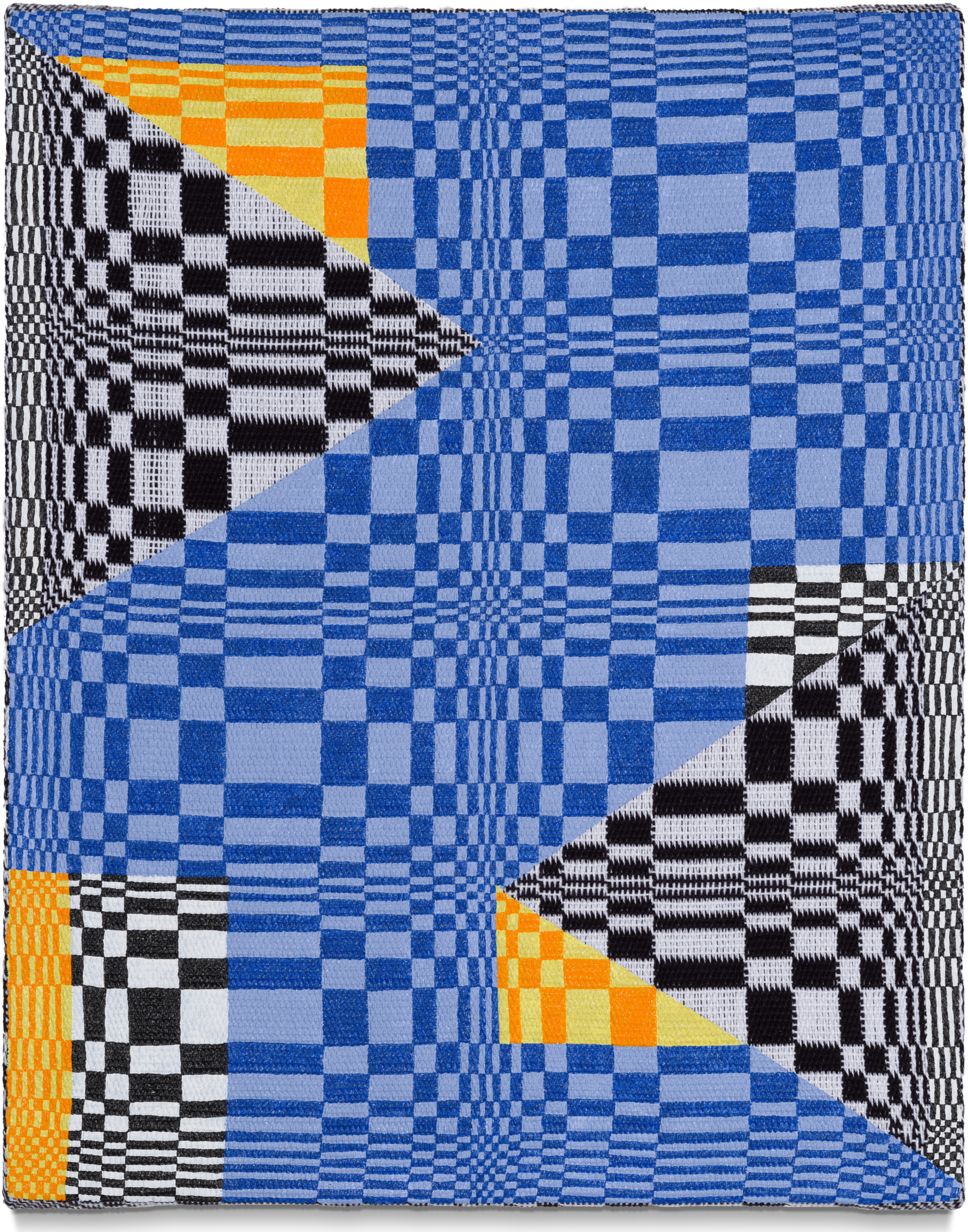
2023 THIRD QUARTER REPORT



The Progressive Corporation and Subsidiaries

Financial Highlights

	Nine Months Ended September 30,		Years Ended December 31,			
(billions - except per share amounts)						
	2023	2022	2022	2021	2020	2019
Net premiums written	$ 46.4	$ 38.6	$ 51.1	$ 46.4	$ 40.6	$ 37.6
Growth over prior period	20 %	8 %	10 %	14 %	8 %	15 %
Net premiums earned	$ 42.9	$ 36.3	$ 49.2	$ 44.4	$ 39.3	$ 36.2
Growth over prior period	18 %	11 %	11 %	13 %	8 %	17 %
Total revenues	$ 45.2	$ 36.1	$ 49.6	$ 47.7	$ 42.7	$ 39.0
Net income (loss)	$ 1.91	$ (0.10)	$ 0.72	$ 3.35	$ 5.70	$ 3.97
Per common share	$ 3.21	$ (0.21)	$ 1.18	$ 5.66	$ 9.66	$ 6.72
Underwriting margin	2.8 %	3.5 %	4.2 %	4.7 %	12.3 %	9.1 %
(billions - except shares outstanding, per share amounts, and policies in force)						
At Period-End						
Common shares outstanding (millions)	585.0	585.1	584.9	584.4	585.2	584.6
Book value per common share	$ 28.89	$ 24.41	$ 26.32	$ 30.35	$ 28.27	$ 22.54
Consolidated shareholders' equity	$ 17.4	$ 14.8	$ 15.9	$ 18.2	$ 17.0	$ 13.7
Common share close price	$ 139.30	$ 116.21	$ 129.71	$ 102.65	$ 98.88	$ 72.39
Market capitalization	$ 81.5	$ 68.0	$ 75.9	$ 60.0	$ 57.9	$ 42.3
Return on average common shareholders' equity						
Net income	16.8 %	5.0 %	4.4 %	18.6 %	35.6 %	31.3 %
Comprehensive income (loss)	17.4 %	(15.9)%	(13.5)%	13.6 %	39.3 %	35.0 %
Policies in force (thousands)						
Personal Lines						
Agency - auto	8,363.3	7,600.3	7,766.3	7,879.0	7,617.0	6,994.3
Direct - auto	11,154.3	9,823.8	10,131.0	9,568.2	8,881.4	7,866.5
Special lines	5,956.2	5,558.0	5,558.1	5,288.5	4,915.1	4,547.8
Total Personal Lines	25,473.8	22,982.1	23,455.4	22,735.7	21,413.5	19,408.6
Growth over prior period	11 %	0 %	3 %	6 %	10 %	9 %
Commercial Lines	1,110.3	1,039.8	1,046.4	971.2	822.0	751.4
Growth over prior period	7 %	9 %	8 %	18 %	9 %	8 %
Property	3,025.2	2,835.5	2,851.3	2,776.2	2,484.4	2,202.1
Growth over prior period	7 %	4 %	3 %	12 %	13 %	14 %
Companywide total	29,609.3	26,857.4	27,353.1	26,483.1	24,719.9	22,362.1
Growth over prior period	10 %	1 %	3 %	7 %	11 %	10 %
Private passenger auto insurance market[1]	||||||||||	||||||||||	$ 268.0	$ 252.9	$ 243.7	$ 247.7
Market share[2]	||||||||||	||||||||||	14.4 %	14.1 %	13.5 %	12.4 %
Stock Price Appreciation (Depreciation)[3]						
Progressive	7.6 %	13.5 %	26.8 %	10.8 %	41.4 %	25.1 %
S&P 500	13.1 %	(23.9)%	(18.1)%	28.7 %	18.3 %	31.5 %

[1] Represents net premiums written as reported by A.M. Best Company, Inc.

[2] Represents Progressive's private passenger auto business, including motorcycle insurance, as a percent of the private passenger auto insurance market.

[3] Represents average compounded rate of increase (decrease) and assumes dividend reinvestment.

Letter to Shareholders
Third Quarter 2023

We ended this quarter on much more solid ground than we began. Virtually every functional area of the company came together to get us closer to our objective of profitable growth defined by Progressive as making at least four percent underwriting profit. Said another way, we want to grow as fast as we can at a 96 or better combined ratio (CR) as long as we can deliver high-quality customer service. During the third quarter, we were able to shave eight points off of our CR when compared to the second quarter of 2023. For the quarter, we reported a 92.4 CR, which brought our year-to-date (YTD) CR down to 97.2 from 99.7 at the end of the prior quarter. While we're not yet at our goal of a 96 CR, we're all working together to get there by year end.

During the quarter, we continued to have strong growth in net premiums written (NPW) and policies in force. For the third quarter and YTD, NPW were each up 20% and companywide policies in force were up 10%. Through our pricing decisions, as well as non-rating actions, we were able to balance growth and profitability with profit taking precedence over growth given that profit is one of our five Core Values.

Through the first six months of the year, we recognized 4.0 points of prior year unfavorable reserve development. Our objective is always to set reserves as accurately as possible and as soon as possible. For the third quarter, prior year reserve development was unfavorable by 0.2 points, bringing the YTD development to 2.7 points. We believe we have adequately recognized the costs of the influx of claims and lawsuits precipitated by HB 837, the Florida insurance legislation passed earlier this year. We are also seeing some flattening in the loss cost trends for fixing and replacing vehicles.

The third quarter results for our Personal Lines business also reflect our continued focus on profitability and are similar to our companywide results. The CR for the quarter was 91.2, which was down substantially from the 99.5 CR we reported for the second quarter 2023. The CR improvement during the quarter was the result of our swift action in managing rate level, our decision to pull back on our consumer marketing spend, and the intentional slowing of new business. On a YTD basis through September, our Personal Lines CR was a 96.3, just slightly above our companywide target profitability objective.

During the quarter, our personal auto severity was up about 5% over the same period last year, which is markedly lower than the year-over-year change we experienced in the second quarter when we saw a 12% increase. We continued to experience stable year-over-year changes in loss frequency. Countrywide, our personal auto loss ratio benefited by about five points of earnings from prior personal auto rate revisions. We elevated rate revisions in 25 states during the third quarter, which increased our rate level by about four points and brought our YTD increase to about 16 points.

Our Personal Lines policies in force grew 11% over the third quarter of 2022, to end the quarter at 25.5 million policies in force. NPW for the quarter were $12.7 billion and reflected a year-over-year increase of 23% for the quarter. YTD NPW were also up 23%. We grew premiums despite an intended slowdown in new business applications, which dropped 15% for the quarter, compared to the same period in 2022. Our distribution channels responded similarly to our actions to slow growth with both Agency and Direct new auto business applications down about 20% on a year-over-year basis for the quarter. Balancing the drop in new business volume, we continue to experience gains in our retention as our estimated policy life expectancy (PLE) for our personal auto products increased about 8% in the quarter.

For the third quarter, Commercial Lines NPW were up 7% at a CR of 99.1. During the quarter, TNC premiums were adjusted due to mileage true-ups and changes in mileage forecasts, which are the basis for our premiums written on this business. Policies in force were up 7%, compared to the end of September last year.

Our Commercial Lines CR of 99.1 was 9.4 points higher than the third quarter last year reflecting persistent pressure from rising costs to settle claims, as well as typically elevated CRs this time of year. Loss costs trends continue to increase in both physical damage and bodily injury coverages for nearly all of our commercial auto products. However, we experienced a more moderate increase in total commercial auto severity due to a shift in our mix of business. In addition, unfavorable development on prior accident years contributed 3.8 points to the calendar-year commercial auto results. Based on market data, the commercial auto insurance industry is experiencing the same profitability challenges as loss trends are outpacing premium growth.

The overall health of the economy and the small business sector are important influences on our business and these market indicators continue to be mixed. Premiums written in our for-hire transportation business market target (BMT) were down in the quarter, driven by the slowdown in the rate of economic activity and challenging freight market conditions. Premium growth in our other BMTs continues to offset the drop in for-hire transportation premiums, with the most significant growth in our business auto and contractor BMTs. Our PLE as of the end of the quarter is down about 9% compared to the prior year, driven by declines in our trucking segments, particularly our for-hire transportation (FHT) segment. Unfavorable trucking market conditions and the general weakening of the economy are driving increased shopping and motor carriers exiting the market, which both have a negative effect on PLE.

Our response to the changes we are seeing in loss trends include both rate and underwriting actions. We have raised commercial auto (non-TNC) rates nearly 12% YTD through September and have additional rate planned for the balance of 2023. Of course, some rate increases are subject to regulatory approval. In addition, approximately 90% of our policies are written on an annual term, so it will take time for the full effect of those rate changes to be reflected. While it will take time for the rate taken this year to have an effect, we have about 6 points of rate from 2022 and 4 points of rate from 2021 earning into premiums now. Underwriting efforts in place will supplement rate actions to ensure all the new business we are writing is classified and rated accurately and priced adequately to hit our desired targets.

In addition to a focus on addressing profitability, product expansion efforts continued on a couple of fronts. We launched our business owners policy (BOP) in two new states in the quarter bringing our footprint to 43 states. We also launched online buy capabilities for our BOP product sold through our digital marketplace – BusinessQuote Explorer®. We believe this functionality will improve sales and gives us another opportunity to meet expectations for those who want to shop online. We also have heavy truck roadside assistance in 46 states that collectively account for approximately 92% of eligible vehicles countrywide.

We anticipated the economy and business environment would continue to be unpredictable this year and our people have pulled together to respond in remarkable fashion. Teams have shifted priorities and taken on new assignments, balancing efforts to address profitability along with maintaining investments to expand our capabilities. Our focus on profitability and willingness to take quick action has historically positioned us well when profitability and market conditions improve. We expect the same to be true in this environment and believe our actions will continue to gain traction and improve results going forward.

The third quarter CR for our Property business was 88.2, down about 37 points from the third quarter 2022, largely reflecting less severe catastrophe losses during the third quarter 2023, compared to the same period last year when Hurricane Ian struck Florida. Catastrophe losses made up 18 points of the third quarter's CR, compared to 35 points in the third quarter 2022. Non-catastrophe losses were also down for the quarter. During the quarter, we exceeded our retention level on part of our aggregate excess of loss in our reinsurance program and have recorded about $23 million in recoveries, which accounted for 3.6 points on our third quarter 2023 CR. The third quarter profitability brought our YTD Property CR to 108.9, reflecting an improvement of 8.2 points compared to YTD 2022.

NPW for the quarter were about $725 million in our Property business, a 16% increase over the third quarter of 2022. YTD, our Property NPW stands at $2.1 billion, an increase of 17% compared to prior YTD. Our total Property policies in force stand at just over 3.0 million and are up 7% as of the end of September, compared to the end of September 2022. A key area of focus for us this year has been to continue to balance the volatility risk in our book. The states where we want to grow our homeowner presence experienced policy in force growth of nearly 18% year over year as of the end of the quarter. The states we want to reduce our mix of total Property business are down almost 6%. To continue to rebalance our business, we began a non-renewal effort of up to 115,000 property policies in Florida. Following the required filings and notices, the first of these non-renewals will go into effect in the second quarter of 2024 and will continue on a rolling 12-month basis. To try to ease this disruption to our customers and agents, we reached an agreement with another Florida insurer to offer replacement policies to these policyholders, subject to their underwriting and financial guidelines and agent appointments where applicable.

As we continue to focus on rebalancing the volatility risk in our Property book of business, advance our segmentation, and increase our speed to market, we are focused on profitability for Property. YTD, we have increased our rate level by over nine points including about two points during the third quarter. We believe these efforts are integral to achieving a profitable Property business.

On the investment and capital front, we continue to believe that, in this current environment, a conservative approach is appropriate from both a capital allocation and investment perspective. We have no forthcoming debt maturities until 2027 and believe that the attractive financing rates that we have achieved over the last several years will serve our stakeholders well into the future. While the market and operating environment remains challenging, we continue to maintain our debt-to-total capital ratio below 30%. Although a final decision on our variable dividend will not be made until December, we believe that decision should align with the cautious approach we have taken to capital allocation over the last 18 months and our desire for robust premium growth as we head into 2024. We continue to believe that all of our stakeholders will benefit from our thoughtful approach to capital including both our dividend and share repurchase policies.

The third quarter total return on our investment portfolio was -0.2%, as a combination of small declines in our fixed-income portfolio and a pullback in the equity markets drove the decline. Our fixed-income portfolio returned -0.1% in the third quarter as market concern about expectations regarding interest rates remain. Our equity portfolio returned -3.1% in the third quarter. While the environment remains dynamic, we have not changed our conservative investment posture. This has meant a greater allocation to cash and U.S. Treasuries, and lower allocations to equities and other credit-related areas of the fixed-income portfolio.

While remaining steadfast in our efforts to achieve our companywide profitability target, Progressive also continues to focus on and invest in contributing to the communities that we serve. The United States is still struggling to reduce the vast numbers of people experiencing homelessness, and we are dedicated to supporting the efforts to reduce the human impact associated with homelessness – as a company, as teams, and as individuals. In 2020, we teamed up with Humble Design – a charity that provides furnishings for people transitioning out of homelessness into housing – to establish a Humble Design operation in Cleveland, Progressive's headquarters city. During the third quarter, we expanded our efforts to support those at risk of or facing homelessness by entering into a companywide relationship with Family Promise, a leading national nonprofit organization focused on serving children and families at risk of homelessness. Building on the success we've had in recent years with two of our Employee Resource Groups supporting Family Promise, in September we introduced a custom Family Promise volunteer portal to give Progressive employees countrywide the opportunity to work together with Family Promise's 200+ affiliates across the U.S. to help families in need of their services. We're excited to enhance employee engagement and volunteer opportunities at both local and national levels and to further build on the meaningful work we do to support our communities and to help people experiencing homelessness.

We strive to find the right balance of supporting all of our stakeholders. With that in mind, I always like to share real-life examples and below you will find a couple that came my way this quarter.

The story below is from one of our Florida teammates, Sierra, and her experience with Hurricane Idalia. She wrote the following about her experience (including a mention of sprinkles from one of our commercials):

I just wanted to reach out and say THANK YOU all so very much for the Temporary Housing Assistance while our home was being remediated due to Hurricane Idalia. I truly cannot explain how much this relieved our family. Both my husband and I work for Progressive and have a one year old and a two year old, we have been blown away by all of the help and kindness Progressive has showed us. The housing assistance was the peace of mind I prayed for as it was a safe, clean place for my children to sleep. The hotel we stayed at was clean and accommodating and showed my children so much love, the front staff got to know my kids and greeted them with excited good mornings and helped them make pancakes with sprinkles before preschool at 6am haha! My husband and I went to our house daily and each day we were just so thankful to have the hotel to take our kids home to while construction was underway. We feel thankful we had this housing, in the meantime, so that our children were safe. Thank you all so much again! With love from our Family!

This next story is based on several interactions with a customer, that Andre in our customer relationship organization had. The story is yet another testament of how our consultants go above and beyond to care for our customers and how we live the Golden Rule, another one of our five Core Values.

Andre first interacted with Mr. Garcia in May of this year when he was transferred a call from the auto sales organization to determine if we had a home product that would work for Mr. Garcia. Andre said that Mr. Garcia was elderly and made it clear to Andre at the beginning of the call that since Mr. Garcia had worked in insurance for the majority of his life, he was hesitant to switch his homeowners insurance. Andre began by just having a conversation with Mr. Garcia and they had a connection because they both lived in Florida. Andre shared with the customer that he was born in Jamaica but now lived in Florida and they proceeded to share some stories about family.

Mr. Garcia told Andre he was impressed with how friendly Andre was and then Mr. Garcia confessed to Andre that he was alone. He had no family and no one to check on him and he told Andre how much he appreciated the conversation and he apologized for taking so much of his time on personal talk. Andre replied to the customer with the comment "no problem at all." Andre went on to say, "I'm all yours" as he told the customer that his time was as valuable as Andre's and he was enjoying the conversation. The customer (half) jokingly told Andre that if he felt like it, he could call him another time to check on him. Andre committed to following up with the customer periodically to make sure he was OK and that he had all the protection he was looking for. Andre said Mr. Garcia teared up and they had a moment.

Since then, Andre has set a reminder to check in on Mr. Garcia once a month. Last time they connected, Mr. Garcia mentioned his birthday that following Monday. Andre told him he was off on that day because of the holiday weekend, but he was committed to wishing him happy birthday. The day after his birthday, Andre made good on his promise and left Mr. Garcia a birthday message. Mr. Garcia returned Andre's call and Andre left his holiday celebration to talk to Mr. Garcia. In addition to following the Golden Rule and being the right thing to do, this relationship is good for business. Mr. Garcia has now bundled his home, auto, and umbrella with Progressive through his relationship with Andre. Andre finds so much value in the relationships that he is able to build with customers and finds purpose in every call he takes, and we appreciate that because our sole job is to provide high-quality service to our customers.

Heading into the final quarter of what has been a challenging year, I am full of optimism for Progressive. I'm optimistic that we have a cogent plan to achieve our goals and position us well for our future.

Stay well and be kind,

Tricia Griffith

Tricia Griffith
President and Chief Executive Officer

Financial Policies

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

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

Operating Maintain pricing and reserving discipline

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

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

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

Financing Maintain sufficient capital to support our business

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

Objectives and Policy Scorecard

Financial Results	Target	Nine Months Ended September 30, 2023	Years Ended December 31, 2022	2021	2020	5 Years[1]	10 Years[1]
Underwriting margin:							
Progressive[2]	4 %	2.8 %	4.2 %	4.7 %	12.3 %	7.6 %	7.2 %
Industry[3]	na	|||||||||||||	(11.7) %	(0.8) %	9.5 %	0.1 %	(1.3)%
Net premiums written growth:							
Progressive	(a)	20 %	10 %	14 %	8 %	13 %	12 %
Industry[3]	na	|||||||||||||	6 %	4 %	(2) %	4 %	5 %
Policies in force growth:							
Personal auto	(a)	12 %	3 %	6 %	11 %	9 %	7 %
Special lines	(a)	7 %	5 %	8 %	8 %	5 %	3 %
Commercial Lines	(a)	7 %	8 %	18 %	9 %	10 %	7 %
Property	(a)	7 %	3 %	12 %	13 %	14 %	nm
Companywide premiums-to-surplus ratio	(b)	na	2.9	2.8	2.7	na	na
Investment allocation:							
Group I	≤25 %	7 %	10 %	17 %	14 %	na	na
Group II	≥75 %	93 %	90 %	83 %	86 %	na	na
Debt-to-total capital ratio	<30 %	28.4 %	28.7 %	21.2 %	24.1 %	na	na
Return on average common shareholders' equity:							
Net income	(c)	16.8 %	4.4 %	18.6 %	35.6 %	22.3 %	20.5 %
Comprehensive income (loss)	(c)	17.4 %	(13.5) %	13.6 %	39.3 %	18.5 %	18.3 %

(a) Grow as fast as possible, constrained only by our profitability objective and our ability to provide high-quality customer service.
(b) Determined separately for each insurance subsidiary.
(c) Progressive does not have a predetermined target for return on average common shareholders' equity.
na = not applicable.
nm = not meaningful; Property business written by Progressive prior to April 2015 was negligible.

[1] Represents results over the respective time period; growth represents average annual compounded rate of increase (decrease).
[2] Expressed as a percentage of net premiums earned. Underwriting profit (loss) is calculated by subtracting losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses (including policyholder credits) from the total of net premiums earned and fees and other revenues.
[3] Industry results represent private passenger auto insurance market data as reported by A.M. Best Company, Inc. The industry underwriting margin excludes the effect of policyholder dividends.

The Progressive Corporation and Subsidiaries
Operations Summary

	Nine Months Ended September 30,		
Personal Lines	**2023**	**2022**	**Change**
Net premiums written (in billions)	$ 36.37	$ 29.52	23 %
Net premiums earned (in billions)	$ 33.74	$ 27.91	21 %
Loss and loss adjustment expense ratio	79.8	78.7	1.1 pts.
Underwriting expense ratio	16.5	18.1	(1.6) pts.
Combined ratio	96.3	96.8	(0.5) pts.
Policies in force (in thousands)	25,473.8	22,982.1	11 %

	Nine Months Ended September 30,		
Commercial Lines	**2023**	**2022**	**Change**
Net premiums written (in billions)	$ 7.95	$ 7.30	9 %
Net premiums earned (in billions)	$ 7.30	$ 6.75	8 %
Loss and loss adjustment expense ratio	77.8	70.6	7.2 pts.
Underwriting expense ratio	20.2	19.3	0.9 pts.
Combined ratio	98.0	89.9	8.1 pts.
Policies in force (in thousands)	1,110.3	1,039.8	7 %

	Nine Months Ended September 30,		
Property	**2023**	**2022**	**Change**
Net premiums written (in billions)	$ 2.10	$ 1.80	17 %
Net premiums earned (in billions)	$ 1.85	$ 1.69	10 %
Loss and loss adjustment expense ratio[1]	79.9	89.9	(10.0) pts.
Underwriting expense ratio	29.0	27.2	1.8 pts.
Combined ratio[1]	108.9	117.1	(8.2) pts.
Policies in force (in thousands)	3,025.2	2,835.5	7 %

[1] For 2023 and 2022, includes 36.2 points and 31.2 points, respectively, from catastrophe losses, net of reinsurance.

The Progressive Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

(unaudited)

	Three Months		Nine Months	
Periods Ended September 30,	**2023**	**2022**	**2023**	**2022**
(millions — except per share amounts)				
Revenues				
Net premiums earned	$ 14,894.3	$ 12,398.9	$ 42,891.8	$ 36,349.7
Investment income	510.2	333.6	1,384.3	868.2
Net realized gains (losses) on securities:				
Net realized gains (losses) on security sales	(66.2)	(62.1)	38.6	430.0
Net holding period gains (losses) on securities	(80.5)	(152.1)	17.9	(2,262.9)
Net impairment losses recognized in earnings	(2.3)	(2.2)	(6.8)	(6.5)
Total net realized gains (losses) on securities	(149.0)	(216.4)	49.7	(1,839.4)
Fees and other revenues	223.7	181.4	656.6	531.9
Service revenues	81.4	82.7	234.9	230.5
Total revenues	15,560.6	12,780.2	45,217.3	36,140.9
Expenses				
Losses and loss adjustment expenses	11,387.9	10,018.7	34,182.0	28,298.2
Policy acquisition costs	1,173.2	970.9	3,442.6	2,867.9
Other underwriting expenses	1,420.7	1,496.4	4,710.3	4,433.9
Investment expenses	7.2	5.8	18.8	17.4
Service expenses	91.7	82.8	264.6	221.5
Interest expense	69.7	63.1	198.7	180.4
Goodwill impairment	0	0	0	224.8
Total expenses	14,150.4	12,637.7	42,817.0	36,244.1
Net Income (Loss)				
Income (loss) before income taxes	1,410.2	142.5	2,400.3	(103.2)
Provision for income taxes	288.9	18.4	485.7	1.7
Net income (loss)	1,121.3	124.1	1,914.6	(104.9)
Other Comprehensive Income (Loss)				
Changes in:				
Total net unrealized gains (losses) on fixed-maturity securities	(388.6)	(920.3)	(241.0)	(3,170.0)
Net unrealized losses on forecasted transactions	0.2	0.1	0.4	0.3
Foreign currency translation adjustment	0	(0.7)	0.2	(0.9)
Other comprehensive income (loss)	(388.4)	(920.9)	(240.4)	(3,170.6)
Comprehensive income (loss)	$ 732.9	$ (796.8)	$ 1,674.2	$ (3,275.5)
Computation of Earnings Per Common Share				
Net income (loss)	$ 1,121.3	$ 124.1	$ 1,914.6	$ (104.9)
Less: Preferred share dividends[1]	10.4	6.7	27.2	20.1
Net income (loss) available to common shareholders	$ 1,110.9	$ 117.4	$ 1,887.4	$ (125.0)
Average common shares outstanding - Basic	584.8	584.5	584.9	584.4
Net effect of dilutive stock-based compensation	2.7	2.6	2.6	2.7
Total average equivalent common shares - Diluted	587.5	587.1	587.5	587.1
Basic: Earnings per common share	$ 1.90	$ 0.20	$ 3.23	$ (0.21)
Diluted: Earnings per common share	$ 1.89	$ 0.20	$ 3.21	$ (0.21)

[1] Changed to a floating dividend rate in March 2023. See *Note 1 – Basis of Reporting and Accounting* for further discussion.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Consolidated Balance Sheets
(unaudited)

(millions — except per share amounts)	September 30, 2023	September 30, 2022	December 31, 2022
Assets			
Available-for-sale securities, at fair value:			
Fixed maturities (amortized cost: $60,490.6, $48,205.7, and $50,264.0)	$ 56,591.9	$ 44,173.1	$ 46,651.9
Short-term investments (amortized cost: $1,795.2, $4,237.6, and $2,861.7)	1,795.2	4,237.6	2,861.7
Total available-for-sale securities	58,387.1	48,410.7	49,513.6
Equity securities, at fair value:			
Nonredeemable preferred stocks (cost: $976.9, $1,417.6, and $1,364.2)	868.9	1,254.4	1,213.2
Common equities (cost: $662.6, $803.7, and $826.1)	2,614.5	2,665.3	2,821.5
Total equity securities	3,483.4	3,919.7	4,034.7
Total investments	61,870.5	52,330.4	53,548.3
Cash and cash equivalents	123.5	350.9	203.5
Restricted cash and cash equivalents	14.9	14.4	17.4
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	138.4	365.3	220.9
Accrued investment income	378.1	217.4	282.5
Premiums receivable, net of allowance for credit losses of $361.2, $295.0, and $343.3	12,408.0	10,867.7	10,416.9
Reinsurance recoverables	5,331.2	6,306.8	5,832.1
Prepaid reinsurance premiums	235.0	367.5	295.5
Deferred acquisition costs	1,732.1	1,585.2	1,544.4
Property and equipment, net of accumulated depreciation of $1,596.9, $1,499.0, and $1,551.1	919.8	1,067.1	1,034.0
Goodwill	227.9	227.9	227.9
Intangible assets, net of accumulated amortization of $170.0, $153.1, and $158.6	74.9	91.8	86.3
Net federal deferred income taxes	1,357.1	1,269.5	1,131.5
Other assets	979.6	827.6	844.7
Total assets	$ 85,652.6	$ 75,524.2	$ 75,465.0
Liabilities and Shareholders' Equity			
Unearned premiums	$ 20,761.7	$ 17,796.9	$ 17,293.6
Loss and loss adjustment expense reserves	33,577.3	30,631.8	30,359.3
Accounts payable, accrued expenses, and other liabilities	7,030.7	5,931.9	5,532.8
Debt[1]	6,887.6	6,387.4	6,388.3
Total liabilities	68,257.3	60,748.0	59,574.0
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 797.6, including treasury shares of 212.6, 212.5, and 212.7)	585.0	585.1	584.9
Paid-in capital	1,977.9	1,839.6	1,893.0
Retained earnings	17,380.9	14,987.5	15,721.2
Accumulated other comprehensive income (loss):			
Net unrealized gains (losses) on fixed-maturity securities	(3,027.3)	(3,113.8)	(2,786.3)
Net unrealized losses on forecasted transactions	(14.1)	(14.6)	(14.5)
Foreign currency translation adjustment	(1.0)	(1.5)	(1.2)
Total accumulated other comprehensive income (loss)	(3,042.4)	(3,129.9)	(2,802.0)
Total shareholders' equity	17,395.3	14,776.2	15,891.0
Total liabilities and shareholders' equity	$ 85,652.6	$ 75,524.2	$ 75,465.0

[1] Consists of long-term debt. See *Note 4 – Debt* for further discussion.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

	Three Months		Nine Months	
Periods Ended September 30,	**2023**	**2022**	**2023**	**2022**
(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	584.9	584.9	584.4
Treasury shares purchased	(0.3)	(0.4)	(0.6)	(0.7)
Net restricted equity awards issued/vested	0	0.6	0.7	1.4
Balance, end of period	585.0	585.1	585.0	585.1
Paid-In Capital				
Balance, beginning of period	1,935.7	1,815.2	1,893.0	1,772.9
Amortization of equity-based compensation	42.9	26.0	86.7	69.7
Treasury shares purchased	(1.1)	(1.3)	(2.1)	(2.2)
Net restricted equity awards issued/vested	0	(0.6)	(0.7)	(1.4)
Reinvested dividends on restricted stock units	0.4	0.3	1.0	0.6
Balance, end of period	1,977.9	1,839.6	1,977.9	1,839.6
Retained Earnings				
Balance, beginning of period	16,350.4	14,967.7	15,721.2	15,339.7
Net income (loss)	1,121.3	124.1	1,914.6	(104.9)
Treasury shares purchased	(38.3)	(47.4)	(77.1)	(75.7)
Cash dividends declared on common shares ($0.10, $0.10, $0.30, and $0.30 per share)	(58.5)	(58.4)	(175.4)	(175.2)
Cash dividends declared on Serial Preferred Shares, Series B ($20.67700, $26.875, $39.60163, and $26.875 per share)	(10.3)	(13.4)	(19.8)	(13.4)
Reinvested dividends on restricted stock units	(0.4)	(0.3)	(1.0)	(0.6)
Other, net	16.7	15.2	18.4	17.6
Balance, end of period	17,380.9	14,987.5	17,380.9	14,987.5
Accumulated Other Comprehensive Income (Loss)				
Balance, beginning of period	(2,654.0)	(2,209.0)	(2,802.0)	40.7
Other comprehensive income (loss)	(388.4)	(920.9)	(240.4)	(3,170.6)
Balance, end of period	(3,042.4)	(3,129.9)	(3,042.4)	(3,129.9)
Total shareholders' equity	$17,395.3	$14,776.2	$17,395.3	$14,776.2

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)

Nine Months Ended September 30,	2023	2022
(millions)		
Cash Flows From Operating Activities		
Net income (loss)	$ 1,914.6	$ (104.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	212.0	227.5
Amortization of intangible assets	11.4	25.5
Net amortization (accretion) of fixed-income securities	(7.6)	1.6
Amortization of equity-based compensation	86.7	69.7
Net realized (gains) losses on securities	(49.7)	1,839.4
Net (gains) losses on disposition of property and equipment	23.0	5.3
Goodwill impairment	0	224.8
Changes in:		
Premiums receivable	(1,991.1)	(1,468.2)
Reinsurance recoverables	500.9	(1,326.3)
Prepaid reinsurance premiums	60.5	90.1
Deferred acquisition costs	(187.7)	(229.6)
Income taxes	73.6	(591.6)
Unearned premiums	3,468.1	2,181.1
Loss and loss adjustment expense reserves	3,218.0	4,467.7
Accounts payable, accrued expenses, and other liabilities	1,089.1	546.5
Other, net	(215.8)	(39.4)
Net cash provided by operating activities	8,206.0	5,919.2
Cash Flows From Investing Activities		
Purchases:		
Fixed maturities	(18,956.2)	(18,672.7)
Equity securities	(23.2)	(126.5)
Sales:		
Fixed maturities	4,780.3	9,737.6
Equity securities	745.5	1,467.0
Maturities, paydowns, calls, and other:		
Fixed maturities	3,693.2	4,158.5
Equity securities	65.3	39.3
Net (purchases) sales of short-term investments	1,132.0	(3,266.6)
Net change in unsettled security transactions	201.7	(68.7)
Purchases of property and equipment	(169.9)	(245.0)
Sales of property and equipment	35.0	16.0
Net cash used in investing activities	(8,496.3)	(6,961.1)
Cash Flows From Financing Activities		
Dividends paid to common shareholders	(175.5)	(175.5)
Dividends paid to preferred shareholders	(33.2)	(26.8)
Acquisition of treasury shares for restricted stock tax liabilities	(52.3)	(76.2)
Acquisition of treasury shares acquired in open market	(27.5)	(2.4)
Net proceeds from debt issuances	496.3	1,486.0
Net cash provided by financing activities	207.8	1,205.1
Increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	(82.5)	163.2
Cash, cash equivalents, restricted cash, and restricted cash equivalents – January 1	220.9	202.1
Cash, cash equivalents, restricted cash, and restricted cash equivalents – September 30	$ 138.4	$ 365.3

See notes to consolidated financial statements.

1. BASIS OF REPORTING AND ACCOUNTING

The accompanying consolidated financial statements include the accounts of The Progressive Corporation, our wholly owned insurance subsidiaries and non-insurance subsidiaries and affiliates in which we have a controlling financial interest (Progressive).

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 September 30, 2023, 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, 2022 (2022 Annual Report to Shareholders).

Insurance Premiums and Receivables

We perform analyses to evaluate our premiums receivable for expected credit losses. See our 2022 Annual Report to Shareholders for a discussion on our premiums receivable allowance for credit loss policy. The following table summarizes changes in our allowance for credit loss exposure on our premiums receivable:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(millions)	**2023**	**2022**	**2023**	**2022**
Allowance for credit losses, beginning of period	$ 343.9	$ 265.8	$ 343.3	$ 280.4
Increase in allowance[1]	157.5	130.9	399.7	320.6
Write-offs[2]	(140.2)	(101.7)	(381.8)	(306.0)
Allowance for credit losses, end of period	$ 361.2	$ 295.0	$ 361.2	$ 295.0

[1] Represents the incremental increase in other underwriting expenses.

[2] Represents the portion of the allowance that is reversed when premiums receivable are written off. Premiums receivable balances are written off once we have exhausted our collection efforts.

Property and Equipment

Included in other assets in our consolidated balance sheets are "held for sale" property. When property is transferred to held for sale, the property is written down to its fair value less estimated costs to sell the property. At September 30, 2023 and 2022, and December 31, 2022, we had held for sale property of $81.6 million, $47.4 million, and $48.7 million, respectively.

Earnings Per Share

Net income is reduced by preferred share dividends to determine net income available to common shareholders and is used in our calculation of the per common share amounts. Beginning March 15, 2023, the annual dividend rate for our Series B Preferred Shares switched to a floating rate. The floating nature of the dividend rate will impact the amount of the adjustment required to calculate net income available to common shareholders. See *Note 9 – Dividends* for further discussion.

For periods when a net loss is reported, earnings per common share are calculated using basic average equivalent shares since diluted earnings per share would be antidilutive.

New Accounting Standards

During the first quarter 2023, the Financial Accounting Standards Board issued an Accounting Standards Update (ASU), which permits an election to amortize the cost of tax equity investments to the provision for income taxes if certain conditions are met. Currently, these investments are accounted for under the equity method of accounting. This ASU will be effective for fiscal years (including interim periods within those fiscal years) beginning after December 15, 2023 (2024 for calendar-year companies). If elected, this standard must be applied on either a modified retrospective or a retrospective basis. We intend to adopt the new standard under the modified retrospective basis, however, we do not expect this standard to have a material impact on our financial condition or results of operations.

2. INVESTMENTS

The following tables present the composition of our investment portfolio by major security type. 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 (loss), 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 for the hybrid and equity securities. The changes in the net holding period gains (losses) between periods are recorded as a component of net realized gains (losses) on securities in our consolidated statements of comprehensive income.

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
September 30, 2023						
Available-for-sale securities:						
Fixed maturities:						
U.S. government obligations	$ 36,392.2	$ 0	$ (2,098.4)	$ 0	$ 34,293.8	55.4 %
State and local government obligations	2,257.6	0	(203.3)	0	2,054.3	3.3
Foreign government obligations	16.9	0	(1.5)	0	15.4	0.1
Corporate debt securities	10,880.8	1.3	(591.8)	(36.1)	10,254.2	16.6
Residential mortgage-backed securities	530.4	0.2	(13.0)	(1.8)	515.8	0.8
Commercial mortgage-backed securities	4,699.5	2.1	(723.9)	0	3,977.7	6.4
Other asset-backed securities	5,524.2	0.1	(210.1)	(0.6)	5,313.6	8.6
Redeemable preferred stocks	189.0	0	(4.3)	(17.6)	167.1	0.3
Total fixed maturities	60,490.6	3.7	(3,846.3)	(56.1)	56,591.9	91.5
Short-term investments	1,795.2	0	0	0	1,795.2	2.9
Total available-for-sale securities	62,285.8	3.7	(3,846.3)	(56.1)	58,387.1	94.4
Equity securities:						
Nonredeemable preferred stocks	976.9	0	0	(108.0)	868.9	1.4
Common equities	662.6	0	0	1,951.9	2,614.5	4.2
Total equity securities	1,639.5	0	0	1,843.9	3,483.4	5.6
Total portfolio[1]	$ 63,925.3	$ 3.7	$ (3,846.3)	$ 1,787.8	$ 61,870.5	100.0 %

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
September 30, 2022						
Available-for-sale securities:						
Fixed maturities:						
U.S. government obligations	$ 24,260.9	$ 0	$ (1,855.4)	$ 0	$ 22,405.5	42.8 %
State and local government obligations	2,140.9	0	(215.4)	0	1,925.5	3.7
Foreign government obligations	16.7	0	(1.4)	0	15.3	0.1
Corporate debt securities	10,119.8	0	(832.5)	(58.9)	9,228.4	17.6
Residential mortgage-backed securities	754.2	0.4	(16.5)	(15.1)	723.0	1.4
Commercial mortgage-backed securities	5,833.9	1.4	(747.4)	0	5,087.9	9.7
Other asset-backed securities	4,876.7	0	(268.9)	(1.9)	4,605.9	8.8
Redeemable preferred stocks	202.6	0	(5.6)	(15.4)	181.6	0.3
Total fixed maturities	48,205.7	1.8	(3,943.1)	(91.3)	44,173.1	84.4
Short-term investments	4,237.6	0	0	0	4,237.6	8.1
Total available-for-sale securities	52,443.3	1.8	(3,943.1)	(91.3)	48,410.7	92.5
Equity securities:						
Nonredeemable preferred stocks	1,417.6	0	0	(163.2)	1,254.4	2.4
Common equities	803.7	0	0	1,861.6	2,665.3	5.1
Total equity securities	2,221.3	0	0	1,698.4	3,919.7	7.5
Total portfolio[1]	$ 54,664.6	$ 1.8	$ (3,943.1)	$ 1,607.1	$ 52,330.4	100.0 %

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
December 31, 2022						
Available-for-sale securities:						
Fixed maturities:						
U.S. government obligations	$ 26,770.7	$ 1.4	$ (1,604.7)	$ 0	$ 25,167.4	47.0 %
State and local government obligations	2,180.0	0	(202.9)	0	1,977.1	3.7
Foreign government obligations	16.8	0	(1.3)	0	15.5	0.1
Corporate debt securities	10,125.8	9.8	(676.1)	(46.8)	9,412.7	17.6
Residential mortgage-backed securities	696.1	0.3	(17.5)	(12.1)	666.8	1.2
Commercial mortgage-backed securities	5,446.0	1.5	(784.0)	0	4,663.5	8.7
Other asset-backed securities	4,826.0	0.9	(260.5)	(1.8)	4,564.6	8.5
Redeemable preferred stocks	202.6	0	(4.5)	(13.8)	184.3	0.3
Total fixed maturities	50,264.0	13.9	(3,551.5)	(74.5)	46,651.9	87.1
Short-term investments	2,861.7	0	0	0	2,861.7	5.4
Total available-for-sale securities	53,125.7	13.9	(3,551.5)	(74.5)	49,513.6	92.5
Equity securities:						
Nonredeemable preferred stocks	1,364.2	0	0	(151.0)	1,213.2	2.3
Common equities	826.1	0	0	1,995.4	2,821.5	5.2
Total equity securities	2,190.3	0	0	1,844.4	4,034.7	7.5
Total portfolio[1]	$ 55,316.0	$ 13.9	$ (3,551.5)	$ 1,769.9	$ 53,548.3	100.0 %

[1] At September 30, 2023 and 2022, we had $167.3 million and $74.7 million, respectively, of net unsettled security purchase transactions included in other liabilities, compared to $34.4 million included in other assets at December 31, 2022.
The total fair value of the portfolio at September 30, 2023 and 2022, and December 31, 2022, included $4.1 billion, $4.2 billion, and $4.4 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of unsettled security transactions.

At September 30, 2023, bonds and certificates of deposit in the principal amount of $612.4 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 September 30, 2023 or 2022, or December 31, 2022. At September 30, 2023, 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.

We did not have any open repurchase or reverse repurchase transactions positions at September 30, 2023 and 2022, or December 31, 2022, and did not enter into any such transactions during the first nine months of 2023. During 2022, however, we did invest in repurchase transactions that had an immaterial impact on our results of operations and cash flows. 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 in 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 Certain securities in our fixed-maturity 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. These securities are reported at fair value:

	September 30,		
(millions)	**2023**	**2022**	**Dec. 31, 2022**
Fixed Maturities:			
Corporate debt securities	$ 511.1	$ 500.4	$ 535.4
Residential mortgage-backed securities	410.8	550.8	509.6
Other asset-backed securities	19.4	51.4	42.0
Redeemable preferred stocks	136.4	133.0	134.7
Total hybrid securities	$1,077.7	$ 1,235.6	$ 1,221.7

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 use the fair value option to record the changes in fair value of these securities through income as a component of net realized gains or losses.

Fixed Maturities The composition of fixed maturities by maturity at September 30, 2023, was:

(millions)	**Cost**	**Fair Value**
Less than one year	$ 9,639.9	$ 9,387.8
One to five years	37,572.4	35,419.0
Five to ten years	13,197.7	11,710.3
Ten years or greater	80.6	74.8
Total	$ 60,490.6	$ 56,591.9

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

Gross Unrealized Losses The following tables show the composition of gross unrealized losses by major security type and by the length of time that individual securities have been in a continuous unrealized loss position:

				Less than 12 Months			12 Months or Greater		
($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
September 30, 2023									
U.S. government obligations	173	$34,293.8	$ (2,098.4)	37	$16,686.2	$ (557.6)	136	$17,607.6	$ (1,540.8)
State and local government obligations	356	2,033.9	(203.3)	46	359.6	(7.6)	310	1,674.3	(195.7)
Foreign government obligations	1	15.4	(1.5)	0	0	0	1	15.4	(1.5)
Corporate debt securities	467	9,490.0	(591.8)	164	3,380.4	(94.1)	303	6,109.6	(497.7)
Residential mortgage-backed securities	40	99.9	(13.0)	2	0.4	0	38	99.5	(13.0)
Commercial mortgage-backed securities	196	3,960.8	(723.9)	0	0	0	196	3,960.8	(723.9)
Other asset-backed securities	295	5,001.8	(210.1)	104	2,056.9	(8.8)	191	2,944.9	(201.3)
Redeemable preferred stocks	3	30.6	(4.3)	0	0	0	3	30.6	(4.3)
Total fixed maturities	1,531	$54,926.2	$ (3,846.3)	353	$22,483.5	$ (668.1)	1,178	$32,442.7	$ (3,178.2)

				Less than 12 Months			12 Months or Greater		
($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
September 30, 2022									
U.S. government obligations	157	$22,385.4	$ (1,855.4)	103	$16,085.8	$ (1,095.6)	54	$ 6,299.6	$ (759.8)
State and local government obligations	353	1,911.0	(215.4)	292	1,363.1	(129.8)	61	547.9	(85.6)
Foreign government obligations	1	15.3	(1.4)	1	15.3	(1.4)	0	0	0
Corporate debt securities	452	8,885.6	(832.5)	391	7,875.5	(699.0)	61	1,010.1	(133.5)
Residential mortgage-backed securities	44	165.1	(16.5)	34	126.0	(11.8)	10	39.1	(4.7)
Commercial mortgage-backed securities	234	5,074.3	(747.4)	182	3,856.0	(425.4)	52	1,218.3	(322.0)
Other asset-backed securities	277	4,544.8	(268.9)	217	3,597.1	(183.4)	60	947.7	(85.5)
Redeemable preferred stocks	4	48.6	(5.6)	3	37.7	(4.0)	1	10.9	(1.6)
Total fixed maturities	1,522	$43,030.1	$ (3,943.1)	1,223	$32,956.5	$ (2,550.4)	299	$10,073.6	$ (1,392.7)

				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, 2022									
U.S. government obligations	160	$24,802.5	$ (1,604.7)	90	$17,327.2	$ (699.2)	70	$ 7,475.3	$ (905.5)
State and local government obligations	348	1,948.8	(202.9)	239	1,124.2	(76.8)	109	824.6	(126.1)
Foreign government obligations	1	15.5	(1.3)	0	0	0	1	15.5	(1.3)
Corporate debt securities	422	8,449.6	(676.1)	285	5,717.6	(426.1)	137	2,732.0	(250.0)
Residential mortgage-backed securities	45	151.0	(17.5)	27	65.1	(6.8)	18	85.9	(10.7)
Commercial mortgage-backed securities	226	4,651.1	(784.0)	99	1,702.0	(192.1)	127	2,949.1	(591.9)
Other asset-backed securities	262	4,247.8	(260.5)	130	2,144.8	(100.9)	132	2,103.0	(159.6)
Redeemable preferred stocks	4	49.6	(4.5)	3	38.5	(3.1)	1	11.1	(1.4)
Total fixed maturities	1,468	$44,315.9	$ (3,551.5)	873	$28,119.4	$ (1,505.0)	595	$16,196.5	$ (2,046.5)

During the third quarter 2023, the credit ratings of our U.S. government obligations went down due to two major credit rating agencies rating U.S. government debt at AA+ instead of AAA. Additionally, we had 14 securities in other fixed-maturity sectors that had their credit ratings downgraded, with a combined fair value of $144.2 million and an unrealized loss of $7.1 million as of September 30, 2023.

A review of the securities in an unrealized loss position indicated that the issuers were current with respect to their interest obligations and that there was no evidence of deterioration of the current cash flow projections that would indicate we would not receive the remaining principal at maturity.

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 during the first nine months of 2023 or 2022, and did not have a material credit loss allowance balance as of September 30, 2023 and 2022, or December 31, 2022. 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, we initially reviewed securities in a loss position to determine whether it was likely that we would be required, or intended, to sell any of the securities prior to the recovery of their respective cost bases (which could be maturity). If we were likely to, or intended to, sell prior to a potential recovery, we would write off the unrealized loss. For those securities that we determined we were not likely to, or did not intend to, sell prior to a potential recovery, we performed additional analysis to determine if the loss was credit related. For securities subject to credit related loss, we calculated the net present value (NPV) of the cash flows expected (i.e., expected recovery value) using the current book yield for each security. The NPV was then compared to the security's current amortized value to determine if a credit loss existed. In the event that the NPV was below the amortized value, and the amount was determined to be material individually, or in the aggregate, a credit loss would be deemed to exist, and either an allowance for credit losses would be created, or if an allowance currently existed, either a recovery of the previous allowance, or an incremental loss, would be recorded to net realized gains (losses) on securities.

As of September 30, 2023 and 2022, and December 31, 2022, we believe none of the unrealized losses were related to material credit losses on any individual security, or in the aggregate. We continue to expect all the securities in our portfolio to pay their principal and interest obligations.

In addition, we reviewed our accrued investment income outstanding on those securities in an unrealized loss position at September 30, 2023 and 2022, and December 31, 2022, 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 September 30, 2023 and 2022, or December 31, 2022.

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

	Three Months		Nine Months	
(millions)	**2023**	**2022**	**2023**	**2022**
Gross realized gains on security sales				
Available-for-sale securities:				
U.S. government obligations	$ 0.2	$ 0	$ 4.2	$ 4.6
Corporate debt securities	0.7	0.3	0.8	6.8
Residential mortgage-backed securities	0	0	0	0.7
Other asset-backed securities	0	0	0	0.1
Total available-for-sale securities	0.9	0.3	5.0	12.2
Equity securities:				
Nonredeemable preferred stocks	0	0.1	0.3	17.6
Common equities	0.3	1.4	354.2	832.5
Total equity securities	0.3	1.5	354.5	850.1
Subtotal gross realized gains on security sales	1.2	1.8	359.5	862.3
Gross realized losses on security sales				
Available-for-sale securities:				
U.S. government obligations	(14.6)	0	(27.2)	(233.5)
State and local government obligations	0	0	0	(1.0)
Corporate debt securities	(19.1)	(14.0)	(69.3)	(51.8)
Commercial mortgage-backed securities	(20.6)	(44.8)	(100.6)	(58.6)
Other asset-backed securities	(5.2)	0	(5.6)	(2.1)
Short-term investments	0	0	(0.4)	(0.3)
Total available-for-sale securities	(59.5)	(58.8)	(203.1)	(347.3)
Equity securities:				
Nonredeemable preferred stocks	(7.4)	(5.1)	(117.6)	(7.0)
Common equities	(8.9)	0	(21.8)	(78.0)
Total equity securities	(16.3)	(5.1)	(139.4)	(85.0)
Subtotal gross realized losses on security sales	(75.8)	(63.9)	(342.5)	(432.3)
Net realized gains (losses) on security sales				
Available-for-sale securities:				
U.S. government obligations	(14.4)	0	(23.0)	(228.9)
State and local government obligations	0	0	0	(1.0)
Corporate debt securities	(18.4)	(13.7)	(68.5)	(45.0)
Residential mortgage-backed securities	0	0	0	0.7
Commercial mortgage-backed securities	(20.6)	(44.8)	(100.6)	(58.6)
Other asset-backed securities	(5.2)	0	(5.6)	(2.0)
Short-term investments	0	0	(0.4)	(0.3)
Total available-for-sale securities	(58.6)	(58.5)	(198.1)	(335.1)
Equity securities:				
Nonredeemable preferred stocks	(7.4)	(5.0)	(117.3)	10.6
Common equities	(8.6)	1.4	332.4	754.5
Total equity securities	(16.0)	(3.6)	215.1	765.1
Subtotal net realized gains (losses) on security sales	(74.6)	(62.1)	17.0	430.0
Other assets				
Gain	8.4	0	21.6	0
Impairment	(2.3)	(2.2)	(6.8)	(6.5)
Subtotal net realized gains (losses) on other assets	6.1	(2.2)	14.8	(6.5)
Net holding period gains (losses)				
Hybrid securities	(0.3)	(11.4)	18.4	(98.8)
Equity securities	(80.2)	(140.7)	(0.5)	(2,164.1)
Subtotal net holding period gains (losses)	(80.5)	(152.1)	17.9	(2,262.9)
Total net realized gains (losses) on securities	$ (149.0)	$ (216.4)	$ 49.7	$ (1,839.4)

Realized gains (losses) on securities sold are computed using the first-in-first-out method. For the first nine months of both 2023 and 2022, the gross gains in common equities reflected sales of securities, as part of our plan to incrementally reduce risk in the portfolio in response to our view of the potential of a more difficult economic environment in both years. The gross loss from the fixed-maturity sales reflected the continued rise in interest rates throughout 2022, which resulted in valuation declines for most of our available-for-sale securities. In addition, during 2023, we selectively sold securities, which were primarily corporate debt securities and commercial mortgage-backed securities. The gross loss incurred in our nonredeemable preferred stocks was primarily related to the sale of certain holdings in U.S. bank preferred stocks. The other asset gain for 2023, related to proceeds received as the result of litigation in conjunction with three renewable energy investments we made from 2016 through 2018 (the original investments were previously written down in full). The other asset impairment loss was recorded as a result of our investment in a federal new markets tax credit fund, which was entered into during the second quarter 2021, and is reported in other assets in our consolidated balance sheets.

The following table reflects our holding period realized gains (losses) recognized on equity securities held at the respective periods ended September 30:

	Three Months		Nine Months	
(millions)	**2023**	**2022**	**2023**	**2022**
Total net gains (losses) recognized during the period on equity securities	$ (96.2)	$ (144.3)	$ 214.6	$ (1,399.0)
Less: Net gains (losses) recognized on equity securities sold during the period	(16.0)	(3.6)	215.1	765.1
Net holding period gains (losses) recognized during the period on equity securities held at period end	$ (80.2)	$ (140.7)	$ (0.5)	$ (2,164.1)

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

	Three Months		Nine Months	
(millions)	**2023**	**2022**	**2023**	**2022**
Available-for-sale securities:				
Fixed maturities:				
U.S. government obligations	$ 237.0	$ 86.1	$ 591.7	$ 205.4
State and local government obligations	12.3	9.8	34.5	29.3
Foreign government obligations	0.1	0.1	0.2	0.2
Corporate debt securities	94.8	71.8	261.9	215.4
Residential mortgage-backed securities	7.6	8.8	22.6	23.2
Commercial mortgage-backed securities	48.7	48.3	147.9	138.1
Other asset-backed securities	62.9	52.1	173.0	116.5
Redeemable preferred stocks	2.6	3.0	8.2	8.5
Total fixed maturities	466.0	280.0	1,240.0	736.6
Short-term investments	21.6	24.8	71.1	29.6
Total available-for-sale securities	487.6	304.8	1,311.1	766.2
Equity securities:				
Nonredeemable preferred stocks	11.9	17.3	40.3	53.6
Common equities	10.7	11.5	32.9	48.4
Total equity securities	22.6	28.8	73.2	102.0
Investment income	510.2	333.6	1,384.3	868.2
Investment expenses	(7.2)	(5.8)	(18.8)	(17.4)
Net investment income	$ 503.0	$ 327.8	$ 1,365.5	$ 850.8

On a year-over-year basis, investment income (interest and dividends) increased 53% and 59% for the three and nine months ended September 30, 2023, respectively, and the recurring investment book yield increased 32% and 39% for the three and nine months ended September 30, 2023, respectively, compared to the same periods last year. The increases are primarily due to an increase in interest rates on floating-rate securities in our portfolio, an increase in average assets resulting from premium growth, and investing new cash and cash from maturities in higher interest rate securities given the rising interest rate environment.

3. FAIR VALUE

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

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

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

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

(millions)	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total	Cost
September 30, 2023					
Fixed maturities:					
U.S. government obligations	$ 34,293.8	$ 0	$ 0	$ 34,293.8	$ 36,392.2
State and local government obligations	0	2,054.3	0	2,054.3	2,257.6
Foreign government obligations	0	15.4	0	15.4	16.9
Corporate debt securities	0	10,254.2	0	10,254.2	10,880.8
Subtotal	34,293.8	12,323.9	0	46,617.7	49,547.5
Asset-backed securities:					
Residential mortgage-backed	0	515.8	0	515.8	530.4
Commercial mortgage-backed	0	3,977.7	0	3,977.7	4,699.5
Other asset-backed	0	5,313.6	0	5,313.6	5,524.2
Subtotal asset-backed securities	0	9,807.1	0	9,807.1	10,754.1
Redeemable preferred stocks:					
Financials	0	21.3	0	21.3	24.5
Utilities	0	9.3	0	9.3	10.4
Industrials	0	136.5	0	136.5	154.1
Subtotal redeemable preferred stocks	0	167.1	0	167.1	189.0
Total fixed maturities	34,293.8	22,298.1	0	56,591.9	60,490.6
Short-term investments	1,763.2	32.0	0	1,795.2	1,795.2
Total available-for-sale securities	36,057.0	22,330.1	0	58,387.1	62,285.8
Equity securities:					
Nonredeemable preferred stocks:					
Financials	0	770.7	47.9	818.6	921.9
Utilities	0	34.5	0	34.5	40.0
Industrials	0	0	15.8	15.8	15.0
Subtotal nonredeemable preferred stocks	0	805.2	63.7	868.9	976.9
Common equities:					
Common stocks	2,573.6	0	18.3	2,591.9	640.0
Other risk investments	0	0	22.6	22.6	22.6
Subtotal common equities	2,573.6	0	40.9	2,614.5	662.6
Total equity securities	2,573.6	805.2	104.6	3,483.4	1,639.5
Total portfolio	$ 38,630.6	$ 23,135.3	$ 104.6	$ 61,870.5	$ 63,925.3
Debt	$ 0	$ 5,932.1	$ 0	$ 5,932.1	$ 6,887.6

(millions)	Fair Value Level 1	Level 2	Level 3	Total	Cost
September 30, 2022					
Fixed maturities:					
U.S. government obligations	$ 22,405.5	$ 0	$ 0	$ 22,405.5	$ 24,260.9
State and local government obligations	0	1,925.5	0	1,925.5	2,140.9
Foreign government obligations	0	15.3	0	15.3	16.7
Corporate debt securities	0	9,228.4	0	9,228.4	10,119.8
Subtotal	22,405.5	11,169.2	0	33,574.7	36,538.3
Asset-backed securities:					
Residential mortgage-backed	0	723.0	0	723.0	754.2
Commercial mortgage-backed	0	5,087.9	0	5,087.9	5,833.9
Other asset-backed	0	4,605.9	0	4,605.9	4,876.7
Subtotal asset-backed securities	0	10,416.8	0	10,416.8	11,464.8
Redeemable preferred stocks:					
Financials	0	39.8	0	39.8	43.6
Utilities	0	8.8	0	8.8	10.5
Industrials	8.9	124.1	0	133.0	148.5
Subtotal redeemable preferred stocks	8.9	172.7	0	181.6	202.6
Total fixed maturities	22,414.4	21,758.7	0	44,173.1	48,205.7
Short-term investments	4,219.6	18.0	0	4,237.6	4,237.6
Total available-for-sale securities	26,634.0	21,776.7	0	48,410.7	52,443.3
Equity securities:					
Nonredeemable preferred stocks:					
Financials	60.9	1,015.6	64.9	1,141.4	1,297.6
Utilities	0	71.3	0	71.3	79.9
Industrials	0	24.7	17.0	41.7	40.1
Subtotal nonredeemable preferred stocks	60.9	1,111.6	81.9	1,254.4	1,417.6
Common equities:					
Common stocks	2,597.3	49.3	0	2,646.6	785.0
Other risk investments	0	0	18.7	18.7	18.7
Subtotal common equities	2,597.3	49.3	18.7	2,665.3	803.7
Total equity securities	2,658.2	1,160.9	100.6	3,919.7	2,221.3
Total portfolio	$ 29,292.2	$ 22,937.6	$ 100.6	$ 52,330.4	$ 54,664.6
Debt	$ 0	$ 5,634.7	$ 0	$ 5,634.7	$ 6,387.4

(millions)	Fair Value Level 1	Level 2	Level 3	Total	Cost
December 31, 2022					
Fixed maturities:					
U.S. government obligations	$ 25,167.4	$ 0	$ 0	$ 25,167.4	$ 26,770.7
State and local government obligations	0	1,977.1	0	1,977.1	2,180.0
Foreign government obligations	0	15.5	0	15.5	16.8
Corporate debt securities	0	9,412.7	0	9,412.7	10,125.8
Subtotal	25,167.4	11,405.3	0	36,572.7	39,093.3
Asset-backed securities:					
Residential mortgage-backed	0	666.8	0	666.8	696.1
Commercial mortgage-backed	0	4,663.5	0	4,663.5	5,446.0
Other asset-backed	0	4,564.6	0	4,564.6	4,826.0
Subtotal asset-backed securities	0	9,894.9	0	9,894.9	10,968.1
Redeemable preferred stocks:					
Financials	0	40.5	0	40.5	43.6
Utilities	0	9.1	0	9.1	10.5
Industrials	9.2	125.5	0	134.7	148.5
Subtotal redeemable preferred stocks	9.2	175.1	0	184.3	202.6
Total fixed maturities	25,176.6	21,475.3	0	46,651.9	50,264.0
Short-term investments	2,800.7	61.0	0	2,861.7	2,861.7
Total available-for-sale securities	27,977.3	21,536.3	0	49,513.6	53,125.7
Equity securities:					
Nonredeemable preferred stocks:					
Financials	39.0	994.4	67.4	1,100.8	1,244.2
Utilities	0	71.2	0	71.2	79.9
Industrials	0	24.8	16.4	41.2	40.1
Subtotal nonredeemable preferred stocks	39.0	1,090.4	83.8	1,213.2	1,364.2
Common equities:					
Common stocks	2,783.4	0	18.3	2,801.7	806.3
Other risk investments	0	0	19.8	19.8	19.8
Subtotal common equities	2,783.4	0	38.1	2,821.5	826.1
Total equity securities	2,822.4	1,090.4	121.9	4,034.7	2,190.3
Total portfolio	$ 30,799.7	$ 22,626.7	$ 121.9	$ 53,548.3	$ 55,316.0
Debt	$ 0	$ 5,717.9	$ 0	$ 5,717.9	$ 6,388.3

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 September 30, 2023, vendor-quoted prices represented 93% of our Level 1 classifications (excluding short-term investments), compared to 90% at both September 30, 2022 and December 31, 2022. 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. All Level 1 preferred stocks with active exchange quotes were sold as of September 30, 2023.

At September 30, 2023, vendor-quoted prices comprised 99% of our Level 2 classifications (excluding short-term investments and common stock), while dealer-quoted prices represented the remaining 1%, compared to 98% and 2%, respectively, at both September 30, 2022 and December 31, 2022. In our process for selecting a source (e.g., dealer or pricing service) to provide pricing for securities in our portfolio, we reviewed documentation from the sources that detailed the pricing techniques and methodologies used by these sources and determined if their policies adequately considered market activity, either based on specific transactions for the particular security type or based on modeling of securities with similar credit quality, duration, yield, and structure that were recently transacted. Once a source is chosen, we continue to monitor any changes or modifications to their processes by reviewing their documentation on internal controls for pricing and market reviews. We review quality control measures of our sources as they become available to determine if any significant changes have occurred from period to period that might indicate issues or concerns regarding their evaluation or market coverage.

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

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

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

For 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, credit quality, and coupon, 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 municipal securities (e.g., general obligations, revenue, and housing), we stratify the portfolio to evaluate securities by type, duration, credit quality, and coupon 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.

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

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

During each valuation period, we create internal estimations of portfolio valuation (performance returns), based on current market-related activity (i.e., interest rate and credit spread movements and other credit-related factors) within each major sector of our portfolio. We compare our internally generated portfolio results with those generated based on quotes we receive externally and research material valuation differences. We compare our results to index returns for each major sector adjusting for duration and credit quality differences to better understand our portfolio's results. Additionally, we review on a monthly basis our external sales transactions and compare the actual final market sales prices to previous market valuation prices. This review provides us further validation that our pricing sources are providing market level prices, since we are able to explain significant price changes (i.e., greater than 2%) as known events occur in the marketplace and affect a particular security's price at sale.

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

After all the valuations are received and our review of Level 2 securities is complete, if the inputs used by vendors are determined to not contain sufficient observable market information, we will reclassify the affected securities to Level 3.

Except as described below, our Level 3 securities are 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.

To the extent we receive prices from external sources (e.g., broker, valuation firm) for the Level 3 securities, we review those prices for reasonableness using internally developed assumptions and then compare our derived prices to the prices received from the external sources. Based on our review, all prices received from external sources remained unadjusted.

If we do not receive prices from an external source, we perform an internal fair value comparison, which includes a review and analysis of market-comparable securities, to determine if fair value changes are needed. Based on this analysis, certain private equity investments included in the Level 3 category remain valued at cost or were priced using a recent transaction as the basis for fair value. At least annually, these private equity investments are priced by an external source.

Our Level 3 other risk investments include securities accounted for under the equity method of accounting and, therefore, are not subject to fair value reporting. Since these securities represent less than 0.1% of our total portfolio, we will continue to include them in our Level 3 disclosures and report the activity from these investments as "other" changes in the summary of changes in fair value table and categorize these securities as "pricing exemption securities" in the quantitative information table.

One of our Level 3 financial nonredeemable preferred stocks was exchanged into common equity during third quarter 2023 and the security was sold prior to September 30, 2023. The Level 2 common stock held at September 30, 2022, was transferred to Level 3 at December 31, 2022. At September 30, 2023 and 2022, and December 31, 2022, we did not have any securities in our fixed-maturity portfolio listed as Level 3.

During the first nine months of 2023 and 2022, there were no material assets or liabilities measured at fair value on a nonrecurring basis, other than goodwill. See *Note 12 – Goodwill and Intangible Assets* for further discussion.

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 nine months ended September 30, 2023 and 2022:

	Level 3 Fair Value							
(millions)	Fair Value at June 30, 2023	Calls/ Maturities/ Paydowns/ Other	Purchases	Sales	Net Realized (Gain)/Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at September 30, 2023
Equity securities:								
Nonredeemable preferred stocks:								
Financials	$ 56.0	$ (8.1)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 47.9
Industrials	15.8	0	0	0	0	0	0	15.8
Common equities:								
Common stocks	18.3	8.1	0	(10.0)	8.9	(7.0)	0	18.3
Other risk investments	21.9	0.7	0	0	0	0	0	22.6
Total Level 3 securities	$ 112.0	$ 0.7	$ 0	$ (10.0)	$ 8.9	$ (7.0)	$ 0	$ 104.6

	Level 3 Fair Value							
(millions)	Fair Value at June 30, 2022	Calls/ Maturities/ Paydowns/ Other	Purchases	Sales	Net Realized (Gain)/Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at September 30, 2022
Equity securities:								
Nonredeemable preferred stocks:								
Financials	$ 64.9	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 64.9
Industrials	17.0	0	0	0	0	0	0	17.0
Common equities:								
Common stocks	0	0	0	0	0	0	0	0
Other risk investments	18.5	0.2	0	0	0	0	0	18.7
Total Level 3 securities	$ 100.4	$ 0.2	$ 0	$ 0	$ 0	$ 0	$ 0	$ 100.6

	Level 3 Fair Value							
(millions)	Fair Value at December 31, 2022	Calls/ Maturities/ Paydowns/ Other	Purchases	Sales	Net Realized (Gain)/Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at September 30, 2023
Equity securities:								
Nonredeemable preferred stocks:								
Financials	$ 67.4	$ (8.1)	$ 0	$ 0	$ 0	$ (11.4)	$ 0	$ 47.9
Industrials	16.4	0	0	0	0	(0.6)	0	15.8
Common equities:								
Common stocks	18.3	8.1	0	(10.0)	8.9	(7.0)	0	18.3
Other risk investments	19.8	2.8	0	0	0	0	0	22.6
Total Level 3 securities	$ 121.9	$ 2.8	$ 0	$ (10.0)	$ 8.9	$ (19.0)	$ 0	$ 104.6

(millions)	Level 3 Fair Value Fair Value at December 31, 2021	Calls/ Maturities/ Paydowns/ Other	Purchases	Sales	Net Realized (Gain)/Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at September 30, 2022
Equity securities:								
Nonredeemable preferred stocks:								
Financials	$ 76.4	$ 0	$ 0	$ (15.0)	$ (17.2)	$ 20.7	$ 0	$ 64.9
Industrials	34.4	(0.5)	0	0	0	(16.9)	0	17.0
Common equities:								
Other risk investments	16.9	1.8	0	0	0	0	0	18.7
Total Level 3 securities	$ 127.7	$ 1.3	$ 0	$ (15.0)	$ (17.2)	$ 3.8	$ 0	$ 100.6

The following tables provide a summary of the quantitative information about Level 3 fair value measurements for our applicable securities at September 30, 2023 and 2022, and December 31, 2022:

($ in millions)	Quantitative Information about Level 3 Fair Value Measurements Fair Value at September 30, 2023	Valuation Technique	Unobservable Input	Range of Input Values Increase (Decrease)	Weighted Average Increase (Decrease)
Equity securities:					
Nonredeemable preferred stocks	$ 63.7	Market comparables	Weighted average market capitalization price change %	(10.8)% to 4.5%	1.7 %
Common stocks	18.3	Market comparables	Weighted average market capitalization price change %	(37.4)% to 130.2%	(7.9)%
Subtotal Level 3 securities	82.0				
Pricing exemption securities	22.6				
Total Level 3 securities	$ 104.6				

($ in millions)	Quantitative Information about Level 3 Fair Value Measurements Fair Value at September 30, 2022	Valuation Technique	Unobservable Input	Range of Input Values Increase (Decrease)	Weighted Average Increase (Decrease)
Equity securities:					
Nonredeemable preferred stocks	$ 81.9	Market comparables	Weighted average market capitalization price change %	(20.7)% to (1.1)%	(6.6)%
Subtotal Level 3 securities	81.9				
Pricing exemption securities	18.7				
Total Level 3 securities	$ 100.6				

($ in millions)	Quantitative Information about Level 3 Fair Value Measurements Fair Value at December 31, 2022		Valuation Technique	Unobservable Input	Range of Input Values Increase (Decrease)	Weighted Average Increase (Decrease)
Equity securities:						
Nonredeemable preferred stocks	$	83.8	Market comparables	Weighted average market capitalization price change %	(0.6)% to 19.9%	10.5%
Common stocks		18.3	Market comparables	Weighted average market capitalization price change %	(42.5)% to 59.1%	0.3%
Subtotal Level 3 securities		102.1				
Pricing exemption securities		19.8				
Total Level 3 securities	$	121.9				

4. DEBT

Debt at each of the balance sheet periods consisted of:

(millions)	September 30, 2023 Carrying Value	September 30, 2023 Fair Value	September 30, 2022 Carrying Value	September 30, 2022 Fair Value	December 31, 2022 Carrying Value	December 31, 2022 Fair Value
2.45% Senior Notes due 2027 (issued: $500.0, August 2016)	$ 498.5	$ 455.8	$ 498.1	$ 459.7	$ 498.2	$ 457.7
2.50% Senior Notes due 2027 (issued: $500.0, March 2022)	497.9	454.0	497.4	451.6	497.5	460.3
6 5/8% Senior Notes due 2029 (issued: $300.0, March 1999)	297.7	320.8	297.4	322.1	297.5	326.8
4.00% Senior Notes due 2029 (issued: $550.0, October 2018)	546.8	518.9	546.3	519.5	546.4	527.8
3.20% Senior Notes due 2030 (issued: $500.0, March 2020)	497.2	435.1	496.8	439.3	496.9	448.6
3.00% Senior Notes due 2032 (issued: $500.0, March 2022)	496.2	420.5	495.8	418.8	495.9	438.1
6.25% Senior Notes due 2032 (issued: $400.0, November 2002)	396.6	414.3	396.4	426.0	396.4	435.4
4.95% Senior Notes due 2033 (issued: $500.0, May 2023)	496.4	474.7	0	0	0	0
4.35% Senior Notes due 2044 (issued: $350.0, April 2014)	347.0	280.9	346.9	298.5	346.9	298.4
3.70% Senior Notes due 2045 (issued: $400.0, January 2015)	395.8	288.2	395.7	305.7	395.7	310.2
4.125% Senior Notes due 2047 (issued: $850.0, April 2017)	842.2	666.3	842.0	710.3	842.1	716.2
4.20% Senior Notes due 2048 (issued: $600.0, March 2018)	590.6	473.3	590.3	505.9	590.4	507.0
3.95% Senior Notes due 2050 (issued: $500.0, March 2020)	491.1	373.5	490.9	396.6	490.9	404.9
3.70% Senior Notes due 2052 (issued: $500.0, March 2022)	493.6	355.8	493.4	380.7	493.5	386.5
Total	$ 6,887.6	$ 5,932.1	$ 6,387.4	$ 5,634.7	$ 6,388.3	$ 5,717.9

The Progressive Corporation issued $500.0 million of 4.95% Senior Notes due 2033 in May 2023 in an underwritten public offering. The net proceeds from the issuance, after deducting underwriters' discounts, commissions, and other issuance costs, was approximately $496.3 million. Consistent with the other senior notes issued by Progressive, interest on this note is payable semiannually, principal is due at maturity, and the note is redeemable, in whole or in part, at any time, subject to a treasury "make whole" provision.

There was no short-term debt outstanding at September 30, 2023 and 2022, and December 31, 2022.

During the second quarter 2023, The Progressive Corporation amended its line of credit with PNC Bank, National Association (PNC), to increase the maximum principal amount to $300 million from the previous amount of $250 million and extend the expiration date to April 30, 2024. 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 1-month term Secured Overnight Financing Rate (SOFR) plus 1.10%. Each advance must be repaid on the 30th day after the date of the advance or, if earlier, April 30, 2024, 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 the line of credit during the periods presented.

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 September 30, 2023 and 2022, and December 31, 2022, 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. At September 30, 2023 and 2022, and December 31, 2022, the net deferred tax asset includes a gross deferred tax asset of $807.0 million, $827.7 million, and $742.9 million, respectively, related to unrealized losses on fixed-maturity securities. We believe this deferred tax asset will be realized based on the existence of prior year capital gains, current temporary differences related to unrealized gains in our equity portfolio, and other tax planning strategies.

At September 30, 2023 and 2022, and December 31, 2022, we had no reserves for uncertain tax positions.

The effective tax rate for the three and nine months ended September 30, 2023, was 20.5% and 20.2%, respectively, compared to 12.9% and (1.6)% for the same periods last year. The lower effective tax rates for the three and nine months ended September 30, 2022, were due in part to the low amount of income (loss) before taxes during those periods, resulting in permanent tax differences having a greater impact on the effective rate. The low effective tax rate for the nine months ended September 30, 2022, was also due to a goodwill impairment charge (see *Note 12 – Goodwill and Intangible Assets* for further discussion).

6. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the loss and loss adjustment expense reserves is summarized as follows:

	September 30,	
(millions)	**2023**	**2022**
Balance at January 1	$ 30,359.3	$ 26,164.1
Less reinsurance recoverables on unpaid losses	5,559.2	4,733.6
Net balance at January 1	24,800.1	21,430.5
Incurred related to:		
Current year	33,035.0	28,245.4
Prior years	1,147.0	52.8
Total incurred	34,182.0	28,298.2
Paid related to:		
Current year	18,581.3	15,712.4
Prior years	11,764.7	9,418.5
Total paid	30,346.0	25,130.9
Net balance at September 30	28,636.1	24,597.8
Plus reinsurance recoverables on unpaid losses	4,941.2	6,034.0
Balance at September 30	$ 33,577.3	$ 30,631.8

We experienced unfavorable reserve development of $1,147.0 million and $52.8 million during the first nine months of 2023 and 2022, respectively, which is reflected as “incurred related to prior years” in the table above.

<u>Year-to-date September 30, 2023</u>

- The unfavorable prior year reserve development included approximately $929 million attributable to accident year 2022, $108 million to accident year 2021, and the remainder to accident years 2020 and prior.
- Our personal auto products incurred about $866 million of unfavorable loss and loss adjustment expense (LAE) reserve development, with the Agency and Direct auto businesses each contributing about half. Over half of the unfavorable development was attributable to higher than anticipated severity in auto property and physical damage coverages, while the remaining unfavorable development was primarily due to increased loss costs in Florida injury and medical coverages and, to a lesser extent, higher than anticipated late reported injury claims; partially offset by lower than expected loss adjustment expenses.
- Our Commercial Lines business experienced about $277 million of unfavorable development, primarily driven by higher than anticipated severity and frequency of late reported injury claims, with about half of the unfavorable development attributable to our transportation network company (TNC) business.

Year-to-date September 30, 2022

- Approximately $45 million of the unfavorable prior year reserve development was attributable to accident year 2021 and $29 million to 2019 and prior accident years, partially offset by $21 million of favorable development attributable to accident year 2020.
- Our personal auto products incurred about $28 million of favorable loss and LAE reserve development, with about $25 million attributable to the Direct business. The favorable development was primarily attributable to more subrogation and salvage recoveries and lower LAE than originally anticipated, partially offset by higher than anticipated severity and frequency of auto property damage payments on previously closed claims and late reported injury claims.
- Our Commercial Lines business experienced about $77 million of unfavorable development, primarily due to higher than anticipated severity of injury case reserves and higher than anticipated severity and frequency of late reported claims in our TNC business.

7. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents include bank demand deposits and daily overnight reverse repurchase commitments of funds held in bank demand deposit accounts by certain subsidiaries. The amount of reverse repurchase commitments, which are not considered part of the investment portfolio, held by these subsidiaries at September 30, 2023 and 2022, and December 31, 2022, were $79.7 million, $123.0 million, and $125.9 million, respectively. Restricted cash and cash equivalents include collateral held against unpaid deductibles and cash that is restricted to pay flood claims under the National Flood Insurance Program's "Write Your Own" program, for which certain subsidiaries are participants.

Non-cash activity included the following in the respective periods:

	Nine Months Ended September 30,	
(millions)	**2023**	**2022**
Common share dividends[1]	$ 58.5	$ 58.5
Operating lease liabilities[2]	45.6	29.7

[1] Declared but unpaid. See *Note 9 – Dividends* for further discussion.
[2] From obtaining right-of-use assets.

In the respective periods, we paid the following:

	Nine Months Ended September 30,	
(millions)	**2023**	**2022**
Income taxes	$ 413.0	$ 595.9
Interest	213.5	191.3
Operating lease liabilities	57.2	62.5

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 liability and physical damage insurance, business-related general liability and property insurance predominately for small businesses, and workers' compensation insurance primarily for the transportation industry. Our Property segment writes residential property insurance for homeowners, other property owners, and renters. Our service businesses provide insurance-related services, including serving as an agent for homeowners, general liability, and workers' compensation insurance, among other products, through programs in our direct Personal Lines and Commercial Lines businesses. As previously disclosed in our 2022 Annual Report to Shareholders, during 2022, our contract to act as a servicing agent for processing Commercial Automobile Insurance Procedures/ Plans (CAIP) business expired during the third quarter 2022 and we did not renew the contract. This non-renewal did not materially affect our financial condition, results of operations, or cash flows. All segment revenues are generated from external customers; all intercompany transactions are eliminated in consolidation.

Following are the operating results for the respective periods:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
(millions)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)
Personal Lines								
Agency	$ 5,414.0	$ 335.7	$ 4,441.9	$ (41.3)	$ 15,481.4	$ 427.1	$ 13,131.7	$ 507.6
Direct	6,361.8	706.2	5,077.4	40.6	18,259.9	810.6	14,776.9	389.4
Total Personal Lines[1]	11,775.8	1,041.9	9,519.3	(0.7)	33,741.3	1,237.7	27,908.6	897.0
Commercial Lines	2,486.6	23.0	2,317.9	238.1	7,296.8	147.4	6,749.5	683.5
Property[2]	631.8	74.6	561.0	(141.0)	1,852.8	(164.9)	1,689.6	(289.6)
Other indemnity[3]	0.1	(3.3)	0.7	(2.1)	0.9	(6.7)	2.0	(9.3)
Total underwriting operations	14,894.3	1,136.2	12,398.9	94.3	42,891.8	1,213.5	36,349.7	1,281.6
Fees and other revenues[4]	223.7	NA	181.4	NA	656.6	NA	531.9	NA
Service businesses	81.4	(10.3)	82.7	(0.1)	234.9	(29.7)	230.5	9.0
Investments[5]	361.2	354.0	117.2	111.4	1,434.0	1,415.2	(971.2)	(988.6)
Interest expense	NA	(69.7)	NA	(63.1)	NA	(198.7)	NA	(180.4)
Property - Goodwill impairment[2]	NA	0	NA	0	NA	0	NA	(224.8)
Consolidated total	$ 15,560.6	$ 1,410.2	$ 12,780.2	$ 142.5	$ 45,217.3	$ 2,400.3	$ 36,140.9	$ (103.2)

NA = Not applicable

[1] Personal auto insurance accounted for 94% of the total Personal Lines segment net premiums earned during the three and nine months ended September 30, 2023 and 2022; insurance for our special lines products (e.g., motorcycles, RVs, watercraft, and snowmobiles) accounted for the balance of the Personal Lines net premiums earned.

[2] For the three and nine months ended September 30, 2023, pretax profit (loss) included $2.9 million and $10.7 million, respectively, of amortization expense associated with intangible assets attributable to our Property segment, and $5.0 million and $24.1 million for the same periods in 2022. For the nine months ended September 30, 2022, the total pretax loss, including goodwill impairment, for the Property segment was $514.4 million. See *Note 12 – Goodwill and Intangible Assets* for further discussion.

[3] Includes other underwriting business and run-off operations.

[4] Pretax profit (loss) for fees and other revenues is allocated to operating segments based on revenue.

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

Our management uses underwriting margin and combined ratio as primary measures of underwriting profitability. The underwriting margin is the pretax underwriting profit (loss) expressed as a percentage of net premiums earned (i.e., revenues from underwriting operations). Pretax underwriting profit (loss) is calculated as net premiums earned plus fees and other revenues, less: (i) losses and loss adjustment expenses; (ii) policy acquisition costs; and (iii) other underwriting expenses. 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 September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Under-writing Margin	Combined Ratio	Under-writing Margin	Combined Ratio	Under-writing Margin	Combined Ratio	Under-writing Margin	Combined Ratio
Personal Lines								
Agency	6.2 %	93.8	(0.9)%	100.9	2.8 %	97.2	3.9 %	96.1
Direct	11.1	88.9	0.8	99.2	4.4	95.6	2.6	97.4
Total Personal Lines	8.8	91.2	0	100.0	3.7	96.3	3.2	96.8
Commercial Lines	0.9	99.1	10.3	89.7	2.0	98.0	10.1	89.9
Property[1]	11.8	88.2	(25.1)	125.1	(8.9)	108.9	(17.1)	117.1
Total underwriting operations	7.6	92.4	0.8	99.2	2.8	97.2	3.5	96.5

[1] Included in the three and nine months ended September 30, 2023, is 0.5 points and 0.6 points, respectively, of amortization expense associated with intangible assets and 0.9 points and 1.4 points, respectively, for the three and nine months ended September 30, 2022.

9. DIVIDENDS

Following is a summary of our common and preferred share dividends that were declared and/or paid during the nine months ended September 30, 2023 and 2022:

(millions, except per share amounts)		**Amount**	
Declared	**Payable**	**Per Share**	**Accrued/ Paid**[1]
Common – Quarterly Dividends:			
August 2023	October 2023	$ 0.10	$ 58.5
May 2023	July 2023	0.10	58.5
March 2023	April 2023	0.10	58.5
December 2022	January 2023	0.10	58.5
August 2022	October 2022	0.10	58.5
May 2022	July 2022	0.10	58.5
March 2022	April 2022	0.10	58.5
December 2021	January 2022	0.10	58.5
Preferred Dividends:			
August 2023	September 2023	20.67700	10.3
May 2023	June 2023	18.92463	9.5
December 2022	March 2023	26.875	13.4
August 2022	September 2022	26.875	13.4
December 2021	March 2022	26.875	13.4

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

Beginning March 15, 2023, the annual dividend rate for our Series B Preferred Shares switched to a floating rate equal to the three-month London Interbank Offered Rate (LIBOR) plus a spread of 2.539% applied to the stated amount per share.

We, as calculation agent under our Series B Preferred Shares, determined that the reference rate for the Series B Preferred Shares, for any determination date after June 30, 2023, shall be the sum of (i) 3-Month CME Term SOFR plus (ii) a tenor spread adjustment of 0.26161%, and (iii) a spread of 2.539%. The new reference rate became effective for the dividend period determination date commencing September 15, 2023. The reference rate was determined in accordance with the successor base rate provisions of the Series B Preferred Shares and the Adjustable Interest Rate (LIBOR) Act and the regulation issued by the Board of Governors of the Federal Reserve System on December 16, 2022, implementing the LIBOR Act.

During the floating rate period, dividends on the Series B Preferred Shares will be payable quarterly, if and when declared by the Board of Directors.

See *Note 14 – Dividends* in our 2022 Annual Report to Shareholders for a discussion of our quarterly and annual common share dividends and our preferred share dividend policies.

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 losses on forecasted transactions	Foreign currency translation adjustment
Balance at June 30, 2023	$ (3,369.6)	$ 715.6	$ (2,654.0)	$ (2,638.7)	$ (14.3)	$ (1.0)
Other comprehensive income (loss) before reclassifications:						
Investment securities	(547.4)	114.9	(432.5)	(432.5)	0	0
Foreign currency translation adjustment	0	0	0	0	0	0
Total other comprehensive income (loss) before reclassifications	(547.4)	114.9	(432.5)	(432.5)	0	0
Less: Reclassification adjustment for amounts realized in net income by income statement line item:						
Net realized gains (losses) on securities	(55.6)	11.7	(43.9)	(43.9)	0	0
Interest expense	(0.2)	0	(0.2)	0	(0.2)	0
Total reclassification adjustment for amounts realized in net income	(55.8)	11.7	(44.1)	(43.9)	(0.2)	0
Total other comprehensive income (loss)	(491.6)	103.2	(388.4)	(388.6)	0.2	0
Balance at September 30, 2023	$ (3,861.2)	$ 818.8	$ (3,042.4)	$ (3,027.3)	$ (14.1)	$ (1.0)

				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 losses on forecasted transactions	Foreign currency translation adjustment
Balance at June 30, 2022	$ (2,795.5)	$ 586.5	$ (2,209.0)	$ (2,193.5)	$ (14.7)	$ (0.8)
Other comprehensive income (loss) before reclassifications:						
Investment securities	(1,223.3)	256.9	(966.4)	(966.4)	0	0
Foreign currency translation adjustment	(0.9)	0.2	(0.7)	0	0	(0.7)
Total other comprehensive income (loss) before reclassifications	(1,224.2)	257.1	(967.1)	(966.4)	0	(0.7)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:						
Net realized gains (losses) on securities	(58.4)	12.3	(46.1)	(46.1)	0	0
Interest expense	(0.2)	0.1	(0.1)	0	(0.1)	0
Total reclassification adjustment for amounts realized in net income	(58.6)	12.4	(46.2)	(46.1)	(0.1)	0
Total other comprehensive income (loss)	(1,165.6)	244.7	(920.9)	(920.3)	0.1	(0.7)
Balance at September 30, 2022	$ (3,961.1)	$ 831.2	$ (3,129.9)	$ (3,113.8)	$ (14.6)	$ (1.5)

(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 losses on forecasted transactions	Foreign currency translation adjustment
Balance at December 31, 2022	$ (3,556.9)	$ 754.9	$ (2,802.0)	$ (2,786.3)	$ (14.5)	$ (1.2)
Other comprehensive income (loss) before reclassifications:						
Investment securities	(493.3)	103.5	(389.8)	(389.8)	0	0
Foreign currency translation adjustment	0.3	(0.1)	0.2	0	0	0.2
Total other comprehensive income (loss) before reclassifications	(493.0)	103.4	(389.6)	(389.8)	0	0.2
Less: Reclassification adjustment for amounts realized in net income by income statement line item:						
Net realized gains (losses) on securities	(188.3)	39.5	(148.8)	(148.8)	0	0
Interest expense	(0.4)	0	(0.4)	0	(0.4)	0
Total reclassification adjustment for amounts realized in net income	(188.7)	39.5	(149.2)	(148.8)	(0.4)	0
Total other comprehensive income (loss)	(304.3)	63.9	(240.4)	(241.0)	0.4	0.2
Balance at September 30, 2023	$ (3,861.2)	$ 818.8	$ (3,042.4)	$ (3,027.3)	$ (14.1)	$ (1.0)

(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 losses on forecasted transactions	Foreign currency translation adjustment
Balance at December 31, 2021	$ 52.3	$ (11.6)	$ 40.7	$ 56.2	$ (14.9)	$ (0.6)
Other comprehensive income (loss) before reclassifications:						
Investment securities	(4,321.7)	907.6	(3,414.1)	(3,414.1)	0	0
Foreign currency translation adjustment	(1.1)	0.2	(0.9)	0	0	(0.9)
Total other comprehensive income (loss) before reclassifications	(4,322.8)	907.8	(3,415.0)	(3,414.1)	0	(0.9)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:						
Net realized gains (losses) on securities	(309.0)	64.9	(244.1)	(244.1)	0	0
Interest expense	(0.4)	0.1	(0.3)	0	(0.3)	0
Total reclassification adjustment for amounts realized in net income	(309.4)	65.0	(244.4)	(244.1)	(0.3)	0
Total other comprehensive income (loss)	(4,013.4)	842.8	(3,170.6)	(3,170.0)	0.3	(0.9)
Balance at September 30, 2022	$ (3,961.1)	$ 831.2	$ (3,129.9)	$ (3,113.8)	$ (14.6)	$ (1.5)

In an effort to manage interest rate risk, we entered into forecasted transactions on certain of Progressive's debt issuances. We expect to reclassify $0.6 million (pretax) into interest expense during the next 12 months, related to net unrealized losses on these forecasted transactions (see *Note 4 – Debt* in our 2022 Annual Report to Shareholders for further discussion).

11. LITIGATION

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

In addition, The Progressive Corporation and/or its subsidiaries are named as defendants in a number of class action or individual lawsuits that challenge certain of the operations of the subsidiaries. These cases include and/or typically have included those alleging damages as a result of, among other things: our subsidiaries' methods used for evaluating and paying medical or injury claims or benefits, including, but not limited to, certain bodily injury, personal injury protection (PIP), uninsured motorist/underinsured motorist (UM/UIM), and medical payment claims and for reimbursing medical costs incurred by Medicare/Medicaid beneficiaries; other claims handling procedures, including, but not limited to, challenges relating to our network of repair facilities, our methods used for estimating physical damage to vehicles for repair purposes and for evaluating the actual cash value of total loss vehicles, the application of a negotiation adjustment in calculating total loss valuations, our payment of fees and taxes, our subrogation practices, our salvage practices, and our handling of diminution of value claims; homeowner claims handling practices and procedures; interpretations of the provisions of our insurance policies; our insurance product design; certain of our premium actions, including those in response to the COVID-19 pandemic; rating practices; certain marketing, sales, services, implementation and renewal practices and procedures, including with respect to accessibility and privacy; our usage-based insurance program; certain relationships with independent insurance agents; patent matters; alleged violation of the Telephone Consumer Protection Act; vendor data security; commercial disputes, including breach of contract; a small business grant program; and certain employment practices, including claims relating to pay practices and fair employment practices, among other matters. As of September 30, 2023, lawsuits have been certified or conditionally certified as class/collective actions in cases alleging: we improperly reduce or deny UIM benefits in New Mexico; we improperly value total loss claims in Florida, Georgia, New York, Pennsylvania, and Washington; we improperly fail to pay fees and taxes associated with total losses in Florida, Michigan, and New York; we improperly adjust medical bills in Washington; we improperly calculate basic economic loss as it relates to wage loss coverage in New York; we improperly fail to timely process and pay PIP claims in Texas; we improperly reduce or deny first-party medical benefits in Arkansas; and that certain of our compensation practices and overtime payment practices are improper, including our classification of certain employees as exempt from overtime pay requirements. Other insurance companies face many of these same issues.

The nature and volume of litigation pending against The Progressive Corporation and/or its insurance subsidiaries is similar to that which was disclosed in *Note 12 – Litigation* in our 2022 Annual Report to Shareholders.

We plan to contest the pending lawsuits vigorously, but may pursue settlement negotiations in some cases, as we deem appropriate. Although outcomes of pending cases are uncertain until final disposition, 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 nor estimable, or is considered probable but not estimable, we do not establish an accrual. Nevertheless, we continue to evaluate 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 September 30, 2023 and 2022, or December 31, 2022, and there were no material settlements during 2022 or the first nine months of 2023. 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 2022 Annual Report to Shareholders. In the event that any one or more of these lawsuits results in a substantial judgment against us, 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 2022 Annual Report to Shareholders.

12. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The majority of the goodwill recorded as of September 30, 2023 and 2022, and December 31, 2022, related to the April 1, 2015, acquisition of a controlling interest in ARX Holding Corp. (ARX). During the nine months ended September 30, 2023, there were no changes to the carrying amount of goodwill.

In the second quarter 2022, we performed an interim impairment test of our goodwill allocated to the ARX reporting unit and recorded an impairment loss of $224.8 million. The impairment loss was fully allocated to our Property operating segment. There were no previously recorded goodwill impairment losses on any of the outstanding goodwill. See *Note 15 – Goodwill and Intangible Assets* in our 2022 Annual Report to Shareholders for a discussion of our goodwill impairment evaluation.

Intangible Assets

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

(millions)	September 30, 2023	September 30, 2022	December 31, 2022
Intangible assets subject to amortization	$ 62.5	$ 79.4	$ 73.9
Indefinite-lived intangible assets[1]	12.4	12.4	12.4
Total	$ 74.9	$ 91.8	$ 86.3

[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)	September 30, 2023			September 30, 2022			December 31, 2022		
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
Agency relationships	$ 159.2	$ 96.7	$ 62.5	$ 159.2	$ 85.3	$ 73.9	$ 159.2	$ 88.1	$ 71.1
Software rights	69.1	69.1	0	69.1	64.8	4.3	69.1	67.0	2.1
Trade name	3.6	3.6	0	3.6	2.4	1.2	3.6	2.9	0.7
Total	$ 231.9	$ 169.4	$ 62.5	$ 231.9	$ 152.5	$ 79.4	$ 231.9	$ 158.0	$ 73.9

Amortization expense was $2.9 million and $11.4 million for the three and nine months ended September 30, 2023, respectively, compared to $5.4 million and $25.5 million during the same periods last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

I. OVERVIEW

During the third quarter 2023, The Progressive Corporation's insurance subsidiaries recognized strong growth in both premiums written and policies in force, compared to the same period last year. During the third quarter 2023, we generated an underwriting profit of 7.6%, which was better than our 4.0% companywide calendar-year underwriting profit goal and 6.8 points better than the third quarter last year. The underwriting profit variance from the prior year was primarily attributable to lower catastrophe losses in the current quarter, compared to the third quarter last year, along with our pricing decisions and non-pricing actions that we put in place to help us achieve our stated calendar-year goal of a 96 or better combined ratio.

During the third quarter 2023, we experienced catastrophic weather events that contributed 3.2 loss ratio points, compared to 7.1 points for the third quarter 2022, which primarily resulted from Hurricane Ian. During the quarter, our personal auto products profitability benefited by about five points from prior rate revisions that have earned in. In addition, our companywide expense ratio was 2.5 points lower in the third quarter 2023, compared to the same period last year, in large part due to a 52% decrease in advertising spend in the third quarter 2023, which brought our year-to-date advertising costs to $1.3 billion, compared to $1.6 billion for the first nine months of 2022. We currently plan to continue to manage our rate levels and discretionary spending to further our goal of achieving our companywide calendar-year target profitability.

During the third quarter 2023, companywide net premiums written grew 20% over the same period last year, with all operating segments contributing to the growth. We generated $15.6 billion of net premiums written, which was an increase of $2.6 billion, compared to the third quarter 2022. We ended the quarter with 29.6 million policies in force, which was an increase of 2.8 million policies, or 10%, over September 30, 2022, and nearly 33,000 more policies than were in force at the end of the second quarter 2023, and 2.3 million more than year-end 2022. While companywide policies in force increased during the third quarter 2023, total personal auto policies in force were down compared to June 30, 2023, reflecting the decrease in new business applications discussed below, which were, in part, offset by the increase in renewal applications as our retention lengthened. The increase from the year-end 2022 policies in force reflected both strong new application growth in the first half of the year and improved retention in our Personal Lines and Property products.

As a result of the rate and non-rate actions we have taken to manage profitability, new applications decreased during the third quarter 2023, compared to the same period last year. While new business is down year over year, policy life expectancy, which is our measure of retention, has lengthened in our Personal Lines products demonstrating the competitiveness of our products in the marketplace. As discussed below, we plan to continue to remain diligent in our efforts to achieve our target profitability and will take the necessary rate and non-rate actions, which could result in less premium and policy growth.

On a year-over-year basis, for the third quarter 2023, net income increased $1.0 billion and comprehensive income increased $1.5 billion, from a comprehensive loss in the same period last year. The year-over-year increase in net income primarily reflected an increase in underwriting profitability as discussed previously. During the quarter, income also benefited from a 53% increase in recurring investment income, primarily due to an increase in interest rates on floating-rate securities in our portfolio, an increase in average assets resulting from premium growth, and investing new cash and cash from maturities in higher interest rate securities given the rising interest rate environment.

The quarter-over-prior-year quarter increase in comprehensive income reflected both the increase in net income and a lower amount of net unrealized losses on our fixed-maturity securities, which experienced a loss of $388.6 million in the third quarter 2023, compared to a loss of $920.3 million in the same prior year period, with both periods being primarily driven by the then-current interest rate environment, with a significant rise in interest rates last year.

Total capital (debt plus shareholders' equity) at September 30, 2023, was $24.3 billion, which was up $2.0 billion from year-end 2022, primarily due to our comprehensive income earned in the first nine months of 2023 and the May 2023 issuance of $500 million of 4.95% senior notes.

A. Insurance Operations

During the third quarter 2023, we experienced a companywide underwriting profit margin of 7.6%, compared to an underwriting margin of 0.8% for the same period last year. Our Personal Lines, Commercial Lines, and Property businesses generated an underwriting profit margin of 8.8%, 0.9%, and 11.8%, respectively, during the third quarter 2023. Our special lines products experienced an underwriting loss during the third quarter due to seasonality. In total, the special lines products contributed a 0.8 unfavorable point impact to our Personal Lines combined ratio. The strong underwriting results in the third quarter moved our year-to-date combined ratio to a 97.2, which is just 1.2 points from our companywide calendar-year goal of a combined ratio of a 96 or better.

We strongly believe that achieving our target profit margin takes precedence over growing premiums. With a focus on achieving our calendar-year underwriting profitability goal of at least 4%, in the face of continued volatility in our severity trends that influence higher vehicle and repair costs, we will continue to reevaluate our rate plans and intend to continue to raise rates through the fourth quarter 2023, with planned increases of about 3% in our personal auto products and about 5% in our commercial auto products. Some of these rate increases will be subject to regulatory approval. We will continue to monitor the factors that could impact our loss costs for both our vehicle and Property businesses, which may include new and used car prices, miles driven, driving patterns, loss severity, weather events, building materials, construction costs, inflation, and other components, on a state-by-state basis, and could change our current plans for rate increases.

In addition to rate action, we routinely monitor non-rate actions, including our advertising spend. During the third quarter 2023, we reduced advertising costs 52%, compared to the same period last year. On a year-to-date basis, we have spent $1.3 billion in advertising, compared to $1.6 billion for the first nine months of 2022. During the quarter, we also continued implementing measures to support the goal of achieving our target profit margin that included slowing new business growth through verification activities, bill plan offerings, and through ongoing general operational expense discipline. We expect to continue to reevaluate our actions through the remainder of the year and may take additional measures as necessary.

For the third quarter 2023, net premiums written grew 20% compared to the third quarter last year, with all segments showing strong growth. Personal Lines net premiums written grew 23%, with the Agency and Direct distribution channels growing 19% and 25%, respectively. Commercial Lines net premiums written grew 7% and Property grew 16%. Changes in net premiums written are a function of new business applications (i.e., policies sold), business mix, premium per policy, and retention.

While we experienced significant new application growth during the first half of 2023, due to the actions taken to address profitability there was a decrease in Personal Lines new applications, compared to the third quarter 2022. During the third quarter 2023, we also saw a slowing of new application growth in both our Commercial Lines and Property businesses, compared to the growth rates experienced earlier in the year. The Personal Lines decline reflected a decrease in both our Agency and Direct auto businesses, combining for a total decrease of 20% for new personal auto business applications. While personal auto premium growth and retention were strong during the third quarter 2023, some of the profitability actions mentioned above could have a negative impact on future premium growth, retention, and could continue to negatively impact new applications.

Returning to calendar-year profitability in our Property business continues to remain a priority for us. We plan to continue to focus on our efforts to grow in states that traditionally have less catastrophe exposure and limit growth in coastal and hail-prone states to reduce concentration mix among states. In regions where our appetite to write new business is limited, we are prioritizing Progressive auto bundles, as well as lower risk properties, such as new construction or homes with newer roofs. In addition, to continue to rebalance our business, we began a non-renewal effort of up to 115,000 Property policies in Florida. Following the required filings and notices, the first of these non-renewals will go into effect in the second quarter of 2024 and will continue on a rolling 12-month basis. To try to ease this disruption to our customers and agents, we reached an agreement with another Florida insurer to offer replacement policies to these policyholders, subject to their underwriting and financial guidelines and agent appointments where applicable. Despite this non-renewal effort, we plan to continue to provide for the insurance needs of over 3 million Florida policyholders across all of our lines of business, including over 200,000 Florida homeowners.

In the third quarter 2023, in our Property products, we increased rates by about 2% in aggregate, following a rate increase of about 7% during the first half of 2023 and an increase of about 19% during 2022. Similar to our personal and commercial auto products, we intend to continue to raise rates in our Property products in an effort to achieve our calendar-year underwriting profitability goal, with a planned aggregate countrywide increase of about 7% over the remainder of the year. Some of these rate increases will be subject to regulatory approval. New applications in the states where we are focused on growth were up about 30% over the third quarter last year. New applications were down about 10% in the more volatile weather states. In addition, the Property business benefited from growth in Robinsons, our bundled auto and home policies. In total, Property new applications were up 9% over the third quarter 2022.

During the third quarter 2023, on a year-over-year basis, average written premium per policy grew 12% in both personal auto and Property, and 4% in commercial auto. The growth in personal auto, commercial auto, and Property primarily reflected rate increases taken throughout 2022 that continued through the third quarter 2023, in response to rising loss costs. The rate increases taken in commercial auto were, in part, offset by a shift in the mix of business, primarily driven by decreased demand in our for-hire transportation product. Given that our commercial auto and Property policies are predominately written for 12-month terms, rate actions take longer to earn in for these products.

We believe a key element in improving the accuracy of our rating is Snapshot®, our usage-based insurance offering. During the third quarter 2023, the adoption rates for consumers enrolling in the program increased about 15% in Agency auto and was flat in Direct auto, compared to the third quarter 2022. Snapshot is available in all states, other than California, and our latest segmentation model was available in states that represented about 50% of our countrywide personal auto premium at September 30, 2023. We continue to invest in our mobile application, with mobile devices being chosen for Snapshot monitoring for the majority of new enrollments.

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

We evaluate total auto retention using a trailing 12-month and a trailing 3-month policy life expectancy. The latter can reflect more volatility and is more sensitive to seasonality. As of the end of the third quarter 2023, our trailing 12-month total personal auto policy life expectancy increased 19%, compared to last year, which marks the second consecutive quarter the trailing 12-month measure has been positive since the beginning of 2022. The Agency and Direct channels trailing 12-month measure was up 20% and 17%, respectively. We have seen improvement in our trailing 12-month policy life expectancy on a month-over-prior month basis for the last several months although recent and future rate increases could potentially have an adverse impact on our retention. Our trailing 3-month policy life expectancy for total personal auto was up 35%, compared to the same period last year. We believe that the improved retention on a trailing 3-month basis reflects our continued competitiveness in the marketplace.

At the end of the third quarter 2023, our trailing 12-month policy life expectancy increased 5% in special lines, 14% in Property, and decreased 9% in Commercial Lines, compared to the same period last year. The decrease in Commercial Lines was across all business market targets (BMT), with the decrease in for-hire transportation BMT demand providing the largest contribution to the overall decrease. Commercial auto retention is being negatively impacted by our rate and underwriting actions, a slowdown in the rate of economic activity, and challenging freight market conditions, which we believe are driving increased shopping and causing motor carriers to exit the industry.

B. Investments

The fair value of our investment portfolio was $61.9 billion at September 30, 2023, compared to $53.5 billion at December 31, 2022. The increase from year-end 2022 primarily reflected solid cash flows from operations and the $0.5 billion of proceeds from debt issued in May 2023, as discussed further below, partially offset by valuation decreases in U.S. government securities.

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 September 30, 2023, 7% of our portfolio was allocated to Group I securities and 93% to Group II securities, compared to 10% and 90%, respectively, at December 31, 2022.

Our recurring investment income generated a pretax book yield of 3.3% for the third quarter 2023, compared to 2.5% for the same period in 2022, due to the increase in interest rates on our floating-rate securities and the investment of cash and maturities at relatively higher interest rates. Our investment portfolio produced a fully taxable equivalent (FTE) total return of (0.2)% and (1.9)% for the third quarter 2023 and 2022, respectively. Our fixed-income and common stock portfolios had FTE total returns of (0.1)% and (3.1)%, respectively, for the third quarter 2023, compared to (1.8)% and (4.5)%, respectively, last year. The favorable change in the fixed-income return reflected lower portfolio valuation decreases in third quarter 2023, compared to third quarter 2022, as the market experienced smaller increases in interest rates and a more stable environment for credit spreads versus third quarter 2022. The year-over-year change in the common stock return reflected general market conditions.

At September 30, 2023, the fixed-income portfolio had a weighted average credit quality of AA- and a duration of 2.9 years, compared to AA and 2.7 years at September 30, 2022 and AA and 2.9 years at December 31, 2022. Our decrease in weighted average credit quality since December 31, 2022, was mainly due to two major credit rating agencies rating U.S. Treasury debt at AA+ instead of AAA which led us to lower our U.S. Treasury positions to AA+.

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. As primarily an auto insurer, our claims liabilities generally have a short-term duration. Operations generated positive cash flows of $8.2 billion and $5.9 billion for the nine months ended September 30, 2023 and 2022, respectively. The increase in operating cash flow for the first nine months of 2023 compared to 2022 is primarily attributable to collecting more premiums in 2023 relative to paying losses, mostly driven by rate increases and volume growth, partially offset by higher loss severity trends. We believe cash flows will remain positive in the reasonably foreseeable future and do not expect we will have a need to raise capital to support our operations in that timeframe, although changes in market or regulatory conditions affecting the insurance industry, or other unforeseen events, may necessitate otherwise.

As of September 30, 2023, we held $36.1 billion in short-term investments and U.S. Treasury securities, which represented about 58% of our total portfolio. Based on our portfolio allocation and investment strategies, we believe that we have sufficient readily available marketable securities to cover our claims payments and short-term obligations in the event our cash flows from operations were to be negative. See *Item 1A, Risk Factors* in our Form 10-K filed with the U.S. Securities and Exchange Commission for the year ended December 31, 2022, for a discussion of certain matters that may affect our portfolio and capital position.

Our total capital (debt plus shareholders' equity) was $24.3 billion, based on book value, at September 30, 2023, compared to $21.2 billion at September 30, 2022, and $22.3 billion at December 31, 2022. The increase from December reflected the comprehensive income recognized during the first nine months of 2023, primarily driven by recurring investment income reflecting continued increased interest rates, our underwriting profitability, and the issuance in May 2023 of $500.0 million of 4.95% Senior Notes due 2033. Our debt-to-total capital ratio was 28.4% at September 30, 2023, 30.2% at September 30, 2022, and 28.7% at December 31, 2022.

While our financial policies include a goal of maintaining debt below 30% of total capital at book value, we recognize that various factors, including rising interest rates, widening credit spreads, declines in the equity markets, or erosion in operating results, may result in that ratio exceeding 30% at times. In such a situation, as we did during 2022, we may choose to remain above 30% for some time, dependent upon market conditions and the capital needs of our operating businesses. We will continue to monitor this ratio, market conditions, and our capital needs going forward.

None of the covenants on our outstanding debt securities include rating or credit triggers that would require an adjustment of interest rates or an acceleration of principal payments in the event that our debt securities are downgraded by a rating agency. During the second quarter 2023, we amended the unsecured discretionary line of credit (the Line of Credit) with PNC Bank, National Association, and raised the maximum principal amount to $300 million from the previous amount of $250 million. We did not engage in short-term borrowings, including any borrowings under our Line of Credit, to fund our operations or for liquidity purposes during the reported periods.

During the first nine months of 2023, we returned capital to shareholders primarily through common share dividends and common share repurchases. Our Board of Directors declared a $0.10 per common share dividend in each of the first three quarters of 2023. These dividends, which were each $58.5 million in the aggregate, were paid in April 2023, July 2023, and October 2023. In January 2023, we also paid common share dividends declared in the fourth quarter 2022, in the aggregate amount of $58.5 million, or $0.10 per share (see *Note 9 – Dividends* for further discussion).

In addition to the common share dividends, in March 2023, June 2023, and September 2023, we paid Series B Preferred Share dividends in the aggregate amount of $13.4 million, $9.5 million, and $10.3 million, respectively. Beginning March 15, 2023, the annual dividend rate for the Series B Preferred Shares switched to a floating rate equal to the three-month London Interbank Offered Rate (LIBOR) plus a spread of 2.539% applied to the stated amount per share. During the floating rate period, dividends on the Series B Preferred Shares are payable quarterly, if and when declared by the Board of Directors.

We, as calculation agent under our Series B Preferred Shares, determined that the reference rate for the Series B Preferred Shares, for any determination date after June 30, 2023, shall be the sum of (i) 3-Month CME Term Secured Overnight Financing Rate (SOFR) plus (ii) a tenor spread adjustment of 0.26161%, and (iii) a spread of 2.539%. The new reference rate became effective for the dividend period determination date commencing September 15, 2023. The reference rate was determined in accordance with the successor base rate provisions of the Series B Preferred Shares and the Adjustable Interest Rate (LIBOR) Act and the regulation issued by the Board of Governors of the Federal Reserve System on December 16, 2022, implementing the LIBOR Act.

Consistent with our financial policies, we repurchase common shares to neutralize dilution from equity-based compensation granted during the year and opportunistically when we believe our shares are trading below our determination of long-term fair value. During the first nine months of 2023, we repurchased 0.6 million common shares, at a total cost of $79.8 million, including 0.3 million shares in the third quarter 2023, both in the open market and to satisfy tax withholding obligations in connection with the vesting of equity awards under our equity compensation plans. We will continue to make decisions on returning capital to shareholders based on the strength of our overall capital position, the capital strength of our subsidiaries, and potential capital needs to expand our business operations.

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.

Based upon our capital planning and forecasting efforts, we believe we have sufficient capital resources and cash flows from operations to support our current business, scheduled principal and interest payments on our debt, anticipated quarterly dividends on our common shares and dividends on the Series B Preferred Shares, our contractual obligations, and other expected capital requirements for the foreseeable future. At September 30, 2023, we had $4.1 billion in a consolidated, non-insurance subsidiary of the holding company that can be used to fund corporate obligations and provide additional capital to the insurance subsidiaries to fund potential future growth. As of September 30, 2023, our estimated consolidated statutory surplus was $20.2 billion.

During the first nine months of 2023, our contractual obligations and critical accounting policies have not changed materially from those discussed in our 2022 Annual Report to Shareholders. During the second quarter 2023, we renewed our catastrophe excess of loss per occurrence reinsurance contract, which increased our noncancellable purchase obligation commitments about $139.5 million, bringing our total commitments related to the excess of loss contracts to $252.6 million at September 30, 2023. There have not been any other material changes in off-balance-sheet leverage, which includes purchase obligations and catastrophe excess of loss reinsurance contracts, from those disclosed in our 2022 Annual Report to Shareholders.

In May 2023, we decided to raise additional capital to take advantage of attractive terms in the market and to provide additional financial flexibility, and we may decide to do so in the future. We have an effective shelf registration with the U.S. Securities and Exchange Commission so that we may periodically offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares, common stock, purchase contracts, warrants, and units. The shelf registration enables us to raise funds from the offering of any securities covered by the shelf registration as well as any combination thereof, subject to market conditions.

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Personal Lines				
Agency	36 %	36 %	36 %	35 %
Direct	45	43	42	41
Total Personal Lines[1]	81	79	78	76
Commercial Lines	14	16	17	19
Property	5	5	5	5
Total underwriting operations	100 %	100 %	100 %	100 %

[1] Personal auto products accounted for 94% of the total Personal Lines segment net premiums written during the three and nine months ended September 30, 2023, and 93% for the three and nine months ended September 30, 2022; our special lines products accounted for the balance.

Our Personal Lines business writes insurance for personal autos and special lines products (e.g., motorcycles, RVs, watercraft, and snowmobiles). Within Personal Lines, we often refer to our four consumer segments:

- Sam - inconsistently insured;
- Diane - consistently insured and maybe a renter;
- Wrights - homeowners who do not bundle auto and home; and
- Robinsons - homeowners who bundle auto and home.

While our personal auto policies are primarily written for 6-month terms, we write 12-month auto policies in our Platinum agencies to promote bundled auto and home growth. At September 30, 2023 and 2022, 14% of our Agency auto policies in force were 12-month policies. To the extent our Agency application mix of annual policies grows, the shift in policy term could increase our written premium mix by channel as 12-month policies have about twice the amount of net premiums written compared to 6-month policies. Our special lines products are written for 12-month terms.

Our Commercial Lines business writes auto-related liability and physical damage insurance, business-related general liability and property insurance predominately for small businesses, and workers' compensation insurance primarily for the transportation industry. The majority of our Commercial Lines business is written through the independent agency channel although we continue to focus on growing our direct business. To serve our direct channel customers, we continue to expand our product offerings, including adding states where we offer our business owners policy (BOP) product, as well as adding these product offerings to our digital platform that serves direct small business consumers (BusinessQuote Explorer®). The direct commercial auto business, excluding our transportation network company (TNC) business, BOP, and Protective Insurance Corporation and subsidiaries (Protective Insurance) products, represented 10% of our commercial auto premiums written for the nine months ended September 30, 2023 and 2022. We write about 90% of Commercial Lines policies for 12-month terms.

Our Property business writes residential property insurance for homeowners, other property owners, renters, and umbrella insurance. We write the majority of our Property business through the independent agency channel. We continue to expand the direct distribution of our Property product offerings, and, for both the nine months ended September 30, 2023 and 2022, nearly a quarter of our Property business premiums were written in the direct channel. All of our Property policies are written for 12-month terms.

B. Profitability

Profitability for our underwriting operations is defined by pretax underwriting profit or loss, which is calculated as net premiums earned plus fees and other revenues less losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses. We also use underwriting margin, which is underwriting profit or loss expressed as a percentage of net premiums earned, to analyze our results. For the respective periods, our underwriting profitability results were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)	
($ in millions)	$	Margin	$	Margin	$	Margin	$	Margin
Personal Lines								
Agency	$ 335.7	6.2 %	$ (41.3)	(0.9)%	$ 427.1	2.8 %	$ 507.6	3.9 %
Direct	706.2	11.1	40.6	0.8	810.6	4.4	389.4	2.6
Total Personal Lines	1,041.9	8.8	(0.7)	0	1,237.7	3.7	897.0	3.2
Commercial Lines	23.0	0.9	238.1	10.3	147.4	2.0	683.5	10.1
Property[1]	74.6	11.8	(141.0)	(25.1)	(164.9)	(8.9)	(289.6)	(17.1)
Other indemnity[2]	(3.3)	NM	(2.1)	NM	(6.7)	NM	(9.3)	NM
Total underwriting operations	$ 1,136.2	7.6 %	$ 94.3	0.8 %	$ 1,213.5	2.8 %	$ 1,281.6	3.5 %

[1] For the three and nine months ended September 30, 2023, pretax profit (loss) includes $2.9 million and $10.7 million, respectively, of amortization expense associated with acquisition-related intangible assets attributable to our Property segment, compared to $5.0 million and $24.1 million for the respective periods last year. The year-over-year decrease in amortization expense reflects intangible assets that were fully amortized during the first and second quarter 2023, and the first quarter 2022.

[2] Underwriting margins for our other indemnity businesses are not meaningful (NM) due to the low level of premiums earned by, and the variability of loss costs in, such businesses.

For the third quarter 2023, the higher pretax underwriting profit primarily reflected 3.9 fewer points of catastrophe losses and a 2.5 point reduction in our companywide underwriting expenses predominately due to a reduction in advertising expenses, compared to the third quarter 2022. For the year-to-date period ended September 30, 2023, our profitability decreased from the same period last year primarily due to the impact from unfavorable prior accident years reserve development, in part, offset by lower underwriting expenses.

See the *Losses and Loss Adjustment Expenses (LAE)* section below for further discussion of our frequency and severity trends, reserve development, and catastrophe losses incurred during the periods.

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 September 30,			Nine Months Ended September 30,		
Underwriting Performance[1]	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Personal Lines – Agency						
Loss & loss adjustment expense ratio	75.8	82.9	(7.1)	79.0	78.5	0.5
Underwriting expense ratio	18.0	18.0	0	18.2	17.6	0.6
Combined ratio	93.8	100.9	(7.1)	97.2	96.1	1.1
Personal Lines – Direct						
Loss & loss adjustment expense ratio	77.0	81.4	(4.4)	80.5	78.9	1.6
Underwriting expense ratio	11.9	17.8	(5.9)	15.1	18.5	(3.4)
Combined ratio	88.9	99.2	(10.3)	95.6	97.4	(1.8)
Total Personal Lines						
Loss & loss adjustment expense ratio	76.5	82.1	(5.6)	79.8	78.7	1.1
Underwriting expense ratio	14.7	17.9	(3.2)	16.5	18.1	(1.6)
Combined ratio	91.2	100.0	(8.8)	96.3	96.8	(0.5)
Commercial Lines						
Loss & loss adjustment expense ratio	79.7	70.5	9.2	77.8	70.6	7.2
Underwriting expense ratio	19.4	19.2	0.2	20.2	19.3	0.9
Combined ratio	99.1	89.7	9.4	98.0	89.9	8.1
Property						
Loss & loss adjustment expense ratio	58.8	97.2	(38.4)	79.9	89.9	(10.0)
Underwriting expense ratio[2]	29.4	27.9	1.5	29.0	27.2	1.8
Combined ratio[2]	88.2	125.1	(36.9)	108.9	117.1	(8.2)
Total Underwriting Operations						
Loss & loss adjustment expense ratio	76.3	80.6	(4.3)	79.5	77.7	1.8
Underwriting expense ratio	16.1	18.6	(2.5)	17.7	18.8	(1.1)
Combined ratio	92.4	99.2	(6.8)	97.2	96.5	0.7
Accident year – Loss & loss adjustment expense ratio[3]	76.1	81.3	(5.2)	76.8	77.6	(0.8)

[1] Ratios are expressed as a percentage of net premiums earned. The portion of fees and other revenues related to our loss adjustment activities are netted against loss adjustment expenses and the portion of fees and other revenues related to our underwriting operations are netted against underwriting expenses in the ratio calculations.

[2] Included in the three and nine months ended September 30, 2023, are 0.5 points and 0.6 points, respectively, of amortization expense on acquisition-related intangible assets attributable to our Property segment, and 0.9 points and 1.4 points for the respective periods last year.

[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 September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Change in net loss and LAE reserves	$ 947.2	$ 1,470.4	$ 3,836.0	$ 3,167.3
Paid losses and LAE	10,440.7	8,548.3	30,346.0	25,130.9
Total incurred losses and LAE	$ 11,387.9	$ 10,018.7	$ 34,182.0	$ 28,298.2

Claims costs, our most significant expense, represent payments made and estimated future payments to be made, to or on behalf of our policyholders, including expenses needed to adjust or settle claims. Claims costs are a function of loss severity and frequency and, for our vehicle businesses, are influenced by inflation and driving patterns, among other factors, some of which are discussed below. In our Property business, severity is primarily a function of construction costs and the age of the structure. Accordingly, anticipated changes in these factors are taken into account when we establish premium rates and loss reserves. Loss reserves are estimates of future costs and our reserves are adjusted as underlying assumptions change and information develops.

Our total loss and LAE ratio decreased 4.3 points for the third quarter 2023 and increased 1.8 points for the nine months ended September 30, 2023, compared to the same periods last year. The decrease in the third quarter 2023, primarily reflects lower catastrophe losses and higher premium per policy, partially offset by higher severity and unfavorable current accident years reserve development. The year-to-date increase through the third quarter 2023, was primarily driven by increased severity and unfavorable prior accident years reserve development, partially offset by the higher premium per policy due to rate increases. On an accident year basis, our third quarter 2023 loss and LAE ratio was 5.2 points lower than the third quarter 2022, and 0.8 points lower on a year-to-date basis.

The following table shows our consolidated catastrophe losses and related combined ratio point impact, excluding loss adjustment expenses, incurred during the periods:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
($ in millions)	$	Point[1]	$	Point[1]	$	Point[1]	$	Point[1]
Personal Lines	$ 347.5	3.0	$ 671.5	7.1	$ 1,030.3	3.1	$ 1,001.2	3.6
Commercial Lines	12.5	0.5	16.7	0.7	34.9	0.5	29.1	0.4
Property	110.8	17.5	195.0	34.8	671.1	36.2	527.8	31.2
Total net catastrophe losses incurred	$ 470.8	3.2	$ 883.2	7.1	$ 1,736.3	4.0	$ 1,558.1	4.3

[1] Represents catastrophe losses incurred during the period, including the impact of reinsurance, as a percent of net premiums earned for each segment.

In the three and nine months ended September 30, 2023, we were affected by 25 and 68 catastrophic weather events, respectively, compared to 16 and 50 events in the same periods last year. Although there were more storms during 2023, the severity of the 2022 storms were greater, primarily due to the impact of Hurricane Ian during the third quarter of 2022. During the third quarter 2023, our catastrophe losses reflected severe weather events throughout the United States, with Texas, Minnesota, Colorado, Michigan, and Florida contributing about 55% of the losses, although 39 states and the District of Columbia were affected for the quarter and 46 states and the District of Columbia for the first nine months of 2023. We have responded, and plan to continue to respond, promptly to catastrophic events when they occur in order to provide exemplary claims service to our customers.

Changes in our estimate of our ultimate losses on current catastrophes along with potential future catastrophes could have a material impact on our financial condition, cash flows, or results of operations. We reinsure various risks including, but not limited to, catastrophic losses. We do not have catastrophe-specific reinsurance for our Personal Lines or commercial auto businesses, but we reinsure portions of our Property business. The Property business reinsurance programs include catastrophe occurrence excess of loss contracts and aggregate excess of loss contracts. We also purchase non-weather-related catastrophe reinsurance on our Protective Insurance workers' compensation insurance.

We evaluate our reinsurance programs during the renewal process, if not more frequently, to ensure our programs continue to effectively address the company's risk tolerance. During the second quarter 2023, we entered into new reinsurance contracts under our per occurrence excess of loss program for our Property business. The reinsurance program has retention thresholds for losses and allocated loss adjustment expense (ALAE) from a single catastrophic event of $200 million, which is unchanged from the retention threshold on prior contracts. In general, our program includes coverage for $2.0 billion in damages with additional substantial coverage for a second or third hurricane. When including the Florida Hurricane

Catastrophe Fund and the Reinsurance Assistance to Policyholder programs that are specific to Florida, this coverage reaches $2.4 billion. While the cost of our reinsurance program increased considerably over the prior year due to market conditions, we were able to successfully place 100% of the requested coverage with our reinsurers.

During 2023, we also entered into new aggregate excess of loss reinsurance contracts that have multiple layers of coverage, with the first retention layer threshold ranging from $500 million to $575 million, excluding named tropical storms and hurricanes, and the second retention layer threshold of $600 million, including named tropical storms and hurricanes. The first and second layers provide coverage up to $100 million and $85 million, respectively. During the third quarter 2023, we exceeded the first layer annual retention thresholds and recorded a reinsurance recoverable of $23.0 million, under our 2023 catastrophe aggregate excess of loss program.

While the total coverage limit and per-event retention will evolve to fit the growth of our business, we expect to remain a consistent purchaser of reinsurance coverage. See *Item 1 – Description of Business-Reinsurance* in our Annual Report on Form 10-K for the year ended December 31, 2022, for a discussion of our various reinsurance programs.

The following discussion of our severity and frequency trends in our personal auto business 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, over the prior-year periods was as follows:

	Growth Over Prior Year	
	Quarter	**Year-to-date**
Coverage Type	**2023**	**2023**
Bodily injury	8 %	10 %
Collision	5	6
Personal injury protection	0	3
Property damage	5	10
Total	5	9

The year-over-year increase in severity, in part, reflects the impact of inflation, which continues to increase the valuation of used vehicles and total loss, repair, and medical costs.

To address inherent seasonality trends and lessen the effects of month-to-month variability in the commercial auto products, we use a trailing 12-month period in assessing severity. In the third quarter 2023, our commercial auto products' incurred severity, excluding our TNC, BOP, and Protective Insurance products, increased 5%, compared to the same period last year. Since the loss patterns in the TNC, BOP, and Protective Insurance businesses are not indicative of our other commercial auto products, disclosing severity and frequency trends excluding those businesses is more representative of our overall experience for the majority of our commercial auto products.

It is a challenge to estimate future severity, but we continue to monitor changes in the underlying costs, such as general inflation, used car prices, vehicle repair costs, medical costs, health care reform, court decisions, and jury verdicts, along with regulatory changes and other factors that may affect severity.

Our personal auto incurred frequency, on a calendar-year basis, over the prior-year periods, was as follows:

	Growth Over Prior Year	
	Quarter	**Year-to-date**
Coverage Type	**2023**	**2023**
Bodily injury	0 %	4 %
Collision	(5)	(5)
Personal injury protection	2	5
Property damage	1	2
Total	(1)	0

On a trailing 12-month basis, our commercial auto products' incurred frequency, excluding our TNC, BOP, and Protective Insurance products, increased 4% during the third quarter 2023, compared to the same period last year.

We closely monitor the changes in frequency, but the degree or direction of near-term frequency change is not something that we are able to predict with any certainty. We 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, miles driven, vehicle usage, gasoline prices, advances in vehicle safety, and unemployment rates, versus those resulting from shifts in the mix of our business or changes in driving patterns, to allow us to react quickly to price for these trends and to reserve more accurately for our loss exposures.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in millions)	2023	2022	2023	2022
ACTUARIAL ADJUSTMENTS				
Reserve decrease (increase)				
Prior accident years	$ (133.0)	$ (52.6)	$ (339.6)	$ (103.0)
Current accident year	3.6	25.1	(420.7)	(28.1)
Calendar-year actuarial adjustments	$ (129.4)	$ (27.5)	$ (760.3)	$ (131.1)
PRIOR ACCIDENT YEARS DEVELOPMENT				
Favorable (unfavorable)				
Actuarial adjustments	$ (133.0)	$ (52.6)	$ (339.6)	$ (103.0)
All other development	96.5	144.7	(807.4)	50.2
Total development	$ (36.5)	$ 92.1	$ (1,147.0)	$ (52.8)
(Increase) decrease to calendar-year combined ratio	(0.2) pts.	0.7 pts.	(2.7) pts.	(0.1) pts.

Total development consists of both actuarial adjustments and “all other development” on prior accident years. The actuarial adjustments represent the net changes made by our actuarial staff to both current and prior accident year reserves based on regularly scheduled reviews. Through these reviews, our actuaries identify and measure variances in the projected frequency and severity trends, which allow them to adjust the reserves to reflect 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 in the vehicle businesses would be reflected in “all other development,” discussed below, to the extent they relate to prior year reserves. We report these actuarial adjustments separately for the current and prior accident years to reflect these adjustments as part of the total prior accident years development.

“All other development” represents claims settling for more or less than reserved, emergence of unrecorded claims at rates different than anticipated in our incurred but not recorded (IBNR) reserves, and changes in reserve estimates on specific claims. Although we believe the development from both the actuarial adjustments and “all other development” generally results from the same factors, we are unable to quantify the portion of the reserve development that might be applicable to any one or more of those underlying factors.

About 75% of the total unfavorable development for the first nine months of 2023 was in our personal auto products. About 60% of the personal auto unfavorable development was attributable to higher than anticipated severity in auto property and physical damage coverages, while the remaining unfavorable development was primarily due to increased loss costs in Florida injury and medical coverages and, to a lesser extent, higher than anticipated late reported injury claims. This was partially offset by lower loss adjustment expenses than anticipated.

While it is difficult to quantify the direct impact of recent insurance legislation in Florida, Florida contributed approximately half of the total prior accident year reserve development across all personal auto product lines for the nine months ended September 30, 2023. We continue to believe that the Florida tort reform will likely have a positive impact on the insurance industry in Florida over the long term. We will continue to monitor the ever-changing legislative and regulatory environment and will respond as necessary.

Coverages related to fixing vehicles have seen unprecedented increases in severity trends on previously closed claims, relative to comparable periods last year, and continued to be the major driver of prior year unfavorable development countrywide. The contributors to the increased trends came from a variety of sources, including longer vehicle repair times, longer rental times, and higher parts prices and labor rates. Fixing vehicle coverages are short-tailed, which explains why about 80% of the total year-to-date prior year development is from the 2022 accident year. Excluding Florida, accident years prior to 2022 have developed favorably.

Our current year actuarial adjustments are also primarily due to fixing vehicles. Since fixing vehicle coverages are short-tailed, most of the claims that are affected by emerging trends occurred in the later part of 2022. Accordingly, the steeper trends in fixing vehicle coverages increasingly affected claims that occurred in the current accident year. Florida litigation has been a relatively small part of current year actuarial adjustments since the increase in litigation largely affected claims that occurred before March 2023. During the third quarter 2023, we saw current year actuarial adjustment severity moderate, resulting in slightly favorable calendar-year development during the quarter. We continue to monitor loss trends across all states and coverages and will remain vigilant to adjust reserves to reflect those trends.

Our Commercial Lines business represented about 25% of the unfavorable development for the first nine months of 2023, mainly due to higher than anticipated severity and frequency of late reported injury claims, with about half of the unfavorable development attributable to our TNC business. The trend in loss costs has been steep, as costs for medical care, vehicle repair labor, and parts continue to climb. Although we have recently seen the inflationary environmental trends moderate, we believe the impact of these trends will continue to affect loss costs for the foreseeable future.

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. Our ability to meet this objective is impacted by many factors. Changes in case law, particularly in case law related to personal injury protection, can make it difficult to estimate reserves timely and with minimal variation. See *Note 6 – Loss and Loss Adjustment Expense Reserves*, for a more detailed discussion of our prior accident years reserve development and *Critical Accounting Policies* in our 2022 Annual Report to Shareholders for discussion of the application of estimates and assumptions in the establishment of our loss reserves.

Underwriting Expenses

Underwriting expenses include policy acquisition costs and other underwriting expenses. The underwriting expense ratio is our underwriting expenses, net of certain fees and other revenues, expressed as a percentage of net premiums earned. For the third quarter 2023, our underwriting expense ratio was down 2.5 points, compared to the same period last year, and 1.1 points on a year-to-date basis, primarily reflecting growth in net premiums earned and decreases in our advertising spend. In total, our companywide advertising spend decreased 52%, compared to the third quarter 2022, and 19% on a year-to-date basis. The reduction in advertising spend in concert with premium growth reduced the contribution of advertising to our combined ratio by 2.5 points and 1.4 points for the three and nine months ended September 30, 2023, respectively, compared to the same periods last year. As we continue to focus on profitability, we plan to continue to manage our expenses and discretionary spend to further our goal of achieving our target profitability.

To analyze underwriting expenses, we also review our non-acquisition expense ratio (NAER), which excludes costs related to policy acquisition, including advertising and agency commissions, from our underwriting expense ratio. During the third quarter 2023, our NAER was flat in our Personal Lines business, and increased 0.1 points and 0.6 points in our Commercial Lines and Property businesses, respectively, compared to the same period last year. On a year-to-date basis, our NAER increased 0.2 points, 0.8 points, and 0.9 points, in our Personal Lines, Commercial Lines, and Property businesses, respectively, compared to the same period last year.

C. Growth

For our underwriting operations, we analyze growth in terms of both premiums and policies. Net premiums written represent the premiums from policies written during the period, less any premiums ceded to reinsurers. Net premiums earned, which are a function of the premiums written in the current and prior periods, are earned as revenue over the life of the policy using a daily earnings convention. Policies in force, our preferred measure of growth since it removes the variability due to rate changes or mix shifts, represents all policies for which coverage was in effect as of the end of the period specified.

	Three Months Ended September 30,			Nine Months Ended September 30,		
($ in millions)	**2023**	**2022**	**% Growth**	**2023**	**2022**	**% Growth**
NET PREMIUMS WRITTEN						
Personal Lines						
Agency	$ 5,656.3	$ 4,744.9	19 %	$ 16,604.4	$ 13,754.9	21 %
Direct	6,997.3	5,584.1	25	19,762.5	15,765.5	25
Total Personal Lines	12,653.6	10,329.0	23	36,366.9	29,520.4	23
Commercial Lines	2,214.9	2,063.9	7	7,948.2	7,298.4	9
Property	725.2	624.5	16	2,104.9	1,800.2	17
Other indemnity[1]	0.1	0.4	(75)	0.4	1.9	(79)
Total underwriting operations	$ 15,593.8	$ 13,017.8	20 %	$ 46,420.4	$ 38,620.9	20 %
NET PREMIUMS EARNED						
Personal Lines						
Agency	$ 5,414.0	$ 4,441.9	22 %	$ 15,481.4	$ 13,131.7	18 %
Direct	6,361.8	5,077.4	25	18,259.9	14,776.9	24
Total Personal Lines	11,775.8	9,519.3	24	33,741.3	27,908.6	21
Commercial Lines	2,486.6	2,317.9	7	7,296.8	6,749.5	8
Property	631.8	561.0	13	1,852.8	1,689.6	10
Other indemnity[1]	0.1	0.7	(86)	0.9	2.0	(55)
Total underwriting operations	$ 14,894.3	$ 12,398.9	20 %	$ 42,891.8	$ 36,349.7	18 %

[1] Includes other underwriting business and run-off operations.

	September 30,		
(thousands)	**2023**	**2022**	**% Growth**
POLICIES IN FORCE			
Personal Lines			
Agency auto	8,363.3	7,600.3	10 %
Direct auto	11,154.3	9,823.8	14
Total auto	19,517.6	17,424.1	12
Special lines[1]	5,956.2	5,558.0	7
Personal Lines — total	25,473.8	22,982.1	11
Commercial Lines	1,110.3	1,039.8	7
Property	3,025.2	2,835.5	7
Companywide total	29,609.3	26,857.4	10 %

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

To analyze growth, we review new policies, rate levels, and the retention characteristics of our segments. 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 following tables, 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. We believe changes in policy life expectancy using a trailing 12-month period measure is indicative of recent experience, mitigates the effects of month-to-month variability, and addresses seasonality. Although using a trailing 3-month measure is sensitive to 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.

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	
	2023	2022	2023	2022
Applications				
New	(15)%	16 %	25 %	(8)%
Renewal	15	(2)	8	2
Written premium per policy - Auto	12	10	9	9
Policy life expectancy - Auto				
Trailing 3 months	35	(30)		
Trailing 12 months	19	(21)		

In our Personal Lines business, while we experienced significant new application growth in the first half of 2023, in the third quarter new applications decreased as a result of targeted rate and non-rate actions, with the focus of achieving our calendar-year underwriting profitability goal. The decrease in new applications during the third quarter was driven by our personal auto products, with decreases across all of our consumer segments except Robinsons, who experienced a low double digit increase. On a year-to-date basis, all four consumer segments experienced positive new application growth. Our special lines products experienced strong new application growth in both periods.

Personal auto policies in force grew between 5% and 15% across all consumer segments as of the third quarter 2023, compared to the same period last year.

During the third quarter 2023, on a countrywide basis, we implemented personal auto rate increases in 25 states. On a year-to-date basis, we increased rates about 16%, in the aggregate, following rate increases of 11% during the first half of 2023 and 13% during 2022. We believe that our prior-year rate increases had a negative impact on our 2022 renewal business applications and policy life expectancy, and as competitors also raised rates, our retention started to lengthen as evidenced by the growth in our trailing 3- and 12-month policy life expectancy.

Our written premium per policy increased during the third quarter and first nine months of 2023, primarily due to the rate increases taken in 2022 and 2023, as previously discussed. Our focus on achieving our target underwriting profitability takes precedence over growth. We will continue to manage growth and profitability in accordance with our long-standing goal of growing as fast as we can, as long as we can provide high-quality customer service, at or below a companywide 96 combined ratio on a calendar-year basis. During the third quarter 2023, we continued to take additional measures to achieve our target profit margin that included slowing new business growth through verification activities, bill plan offerings, and through continued general operational expense discipline. In addition to potentially slowing growth, some of these actions could reduce our retention.

We report our Agency and Direct business results separately as components of our Personal Lines segment to provide further understanding of our products by distribution channel. The channel discussions below are focused on personal auto insurance since this product accounted for 94% of the Personal Lines segment net premiums written during both the third quarter and first nine months of 2023.

The Agency Business

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2023	2022	2023	2022
Applications - Auto				
New	(18)%	9 %	31 %	(14)%
Renewal	10	(6)	3	(3)
Written premium per policy - Auto	13	12	10	11
Policy life expectancy - Auto				
Trailing 3 months	41	(33)		
Trailing 12 months	20	(23)		

The Agency business includes business written by more than 40,000 independent insurance agencies that represent Progressive, as well as brokerages in New York and California. Consistent with our plan to slow new business growth, during the third quarter 2023, 14 states and the District of Columbia generated new Agency auto application growth, including only one of our top 10 largest Agency states. During the third quarter and first nine months of 2023, total Agency auto applications increased 5% and 8%, respectively, primarily due to growth in renewal applications for the quarter and new applications for the first nine months of 2023. During the third quarter 2023, year-over-year new application growth was strong for the Robinsons and moderate for the Wrights, while both Sams and Dianes saw a significant decrease. During the first nine months of 2023, each of our consumer segments experienced a significant increase in new applications year over year, except Sams who saw a low double digit increase. Policies in force grew by low double digit percentages in each consumer segment, except Dianes and Sams who saw single digit increases, compared to the same period last year.

During the third quarter 2023, on a year-over-year basis, we experienced decreases in Agency auto quote volume of 11% and rate of conversion (i.e., converting a quote to a sale) of 9%. For the first nine months of 2023, quotes and the rate of conversion increased 6% and 23%, respectively, compared to the same period last year. For the third quarter, each consumer segment, except Wrights, saw a decrease in quotes, while all consumer segments, except Robinsons, saw a decrease in conversion. For the year-to-date period, only Dianes and Wrights saw increases in quote volume, while all consumer segments saw an increase in conversion.

Written premium per policy for new and renewal Agency auto business increased 2% and 14%, respectively, compared to the third quarter 2022, and 9% and 11%, respectively, for the first nine months of 2023 on a year-over-year basis.

The Direct Business

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2023	2022	2023	2022
Applications - Auto				
New	(22)%	26 %	27 %	(5)%
Renewal	20	(1)	11	3
Written premium per policy - Auto	12	9	8	8
Policy life expectancy - Auto				
Trailing 3 months	29	(27)		
Trailing 12 months	17	(18)		

The Direct business includes business written directly by Progressive online, through our Progressive mobile app, and over the phone. During the third quarter 2023, 10 states and the District of Columbia generated new auto application growth, including only one of our top 10 largest Direct states, which is consistent with our plans to slow new business growth. During the third quarter and first nine months of 2023, total auto applications increased 11% and 15%, respectively, primarily due to growth in renewal applications for the quarter and both new and renewal applications for the first nine months of 2023. During the quarter, each of our consumer segments experienced a significant decrease in new applications year over year, except Robinsons who experienced a low single digit increase. On a year-to-date basis, each consumer segment experienced a significant increase in new applications from the prior year. Policies in force grew between 7% and 17% in each consumer segment, compared to the same period last year.

During the third quarter and first nine months of 2023, Direct auto quote volume decreased 31% and increased 8%, respectively, while conversion increased 12% and 17%, compared to the same periods last year. All consumer segments saw a decrease in quotes during the quarter, with all consumer segments, except Sams, experiencing increased quote volume during the first nine months of 2023. All consumer segments saw an increase in conversion for both the third quarter and first nine months of 2023. The decrease we experienced in our quote volume during the third quarter 2023 primarily reflected decreased advertising spend, compared to the third quarter 2022, along with the other actions taken to slow growth to focus on profitability.

Written premium per policy for new and renewal Direct auto business increased 2% and 13%, respectively, compared to the third quarter 2022, and 5% and 10%, respectively, for the first nine months of 2023 on a year-over-year basis, primarily driven by rate increases.

E. Commercial Lines

Our Commercial Lines business operates in five traditional business markets, which include business auto, for-hire transportation, contractor, for-hire specialty, and tow markets, primarily written through the agency channel. We also write TNC business, BOP insurance, and, through Protective Insurance, larger fleet and workers' compensation insurance primarily for the transportation industry, along with trucking industry independent contractors, and affinity programs.

The following table and discussion focuses on our commercial auto product, excluding our TNC, BOP, and Protective Insurance products. Year-over-year changes in our commercial auto product were as follows:

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2023	2022	2023	2022
Applications				
New	3 %	(6)%	4 %	(1)%
Renewal	2	10	5	13
Written premium per policy	4	8	2	14
Policy life expectancy Trailing 12 months	(9)	(9)		

The increases in net premiums written in our Commercial Lines business reflected growth in all of our business market targets (BMTs), except our for-hire transportation BMT, which continued to be impacted by a slowdown in the rate of economic activity and challenging freight market conditions. The most significant growth was in our business auto and contractor BMTs. We believe the increase in our contractor BMT was influenced by construction, employment, and spending trends.

During the third quarter and first nine months of 2023, commercial auto new application growth was positive in each of our business market targets, except for the for-hire transportation market, as previously discussed. During the third quarter and first nine months of 2023, quote volume increased 10% and 7%, respectively, while conversion decreased 6% and 3%, compared to the same periods last year.

During the third quarter 2023, we increased rates, in aggregate, about 4% in our commercial auto products and 12% on a year-to-date basis. Written premium per policy for new commercial auto business decreased 1% and 4% for the third quarter and first nine months of 2023, respectively, compared to the same periods last year. Shifts in the mix of business to lower premium products more than offset the rate increases we took in commercial auto on our new business. Written premium per policy on renewal business increased 7% for the third quarter and 5% for the first nine months of 2023, compared to the prior year periods, reflecting rate increases.

Our policy life expectancy decreased in all business market targets. We believe unfavorable trucking market conditions and the general weakening of the economy are driving increased shopping and causing motor carriers to exit the industry, having a negative effect on policy life expectancy.

F. Property

The following table shows our year-over-year changes for our Property business:

	Growth Over Prior Year			
	Quarter		Year-to-date	
	2023	2022	2023	2022
Applications				
New	9 %	(9)%	11 %	(7)%
Renewal	4	7	5	8
Written premium per policy	12	5	12	4
Policy life expectancy Trailing 12 months	14	(9)		

Our Property business writes residential property insurance for homeowners, other property owners, and renters, and umbrella insurance in the agency and direct channels. During the third quarter and first nine months of 2023, the increase in new applications experienced in our Property business was primarily due to underwriting changes made in an effort to promote growth in less volatile weather states.

Improving profitability and reducing concentration exposure continued to be the top priority for our Property business during the first nine months of 2023. We have concentrated our growth in the Property business in markets that are less susceptible to catastrophes and have lower exposure to coastal and hail-prone states for all products excluding renters and umbrella. New applications in these growth-oriented states were up about 30% in the third quarter and about 45% in the first nine months of 2023, compared to the same periods last year. In regions where our appetite to write new business is limited, we are continuing to prioritize Progressive auto bundles, as well as lower risk properties, such as new construction or homes with newer roofs.

New applications were down about 10% for the third quarter and 25% in the first nine months of 2023 in these more volatile weather states, compared to the prior periods. In addition, to continue to rebalance our business, we began a non-renewal effort of up to 115,000 Property policies in Florida. Following the required filings and notices, the first of these non-renewals will go into effect in the second quarter of 2024 and will continue on a rolling 12-month basis. To try to ease this disruption to our customers and agents, we reached an agreement with another Florida insurer to offer replacement policies to these policyholders, subject to their underwriting and financial guidelines and agent appointments where applicable.

The increase in our written premium per policy, compared to the third quarter and first nine months of 2022, was primarily due to rate increases taken over the last 12 months and providing higher premium coverages to account for inflation. During the third quarter 2023, we increased rates, in aggregate, about 2% in our Property segment and 9% on a year-to-date basis. The written premium per policy increase was partially offset by a shift in the mix of business to a larger share of renters policies, which have lower written premium per policy, and less homeowners growth in volatile states that have higher average premiums. We intend to continue to make targeted rate increases in states where we believe it is necessary to achieve our profitability targets.

G. Income Taxes

At September 30, 2023, and December 31, 2022, we had net current income taxes payable of $246.1 million and $10.9 million, respectively, which were reported in accounts payable, accrued expenses, and other liabilities, compared to recoverable income taxes of $31.0 million at September 30, 2022, which were reported in other assets in our consolidated balance sheets. This balance may fluctuate between an asset and a liability from period to period due to normal timing differences.

A deferred tax asset or liability is a tax benefit or expense, respectively, that is expected to be realized in a future tax return. At September 30, 2023 and 2022, and December 31, 2022, we reported net federal deferred tax assets of $1.4 billion, $1.3 billion, and $1.1 billion, respectively.

We are required to assess our deferred tax assets for recoverability and, based on our analysis, determined that we did not need a valuation allowance on our gross deferred tax assets in each period. Although realization of the gross deferred tax assets is not assured, management believes it is more likely than not that the gross deferred tax assets will be realized based on our expectation we will be able to fully utilize the deductions that are ultimately recognized for tax purposes. We believe our deferred tax assets related to net unrealized losses on fixed-maturity securities will be realized based on the existence of prior-year capital gains, current temporary differences related to unrealized gains in our equity portfolio, and other tax planning strategies.

Our effective tax rate for the three and nine months ended September 30, 2023, was 20.5% and 20.2%, respectively, compared to 12.9% and (1.6)% for the same periods last year. The lower effective tax rates for the three and nine months ended September 30, 2022, were due in part to the low amount of income (loss) before taxes during those periods, resulting in permanent tax differences having a greater impact on the effective rate. The low effective tax rate for the nine months ended September 30, 2022, was also due to the goodwill impairment charge (see *Note 12 – Goodwill and Intangible Assets* for further discussion).

Consistent with prior years, we had no uncertain tax positions. See *Note 5 – Income Taxes* for further information.

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 September 30:

	Three Months		Nine Months	
	2023	2022	2023	2022
Pretax recurring investment book yield (annualized)	3.3 %	2.5 %	3.1 %	2.2 %
FTE total return:				
Fixed-income securities	(0.1)	(1.8)	1.6	(7.6)
Common stocks	(3.1)	(4.5)	13.3	(24.0)
Total portfolio	(0.2)	(1.9)	2.1	(9.0)

The increase in the book yield for both periods, compared to last year, primarily reflected investing new cash from operations and proceeds from maturing bonds at higher interest rates, and an increase in interest rates on our floating-rate securities. The change in the fixed-income FTE total return for both periods, compared to last year, primarily reflected interest rate movement. The increase in common stocks reflected general market conditions.

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

	Three Months		Nine Months	
	2023	2022	2023	2022
Fixed-income securities:				
U.S. Treasury Notes	(0.6)%	(2.9)%	0.7 %	(8.5)%
Municipal bonds	(0.4)	(2.9)	1.9	(9.4)
Corporate bonds	0.1	(1.5)	2.7	(8.0)
Residential mortgage-backed securities	2.0	0.6	6.3	(0.9)
Commercial mortgage-backed securities	0.6	(2.0)	2.4	(9.5)
Other asset-backed securities	1.6	(0.4)	4.6	(3.0)
Preferred stocks	0.8	0.6	(2.7)	(10.4)
Short-term investments	1.3	0.5	3.6	0.7

B. Portfolio Allocation

The composition of the investment portfolio was:

($ in millions)	Fair Value	% of Total Portfolio	Duration (years)	Average Rating[1]
September 30, 2023				
U.S. government obligations	$ 34,293.8	55.4 %	3.4	AA+
State and local government obligations	2,054.3	3.3	3.1	AA+
Foreign government obligations	15.4	0.1	2.8	AAA
Corporate debt securities	10,254.2	16.6	2.8	BBB
Residential mortgage-backed securities	515.8	0.8	0.4	A
Commercial mortgage-backed securities	3,977.7	6.4	2.3	A+
Other asset-backed securities	5,313.6	8.6	1.1	AA+
Preferred stocks	1,036.0	1.7	2.5	BBB-
Short-term investments	1,795.2	2.9	<0.1	A+
Total fixed-income securities	59,256.0	95.8	2.9	AA-
Common equities	2,614.5	4.2	na	na
Total portfolio[2]	$ 61,870.5	100.0 %	2.9	AA-
September 30, 2022				
U.S. government obligations	$ 22,405.5	42.8 %	3.5	AAA
State and local government obligations	1,925.5	3.7	3.7	AA+
Foreign government obligations	15.3	0.1	3.8	AAA
Corporate debt securities	9,228.4	17.6	2.9	BBB
Residential mortgage-backed securities	723.0	1.4	0.4	A
Commercial mortgage-backed securities	5,087.9	9.7	2.7	A+
Other asset-backed securities	4,605.9	8.8	1.1	AA+
Preferred stocks	1,436.0	2.7	2.9	BBB-
Short-term investments	4,237.6	8.1	<0.1	AA+
Total fixed-income securities	49,665.1	94.9	2.7	AA
Common equities	2,665.3	5.1	na	na
Total portfolio[2]	$ 52,330.4	100.0 %	2.7	AA
December 31, 2022				
U.S. government obligations	$ 25,167.4	47.0 %	3.7	AAA
State and local government obligations	1,977.1	3.7	3.5	AA+
Foreign government obligations	15.5	0.1	3.5	AAA
Corporate debt securities	9,412.7	17.6	2.8	BBB
Residential mortgage-backed securities	666.8	1.2	0.4	A
Commercial mortgage-backed securities	4,663.5	8.7	2.7	A+
Other asset-backed securities	4,564.6	8.5	1.1	AA+
Preferred stocks	1,397.5	2.6	2.8	BBB-
Short-term investments	2,861.7	5.4	0.1	AAA-
Total fixed-income securities	50,726.8	94.8	2.9	AA
Common equities	2,821.5	5.2	na	na
Total portfolio[2]	$ 53,548.3	100.0 %	2.9	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] At September 30, 2023 and 2022, we had $167.3 million and $74.7 million, respectively, of net unsettled security purchase transactions included in other liabilities, compared to $34.4 million included in other assets at December 31, 2022.

The total fair value of the portfolio at September 30, 2023 and 2022, and December 31, 2022, included $4.1 billion, $4.2 billion, and $4.4 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of 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:

	September 30, 2023		September 30, 2022		December 31, 2022	
($ 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	$ 651.8	1.1 %	$ 1,419.9	2.7 %	$ 1,249.2	2.3 %
Redeemable preferred stocks[1]	83.5	0.1	90.8	0.2	92.1	0.2
Nonredeemable preferred stocks	868.9	1.4	1,254.4	2.4	1,213.2	2.3
Common equities	2,614.5	4.2	2,665.3	5.1	2,821.5	5.2
Total Group I securities	4,218.7	6.8	5,430.4	10.4	5,376.0	10.0
Group II securities:						
Other fixed maturities	55,856.6	90.3	42,662.4	81.5	45,310.6	84.6
Short-term investments	1,795.2	2.9	4,237.6	8.1	2,861.7	5.4
Total Group II securities	57,651.8	93.2	46,900.0	89.6	48,172.3	90.0
Total portfolio	$ 61,870.5	100.0 %	$ 52,330.4	100.0 %	$ 53,548.3	100.0 %

[1] We did not hold any non-investment-grade redeemable preferred stocks at September 30, 2023 and 2022, or December 31, 2022.

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) to classify our residential and commercial mortgage-backed securities, excluding interest-only (IO) securities, and the credit ratings from nationally recognized statistical rating organizations (NRSRO) to classify 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 September 30, 2023, our fixed-maturity portfolio had total after-tax net unrealized losses, which are recorded as part of accumulated other comprehensive income (loss) on our consolidated balance sheets, of $3.0 billion, compared to $3.1 billion and $2.8 billion at September 30, 2022 and December 31, 2022, respectively. The decrease in net unrealized losses from September 30, 2022, was primarily due to higher valuations on our corporate debt and other asset-backed portfolios as the market experienced smaller increases in interest rates and a more stable environment for credit spreads. The increase in our fixed-maturity net unrealized loss from December 31, 2022 through September 30, 2023, was primarily due to a lower valuation on our U.S. Treasury portfolio.

See *Note 2 – Investments* for a further break-out of our gross unrealized gains (losses).

Holding Period Gains and Losses

The following table provides the balance and activity for both the gross and net holding period gains (losses) for the nine months ended September 30, 2023:

(millions)	Gross Holding Period Gains	Gross Holding Period Losses	Net Holding Period Gains (Losses)
Balance at December 31, 2022			
Hybrid fixed-maturity securities	$ 1.3	$ (75.8)	$ (74.5)
Equity securities[1]	2,026.6	(182.2)	1,844.4
Total holding period securities	2,027.9	(258.0)	1,769.9
Current year change in holding period securities			
Hybrid fixed-maturity securities	(0.3)	18.7	18.4
Equity securities[1]	(62.0)	61.5	(0.5)
Total changes in holding period securities	(62.3)	80.2	17.9
Balance at September 30, 2023			
Hybrid fixed-maturity securities	1.0	(57.1)	(56.1)
Equity securities[1]	1,964.6	(120.7)	1,843.9
Total holding period securities	$ 1,965.6	$ (177.8)	$ 1,787.8

[1]Equity securities include common equities and nonredeemable preferred stocks.

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.

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.

Interest Rate Risk Our duration of 2.9 years at both September 30, 2023 and December 31, 2022, and 2.7 years at September 30, 2022 fell within our acceptable range of 1.5 to 5 years. 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 (excluding short-term securities)	September 30, 2023	September 30, 2022	December 31, 2022
1 year	20.7 %	19.3 %	17.5 %
2 years	13.0	19.1	16.9
3 years	23.5	23.1	21.3
5 years	27.6	20.4	25.1
7 years	12.4	13.5	14.0
10 years	2.8	4.6	5.2
Total fixed-income portfolio	100.0 %	100.0 %	100.0 %

Credit Risk This exposure is managed by maintaining an A+ minimum average portfolio credit quality rating, as defined by NRSROs. At September 30, 2023, our credit quality rating was AA- and at both September 30, 2022 and December 31, 2022 it was AA. The credit quality distribution of the fixed-income portfolio was:

Average Rating[1]	September 30, 2023	September 30, 2022	December 31, 2022
AAA	10.8 %	63.2 %	65.5 %
AA	64.5	6.7	6.4
A	7.4	7.1	7.6
BBB	15.8	19.1	17.2
Non-investment grade/non-rated			
BB	1.2	3.1	2.5
B	0.2	0.5	0.5
CCC and lower	0	0.1	0.1
Non-rated	0.1	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.

Concentration Risk We did not have any investments in a single issuer, either overall or in the context of individual asset classes and sectors, that exceeded our thresholds during the third quarter 2023.

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 third quarter 2023.

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. During the remainder of 2023 and all of 2024, we expect approximately $7.2 billion, or 31%, of principal repayment from our fixed-income portfolio, excluding U.S. Treasury Notes and short-term investments. Cash from interest and dividend payments and our short-term portfolio provide additional sources 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 September 30, 2023:

($ in millions)	Fair Value	Duration (years)
U.S. Treasury Notes		
Less than one year	$ 3,758.4	0.6
One to two years	5,445.7	1.5
Two to three years	3,573.7	2.4
Three to five years	14,909.6	4.0
Five to seven years	5,123.4	5.6
Seven to ten years	1,483.0	7.5
Total U.S. Treasury Notes	$ 34,293.8	3.4

ASSET-BACKED SECURITIES

Included in our 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)	Average Rating (at period end)[1]
September 30, 2023					
Residential mortgage-backed securities	$ 515.8	$ (12.8)	5.2 %	0.4	A
Commercial mortgage-backed securities	3,977.7	(721.8)	40.6	2.3	A+
Other asset-backed securities	5,313.6	(210.0)	54.2	1.1	AA+
Total asset-backed securities	$ 9,807.1	$ (944.6)	100.0 %	1.6	AA-
September 30, 2022					
Residential mortgage-backed securities	$ 723.0	$ (16.1)	6.9 %	0.4	A
Commercial mortgage-backed securities	5,087.9	(746.0)	48.9	2.7	A+
Other asset-backed securities	4,605.9	(268.9)	44.2	1.1	AA+
Total asset-backed securities	$10,416.8	$ (1,031.0)	100.0 %	1.8	AA-
December 31, 2022					
Residential mortgage-backed securities	$ 666.8	$ (17.2)	6.7 %	0.4	A
Commercial mortgage-backed securities	4,663.5	(782.5)	47.1	2.7	A+
Other asset-backed securities	4,564.6	(259.6)	46.2	1.1	AA+
Total asset-backed securities	$ 9,894.9	$ (1,059.3)	100.0 %	1.8	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 RMBS, along with the loan classification and a comparison of the fair value at September 30, 2023, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Residential Mortgage-Backed Securities (at September 30, 2023)

($ in millions) Average Rating[1]	Non-Agency	Government/ GSE[2]	Total	% of Total
AAA	$ 76.5	$ 0.3	$ 76.8	14.9 %
AA	31.1	1.2	32.3	6.3
A	323.7	0	323.7	62.8
BBB	77.0	0	77.0	14.9
Non-investment grade/non-rated:				
BB	0.3	0	0.3	0.1
CCC and lower	1.3	0	1.3	0.2
Non-rated	4.4	0	4.4	0.8
Total fair value	$ 514.3	$ 1.5	$ 515.8	100.0 %
Increase (decrease) in value	(2.8)%	(6.1)%	(2.8)%	

[1] The credit quality ratings are assigned by NRSROs; when we assigned the NAIC ratings for our RMBS, 100% of our non-investment-grade securities were rated investment grade and reported as Group II securities.
[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. During the third quarter 2023, the portfolio decreased as a result of maturities on securities and we did not have any purchase or sales activity.

Commercial Mortgage-Backed Securities (CMBS) The following table details the credit quality rating and fair value of our CMBS, along with a comparison of the fair value at September 30, 2023, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Commercial Mortgage-Backed Securities (at September 30, 2023)

($ in millions) Average Rating[1]	Multi-Borrower	Single-Borrower	Total	% of Total
AAA	$ 186.5	$ 1,008.1	$ 1,194.6	30.0 %
AA	0	941.8	941.8	23.7
A	0	806.1	806.1	20.3
BBB	0	744.5	744.5	18.7
Non-investment grade/non-rated:				
BB	0	290.7	290.7	7.3
Total fair value	$ 186.5	$ 3,791.2	$ 3,977.7	100.0 %
Increase (decrease) in value	(6.2)%	(15.8)%	(15.4)%	

[1]The credit quality ratings are assigned by NRSROs; when we assigned the NAIC ratings for our CMBS, 30% of our non-investment-grade securities were rated investment grade and reported as Group II securities, with the remainder classified as Group I.

The CMBS portfolio continued to experience heightened volatility in the third quarter 2023 due to ongoing challenges around the commercial real estate market and higher financing costs for commercial properties. In general, delinquencies have increased in the CMBS market as some loans that reached their maturity date continued to have difficulty refinancing. New issuance has remained slow in the single-asset single-borrower (SASB) market and liquidity has continued to be challenged. We continued to selectively reduce certain positions during the quarter that we believed would be sensitive to potential future economic weakness. As of the end of the third quarter 2023, we had no delinquencies in our CMBS portfolio.

With renewed focus on the commercial real estate sector, the following table shows the composition of our CMBS portfolio by maturity year and sector:

Commercial Mortgage-Backed Securities Sector Details (at September 30, 2023)

($ in millions) Maturity[1]	Office	Lab Office	Multi-family	Multi-family IO	Retail	Industrial	Self-Storage	Casino	Defeased	Total	Average Original LTV	Average Current DSCR
2023	$ 95.1	$ 0	$ 0	$ 10.5	$ 0	$ 0	$ 0	$ 0	$ 158.5	$ 264.1	53.7 %	3.7
2024	123.0	24.4	22.2	40.5	36.0	179.4	0	0	0	425.5	60.6	2.0
2025	0	41.9	0	36.4	62.6	43.7	0	0	0	184.6	65.7	2.1
2026	417.7	81.9	288.5	32.8	0	90.2	60.2	109.5	0	1,080.8	62.9	1.8
2027	389.5	0	39.1	29.7	0	93.6	253.7	0	0	805.6	60.1	1.9
2028	236.4	0	0	22.4	0	0	0	0	0	258.8	51.9	3.3
2029	381.5	0	0	10.6	0	0	0	63.1	0	455.2	57.6	3.1
2030	67.0	55.4	0	3.6	0	0	0	86.0	0	212.0	55.5	3.1
2031	206.3	84.8	0	0	0	0	0	0	0	291.1	66.5	1.9
Total fair value	$1,916.5	$ 288.4	$ 349.8	$ 186.5	$ 98.6	$ 406.9	$ 313.9	$ 258.6	$ 158.5	$3,977.7		

LTV= loan to value

DSCR= debt service coverage ratio

[1]The floating-rate securities were extended to their full maturity and fixed-rate securities are shown to their anticipated repayment date (if applicable) or otherwise, their maturity date.

We show the average loan to value (LTV) of each maturity year when the loans were originated. The LTV ratio that management uses, which is commonly expressed as a percentage, compares the size of the entire mortgage loan to the appraised value of the underlying property collateralizing the loan at issuance. A LTV ratio less than 100% indicates excess collateral value over the loan amount. LTV ratios greater than 100% indicate that the loan amount exceeds the collateral value. We believe this ratio provides a conservative view of our actual risk of loss, as this number displays the entire mortgage LTV, while our ownership is only a portion of the structure of the mortgage loan-backed security. For many of the mortgage loans in our portfolio, our exposure is in a more senior part of the structure, which means that the LTV on our actual exposure is even lower than the ratios presented in the table above.

In addition to the LTV ratio, we also examine the credit of our CMBS portfolio by reviewing the debt service coverage ratio (DSCR) of the securities. The DSCR ratio compares the underlying property's annual net operating income to its annual debt service payments. DSCR ratios less than 1.0 times indicate that property operations do not generate enough income over the debt service payments, while a DSCR ratio greater than 1.0 times indicates that there is an excess of operating income over the debt service payments. A number above 1.0 generally indicates that there would not be an incentive for the borrower to default in light of the borrower's excess income. The DSCR calculation reported in the table is calculated based on the most currently available net operating income and mortgage payments for the borrower, which, for most securities, is full year 2022 data.

Other Asset-Backed Securities (OABS) The following table details the credit quality rating and fair value of our OABS, along with a comparison of the fair value at September 30, 2023, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Other Asset-Backed Securities (at September 30, 2023)

($ in millions) Average Rating	Automobile	Collateralized Loan Obligations	Student Loan	Whole Business Securitizations	Equipment	Other	Total	% of Total
AAA	$ 1,677.1	$ 1,061.5	$ 36.5	$ 0	$ 797.2	$ 164.3	$ 3,736.6	70.3 %
AA	25.7	420.3	9.1	0	64.1	0	519.2	9.8
A	8.9	0	0	0	149.0	138.0	295.9	5.6
BBB	6.8	0	0	688.7	0	35.0	730.5	13.7
Non-investment grade/ non-rated:								
BB	0	0	0	0	0	31.4	31.4	0.6
Total fair value	$ 1,718.5	$ 1,481.8	$ 45.6	$ 688.7	$ 1,010.3	$ 368.7	$ 5,313.6	100.0 %
Increase (decrease) in value	(0.5)%	(4.4)%	(11.3)%	(10.7)%	(0.9)%	(8.9)%	(3.8)%	

During the third quarter 2023, we selectively added to our automobile and equipment categories as we continued to view spreads, and potential returns, across this sector to be attractive. Our automobile and equipment additions were mainly through new issue purchases, primarily focusing on higher credit tranche securities in the capital structure.

MUNICIPAL SECURITIES

The following table details the credit quality rating of our municipal securities at September 30, 2023, without the benefit of credit or bond insurance:

Municipal Securities (at September 30, 2023)

(millions) Average Rating	General Obligations	Revenue Bonds	Total
AAA	$ 609.0	$ 324.3	$ 933.3
AA	437.1	638.4	1,075.5
A	0	45.0	45.0
BBB	0	0.3	0.3
Non-rated	0	0.2	0.2
Total	$ 1,046.1	$ 1,008.2	$ 2,054.3

Included in revenue bonds were $476.8 million of single-family housing revenue bonds issued by state housing finance agencies, of which $283.7 million were supported by individual mortgages held by the state housing finance agencies and $193.1 million were supported by mortgage-backed securities.

Of the revenue bonds 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 the Federal Housing Administration, the U.S. Department of Veterans Affairs, or private mortgage insurance providers. Of the revenue bonds supported by mortgage-backed securities, 84% were collateralized by Ginnie Mae mortgages, which are fully guaranteed by the U.S. government; the remaining 16% were collateralized by Fannie Mae and Freddie Mac mortgages.

Credit spreads of tax-exempt bonds widened during the third quarter 2023, while credit spreads of taxable municipal bonds tightened. We added short, high-quality state general obligation, higher education, and housing bonds during the quarter. The size of our municipal portfolio decreased modestly during the quarter as purchases were less than the maturities in the portfolio.

CORPORATE DEBT SECURITIES

The following table details the credit quality rating of our corporate debt securities at September 30, 2023:

Corporate Securities (at September 30, 2023)

(millions) Average Rating	Consumer	Industrial	Communication	Financial Services	Technology	Basic Materials	Energy	Total
AAA	$ 0	$ 0	$ 0	$ 78.0	$ 0	$ 0	$ 0	$ 78.0
AA	63.0	0	0	255.1	0	0	44.7	362.8
A	515.8	328.7	161.9	1,299.1	40.6	115.3	421.2	2,882.6
BBB	2,279.3	1,221.3	297.3	1,106.6	521.3	35.8	1,051.9	6,513.5
Non-investment grade/non-rated:								
BB	158.6	33.6	59.1	0	10.6	0	7.9	269.8
B	124.2	0	0	0	0	23.3	0	147.5
Total fair value	$ 3,140.9	$ 1,583.6	$ 518.3	$ 2,738.8	$ 572.5	$ 174.4	$1,525.7	$ 10,254.2

The size of our corporate debt portfolio declined slightly in the third quarter 2023 as we continued to take a more conservative investment posture. We also continued to reduce our exposure to high-yield securities given a less certain macro environment and less attractive risk/reward profile of these securities. At September 30, 2023, our corporate debt securities made up approximately 17% of the fixed-income portfolio, compared to approximately 18% at June 30, 2023.

We also reduced the maturity profile of the corporate debt portfolio during the third quarter 2023. The duration of the corporate portfolio was 2.8 years at September 30, 2023, compared to 2.9 years at June 30, 2023, as we sold some of the longer duration securities with less attractive risk/reward profiles.

PREFERRED STOCKS – REDEEMABLE AND NONREDEEMABLE

The table below shows the exposure break-down by sector and rating at September 30, 2023:

Preferred Stocks (at September 30, 2023)

(millions) Average Rating	Financial Services U.S. Banks	Foreign Banks	Insurance	Other Financial	Industrials	Utilities	Total
BBB	$ 563.8	$ 31.5	$ 71.2	$ 24.7	$ 136.5	$ 43.8	$ 871.5
Non-investment grade/non-rated:							
BB	79.5	21.2	0	0	0	0	100.7
Non-rated	0	0	39.9	8.1	15.8	0	63.8
Total fair value	$ 643.3	$ 52.7	$ 111.1	$ 32.8	$ 152.3	$ 43.8	$ 1,036.0

The majority of our preferred stocks 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 stocks is calculated to reflect the call, floor, and floating rate features. Although a preferred stock 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 all with issuers that maintain investment-grade senior debt ratings.

We also face the risk that dividend payments on any of these securities could be deferred for one or more periods or skipped entirely. As of September 30, 2023, we expect all of these securities to pay their dividends in full and on time. During the third quarter, our preferred portfolio declined to $1.0 billion at September 30, 2023 from $1.1 billion at June 30, 2023. This decline was primarily due to preferred stocks that were called or sold because they had less attractive risk/reward profiles. Approximately 79% of our preferred stocks pay dividends that have tax preferential characteristics, while the balance pay dividends that are fully taxable.

Common Equities

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

($ in millions)	September 30, 2023		September 30, 2022		December 31, 2022	
Common stocks	$ 2,591.9	99.1 %	$ 2,646.6	99.3 %	$ 2,801.7	99.3 %
Other risk investments[1]	22.6	0.9	18.7	0.7	19.8	0.7
Total common equities	$ 2,614.5	100.0 %	$ 2,665.3	100.0 %	$ 2,821.5	100.0 %

[1]The other risk investments consist of limited partnership interests.

The majority of our common stock portfolio consists of individual holdings selected based on their contribution to the correlation with the Russell 1000 Index. We held 765 out of 1,012, or 76%, of the common stocks comprising the index at September 30, 2023, which made up 95% of the total market capitalization of the index. At September 30, 2023 and 2022, and December 31, 2022, the year-to-date total return, based on GAAP income, was within our targeted tracking error, which is +/- 50 basis points.

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," "goal," "target," "anticipate," "will," "could," "likely," "may," "should," 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 not guarantees of future performance, 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 and the continued availability of reinsurance and performance by reinsurers;*
- *the secure and uninterrupted operation of the systems, facilities and business functions and the operation of various third-party systems that are critical to our business;*
- *the impacts of a security breach or other attack involving our technology systems or the systems of one or more of our vendors;*
- *our ability to maintain a recognized and trusted brand and reputation;*
- *whether we innovate effectively and respond to our competitors' initiatives;*
- *whether we effectively manage complexity as we develop and deliver products and customer experiences;*
- *our ability to attract, develop and retain talent and maintain appropriate staffing levels;*
- *the impact of misconduct or fraudulent acts by employees, agents, and third parties to our business and/or exposure to regulatory assessments;*
- *the highly competitive nature of property-casualty insurance markets;*
- *whether we adjust claims accurately;*
- *compliance with complex and changing laws and regulations;*
- *litigation challenging our business practices, and those of our competitors and other companies;*
- *the success of our business strategy and efforts to acquire or develop new products or enter into new areas of business and navigate related risks;*
- *how intellectual property rights affect our competitiveness and our business operations;*
- *the performance of our fixed-income and equity investment portfolios;*
- *the impact on our investment returns and strategies from regulations and societal pressures relating to environmental, social, governance and other public policy matters;*
- *the elimination of the London Interbank Offered Rate;*
- *our continued ability to access our cash accounts and/or convert investments 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;*
- *the impacts of epidemics, pandemics or other widespread health risks; 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, 2022.*

Any forward-looking statements are made only as of the date presented. Except as required by applicable law, we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or developments or otherwise.

In addition, investors should be aware that accounting principles generally accepted in the United States 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.

Quantitative and Qualitative Disclosures About Market Risk

The duration of the financial instruments held in our portfolio that are subject to interest rate risk was 2.9 years at both September 30, 2023 and December 31, 2022, and 2.7 years at September 30, 2022. The weighted average beta of the equity portfolio was 1.03 at September 30, 2023, 1.01 at September 30, 2022, and 1.00 at December 31, 2022. 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, 2022.

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. 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.