

Interpreting The Progressive Corporation's Monthly Earnings Release

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NEWS RELEASE

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PROGRESSIVE REPORTS MONTHLY RESULTS

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

(millions, except per share amounts and ratios; unaudited)

Net premiums written

Net premiums earned

Net income

Per share available to common shareholders

Total pretax net realized gains (losses) on securities

Combined ratio

Average diluted equivalent common shares

(thousands; unaudited)

Policies in Force

Personal Lines

Agency – auto

Direct – auto

Special lines

Property

Total Personal Lines

Commercial Lines

Companywide

Progressive offers personal and commercial insurance throughout the United States. Our Personal Lines business writes insurance for personal vehicles (auto and special lines products) and personal property insurance for homeowners and renters. Our Commercial Lines business writes auto-related liability and physical damage insurance, business-related general liability and commercial property insurance predominantly for small businesses, and workers' compensation insurance primarily for the transportation industry.

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 to give investors and creditors some of the information Progressive's management uses to assess business performance.

We provide this guide to help readers better understand our monthly financial reports. This guide provides summarizations of certain accounting and disclosure policies and practices which are utilized by The Progressive Corporation and its consolidated subsidiaries ("Progressive"). Users are advised to refer to Progressive's most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q for additional information. These documents can be accessed at progressive.com/sec.

Please share comments and suggestions for improvement with Julianna Paterra, CFA, The Progressive Corporation, 300 North Commons Blvd., Mayfield Village, OH 44143 (email: investor_relations@progressive.com; phone: (719) 432-2509).

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

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

COMPREHENSIVE INCOME STATEMENT

Net premiums written

Revenues:

Net premiums earned

Investment income

Net realized gains (losses) on securities:

Net realized gains (losses) on security sales

Net holding period gains (losses) on securities

Net impairment losses

Total net realized gains (losses) on securities

Fees and other revenues

Service revenues

Other gains (losses)

Total revenues

Net premiums written. The dollar value of all new and renewal insurance policies sold and in force 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 and in force 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 the 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 gains (losses) recorded in net income during the period related to investment securities, including the following components:

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

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

Net impairment losses. Includes the difference between the fair value and amortized costs of fixed-maturity securities that we intend to sell before the recovering the value of the amortized cost.

Fees and other revenues. Primarily represents fees collected from policyholders relating to installment charges in accordance with our bill plans, fees for late payments and insufficient funds, and revenue from ceding commissions, as well as fees for providing third-party claims and underwriting services and co-brokerage commission income related to reinsurance transactions.

Service revenues. Revenue recognized primarily for non-insurance services provided to customers. Service revenues include commissions received from our alliances with unaffiliated homeowner and other insurance companies who offer customers home, condo, renters, and other insurance and with unaffiliated commercial auto insurance companies who offer customers general liability, business owners', and workers' compensation insurance.

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

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
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 (loss) before income taxes

Provision (benefit) for income taxes

Net income (loss)

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, and other variable underwriting and direct sales costs incurred in connection with the successful acquisition or renewal of 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. Expenses associated with our underwriting operations that do not qualify as policy acquisition costs. Includes advertising costs and payroll for employees in servicing and administrative functions.

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

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
COMPREHENSIVE INCOME STATEMENT (Continued)

Other comprehensive income (loss):

Changes in:

Total net unrealized gains (losses) on fixed-maturity securities

Net unrealized gains (losses) on forecasted transactions

Foreign currency translation adjustment

Other comprehensive income (loss)

Total comprehensive income (loss)

Total net unrealized gains (losses) on fixed-maturity securities. Represents the change during the period between the fair value and the amortized cost of our fixed-maturity security holdings.

Net unrealized gains (losses) on forecasted transactions. In connection with our debt issuances, or for other purposes, we may enter into forecasted transactions. The amount reflects the amortization into interest expense of the losses on closed transactions.

Foreign currency translation adjustment. When valuing foreign operations, we are required to translate the assets and liabilities for certain of our 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 using the average closing rate in effect during the month 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 other comprehensive income.

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
COMPUTATION OF NET INCOME AND COMPREHENSIVE INCOME PER SHARE
&
INVESTMENT RESULTS

Net income (loss)

Per common share:

Basic

Diluted

Comprehensive income (loss)

Per common share:

Diluted

Average common shares outstanding - Basic

Net effect of dilutive stock-based compensation

Total average equivalent common shares -
Diluted

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

Fully taxable equivalent (FTE) total return:

Fixed-income securities

Common stocks

Total portfolio

Pretax annualized investment income book yield

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

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

Net effect of dilutive stock-based compensation. Represents eligible restricted equity awards granted, using the treasury stock method, as prescribed by the relevant accounting guidance.

Diluted. The sum of average common shares outstanding (basic) and the net effect of dilutive stock-based compensation. If a loss attributable to common shareholders is reported, basic average common shares outstanding is used, as diluted earnings per share would be antidilutive.

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

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

Personal Lines Business. Writes insurance for personal vehicles (auto and special lines products) and personal property insurance for homeowners and renters.

Agency. The portion of our personal vehicle business written by independent insurance agencies that represent Progressive, as well as brokerages 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 vehicle business, which is written directly by Progressive online or by phone.

Property. Residential property insurance for homeowners and renters, umbrella insurance, and flood insurance through the "Write Your Own" program for the National Flood Insurance Program.

Companywide Total. The sum of all consolidated insurance results. Balances tie to the consolidated comprehensive income statement. Includes the results for our other underwriting businesses and run-off operations, which are not separately presented.

Commercial Lines Business. Writes auto-related liability and physical damage insurance, business-related general liability and commercial property insurance predominately for small businesses, and workers' compensation insurance primarily for the transportation industry.

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION (continued)

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

GAAP Ratios

Loss/LAE ratio
 Expense ratio
 Combined ratio
 Net catastrophe loss ratio

Premiums. The top section of Supplemental Information presents growth rates by business relative to the same reporting period in the previous year. Growth rates for net premiums written and net premiums earned are based on the respective dollar amounts for the same period in the prior year.

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 (such as six-month and 12-month 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 line items 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. Measures of underwriting profitability when results are recorded using U.S. GAAP, 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, net of certain fees and other revenues, and is calculated by dividing incurred losses and loss adjustment expenses (LAE) by net premiums earned. Higher ratios can suggest adverse selection, rate inadequacy, or degradation in claims handling quality.

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

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

Net catastrophe loss ratio. This measure represents catastrophe losses incurred, including the impact of reinsurance, as a percentage of net premiums earned. This ratio shows how many points catastrophe losses contributed to the loss/LAE ratio.

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
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.

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

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

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

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

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

"Accident year" and "calendar year" are concepts used to parse claims data into reporting periods. U.S. GAAP financial statements use the calendar year concept, which records claims costs in the period when the loss occurs and records the expenses or benefits of subsequent reserve adjustments on claims that occurred in prior years in the period when the change in estimate occurs. On an annual basis, Progressive discloses accident year data, which allocates all known reserve adjustments on claims back to the years where the losses occurred.

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

A more detailed discussion of our loss reserving practices can be found in our Loss Reserving Practices Report, which can be found on our investor website at investors.progressive.com/financials/Loss-Reserving-Practices-Report.

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
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) claim emergence, in which we receive more or less late-reported claims than had been reserved as of the prior year end.

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
Prior accident years development	\$20

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
BALANCE SHEET AND OTHER INFORMATION

CONDENSED GAAP BALANCE SHEET:

Investments, at fair value:

Available-for-sale securities:

Fixed maturities¹ (amortized cost: \$____)

Short-term investments (amortized cost: ____)

Total available-for-sale securities

Equity securities:

Nonredeemable preferred stocks (cost: \$____)

Common equities (cost: \$____)

Total equity securities

Total investments²

Net premiums receivable

Reinsurance recoverables (including \$____ on unpaid loss and LAE reserves)

Deferred acquisition costs

Other assets²

Total assets

^{1,2} These footnotes are explained on page 13 of this guide.

Available-for-sale. This is a security classification under U.S. GAAP, based on our intent to hold the investments, which adjusts portfolio holdings to fair value as of the balance sheet date and records changes in value, net of deferred income taxes, to net unrealized gains (losses) as part of shareholders' equity, with the changes in fair value recorded as a component of other comprehensive income (loss).

Fixed maturities. Interest-bearing securities that obligate issuers to return principal on a predetermined maturity date. Also see footnote 1 on page 13.

Short-term investments. Commercial paper, repurchase transactions, and other securities with redemptions or maturities occurring generally within one year.

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 of common equities is a portfolio of U.S. equity holdings designed to mimic performance of the Russell 1000 Index. The Russell 1000 Index is comprised of the S&P 500 (large cap) and the S&P 400 (mid cap) securities. A small amount of common stocks are managed actively against the S&P 500 Index. The security valuation method for these securities adjust portfolio holdings to fair value as of the balance sheet date and changes in value flow through the comprehensive income statement's net holding period gains (losses) on securities line item.

Net premiums receivable. The amount to be collected on previously sold policies. Premiums receivable goes down when policyholders pay billing invoices. This balance is independent of changes in the unearned premiums liability. The amount is also net of an allowance for credit losses, representing the estimated receivable balances that we do not expect to be able to collect.

Reinsurance recoverables. The amount to be recovered on reinsured losses, including paid losses (fact) and unpaid losses (estimate). The recoverable is calculated based on the nature of losses covered under reinsurance agreements between Progressive and multiple reinsurers.

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 most commonly six months for personal auto policies or twelve months for special lines, property, and commercial auto policies. Deferral of acquisition costs provides 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, prepaid expenses, cash and cash equivalents (including restricted cash), goodwill, intangible assets, recoverable income taxes, and net deferred tax assets. Other assets may also include net unsettled security transactions (see footnote 2 on page 13).

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
BALANCE SHEET AND OTHER INFORMATION (continued)

CONDENSED GAAP BALANCE SHEET:

Unearned premiums

Loss and loss adjustment expense reserves

Other liabilities²

Debt

Total liabilities

Shareholders' equity

Total liabilities and shareholders' equity

² This footnote is 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 premium 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 recoverables on unpaid losses. 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. Primarily includes accounts payable, accrued operating expenses, net deferred income tax liabilities, dividends payable, and liabilities associated with securities lending or repurchase transactions (see footnote 2 on page 13).

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

Shareholders' equity. Assets minus liabilities, as valued by U.S. GAAP. 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.

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
BALANCE SHEET AND OTHER INFORMATION (continued)

CONDENSED GAAP BALANCE SHEET:

Common shares outstanding

Common shares repurchased - actual

Average cost per common share

Book value per common share

Trailing 12-month return on average common
shareholders' equity

Net income

Comprehensive income

Net unrealized pretax gains (losses) on fixed-maturity
securities

Increase (decrease) from prior month

Increase (decrease) from prior year end

Debt-to-total capital ratio

Fixed-income portfolio duration

Weighted average credit quality

Common shares outstanding. Common stock of Progressive that is currently held by its investors. This amount may increase due to vesting or distribution of equity granted to directors or employees or decrease due to share repurchases during the period. Common shares outstanding are the starting point for the basic and diluted average common shares outstanding used in our net income and comprehensive income (loss) per share calculations (see page 5).

Common shares repurchased - actual. Represents shares of common stock repurchased by Progressive during the month. 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 under-leveraged capital to investors.

Book value per common share. This value represents shareholders' equity divided by the number of common shares outstanding. Underwriting profit, investment income, realized gains on securities, and unrealized gains on fixed-maturity securities increase this number. Realized losses on securities, unrealized losses on fixed-maturity securities, shareholder dividends, and share repurchases (when prices are greater than book value) reduce this number.

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

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

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

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

Debt-to-total capital ratio. Calculated as the fraction of debt divided by the sum of debt plus total shareholders' equity, all measured at book value. This figure allows readers to monitor management's target to maintain a financial leverage ratio below 30%. Debt includes 100% of the outstanding indebtedness of all subsidiaries in which Progressive has a controlling financial interest.

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.

THE PROGRESSIVE CORPORATION AND SUBSIDIARIES
BALANCE SHEET AND OTHER INFORMATION (continued)

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 had net unsettled security transactions classified in “other assets” or “other liabilities.”

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

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

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