

IV. RESULTS OF OPERATIONS – INVESTMENTS

A. Portfolio Summary

At year-end 2019, the fair value of our investment portfolio was $39.3 billion, or $5.7 billion greater than year-end 2018. The increase during the year was due to a combination of operating and investment returns, partially offset by our use of capital during the year for debt servicing and shareholder dividends.

Our investment income (interest and dividends) increased 27% in 2019, 46% in 2018, and 18% in 2017, as compared to the prior years, reflecting higher average assets and yields in all three periods. Our total net realized gains (losses) include gains (losses) from security sales, holding period gain (losses), and impairment losses. We began recognizing holding period gains (losses) on our equity securities in 2018 upon a change in an accounting standard. Previously, these net gains (losses) were included as part of our comprehensive income. This change in classification created, and is expected to continue to create, volatility in our income statement as evidenced by the large holding periods gains in 2019, compared to large losses in 2018. For 2019 and 2018, the impairment losses solely related to "other asset" impairments on renewable energy tax credit fund investments. In 2017, in addition to the other asset impairment, we had $14.9 million of other than temporary impairments on our common equity and commercial mortgage-backed securities.

B. Investment Results

Our management philosophy governing the portfolio is to evaluate investment results on a total return basis. The fully taxable equivalent (FTE) total return includes recurring investment income, adjusted to a fully taxable amount for certain securities that receive preferential tax treatment (e.g., municipal securities), and total net realized, and changes in total unrealized, gains (losses) on securities.

The following summarizes investment results for the years ended December 31:

	2019	2018	2017
Pretax recurring investment book yield	3.1%	2.8 %	2.4%
Weighted average FTE book yield	3.1	2.9	2.6
FTE total return:			
Fixed-income securities	6.0	1.5	3.0
Common stocks	30.5	(4.4)	21.8
Total portfolio	7.9	1.2	5.2

Our fixed-income portfolio duration was 3.0 years at December 31, 2019, which is up slightly from last year. We generated a positive return in the fixed-income portfolio throughout 2019 as interest rates and risk premium pricing declined resulting in valuation increases of our securities.

Following significant declines in the equity markets, and our equity portfolios, during the second half of 2018, we began realizing positive equity returns during 2019, as the equity markets rebounded. Our indexed portfolio return was in line with the overall market, while our actively managed portfolio lagged the overall market for the year ended December 31, 2019. We discontinued the actively managed equity portfolio by year-end 2019.

A further break-down of our FTE total returns for our portfolio for the years ended December 31, follows:

	2019	2018	2017
Fixed-income securities:			
U.S. Treasury Notes	4.9%	1.3 %	1.2%
Municipal bonds	5.5	2.3	4.9
Corporate bonds	8.9	1.0	3.0
Residential mortgage-backed securities	3.3	2.7	4.7
Commercial mortgage-backed securities	6.2	2.1	4.0
Other asset-backed securities	3.4	2.2	1.8
Preferred stocks	13.8	(1.9)	12.9
Short-term investments	2.4	2.0	1.2
Common stocks:			
Indexed	31.0	(4.1)	22.7
Actively managed	22.6	(8.5)	7.8

C. Portfolio Allocation

The composition of the investment portfolio at December 31, was:

($ in millions)	Fair Value	% of Total Portfolio	Duration (years)	Rating[1]
2019				
U.S. government obligations	$ 13,251.1	33.7%	4.9	AAA
State and local government obligations	1,713.3	4.4	3.1	AA+
Corporate debt securities	7,067.7	18.0	2.7	BBB
Residential mortgage-backed securities	627.5	1.6	0.9	AA
Commercial mortgage-backed securities	5,076.2	12.9	2.0	AA
Other asset-backed securities	5,179.5	13.2	0.8	AAA-
Preferred stocks	1,233.9	3.2	2.6	BBB-
Short-term investments	1,798.8	4.6	0.1	AA-
Total fixed-income securities	35,948.0	91.6	3.0	AA
Common equities	3,306.3	8.4	na	na
Total portfolio[2,3]	$ 39,254.3	100.0%	3.0	AA
2018				
U.S. government obligations	$ 9,916.5	29.5%	3.6	AAA
State and local government obligations	1,649.1	4.9	2.9	AA+
Corporate debt securities	8,694.3	25.9	3.3	BBB
Residential mortgage-backed securities	734.4	2.2	1.0	AA-
Commercial mortgage-backed securities	3,301.6	9.8	2.7	AA-
Other asset-backed securities	3,577.3	10.7	1.0	AA+
Preferred stocks	1,272.2	3.8	2.4	BBB-
Short-term investments	1,795.9	5.4	0.1	AA
Total fixed-income securities	30,941.3	92.2	2.8	AA-
Common equities	2,626.1	7.8	na	na
Total portfolio[2,3]	$ 33,567.4	100.0%	2.8	AA-

na = not applicable

[1] Represents ratings at December 31, 2019 and 2018. Credit quality ratings are assigned by nationally recognized statistical rating organizations. To calculate the weighted average credit quality ratings, we weight individual securities based on fair value and assign a numeric score of 0-5, with non-investment-grade and non-rated securities assigned a score of 0-1. To the extent the weighted average of the ratings falls between AAA and AA+, we assign an internal rating of AAA-.

[2] Our portfolio reflects the effect of net unsettled security transactions; at December 31, 2019, $11.9 million was included in “other liabilities,” compared to $5.9 million at December 31, 2018.

[3] The total fair value of the portfolio at December 31, 2019 and 2018, included $3.2 billion and $2.9 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

Our asset allocation strategy is to maintain 0-25% of our portfolio in Group I securities, with the balance (75%-100%) of our portfolio in Group II securities.

We define Group I securities to include:

- common equities,
- nonredeemable preferred stocks,
- redeemable preferred stocks, except for 50% of investment-grade redeemable preferred stocks with cumulative dividends, which are included in Group II, and
- all other non-investment-grade fixed-maturity securities.

Group II securities include:

- short-term securities, and
- all other fixed-maturity securities, including 50% of investment-grade redeemable preferred stocks with cumulative dividends.

We believe this asset allocation strategy allows us to appropriately assess the risks associated with these securities for capital purposes and is in line with the treatment by our regulators.

The following table shows the composition of our Group I and Group II securities at December 31:

($ in millions)	2019 Fair Value	2019 % of Total Portfolio	2018 Fair Value	2018 % of Total Portfolio
Group I securities:				
Non-investment-grade fixed maturities	$ 327.2	0.8%	$ 754.8	2.2%
Redeemable preferred stocks[1]	117.6	0.3	154.1	0.5
Nonredeemable preferred stocks	1,038.9	2.7	1,033.9	3.1
Common equities	3,306.3	8.4	2,626.1	7.8
Total Group I securities	4,790.0	12.2	4,568.9	13.6
Group II securities:				
Other fixed maturities[2]	32,665.5	83.2	27,202.6	81.0
Short-term investments	1,798.8	4.6	1,795.9	5.4
Total Group II securities	34,464.3	87.8	28,998.5	86.4
Total portfolio	$ 39,254.3	100.0%	$ 33,567.4	100.0%

[1] Includes non-investment-grade redeemable preferred stocks of $40.2 million and $69.9 million at December 31, 2019 and 2018, respectively.
[2] Includes investment-grade redeemable preferred stocks, with cumulative dividends, of $77.4 million and $84.2 million at December 31, 2019 and 2018, respectively.

To determine the allocation between Group I and Group II, we use the credit ratings from models provided by the National Association of Insurance Commissioners (NAIC) for classifying our residential and commercial mortgage-backed securities, excluding interest-only securities, and the credit ratings from nationally recognized statistical rating organizations (NRSROs) for all other debt securities. NAIC ratings are based on a model that considers the book price of our securities when assessing the probability of future losses in assigning a credit rating. As a result, NAIC ratings can vary from credit ratings issued by NRSROs. Management believes NAIC ratings more accurately reflect our risk profile when determining the asset allocation between Group I and II securities.

Unrealized Gains and Losses
As of December 31, 2019, our fixed-maturity portfolio had pretax net unrealized gains, recorded as part of accumulated other comprehensive income, of $459.4 million, compared to $134.2 million of net unrealized losses at December 31, 2018. The change from net unrealized losses in 2018 to net unrealized gains at December 31, 2019, was the result of declining interest rates in nearly all sectors during the year, most notably in our U.S. Treasury, corporate, and commercial mortgage-backed portfolios.

See *Note 2 – Investments* for further details on our gross unrealized gains and losses.

Holding Period Gains and Losses
The following table provides the gross and net holding period gain (loss) balance and activity during 2019:

(millions)	Gross Holding Period Gains	Gross Holding Period Losses	Net Holding Period Gains (Losses)
Balance at December 31, 2018			
Hybrid fixed-maturity securities	$ 0.1	$ (10.3)	$ (10.2)
Equity securities	1,568.7	(60.2)	1,508.5
Total holding period securities	1,568.8	(70.5)	1,498.3
Current year change in holding period securities			
Hybrid fixed-maturity securities	7.7	10.3	18.0
Equity securities	695.2	44.7	739.9
Total changes in holding period securities	702.9	55.0	757.9
Balance at December 31, 2019			
Hybrid fixed-maturity securities	7.8	0	7.8
Equity securities	2,263.9	(15.5)	2,248.4
Total holding period securities	$ 2,271.7	$ (15.5)	$ 2,256.2

Changes in holding period gains (losses), similar to unrealized gains (losses) in our fixed-maturity portfolio, are the result of changes in market performance as well as sales of securities based on various portfolio management decisions.

Other-Than-Temporary Impairment (OTTI)
For 2019, 2018, and 2017, included in net realized losses were impairment losses related to our investments in renewable energy investments, under which the future pretax cash flows were expected to be less than the carrying value of the asset. The impairment losses on these renewable energy investments were anticipated since the value of the investments lie in the tax benefits we receive. In addition, in 2017, we recognized OTTI losses on our common equities and commercial mortgage-backed securities of $14.5 million and $0.4 million, respectively, based on our conclusions that the losses on these securities were other than temporary.

Beginning in 2020, we started analyzing our available-for-sale debt securities in accordance with the new accounting guidance, to determine if the existence of any credit-related impairment losses would require us to establish an allowance for credit losses. See *Note 1 – Reporting and Accounting Policies; New Accounting Standards* for further discussion.

Fixed-Income Securities
The fixed-income portfolio is managed internally and includes fixed-maturity securities, short-term investments, and nonredeemable preferred stocks. A primary exposure for the fixed-income portfolio is interest rate risk, which includes the change in value resulting from movements in the underlying market rates of debt securities held. We manage this risk by maintaining the portfolio's duration (a measure of the portfolio's exposure to changes in interest rates) between 1.5 and 5 years. The duration of the fixed-income portfolio was 3.0 years at December 31, 2019, compared to 2.8 years at December 31, 2018. The distribution of duration and convexity (i.e., a measure of the speed at which the duration of a security is expected to change based on a rise or fall in interest rates) is monitored on a regular basis.

The duration distribution of our fixed-income portfolio, excluding short-term investments, represented by the interest rate sensitivity of the comparable benchmark U.S. Treasury Notes, at December 31, was:

Duration Distribution	2019	2018
1 year	23.9%	19.4 %
2 years	11.8	17.0
3 years	20.6	27.0
5 years	23.1	22.8
7 years	15.1	10.4
10 years	5.5	3.5
20 years	0	(0.1)
Total fixed-income portfolio	100.0%	100.0 %

The negative duration in the 20-year category at December 31, 2018, arose from the variable rate nature of the dividends on some of our preferred stocks. If not called at their call dates, the dividends on these securities will generally reset from a fixed rate to a floating rate, which could cause these securities to trade at a discount and, therefore, with a negative duration as the securities' valuation will likely rise if the floating rate moves higher.

Another primary exposure related to the fixed-income portfolio is credit risk. This risk is managed by maintaining an A+ minimum average portfolio credit quality rating, as defined by NRSROs. Our credit quality rating was above the minimum threshold during both 2019 and 2018.

The credit quality distribution of the fixed-income portfolio at December 31, was:

Rating	2019	2018
AAA	60.8%	50.5%
AA	9.9	10.8
A	7.9	8.4
BBB	19.5	25.9
Non-investment grade/non-rated:[1]		
BB	1.4	3.0
B	0.3	1.1
CCC and lower	0	0.1
Non-rated	0.2	0.2
Total fixed-income portfolio	100.0%	100.0%

[1] The ratings in the table above are assigned by NRSROs. The non-investment grade fixed-income securities based upon our Group I classification represented 1.7% of the total fixed-income portfolio at December 31, 2019, compared to 3.6% at December 31, 2018.

Our portfolio is also exposed to concentration risk. Our investment constraints limit investment in a single issuer, other than U.S. Treasury Notes or a state's general obligation bonds, to 2.5% of shareholders' equity, while the single issuer guideline on preferred stocks and/or non-investment-grade debt is 1.25% of shareholders' equity. Additionally, the guideline applicable to any state's general obligation bonds is 6% of shareholders' equity. We consider concentration risk both overall and in the context of individual asset classes and sectors, including but not limited to common equities, residential and commercial mortgage-backed securities, municipal bonds, and high-yield bonds. At December 31, 2019 and 2018, we were within all of the constraints described above.

We monitor prepayment and extension risk, especially in our asset-backed (i.e., structured product) and preferred stock portfolios. Prepayment risk includes the risk of early redemption of security principal that may need to be reinvested at less attractive rates. Extension risk includes the risk that a security will not be redeemed when anticipated, and that the security that is extended will have a lower yield than a security we might be able to obtain by reinvesting the expected redemption principal. Our holdings of different types of structured debt and preferred securities help manage this risk. During 2019 and 2018, we did not experience significant adverse prepayment or extension of principal relative to our cash flow expectations in the portfolio.

Liquidity risk is another risk factor we monitor. Our overall portfolio remains very liquid and we believe that it is sufficient to meet expected near-term liquidity requirements. The short-to-intermediate duration of our portfolio provides a source of liquidity, as we expect approximately $6.8 billion, or 32%, of principal repayment from our fixed-income portfolio, excluding U.S. Treasury Notes and short-term investments, during 2020. Cash from interest and dividend payments provides an additional source of recurring liquidity.

The duration of our U.S. government obligations, which are included in the fixed-income portfolio, was comprised of the following at December 31, 2019:

($ in millions)	Fair Value	Duration (years)
U.S. Treasury Notes		
Less than one year	$ 100.3	0.5
One to two years	1,508.5	1.6
Two to three years	1,365.9	2.6
Three to five years	4,013.0	4.2
Five to seven years	4,466.7	6.1
Seven to ten years	1,796.7	8.7
Total U.S. Treasury Notes	$ 13,251.1	4.9

ASSET-BACKED SECURITIES

Included in the fixed-income portfolio are asset-backed securities, which were comprised of the following at December 31:

($ in millions)	Fair Value	Net Unrealized Gains (Losses)	% of Asset-Backed Securities	Duration (years)	Rating (at period end)[1]
2019					
Residential mortgage-backed securities	$ 627.5	$ 2.5	5.8%	0.9	AA
Commercial mortgage-backed securities	5,076.2	55.5	46.6	2.0	AA
Other asset-backed securities	5,179.5	14.8	47.6	0.8	AAA-
Total asset-backed securities	$ 10,883.2	$ 72.8	100.0%	1.4	AA+
2018					
Residential mortgage-backed securities	$ 734.4	$ 0.9	9.6%	1.0	AA-
Commercial mortgage-backed securities	3,301.6	(31.2)	43.4	2.7	AA-
Other asset-backed securities	3,577.3	(8.2)	47.0	1.0	AA+
Total asset-backed securities	$ 7,613.3	$ (38.5)	100.0%	1.7	AA

[1] The credit quality ratings in the table above are assigned by NRSROs.

Residential Mortgage-Backed Securities (RMBS) The following table details the credit quality rating and fair value of our RMBSs, along with the loan classification and a comparison of the fair value at December 31, 2019, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Residential Mortgage-Backed Securities (at December 31, 2019)

($ in millions) Rating[1]	Non-Agency	Government/GSE[2]	Total	% of Total
AAA	$ 430.3	$ 1.9	$ 432.2	68.9%
AA	65.7	0.7	66.4	10.6
A	30.9	0	30.9	4.9
BBB	14.1	0	14.1	2.2
Non-investment grade/non-rated:				
BB	22.3	0	22.3	3.6
B	8.0	0	8.0	1.3
CCC and lower	13.2	0	13.2	2.1
Non-rated	40.4	0	40.4	6.4
Total fair value	$ 624.9	$ 2.6	$ 627.5	100.0%
Increase (decrease) in value	0.4%	0.6%	0.4%	

[1] The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings for our RMBSs, $74.9 million of our non-investment-grade securities are rated investment grade and classified as Group II and $9.0 million, or 1.4% of our total RMBSs, are not rated by the NAIC and are classified as Group I.

[2] The securities in this category are insured by a Government Sponsored Entity (GSE) and/or collateralized by mortgage loans insured by the Federal Housing Administration (FHA) or the U.S. Department of Veteran Affairs (VA).

In the residential mortgage-backed sector, we see solid fundamentals, such as high credit quality borrowers and strong structural protections through underlying loan collateralization; however, valuations have approached the higher range of risk/reward potential relative to other comparable investments. Home prices ended 2019 higher than 2018, with the peak in price increases occurring early in 2019. We sold small positions early in the year and judiciously added securities that we felt provided greater potential value throughout 2019. As of December 31, 2019, our portfolio is comprised of seasoned, stabilized, short duration legacy bonds with high credit protection and post-crisis jumbo bonds that are backed by high-quality borrowers.

Commercial Mortgage-Backed Securities (CMBS) The following table details the credit quality rating and fair value of our CMBSs, along with a comparison of the fair value at December 31, 2019, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Commercial Mortgage-Backed Securities (at December 31, 2019)

($ in millions) Rating[1]	Multi-Borrower	Single-Borrower	Total	% of Total
AAA	$ 481.8	$ 1,716.9	$ 2,198.7	43.3%
AA	132.8	1,405.1	1,537.9	30.3
A	204.0	662.3	866.3	17.1
BBB	81.7	348.7	430.4	8.5
Non-investment grade/non-rated:				
BB	0	42.4	42.4	0.8
B	0.5	0	0.5	0
Total fair value	$ 900.8	$ 4,175.4	$ 5,076.2	100.0%
Increase (decrease) in value	1.9%	0.9%	1.1%	

[1] The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings for our CMBSs, $49.3 million of our investment-grade securities are rated non-investment grade and classified as Group I, resulting in $92.2 million, or 1.8% of our total CMBSs, being classified as Group I.

During the year, we focused our acquisitions on new issuances of single asset single borrower securities and more seasoned securities. We also added a significant amount of defeased bonds (backed by U.S. treasuries), as these were a relatively safe way to drive some incremental return for the portfolio. Later in 2019, we added shorter duration new issuance single asset single borrower bonds, while adding to existing positions of high credit quality bonds. At year-end 2019, with valuations unattractive, we took the opportunity to sell some of our smaller positions and positions having a higher duration.

Other Asset-Backed Securities (OABS) The following table details the credit quality rating and fair value of our OABSs, along with a comparison of the fair value at December 31, 2019, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Other Asset-Backed Securities (at December 31, 2019)

($ in millions) Rating	Automobile	Credit Card	Student Loan	Whole Business Securitizations	Equipment	Total	% of Total
AAA	$ 2,219.1	$ 857.9	$ 325.0	$ 0	$ 1,076.0	$ 4,478.0	86.4%
AA	89.3	0	43.3	0	120.0	252.6	4.9
A	31.5	14.2	23.0	0	89.8	158.5	3.1
BBB	0	0	0	290.4	0	290.4	5.6
Total fair value	$ 2,339.9	$ 872.1	$ 391.3	$ 290.4	$ 1,285.8	$ 5,179.5	100.0%
Increase (decrease) in value	0.2%	0.1%	0.4%	1.2%	0.2%	0.3%	

With valuations across financial markets becoming less attractive throughout the year, asset-backed securities were an asset class that offered strong relative value. We consistently acquired securities in this sector throughout 2019, adding approximately $0.4 billion monthly to the portfolio as a means of not only replacing maturing issues but also to expand the portfolio. Most of the purchases we made were in the new issue market; however, as the availability of new issuances diminished toward year end, we also found value in the secondary market. We added across the spectrum to our other asset-backed portfolio, but we primarily focused on auto and credit card backed loans.

MUNICIPAL SECURITIES

The following table details the credit quality rating of our municipal securities at December 31, 2019, without the benefit of credit or bond insurance:

Municipal Securities (at December 31, 2019)

(millions) Rating	General Obligations	Revenue Bonds	Total
AAA	$ 451.2	$ 346.3	$ 797.5
AA	425.8	437.0	862.8
A	0	43.9	43.9
BBB	3.0	6.1	9.1
Total	$ 880.0	$ 833.3	$ 1,713.3

Included in revenue bonds were $668.4 million of single-family housing revenue bonds issued by state housing finance agencies, of which $476.4 million were supported by individual mortgages held by the state housing finance agencies and $192.0 million were supported by mortgage-backed securities. Of the programs supported by mortgage-backed securities, approximately 25% were collateralized by Fannie Mae and Freddie Mac mortgages; the remaining 75% were collateralized by Ginnie Mae mortgages, which are fully guaranteed by the U.S. government. Of the programs supported by individual mortgages held by the state housing finance agencies, the overall credit quality rating was AA+. Most of these mortgages were supported by FHA, VA, or private mortgage insurance providers.

Throughout 2019, we continued to manage this portfolio primarily for the tax benefits related to premium tax reductions in certain states and we realigned the portfolio, where possible. Most of the purchases were of state general obligations and housing planned amortization class securities designed to protect the investor from prepayment risk by creating a band, or range, of cash flow prepayment assumptions to provide for a more stable repayment schedule, or pre-refunded bonds, and we continued to look for opportunities to swap tax-exempt for taxable general obligation bonds.

At the end of 2019, our municipal portfolio was 4.8% of the fixed-income portfolio, compared to 5.3% and 9.6% at December 31, 2018 and 2017, respectively. The decline reflects adjustments we made to our holdings following the tax law changes that were effective in 2018, which significantly reduced the advantage of holding tax-exempt securities.

CORPORATE SECURITIES

The following table details the credit quality rating of our corporate securities at December 31, 2019:

Corporate Securities (at December 31, 2019)

(millions) Rating	Consumer	Industrial	Communication	Financial Services	Technology	Basic Materials	Energy	Total
AAA	$ 0	$ 0	$ 0	$ 63.0	$ 0	$ 0	$ 0	$ 63.0
AA	0	0	0	200.0	36.4	0	0	236.4
A	242.5	176.5	232.0	680.4	142.8	4.1	0	1,478.3
BBB	2,124.8	990.3	140.5	886.6	481.3	71.0	369.5	5,064.0
Non-investment grade/non-rated:								
BB	0	36.6	52.0	0	59.6	0	22.3	170.5
B	31.3	0	0	0	0	0	24.2	55.5
Total fair value	$ 2,398.6	$ 1,203.4	$ 424.5	$ 1,830.0	$ 720.1	$ 75.1	$ 416.0	$ 7,067.7

During 2019, as credit spreads narrowed, we sold positions for which we believed the risk/reward trade for holding the position was no longer justified and we selectively added positions we felt provided a better profile over varying economic cycles.

Overall, our corporate securities are a smaller percentage of the fixed-income portfolio when compared to last year. At December 31, 2019, the portfolio was 19.7% of our fixed-income portfolio, compared to 28.1% at December 31, 2018. In addition, we shortened our duration during the year and ended 2019 at 2.7 years, compared to 3.3 years at the end of 2018. This reduction is primarily the result of less attractive opportunities in the corporate sector. This shorter duration will enable us to take advantage of future market opportunities.

PREFERRED STOCKS – REDEEMABLE AND NONREDEEMABLE

The table below shows the exposure break-down for our preferred stocks by sector and rating at year end:

Preferred Stocks (at December 31, 2019)

(millions)	Financial services						
Rating	U.S. Banks	Foreign Banks	Insurance	Other Financial	Industrials	Utilities	Total
A	$ 42.2	$ 0	$ 0	$ 10.1	$ 0	$ 0	$ 52.3
BBB	583.0	0	104.6	54.0	92.1	11.1	844.8
Non-investment grade/non-rated:							
BB	80.8	75.5	0	0	65.5	42.3	264.1
B	0	0	0	29.6	0	0	29.6
Non-rated	0	0	0	27.1	16.0	0	43.1
Total fair value	$ 706.0	$ 75.5	$ 104.6	$ 120.8	$ 173.6	$ 53.4	$ 1,233.9

The majority of our preferred securities have fixed-rate dividends until a call date and then, if not called, generally convert to floating-rate dividends. The interest rate duration of our preferred securities is calculated to reflect the call, floor, and floating-rate features. Although a preferred security will remain outstanding if not called, its interest rate duration will reflect the variable nature of the dividend. Our non-investment-grade preferred stocks were primarily with issuers that maintain investment-grade senior debt ratings.

We also face the risk that dividend payments on our preferred stock holdings could be deferred for one or more periods or skipped entirely. As of December 31, 2019, all of our preferred securities continued to pay their dividends in full and on time. Approximately 79% of our preferred stock securities pay dividends that have tax preferential characteristics, while the balance pay dividends that are fully taxable.

During 2019, we took some selective steps to increase the overall quality of the portfolio. We exchanged some holdings to move into what we deemed to be more robust structures. We also sold some of our smaller holdings, and certain securities with unclear LIBOR replacement language in which we did not feel we were being properly compensated for the risk. Subsequent to these sales, we purchased securities with what we perceived to be better quality and overall more attractive risk/reward profiles.
Overall, our preferred securities are a smaller percentage of the fixed-income portfolio when compared to last year. At December 31, 2019, the portfolio was 3.4% of our fixed-income portfolio, compared to 4.1% at December 31, 2018.

Common Equities
Common equities, as reported on the consolidated balance sheets at December 31, were comprised of the following:

($ in millions)	2019		2018	
Indexed common stocks	$ 3,306.0	100.0%	$ 2,480.2	94.4%
Managed common stocks	0	0	145.6	5.6
Total common stocks	3,306.0	100.0	2,625.8	100.0
Other risk investments	0.3	0	0.3	0
Total common equities	$ 3,306.3	100.0%	$ 2,626.1	100.0%

In our indexed common stock portfolio, our individual holdings are selected based on their contribution to the correlation with the Russell 1000 Index. We held 835 out of 997, or 84%, of the common stocks comprising the index at December 31, 2019, which made up 94% of the total market capitalization of the index. At December 31, 2019, the year-to-date total return, based on GAAP income, was outside our contractual tracking error, which is +/- 50 basis points. The actual tracking error was 62 basis points less than the index return, primarily due to random variations in the performance of individual stocks, both those that we held and those we did not hold, as well as cash held in the indexed portfolio. These random variations in performance were outside of the statistical range expected by our indexed equity manager. At December 31, 2018, the total return was within the desired tracking error when compared to the index.

In late 2019, we decided that we would no longer maintain an actively managed common stock portfolio. As of December 31, 2019, all equities held in the fund had been liquidated, and we held $177.2 million of cash, which we expect to receive by the end of the first quarter 2020.

The following is a summary of our indexed common stock portfolio holdings by sector compared to the Russell 1000 Index composition:

Sector	Equity Portfolio Allocation at December 31, 2019	Russell 1000 Allocation at December 31, 2019	Russell 1000 Sector Return in 2019
Consumer discretionary	14.9%	15.7%	29.2%
Consumer staples	5.8	6.2	24.1
Financial services	19.5	20.1	33.7
Health care	12.8	13.0	21.5
Materials and processing	3.1	3.2	26.5
Other energy	3.9	4.0	10.7
Producer durable	9.9	9.6	30.8
Technology	25.3	23.1	47.2
Utilities	4.8	5.1	26.1
Total common stocks	100.0%	100.0%	31.4%

V. CRITICAL ACCOUNTING POLICIES

Progressive is required to make certain estimates and assumptions when preparing its financial statements and accompanying notes in conformity with GAAP. Actual results could differ from those estimates in a variety of areas. The area we view as most critical with respect to the application of estimates and assumptions is the establishment of our loss reserves.

A. Loss and LAE Reserves

Loss and loss adjustment expense (LAE) reserves represent our best estimate of our ultimate liability for losses and LAE relating to events that occurred prior to the end of any given accounting period but have not yet been paid. At December 31, 2019, we had $14.9 billion of net loss and LAE reserves, which included $12.0 billion of case reserves and $2.9 billion of incurred but not recorded (IBNR) reserves. Personal auto liability and commercial auto liability reserves represent approximately 96% of our total carried net reserves. For this reason, the following discussion focuses on our vehicle businesses.

We do not review our loss reserves on a macro level and, therefore, do not derive a companywide range of reserves to compare to a standard deviation. Instead, we review a large majority of our reserves by product/state subset combinations on a quarterly time frame, with the remaining reserves generally reviewed on a semiannual basis. A change in our scheduled reviews of a particular subset of the business depends on the size of the subset or emerging issues relating to the product or state. By reviewing the reserves at such a detailed level, we have the ability to identify and measure variances in the trends by state, product, and line coverage that otherwise would not be seen on a consolidated basis. We believe our comprehensive process of reviewing at a subset level provides us more meaningful estimates of our aggregate loss reserves.

In analyzing the ultimate accident year loss and LAE experience, our actuarial staff reviews in detail, at the subset level, frequency (number of losses per earned car year), severity (dollars of loss per each claim), and average premium (dollars of premium per earned car year), as well as the frequency and severity of our LAE costs. The loss ratio, a primary measure of loss experience, is equal to the product of frequency times severity divided by the average premium. The average premium for personal and commercial auto businesses is not estimated. The actual frequency experienced will vary depending on the change in mix of class of drivers insured by Progressive, but the frequency projections for these lines of business are generally stable in the short term, because a large majority of the parties involved in an accident report their claims within a short time period after the occurrence. The severity experienced by Progressive is much more difficult to estimate, especially for injury claims, since severity is affected by changes in underlying costs, such as medical costs, jury verdicts, and regulatory changes. In addition, severity will vary relative to the change in our mix of business by limit.

Assumptions regarding needed reserve levels made by the actuarial staff take into consideration influences on available historical data that reduce the predictiveness of our projected future loss costs. Internal considerations that are process-related, which generally result from changes in our claims organization's activities, include claim closure rates, the number of claims that are closed without payment, and the level of the claims representatives' estimates of the needed case reserve for each claim. These changes and their effect on the historical data are studied at the state level versus on a larger, less indicative, countrywide basis.

External items considered include the litigation atmosphere, changes in medical costs, and the availability of services to resolve claims. These also are better understood at the state level versus at a more macro, countrywide level.

At December 31, 2019, Progressive had $18.1 billion of carried gross reserves and $14.9 billion of net reserves (net of reinsurance recoverables on unpaid losses). Our net reserve balance implicitly assumes that the loss and LAE severity for accident year 2019 over accident year 2018 would be 6.0% higher for personal auto liability and 11.6% higher for commercial auto liability. As discussed above, the severity estimates are influenced by many variables that are difficult to precisely quantify and which influence the final amount of claims settlements. That, coupled with changes in internal claims practices, the legal environment, and state regulatory requirements, requires significant judgment in the estimate of the needed reserves to be carried.

The following table highlights what the effect would be to our carried loss and LAE reserves, on a net basis, as of December 31, 2019, if during 2020 we were to experience the indicated change in our estimate of severity for the 2019 accident year (i.e., claims that occurred in 2019):

	Estimated Changes in Severity for Accident Year 2019				
(millions)	**-4%**	**-2%**	**As Reported**	**+2%**	**+4%**
Personal auto liability	$ 10,471.2	$ 10,735.4	$ 10,999.6	$ 11,263.8	$ 11,528.0
Commercial auto liability	3,146.4	3,192.4	3,238.4	3,284.4	3,330.4
Other[1]	655.2	655.2	655.2	655.2	655.2
Total	$ 14,272.8	$ 14,583.0	$ 14,893.2	$ 15,203.4	$ 15,513.6

[1] Includes reserves for personal and commercial auto physical damage claims and our non-auto lines of business; no change in estimates is presented due to the immaterial level of these reserves.

Note: Every percentage point change in our estimate of severity for the 2019 accident year would affect our personal auto liability reserves by $132.1 million and our commercial auto reserves by $23.0 million.

Our 2019 year-end loss and LAE reserve balance also includes claims from prior years. Claims that occurred in 2019, 2018, and 2017, in the aggregate, accounted for approximately 93% of our reserve balance. If during 2020 we were to experience the indicated change in our estimate of severity for the total of the prior three accident years (i.e., 2019, 2018, and 2017), the effect to our year-end 2019 reserve balances would be as follows:

	Estimated Changes in Severity for Accident Years 2019, 2018, and 2017				
(millions)	**-4%**	**-2%**	**As Reported**	**+2%**	**+4%**
Personal auto liability	$ 9,611.6	$ 10,305.6	$ 10,999.6	$ 11,693.6	$ 12,387.6
Commercial auto liability	3,009.2	3,123.8	3,238.4	3,353.0	3,467.6
Other[1]	655.2	655.2	655.2	655.2	655.2
Total	$ 13,276.0	$ 14,084.6	$ 14,893.2	$ 15,701.8	$ 16,510.4

[1] Includes reserves for personal and commercial auto physical damage claims and our non-auto lines of business; no change in estimates is presented due to the immaterial level of these reserves.

Note: Every percentage point change in our estimate of severity for the 2019, 2018, and 2017 accident years would affect our personal auto liability reserves by $347.0 million and our commercial auto reserves by $57.3 million.

Our best estimate of the appropriate amount for our reserves as of year-end 2019 is included in our financial statements for the year. Our goal is to ensure that total reserves are adequate to cover all loss costs, while sustaining minimal variation from the time reserves are initially established until losses are fully developed. At the point in time when reserves are set, we have no way of knowing whether our reserve estimates will prove to be high or low, or whether one of the alternative scenarios discussed above is “reasonably likely” to occur. The above tables show the potential favorable or unfavorable development we will realize if our estimates miss by 2% or 4%.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: *Investors are cautioned that certain statements in this report not based upon historical fact are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements often use words such as "estimate," "expect," "intend," "plan," "believe," and other words and terms of similar meaning, or are tied to future periods, in connection with a discussion of future operating or financial performance. Forward-looking statements are based on current expectations and projections about future events, and are subject to certain risks, assumptions 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:*

- *our ability to underwrite and price risks accurately and to charge adequate rates to policyholders;*
- *our ability to establish accurate loss reserves;*
- *the impact of severe weather, other catastrophe events and climate change;*
- *the effectiveness of our reinsurance programs;*
- *the highly competitive nature of property-casualty insurance markets;*
- *whether we innovate effectively and respond to our competitors' initiatives;*
- *whether we effectively manage complexity as we develop and deliver products and customer experiences;*
- *how intellectual property rights could affect our competitiveness and our business operations;*
- *whether we adjust claims accurately;*
- *our ability to maintain a recognized and trusted brand;*
- *our ability to attract, develop and retain talent and maintain appropriate staffing levels;*
- *compliance with complex laws and regulations;*
- *litigation challenging our business practices, and those of our competitors and other companies;*
- *the impacts of a security breach or other attack involving our computer systems or the systems of one or more of our vendors;*
- *the secure and uninterrupted operation of the facilities, systems and business functions that are critical to our business;*
- *the success of our efforts to develop new products or enter into new areas of business and navigate related risks;*
- *our continued ability to send and accept electronic payments;*
- *the possible impairment of our goodwill or intangible assets;*
- *the performance of our fixed-income and equity investment portfolios;*
- *the potential elimination of, or change in, the London Interbank Offered Rate;*
- *our continued ability to access our cash accounts and/or convert securities into cash on favorable terms;*
- *the impact if one or more parties with which we enter into significant contracts or transact business fail to perform;*
- *legal restrictions on our insurance subsidiaries' ability to pay dividends to The Progressive Corporation;*
- *limitations on our ability to pay dividends on our common shares under the terms of our outstanding preferred shares;*
- *our ability to obtain capital when necessary to support our business and potential growth;*
- *evaluations by credit rating and other rating agencies;*
- *the variable nature of our common share dividend policy;*
- *whether our investments in certain tax-advantaged projects generate the anticipated returns;*
- *the impact from not managing to short-term earnings expectations in light of our goal to maximize the long-term value of the enterprise; 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, including, without limitation, the Risk Factors section of our Annual Report on Form 10-K for the year ending December 31, 2019.*

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 we establish reserves 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.

Supplemental Information
The Progressive Corporation and Subsidiaries
Ten Year Summary – Selected Financial Information
(unaudited)

(millions – except ratios, policies in force, per share amounts, and number of people employed)	2019	2018	2017	2016	2015
Net premiums written	$ 37,577.9	$ 32,609.9	$ 27,132.1	$ 23,353.5	$ 20,564.0
Growth	15 %	20 %	16 %	14%	10%
Net premiums earned	$ 36,192.4	$ 30,933.3	$ 25,729.9	$ 22,474.0	$ 19,899.1
Growth	17 %	20 %	14 %	13%	8%
Policies in force (thousands):					
Personal Lines	19,408.6	17,759.0	16,075.5	14,656.8	13,764.7
Growth	9 %	10 %	10 %	6%	4%
Commercial Lines	751.4	696.9	646.8	607.9	555.8
Growth	8 %	8 %	6 %	9%	8%
Property[1]	2,202.1	1,936.5	1,461.7	1,201.9	1,076.5
Growth[1]	14 %	32 %	22 %	12%	NM
Total revenues	$ 39,022.3	$ 31,979.0	$ 26,839.0	$ 23,441.4	$ 20,853.8
Underwriting margins:[2]					
Personal Lines	9.5 %	9.7 %	6.9 %	4.7%	6.5%
Commercial Lines	10.4 %	13.3 %	7.7 %	6.4%	15.9%
Property[1]	(1.7)%	(6.9)%	(5.1)%	3.8%	10.1%
Total underwriting operations	9.1 %	9.4 %	6.6 %	4.9%	7.5%
Net income attributable to Progressive	$ 3,970.3	$ 2,615.3	$ 1,592.2	$ 1,031.0	$ 1,267.6
Per common share - diluted	6.72	4.42	2.72	1.76	2.15
Average equivalent common shares - diluted	587.2	586.7	585.7	585.0	589.2
Comprehensive income attributable to Progressive	$ 4,432.9	$ 2,520.1	$ 1,941.0	$ 1,164.0	$ 1,044.9
Total assets	$ 54,895.3	$ 46,575.0	$ 38,701.2	$ 33,427.5	$ 29,819.3
Debt outstanding	4,407.1	4,404.9	3,306.3	3,148.2	2,707.9
Redeemable noncontrolling interest	225.6	214.5	503.7	483.7	464.9
Total shareholders' equity	13,673.2	10,821.8	9,284.8	7,957.1	7,289.4
Statutory surplus	13,671.1	11,571.8	9,664.4	8,560.0	7,575.5
Common shares outstanding	584.6	583.2	581.7	579.9	583.6
Common share close price (at December 31)	$ 72.39	$ 60.33	$ 56.32	$ 35.50	$ 31.80
Rate of return[3]	25.1 %	9.3 %	61.6 %	14.7%	20.9%
Market capitalization	$ 42,319.2	$ 35,184.5	$ 32,761.3	$ 20,586.5	$ 18,558.5
Book value per common share	22.54	17.71	15.96	13.72	12.49
Ratios:					
Return on average common shareholders' equity:					
Net income attributable to Progressive	31.3 %	24.7 %	17.8 %	13.2%	17.2%
Comprehensive income attributable to Progressive	35.0 %	23.8 %	21.7 %	14.9%	14.2%
Debt to total capital[4]	24.4 %	28.9 %	26.3 %	28.3%	27.1%
Price to earnings	10.8	13.6	20.7	20.2	14.8
Price to book	3.2	3.4	3.5	2.6	2.5
Net premiums written to statutory surplus	2.7	2.8	2.8	2.7	2.7
Statutory combined ratio	90.5	89.9	92.8	94.8	91.8
Dividends declared per common share[5]	$ 2.65	$ 2.5140	$ 1.1247	$ 0.6808	$ 0.8882
Number of people employed	41,571	37,346	33,656	31,721	28,580

[1] We began reporting our Property business as a segment on April 1, 2015, when we acquired a controlling interest in ARX; therefore, year-over-year growth for 2015 is not meaningful (NM).
[2] Underwriting margins are calculated as pretax underwriting profit (loss), as defined in *Note 10 – Segment Information*, as a percentage of net premiums earned.
[3] Represents annual rate of return, assuming dividend reinvestment.

(millions – except ratios, policies in force, per share amounts, and number of people employed)	2014	2013	2012	2011	2010
Net premiums written	$ 18,654.6	$ 17,339.7	$ 16,372.7	$ 15,146.6	$ 14,476.8
Growth	8%	6 %	8%	5%	3%
Net premiums earned	$ 18,398.5	$ 17,103.4	$ 16,018.0	$ 14,902.8	$ 14,314.8
Growth	8%	7 %	7%	4%	2%
Policies in force (thousands):					
Personal Lines	13,261.9	13,056.4	12,735.3	12,283.8	11,702.7
Growth	2%	3 %	4%	5%	7%
Commercial Lines	514.7	514.6	519.6	509.1	510.4
Growth	0%	(1)%	2%	0%	0%
Property[1]	—	—	—	—	—
Growth[1]	—	—	—	—	—
Total revenues	$ 19,391.4	$ 18,170.9	$ 17,083.9	$ 15,774.6	$ 15,215.5
Underwriting margins:[2]					
Personal Lines	6.7%	6.6 %	4.4%	6.8%	7.0%
Commercial Lines	17.2%	6.5 %	5.2%	9.1%	12.5%
Property[1]	—	—	—	—	—
Total underwriting operations	7.7%	6.5 %	4.4%	7.0%	7.6%
Net income attributable to Progressive	$ 1,281.0	$ 1,165.4	$ 902.3	$ 1,015.5	$ 1,068.3
Per common share - diluted	2.15	1.93	1.48	1.59	1.61
Average equivalent common shares - diluted	594.8	603.6	607.8	636.9	663.3
Comprehensive income attributable to Progressive	$ 1,352.4	$ 1,246.1	$ 1,080.8	$ 924.3	$ 1,398.8
Total assets	$ 25,787.6	$ 24,408.2	$ 22,694.7	$ 21,844.8	$ 21,150.3
Debt outstanding	2,164.7	1,860.9	2,063.1	2,442.1	1,958.2
Redeemable noncontrolling interest	—	—	—	—	—
Total shareholders' equity	6,928.6	6,189.5	6,007.0	5,806.7	6,048.9
Statutory surplus	6,442.8	5,991.0	5,605.2	5,269.2	5,073.0
Common shares outstanding	587.8	595.8	604.6	613.0	662.4
Common share close price (at December 31)	$ 26.99	$ 27.27	$ 21.10	$ 19.51	$ 19.87
Rate of return[3]	5.3%	30.9 %	15.4%	0.2%	16.9%
Market capitalization	$ 15,864.7	$ 16,247.5	$ 12,757.1	$ 11,959.6	$ 13,161.9
Book value per common share	11.79	10.39	9.94	9.47	9.13
Ratios:					
Return on average common shareholders' equity:					
Net income attributable to Progressive	19.1%	17.7 %	14.5%	16.5%	17.1%
Comprehensive income attributable to Progressive	20.1%	19.0 %	17.4%	15.0%	22.3%
Debt to total capital[4]	23.8%	23.1 %	25.6%	29.6%	24.5%
Price to earnings	12.6	14.1	14.3	12.3	12.3
Price to book	2.3	2.6	2.1	2.1	2.2
Net premiums written to statutory surplus	2.9	2.9	2.9	2.9	2.9
Statutory combined ratio	92.1	93.4	95.2	92.9	92.5
Dividends declared per common share[5]	$ 0.6862	$ 1.4929	$ 1.2845	$ 0.4072	$ 1.3987
Number of people employed	26,501	26,145	25,889	25,007	24,638

[4] Ratio reflects debt as a percent of debt plus shareholders' equity; redeemable noncontrolling interest is not part of this calculation.

[5] Represents dividends pursuant to the dividend policy in place for the applicable year, plus special cash dividends of $1.00 per common share in 2013, 2012, and 2010 (see *Note 14 – Dividends* for further discussion).

The Progressive Corporation and Subsidiaries

Quarterly Financial and Common Share Data

(unaudited)

(millions – except per share amounts)					Stock Price[1]		
Quarter	**Total Revenues**	**Net Income**	**Net Income Attributable to Progressive**	**Per Common Share[2]**	**Close**	**Rate of Return[3]**	**Dividends Declared Per Common Share[3]**
2019							
1	$ 9,300.0	$ 1,082.8	$ 1,078.4	$ 1.83	$ 72.09		$ 0.10
2	9,450.7	979.0	979.4	1.66	79.93		0.10
3	9,530.5	843.6	841.7	1.42	77.25		0.10
4	10,741.1	1,074.6	1,070.8	1.81	72.39		2.35
	$ 39,022.3	$ 3,980.0	$ 3,970.3	$ 6.72	$ 72.39	25.1%	$ 2.65
2018							
1	$ 7,430.1	$ 729.8	$ 718.0	$ 1.22	$ 60.93		$ 0
2	8,018.0	701.2	704.2	1.19	59.15		0
3	8,495.8	930.2	928.4	1.57	71.04		0
4	8,035.1	259.8	264.7	0.44	60.33		2.5140
	$ 31,979.0	$ 2,621.0	$ 2,615.3	$ 4.42	$ 60.33	9.3%	$ 2.5140
2017							
1	$ 6,321.7	$ 430.3	$ 424.3	$ 0.73	$ 39.18		$ 0
2	6,605.7	372.7	367.6	0.63	44.09		0
3	6,791.8	214.8	224.0	0.38	48.42		0
4	7,119.8	580.3	576.3	0.98	56.32		1.1247
	$ 26,839.0	$ 1,598.1	$ 1,592.2	$ 2.72	$ 56.32	61.6%	$ 1.1247

[1] Prices are as reported on the New York Stock Exchange (NYSE). Progressive's common shares are listed under the symbol PGR.

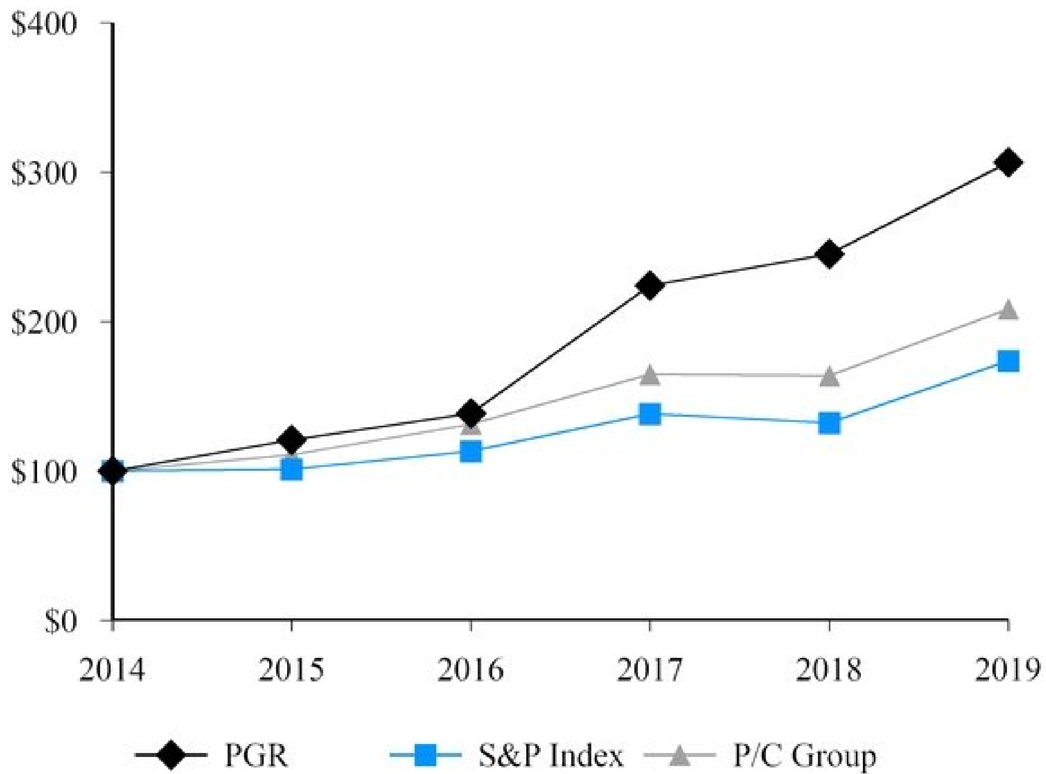
[2] Represents diluted earnings per common share. Based on net income available to Progressive common shareholders, which is net of preferred share dividends beginning in March 2018. The sum may not equal the total because the average equivalent shares differ in the quarterly and annual periods.

[3] Represents annual rate of return, assuming dividend reinvestment. For a discussion of Progressive's dividend policy, see *Note 14 – Dividends* for further information.

The Progressive Corporation and Subsidiaries
Performance Graph
(unaudited)

The following performance graph compares the performance of Progressive's Common Shares ("PGR") to the Standard & Poor's Index ("S&P Index") and the Value Line Property/Casualty Industry Group ("P/C Group") for the last five years.

Cumulative Five-Year Total Return*
PGR, S&P Index, P/C Group (Performance Results through 12/31/19)



For the years ended December 31,	(Assumes $100 was invested at the close of trading on December 31, 2014)				
	2015	**2016**	**2017**	**2018**	**2019**
PGR	$ 120.94	$ 138.77	$ 224.27	$ 245.16	$ 306.60
S&P Index	101.40	113.50	138.32	132.23	173.88
P/C Group[1]	111.02	131.30	164.96	163.88	208.60

*Assumes reinvestment of dividends

[1] Per Value Line Publishing LLC

Quantitative Market Risk Disclosures

(unaudited)

Quantitative market risk disclosures are only presented for market risk categories when risk is considered material. Materiality is determined based on the fair value of the financial instruments at December 31, 2019, and the potential for near-term losses from reasonably possible near-term changes in market rates or prices. We had no trading financial instruments at December 31, 2019 and 2018. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* for our discussion of the qualitative information about market risk.

OTHER-THAN-TRADING FINANCIAL INSTRUMENTS

Financial instruments subject to interest rate risk were:

	Fair Value				
(millions)	-200 bps Change[1]	-100 bps Change	Actual	+100 bps Change	+200 bps Change
U.S. government obligations	$ 14,411.9	$ 13,919.0	$ 13,251.1	$ 12,624.4	$ 12,037.3
State and local government obligations	1,814.4	1,772.6	1,713.3	1,676.8	1,645.4
Asset-backed securities	11,175.8	11,040.9	10,883.2	10,725.5	10,567.8
Corporate securities	7,372.3	7,254.3	7,067.7	6,886.0	6,708.6
Preferred stocks	1,294.5	1,269.5	1,233.9	1,192.6	1,152.6
Short-term investments	1,800.3	1,799.7	1,798.8	1,797.9	1,796.9
Total at December 31, 2019	$ 37,869.2	$ 37,056.0	$ 35,948.0	$ 34,903.2	$ 33,908.6
Total at December 31, 2018	$ 32,694.8	$ 31,805.1	$ 30,941.3	$ 30,107.5	$ 29,306.8

[1] The amounts reflect an interest rate of 1 basis point (bps) when the hypothetical decline in interest rates would have pushed yields to a negative level.

Exposure to risk is represented in terms of changes in fair value due to selected hypothetical movements in market rates. Bonds and preferred stocks are individually priced to yield to the worst case scenario, which includes any issuer-specific features, such as a call option. Asset-backed securities and state and local government housing securities are priced assuming deal specific prepayment scenarios, considering the deal structure, prepayment penalties, yield maintenance agreements, and the underlying collateral.

Financial instruments subject to equity market risk were:

	Fair Value		
(millions)	-10%	Actual	+10%
Common equities at December 31, 2019	$ 2,975.7	$ 3,306.3	$ 3,636.9
Common equities at December 31, 2018	$ 2,362.2	$ 2,626.1	$ 2,890.0

The model represents the estimated value of our common equity portfolio given a +/-10% change in the market, based on the common stock portfolio's weighted average beta of 1.00 for 2019 and 1.01 for 2018. The beta is derived from recent historical experience, using the S&P 500 as the market surrogate. The historical relationship of the common stock portfolio's beta to the S&P 500 is not necessarily indicative of future correlation, as individual company or industry factors may affect price movements. Betas are not available for all securities. In such cases, the change in fair value reflects a direct +/-10% change; the portion of our securities without betas is <0.1%.

The Progressive Corporation and Subsidiaries

Net Premiums Written by State

(unaudited)

($ in millions)	2019		2018		2017		2016		2015	
Florida	$ 5,233.4	13.9%	$ 4,700.9	14.4%	$ 3,808.0	14.0%	$ 3,305.1	14.1%	$ 2,839.6	13.8%
Texas	4,081.0	10.8	3,388.6	10.4	2,704.9	10.0	2,226.8	9.5	1,941.5	9.4
California	2,208.8	5.9	1,836.0	5.6	1,520.5	5.6	1,284.8	5.5	1,173.6	5.7
New York	1,843.2	4.9	1,699.0	5.2	1,472.8	5.4	1,279.4	5.5	1,095.6	5.3
Michigan	1,673.5	4.4	1,423.7	4.4	1,186.8	4.4	971.3	4.2	812.5	4.0
Georgia	1,645.3	4.4	1,452.9	4.5	1,177.0	4.4	939.4	4.0	813.2	4.0
Ohio	1,339.5	3.6	1,194.0	3.7	1,033.5	3.8	905.2	3.9	820.8	4.0
Pennsylvania	1,268.3	3.4	1,157.4	3.5	1,005.5	3.7	895.8	3.8	787.3	3.8
New Jersey	1,192.3	3.2	1,088.1	3.3	985.8	3.6	902.8	3.9	820.2	4.0
Louisiana	965.6	2.6	856.5	2.6	739.2	2.7	694.7	3.0	614.9	3.0
All other	16,127.0	42.9	13,812.8	42.4	11,498.1	42.4	9,948.2	42.6	8,844.8	43.0
Total	$ 37,577.9	100.0%	$ 32,609.9	100.0%	$ 27,132.1	100.0%	$ 23,353.5	100.0%	$ 20,564.0	100.0%

Principal Office

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

24-Hour Insurance Quotes, Claims Reporting, and Customer Service

	Personal autos, motorcycles, recreational vehicles, homeowners, other property, and renters	**Commercial autos/trucks, business property, and general liability**
To receive a quote	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-888-806-9598 progressivecommercial.com
To report a claim	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-PROGRESSIVE (1-800-776-4737)
For customer service:		
If you bought your policy through an independent agent or broker	1-800-925-2886 (1-800-300-3693 in California) progressiveagent.com	1-800-444-4487 progressivecommercial.com
If you bought your policy directly through Progressive online or by phone	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-895-2886 progressivecommercial.com
In addition, iPhone® and Android® users can download the Progressive App to start a quote, report a claim, or service a policy.		

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 8, 2020, at 10 a.m. eastern time. There were 1,965 shareholders of record on December 31, 2019.

Common Shares and Dividends The Progressive Corporation's common shares are traded on the New York Stock Exchange (symbol PGR). Progressive currently has a dividend policy under which the Board expects to declare regular, quarterly common share dividends and, on at least an annual basis, to consider declaring an additional variable common share dividend. The dividend policy can be found at: progressive.com/dividend.

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

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

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

Transfer Agent and Registrar

Registered Shareholders: If you have questions or changes to your account and your Progressive common 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@astfinancial.com; or visit their website at: astfinancial.com.

Beneficial Shareholders: If your Progressive common 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.

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:

Lawton W. Fitt, Chairperson of the Board, The Progressive Corporation, email: chair@progressive.com; or

Daniel P. Mascaro, Secretary, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or email: secretary@progressive.com.

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

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 Chairperson of the Audit Committee, as follows: Patrick H. Nettles, Ph.D., Chair of the Audit Committee, auditchair@progressive.com.

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

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

Corporate Governance Progressive's Corporate Governance Guidelines and Board Committee Charters are available at: progressive.com/governance and progressive.com/committee-charters, respectively.

Counsel Baker & Hostetler LLP, Cleveland, Ohio

Charitable Contributions We contribute annually to: (i) The Insurance Institute for Highway Safety to further its work in reducing the human trauma and economic costs of auto accidents; and (ii) The Progressive Insurance Foundation, which provides matching funds to eligible 501(c)(3) charitable organizations to which employees contribute. Over the last five years, the matching funds provided by The Progressive Insurance Foundation averaged approximately $4 million per year. In 2019, we entered into a financial partnership with Humble Design, a Detroit-based nonprofit organization that furnishes homes for families and veterans transitioning from homelessness.

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

Online Annual Report and Proxy Statement Our 2019 Annual Report to Shareholders can be found at: progressive.com/annualreport.

Our 2020 Proxy Statement and 2019 Annual Report to Shareholders, in a PDF format, can be found at: progressiveproxy.com.

Directors

Philip Bleser[3,5,6]
Retired Chairman of Global Corporate Banking,
J. P. Morgan Chase & Co.
(financial services)

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

Pamela J. Craig[3,6]
Retired Chief Financial Officer,
Accenture PLC
(global management consulting)

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

Roger N. Farah[2,3,5,6]
Former Executive Director,
Tory Burch LLC
(retailing)

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

Susan Patricia Griffith[2]
President and Chief Executive Officer,
The Progressive Corporation

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

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

Barbara R. Snyder[3,6]
President,
Case Western Reserve University
(higher education)

Jan E. Tighe[6]
United States Navy, Vice Admiral, Retired
(military)

Kahina Van Dyke[4,6]
Global Head, Digital Channels and
Client Data Analytics,
Standard Chartered PLC
(international banking)

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

Corporate Officers

Lawton W. Fitt
Chairperson of the Board
(non-executive)

Susan Patricia Griffith
President
and Chief Executive Officer

John P. Sauerland
Vice President
and Chief Financial Officer

Daniel P. Mascaro
Vice President, Secretary,
and Chief Legal Officer

Patrick S. Brennan
Treasurer

Mariann Wojtkun Marshall
Vice President, Assistant Secretary,
and Chief Accounting Officer

Other Executive Officers

John A. Barbagallo
Commercial Lines President

Jonathan S. Bauer
Chief Investment Officer

Steven A. Broz
Chief Information Officer

Patrick K. Callahan
Personal Lines President

M. Jeffrey Charney
Chief Marketing Officer

John Murphy
Customer Relationship Management
President

Lori Niederst
Chief Human Resource Officer

Andrew J. Quigg
Chief Strategy Officer

Michael D. Sieger
Claims President

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Exhibit 21

SUBSIDIARIES OF THE PROGRESSIVE CORPORATION

Name of Subsidiary	Jurisdiction of Incorporation
ARX Holding Corp. (owns 87.1% of outstanding capital stock)	Delaware
American Strategic Insurance Corp.	Florida
Ark Royal Underwriters, LLC	Florida
ASI Assurance Corp.	Florida
ASI Home Insurance Corp.	Florida
ASI Lloyds, Inc.	Texas
ASI Preferred Insurance, Corp.*	Florida
ASI Select Auto Insurance Corp.	California
ASI Select Insurance Corp.	Delaware
ASI Services, Inc.	Florida
ASI Underwriters Corp.	Florida
ASI Underwriters of Texas, Inc.	Texas
e-Ins. LLC*	Florida
Progressive Property Insurance Company	Florida
PropertyPlus Insurance Agency, Inc.	Delaware
Sunshine Security Insurance Agency, Inc.	Florida
Drive Insurance Holdings, Inc.	Delaware
Drive New Jersey Insurance Company	New Jersey
Progressive American Insurance Company	Ohio
Progressive Bayside Insurance Company	Ohio
Progressive Casualty Insurance Company	Ohio
PC Investment Company	Delaware
Progressive Gulf Insurance Company	Ohio
Progressive Specialty Insurance Company	Ohio
Trussville/Cahaba, AL, LLC	Ohio
Progressive Classic Insurance Company	Wisconsin
Progressive Commercial Advantage Agency, Inc.	Ohio
Progressive Commercial Casualty Company	Ohio
Progressive Freedom Insurance Company	Ohio
Progressive Hawaii Insurance Corp.	Ohio
Progressive Michigan Insurance Company	Michigan
Progressive Mountain Insurance Company	Ohio
Progressive Northern Insurance Company	Wisconsin
Progressive Northwestern Insurance Company	Ohio
Progressive Preferred Insurance Company	Ohio
Progressive Security Insurance Company	Louisiana
Progressive Southeastern Insurance Company	Indiana
Progressive West Insurance Company	Ohio
Garden Sun Insurance Services, Inc.	Hawaii
Pacific Motor Club	California

*Wholly owned by ARX Holding Corp.; however, ownership is shared by one or more ARX Holding Corp. subsidiary. Subsidiary is reported under the majority owned parent.

Name of Subsidiary	Jurisdiction of Incorporation
Progny Agency, Inc.	New York
Progressive Adjusting Company, Inc.	Ohio
Progressive Capital Management Corp.	New York
Progressive Commercial Holdings, Inc.	Delaware
Artisan and Truckers Casualty Company	Wisconsin
Blue Hill Specialty Insurance Company, Inc.	Illinois
National Continental Insurance Company	New York
Progressive Express Insurance Company	Ohio
United Financial Casualty Company	Ohio
Progressive Direct Holdings, Inc.	Delaware
Mountain Laurel Assurance Company	Ohio
Progressive Advanced Insurance Company	Ohio
Progressive Advantage Agency, Inc.	Ohio
Progressive Auto Pro Insurance Agency, Inc.	Florida
Progressive Choice Insurance Company	Ohio
Progressive Direct Insurance Company	Ohio
Gadsden, AL, LLC	Ohio
Progressive Garden State Insurance Company	New Jersey
Progressive Marathon Insurance Company	Michigan
Progressive Max Insurance Company	Ohio
Progressive Paloverde Insurance Company	Indiana
Progressive Premier Insurance Company of Illinois	Ohio
Progressive Select Insurance Company	Ohio
Progressive Universal Insurance Company	Wisconsin
Progressive Investment Company, Inc.	Delaware
Progressive Premium Budget, Inc.	Ohio
Progressive RSC, Inc.	Ohio
Progressive Vehicle Service Company	Ohio
Village Transport Corp.	Delaware
Wilson Mills Land Co.	Ohio
358 Ventures, Inc.	Ohio

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-16509, 33-51034, 33-57121, 333-41238, 333-172663, 333-185703, 333-185704, 333-204406, and 333-217922) and Form S-3 (No. 333-227315) of The Progressive Corporation of our report dated March 2, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the 2019 Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated March 2, 2020 relating to the financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
March 2, 2020

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of February, 2020.

/s/ Mariann Wojtkun Marshall

Mariann Wojtkun Marshall
Vice President, Assistant Secretary and Chief Accounting Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 19th day of February, 2020.

/s/ John P. Sauerland

John P. Sauerland
Vice President and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 20th day of February, 2020.

/s/ Susan Patricia Griffith

Susan Patricia Griffith
Director, President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 21st day of February, 2020.

/s/ Philip Bleser

Philip Bleser
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 21st day of February, 2020.

/s/ Stuart B. Burgdoerfer

Stuart B. Burgdoerfer
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of February, 2020.

/s/ Charles A. Davis

Charles A. Davis
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of February, 2020.

/s/ Roger N. Farah

Roger N. Farah
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 28th day of February, 2020.

/s/ Lawton Wehle Fitt

Lawton W. Fitt
Chairperson of the Board

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of February, 2020.

/s/ Pamela J. Craig

Pamela J. Craig
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of February, 2020.

/s/ Jeffrey D. Kelly

Jeffrey D. Kelly
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of February, 2020.

/s/ Patrick H. Nettles,

____

Patrick H. Nettles, Ph.D.
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 21st day of February, 2020.

/s/ Kahina Van Dyke

Kahina Van Dyke
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of February, 2020.

/s/ Barbara R. Snyder

Barbara R. Snyder
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, David M. Coffey, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2019, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below this 25th day of February, 2020.

/s/ Jan E. Tighe

____

Jan E. Tighe
Director

Exhibit 31.1

CERTIFICATION

I, Susan Patricia Griffith, certify that:

1. I have reviewed this annual report on Form 10-K of The Progressive Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2020

/s/ Susan Patricia Griffith

Susan Patricia Griffith
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, John P. Sauerland, certify that:

1. I have reviewed this annual report on Form 10-K of The Progressive Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2020

/s/ John P. Sauerland

John P. Sauerland

Vice President and Chief Financial Officer

Exhibit 32.1

SECTION 1350 CERTIFICATION

I, Susan Patricia Griffith, President and Chief Executive Officer of The Progressive Corporation (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the period ended December 31, 2019 (the “Report”), which this certification accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Susan Patricia Griffith

Susan Patricia Griffith
President and Chief Executive Officer
March 2, 2020

Exhibit 32.2

SECTION 1350 CERTIFICATION

I, John P. Sauerland, Vice President and Chief Financial Officer of The Progressive Corporation (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Annual Report on Form 10-K of the Company for the period ended December 31, 2019 (the “Report”), which this certification accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John P. Sauerland

John P. Sauerland
Vice President and Chief Financial Officer
March 2, 2020

LETTER TO SHAREHOLDERS

Think Broadly

The theme for this year's annual report, and the associated artwork, is "Think Broadly." This two-word theme was chosen because it truly aligns with the concept of concurrently investing in our Three Horizons, or otherwise stated, the short-, mid-, and long-term success of Progressive. Success doesn't happen unless we collectively modify and adjust how we view our ability to expand and win in new areas where we can leverage our skills and abilities. For us, this has been an exhilarating paradigm shift and has allowed us to be more open in our ever-changing environment, which will enable us to grow and flourish. Because of this shift, we are considerably more open to opportunities and thinking more deeply about the needs of all our stakeholders (shareholders, employees, customers, communities, and suppliers).

We are proud of where we stand and the progress we are making in our impact on the environment and society, our people, and in the governance of Progressive. We drive social good through transparency, efficiency, innovation, and empowerment. Working with our business partners, communities, and customers, we strive to move forward to create a better future and improve social and environmental outcomes. We positively affect the communities in which we operate by creating careers that are well-paying and fulfilling and added more than 4,000 employees in 2019 alone. Progressive's people and our charitable foundation continue to provide our time and our financial resources in communities across the country. Our carbon emissions per policy in force continues to decline, down 7% in 2019 versus 2018 and down 57% over the past ten years. Accountability, integrity, and transparency form the cornerstone of Corporate Governance at Progressive. We are committed to increasing the Company's value and retaining the trust of investors. Progressive's Board of Directors is now comprised of 50% females and 50% males and our most recent additions to the Board bring exceptional perspectives in the technology arena, which is critical for our success. These actions should come as no surprise since, to us, corporate responsibility is akin to living our Core Values, which guide our actions and behavior to operate in responsible ways, support others in our communities, and protect the environment. It is this mindset that will keep us focused on what is critical to achieving future success.

Thinking broadly was added, several years ago, to my ever-growing set of leadership principles and was one of the reasons we formed the Strategy team. I believe this principle allows our leaders to step back and look at the world and business through a new lens and vantage point. In fact, I recently articulated a formula, albeit not mathematical, for our senior managers to use as we think about our future. The formula arose from our desire to take the time to step back and assess both successes and failures and challenge how we think about the business, while always keeping in mind our profitability objective. Change can, and should, be invigorating.

The formula may be simple. That said, the execution of it is not. **Question Everything + Always Grow Mindset = Enduring Business**. This equation fits nicely whether we are thinking about our current business or future opportunities. The wonderful part of having a highly tenured senior leadership team is that we have a depth of historic knowledge that helps to guide us about possible next steps and choices to make for a successful outcome. Where that becomes difficult is when we don't challenge ourselves to think differently as the world around us evolves. It's imperative that we feel comfortable questioning ourselves and the way we approach the business. Even if the conclusion is the same, the exercise of questioning nearly always adds value.

Think of the always grow mindset as a double entendre where personal growth draws a parallel to company growth. I've asked our senior leadership team to take time to expand their thinking, as individuals, whether it be through books, podcasts, TED Talks, or the like, believing that taking the time to grow will spawn ideas that will proactively influence Progressive's growth. Personally, I've joined a few outside groups in order to listen to alternative perspectives, get to know other leaders who face similar struggles, and rethink how to solve problems in this ever-changing environment.

If we ask questions and grow personally and professionally, our business will be enduring, which is the legacy we all want to leave for those who follow us.

From Broad to Narrow

We concluded 2019 with a combined ratio (CR) of 90.9, compared to a 90.6 CR at year-end 2018. Our net premiums written (NPW) growth was up 15%, compared to 20% in 2018. These results are extraordinary by themselves, but remarkable when you add in our prior years of success. We added nearly $5 billion in NPW in 2019, bringing our total NPW to $37.6 billion. It feels like yesterday we celebrated achieving $30 billion. Our ability to post these ongoing results is a tribute to our over 40,000 Progressive people who, every day, strive to create an enduring business.

Our Personal Lines CR was 90.5, with NPW growth of 15% and auto policies in force (PIF) growth of 11%. Both the Agency and Direct channels contributed to these stellar results. Special Lines PIF growth was stronger in 2019 at 4% than it was in 2018 when policy growth was relatively flat.

Commercial Lines, as in years past, continues to be a significant part of our tremendous growth and profit story. NPW grew 20% adding nearly $800 million in NPW from an already solid base of $4 billion. We ended 2019 with an astounding CR of 89.6. The products and programs we have put in place for future growth are beginning to gain momentum and in some cases are substantial, as with our transportation network company (TNC) customer relationships, and in others just beginning, as with our business owners policy/general liability (BOP/GL) programs. Our ability to segment and price rate to risk, as well as invest in people, processes, and technology, we believe, will pay dividends as we look to the future.

I recently had the pleasure of sitting side-by-side with a multi-product specialist (thank you, Brian) in Commercial Lines and more specifically in our BusinessQuote Explorer® team. The training, expertise, and service provided to our small business customers that I was able to observe was exceptional. Witnessing these detailed conversations, where we educate and put the customer at ease, is another reason I'm so bullish on the runway we have in Commercial Lines.

The story on Property isn't much different than last year. Growth remained strong, with NPW up 16% to $1.7 billion and PIFs up 14% to more than 2.2 million. Our Property CR improved from 106.9 to 101.7, but this is still higher than our target for the Property business. Higher-than-expected wind and hail losses were once again the primary issue. The $214.5 million of retained catastrophic wind and hail losses accounted for 13.8 points on our 2019 Property loss ratio. The good news is that our actions to improve profitability are starting to pay off. We increased rates in the "hail alley" states in the middle of the country and implemented minimum deductible requirements for new customers. These changes have slowed our growth in areas with significant hail exposure, while we continue to grow faster in other areas of the country. We expect that trend to continue in 2020 as we adjust prices to reflect expected future loss costs.

Consistent with thinking broadly, in January 2020, our Property product and team started reporting into the Personal Lines organization, and in February 2020, we reached agreement to buy out the minority ARX stockholders and bring our ownership of ARX to 100%, a year earlier than originally planned. The synergies, shared data on segmentation variables, and ongoing R&D expertise, we believe, will be instrumental as we continue to grow our bundled customers, the Robinsons.

During a recent Investor Webcast, we were asked if we would consider reporting on how catastrophes effect our monthly CR results, particularly in Property. You will be pleased to know that effective with our January 2020 monthly results, we added the percentage of earned premium affected by catastrophes within the supplemental information section of the release.

In 2019, our investment portfolio achieved a fully taxable equivalent total return of 7.9%. As opposed to the significant volatility witnessed in 2018, the easing of monetary policy drove strong gains throughout 2019. Our fixed-income portfolio earned a 6.0% total return due to both lower interest rates and tighter credit spreads.

Following last year's negative return, our equity portfolio gained 30.5% as earnings multiples saw significant expansion.

The combination of strong operating growth and our positive investment performance drove the size of our portfolio to just over $39 billion by the end of 2019. While our invested assets are greater than at any time in our history, the opportunity set is narrow. Valuations across the financial markets remain full and, therefore, we begin 2020 with a conservative allocation to risk assets. We continue to focus on the long term and believe that we will see better opportunities in the future. The one thing that is constant is our focus on protecting Progressive's balance sheet to support our growing operating business.

As we outlined extensively in last year's annual letter to shareholders, a substantive change was made to our dividend policy. In December 2018, the Board of Directors terminated the formulaic Gainshare-based annual variable dividend policy and replaced it with a policy under which the Board expects to declare regular quarterly dividends and, on least an annual basis, to consider declaring an additional common share dividend. The new plan, which was effective for 2019, gives us more flexibility in managing capital than we had in the past.

During each quarter of 2019, the regular quarterly dividend was 10 cents per share. In December 2019, the Board of Directors declared an additional dividend of $2.25 per share, or $1.3 billion. Both the fourth quarter and annual 2019 dividends were paid on January 15, 2020.

We compared our return on equity (ROE) results to the S&P 500 Property and Casualty Index and the S&P 500 on a 5-, 10-, and 20-year basis during a recent Investor Webcast, with the punch line being that we have outpaced both indices by very wide margins. While we don't have the industry data to compare full year 2019, our ROE for last year was a whopping 31.3%.

All-encompassing Strategic Pillars

We've frequently shared our four cornerstones: who we are (Core Values); why we are here (Purpose); where we are headed (Vision); and how we will get there (Strategy). These concepts help guide us and also feed off of each other to equate to success.

As an example, you can't fully meet the broad needs of our customers if you don't have the right people and culture. You have to invest in the future while caring about keeping prices competitive for consumers. I think you get it. The four strategic pillars are part of our intertwined construct that has served us well for some time. It may appear simple in theory, but in reality, it's a delicate balance that we vigorously attempt to attain every day.

People and Culture: We continue to believe that our people and culture are Progressive's greatest competitive advantage and that idiom remains true now more than ever. While our trophy case is full of accolades that acknowledge that we have a great thing going, what is truly meaningful is what happens daily when no one is watching.

To that end, I have a short, but very sweet story that I want to share.

During the planning for this year's Keys to Progress® campaign that gives cars to deserving veterans, our Claims team learned that one of our 100+ recipients has a twin sister, Christy, who works in Progressive's Customer Relationship Management (CRM) organization in Phoenix. We learned that Christy hadn't seen her brother in quite some time, so we put the wheels in motion to fly her across the country for the November 7th vehicle giveaway ceremony in Altamonte Springs, Florida. Our goal was to surprise her brother with more than just a new car. During the event, when it was time for her brother to receive the keys to his car, he was delighted to see his sister run from the back of the crowd and jump into his arms, with the keys dangling in her hand.

Christy said she's forever grateful for the efforts and huge hearts of her coworkers who made this special day possible for her family. "My brother told me that he never thought things like this actually happened, especially to regular people like us - this event was proof that it DOES!"

This is just one example of the way we treat each other at Progressive and that's what makes us who we are.

Meeting the broader needs of our customers: It's critical that our customers know we care about them and recognize that we want to build a trusting, long-term relationship. Like any relationship, you must "be there" for someone to build trust. For us, that means being there as their insurance needs change or grow. Building this trusting relationship also means addressing broader customer needs for their unique situations. It might mean recognizing that a parent at a child's after-school event may need us to communicate with them differently versus when they are at home and have more time to talk. Either way, we are there for them and will flex based on our customers' wishes.

One way we meet the broader needs of our customers is through our service experiences. We strive to be available where, when, and how people want to interact with us. In 2019, we continued to make purposeful and significant investments in our phone, agency, and digital channel experiences.

'Where' references that people may look to address their insurance needs in a variety of settings in their life. And the context of where they are, what's on their mind, the time they have… all play into how we must be prepared to meet their needs in different ways.

'When' references not only time of day, but important aspects of our service like being flexible with payments based on when our insureds get paid. We offer 24/7 service, and also ensure that service throughout that spectrum is all held to our same service standards.

'How' references the contact methods by which our customers indicate to us are preferred.

We're making use of new technologies, developing new customer experiences, and addressing core insurance needs across all of these dimensions. We're rebalancing our investments as we look at where our customers are going. As an example, since my first annual letter for 2016, mobile app customer engagement has increased about 4x, which is why we've heavily invested in using artificial intelligence, offering more personalization, and utilizing device-specific capabilities (such as a mobile phone's camera) to improve customer experiences in the mobile app.

An important part of our strategy is making good decisions on where we invest our time, talent, and resources. While we follow test-and-learn methodologies, we make decisions quickly and drive to conclusions. With clear and transparent strategies that broadly encompass the organization and cut across silos, we are able to ensure we are broadly utilizing our customer feedback and data in decisions and prioritization.

Another important facet of meeting the needs of our customers is recognizing our responsibility to be smart and disciplined with our resources to keep rates competitive. We utilize our data and customer-first discipline in our experience design and have established "Lean" processes that allow us to continue to deliver and innovate in meaningful ways for our customers, while managing costs. We reward our people for trying things, being open and honest about results, both good and bad, and making decisions that propel us forward.

For many, our phone consultants are the most direct connection they have with us. They are Progressive. While we may not see this with every phone interaction, I find this story a compelling one illustrating how our people care for our customers, gain trust, and, in return, develop long-lasting relationships.

A great example of this was in 2017, when Andrew (a member of our Progressive Advantage Agency) received a call from Shirley. She was unnerved because another insurance carrier was canceling her policy because of a homeowners claim she had made. She didn't know what to do because her late husband used to handle all of the insurance details. Andrew walked her through both auto and home quotes and explained the process to her making it clear and easy for her to understand. She was grateful and the price was good, so she became a Robinson (auto and home bundled).

Andrew didn't stop there. He checked on her periodically to make sure everything went smoothly on her end because he had built a strong rapport with her and empathized with her situation (Golden Rule is one of our Core Values). He said, "I just wanted to make sure that I set it all up for her so she wouldn't have to worry." Later that year, Shirley sent Andrew a Christmas card wishing him well and thanking him for helping her. Shirley has

continued to send her yearly Christmas card to Andrew. This past year, Andrew wrote her back and thanked her for the cards and for trusting Progressive. He keeps those cards close by as a reminder of how he can make a difference in someone's life during just one phone call.

Leading Brand: You can't watch an hour of television without seeing an advertisement from an insurance company. Because of that, ads must be breakthrough while protecting the brand.

What we call our brand "network" continues to grow and evolve, and 2019 was no exception. We produced countless quantities of creative from mass media, to digital, to sponsorships, and everything in between.

In addition, we unveiled several new campaigns to better reach specific demographics. We introduced what we called "Motaur" (half-man and half-motorcycle) with the insights that people who ride feel so connected to their bikes as if they are one.

We started a new small business campaign showing that small businesses can start like a fairy-tale dream, but things can go wrong, and we'll help you get through it.

Lastly, we introduced "At Home with Baker and Emily Mayfield," where the message was less about football and more about common occurrences that happen in both a home and within a relationship. In the ads they happen to live in a football stadium, which allowed us to create a massive amount of relatable life events.

We hit the ground running in 2020 with a relationship we have established with a mobile entertainment company called Quibi (stands for quick bites) and a new character in our network we named Sign Spinner. More to come on both of these as the year transpires.

Our Brand Promise: Campaigns are important to capture the attention of consumers and confirm for our current customers that they made the right choice when choosing Progressive. As we head into 2020, we will continue producing media that we believe stands out. In addition, we will focus on a newly articulated brand promise to guide us into the future. Having a public promise becomes an organizing principle that guides every piece of marketing we create.

A brand promise forces us to think about who we are creating for, not just what we need to message. This Promise puts the people we serve at the center of our marketing strategy, and it reminds us that we have a variety of audiences, that aren't all served, or reached, in the same way. For some of us, big milestones will mark our paths…getting married, buying a house, having a baby…but not necessarily in that order. For others, major life events may be totally different… graduating from trade school, adopting a rescue pet from a shelter, or leaving corporate life to start fresh at age 50. But for all of us, it's the little things, the small moments, the everyday pursuits, and passions that make up a life.

Whatever it is you're passionate about, whatever it is you're striving for, it is the people and things and pastimes that make waking up every day an adventure and a joy. We believe that's valuable and worth protecting. Our Marketing Brand Promise is:

WHEN IT MATTERS TO YOU. IT MATTERS TO US. AND WE'LL HELP YOU PROTECT IT.

We love this Marketing Brand Promise for a few reasons. The most important part is "you". This is not about us. This is about people, the customers and consumers that we endeavor to reach and connect with and ultimately form a long-term relationship.

The next part is "matters." We care about what matters to you and that will be distinct for every customer and throughout their lives as their insurable needs evolve. Our end goal is to have our customers (current and future) really know that Progressive cares about them and we are really there to help and make things better.

And the last piece is "help" - we are in the solutions business always trying to make things better and easier. Help is how we prove it and put our promise into action.

When you combine these pieces, we believe that this is a powerful promise that takes us well beyond product and price, and that builds the emotional value. It is just one more reason for people to choose Progressive. Because the bottom line is - our product is a promise and a promise is only as good as who makes it. We believe our promise is different, and it's now up to us to prove it.

Competitive Prices:

I often talk to new hires about how the only thing worse than having to buy insurance is to use it. We are honest with ourselves that this is a category where people are rightly price sensitive. Because of that, it is a necessity that our prices are competitive as we continue to advance our "Always Grow Mindset" (and we do!).

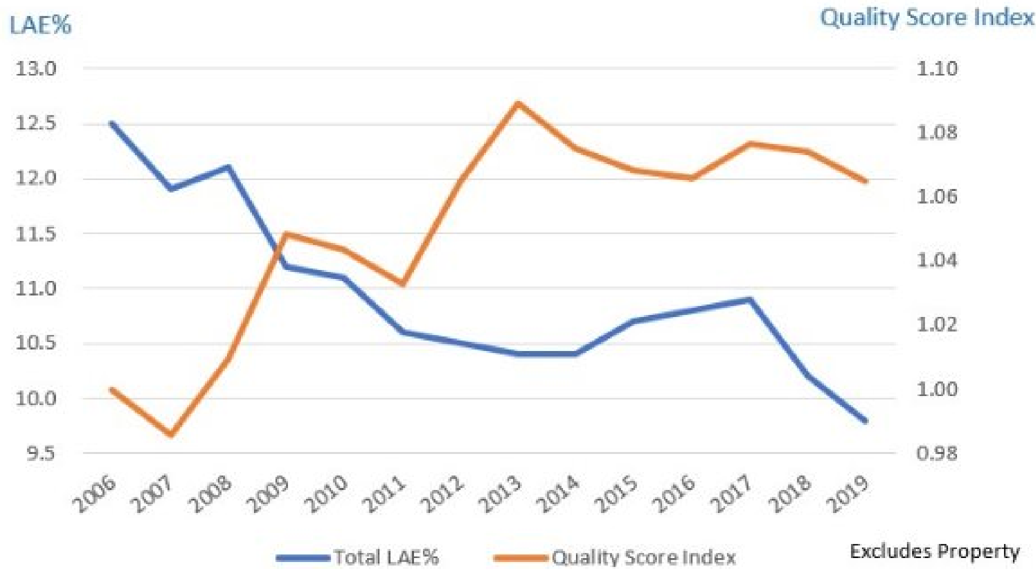
A key piece of keeping prices competitive, besides having industry leading segmentation through our proprietary product models, is running an efficient organization and, in the claims area, balancing that efficiency with quality on the indemnity side.

Clearly, from the imbedded charts, we take being efficient seriously and that has allowed us this prolonged period of growth and giving customers a reason to join Progressive.

Over the last ten years, we have trimmed 3 points off our CR in what we call NAER (Non-Acquisition Expense Ratio), which are the operating expenses less the cost of acquiring new customers.

In claims, our LAE (loss adjustment expenses) dropped over one point in the last 10 years and nearly 3 points since 2006. In more recent years, we have hired ahead of need in order to make sure that we have enough time to thoroughly train our claims associates, so they are able to serve our customers in the way they have become accustomed. That is a more expensive model, but we believe it is just the right thing to do. In addition, we've had some tailwinds due to premium increases.

The truly amazing part about this graph is that the claim handling quality has stayed relatively flat (per our internal audit quality score), which is incredible with so many new people and a tribute to how much each person cares about settling each claim fairly. It should be noted that the claims organization (the largest part of Progressive as far as employees) also had the highest Culture and Engagement scores in 2019. It's all about balance.



Back to the "Broad" Future

As we reflect on the investments that we have made in all Three Horizons this year, I am incredibly thankful that we have the foresight, courage, and determination to think broadly. It would have been easy to focus on just doing what we have done so well in the past, which of course we did, and is part and parcel of our enterprise growth strategy. We did more than that. We surgically focused on seizing additional market share with our core products, while honing in on new products and services that leverage our strengths. In parallel, our strategy team has been diligently researching possibilities for our future. All-in-all, a formula that we are confident will create an enduring business.

I'd like to give special thanks to our partners, independent agents, and the customers who trust us to protect them. You matter to us.

As always, a very special thank you to the 40,000+ Progressive people who work tirelessly to make this machine we call Progressive hum. You are why we are in the enviable position that we are in. I can't thank you enough for all that you do.

/s/ Tricia Griffith
Tricia Griffith
President and Chief Executive Officer