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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

or

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

For the transition period from __________to__________

Commission File Number: 001-09518

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

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Shares, $1.00 par value: 585,396,906 outstanding at June 30, 2020

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.
The Progressive Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(unaudited)

	Three Months		Six Months	
Periods Ended June 30,	**2020**	**2019**	**2020**	**2019**
(millions — except per share amounts)				
Revenues				
Net premiums earned	$ 9,648.6	$ 8,824.7	$ 19,079.3	$ 17,284.5
Investment income	243.8	261.3	485.0	514.2
Net realized gains (losses) on securities:				
Net realized gains (losses) on security sales	260.0	67.5	575.2	113.6
Net holding period gains (losses) on securities	630.8	112.4	(238.0)	505.1
Net impairment losses recognized in earnings	0	0	0	(24.3)
Total net realized gains (losses) on securities	890.8	179.9	337.2	594.4
Fees and other revenues	129.5	134.8	283.0	265.0
Service revenues	59.0	50.0	110.6	92.6
Total revenues	10,971.7	9,450.7	20,295.1	18,750.7
Expenses				
Losses and loss adjustment expenses	5,321.4	6,138.1	11,476.6	11,897.1
Policy acquisition costs	795.5	738.6	1,578.3	1,449.2
Other underwriting expenses	1,438.9	1,231.5	2,848.8	2,402.7
Policyholder credit expense	1,033.4	0	1,033.4	0
Investment expenses	4.5	6.2	9.8	12.4
Service expenses	52.8	45.3	100.3	83.4
Interest expense	56.4	47.4	104.4	94.8
Total expenses	8,702.9	8,207.1	17,151.6	15,939.6
Net Income				
Income before income taxes	2,268.8	1,243.6	3,143.5	2,811.1
Provision for income taxes	478.4	264.6	654.0	749.3
Net income	1,790.4	979.0	2,489.5	2,061.8
Net (income) loss attributable to noncontrolling interest (NCI)	0	0.4	0	(4.0)
Net income attributable to Progressive	1,790.4	979.4	2,489.5	2,057.8
Other Comprehensive Income (Loss)				
Changes in:				
Total net unrealized gains (losses) on fixed-maturity securities	567.4	277.4	630.2	578.5
Net unrealized losses on forecasted transactions	0.2	0.2	0.4	0.4
Other comprehensive income (loss)	567.6	277.6	630.6	578.9
Other comprehensive (income) loss attributable to NCI	0	(2.6)	0	(4.9)
Comprehensive income attributable to Progressive	$ 2,358.0	$ 1,254.4	$ 3,120.1	$ 2,631.8
Computation of Earnings Per Common Share				
Net income attributable to Progressive	$ 1,790.4	$ 979.4	$ 2,489.5	$ 2,057.8
Less: Preferred share dividends	6.7	6.7	13.4	13.4
Net income available to common shareholders	$ 1,783.7	$ 972.7	$ 2,476.1	$ 2,044.4
Average common shares outstanding - Basic	584.8	583.6	584.8	583.5
Net effect of dilutive stock-based compensation	2.4	3.3	2.3	3.2
Total average equivalent common shares - Diluted	587.2	586.9	587.1	586.7
Basic: Earnings per common share	$ 3.05	$ 1.67	$ 4.23	$ 3.50
Diluted: Earnings per common share	$ 3.04	$ 1.66	$ 4.22	$ 3.48

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Consolidated Balance Sheets
(unaudited)

(millions — except per share amount)	June 30, 2020	June 30, 2019	December 31, 2019
Assets			
Available-for-sale securities, at fair value:			
Fixed maturities (amortized cost: $33,467.9, $30,588.2, and $32,643.1)	$ 34,726.4	$ 31,188.2	$ 33,110.3
Short-term investments (amortized cost: $4,700.5, $1,360.9, and $1,798.8)	4,700.5	1,360.9	1,798.8
Total available-for-sale securities	39,426.9	32,549.1	34,909.1
Equity securities, at fair value:			
Nonredeemable preferred stocks (cost: $1,205.4, $1,060.3, and $971.3)	1,180.6	1,130.0	1,038.9
Common equities (cost: $1,128.8, $1,203.7, and $1,125.5)	3,170.4	3,135.5	3,306.3
Total equity securities	4,351.0	4,265.5	4,345.2
Total investments	43,777.9	36,814.6	39,254.3
Cash and cash equivalents	108.0	91.9	226.2
Restricted cash	1.1	1.0	1.2
Total cash, cash equivalents, and restricted cash	109.1	92.9	227.4
Accrued investment income	190.8	187.5	181.3
Premiums receivable, net of allowance of $437.9, $240.7, and $283.2	7,557.4	7,167.1	7,507.3
Reinsurance recoverables	3,654.3	3,051.5	3,378.9
Prepaid reinsurance premiums	361.3	338.0	626.5
Deferred acquisition costs	1,154.8	1,047.4	1,056.5
Property and equipment, net of accumulated depreciation of $1,241.7, $1,105.6, and $1,138.1	1,189.8	1,174.9	1,213.7
Goodwill	452.7	452.7	452.7
Intangible assets, net of accumulated amortization of $297.8, $283.6, and $314.0	199.7	258.7	228.3
Other assets	758.3	738.9	768.4
Total assets	$ 59,406.1	$ 51,324.2	$ 54,895.3
Liabilities			
Unearned premiums	$ 13,055.6	$ 11,796.7	$ 12,388.8
Loss and loss adjustment expense reserves	18,512.0	16,568.6	18,105.4
Net deferred income taxes	197.1	134.5	132.5
Accounts payable, accrued expenses, and other liabilities	5,576.1	4,867.5	5,962.7
Debt[1]	5,394.7	4,406.0	4,407.1
Total liabilities	42,735.5	37,773.3	40,996.5
Redeemable noncontrolling interest (NCI)[2]	0	220.1	225.6
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 212.1, 213.4, and 212.9)	585.4	584.1	584.6
Paid-in capital	1,614.5	1,523.3	1,573.4
Retained earnings	13,001.8	10,276.4	10,679.6
Accumulated other comprehensive income (loss):			
Net unrealized gains (losses) on fixed-maturity securities	991.0	472.9	360.8
Net unrealized losses on forecasted transactions	(16.0)	(16.8)	(16.4)
Accumulated other comprehensive (income) loss attributable to NCI	0	(3.0)	(2.7)
Total accumulated other comprehensive income (loss) attributable to Progressive	975.0	453.1	341.7
Total shareholders' equity	16,670.6	13,330.8	13,673.2
Total liabilities, redeemable NCI, and shareholders' equity	$ 59,406.1	$ 51,324.2	$ 54,895.3

[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)

	Three Months		Six Months	
Periods Ended June 30,	**2020**	**2019**	**2020**	**2019**
(millions — except per share amounts)				
Serial Preferred Shares, No Par Value				
Balance, beginning of period	$ 493.9	$ 493.9	$ 493.9	$ 493.9
Balance, end of period	493.9	493.9	493.9	493.9
Common Shares, $1.00 Par Value				
Balance, beginning of period	585.3	584.0	584.6	583.2
Treasury shares purchased	(0.1)	(0.1)	(0.4)	(0.5)
Net restricted equity awards issued/vested	0.2	0.2	1.2	1.4
Balance, end of period	585.4	584.1	585.4	584.1
Paid-In Capital				
Balance, beginning of period	1,601.9	1,496.6	1,573.4	1,479.0
Amortization of equity-based compensation	21.9	26.5	45.2	46.1
Treasury shares purchased	0	0	(1.0)	(1.1)
Net restricted equity awards issued/vested	(0.2)	(0.2)	(1.2)	(1.4)
Reinvested dividends on restricted stock units	0.4	0.6	0.7	0.9
Adjustment to carrying amount of redeemable noncontrolling interest	(9.5)	(0.2)	(2.6)	(0.2)
Balance, end of period	1,614.5	1,523.3	1,614.5	1,523.3
Retained Earnings				
Balance, beginning of period	11,266.2	9,358.1	10,679.6	8,386.6
Net income attributable to Progressive	1,790.4	979.4	2,489.5	2,057.8
Treasury shares purchased	(2.5)	(2.2)	(27.7)	(26.8)
Cash dividends declared on common shares ($0.10, $0.10, $0.20, and $0.20 per share)	(58.4)	(58.3)	(116.8)	(116.6)
Cash dividends declared on Serial Preferred Shares, Series B ($0, $0, $26.875, and $26.875 per share)	0	0	(13.4)	(13.4)
Reinvested dividends on restricted stock units	(0.4)	(0.6)	(0.7)	(0.9)
Other, net	6.5	0	(8.7)	(10.3)
Balance, end of period	13,001.8	10,276.4	13,001.8	10,276.4
Accumulated Other Comprehensive Income (Loss) Attributable to Progressive				
Balance, beginning of period	404.2	178.1	341.7	(120.9)
Attributable to noncontrolling interest	3.2	(2.6)	2.7	(4.9)
Other comprehensive income	567.6	277.6	630.6	578.9
Balance, end of period	975.0	453.1	975.0	453.1
Total shareholders’ equity	$ 16,670.6	$ 13,330.8	$ 16,670.6	$ 13,330.8

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,	2020	2019
(millions)		
Cash Flows From Operating Activities		
Net income	$ 2,489.5	$ 2,061.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	130.3	114.6
Amortization of intangible assets	28.6	35.9
Net amortization of fixed-income securities	42.5	1.9
Amortization of equity-based compensation	45.2	46.0
Net realized (gains) losses on securities	(337.2)	(594.4)
Net (gains) losses on disposition of property and equipment	1.8	(1.6)
Changes in:		
Premiums receivable	(50.1)	(670.0)
Reinsurance recoverables	(275.4)	(355.4)
Prepaid reinsurance premiums	265.2	(28.3)
Deferred acquisition costs	(98.3)	(95.8)
Income taxes	590.6	157.4
Unearned premiums	666.8	1,110.2
Loss and loss adjustment expense reserves	406.6	1,167.8
Accounts payable, accrued expenses, and other liabilities	(2.0)	605.8
Other, net	(25.5)	(181.2)
Net cash provided by operating activities	3,878.6	3,374.7
Cash Flows From Investing Activities		
Purchases:		
Fixed maturities	(18,193.5)	(13,008.4)
Equity securities	(671.3)	(230.7)
Sales:		
Fixed maturities	13,749.2	8,162.1
Equity securities	382.1	131.6
Maturities, paydowns, calls, and other:		
Fixed maturities	4,106.4	2,589.0
Equity securities	79.0	0
Net (purchases) sales of short-term investments	(2,883.1)	458.3
Net unsettled security transactions	266.0	297.6
Purchases of property and equipment	(110.7)	(203.2)
Sales of property and equipment	4.8	24.6
Net cash used in investing activities	(3,271.1)	(1,779.1)
Cash Flows From Financing Activities		
Dividends paid to common shareholders	(1,433.9)	(1,526.3)
Dividends paid to preferred shareholders	(13.4)	(13.4)
Acquisition of treasury shares for restricted stock tax liabilities	(29.1)	(28.4)
Acquisition of additional shares of ARX Holding Corp.	(243.0)	(11.2)
Net proceeds from debt issuances	986.3	0
Proceeds from exercise of equity options	7.3	1.6
Net cash used in financing activities	(725.8)	(1,577.7)
Increase (decrease) in cash, cash equivalents, and restricted cash	(118.3)	17.9
Cash, cash equivalents, and restricted cash – January 1	227.4	75.0
Cash, cash equivalents, and restricted cash – June 30	$ 109.1	$ 92.9

See notes to consolidated financial statements.

Note 1 ***Basis of Presentation*** — The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its wholly owned insurance and non-insurance subsidiaries, and affiliates. On April 1, 2020, The Progressive Corporation acquired the remaining outstanding stock of ARX Holding Corp. (ARX), bringing Progressive's ownership interest of the outstanding capital stock of ARX to 100.0%, compared to 87.1% at June 30, 2019 and December 31, 2019. See *Note 12 – Redeemable Noncontrolling Interest* for further discussion.

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, 2020, 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, 2019 ("2019 Annual Report to Shareholders").

We perform analyses to evaluate our premium receivables for expected credit losses. As part of these analyses, we determine historical collectability rates and modify those rates based on current economic assumptions, to establish estimates on default. These rates are applied to the stratified subsets of our consumer receivable balances, based on the age of the receivable, to establish an allowance for credit loss. Progressive's premiums receivable are short-term in nature and, generally, premiums are collected prior to providing risk coverage, minimizing our exposure to credit risk.

At June 30, 2020, our allowance for credit loss exposure on our premium receivables was $437.9 million. During the three and six months ended June 30, 2020, we increased our allowance by $196.2 million and $366.5 million, respectively, and reduced it by $103.0 million and $211.8 million. In addition to increasing the allowance for credit loss arising out of the normal course of business, we recorded an additional $120.0 million and $191.0 million for the three and six months ended June 30, 2020, respectively, to reflect the estimated impact from moratoriums and billing leniency efforts that we put in place from March through May 2020, to help policyholders who may be experiencing financial hardships as a result of the spread of the novel coronavirus, COVID-19, and federal, state, and local social distancing and shelter-in-place restrictions ("COVID-19 restrictions"). This additional increase to the allowance was determined through analyzing our ultimate at-risk exposure of receivables related to policyholders impacted by the moratorium and leniency efforts. Collectability reserving factors were applied to this ultimate exposure based on historical moratorium and leniency specific collections experience, as well as current collections experience. The reductions to the allowance for credit loss represents the premiums receivable written off during the respective periods.

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 $31.1 million at June 30, 2020, $57.2 million at June 30, 2019, and $32.9 million at December 31, 2019.

Included on our consolidated balance sheets are certain operating leases for office space, computer equipment, and vehicles. 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 leases. At June 30, 2020 and 2019, and December 31, 2019, we had operating lease assets of $170.0 million, $189.1 million, and $188.2 million, respectively, as a component of other assets, and operating lease liabilities of $182.4 million, $204.2 million, and $201.5 million, respectively, as a component of accounts payable, accrued expenses, and other liabilities. See *Note 13 – Leases* in our 2019 Annual Report to Shareholders for further discussion.

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. During the second quarter 2020, the portfolio's valuation significantly recovered from the decline experienced at the end of the first quarter 2020.

($ in millions)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Net Holding Period Gains (Losses)**	**Fair Value**	**% of Total Fair Value**
June 30, 2020						
Available-for-sale securities:						
Fixed maturities:						
U.S. government obligations	$ 8,814.5	$ 463.4	$ (0.1)	$ 0	$ 9,277.8	21.2%
State and local government obligations	3,426.0	148.9	(0.6)	0	3,574.3	8.2
Corporate debt securities	10,493.2	571.4	(3.4)	1.3	11,062.5	25.3
Residential mortgage-backed securities	541.0	5.4	(3.4)	0	543.0	1.2
Commercial mortgage-backed securities	5,728.5	89.1	(55.8)	0	5,761.8	13.2
Other asset-backed securities	4,313.3	45.3	(3.7)	0	4,354.9	9.9
Redeemable preferred stocks	151.4	2.0	(1.4)	0.1	152.1	0.3
Total fixed maturities	33,467.9	1,325.5	(68.4)	1.4	34,726.4	79.3
Short-term investments	4,700.5	0	0	0	4,700.5	10.8
Total available-for-sale securities	38,168.4	1,325.5	(68.4)	1.4	39,426.9	90.1
Equity securities:						
Nonredeemable preferred stocks	1,205.4	0	0	(24.8)	1,180.6	2.7
Common equities	1,128.8	0	0	2,041.6	3,170.4	7.2
Total equity securities	2,334.2	0	0	2,016.8	4,351.0	9.9
Total portfolio[1,2]	$ 40,502.6	$ 1,325.5	$ (68.4)	$ 2,018.2	$ 43,777.9	100.0%

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

[1]Our portfolio reflects the effect of net unsettled security transactions; at June 30, 2020, we had $277.9 million in other liabilities, compared to $303.5 million and $11.9 million at June 30, 2019 and December 31, 2019, respectively.

[2]The total fair value of the portfolio at June 30, 2020 and 2019, and December 31, 2019, included $2.3 billion, $1.2 billion, and $3.2 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

At June 30, 2020, bonds and certificates of deposit in the principal amount of $281.1 million were on deposit to meet state insurance regulatory requirements. We did not hold any securities of any one issuer, excluding U.S. government obligations, with an aggregate cost or fair value exceeding 10% of total shareholders' equity at June 30, 2020 and 2019, or December 31, 2019. At June 30, 2020, we did not hold any debt securities that were non-income producing during the preceding 12 months.

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

Although we invested in repurchase and reverse repurchase transactions during the first six months of 2020 and throughout 2019, we did not have any open positions at June 30, 2020 and 2019, or December 31, 2019. To the extent we enter into repurchase or reverse repurchase transactions, consistent with past practice, we would elect not to offset these transactions and would report them on a gross basis on our consolidated balance sheets, despite the option to elect to offset these transactions as long as they were with the same counterparty and subject to an enforceable master netting arrangement.

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

	June 30,		
(millions)	**2020**	**2019**	**December 31, 2019**
Fixed maturities:			
State and local government obligations	$ 3.4	$ 3.5	$ 3.5
Corporate debt securities	84.3	91.3	91.2
Other asset-backed securities	2.2	3.5	2.6
Redeemable preferred stocks	90.2	86.7	92.1
Total hybrid securities	$ 180.1	$ 185.0	$ 189.4

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, 2020, was:

(millions)	**Cost**	**Fair Value**
Less than one year	$ 5,936.5	$ 5,962.1
One to five years	18,030.7	18,599.1
Five to ten years	8,958.7	9,588.6
Ten years or greater	542.0	576.6
Total	$ 33,467.9	$ 34,726.4

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, 2020									
Fixed maturities:									
U.S. government obligations	4	$ 120.6	$ (0.1)	4	$ 120.6	$ (0.1)	0	$ 0	$ 0
State and local government obligations	17	135.0	(0.6)	16	131.2	(0.6)	1	3.8	0
Corporate debt securities	21	292.8	(3.4)	21	292.8	(3.4)	0	0	0
Residential mortgage-backed securities	40	188.2	(3.4)	21	93.7	(1.7)	19	94.5	(1.7)
Commercial mortgage-backed securities	113	2,536.6	(55.8)	91	2,106.6	(48.3)	22	430.0	(7.5)
Other asset-backed securities	29	331.7	(3.7)	21	299.0	(3.4)	8	32.7	(0.3)
Redeemable preferred stocks	1	11.0	(1.4)	0	0	0	1	11.0	(1.4)
Total fixed maturities	225	$ 3,615.9	$ (68.4)	174	$ 3,043.9	$ (57.5)	51	$ 572.0	$ (10.9)

				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, 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**
December 31, 2019									
Fixed maturities:									
U.S. government obligations	23	$ 5,152.4	$ (43.7)	19	$ 5,057.2	$ (43.6)	4	$ 95.2	$ (0.1)
State and local government obligations	67	314.3	(2.7)	52	287.5	(2.6)	15	26.8	(0.1)
Corporate debt securities	16	247.6	(0.5)	12	191.4	(0.5)	4	56.2	0
Residential mortgage-backed securities	41	292.8	(2.0)	12	163.7	(0.9)	29	129.1	(1.1)
Commercial mortgage-backed securities	98	1,742.4	(6.0)	79	1,400.0	(5.3)	19	342.4	(0.7)
Other asset-backed securities	61	1,000.6	(1.4)	43	938.5	(0.9)	18	62.1	(0.5)
Redeemable preferred stocks	1	11.2	(1.3)	0	0	0	1	11.2	(1.3)
Total fixed maturities	307	$ 8,761.3	$ (57.6)	217	$ 8,038.3	$ (53.8)	90	$ 723.0	$ (3.8)

During the second quarter of 2020, we had five securities included in the table above that had their credit ratings downgraded, including three in our corporate debt portfolio and two in our residential mortgage-backed portfolio, with a combined fair value of $29.2 million and an unrealized loss of $0.3 million as of June 30, 2020. Additionally, six securities in the table above had their credit ratings upgraded during the quarter, including one corporate debt security, three commercial mortgage-backed securities, and two other asset-backed securities, with a combined fair value of $58.7 million and an unrealized loss of $0.4 million as of June 30, 2020. A review of all securities in the table above indicated that the issuers were current with respect to their interest obligations and that there was no evidence of significant deterioration of the current cash flow projections that would indicate we would not receive the remaining principal at maturity.

Allowance For Credit and Uncollectible Losses We are required to measure the amount of potential credit losses for all fixed-maturity securities in an unrealized loss position. We did not record any allowances for credit losses or any write-offs for amounts deemed to be uncollectible for the first six months of 2020 and did not have a credit loss allowance balance as of June 30, 2020. We considered several factors and inputs related to the individual securities as part of our analysis. 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 an allowance for credit losses would be created, or if a change in the current allowance has occurred, either a recovery of the previous allowance or an incremental loss would be recorded to realized gains (losses). We also deemed it is not likely that we will be required to sell the securities in an unrealized loss position prior to the recovery of their respective cost bases (which could be maturity).

As of June 30, 2020, we believe none of the unrealized losses relate to material credit losses on any specific securities, or in the aggregate, based on our review. We continue to expect all the securities in our portfolio to pay their principal and interest obligations, which is consistent with our expectations at the end of first quarter.

In addition, we reviewed our accrued investment income outstanding on those securities in an unrealized loss position at June 30, 2020, to determine if the accrued interest amounts were determined to be uncollectible. Based on our analysis, we believe the issuers have sufficient liquidity and capital reserves to meet their current interest, and future principal, obligations and, therefore, did not write off any accrued income as uncollectible at June 30, 2020.

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)	**2020**	**2019**	**2020**	**2019**
Gross realized gains on security sales				
Available-for-sale securities:				
U.S. government obligations	$ 224.5	$ 34.9	$ 475.6	$ 71.5
State and local government obligations	13.0	0.6	15.0	2.2
Corporate and other debt securities	34.3	31.1	66.7	47.2
Residential mortgage-backed securities	0	0.2	0	0.2
Commercial mortgage-backed securities	4.3	2.9	10.4	3.6
Other asset-backed securities	0	0.7	0	0.7
Total available-for-sale securities	276.1	70.4	567.7	125.4
Equity securities:				
Nonredeemable preferred stocks	0.1	11.7	19.7	16.6
Common equities	9.1	0.2	75.1	4.7
Total equity securities	9.2	11.9	94.8	21.3
Subtotal gross realized gains on security sales	285.3	82.3	662.5	146.7
Gross realized losses on security sales				
Available-for-sale securities:				
U.S. government obligations	(0.6)	(5.3)	(3.3)	(12.4)
State and local government obligations	0	(0.1)	0	(0.7)
Corporate and other debt securities	(5.5)	(1.4)	(6.5)	(7.5)
Residential mortgage-backed securities	0	0	0	(2.3)
Commercial mortgage-backed securities	(9.8)	0	(9.8)	(2.1)
Other asset-backed securities	0	0	0	(0.1)
Redeemable preferred stocks	0	(0.1)	0	(0.1)
Total available-for-sale securities	(15.9)	(6.9)	(19.6)	(25.2)
Equity securities:				
Nonredeemable preferred stocks	(3.0)	0	(7.4)	0
Common equities	(6.4)	(7.9)	(60.3)	(7.9)
Total equity securities	(9.4)	(7.9)	(67.7)	(7.9)
Subtotal gross realized losses on security sales	(25.3)	(14.8)	(87.3)	(33.1)
Net realized gains (losses) on security sales				
Available-for-sale securities:				
U.S. government obligations	223.9	29.6	472.3	59.1
State and local government obligations	13.0	0.5	15.0	1.5
Corporate and other debt securities	28.8	29.7	60.2	39.7
Residential mortgage-backed securities	0	0.2	0	(2.1)
Commercial mortgage-backed securities	(5.5)	2.9	0.6	1.5
Other asset-backed securities	0	0.7	0	0.6
Redeemable preferred stocks	0	(0.1)	0	(0.1)
Total available-for-sale securities	260.2	63.5	548.1	100.2
Equity securities:				
Nonredeemable preferred stocks	(2.9)	11.7	12.3	16.6
Common equities	2.7	(7.7)	14.8	(3.2)
Total equity securities	(0.2)	4.0	27.1	13.4
Subtotal net realized gains (losses) on security sales	260.0	67.5	575.2	113.6
Net holding period gains (losses)				
Hybrid securities	24.8	1.4	(6.4)	12.1
Equity securities	606.0	111.0	(231.6)	493.0
Subtotal net holding period gains (losses)	630.8	112.4	(238.0)	505.1
Impairment losses				

Other asset impairment	0	0	0	(24.3)
Subtotal impairment losses	0	0	0	(24.3)
Total net realized gains (losses) on securities	$ 890.8	$ 179.9	$ 337.2	$ 594.4

Realized gains (losses) on securities sold are computed using the first-in-first-out method. During the second quarter of 2020, our common and nonredeemable preferred stocks' valuations experienced a significant, although not a complete, recovery from the declines experienced during the first quarter. Net realized gains on security sales were primarily in U.S. Treasury securities, which were sold in order to selectively increase holdings across the remainder of the portfolio, predominantly in our corporate debt portfolio. The sales in our common stock portfolio were the result of rebalancing the indexed equity portfolio. We had net security gains on the sales of our common stocks due to the extensive holding periods of these investments, in some cases more than ten years, which created significant valuation increases that more than offset the decline experienced.

For 2019, the other asset impairment losses related to federal renewable energy tax credit fund investments, which were reported in other assets on the consolidated balance sheets, based on an analysis that our investments in those funds will not generate the cash flows that we anticipated.

The following table reflects our holding period realized gains (losses) on equity securities recognized for the three and six months ended June 30, 2020 and 2019, for equity securities held at the respective quarter end:

	Three Months		Six Months	
(millions)	**2020**	**2019**	**2020**	**2019**
Total net gains (losses) recognized during the period on equity securities	$ 605.8	$ 115.0	$ (204.5)	$ 506.4
Less: Net gains (losses) recognized on equity securities sold during the period	(0.2)	4.0	27.1	13.4
Net holding period gains (losses) recognized during the period on equity securities held at period end	$ 606.0	$ 111.0	$ (231.6)	$ 493.0

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

	Three Months		Six Months	
(millions)	**2020**	**2019**	**2020**	**2019**
Available-for-sale securities:				
Fixed maturities:				
U.S. government obligations	$ 35.7	$ 69.2	$ 98.3	$ 122.9
State and local government obligations	16.1	8.9	25.7	18.2
Corporate debt securities	76.6	67.5	134.6	144.7
Residential mortgage-backed securities	3.8	4.6	8.0	11.2
Commercial mortgage-backed securities	42.6	33.4	76.9	65.1
Other asset-backed securities	24.8	28.1	54.0	54.1
Redeemable preferred stocks	2.1	8.5	10.0	12.2
Total fixed maturities	201.7	220.2	407.5	428.4
Short-term investments	13.7	11.2	20.7	27.2
Total available-for-sale securities	215.4	231.4	428.2	455.6
Equity securities:				
Nonredeemable preferred stocks	14.7	15.9	28.5	31.4
Common equities	13.7	14.0	28.3	27.2
Total equity securities	28.4	29.9	56.8	58.6
Investment income	243.8	261.3	485.0	514.2
Investment expenses	(4.5)	(6.2)	(9.8)	(12.4)
Net investment income	$ 239.3	$ 255.1	$ 475.2	$ 501.8

The amount of investment income (interest and dividends) we earn varies based on the average assets held during the year and the book yields of the securities in our portfolio. On a year-over-year basis, investment income decreased 7% for the second quarter and 6% for the first six months, compared to the same periods last year, due to a decrease in the portfolio yield, which was partially offset by an increase in average assets. The recurring investment book yield decreased about 21% in the second quarter 2020 and 16% for the first six months of 2020, compared to the same period in 2019, as a result of investing cash from operations and reinvesting cash from sales, maturities, paydowns, and other redemptions at market yields that were significantly lower than the portfolio's overall yield. The income reduction from negative yield change was offset by income earned as a result of an increase in average assets resulting from new debt issued during the first quarter 2020, strong premium growth, and underwriting profitability, net of common and preferred stock dividends. The portfolio's duration at June 30, 2020 was 3.0 years, compared to 2.7 years at June 30, 2019. The decrease in investment expenses for both periods in 2020, compared to 2019, primarily reflects lower expenses incurred due to our decision to no longer maintain an actively managed portfolio, and lower incentive-based compensation recognized.

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 daily, 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, 2020					
Fixed maturities:					
U.S. government obligations	$ 9,277.8	$ 0	$ 0	$ 9,277.8	$ 8,814.5
State and local government obligations	0	3,574.3	0	3,574.3	3,426.0
Corporate debt securities	0	11,062.5	0	11,062.5	10,493.2
Subtotal	9,277.8	14,636.8	0	23,914.6	22,733.7
Asset-backed securities:					
Residential mortgage-backed	0	543.0	0	543.0	541.0
Commercial mortgage-backed	0	5,761.8	0	5,761.8	5,728.5
Other asset-backed	0	4,354.9	0	4,354.9	4,313.3
Subtotal asset-backed securities	0	10,659.7	0	10,659.7	10,582.8
Redeemable preferred stocks:					
Financials	0	51.1	0	51.1	51.3
Utilities	0	10.8	0	10.8	10.0
Industrials	9.7	80.5	0	90.2	90.1
Subtotal redeemable preferred stocks	9.7	142.4	0	152.1	151.4
Total fixed maturities	9,287.5	25,438.9	0	34,726.4	33,467.9
Short-term investments	4,428.0	272.5	0	4,700.5	4,700.5
Total available-for-sale securities	13,715.5	25,711.4	0	39,426.9	38,168.4
Equity securities:					
Nonredeemable preferred stocks:					
Financials	108.2	958.3	38.1	1,104.6	1,125.3
Utilities	0	38.7	0	38.7	40.0
Industrials	0	22.1	15.2	37.3	40.1
Subtotal nonredeemable preferred stocks	108.2	1,019.1	53.3	1,180.6	1,205.4
Common equities:					
Common stocks	3,170.1	0	0	3,170.1	1,128.5
Other risk investments	0	0	0.3	0.3	0.3
Subtotal common equities	3,170.1	0	0.3	3,170.4	1,128.8
Total equity securities	3,278.3	1,019.1	53.6	4,351.0	2,334.2
Total portfolio	$ 16,993.8	$ 26,730.5	$ 53.6	$ 43,777.9	$ 40,502.6
Debt	$ 0	$ 6,664.3	$ 0	$ 6,664.3	$ 5,394.7

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

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

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

At June 30, 2020, vendor-quoted prices represented 75% of our Level 1 classifications (excluding short-term investments), compared to 80% at both June 30, 2019 and December 31, 2019, 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 June 30, 2020, vendor-quoted prices comprised 97% of our Level 2 classifications (excluding short-term investments), while dealer-quoted prices represented the remaining 3%, compared to 98% and 2%, and 99% and 1%, respectively, at June 30, 2019 and December 31, 2019. In our process for selecting a source (e.g., dealer or pricing service) to provide pricing for securities in our portfolio, we reviewed documentation from the sources that detailed the pricing techniques and methodologies used by these sources and determined if their policies adequately considered market activity, either based on specific transactions for the particular security type or based on modeling of securities with similar credit quality, duration, yield, and structure that were recently transacted. Once a source is chosen, we continue to monitor any changes or modifications to their processes by reviewing their documentation on internal controls for pricing and market reviews. We review quality control measures of our sources as they become available to determine if any significant changes have occurred from period to period that might indicate issues or concerns regarding their evaluation or market coverage.

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

To allow us to determine if our initial source is providing a price that is outside of a reasonable range, we review our portfolio pricing on at least 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 explain significant price changes (i.e., greater than 2%) as known events occur in the marketplace and affect a security's price at sale.

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

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

After all the valuations are received and our review is complete, if the inputs used by vendors are determined to not contain sufficient observable market information, we will reclassify the affected security valuations to Level 3. At June 30, 2020 and 2019, and December 31, 2019, we did not have any securities in our fixed-maturity portfolio listed as Level 3.

At June 30, 2020, we held four private nonredeemable preferred securities that were priced internally or by a pricing firm, compared to two securities at June 30, 2019 and three securities at December 31, 2019. At June 30, 2020 and 2019, and December 31, 2019, we held one Level 3 other risk investment that was priced using the equity method.

To the extent we receive prices from external sources for the Level 3 securities, we would review those prices for reasonableness using internally developed assumptions and then compare our derived prices to the prices we received. During 2020 and 2019, there were no material assets or liabilities measured at fair value on a nonrecurring basis. During the second quarter 2020, we purchased a new Level 3 security and the fair value at June 30, 2020, reflects the unadjusted purchase price due to the timing of the purchase. The remaining Level 3 securities were priced in-house, using a capitalization-based model of similarly structured public company competitors and a weighted average capitalization formula (i.e., guideline public company method) to calculate a valuation change for our securities. We utilized this methodology at March 31, 2020, rather than having our external pricing source update their valuation models, due to the timing of the market decline, relative to our quarter end. We determined that this pricing methodology was still appropriate at June 30, 2020. Based on our review, all prices received from external sources for 2019 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, 2020 and 2019:

	Level 3 Fair Value							
(millions)	**Fair Value at March 31, 2020**	**Calls/ Maturities/ Paydowns**	**Purchases**	**Sales**	**Net Realized (Gain)/Loss on Sales**	**Change in Valuation**	**Net Transfers In (Out)**	**Fair Value at June 30, 2020**
Equity securities:								
Nonredeemable preferred stocks:								
Financials	$ 13.1	$ 0	$ 25.0	$ 0	$ 0	$ 0	$ 0	$ 38.1
Industrials	15.2	0	0	0	0	0	0	15.2
Common equities:								
Other risk investments	0.3	0	0	0	0	0	0	0.3
Total Level 3 securities	$ 28.6	$ 0	$ 25.0	$ 0	$ 0	$ 0	$ 0	$ 53.6

(millions)	Level 3 Fair Value 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

(millions)	Level 3 Fair Value Fair Value at December 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, 2020
Equity securities:								
Nonredeemable preferred stocks:								
Financials	$ 27.1	$ 0	$ 25.0	$ 0	$ 0	$ (14.0)	$ 0	$ 38.1
Industrials	16.0	0	0	0	0	(0.8)	0	15.2
Common equities:								
Other risk investments	0.3	0	0	0	0	0	0	0.3
Total Level 3 securities	$ 43.4	$ 0	$ 25.0	$ 0	$ 0	$ (14.8)	$ 0	$ 53.6

(millions)	Level 3 Fair Value Fair Value at December 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

The following tables provide a summary of the quantitative information about Level 3 fair value measurements for our applicable securities at June 30, 2020 and 2019, and December 31, 2019:

		Quantitative Information about Level 3 Fair Value Measurements		
($ in millions)	Fair Value at June 30, 2020	Valuation Technique	Unobservable Input	Unobservable Input Assumption
Equity securities:				
Nonredeemable preferred stocks:				
Financials	$ 13.1	Guideline public company method	Weighted average capitalization %	(51.5)
Financials[1]	25.0	Internal price	Unadjusted purchase price per share	3.7
Industrials	15.2	Guideline public company method	Weighted average capitalization %	(19.2)
Subtotal Level 3 securities	53.3			
Pricing exemption securities	0.3			
Total Level 3 securities	$ 53.6			

[1] The security was purchased in May 2020.

		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	5.0	Internal price	Price-to-sales ratio	5.5
Subtotal Level 3 securities	32.1			
Pricing exemption securities	0.3			
Total Level 3 securities	$ 32.4			

[1] The security was purchased in December 2018.

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

[1] The security was purchased in November 2019.

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

	June 30, 2020		June 30, 2019		December 31, 2019	
(millions)	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
3.75% Senior Notes due 2021	$ 499.6	$ 519.0	$ 499.2	$ 516.5	$ 499.4	$ 515.6
2.45% Senior Notes due 2027	497.1	533.7	496.7	494.7	496.9	501.5
6 5/8% Senior Notes due 2029	296.8	420.7	296.5	385.7	296.6	392.5
4.00% Senior Notes due 2029	545.2	654.2	544.8	608.9	545.0	614.3
3.20% Senior Notes due 2030	496.0	567.6	0	0	0	0
6.25% Senior Notes due 2032	395.8	569.6	395.6	531.3	395.7	552.6
4.35% Senior Notes due 2044	346.7	444.9	346.6	392.5	346.7	417.0
3.70% Senior Notes due 2045	395.5	471.4	395.4	411.1	395.4	434.2
4.125% Senior Notes due 2047	841.6	1,080.8	841.5	943.0	841.6	986.1
4.20% Senior Notes due 2048	589.9	773.8	589.7	671.5	589.8	705.8
3.95% Senior Notes due 2050	490.5	628.6	0	0	0	0
Total	$ 5,394.7	$ 6,664.3	$ 4,406.0	$ 4,955.2	$ 4,407.1	$ 5,119.6

The Progressive Corporation issued $500 million of 3.20% Senior Notes due 2030 (the “3.20% Senior Notes”) and $500 million of 3.95% Senior Notes due 2050 (the “3.95% Senior Notes”) in March 2020, in an underwritten public offering. The net proceeds from the issuances, after deducting underwriters’ discounts, commissions, and other issuance costs, were approximately $986.3 million in aggregate. Consistent with the other senior notes issued by Progressive, interest on the 3.20% and 3.95% Senior Notes is payable semiannually, principal is due at maturity, and the notes are redeemable, in whole or in part, at any time, subject to a treasury “make whole” provision.

During the second quarter 2020, The Progressive Corporation renewed the line of credit with PNC Bank, National Association (PNC), in the maximum principal amount of $250 million, that expired in April 2020. 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 175 basis points. Each advance must be repaid on the 30th day after the advance or, if earlier, on April 30, 2021, 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 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, 2020 and 2019, and December 31, 2019, 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, 2020, there have been no material changes in our reserve for uncertain tax positions.

The effective tax rate for the three and six months ended June 30, 2020, was 21.1% and 20.8% respectively, compared to 21.3% and 26.7% for the same periods last year. For the first six months of 2019, the higher effective rate was due primarily to the reversal of tax credits and other tax benefits previously recognized from certain renewable energy investments, where the sponsor pled guilty to fraud through these investments and the tax credits and other benefits related to those investments were not valid. See *Note 5 – Income Taxes* in our 2019 Annual Report to Shareholders for further discussion.

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

	June 30,	
(millions)	**2020**	**2019**
Balance at January 1	$ 18,105.4	$ 15,400.8
Less reinsurance recoverables on unpaid losses	3,212.2	2,572.7
Net balance at January 1	14,893.2	12,828.1
Incurred related to:		
Current year	11,360.5	11,687.1
Prior years	116.1	210.0
Total incurred	11,476.6	11,897.1
Paid related to:		
Current year	6,180.4	6,407.5
Prior years	5,180.1	4,664.1
Total paid	11,360.5	11,071.6
Net balance at June 30	15,009.3	13,653.6
Plus reinsurance recoverables on unpaid losses	3,502.7	2,915.0
Balance at June 30	$ 18,512.0	$ 16,568.6

We experienced unfavorable reserve development of $116.1 million and $210.0 million during the first six months of 2020 and 2019, respectively, which is reflected as "Incurred related to prior years" in the table above.

Year-to-date June 30, 2020

- Approximately 68% of the unfavorable prior year reserve development was attributable to accident year 2018, while only 1% was attributable to accident year 2019, with the remainder related to 2017 and prior accident years. During the second quarter 2020, we experienced favorable development on accident year 2019, primarily due to higher than anticipated salvage and subrogation recoveries, which almost fully offset the unfavorable development from accident year 2019 we experienced during the first quarter 2020.
- Our personal auto products incurred about $37 million of unfavorable loss and loss adjustment expense (LAE) reserve development, with about two thirds attributable to the Agency business. The unfavorable LAE development was primarily attributable to revised estimates of our per claim settlement costs taken during the first quarter. We also experienced higher than anticipated frequency of reopened personal injury protection (PIP) claims, primarily in Florida, and late reported losses occurring toward the end 2019 but not reported until 2020, which was significantly offset by higher than anticipated salvage and subrogation recoveries.
- Our Commercial Lines business experienced about $98 million of unfavorable development, primarily due to increased injury severity and the emergence of large injury claims at rates higher than originally anticipated.
- Our special lines and Property businesses experienced about $15 million and $4 million, respectively, of favorable development.

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 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 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.

Note 7 ***Supplemental Cash Flow Information*** — Cash and cash equivalents include bank demand deposits and daily overnight reverse repurchase commitments used to safeguard funds held in those bank demand deposit accounts, and are not considered part of the investment portfolio. The amount of these reverse repurchase commitments held at June 30, 2020 and 2019, and December 31, 2019, were $96.4 million, $138.2 million, and $46.3 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 our Property business are administrators.

During the six months ended June 30, 2020, non-cash activity includes declared but unpaid common share dividends of $58.5 million (see *Note 9 – Dividends* for further discussion) and changes in operating lease liabilities arising from obtaining right-of-use assets of $23.9 million.

We paid the following in the respective periods:

	Six Months Ended June 30,	
(millions)	**2020**	**2019**
Income taxes	$ 18.0	$ 592.8
Interest	94.1	90.9
Operating lease liabilities	44.7	37.4

During the six months ended June 30, 2020, we did not make any estimated federal tax payments as the Internal Revenue Service, in response to the impact of COVID-19 restrictions, postponed the due date of these estimated payments until July 15, 2020.

Our consolidated statement of cash flows for the six months ended June 30, 2019, was revised to correct the classification of our acquisition of additional shares of ARX Holding Corp. from an investing activity to a financing activity; there was no overall impact on the increase in cash, cash equivalents, and restricted cash that was reported for June 30, 2019.

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 auto-related primary liability and physical damage insurance, general liability, and property insurance, predominately for small businesses. Our Property segment writes residential property insurance for homeowners, other property owners, and renters. 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 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:

(millions)	Three Months Ended June 30, 2020 Revenues	2020 Pretax Profit (Loss)	2019 Revenues	2019 Pretax Profit (Loss)	Six Months Ended June 30, 2020 Revenues	2020 Pretax Profit (Loss)	2019 Revenues	2019 Pretax Profit (Loss)
Personal Lines								
Agency	$ 3,919.0	$ 550.6	$ 3,639.6	$ 434.7	$ 7,747.7	$ 1,152.2	$ 7,148.1	$ 887.7
Direct	4,167.9	647.2	3,733.4	326.6	8,160.3	1,120.2	7,309.7	648.5
Total Personal Lines[1]	8,086.9	1,197.8	7,373.0	761.3	15,908.0	2,272.4	14,457.8	1,536.2
Commercial Lines	1,129.0	179.8	1,070.5	124.4	2,318.0	292.3	2,083.5	291.0
Property[2]	432.7	(188.7)	381.2	(34.4)	853.3	(139.5)	743.2	(26.7)
Total underwriting operations	9,648.6	1,188.9	8,824.7	851.3	19,079.3	2,425.2	17,284.5	1,800.5
Fees and other revenues[3]	129.5	NA	134.8	NA	283.0	NA	265.0	NA
Service businesses	59.0	6.2	50.0	4.7	110.6	10.3	92.6	9.2
Investments[4]	1,134.6	1,130.1	441.2	435.0	822.2	812.4	1,108.6	1,096.2
Interest expense	NA	(56.4)	NA	(47.4)	NA	(104.4)	NA	(94.8)
Consolidated total	$ 10,971.7	$ 2,268.8	$ 9,450.7	$ 1,243.6	$ 20,295.1	$ 3,143.5	$ 18,750.7	$ 2,811.1

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, 2020 and 2019; 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, 2020, pretax profit (loss) includes $14.1 million and $28.6 million, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX and $18.0 million and $35.9 million for the same periods in 2019. See *Note 13 – Goodwill and Intangible Assets* for further discussion.

[3] Pretax profit (loss) for fees and other revenues is allocated 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, other underwriting expenses, and policyholder credits 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, 2020 Under-writing Margin	2020 Combined Ratio	2019 Under-writing Margin	2019 Combined Ratio	Six Months Ended June 30, 2020 Under-writing Margin	2020 Combined Ratio	2019 Under-writing Margin	2019 Combined Ratio
Personal Lines								
Agency	14.0 %	86.0	11.9 %	88.1	14.9 %	85.1	12.4 %	87.6
Direct	15.5	84.5	8.7	91.3	13.7	86.3	8.9	91.1
Total Personal Lines	14.8	85.2	10.3	89.7	14.3	85.7	10.6	89.4
Commercial Lines	15.9	84.1	11.6	88.4	12.6	87.4	14.0	86.0
Property[1]	(43.6)	143.6	(9.0)	109.0	(16.3)	116.3	(3.6)	103.6
Total underwriting operations	12.3	87.7	9.6	90.4	12.7	87.3	10.4	89.6

[1] Included in the three and six months ended June 30, 2020, is 3.3 points and 3.4 points, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX and 4.7 points and 4.8 points, respectively, for the three and six months ended June 30, 2019.

Note 9 ***Dividends*** — Following is a summary of our common and preferred share dividends that were declared and/or paid during the six months ended June 30, 2020 and 2019:

(millions, except per share amounts)		**Amount**	
Declared	**Payable**	**Per Share**	**Accrued**[1]
Common - Quarterly Dividends:			
May 2020	July 2020	$ 0.10	$ 58.5
February 2020	April 2020	0.10	58.5
December 2019	January 2020	0.10	58.5
May 2019	July 2019	0.10	58.4
February 2019	April 2019	0.10	58.4
Common - Annual Variable Dividends:			
December 2019	January 2020	2.25	1,316.9
December 2018	February 2019	2.5140	1,467.9
Preferred Dividends:			
February 2020	March 2020	26.875	13.4
February 2019	March 2019	26.875	13.4

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

See *Note 14 – Dividends* in our 2019 Annual Report to Shareholders for a discussion of our common and preferred share dividend policies.

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, 2020	**$ 514.9**	**$ (110.7)**	**$ 404.2**	**$ 423.6**	**$ (16.2)**	**$ (3.2)**
Reclassification of disproportionate amounts[1]	4.0	(0.8)	3.2	0	0	3.2
Adjusted balance at March 31, 2020	518.9	(111.5)	407.4	423.6	(16.2)	0
Other comprehensive income (loss) before reclassifications:						
Investment securities	966.2	(202.9)	763.3	763.3	0	0
Loss attributable to noncontrolling interest (NCI)	0	0	0	0	0	0
Total other comprehensive income (loss) before reclassifications	966.2	(202.9)	763.3	763.3	0	0
Less: Reclassification adjustment for amounts realized in net income by income statement line item:						
Net realized gains (losses) on securities	248.0	(52.1)	195.9	195.9	0	0
Interest expense	(0.2)	0	(0.2)	0	(0.2)	0
Total reclassification adjustment for amounts realized in net income	247.8	(52.1)	195.7	195.9	(0.2)	0
Total other comprehensive income (loss)	718.4	(150.8)	567.6	567.4	0.2	0
Balance at June 30, 2020	**$ 1,237.3**	**$ (262.3)**	**$ 975.0**	**$ 991.0**	**$ (16.0)**	**$ 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, 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, 2019	**$ 435.7**	**$ (94.0)**	**$ 341.7**	**$ 360.8**	**$ (16.4)**	**$ (2.7)**
Reclassification of disproportionate amounts[1]	3.4	(0.7)	2.7	0	0	2.7
Adjusted balance at December 31, 2019	439.1	(94.7)	344.4	360.8	(16.4)	0
Other comprehensive income (loss) before reclassifications:						
Investment securities	1,284.4	(269.7)	1,014.7	1,014.7	0	0
Loss attributable to noncontrolling interest (NCI)	0	0	0	0	0	0
Total other comprehensive income (loss) before reclassifications	1,284.4	(269.7)	1,014.7	1,014.7	0	0
Less: Reclassification adjustment for amounts realized in net income by income statement line item:						
Net realized gains (losses) on securities	486.7	(102.2)	384.5	384.5	0	0
Interest expense	(0.5)	0.1	(0.4)	0	(0.4)	0
Total reclassification adjustment for amounts realized in net income	486.2	(102.1)	384.1	384.5	(0.4)	0
Total other comprehensive income (loss)	798.2	(167.6)	630.6	630.2	0.4	0
Balance at June 30, 2020	**$ 1,237.3**	**$ (262.3)**	**$ 975.0**	**$ 991.0**	**$ (16.0)**	**$ 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)**

[1]Adjustment to reflect the change in value on (income) loss attributable to NCI in conjunction with the purchase transaction (See *Note 12 – Redeemable Noncontrolling Interest* for additional information).

In an effort to manage interest rate risk, we entered into forecasted transactions on Progressive's debt issuances prior to 2018. We expect to reclassify $1.1 million (pretax) into interest expense during the next 12 months, related to net unrealized losses on forecasted transactions (see *Note 4 – Debt* in our 2019 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. Other insurance companies face many of these same issues.

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 2019 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, 2020 or 2019, and there were no material settlements during 2019 or the first six months of 2020. 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 2019 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 2019 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. On April 1, 2020, Progressive purchased all remaining outstanding stock of ARX under a separately negotiated purchase agreement. The cost of purchasing the remaining outstanding stock and shares from exercised stock options was $243.0 million in aggregate.

The changes in the components of redeemable NCI were:

	Six Months Ended June 30,		Year Ended
(millions)	**2020**	**2019**	**December 31, 2019**
Balance, beginning of period	$ 225.6	$ 214.5	$ 214.5
Net income attributable to NCI	0	4.0	9.7
Other comprehensive income (loss) attributable to NCI[1]	0	4.9	4.6
Exercise of employee stock options	16.0	7.7	7.7
Purchase/change of ARX minority shares	(241.6)	(11.2)	(11.2)
Change in redemption value of NCI	0	0.2	0.3
Balance, end of period	$ 0	$ 220.1	$ 225.6

[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, 2020, 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, 2020**	**June 30, 2019**	**December 31, 2019**
Intangible assets subject to amortization	$ 187.3	$ 246.3	$ 215.9
Indefinite-lived intangible assets[1]	12.4	12.4	12.4
Total	$ 199.7	$ 258.7	$ 228.3

[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, 2020			June 30, 2019			December 31, 2019		
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	$ 192.2	$ 64.0	$ 256.2	$ 155.6	$ 100.6	$ 256.2	$ 173.9	$ 82.3
Agency relationships	159.2	59.7	99.5	159.2	48.3	110.9	159.2	54.0	105.2
Software rights	69.1	45.3	23.8	79.1	45.4	33.7	79.1	50.7	28.4
Trade name	0	0	0	34.8	33.7	1.1	34.8	34.8	0
Total	$ 484.5	$ 297.2	$ 187.3	$ 529.3	$ 283.0	$ 246.3	$ 529.3	$ 313.4	$ 215.9

Amortization expense was $14.1 million and $28.6 million for the three and six months ended June 30, 2020, respectively, compared to $18.0 million and $35.9 million during the same periods last year. During the first quarter 2020, one software rights intangible asset, with a gross carrying value of $10.0 million, was fully amortized.

Note 14 ***New Accounting Standards*** — On January 1, 2020, we adopted the Accounting Standards Update (ASU), on a prospective basis, which provides guidance on the requirements for capitalizing and amortizing implementation costs incurred in a cloud computing arrangement that does not include a software license. For the six months ended June 30, 2020, we capitalized $14.2 million of cloud computing arrangement implementation costs, which is included in other assets on our consolidated balance sheet.

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

On January 1, 2020, we adopted the ASU which eliminates the requirement to determine the implied fair value of goodwill in measuring an impairment loss. The standard requires the measurement of a goodwill impairment to represent the excess of the reporting unit's carrying value over fair value, limited to the carrying value of goodwill. The adoption of this ASU had no impact on our financial condition, cash flows, or results of operations.

On January 1, 2020, we adopted the ASU intended to improve the timing, and enhance the accounting and disclosure, of credit losses on financial assets. This update modified the existing accounting guidance related to the impairment evaluation for available-for-sale debt securities and resulted in the creation of an allowance for credit losses as a contra asset account. The ASU requires prospective changes to previously recorded impairments. To determine the existence of any credit-related impairment losses on our available-for-sale debt securities, we reviewed all such securities by applying estimates of future cash flows and performance of those securities in a loss position and identifying market-related versus performance-related losses. For our reinsurance recoverables, we assessed the current credit quality and credit outlook for reinsurers with at-risk uncollateralized recoverables. Based on these analyses, we determined that our allowance for credit losses was not material relative to our available-for-sale debt securities and reinsurance recoverables upon adoption of the ASU.

In assessing premium receivables, which are short-term in nature, we assessed customer balances leveraging our current process for analyzing the collectibility of premium receivables. Based on our analysis, no adjustment to the beginning balance of retained earnings was required upon adoption. See *Note 1 – Basis of Presentation* for changes in the allowance for doubtful accounts related to the premiums receivable balance.

Item 2. 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 2020, compared to the same period last year. During the quarter, we generated $10.1 billion of net premiums written, which is an increase of $1.0 billion, or 11%, compared to the second quarter 2019. We had 23.8 million companywide policies in force at June 30, 2020, which is 2.1 million more policies than were in force at June 30, 2019. Our underwriting profit margin of 12.3% for the second quarter 2020 was 2.7 points better than the same period last year.

On a year-over-year basis, net income attributable to Progressive increased 83% for the second quarter and 21% for the first six months of 2020, and comprehensive income increased 88% and 19%, respectively. Underwriting income increased 40% for the quarter and 35% for the first six months of 2020, compared to the same periods last year. The increased underwriting profitability reflects a significant decrease in loss and loss adjustment expenses due to lower auto accident frequency, as a result of fewer vehicle miles driven following the restrictions put in place to stop or slow the spread of the novel coronavirus, COVID-19, which began in March 2020 and lasted into mid-second quarter before the restrictions slowly started to be lifted. Partially offsetting the favorable loss experience were higher expenses reflecting credits issued to personal auto policyholders during the second quarter 2020 and additional bad debt expense related to the billing leniencies and moratoriums that were in place through the middle of May 2020. In addition to strong underwriting results, we recognized significant realized and unrealized gains on our equity securities and fixed-maturity securities, respectively, during the second quarter, as the portfolios' valuation rebounded following the decline experienced at the end of the first quarter when the COVID-19 restrictions were first put in place.

During the second quarter 2020, our total capital (debt plus shareholders' equity) increased $2.4 billion, to $22.1 billion, primarily reflecting comprehensive income earned during the quarter.

A. COVID-19

Our results for the first quarter 2020 were significantly impacted by the spread of the COVID-19 and federal, state, and local social distancing and shelter-in-place restrictions ("COVID-19 restrictions") that were enacted. As the COVID-19 restrictions remained in place during the first part of the second quarter, we continued to experience a decrease in new business volume, which began to rebound as the COVID-19 restrictions started to be lifted in May 2020. In April 2020, on a year-over-year basis for the month, new applications decreased 14% and 26% for our Personal Lines and Commercial Lines businesses, respectively. In total for the second quarter 2020, Personal Lines new applications increased 2% and Commercial Lines decreased 10%. The increase in Personal Lines new applications was due to growth in our Direct auto business, as well as 22% new applications growth in our special lines products.

Our companywide underwriting margin for the second quarter 2020 was strong at 12.3%, which was 2.7 points better than the same period last year and only 0.8 points higher than the first quarter 2020. Vehicle accidents were significantly lower than the prior year as COVID-related restrictions remained in effect, and remained lower even after many of the restrictions were lifted. Our personal auto incurred accident frequency, which continued to moderate as the quarter progressed, was down about 39% for the second quarter 2020, as compared to the prior year.

On the other hand, our expense ratio was adversely impacted 10.7 points due to the $1 billion of credits we issued to our personal auto policyholders in response to the expected reduction in auto accident frequency and the financial hardships imposed by the impact of COVID-19 restrictions throughout the United States. These credits or payments represented 20% of monthly premiums for customers with a policy in force on each of April 30 and May 31, 2020. In addition to the credits, during the second quarter 2020 we recorded a $120.0 million increase in the allowance for doubtful accounts relating to our billing leniency efforts, such as suspending cancellations and non-renewals for non-payment and pausing collection activities that we put in place through May 15, 2020, to help policyholders who were experiencing financial hardships. There still remains state mandated moratoriums in several states.

Our non-U.S. Treasury fixed-income and equity investment portfolios valuations rebounded throughout the second quarter 2020. The combination of strong fiscal and monetary stimulus provided a positive backdrop to the financial markets throughout the quarter. Nevertheless, we currently view the market environment as very uncertain and believe the relatively conservative position of our investment portfolio continues to remain appropriate.

From an operations perspective, we continue to institute work-from-home measures, which we believe will be largely in place throughout the remainder of 2020. In this challenging environment, we continue to believe that we are effectively maintaining our insurance and investment operations, our financial reporting systems, and our internal controls over financial reporting. For those employees whose jobs require them to remain in the office, we continue to practice enhanced social distancing, cleaning, and other protocols to promote employee health and safety. To help employees other than senior leaders, we paid a portion of their annual bonus in April and July. We continue to make investments in our infrastructure and are currently maintaining our staffing levels, as we are returning to more normal insurance markets and economic conditions.

We are continuing to investigate the impact of the Coronavirus Aid, Relief, and Economic Security Act, known as the CARES Act, and monitor related guidance. Based on current guidance, we do not expect the CARES Act to materially impact us. We are, however, electing to defer the payment of our portion of Social Security payroll taxes, as permitted under the CARES Act. We estimate that we will defer about $130 million of payments in 2020, with half of that amount being paid by the end of each of 2021 and 2022. As of June 30, 2020, we deferred approximately $50 million of payments related to our portion of Social Security payroll taxes.

Even after the current COVID-19 restrictions were lifted, there remains significant uncertainty regarding the potential for and timing of any economic recovery, whether and when driving and insurance shopping patterns will return to historical patterns, and the near-term and longer-term impacts on insurance markets, small businesses, our critical vendors and counterparties, the investment markets, and the regulatory environment, among many other issues and, ultimately, how our businesses and financial results will be impacted during these recovery periods. Although the nature of these impacts may change over time, we cannot predict the likely duration or extent of these impacts.

B. Insurance Operations

We evaluate growth in terms of both net premiums written and policy in force growth. 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 11%, with Personal Lines growing 13%, Commercial Lines 1%, and Property 12%, primarily reflecting an increase in volume. The Commercial Lines premiums growth was negatively impacted as a result of reducing our transportation network company business' premiums $29.0 million and $139.5 million, during the three and six months ended June 30, 2020, respectively, as we continued to revise estimated miles to be driven during the remainder of the policy terms. On a policy-by-policy basis, we determine the premiums on these policies monthly based on actual miles driven and an estimate of miles to be driven during the remaining policy terms. Due to COVID-19 restrictions, the estimate of miles driven was reduced. Changes in actual and estimated miles driven will continue to impact our net premiums written in future periods. Policies in force grew 10% companywide, with Personal Lines, Commercial Lines, and Property growing 10%, 6%, and 13%, respectively.

During the quarter, total new personal auto applications (i.e., issued policies) decreased 4% on a year-over-year basis, with Agency new applications decreasing 13% and Direct increasing 4%. In light of social distancing requirements, many independent agents are still working to get their operations back to pre-COVID levels, which contributed to the slower pace of recovery in the Agency channel. By the end of the second quarter we saw overall shopping return to pre-COVID levels, contributing to the 6% increase in Direct auto quotes, compared to the same period last year. Total personal auto renewal applications increased 13% over the second quarter last year, in part driven by our billing leniency efforts during the period. New applications for our special lines products were up 22% during the second quarter 2020, primarily due to overall industry growth as consumers habits shifted toward focusing on new ways to enjoy the summer and take vacations while maintaining social distance.

For the Commercial Lines business, new applications, which also continued to be impacted by COVID-19 restrictions, decreased 10% on a year-over-year basis during the second quarter 2020, with renewal applications increasing 7%. The Property business saw new homeowner and condo policy sales decline during April and May, due to the shelter-in-place restrictions, but sales activity recovered in June. Property new applications increased 4% and renewal applications increased 15% during the second quarter 2020.

We realize the importance of retaining customers to grow policies in force and this remains one of our most important priorities. We remain focused on increasing our share of multi-product households and will continue to make investments to improve the customer experience to continue to support that goal. We also will continue to monitor 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, and report it as our primary measure of customer retention in our Personal Lines and Commercial Lines auto business. Due to insurance market volatility brought on by the COVID-19 virus, it may be difficult to assess the progress we are making against our retention goals. As of the end of the second quarter 2020, our trailing 12-month total personal auto policy life expectancy increased 7% compared to last year, as a portion of policy cancellations were suppressed by the billing leniency and state moratoriums enacted in March 2020 and remained in place through May 15, 2020. Our Agency auto trailing 12-month policy life expectancy was up 9%, and Direct auto was up 5%. Our Commercial Lines trailing 12-month policy life expectancy increased 6% year over year and special lines was up 7%.

Our Personal and Commercial Lines operating segments were profitable during the second quarter 2020, while our Property business generated an underwriting loss, primarily due to catastrophe losses incurred during the quarter. Our Personal Lines segment generated an underwriting profit margin of 14.8% for the second quarter 2020. Although our special lines products generated an underwriting profit during the second quarter, the seasonal nature of these products unfavorably impacted our total Personal Lines combined ratio by about 0.5 points. Our Commercial Lines underwriting profit margin for the second quarter was 15.9%. Our Property segment had an underwriting loss margin of 43.6% for the second quarter. On a net basis (i.e., after reinsurance), our Property business incurred catastrophe losses during the second quarter of $234.8 million, or 54.3 points on their combined ratio. As of June 30, 2020, we have retained approximately $330 million of catastrophe losses and associated allocated loss adjustment expenses (ALAE) in the Property business, which has not exceeded the $375 million annual retention threshold under our catastrophe aggregate excess of loss reinsurance program and, therefore, we have not recorded a reinsurance recoverable related to these losses and ALAE.

C. Investments

The fair value of our investment portfolio was $43.8 billion at June 30, 2020, compared to $39.3 billion at December 31, 2019. The increase from year-end 2019, primarily reflects the $1.0 billion of proceeds from the debt issued during March, comprehensive income of $3.1 billion, and $0.3 billion of unsettled security transactions at the end of the second quarter, offset by $1.6 billion related to the payment of shareholder dividends and the purchase of ARX Holding Corp. during the period.

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, 2020, 11% of our portfolio was allocated to Group I securities and 89% to Group II securities, compared to 12% and 88%, respectively, at December 31, 2019. The allocation to Group I securities declined slightly year over year as available cash was invested in Group II securities and Group I valuations declined while Group II valuations increased during the period.

Our recurring investment income generated a pretax book yield of 2.5% for the second quarter 2020, compared to 3.2% for the same period in 2019, primarily due to investing new cash at lower interest rates. Our investment portfolio produced a fully taxable equivalent (FTE) total return of 4.5% and 2.2% for the second quarter 2020 and 2019, respectively. Our fixed-income and common stock portfolios had FTE total returns of 3.4% and 21.5%, respectively, for the second quarter 2020, compared to 2.1% and 4.0%, respectively, last year. There was a significant narrowing of credit spreads, which resulted in a 4.6% FTE total return on our fixed-income securities for the first six months of 2020. Our common stock portfolio's FTE total return was a (3.4)% for the first six months of 2020 and, while still negative, is a significant increase from the first quarter 2020.

At June 30, 2020, the fixed-income portfolio had a weighted average credit quality of AA- and a duration of 3.0 years, compared to AA- and 2.7 years and AA and 3.0 years at June 30, 2019 and December 31, 2019, respectively. During the quarter, with valuations improving in several market sectors, we were able to add some attractive investments to our portfolio. While we have lengthened our portfolio duration over the previous twelve months, it remains slightly below the midpoint of our 1.5 year to 5 year range, which we believe provides some protection against an increase in interest rates.

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 $3.9 billion and $3.4 billion for the first six months of 2020 and 2019, respectively.

We did not experience a significant change in our liquidity needs during the second quarter 2020. When COVID-19 restrictions remained in place during the first half of the second quarter, we saw a continued decrease in new applications, which, along with the suspending collections and cancellations for non-payments, reduced the amount of cash we would have collected from customers. However, we also saw a significant decrease in accident claim frequency and, as a result, the amount of cash required to pay claims also decreased. We continue to believe that we have sufficient liquidity from our current operations and in our investment portfolio to meet all of our near-term operating cash needs.

Our total capital (debt plus shareholders' equity) was $22.1 billion, at book value, at June 30, 2020, compared to $17.7 billion at June 30, 2019, and $18.1 billion at December 31, 2019. The increase since year end reflects the increase in comprehensive income during that period as well as the issuance of $500 million of 3.20% Senior Notes due 2030 and $500 million of 3.95% Senior Notes due 2050, in underwritten public offerings during the first quarter 2020.

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, if any, was 24.4% at June 30, 2020, 24.8% at June 30, 2019, and 24.4% at December 31, 2019. None of our outstanding senior notes have restrictive financial covenants or credit rating triggers.

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 first six months of 2020, we returned capital to shareholders primarily through dividends. Our Board of Directors declared a $0.10 per common share dividend in both the first and second quarters 2020. These dividends, which were each $58.5 million in the aggregate, were paid in April 2020 and July 2020, respectively. In addition to the common share dividends, in February 2020, the Board also declared a Series B Preferred Share dividend of $13.4 million, which was paid March 2020. In January 2020, we also paid the $2.25 and $0.10 common share dividends declared in December 2019, in the aggregate amount of $1.4 billion (see *Note 9 – Dividends* for further discussion). During the year, we also repurchased 0.4 million common shares, at a total cost of $29.1 million, to satisfy tax withholding obligations, as permitted under our equity compensation plans.

In April 2020, The Progressive Corporation acquired the remaining outstanding stock of ARX Holding Corp., for an aggregate cost of $243.0 million, which included the acquisition of vested stock options, making ARX a wholly owned subsidiary of Progressive. While this acquisition was originally expected to occur in April 2021, we believe that completing it a year earlier will benefit our continued efforts to expand our reach and grow our bundled home and auto customers.

During the first six months of 2020 and at all times during 2019, our total capital exceeded the sum of our regulatory capital layer plus our self-constructed extreme contingency layer, as described in our Annual Report on Form 10-K for the year ended December 31, 2019. 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.

In April 2020, we renewed the unsecured discretionary line of credit (the "Line of Credit") with PNC Bank, National Association, in the maximum principal amount of $250 million, that expired in April 2020. 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 175 basis points. Each advance must be repaid on the 30th day after the advance or, if earlier, on April 30, 2021, the expiration date of the line of credit. 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 2020, our contractual obligations have not changed materially from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2019. We are not aware of any significant changes to our contractual obligations that are likely to occur as a result of COVID-19.

Off-Balance-Sheet Arrangements

Our off-balance-sheet leverage includes purchase obligations and catastrophe excess of loss reinsurance contracts. There have not been any material changes in off-balance-sheet items from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2019.

III. RESULTS OF OPERATIONS – UNDERWRITING

A. Segment Overview

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Personal Lines				
Agency	40%	41%	41%	41%
Direct	43	41	43	42
Total Personal Lines[1]	83	82	84	83
Commercial Lines	12	13	12	13
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, 2020 and 2019; 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, although we do write 12-month personal auto policies mainly through our Platinum agents who are focused on selling bundled auto and home policies. At June 30, 2020, 11% of our Agency auto policies in force were 12-month policies, compared to 9% a year earlier. Our special lines products are written for 12-month terms.

Our Commercial Lines business writes auto-related primary liability and physical damage insurance, and other liability and property insurance, predominately for small businesses. The majority of our Commercial Lines business is written through the independent agency channel. The amount of commercial auto business written through the direct channel represented 8% of premiums written for the second quarter 2020, excluding our transportation network company business, compared to 7% for the same period last year. 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. We write the majority of our Property business through the independent agency channel; however, we continue to expand the distribution of our Property product offerings in the direct channel, which represented about 17% of premiums written for the second quarter of 2020, compared to 15% for the same period last year. Property policies are written for 12-month terms. During the second quarter 2020, we began writing residential property and renters insurance in New Hampshire, bringing the total number of states where we write residential property and flood insurance to 45 states and renters insurance to 46 states; we also write all of these products in the District of Columbia. Our flood insurance is written primarily through the National Flood Insurance Program and is 100% reinsured.

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, other underwriting expenses, and policy holder credits. 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,			
	2020		2019		2020		2019	
	Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)	
($ in millions)	$	Margin	$	Margin	$	Margin	$	Margin
Personal Lines								
Agency	$ 550.6	14.0 %	$ 434.7	11.9 %	$ 1,152.2	14.9 %	$ 887.7	12.4 %
Direct	647.2	15.5	326.6	8.7	1,120.2	13.7	648.5	8.9
Total Personal Lines	1,197.8	14.8	761.3	10.3	2,272.4	14.3	1,536.2	10.6
Commercial Lines	179.8	15.9	124.4	11.6	292.3	12.6	291.0	14.0
Property[1]	(188.7)	(43.6)	(34.4)	(9.0)	(139.5)	(16.3)	(26.7)	(3.6)
Total underwriting operations	$ 1,188.9	12.3 %	$ 851.3	9.6 %	$ 2,425.2	12.7 %	$ 1,800.5	10.4 %

[1] For the three and six months ended June 30, 2020, pretax profit (loss) includes $14.1 million and $28.6 million, respectively, of amortization expense predominately associated with the acquisition of a controlling interest in ARX, and $18.0 million and $35.9 million for the respective periods last year; the decrease in amortization expense reflects intangible assets that were fully amortized subsequent to second quarter 2019.

The increases in the companywide underwriting profit margins during three and six months ended June 30, 2020, compared to the same periods last year, were driven primarily by lower accident frequency experienced as a result of COVID-19 restrictions, partially offset by the policyholder credits issued to personal auto customers and additional bad debt expense recognized as part of the billing leniency and moratoriums in the second quarter of 2020.

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]	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Personal Lines—Agency						
Loss & loss adjustment expense ratio	53.2	68.9	(15.7)	58.8	68.3	(9.5)
Underwriting expense ratio	32.8	19.2	13.6	26.3	19.3	7.0
Combined ratio	86.0	88.1	(2.1)	85.1	87.6	(2.5)
Personal Lines—Direct						
Loss & loss adjustment expense ratio	50.3	70.1	(19.8)	57.9	70.0	(12.1)
Underwriting expense ratio	34.2	21.2	13.0	28.4	21.1	7.3
Combined ratio	84.5	91.3	(6.8)	86.3	91.1	(4.8)
Total Personal Lines						
Loss & loss adjustment expense ratio	51.7	69.5	(17.8)	58.3	69.2	(10.9)
Underwriting expense ratio	33.5	20.2	13.3	27.4	20.2	7.2
Combined ratio	85.2	89.7	(4.5)	85.7	89.4	(3.7)
Commercial Lines						
Loss & loss adjustment expense ratio	57.3	67.3	(10.0)	62.9	65.0	(2.1)
Underwriting expense ratio	26.8	21.1	5.7	24.5	21.0	3.5
Combined ratio	84.1	88.4	(4.3)	87.4	86.0	1.4
Property						
Loss & loss adjustment expense ratio	114.0	77.7	36.3	86.5	73.0	13.5
Underwriting expense ratio[2]	29.6	31.3	(1.7)	29.8	30.6	(0.8)
Combined ratio[2]	143.6	109.0	34.6	116.3	103.6	12.7
Total Underwriting Operations						
Loss & loss adjustment expense ratio	55.2	69.6	(14.4)	60.2	68.8	(8.6)
Underwriting expense ratio	32.5	20.8	11.7	27.1	20.8	6.3
Combined ratio	87.7	90.4	(2.7)	87.3	89.6	(2.3)
Accident year — Loss & loss adjustment expense ratio[3]	55.5	68.8	(13.3)	59.6	67.6	(8.0)

[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, 2020, are 3.3 points and 3.4 points, respectively, of amortization expense predominately associated with our acquisition of a controlling interest in ARX, and 4.7 points and 4.8 points for the respective periods last year. Excluding these additional expenses, for the three months ended June 30, 2020 and 2019, the Property business would have reported expense ratios of 26.3 and 26.6, respectively, and a combined ratio of 140.3 and 104.3. For the six months ended June 30, 2020 and 2019, excluding these additional expenses, the Property business would have reported expense ratios of 26.4 and 25.8, respectively, and combined ratios of 112.9 and 98.8.

[3] The accident year ratios include only the losses that occurred during the period noted. As a result, accident period results will change over time, either favorably or unfavorably, as we revise our estimates of loss costs when payments are made or reserves for that accident period are reviewed.

Losses and Loss Adjustment Expenses (LAE)

(millions)	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Increase (decrease) in net loss and LAE reserves	$ 146.5	$ 485.4	$ 116.1	$ 825.5
Paid losses and LAE	5,174.9	5,652.7	11,360.5	11,071.6
Total incurred losses and LAE	$ 5,321.4	$ 6,138.1	$ 11,476.6	$ 11,897.1

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 related to the adjustment or settlement of 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 14.4 points for the second quarter 2020, compared to the same period last year, and 8.6 points on a year-to-date basis, primarily due to lower auto frequency, partially offset by higher severity as discussed below.

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

($ in millions)	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Personal Lines	$ 164.7	$ 125.0	$ 201.9	$ 169.8
Commercial Lines	6.3	4.8	7.6	6.3
Property				
Property business, net of reinsurance (excluding ASL)	247.9	131.4	289.7	193.0
Reinsurance recoverable on ASL[1]	(13.1)	(49.5)	(13.0)	(85.5)
Property business, net	234.8	81.9	276.7	107.5
Total net catastrophe losses incurred	$ 405.8	$ 211.7	$ 486.2	$ 283.6
Combined ratio effect	4.2 pts.	2.4 pts.	2.5 pts.	1.6 pts.

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

During the second quarter 2020, the majority of catastrophe losses were due to wind, hail, and tornadoes throughout the United States. We have responded, and plan to continue to respond, promptly to catastrophic events when they occur in order to provide high-quality claims service to our customers.

We do not have catastrophe-specific reinsurance for our Personal Lines or Commercial Lines businesses, but we reinsure portions of our Property business against various risks, including, but not limited to, catastrophic losses through excess of loss reinsurance.

We have aggregate stop-loss reinsurance agreements (ASL) in place, which are in effect for accident years 2019, 2018, and 2017. We did not renew our ASL program for accident year 2020. Instead, we entered into a property catastrophe aggregate excess of loss program in January 2020. Both the ASL and the aggregate excess of loss (XOL) programs cover accident year Property catastrophe losses and a portion of LAE, known as allocated loss adjustment expenses (ALAE). See *Item 1 – Description of Business-Reinsurance* in our Annual Report on Form 10-K for the year ended December 31, 2019 for further discussion. Through June 30, 2020, we have retained approximately $330 million of catastrophe losses and ALAE for the current accident year under the aggregate XOL program, which has not exceeded our retention threshold of $375 million.

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)	2020	2019	2020	2019
Reinsurance recoverable on ASL, beginning of period	$ 69.7	$ 52.2	$ 69.7	$ 12.5
Reinsurance recoverables recognized on losses				
Accident year:				
2019	11.8	37.1	10.9	$ 73.4
2018	0	0	0	0
2017	1.3	12.4	2.1	12.1
Total	13.1	49.5	13.0	85.5
Reinsurance recoverables recognized on ALAE				
Accident year:				
2019	1.3	4.9	1.4	8.1
2018	0	0	0	0
2017	0.2	(0.7)	0.2	(0.2)
Total	1.5	4.2	1.6	7.9
Total reinsurance recoverables recognized				
Accident year:				
2019	13.1	42.0	12.3	81.5
2018	0	0	0	0
2017	1.5	11.7	2.3	11.9
Total	14.6	53.7	14.6	93.4
Reinsurance recoverable on ASL, end of period	$ 84.3	$ 105.9	$ 84.3	$ 105.9

In addition to the aggregate XOL program, during the second quarter 2020, our Property business renewed its multi-year catastrophe reinsurance contracts.The renewed insurance policies carry retention thresholds for losses and ALAE from a single catastrophic event of $80 million, an increase from the retention threshold on the prior contracts of $60 million, as well as $200 million of additional coverage, due to the growth of the Property business (see *Item 1 – Description of Business-Reinsurance* in our Annual Report on Form 10-K for the year ended December 31, 2019 for further discussion). We have not had a catastrophe event during the first six months of 2020 that exceeded our retention threshold.

During the first quarter 2020, relative to our Property business, we closed a $200 million catastrophe bond transaction. This bond replaces a similar $200 million bond that expired on December 31, 2019. The bond will provide reinsurance coverage in the unlikely event that a single catastrophe event exceeds the $1.6 billion in coverage provided by our traditional catastrophe reinsurance program.

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% and 10% for the three and six months ended June 30, 2020, respectively, compared to the same periods last year. These increases reflect a reduction in incoming new claims, which led to an older aged mix of inventory, which increases incurred losses. In addition, we have seen an increase in the number of claims that were reopened, and required an additional payment, during the second quarter 2020, compared to a year ago. These supplemental payments are related to prior accident periods and were not impacted by COVID-19 restrictions.

Following are the changes we experienced in severity in our auto coverages on a year-over-year basis:

- Primarily due to an older aged mix of claims inventory and an increase in the number of claims reopened during the first six months of 2020 personal injury protection (PIP) increased about 30% and 20% for the second quarter and first six months of 2020, respectively, bodily injury increased about 11% and 10%, and auto property damage increased about 13% and 14%.

- Collision decreased about 8% during the second quarter and was flat during the first six months of 2020, in part due to a mix in the timing of salvage and subrogation collections.

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 39% and 29% for the three and six months ended June 30, 2020, 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 45% and 33% for the second quarter and first six months of 2020, respectively.
- Auto property damage decreased about 42% for the quarter and 30% for the first six months.
- Bodily injury decreased about 42% for the quarter and 28% for the first six months.
- Collision decreased about 36% for the quarter and 30% for the first six months.

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, given the uncertainty of the current environment. We saw the number of vehicle miles driven decrease dramatically when the COVID-19 restrictions were first put in place. Once the restrictions began to be lifted during the quarter, we did see the vehicle miles traveled increase, however, they were still lower than during the second quarter last year. We will continue to analyze trends to distinguish changes in our experience from other external factors, such as changes in the number of vehicles per household, gasoline prices, advances in vehicle safety, and unemployment rates, versus those resulting from shifts in the mix of our business, to allow us to reserve more accurately for our loss exposures.

The changes we are disclosing in the paragraph below for our commercial auto products severity and frequency uses a trailing 12-month period and excludes our transportation network company (TNC) business. Using a trailing 12-month period addresses inherent seasonality trends in the commercial auto products and mitigates the effects of month-to-month variability, which includes the impact of COVID-19 restrictions. 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.

On a year-over-year basis, our commercial auto products incurred severity increased 21% and frequency decreased 12%. In addition to general trends in the marketplace, the increase in our commercial auto products severity reflects increased medical costs and actuarially determined reserves due to accelerating paid loss trends and shifts in the mix of business to for-hire trucking, which has higher average severity than the business auto and contractor market tiers. The frequency decrease was in part due to COVID-19 restrictions and continued product segmentation and underwriting, 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)	2020	2019	2020	2019
ACTUARIAL ADJUSTMENTS				
Reserve decrease (increase)				
Prior accident years	$ (2.7)	$ (45.8)	$ (12.2)	$ (62.5)
Current accident year	28.6	(16.3)	30.2	(3.0)
Calendar year actuarial adjustment	$ 25.9	$ (62.1)	$ 18.0	$ (65.5)
PRIOR ACCIDENT YEARS DEVELOPMENT				
Favorable (unfavorable)				
Actuarial adjustment	$ (2.7)	$ (45.8)	$ (12.2)	$ (62.5)
All other development	30.7	(21.6)	(103.9)	(147.5)
Total development	$ 28.0	$ (67.4)	$ (116.1)	$ (210.0)
(Increase) decrease to calendar year combined ratio	0.3 pts.	(0.8) pts.	(0.6) pts.	(1.2) 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, 100% of catastrophe losses are reviewed monthly, and any development on catastrophe reserves are included as part of the actuarial adjustments. For the Personal Lines and Commercial Lines businesses, development for catastrophe losses for the vehicle businesses would be reflected in “all other 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, excluding the impact from COVID-19 restrictions, 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. 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, which excludes the policyholder credits, increased 17% for the second quarter and 19% for the first six months of 2020, compared to the same periods last year, primarily reflecting the increase of $120.0 million and $191.0 million, respectively, in our allowance for uncollectable accounts, due to the billing leniencies that we put in place following COVID-19 restrictions, and increased advertising spend in both periods. During the second quarter and first six months of 2020, our advertising expenditures increased 12% and 15%, 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.

The companywide underwriting expense ratio (i.e., policy acquisition costs, other underwriting expenses and policyholder credits, net of fees and other revenues, expressed as a percentage of net premiums earned) increased 11.7 points and 6.3 points for the three and six months ended June 30, 2020, compared to the same periods last year, primarily reflecting 10.7 points and 5.4 points, respectively, of policyholder credits issued to personal auto customers in the second quarter 2020. In addition to the credits issued to personal auto customers, our Commercial Lines business worked directly with their policyholders and agents to provide premium and billing credits during the quarter, which, along with bad debt exposure, contributed to a 4.0 point and 2.1 point increase in the Commercial Lines expense ratio for the three and six months end June 30, 2020, respectively.

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)	**2020**	**2019**	**% Growth**	**2020**	**2019**	**% Growth**
NET PREMIUMS WRITTEN						
Personal Lines						
Agency	$ 4,104.7	$ 3,775.5	9%	$ 8,131.2	$ 7,541.9	8 %
Direct	4,326.8	3,709.8	17	8,624.2	7,665.9	13
Total Personal Lines	8,431.5	7,485.3	13	16,755.4	15,207.8	10
Commercial Lines	1,195.1	1,182.7	1	2,339.2	2,347.9	0
Property	513.4	458.5	12	916.7	810.7	13
Total underwriting operations	$ 10,140.0	$ 9,126.5	11%	$ 20,011.3	$ 18,366.4	9 %
NET PREMIUMS EARNED						
Personal Lines						
Agency	$ 3,919.0	$ 3,639.6	8%	$ 7,747.7	$ 7,148.1	8 %
Direct	4,167.9	3,733.4	12	8,160.3	7,309.7	12
Total Personal Lines	8,086.9	7,373.0	10	15,908.0	14,457.8	10
Commercial Lines	1,129.0	1,070.5	5	2,318.0	2,083.5	11
Property	432.7	381.2	14	853.3	743.2	15
Total underwriting operations	$ 9,648.6	$ 8,824.7	9%	$ 19,079.3	$ 17,284.5	10 %

	June 30,		
(thousands)	**2020**	**2019**	**% Growth**
POLICIES IN FORCE			
Agency auto	7,362.5	6,783.7	9 %
Direct auto	8,507.6	7,528.4	13
Total auto	15,870.1	14,312.1	11
Special lines[1]	4,790.5	4,510.2	6
Personal Lines — total	20,660.6	18,822.3	10
Commercial Lines	775.8	734.2	6
Property	2,336.1	2,071.6	13
Companywide total	23,772.5	21,628.1	10 %

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

Although new policies are necessary to maintain a growing book of business, we 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 review our customer retention for our personal auto products using both a trailing 3-month and a trailing 12-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 generally can be an indicator of how our retention rates are moving. As of June 30, 2020, however, the growth in our auto trailing 3-month policy life expectancy is artificially high due to suspending cancellations of policies for non-payment, which impacted renewal activity during the second quarter 2020. Due to these unusual circumstances, we have chosen not to disclose the year-over-year increase in the trailing 3-month measure in the tables below, as we do not believe the growth is meaningful. We continue to disclose our changes in policy life expectancy using a trailing 12-month period. We believe that the trailing 12-month measure is indicative of recent experience, mitigates the effects of month-to-month variability, and addresses seasonality. While this measure was also positively impacted by the inclusion of the items discussed above, it was to a much lesser extent.

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	
	2020	2019	2020	2019
Applications				
New	2%	5 %	2%	6%
Renewal	12	11	11	11
Written premium per policy - Auto	0	2	0	3
Policy life expectancy - Auto				
Trailing 3-months	NM	1		
Trailing 12-months	7	(2)		

NM = Not meaningful

In our Personal Lines business, the increase in new applications during both periods in 2020 was driven by high demand in our special lines products, due to overall industry growth, as consumers placed higher focus on engaging in recreational activities that promote maintaining social distance. Our special lines products saw new applications increase 22% and 18% during the quarter and year-to-date period, respectively. During the three and six months ended June 30, 2020, our personal auto new application growth was down 4% and 1%, respectively, primarily driven by a decrease in auto quote volume and conversion in our Agency auto business. During both periods, we continued to see strong renewal personal auto application growth, which may have been aided, in part, by our billing leniency efforts and the moratoriums that were put in place during the first quarter 2020, which suspended cancellations of policies for non-payment. The moratoriums were lifted in May of 2020 in all but eleven states and the District of Columbia, and by June 30, 2020, moratoriums remained in eight states and the District of Columbia.

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	
	2020	2019	2020	2019
Applications - Auto				
New	(13)%	6%	(8)%	7%
Renewal	11	11	10	11
Written premium per policy - Auto	1	3	1	3
Policy life expectancy - Auto				
Trailing 3-months	NM	4		
Trailing 12-months	9	0		

NM = Not meaningful

The Agency business includes business written by more than 35,000 independent insurance agencies that represent Progressive, as well as brokerages in New York and California. During the second quarter and the first six months of 2020, the Agency business experienced a decline in new application growth and an increase renewal application growth. During the year, we generated new auto application growth in only twelve states, including only one of our top 10 largest Agency states. While application growth during the quarter in the renewal business was in part driven by our billing leniency efforts, new applications growth decreased significantly as it is taking longer for agents to get their operations back to pre-COVID levels.

During both the second quarter and six months ended June 30, 2020, we continued to experience a decrease in Agency auto quote volume of 4% and 2%, respectively, with rate of conversion (i.e., converting a quote to a sale) decreasing 9% and 6%, compared to the same periods last year.

We analyze growth in each of our four consumers segments (e.g., inconsistently insured, consistently insured and maybe a renter, homeowners who do not bundle auto and home, and homeowners who bundle auto and home). During the second quarter, while each of our segments experienced negative new application growth, our inconsistently insured (i.e., Sams) and consistently insured non-homeowners segments (i.e., Diane) experienced a double digit decline; however, all consumer segments experienced year-over-year policy in force growth, with double digit increases from both our non-bundled homeowner (i.e., Wrights) and bundled auto and home consumer segments (i.e., Robinsons), albeit on a smaller base.

During the trailing 12-month period, we experienced an increase in the percentage of bundled Agency auto policies written for 12-month terms, which have about twice the amount of net premiums written compared to 6-month policies. At the end of the second quarter 2020, 11% of our Agency auto policies in force were 12-month policies, compared to about 9% a year earlier.

The Direct Business

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2020	2019	2020	2019
Applications - Auto				
New	4%	6 %	5%	7%
Renewal	15	15	13	16
Written premium per policy - Auto	0	2	0	2
Policy life expectancy - Auto				
Trailing 3-months	NM	(2)		
Trailing 12-months	5	(4)		

NM = Not meaningful

The Direct business includes business written directly by Progressive on the Internet, through mobile devices, and over the phone. The Direct business experienced solid new and renewal application growth during the second quarter and the first six months of 2020. During the year, we generated new auto application growth in 31 states, including six of our top 10 largest Direct states. By the end of the second quarter 2020, we continued to see overall shopping volume return to pre-COVID levels. During both the second quarter and six months ended June 30, 2020, we continued to experience an increase in Direct auto quote volume of 6% and 5%, respectively, with rate of conversion decreasing 2% and 1%, compared to the same periods last year.

During the second quarter, our Diane and Wrights consumer segments experienced negative new application growth, with Sams and Robinsons experiencing double digit new application growth, while all consumer segments experienced strong year-over-year policy in force growth.

E. Commercial Lines

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2020	2019	2020	2019
Applications - Auto				
New	(10)%	11 %	(3)%	11%
Renewal	7	7	8	8
Written premium per policy - Auto	(1)	10	2	12
Policy life expectancy - Auto - trailing 12-months	6	(7)		

Note: Table excludes our transportation network company business.

Our Commercial Lines business operates in five traditional business markets, which include business auto, for-hire transportation, contractor, for-hire specialty, and tow markets and is primarily written through the agency channel.

Similar to our experience in our Personal Lines Agency business, the quarterly results of our Commercial Lines business were negatively impacted by COVID-19 restrictions that were in place during the first half of the second quarter 2020, which influenced the demands and general consumer habits for goods and services provided by our Commercial Lines customers and required that certain businesses undergo temporary closure.

While our renewal business was not significantly impacted, we continued to experience a significant decline in new consumer shopping during the second quarter 2020, reflecting a 13% and 8% quote volume decrease during the three and six month period ended June 30, 2020, respectively, and a 3% and 5% rate of conversion increase, compared to the same periods last year.

F. Property

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2020	2019	2020	2019
Applications				
New	4%	(6)%	5%	(2)%
Renewal	15	23	16	24
Written premium per policy	0	3	0	2

Our Property business writes residential property insurance for homeowners, other property owners, and renters, in the agency and direct channels. During the second quarter 2020, our Property business experienced an increase in new applications, primarily driven by growth in our direct channel and our Robinsons consumer segment, as discussed above, and a rebound to the housing market for new home sales in June 2020. During 2020, our written premium per policy increased for our homeowners' policies, on a year-over-year basis, but was offset by a larger share of renters policies, which have lower written premiums per policy.

While COVID-19 restrictions had a negative impact our Personal Lines and Commercial Lines segments, our Property segment was not as significantly impacted during the second quarter or six months ended June 30, 2020.

G. Income Taxes

A deferred tax asset or liability is a tax benefit or expense that is expected to be realized in a future period. At June 30, 2020 and 2019, and December 31, 2019, we reported net deferred tax liabilities. At June 30, 2020 and 2019, and December 31, 2019, we had net current income taxes payable of $889.0 million, $150.3 million, and $195.5 million, respectively, which were reported as part of other liabilities. During the six months ended June 30, 2020, we deferred making estimated federal tax payments. In response to the impact on businesses caused by COVID-19 restrictions, the Internal Revenue Service postponed the due date of federal income tax payments that would have otherwise been due between April 1, 2020, and July 15, 2020. On July 15, 2020, we paid $700.0 million of estimated federal taxes that would have otherwise been paid in the first half of 2020.

Our effective tax rate for the three and six months ended June 30, 2020, were 21.1% and 20.8%, respectively, compared to 21.3% and 26.7% for the same periods last year. The higher effective rate for the first six months of 2019 was due primarily to the reversal of tax credits and other tax benefits previously recognized from certain renewable energy investments, where the sponsor pled guilty to fraud through these investments and the tax credits and other benefits related to those investments were not valid. See *Note 5 – Income Taxes* in our 2019 Annual Report to Shareholders for a further discussion.

IV. RESULTS OF OPERATIONS – INVESTMENTS

A. Investment Results

Our management philosophy governing the portfolio is to evaluate investment results on a total return basis. The fully taxable equivalent (FTE) total return includes recurring investment income, adjusted to a fully taxable amount for certain securities that receive preferential tax treatment (e.g., municipal securities), and total net realized, and changes in total net unrealized, gains (losses) on securities.

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

	Three Months		Six Months	
	2020	**2019**	**2020**	**2019**
Pretax recurring investment book yield (annualized)	2.5%	3.2%	2.6 %	3.1%
Weighted average FTE book yield (annualized)	2.6	3.2	2.6	3.2
FTE total return:				
Fixed-income securities	3.4	2.1	4.6	4.4
Common stocks	21.5	4.0	(3.4)	17.9
Total portfolio	4.5	2.2	3.9	5.5

A combination of strong fiscal and monetary stimulus efforts provided a positive backdrop to the financial market improvements throughout the second quarter 2020. Our fixed-income portfolio duration was 3.0 years and 2.7 years at June 30, 2020 and 2019, respectively. The fixed-income portfolio generated a positive return for the year based on declining interest rates and narrowing credit spreads during the second quarter. Our indexed portfolio generated a positive return for the quarter as the equity market recovered from the initial effects of COVID-19, and investors moved back towards instruments that contained credit risk.

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

	Three Months		Six Months	
	2020	**2019**	**2020**	**2019**
Fixed-income securities:				
U.S. Treasury Notes	0.7%	2.3%	7.0 %	3.9%
Municipal bonds	3.8	1.8	6.6	3.7
Corporate bonds	6.3	2.6	5.5	6.3
Residential mortgage-backed securities	4.3	1.1	1.4	2.0
Commercial mortgage-backed securities	4.0	2.2	1.0	4.7
Other asset-backed securities	2.3	1.1	1.8	2.1
Preferred stocks	9.2	2.1	(4.1)	8.5
Short-term investments	0.4	0.6	0.8	1.3
Common stocks:				
Indexed	21.5	4.0	(3.4)	17.9
Actively managed	NA	5.0	NA	17.6

NA= Not applicable since we no longer maintain an actively managed portfolio.

B. Portfolio Allocation

The composition of the investment portfolio was:

($ in millions)		Fair Value	% of Total Portfolio	Duration (years)	Rating[1]
June 30, 2020					
U.S. government obligations	$	9,277.8	21.2%	3.8	AAA
State and local government obligations		3,574.3	8.2	4.5	AA+
Corporate debt securities		11,062.5	25.3	4.0	BBB+
Residential mortgage-backed securities		543.0	1.2	0.8	AA
Commercial mortgage-backed securities		5,761.8	13.2	2.7	AA
Other asset-backed securities		4,354.9	9.9	1.0	AAA-
Preferred stocks		1,332.7	3.0	3.2	BBB-
Short-term investments		4,700.5	10.8	0.1	BBB+
Total fixed-income securities		40,607.5	92.8	3.0	AA-
Common equities		3,170.4	7.2	na	na
Total portfolio[2,3]	$	43,777.9	100.0%	3.0	AA-
June 30, 2019					
U.S. government obligations	$	12,379.4	33.6%	3.7	AAA
State and local government obligations		1,589.7	4.3	2.9	AA+
Corporate debt securities		7,385.7	20.1	3.0	BBB
Residential mortgage-backed securities		665.2	1.8	1.1	AA-
Commercial mortgage-backed securities		4,441.9	12.1	2.5	AA-
Other asset-backed securities		4,497.2	12.2	0.9	AAA-
Preferred stocks		1,359.1	3.7	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-
December 31, 2019					
U.S. government obligations	$	13,251.1	33.7%	4.9	AAA
State and local government obligations		1,713.3	4.4	3.1	AA+
Corporate debt securities		7,067.7	18.0	2.7	BBB
Residential mortgage-backed securities		627.5	1.6	0.9	AA
Commercial mortgage-backed securities		5,076.2	12.9	2.0	AA
Other asset-backed securities		5,179.5	13.2	0.8	AAA-
Preferred stocks		1,233.9	3.2	2.6	BBB-
Short-term investments		1,798.8	4.6	0.1	AA-
Total fixed-income securities		35,948.0	91.6	3.0	AA
Common equities		3,306.3	8.4	na	na
Total portfolio[2,3]	$	39,254.3	100.0%	3.0	AA

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 assign an internal rating of AAA-.

[2]Our portfolio reflects the effect of net unsettled security transactions; at June 30, 2020, we had $277.9 million in other liabilities, compared to $303.5 million and $11.9 million at June 30, 2019 and December 31, 2019, respectively.

[3]The total fair value of the portfolio at June 30, 2020 and 2019, and December 31, 2019, included $2.3 billion, $1.2 billion, and $3.2 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:

	June 30, 2020		June 30, 2019		December 31, 2019	
($ in millions)	**Fair Value**	**% of Total Portfolio**	**Fair Value**	**% of Total Portfolio**	**Fair Value**	**% of Total Portfolio**
Group I securities:						
Non-investment-grade fixed maturities	$ 368.6	0.8%	$ 489.5	1.3%	$ 327.2	0.8%
Redeemable preferred stocks[1]	76.0	0.2	133.7	0.4	117.6	0.3
Nonredeemable preferred stocks	1,180.6	2.7	1,130.0	3.1	1,038.9	2.7
Common equities	3,170.4	7.2	3,135.5	8.5	3,306.3	8.4
Total Group I securities	4,795.6	10.9	4,888.7	13.3	4,790.0	12.2
Group II securities:						
Other fixed maturities	34,281.8	78.3	30,565.0	83.0	32,665.5	83.2
Short-term investments	4,700.5	10.8	1,360.9	3.7	1,798.8	4.6
Total Group II securities	38,982.3	89.1	31,925.9	86.7	34,464.3	87.8
Total portfolio	$ 43,777.9	100.0%	$ 36,814.6	100.0%	$ 39,254.3	100.0%

[1]Includes non-investment-grade redeemable preferred stocks of $38.3 million and $40.2 million at June 30, 2019 and December 31, 2019, respectively; we held no non-investment-grade redeemable preferred stocks at June 30, 2020.

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, 2020, our fixed-maturity portfolio had pretax net unrealized gains, recorded as part of accumulated other comprehensive income, of $1,257.1 million, compared to $598.1 million and $459.4 million at June 30, 2019 and December 31, 2019, respectively. The changes from both June and December 2019, reflect decreasing interest rates, which resulted in valuation increases in all fixed-maturity sectors.

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, 2020:

(millions)	Gross Holding Period Gains	Gross Holding Period Losses	Net Holding Period Gains (Losses)
Beginning of period			
Hybrid fixed-maturity securities	$ 7.8	$ 0	$ 7.8
Equity securities	2,263.9	(15.5)	2,248.4
Balance at December 31, 2019	2,271.7	(15.5)	2,256.2
Year-to-date change in fair value			
Hybrid fixed-maturity securities	(4.6)	(1.8)	(6.4)
Equity securities	(186.5)	(45.1)	(231.6)
Total holding period gains (losses) during the period	(191.1)	(46.9)	(238.0)
End of period			
Hybrid fixed-maturity securities	3.2	(1.8)	1.4
Equity securities	2,077.4	(60.6)	2,016.8
Balance at June 30, 2020	$ 2,080.6	$ (62.4)	$ 2,018.2

Changes in holding period gains (losses), similar to unrealized gains (losses) in our fixed-maturity portfolio, are the result of changes in market performance as well as sales of securities based on various portfolio management decisions.

Credit Allowance and Uncollectible Losses

Valuations in all fixed-maturity sectors have improved following the heightened volatility at the end of the first quarter. At the end of the second quarter, we continued to expect that all securities in our portfolio will pay their principal and interest obligations. In determining not to record any allowance or write-off, we considered our expectation as well as how the market has improved during the quarter. See *Critical Accounting Policies* for additional discussion.

Fixed-Income Securities

The fixed-income portfolio is managed internally and includes fixed-maturity securities, short-term investments, and nonredeemable preferred stocks.

Following are the primary exposures for our fixed-income portfolio. Details of our policies related to these exposures can be found in the *Management's Discussion and Analysis* included in our 2019 Annual Report to Shareholders.

- Interest rate risk - our duration of 3.0 years at June 30, 2020, fell within our acceptable range.
    - 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, 2020	June 30, 2019	December 31, 2019
1 year	25.5%	24.1%	23.9%
2 years	14.1	20.6	11.8
3 years	21.3	20.1	20.6
5 years	20.1	19.8	23.1
7 years	10.4	12.3	15.1
10 years	8.6	3.1	5.5
Total fixed-income portfolio	100.0%	100.0%	100.0%

- Credit risk - our credit quality rating was above our minimum threshold during the second quarter 2020.
  - The credit quality distribution of the fixed-income portfolio was:

Rating	June 30, 2020	June 30, 2019	December 31, 2019
AAA	45.6%	58.0%	60.8%
AA	8.9	10.4	9.9
A	14.5	8.4	7.9
BBB	29.4	20.4	19.5
Non-investment grade/non-rated[1]			
BB	1.2	1.9	1.4
B	0.2	0.6	0.3
CCC and lower	0	0.1	0
Non-rated	0.2	0.2	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 1.5% of the total fixed-income portfolio at June 30, 2020, compared to 2.5% at June 30, 2019 and 1.7% at December 31, 2019.

- Concentration risk - we did not have any investments in a single issuer, either overall or in the context of individual assets classes and sectors, that exceeded our thresholds during the second quarter 2020.
- Prepayment and extension risk - we did not experience significant adverse prepayment or extension of principal relative to our cash flow expectations in the portfolio during the second quarter 2020.
- Liquidity risk - 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 $3.1 billion, or 11.5%, of principal repayment from our fixed-income portfolio, excluding U.S. Treasury Notes and short-term investments, during the remainder of 2020. Cash from interest and dividend payments provides an additional source of recurring liquidity.
  - The duration of our U.S. government obligations, which are included in the fixed-income portfolio, was comprised of the following at June 30, 2020:

($ in millions)	Fair Value	Duration (years)
U.S. Treasury Notes		
Less than one year	$ 442.3	0.8
One to two years	1,350.0	1.6
Two to three years	2,424.1	2.6
Three to five years	2,461.0	4.1
Five to seven years	1,940.7	5.7
Seven to ten years	659.7	8.3
Total U.S. Treasury Notes	$ 9,277.8	3.8

We currently view the market environment as very uncertain and believe the relatively conservative position of our investment portfolio continued to be appropriate.

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)[1]
June 30, 2020					
Residential mortgage-backed securities	$ 543.0	$ 2.0	5.1%	0.8	AA
Commercial mortgage-backed securities	5,761.8	33.3	54.0	2.7	AA
Other asset-backed securities	4,354.9	41.6	40.9	1.0	AAA-
Total asset-backed securities	$ 10,659.7	$ 76.9	100.0%	1.9	AA+
June 30, 2019					
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	4,497.2	18.9	46.8	0.9	AAA-
Total asset-backed securities	$ 9,604.3	$ 104.4	100.0%	1.6	AA
December 31, 2019					
Residential mortgage-backed securities	$ 627.5	$ 2.5	5.8%	0.9	AA
Commercial mortgage-backed securities	5,076.2	55.5	46.6	2.0	AA
Other asset-backed securities	5,179.5	14.8	47.6	0.8	AAA-
Total asset-backed securities	$ 10,883.2	$ 72.8	100.0%	1.4	AA+

[1] The credit quality ratings in the table above are assigned by NRSROs.

Residential Mortgage-Backed Securities (RMBS) The following table details the credit quality rating and fair value of our RMBSs, along with the loan classification and a comparison of the fair value at June 30, 2020, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Residential Mortgage-Backed Securities (at June 30, 2020)

($ in millions) Rating[1]	Non-Agency	Government/GSE[2]	Total	% of Total
AAA	$ 378.2	$ 2.0	$ 380.2	70.0%
AA	65.8	0.6	66.4	12.2
A	24.0	0	24.0	4.4
BBB	12.3	0	12.3	2.3
Non-investment grade/non-rated:				
BB	0.5	0	0.5	0.1
B	16.4	0	16.4	3.0
CCC and lower	11.9	0	11.9	2.2
Non-rated	31.3	0	31.3	5.8
Total fair value	$ 540.4	$ 2.6	$ 543.0	100.0%
Increase (decrease) in value	0.3%	8.0%	0.4%	

[1]The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings for our RMBSs, $52.7 million of our non-investment-grade securities are rated investment-grade and classified as Group II, and $7.4 million, or 1.4% of our total RMBSs, are not rated by the NAIC and are classified as Group I.

[2]The securities in this category are insured by a Government Sponsored Entity (GSE) and/or collateralized by mortgage loans insured by the Federal Housing Administration (FHA) or the U.S. Department of Veteran Affairs (VA).

In the residential mortgage-backed sector, our portfolio consists of deals that are backed by high credit quality borrowers or have strong structural protections through underlying loan collateralization. In our view, the risk/reward potential is currently lower in this portfolio relative to other comparable investments. We made some relatively small additions in the residential mortgage-backed sector in the second quarter of 2020.

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, 2020, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Commercial Mortgage-Backed Securities (at June 30, 2020)

($ in millions) Rating[1]	Multi-Borrower	Single-Borrower	Total	% of Total
AAA	$ 312.4	$ 2,789.7	$ 3,102.1	53.9%
AA	3.4	1,366.9	1,370.3	23.8
A	0	783.4	783.4	13.6
BBB	33.2	447.7	480.9	8.3
Non-investment grade/non-rated:				
BB	0	24.6	24.6	0.4
B	0.5	0	0.5	0
Total fair value	$ 349.5	$ 5,412.3	$ 5,761.8	100.0%
Increase (decrease) in value	1.3%	0.5%	0.6%	

[1]The credit quality ratings in the table above are assigned by NRSROs; when we assign the NAIC ratings for our CMBSs, $8.2 million of our non-investment-grade securities are rated investment-grade and classified as Group II, and $16.9 million, or 0.3% of our total CMBSs are rated non-investment-grade and classified as Group I.

During the quarter, we focused our purchases exclusively on secondary acquisitions of single asset, single borrower securities because primary markets were virtually shut down. In April, we purchased primarily long-duration, fixed-rate, AAA-rated securities given the relative attractiveness of spreads. As spreads narrowed in May and June, we continued to add attractive single asset, single borrower securities, and we also focused on reducing securities with higher levels of unique credit risk, primarily in our conduit and Freddie Mac Class K multi-family holdings. As of the end of the quarter, we had substantially disposed of our remaining conduit securities.

Other Asset-Backed Securities (OABS) The following table details the credit quality rating and fair value of our OABSs, along with a comparison of the fair value at June 30, 2020, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Other Asset-Backed Securities (at June 30, 2020)

($ in millions) Rating	Automobile	Credit Card	Student Loan	Whole Business Securitizations	Equipment	Other	Total	% of Total
AAA	$ 1,745.0	$ 400.7	$ 284.6	$ 0	$ 1,100.2	$ 134.0	$ 3,664.5	84.2%
AA	64.4	0	36.3	0	77.6	10.0	188.3	4.3
A	32.2	0	10.3	0	113.0	37.0	192.5	4.4
BBB	0	0	0	309.6	0	0	309.6	7.1
Total fair value	$ 1,841.6	$ 400.7	$ 331.2	$ 309.6	$ 1,290.8	$ 181.0	$ 4,354.9	100.0%
Increase (decrease) in value	0.9%	0.9%	1.0%	2.1%	1.1%	(0.8)%	1.0%	

As valuations across other asset classes were more attractive in the second quarter of 2020, asset-backed securities offered less relative value. Due to amortization and scheduled paydowns, our ABS portfolio decreased throughout the quarter. We selectively added across the spectrum to our other asset-backed securities portfolio, but we primarily focused on auto, equipment, student loans, and credit card backed loans.

MUNICIPAL SECURITIES

The following table details the credit quality rating of our municipal securities at June 30, 2020, without the benefit of credit or bond insurance:

Municipal Securities (at June 30, 2020)

(millions) Rating	General Obligations	Revenue Bonds	Total
AAA	$ 775.0	$ 690.9	$ 1,465.9
AA	559.1	1,169.7	1,728.8
A	0	375.1	375.1
BBB	2.9	1.6	4.5
Total	$ 1,337.0	$ 2,237.3	$ 3,574.3

Included in revenue bonds were $605.7 million of single-family housing revenue bonds issued by state housing finance agencies, of which $431.8 million were supported by individual mortgages held by the state housing finance agencies and $173.9 million were supported by mortgage-backed securities. Of the programs supported by mortgage-backed securities, approximately 25% were collateralized by Fannie Mae and Freddie Mac mortgages; the remaining 75% were collateralized by Ginnie Mae mortgages, which are fully guaranteed by the U.S. government. Of the programs supported by individual mortgages held by the state housing finance agencies, the overall credit quality rating was AA+. Most of these mortgages were supported by FHA, VA, or private mortgage insurance providers.

During the second quarter, we continued to add high credit quality rated state general obligations, water and sewer, airport, and higher education revenue bonds. Our focus was on longer duration securities, which we believe will have a more attractive return profile than comparable shorter duration securities. We also increased our focus on the taxable portion of the municipal market, based on our view that this sector also would provide attractive returns to us, on a relative basis.

CORPORATE SECURITIES

The following table details the credit quality rating of our corporate securities at June 30, 2020:

Corporate Securities (at June 30, 2020)

(millions) Rating	Consumer	Industrial	Communication	Financial Services	Technology	Basic Materials	Energy	Total
AAA	$ 0	$ 0	$ 0	$ 30.1	$ 0	$ 0	$ 0	$ 30.1
AA	159.1	0	0	278.2	61.0	0	11.5	509.8
A	1,000.3	179.0	317.6	1,125.6	319.3	107.3	93.5	3,142.6
BBB	2,885.3	1,486.0	149.6	1,345.6	410.7	43.9	714.6	7,035.7
Non-investment grade/non-rated:								
BB	45.1	98.9	65.0	11.8	46.3	0	27.5	294.6
B	49.7	0	0	0	0	0	0	49.7
Total fair value	$ 4,139.5	$ 1,763.9	$ 532.2	$ 2,791.3	$ 837.3	$ 151.2	$ 847.1	$ 11,062.5

During the second quarter 2020, credit spreads remained attractive and we continued to selectively increase our allocation to corporate bonds. We focused on adding investment-grade securities that are less vulnerable to the current economic environment, while our allocation to high yield securities remained small.

Overall, our corporate securities are a larger percentage of the fixed-income portfolio when compared to the end of 2019. At June 30, 2020, the portfolio was approximately 27% of our fixed-income portfolio, compared to approximately 20% at December 31, 2019. In addition, we lengthened duration during 2020, and ended the second quarter at 4.0 years, compared to 2.7 years at the end of 2019. This extension is primarily the result of our assessment that more attractive opportunities and wider spread levels existed in the corporate sector.

PREFERRED STOCKS – REDEEMABLE AND NONREDEEMABLE

The table below shows the exposure break-down by sector and rating at June 30, 2020:

Preferred Stocks (at June 30, 2020)

	Financial Services						
(millions) **Rating**	**U.S. Banks**	**Foreign Banks**	**Insurance**	**Other**	**Industrials**	**Utilities**	**Total**
A	$ 47.5	$ 0	$ 0	$ 8.9	$ 0	$ 0	$ 56.4
BBB	825.4	0	98.2	24.9	90.2	10.8	1,049.5
Non-investment grade/non-rated:							
BB	20.3	87.5	0	0	22.1	38.7	168.6
B	0	0	0	4.9	0	0	4.9
Non-rated	0	0	0	38.1	15.2	0	53.3
Total fair value	$ 893.2	$ 87.5	$ 98.2	$ 76.8	$ 127.5	$ 49.5	$ 1,332.7

The majority of our preferred securities have fixed-rate dividends until a call date and then, if not called, generally convert to floating-rate dividends. The interest rate duration of our preferred securities is calculated to reflect the call, floor, and floating-rate features. Although a preferred security will remain outstanding if not called, its interest rate duration will reflect the variable nature of the dividend. Our non-investment-grade preferred stocks were primarily with issuers that maintain investment-grade senior debt ratings.

We also face the risk that dividend payments on our preferred stock holdings could be deferred for one or more periods or skipped entirely. As of June 30, 2020, all of our preferred securities continued to pay their dividends in full and on time. Approximately 80% of our preferred stock securities pay dividends that have tax preferential characteristics, while the balance pay dividends that are fully taxable.

The value of our preferred stock portfolio increased during second quarter 2020, as equities increased and credit spreads tightened.

Common Equities

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

($ in millions)	**June 30, 2020**		**June 30, 2019**		**December 31, 2019**	
Indexed common stocks	$ 3,170.1	100.0%	$ 2,958.4	94.4%	$ 3,306.0	100.0%
Managed common stocks	0	0	176.8	5.6	0	0
Total common stocks	3,170.1	100.0	3,135.2	100.0	3,306.0	100.0
Other risk investments	0.3	0	0.3	0	0.3	0
Total common equities	$ 3,170.4	100.0%	$ 3,135.5	100.0%	$ 3,306.3	100.0%

In our indexed common stock portfolio, our individual holdings are selected based on their contribution to the correlation with the Russell 1000 Index. We held 928 out of 1,004, or 92%, of the common stocks comprising the index at June 30, 2020, which made up 96% of the total market capitalization of the index. At June 30, 2020, the year-to-date total return, based on GAAP income, was not within our targeted tracking error, which is +/- 50 basis points. The portfolio was rebalanced during the second quarter 2020, in an effort to reduce the expected tracking error.

The common equity markets continued to be volatile during the second quarter, and our common stock portfolio reflected that market volatility. During the second quarter, stock valuations increased and we ended the quarter with a FTE total return on our common equity portfolio of (3.4%), which was an improvement from the (20.5)% return at March 31, 2020.

V. CRITICAL ACCOUNTING POLICIES

Progressive is required to make certain estimates and assumptions when preparing its financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates in a variety of areas. The two areas we view as most critical with respect to the application of estimates and assumptions is the establishment of our loss reserves and the methods for measuring expected credit losses on financial instruments. Below is a discussion of the expected credit losses on financial instruments. See *Management's Discussion and Analysis; Critical Accounting Policies* in our 2019 Annual Report to Shareholders for further information on the estimates and assumptions related to the establishment of our loss reserves.

A. Credit Losses on Financial Instruments

An allowance for credit losses is established when the ultimate realization of a financial instrument is determined to be impaired due to a credit event. Measurement of expected credit losses is based on judgment when considering relevant information about past events, including historical loss experience, current conditions, and forecasts of the collectability of the reported financial instrument. The allowance for expected credit losses is measured and recorded at the point ultimate recoverability of the financial instrument is expected to be impaired, including upon the initial recognition of the financial instrument, where warranted. We evaluate financial instrument credit losses related to our available-for-sale securities, reinsurance recoverables, and premiums receivables.

<u>Available-For-Sale Securities</u>

We routinely monitor our fixed-maturity portfolio for pricing changes that might indicate potential losses exist and perform detailed reviews of securities with unrealized losses to determine if an allowance for credit losses, a change to an existing allowance (recovery or additional loss), or a write-off for an amount deemed uncollectible needs to be recorded. In such cases, changes in fair value are evaluated to determine the extent to which such changes are attributable to: (i) credit related losses, which are specific to the issuer (e.g., financial conditions, business prospects) where the present value of cash flows expected to be collected is lower than the amortized cost basis of the security or (ii) market related factors, such as interest rates or credit spreads.

If we do not expect to hold the security to allow for a potential recovery of those expected losses, we will write-off the security to fair value and recognize a realized loss in the comprehensive income statements.

For securities whose losses are credit related losses, and for which we do not intend to sell in the near term, we will review the non-market components to determine if a potential future credit loss exists, based on existing financial data available related to the fixed-maturity securities. If we anticipate that a credit loss exists, we will record an allowance for the credit loss and recognize a realized loss in the comprehensive income statement. For all securities for which an allowance for credit losses has been established, we will re-evaluate the securities, at least quarterly, to determine if further deterioration has occurred or if we project a subsequent recovery in the expected losses, which would require an adjustment to the allowance for credit losses. If subsequent to establishing an allowance for credit losses we determine that the security is likely to be sold prior to the recovery of the credit loss or if the loss is deemed uncollectible, we will reverse the allowance for credit losses and write-off the security to its fair value.

For an unrealized loss that is determined to be related to current market conditions, we will not record an allowance for credit losses or a write-off of the fair value. We will continue to monitor these securities to determine if underlying factors other than the current market conditions are contributing to the loss in value.

Based on an analysis of our fixed-maturity portfolio, we have determined our allowance for credit losses related to available-for-sale securities was not material to our financial condition or results of operations for the period ending June 30, 2020.

<u>Reinsurance Recoverables</u>

We routinely monitor changes in the credit quality and concentration risks of the reinsurers who are counter parties to our reinsurance recoverables. At June 30, 2020, approximately 80% of our reinsurance recoverables were held in several mandatory state pools, including the Michigan Catastrophic Claims Association, Florida Hurricane Catastrophe Fund, and North Carolina Reinsurance Facility, and in plans where we act as a servicing agent to state-mandated involuntary plans for commercial vehicles (Commercial Automobile Insurance Procedures/Plans) and as a participant in the "Write Your Own" program for federally regulated plans for flood (National Flood Insurance Program). All of these programs are governed by insurance regulations. The remaining balance of our recoverables are composed of voluntary external contractual arrangements that primarily relate to the Property business and to our transportation network company (TNC) business written by our Commercial Lines business. For these privately placed reinsurance arrangements, we regularly monitor reinsurer credit strength and analyze our reinsurance recoverable balances for expected credit losses at least quarterly, or more frequently if indicators of reinsurer credit deterioration, either individually or in aggregate, exists. For at-risk uncollateralized recoverable balances, we evaluate a number of reinsurer specific factors, including reinsurer credit quality rating, credit rating outlook, historical experience, reinsurer surplus, recoverable duration, and collateralization composition in respect to our net exposure (i.e., the reinsurance recoverable amount less premiums payable to the reinsurer, where the right to offset exists). Based on this assessment, reinsurers with credit risks will be individually subject to a credit default model, and an allowance for credit loss will be established, where warranted.

Based on the analysis of reinsurers, we have determined our allowance for credit losses related to our reinsurance recoverables was not material to our financial condition or results of operations for the period ending June 30, 2020.

Premium Receivables

We routinely monitor historical premium collections data for our premiums receivable balances, through actuarial analyses, to project the future recoverability of currently recorded receivables. See *Note 1 – Basis of Presentation* for a description of our process and a rollforward in the allowance account during the three and six months ended June 30, 2020.

***Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995:** Investors are cautioned that certain statements in this report not based upon historical fact are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements often use words such as "estimate," "expect," "intend," "plan," "believe," and other words and terms of similar meaning, or are tied to future periods, in connection with a discussion of future operating or financial performance. Forward-looking statements are based on current expectations and projections about future events, and are subject to certain risks, assumptions and uncertainties that could cause actual events and results to differ materially from those discussed herein. These risks and uncertainties include, without limitation, uncertainties related to:*

- *our ability to underwrite and price risks accurately and to charge adequate rates to policyholders;*
- *our ability to establish accurate loss reserves;*
- *the impact of severe weather, other catastrophe events and climate change;*
- *the effectiveness of our reinsurance programs;*
- *the highly competitive nature of property-casualty insurance markets;*
- *whether we innovate effectively and respond to our competitors' initiatives;*
- *whether we effectively manage complexity as we develop and deliver products and customer experiences;*
- *how intellectual property rights could affect our competitiveness and our business operations;*
- *whether we adjust claims accurately;*
- *our ability to maintain a recognized and trusted brand;*
- *our ability to attract, develop and retain talent and maintain appropriate staffing levels;*
- *compliance with complex laws and regulations;*
- *litigation challenging our business practices, and those of our competitors and other companies;*
- *the impacts of a security breach or other attack involving our computer systems or the systems of one or more of our vendors;*
- *the secure and uninterrupted operation of the facilities, systems, and business functions that are critical to our business;*
- *the success of our efforts to develop new products or enter into new areas of business and navigate related risks;*
- *our continued ability to send and accept electronic payments;*
- *the possible impairment of our goodwill or intangible assets;*
- *the performance of our fixed-income and equity investment portfolios;*
- *the potential elimination of, or change in, the London Interbank Offered Rate;*
- *our continued ability to access our cash accounts and/or convert securities into cash on favorable terms;*
- *the impact if one or more parties with which we enter into significant contracts or transact business fail to perform;*
- *legal restrictions on our insurance subsidiaries' ability to pay dividends to The Progressive Corporation;*
- *limitations on our ability to pay dividends on our common shares under the terms of our outstanding preferred shares;*
- *our ability to obtain capital when necessary to support our business and potential growth;*
- *evaluations by credit rating and other rating agencies;*
- *the variable nature of our common share dividend policy;*
- *whether our investments in certain tax-advantaged projects generate the anticipated returns;*
- *the impact from not managing to short-term earnings expectations in light of our goal to maximize the long-term value of the enterprise;*
- *impacts from the outbreak of the novel coronavirus, or COVID-19, and the restrictions put in place to help slow and/or stop the spread of the virus; and*
- *other matters described from time to time in our releases and publications, and in our periodic reports and other documents filed with the United States Securities and Exchange Commission, including, without limitation, the Risk Factors section of our Annual Report on Form 10-K for the year ending December 31, 2019, and our Quarterly Report on Form 10-Q for the period ending March 31, 2020.*

In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when we establish reserves for one or more contingencies. Also, our regular reserve reviews may result in adjustments of varying magnitude as additional information regarding claims activity becomes known. Reported results, therefore, may be volatile in certain accounting periods.

Item 3. 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 3.0 years at both June 30, 2020 and December 31, 2019, and 2.7 years at June 30, 2019. The weighted average beta of the equity portfolio was 1.02 at June 30, 2020, 1.00 at December 31, 2019, and 1.01 at June 30, 2019. We have not experienced a material impact 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, 2019.

Item 4. Controls and Procedures.

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

Our Chief Executive Officer and our Chief Financial Officer reviewed and evaluated our disclosure controls and procedures as of the end of the period covered by this report, including consideration of the impact of COVID-19 restrictions and the company’s current work-from-home environment on the execution of our disclosure controls and procedures and our internal controls over financial reporting. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our 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 changes in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1A. Risk Factors.

There have been no material changes in the risk factors from those discussed in Item 1A, *Risk Factors* included in both our Annual Report on Form 10-K for the year ended December 31, 2019, and our Quarterly Report on Form 10-Q for the period ending March 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) Share Repurchases

ISSUER PURCHASES OF EQUITY SECURITIES

2020 Calendar Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
April	1,153	$ 71.91	1,140,410	23,859,590
May	28,197	76.34	1,168,607	23,831,393
June	4,412	77.96	1,173,019	23,826,981
Total	33,762	$ 76.40		

In May 2019, the Board of Directors approved an authorization for the Company to repurchase up to 25 million of its common shares. This authorization does not have an expiration date. Share repurchases under this authorization may be accomplished through open market purchases, through privately negotiated transactions, pursuant to our equity compensation awards, or otherwise, and may include trading plans entered into with one or more brokerage firms in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934. During the second quarter 2020, all repurchases were accomplished in conjunction with our incentive compensation awards at the then-current market prices; there were no open market purchases during the quarter. Progressive's financial policies state that we will repurchase shares to neutralize dilution from equity-based compensation in the year of issuance and as an option to effectively use underleveraged capital.

Item 5. Other Information.

President and CEO Susan Patricia Griffith's quarterly letter to shareholders is included as Exhibit 99 to this Quarterly Report on Form 10-Q. The letter is also posted on Progressive's website at progressive.com/annualreport.

Item 6. Exhibits.

See exhibit index beginning on page 61.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE PROGRESSIVE CORPORATION

(Registrant)

Date: August 4, 2020

By: /s/ John P. Sauerland

John P. Sauerland

Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-Q Exhibit Number	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
5	5.1	Amendment to Discretionary Line Documents - Discretionary Line of Credit from PNC Bank, National Association, to The Progressive Corporation	Filed herewith
10	10.1	Form of Restricted Stock Award Agreement under The Progressive Corporation 2017 Directors Equity Incentive Plan (for 2020)	Filed herewith
31	31.1	Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer, Susan Patricia Griffith	Filed herewith
31	31.2	Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer, John P. Sauerland	Filed herewith
32	32.1	Section 1350 Certification of the Principal Executive Officer, Susan Patricia Griffith	Furnished herewith
32	32.2	Section 1350 Certification of the Principal Financial Officer, John P. Sauerland	Furnished herewith
99	99	Letter to Shareholders from Susan Patricia Griffith, President and Chief Executive Officer (Regulation FD Disclosure)	Furnished herewith
101	101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	Filed herewith
101	101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101	101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101	101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101	101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101	101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	104	Cover Page Interactive Data File (the cover page tags are embedded within the Inline XBRL document).	Filed herewith

Exhibit 5.1

Amendment to Discretionary Line Documents

THIS AMENDMENT TO DISCRETIONARY LINE DOCUMENTS (this "**Amendment**") is made as of April 28, 2020, by and between **THE PROGRESSIVE COMPANY** (the **"Company"**), and **PNC BANK, NATIONAL ASSOCIATION** (the "**Bank**").

BACKGROUND

A. The Company has executed and delivered to the Bank a Discretionary Line Note and other documents, which are more fully described on attached Exhibit A, which is made a part of this Amendment (collectively, as amended from time to time, the "**Discretionary Line Documents**") which evidence the indebtedness and other obligations of the Company to the Bank in connection with a discretionary line of credit (as used herein, collectively, together with the Obligations, if and as defined in the Discretionary Line Documents, as used in here the "**Obligations**"). Any initially capitalized terms used in this Amendment without definition shall have the meanings assigned to those terms in the Discretionary Line Documents.

B. The Company and the Bank desire to amend the Discretionary Line Documents as provided for in this Amendment.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain of the Discretionary Line Documents are amended as set forth in Exhibit A. Any and all references to any Discretionary Line Document shall be deemed to refer to such Discretionary Line Documents as amended by this Amendment. This Amendment is deemed incorporated into each of the Discretionary Line Documents. To the extent that any term or provision of this Amendment is or may be inconsistent with any term or provision in any Discretionary Line Document, the terms and provisions of this Amendment shall control.

2. The Company hereby certifies that: (a) all of its representations and warranties in the Discretionary Line Documents, as amended by this Amendment, are, except as may otherwise be stated in this Amendment: (i) true and correct as of the date of this Amendment, (ii) ratified and confirmed without condition as if made anew, and (iii) incorporated into this Amendment by reference, (b) no Event of Default or event which, with the passage of time or the giving of notice or both, would constitute an Event of Default, exists under any Discretionary Line Document which will not be cured by the execution and effectiveness of this Amendment, (c) no consent, approval, order or authorization of, or registration or filing with, any third party is required in connection with the execution, delivery and carrying out of this Amendment or, if required, has been obtained, and (d) this Amendment has been duly authorized, executed and delivered so that it constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms. The Company confirms that the Obligations remain outstanding without defense, set off, counterclaim, discount or charge of any kind as of the date of this Amendment.

3. As a condition precedent to the effectiveness of this Amendment, the Company shall comply with the terms and conditions (if any) specified in Exhibit A.

4. To induce the Bank to enter into this Amendment, the Company waives and releases and forever discharges the Bank and its officers, directors, attorneys, agents, and employees (each, an "Indemnified Party") from any liability, damage, claim, loss or expense of any kind that it may have against the Bank or any of them arising out of or relating to the Obligations; provided, however, that the foregoing indemnity shall not apply to any claims,

damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or wilful misconduct. The Company further states that it has carefully read the foregoing release and indemnity, knows the contents thereof and grants the same as its own free act and deed.

5. This Amendment may be signed in any number of counterpart copies and by the parties to this Amendment on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart. Upon written request by the other party (which may be made by electronic mail), any party so executing this Amendment by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

6. Notwithstanding any other provision herein or in the other Discretionary Line Documents, the Company agrees that this Amendment, the Discretionary Line Documents, any other amendments thereto and any other information, notice, signature card, agreement or authorization related thereto (each, a "**Communication**") may, at the Bank's option, be in the form of an electronic record. Any Communication may, at the Bank's option, be signed or executed using electronic signatures. For the avoidance of doubt, the authorization under this paragraph may include, without limitation, use or acceptance by the Bank of a manually signed paper Communication which has been converted into electronic form (such as scanned into PDF format) for transmission, delivery and/or retention. The Company and the Bank acknowledge and agree that the methods for delivering Communications, including notices, under the Discretionary Line Documents include electronic transmittal to any electronic address provided by either party to the other party from time to time.

7. The Bank may modify this Amendment for the purposes of completing missing content or correcting erroneous content, without the need for a written amendment, provided that the Bank shall send a copy of any such modification to the Company (which notice may be given by electronic mail).

8. This Amendment will be binding upon and inure to the benefit of the Company and the Bank and their respective heirs, executors, administrators, successors and assigns.

9. This Amendment will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the State identified in and governing the Discretionary Line Documents that are being amended hereby (the "**State**"), excluding its conflict of laws rules, including without limitation the Electronic Transactions Act (or equivalent) in such State (or, to the extent controlling, the laws of the United States of America, including without limitation the Electronic Signatures in Global and National Commerce Act). This Amendment has been delivered to and accepted by the Bank and will be deemed to be made in the State.

10. Except as amended hereby, the terms and provisions of the Discretionary Line Documents remain unchanged, are and shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms, and are hereby ratified and confirmed. Except as expressly provided herein, this Amendment shall not constitute an amendment, waiver, consent or release with respect to any provision of any Discretionary Line Document, a waiver of any default or Event of Default under any Discretionary Line Document, or a waiver or release of any of the Bank's rights and remedies (all of which are hereby reserved). **The Company expressly ratifies and confirms the dispute resolution, waiver of jury trial or arbitration provisions, as applicable, contained in the Discretionary Line Documents, all of which are incorporated herein by reference.**

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WITNESS the due execution of this Amendment as a document under seal as of the date first written above.

THE PROGRESSIVE CORPORATION

By: /s/ Patrick S. Brennan
Print Name: Patrick S. Brennan (SEAL)
Title: Treasurer

PNC BANK, NATIONAL ASSOCIATION

By: /s/ John W. Thompson
John W. Thompson (SEAL)
Managing Director

EXHIBIT A TO
AMENDMENT TO DISCRETIONARY LINE DOCUMENTS
DATED AS OF APRIL 28, 2020
THE PROGRESSIVE CORPORATION

A. **Discretionary Line Documents.** The "Discretionary Line Documents" that are the subject of this Amendment include the following (as each of such documents has been amended, modified or otherwise supplemented previously)

1. Confirmation Letter – Discretionary Line of Credit dated April 28, 2017 between the Company and the Bank (the **"Confirmation Letter"**).

2. Discretionary Line of Credit Note dated April 28, 2017 in the principal amount of $250,000,000.00 executed and delivered to the Bank by the Company (the **"Discretionary Line Note"**).

3. Reapproval of Discretionary Line of Credit dated April, 3, 2018 Between the Company and the Bank.

4. Reapproval of Discretionary Line of Credit dated April, 22, 2019 Between the Company and the Bank.

5. All other documents, instruments, agreements, and certificates executed and delivered in connection with the Discretionary Line Documents listed in this Section A.

B. **Amendment(s).** The Discretionary Line Documents are amended as follows:

1. We are pleased to inform you that PNC Bank, National Association (the "Bank") has recently reapproved the $250,000,000.00 discretionary line of credit to The Progressive Corporation (the "Company"). Effective on May 1, 2020, the Expiration Date set forth in our Confirmation Letter dated April 28, 2017, is extended from April 30, 2020 to April 30, 2021. All other terms and conditions contained in the Note dated April 28, 2017, and the Confirmation Letter, remain in full force and effect, including but not limited to the fact that the facility remains discretionary, and the Bank may terminate the line or decline to make advances at any time and for any reason without prior notice.

2. The second line of the Base Rate definition contained in the Discretionary Line Note is hereby amended by deleting plus fifty (50) basis points (0.50%) and inserting plus one hundred seventy-five (175) basis points (1.75%) in its place.

3. The following provision is hereby added to the Confirmation Letter:

The Company agrees that, if the Company was required to execute and to deliver to the Bank a Certification of Beneficial Owner(s) (individually and collectively, as updated from time to time, the "**Certification of Beneficial Owners**"), the (i) the information in the Certification of Beneficial Owners is true, complete and correct as of the date thereof and as of the date any such update is delivered; and (ii) the Company shall provide: (A) confirmation of the accuracy of the information set forth in the most recent Certification of Beneficial Owners, as and when requested by the Bank; and (B) a new Certification of Beneficial Owners in form and substance acceptable to the Bank when the individual(s) identified as a controlling party and/or a direct or indirect individual owner on the most recent Certification of Beneficial Owners provided to the Bank has changed. The Company further agrees to provide such other information and documentation as may reasonably be requested by the Bank from time to time for purposes of compliance by the Bank with applicable laws (including without limitation the USA Patriot Act and other “know your customer” and anti-money laundering rules and regulations), and any policy or procedure implemented by the Bank to comply therewith.

4. **Notwithstanding that the Expiration Date has been extended, this is not a committed line of credit. The Company acknowledges and agrees that advances made under this line of credit, if any, shall be made at the sole discretion of the Bank. The Bank may decline to make advances under the line or terminate the line at any time and for any reason without prior notice to the Company.**

C. **<u>Conditions to Effectiveness of Amendment</u>.** The Bank’s willingness to agree to the amendments set forth in this Amendment is subject to the execution by all parties and delivery to the Bank of this Amendment.

Exhibit 10.1

THE PROGRESSIVE CORPORATION
2017 DIRECTORS EQUITY INCENTIVE PLAN
RESTRICTED STOCK AWARD AGREEMENT

This Agreement ("Agreement") is made this May __, 2020, by and between <name of participant> ("Participant") and The Progressive Corporation (the "Company").

1. Award of Restricted Stock. The Company hereby grants to Participant an award (the "Award") of restricted stock (the "Restricted Stock") consisting of <number of shares> of the Company's Common Shares, $1 Par Value ("Common Shares"), pursuant to, and subject to the terms of, The Progressive Corporation 2017 Directors Equity Incentive Plan (the "Plan").

2. Condition to Participant's Rights under this Agreement. This Agreement shall not become effective, and Participant shall have no rights with respect to the Award or the Restricted Stock, unless and until Participant has fully executed this Agreement and delivered it to the Company (in the Company's discretion, such execution and delivery may be accomplished through electronic means).

3. Restrictions; Vesting. The Restricted Stock shall be subject to the restrictions and other terms and conditions set forth in the Plan, which are hereby incorporated herein by reference, and in this Agreement. Subject to the terms and conditions of the Plan and this Agreement, Participant's rights in and to the shares of Restricted Stock shall vest on April 8, 2021.

The shares of Restricted Stock awarded under this Agreement shall vest as set forth above unless, prior to such vesting date, the Award and the applicable shares of Restricted Stock are forfeited or have become subject to accelerated vesting under the terms and conditions of the Plan or this Agreement. Until the shares of Restricted Stock vest, Participant shall not sell, transfer, pledge, assign or otherwise encumber such shares of Restricted Stock or any interest therein.

4. Manner In Which Shares Will Be Held. All shares of Restricted Stock awarded to Participant hereunder shall be issued in book-entry form and held by the Company, or its designee, in such form, and as such, no stock certificates evidencing such shares will be issued or held with respect to such Restricted Stock. Certain terms, conditions and restrictions applicable to such Restricted Stock will be noted in the records of the Company's transfer agent and in the book-entry system. At the Company's discretion, and subject to the provisions of this Paragraph 4, stock certificates evidencing the shares of Restricted Stock awarded under this Agreement may be issued and registered in the name of Participant. In such event, such certificates shall be delivered to and held in custody by the Company, or its designee, until the restrictions thereon shall have lapsed or any conditions to the vesting of such Award, or a portion thereof, have been satisfied, and such certificates shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award.

Participant hereby irrevocably authorizes the Company and the Compensation Committee of the Board of Directors (the "Committee") to take any and all appropriate action with respect to the evidence of Participant's Restricted Stock, including, without limitation, issuing certificates for such Restricted Stock, issuing such Restricted Stock in book-entry form, transferring any previously issued certificates into book-entry form, transferring any Restricted Stock (whether held in certificate or book-entry form) into unrestricted form at vesting, or canceling any Restricted Stock (whether held in certificate or book-entry form) as and when required by this Agreement or the Plan, or undertaking any other action which may be done lawfully by the Company or the Committee in the administration of the Plan and this Agreement. Participant specifically acknowledges and agrees that such certificates and/or book-entry evidence of Participant's Restricted Stock may be transferred or cancelled pursuant to this Agreement and the Plan without requiring that a Stock Power be executed and delivered by Participant or requiring any other action on the part of Participant, and Participant authorizes the Company to undertake each such action without such Stock Powers.

Participant hereby further irrevocably appoints the Secretary of the Company and any employee of the Company who may be designated by the Secretary, and each of them, Participant's true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for Participant and in his or her name, place and stead, in any and all capacities, to execute and deliver each and every document (including, without limitation, any such Stock Powers) which may be necessary or appropriate in connection with the issuance, transfer, cancellation or other action taken in connection with the Restricted Stock awarded hereunder pursuant to this Agreement or the Plan. The rights granted by Participant under this paragraph shall automatically expire as to shares of Restricted Stock awarded hereunder upon the transfer of such shares into unrestricted form at vesting or upon the cancellation of such shares at any time, as applicable, pursuant to this Agreement and the Plan.

5. Rights of Shareholder. Except as otherwise provided in this Agreement or the Plan, Participant shall have, with respect to the shares of Restricted Stock awarded hereunder, all of the rights of a shareholder of the Company, including the right to vote the shares and the right to receive any dividends as declared by the Company's Board of Directors.

6. Shares Non-Transferable. No shares of Restricted Stock shall be transferable by Participant other than by will or by the laws of descent and distribution. In the event any Award is transferred or assigned pursuant to a court order, such transfer or assignment shall be without liability to the Company, and the Company shall have the right to offset against such Award any expenses (including attorneys' fees) incurred by the Company in connection with such transfer or assignment.

7. Restricted Stock Deferral Plan. If Participant is eligible, and if Participant has made the appropriate election, to defer all or a portion of the Restricted Stock awarded hereunder into The Progressive Corporation Directors Restricted Stock Deferral Plan (the "Deferral Plan"), then the Common Shares that would otherwise vest in accordance with the terms of this Agreement and are subject to such election, instead of being delivered to Participant, shall be credited to Participant's account and distributed in accordance with the terms of the Deferral Plan and Participant's deferral election thereunder.

8. Dividends. Participant acknowledges and agrees that the Company will pay, or cause to be paid, any cash dividends payable in respect of Restricted Stock through such method(s) of payment as the Company deems advisable, on or promptly after the date established by the Board of Directors for the payment of such cash dividend to holders of the Company's Common Shares (the "Dividend Payment Date"), including, but not limited to: (i) payment by the Company's transfer agent through the procedures established generally for shareholders of record; or (ii) payment by the Company to Participant directly by appropriate check, draft or automatic deposit, provided, however, that in the event a Vesting Date falls between a record date and a Dividend Payment Date for any such dividend and Participant has deferred the Award pursuant to and in accordance with the terms of the Deferral Plan, then such dividend shall not be paid to Participant but instead shall be reinvested in accordance with the Deferral Plan.

9. Termination of Service. Except as otherwise provided in the Plan or as determined by the Committee, if Participant's service as a member of the Board of Directors terminates for any reason other than death or Disability, all Restricted Stock held by Participant which is unvested or subject to restriction at the time of such termination shall be automatically forfeited immediately after such termination. In the event Participant dies while serving on the Board of Directors, all Restricted Stock held by Participant shall vest in full immediately after Participant's death, and the Company shall process such vesting within thirty (30) days of receipt of notice thereof. In the event Participant resigns or is removed from the Board of Directors as a result of Participant's Disability, all Restricted Stock held by Participant shall vest in full immediately after such resignation or removal, and the Company shall process such vesting within thirty (30) days of the date on which the Committee determines that such resignation or removal was the result of Participant's Disability (but not later than December 31 of the year of such resignation or removal, or if later, the 15th day of the third calendar month following such resignation or removal).

10. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes and cancels any other agreement, representation or communication, whether oral or in writing, between the parties hereto relating to the subject matter hereof; provided, however, that the Agreement shall be at all times subject to the Plan as provided above.

11. Amendment. The Committee, in its sole discretion, may hereafter amend the terms of this Award to the fullest extent permitted by Section 13 of the Plan.

12. Definitions: Unless otherwise defined in this Agreement, each capitalized term in this Agreement shall have the meaning given to it in the Plan.

13. Acknowledgment. Participant hereby: (i) acknowledges receiving a copy of the Plan Description relating to the Plan, and represents that he or she is familiar with all of the material provisions of the Plan, as set forth in such Plan Description; (ii) accepts this Agreement and the Restricted Stock awarded pursuant hereto subject to all provisions of the Plan and this Agreement; and (iii) agrees to accept as binding, conclusive and final all decisions and interpretations of the Committee relating to the Plan, this Agreement or the Restricted Stock awarded hereunder.

Agreed to as of the day and year first written above.

THE PROGRESSIVE CORPORATION

By: /s/ Daniel P. Mascaro
Vice President & Secretary

Daniel P. Mascaro

Exhibit 31.1

CERTIFICATION

I, Susan Patricia Griffith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Progressive Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 4, 2020

/s/ Susan Patricia Griffith
Susan Patricia Griffith
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, John P. Sauerland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Progressive Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 4, 2020

/s/ John P. Sauerland
John P. Sauerland
Vice President and Chief Financial Officer

Exhibit 32.1

SECTION 1350 CERTIFICATION

I, Susan Patricia Griffith, President and Chief Executive Officer of The Progressive Corporation (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2020 (the “Report”), which this certification accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Susan Patricia Griffith
Susan Patricia Griffith
President and Chief Executive Officer
August 4, 2020

Exhibit 32.2

SECTION 1350 CERTIFICATION

I, John P. Sauerland, Chief Financial Officer of The Progressive Corporation (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2020 (the “Report”), which this certification accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John P. Sauerland
John P. Sauerland
Vice President and Chief Financial Officer
August 4, 2020

Letter to Shareholders
Second Quarter 2020

We continue to adapt to the ever-changing dynamics of our world as it relates to COVID-19. The nimbleness that our teams across the company have shown has been phenomenal. We have adjusted to our new reality and have turned our focus to being flexible with how our future might look and leveraging our strengths to reimagine an even stronger Progressive for all of our constituents. As I've said many times over the past four years, during challenging times is when we are at our best. I continue to be amazed at the resilience of the people of Progressive.

We continue to make progress towards our vision of becoming consumers' and agents' #1 choice and destination for auto, home, and other insurance. Based on final 2019 statutory direct premiums written, we're now consumers' #1 choice for private passenger auto in seven states and #2, with our eye on becoming #1, in an additional 19 states. While we're still the third largest auto writer in the United States, we continue to execute against our strategy to leverage our strong brand, provide competitive prices, and offer a breadth of products/distribution to provide consumers with the protection they need, where, when, and how they choose to buy it. We believe the key strategy to achieving our ultimate goal is to continue to leverage our culture and our people, our two most important assets.

Personal Lines

At the beginning of the second quarter, our Personal Lines business experienced a drop in new business volume as the shelter-in-place restrictions were implemented, but we had a solid rebound in growth across all Personal Lines products as the quarter progressed. Both distribution channels experienced a similarly shaped recovery from the shelter-in-place period, but the speed of the recovery in Direct has materially outpaced our Agency channel, due in part to our agents often being small businesses who are, in some cases, still working to get their offices compliant with social distancing requirements and their operations back to pre-COVID levels. At the close of the second quarter, we were pleased to see overall shopping volume returning to pre-COVID levels with Direct auto quotes up 6% year-over-year (YOY) for the quarter. Overall, total auto quotes were relatively flat, although a decline in conversion resulted in a 4% decrease in new auto applications during the quarter. Given where we started off, coupled with solid improvements throughout the quarter, we're happy with new business applications that are only down slightly on a year-to-date basis.

Policies in force are far less volatile than new business applications given that approximately three quarters of in-force policies are renewal customers and the processes we implemented throughout the countrywide non-pay cancel moratorium have helped many of these renewal customers remain insured with Progressive. On a YOY basis, we ended the first quarter with auto policies in force up 10% and at June 30, saw our YOY growth accelerate to 11%, representing growth of more than 1.5 million in-force policies vs. June 2019. Improvement in our growth rate benefitted from our Apron Relief Program, where we invested in our customers to help them maintain continuous insurance following the moratorium, and from recovery in new business applications.

Our special lines (motorcycle, boat, RV) business experienced strong double-digit new business application growth (+22%) during the second quarter due to an increase in both quotes and a solid improvement in conversion. Similar to auto, early in the second quarter, new business volumes declined but both quotes and sales significantly improved in May and June, leading to outstanding growth for the remainder of the quarter. Special lines policies in force were up 6% from last June versus only up 4% at the end of the first quarter.

Our Personal Lines profitability was strong during the second quarter despite the over $1 billion in policyholder credits that we provided our Agency and Direct personal auto customers. Our results reflect a decrease in auto accident frequency as a result of lower miles driven due to the COVID-19 restrictions that were in place during the quarter. As states began to lift these restrictions, vehicle miles traveled have returned to pre-COVID levels in many states, but both miles traveled and claims frequency remain down versus this same period in 2019.

While significant uncertainty remains surrounding the pace of recovery and implications on our vehicle and property lines of business, we're confident that we have the appropriate monitoring and action plans in place to rapidly adapt our business to capitalize on changing market conditions.

We continued to rollout our 8.6 auto product model by adding 5 states during the second quarter and Snapshot®, our usage-based insurance product, continued to experience growth in enrollment. In June, we successfully elevated a completely revised product offering to comply with Michigan's PIP reform legislation. We're the #1 writer of personal auto insurance in Michigan and we continue to rapidly grow both our auto and property book of business in the state. While market disruption can prove challenging to many organizations, we typically find that disruption drives shopping, and shopping results in more consumers switching to Progressive. The new business rates went into effect July 2nd in Michigan and we'll closely monitor how the business performs during the remainder of the year.

Commercial Lines

Our Commercial Lines business experienced an asymmetric recovery in demand during the second quarter with commercial auto new business applications decreasing by 10% and small business insurance applications increasing by 46%, albeit on a smaller scale. The severe demand shock from COVID-19 restrictions and the closing of many non-essential businesses, which hit in March, clearly carried over into April. However, we experienced a nice recovery in both quoting and sales in May and had an exceptionally strong sales month in June, perhaps partially due to a delay in spring seasonal demand. Notable were strong sales growth for the direct commercial auto product of 4% and our BusinessQuote Explorer® (BQX) platform for small business insurance at 36%, suggesting at least a temporary shift in small business owner purchasing preferences toward the direct channel. Direct distribution of Commercial Lines products is an area where we have made a significant investment, and we are well positioned if a permanent change occurs in small business insurance shopping to the direct channel.

Commercial Lines profitability was aided by reduced vehicle utilization and lower auto accident frequency early in the quarter, producing a combined ratio of 84.1, 4.3 points better than the second quarter last year. Incoming auto claim counts began moving back toward pre-COVID levels as the quarter progressed, especially in the trucking business market targets, which were less disrupted by the pandemic. Working directly with policyholders and agents, we provided premium and billing credits of more than $26 million to customers who experienced reduced business activity during the quarter.

During the second quarter, we decreased net premiums written for our transportation network company (TNC) business by $29.0 million, as we calibrate to new, lower levels of ridesharing usage. Ridesharing mileage is now increasing on a month-to-month basis, though a full recovery may take time as our TNC market presence skews toward southern and southwestern states, which are presently seeing rising coronavirus infection rates. We remain committed to this business segment, due to its synergy with our core commercial auto business and have a positive view of the platforms' long-term prospects.

At June 30, our Business Owner Policy (BOP) was available through independent agents in 11 states, with the most recent addition of Tennessee in June. Faced with the economic slowdown of March and April, we temporarily pivoted our product development resources from additional state deployment to development of BOP 1.2, a new product version with broader risk acceptance, new coverages, and policy form enhancements. This new BOP product version will be introduced in new states beginning in September. Agent feedback on BOP continues to be positive and we've been satisfied with our early claims experience. We now look forward to expanding our geographic footprint and further capitalizing on this investment.

We have been pleasantly surprised by the rate of recovery for our Commercial Lines business given the magnitude of the economic shock from COVID-19. Nonetheless, we still anticipate an uneven recovery (what we have been calling our bumpy road scenario in our planning for the future sessions) in the broader economy and will rely on our business dexterity, breadth of distribution, and facility with data to be appropriately responsive in the face of a changing environment.

Property

We saw new homeowner and condo policy sales decline due to COVID-19 restrictions during April and May, but sales activity recovered in June. New home and condo applications were down 10% YOY for combined April and May, but up 6% in June over last year. Total Property net premiums written were up 12% over the second quarter of 2019 and are up 13% year to date. Our Property policies in force are also up 13% over last June.

Our Property business had a combined ratio of 143.6 for the second quarter, primarily due to 54.3 points of catastrophe losses. We experienced significant wind, hail, and tornado losses from the 20 industry catastrophe events declared during the quarter and recognized unfavorable development from first quarter 2020 storms. Through June, our catastrophe losses and allocated loss adjustment expenses have not exceeded our $375 million retention threshold under our aggregate excess of loss catastrophe reinsurance agreement. If catastrophe events continue at historic levels, we would expect to recover under this agreement during the third quarter.

We continue to increase rates and share weather exposure with our customers through implementation of higher deductibles to achieve target profit margins in states with significant hail exposure. We have added minimum deductible or actual cash value requirements for wind/hail coverage in six more states during 2020, bringing the total to 16 states with such mandates. The Property 4.0 product design was launched in seven more states during the quarter, bringing our total to 18 active states. The improved price segmentation and expanded coverage options that come with 4.0 should help us improve profitability and encourage preferred agencies to consider Progressive for their best customers.

We continue our efforts to make it easy for consumers and agents to find and buy our Property products. During the quarter we added our 45th state, New Hampshire, and launched HomeQuote Explorer® (HQX) Buy for shoppers using mobile devices. HQX Buy allows new customers to buy a Progressive Home policy using their phone or tablet. This capability is now available in 17 states. We also turned on the Portfolio quoting application for agents in four additional states during the quarter. Portfolio, which is now active in 37 states, makes it easy for independent agents to quote the home/auto/recreational lines package of products to meet a household's full spectrum of personal lines insurance needs.

Investments

The second quarter total return on our investment portfolio was 4.5%, as we saw a rapid recovery in many of the asset classes that had declined in February and March. The strongest performance was in the equity market, but it was very broad-based across much of our portfolio. With our conservative investment posture coming into the year, we were able to add some attractive investments to our portfolio as valuations improved in several sectors. We continue to view the environment as very uncertain and, therefore, believe a relatively conservative positioning remains appropriate in this environment.

Reflecting on our world

It's truly been a time of reflection, which has refocused our efforts and prompted more investments and actions to support our already strong Diversity and Inclusion agenda. My team and I have been advocates of diversity and inclusion for many years and the recent events have caused us to pause and think even more deeply about the lived experiences of our Black employees and customers, as well as other communities of color. We've spent a lot of time listening, learning, and determining what we do differently going forward. Black Lives Matter to me and they matter to us as an organization.

One of our four key pillars is ensuring that our people and our culture collectively remain our most powerful source of competitive advantage. We believe that having a culture where people can be true to who they are is critical to the success of this pillar.

In order to achieve success, our near-term efforts have included outreach to our Black colleagues in partnership with our African American Employee Resource Group, having more in-depth and meaningful conversations throughout the organization about race and racial inequity and forcing ourselves to become more comfortable being uncomfortable. At the end of June, we focused our collective attention as Progressive people participated in an already-planned week of inclusion activities, the theme of which was "allyship." It was an opportunity for each of us to invest in better understanding the experiences of others, and to commit to actions we will take to advocate for greater equity.

We've been sharing our data on the gender and racial makeup of our workforce for a couple of years now. We recognize we still have opportunities, particularly to increase the diversity of our leadership. We can and will do more to ensure equity for all.

In my role as CEO, I am a member of CEO Action for Diversity & Inclusion and am a member of the Business Roundtable where I serve on a subcommittee addressing racial equity and justice. Working with my peers in the private sector, I am confident our actions will lead to meaningful change.

This is a moment of moral reflection and bold action in our country. As citizens, we have to decide whether we are going to live up to our democratic ideals of full equality or whether we go back to turning a blind eye to the injustices and lack of equity in the U.S. As a company, we believe we have a role to play in this - for our customers, for our employees, for our communities, and for our shareholders.

James Baldwin once said that "*Not everything that is faced can be changed, but nothing can be changed until it is faced.*" We can and will be part of that change, not just today, not just next week, but in the months and years to come.

Typically, at Progressive we see any challenges as an opportunity to demonstrate our culture and our ability to rise to the occasion. The current states of affairs are no different and we are eager to be a part of the change, guided by our long-standing Core Values.

/s/ Tricia Griffith
Tricia Griffith
President and Chief Executive Officer