# THE PROGRESSIVE CORPORATION

## 2019 Second Quarter Report

**The Progressive Corporation and Subsidiaries**

**Financial Highlights**

| | Six Months Ended June 30, | | Years Ended December 31, | | | |
|---|---|---|---|---|---|---|
| (billions - except per share amounts) | 2019 | 2018 | 2018 | 2017 | 2016 | 2015 |
| Net premiums written | $ 18.4 | $ 16.1 | $ 32.6 | $ 27.1 | $ 23.4 | $ 20.6 |
| Growth over prior period | 14% | 21% | 20 % | 16% | 14% | 10% |
| Net premiums earned | $ 17.3 | $ 14.8 | $ 30.9 | $ 25.7 | $ 22.5 | $ 19.9 |
| Growth over prior period | 17% | 20% | 20 % | 14% | 13% | 8% |
| Total revenues | $ 18.8 | $ 15.4 | $ 32.0 | $ 26.8 | $ 23.4 | $ 20.9 |
| Net income attributable to Progressive | $ 2.06 | $ 1.42 | $ 2.62 | $ 1.59 | $ 1.03 | $ 1.27 |
| Per common share | $ 3.48 | $ 2.42 | $ 4.42 | $ 2.72 | $ 1.76 | $ 2.15 |
| Underwriting margin | 10.4% | 10.3% | 9.4 % | 6.6% | 4.9% | 7.5% |
| | | | | | | |
| (billions - except shares outstanding, per share amounts, and policies in force) | | | | | | |
| **At Period-End** | | | | | | |
| Common shares outstanding (millions) | 584.1 | 582.5 | 583.2 | 581.7 | 579.9 | 583.6 |
| Book value per common share | $ 21.98 | $ 18.04 | $ 17.71 | $ 15.96 | $ 13.72 | $ 12.49 |
| Consolidated shareholders' equity | $ 13.3 | $ 11.0 | $ 10.8 | $ 9.3 | $ 8.0 | $ 7.3 |
| Common share close price | $ 79.93 | $ 59.15 | $ 60.33 | $ 56.32 | $ 35.50 | $ 31.80 |
| Market capitalization | $ 46.7 | $ 34.5 | $ 35.2 | $ 32.8 | $ 20.6 | $ 18.6 |
| Return on average common shareholders' equity | | | | | | |
| Net income attributable to Progressive | 28.3% | 23.0% | 24.7 % | 17.8% | 13.2% | 17.2% |
| Comprehensive income attributable to Progressive | 34.3% | 22.3% | 23.8 % | 21.7% | 14.9% | 14.2% |
| | | | | | | |
| Policies in force (thousands) | | | | | | |
| Personal Lines | | | | | | |
| Agency - auto | 6,783.7 | 6,107.4 | 6,358.3 | 5,670.7 | 5,045.4 | 4,737.1 |
| Direct - auto | 7,528.4 | 6,650.9 | 7,018.5 | 6,039.1 | 5,348.3 | 4,916.2 |
| Special lines | 4,510.2 | 4,387.4 | 4,382.2 | 4,365.7 | 4,263.1 | 4,111.4 |
| Total Personal Lines | 18,822.3 | 17,145.7 | 17,759.0 | 16,075.5 | 14,656.8 | 13,764.7 |
| Growth over prior year | 10% | 11% | 10 % | 10% | 6% | 4% |
| Commercial Lines | 734.2 | 678.9 | 696.9 | 646.8 | 607.9 | 555.8 |
| Growth over prior year | 8% | 9% | 8 % | 6% | 9% | 8% |
| Property | 2,071.6 | 1,766.6 | 1,936.5 | 1,461.7 | 1,201.9 | 1,076.5 |
| Growth over prior year | 17% | 35% | 32 % | 22% | 12% | NM |
| Companywide total | 21,628.1 | 19,591.2 | 20,392.4 | 18,184.0 | 16,466.6 | 15,397.0 |
| Growth over prior year | 10% | 13% | 12 % | 10% | 7% | 12% |
| | | | | | | |
| Private passenger auto insurance market[1] | | | NA | $ 222.2 | $ 206.6 | $ 192.8 |
| Market share[2] | | | NA | 10.1% | 9.4% | 9.0% |
| | | | | | | |
| **Stock Price Appreciation (Depreciation)[3]** | | | | | | |
| Progressive | 37.7% | 7.2% | 9.3 % | 61.6% | 14.7% | 20.9% |
| S&P 500 | 18.5% | 2.6% | (4.4)% | 21.9% | 11.9% | 1.4% |

NM = Not meaningful; Property business written by Progressive prior to April 2015 was negligible.
NA = Not available; final comparable industry data for year-end 2018 will not be available until our third quarter report.

[1] Represents net premiums written as reported by A.M. Best Company, Inc.
[2] Represents Progressive’s private passenger auto business, including motorcycle insurance, as a percent of the private passenger auto insurance market.
[3] Represents average compounded rate of increase (decrease) and assumes dividend reinvestment.

Letter to Shareholders
Second Quarter 2019

We continue to be thrilled with our overall results, especially given this competitive environment. Our total net premiums written (NPW) for the second quarter were up 13% at a combined ratio (CR) of 90.4. This brings our YTD NPW growth to 14% at a CR of 89.6. All results are in line with our expectations aside from Property, which is running less profitably than our target predominantly due to elevated weather activity.

Continued heavy wind and hail activity, along with a considerable number of tornadoes, resulted in a quarter with significant catastrophe losses. Specifically, Texas experienced wind, hail, and thunderstorms, while the tornadoes were spread throughout the United States. Excluding the recoverable under our aggregate stop-loss agreements, these events added $131.4 million to our Property catastrophe losses in the second quarter taking our YTD Property catastrophe losses to $193.0 million, up 31% compared with the same period in 2018. Our aggregate stop-loss recoverable, which includes losses and a portion of loss adjustment expenses, increased $42.0 million during the quarter, bringing the year-to-date total to $81.5 million for accident year 2019 losses. After giving effect to this recoverable, our Property CR was 109.0 and 103.6 for the second quarter and first six month of 2019, respectively. As always, we are prepared to take care of our customers in the way they have become accustomed when events of this type occur. Getting them back on their feet and feeling cared for is our main priority.

We are diligently applying our product segmentation acumen, that we've developed on the auto side, more deeply to our Property product. Our new 4.0 product design rolled out in Michigan in May. The new product design adds several new coverage features that agents have been requesting, and we expect it to improve our pricing accuracy. So far, the Michigan sales results are in line with our expectations for the new product. We expect to elevate five more states on 4.0 this year. We plan to add the HomeQuote Explorer® (HQX) Buy capability for Progressive Home in 10 states this year, bringing the projected year-end total to 14. As a reminder, HQX Buy allows direct shoppers to quote and buy a home policy completely online, without having to call the Progressive Advantage Agency.

Our auto frequency during this quarter decreased 4%, which was offset by severity increases of 8%. This was the 10th quarter in a row we saw frequency decrease. On a year-over-year basis for the first six months, severity increased 8% and frequency decreased 3%. Because our customers prefer stable rates, we have been diligent around our rate revisions and are watching these trends closely at the state, consumer segment, and product level.

Results remain stellar on the Investment side of the house. The portfolio returned 2.2% in the second quarter, with fixed-income securities returning 2.1% and common stocks returning 4.0%. The second quarter ended with a strong month for both treasuries and risk assets, with a rare synchronization of equities, credit spreads, and treasuries all rallying together on growing expectations of Fed rate cuts and a reduction in trade war rhetoric following the June G20 summit. YTD returns through June were 5.5% for the portfolio, comprised of 4.4% from fixed income and 17.9% from equities.

This quarter, we took a significant step forward in expanding our Commercial Lines product offerings with the introduction of a Progressive Business Owners Policy (BOP). Our BOP provides a package of business liability and commercial property coverages on a single policy form designed specifically for small business owners. While this product is currently only available through select agents in Ohio, we plan to add additional states by the end of the year contingent on product performance and agent feedback.

In last quarter's letter, I highlighted how we partner with our incredible independent agents to acquire, grow, and retain our mutual customers. To that end, and because the home product has become such an integral contribution to what we are able to offer our customers and consumers, we made the decision to revise our Vision statement. For several years, our vision has been to *Become consumers' #1 choice and destination for auto and other insurance*. Our revised Vision statement that I am proud to unveil is to *Become consumers' and* ***agents'*** *#1 choice and destination for auto,* ***home,*** *and other insurance*. While these changes may seem subtle, they are meaningful to us as we continue with our successful endeavor into the Destination era. In addition, we believe it sends a tangible signal to our agents of their continued importance to us.

While Progressive continues to deliver impressive results, I'd like to take this opportunity to focus on one of the most important reasons why - our people and culture. In keeping with the theme from the 2018 annual report of Together, I'd like to share what it's like behind the curtain at Progressive, and how our people work together every day to deliver these results.

Our Strategy statement and the company's success start with our people and culture, and the foundation for both are our Core Values. Some companies talk about their values being foundational. At Progressive, we actively live our Core Values. These Core Values regularly surface in our conversations and meetings, defining how we make decisions and treat each other as we grow, and are especially present during some of our most challenging moments. For example, we see natural disasters as our opportunity to help our customers during their greatest time of need - and at Progressive, there's more to the story.

Consistent with our Core Values, we often help our local agency partners and employees who are also affected in these situations. I could provide many examples - like during the Louisiana floods a few years ago, where we provided agents with office space to work, plus care packages, complete with everything they needed to serve their customers, including computers, printers, and other office suppliers, or providing new laptops to agents affected by the recent California wildfires. It's also important for us to connect daily with each of our employees in these areas to understand how they're doing, how they've been impacted, and what they need. During Hurricane Harvey, we set up a process where employees from around the country sent gift cards to our impacted employees, while offices in other cities trucked food, water, diapers, and other supplies to these employees.

Where living our Core Values is foundational to our belief in winning in the right way, the key to delivering results is working together, collaboratively. You may know that nearly all 40,000 of Progressive's employees financially share in our success through our Gainsharing program. However, it's also important to note that each employee is expected to share their views and ideas, plus make significant contributions, regardless of their role or job title. We don't have any easy jobs at Progressive, but we do have amazing and engaged employees. A great example is Ebony Walton, a supervisor in our Customer Relationship organization. In addition to her very demanding role, Ebony serves as a board member for one of our Employee Resource Groups and takes time to mentor and coach both her peers and staff. Our Chief Human Resource Officer reaches out to Ebony for her advice, and Ebony is often asked by her business unit's President to accompany him and tell her story at every new hire class in their area. As a result, Ebony has been consistently recognized for her leadership. With highly engaged coworkers like Ebony, it's no wonder that Progressive ranks in the 96$^{th}$ percentile on Gallup's engagement index.

One of my leadership principles is that small gestures matter. I learned about a cute example of this several weeks ago and, maybe because I have a 91-year-old mom, it gave me a huge smile.

A 34-year employee in our subrogation department, Kathleen, was talking to her supervisor, Maureen, and mentioned her mom's upcoming 90$^{th}$ birthday and shared the plans for her celebration. Kathleen mentioned that her mom loved getting cards in the mail, but unfortunately there weren't many people left to send them anymore, since she has outlived most of her friends and family. Maureen quickly said, "I'll send her one." Little did Kathleen know that Maureen would also put the word on the street that a special birthday was in the works and shared the story with a handful of people, who in turn shared with another handful. In true Progressive fashion, word spread, and Kathleen's mom received cards from Progressive people across the country. The cards contained heart felt messages for her to have the best day ever.

These aren't infrequent examples, and rarely does a day go by when I'm not sent a note about what Progressive employees do for each other. That may seem trite, but I truly believe this is an important factor of why Progressive has been able to achieve the results it has for so many years and in the right way, following our values.

We value inclusive diversity in our workplace as it helps ensure each employee works together and contributes to their fullest. One of Progressive's keys to achieving this goal is making inclusion the expectation, and a part of each of our jobs. A large number of employees are members of one of our nine Employee Resource Groups, which help bring daily focus to this expectation. Another example is Progressive's Inclusion Week, which took place in June. The week's activities were open to all Progressive people and focused on the top five inclusive behaviors that help employees create an environment where everyone feels welcomed, valued, and respected. The end goal is that everyone can bring their whole selves to work every day to achieve their best results.

Many employees choose to have a long career with Progressive, so it's essential for us to continually develop our talent. Progressive's "promote from within" mindset helps ensure we build a pipeline of talent that understands the importance of our values, as they support our growth. For example, even though the number of new hires has grown quickly, our senior leaders find it more important than ever to take the time to share what they've learned with each new hire onboarding class. Our employees are ultimately entrepreneurs of their careers and responsible for charting their own paths. We provide them with tools like "Own It," where they can learn what it takes, and build the competencies required, to succeed in their next role. We're also transparent about available career opportunities, posting our jobs internally, so anyone who's qualified for a role can apply. As a result, many of us, myself included, have been able to develop from cross-functional experiences in a broad variety of roles.

Progressive's people and culture are how we're able to succeed, and we do it together. I'd like to take this opportunity to thank all our Progressive people - it's their vision, innovation, customer-focused mindset, hard work, and collaboration that together enable growth for decades to come.

Tricia Griffith
President and Chief Executive Officer

**Financial Policies**

Progressive balances operating risk with risk of investing and financing activities in order to have sufficient capital to support all the insurance we can profitably underwrite and service. Risks arise in all operational and functional areas, and, therefore, must be assessed holistically, accounting for the offsetting and compounding effects of the separate sources of risk within Progressive.

We use risk management tools to quantify the amount of capital needed, in addition to surplus, to absorb consequences of events such as unfavorable loss reserve development, litigation, weather-related catastrophes, and investment-market corrections. Our financial policies define our allocation of risk and we measure our performance against them. We will invest capital in expanding business operations when, in our view, future opportunities meet our financial objectives and policies. Underleveraged capital will be returned to investors. We expect to earn a return on equity greater than its cost. Presented is an overview of Progressive's Operating, Investing, and Financing policies.

**Operating** Maintain pricing and reserving discipline

- Manage profitability targets and operational performance at our lowest level of product definition
- Sustain premiums-to-surplus ratios at efficient levels, and at or below applicable state regulations, for each insurance subsidiary
- Ensure loss reserves are adequate and develop with minimal variance

**Investing** Maintain a liquid, diversified, high-quality investment portfolio

- Manage on a total return basis
- Manage interest rate, credit, prepayment, extension, and concentration risk
- Allocate portfolio between two groups:
  - Group I – Target 0% to 25% (common equities; nonredeemable preferred stocks; redeemable preferred stocks, except for 50% of investment-grade redeemable preferred stocks with cumulative dividends; and all other non-investment-grade fixed-maturity securities)
  - Group II – Target 75% to 100% (short-term securities and all other fixed-maturity securities)

**Financing** Maintain sufficient capital to support our business

- Maintain debt below 30% of total capital at book value
- Neutralize dilution from equity-based compensation in the year of issuance through share repurchases
- Use underleveraged capital to repurchase shares and pay dividends

## Objectives and Policies Scorecard

| Financial Results | Target | Six Months Ended June 30, 2019 | Years Ended December 31, 2018 | 2017 | 2016 | 5 Years[1] | 10 Years[1] |
|---|---|---|---|---|---|---|---|
| Underwriting margin: | | | | | | | |
| Progressive[2] | 4% | 10.4 % | 9.4 % | 6.6 % | 4.9 % | 7.3 % | 7.1 % |
| Industry[3] | na | | | (2.2)% | (5.9)% | (3.1)% | (2.1)% |
| Net premiums written growth: | | | | | | | |
| Progressive | (a) | 14 % | 20 % | 16 % | 14 % | 13 % | 9 % |
| Industry[3] | na | | | 8 % | 7 % | 6 % | 3 % |
| Policies in force growth: | | | | | | | |
| Personal auto | (a) | 12 % | 14 % | 13 % | 8 % | 8 % | 7 % |
| Special lines | (a) | 3 % | 0 % | 2 % | 4 % | 2 % | 3 % |
| Commercial Lines | (a) | 8 % | 8 % | 6 % | 9 % | 6 % | 3 % |
| Property | (a) | 17 % | 32 % | 22 % | 12 % | nm | nm |
| Companywide premiums-to-surplus ratio | (b) | na | 2.8 | 2.8 | 2.7 | na | na |
| Investment allocation: | | | | | | | |
| Group I | (c) | 13 % | 14 % | 17 % | 18 % | na | na |
| Group II | (c) | 87 % | 86 % | 83 % | 82 % | na | na |
| Debt-to-total capital ratio | <30% | 24.8 % | 28.9 % | 26.3 % | 28.3 % | na | na |
| Return on average common shareholders' equity: | | | | | | | |
| Net income attributable to Progressive | (d) | 28.3 % | 24.7 % | 17.8 % | 13.2 % | 18.8 % | 18.2 % |
| Comprehensive income attributable to Progressive | (d) | 34.3 % | 23.8 % | 21.7 % | 14.9 % | 19.4 % | 20.1 % |

(a) Grow as fast as possible, constrained only by our profitability objective and our ability to provide high-quality customer service.
(b) Determined separately for each insurance subsidiary.
(c) Allocate portfolio between two groups:
Group I – Target 0% to 25% (common equities; nonredeemable preferred stocks; redeemable preferred stocks, except for 50% of investment-grade redeemable preferred stocks with cumulative dividends; and all other non-investment-grade fixed-maturity securities)
Group II – Target 75% to 100% (short-term securities and all other fixed-maturity securities)
(d) Progressive does not have a predetermined target for return on average common shareholders' equity.
na = not applicable.
nm = not meaningful; Property business written by Progressive prior to April 2015 was negligible.
[1] Represents results over the respective time period; growth represents average annual compounded rate of increase (decrease).
[2] Expressed as a percentage of net premiums earned. Underwriting profit is calculated by subtracting losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses from the total of net premiums earned and fees and other revenues.
[3] Industry results for 2017 and 2016 represent private passenger auto insurance market data as reported by A.M. Best Company, Inc. The industry underwriting margin excludes the effect of policyholder dividends. Final comparable industry data for 2018 will not be available until our third quarter report. The 5- and 10- year growth rates are presented on a one-year lag basis for the industry.

**The Progressive Corporation and Subsidiaries**
**Operations Summary**

| | Six Months Ended June 30, | | |
|---|---|---|---|
| **Personal Lines** | **2019** | **2018** | **Change** |
| Net premiums written (billions) | $ 15.21 | $ 13.40 | 14 % |
| Net premiums earned (billions) | $ 14.46 | $ 12.52 | 15 % |
| | | | |
| Loss and loss adjustment expense ratio | 69.2 | 69.4 | (0.2) pts. |
| Underwriting expense ratio | 20.2 | 19.8 | 0.4 pts. |
| Combined ratio | 89.4 | 89.2 | 0.2 pts. |
| Policies in force (thousands) | 18,822.3 | 17,145.7 | 10 % |

| | Six Months Ended June 30, | | |
|---|---|---|---|
| **Commercial Lines** | **2019** | **2018** | **Change** |
| Net premiums written (billions) | $ 2.35 | $ 1.97 | 19 % |
| Net premiums earned (billions) | $ 2.08 | $ 1.69 | 23 % |
| | | | |
| Loss and loss adjustment expense ratio | 65.0 | 68.0 | (3.0) pts. |
| Underwriting expense ratio | 21.0 | 20.5 | 0.5 pts. |
| Combined ratio | 86.0 | 88.5 | (2.5) pts. |
| Policies in force (thousands) | 734.2 | 678.9 | 8 % |

| | Six Months Ended June 30, | | |
|---|---|---|---|
| **Property** | **2019** | **2018** | **Change** |
| Net premiums written (billions) | $ 0.81 | $ 0.69 | 17 % |
| Net premiums earned (billions) | $ 0.74 | $ 0.60 | 24 % |
| | | | |
| Loss and loss adjustment expense ratio | 73.0 | 68.0 | 5.0 pts. |
| Underwriting expense ratio[1] | 30.6 | 35.9 | (5.3) pts. |
| Combined ratio[1] | 103.6 | 103.9 | (0.3) pts. |
| Policies in force (thousands) | 2,071.6 | 1,766.6 | 17 % |

[1] Underwriting expense and combined ratios for 2019 and 2018 include 4.8 points and 6.0 points, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX.

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

| | Three Months | | Six Months | |
|---|---|---|---|---|
| **Periods Ended June 30,** | **2019** | **2018** | **2019** | **2018** |
| **(millions — except per share amounts)** | | | | |
| **Revenues** | | | | |
| Net premiums earned | $ 8,824.7 | $ 7,634.2 | $ 17,284.5 | $ 14,808.2 |
| Investment income | 261.3 | 192.1 | 514.2 | 358.4 |
| Net realized gains (losses) on securities: | | | | |
| Net realized gains (losses) on security sales | 67.5 | (9.6) | 113.6 | 97.4 |
| Net holding period gains (losses) on securities | 112.4 | 53.5 | 505.1 | (101.7) |
| Net impairment losses recognized in earnings | 0 | (11.1) | (24.3) | (11.1) |
| Total net realized gains (losses) on securities | 179.9 | 32.8 | 594.4 | (15.4) |
| Fees and other revenues | 134.8 | 116.0 | 265.0 | 219.8 |
| Service revenues | 50.0 | 42.9 | 92.6 | 77.1 |
| Total revenues | 9,450.7 | 8,018.0 | 18,750.7 | 15,448.1 |
| **Expenses** | | | | |
| Losses and loss adjustment expenses | 6,138.1 | 5,375.3 | 11,897.1 | 10,246.1 |
| Policy acquisition costs | 738.6 | 630.8 | 1,449.2 | 1,227.0 |
| Other underwriting expenses | 1,231.5 | 1,046.9 | 2,402.7 | 2,027.1 |
| Investment expenses | 6.2 | 6.2 | 12.4 | 12.2 |
| Service expenses | 45.3 | 37.0 | 83.4 | 66.3 |
| Interest expense | 47.4 | 41.7 | 94.8 | 78.5 |
| Total expenses | 8,207.1 | 7,137.9 | 15,939.6 | 13,657.2 |
| **Net Income** | | | | |
| Income before income taxes | 1,243.6 | 880.1 | 2,811.1 | 1,790.9 |
| Provision for income taxes | 264.6 | 178.9 | 749.3 | 359.9 |
| Net income | 979.0 | 701.2 | 2,061.8 | 1,431.0 |
| Net (income) loss attributable to noncontrolling interest (NCI) | 0.4 | 3.0 | (4.0) | (8.8) |
| Net income attributable to Progressive | 979.4 | 704.2 | 2,057.8 | 1,422.2 |
| **Other Comprehensive Income (Loss)** | | | | |
| Changes in: | | | | |
| Total net unrealized gains (losses) on fixed-maturity securities | 277.4 | (50.1) | 578.5 | (204.6) |
| Net unrealized losses on forecasted transactions | 0.2 | 0.2 | 0.4 | 0.4 |
| Other comprehensive income (loss) | 277.6 | (49.9) | 578.9 | (204.2) |
| Other comprehensive (income) loss attributable to NCI | (2.6) | 0.6 | (4.9) | 4.6 |
| Comprehensive income attributable to Progressive | $ 1,254.4 | $ 654.9 | $ 2,631.8 | $ 1,222.6 |
| **Computation of Earnings Per Common Share** | | | | |
| Net income attributable to Progressive | $ 979.4 | $ 704.2 | $ 2,057.8 | $ 1,422.2 |
| Less: Preferred share dividends | 6.7 | 6.7 | 13.4 | 7.9 |
| Net income available to common shareholders | $ 972.7 | $ 697.5 | $ 2,044.4 | $ 1,414.3 |
| Average common shares outstanding - Basic | 583.6 | 582.0 | 583.5 | 582.0 |
| Net effect of dilutive stock-based compensation | 3.3 | 3.8 | 3.2 | 3.6 |
| Total average equivalent common shares - Diluted | 586.9 | 585.8 | 586.7 | 585.6 |
| Basic: Earnings per common share | $ 1.67 | $ 1.20 | $ 3.50 | $ 2.43 |
| Diluted: Earnings per common share | $ 1.66 | $ 1.19 | $ 3.48 | $ 2.42 |

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
**Consolidated Balance Sheets**
(unaudited)

| (millions — except per share amounts) | June 30, 2019 | June 30, 2018 | December 31, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Available-for-sale securities, at fair value: | | | |
| Fixed maturities (amortized cost: $30,588.2, $24,061.8, and $28,255.9) | $ 31,188.2 | $ 23,789.2 | $ 28,111.5 |
| Short-term investments (amortized cost: $1,360.9, $3,231.2, and $1,795.9) | 1,360.9 | 3,231.2 | 1,795.9 |
| Total available-for-sale securities | 32,549.1 | 27,020.4 | 29,907.4 |
| Equity securities, at fair value: | | | |
| Nonredeemable preferred stocks (cost: $1,060.3, $677.0, and $1,002.6) | 1,130.0 | 758.6 | 1,033.9 |
| Common equities (cost: $1,203.7, $1,314.0, and $1,148.9) | 3,135.5 | 3,142.2 | 2,626.1 |
| Total equity securities | 4,265.5 | 3,900.8 | 3,660.0 |
| Total investments | 36,814.6 | 30,921.2 | 33,567.4 |
| Cash and cash equivalents | 91.9 | 154.8 | 69.5 |
| Restricted cash | 1.0 | 2.9 | 5.5 |
| Total cash, cash equivalents, and restricted cash | 92.9 | 157.7 | 75.0 |
| Accrued investment income | 187.5 | 146.3 | 190.8 |
| Premiums receivable, net of allowance for doubtful accounts of $240.7, $210.5, and $252.1 | 7,167.1 | 6,230.2 | 6,497.1 |
| Reinsurance recoverables | 3,051.5 | 2,410.7 | 2,696.1 |
| Prepaid reinsurance premiums | 338.0 | 289.8 | 309.7 |
| Deferred acquisition costs | 1,047.4 | 895.7 | 951.6 |
| Property and equipment, net of accumulated depreciation of $1,105.6, $984.7, and $1,033.2 | 1,174.9 | 1,116.4 | 1,131.7 |
| Goodwill | 452.7 | 452.7 | 452.7 |
| Intangible assets, net of accumulated amortization of $283.6, $211.7, and $247.7 | 258.7 | 330.6 | 294.6 |
| Net deferred income taxes | 0 | 0 | 43.2 |
| Other assets | 738.9 | 412.2 | 365.1 |
| Total assets | $ 51,324.2 | $ 43,363.5 | $ 46,575.0 |
| **Liabilities** | | | |
| Unearned premiums | $ 11,796.7 | $ 10,245.9 | $ 10,686.5 |
| Loss and loss adjustment expense reserves | 16,568.6 | 14,070.8 | 15,400.8 |
| Net deferred income taxes | 134.5 | 46.0 | 0 |
| Accounts payable, accrued expenses, and other liabilities | 4,867.5 | 3,922.3 | 5,046.5 |
| Debt[1] | 4,406.0 | 3,859.5 | 4,404.9 |
| Total liabilities | 37,773.3 | 32,144.5 | 35,538.7 |
| **Redeemable noncontrolling interest (NCI)[2]** | 220.1 | 218.2 | 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 | 493.9 |
| Common shares, $1.00 par value (authorized 900.0; issued 797.5, including treasury shares of 213.4, 215.0, and 214.3) | 584.1 | 582.5 | 583.2 |
| Paid-in capital | 1,523.3 | 1,425.9 | 1,479.0 |
| Retained earnings | 10,276.4 | 8,720.4 | 8,386.6 |
| Accumulated other comprehensive income (loss): | | | |
| Net unrealized gains (losses) on fixed-maturity securities | 472.9 | (210.9) | (105.6) |
| Net unrealized losses on forecasted transactions | (16.8) | (17.6) | (17.2) |
| Accumulated other comprehensive (income) loss attributable to NCI | (3.0) | 6.6 | 1.9 |
| Total accumulated other comprehensive income (loss) attributable to Progressive | 453.1 | (221.9) | (120.9) |
| Total shareholders' equity | 13,330.8 | 11,000.8 | 10,821.8 |
| Total liabilities, redeemable NCI, and shareholders' equity | $ 51,324.2 | $ 43,363.5 | $ 46,575.0 |

[1] Consists of long-term debt. See *Note 4 – Debt* for further discussion.
[2] See *Note 12 – Redeemable Noncontrolling Interest* for further discussion.
See notes to consolidated financial statements.

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

| **Periods Ended June 30,** | **Three Months** | | **Six Months** | |
|---|---|---|---|---|
| **(millions — except per share amounts)** | **2019** | **2018** | **2019** | **2018** |
| **Serial Preferred Shares, No Par Value** | | | | |
| Balance, Beginning of period | $ 493.9 | $ 493.9 | $ 493.9 | $ 0 |
| Issuance of Serial Preferred Shares, Series B | 0 | 0 | 0 | 493.9 |
| Balance, End of period | 493.9 | 493.9 | 493.9 | 493.9 |
| **Common Shares, $1.00 Par Value** | | | | |
| Balance, Beginning of period | 584.0 | 582.4 | 583.2 | 581.7 |
| Treasury shares purchased | (0.1) | 0 | (0.5) | (0.7) |
| Net restricted equity awards issued/vested | 0.2 | 0.1 | 1.4 | 1.5 |
| Balance, End of period | 584.1 | 582.5 | 584.1 | 582.5 |
| **Paid-In Capital** | | | | |
| Balance, Beginning of period | 1,496.6 | 1,401.6 | 1,479.0 | 1,389.2 |
| Amortization of equity-based compensation | 26.5 | 20.3 | 46.1 | 37.5 |
| Treasury shares purchased | 0 | (0.1) | (1.1) | (1.7) |
| Net restricted equity awards issued/vested | (0.2) | (0.1) | (1.4) | (1.5) |
| Reinvested dividends on restricted stock units | 0.6 | (0.3) | 0.9 | (0.8) |
| Adjustment to carrying amount of redeemable noncontrolling interest | (0.2) | 4.5 | (0.2) | 3.2 |
| Balance, End of period | 1,523.3 | 1,425.9 | 1,523.3 | 1,425.9 |
| **Retained Earnings** | | | | |
| Balance, Beginning of period | 9,358.1 | 8,017.9 | 8,386.6 | 6,031.7 |
| Net income attributable to Progressive | 979.4 | 704.2 | 2,057.8 | 1,422.2 |
| Treasury shares purchased | (2.2) | (2.1) | (26.8) | (37.0) |
| Cash dividends declared on common shares ($0.10, $0, $0.20, and $0 per share) | (58.3) | 0 | (116.6) | 0 |
| Cash dividends declared on Serial Preferred Shares, Series B ($0, $0, $26.875, and $0 per share) | 0 | 0 | (13.4) | 0 |
| Reinvested dividends on restricted stock units | (0.6) | 0.3 | (0.9) | 0.8 |
| Cumulative effect of change in accounting principle | 0 | 0 | 0 | 1,300.2 |
| Reclassification of disproportionate tax effects | 0 | 0 | 0 | 4.3 |
| Other, net | 0 | 0.1 | (10.3) | (1.8) |
| Balance, End of period | 10,276.4 | 8,720.4 | 10,276.4 | 8,720.4 |
| **Accumulated Other Comprehensive Income (Loss) Attributable to Progressive** | | | | |
| Balance, Beginning of period | 178.1 | (172.6) | (120.9) | 1,282.2 |
| Attributable to noncontrolling interest | (2.6) | 0.6 | (4.9) | 4.6 |
| Other comprehensive income | 277.6 | (49.9) | 578.9 | (204.2) |
| Cumulative effect of change in accounting principle | 0 | 0 | 0 | (1,300.2) |
| Reclassification of disproportionate tax effects | 0 | 0 | 0 | (4.3) |
| Balance, End of period | 453.1 | (221.9) | 453.1 | (221.9) |
| **Total Shareholders' Equity** | $ 13,330.8 | $ 11,000.8 | $ 13,330.8 | $ 11,000.8 |

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**

(unaudited)

| Six Months Ended June 30, | 2019 | 2018 |
|---|---|---|
| **(millions)** | | |
| **Cash Flows From Operating Activities** | | |
| Net income | $ 2,061.8 | $ 1,431.0 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 114.6 | 86.6 |
| Amortization of intangible assets | 35.9 | 36.0 |
| Net amortization of fixed-income securities | 1.9 | 23.2 |
| Amortization of equity-based compensation | 46.0 | 38.5 |
| Net realized (gains) losses on securities | (594.4) | 15.4 |
| Net (gains) losses on disposition of property and equipment | (1.6) | 1.7 |
| Changes in: | | |
| Premiums receivable | (670.0) | (807.7) |
| Reinsurance recoverables | (355.4) | (137.3) |
| Prepaid reinsurance premiums | (28.3) | (86.5) |
| Deferred acquisition costs | (95.8) | (115.2) |
| Income taxes | 157.4 | 2.0 |
| Unearned premiums | 1,110.2 | 1,342.4 |
| Loss and loss adjustment expense reserves | 1,167.8 | 983.9 |
| Accounts payable, accrued expenses, and other liabilities | 605.8 | 700.4 |
| Other, net | (181.2) | (31.1) |
| Net cash provided by operating activities | 3,374.7 | 3,483.3 |
| **Cash Flows From Investing Activities** | | |
| Purchases: | | |
| Fixed maturities | (13,008.4) | (10,780.0) |
| Equity securities | (230.7) | (136.4) |
| Sales: | | |
| Fixed maturities | 8,162.1 | 3,916.1 |
| Equity securities | 131.6 | 460.0 |
| Maturities, paydowns, calls, and other: | | |
| Fixed maturities | 2,589.0 | 2,936.2 |
| Equity securities | 0 | 15.0 |
| Net sales (purchases) of short-term investments | 458.3 | (343.8) |
| Net unsettled security transactions | 297.6 | 367.9 |
| Purchases of property and equipment | (203.2) | (102.0) |
| Sales of property and equipment | 24.6 | 6.7 |
| Acquisition of additional shares of ARX Holding Corp. | (11.2) | (295.9) |
| Net cash used in investing activities | (1,790.3) | (3,956.2) |
| **Cash Flows From Financing Activities** | | |
| Dividends paid to common shareholders | (1,526.3) | (654.9) |
| Dividends paid to preferred shareholders | (13.4) | 0 |
| Acquisition of treasury shares for restricted stock tax liabilities | (28.4) | (39.0) |
| Acquisition of treasury shares acquired in open market | 0 | (0.4) |
| Proceeds from exercise of equity options | 1.6 | 3.3 |
| Net proceeds from issuance of Serial Preferred Shares, Series B | 0 | 493.9 |
| Net proceeds from debt issuances | 0 | 589.5 |
| Payments of debt | 0 | (37.1) |
| Net cash provided by (used in) financing activities | (1,566.5) | 355.3 |
| Increase (decrease) in cash, cash equivalents, and restricted cash | 17.9 | (117.6) |
| Cash, cash equivalents, and restricted cash — January 1 | 75.0 | 275.3 |
| Cash, cash equivalents, and restricted cash — June 30 | $ 92.9 | $ 157.7 |

See notes to consolidated financial statements.

**Note 1** ***Basis of Presentation*** — The accompanying consolidated financial statements include the accounts of The Progressive Corporation and ARX Holding Corp. (ARX), and their respective wholly owned insurance and non-insurance subsidiaries and affiliates in which Progressive or ARX has a controlling financial interest. The Progressive Corporation owned 87.1% of the outstanding capital stock of ARX at June 30, 2019, 86.7% at June 30, 2018, and 86.8% at December 31, 2018, respectively.

The consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, were necessary for a fair statement of the results for the interim periods presented. The results of operations for the period ended June 30, 2019, are not necessarily indicative of the results expected for the full year. These consolidated financial statements and the notes thereto should be read in conjunction with Progressive's audited financial statements and accompanying notes included in Exhibit 13 to our Annual Report on Form 10-K for the year ended December 31, 2018 ("2018 Annual Report to Shareholders").

Other assets on the consolidated balance sheets include certain long-lived assets that are considered "held for sale." The fair value of these held for sale assets, less the estimated sales costs, was $57.2 million at June 30, 2019, $17.4 million at June 30, 2018, and $39.3 million at December 31, 2018.

**Note 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 |
|---|---|---|---|---|---|---|
| June 30, 2019 | | | | | | |
| Available-for-sale securities: | | | | | | |
| Fixed maturities: | | | | | | |
| U.S. government obligations | $ 12,121.9 | $ 259.7 | $ (2.2) | $ 0 | $ 12,379.4 | 33.6% |
| State and local government obligations | 1,563.6 | 27.4 | (1.3) | 0 | 1,589.7 | 4.3 |
| Corporate debt securities | 7,176.7 | 210.1 | (1.8) | 0.7 | 7,385.7 | 20.1 |
| Residential mortgage-backed securities | 660.4 | 6.2 | (1.4) | 0 | 665.2 | 1.8 |
| Commercial mortgage-backed securities | 4,361.2 | 83.3 | (2.6) | 0 | 4,441.9 | 12.1 |
| Other asset-backed securities | 4,478.2 | 19.9 | (1.0) | 0.1 | 4,497.2 | 12.2 |
| Redeemable preferred stocks | 226.2 | 3.4 | (1.6) | 1.1 | 229.1 | 0.6 |
| Total fixed maturities | 30,588.2 | 610.0 | (11.9) | 1.9 | 31,188.2 | 84.7 |
| Short-term investments | 1,360.9 | 0 | 0 | 0 | 1,360.9 | 3.7 |
| Total available-for-sale securities | 31,949.1 | 610.0 | (11.9) | 1.9 | 32,549.1 | 88.4 |
| Equity securities: | | | | | | |
| Nonredeemable preferred stocks | 1,060.3 | 0 | 0 | 69.7 | 1,130.0 | 3.1 |
| Common equities | 1,203.7 | 0 | 0 | 1,931.8 | 3,135.5 | 8.5 |
| Total equity securities | 2,264.0 | 0 | 0 | 2,001.5 | 4,265.5 | 11.6 |
| Total portfolio[1,2] | $ 34,213.1 | $ 610.0 | $ (11.9) | $ 2,003.4 | $ 36,814.6 | 100.0% |

| ($ in millions) | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Net Holding Period Gains (Losses) | Fair Value | % of Total Fair Value |
|---|---|---|---|---|---|---|
| June 30, 2018 | | | | | | |
| Available-for-sale securities: | | | | | | |
| Fixed maturities: | | | | | | |
| U.S. government obligations | $ 8,005.8 | $ 0.9 | $ (141.3) | $ 0 | $ 7,865.4 | 25.4% |
| State and local government obligations | 1,678.9 | 4.3 | (15.9) | 0 | 1,667.3 | 5.4 |
| Corporate debt securities | 7,422.4 | 4.2 | (94.3) | (2.0) | 7,330.3 | 23.7 |
| Residential mortgage-backed securities | 819.6 | 8.4 | (5.4) | 0 | 822.6 | 2.7 |
| Commercial mortgage-backed securities | 2,725.5 | 2.9 | (31.5) | 0 | 2,696.9 | 8.7 |
| Other asset-backed securities | 3,189.2 | 2.0 | (13.7) | 0.1 | 3,177.6 | 10.3 |
| Redeemable preferred stocks | 220.4 | 14.1 | (2.0) | (3.4) | 229.1 | 0.7 |
| Total fixed maturities | 24,061.8 | 36.8 | (304.1) | (5.3) | 23,789.2 | 76.9 |
| Short-term investments | 3,231.2 | 0 | 0 | 0 | 3,231.2 | 10.5 |
| Total available-for-sale securities | 27,293.0 | 36.8 | (304.1) | (5.3) | 27,020.4 | 87.4 |
| Equity securities: | | | | | | |
| Nonredeemable preferred stocks | 677.0 | 0 | 0 | 81.6 | 758.6 | 2.4 |
| Common equities | 1,314.0 | 0 | 0 | 1,828.2 | 3,142.2 | 10.2 |
| Total equity securities | 1,991.0 | 0 | 0 | 1,909.8 | 3,900.8 | 12.6 |
| Total portfolio[1,2] | $ 29,284.0 | $ 36.8 | $ (304.1) | $ 1,904.5 | $ 30,921.2 | 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 | | | | | | |
| Available-for-sale securities: | | | | | | |
| 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 available-for-sale securities | 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 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 unsettled security transactions; at June 30, 2019, we had $303.5 million included in "other liabilities," compared to $362.1 million and $5.9 million at June 30, 2018 and December 31, 2018, respectively.

[2]The total fair value of the portfolio at June 30, 2019 and 2018, and December 31, 2018, included $1.2 billion, $1.7 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 June 30, 2019, bonds and certificates of deposit in the principal amount of $251.0 million were on deposit to meet state insurance regulatory requirements.

***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 the first six months of 2019 and at various times during 2018, we did not have any open repurchase or reverse repurchase transactions in our short-term investment portfolio at June 30, 2019 and 2018, or December 31, 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 balance sheets, despite the option to elect to offset these transactions as long as they were with the same counterparty and subject to an enforceable master netting arrangement.

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

| | June 30, | | |
|---|---|---|---|
| **(millions)** | **2019** | **2018** | **December 31, 2018** |
| Fixed maturities: | | | |
| State and local government obligations | $ 3.5 | $ 3.6 | $ 3.6 |
| Corporate debt securities | 91.3 | 170.3 | 158.9 |
| Other asset-backed securities | 3.5 | 5.5 | 4.5 |
| Redeemable preferred stocks | 86.7 | 67.3 | 77.7 |
| Total hybrid securities | $ 185.0 | $ 246.7 | $ 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 realized gains or losses.

***Fixed Maturities*** The composition of fixed maturities by maturity at June 30, 2019, was:

| **(millions)** | **Cost** | **Fair Value** |
|---|---|---|
| Less than one year | $ 5,388.1 | $ 5,394.3 |
| One to five years | 18,518.4 | 18,833.0 |
| Five to ten years | 6,551.9 | 6,829.2 |
| Ten years or greater | 129.8 | 131.7 |
| Total | $ 30,588.2 | $ 31,188.2 |

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

***Gross Unrealized Losses*** 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** |
| June 30, 2019 | | | | | | | | | |
| Fixed maturities: | | | | | | | | | |
| U.S. government obligations | 16 | $ 572.8 | $ (2.2) | 0 | $ 0 | $ 0 | 16 | $ 572.8 | $ (2.2) |
| State and local government obligations | 85 | 398.3 | (1.3) | 11 | 133.6 | (0.1) | 74 | 264.7 | (1.2) |
| Corporate debt securities | 68 | 928.9 | (1.8) | 4 | 42.3 | (0.1) | 64 | 886.6 | (1.7) |
| Residential mortgage-backed securities | 43 | 203.8 | (1.4) | 8 | 24.5 | 0 | 35 | 179.3 | (1.4) |
| Commercial mortgage-backed securities | 57 | 963.7 | (2.6) | 26 | 485.5 | (1.1) | 31 | 478.2 | (1.5) |
| Other asset-backed securities | 92 | 674.6 | (1.0) | 23 | 265.6 | (0.2) | 69 | 409.0 | (0.8) |
| Redeemable preferred stocks | 2 | 26.3 | (1.6) | 1 | 15.0 | (0.5) | 1 | 11.3 | (1.1) |
| Total fixed maturities | 363 | $ 3,768.4 | $ (11.9) | 73 | $ 966.5 | $ (2.0) | 290 | $ 2,801.9 | $ (9.9) |

| | | | | 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** |
| June 30, 2018 | | | | | | | | | |
| Fixed maturities: | | | | | | | | | |
| U.S. government obligations | 70 | $ 7,503.2 | $ (141.3) | 33 | $ 4,543.5 | $ (73.6) | 37 | $ 2,959.7 | $ (67.7) |
| State and local government obligations | 355 | 1,050.9 | (15.9) | 219 | 631.9 | (7.1) | 136 | 419.0 | (8.8) |
| Corporate debt securities | 391 | 6,153.5 | (94.3) | 322 | 5,439.3 | (77.2) | 69 | 714.2 | (17.1) |
| Residential mortgage-backed securities | 227 | 380.3 | (5.4) | 52 | 188.6 | (0.9) | 175 | 191.7 | (4.5) |
| Commercial mortgage-backed securities | 142 | 2,300.9 | (31.5) | 85 | 1,371.4 | (14.4) | 57 | 929.5 | (17.1) |
| Other asset-backed securities | 219 | 2,479.7 | (13.7) | 148 | 2,055.1 | (8.5) | 71 | 424.6 | (5.2) |
| Redeemable preferred stocks | 3 | 30.2 | (2.0) | 1 | 4.6 | (0.2) | 2 | 25.6 | (1.8) |
| Total fixed maturities | 1,407 | $ 19,898.7 | $ (304.1) | 860 | $ 14,234.4 | $ (181.9) | 547 | $ 5,664.3 | $ (122.2) |

| | | | | 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 | | | | | | | | | |
| Fixed maturities: | | | | | | | | | |
| 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) |

Since both June 30, 2018 and December 31, 2018, the number of securities in our fixed-maturity portfolio with unrealized losses decreased, primarily due to valuation increases in nearly all sectors since interest rates declined and credit spreads tightened. 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)*** The following table shows the total non-credit portion of the OTTI recorded in accumulated other comprehensive income, reflecting the original non-credit loss at the time the credit impairment was determined (i.e., unadjusted for valuation changes subsequent to the original write-down):

| **(millions)** | **June 30, 2019** | **June 30, 2018** | **December 31, 2018** |
|---|---|---|---|
| Fixed maturities: | | | |
| Residential mortgage-backed securities | $ (19.7) | $ (19.7) | $ (19.7) |
| Commercial mortgage-backed securities | (0.1) | (0.3) | (0.1) |
| Total fixed maturities | $ (19.8) | $ (20.0) | $ (19.8) |

The following tables provide rollforwards of the amounts related to credit losses recognized in earnings for the periods ended June 30, 2019 and 2018, for which a portion of the OTTI losses were also recognized in accumulated other comprehensive income at the time the credit impairments were determined and recognized:

| | **Three Months Ended June 30, 2019** | | |
|---|---|---|---|
| | **Mortgage-Backed** | | |
| **(millions)** | **Residential** | **Commercial** | **Total** |
| Balance at March 31, 2019 | $ 0 | $ 0.5 | $ 0.5 |
| Change in recoveries of future cash flows expected to be collected[1] | 0 | 0 | 0 |
| Balance at June 30, 2019 | $ 0 | $ 0.5 | $ 0.5 |

| | **Six Months Ended June 30, 2019** | | |
|---|---|---|---|
| | **Mortgage-Backed** | | |
| **(millions)** | **Residential** | **Commercial** | **Total** |
| Balance at December 31, 2018 | $ 0 | $ 0.5 | $ 0.5 |
| Change in recoveries of future cash flows expected to be collected[1] | 0 | 0 | 0 |
| Balance at June 30, 2019 | $ 0 | $ 0.5 | $ 0.5 |

| | **Three Months Ended June 30, 2018** | | |
|---|---|---|---|
| | **Mortgage-Backed** | | |
| **(millions)** | **Residential** | **Commercial** | **Total** |
| Balance at March 31, 2018 | $ 0 | $ 0.5 | $ 0.5 |
| Change in recoveries of future cash flows expected to be collected[1] | 0.3 | 0 | 0.3 |
| Balance at June 30, 2018 | $ 0.3 | $ 0.5 | $ 0.8 |

| | **Six Months Ended June 30, 2018** | | |
|---|---|---|---|
| | **Mortgage-Backed** | | |
| **(millions)** | **Residential** | **Commercial** | **Total** |
| Balance at December 31, 2017 | $ 0 | $ 0.5 | $ 0.5 |
| Change in recoveries of future cash flows expected to be collected[1] | 0.3 | 0 | 0.3 |
| Balance at June 30, 2018 | $ 0.3 | $ 0.5 | $ 0.8 |

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

Although 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 six months ended June 30, 2019 or 2018.

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

| | Three Months | | Six Months | |
|---|---|---|---|---|
| **(millions)** | **2019** | **2018** | **2019** | **2018** |
| Gross realized gains on security sales | | | | |
| Available-for-sale securities: | | | | |
| U.S. government obligations | $ 34.9 | $ 1.7 | $ 71.5 | $ 1.7 |
| State and local government obligations | 0.6 | 0.6 | 2.2 | 9.2 |
| Corporate and other debt securities | 31.1 | 0.3 | 47.2 | 0.4 |
| Residential mortgage-backed securities | 0.2 | 0 | 0.2 | 0 |
| Commercial mortgage-backed securities | 2.9 | 0.3 | 3.6 | 2.0 |
| Other asset-backed securities | 0.7 | 0.1 | 0.7 | 0.1 |
| Redeemable preferred stocks | 0 | 3.2 | 0 | 4.3 |
| Total available-for-sale securities | 70.4 | 6.2 | 125.4 | 17.7 |
| Equity securities: | | | | |
| Nonredeemable preferred stocks | 11.7 | 0 | 16.6 | 3.6 |
| Common equities | 0.2 | 18.5 | 4.7 | 138.4 |
| Total equity securities | 11.9 | 18.5 | 21.3 | 142.0 |
| Subtotal gross realized gains on security sales | 82.3 | 24.7 | 146.7 | 159.7 |
| Gross realized losses on security sales | | | | |
| Available-for-sale securities: | | | | |
| U.S. government obligations | (5.3) | (29.9) | (12.4) | (38.8) |
| State and local government obligations | (0.1) | (0.6) | (0.7) | (1.9) |
| Corporate and other debt securities | (1.4) | (1.0) | (7.5) | (4.1) |
| Residential mortgage-backed securities | 0 | 0 | (2.3) | 0 |
| Commercial mortgage-backed securities | 0 | 0 | (2.1) | (6.3) |
| Other asset-backed securities | 0 | (0.9) | (0.1) | (1.0) |
| Redeemable preferred stocks | (0.1) | 0 | (0.1) | 0 |
| Total available-for-sale securities | (6.9) | (32.4) | (25.2) | (52.1) |
| Equity securities: | | | | |
| Nonredeemable preferred stocks | 0 | (1.9) | 0 | (2.3) |
| Common equities | (7.9) | 0 | (7.9) | (7.9) |
| Total equity securities | (7.9) | (1.9) | (7.9) | (10.2) |
| Subtotal gross realized losses on security sales | (14.8) | (34.3) | (33.1) | (62.3) |
| Net realized gains (losses) on security sales | | | | |
| Available-for-sale securities: | | | | |
| U.S. government obligations | 29.6 | (28.2) | 59.1 | (37.1) |
| State and local government obligations | 0.5 | 0 | 1.5 | 7.3 |
| Corporate and other debt securities | 29.7 | (0.7) | 39.7 | (3.7) |
| Residential mortgage-backed securities | 0.2 | 0 | (2.1) | 0 |
| Commercial mortgage-backed securities | 2.9 | 0.3 | 1.5 | (4.3) |
| Other asset-backed securities | 0.7 | (0.8) | 0.6 | (0.9) |
| Redeemable preferred stocks | (0.1) | 3.2 | (0.1) | 4.3 |
| Total available-for-sale securities | 63.5 | (26.2) | 100.2 | (34.4) |
| Equity securities: | | | | |
| Nonredeemable preferred stocks | 11.7 | (1.9) | 16.6 | 1.3 |
| Common equities | (7.7) | 18.5 | (3.2) | 130.5 |
| Total equity securities | 4.0 | 16.6 | 13.4 | 131.8 |
| Subtotal net realized gains (losses) on security sales | 67.5 | (9.6) | 113.6 | 97.4 |
| Net holding period gains (losses) | | | | |
| Hybrid securities | 1.4 | (2.3) | 12.1 | (5.5) |
| Equity securities | 111.0 | 55.8 | 493.0 | (96.2) |
| Subtotal net holding period gains (losses) | 112.4 | 53.5 | 505.1 | (101.7) |
| Other-than-temporary impairment losses | | | | |
| Other asset impairment | 0 | (11.1) | (24.3) | (11.1) |
| Subtotal other-than-temporary impairment losses | 0 | (11.1) | (24.3) | (11.1) |
| Total net realized gains (losses) on securities | $ 179.9 | $ 32.8 | $ 594.4 | $ (15.4) |

For both 2019 and 2018, the other asset impairment losses related to federal renewable energy tax credit fund investments, which were reported in “other assets” on the balance sheet, 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 three and six months ended June 30, 2019 and 2018, for equity securities held at quarter end:

| | Three Months | | Six Months | |
|---|---|---|---|---|
| (millions) | 2019 | 2018 | 2019 | 2018 |
| Total net gains (losses) recognized during the period on equity securities | $ 115.0 | $ 72.4 | $ 506.4 | $ 35.6 |
| Less: Net gains (losses) recognized on equity securities sold during the period | 4.0 | 16.6 | 13.4 | 131.8 |
| Net holding period gains (losses) recognized during the period on equity securities held at period end | $ 111.0 | $ 55.8 | $ 493.0 | $ (96.2) |

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

| | Three Months | | Six Months | |
|---|---|---|---|---|
| (millions) | 2019 | 2018 | 2019 | 2018 |
| Available-for-sale securities: | | | | |
| Fixed maturities: | | | | |
| U.S. government obligations | $ 69.2 | $ 45.9 | $ 122.9 | $ 85.7 |
| State and local government obligations | 8.9 | 9.1 | 18.2 | 19.1 |
| Corporate debt securities | 67.5 | 51.8 | 144.7 | 88.0 |
| Residential mortgage-backed securities | 4.6 | 6.6 | 11.2 | 13.5 |
| Commercial mortgage-backed securities | 33.4 | 20.2 | 65.1 | 41.4 |
| Other asset-backed securities | 28.1 | 16.1 | 54.1 | 29.7 |
| Redeemable preferred stocks | 8.5 | 2.9 | 12.2 | 5.5 |
| Total fixed maturities | 220.2 | 152.6 | 428.4 | 282.9 |
| Short-term investments | 11.2 | 14.9 | 27.2 | 25.0 |
| Total available-for-sale securities | 231.4 | 167.5 | 455.6 | 307.9 |
| Equity securities: | | | | |
| Nonredeemable preferred stocks | 15.9 | 10.4 | 31.4 | 21.3 |
| Common equities | 14.0 | 14.2 | 27.2 | 29.2 |
| Total equity securities | 29.9 | 24.6 | 58.6 | 50.5 |
| Investment income | 261.3 | 192.1 | 514.2 | 358.4 |
| Investment expenses | (6.2) | (6.2) | (12.4) | (12.2) |
| Net investment income | $ 255.1 | $ 185.9 | $ 501.8 | $ 346.2 |

The amount of investment income (interest and dividends) we recognize varies based on the average assets held during the year and the book yields of the securities in our portfolio. The increase in net investment income on a year-over-year basis for the three and six months ended June 30, 2019, was 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 underwriting growth and profitability, as well as the proceeds from debt and preferred stock issuances during 2018, partially offset by our common and preferred share dividend payments during the first half of 2019. 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 and portfolio maturities and paydowns. The portfolio duration at June 30, 2019 was 2.7 years, compared to 2.6 years at June 30, 2018.

***Trading Securities*** At June 30, 2019 and 2018, and December 31, 2018, we did not hold any trading securities and did not have any net realized gains (losses) on trading securities for the three and six months ended June 30, 2019 and 2018.

***Derivative Instruments***

At June 30, 2019 and 2018, and December 31, 2018, we had no open derivative positions.

**Note 3** ***Fair Value*** — We have categorized our financial instruments, based on the degree of subjectivity inherent in the method by which they are valued, into a fair value hierarchy of three levels, as follows:

- *Level 1*: Inputs are unadjusted quoted prices in active markets for identical instruments at the measurement date (e.g., U.S. government obligations, 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 | Level 2 | Level 3 | Total | Cost |
|---|---|---|---|---|---|
| June 30, 2019 | | | | | |
| Fixed maturities: | | | | | |
| U.S. government obligations | $ 12,379.4 | $ 0 | $ 0 | $ 12,379.4 | $ 12,121.9 |
| State and local government obligations | 0 | 1,589.7 | 0 | 1,589.7 | 1,563.6 |
| Corporate debt securities | 0 | 7,385.7 | 0 | 7,385.7 | 7,176.7 |
| Subtotal | 12,379.4 | 8,975.4 | 0 | 21,354.8 | 20,862.2 |
| Asset-backed securities: | | | | | |
| Residential mortgage-backed | 0 | 665.2 | 0 | 665.2 | 660.4 |
| Commercial mortgage-backed | 0 | 4,441.9 | 0 | 4,441.9 | 4,361.2 |
| Other asset-backed | 0 | 4,497.2 | 0 | 4,497.2 | 4,478.2 |
| Subtotal asset-backed securities | 0 | 9,604.3 | 0 | 9,604.3 | 9,499.8 |
| Redeemable preferred stocks: | | | | | |
| Financials | 0 | 51.4 | 0 | 51.4 | 51.7 |
| Utilities | 0 | 10.3 | 0 | 10.3 | 10.0 |
| Industrials | 10.4 | 157.0 | 0 | 167.4 | 164.5 |
| Subtotal redeemable preferred stocks | 10.4 | 218.7 | 0 | 229.1 | 226.2 |
| Total fixed maturities | 12,389.8 | 18,798.4 | 0 | 31,188.2 | 30,588.2 |
| Short-term investments | 1,287.0 | 73.9 | 0 | 1,360.9 | 1,360.9 |
| Total available-for-sale securities | 13,676.8 | 18,872.3 | 0 | 32,549.1 | 31,949.1 |
| Equity securities: | | | | | |
| Nonredeemable preferred stocks: | | | | | |
| Financials | 82.2 | 974.3 | 27.1 | 1,083.6 | 1,015.4 |
| Utilities | 0 | 41.4 | 0 | 41.4 | 39.9 |
| Industrials | 0 | 0 | 5.0 | 5.0 | 5.0 |
| Subtotal nonredeemable preferred stocks | 82.2 | 1,015.7 | 32.1 | 1,130.0 | 1,060.3 |
| Common equities: | | | | | |
| Common stocks | 3,135.2 | 0 | 0 | 3,135.2 | 1,203.4 |
| Other risk investments | 0 | 0 | 0.3 | 0.3 | 0.3 |
| Subtotal common equities | 3,135.2 | 0 | 0.3 | 3,135.5 | 1,203.7 |
| Total equity securities | 3,217.4 | 1,015.7 | 32.4 | 4,265.5 | 2,264.0 |
| Total portfolio | $ 16,894.2 | $ 19,888.0 | $ 32.4 | $ 36,814.6 | $ 34,213.1 |
| Debt | $ 0 | $ 4,955.2 | $ 0 | $ 4,955.2 | $ 4,406.0 |

| (millions) | Fair Value Level 1 | Level 2 | Level 3 | Total | Cost |
|---|---|---|---|---|---|
| June 30, 2018 | | | | | |
| Fixed maturities: | | | | | |
| U.S. government obligations | $ 7,865.4 | $ 0 | $ 0 | $ 7,865.4 | $ 8,005.8 |
| State and local government obligations | 0 | 1,667.3 | 0 | 1,667.3 | 1,678.9 |
| Corporate debt securities | 0 | 7,330.3 | 0 | 7,330.3 | 7,422.4 |
| Subtotal | 7,865.4 | 8,997.6 | 0 | 16,863.0 | 17,107.1 |
| Asset-backed securities: | | | | | |
| Residential mortgage-backed | 0 | 822.6 | 0 | 822.6 | 819.6 |
| Commercial mortgage-backed | 0 | 2,696.9 | 0 | 2,696.9 | 2,725.5 |
| Other asset-backed | 0 | 3,177.6 | 0 | 3,177.6 | 3,189.2 |
| Subtotal asset-backed securities | 0 | 6,697.1 | 0 | 6,697.1 | 6,734.3 |
| Redeemable preferred stocks: | | | | | |
| Financials | 0 | 67.7 | 0 | 67.7 | 65.3 |
| Utilities | 0 | 4.6 | 0 | 4.6 | 4.8 |
| Industrials | 10.1 | 146.7 | 0 | 156.8 | 150.3 |
| Subtotal redeemable preferred stocks | 10.1 | 219.0 | 0 | 229.1 | 220.4 |
| Total fixed maturities | 7,875.5 | 15,913.7 | 0 | 23,789.2 | 24,061.8 |
| Short-term investments | 2,954.2 | 277.0 | 0 | 3,231.2 | 3,231.2 |
| Total available-for-sale securities | 10,829.7 | 16,190.7 | 0 | 27,020.4 | 27,293.0 |
| Equity securities: | | | | | |
| Nonredeemable preferred stocks: | | | | | |
| Financials | 77.4 | 676.2 | 0 | 753.6 | 672.0 |
| Utilities | 0 | 0 | 0 | 0 | 0 |
| Industrials | 0 | 0 | 5.0 | 5.0 | 5.0 |
| Subtotal nonredeemable preferred stocks | 77.4 | 676.2 | 5.0 | 758.6 | 677.0 |
| Common equities: | | | | | |
| Common stocks | 3,141.9 | 0 | 0 | 3,141.9 | 1,313.7 |
| Other risk investments | 0 | 0 | 0.3 | 0.3 | 0.3 |
| Subtotal common equities | 3,141.9 | 0 | 0.3 | 3,142.2 | 1,314.0 |
| Total equity securities | 3,219.3 | 676.2 | 5.3 | 3,900.8 | 1,991.0 |
| Total portfolio | $ 14,049.0 | $ 16,866.9 | $ 5.3 | $ 30,921.2 | $ 29,284.0 |
| Debt | $ 0 | $ 3,959.0 | $ 0 | $ 3,959.0 | $ 3,859.5 |

| | Fair Value | | | | |
|---|---|---|---|---|---|
| **(millions)** | **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 available-for-sale securities | 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 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 security holdings 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 securities are classified as Level 2 and are not priced externally since these securities continually trade at par value. These securities are classified as Level 2 since they are primarily longer-dated securities issued by municipalities that contain either liquidity facilities or mandatory put features within one year.

At June 30, 2019, vendor-quoted prices represented 80% of our Level 1 classifications (excluding short-term investments), compared to 72% and 79% at June 30, 2018 and December 31, 2018, respectively. The securities quoted by vendors in Level 1 primarily represent our holdings in U.S. Treasury Notes, which are frequently traded, and the quotes are considered similar to exchange-traded quotes. The balance of our Level 1 pricing comes from quotes obtained directly from trades made on active exchanges.

At both June 30, 2019 and 2018, vendor-quoted prices comprised 98% of our Level 2 classifications in each period (excluding short-term investments), while dealer-quoted prices represented the remaining 2%, compared to 99% and 1% at December 31, 2018. 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, which often leads the source to adjust their pricing input data for future pricing.

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

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

For our corporate debt and preferred stock (redeemable and nonredeemable) portfolios, as well as the notes 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 and fixed-income investments included in the Level 3 category are valued using external pricing supplemented by internal review and analysis.

After all the valuations are received and our review is complete, if the inputs used by vendors are determined to not contain sufficient observable market information, we will reclassify the affected security valuations to Level 3. At June 30, 2019 and 2018, and December 31, 2018, we did not have any securities in our fixed-maturity portfolio listed as Level 3.

At June 30, 2019 and December 31, 2018, we held two private nonredeemable preferred securities with a combined value of $32.1 million and $30.1 million, respectively, that were priced internally, and held one private nonredeemable preferred security with a value of $5.0 million that was priced internally at June 30, 2018. At June 30, 2019 and 2018, and December 31, 2018, we held one Level 3 other risk investment with a value of $0.3 million.

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 and 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 three and six months ended June 30, 2019 and 2018:

| | Level 3 Fair Value | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (millions) | Fair Value at March 31, 2019 | Calls/ Maturities/ Paydowns | Purchases | Sales | Net Realized (Gain)/Loss on Sales | Change in Valuation | Net Transfers In (Out) | Fair Value at June 30, 2019 |
| Equity securities: | | | | | | | | |
| Nonredeemable preferred stocks: | | | | | | | | |
| Financials | $ 25.1 | $ 0 | $ 2.0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 27.1 |
| 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 | $ 30.4 | $ 0 | $ 2.0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 32.4 |

| | 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 June 30, 2019 |
| Equity securities: | | | | | | | | |
| Nonredeemable preferred stocks: | | | | | | | | |
| Financials | $ 25.1 | $ 0 | $ 2.0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 27.1 |
| 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 | $ 30.4 | $ 0 | $ 2.0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 32.4 |

| | Level 3 Fair Value | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (millions) | Fair Value at March 31, 2018 | Calls/ Maturities/ Paydowns | Purchases | Sales | Net Realized (Gain)/Loss on Sales | Change in Valuation | Net Transfers In (Out) | Fair Value at June 30, 2018 |
| Equity securities: | | | | | | | | |
| Nonredeemable preferred stocks: | | | | | | | | |
| Financials | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| 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 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 5.3 |

| | 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 June 30, 2018 |
| Equity securities: | | | | | | | | |
| Nonredeemable preferred stocks: | | | | | | | | |
| Financials | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| 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 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 5.3 |

The following tables provide a summary of the quantitative information about Level 3 fair value measurements for our applicable securities at June 30, 2019 and 2018, and December 31, 2018:

| | Quantitative Information about Level 3 Fair Value Measurements | | | |
|---|---|---|---|---|
| **($ in millions)** | **Fair Value at June 30, 2019** | **Valuation Technique** | **Unobservable Input** | **Unobservable Input Assumption** |
| Equity securities: | | | | |
| Nonredeemable preferred stocks: | | | | |
| Financials[1] | $ 27.1 | internal price | unadjusted purchase price per share | 9.0 |
| Industrials[2] | 5.0 | internal price | price-to-sales ratio | 5.5 |
| Subtotal Level 3 securities | 32.1 | | | |
| Pricing exemption securities[3] | 0.3 | | | |
| Total Level 3 securities | $ 32.4 | | | |

[1] The security was internally-priced since it is privately held. The security was initially purchased during December 2018 and additional shares were purchased during second quarter 2019. The value at June 30, 2019 reflects the unadjusted purchase price per share (all purchases were at the same price).
[2] The security was internally-priced since it is privately held. The price at June 30, 2019, was calculated using a price-to-sales ratio.
[3] The unobservable input is not reasonably available to us.

| | Quantitative Information about Level 3 Fair Value Measurements | | | |
|---|---|---|---|---|
| **($ in millions)** | **Fair Value at June 30, 2018** | **Valuation Technique** | **Unobservable Input** | **Unobservable Input Assumption** |
| Equity securities: | | | | |
| Nonredeemable preferred stocks: | | | | |
| Financials | $ 0 | NA | NA | NA |
| Industrials[1] | 5.0 | internal price | unadjusted purchase price per share | 3.9 |
| Subtotal Level 3 securities | 5.0 | | | |
| Pricing exemption securities[2] | 0.3 | | | |
| Total Level 3 securities | $ 5.3 | | | |

NA= Not Available
[1] The security was internally-priced since it is privately held. The value at June 30, 2018 reflects the unadjusted purchase price per share.
[2] The unobservable input is not reasonably available to us.

| | 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 per share | 9.0 |
| Industrials[2] | 5.0 | internal price | price-to-sales ratio | 5.5 |
| Subtotal Level 3 securities | 30.1 | | | |
| Pricing exemption securities[3] | 0.3 | | | |
| Total Level 3 securities | $ 30.4 | | | |

[1] The security was internally-priced since it is privately held. The security was purchased during December 2018 and the value at December 31, 2018 reflects the unadjusted purchase price per share.
[2] The security was internally-priced since it is privately held. The price at December 31, 2018, was calculated using a price-to-sales ratio.
[3] The unobservable input is not reasonably available to us.

**Note 4** ***Debt*** — Debt at each of the balance sheet periods consisted of:

| | June 30, 2019 | | June 30, 2018 | | December 31, 2018 | |
|---|---|---|---|---|---|---|
| (millions) | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| 3.75% Senior Notes due 2021 | $ 499.2 | $ 516.5 | $ 498.9 | $ 506.4 | $ 499.1 | $ 506.5 |
| 2.45% Senior Notes due 2027 | 496.7 | 494.7 | 496.3 | 451.3 | 496.5 | 455.5 |
| 6 5/8% Senior Notes due 2029 | 296.5 | 385.7 | 296.2 | 364.4 | 296.4 | 368.5 |
| 4.00% Senior Notes due 2029 | 544.8 | 608.9 | 0 | 0 | 544.5 | 562.4 |
| 6.25% Senior Notes due 2032 | 395.6 | 531.3 | 395.4 | 492.5 | 395.5 | 496.6 |
| 4.35% Senior Notes due 2044 | 346.6 | 392.5 | 346.6 | 356.7 | 346.6 | 350.2 |
| 3.70% Senior Notes due 2045 | 395.4 | 411.1 | 395.3 | 363.9 | 395.3 | 366.7 |
| 4.125% Senior Notes due 2047 | 841.5 | 943.0 | 841.3 | 831.5 | 841.4 | 831.9 |
| 4.20% Senior Notes due 2048 | 589.7 | 671.5 | 589.5 | 592.3 | 589.6 | 594.0 |
| Total | $ 4,406.0 | $ 4,955.2 | $ 3,859.5 | $ 3,959.0 | $ 4,404.9 | $ 4,532.3 |

The Progressive Corporation issued $550 million of 4.00% Senior Notes due 2029 (the “4.00% Senior Notes”) in October 2018, in an underwritten public offering. The net proceeds from the issuance, after deducting underwriters’ discounts, commissions, and other issuance costs, was $544.5 million. Consistent with the other senior notes issued by Progressive, interest on the 4.00% Senior Notes is payable semiannually, principal is due at maturity, and the note is redeemable, in whole or in part, at any time, subject to a treasury “make whole” provision.

During the second quarter 2019, The Progressive Corporation renewed its line of credit with PNC Bank, National Association (PNC) in the maximum principal amount of $250 million on the same terms and conditions. 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 during any of the periods presented.

**Note 5** ***Income Taxes*** — 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. We review our deferred tax assets regularly for recoverability. At June 30, 2019 and 2018, and December 31, 2018, we determined that we did not need a valuation allowance on our gross deferred tax assets. Although realization of the deferred tax assets is not assured, management believes that it is more likely than not the deferred tax assets will be realized based on our expectation that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes.

For the six months ended June 30, 2019, there have been no material changes in our reserve for uncertain tax positions.

The effective tax rates for the three and six months ended June 30, 2019 were 21.3% and 26.7%, respectively, compared to 20.3% and 20.1% for the same periods last year. During the first quarter 2019, we increased our provision for income taxes $156.1 million, principally reflecting the total reversal of the tax credits and other tax benefits previously recognized from certain renewable energy investments, plus interest. From 2016 to 2018, we invested in federal renewable energy tax credit funds. 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 of these tax credit fund investments, including information about ongoing federal investigations. Based on our continuing investigations and information that became available to us beginning late in the first quarter, we believe that the sponsor committed fraud through these tax credit funds and that all of the tax credits and other tax benefits related to those investments are not valid.

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

| (millions) | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Balance, Beginning of period | $ 15,400.8 | $ 13,086.9 |
| Less reinsurance recoverables on unpaid losses | 2,572.7 | 2,170.1 |
| Net balance, Beginning of period | 12,828.1 | 10,916.8 |
| Incurred related to: | | |
| Current year | 11,687.1 | 10,164.6 |
| Prior years | 210.0 | 81.5 |
| Total incurred | 11,897.1 | 10,246.1 |
| Paid related to: | | |
| Current year | 6,407.5 | 5,533.7 |
| Prior years | 4,664.1 | 3,851.5 |
| Total paid | 11,071.6 | 9,385.2 |
| Net balance, End of period | 13,653.6 | 11,777.7 |
| Plus reinsurance recoverables on unpaid losses | 2,915.0 | 2,293.1 |
| Balance, End of period | $ 16,568.6 | $ 14,070.8 |

We experienced unfavorable reserve development of $210.0 million and $81.5 million for the first six months of 2019 and 2018, respectively, which is reflected as "Incurred related to prior years" in the table above.

Year-to-date June 30, 2019

- About 50% of the unfavorable prior year reserve development was attributable to accident year 2018, with the remainder split evenly between accident year 2017 and accident years 2016 and prior.
- Our personal auto products incurred about $116 million of unfavorable loss and loss adjustment expense (LAE) reserve development, with the Agency and Direct auto businesses each contributing about half. The unfavorable development was primarily attributable to 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 $57 million of unfavorable development primarily due to increased injury severity and more emergence of large injury claims than originally anticipated.
- Our Property business experienced about $20 million of unfavorable development, primarily due to higher than originally anticipated homeowner and dwelling, and fire liability costs.
- Our special lines business experienced about $17 million of unfavorable development primarily due to less salvage and subrogation recoveries than originally anticipated.

Year-to-date June 30, 2018

- Approximately $72 million of the unfavorable prior year reserve development was attributable to accident years 2017 and 2016.
- Our personal auto business incurred about $57 million of unfavorable loss and LAE reserve development, with the Agency and Direct auto businesses contributing about $36 million and $21 million, respectively, of unfavorable development. The unfavorable development was primarily due to an increase in reopened PIP claims.
- Our Commercial Lines business experienced about $17 million of unfavorable development primarily due to late reported losses and higher LAE than anticipated.
- Our Property business recognized unfavorable development of about $7 million, while our special lines products had minimal development during the first half of the year.

**Note 7** ***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 on ARX's subsidiaries. The amount of reverse repurchase commitments held by ARX's subsidiaries at June 30, 2019 and 2018, and December 31, 2018, were $138.2 million, $155.9 million, and $117.3 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.

During the six months ended June 30, 2019, non-cash activity includes declared but unpaid common share dividends of $58.4 million (see *Note 9 – Dividends* for further discussion) and operating lease liabilities arising from obtaining right-of-use assets of $21.0 million (see *Note 14 – Leases* for further discussion).

We paid the following in the respective periods:

| | Six Months Ended June 30, | |
|---|---|---|
| **(millions)** | **2019** | **2018** |
| Income taxes | $ 592.8 | $ 358.9 |
| Interest | 90.9 | 70.9 |
| Operating lease liabilities | 37.4 | NA |

NA - Not applicable

**Note 8** ***Segment Information*** — Our Personal Lines segment writes insurance for personal autos and recreational vehicles (our special lines products). Our Commercial Lines segment writes primary liability, physical damage, and other auto-related insurance for automobiles and trucks owned and/or operated predominantly by small businesses in the business auto, for-hire transportation, contractor, for-hire specialty, tow, and for-hire livery markets. Our Property segment writes residential property insurance for homeowners, other property owners, and renters. Our other indemnity businesses include our run-off businesses. Our service businesses provide insurance-related services, including processing Commercial Automobile Insurance Procedures/Plans (CAIP) business and serving as an agent for homeowners, general liability, and workers' compensation insurance, among other products, through our programs with ASI and unaffiliated insurance companies. All segment revenues are generated from external customers; all intercompany transactions are eliminated in consolidation.

Following are the operating results for the respective periods:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| (millions) | Revenues | Pretax Profit (Loss) | Revenues | Pretax Profit (Loss) | Revenues | Pretax Profit (Loss) | Revenues | Pretax Profit (Loss) |
| Personal Lines | | | | | | | | |
| Agency | $ 3,639.6 | $ 434.7 | $ 3,225.7 | $ 360.9 | $ 7,148.1 | $ 887.7 | $ 6,289.5 | $ 770.0 |
| Direct | 3,733.4 | 326.6 | 3,211.8 | 287.9 | 7,309.7 | 648.5 | 6,228.1 | 585.9 |
| Total Personal Lines[1] | 7,373.0 | 761.3 | 6,437.5 | 648.8 | 14,457.8 | 1,536.2 | 12,517.6 | 1,355.9 |
| Commercial Lines | 1,070.5 | 124.4 | 884.3 | 100.3 | 2,083.5 | 291.0 | 1,692.9 | 195.1 |
| Property[2] | 381.2 | (34.4) | 312.4 | (51.9) | 743.2 | (26.7) | 597.7 | (23.4) |
| Other indemnity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.2 |
| Total underwriting operations | 8,824.7 | 851.3 | 7,634.2 | 697.2 | 17,284.5 | 1,800.5 | 14,808.2 | 1,527.8 |
| Fees and other revenues[3] | 134.8 | NA | 116.0 | NA | 265.0 | NA | 219.8 | NA |
| Service businesses | 50.0 | 4.7 | 42.9 | 5.9 | 92.6 | 9.2 | 77.1 | 10.8 |
| Investments[4] | 441.2 | 435.0 | 224.9 | 218.7 | 1,108.6 | 1,096.2 | 343.0 | 330.8 |
| Interest expense | NA | (47.4) | NA | (41.7) | NA | (94.8) | NA | (78.5) |
| Consolidated total | $ 9,450.7 | $ 1,243.6 | $ 8,018.0 | $ 880.1 | $ 18,750.7 | $ 2,811.1 | $ 15,448.1 | $ 1,790.9 |

NA - Not applicable

[1] Personal auto insurance accounted for 94% of the total Personal Lines segment net premiums earned during the three and six months ended June 30, 2019 and 2018; 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] For the three and six months ended June 30, 2019, pretax profit (loss) includes $18.0 million and $35.9 million, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX and $18.0 million and $36.0 million for the same periods in 2018. 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 is attributable to operating segments.

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

Our management uses underwriting margin and combined ratio as primary measures of underwriting profitability. Underwriting profitability is calculated by subtracting losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses from the total of net premiums earned and fees and other revenues. The underwriting margin is the pretax underwriting profit (loss) expressed as a percentage of net premiums earned (i.e., revenues from underwriting operations). Combined ratio is the complement of the underwriting margin. Following are the underwriting margins and combined ratios for our underwriting operations for the respective periods:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| | Under-writing Margin | Combined Ratio | Under-writing Margin | Combined Ratio | Under-writing Margin | Combined Ratio | Under-writing Margin | Combined Ratio |
| Personal Lines | | | | | | | | |
| Agency | 11.9% | 88.1 | 11.2% | 88.8 | 12.4% | 87.6 | 12.2% | 87.8 |
| Direct | 8.7 | 91.3 | 9.0 | 91.0 | 8.9 | 91.1 | 9.4 | 90.6 |
| Total Personal Lines | 10.3 | 89.7 | 10.1 | 89.9 | 10.6 | 89.4 | 10.8 | 89.2 |
| Commercial Lines | 11.6 | 88.4 | 11.3 | 88.7 | 14.0 | 86.0 | 11.5 | 88.5 |
| Property[1] | (9.0) | 109.0 | (16.6) | 116.6 | (3.6) | 103.6 | (3.9) | 103.9 |
| Total underwriting operations | 9.6 | 90.4 | 9.1 | 90.9 | 10.4 | 89.6 | 10.3 | 89.7 |

[1] Included in the three and six months ended June 30, 2019, is 4.7 points and 4.8 points, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX and 5.8 points and 6.0 points, respectively, for the three and six months ended June 30, 2018.

## Note 9 *Dividends*

Common Share Dividends

The Board of Directors expects to declare regular, quarterly common share dividends and, on at least an annual basis, to consider declaring an additional common share dividend. Prior to 2019, we had a policy of paying an annual variable dividend (see *Note 14 – Dividends* in our 2018 Annual Report to Shareholders). Following is a summary of our common share dividends that were declared or paid during the six months ended June 30, 2019 and 2018:

| **(millions, except per share amounts)** | | | Amount of Common Share Dividends | | |
|---|---|---|---|---|---|
| **Dividend Type** | **Declared** | **Paid** | **Per Share** | **Accrued[1]** | **Paid[1]** |
| Quarterly | May 2019 | NA | $ 0.10 | $ 58.4 | $ NA |
| Quarterly | February 2019 | April 2019 | 0.10 | 58.4 | 58.4 |
| Annual – Variable | December 2018 | February 2019 | 2.5140 | 1,467.9 | 1,467.9 |
| Annual – Variable | December 2017 | February 2018 | 1.1247 | 655.1 | 654.9 |

NA - Dividend not paid as of June 30, 2019.
[1] Variance between accrued and paid, if any, reflects the difference between the number of estimated and actual shares outstanding as of the record date.

Preferred Share Dividends

During the first quarter of 2019, the Board declared, and we paid, a $26.875 per share, or $13.4 million, dividend on our Series B Fixed-to-Floating Rate Cumulative Perpetual Serial Preferred Shares, without par value (the “Series B Preferred Shares”). There are 500,000 Series B Preferred Shares outstanding, which are cumulative and have 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 LIBOR rate (or, if LIBOR is not available, a substitute rate determined in accordance with the terms of the Series B Preferred Shares) 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.

**Note 10** ***Other Comprehensive Income (Loss)*** — The components of other comprehensive income (loss), including reclassification adjustments by income statement line item, 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 | (Income) loss attributable to NCI |
| **Balance at March 31, 2019** | **$ 225.5** | **$ (47.4)** | **$ 178.1** | **$ 195.5** | **$ (17.0)** | **$ (0.4)** |
| Other comprehensive income (loss) before reclassifications: | | | | | | |
| Investment securities | 404.7 | (85.0) | 319.7 | 319.7 | 0 | 0 |
| Loss attributable to noncontrolling interest (NCI) | (3.3) | 0.7 | (2.6) | 0 | 0 | (2.6) |
| Total other comprehensive income (loss) before reclassifications | 401.4 | (84.3) | 317.1 | 319.7 | 0 | (2.6) |
| Less: Reclassification adjustment for amounts realized in net income by income statement line item: | | | | | | |
| Net realized gains (losses) on securities | 53.5 | (11.2) | 42.3 | 42.3 | 0 | 0 |
| Interest expense | (0.2) | 0 | (0.2) | 0 | (0.2) | 0 |
| Total reclassification adjustment for amounts realized in net income | 53.3 | (11.2) | 42.1 | 42.3 | (0.2) | 0 |
| Total other comprehensive income (loss) | 348.1 | (73.1) | 275.0 | 277.4 | 0.2 | (2.6) |
| **Balance at June 30, 2019** | **$ 573.6** | **$ (120.5)** | **$ 453.1** | **$ 472.9** | **$ (16.8)** | **$ (3.0)** |

| (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 | (Income) loss attributable to NCI |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2018** | **$ (153.0)** | **$ 32.1** | **$ (120.9)** | **$ (105.6)** | **$ (17.2)** | **$ 1.9** |
| Other comprehensive income (loss) before reclassifications: | | | | | | |
| Investment securities | 819.2 | (172.0) | 647.2 | 647.2 | 0 | 0 |
| Loss attributable to noncontrolling interest (NCI) | (6.2) | 1.3 | (4.9) | 0 | 0 | (4.9) |
| Total other comprehensive income (loss) before reclassifications | 813.0 | (170.7) | 642.3 | 647.2 | 0 | (4.9) |
| Less: Reclassification adjustment for amounts realized in net income by income statement line item: | | | | | | |
| Net realized gains (losses) on securities | 86.9 | (18.2) | 68.7 | 68.7 | 0 | 0 |
| Interest expense | (0.5) | 0.1 | (0.4) | 0 | (0.4) | 0 |
| Total reclassification adjustment for amounts realized in net income | 86.4 | (18.1) | 68.3 | 68.7 | (0.4) | 0 |
| Total other comprehensive income (loss) | 726.6 | (152.6) | 574.0 | 578.5 | 0.4 | (4.9) |
| **Balance at June 30, 2019** | **$ 573.6** | **$ (120.5)** | **$ 453.1** | **$ 472.9** | **$ (16.8)** | **$ (3.0)** |

| (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 | (Income) loss attributable to NCI |
|---|---|---|---|---|---|---|
| **Balance at March 31, 2018** | **$ (218.6)** | **$ 46.0** | **$ (172.6)** | **$ (160.8)** | **$ (17.8)** | **$ 6.0** |
| Other comprehensive income (loss) before reclassifications: | | | | | | |
| Investment securities | (90.4) | 18.8 | (71.6) | (71.6) | 0 | 0 |
| Loss attributable to noncontrolling interest (NCI) | 0.7 | (0.1) | 0.6 | 0 | 0 | 0.6 |
| Total other comprehensive income (loss) before reclassifications | (89.7) | 18.7 | (71.0) | (71.6) | 0 | 0.6 |
| Less: Reclassification adjustment for amounts realized in net income by income statement line item: | | | | | | |
| Net realized gains (losses) on securities | (27.2) | 5.7 | (21.5) | (21.5) | 0 | 0 |
| Interest expense | (0.3) | 0.1 | (0.2) | 0 | (0.2) | 0 |
| Total reclassification adjustment for amounts realized in net income | (27.5) | 5.8 | (21.7) | (21.5) | (0.2) | 0 |
| Total other comprehensive income (loss) | (62.2) | 12.9 | (49.3) | (50.1) | 0.2 | 0.6 |
| **Balance at June 30, 2018** | **$ (280.8)** | **$ 58.9** | **$ (221.9)** | **$ (210.9)** | **$ (17.6)** | **$ 6.6** |

| (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 | (Income) loss attributable to NCI |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2017** | **$ 1,977.8** | **$ (695.6)** | **$ 1,282.2** | **$ 1,295.0** | **$ (14.8)** | **$ 2.0** |
| Cumulative effect adjustment | (2,006.0) | 705.8 | (1,300.2) | (1,300.2) | 0 | 0 |
| Reclassification of disproportionate amounts | 0 | (4.3) | (4.3) | (1.1) | (3.2) | 0 |
| **Adjusted balance at December 31, 2017** | (28.2) | 5.9 | (22.3) | (6.3) | (18.0) | 2.0 |
| Other comprehensive income (loss) before reclassifications: | | | | | | |
| Investment securities | (293.8) | 61.6 | (232.2) | (232.2) | 0 | 0 |
| Loss attributable to noncontrolling interest (NCI) | 5.8 | (1.2) | 4.6 | 0 | 0 | 4.6 |
| Total other comprehensive income (loss) before reclassifications | (288.0) | 60.4 | (227.6) | (232.2) | 0 | 4.6 |
| Less: Reclassification adjustment for amounts realized in net income by income statement line item: | | | | | | |
| Net realized gains (losses) on securities | (34.9) | 7.3 | (27.6) | (27.6) | 0 | 0 |
| Interest expense | (0.5) | 0.1 | (0.4) | 0 | (0.4) | 0 |
| Total reclassification adjustment for amounts realized in net income | (35.4) | 7.4 | (28.0) | (27.6) | (0.4) | 0 |
| Total other comprehensive income (loss) | (252.6) | 53.0 | (199.6) | (204.6) | 0.4 | 4.6 |
| **Balance at June 30, 2018** | **$ (280.8)** | **$ 58.9** | **$ (221.9)** | **$ (210.9)** | **$ (17.6)** | **$ 6.6** |

In an effort to manage interest rate risk, we often enter into forecasted transactions on Progressive's debt issuances. We expect to reclassify $1.0 million (pretax) into interest expense during the next 12 months, related to net unrealized losses on forecasted transactions (see *Note 4 – Debt* in our 2018 Annual Report to Shareholders for further discussion).

**Note 11** ***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.

These cases include those alleging damages as a result of our subsidiaries' practices in evaluating or paying medical or injury claims or benefits, including, but not limited to, personal injury protection, medical payments, and bodily injury benefits; the utilization, content, or appearance of policy documents; labor rates paid to auto body repair shops; wage and hour issues; and cases challenging other aspects of our subsidiaries' claims, marketing, or sales practices, or other business operations. Other insurance companies face many of these same issues.

The nature and volume of litigation to which The Progressive Corporation is subject is similar to that which was disclosed in *Note 12 – Litigation* in our 2018 Annual Report to Shareholders.

We plan to contest the pending lawsuits vigorously, but may pursue settlement negotiations in some cases, as we deem appropriate. The outcomes of pending cases are uncertain at this time. We establish accruals for these lawsuits when it is probable that a loss has been or will be incurred and we can reasonably estimate potential loss exposure, which may include a range of loss. As to lawsuits for which the loss is considered neither probable or estimable, or 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.

With respect to our pending lawsuits that are not related to claims under insurance policies, the accruals that we have established, if any, were not material at June 30, 2019 or 2018, and there were no material settlements during 2018 or the first six months of 2019. For most of these lawsuits, we do not consider any losses to be both probable and estimable, and we are unable to estimate a meaningful range of loss, if any, at this time, due to the factors discussed in *Note 12 – Litigation* in our 2018 Annual Report to Shareholders. In the event that any one or more of these lawsuits results in a substantial judgment against or settlement by us, or if our accruals (if any) prove to be inadequate by a significant amount, the resulting liability could have a material adverse effect on our consolidated financial condition, cash flows, and/or results of operations. For a further discussion on our pending litigation and related reserving policies, see *Note 12 – Litigation* in our 2018 Annual Report to Shareholders.

**Note 12** ***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 have 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. 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. See *Note 15 – Redeemable Noncontrolling Interest* in our 2018 Annual Report to Shareholders for a discussion of the purchase price for shares to be purchased by Progressive pursuant to these put or call rights. At June 30, 2019, Progressive's share ownership interest in ARX was 87.1%.

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 of the stockholders' agreement. The estimated purchase price is based, in part, on the change in tangible net book value of ARX from December 31, 2014, to the balance sheet dates.

In addition to these minority shares, at June 30, 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. Until the options are exercised, the underlying obligation of approximately $15.6 million is not recorded as part of redeemable NCI. See *Note 9 – Employee Benefit Plans* in our 2018 Annual Report to Shareholders for a discussion of ARX employee stock options.

The changes in the components of redeemable NCI were:

| (millions) | June 30, 2019 | June 30, 2018 | December 31, 2018 |
|---|---|---|---|
| Balance, Beginning of period | $ 214.5 | $ 503.7 | $ 503.7 |
| Net income attributable to NCI | 4.0 | 8.8 | 5.7 |
| Other comprehensive income (loss) attributable to NCI[1] | 4.9 | (4.6) | (3.3) |
| Exercise of employee stock options | 7.7 | 9.4 | 9.4 |
| Purchase/change of ARX minority shares | (11.2) | (295.9) | (298.2) |
| Change in redemption value of NCI | 0.2 | (3.2) | (2.8) |
| Balance, End of period | $ 220.1 | $ 218.2 | $ 214.5 |

[1] Amount represents the other comprehensive income (loss) attributable to NCI, as reflected on the 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.

## Note 13 *Goodwill and Intangible Assets*

Goodwill

During the six months ended June 30, 2019, there were no changes to the carrying amount of goodwill. No accumulated goodwill impairment losses exist.

Intangible Assets

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

| (millions) | June 30, 2019 | June 30, 2018 | December 31, 2018 |
|---|---|---|---|
| Intangible assets subject to amortization | $ 246.3 | $ 318.2 | $ 282.2 |
| Indefinite-lived intangible assets[1] | 12.4 | 12.4 | 12.4 |
| Total | $ 258.7 | $ 330.6 | $ 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 all periods presented.

Intangible assets subject to amortization consisted of the following:

| (millions) | June 30, 2019 | | | June 30, 2018 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| Category | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Policies in force | $ 256.2 | $ 155.6 | $ 100.6 | $ 256.2 | $ 119.0 | $ 137.2 | $ 256.2 | $ 137.3 | $ 118.9 |
| Agency relationships | 159.2 | 48.3 | 110.9 | 159.2 | 37.0 | 122.2 | 159.2 | 42.6 | 116.6 |
| Software rights | 79.1 | 45.4 | 33.7 | 79.1 | 34.7 | 44.4 | 79.1 | 40.1 | 39.0 |
| Trade name | 34.8 | 33.7 | 1.1 | 34.8 | 20.4 | 14.4 | 34.8 | 27.1 | 7.7 |
| Total | $ 529.3 | $ 283.0 | $ 246.3 | $ 529.3 | $ 211.1 | $ 318.2 | $ 529.3 | $ 247.1 | $ 282.2 |

Amortization expense was $18.0 million and $35.9 million for the three and six months ended June 30, 2019, respectively, compared to $18.0 million and $36.0 million during the same periods last year.

As of June 30, 2019, the remaining average life of all of our intangible assets is 3.4 years.

**Note 14** ***Leases*** — Included in our consolidated balance sheet for the period ended June 30, 2019, are certain noncancelable operating leases for office space, computer equipment, and vehicles, all with expected terms greater than one year, 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 June 30, 2019, we had operating lease assets of $189.1 million and operating lease liabilities of $204.2 million.

At June 30, 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, in accordance with the new accounting standard adopted on January 1, 2019 (see *Note 15 – New Accounting Standards* for further discussion):

| **($ in millions)** | | |
|---|---|---|
| 2019 (excluding the six months ended June 30, 2019) | $ | 39.4 |
| 2020 | | 73.2 |
| 2021 | | 57.3 |
| 2022 | | 27.6 |
| 2023 | | 11.8 |
| Thereafter | | 5.8 |
| Total | | 215.1 |
| Interest | | (10.9) |
| Present value of lease liabilities | $ | 204.2 |
| Weighted-average remaining term | | 3.1 years |
| Weighted-average discount rate | | 3.5% |

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 |

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. For the six months ended June 30, 2019, we incurred operating lease costs of $52.5 million. 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.

**Note 15** ***New Accounting Standards***

<u>Issued</u>

In August 2018, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (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 will be effective for fiscal years (including interim periods within those fiscal years) beginning after December 15, 2019 (2020 for calendar-year companies). We 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, 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, we elected to partially early adopt the removal of current disclosure requirements and will adopt the new disclosure requirements as of the effective date. We do not expect this standard to have an 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. We do not expect this standard 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. Additionally, this update will modify the existing accounting guidance related to the impairment evaluation for available-for-sale debt securities and will result in the creation of an allowance for credit losses as a contra asset account. The ASU will require cumulative-effect changes to retained earnings in the period of adoption, if any occur, and will also require prospective changes on previously recorded impairments. This ASU is effective for fiscal years (including interim periods within those fiscal years) beginning after December 15, 2019 (2020 for calendar-year companies), with early adoption permissible (including interim periods within that fiscal year) beginning after December 15, 2018 (2019 for calendar-year companies). While the ASU creates additional accounting complexities related to the recognition of the impairment losses, and subsequent recoveries, through an allowance for credit losses account, we currently do not expect the ASU to have a material impact on our current method of evaluating securities, premiums receivables, or reinsurance recoverables for credit losses or the timing or recognition of the amounts of the impairment losses.

Adopted

On January 1, 2019, we adopted the ASU, which required 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 14 – 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.

**Management’s Discussion and Analysis of Financial Condition and Results of Operations**

## I. OVERVIEW

The Progressive Corporation’s insurance subsidiaries recognized strong growth in both premiums and policies in force in the second quarter 2019, compared to the same period last year. During the quarter, we generated $9.1 billion of net premiums written, which is an increase of $1.0 billion, or 13%, compared to the second quarter 2018. In addition, on a quarter-over-prior-year-quarter basis, companywide net premiums earned increased 16% and policies in force grew 10%. We ended the quarter with 21.6 million total policies in force, which is 2.0 million more policies than were in force on June 30, 2018.

On a year-over-year basis, net income attributable to Progressive increased 39% for the second quarter and 45% for the first six months. The underwriting margin was 9.6% and 10.4% for the second quarter and first six months of 2019, respectively, a 0.5 point and 0.1 point improvement on a year-over-year basis. In addition to the increases in underwriting income, we recognized a significant increase in net realized gains on securities year-over-year for both the second quarter and first six months of 2019, due to greater net holding period gains on our equity securities and, for the second quarter net realized gains on security sales. Comprehensive income increased at a greater rate than net income for both the second quarter and first six months of 2019, reflecting an increase in the value of our fixed-maturity securities during 2019, compared to a decrease in value of these securities during the same periods last year.

During the second quarter 2019, our total capital (debt plus shareholders’ equity) increased $1.2 billion, to $17.7 billion, primarily reflecting income during the quarter.

### A. Insurance Operations

Our Personal and Commercial Lines operating segments were profitable during the second quarter 2019, while our Property business generated an underwriting loss, primarily due to catastrophe losses incurred during the quarter.

Our Personal Lines underwriting profit margin was 10.3% and Commercial Lines was 11.6%, both of which were slightly better than the second quarter last year. Our Property segment had an underwriting loss margin of 9.0%, which was 7.6 points better than the second quarter last year, reflecting 4.6 points less catastrophe losses in the second quarter 2019, and expenses increasing at a much lower rate than earned premiums. On a companywide basis, our catastrophe losses as a percent of premiums earned were down 0.3 points for the quarter, on a year-over-year basis. The majority of the catastrophe losses during the second quarter 2019 were due to wind and hail storms in Texas, as well as tornadoes across the United States. Our special lines products were profitable in the second quarter, however, they did not have a significant impact on our total Personal Lines combined ratio.

All three of our operating segments contributed to our solid premium and policy in force growth during the second quarter on a year-over-year basis. Our companywide net premiums written grew 13%, with Personal Lines growing 13%, Commercial Lines 13%, and Property 15%, primarily reflecting an increase in volume.

During the second quarter, on a year-over-year basis, our written premium per policy for our personal auto businesses increased about 2%, primarily reflecting a shift in the mix of business. We continue to see signs of a softening marketplace and are prepared to continue to take rate actions to maintain our competitive position. Written premium per policy increased 3% for our special lines products and increased 10% for our Commercial Lines business. The Commercial Lines increase reflected shifts in our mix of businesses to higher premium market tiers, as well as rate actions taken throughout 2018. We did not take significant rate actions during the first half of 2019 in our commercial auto products. Written premium per policy for the Property business increased 3%, reflecting rate increases partially offset by an increase in the amount of renters business written, which has lower average premium policies. We continue earning in previous rate level increases taken in our Property business during 2018 and the first half of 2019, to help meet our profitability targets.

During the quarter, total new personal auto applications (i.e., issued policies) increased 6% on a year-over-year basis, with both Agency and Direct new applications increasing 6%. 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. We experienced solid year-over-year new application growth in our auto products in the second quarter 2019, however, the rate of growth was slightly less than the first quarter 2019 and lower than the significant growth we experienced in the second quarter last year, which is reflected in our higher growth in renewal applications. The slowdown in new application growth in part reflects competitors lowering rates. Nevertheless, we continue to believe that we are well positioned with competitive product offerings and will continue to spend on marketing when we believe that it is an efficient use of our dollars. New applications for our special lines products were up 4% during the second quarter 2019, compared to the same period last year.

For the Commercial Lines business, new applications increased 11% on a year-over-year basis during the second quarter 2019, which is consistent with the increase we saw in the first quarter 2019. We had some underwriting restrictions in place during the first quarter last year, most of which were lifted during the second quarter 2018. We will continue to monitor our rate levels with a view toward continuing to manage profitably while providing high-quality customer service.

The Property business had a 6% decrease in new applications for the second quarter 2019, compared to an 81% increase in new applications for the same period last year. Throughout 2017 and the first half of 2018, we increased our state footprint in the Property business and, in addition, we generated additional new applications when an unaffiliated carrier stopped offering homeowners insurance through our in-house agency in 2018.

We ended the second quarter 2019 with 14.3 million personal auto policies in force, with Agent auto and Direct auto growing 11% and 13%, respectively, over the the same period last year. Our special lines products policies in force grew 3% over the second quarter last year, Commercial Lines grew 8%, and Property grew 17%. On a year-over-year basis, Personal Lines increased policies in force by about 1.7 million policies, Commercial Lines increased policies by just over 55,000, and Property increased policies by 305,000.

To grow policies in force, it is critical that we retain our customers for longer periods. Consequently, increasing retention is one of our most important priorities. Our efforts to increase our share of multi-product households continue to be 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 auto businesses (referred to as our "vehicle businesses"). Our trailing 12-month total personal auto policy life expectancy was down 2% over last year and our trailing 3-month total auto policy life expectancy, which does not address seasonality and can reflect more volatility, was up 1%. Our Agency auto trailing 12-month policy life expectancy was flat, while Direct auto was down 4%. Our Commercial Lines trailing 12-month policy life expectancy decreased 7% year over year and special lines was down 2%. The decline in policy life expectancy growth is due, in part, to targeted underwriting changes introduced during 2018. The unfavorable impact from these targeted underwriting changes continued through much of the second quarter 2019, and we are seeing our trailing-3 measures begin to improve. We remain focused in our retention efforts and are also continuing to make investments to improve the customer experience in an effort to lengthen retention.

**B. Investments**

The fair value of our investment portfolio was $36.8 billion at June 30, 2019. 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 (the securities allocated to Group I and II are defined below under *Results of Operations – Investments*). At June 30, 2019, 13% of our portfolio was allocated to Group I securities and 87% to Group II securities, compared to 14% and 86%, respectively, at December 31, 2018.

Our recurring investment income generated a pretax book yield of 3.2% for the second quarter 2019, compared to 2.7% for the same period in 2018. Over the last 12 months, the size of our portfolio grew as a result of significant cash inflows from our issuance of debt and preferred stock during 2018, strong growth and profitability from our insurance operations, and portfolio turnover through maturities, calls, and paydowns. As interest rates rose in 2018, we opportunistically increased our duration in the fourth quarter, which enabled us to invest the available cash at yields in excess of the portfolio's average yield. Our investment portfolio produced a fully taxable equivalent (FTE) total return of 2.2% for the second quarter 2019, compared to 0.6% for the same period in 2018. Our fixed-income and common stock portfolios had FTE total returns of 2.1% and 4.0%, respectively, for the second quarter 2019, compared to 0.3% and 3.1%, respectively, last year. We generated a positive return in the fixed-income portfolio this quarter as interest rates and risk premium pricing declined resulting in valuation increases of our securities. The equity market continued its recovery from a sharp fourth quarter 2018 decline, which resulted in the positive equity return during the quarter.

At June 30, 2019, the fixed-income portfolio had a weighted average credit quality of AA- and a duration of 2.7 years, compared to AA- and 2.8 years, respectively, at December 31, 2018. We shortened our portfolio duration modestly during the first six months of the year in response to lower interest rates. Our duration remains below the mid-point of our range as a means to limit a decline in portfolio value from a significant increase in rates from current levels.

## II. FINANCIAL CONDITION

### A. Liquidity and Capital Resources

Progressive's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. Operations generated positive cash flows of about $3.4 billion and $3.5 billion for the first six months of 2019 and 2018, respectively.

Our total capital (debt plus shareholders' equity) was $17.7 billion, at book value, at June 30, 2019, compared to $14.9 billion at June 30, 2018, and $15.2 billion at December 31, 2018. The increase since year end primarily reflected the increase in comprehensive income during that period.

Our debt-to-total capital ratio remained below 30% during all reported periods, consistent with our financial policy. This ratio, which reflects debt as a percent of debt plus shareholders' equity and excludes redeemable noncontrolling interest, was 24.8% at June 30, 2019, 26.0% at June 30, 2018, and 28.9% at December 31, 2018.

We seek to deploy 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.

During the year, we deployed capital primarily through dividends although we did repurchase some of our common shares. Our Board of Directors declared a $0.10 per common share dividend in both the first and second quarters 2019. These dividends, which were each $58.4 million in the aggregate, were paid in April 2019 and July 2019, respectively. In February 2019, we also paid $1.5 billion related to the $2.5140 per common share dividend declared by the Board in December 2018. In addition to the common share dividends, in February 2019, the Board also declared a Series B Preferred Share dividend of $13.4 million, which was paid during the first quarter 2019. Although we did not repurchase any common shares in the open market during 2019, we repurchased 0.5 million shares at a total cost of $28.4 million pursuant to our equity compensation plans.

During the first six months of 2019 and at all times during 2018, our total capital exceeded the sum of our regulatory capital layer plus our self-constructed extreme contingency layer, as described in our Annual Report to Shareholders for the year ended December 31, 2018. Based upon our capital planning and forecasting efforts, we believe that we have sufficient capital resources and cash flows from operations to support our current business, scheduled principal and interest payments on our debt, dividends on common shares and Series B Preferred Shares, our contractual obligations, and other expected capital requirements for the foreseeable future.

Our unsecured discretionary line of credit (the "Line of Credit") with PNC Bank, National Association, in the maximum principal amount of $250 million was renewed during April 2019, on the same terms and conditions, and will expire on April 30, 2020. We did not engage in short-term borrowings, including any borrowings under our discretionary Line of Credit, to fund our operations or for liquidity purposes during the reported periods.

### B. Commitments and Contingencies

#### *Contractual Obligations*

During the first six months of 2019, our contractual obligations have not changed materially from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2018.

#### *Off-Balance-Sheet Arrangements*

Our off-balance-sheet leverage includes purchase obligations. Beginning January 1, 2019, we adopted new accounting guidance eliminating off-balance-sheet accounting treatment for operating leases (see *Note 14 – Leases* and *Note 15 – New Accounting Standards* for further discussion). There have been no other material changes in off-balance-sheet items from those discussed in our Annual Report on Form 10-K for the year ended December 31, 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. Our other indemnity businesses include our run-off businesses.

The following table shows the composition of our companywide net premiums written, by segment, for the respective periods:

| | Three Months Ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Personal Lines | | | | |
| Agency | 41% | 42% | 41% | 42% |
| Direct | 41 | 40 | 42 | 42 |
| Total Personal Lines[1] | 82 | 82 | 83 | 84 |
| Commercial Lines | 13 | 13 | 13 | 12 |
| Property | 5 | 5 | 4 | 4 |
| Total underwriting operations | 100% | 100% | 100% | 100% |

[1] Personal auto insurance accounted for 91% of the total Personal Lines segment net premiums written during the three months and 93% during the six months ended June 30, 2019, and 2018, respectively; insurance for our special lines products accounted for the balance.

Our Personal Lines business writes insurance for personal autos and special lines products (e.g., motorcycles, watercraft, and RVs). We currently write our Personal Lines products in all 50 states. We also offer our personal auto products (not special lines products) in the District of Columbia. Our personal auto policies are primarily written for 6-month terms, while the special lines products are written for 12-month terms.

Our Commercial Lines business writes primary liability, physical damage, and other auto-related insurance for automobiles and trucks owned and/or operated predominantly by 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 represented about 11% of premiums written for the first six months of 2019. We write Commercial Lines business in all 50 states and our policies are primarily written for 12-month terms.

Our Property business writes residential property insurance for single family homes, condominium unit owners, renters, etc., and primarily consists of the operations of the ARX organization. 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. Property policies are written for 12-month terms. We write residential property insurance in 44 states and the District of Columbia, renters insurance in 45 states and the District of Columbia, and flood insurance in 44 states and the District of Columbia. Our flood insurance is written primarily through the National Flood Insurance Program. Florida and Texas remain the largest states for the Property business, together comprising about 40% of the year-to-date written premium volume.

## 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 respective periods, our underwriting profitability results were as follows:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2019 | | 2018 | |
| | Underwriting Profit (Loss) | | Underwriting Profit (Loss) | | Underwriting Profit (Loss) | | Underwriting Profit (Loss) | |
| ($ in millions) | $ | Margin | $ | Margin | $ | Margin | $ | Margin |
| Personal Lines | | | | | | | | |
| Agency | $ 434.7 | 11.9% | $ 360.9 | 11.2% | $ 887.7 | 12.4% | $ 770.0 | 12.2% |
| Direct | 326.6 | 8.7 | 287.9 | 9.0 | 648.5 | 8.9 | 585.9 | 9.4 |
| Total Personal Lines | 761.3 | 10.3 | 648.8 | 10.1 | 1,536.2 | 10.6 | 1,355.9 | 10.8 |
| Commercial Lines | 124.4 | 11.6 | 100.3 | 11.3 | 291.0 | 14.0 | 195.1 | 11.5 |
| Property[1] | (34.4) | (9.0) | (51.9) | (16.6) | (26.7) | (3.6) | (23.4) | (3.9) |
| Other indemnity[2] | 0 | NM | 0 | NM | 0 | NM | 0.2 | NM |
| Total underwriting operations | $ 851.3 | 9.6% | $ 697.2 | 9.1% | $1,800.5 | 10.4% | $1,527.8 | 10.3% |

[1] For the three and six months ended June 30, 2019, pretax profit (loss) includes $18.0 million and $35.9 million, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX, and $18.0 million and $36.0 million for the respective periods last year.
[2] Underwriting margins for our other indemnity businesses are not meaningful (NM) due to the lack of premiums earned by, and the variability of loss costs in, such businesses.

The increases in the underwriting profit margins were driven primarily by premium growth exceeding the increases in our loss and LAE costs, primarily reflecting lower auto frequency experienced in 2019 compared to 2018.

Further 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, were as follows:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| **Underwriting Performance**[1] | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| Personal Lines—Agency | | | | | | |
| Loss & loss adjustment expense ratio | 68.9 | 69.4 | (0.5) | 68.3 | 68.6 | (0.3) |
| Underwriting expense ratio | 19.2 | 19.4 | (0.2) | 19.3 | 19.2 | 0.1 |
| Combined ratio | 88.1 | 88.8 | (0.7) | 87.6 | 87.8 | (0.2) |
| Personal Lines—Direct | | | | | | |
| Loss & loss adjustment expense ratio | 70.1 | 70.9 | (0.8) | 70.0 | 70.3 | (0.3) |
| Underwriting expense ratio | 21.2 | 20.1 | 1.1 | 21.1 | 20.3 | 0.8 |
| Combined ratio | 91.3 | 91.0 | 0.3 | 91.1 | 90.6 | 0.5 |
| Total Personal Lines | | | | | | |
| Loss & loss adjustment expense ratio | 69.5 | 70.2 | (0.7) | 69.2 | 69.4 | (0.2) |
| Underwriting expense ratio | 20.2 | 19.7 | 0.5 | 20.2 | 19.8 | 0.4 |
| Combined ratio | 89.7 | 89.9 | (0.2) | 89.4 | 89.2 | 0.2 |
| Commercial Lines | | | | | | |
| Loss & loss adjustment expense ratio | 67.3 | 68.7 | (1.4) | 65.0 | 68.0 | (3.0) |
| Underwriting expense ratio | 21.1 | 20.0 | 1.1 | 21.0 | 20.5 | 0.5 |
| Combined ratio | 88.4 | 88.7 | (0.3) | 86.0 | 88.5 | (2.5) |
| Property | | | | | | |
| Loss & loss adjustment expense ratio | 77.7 | 79.9 | (2.2) | 73.0 | 68.0 | 5.0 |
| Underwriting expense ratio[2] | 31.3 | 36.7 | (5.4) | 30.6 | 35.9 | (5.3) |
| Combined ratio[2] | 109.0 | 116.6 | (7.6) | 103.6 | 103.9 | (0.3) |
| Total Underwriting Operations[3] | | | | | | |
| Loss & loss adjustment expense ratio | 69.6 | 70.4 | (0.8) | 68.8 | 69.2 | (0.4) |
| Underwriting expense ratio | 20.8 | 20.5 | 0.3 | 20.8 | 20.5 | 0.3 |
| Combined ratio | 90.4 | 90.9 | (0.5) | 89.6 | 89.7 | (0.1) |
| Accident year — Loss & loss adjustment expense ratio[4] | 68.8 | 70.1 | (1.3) | 67.6 | 68.6 | (1.0) |

[1] Ratios are expressed as a percentage of net premiums earned; fees and other revenues are netted with underwriting expenses in the ratio calculations.

[2] Included in the three and six months ended June 30, 2019, are 4.7 points and 4.8 points, respectively, of amortization expense predominately associated with our acquisition of a controlling interest in ARX, and 5.8 points and 6.0 points for the respective periods last year. Excluding these additional expenses, for the three months ended June 30, 2019 and 2018, the Property business would have reported expense ratios of 26.6 and 30.9, respectively, and combined ratios of 104.3 and 110.8. For the six months ended June 30, 2019 and 2018, excluding these additional expenses, the Property business would have reported expense ratios of 25.8 and 29.9, respectively, and combined ratios of 98.8 and 97.9.

[3] Combined ratios for the other indemnity businesses are not presented separately due to the low level of premiums earned by, and the variability of loss costs in, such businesses.

[4] 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)***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(millions)** | **2019** | **2018** | **2019** | **2018** |
| Change in net loss and LAE reserves | $ 485.4 | $ 585.7 | $ 825.5 | $ 860.9 |
| Paid losses and LAE | 5,652.7 | 4,789.6 | 11,071.6 | 9,385.2 |
| Total incurred losses and LAE | $ 6,138.1 | $ 5,375.3 | $ 11,897.1 | $ 10,246.1 |

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.

Our total loss and LAE ratio decreased 0.8 points for the second quarter 2019, compared to the same period last year, and 0.4 points on a year-to-date basis. The decreases were primarily due to higher average premiums and lower auto frequency, partially offset by higher prior year accident development and higher severity.

The following table shows our consolidated catastrophe losses, excluding loss adjustment expenses, incurred during the periods:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **($ in millions)** | **2019** | **2018** | **2019** | **2018** |
| Vehicle businesses | $ 129.8 | $ 124.9 | $ 176.1 | $ 150.4 |
| Property business, net of reinsurance (excluding ASL) | 131.4 | 122.8 | 193.0 | 147.4 |
| Reinsurance (recoverable)/reversal on ASL[1] | (49.5) | (41.2) | (85.5) | (42.0) |
| Property business, net | 81.9 | 81.6 | 107.5 | 105.4 |
| Total net catastrophe losses incurred | $ 211.7 | $ 206.5 | $ 283.6 | $ 255.8 |
| Increase to combined ratio | 2.4 pts. | 2.7 pts. | 1.6 pts. | 1.7 pts. |

[1] Represents the reinsurance recoverable recorded on the losses under our aggregate stop-loss agreements (ASL); see table below for further information.

During the second quarter 2019, on a gross basis, the majority of the catastrophe losses were due to tornadoes throughout the United States, as well as wind, hail, and thunderstorms in Texas. We have responded, and will 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 vehicle businesses. We reinsure most of our Property business against various risks, including, but not limited to, catastrophic losses through excess of loss reinsurance and aggregate stop-loss agreements.

The table below reports the reinsurance recoverable activity under our aggregate stop-loss agreements (ASL) related to 2019 accident year losses and development on 2018 and 2017 accident year losses. The 2017 and 2018 ASL agreements cover 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, for Property business written by ARX subsidiaries. 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%. While the 2019 ASL agreement has substantially the same terms as those described above, the 2019 ASL agreement also covers up to $100 million of retained losses and ALAE from named storms, to the extent we are below the aggregate $200 million coverage.

The following table shows the total reinsurance recoverables activity under the aggregate stop-loss agreements by accident year, for the respective periods:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| ($ in millions) | 2019 | 2018 | 2019 | 2018 |
| Reinsurance recoverable on ASL, Beginning of period | $ 52.2 | $ 5.4 | $ 12.5 | $ 4.6 |
| Reinsurance recoverables recognized on losses | | | | |
| Accident year: | | | | |
| 2019 | 37.1 | NA | 73.4 | NA |
| 2018 | 0 | 37.7 | 0 | 37.7 |
| 2017 | 12.4 | 3.5 | 12.1 | 4.3 |
| Total | 49.5 | 41.2 | 85.5 | 42.0 |
| Reinsurance recoverables recognized on ALAE | | | | |
| Accident year: | | | | |
| 2019 | 4.9 | NA | 8.1 | NA |
| 2018 | 0 | 4.1 | 0 | 4.1 |
| 2017 | (0.7) | 0.5 | (0.2) | 0.5 |
| Total | 4.2 | 4.6 | 7.9 | 4.6 |
| Total reinsurance recoverables recognized | | | | |
| Accident year: | | | | |
| 2019 | 42.0 | NA | 81.5 | NA |
| 2018 | 0 | 41.8 | 0 | 41.8 |
| 2017 | 11.7 | 4.0 | 11.9 | 4.8 |
| Total | 53.7 | 45.8 | 93.4 | 46.6 |
| Reinsurance recoverable on ASL, End of period | $ 105.9 | $ 51.2 | $ 105.9 | $ 51.2 |

NA - Not applicable

In addition to the aggregate stop-loss agreements, our Property business is covered by multi-year catastrophe reinsurance contracts, which carry retention thresholds for losses and LAE from a single catastrophic event of $60 million (see *Item 1 – Description of Business-Reinsurance* in our Annual Report on Form 10-K for the year ended December 31, 2018 for further discussion).

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 reserves) on a calendar-year basis increased about 8% for both the three and six months ended June 30, 2019, compared to the same periods last year. Following are the changes we experienced in severity in our auto coverages on a year-over-year basis:

- Bodily injury increased about 9% for both the second quarter and first six months of 2019, in part due to increases in medical costs and actuarially determined reserve increases to reflect accelerating paid loss trends we experienced in recent quarters.
- Auto property damage increased about 6% and collision coverages increased about 7% for both the second quarter and first six months of 2019, in part due to an increase in the severity of total loss claims on newer vehicles and higher costs to repair newer vehicles.
- Personal injury protection (PIP) increased about 4% for the second quarter and 6% for the first six months of 2019, which reflects more reopened claims during the first quarter 2019, predominately due to the changing claims environment in Florida.

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.

Our personal auto incurred frequency, on a calendar-year basis, decreased about 4% and 3% for the three and six months ended June 2019, respectively, compared to the same periods last year. Following are the frequency changes we experienced by coverage on a year-over-year basis:

- PIP decreased about 6% and 5% for the second quarter and first six months of 2019, respectively.
- Collision decreased about 5% for both periods.
- Auto property damage decreased about 4% for both periods.
- Bodily injury decreased about 2% for the second quarter and 3% for the first six months of 2019.

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.

On a year-over-year basis, our commercial auto products incurred severity increased 10% and frequency decreased 5%. We are disclosing changes in commercial auto products severity and frequency using a trailing 12-month period and excluding our transportation network company (TNC) business. Using a trailing 12-month period mitigates the effects of month-to-month variability and addresses inherent seasonality trends in the commercial auto products. Since the loss patterns in the TNC business are not indicative of our other commercial auto products, disclosing severity and frequency trends without that business is more indicative of our overall experience for the majority of our commercial auto products. In addition to general trends in the marketplace, the increase in our commercial auto products severity reflects a shift in the mix of business to for-hire trucking, which has higher average severity than the business auto and contractor market tiers. The frequency decrease was in part due to continued product segmentation and underwriting restrictions, which created a mix shift toward more preferred, lower-frequency, business.

The table below presents the actuarial adjustments implemented and the loss reserve development experienced in the following periods on a companywide basis:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **($ in millions)** | **2019** | **2018** | **2019** | **2018** |
| ACTUARIAL ADJUSTMENTS | | | | |
| Reserve decrease (increase) | | | | |
| Prior accident years | $ (45.8) | $ (7.0) | $ (62.5) | $ (0.8) |
| Current accident year | (16.3) | 6.2 | (3.0) | 13.9 |
| Calendar year actuarial adjustment | $ (62.1) | $ (0.8) | $ (65.5) | $ 13.1 |
| PRIOR ACCIDENT YEARS DEVELOPMENT | | | | |
| Favorable (unfavorable) | | | | |
| Actuarial adjustment | $ (45.8) | $ (7.0) | $ (62.5) | $ (0.8) |
| All other development | (21.6) | (18.9) | (147.5) | (80.7) |
| Total development | $ (67.4) | $ (25.9) | $ (210.0) | $ (81.5) |
| (Increase) decrease to calendar year combined ratio | (0.8) pts. | (0.3) pts. | (1.2) pts. | (0.6) pts. |

Total development consists of both actuarial adjustments and "all other development." 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 in the projected frequency and severity trends, which allow them to adjust the reserves to reflect the current cost trends. For our Property business, close to 100% of the outstanding catastrophe reserves are reviewed monthly and, as such, any development on catastrophe losses are included as part of the actuarial adjustments. For the vehicle businesses, only a subset of our reserves is reviewed monthly as part of the actuarial adjustment process. Development for catastrophe losses for the vehicle businesses would be reflected in "all other 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 the three and six months ended June 30, 2019. The unfavorable development was 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. See *Note 6 – Loss and Loss Adjustment Expense Reserves*, for a more detailed discussion of our prior accident years 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***
Progressive's other underwriting expenses increased 18% for the second quarter and 19% for the first six months of 2019, compared to the same periods last year, primarily reflecting an increase in advertising spend. During the second quarter and first six months of 2019, our advertising expenditures increased 29% and 30%, respectively, compared to the same periods last year. 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. Despite the increase in our total underwriting expenses, the underwriting expense ratio (i.e., policy acquisition costs and other underwriting expenses, net of fees and other revenues, expressed as a percentage of net premiums earned) was only 0.3 points higher for both the three and six months ended June 30, 2019, compared to the same periods last year, in part reflecting the increase in earned premiums we realized during the year.

## 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, represents all policies under which coverage was in effect as of the end of the period specified.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| ($ in millions) | 2019 | 2018 | % Growth | 2019 | 2018 | % Growth |
| NET PREMIUMS WRITTEN | | | | | | |
| Personal Lines | | | | | | |
| Agency | $ 3,775.5 | $ 3,384.6 | 12% | $ 7,541.9 | $ 6,719.9 | 12% |
| Direct | 3,709.8 | 3,268.3 | 14 | 7,665.9 | 6,677.8 | 15 |
| Total Personal Lines | 7,485.3 | 6,652.9 | 13 | 15,207.8 | 13,397.7 | 14 |
| Commercial Lines | 1,182.7 | 1,045.2 | 13 | 2,347.9 | 1,972.1 | 19 |
| Property | 458.5 | 397.2 | 15 | 810.7 | 694.3 | 17 |
| Total underwriting operations | $ 9,126.5 | $ 8,095.3 | 13% | $ 18,366.4 | $16,064.1 | 14% |
| NET PREMIUMS EARNED | | | | | | |
| Personal Lines | | | | | | |
| Agency | $ 3,639.6 | $ 3,225.7 | 13% | $ 7,148.1 | $ 6,289.5 | 14% |
| Direct | 3,733.4 | 3,211.8 | 16 | 7,309.7 | 6,228.1 | 17 |
| Total Personal Lines | 7,373.0 | 6,437.5 | 15 | 14,457.8 | 12,517.6 | 15 |
| Commercial Lines | 1,070.5 | 884.3 | 21 | 2,083.5 | 1,692.9 | 23 |
| Property | 381.2 | 312.4 | 22 | 743.2 | 597.7 | 24 |
| Total underwriting operations | $ 8,824.7 | $ 7,634.2 | 16% | $ 17,284.5 | $14,808.2 | 17% |

| | June 30, | | |
|---|---|---|---|
| (thousands) | 2019 | 2018 | % Growth |
| POLICIES IN FORCE | | | |
| Agency auto | 6,783.7 | 6,107.4 | 11% |
| Direct auto | 7,528.4 | 6,650.9 | 13 |
| Total auto | 14,312.1 | 12,758.3 | 12 |
| Special lines[1] | 4,510.2 | 4,387.4 | 3 |
| Personal Lines — total | 18,822.3 | 17,145.7 | 10 |
| Commercial Lines | 734.2 | 678.9 | 8 |
| Property | 2,071.6 | 1,766.6 | 17 |
| Companywide total | 21,628.1 | 19,591.2 | 10% |

[1] Includes insurance for motorcycles, watercraft, RVs, and similar items.

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 | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| | 2019 | 2018 | 2019 | 2018 |
| APPLICATIONS | | | | |
| New | 5% | 21% | 6% | 21% |
| Renewal | 11 | 9 | 11 | 10 |
| WRITTEN PREMIUM PER POLICY - AUTO | 2 | 5 | 3 | 5 |
| RETENTION MEASURES - AUTO | | | | |
| Policy life expectancy | | | | |
| Trailing 3-months | 1 | 5 | | |
| Trailing 12-months | (2) | 10 | | |

In our Personal Lines business, the increase in both new and renewal applications for both periods resulted primarily from increases in our personal auto products although our special lines products experienced increases in applications as well. In the auto businesses, the increase in new applications was primarily attributable to our competitive product offerings and position in the marketplace and reflects our increase in advertising spend during the first half of 2019. For the quarter, on a year-over-year basis, our auto new applications were up 6% and our special lines products were up 4%, with the Agency and Direct businesses contributing to both products relatively evenly. We continue to experience growth, albeit at slower rates than during the same period last year, as competitors lower rates and we are seeing signs of a softening marketplace. In response to slowing new application growth, we continue to take selective rate decreases on auto business policies.

We continued to experience increases in written premium per policy, primarily driven by a shift in mix to products and consumer segments with higher premiums during both the second quarter and first six months of 2019. We believe that our Destination Era efforts, including our efforts to improve the customer experience, continue to have a positive impact on our retention. During the second quarter 2019, we saw improvement in our trailing 3-month retention measure, indicating that the unfavorable impact to policy life expectancy we experienced as the result of targeted underwriting changes introduced during the first half of 2018 are beginning to diminish. The year-over-year decrease experienced in our 12-month policy life expectancy continues to reflect the impact of those underwriting changes.

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 | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| | 2019 | 2018 | 2019 | 2018 |
| Auto: new applications | 6% | 21% | 7% | 20% |
| renewal applications | 11 | 10 | 11 | 11 |
| written premium per policy | 3 | 5 | 3 | 5 |
| Auto retention measures: | | | | |
| policy life expectancy - trailing 3-months | 4 | 5 | | |
| trailing 12-months | 0 | 11 | | |

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. New and renewal applications increased during the second quarter and the first six months of 2019, primarily reflecting our competitiveness in the marketplace. During both the second quarter and six months ended June 30, 2019, we continued to experience a decrease in Agency auto quote volume of 4% and 3%, respectively, with rate of conversion (i.e., converting a quote to a sale) increasing 10% and 11%, compared to the same periods last year. We continued to experience strong policy in force growth in each of our consumer 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), and we continued to grow our new Agency auto applications across all consumer segments, except in our inconsistently insured segment, with the largest percentage increase coming from our bundled auto and home product (i.e., Robinsons), albeit on a smaller base.

During the year, we generated new auto application growth in 35 states and the District of Columbia, including five of our top 10 largest Agency states. On a year-over-year basis for the second quarter and first six months of 2019, Agency auto written premium per policy increased about 2%-3% for new business and 1%-4% for renewal business, based on policy term, primarily reflecting shifts in the mix of business.

***The Direct Business***

| | Growth Over Prior Year | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| | 2019 | 2018 | 2019 | 2018 |
| Auto: new applications | 6% | 32% | 7% | 31% |
| renewal applications | 15 | 13 | 16 | 13 |
| written premium per policy | 2 | 5 | 2 | 5 |
| Auto retention measures: | | | | |
| policy life expectancy - trailing 3-months | (2) | 4 | | |
| trailing 12-months | (4) | 9 | | |

The Direct business includes business written directly by Progressive on the Internet, through mobile devices, and over the phone. New and renewal applications increased during the second quarter and six months ended June 30, 2019, primarily reflecting our competitiveness in the marketplace. During the same periods, our Direct auto quote volume was flat, with rate of conversion increases of 5% and 6%, respectively, compared to the same periods last year. During the year, we generated new Direct auto application growth in 38 states, including seven of our top 10 largest Direct states.

During both the second quarter and six months ended June 30, 2019, we continued to grow our new Direct auto applications and policies in force across all consumer segments, except for a slight decline of new applications in our non-bundled homeowner segment for the quarter. With the marketing investments that continued to target auto/home bundlers, we saw the highest growth in our Robinsons consumer segment. Written premium per policy for new Direct auto business increased 1% and 2% for the second quarter and six months ended June 30, 2019, respectively, and renewal business increased 2% and 3%, as compared to the same periods last year, primarily reflecting shifts in the mix of business.

**E. Commercial Lines**

| | Growth Over Prior Year | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| | 2019 | 2018 | 2019 | 2018 |
| New applications | 11% | 9% | 11% | 17% |
| Renewal applications | 7 | 5 | 8 | 4 |
| Written premium per policy | 10 | 12 | 12 | 13 |
| Policy life expectancy - trailing 12-months | (7) | 2 | | |

Our Commercial Lines business operates in the business auto, for-hire transportation, contractor, for-hire specialty, tow, and for-hire livery markets and is primarily written through the agency channel. Commercial Lines experienced solid year-over-year new application growth in the second quarter and first six months of 2019, reflecting an increase in both quote volume and conversion, a generally strong economy, and competitor rate increases. 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. During 2018, we increased rates and experienced shifts in business mix, to higher premium business markets, which continued into 2019, contributing to the increase in our written premium per policy during the second quarter and first six months of 2019. The decrease in policy life expectancy was primarily attributable to the rate increases, prior year underwriting restrictions, and a shift to business market targets with lower policy life expectancy.

During 2019, we expanded our footprint in the transportation network company business by adding nine additional states, bringing the total number of states to 13 where we insure drivers on the Uber and Uber Eats platforms. We continue to believe we are well positioned to offer competitive rates to the best owners/operators and small fleets though Smart Haul®, our usage-based insurance program for our for-hire transportation policyholders.

## F. Property

| | Growth Over Prior Year | | | |
|---|---|---|---|---|
| | Quarter | | Year-to-date | |
| | 2019 | 2018 | 2019 | 2018 |
| New applications | (6)% | 81% | (2)% | 83% |
| Renewal applications | 23 | 21 | 24 | 20 |
| Written premium per policy | 3 | (5) | 2 | (5) |

Our Property business writes residential property insurance for homeowners, other property owners, and renters, primarily in the agency channel. During the second quarter and first six months of 2019, our Property business experienced a decrease in new applications, primarily reflecting the impact of targeted underwriting changes made in Texas and Colorado during the second quarter 2019 and the significant growth experienced in 2018. The significant growth in new applications during the comparable period in 2018 was largely attributable to state expansion, momentum in growing Robinsons through our Platinum agency offering, and the business we began writing when an unaffiliated carrier stopped offering homeowners' insurance through our in-house agency during 2018.

We are starting to see some improvement in our written premium per policy for both the second quarter and first six months of 2019, primarily related to rate increases we took in the first half of 2019 and during 2018, where the rate increases are still being applied as policies renew. We will continue to increase rates where needed to get us in line with our profitability target.

## G. Income Taxes

A deferred tax asset or liability is a tax benefit or expense that is expected to be realized in a future tax year. At June 30, 2019 and 2018, we reported net deferred tax liabilities, and a net deferred tax asset at December 31, 2018. At June 30, 2019 and 2018, and December 31, 2018, we had net current income taxes payable of $150.3 million, $60.5 million, and $16.8 million, respectively, which were reported as part of "other liabilities." The increase in our current tax liability from the prior periods primarily reflects the reversal of certain tax credits and other tax benefits discussed below.

Our effective tax rate for the three and six months ended June 30, 2019 were 21.3% and 26.7%, respectively, compared to 20.3% and 20.1% for the same periods last year. The increase in the effective tax rate for the six months ended June 30, 2019 over the same period last year principally reflects the total reversal of the tax credits and other tax benefits previously recognized from certain renewable energy investments, plus interest. See *Note 5 – Income Taxes* for additional discussion.

## IV. RESULTS OF OPERATIONS – INVESTMENTS

### A. Investment Results

We disclose total return to reflect our management philosophy governing the portfolio and our evaluation of investment results. 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 net unrealized, gains (losses) on securities.

The following table summarizes investment results for the periods ended June 30:

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Pretax recurring investment book yield (annualized) | 3.2% | 2.7% | 3.1% | 2.6% |
| Weighted average FTE book yield (annualized) | 3.2 | 2.8 | 3.2 | 2.7 |
| FTE total return: | | | | |
| Fixed-income securities | 2.1 | 0.3 | 4.4 | 0 |
| Common stocks | 4.0 | 3.1 | 17.9 | 2.7 |
| Total portfolio | 2.2 | 0.6 | 5.5 | 0.3 |

Our fixed-income portfolio duration was 2.7 years, which is consistent with the first quarter 2019. 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 and from interest income. The equity market continued to recover from a sharp fourth quarter drop. Our indexed portfolio return was in line with the overall market, while our actively managed portfolio exceeded the overall market for the quarter but still lagged for the six months.

A further break-down of our FTE total returns for our portfolio for the periods ended June 30, follows:

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Fixed-income securities: | | | | |
| U.S. Treasury Notes | 2.3% | 0% | 3.9% | (0.7)% |
| Municipal bonds | 1.8 | 0.8 | 3.7 | 0.6 |
| Corporate bonds | 2.6 | 0.3 | 6.3 | (0.3) |
| Residential mortgage-backed securities | 1.1 | 0.6 | 2.0 | 1.1 |
| Commercial mortgage-backed securities | 2.2 | 0.5 | 4.7 | 0.5 |
| Other asset-backed securities | 1.1 | 0.5 | 2.1 | 0.7 |
| Preferred stocks | 2.1 | 0.5 | 8.5 | 0.5 |
| Short-term investments | 0.6 | 0.5 | 1.3 | 0.9 |
| Common stocks: | | | | |
| Indexed | 4.0 | 3.4 | 17.9 | 2.8 |
| Actively managed | 5.0 | (1.5) | 17.6 | 2.3 |

**B. Portfolio Allocation**

The composition of the investment portfolio was:

| ($ in millions) | Fair Value | % of Total Portfolio | Duration (years) | Rating[1] |
|---|---|---|---|---|
| June 30, 2019 | | | | |
| Fixed maturities | $ 31,188.2 | 84.7% | 2.8 | AA |
| Nonredeemable preferred stocks | 1,130.0 | 3.1 | 2.5 | BBB- |
| Short-term investments | 1,360.9 | 3.7 | <0.1 | AA- |
| Total fixed-income securities | 33,679.1 | 91.5 | 2.7 | AA- |
| Common equities | 3,135.5 | 8.5 | na | na |
| Total portfolio[2,3] | $ 36,814.6 | 100.0% | 2.7 | AA- |
| June 30, 2018 | | | | |
| Fixed maturities | $ 23,789.2 | 76.9% | 2.9 | AA- |
| Nonredeemable preferred stocks | 758.6 | 2.4 | 3.1 | BBB- |
| Short-term investments | 3,231.2 | 10.5 | 0.1 | AA- |
| Total fixed-income securities | 27,779.0 | 89.8 | 2.6 | AA- |
| Common equities | 3,142.2 | 10.2 | na | na |
| Total portfolio[2,3] | $ 30,921.2 | 100.0% | 2.6 | AA- |
| December 31, 2018 | | | | |
| Fixed maturities | $ 28,111.5 | 83.7% | 2.9 | AA- |
| Nonredeemable preferred stocks | 1,033.9 | 3.1 | 2.6 | 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 period end. 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 would assign an internal rating of AAA-.

[2]Our portfolio reflects the effect of unsettled security transactions; at June 30, 2019, we had $303.5 million included in “other liabilities,” compared to $362.1 million and $5.9 million at June 30, 2018 and December 31, 2018, respectively.

[3]The total fair value of the portfolio at June 30, 2019 and 2018, and December 31, 2018, included $1.2 billion, $1.7 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 the 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:

| ($ in millions) | June 30, 2019 Fair Value | June 30, 2019 % of Total Portfolio | June 30, 2018 Fair Value | June 30, 2018 % of Total Portfolio | December 31, 2018 Fair Value | December 31, 2018 % of Total Portfolio |
|---|---|---|---|---|---|---|
| Group I securities: | | | | | | |
| Non-investment-grade fixed maturities | $ 489.5 | 1.3% | $ 802.2 | 2.6% | $ 754.8 | 2.2% |
| Redeemable preferred stocks[1] | 133.7 | 0.4 | 156.3 | 0.5 | 154.1 | 0.5 |
| Nonredeemable preferred stocks | 1,130.0 | 3.1 | 758.6 | 2.4 | 1,033.9 | 3.1 |
| Common equities | 3,135.5 | 8.5 | 3,142.2 | 10.2 | 2,626.1 | 7.8 |
| Total Group I securities | 4,888.7 | 13.3 | 4,859.3 | 15.7 | 4,568.9 | 13.6 |
| Group II securities: | | | | | | |
| Other fixed maturities[2] | 30,565.0 | 83.0 | 22,830.7 | 73.8 | 27,202.6 | 81.0 |
| Short-term investments | 1,360.9 | 3.7 | 3,231.2 | 10.5 | 1,795.9 | 5.4 |
| Total Group II securities | 31,925.9 | 86.7 | 26,061.9 | 84.3 | 28,998.5 | 86.4 |
| Total portfolio | $ 36,814.6 | 100.0% | $ 30,921.2 | 100.0% | $ 33,567.4 | 100.0% |

[1]Includes non-investment-grade redeemable preferred stocks of $38.3 million, $83.5 million, and $69.9 million at June 30, 2019 and 2018, and December 31, 2018, respectively.
[2]Includes investment-grade redeemable preferred stocks, with cumulative dividends, of $95.4 million, $72.8 million, and $84.2 million at June 30, 2019 and 2018, and December 31, 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 (NRSRO) 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 Group II securities.

***Unrealized Gains and Losses***

As of June 30, 2019, our fixed-maturity portfolio had pretax net unrealized gains, recorded as part of accumulated other comprehensive income, of $598.1 million, compared to net unrealized losses of $267.3 million and $134.2 million at June 30, 2018 and December 31, 2018, respectively. The change from net unrealized losses in 2018 to net unrealized gains at June 30, 2019, was predominantly the result of valuation increases in nearly all sectors during the first six months of 2019, most notably in our U.S. Treasury, corporate, and commercial mortgage-backed portfolios.

See *Note 2 – Investments* for a further break-out of 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 the six months ended June 30, 2019:

| (millions) | Gross Holding Period Gains | Gross Holding Period Losses | Net Holding Period Gains (Losses) |
|---|---|---|---|
| Beginning of period | | | |
| Hybrid fixed-maturity securities | $ 0.1 | $ (10.3) | $ (10.2) |
| Equity securities | 1,568.7 | (60.2) | 1,508.5 |
| Balance at December 31, 2018 | 1,568.8 | (70.5) | 1,498.3 |
| Year-to-date change in fair value | | | |
| Hybrid fixed-maturity securities | 3.0 | 9.1 | 12.1 |
| Equity securities | 467.4 | 25.6 | 493.0 |
| Total holding period gains (losses) during the period | 470.4 | 34.7 | 505.1 |
| End of period | | | |
| Hybrid fixed-maturity securities | 3.1 | (1.2) | 1.9 |
| Equity securities | 2,036.1 | (34.6) | 2,001.5 |
| Balance at June 30, 2019 | $ 2,039.2 | $ (35.8) | $ 2,003.4 |

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)***

Net realized gains (losses) may include write-downs of fixed-maturity securities determined to have had other-than-temporary declines in fair value. We routinely monitor our fixed-maturity portfolio for pricing changes that might indicate potential impairments and perform detailed reviews of 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 conditions, 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 is lower than the amortized cost basis of the security.

Fixed-maturity securities with declines attributable to issuer-specific fundamentals are reviewed to identify available evidence, circumstances, and influences to estimate the potential for, and timing of, recovery of the investment's impairment. An other-than-temporary impairment loss is deemed to have occurred when the potential for recovery does not satisfy the criteria set forth in the current accounting guidance.

When a security in our fixed-maturity portfolio has an unrealized loss and it is more likely than not that we will be required to sell the security, we write-down the security to its current fair value and recognize the entire unrealized loss through the comprehensive income statement as a realized loss. If a fixed-maturity security has an unrealized loss and it is more likely than not that we will hold the debt security until recovery (which could be maturity), then we determine if any of the decline in value is due to a credit loss (i.e., where the present value of cash flows expected to be collected is lower than the amortized cost basis of the security) and, if so, we will recognize that portion of the impairment in net income as part of the comprehensive income statement as a realized loss; any remaining unrealized loss on the security is considered to be due to other factors (e.g., interest rate and credit spread movements) and is reflected in other comprehensive income as part of shareholders' equity, along with unrealized gains or losses on securities that are not deemed to be other-than-temporarily impaired.

We did not record any write-downs on securities held in our investment portfolio during the first six months of 2019 or 2018. The write-downs we did take in 2019 and 2018 related to federal renewable energy tax credit fund investments, which were reported in "other assets" on the balance sheet, 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 the 2019 write-downs.

The following table stratifies the gross unrealized losses in our fixed-maturity portfolio at June 30, 2019, by duration in a loss position:

| (millions) | Fair Value | Total Gross Unrealized Losses[1] |
|---|---|---|
| Unrealized loss for less than 12 months | $ 966.5 | $ 2.0 |
| Unrealized loss for 12 months or greater | 2,801.9 | 9.9 |
| Total | $ 3,768.4 | $ 11.9 |

[1]None of these securities had a decline in investment value greater than 15%.

We completed a review of the securities in a loss position and determined that, applying the procedures and criteria discussed above, these securities were not other-than-temporarily impaired. We also determined that it is not likely that we will be required to sell these securities during the period of time necessary to recover the respective cost bases of these securities, and that there are no additional credit-related impairments on our debt securities.

Since total unrealized losses are already a component of other comprehensive income and included in shareholders' equity, any recognition of these losses as additional OTTI losses would have no effect on our comprehensive income, book value, or reported investment total return.

***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 years and 5 years. The duration of the fixed-income portfolio was 2.7 years at June 30, 2019, compared to 2.6 years at June 30, 2018 and 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, was:

| Duration Distribution | June 30, 2019 | June 30, 2018 | December 31, 2018 |
|---|---|---|---|
| 1 year | 24.1% | 21.9% | 19.4% |
| 2 years | 20.6 | 18.1 | 17.0 |
| 3 years | 20.1 | 24.9 | 27.0 |
| 5 years | 19.8 | 19.3 | 22.8 |
| 7 years | 12.3 | 10.2 | 10.4 |
| 10 years | 3.1 | 5.6 | 3.5 |
| 20 years | 0 | 0 | (0.1) |
| Total fixed-income portfolio | 100.0% | 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 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 weighted average portfolio credit quality rating, as defined by NRSROs, which was successfully maintained during the first six months of 2019 and all of 2018.

The credit quality distribution of the fixed-income portfolio was:

| Rating | June 30, 2019 | June 30, 2018 | December 31, 2018 |
|---|---|---|---|
| AAA | 58.0% | 47.3% | 50.5% |
| AA | 10.4 | 11.7 | 10.8 |
| A | 8.4 | 11.1 | 8.4 |
| BBB | 20.4 | 24.7 | 25.9 |
| Non-investment grade/non-rated[1] | | | |
| BB | 1.9 | 3.3 | 3.0 |
| B | 0.6 | 1.5 | 1.1 |
| CCC and lower | 0.1 | 0.1 | 0.1 |
| Non-rated | 0.2 | 0.3 | 0.2 |
| Total fixed-income portfolio | 100.0% | 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 2.5% of the total fixed-income portfolio at June 30, 2019, compared to 3.9% at June 30, 2018 and 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. We were within all of the constraints described above during all reported periods.

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 the first six months of 2019 and all of 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 $2.8 billion, or 14.2%, of principal repayment from our fixed-income portfolio, excluding U.S. Treasury Notes and short-term investments, during the remainder of 2019. 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 June 30, 2019:

| ($ in millions) | Fair Value | Duration (years) |
|---|---|---|
| U.S. Treasury Notes | | |
| Less than one year | $ 371.2 | 0.6 |
| One to two years | 3,599.1 | 1.6 |
| Two to three years | 2,037.5 | 2.3 |
| Three to five years | 2,970.4 | 4.1 |
| Five to seven years | 2,603.7 | 6.0 |
| Seven to ten years | 797.5 | 8.5 |
| Total U.S. Treasury Notes | $ 12,379.4 | 3.7 |

As of June 30, 2019, we had no interest rate swaps or treasury futures.

*ASSET-BACKED SECURITIES*

Included in the fixed-income portfolio are asset-backed securities, which were comprised of the following at the balance sheet dates listed:

| ($ in millions) | Fair Value | Net Unrealized Gains (Losses) | % of Asset-Backed Securities | Duration (years) | Rating (at period end) |
|---|---|---|---|---|---|
| June 30, 2019 | | | | | |
| Residential mortgage-backed securities: | | | | | |
| Collateralized mortgage obligations | $ 388.2 | $ 1.4 | 4.0% | 1.5 | AA+ |
| Home equity (sub-prime bonds) | 277.0 | 3.4 | 2.9 | 0.6 | A |
| Residential mortgage-backed securities | 665.2 | 4.8 | 6.9 | 1.1 | AA- |
| Commercial mortgage-backed securities | 4,441.9 | 80.7 | 46.3 | 2.5 | AA- |
| Other asset-backed securities: | | | | | |
| Automobile | 2,056.8 | 6.9 | 21.4 | 0.7 | AAA- |
| Credit card | 791.2 | 1.4 | 8.2 | 0.5 | AAA |
| Student loan | 594.3 | 1.7 | 6.2 | 0.8 | AAA- |
| Other[1] | 1,054.9 | 8.9 | 11.0 | 1.5 | AA |
| Other asset-backed securities | 4,497.2 | 18.9 | 46.8 | 0.9 | AAA- |
| Total asset-backed securities | $ 9,604.3 | $ 104.4 | 100.0% | 1.6 | AA |

| ($ in millions) | Fair Value | Net Unrealized Gains (Losses) | % of Asset-Backed Securities | Duration (years) | Rating (at period end) |
|---|---|---|---|---|---|
| June 30, 2018 | | | | | |
| Residential mortgage-backed securities: | | | | | |
| Collateralized mortgage obligations | $ 444.9 | $ (2.1) | 6.7% | 1.1 | AA |
| Home equity (sub-prime bonds) | 377.7 | 5.1 | 5.6 | 0.3 | BBB+ |
| Residential mortgage-backed securities | 822.6 | 3.0 | 12.3 | 0.7 | A+ |
| Commercial mortgage-backed securities | 2,696.9 | (28.6) | 40.3 | 2.7 | A+ |
| Other asset-backed securities: | | | | | |
| Automobile | 1,358.6 | (4.7) | 20.3 | 0.9 | AAA- |
| Credit card | 513.8 | (0.2) | 7.6 | 0.9 | AAA |
| Student loan | 521.8 | (0.6) | 7.8 | 1.0 | AA |
| Other[1] | 783.4 | (6.2) | 11.7 | 1.7 | AA- |
| Other asset-backed securities | 3,177.6 | (11.7) | 47.4 | 1.1 | AA+ |
| Total asset-backed securities | $ 6,697.1 | $ (37.3) | 100.0% | 1.7 | AA- |

| ($ in millions) | Fair Value | Net Unrealized Gains (Losses) | % of Asset-Backed Securities | Duration (years) | Rating (at period end) |
|---|---|---|---|---|---|
| December 31, 2018 | | | | | |
| Residential mortgage-backed securities: | | | | | |
| Collateralized mortgage obligations | $ 435.3 | $ (2.4) | 5.7% | 1.5 | AA |
| Home equity (sub-prime bonds) | 299.1 | 3.3 | 3.9 | 0.4 | A- |
| 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: | | | | | |
| Automobile | 1,609.0 | (3.3) | 21.1 | 0.9 | AAA- |
| Credit card | 644.5 | (0.5) | 8.5 | 0.5 | AAA |
| Student loan | 475.7 | (1.0) | 6.3 | 1.1 | AA+ |
| Other[1] | 848.1 | (3.4) | 11.1 | 1.6 | 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]Includes equipment leases, whole business securitizations, and other types of structured debt.

The increases in asset-backed securities are primarily due to purchases in the automobile, credit card, commercial mortgage-backed and "other" categories, partially offset by maturities and sales in the residential mortgage-backed sector. See below for a further discussion of our residential and commercial mortgage-backed securities. The other asset-backed securities category is not included in the discussions below due to the high credit quality, short duration, and security structure of those instruments.

*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 June 30, 2019, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

**Residential Mortgage-Backed Securities (at June 30, 2019)**

| | | Collateralized Mortgage Obligations | | | | |
|---|---|---|---|---|---|---|
| ($ in millions) Rating[1] | Home Equity | Non-Agency Prime | Alt-A[2] | Government/ GSE[3] | Total | % of Total |
| AAA | $ 76.9 | $ 311.5 | $ 1.6 | $ 2.1 | $ 392.1 | 59.0% |
| AA | 64.1 | 10.8 | 8.1 | 0.7 | 83.7 | 12.6 |
| A | 57.7 | 2.4 | 0 | 0 | 60.1 | 9.0 |
| BBB | 6.4 | 2.9 | 0.9 | 0 | 10.2 | 1.5 |
| Non-investment grade/non-rated: | | | | | | |
| BB | 28.5 | 1.9 | 0.7 | 0 | 31.1 | 4.7 |
| B | 24.4 | 0 | 0.8 | 0 | 25.2 | 3.8 |
| CCC and lower | 9.5 | 4.1 | 0 | 0 | 13.6 | 2.0 |
| Non-rated | 9.5 | 1.9 | 37.8 | 0 | 49.2 | 7.4 |
| Total fair value | $ 277.0 | $ 335.5 | $ 49.9 | $ 2.8 | $ 665.2 | 100.0% |
| Increase (decrease) in value | 1.2% | 0.1% | 2.1% | 0.2% | 0.7% | |

[1]The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings for our RMBSs, $107.9 million of our non-investment-grade securities are rated investment-grade and classified as Group II, and $11.2 million, or 1.7% of our total RMBSs, are not rated by the NAIC and are classified as Group I.

[2]Represents structured securities with primary residential loans as collateral for which documentation standards for loan approval were less stringent than conventional loans; the collateral loans are often referred to as low documentation or no documentation loans.

[3]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).

Our collateralized mortgage obligation (CMO) portfolio is primarily composed of non-GSE/FHA/VA mortgage securities. The majority of our portfolio consists of older deals with predictable prepayment speeds, high levels of credit support, and stable delinquency trends. We also own a number of more recent vintage securities backed by high-quality collateral. Although our RMBS portfolio decreased from year-end 2018, it increased during the second quarter due to purchases of both home-equity loan-backed securities and non-agency prime CMO securities.

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 June 30, 2019, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

**Commercial Mortgage-Backed Securities (at June 30, 2019)**

| ($ in millions) Rating[1] | Multi-Borrower | Single-Borrower | Total | % of Total |
|---|---|---|---|---|
| AAA | $ 409.9 | $ 1,472.0 | $ 1,881.9 | 42.4% |
| AA | 141.1 | 1,153.2 | 1,294.3 | 29.1 |
| A | 130.9 | 615.3 | 746.2 | 16.8 |
| BBB | 44.2 | 450.6 | 494.8 | 11.1 |
| Non-investment grade/non-rated: | | | | |
| BB | 0 | 24.0 | 24.0 | 0.6 |
| B | 0.7 | 0 | 0.7 | 0 |
| Total fair value | $ 726.8 | $ 3,715.1 | $ 4,441.9 | 100.0% |
| Increase (decrease) in value | 2.8% | 1.7% | 1.9% | |

[1]The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings for our CMBSs, $2.2 million of our non-investment-grade securities are rated investment-grade and classified as Group II, and $22.5 million, or 0.5% of our total CMBSs, are not rated by the NAIC and are classified as Group I.

In the CMBS sector, our focus continues to be on single-borrower transactions, which represented 83.6% of the CMBS portfolio at June 30, 2019. We increased our CMBS bond portfolio by $535.6 million on a cost basis during the quarter. The additions were primarily in bonds backed by multi-family, industrial, and office collateral, and bonds defeased by U.S. Treasuries. The duration of the CMBS portfolio was 2.5 years and the average credit quality was AA- at both June 30, 2019 and March 31, 2019.

*MUNICIPAL SECURITIES*

Included in the fixed-income portfolio at June 30, 2019 and 2018, and December 31, 2018, were $1,589.7 million, $1,667.3 million, and $1,649.1 million, respectively, of state and local government obligations. These securities had a duration of 2.9 years and an overall credit quality rating of AA+ (excluding the benefit of credit support from bond insurance) at June 30, 2019, compared to 2.7 years and AA at June 30, 2018, and 2.9 years and AA+ at December 31, 2018. These securities had net unrealized gains of $26.1 million at June 30, 2019, compared to net unrealized losses of $11.6 million at June 30, 2018 and $5.5 million at December 31, 2018.

The following table details the credit quality rating of our municipal securities at June 30, 2019, without the benefit of credit or bond insurance:

**Municipal Securities (at June 30, 2019)**

| (millions) Rating | General Obligations | Revenue Bonds | Total |
|---|---|---|---|
| AAA | $ 372.8 | $ 376.5 | $ 749.3 |
| AA | 355.9 | 451.0 | 806.9 |
| A | 0 | 24.4 | 24.4 |
| BBB | 3.0 | 6.1 | 9.1 |
| Total | $ 731.7 | $ 858.0 | $ 1,589.7 |

Included in revenue bonds were $713.0 million of single-family housing revenue bonds issued by state housing finance agencies, of which $514.4 million were supported by individual mortgages held by the state housing finance agencies and $198.6 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 loans, which are fully guaranteed by the U.S. government. Of the programs supported by individual mortgages held by the state housing finance agencies, the weighted average credit quality rating was AA+. Most of these mortgages were supported by FHA, VA, or private mortgage insurance providers.

We continued to reduce our holdings of tax-exempt municipal bonds during the first six months of 2019, as the current corporate tax rate we use to value our tax-exempt bonds rendered them less attractive relative to alternative taxable investments.

*CORPORATE SECURITIES*

Included in our fixed-income securities at June 30, 2019 and 2018, and December 31, 2018, were $7,385.7 million, $7,330.3 million, and $8,694.3 million, respectively, of corporate securities. These securities had a duration of 3.0 years at June 30, 2019, compared to 3.3 years at both June 30, 2018 and December 31, 2018, and a weighted average credit quality rating of BBB at June 30, 2019 and 2018, and December 31, 2018. These securities had net unrealized gains of $208.3 million at June 30, 2019, compared to net unrealized losses of $90.1 million at June 30, 2018 and $111.7 million at December 31, 2018.

We decreased the size of our corporate bond portfolio during the first six months of 2019, as valuations continued to become significantly less attractive than they were at December 31, 2018.

The table below shows the exposure break-down by sector and rating:

**Corporate Securities (at June 30, 2019)**

| (millions)<br>Rating | Consumer | Industrial | Communication | Financial Services | Technology | Basic Materials | Energy | Total |
|---|---|---|---|---|---|---|---|---|
| AAA | $ 0 | $ 0 | $ 0 | $ 32.8 | $ 0 | $ 0 | $ 0 | $ 32.8 |
| AA | 0 | 0 | 0 | 271.5 | 36.2 | 0 | 0 | 307.7 |
| A | 215.3 | 183.7 | 305.9 | 496.5 | 157.6 | 35.0 | 1.3 | 1,395.3 |
| BBB | 2,358.5 | 815.4 | 270.1 | 670.5 | 591.7 | 156.6 | 331.3 | 5,194.1 |
| Non-investment grade/ non-rated: | | | | | | | | |
| BB | 0 | 94.2 | 94.6 | 11.6 | 85.1 | 0 | 21.7 | 307.2 |
| B | 73.8 | 12.7 | 0 | 27.9 | 9.8 | 0 | 24.4 | 148.6 |
| Total fair value | $ 2,647.6 | $1,106.0 | $ 670.6 | $1,510.8 | $ 880.4 | $ 191.6 | $ 378.7 | $7,385.7 |

*PREFERRED STOCKS – REDEEMABLE AND NONREDEEMABLE*

We hold both redeemable (i.e., mandatory redemption dates) and nonredeemable (i.e., perpetual with call dates) preferred stocks. At June 30, 2019, we held $229.1 million in redeemable preferred stocks and $1,130.0 million in nonredeemable preferred stocks, compared to $229.1 million and $758.6 million, respectively, at June 30, 2018, and $238.3 million and $1,033.9 million at December 31, 2018. At June 30, 2019, our preferred stock portfolio had net unrealized gains of $1.8 million and net holding period gains of $70.8 million recorded as part of net realized gains (losses), compared to $12.1 million of net unrealized gains and $78.2 million of net holding period gains at June 30, 2018 and $2.4 million of net unrealized gains and $23.5 million of net holdings period gains at December 31, 2018.

The value of our preferred stock portfolio increased in second quarter 2019, as equities continued to rally from the first quarter and treasury yields moved lower. We increased our preferred stock portfolio by $21.8 million on a cost basis during the quarter.

Our preferred stock portfolio had a duration of 2.5 years at June 30, 2019, compared to 2.9 years at June 30, 2018 and 2.4 years at December 31, 2018. The majority of our preferred securities have fixed-rate dividends until a call date and then, if not called, 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. The overall credit quality rating was BBB- for all three periods. Our non-investment-grade preferred stocks were primarily with issuers that maintain investment-grade senior debt ratings.

The table below shows the exposure break-down by sector and rating at quarter end:

**Preferred Stocks (at June 30, 2019)**

| (millions) Rating | Financial Services U.S. Banks | Foreign Banks | Insurance | Other | Industrials | Utilities | Total |
|---|---|---|---|---|---|---|---|
| A | $ 93.5 | $ 0 | $ 0 | $ 10.0 | $ 0 | $ 0 | $ 103.5 |
| BBB | 607.5 | 0 | 103.9 | 54.2 | 129.2 | 10.3 | 905.1 |
| Non-investment grade/non-rated: | | | | | | | |
| BB | 133.4 | 73.1 | 0 | 0 | 38.2 | 41.4 | 286.1 |
| B | 0 | 0 | 0 | 32.3 | 0 | 0 | 32.3 |
| Non-rated | 0 | 0 | 0 | 27.1 | 5.0 | 0 | 32.1 |
| Total fair value | $ 834.4 | $ 73.1 | $ 103.9 | $ 123.6 | $ 172.4 | $ 51.7 | $ 1,359.1 |

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 June 30, 2019, all of our preferred securities continued to pay their dividends in full and on time. Approximately 81% of our preferred stock securities pay dividends that have tax preferential characteristics, while the balance pay dividends that are fully taxable.

***Common Equities***

Common equities, as reported on the balance sheets, were comprised of the following:

| ($ in millions) | June 30, 2019 | | June 30, 2018 | | December 31, 2018 | |
|---|---|---|---|---|---|---|
| Indexed common stocks | $ 2,958.4 | 94.4% | $ 2,985.7 | 95.0% | $ 2,480.2 | 94.4% |
| Managed common stocks | 176.8 | 5.6 | 156.2 | 5.0 | 145.6 | 5.6 |
| Total common stocks | 3,135.2 | 100.0 | 3,141.9 | 100.0 | 2,625.8 | 100.0 |
| Other risk investments | 0.3 | 0 | 0.3 | 0 | 0.3 | 0 |
| Total common equities | $ 3,135.5 | 100.0% | $ 3,142.2 | 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. At June 30, 2019, the year-to-date total return, based on GAAP income, was outside our tracking error due to cash held in the indexed portfolio but not invested in securities at the end of the second quarter. This total return was within the desired tracking error when compared to the index for the other periods reported above. We held 832 out of 1,002, or 83%, of the common stocks comprising the Russell 1000 Index at June 30, 2019, which made up 94% of the total market capitalization of the index.

The actively managed common stock portfolio, which is managed by one external investment manager, had a cost basis of $132.4 million at June 30, 2019, compared to $123.1 million and $131.3 million at June 30, 2018 and December 31, 2018, respectively.

***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 estimates, assumptions, and projections generally; inflation and changes in general economic conditions (including changes in interest rates and financial markets); the possible failure of one or more governmental, corporate, or other entities to make scheduled debt payments or satisfy other obligations; our ability to access capital markets and financing arrangements when needed to support growth or other capital needs, and the favorable evaluations by credit and other rating agencies on which this access depends; the potential or actual downgrading by one or more rating agencies of our securities or governmental, corporate, or other securities we hold; the financial condition of, and other issues relating to the strength of and liquidity available to, issuers of securities held in our investment portfolios and other companies with which we have ongoing business relationships, including reinsurers and other counterparties to certain financial transactions or under certain government programs; the accuracy and adequacy of our pricing, loss reserving, and claims methodologies; the competitiveness of our pricing and the effectiveness of our initiatives to attract and retain more customers, including our efforts to enter into new business areas with which we have less experience; initiatives by competitors and the effectiveness of our response; our ability to obtain regulatory approval for the introduction of products to new jurisdictions, for requested rate changes and the timing thereof and for any proposed acquisitions; the effectiveness of our brand strategy and advertising campaigns relative to those of competitors; legislative and regulatory developments at the state and federal levels, including, but not limited to, matters relating to vehicle and homeowners insurance, health care reform and tax law changes; the outcome of disputes relating to intellectual property rights; the outcome of litigation or governmental investigations that may be pending or filed against us; severe weather conditions and other catastrophe events, and our ability to respond to changes in catastrophe loss trends; the effectiveness of our reinsurance programs; changes in vehicle usage and driving patterns, which may be influenced by oil and gas prices, changes in residential occupancy patterns, and the effects of 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; our ability to accurately recognize and appropriately respond in a timely manner to changes in loss frequency and severity trends; technological advances; acts of war and terrorist activities; our ability to maintain the uninterrupted operation of our facilities, systems (including information technology systems), and business functions, and safeguard personal and sensitive information in our possession, whether from cyber attacks, other technology events or other means; our continued access to and functionality of third-party systems that are critical to our business; our ability to maintain adequate staffing levels, and the sources from which we obtain talent; our continued ability to access cash accounts and/or convert securities into cash on favorable terms when we desire to do so; restrictions on our subsidiaries' ability to pay dividends to The Progressive Corporation; possible impairment of our goodwill or intangible assets if future results do not adequately support either, or both, of these items; court decisions, new theories of insurer liability or interpretations of insurance policy provisions and other trends in litigation; changes in health care and auto and property repair costs; and other matters described from time to time in our releases and publications, and in our periodic reports and other documents filed with the United States Securities and Exchange Commission. In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for one or more contingencies. Also, our regular reserve reviews may result in adjustments of varying magnitude as additional information regarding claims activity becomes known. Reported results, therefore, may be volatile in certain accounting periods.*

## Quantitative and Qualitative Disclosures About Market Risk

The duration of the financial instruments held in our portfolio that are subject to interest rate risk was 2.7 years at June 30, 2019 and 2.8 years at December 31, 2018. The weighted average beta of the equity portfolio was 1.01 at both June 30, 2019 and December 31, 2018. Although components of the portfolio have changed, no material changes have occurred in the total interest rate or market risk when compared to the tabular presentations of our interest rate and market risk sensitive instruments in our Annual Report on Form 10-K for the year ended December 31, 2018.

## Controls and Procedures

Progressive, under the direction of our Chief Executive Officer and our Chief Financial Officer, has 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.

There have not been any material changes in Progressive's 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.

**The Progressive Corporation and Subsidiaries**
**Quarterly Financial and Common Share Data**
(unaudited)

(millions - except per share amounts)

| Quarter | Total Revenues | Net Income | Net Income Attributable to Progressive | Per Common Share[2] | Stock Price[1] Close | Stock Price[1] 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 |
| | $ 18,750.7 | $ 2,061.8 | $ 2,057.8 | $ 3.48 | $ 79.93 | 37.7 % | $ 0.20 |
| 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] 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] Average compounded rate of increase (decrease) assumes dividend reinvestment. For a discussion of Progressive's dividend policy, see *Note 9 - Dividends* for further discussion.