Interpreting The Progressive Corporation's Monthly Financial Reporting Package

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NEWS RELEASE

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PROGRESSIVE REPORTS MONTHLY RESULTS

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

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

(in thousands; unaudited)
Policies in Force:
Agency – auto
Direct – auto
Total personal auto
Total special lines
Total Personal Lines
Total Commercial Auto

Progressive offers insurance to personal and commercial auto drivers throughout the United States. Our Personal Lines business writes insurance for personal autos and recreational vehicles. Our Commercial Auto business writes primary liability, physical damage, and other auto-related insurance for autos and trucks owned by small businesses.

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

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

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

Progressive operates on a 52-week year with 13 week quarters. The first month of each calendar quarter is 5 weeks (January, April, July, and October), followed by two four week months. A traditional consequence of this timing is that the first month of each quarter has higher premium volume and lower expense ratios, reflecting the fixed cost component of the business.

Please share comments and suggestions for improvement with Matt Downing, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, OH, 44143 (e-mail: matthew_h_downing@progressive.com; phone: 440-395-4222).

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

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
COMPREHENSIVE INCOME STATEMENT

(millions—except per share amounts)
(unaudited)

Net premiums written

Revenues:

Net premiums earned

Investment income

Net realized gains (losses) on securities:

Other-than-temporary impairment (OTTI) losses:

Total OTTI losses

Non-credit losses, net of credit losses recognized on previously recorded non-credit OTTI losses

Net impairment losses recognized in earnings

Net realized gains (losses) on securities

Total net realized gains (losses) on securities

Service revenues

Net gains (losses) on extinguishment of debt

Total revenues

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

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

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

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

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

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

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

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

Net realized gains (losses) on securities. Represents the difference between proceeds received from investment securities sold during the reporting period and the amortized cost of those securities. In addition, it includes holding period valuation changes on derivatives and unrealized gains/losses from certain hybrid securities that are required to be reported in the Comprehensive Income Statement.

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

Service revenues. Revenue recognized for non-insurance services provided to customers. Progressive is a sizable third-party administrator for state-run plans providing commercial automobile insurance to fleets that cannot buy coverage in traditional insurance markets. Service revenues also include commissions received from our alliance with unaffiliated homeowner insurance companies who offer customers home, condo, and renters insurance.

Net gains (losses) on extinguishment of debt. From time to time, we may elect to repurchase our outstanding debt securities in the open market or in privately negotiated transactions. The gain (loss) represents the difference between the payments made and the carrying amount of the debt at the time of its extinguishment, net of any fees and expenses related to the extinguishment.

Comprehensive Income Statement (continued)

Expenses:

Losses and loss adjustment expenses

Policy acquisition costs

Other underwriting expenses

Investment expenses

Service expenses

Interest expense

Total expenses

Income before income taxes

Provision for income taxes

Net income

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

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

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

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

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

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

Provision for income taxes. Estimated U.S. federal income taxes associated with earnings of the reporting period. Tax exemptions such as municipal bond interest income and the corporate dividends received deduction reduce the provision from the statutory tax rate. The provision is net of any valuation allowance on our deferred tax assets.

Comprehensive Income Statement (continued)

Other comprehensive income (loss), net of tax:

Net unrealized gains (losses) on securities:

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

Other net unrealized gains (losses) on securities

Total net unrealized gains (losses) on securities

Net unrealized gains on forecasted transactions

Foreign currency translation adjustment

Other comprehensive income (loss)

Total comprehensive income (loss)

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

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

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

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

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

Foreign currency translation adjustment. We began writing personal auto insurance in Australia in December 2009. When valuing foreign operations, we are required to translate the assets and liabilities of our Australian operations using the foreign currency exchange rate in effect at the end of the accounting period. Equity items (e.g., contributions and net income) are valued at the rates in effect at the time the contributions and net income occur. The balancing amount is the foreign currency translation adjustment. The change in this translation adjustment between periods is a component of comprehensive income.

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

Total comprehensive income (loss). The sum of *Net income (loss)* and *Other comprehensive income (loss)*. It includes all changes in equity during the period except those for which the owner would be indifferent (e.g., dividend payments, share buy-backs). Comprehensive income attempts to measure the sum total of all operating and financial events that have changed the value of an owner's interest in a business.

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

The following table sets forth the computation of net income per share and comprehensive income (loss) per share:

Net income

Per share:

Basic

Diluted

Comprehensive income (loss)

Per share:

Diluted

Average shares outstanding - Basic

Net effect of dilutive stock-based compensation

Total equivalent shares - Diluted

Per Share. The amount of earnings attributable to the average number of Basic or Diluted common shares outstanding during the reporting period. We disclose both *Net income* per share and *Comprehensive income (loss)* per share.

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

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

Diluted. The sum of *Average shares outstanding - Basic* and the *Net effect of dilutive stock-based compensation*.

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

Fully taxable equivalent total return:

Fixed-income securities

Common stocks

Total portfolio

Pretax annualized investment income book yield

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

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

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

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

Year-to-Date						
	Personal Lines			Commercial Auto Business	Other Businesses	Companywide Total
	Agency	Direct	Total			

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

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

Direct. The balance of our Personal Lines business, which is written directly by Progressive online or over the phone.

Companywide Total. The sum of all insurance results. Balances tie to the consolidated Comprehensive Income Statement.

Other Businesses. Our other indemnity businesses consist of managing our run-off businesses, which includes the run-off of our professional liability insurance for community banks, principally directors and officers liability insurance. Combined ratios and growth percentages are not meaningful for these businesses due to the low level of premiums earned by, and the variability of loss costs in, such businesses.

Commercial Auto Business. Policies sold to small businesses requiring liability and physical damage coverage for cars and trucks used in operations. Policies in this segment are sold mainly through independent agents.

Supplemental Information (continued)

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

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

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

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

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

GAAP Ratios
Loss/LAE ratio
Expense ratio
Combined ratio

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

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

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

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

Supplemental Information (continued)

Actuarial Adjustments
Reserve Decrease/(Increase)
Prior accident years
Current accident year
Calendar year actuarial adjustment

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

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

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

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

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

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

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

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

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

Supplemental Information (continued)

Prior Accident Years Development

Favorable/(Unfavorable)

Actuarial adjustment

All other development

Total development

Calendar year loss/LAE ratio

Accident year loss/LAE ratio

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

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

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

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

Example:

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

Statutory Ratios

Loss/LAE ratio

Expense ratio

Combined ratio

Statutory Surplus

Statutory Ratios. This section provides comparable profitability measures when assets are valued using Statutory Accounting Principles (SAP), which estimate an insurer's liquidation value. SAP does not defer *policy acquisition costs* and thus the *expense ratio* is computed using *net premiums written* as the denominator.

Statutory Surplus. *Statutory surplus* is the difference between assets and liabilities, as measured by Statutory Accounting Principles, on subsidiary insurance company balance sheets. This sum does not include capital held in non-insurance company subsidiaries. Statutory surplus is not directly comparable to any consolidated GAAP measure of capital.

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

CONDENSED GAAP BALANCE SHEET:

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

Fixed maturities[1] (amortized cost:

Equity securities:

Nonredeemable preferred stocks[1] (cost:

Common equities[2] (cost:

Short-term investments (amortized cost:

Total investments[3,4,5]

Net premiums receivable

Deferred acquisition costs

Other assets[4,6]

Total assets

[1,2,3,4,5,6]These footnotes are explained on page 13 of this guide.

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

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

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

Equity securities. Common stock, nonredeemable preferred stock, and any alternative investments such as private equity. For Progressive, the vast majority represents U.S. equity holdings designed to mimic performance of the Russell 1000 Index. The Russell 1000 Index is comprised of the S&P 500 (large cap) and the S&P 400 (mid cap) securities.

Short-term investments. Cash and securities with redemptions or maturities occurring within one year, including receivables from securities lending activity. Auction rate securities (i.e., certain municipal bonds and preferred stocks) may also be included in this category.

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

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

Other assets. Includes property and equipment, receivables from reinsurers, and prepaid expenses. Progressive carries almost no goodwill or other intangible assets on its Balance Sheet. Other assets may also include *net unsettled security transactions* (see footnote 4 on page 13).

Balance Sheet and Other Information (continued)

Unearned premiums
Loss and loss adjustment expense reserves[6]
Other liabilities[4]
Debt
Shareholders' equity
Total liabilities and shareholders' equity

[4,6]These footnotes are explained on page 13 of this guide.

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

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

Loss and loss adjustment expense reserves (Net). Represents gross loss and loss adjustment expense (LAE) reserves as shown on the Balance Sheet less reinsurance recoverable on unpaid losses (see footnote 6 on page 13). The change in net loss and LAE reserves for the period plus claims paid during the same period equals the total incurred losses reported on the Comprehensive Income Statement (see page 3).

Other liabilities. Includes accounts payable, accrued operating expenses, and liabilities associated with securities lending or repurchase transactions. See footnote 4 on page 13 of this guide for further explanation.

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

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

Balance Sheet and Other Information (continued)

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

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

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

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

Trailing 12-month return on average shareholders' equity.
Net income. This percentage measures how effectively management employed equity capital, and is calculated by dividing aggregate net income for the trailing 12 months by the average shareholders' equity for the same period.
Comprehensive income. Another measure of how effectively management employed equity capital, and is calculated using aggregate comprehensive income for the trailing 12-month period, instead of net income.

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

Debt-to-total capital ratio. Calculated as the fraction of debt divided by the sum of debt plus equity, all measured at book value. This figure allows readers to monitor management's target to maintain a financial leverage ratio below 30%.

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

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

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

Net premiums earned
Less: Losses and loss adjustment expenses
Policy acquisition costs
Other underwriting expenses
= Pretax underwriting profit
x 65% (1-statutory tax rate of 35%)
= After-tax underwriting profit
x Gainshare factor through December
x Board-selected target percentage
= Annual dividend
÷ Common shares outstanding at dividend record date
= Annual dividend per common share

However, if the Gainshare factor is zero or if our after-tax *comprehensive income* (which includes net investment income, as well as both realized gains (losses) in securities and the change in unrealized gains (losses) during the period) is less than after-tax underwriting income, no dividend will be paid.

Footnotes to Balance Sheet and Other Information

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

[2]We held equity options which generated gains (losses).

[3]Includes short-term investments and U.S. Treasury securities.

[4]Total investments excludes net unsettled security transactions.

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

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

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

Footnote 2. From time to time, we may invest in certain equity options as part of our overall investment strategy.

Footnote 3. Short-term investments and U.S. Treasury securities are shown to reflect the highly liquid securities we hold to reduce overall risk and volatility in the portfolio.

Footnote 4. *Net Unsettled Security Transactions*—Progressive keeps its investment records on a "trade date" instead of a "settlement date" basis. Security purchases that have not cleared as of the balance sheet date give rise to an increase in *Other Liabilities,* whereas security sales that have not cleared as of the balance sheet date give rise to an increase in *Other Assets*.

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

Footnote 5. Represents the amount of investments held in a non-insurance subsidiary, a portion of which could be used to provide flexibility to repurchase stock or other securities, consider acquisitions, and pay dividends to shareholders, among other purposes.

Footnote 6. Generally Accepted Accounting Principles provide that insurers cannot reduce their own loss reserves with receivables from reinsurers. Reinsurance does not extinguish an insurer's liability to its customers. This disclosure helps readers assess the scope of reinsurance activity and implications of credit risk from reinsurance transactions.