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

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**FORM 10-K**

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(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the fiscal year ended December 31, 2021**

**or**

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission file number 001-09518**

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**THE PROGRESSIVE CORPORATION**

(Exact name of registrant as specified in its charter)

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**Ohio**  
(State or other jurisdiction of  
incorporation or organization)  
**6300 Wilson Mills Road, Mayfield Village, Ohio**  
(Address of principal executive offices)

**34-0963169**  
(I.R.S. Employer  
Identification No.)  
**44143**  
(Zip Code)

**(440) 461-5000**

(Registrant's telephone number, including area code)

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

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

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

**None**  
(Title of class)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over

financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the voting common shares held by non-affiliates of the registrant at June 30, 2021: \$56,938,339,392

The number of the registrant’s Common Shares, \$1.00 par value, outstanding as of January 31, 2022: 584,848,536

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant’s Proxy Statement for the Annual Meeting of Shareholders to be held on May 13, 2022, and the Annual Report to Shareholders of The Progressive Corporation and subsidiaries for the year ended December 31, 2021, included as Exhibit 13 to this Form 10-K, are incorporated by reference in Parts I, II, III, and IV hereof.

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## **PART I**

### **ITEM 1. BUSINESS**

#### **General Development of Business**

The Progressive Corporation, an insurance holding company, has insurance and non-insurance subsidiaries and affiliates (reference in this Item to subsidiaries includes affiliates as well). Our insurance subsidiaries provide personal and commercial auto insurance, personal residential and commercial property insurance, workers' compensation insurance primarily for the transportation industry, business-related general liability insurance, and other specialty property-casualty insurance and related services. Our non-insurance subsidiaries generally support our insurance and investment operations. We operate throughout the United States. Unless noted, references to "state" throughout this report include the District of Columbia.

#### **Description of Business**

##### **Organization**

Our executive group oversees the business and corporate groups that support all areas of our organization and consists of the following:

##### **Chief Executive Officer**

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- |                                 |                              |
|---------------------------------|------------------------------|
| • Chief Financial Officer       | • Personal Lines President   |
| • Chief Investment Officer      | • Property General Manager   |
| • Chief Human Resources Officer | • Commercial Lines President |
| • Chief Information Officer     | • Claims President           |
| • Chief Legal Officer           | • Customer Relationship      |
| • Chief Marketing Officer       | Management President         |
| • Chief Strategy Officer        |                              |

Our insurance and claims organizations are generally managed on a state-by-state basis due to the nature of insurance, legal and regulatory requirements, and other local factors, and are supplemented by national operations and supported by our corporate functions. State-specific organizations typically report to a regional general manager, who then reports to the applicable group president. In California, we operate a separate agency auto organization with its own management.

##### **Personal Lines**

Our Personal Lines segment writes insurance for personal autos and recreational vehicles, which we refer to as our special lines products. This business generally offers more than one program in a single state, with each program targeted to a specific distribution channel, market, or customer group. As of December 31, 2021, we wrote our Personal Lines products in all states, however, our special lines products are not written in the District of Columbia. The Personal Lines business accounted for 78% of our total net premiums written in 2021, 82% in 2020, and 83% in 2019.

The Personal Lines segment consists of personal auto and special lines products.

- Personal auto insurance represented approximately 94% of our total Personal Lines net premiums written in 2021, 2020, and 2019. We ranked third in market share in the U.S. private passenger auto market for 2020, based on premiums written, and we believe we continued to hold that position for 2021. There are approximately 280 competitors in this market. Progressive and the other leading 15 private passenger auto insurers, each of which writes over \$2.5 billion of premiums annually, comprise about 83% of this market. All industry data, including ranking and market share, based on premiums written, has been obtained directly from data reported by either SNL Financial or A.M. Best Company, Inc. (A.M. Best), or was estimated using A.M. Best data as the primary source.
- Special lines products, which include insurance for motorcycles, ATVs, RVs, watercraft, snowmobiles, and similar items, represented the remaining Personal Lines net premiums written for the years mentioned above. Due to the seasonal nature of these products, we typically experience higher losses during the warmer weather months. Our competitors are specialty companies and large multi-line insurance carriers. Although industry figures are not available, based on our analysis of this market, we believe that we have been the market share leader for the motorcycle product since 1998 and that we are one of the largest providers of RV and boat insurance.

Our Personal Lines products are sold through both the Agency and Direct channels.

- The Agency business includes business written by our network of more than 40,000 independent insurance agencies located throughout the United States, including brokerages in New York and California. These independent insurance agents and brokers have the ability to place business with Progressive for specified insurance coverages within prescribed underwriting guidelines, subject to compliance with our mandated procedures. The agents and brokers do not have authority to establish underwriting guidelines, develop rates, settle or adjust claims, or enter into other transactions or commitments. The Agency business also writes insurance through strategic alliance business relationships with other insurance companies, financial institutions, and national agencies. The total net premiums written through the Agency channel represented 48% of our Personal Lines volume in both 2021 and 2020, and 49% in 2019.
- The Direct business includes business written directly by us on the Internet, through mobile devices, and over the phone. The total net premiums written by the Direct business represented 52% of our Personal Lines volume in both 2021 and 2020, and 51% in 2019.

Our Personal Lines strategy is to be a competitively priced provider of a broad range of personal auto and special lines insurance products with distinctive service, distributed through whichever channel the customer prefers, and combined with property insurance and other products when appropriate to match our customers' needs. Volume potential is driven by our price competitiveness, brand recognition, quality service, and the actions of our competitors, among other factors. See "Competitive Factors" below for further discussion.

We seek to refine our personal auto segmentation, underwriting models, and pricing over time, and we regularly elevate new product models. At any one time, we could have multiple product models in the marketplace as new versions are being rolled out from state to state. Such new product models generally introduce new risk variables intended to improve the accuracy of matching rate to risk, increase our competitiveness, or make our products more attractive to specific market segments, among other enhancements.

We continue to provide customers in both the Agency and Direct channels the opportunity to improve their auto insurance rates based on their personal driving behavior through Snapshot<sup>®</sup>, our usage-based insurance (UBI) program. We offer Snapshot through both our hardware-based and mobile-app versions in nearly all states. This mobile app is intended to improve the user experience while also reducing our monitoring costs. In addition to the personal benefits for our customers, the data collected via the mobile app affords us a unique perspective on mobile device usage, vehicle operations, and accidents. Our updated auto product models, discussed above, often also include Snapshot enhancements to improve its competitiveness and broaden its applicability.

Our Personal Lines business is focused on efforts to form deeper and longer-term relationships with our customers through our Destination Era strategy. Through this strategy, we seek to leverage Progressive Home, our Property business, as well as insurance and non-insurance products offered by unaffiliated third parties, to provide our customers access to a range of products addressing their diverse needs and, if the customer chooses, to "bundle" certain of the products together. Bundled products are an integral part of our consumer offerings and an important part of our strategic agenda. Customers who prefer to bundle represent a sizable segment of the insurance market, and our experience is that they tend to stay with us longer and generally have lower claims costs. Our Destination Era strategy involves a number of initiatives, including:

- In our Agency channel, we offer customers the opportunity to bundle our auto and Progressive Home offerings. To further drive bundling in the Agency channel, we offer the Platinum program to those select agents who have the appropriate customers for our bundled offering. This program combines our auto and home insurance with compensation, coordinated policy periods, single event deductible, and other features that meet the needs and desires that our agents have expressed. As of December 31, 2021, we had just over 4,100 Platinum agents.
- We offer independent agents an agency quoting system that makes it easier for them to bundle multiple policies with us. Our "Portfolio" quoting system reduces data entry, displays all available products eligible for bundled quotes, simplifies the agents' experience on third party comparative rater systems, and provides agents and their customers an overview of premium, bundle savings, and applied discounts to allow them to add or remove products with one click. Portfolio is available for all agents appointed to write new business where we offer Progressive Home products.
- In the Direct channel, we bundle Progressive auto with Progressive Home products in almost all states, as well as with homeowners and renters products provided by unaffiliated insurance carriers nationwide. We offer these bundles by providing a single destination to which consumers may come for both their auto and property insurance needs. In many cases, we may offer discounts to incentivize or reward this bundling.
- Where available, our special lines products and umbrella insurance can be combined with any of the auto, home, or renters coverages that we offer, in either the Direct or Agency channel.

- HomeQuote Explorer® (HQX) is our multi-carrier, direct-to-consumers online property offering. Through HQX, consumers are able to quickly and easily quote and compare homeowners insurance online from Progressive and other carriers. During 2021, we continued to expand the availability of the online buy button via HQX for Progressive Home shoppers, which was active in the majority of states at year-end 2021, with plans to continue to expand over time.
- As we increase our penetration of the more complex, multi-product customers who are critical to our Destination Era success, we are further expanding the roster of products provided by unaffiliated companies that we make available through online and telephonic referrals and for which we receive commissions, or other compensation, that are reported as service revenues. Our list of unaffiliated company products includes home security, home warranty, personal loans, and health, life, pet, and travel insurance.

### **Commercial Lines**

The Commercial Lines segment writes auto-related liability and physical damage insurance, workers' compensation insurance primarily for the transportation industry, and business-related general liability and property insurance, predominately for small businesses. In June 2021, we acquired Protective Insurance Corporation and subsidiaries (Protective Insurance) to expand our portfolio of offerings to larger fleet, workers' compensation coverage for trucking and public transportation fleets, along with trucking industry independent contractors, and affinity programs. Protective Insurance represented 1% of companywide net premiums written and 6% of Commercial Lines net premiums written from the date of acquisition. See *Note 17 – Acquisition* to our financial statements included in our 2021 Annual Report to Shareholders, which is filed as Exhibit 13 to this Form 10-K (the Annual Report) for further discussion. The Commercial Lines business accounted for 17% of our total net premiums written in 2021 and 13% in both 2020 and 2019.

The following discussion excludes transportation network company (TNC) business, unless otherwise noted.

We offer our auto products in all states. Our Commercial Lines auto customers insure approximately two vehicles per policy. During 2021, we wrote about 90% of our Commercial Lines business through the agency channel.

There are approximately 340 competitors in the total U.S. commercial auto market. We primarily compete with about 50 other large companies/groups, each with over \$200 million of commercial auto premiums written annually. These leading commercial auto insurers comprise about 82% of this market. Our Commercial Lines business ranked number one in the commercial auto insurance market for 2020 based on premiums written, and we believe that we continued to hold that position for 2021.

The Commercial Lines business operates in the following commercial auto business market targets:

- *Business auto* – autos, vans, pick-up trucks used by small businesses, such as retailing, farming, services, and private trucking, and for-hire livery (non-fleet (i.e., five or fewer vehicles) taxis, black-car services, and airport taxis),
- *For-hire transportation* – tractors, trailers, and straight trucks primarily used by regional general freight and expeditor-type businesses and long-haul operators,
- *Contractor* – vans, pick-up trucks, and dump trucks used by small businesses, such as artisans, heavy construction, and landscapers/snowplowers,
- *For-hire specialty* – dump trucks, log trucks, and garbage trucks used by dirt, sand and gravel, logging, and coal-type businesses, and
- *Tow* – tow trucks and wreckers used in towing services and gas/service station businesses.

As with our personal auto products, we regularly introduce new commercial auto product models designed to improve our pricing accuracy and competitiveness through improved segmentation, the use of additional risk variables, and other enhancements. New models are typically rolled out on a state-by-state basis and, as a result, we often have more than one product version in the marketplace at a time.

Similar to Snapshot in the personal auto business, the Commercial Lines business offers its customers UBI options. Smart Haul® is the UBI program that uses driving data from a motor carrier's existing electronic logging device. Smart Haul offers owner operators and small fleets the ability to receive discounts on their insurance by sharing their electronic logging device generated data with us. Snapshot ProView®, which was launched in 2020, is the UBI program for commercial auto customers without their own electronic logging device. Snapshot ProView allows customers to earn upfront discounts and provides value-added services, like fleet management and personalized tips to encourage safe driving. Both programs are available in almost all states.

In addition, we provide commercial auto coverage in the TNC business to Uber Technologies subsidiaries in 13 states and to Lyft's rideshare operations in 7 states and in the District of Columbia. TNC represented about 6% of our Commercial Lines net premiums written for 2021 and 4% for 2020. Premiums written in our TNC business are determined in part by estimating the number of miles to be driven over the life of the policy term, on a policy-by-policy basis. These premium estimates are adjusted

monthly based both on actual miles driven and an estimate of miles to be driven during the remaining policy term. During 2021, our TNC business experienced a strong increase in rideshare miles traveled compared to 2020, when COVID-19 restrictions were in place. See *Item 1A, Risk Factors – II. Insurance Risks, – III. Operating Risks*, and – *VII. Other* below for more information.

We also offer business-related general liability and property insurance through our business owners policy (BOP) insurance. These products are geared specifically to small businesses and are currently available to agents in a majority of states, excluding the District of Columbia, with plans to expand to additional states during 2022. We also continue to act as an agent for business customers to place BOP, general liability, professional liability, and workers' compensation coverage through unaffiliated insurance carriers and are compensated through commissions, which are reported as service revenues. To further help our direct customers, we offer BusinessQuote Explorer® (BQX), a digital application that allows small business owners to obtain quotes for our BOP product and the products offered from a select group of unaffiliated carriers.

### **Property**

Our Property segment writes residential property and renters insurance in virtually all states, primarily in the independent agency channel and through select agents under our Platinum program discussed above. We also act as a participant in the "Write Your Own" program for the National Flood Insurance Program under which we write flood insurance in virtually all states; 100% of this business is reinsured.

Our Property business accounted for 5% of our total net premiums written in both 2021 and 2020, and 4% in 2019. We tend to see more business written during the second and third quarters of the year based on the cyclical nature of property sales. Losses also tend to be higher during the warmer weather months when storms are more prevalent. As a property insurer, we have exposure to losses from catastrophes, including hurricanes, and other severe storms. See *Item 1A, Risk Factors – II. Insurance Risks* and – *III. Operating Risks* below for more information. To help mitigate these risks, we enter into reinsurance arrangements. See the "Reinsurance" section below for further discussion of our reinsurance programs.

As one of the 15 largest homeowners carriers in the United States, we specialize in residential property insurance for homeowners, other property owners, and renters, as well as insurance for manufactured homes, personal umbrella insurance, and primary and excess flood insurance. There are approximately 385 competitors in the homeowners insurance market nationwide and we compete with many of these companies. We primarily compete with about 20 other large companies/groups, each with over \$800 million of premiums written annually, which comprise about 72% of the market.

As discussed above, our Property business is an important component of our Destination Era strategy.

### **Reinsurance**

Our reinsurance activity includes both transactions which are regulated and those that are non-regulated (e.g., voluntary). The regulated programs include several mandatory state pools, such as the Michigan Catastrophic Claims Association, Florida Hurricane Catastrophe Fund, and North Carolina Reinsurance Facility, as well as other reinsurance facilities required by specific states for various lines of business. We are also a participant in the "Write Your Own" program for federally regulated plans for flood (National Flood Insurance Program) and act as servicing agent for state-mandated involuntary plans for commercial vehicles (CAIP plans). Our current CAIP service contract will expire in 2022 and we currently do not intend to renew it. All of these programs are governed by insurance regulations.

Our non-regulated arrangements reinsure activities in our Property business and our Commercial Lines business.

### **Property Programs**

The reinsurance program in our Property business is designed to reduce overall risk while, to the extent of coverage purchased, protecting capital from the costs associated with catastrophic events. The Property program includes contracts that cover multi-year periods. We also maintain an excess of loss reinsurance treaty covering our personal umbrella business.

The occurrence excess of loss program supports the goal of maintaining adequate capital and is comprised of privately placed reinsurance, reinsurance placed through catastrophe bond transactions, and coverage obtained through the Florida Hurricane Catastrophe Fund. Under the occurrence excess of loss reinsurance, we are responsible for the first \$200 million of losses and allocated loss adjustment expenses (ALAE) from each event. We may be responsible for additional losses if we experience more than two such events or if claims incurred exceed the maximum coverage limits of the reinsurance that is then in place. The coverage limits currently in place are:

- \$2.14 billion for a first event in Florida;
- \$1.70 billion for a first event outside of Florida; and

Coverage for a second event (and, potentially, for subsequent covered events) would depend on several factors, including the location and the extent of covered losses of the earlier events in the contract period. Portions of our program include reinstatement limits providing coverage for subsequent events. Some portions of our occurrence program have an obligatory

reinstatement of coverage. During 2021, we ceded \$200 million of losses and ALAE under the occurrence excess of loss reinsurance program, all related to Hurricane Ida.

In addition, during the 2021 hurricane season, we added coverage in our reinsurance program that provided \$100 million of coverage for named storms (hurricanes and tropical storms that were identified by name according to Property Claims Service (PCS)). This reinsurance arrangement can, depending on the circumstances, provide additional coverage for a significant covered event, or provide coverage for aggregate PCS losses under our occurrence retention. During 2021, we ceded no losses under this “hurricane season” coverage. We have renewed this coverage for the 2022 hurricane season.

During 2021, our Property business also had an aggregate excess of loss program structure, which provided a maximum amount of \$225 million of coverage for non-named storms, and in certain cases for named storms, in multiple layers with varying retention thresholds starting at \$475 million in the aggregate.

Each layer in the aggregate excess of loss program was subject to a per occurrence \$2 million deductible before each loss could be considered for aggregate retention, and each event was subject to a \$98 million coverage limit. During 2021, no losses were ceded under this aggregate excess of loss agreement related to 2021 accident year storms.

In January 2022, the Property business entered into a new aggregate excess of loss program for the 2022 accident year, with the following two layers:

- The first layer has a retention threshold of \$575 million and provides \$75 million of coverage for PCS designated catastrophe event losses and ALAE, except those from named storms.
- The second layer has a retention threshold of \$650 million and provides \$100 million of coverage for PCS designated catastrophe event losses and ALAE, including coverage for named storms.

Similar to the 2021 aggregated excess of loss program, each layer is subject to a per occurrence \$2 million deductible before each loss could be considered for aggregate retention, and each event is subject to a \$98 million coverage cap. The first layer does not have to be exhausted before the second layer can be applied.

#### Commercial Lines Programs

The reinsurance program in our Commercial Lines business is designed to help manage certain exposures in our commercial auto, TNC, BOP, and workers’ compensation products. Our Commercial Lines business uses quota-share reinsurance agreements for TNC, and certain workers’ compensation and BOP coverages. Under each agreement, we cede a portion of premiums, losses, and, in most cases, loss adjustment expenses (LAE).

As part of the Commercial Lines program, we also have excess of loss reinsurance agreements for higher-limit commercial auto liability, and certain BOP and workers’ compensation coverages, which reinsures a portion of loss above a retention threshold. The retention threshold for the BOP and Progressive high-limits auto liability excess of loss agreements is \$1 million, for each casualty occurrence or each property loss. For the Protective Insurance excess commercial auto business, we retain the first \$2 million, per occurrence, and have coverage excess of \$2 million up to \$5 million. Under the current program, in certain scenarios, our retention could be reduced to \$1 million, depending on the accumulation of losses in excess of \$1 million. In addition, for the workers’ compensation product, we have catastrophe workers’ compensation coverage up to \$100 million pursuant to a \$20 million maximum any one life sublimit. In general, we retain approximately \$1.5 million per occurrence on workers’ compensation through the use of excess of loss and quota-share reinsurance.

For our TNC product, the amounts ceded vary by state. A portion of the quota-share reinsurance contract is written through reinsurers that are owned by the TNC companies. Reinsurance recoverables under this arrangement are required by our contracts to be collateralized (i.e., secured by assets held by an independent third party or a letter of credit issued by a commercial bank) at a target of over 100% of the recoverable balance. The remaining portion of reinsurance for the TNC product is written by a panel of third-party reinsurers.

#### Program Evaluation

We evaluate our reinsurance programs during our renewal discussions, if not more frequently, to ensure they continue to effectively respond to the company’s risk tolerance. For example, when we were looking to renew our occurrence excess of loss contract during the second quarter 2021, we learned the rates being charged by reinsurers for such contracts were increasing; however, we did not encounter a lack of availability for this coverage. In conjunction with our capital position and growing balance sheet, we determined that we were able to increase our retention threshold to \$200 million, from the prior year \$80 million retention. As a result of this decision, the premium costs to us for the renewed annual contract term were about \$15 million less than we paid for the prior year. We will continue to balance the company’s ability to assume more risk with the availability and costs of various types of reinsurance contracts. See *Item 1A, Risk Factors – II. Insurance Risks* and – *VI. Credit and Other Financial Risks* below and *Note 7 – Reinsurance* in our Annual Report for more information.

## **Claims**

Our employees handle nearly all of our Personal and Commercial Lines claims from either physical claims offices throughout the United States or through a virtual environment, and are supported by centralized functions at our corporate offices and a nationwide network of nearly 2,450 third-party repair shops. During 2021, we began using independent claims adjusters opportunistically in our vehicle businesses to help support our claim employees manage claims inventory, and to timely respond to our customers impacted by Hurricane Ida. We do not intend to use independent adjusters as an ongoing material part of our claims handling model.

For our Property business, we manage a majority of our claims through a network of independent claims field adjusters with internal claims representatives managing the overall claims process. As of December 31, 2021, we employed about 530 internal Property claim representatives and about 190 staff field adjusters; we plan to continue to increase our internal claims staff in 2022.

## **Competitive Factors**

The insurance markets in which we operate are highly competitive. Property-casualty insurers generally compete on the basis of price, agent commission rates, consumer recognition and confidence, coverages offered and other product features, claims handling, financial stability, customer service, and geographic coverage. Vigorous competition is provided by large, well-capitalized national companies in both the agency and direct channels, and by smaller regional insurers. In the agency channel, some of our competitors have broad distribution networks of employed or captive agents. With widely available comparative rating services, consumers can easily compare prices among competitors. Many competitors invest heavily in advertising and marketing efforts and/or expanding their online or mobile service offerings. Over the past decade, these changes have further intensified the competitive nature of the property-casualty insurance markets in which we operate.

We rely heavily on technology to operate our business and on extensive data gathering and analysis to segment markets and price accurately according to risk. We have remained competitive by refining our risk measurement and price segmentation skills, closely managing expenses, and achieving operating efficiencies. High-quality customer service, fair and accurate claims adjusting, and strong brand recognition are also important factors in our competitive strategy. Competition in our insurance markets is also affected by the pace of technological developments. An insurer's ability to adapt to change, innovate, develop, and implement new applications and other technologies can affect its competitive position. In addition, our competitive position could be adversely impacted if we sustain security breaches or other "cyber attacks" on our systems or are unable to maintain uninterrupted access to our systems, business functions, and the systems of certain third-party providers. See *Item 1A, Risk Factors – II. Insurance Risks, – III. Operating Risks, – V. Liquidity Risk, and – VII. Other* below for more information.

In addition, there has been a proliferation of patents related to new ways in which technologies can affect competitive positions in the insurance industry. Several of our competitors have many more patents than we do. Some of the patents we currently hold include a usage-based insurance patent (expiring in 2024 or after), two U.S. patents on the Name Your Price® functionality on our website (expiring in 2028 or after), three multi-product quoting patents (expiring in 2032 or after), three patents for our implementation of a mobile insurance platform and architecture (expiring in 2032 or after), a patent on our system of providing customized insurance quotes based on a user's price and/or coverage preferences (expiring in 2033 or after), two patents for our loyalty call routing system (expiring in 2033 or after), a patent for a multivariate predictive system that processes usage-based data (expiring in 2035 or after), three patents for the implementation of chatbots in online quoting and servicing (expiring in 2038 or after), a patent for our Commercial Lines business classification system (expiring in 2039 or after), and two patents for our automated document classification system (expiring 2040 or after).

We have a substantial amount of "know-how" developed from years of experience with usage-based insurance, and from analyzing the data from nearly 43 billion driving miles derived from our usage-based devices and our mobile app. We believe this intellectual property provides us with a competitive advantage in the usage-based insurance market.

## **Insurance Licenses**

Our insurance subsidiaries operate under licenses issued by various insurance regulatory authorities. These licenses may be of perpetual duration or renewable periodically, provided the holder continues to meet applicable regulatory requirements. Our licenses govern the kinds of insurance coverages that may be written by our insurance subsidiaries in the issuing jurisdiction. Such licenses are normally issued only after the filing of an appropriate application and the satisfaction of prescribed criteria. All licenses that are material to our subsidiaries' businesses are in good standing.



## **Insurance Regulation**

Our insurance subsidiaries are generally subject to regulation and supervision by insurance departments of the jurisdictions in which they are domiciled or licensed to transact business. At least one of our insurance subsidiaries is licensed and subject to regulation in each of the 50 states, the District of Columbia, Bermuda, Canada, and Puerto Rico. The nature and extent of such regulation and supervision varies from jurisdiction to jurisdiction. Generally, an insurance company is subject to a higher degree of regulation and supervision in its jurisdiction of domicile. Our insurance subsidiaries are domiciled in the states of Delaware, Florida, Illinois, Indiana, Louisiana, Michigan, New Jersey, New York, Ohio, Texas, and Wisconsin. In addition, California and Florida treat certain of our subsidiaries as domestic insurers for certain purposes under their “commercial domicile” laws. We also have subsidiaries that write excess and surplus lines; these activities do not require a license but are regulated.

Insurance laws impose numerous requirements, conditions, and limitations on the operations of insurance companies. Insurance departments have broad regulatory powers relating to those operations. Regulated areas include, among others:

- Licensing of insurers and agents
- Capital and surplus requirements
- Statutory accounting principles specific to insurance companies and the content of required financial and other reports
- Requirements for establishing insurance reserves
- Investments
- Acquisitions of insurers and transactions between insurers and their affiliates
- Limitations on rates of return or profitability
- Rating criteria, rate levels, and rate changes
- Insolvencies of insurance companies
- Assigned risk programs
- Authority to exit a business, and
- Numerous requirements relating to other areas of insurance operations, including: required coverages, policy forms, underwriting standards, and claims handling.

Insurance departments are authorized to conduct periodic and other examinations of regulated insurers’ financial condition and operations to monitor the financial stability of the insurers and to ensure adherence to statutory accounting principles and compliance with insurance laws and regulations. In addition, in some jurisdictions, the attorney general’s office may exercise certain supervisory authority over insurance companies and, from time to time, may investigate certain insurance company practices.

Insurance departments establish and monitor compliance with capital and surplus requirements. Although the ratio of written premiums to surplus that the regulators will allow is a function of a number of factors (including applicable law, the type of business being written, the adequacy of the insurer’s reserves, and the quality of the insurer’s assets), the annual net premiums that an insurer may write historically have been perceived to be limited to a specified multiple of the insurer’s total surplus, generally 3 to 1 for property and casualty insurance, which is the target for our vehicle businesses; our Property business maintains a lower premiums-to-surplus ratio. Thus, the amount of an insurer’s statutory surplus, in certain cases, may limit its ability to grow its business. At year-end 2021, we had net premiums written of \$46.4 billion and statutory surplus of \$16.4 billion. The combined premiums-to-surplus ratio for all of our insurance companies was 2.8 to 1. In addition, as of December 31, 2021, we had access to \$4.2 billion of securities held in a non-insurance subsidiary, portions of which could be contributed to the capital of our insurance subsidiaries to support growth or for other purposes.

The National Association of Insurance Commissioners (NAIC) also has developed a risk-based capital (RBC) program to enable regulators to identify and take appropriate and timely regulatory actions relating to insurers that show signs of weak or deteriorating financial condition. RBC is determined by a series of dynamic surplus-related formulas that contain a variety of factors that are applied to financial balances based on the degree of certain risks, such as asset, credit, and underwriting risks. At December 31, 2021, our RBC ratios were in excess of minimum requirements.

Insurance companies are generally required to file detailed annual and other reports with the insurance department of each jurisdiction in which they conduct business. These reports include:

- the insurer’s financial statements under statutory accounting principles,
- details concerning claims reserves held by the insurer,
- specific investments held by the insurer, and
- numerous other disclosures about the insurer’s financial condition and operations.

Insurance laws and insurance departments also regulate investments that insurers are permitted to make. Limitations are placed on the amounts an insurer may invest in a particular issuer, as well as the aggregate amount an insurer may invest in certain types of investments. Certain investments are prohibited.

Insurance holding company laws enacted in many jurisdictions authorize insurance departments to regulate acquisitions of insurers and certain other transactions and to require periodic disclosure of specified information. These laws impose prior approval requirements for certain transactions between insurers and their affiliates and generally regulate dividend and other distributions, including loans and cash advances, between insurers and their affiliates. See *Note 8 – Statutory Financial Information* in our Annual Report for further discussion.

Under insolvency and guaranty laws, insurers can be assessed or required to contribute to applicable guaranty funds to cover policyholder losses resulting from the insolvency of other insurers. Insurers are also required by many jurisdictions, as a condition of doing business in the jurisdiction, to provide coverage to certain risks that cannot find coverage in the voluntary market. These “assigned risk” plans generally specify the types of insurance and the level of coverage that must be offered to such involuntary risks, as well as the allowable premium. Many jurisdictions also have involuntary market plans, which hire a limited number of servicing carriers to provide insurance to involuntary risks. These plans, through assessments, pass underwriting and administrative expenses on to insurers that write voluntary coverages in those jurisdictions.

Many jurisdictions have laws and regulations that limit an insurer’s ability to exit a market. For example, certain jurisdictions limit an insurer’s ability to cancel or non-renew policies. Certain jurisdictions also prohibit an insurer from withdrawing one or more lines of business from the jurisdiction, except pursuant to a plan that is approved by the jurisdiction’s insurance department. The insurance department may disapprove a plan that may lead to market disruption. Laws and regulations that limit the cancellation or non-renewal of policies, or that subject program withdrawals to prior approval requirements, may restrict an insurer’s ability to exit unprofitable markets or businesses. In the second quarter of 2022, we will start non-renewing about 60,000 homeowners policies in Florida and expect that it will take about one year to complete the process.

As mentioned above, insurance departments have regulatory authority over many other aspects of an insurer’s insurance operations, including coverages, forms, rating criteria, and rate levels. The ability to implement changes to these items on a timely basis is critical to our ability to compete effectively in the marketplace. Rate regulation varies from “use and file,” to “file and use,” to prior approval.

Regulation of insurance constantly changes as real or perceived issues and developments arise. Some changes may be due to economic developments, such as changes in investment laws made to recognize new investment products or to respond to perceived investment risks, while others reflect concerns about consumer privacy, insurance availability, prices, allegations of unfair-discriminatory pricing, underwriting practices, and solvency. In recent years, legislation, regulatory measures, and voter initiatives have been introduced, and in some cases adopted, which deal with use of non-public consumer information, cybersecurity, use of credit and other information in underwriting and rating, insurance rate development, use of artificial intelligence and algorithms, rate of return limitations, and the ability of insurers to cancel or non-renew insurance policies. In addition, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary. The Federal Insurance Office is required to collect information about the insurance industry and monitor the industry for systemic risk.

## **Investments**

Our investment portfolio, which had a fair value of \$51.5 billion at December 31, 2021, compared to \$47.5 billion at December 31, 2020, consists of fixed-maturity securities, short-term investments, and equity securities (nonredeemable preferred stocks and common equity securities). Our fixed-maturity securities, short-term investments, and nonredeemable preferred stocks are collectively referred to as fixed-income securities. Our principal investment goals are to manage our portfolio on a total return basis to support all of the insurance premiums that we can profitably write and contribute to our comprehensive income. We consider various environmental, social, and governance factors when evaluating investment decisions, understanding these factors may help assess risk in such securities. Our portfolio is invested primarily in short-term and intermediate-term, investment-grade fixed-income securities.

Investment income is affected by the variability of cash flows to or from the portfolio, shifts in the type and quality of investments in the portfolio, changes in yield, and other factors. For securities related to our investment portfolios, total investment income includes interest and dividends, net realized gains (losses) on securities sold, and net holding period gains (losses) on securities (composed primarily of valuation changes on equity securities). Total investment income, before expenses and taxes, was \$2.4 billion in 2021, compared to \$2.6 billion in 2020, and \$2.1 billion in 2019. For our investment portfolio, on a pretax total return basis (i.e., total investment income plus changes in net unrealized gains (losses)), investment income was \$1.2 billion, \$3.3 billion, and \$2.7 billion for the years ended December 31, 2021, 2020, and 2019, respectively. Outside of our investment portfolio, but reported in impairment losses in the consolidated statements of comprehensive income, were \$5.0 million and \$63.3 million of other-than-temporary impairment losses resulting from renewable energy tax credit investments entered into during 2021 and 2019, respectively; no other-than-temporary impairment losses were recognized in 2020. For more

detailed discussion of our investment portfolio, see *Note 2 – Investments*, *Note 3 – Fair Value*, and *Management’s Discussion and Analysis of Financial Condition and Results of Operations* in the Annual Report.

### **Service Businesses**

Our service businesses, which represent less than 1% of our total revenues and do not have a material effect on our overall operations, primarily include:

- *Commercial Automobile Insurance Procedures/Plans (CAIP)* – We are the only servicing carrier on a nationwide basis for CAIP plans, which are state-supervised plans servicing the involuntary market in nearly all states. As a service provider, we provide policy issuance and claims adjusting services and collect fee revenue. Reimbursements to us from the CAIP plans are required by state laws and regulations, subject to contractual service standards. Our current CAIP service contract, administered through the Automobile Insurance Plan Services Office, will expire in 2022. We do not intend to renew this contract. Any changes in our participation as a CAIP service provider would not materially affect our financial condition, results of operations, or cash flows.
- *Commission-based businesses* – We act as an agent for other insurance companies. We offer home, condominium, and renters insurance, among other products, written by unaffiliated insurance companies in the continental United States in the direct channel. We also offer our customers the ability to package their commercial auto coverage with other commercial coverages that are written by unaffiliated insurance companies. We receive commissions for the policies written under this program, which are used to offset the expenses associated with maintaining this program.

### **Liability for Property-Casualty Losses and Loss Adjustment Expenses**

The consolidated financial statements include the estimated liability for unpaid losses and loss adjustment expenses (LAE), which include ALAE (e.g., defense and cost containment expenses) and unallocated LAE (e.g., adjusting and other expenses), of our insurance subsidiaries. Our objective is to ensure that total reserves (i.e., case reserves and incurred but not recorded reserves, or IBNR) are adequate to cover all loss costs, while sustaining minimal variation from the time reserves are initially established until losses are fully developed. The liabilities for losses and LAE are determined using actuarial and statistical procedures and represent undiscounted estimates of the ultimate net cost of all unpaid losses and LAE incurred through December 31 of each year. These estimates are subject to the effect of future trends on claims settlement, among other factors.

These estimates are continually reviewed and adjusted as experience develops and new information becomes known. Adjustments, if any, relating to accidents that occurred in prior years are reflected in the current year results of operations and are referred to as “development” of the prior year estimates. In establishing loss reserves, we take into account projected changes in claim severity caused by anticipated inflation and a number of factors that vary with the individual type of policy written. These severities are projected based on historical trends, adjusted for anticipated changes in underwriting standards, inflation, policy provisions, claims resolution practices, and general economic trends. These anticipated trends are reconsidered periodically based on actual development and are modified if necessary.

See *Note 6 – Loss and Loss Adjustment Expense Reserves* in the Annual Report for a detailed discussion of our loss reserving practices and a reconciliation of our loss and LAE reserve activity, along with incurred and paid claims development by accident year for our segments, based on definitions pursuant to statutory accounting principles.

### **Human Capital**

We believe that our people and our culture are our most significant competitive advantage, and that having the right people working together in the right way is critical to driving our results, building our enduring business, and creating long-term shareholder value. Our culture is deeply rooted in our Core Values (Integrity, Golden Rule, Excellence, Objectives, and Profit) and is the foundation for our human capital management strategies to attract, retain, and motivate highly qualified employees.

#### **Our People**

We believe that our culture and success has enabled us to attract, engage, and retain highly talented people in diverse markets and from a broad range of backgrounds and experiences.

#### **Attract and Hire**

We employ expansive recruiting practices with a goal towards having qualified and deep candidate pools and are attracting candidates from both established and new sources. We believe that our recruitment efforts generally have enabled us to present diverse and high-potential pools of job candidates to our hiring managers. In turn, we train our hiring managers about unconscious biases they may have during the interview and selection process and the importance of employing individuals with

different kinds of experiences and educational backgrounds. We believe these strategies collectively enhance our applicant pools and contribute to our continued success.

#### *Engage and Retain*

We understand that engaged employees are more productive, provide better service to our customers and are more likely to stay with Progressive. Each year, we survey our people to measure their engagement. Our 2021 engagement and culture survey results placed us in the top decile of all companies using the survey, which is designed by a nationally-known third party and administered in like form to over 1,000 employers in the United States. We use the results, along with other information, to evaluate our human capital strategies and the health of our culture.

Employee retention is an important part of our strategy. Our annualized employee retention rate for 2021 was 84% and, as of December 31, 2021, more than 15,000 employees had over 10 years of tenure at the company. Promoting from within is also a key part of our strategy. Many of our leaders, including current executive team members, joined Progressive in a more junior position and advanced to significant leadership positions within the organization. In 2021, we filled approximately 72% of our open positions above entry level by promoting from within, including just over 2,000 managerial positions.

#### *Demographic Data*

We publish employee and manager demographic information on our website and update this data on an annual basis. We also disclose our consolidated EEO-1 data online.

- As of December 31, 2021, we had about 49,000 employees of which 57% were women and 37% were people of color, while women comprised 52% and people of color comprised 38% of the U.S. workforce.
- During 2021, we hired more than 13,000 new employees of which 63% were women and 51% were people of color, representing about 1.9% of the total applicants for a job at Progressive.
- During 2021, our employees promoted into management positions were more diverse than our management population during 2020. Specifically, 56% of such promotions were women and 33% were people of color. At December 31, 2021, women represented 47% of all managers and people of color were 23% of all managers.
- As of December 31, 2021, we had 930 senior leaders of which 36% were women and 16% were people of color.

#### Supporting our People and Culture

We strive to support our employees by providing challenging work experiences, career opportunities, and a culture of learning. We are focused on coaching and development, which we believe encourages greater engagement in our business and improved individual performance.

#### *Training and Development*

We actively foster a learning culture and offer several leadership development programs, including our Multicultural Leadership Development Program. Two of our career development boot camps (IT Programmer and Analyst) are intended to accelerate career opportunities. Moreover, our personal development strategy, “Own It,” encourages employees to take control of their career through team-building exercises, coaching techniques, and communication strategies. Available to new and tenured employees, our learning solutions are tailored to both individual contributors and leaders and covers a broad swath of skills and competencies. We also leverage our extensive contemporary art collection to offer training sessions to spark conversations about our culture, innovation, ethical obligations, and respecting our differences.

#### *Ethics*

Our Core Values are the foundation for our Code of Business Conduct and Ethics, which provides clear expectations for all our people and confirms our commitment to high ethical standards and compliance with legal requirements. We provide ethics training, as well as regular communications, video series, and outside speakers presenting themes such as Celebrate Disagreement and Courage at our Core, to emphasize our commitment to our ethical and legal responsibilities. Additionally, we have an “open door” policy that empowers every employee to reach out to any manager or any human resource representative when they have a question or concern or they want to share an idea. We also provide a confidential Alertline that is available for employees and others who want to raise a concern anonymously. We encourage our people to speak up, and when they do, we give timely attention to their concerns, take remedial action where appropriate, and do not discriminate or retaliate against them for reporting any concern to us in good faith.

#### *Diversity, Equity, and Inclusion (DE&I)*

We believe that in order to be consumers’ and agents’ number one choice and destination for auto, home, and other insurance, we need to anticipate and understand the needs of our customers. We seek to be diverse in our employee demographics, experiences, and perspectives. Our commitment to diversity starts at the top with our highly skilled and diverse Board of Directors. We are one of the few public companies with both a female CEO and a different female independent Board Chairperson. Our DE&I efforts are overseen by our Compensation Committee on behalf of the entire Board of Directors, and those efforts are implemented at all levels of the organization.

Our efforts focus on four primary objectives, which have been in place for several years: (1) to maintain a fair and inclusive work environment; (2) to reflect the customers we serve; (3) for our leaders to reflect the people they lead; and (4) to contribute to our communities. In line with this focus, in 2020 we introduced an ambitious goal to double the representation of people of color in senior leadership from 10% to 20% by the end of 2025. During 2021, we increased this senior leadership representation from 13% to 16%, more than halfway to our goal.

We support DE&I awareness among our employees through formal training sessions and workshops focused on building our cultural competency and addressing difficult topics such as racial inequality, micro-inequities, and privilege. We also have a companywide Courageous Conversations and DE&I speakers bureau, where presenters and facilitators lead work teams in discussions around biases, stereotypes, and the development of inclusive behaviors. We have DE&I leadership job objectives for our executive team and managers aimed at increasing accountability and encouraging these leaders to foster an inclusive workplace.

Additionally, in 2019 we began hosting an annual weeklong event focused on diversity and inclusion, where employees have the opportunity to attend webinars and panel discussions, take part in group activities, listen to podcasts featuring Progressive employees, and more. Moreover, we support efforts to contribute to our communities, through our Keys to Progress® programs (which include providing vehicles to veterans and furnishing homes for individuals emerging from homelessness), our various education and engagement efforts, and our financial contributions to various community organizations. For nearly 20 years, we have also contributed to The Progressive Insurance Foundation, which provided matching funds to eligible 501(c)(3) charitable organizations to which employees contributed. To more broadly represent our employees and their communities, in 2020, The Progressive Insurance Foundation began funding national charitable organizations identified by our Employee Resource Groups and, beginning mid-2022, will contribute a fixed amount to an eligible charity of each participating employee's choosing without requiring the employee make an out-of-pocket donation to match funds.

We know we still have much more work to do, but we are committed to these efforts. To learn more, please visit our website at: [progressive.com/about/diversity-and-inclusion](https://progressive.com/about/diversity-and-inclusion). The information on that website is not incorporated by reference in, and does not form part of, this Annual Report on Form 10-K or any other SEC filing.

#### *Employee Resource Groups*

Over a decade ago, our first employee resource groups (ERGs) were created to help build communities for our employees with common backgrounds, life experiences, and professional challenges. In the time since their inception, our ERGs have grown in both influence and size with 42% of Progressive people belonging to at least one ERG as of December 31, 2021. We currently have nine employee resource groups (Progressive African American Network, Asian American Network, Disabilities Awareness Network, Progressive Latin American Networking Association, LGBTQ+ Network, Military Network, Network of Empowering Women, Parent Connection, and Young Professionals Network) that support creation of a space for networking, understanding differences, and sharing experiences.

#### *Compensation and Benefits*

We seek to provide competitive pay through a combination of fixed and variable compensation and have designed our compensation programs for employees to earn above market pay when company performance warrants it. We publish internally the salary range and annual cash incentive target for each of our positions, as well as our assessment of the median pay in the market for comparable jobs. As part of employee compensation, all Progressive people participate in our annual Gainshare bonus program, which measures the growth and profitability of our insurance businesses. We believe Gainshare contributes to the cooperative and collaborative way we work together and, in part, defines our culture. Our executives and other senior leaders also receive compensation in the form of equity awards, which we believe supports a strong pay-for-performance linkage and further aligns their interests with those of our shareholders. We monitor pay equity among employees with similar performance, experience, and job responsibilities, and publish the results annually on our website.

Our employee benefits are intended to be competitive and to support the needs of our people and their families. We invest in physical, emotional, and financial health of Progressive people by providing a broad range of benefits, including: medical, prescription drug, dental, and vision benefits; a 401(k) plan with up to a 6% company match; life insurance; long- and short-term disability insurance; and paid parental leave following birth, adoption, or placement of a foster child. Our health and wellness offerings include on-site fitness centers, medical clinics, healthy seminars, and, at our larger locations, farmers' markets. Since March 2020, when most of our employees were working remotely, many of these on-site offerings were put on hold and other offerings, such as fitness classes and health discussions, moved online. We also offer an Employee Assistance Program that provides 24-hour support, flexible work arrangements, and provide paid time off to help our people balance their work and personal lives.

## **Available Information**

Our website is located at progressive.com. As soon as reasonably practicable, we make all documents that we file with, or furnish to, the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, available free of charge via our website at progressive.com/investors. These reports are also available on the SEC's website: <http://www.sec.gov>. Information on our website does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Progressive filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate such information by reference in such a filing.

## **ITEM 1A. RISK FACTORS**

### **I. Summary**

Our business involves various risks and uncertainties, certain of which are discussed in this section. Management divides these risks into five broad categories in assessing how they may affect our financial condition, cash flows, and results of operations, as well as our ability to achieve our business objectives. Our risk categories include:

- **Insurance Risks** - risks associated with assuming, or indemnifying for, the losses or liabilities incurred by policyholders
- **Operating Risks** - risks stemming from external or internal events or circumstances that directly or indirectly may affect our insurance operations
- **Market Risks** - risks that may cause changes in the value of assets held in our investment portfolios
- **Liquidity Risk** - risk that our financial condition will be adversely affected by the inability to meet our short-term cash, collateral, or other financial obligations, and
- **Credit and Other Financial Risks** - risks that the other party to a transaction will fail to perform according to the terms of a contract, or that we will be unable to satisfy our obligations when due or obtain capital when necessary.

We have also included an "Other" section in the discussion below.

Although we have organized risks generally according to these categories in the discussion below, many of the risks may have ramifications in more than one category. For example, although presented as an Operating Risk below, governmental regulation of insurance companies also affects our underwriting, investing, and financing activities, which are addressed separately under Insurance Risks, Market Risks, and Credit and Other Financial Risks below. These categories, therefore, should be viewed as a starting point for understanding the significant risks facing us and not as a limitation on the potential impact of the matters discussed.

It also should be noted that our business and that of other insurers may be adversely affected by a downturn in general economic conditions and other forces beyond our control. Issues such as unemployment rates, the number of vehicles sold, technological advances, home ownership trends, inflation or deflation, consumer confidence, and construction spending, among a host of other factors, will have a bearing on the amount of insurance that is purchased by consumers and small businesses and the costs that we incur. Also, to the extent that we have a concentration of business in one or more states or regions of the country, general economic conditions in those states or regions may have a greater impact on our business.

We cannot predict whether the risks and uncertainties discussed in this section, or other risks not presently known to us or that we currently believe to be immaterial, may develop into actual events and impact our businesses. If any one or more of them does so, the events could materially adversely affect our financial condition, cash flows, or results of operations, and the market prices of our equity or debt securities could decline.

This information should be considered carefully together with the other information contained in this report and in the other reports and materials filed by us with the SEC, as well as news releases and other information we publicly disseminate from time to time.

## II. Insurance Risks

***Our success depends on our ability to underwrite and price risks accurately and to charge adequate rates to policyholders.***

Our financial condition, cash flows, and results of operations depend on our ability to underwrite and set rates accurately for a full spectrum of risks. A primary role of the pricing function is to ensure that rates are adequate to generate sufficient premiums to pay losses, loss adjustment expenses, and underwriting expenses, and to earn a profit.

Pricing involves the acquisition and analysis of historical data regarding vehicle accidents, other insured events, and associated losses, and the projection of future trends for such accidents and events, loss costs, expenses, and inflation, among other factors, for each of our products in multiple risk tiers and many different markets. Our ability to price accurately is subject to a number of risks and uncertainties, including, without limitation:

- the availability of sufficient, reliable data
- our ability to conduct a complete and accurate analysis of available data
- uncertainties inherent in estimates and assumptions, generally
- our ability to timely recognize changes in trends and to predict both the severity and frequency of future losses with reasonable accuracy
- our ability to predict changes in operating expenses with reasonable accuracy
- our ability to reflect changes in reinsurance costs in a timely manner
- the development, selection, and application of appropriate rating formulae or other pricing methodologies
- our ability to innovate with new pricing strategies and the success of those strategies
- our ability to implement rate changes and obtain any required regulatory approvals on a timely basis
- our ability to predict policyholder retention accurately
- unanticipated court decisions, legislation, or regulatory actions
- the frequency, severity, duration, and geographic location and scope of catastrophe events, which may be becoming more severe and less predictable as a result of climate change
- our ability to understand the impact of ongoing changes in our claim settlement practices
- changing vehicle usage and driving patterns, which may be influenced by pandemics or changes in oil and gas prices among other factors, changes in residential occupancy patterns, and the emerging sharing economy
- advancements in vehicle or home technology or safety features, such as accident and loss prevention technologies or the development of autonomous or partially autonomous vehicles
- unexpected changes in the medical sector of the economy, including medical costs and systemic changes resulting from national or state health care laws or regulations
- unforeseen disruptive technologies and events
- the ability to understand the risk profile of significant customers, such as transportation network companies, and
- unanticipated changes in auto repair costs, auto parts prices, used car prices, or construction requirements or labor and materials costs, or the imposition and impacts of tariffs.

We are seeing new insurance regulations, various legislative and regulatory challenges, political initiatives, and other societal pressures that seek to limit or prohibit the use of specific rating factors in insurance policy pricing such as credit, education, and occupation. In our view, these efforts have the potential to significantly undermine the effectiveness of risk-based pricing. If we are unable to use rating factors that have been shown empirically to be highly predictive of risk, we may not be able to as accurately match insurance rates to the applicable risks, which may significantly adversely impact our insurance operating results.

The realization of one or more of these risks may result in our pricing being based on inadequate or inaccurate data or inappropriate analyses, assumptions, or methodologies, and may cause us to estimate incorrectly future changes in the frequency or severity of claims. As a result, we could underprice risks, which would negatively affect our underwriting profit margins, or we could overprice risks, which could reduce our competitiveness and growth prospects. In either event, our financial condition, cash flows, and results of operations could be materially adversely affected. In addition, underpricing insurance policies over time could erode the capital position of one or more of our insurance subsidiaries, thereby constraining our ability to write new business.

***Our success depends on our ability to establish accurate loss reserves.***

Our financial statements include loss reserves, which represent our best estimate as of the date of the financial statements of the amounts that our insurance subsidiaries ultimately will pay on claims that have been incurred, and the related costs of adjusting those claims. There is inherent uncertainty in the process of establishing property and casualty insurance loss reserves, which can arise from a number of factors, including:

- the availability of sufficient, reliable data
- the difficulty in predicting the rate and direction of changes in frequency and severity trends, including the effects of future inflation rates, for multiple products in multiple markets
- unexpected changes in medical costs, auto repair costs, or the costs of construction labor and materials, and the imposition and impacts of tariffs
- unanticipated changes in governing statutes and regulations
- new or changing interpretations of insurance policy provisions and coverage-related issues by courts
- the effects of changes in our claims settlement practices
- our ability to recognize fraudulent or inflated claims
- the accuracy of our estimates regarding claims that have been incurred but not recorded as of the date of the financial statements
- the accuracy and adequacy of actuarial techniques and databases used in estimating loss reserves, and
- the accuracy and timeliness of our estimates of loss and loss adjustment expenses as determined for different categories of claims.

The ultimate paid losses and loss adjustment expenses may deviate, perhaps substantially, from point-in-time estimates of such losses and expenses, as reflected in the loss reserves included in our financial statements. Consequently, ultimate losses paid could materially exceed reported loss reserves and have a material adverse effect on our financial condition, cash flows, or results of operations.

***Our insurance operating results have been and will likely continue to be materially adversely affected by severe weather or other catastrophe events, and climate change may be exacerbating these impacts.***

Our insurance operating results have periodically been, and in the future will likely continue to be, materially adversely affected by natural events, such as hurricanes, tornadoes, windstorms, floods, earthquakes, hailstorms, severe winter weather, and fires, or by other events, such as explosions, terrorist attacks, cyber attacks, epidemics, pandemics, riots, and hazardous material releases. The frequency, severity, duration, and geographic location and scope of such events are inherently unpredictable. Moreover, climate change may be contributing to the increase in frequency of severe weather events and other natural disasters, how long they last, and how much insured damage they cause, and may change where the events occur. Catastrophe losses have in the past, and may in the future, adversely affect the results of our Property segment more than they affect the results of our other businesses. In addition, our Property business has a concentration of policies in force in states with significant exposure to hurricanes and hailstorms and its results may be impacted by catastrophe events in these states to a greater relative degree than other insurers.

The extent of insured losses from a catastrophe event is a function of our total insured exposure in the area affected by the event, the nature, severity, and duration of the event, and the extent of reinsurance that we have obtained with respect to such an event. We use catastrophe modeling tools to help estimate our exposure to such events. Those tools are based on historical data and other assumptions that limit their reliability and predictive value, and they may become even less reliable due to climate change. As a result, our forecasting efforts may generate projections that prove to be materially inaccurate. An increase in the frequency, severity or duration, or unanticipated changes in geographic location or scope, of catastrophes could materially adversely affect our financial condition, cash flows, and results of operations.

***Our success will depend on our ability to continue to accurately predict our reinsurance needs, obtain sufficient reinsurance coverage for our Property and other businesses at reasonable cost, and collect under our reinsurance contracts.***

Our Property business relies on reinsurance contracts, state reinsurance funding, and catastrophe bonds (collectively, “reinsurance arrangements”) to reduce its exposure to certain catastrophe events. We also use reinsurance contracts to reinsure portions of our Commercial Lines businesses, including our workers’ compensation and business owners policies and the transportation network company business, and our umbrella insurance business. Reinsurance arrangements are often subject to a threshold below which reinsurance does not apply, so that we are responsible for all losses below the threshold from a covered event, and to an aggregate dollar coverage limit, so that our claims liabilities arising from a covered event may exceed our reinsurance coverage. In addition, although the reinsurer is liable to us to the extent of the reinsurance coverage, we remain



liable under our policies to the insured as the direct insurer on all risks reinsured. As a result, we are subject to the risk that reinsurers will be unable to pay, or will dispute, our reinsurance claims, and this risk may be heightened to the extent climate change causes higher than anticipated losses for a reinsurer across its businesses. Further, the availability and cost of reinsurance are subject to prevailing reinsurance market conditions, which have been, and in the future could be, impacted by the occurrence of significant reinsured events, such as weather-related catastrophes. In such events, we may not be able to obtain reinsurance coverage in the future at commercially reasonable rates or at all. The unavailability and/or increased cost of reinsurance could adversely affect our business volume, profitability, or financial condition.

### III. Operating Risks

#### ***We compete in property and casualty insurance markets that are highly competitive.***

The markets in which we sell insurance are highly competitive. We face vigorous competition from large, well-capitalized national and international companies, as well as smaller regional insurers. Other companies, potentially including existing insurance companies, vehicle manufacturing companies, other well-financed companies seeking new opportunities, or new competitors with technological or other innovations, also have entered these markets and may continue to do so in the future. Many of our competitors have substantial resources, experienced management, and strong marketing, underwriting, and pricing capabilities. The property and casualty insurance industry is a relatively mature industry, in which brand recognition, marketing skills, innovation, operational effectiveness, pricing, scale, and cost control are major competitive factors. If our competitors offer similar insurance products at lower prices, offer such insurance products bundled with other products or services that we do not offer, are permitted to offer their products under different legal and regulatory constraints than those that apply to us, or engage in other successful competitive initiatives, our ability to generate new business or to retain a sufficient number of our existing customers could be compromised. In addition, because auto insurance constitutes a significant portion of our overall business, we may be more sensitive than other insurers to, and more adversely affected by, trends that could decrease auto insurance rates or reduce demand for auto insurance over time, such as advances in vehicle technology, autonomous or semi-autonomous vehicles, or vehicle-sharing arrangements. We may also be adversely affected in our Commercial Lines business, which represents a significant portion of our growth potential, by trends or events that decrease the demand for services offered by, or decrease the profitability of, the commercial auto market, including trucking businesses and ridesharing services.

We expect similar, and perhaps greater, competitive pressures with respect to any new insurance or non-insurance businesses that we decide to enter in the future. In such cases, we would be selling products or services that are new to us, while our competitors could include large, well-financed companies with significant product and marketing experience in such businesses.

Historically, the auto and property insurance markets have been described as cyclical, with periods of relatively strong profitability being followed by increased pricing competition among insurers. This price competition, which is sometimes referred to as a “soft market,” can adversely affect revenue and profitability levels. As insurers recognize this situation (which can occur at different times, for different products and for different companies), the historical reaction has been for insurers to raise their rates (sometimes referred to as a “hard market”) in an attempt to restore profitability to acceptable levels. As more insurers react in this way, profit levels in the industry may increase to a point where some insurers begin to lower their rates, starting the cycle over again. The ability to discern at any point in time whether we are in a “hard” or “soft” market is often difficult, as such a conclusion represents an assessment of innumerable data points including, among others, the operating results of, and the dynamic competitive actions taken by, us and many competitors in multiple markets involving a variety of products. Often detailed information on our competitors becomes available on a delayed basis, and the nature of the market becomes apparent only in retrospect. Our ability to predict future competitive conditions is also constrained as a result.

The highly competitive nature of the insurance marketplace could result in consolidation within the industry, or in the failure of one or more competitors. The concentration of insurance business in a reduced number of major competitors could significantly increase the level of competition in a manner that is not favorable to us. In addition, in the event of a failure of a major insurer or a state-sponsored catastrophe fund, our company and other insurance companies may be required by law to absorb the losses of the failed insurer or fund, resulting in a potentially significant increase in our costs. We might also be faced with an unexpected surge in new business from a failed insurer’s former policyholders. Such events could materially adversely affect our financial results, brand, and future business prospects.

***Our success depends on our ability to innovate effectively and respond to our competitors' initiatives.***

Our ability to develop and implement innovative products and services, which may include technological advances, that are accepted and valued by our customers and independent agents is critical to maintaining and enhancing our competitive position. Innovations must be implemented in compliance with applicable insurance regulations and may require extensive modifications to our systems and processes and extensive coordination with and reliance on the systems of third parties. As a result, if we do not handle these transitions effectively and bring such innovations to market with the requisite speed and agility, the quality of our products, our relationships with our customers and agents, and our business prospects, may be materially adversely affected. In addition, innovations by competitors or other market participants may increase the level of competition in the industry. If we fail to respond appropriately to those innovations on a timely basis, our competitive position and results may be materially adversely affected.

***We must effectively manage complexity as we develop and deliver high-quality products and customer experiences.***

Ongoing competitive, technological, regulatory, informational, and other developments result in significant levels of complexity in our products and in the systems and processes we use to run our businesses and the speed of some of these developments may be increasing. Risks associated with these developments include:

- our increasing reliance on third-party systems including “cloud computing” environments and software as a service applications,
- the development of new modes of communication,
- changing insurance shopping trends,
- our understanding of the operations and needs of significant customers,
- challenges in using machine learning and artificial intelligence in our business processes in a responsible and compliant manner, and
- the availability and uses of very large volumes of data (i.e., Big Data) and the challenges relating to analyzing those data sets, including the availability of sufficient internal and external talent that understand and can manage the complexity and related risks.

Complexity may, among other potential difficulties: create barriers to innovation or the provision of high-quality products and customer and agent experiences with the speed and agility that may be required; require us to modify our business practices, adopt new systems, or upgrade or replace outdated systems, each at significant expense; and lead to increased difficulty in executing our business strategies.

***Intellectual property rights could affect our competitiveness and our business operations.***

There has been a proliferation of patents, both inside and outside the insurance industry, that significantly impacts our businesses. The existence of such patents, and other claimed intellectual property rights, from time to time has resulted in legal challenges to certain of our business practices by other insurance companies and non-insurance entities alleging that we are violating their rights. Such legal challenges could result in costly legal proceedings, substantial monetary damages, or expensive changes in our business processes and practices. Similarly, we may seek or obtain patent protection for innovations developed by us. However, we may not be able to obtain patents on these processes and practices, and defending our patents and other intellectual property rights against challenges, and enforcing and defending our rights, including, if necessary, through litigation, can be time consuming and expensive, and the results are inherently uncertain, which can further complicate business plans.

***Our success depends on our ability to adjust claims accurately.***

We must accurately evaluate and pay claims that are made under our insurance policies. Our failure to pay claims fairly, accurately, and in a timely manner, or to deploy claims resources appropriately and in a cost-effective manner, could result in unanticipated costs to us, lead to material litigation, undermine customer goodwill and our reputation in the marketplace, and impair our brand and, as a result, materially adversely affect our competitiveness, customer retention, financial results, prospects, and liquidity.

***We must maintain a brand that is recognized and trusted by consumers.***

We have made significant investments in our brand over many years, and we believe it is critical to our business that consumers recognize and trust the Progressive brand. We undertake distinctive advertising and marketing campaigns and other efforts to maintain and improve brand recognition, enhance perceptions of us, generate new business, and increase the retention of our current customers. We believe that maintaining and improving the effectiveness of our advertising and marketing campaigns

relative to those of our competitors is particularly important given the significance of brand and reputation in the marketplace and the continuing high level of advertising and marketing efforts and related expenditures within the insurance market. If our marketing campaigns are unsuccessful or are less effective than those of competitors, or if our reliance on a particular spokesperson or character is compromised, our business could be materially adversely affected.

Our brand also could be adversely affected by situations that reflect negatively on us, whether due to our business practices, adverse financial developments, perceptions of our corporate governance or how we address employee matters and concerns or environmental or social responsibility initiatives, investments in our portfolio, the conduct of our officers, directors, or employees, the actions of a significant customer or other businesses with which we do business or in which we invest, including unaffiliated insurers and other companies whose products we offer or make available to our customers, or other causes. The negative impacts of these or other events may be aggravated as consumers and other stakeholders increase or change their expectations regarding the conduct of large public companies, sustainability efforts, and corporate responsibility. These impacts may be further complicated such that perceptions are formed through rapid and broad interactions using modern communication and social media tools over which we have no control. Any such event could decrease demand for our products, reduce our ability to recruit and retain employees, and lead to greater regulatory scrutiny of our businesses.

***Our ability to attract, develop, and retain talent, including employees, managers, and executives, and to maintain appropriate staffing levels, is critical to our success.***

Our success depends on our ability to attract, develop, compensate, motivate, and retain talented employees, including executives, other key managers, and employees with strong technological, analytical, and other skills and know-how necessary for us to run our insurance businesses and investment operations and assess potential expansion into new products and business areas. Our loss of certain officers and key employees, or the failure to attract or retain talented executives, managers, and employees with diverse backgrounds and experiences, could have a material adverse effect on our business. These risks may be heightened when United States labor markets, or key segments of those markets, are especially competitive.

Our workplace policies or perceptions of those policies by current and potential employees, including policies with respect to remote and hybrid work or protocols for in person work, could impact our ability to attract and retain talent with needed skills and experiences. This risk may be heightened during periods in which a pandemic or other widespread health risk exists.

In addition, we must forecast sales and claims volume and other factors in changing business environments (for multiple products and business units and in many geographic markets) with reasonable accuracy, and we must adapt to increases in business due to additions of or expansions with significant customers, such as transportation network companies. In any such case, we must adjust our hiring and training programs and staffing levels appropriately. Our failure to recognize the need for such adjustments, or our failure or inability to react on a timely basis, could lead either to over-staffing or under-staffing in one or more business units or locations. In either such event, our financial results, customer relationships, employee morale, and brand could be materially adversely affected.

We use third-party labor to meet a portion of our staffing needs. Any significant loss in access to qualified external talent on a cost-effective basis could have an adverse effect on our business. Competitive labor markets can cause increased costs for third-party labor and those increases may be material.

Our success also depends, in large part, on our ability to maintain and improve the staffing effectiveness and culture that we have developed over the years. Our ability to do so may be impaired as a result of litigation against us, other judicial decisions, legislation or regulations, or other factors in the employment marketplace, as well as our failure to recognize and respond to changing trends and other circumstances that affect our employees or our culture, including any impact arising from an increase in remote workers relative to historic levels. In such events, the productivity of our workers and the efficiency of our operations could be adversely affected, which could lead to an erosion of our operating performance and margins.

***We are subject to a variety of complex laws and regulations.***

Our insurance businesses operate in highly regulated environments. Our insurance subsidiaries are subject to regulation and supervision by state insurance departments in all 50 states, Puerto Rico, the District of Columbia, Canada, its provinces, and Bermuda. Each jurisdiction has a unique and complex set of laws and regulations. In addition, certain United States federal laws impose additional requirements on businesses, including insurers, in a wide range of areas, such as the use of credit information, methods of customer communications, employment practices, and the reimbursement of certain medical costs incurred by the government. Our insurance subsidiaries' ability to implement business plans and remain competitive while complying with these laws and regulations, and to obtain necessary regulatory action in a timely manner, is and will continue to be critical to our success.

Most jurisdictions impose restrictions on, or require prior regulatory approval of, various actions by regulated insurers, which may adversely affect our insurance subsidiaries' ability to operate, innovate, and obtain necessary rate adjustments in a timely manner. Our compliance efforts are further complicated by changes in laws or regulations that apply to us and judicial interpretations of those laws. The pace of change, together with shorter time frames between enactment or promulgation and effectiveness of the changes, increases this risk. Insurance laws and regulations may limit, among other things, an insurer's ability to underwrite and price risks accurately, prevent the insurer from obtaining timely rate changes to respond to increased or decreased costs, restrict the ability to discontinue unprofitable businesses or exit unprofitable businesses, prevent insurers from terminating policies under certain circumstances, dictate or limit the types of investments that an insurance company may hold, and impose specific requirements relating to information technology systems and related cybersecurity risks. Moreover, inconsistencies between requirements at the state and federal level may further complicate our compliance efforts, potentially resulting in additional costs for us. In addition, laws in certain jurisdictions mandate that insurance companies pay assessments in a number of circumstances, including potentially material assessments to pay claims upon the insolvency of other insurance companies or to cover losses in government-provided insurance programs for high risk auto and homeowners coverages. Compliance with laws and regulations often results in increased costs, which can be substantial, to our insurance subsidiaries. These costs, in turn, may adversely affect our profitability or our ability or desire to grow or operate our business in the applicable jurisdictions.

In addition, data privacy and security regulations impose complex compliance and reporting requirements and challenges. For example, the California Consumer Privacy Act, which was passed by a consumer initiative in 2018, was amended in 2020 to afford California residents additional rights. Compliance with this new legislation will be challenging and is expected to require further modifications to our business systems and operations, with a January 1, 2023, effective date, which is a relatively short time frame to build compliance efforts, and without the benefit of related regulations, which have not yet been released. Other jurisdictions have enacted or are considering privacy and security legislation or regulations. Each jurisdiction's unique requirements, and the variations across the jurisdictions, present further ongoing compliance challenges. Compliance with these laws and regulations will result in increased costs, which may be substantial and may adversely affect our profitability or our ability or desire to grow or operate our business in certain jurisdictions.

The actual or alleged failure to comply with this complex variety of laws and regulations by us or other companies in the insurance, financial services, or related industries, also could result in actions or investigations by regulators, state attorneys general, federal officials, or other law enforcement officials. Such actions and investigations, and any determination that we have not complied with an applicable law or regulation, could potentially lead to significant monetary payments, fines and penalties, adverse publicity and damage to our reputation in the marketplace or our brand, and in certain cases, revocation of a subsidiary's authority to do business in one or more jurisdictions. In addition, The Progressive Corporation and its subsidiaries could face individual and class action lawsuits by insureds and other parties for alleged violations of certain of these laws or regulations.

New legislation or regulations may be adopted in the future that could materially adversely affect our operations or ability to write business profitably in one or more jurisdictions.

***Lawsuits challenging our business practices, and those of our competitors and other companies, are pending and more may be filed in the future.***

The Progressive Corporation and/or its subsidiaries are named as defendants in class actions, collective actions, representative actions and other lawsuits challenging various aspects of the subsidiaries' business operations. These lawsuits have included cases alleging damages as a result of, among other things, our subsidiaries' methods used for evaluating and paying medical or injury claims or benefits (including certain bodily injury, personal injury protection, uninsured motorist/underinsured motorist (UM/UIM), and medical payment claims) and for reimbursing medical costs incurred by Medicare/Medicaid beneficiaries; other claims handling practices and procedures, including 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, our payment of fees and taxes, our subrogation and salvage practices, and our handling of diminution of value claims; our assessment of fees related to insufficient funds or reversed payments; interpretations of the provisions of our insurance policies; our insurance product design; our premium actions in response to the COVID-19 pandemic; rating practices; certain marketing, sales, services, implementation and renewal practices and procedures, including with respect to accessibility; our Snapshot program; certain relationships with independent insurance agents; patent matters; alleged violation of the Telephone Consumer Protection Act; commercial disputes, including breach of contract; and certain employment practices, including claims relating to pay practices and fair employment practices, among other matters. Additional litigation may be filed against us in the future challenging similar or other of our business practices or operations. In addition, lawsuits have been filed against our competitors and other businesses or entities, and other such lawsuits may be filed in the future; and where we are not a party

to such litigation, the results of those lawsuits nevertheless may create additional risks for, and/or impose additional costs and/or limitations on, our subsidiaries' business practices or operations.

Lawsuits against us often seek significant monetary damages and injunctive relief. The potential for injunctive relief can threaten our use of important business practices. In addition, the resolution of individual or class actions, collective actions and representative action litigation in insurance, in related fields or in matters broadly applicable to business operations, may lead to the development of judicial regulation, resulting in material increases in our costs of doing business.

Litigation is inherently unpredictable. Adverse court decisions or significant settlements of pending or future cases could have a material adverse effect on our financial condition, cash flows, and results of operations. For further information on the risks of pending litigation, see *Note 12 – Litigation* in the Annual Report.

***Our business could be materially adversely affected by a security breach or other attack involving our computer systems or the systems of one or more of our vendors.***

Our business requires that we develop and maintain large and complex computer systems, and that we rely on third-party systems and applications, to run our operations and to store the significant volume of data that we acquire, including the personal confidential information of our customers and employees and our intellectual property, trade secrets, and other sensitive business and financial information. All of these systems are subject to “cyber-attacks” by third parties with substantial computing resources and capabilities, which are becoming more frequent and more sophisticated, and to unauthorized or illegitimate actions by employees, consultants, agents, and other persons with legitimate access to our systems. Such attacks or actions may include attempts to:

- steal, corrupt, or destroy data, including our intellectual property, financial data, or the personal information of our customers or employees
- misappropriate funds or extract ransom payments
- disrupt or shut down our systems
- deny customers, agents, brokers, or others access to our systems, or
- infect our systems with viruses or malware.

Some of our systems rely on third-party vendors, through either a connection to, or an integration with, those third-parties' systems. This approach may increase the risk of loss, corruption, or unauthorized publication of our information or the confidential information of our customers and employees or other cyber attack, and although we may review and assess third-party vendor cyber security controls, our efforts may not be successful in preventing or mitigating the effects of such events. Third-party risks may include, among other factors, the vendor's lax security measures, data location uncertainty, and the possibility of data storage in inappropriate jurisdictions where laws or security measures may be inadequate.

We undertake substantial efforts to protect our systems and sensitive or confidential information. These efforts include internal processes and technological defenses that are preventative or detective, and other controls designed to provide multiple layers of security protection. In addition, we seek to protect the security and confidentiality of information provided to our vendors under cloud computing or other arrangements through appropriate risk evaluation, security and financial due diligence, contracts designed to require high security and confidentiality standards, and review of third-party compliance with the required standards. While we expend significant resources on these defensive measures, our systems are being threatened on a regular basis. We have experienced minor incidents in the past, and there can be no assurance that we will be successful in preventing future attacks or detecting and stopping them once they have begun.

Our business could be significantly damaged by a security breach, data loss or corruption, or cyber attack. In addition to the potentially high costs of investigating and stopping such an event and implementing necessary fixes, we could incur substantial liability if confidential customer or employee information is stolen. In addition, such an event could cause a significant disruption of our ability to conduct our insurance operations, adversely affect our competitive position if material trade secrets or other confidential information are stolen, and have severe ramifications on our reputation and brand, potentially causing customers to refrain from buying insurance from us or other businesses to refrain from doing business with us. Therefore, the occurrence of a security breach, data loss or corruption, or cyber attack, if sufficiently severe, could have a material adverse effect on our business results, prospects, and liquidity.

***Our business depends on the secure and uninterrupted operation of our facilities, systems, and business functions and the operation of various third-party systems.***

Our business is highly dependent upon our ability to perform, in an efficient and uninterrupted manner, necessary business functions. The shut-down or unavailability of one or more of our systems or facilities, or the inability of large numbers of our employees to communicate in a largely work-from-home environment, for any reason could significantly impair our ability to perform critical business functions on a timely basis. In addition, many of our critical business systems interface with and depend on third-party systems; an interruption of service from a third-party system for any reason, or a determination by a vendor to abandon or terminate support for a system, product, obligation, or service that is significant to our business, could significantly impair our ability to perform critical business functions. If sustained or repeated, and if an alternate system, process, or vendor is not immediately available to us, such events could result in a deterioration of our ability to write and process policies, provide customer service, resolve claims in a timely manner, make payments when required, or perform other necessary business functions. Any such event could have a material adverse effect on our financial results and business prospects, as well as cause damage to our brand and customer goodwill. Catastrophe events that affect one of our larger office locations or one or more of our key vendors, or that directly or indirectly impact a significant number of our employees working from home, may heighten this risk.

***Efforts to acquire or develop new products or enter new areas of business may not be successful and may create enhanced risks.***

We have acquired and are developing, and may develop or acquire in the future, new insurance products, including those that insure risks that we have not previously insured, contain new coverages, or change coverage terms, as well as new non-insurance products and services. These new products and services may not be as profitable as our existing products and may not perform as well as we expect. In addition, new insurance products may entail new risks for us, including, without limitation, higher coverage limits and unfamiliar pricing, claims resolution, and loss reserving practices. Other new products and services may likewise change our risk exposures. The business systems, data, and models we use to manage those exposures may be less accurate or less effective than those we use with existing products.

We are evaluating other business models, both insurance and non-insurance related, and we have made, and are considering making additional investments, in different business areas. These activities may take the form of internal development, equity investments, targeted mergers or acquisitions, joint ventures, or strategic partnerships. These new ventures may require us to make significant expenditures, which may negatively impact our results in the near term, and if not successful, could materially and adversely affect our results of operations. While at the onset of the venture we would expect these projects to provide long-term value, there can be no assurance that our expectations will be realized.

***If we were not able to send or accept electronic payments, our business and financial results could be adversely affected.***

We rely on access to various financial networks to process payments received from our customers. These include credit card and debit card networks and the Automated Clearing House (ACH) network. Our ability to participate in these networks depends on our compliance with applicable laws and regulations and with the complex rules of each network and any related industry supervisory groups. If we fail to comply with legal requirements or rules and best practices established by a network or industry group, including those related to data security, we could be assessed significant monetary fines and other penalties, including, in certain cases, the termination of our right to use the applicable network or system. Such fines and penalties, and any disruption in or termination of our ability to process customer payments electronically, could materially adversely affect our business and our brand.

***We may be required to recognize impairments in the value of the goodwill or intangible assets recorded in our financial statements.***

As a result of business acquisitions, we have recorded goodwill (generally representing the amount paid in excess of the fair value of the assets acquired) and certain intangible assets (at fair value at the time of acquisition) and we may record additional goodwill and intangible assets in the future. We review goodwill and intangible assets for impairment at least annually. Valuing these assets, and evaluating their recoverability, requires us to make estimates and assumptions related to future returns on equity, margins, growth rates, discount rates, and other matters, and our estimates may change over time, potentially resulting in asset write-downs. Goodwill and intangible assets impairment charges could result from declines in operating results, divestitures, or sustained market declines, among other factors, and could materially affect our financial condition and results of operations in the period in which they are recognized.

#### IV. Market Risks

*The performance of our fixed-income and equity investment portfolios is subject to a variety of investment risks.*

Our investment portfolio consists principally of fixed-income securities and common equities. General economic conditions and other factors beyond our control can adversely affect the value of our investments, and the amount and realization of investment income, or result in realized or unrealized investment losses. Our fixed-income portfolio is actively managed by our investment group and includes short-term investments, fixed-maturity securities, and preferred stocks. The performance of the fixed-income portfolio is subject to a number of risks, including:

- *Interest rate risk* - the risk of adverse changes in the value of fixed-income securities as a result of increases in market interest rates.
- *Investment credit risk* - the risk that the value of certain investments may decrease due to a deterioration in the financial condition, operating performance, or business prospects of, the regulatory environment applicable to, or the liquidity available to, one or more issuers of those securities or, in the case of asset-backed securities, due to the deterioration of the loans or other assets that underlie the securities.
- *Concentration risk* - the risk that the portfolio may be too heavily concentrated in the securities of one or more issuers, sectors, or industries, which could result in a significant decrease in the value of the portfolio in the event of a deterioration of the financial condition or performance of, the regulatory environment applicable to, or outlook for, those issuers, sectors, or industries.
- *Prepayment or extension risk* - applicable to certain securities in the portfolio, such as residential mortgage-backed securities and other bonds with call provisions, prepayment risk is the risk that, as interest rates change, the principal of such securities may be repaid earlier than anticipated, requiring that we reinvest the proceeds at less attractive rates. Extension risk is the risk that a security may not be redeemed when anticipated, adversely affecting the value of the security and preventing the reinvestment of the principal at higher market rates.
- *Liquidity risk* - discussed separately below.

In addition, the success of our investment strategies and asset allocations in the fixed-income portfolio may vary depending on the market environment. The fixed-income portfolio's performance also may be adversely impacted if, among other factors: credit ratings assigned to such securities by nationally recognized statistical rating organizations are based on incomplete or inaccurate information or otherwise prove unwarranted; or our risk mitigation strategies are ineffective for the applicable market conditions.

Our common equity portfolio is primarily managed externally to track the Russell 1000 Index, although from time to time we may choose to add exchange traded funds or similar securities designed to track the Russell 1000 or the Standard & Poor's 500 (S&P 500) Index. Our equity investment strategies may not successfully replicate the performance of the Indexes that they seek to track. Our equity investments are also subject to general movements in the values of equity markets and to the changes in the prices of the securities we hold. An investment portfolio or exchange traded fund that is designed to track an index, such as the Russell 1000 or S&P 500, is not necessarily less risky than other equity investment strategies. Equity markets, sectors, industries, and individual securities may be subject to high volatility and to long periods of depressed or declining valuations, and they are also subject to most of the same risks that affect our fixed-income portfolio, as discussed above. In addition, even though the Russell 1000 and S&P 500 Indexes are generally considered to be broadly diversified, significant portions of each index may be concentrated in one or more sectors, reducing our ability to manage our concentration risk through sector diversification.

If the fixed-income or equity portfolios, or both, were to suffer a substantial decrease in value, our financial position, and financial results could be materially adversely affected. Under these circumstances, our income from these investments could be materially reduced, and declines in the value of our securities could further reduce our reported earnings and capital levels. A decrease in value of an insurance subsidiary's investment portfolio could also put the subsidiary at risk of failing to satisfy regulatory minimum capital requirements and could limit the subsidiary's ability to write new business. In any such event, our business could be materially adversely affected and our financial flexibility could be substantially constrained.

See *Management's Discussion and Analysis of Financial Condition and Results of Operations - Investments* in the Annual Report for additional discussion of the composition of our investment portfolio as of December 31, 2021, and of the market risks associated with our investment portfolio.

***New regulations and societal pressures relating to environmental, social, and other public policy matters could negatively impact our returns or cause us to change our investing strategies in ways that could negatively impact our results.***

The value of securities held in our portfolio could be materially adversely impacted as issuers or the businesses or assets underlying such securities are faced with new laws or regulations or initiatives by investors, activists, or others, including those addressing environmental, social, and other public policy concerns. Similarly, the universe of securities that we are permitted to hold could be significantly narrowed by insurance regulators if, for example, we are prohibited from investing in certain industries or types of companies, or regulators could require that the acquisition of such securities be accompanied by additional disclosures. We could also face pressure from other stakeholders to refrain from investing in certain industries or types of companies. These factors could cause a decline in the value of investments held in our portfolio or cause us to change our investment strategy, which could increase our costs and reduce our returns relative to returns from other available investment opportunities.

***The elimination of the London Interbank Offered Rate (LIBOR) may adversely affect the interest rates on and value of certain floating rate securities and other instruments that we hold.***

LIBOR, a common benchmark interest rate (or reference rate) used to set and make adjustments to interest rates for certain floating rate securities and other financial instruments, is being phased out over time. Although instruments issued in 2022 should no longer tie interest rates to LIBOR, securities issued in 2021 and earlier and held in our portfolio may continue to do so. As the phase out continues, these legacy securities may be adversely affected if they either do not provide for the automatic substitution of another reference rate or convert to another reference rate or a fixed rate that could be less favorable to us. Outstanding securities and contracts that could be affected include certain preferred stocks and other floating rate securities, fixed rate securities that may convert to LIBOR-based floating rate instruments in the future, and any other assets or liabilities whose value is tied to LIBOR. Any uncertainty regarding the reliability of LIBOR as a benchmark interest rate until the end of the phase out period could also adversely affect the value of those instruments.

#### V. Liquidity Risk

***The inability to access our cash accounts or to convert investments into cash on favorable terms when we desire to do so may materially and adversely affect our business.***

We rely on our ability to access our cash accounts at banks and other financial institutions to operate our business. If we are unable to access the cash in those accounts as needed, whether due to our own systems difficulties, an institution-specific issue at the bank or financial institution (such as a cybersecurity breach), a broader disruption in banking, financial or wire transfer systems, or otherwise, our ability to pay insurance claims and other financial obligations when due and otherwise operate our business could be materially adversely affected. Likewise, our investment portfolios are subject to risks inherent in the nation's and world's capital markets. Any disruption in the functioning of those markets or in our ability to liquidate investments or specific categories of investments on favorable terms when desired, could impair our ability to pay claims or other financial obligations when due. Any such event or series of such events could result in significant operational difficulties, reputational harm and adverse actions by regulators and have a material adverse effect on our financial condition, cash flows, and results of operations.

#### VI. Credit and Other Financial Risks

***Our financial condition may be adversely affected if one or more parties with which we enter into significant contracts or transact business (including under certain government programs) become insolvent, experience other financial difficulties, or default in the performance of contractual or reimbursement obligations.***

Our business is dependent on the performance by third parties of their responsibilities under various contractual or service arrangements and government programs. These include, for example, agreements with other insurance carriers to sell their products to our customers in bundled packages or otherwise, arrangements for transferring certain of our risks (including indemnification and self-insured retention obligations of Commercial Lines customers, reinsurance arrangements used by us, our corporate insurance policies, and the performance of state reinsurance facilities/associations), and reimbursement obligations under various state or federal programs, such as the Michigan Catastrophic Claims Association or the National Flood Insurance Program. In addition, from time to time, we enter into significant financial transactions, such as derivative instruments, with major banks, other financial institutions, or security clearinghouses. If one or more of these parties were to default in the performance of, or otherwise become unwilling or unable to satisfy, their obligations under their respective contracts, we could suffer significant financial losses or other problems, which in turn could materially adversely affect our financial condition, cash flows, or results of operations and cause damage to our brand and reputation.



***Our insurance subsidiaries may be limited in the amount of dividends that they can pay, which in turn may limit our ability to repay indebtedness, make capital contributions to other subsidiaries or affiliates, pay dividends to shareholders, repurchase securities, or meet other obligations.***

The Progressive Corporation is a holding company with no business operations of its own. Consequently, if its subsidiaries are unable to pay dividends or make other distributions, or are able to pay only limited amounts, The Progressive Corporation may be unable to make payments on its indebtedness, make capital contributions to or otherwise fund its subsidiaries or affiliates, pay dividends to its shareholders, or meet its other obligations. Each insurance subsidiary's ability to pay dividends may be limited by one or more of the following factors:

- insurance regulatory authorities require insurance companies to maintain specified minimum levels of statutory capital and surplus
- insurance regulations restrict the amounts available for distribution based on either net income or surplus of the insurance company
- competitive pressures require our insurance subsidiaries to maintain high financial strength ratings, and
- in certain jurisdictions, prior approval must be obtained from regulatory authorities for the insurance subsidiaries to pay dividends or make other distributions to affiliated entities, including the parent holding company.

***The terms of our outstanding preferred shares prohibit us from paying a dividend on our common shares in certain circumstances.***

The terms of our outstanding preferred shares prohibit us from declaring or paying dividends or distributions on our common shares while our preferred shares are outstanding, unless all accrued and unpaid dividends on the preferred shares, including the full dividends for all current dividend periods, have been declared and paid or a sum sufficient for payment thereof set apart, subject to certain exceptions.

***If we are unable to obtain capital when necessary to support our business, our financial condition, and our ability to grow could be materially adversely affected.***

We may need to acquire additional capital from time to time as a result of many factors. These could include increased regulatory requirements, losses in our insurance or investment operations, or significant growth in the insurance premiums that we write, among others. If we are unable to obtain capital at favorable rates when needed, whether due to our results, volatility or disruptions in debt and equity markets beyond our control, or other reasons, our financial condition could be materially adversely affected. In such an event, unless and until additional sources of capital are secured, we may be limited in our ability, or unable, to service our debt obligations, pay dividends, grow our business, pay our other obligations when due or engage in other corporate transactions. Such a deterioration of our financial condition could adversely affect the perception of our company by insurance regulators, potentially resulting in regulatory actions, and the price of our equity or debt securities could fall significantly.

***Our access to capital markets, ability to obtain or renew financing arrangements, obligations to post collateral under certain derivative contracts, and business operations are dependent on favorable evaluations and ratings by credit and other rating agencies.***

Our credit and financial strength are evaluated and rated by various rating agencies, such as Standard & Poor's, Moody's Investors Service, Fitch Ratings, and A.M. Best. Downgrades in our credit ratings could adversely affect our ability to access the capital markets and/or lead to increased borrowing costs in the future (although the interest rates we pay on our current indebtedness would not be affected), as would adverse recommendations by equity analysts at the various brokerage houses and investment firms. Perceptions of our company by other businesses and consumers could also be significantly impaired. In addition, from time to time we may enter into certain derivative transactions providing that a downgrade could trigger contractual obligations requiring us to post substantial amounts of additional collateral or allow a third party to liquidate the derivative transaction. Standard & Poor's has recently proposed changes to its process for credit ratings for the insurance industry, and we are unable to predict the impact to our credit ratings or our ability to raise capital at favorable rates, of any change that they may ultimately adopt. Downgrades in the ratings of our insurance subsidiaries could likewise negatively impact our operations, potentially resulting in lower or negative premium growth. In any such event, our financial performance could be materially adversely affected.

***Our dividend policy may result in varying amounts being paid to our common shareholders, or no payment in some periods, and the dividend policy ultimately may be changed in the discretion of the Board of Directors.***

We have announced our intention to pay a dividend on our common shares on a quarterly basis and to consider paying a variable dividend on at least an annual basis. The frequency and amount of dividends, if any, may vary, perhaps significantly, from the amounts paid in preceding periods. In addition, the Board retains the discretion to alter our policy or not to pay such dividends at any time. Such an action by the Board could result from, among other reasons, changes in the insurance marketplace, changes in our performance or capital needs, changes in U.S. federal income tax laws, disruptions of national or international capital markets, or other events affecting our liquidity, financial position, or prospects, as described above. Any such change could adversely affect investors' perceptions of the company and the value of, or the total return of an investment in, our common shares.

***Our investments in certain tax-advantaged projects may not generate the anticipated tax benefits and related returns.***

We may invest in certain projects that we believe are entitled to tax-advantaged treatment under applicable federal or state law, including renewable energy development, historic property rehabilitation, and affordable housing, and we may make other tax-advantaged investments from time to time. Our investments in these projects are designed to generate a return through the realization of tax credits and, in some cases, through other tax benefits and cash flows from the project. These investments are subject to the risk that the underlying tax credits and related benefits may not be valid, and in some cases previously recorded tax credits can be challenged or are subject to recapture by the applicable taxing authorities if specific requirements are not satisfied. Many of the factors that could lead to the invalidity, challenge, or recapture of tax credits are beyond our control. The inability to realize these tax credits and other tax benefits could have a material adverse impact on our financial condition.

## VII. Other

***The outbreak of the novel coronavirus, or COVID-19, and the restrictions put in place to help slow and/or stop the spread of the virus and its variants, could materially adversely affect our business and results of operations.***

The spread of COVID-19 and its variants throughout the United States and the international community has had, and could continue to have, a negative impact on financial markets, general economic conditions, and certain of our businesses. Depending on the duration and severity of the coronavirus pandemic and the nature and extent of governmental responses to the pandemic, our businesses, our operations, and our financial results could be negatively impacted in a number of ways, including the following:

- Demand for our insurance products and our premium revenue could be reduced, perhaps significantly, if customers drive less or are unable to afford insurance, insurance shopping patterns are disrupted, vehicle and home purchases are curtailed, small businesses suspend or discontinue operations, the usage of transportation network company businesses continues to be below historic levels, insurance agencies are unable or unwilling to write business, or our competitors offer products or benefits more appealing to customers or agents or more responsive to their needs, among other factors
- Our ability to price our products accurately for new and renewal policies could be negatively impacted, as could our ability to respond effectively to the initiatives of our competitors
- Claims trends could become more volatile, inflation rates could diverge significantly from our expectations, vehicle and home repair industries could be significantly disrupted, and the availability of medical resources could be limited, potentially resulting in higher claims severity and increased costs to resolve claims
- Our ability to resolve claims accurately and efficiently and establish accurate loss reserves could be impaired if we are unable to staff our Claims group appropriately
- Legislative or regulatory actions, or court decisions, could impact our business in unexpected ways, including, without limitation, by: requiring us to change the way we price, segment, underwrite, or select risks to insure; altering our rights and obligations under our issued policies; or imposing payment obligations on us and other insurers in our industry for losses and costs that otherwise would be uninsured
- The cumulative costs required by such governmental actions, or of actions taken voluntarily by us to accommodate the needs of customers, including providing credits or other payments to policyholders and billing leniency efforts, such as providing relief from policy cancellations or non-renewals, and related debt write offs, could be substantial
- Unexpected changes in consumer behavior or market conditions, as well as deteriorating economic conditions, may reduce the effectiveness of our advertising
- Illnesses suffered by key employees could prevent or delay the performance of critical business and financial reporting functions; widespread illnesses suffered by our employees may render us unable to perform normal business functions and operate our business on a day-to-day basis

- The continued functioning of our data centers and important information technology and communication systems, as well as the continued performance of and our accessibility to the systems of our various vendors, could be imperiled by widespread illnesses, illnesses suffered by key technology personnel, or work limitations or other governmental mandates
- Our business continuity plans may prove inadequate to address the business challenges that we confront as these issues develop
- Workplace policies adopted in response to the pandemic may be viewed adversely by our employees or the public, resulting in damage to our reputation and brand
- Our vendors and counterparties to various contracts, including key vendors for our insurance, claims and technology operations, reinsurance arrangements and financial counterparties, may not be able to perform or pay the obligations required of them on a timely basis, or at all, due to key employee illnesses, widespread illnesses, adverse financial impact or other challenges that they face arising directly or indirectly from the coronavirus pandemic

The potential effects of COVID-19 also could exacerbate the impacts of many of the other risk factors, including: litigation claims being brought against the company; data security breaches and cyber attacks in the work-from-home environment; the valuation, volatility, and liquidity of our debt and equity investment portfolios; the condition of domestic and global economies and financial markets; our ability to access capital markets at favorable rates, if needed; our ability to access our cash accounts at banks and other financial institutions to operate our business; and the need to take impairments of goodwill or certain intangible assets.

***Our goal is to maximize the long-term value of the enterprise and we do not manage to short-term earnings expectations, which may adversely affect short-term results.***

We believe that shareholder value will be increased in the long run if we meet or exceed the financial goals and policies that we establish each year. We do not manage our business to maximize short-term stock performance or the amount of any dividend that may be paid. Due to our focus on the long-term value of the enterprise, we may undertake business decisions and strategies and establish related financial goals that are designed to enhance our longer-term performance and value, while understanding that such decisions and strategies may not always similarly benefit short-term results, such as our annual underwriting profit, dividend payouts, or earnings per share. We report earnings and other operating results on a monthly basis. We do not provide earnings estimates to the market and do not comment on earnings estimates by analysts. As a result, our reported results for a particular period may vary, perhaps significantly, from investors' expectations, which could result in significant volatility in the price of our equity or debt securities. Our Property business may cause additional volatility in our consolidated results.

In addition, due to our focus on the long-term value of the enterprise, similar tradeoffs may be involved in our consideration of the interests of other stakeholders, including our employees, customers, agents, suppliers, and communities, as well as whether and how we respond to or address corporate environmental and social responsibility initiatives and other public policy matters that impact us. Also, social responsibility and public policy considerations are a fast-evolving area and determining appropriate responses and actions can be uncertain. Depending on how observers view our responses or our commitment to addressing such matters, we could be subject to criticism, adverse publicity, or campaigns by investors, activists, or others. Consequently, such factors and the related tradeoffs may adversely affect our financial performance or the market prices of our equity or debt securities.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

We currently do not have any unresolved comments from the SEC staff.

**ITEM 2. PROPERTIES**

All of our properties are owned or leased by subsidiaries of The Progressive Corporation and are used for office functions (corporate, claims, and business unit), as call centers, as data centers, for training, or for warehouse space.

We own 79 buildings located throughout the United States. About 60% of these buildings are claims offices. Our owned facilities, which contain approximately 4.8 million square feet of space, are generally not segregated by segment. We own significant locations in Mayfield Village, Ohio and surrounding suburbs (including our corporate headquarters); Colorado Springs, Colorado; St. Petersburg, Florida; and Tampa, Florida.

We lease approximately 2.3 million square feet of space throughout the United States. These leases are generally short-term to medium-term leases of commercial space.

**ITEM 3. LEGAL PROCEEDINGS**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**INFORMATION ABOUT OUR EXECUTIVE OFFICERS**

Incorporated by reference from information with respect to executive officers of The Progressive Corporation and its subsidiaries set forth in Item 10 in Part III of this Form 10-K.

## **PART II**

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

#### **Market Information**

Progressive's Common Shares, \$1.00 par value, are traded on the New York Stock Exchange (NYSE) under the symbol PGR.

#### **Holders**

We had 1,856 shareholders of record on December 31, 2021.

#### **Dividends**

See *Note 14 – Dividends* in our Annual Report.

#### **Securities Authorized for Issuance Under Equity Compensation Plans**

See Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," for information about securities authorized for issuance under our equity compensation plans.

#### **Performance Graph**

See the *Performance Graph* section in our Annual Report.

#### **Recent Sales of Unregistered Securities**

None.

#### **Purchase of Equity Securities**

<b>ISSUER PURCHASES OF EQUITY SECURITIES</b>				
<b>2021 Calendar Month</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs</b>
October	612,434	\$ 90.96	1,485,517	23,514,483
November	189	94.09	1,485,706	23,514,294
December	1,170	94.24	1,486,876	23,513,124
Total	613,793	\$ 90.97		

In May 2021, the Board of Directors approved an authorization for the Company to repurchase up to 25 million of its common shares. This authorization does not have an expiration date. Share repurchases under this authorization may be accomplished through open market purchases, including trading plans entered into with one or more brokerage firms in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, through privately negotiated transactions, pursuant to our equity incentive awards, or otherwise. During the fourth quarter 2021, all repurchases were accomplished in conjunction with our equity incentive awards or through the open market at the then-current market prices.

Progressive's financial policies state that we will repurchase shares to neutralize dilution from equity-based compensation in the year of issuance and as an option to effectively use under leveraged capital. See *Note 9 – Employee Benefit Plans, "Incentive Compensation Plans"* in our Annual Report, for a summary of our restricted equity grants.

#### **ITEM 6. [Reserved]**

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Incorporated by reference from *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The quantitative and qualitative disclosures about market risk are incorporated by reference from section “IV. Results of Operations – Investments” in our *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, and the *Quantitative Market Risk Disclosures* section in our Annual Report.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Consolidated Financial Statements of Progressive, along with the related Notes, and Report of the Independent Registered Public Accounting Firm, are incorporated by reference from our Annual Report.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Under the direction of our Chief Executive Officer and our Chief Financial Officer, we 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 Progressive’s disclosure controls and procedures as of the end of the period covered by this report. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Progressive’s disclosure controls and procedures are effectively serving the stated purposes as of the end of the period covered by this report.

Management’s Report on Internal Control over Financial Reporting and the attestation of the independent registered public accounting firm are incorporated by reference from our Annual 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.

**ITEM 9B. OTHER INFORMATION**

None.

**ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information relating to our directors is incorporated herein by reference from the section entitled “Item 1: Election of Directors” in The Progressive Corporation’s Proxy Statement for the Annual Meeting of Shareholders to be held on May 13, 2022 (the Proxy Statement).

Information relating to executive officers of Progressive follows. Unless otherwise indicated, the executive officer has held the position(s) indicated with Progressive.

Name	Age	Offices Held and Last Five Years’ Business Experience
Susan Patricia Griffith	57	President and Chief Executive Officer
John P. Sauerland	57	Vice President and Chief Financial Officer
Karen B. Bailo	54	Commercial Lines President since October 2020; Commercial Lines Acquisition and Small Business General Manager from January 2020 to September 2020; Commercial Lines Controller from August 2018 to December 2019; Agency Distribution Business Leader prior to August 2018
Jonathan S. Bauer	44	Chief Investment Officer since January 2020; Portfolio Manager prior to January 2020
Steven A. Broz	51	Chief Information Officer
Patrick K. Callahan	51	Personal Lines President
William L. Clawson II	52	Chief Human Resources Officer since December 2021; Compensation and Benefits Business Leader from November 2019 to December 2021; Product Manager prior to November 2019
Remi Kent	46	Chief Marketing Officer since November 2021; Senior Vice President and Global Chief Marketing Officer of the Consumer Business Group of 3M Company (global manufacturing and technology company) from January 2020 to October 2021; Global Business Director for Post-It® and Scotch® Brands of 3M Company from June 2017 to January 2020; Global Brand and Strategy Leader of 3M Company prior to June 2017
Mariann Wojtkun Marshall	59	Vice President and Chief Accounting Officer since March 2019; Director of Financial Reporting - GAAP prior to March 2019; Assistant Secretary
Daniel P. Mascaro	58	Vice President, Secretary, and Chief Legal Officer since March 2017; Claims Legal Business Leader prior to March 2017
John Murphy	52	Claims President since December 2021; Customer Relationship Management President prior to December 2021
Lori Niederst	48	Customer Relationship Management President since December 2021; Chief Human Resources Officer prior to December 2021
Andrew J. Quigg	42	Chief Strategy Officer since July 2018; Customer Experience General Manager prior to July 2018

*Delinquent Section 16(a) Reports.* Any delinquent filings will be incorporated by reference from the “Security Ownership of Certain Beneficial Owners and Management - Delinquent Section 16(a) Reports” section of the Proxy Statement, if applicable.

*Code of Ethics.* Progressive has a Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and other senior financial officers. This Code of Ethics is available at: [progressive.com/governance](http://progressive.com/governance). We intend to continue to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, and waivers from, the provisions of the foregoing Code of Ethics by posting such information on our Internet website at: [progressive.com/governance](http://progressive.com/governance).

*Shareholder-Proposed Candidate Procedures.* There were no material changes during 2021 to Progressive’s procedures by which a shareholder can recommend a director candidate. The description of those procedures is incorporated by reference from the “Other Matters - Procedures for Recommendations and Nominations of Directors and Shareholder Proposals - To Recommend a Candidate for our Board of Directors” section of the Proxy Statement.

*Audit Committee.* Incorporated by reference from the “Other Board of Directors Information - Board Committees - Audit Committee” section of the Proxy Statement.

*Financial Expert.* Incorporated by reference from the “Other Board of Directors Information - Board Committees - Audit Committee” section of the Proxy Statement.

## ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the sections of the Proxy Statement entitled “Compensation Discussion and Analysis,” “Executive Compensation,” “Other Board of Directors Information - Compensation Committee Interlocks and Insider Participation,” “Compensation Committee Report,” and “Compensation Programs and Risk Management.”

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding ownership of Common Shares by certain beneficial owners and management is incorporated by reference from the section of the Proxy Statement entitled “Security Ownership of Certain Beneficial Owners and Management.”

The following information is set forth with respect to our equity compensation plans at December 31, 2021.

EQUITY COMPENSATION PLAN INFORMATION			
Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
<b>Equity compensation plans approved by security holders:</b>			
<u>Employee Plans:</u>			
2015 Equity Incentive Plan	3,539,022 <sup>1</sup>	NA	7,010,609 <sup>2</sup>
<u>Director Plans:</u>			
2017 Directors Equity Incentive Plan	29,206	NA	297,950
<b>Equity compensation plans not approved by security holders:</b>			
None			
Total	3,568,228	NA	7,308,559

NA = Not applicable because restricted stock unit awards do not have an exercise price.

<sup>1</sup> Reflects restricted stock unit awards, including reinvested dividend equivalents, under which, upon vesting, the holder has the right to receive common shares on a one-to-one basis. Performance-based restricted stock unit awards, including dividend equivalents, of 727,596 units are included under the 2015 Equity Incentive Plan at their target value. Maximum potential payout for the performance awards outstanding under the 2015 Equity Incentive Plan was 1,787,949. For a description of the performance-based awards, including the performance measurement and vesting ranges, see *Note 9 — Employee Benefit Plans* in our Annual Report.

<sup>2</sup> Gives effect to reservation of common shares subject to performance-based awards at maximum potential payout.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from the section of the Proxy Statement entitled “Other Board of Directors Information - Board of Directors Independence Determinations,” and “Other Board of Directors Information - Transactions with Related Persons.”

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from the section of the Proxy Statement entitled “Other Independent Registered Public Accounting Firm Information.”



## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

#### **(a)(1) Listing of Financial Statements**

The following consolidated financial statements are included in our Annual Report and are incorporated by reference in Item 8:

- Report of Independent Registered Public Accounting Firm (PCAOB ID: 238)
- Consolidated Statements of Comprehensive Income - For the Years Ended December 31, 2021, 2020, and 2019
- Consolidated Balance Sheets - December 31, 2021 and 2020
- Consolidated Statements of Changes in Shareholders' Equity - For the Years Ended December 31, 2021, 2020, and 2019
- Consolidated Statements of Cash Flows - For the Years Ended December 31, 2021, 2020, and 2019
- Notes to Consolidated Financial Statements
- Supplemental Information (Unaudited)

#### **(a)(2) Listing of Financial Statement Schedules**

The following financial statement schedules, Report of Independent Registered Public Accounting Firm and Consent of Independent Registered Public Accounting Firm are included in Item 15(c):

- Schedule I - Summary of Investments - Other than Investments in Related Parties
- Schedule II - Condensed Financial Information of Registrant
- Schedule III - Supplementary Insurance Information
- Schedule IV - Reinsurance
- Report of Independent Registered Public Accounting Firm on Financial Statement Schedules
- No other schedules are required to be filed herewith pursuant to Article 7 of Regulation S-X.

#### **(a)(3) Listing of Exhibits**

See exhibit index contained herein beginning at page 43. Management contracts and compensatory plans and arrangements are identified in the Exhibit Index as Exhibit Nos. 10.1 through 10.49.

#### **(b) Exhibits**

The exhibits in response to this portion of Item 15 are submitted concurrently with this report.

#### **(c) Financial Statement Schedules**

**SCHEDULE I — SUMMARY OF INVESTMENTS — OTHER THAN INVESTMENTS IN RELATED PARTIES**

**THE PROGRESSIVE CORPORATION AND SUBSIDIARIES**

(millions)

Type of Investment	December 31, 2021		
	Cost	Fair Value	Amount At Which Shown In The Balance Sheet
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	\$ 18,586.1	\$ 18,488.2	\$ 18,488.2
States, municipalities, and political subdivisions	2,162.6	2,185.3	2,185.3
Foreign government obligations	17.9	17.9	17.9
Public utilities	764.6	777.7	777.7
Corporate and other debt securities	9,761.6	9,914.4	9,914.4
Asset-backed securities	12,330.5	12,307.9	12,307.9
Redeemable preferred stocks	170.9	181.7	181.7
Total fixed maturities	43,794.2	43,873.1	43,873.1
Equity securities:			
Common stocks:			
Public utilities	69.2	178.8	178.8
Banks, trusts, and insurance companies	251.1	902.2	902.2
Industrial, miscellaneous, and all other	943.8	3,977.5	3,977.5
Nonredeemable preferred stocks	1,571.8	1,639.9	1,639.9
Total equity securities	2,835.9	6,698.4	6,698.4
Short-term investments	942.6	942.6	942.6
Total investments	\$ 47,572.7	\$ 51,514.1	\$ 51,514.1

Progressive did not have 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 December 31, 2021.

**SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

THE PROGRESSIVE CORPORATION (PARENT COMPANY)

(millions)

	Years Ended December 31,		
	2021	2020	2019
<b>Revenues</b>			
Dividends from subsidiaries	\$ 2,847.0	\$ 4,096.5	\$ 2,277.9
Undistributed income from subsidiaries	674.9	1,774.4	1,821.3
Equity in net income of subsidiaries	3,521.9	5,870.9	4,099.2
Intercompany investment income	4.5	16.5	31.1
Total revenues	3,526.4	5,887.4	4,130.3
<b>Expenses</b>			
Interest expense	220.0	218.1	190.4
Deferred compensation <sup>1</sup>	8.8	33.9	16.6
Other operating costs and expenses	6.8	7.2	5.5
Total expenses	235.6	259.2	212.5
Income before income taxes	3,290.8	5,628.2	3,917.8
Benefit for income taxes	60.1	76.4	52.5
<b>Net income attributable to Progressive</b>	3,350.9	5,704.6	3,970.3
Other comprehensive income (loss)	(891.0)	587.3	462.6
<b>Comprehensive income attributable to Progressive</b>	\$ 2,459.9	\$ 6,291.9	\$ 4,432.9

<sup>1</sup> See Note 4 – *Employee Benefit Plans* in these condensed financial statements.

See notes to condensed financial statements.

**SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)**

**CONDENSED BALANCE SHEETS**

**THE PROGRESSIVE CORPORATION (PARENT COMPANY)**

(millions)

	December 31,	
	2021	2020
<b>Assets</b>		
Investment in affiliate	\$ 5.0	\$ 5.0
Investment in subsidiaries	19,512.2	18,895.9
Receivable from investment subsidiary	3,382.1	5,901.7
Intercompany receivable	387.2	473.8
Net federal deferred income taxes	65.1	86.9
Other assets	207.3	270.9
<b>Total assets</b>	<b>\$ 23,558.9</b>	<b>\$ 25,634.2</b>
<b>Liabilities and Shareholders' Equity</b>		
Accounts payable, accrued expenses, and other liabilities	\$ 370.0	\$ 505.0
Dividends payable on common shares	58.5	2,694.5
Debt <sup>1</sup>	4,898.8	5,396.1
<b>Total liabilities</b>	<b>5,327.3</b>	<b>8,595.6</b>
Serial Preferred Shares (authorized 20.0)		
Serial Preferred Shares, Series B, no par value (cumulative, liquidation preference of \$1,000 per share) (authorized, issued, and outstanding 0.5)	493.9	493.9
Common shares, \$1.00 par value (authorized 900.0; issued 797.6 and 797.5, including treasury shares of 213.2 and 212.3)	584.4	585.2
Paid-in capital	1,772.9	1,672.9
Retained earnings	15,339.7	13,354.9
Total accumulated other comprehensive income	40.7	931.7
<b>Total shareholders' equity</b>	<b>18,231.6</b>	<b>17,038.6</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 23,558.9</b>	<b>\$ 25,634.2</b>

<sup>1</sup> Consists of long-term debt. See *Note 4 – Debt* in our Annual Report for further discussion.

See notes to condensed financial statements.

**SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)**

**CONDENSED STATEMENTS OF CASH FLOWS**

**THE PROGRESSIVE CORPORATION (PARENT COMPANY)**

(millions)

	Years Ended December 31,		
	2021	2020	2019
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 3,350.9	\$ 5,704.6	\$ 3,970.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed income from subsidiaries	(674.9)	(1,774.4)	(1,821.3)
Amortization of equity-based compensation	3.1	2.9	2.9
Changes in:			
Intercompany receivable	86.6	(20.2)	(14.1)
Accounts payable, accrued expenses, and other liabilities	(311.6)	52.0	47.1
Income taxes	198.4	(52.2)	175.5
Other, net	59.0	40.4	(179.8)
Net cash provided by operating activities	2,711.5	3,953.1	2,180.6
<b>Cash Flows From Investing Activities:</b>			
Additional investments in equity securities of consolidated subsidiaries	(397.3)	(27.1)	(152.8)
Acquisition of Protective Insurance Corporation	(337.5)	0	0
Acquisition of additional shares of ARX Holding Corp.	0	(233.2)	(5.4)
(Paid to) received from investment subsidiary	2,519.6	(2,989.7)	(253.1)
Net cash provided by (used in) investing activities	1,784.8	(3,250.0)	(411.3)
<b>Cash Flows From Financing Activities:</b>			
Dividends paid to common shareholders	(3,746.5)	(1,551.0)	(1,643.2)
Dividends paid to preferred shareholders	(26.8)	(26.8)	(26.8)
Payments of debt	(500.0)	0	0
Net proceeds from debt issuance	0	986.3	0
Acquisition of treasury shares for restricted stock tax liabilities	(67.2)	(68.7)	(84.4)
Acquisition of treasury shares acquired in open market	(155.8)	(42.9)	(6.9)
Loan to ARX Holding Corp.	0	0	(8.0)
Net cash used in financing activities	(4,496.3)	(703.1)	(1,769.3)
Change in cash, cash equivalents, and restricted cash	0	0	0
Cash, cash equivalents, restricted cash - beginning of year	0	0	0
Cash, cash equivalents, restricted cash - end of year	\$ 0	\$ 0	\$ 0

See notes to condensed financial statements.

## SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

### NOTES TO CONDENSED FINANCIAL STATEMENTS

The accompanying condensed financial statements of The Progressive Corporation (parent company) should be read in conjunction with the consolidated financial statements and notes thereto in the Annual Report to Shareholders of The Progressive Corporation and its subsidiaries, which is included as Exhibit 13 to this Form 10-K.

**Note 1. Statements of Cash Flows** — For the purpose of the Statements of Cash Flows, cash includes only bank demand deposits. The Progressive Corporation does not hold any cash but has unrestricted access to funds maintained in a non-insurance investment subsidiary to meet its holding company obligations; at December 31, 2021, 2020, and 2019, \$4.2 billion, \$6.2 billion, and \$3.2 billion, respectively, of marketable securities were available in this subsidiary.

For the years ended December 31, non-cash activity included the following:

(millions)	2021	2020	2019
Common share dividends <sup>1</sup>	\$ 58.5	\$ 2,694.5	\$ 1,375.4
Preferred share dividends <sup>1</sup>	13.4	13.4	0
Loan to ARX converted to capital contribution	0	225.0	0
Change in redemption value of Redeemable NCI	0	0	0.4

<sup>1</sup> Declared but unpaid. See *Note 14 - Dividends* in the Annual Report for further discussion.

For the years ended December 31, The Progressive Corporation paid the following:

(millions)	2021	2020	2019
Income taxes	\$ 815.0	\$ 1,411.0	\$ 925.0
Interest	223.9	206.0	184.9

**Note 2. Income Taxes** — The Progressive Corporation files a consolidated federal income tax return with its subsidiaries and acts as an agent for the consolidated tax group when making payments to the Internal Revenue Service. The Progressive Corporation consolidated group's net income taxes currently payable/recoverable are included in other liabilities/assets, respectively, in the accompanying Condensed Balance Sheets based on the balance at the end of the year. The Progressive Corporation and its eligible subsidiaries have adopted, pursuant to a written agreement, a method of allocating consolidated federal income taxes. Amounts allocated to the eligible subsidiaries under the written agreement are included in "Intercompany Receivable" in the accompanying Condensed Balance Sheets.

**Note 3. Debt** — The information relating to debt is incorporated by reference from *Note 4 – Debt* in our Annual Report.

**Note 4. Employee Benefit Plans** — The information relating to incentive compensation and deferred compensation plans is incorporated by reference from *Note 9 – Employee Benefit Plans* in our Annual Report.

**Note 5. Other Comprehensive Income** — On the condensed Statements of Comprehensive Income, other comprehensive income (loss) represents activity of the subsidiaries of The Progressive Corporation and includes net unrealized gains (losses) on fixed-maturity securities, net unrealized losses on forecasted transactions, and foreign currency translation adjustments.

**Note 6. Dividends** — The information relating to our dividend policy is incorporated by reference from *Note 14 – Dividends* in our Annual Report.

# SCHEDULE III — SUPPLEMENTARY INSURANCE INFORMATION

## THE PROGRESSIVE CORPORATION AND SUBSIDIARIES

(millions)

Segment	Deferred policy acquisition costs <sup>1</sup>	Future policy benefits, losses, claims, and loss expenses <sup>1</sup>	Unearned premiums <sup>1</sup>	Other policy claims and benefits payable <sup>1</sup>	Premium revenue	Net investment income <sup>1,2</sup>	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses <sup>1</sup>	Net premiums written
Year ended December 31, 2021:										
Personal Lines					\$ 35,373.3		\$ 27,043.1	\$ 2,614.7	\$ 4,656.8	\$ 36,168.8
Commercial Lines					6,945.2		4,814.5	734.1	742.3	8,015.9
Property					2,042.5		1,764.6	362.9	253.0	2,216.2
Other indemnity					7.7		5.4	1.1	2.6	4.3
Total	\$ 1,355.6	\$ 26,164.1	\$ 15,615.8	\$ 0	\$ 44,368.7	\$ 835.4	\$ 33,627.6	\$ 3,712.8	\$ 5,654.7	\$ 46,405.2
Year ended December 31, 2020:										
Personal Lines <sup>3</sup>					\$ 32,620.1		\$ 20,611.7	\$ 2,437.3	\$ 5,762.0	\$ 33,342.6
Commercial Lines					4,875.8		3,146.0	525.7	647.5	5,315.3
Property					1,765.7		1,364.1	310.2	237.9	1,910.8
Other indemnity					0		0	0	0	0
Total	\$ 1,237.2	\$ 20,265.8	\$ 13,437.5	\$ 0	\$ 39,261.6	\$ 916.6	\$ 25,121.8	\$ 3,273.2	\$ 6,647.4	\$ 40,568.7
Year ended December 31, 2019:										
Personal Lines					\$ 30,210.0		\$ 21,329.7	\$ 2,273.6	\$ 4,227.6	\$ 31,102.2
Commercial Lines					4,427.6		3,034.8	481.2	523.5	4,791.8
Property					1,554.8		1,106.0	268.4	224.0	1,683.9
Other indemnity					0		0	0	0	0
Total	\$ 1,056.5	\$ 18,105.4	\$ 12,388.8	\$ 0	\$ 36,192.4	\$ 1,017.4	\$ 25,470.5	\$ 3,023.2	\$ 4,975.1	\$ 37,577.9

<sup>1</sup> Progressive does not allocate assets, liabilities, or investment income to operating segments. Expense allocations are based on certain assumptions and estimates primarily related to revenue and volume; stated segment operating results would change if different methods were applied.

<sup>2</sup> Excludes total net realized gains (losses) on securities.

<sup>3</sup> Other operating expenses includes \$1,077.4 million of policyholder credits issued to personal auto customers.

**SCHEDULE IV — REINSURANCE****THE PROGRESSIVE CORPORATION AND SUBSIDIARIES**

(millions)

<b>Year Ended:</b>	<b>Gross Amount</b>	<b>Ceded to Other Companies</b>	<b>Assumed From Other Companies</b>	<b>Net Amount</b>	<b>Percentage of Amount Assumed to Net</b>
<u>December 31, 2021</u>					
Premiums earned:					
Property and liability insurance	\$ 46,018.6	\$ 1,649.9	\$ 0	\$ 44,368.7	0 %
<u>December 31, 2020</u>					
Premiums earned:					
Property and liability insurance	\$ 40,687.7	\$ 1,426.1	\$ 0	\$ 39,261.6	0 %
<u>December 31, 2019</u>					
Premiums earned:					
Property and liability insurance	\$ 37,519.7	\$ 1,327.3	\$ 0	\$ 36,192.4	0 %



## **Report of Independent Registered Public Accounting Firm on Financial Statement Schedules**

To the Board of Directors and Shareholders of The Progressive Corporation

Our audits of the consolidated financial statements referred to in our report dated February 28, 2022 appearing in the 2021 Annual Report to Shareholders of The Progressive Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the schedule of summary of investments – other than investments in related parties as of December 31, 2021, the schedule of condensed financial information of registrant, which includes the condensed balance sheets as of December 31, 2021 and 2020 and the condensed statements of comprehensive income and of cash flows for each of the three years in the period ended December 31, 2021, and the related notes to the condensed financial statements, the schedule of supplementary insurance information for each of the three years in the period ended December 31, 2021, and the schedule of reinsurance for each of the three years in the period ended December 31, 2021 (collectively “the financial statement schedules”) listed in Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP  
Cleveland, Ohio  
February 28, 2022

**ITEM 16. FORM 10-K SUMMARY**

We have elected not to include a summary of information as permitted under this item.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 28, 2022

THE PROGRESSIVE CORPORATION

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/ Susan Patricia Griffith</u> Susan Patricia Griffith	Director, President and Chief Executive Officer	February 28, 2022
<u>/s/ John P. Sauerland</u> John P. Sauerland	Vice President and Chief Financial Officer	February 28, 2022
<u>/s/ Mariann Wojtkun Marshall</u> Mariann Wojtkun Marshall	Vice President and Chief Accounting Officer	February 28, 2022
<u>*</u> Lawton W. Fitt	Chairperson of the Board	February 28, 2022
<u>*</u> Philip Bleser	Director	February 28, 2022
<u>*</u> Stuart B. Burgdoerfer	Director	February 28, 2022
<u>*</u> Pamela J. Craig	Director	February 28, 2022
<u>*</u> Charles A. Davis	Director	February 28, 2022
<u>*</u> Roger N. Farah	Director	February 28, 2022
<u>*</u> Devin C. Johnson	Director	February 28, 2022
<u>*</u> Jeffrey D. Kelly	Director	February 28, 2022
<u>*</u> Barbara R. Snyder	Director	February 28, 2022
<u>*</u> Jan E. Tighe	Director	February 28, 2022
<u>*</u> Kahina Van Dyke	Director	February 28, 2022

\* Daniel P. Mascaro, by signing his name hereto, does sign this document on behalf of the persons indicated above pursuant to powers of attorney duly executed by such person.

By: /s/ Daniel P. Mascaro  
Daniel P. Mascaro  
Attorney-in-fact

February 28, 2022

# EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
3(i)	3.1	<a href="#">Amended Articles of Incorporation of The Progressive Corporation (as amended March 13, 2018)</a>	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 3.1 therein)
3(ii)	3.2	<a href="#">Code of Regulations of The Progressive Corporation (as amended May 7, 2021)</a>	Quarterly Report on Form 10-Q (filed on August 3, 2021; Exhibit 3.1 therein)
4	4.1	<a href="#">Form of 6 5/8% Senior Notes due 2029, issued in the aggregate principal amount of \$300,000,000 under the 1993 Senior Indenture, as amended and supplemented</a>	Annual Report on Form 10-K (filed on March 2, 2015; Exhibit 4.2 therein)
4	4.2	<a href="#">Form of 6.25% Senior Notes due 2032, issued in the aggregate principal amount of \$400,000,000 under the 1993 Senior Indenture, as amended and supplemented</a>	Annual Report on Form 10-K (filed on February 27, 2018; Exhibit 4.3 therein)
4	4.3	<a href="#">Form of 4.35% Senior Notes due 2044, issued in the aggregate principal amount of \$350,000,000 under the 1993 Senior Indenture, as amended and supplemented</a>	Current Report on Form 8-K (filed on April 25, 2014; Exhibit 4.2 therein)
4	4.4	<a href="#">Form of 3.70% Senior Notes due 2045, issued in the aggregate principal amount of \$400,000,000 under the 1993 Senior Indenture, as amended and supplemented</a>	Current Report on Form 8-K (filed on January 26, 2015; Exhibit 4.2 therein)
4	4.5	<a href="#">Form of 2.45% Senior Notes due 2027, issued in the aggregate principal amount of \$500,000,000 under the 1993 Senior Indenture, as amended and supplemented</a>	Current Report on Form 8-K (filed on August 25, 2016; Exhibit 4.2 therein)
4	4.6	<a href="#">Form 4.125% Senior Note Due 2047, issued in the aggregate principal amount of \$850,000,000 under the 1993 Senior Indenture, as amended and supplemented</a>	Current Report on Form 8-K (filed on April 6, 2017; Exhibit 4.2 therein)
4	4.7	<a href="#">Form 4.20% Senior Note Due 2048, issued in the aggregate principal amount of \$600,000,000 under the 1993 Senior Indenture, as amended and supplemented</a>	Current Report on Form 8-K (filed on March 14, 2018; Exhibit 4.2 therein)
4	4.8	<a href="#">Form 4.00% Senior Note Due 2029, issued in the aggregate principal amount of \$550,000,000</a>	Current Report on Form 8-K (filed on October 23, 2018; Exhibit 4.2 therein)
4	4.9	<a href="#">Form of certificate representing Series B Fixed-to-Floating Rate Cumulative Perpetual Serial Preferred Shares</a>	Current Report on Form 8-K (filed on March 14, 2018; Exhibit 4.3 therein)
4	4.10	<a href="#">Indenture dated as of September 12, 2018 between The Progressive Corporation and U.S. Bank National Association, Trustee (including table of contents and cross-reference sheet)</a>	Registration Statement No. 333-227315 (filed on September 13, 2018; exhibit 4.2 therein)
4	4.11	<a href="#">First Supplemental Indenture dated October 23, 2018 between The Progressive Corporation and U.S. Bank National</a>	Current Report on Form 8-K (filed on October 23, 2018; Exhibit 4.1 therein)
4	4.12	<a href="#">Second Supplemental Indenture dated March 26, 2020 between The Progressive Corporation and U.S. Bank National Association, as trustee</a>	Current Report on Form 8-K (filed on March 26, 2020; Exhibit 4.1 therein)
4	4.13	<a href="#">Form of 3.20% Senior Note due 2030, issued in the aggregate principal amount of \$500,000,000</a>	Current Report on Form 8-K (filed on March 26, 2020; Exhibit 4.2 therein)

# EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
4	4.14	<a href="#">Form of 3.95% Senior Note due 2050, issued in the aggregate principal amount of \$500,000,000</a>	Current Report on Form 8-K (filed on March 26, 2020; Exhibit 4.3 therein)
4	4.15	<a href="#">Indenture dated as of September 15, 1993 between The Progressive Corporation and State Street Bank and Trust Company (successor in interest to The First National Bank of Boston), as Trustee ("1993 Senior Indenture") (including table of contents and cross-reference sheet)</a>	Registration Statement No. 333-48935 (filed on March 31, 1998; Exhibit 4.1 therein)
4	4.16	<a href="#">First Supplemental Indenture dated March 15, 1996 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company</a>	Registration Statement No. 333-01745 (filed on March 15, 1996; Exhibit 4.2 therein)
4	4.17	<a href="#">Second Supplemental Indenture dated February 26, 1999 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company, as Trustee</a>	Registration Statement No. 333-100674 (filed on October 22, 2002; Exhibit 4.3 therein)
4	4.18	<a href="#">Fourth Supplemental Indenture dated November 21, 2002 to the 1993 Senior Indenture between The Progressive Corporation and State Street Bank and Trust Company, as Trustee</a>	Registration Statement No. 333-143824 (filed on June 18, 2007; Exhibit 4.5 therein)
4	4.19	<a href="#">Fifth Supplemental Indenture dated June 13, 2007 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, evidencing the designation of U.S. Bank National Association as successor Trustee under the 1993 Senior Indenture.</a>	Registration Statement No. 333-143824 (filed on June 18, 2007; Exhibit 4.6 therein)
4	4.20	<a href="#">Seventh Supplemental Indenture dated April 25, 2014 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee</a>	Current Report on Form 8-K (filed on April 25, 2014; Exhibit 4.1 therein)
4	4.21	<a href="#">Eighth Supplemental Indenture dated January 26, 2015 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee</a>	Current Report on Form 8-K (filed on January 26, 2015; Exhibit 4.1 therein)
4	4.22	<a href="#">Ninth Supplemental Indenture dated August 25, 2016 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee</a>	Current Report on Form 8-K (filed on August 25, 2016; Exhibit 4.1 therein)
4	4.23	<a href="#">Tenth Supplemental Indenture dated April 6, 2017 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee</a>	Current Report on Form 8-K (filed on April 6, 2017; Exhibit 4.1 therein)
4	4.24	<a href="#">Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934</a>	Annual Report on Form 10-K (filed on March 2, 2020; Exhibit 4.23 therein)

# EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
4	4.25	<a href="#">Eleventh Supplemental Indenture dated March 14, 2018 to the 1993 Senior Indenture between The Progressive Corporation and U.S. Bank National Association, as Trustee</a>	Current Report on Form 8-K (filed on March 14, 2018; Exhibit 4.1 therein)
4	4.26	<a href="#">Form of Confirmation Letter-Discretionary Line of Credit from PNC Bank, National Association to The Progressive Corporation</a>	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 4.1 therein)
4	4.27	<a href="#">Amendment to Discretionary Line Documents - Discretionary Line of Credit from PNC Bank, National Association, to The Progressive Corporation (2020 Amendment)</a>	Quarterly Report on Form 10-Q (filed on August 4, 2020; Exhibit 5.1 therein)
4	4.28	<a href="#">Amendment to Discretionary Line Documents - Discretionary Line of Credit from PNC Bank, National Association, to The Progressive Corporation (2021 Amendment)</a>	Quarterly Report on Form 10-Q (filed on August 3, 2021; Exhibit 4.1 therein)
4	4.29	<a href="#">Form of Discretionary Line of Credit Note from The Progressive Corporation to PNC Bank, National Association</a>	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 4.2 therein)
10(iii)	10.1	<a href="#">The Progressive Corporation 2022 Gainshare Plan</a>	Filed herewith
10(iii)	10.2	<a href="#">The Progressive Corporation 2015 Equity Incentive Plan</a>	Current Report on Form 8-K (filed on February 4, 2015; Exhibit 10.1 therein)
10(iii)	10.3	<a href="#">Form of Restricted Stock Unit Award Agreement for 2020 Time-Based Awards (Executive Officers) under the Progressive Corporation 2015 Equity Incentive Plan (for 2020)</a>	Current Report on Form 8-K (filed on March 26, 2020; Exhibit 10.1 therein)
10(iii)	10.4	<a href="#">Form of Restricted Stock Unit Award Agreement for 2021 Time-Based Awards under the Progressive Corporation 2015 Equity Incentive Plan (for 2021)</a>	Current Report on Form 8-K (filed on March 25, 2021; Exhibit 10.1 therein)
10(iii)	10.5	<a href="#">Form of Restricted Stock Unit Award Agreement for 2020 Time-Based Awards under the Progressive Corporation 2015 Equity Incentive Plan (for 2020)</a>	Current Report on Form 8-K (filed on March 26, 2020; Exhibit 10.2 therein)
10(iii)	10.6	<a href="#">Form of Restricted Stock Unit Award Agreement for Time-Based Awards under The Progressive Corporation 2015 Equity Incentive Plan (for 2019)</a>	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 10.1 therein)
10(iii)	10.7	<a href="#">Form of Restricted Stock Unit Award Agreement for 2018 Time-Based Awards under The Progressive Corporation 2015 Equity Incentive Plan</a>	Current Report on Form 8-K (filed on March 21, 2018; Exhibit 10.1 therein)
10(iii)	10.8	<a href="#">Form of Restricted Stock Unit Award Agreement (2018 Special Time-Based Award) under The Progressive Corporation 2015 Equity Incentive Plan</a>	Current Report on Form 8-K (filed on August 23, 2018; Exhibit 10 therein)
10(iii)	10.9	<a href="#">Form of Restricted Stock Unit Award Agreement for 2021 Performance-Based Awards (Performance Versus Market) under The Progressive Corporation 2015 Equity Incentive Plan (for 2021)</a>	Current Report on Form 8-K (filed on March 25, 2021; Exhibit 10.2 therein)

# EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.10	<a href="#">Form of Restricted Stock Unit Award Agreement for 2020 Performance-Based Awards (Performance Versus Market) under The Progressive Corporation 2015 Equity Incentive Plan (for 2020)</a>	Current Report on Form 8-K (filed on March 26, 2020; Exhibit 10.3 therein)
10(iii)	10.11	<a href="#">Form of Restricted Stock Unit Award Agreement for Performance-Based Awards (Performance versus Market) under The Progressive Corporation 2015 Equity Incentive Plan (for 2019)</a>	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 10.3 therein)
10(iii)	10.12	<a href="#">Form of Restricted Stock Unit Award Agreement for 2021 Performance-Based Awards (Investment Results) under The Progressive Corporation 2015 Equity Incentive Plan (for 2021)</a>	Current Report on Form 8-K (filed on March 25, 2021; Exhibit 10.3 therein)
10(iii)	10.13	<a href="#">Form of Restricted Stock Unit Award Agreement for 2020 Performance-Based Awards (Investment Results) under The Progressive Corporation 2015 Equity Incentive Plan (for 2020)</a>	Current Report on Form 8-K (filed on March 26, 2020; Exhibit 10.4 therein)
10(iii)	10.14	<a href="#">Form of Restricted Stock Unit Award Agreement for 2020 Special Time/Performance-Based Award under The Progressive Corporation 2015 Equity Incentive Plan (for 2020)</a>	Annual Report on Form 10-K (filed on March 1, 2021; Exhibit 10.14 therein)
10(iii)	10.15	<a href="#">The Progressive Corporation 2017 Directors Equity Incentive Plan</a>	Current Report on Form 8-K (filed on February 21, 2017; Exhibit 10.1 therein)
10(iii)	10.16	<a href="#">Form of Restricted Stock Award Agreement under The Progressive Corporation 2017 Directors Equity Incentive Plan (for 2021)</a>	Quarterly Report on Form 10-Q (filed on August 3, 2021; Exhibit 10.1 therein)
10(iii)	10.17	<a href="#">The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)</a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.3 therein)
10(iii)	10.18	<a href="#">First Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)</a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.4 therein)
10(iii)	10.19	<a href="#">Second Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)</a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.5 therein)
10(iii)	10.20	<a href="#">Third Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)</a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.6 therein)
10(iii)	10.21	<a href="#">Fourth Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2003 Amendment and Restatement)</a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.7 therein)
10(iii)	10.22	<a href="#">The Progressive Corporation Executive Deferred Compensation Plan (2008 Amendment and Restatement)</a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.8 therein)
10(iii)	10.23	<a href="#">First Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2008 Amendment and Restatement)</a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.9 therein)



# EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.24	<a href="#"><u>The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)</u></a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.10 therein)
10(iii)	10.25	<a href="#"><u>First Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)</u></a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.11 therein)
10(iii)	10.26	<a href="#"><u>Second Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)</u></a>	Current Report on Form 8-K (filed on October 14, 2014; Exhibit 10 therein)
10(iii)	10.27	<a href="#"><u>Third Amendment to the Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)</u></a>	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.53 therein)
10(iii)	10.28	<a href="#"><u>Fourth Amendment to The Progressive Corporation Executive Deferred Compensation Plan (2010 Amendment and Restatement)</u></a>	Quarterly Report on Form 10-Q (filed on November 2, 2017; Exhibit 10 therein)
10(iii)	10.29	<a href="#"><u>The Progressive Corporation Executive Deferred Compensation Plan (2018 Amendment and Restatement)</u></a>	Quarterly Report on Form 10-Q (filed on July 31, 2018; Exhibit 10 therein)
10(iii)	10.30	<a href="#"><u>The Progressive Corporation Executive Deferred Compensation Trust (November 8, 2002 Amendment and Restatement)</u></a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.23 therein)
10(iii)	10.31	<a href="#"><u>First Amendment to Trust Agreement between Fidelity Management Trust Company and Progressive</u></a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.24 therein)
10(iii)	10.32	<a href="#"><u>Second Amendment to The Progressive Corporation Executive Deferred Compensation Trust</u></a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.25 therein)
10(iii)	10.33	<a href="#"><u>Third Amendment to The Progressive Corporation Executive Deferred Compensation Trust</u></a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.26 therein)
10(iii)	10.34	<a href="#"><u>Fourth Amendment to The Progressive Corporation Executive Deferred Compensation Trust</u></a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.27 therein)
10(iii)	10.35	<a href="#"><u>Fifth Amendment to The Progressive Corporation Executive Deferred Compensation Trust</u></a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.28 therein)
10(iii)	10.36	<a href="#"><u>Sixth Amendment to The Progressive Corporation Executive Deferred Compensation Trust</u></a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.29 therein)
10(iii)	10.37	<a href="#"><u>Seventh Amendment to The Progressive Corporation Executive Deferred Compensation Trust</u></a>	Registration Statement No. 333-185704 (filed on December 27, 2012; Exhibit 4.30 therein)
10(iii)	10.38	<a href="#"><u>Eighth Amendment to The Progressive Corporation Executive Deferred Compensation Trust (2002 Amendment and Restatement)</u></a>	Annual Report on Form 10-K (filed on February 27, 2019; Exhibit 10.49 therein)
10(iii)	10.39	<a href="#"><u>Ninth Amendment to The Progressive Corporation Executive Deferred Compensation Trust</u></a>	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 10.5 therein)
10(iii)	10.40	<a href="#"><u>Tenth Amendment to The Progressive Corporation Executive Deferred Compensation Trust</u></a>	Quarterly Report on Form 10-Q (filed on May 11, 2015; Exhibit 10.6 therein)

## EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
10(iii)	10.41	<a href="#">The Progressive Corporation Directors Deferral Plan (2008 Amendment and Restatement)</a>	Annual Report on Form 10-K (filed on February 27, 2018; Exhibit 10.91 therein)
10(iii)	10.42	<a href="#">The Progressive Corporation Directors Deferral Plan (2015 Amendment and Restatement)</a>	Annual Report on Form 10-K (filed on February 29, 2016; Exhibit 10.77 therein)
10(iii)	10.43	<a href="#">The Progressive Corporation Directors Restricted Stock Deferral Plan (2008 Amendment and Restatement)</a>	Quarterly Report on Form 10-Q (filed on May 1, 2019; Exhibit 10.4 therein)
10(iii)	10.44	<a href="#">First Amendment to The Progressive Corporation Directors Restricted Stock Deferral Plan (2008 Amendment and Restatement)</a>	Annual Report on Form 10-K (filed on February 27, 2019; Exhibit 10.56 therein)
10(iii)	10.45	<a href="#">Director Compensation Schedule for 2021-2022 Term</a>	Filed herewith
10(iii)	10.46	<a href="#">The Progressive Corporation Executive Separation Allowance Plan (2021 Amendment and Restatement)</a>	Quarterly Report on Form 10-Q (filed on May 4, 2021; Exhibit 10.4 therein)
10(iii)	10.47	<a href="#">First Amendment to The Progressive Corporation Executive Separation Allowance Plan (2021 Amendment and Restatement)</a>	Quarterly Report on Form 10-Q (filed on August 3, 2021; Exhibit 10.3 therein)
10(iii)	10.48	<a href="#">2022 Progressive Capital Management Annual Incentive Plan</a>	Filed herewith
10(iii)	10.49	<a href="#">Chief Marketing Officer Offer Letter</a>	Filed herewith
13	13	<a href="#">The Progressive Corporation 2021 Annual Report to Shareholders</a>	Filed herewith
21	21	<a href="#">Subsidiaries of The Progressive Corporation</a>	Filed herewith
23	23	<a href="#">Consent of Independent Registered Public Accounting Firm</a>	Filed herewith
24	24	<a href="#">Powers of Attorney</a>	Filed herewith
31	31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer, Susan Patricia Griffith</a>	Filed herewith
31	31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer, John P. Sauerland</a>	Filed herewith
32	32.1	<a href="#">Section 1350 Certification of the Principal Executive Officer, Susan Patricia Griffith</a>	Filed herewith
32	32.2	<a href="#">Section 1350 Certification of the Principal Financial Officer, John P. Sauerland</a>	Filed herewith
99	99	<a href="#">Letter to Shareholders from Susan Patricia Griffith, President and Chief Executive Officer</a>	Filed herewith
101	101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	Filed herewith
101	101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101	101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith

# EXHIBIT INDEX

Exhibit No. Under Reg. S-K, Item 601	Form 10-K Exhibit No.	Description of Exhibit	If Incorporated by Reference, Documents with Which Exhibit was Previously Filed with SEC
101	101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101	101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101	101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	104	Cover Page Interactive Data File (the cover page tags are embedded within the Inline XBRL document).	Filed herewith

**THE PROGRESSIVE CORPORATION**  
**2022 GAINSHARE PLAN**

1. **The Plan**. The Progressive Corporation and its wholly-owned and majority-owned subsidiaries and down-stream affiliates (collectively, "Progressive" or the "Company") have adopted The Progressive Corporation 2022 Gainshare Plan (the "Plan") as part of their overall compensation program. The Plan is performance-based, is not a form of commission compensation, and is administered under the direction of the Compensation Committee of the Board of Directors of The Progressive Corporation (the "Committee"). Payment under the Plan, if any, is based on Company performance as defined by the Plan, not individual employee performance. Plan years will coincide with Progressive's fiscal years.

2. **Participants**. Plan participants for each Plan year shall include all officers and regular employees of Progressive, unless determined otherwise by the Committee. Temporary employees are not eligible to participate in the Plan. Throughout this Plan, references to "executive officers" refer to executive officers of The Progressive Corporation within the meaning of any Securities and Exchange Commission ("SEC") or New York Stock Exchange rule applicable to the Company.

3. **Gainshare Formula**. Subject to the terms of the Plan, Annual Gainshare Payments will be determined by application of the following formula:

$$\text{Annual Gainshare Payment} = \text{Paid Eligible Earnings} \times \text{Target Percentage} \times \text{Performance Factor}$$

4. **Paid Eligible Earnings**. Paid Eligible Earnings for any Plan year shall mean and include the following: regular, Paid Time Off pay (including Protected PTO-PSL but excluding the payout of unused Paid Time Off pay at termination), sick pay, holiday pay, funeral pay, overtime pay, military make-up pay, shift differential, and retroactive payments of any of the foregoing items, in each case received by the participant during the Plan year for work or services performed as an officer or employee of Progressive.

For purposes of the Plan, and notwithstanding the foregoing, Paid Eligible Earnings shall exclude all other types of compensation, including, without limitation: any short-term or long-term disability payments made to the participant; the earnings replacement component of any workers' compensation benefit or award; any amounts paid pursuant to a judgment in, or settlement related to, any action, suit or proceeding, whether in law or equity, to any extent arising from or relating to a participant's employment with the Company, or work or services performed for or on behalf of the Company; any amount paid under a separation allowance (or severance) plan; any bonus, Gainshare or other incentive compensation award (whether denominated, or payable, in cash or equity), including, without limitation, payments from any discretionary cash fund; any dividend payments or dividend equivalent amounts; any unused Paid Time Off; and any other payment required by applicable law to be paid to a participant by the Company and intended to replace all or any portion of wages or earnings during a period of unemployment, whether due to illness, disability or otherwise (including, but not limited to, payments made pursuant to any statute, rule or regulation of a governmental authority relating to leave on account of maternity, paternity, parental status or responsibility, or sickness).

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5. **Target Percentages**. Target Percentages vary by position. Target Percentages for Plan participants typically are as follows:

POSITION	TARGET %
Chief Executive Officer and Other Executive Officers	Determined by the Compensation Committee
Other Senior Executives and Executive Level Managers	60 - 150%
Business Leaders	35 - 60%
Directors and Senior Directors	20 - 35%
Protective Non-Graded Positions	8 – 30%
Middle Managers and Senior Managers	15 - 20%
Senior Professionals and Entry Level Managers	8 - 20%
Administrative Support and Entry Level Professionals	0 - 8%

Target Percentages will be established within the above ranges by, and may be changed with the approval of, the Chief Human Resource Officer; provided that the Chief Human Resource Officer may establish appropriate procedures to evaluate the need for, and if appropriate, implement individual exceptions to, the foregoing ranges. Target Percentages may be changed from year to year by the Chief Human Resource Officer. The Chief Human Resource Officer may consult with the Chief Executive Officer on any of the foregoing decisions. Notwithstanding anything herein to the contrary, only the Committee may establish or modify the Target Percentages for the Company's executive officers.

If a participant's Target Percentage changes during a Plan year, the Target Percentages used to calculate such participant's Annual Gainshare Payment hereunder shall be weighted appropriately to reflect such participant's tenure in each such position during the Plan year.

6. **The Performance Factor**.

A. **Core Business Defined**.

The Performance Factor shall be determined by the performance of the Core Business during the Plan year, pursuant to the procedures and calculations described below. The "Core Business" shall be comprised of the following:

- The Agency Auto business unit, consisting of the auto business produced by independent agents or brokers, including Strategic Alliances Agency auto, but excluding all Agency special lines businesses;
  - The Direct Auto business unit, consisting of the personal auto business produced by phone, over the Internet, or via a mobile device, but excluding all Direct special lines businesses;
  - The special lines business unit, which shall consist of special lines businesses generated by agents and brokers or directly by phone, over the Internet, or via a mobile device;
  - The Commercial Lines business unit (as described in the Company's SEC filings); and
  - The Property business unit (as described in the Company's SEC filings).
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Each of the Agency Auto, Direct Auto, special lines, Commercial Lines and Property business units is referred to herein as a “Business Unit” or “Unit.” Notwithstanding the foregoing descriptions, for all purposes under this Plan, the following are excluded from the Core Business results (i) from both growth and profitability: results of the Professional Liability business, the Midland Financial Group, Inc. and other businesses in run-off; results of the CAIP Servicing Group; flood insurance policies, renters insurance policies, umbrella policies and related expenses; business owners’ policies and related expenses; and results from The Protective Insurance Corporation and its subsidiaries, and (ii) from growth: any results of any Commercial Lines product or program pursuant to which the Company insures any transportation network company or other entity engaged in a ride, cartage, or vehicle sharing business, operation, platform, or program or in a business based on matching and/or sharing time, use and/or assets by and among people and/or businesses (collectively, the “TNC Business”). For purposes of this Plan, any business or entity acquired during the Plan year will be excluded to the extent determinable.

B. Matrices.

For purposes of computing a performance score for the Core Business, operating performance results for each Business Unit are evaluated using a performance matrix for the Plan year. Each matrix assigns performance scores to various combinations of profitability and growth outcomes for the applicable Business Unit. Those scores are then weighted and combined to produce a Performance Factor as described in 6.D. below.

For 2022, and for each Plan year thereafter until otherwise determined by the Committee, each Business Unit will be evaluated, and separate Gainshare matrices will be established by the Committee for the following:

- Agency Auto;
- Direct Auto;
- Special lines;
- Commercial Lines (comprised of separate Commercial Auto and TNC Business components); and
- Property.

C. Performance Measures.

*Growth.* The growth measure for the Plan year under all applicable matrices will be based on policies in force (“PIFs”).

For all applicable matrices, growth will be measured by the percentage change in average PIFs for the Plan year compared to the average PIFs of the immediately preceding fiscal year. Average PIFs for the Plan year and for the immediately preceding fiscal year will be determined by adding the fiscal-month-end number of PIFs for each month during such year and dividing the total by twelve.

Assigned risk business will not be included in determining the growth of any Business Unit.

*Profitability.* For all applicable matrices, the measurement of profitability will be the combined ratio (calculated in accordance with U.S. generally accepted accounting principles) (the “GAAP Combined Ratio”) for the Plan year for the applicable Unit.

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Assigned risk business will be included in determining the GAAP Combined Ratio for the applicable Business Unit. The net operating expense of Corporate Products (e.g., self-insurance) shall be apportioned among the appropriate Business Units in accordance with the respective amount(s) of net earned premiums generated by each such Business Unit and will be reflected in the calculation of the GAAP Combined Ratio for such Business Units.

*D. Calculation of Performance Factor.*

*Performance Scores*

Using the actual performance results and the Gainshare matrix for each Business Unit, the GAAP Combined Ratio\* for each such Unit will be matched with the growth levels achieved by such Unit, to determine the performance score for each such Unit. The performance score for each Business Unit, which will be used to calculate the Performance Factor as described further below, can vary from 0 to 2.00.

*\*With respect to the Commercial Line's GAAP Combined Ratio, the Commercial Auto score will be weighted with the TNC Business score.*

*Performance Factor*

The resulting performance scores for each of the Agency Auto, Direct Auto, special lines, Commercial Lines and Property Business Units will then be multiplied by a weighting factor, which shall be a fraction or decimal equivalent, determined by dividing the net earned premiums generated by such Business Unit during the Plan year by the net earned premiums generated by all of the Business Units comprising the Core Business in the aggregate. The sum of these weighted performance scores will be the Performance Factor for the Plan year.

*E. Limitations.*

The final Performance Factor cannot exceed 2.00.

**7. Payment Procedures; Deferral.**

*A. Executive Team.*

In the case of a participant who is the Chief Executive Officer or any other executive officer (other than the Chief Accounting Officer) within the meaning of Rule 16a-1(f) or otherwise for purposes of Section 16 of the Securities Exchange Act of 1934 as of February 16, 2022 (collectively, the "Executive Team"), subject to Paragraphs 9 and 16 below, Annual Gainshare Payments shall be paid after the Committee determines the Performance Factor but in any event prior to March 15th of the year immediately following the Plan year; provided, however, that the Committee may, in its sole discretion, reduce the amount of, or eliminate in full, any Annual Gainshare Payment to a member of the Executive Team at any time before payment, for any or no reason. The Committee may, in its sole discretion, treat individual members of the Executive Team differently for these purposes. Any such determination by the Committee shall be final and binding on each participant whose Annual Gainshare Payment is affected thereby and on such participant's estate and beneficiaries.

*B. Other Participants.*

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In the case of participants who are not members of the Executive Team, subject to Paragraphs 9 and 16 below, no later than December 31 of each Plan year, each participant will receive an initial payment in respect of such participant's Annual Gainshare Payment for that Plan year, if any, equal to 75% of an amount calculated on the basis of Paid Eligible Earnings for the first 24 pay periods of the Plan year, estimated earnings for the remainder of the Plan year, and an estimated performance factor determined using the performance data for each Business Unit through the first 11 months of the Plan year (estimated, if necessary), the applicable Gainshare matrix and the calculations described above. Subject to Paragraphs 9 and 16 below, no later than February 28 of the following year, each participant will receive the amount equal to (x) such participant's Annual Gainshare Payment, if any, for such Plan year, based on such participant's Paid Eligible Earnings and performance data for the entire Plan year, minus (y) the amount of the initial payment received by such participant pursuant to the immediately preceding sentence.

*C. Deferral.*

Any Plan participant who is then eligible to participate in The Progressive Corporation Executive Deferred Compensation Plan ("Deferral Plan") may elect to defer all or a portion of the Annual Gainshare Payment otherwise payable to such participant under this Plan, subject to and in accordance with the terms of the Deferral Plan. If a Plan participant has made such an election under the Deferral Plan, then to the extent of such election, the Annual Gainshare Payment will, instead of being paid to such participant as described in the immediately preceding paragraphs, be credited to such participant's account under the Deferral Plan in accordance with the terms of the Deferral Plan.

8. **Other Plans.** If, for any Plan year, an employee has been selected to participate in both this Plan and another cash incentive plan offered by the Company, then with respect to such employee, the Gainshare formula set forth in Paragraph 3 hereof shall be appropriately adjusted by applying a weighting factor to reflect the proportion of the employee's total annual incentive opportunity that is being provided by this Plan. The Committee shall have full authority to determine the incentive plan or plans in which any employee will participate during any Plan year and, if an employee is selected to participate in more than one plan, the weighting factor that will apply to each such plan.

9. **Qualification Date; Leave of Absence; Withholding.** Unless otherwise determined by the Committee, and except as expressly provided herein, in order to be entitled to receive an Annual Gainshare Payment for any Plan year, the participant must be an active officer or regular employee of the Company on November 30 of the Plan year ("Qualification Date"). An individual (i) who is hired on or after December 1 of any Plan year or (ii) whose employment terminates for any reason prior to the Qualification Date is not entitled to an Annual Gainshare Payment for that Plan year. Annual Gainshare Payments are not earned until paid.

Any participant who is on a leave of absence covered by the Family and Medical Leave Act of 1993, as amended (or equivalent state or local law), the Americans with Disabilities Act of 1991, as amended (or equivalent state or local law), personal leave of absence with the approval of the Company, military leave or short- or long-term disability (provided that, in the case of a long-term disability, the participant is still an employee of the Company) on the Qualification Date with respect to any Plan year will be entitled to receive an Annual Gainshare Payment for such Plan year, calculated as provided in Paragraphs 3 through 6 above, based on the amount of Paid Eligible Earnings received by such participant during the Plan year and paid in the manner and at the times as are described in Paragraph 7 above but subject to Paragraph 16 below.

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Progressive shall have the right to deduct from any Annual Gainshare Payment, prior to payment, the amount of any taxes required to be withheld by any federal, state, local or foreign government with respect to such payments.

10. **Non-Transferability**. Annual Gainshare Payments shall be payable only to the participant or, in the event of the participant's death, to the participant's estate. The right to any Annual Gainshare Payment hereunder may not be sold, transferred, assigned or encumbered, voluntarily or involuntarily, other than by will or the laws of descent or distribution. Nothing herein shall prevent any participant's interest hereunder from being subject to involuntary attachment, levy or other legal process.

11. **Administration**. The Plan shall be administered by or under the direction of the Committee. The Committee shall have the authority to adopt, alter, amend, modify, revise and repeal such rules, guidelines, procedures and practices governing the Plan as it shall, from time to time, in its sole discretion, deem advisable.

The Committee shall have full authority to determine the manner in which the Plan will operate, to interpret the provisions of the Plan and to make all determinations hereunder. All such interpretations and determinations shall be final and binding on Progressive, all Plan participants, their estates and beneficiaries and all other parties. No such interpretation or determination shall be relied on as a precedent for any similar action or decision. No member of the Committee shall incur any liability for any action taken or omitted, or any determination made, in good faith with respect to the Plan.

Unless otherwise determined by the Committee, all of the authority of the Committee hereunder (including, without limitation, the authority to administer the Plan, select the persons entitled to participate herein, interpret the provisions thereof, waive any of the requirements specified herein and make determinations hereunder and to select, approve, establish, change or modify the Business Units and the Gainshare formulae, weighting factors, performance targets and Target Percentages) may be exercised by the Chief Executive Officer and/or the Chief Human Resource Officer; provided, however, that only the Committee may take such actions or make such determinations with respect to the Company's executive officers. In the event of a dispute or conflict, the determination of the Committee will govern.

## 12. **Miscellaneous**.

- A. **Recoupment**. Progressive shall have the right to recoup any Annual Gainshare Payment (or an appropriate portion thereof, as hereinafter provided) with respect to any Plan year paid to a participant hereunder who was an executive officer of Progressive at any time during such Plan year, if: (i) the Annual Gainshare Payment was calculated by reference to the achievement during such Plan year of certain financial or operating results (which includes, for purposes hereof, the Performance Factor described in Section 6); (ii) such financial or operating results were incorrect and were subsequently the subject of a restatement by Progressive within three (3) years after the date on which such Annual Gainshare Payment was paid to the participant; and (iii) the Annual Gainshare Payment would not have been paid, in whole or in part, to the participant if the restated financial or operating results had been known at the time the payment was made. Such recoupment right shall be available to Progressive whether or not the participant in question was at fault or responsible in any way in causing such restatement. In such circumstances, Progressive will have the right to recover from each such participant for such Plan year, and each such participant will refund to Progressive promptly upon demand, the amount by which the Annual Gainshare Payment paid to such participant for the Plan year in question exceeded the payment that would have been made if the Annual Gainshare Payment had been calculated by reference to the restated results, without interest; provided, however, that Progressive will not seek to recover such amounts from any
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participant who is not a member of the Executive Team unless the amount due would exceed the lesser of five percent (5%) of the Annual Gainshare Payment previously paid or twenty-thousand dollars (\$20,000). Such recovery, at the Committee's discretion, may be made by lump sum payment, installment payments, credits against future Annual Gainshare Payments or other bonus payments, credits against any other compensation or other appropriate mechanism. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited into the Deferral Plan as a result of an election by the participant.

- B. Further Rights. Notwithstanding the foregoing subsection A., if any participant that was an executive officer at any time during such Plan year engaged in fraud or other misconduct (as determined by the Committee or the Board, in their respective sole discretion) resulting, in whole or in part, in a restatement of the financial or operating results used hereunder to determine the Annual Gainshare Payments for a specific Plan year, Progressive will further have the right to recover from such participant, and the participant will refund to Progressive upon demand, an amount equal to the entire Annual Gainshare Payment paid to such participant for such Plan year plus interest at the rate of eight percent (8%) per annum or, if lower, the highest rate permitted by law, calculated from the date that such bonus was paid to the participant. Progressive shall further have the right to recover from such participant Progressive's costs and expenses incurred in connection with recovering such Annual Gainshare Payment from the participant and enforcing its rights under this subsection B., including, without limitation, reasonable attorneys' fees. There shall be no time limit on the Company's right to recover such amounts under this subsection B., except as otherwise provided by applicable law. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited into the Deferral Plan as a result of an election by the participant.
- C. Compliance with Law and Exchange Requirements. The Annual Gainshare Payments determined and paid pursuant to the Plan shall be subject to all applicable laws and regulations. Without limiting the foregoing, and notwithstanding anything to the contrary contained in this Plan, if the SEC adopts final rules under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that require, as a condition to the Company's continued listing on a national securities exchange ("Exchange"), that the Company develop and implement a policy requiring the recovery of erroneously awarded compensation, and such regulations are applicable to a participant awarded Annual Gainshare Payments pursuant to the Plan, then the Annual Gainshare Payment paid to such participant (and any payment made to a participant pursuant to a similar plan or an award under The Progressive Corporation 2017 Executive Annual Incentive Plan) shall be subject to recoupment by the Company pursuant to the terms of the rules of the SEC and any applicable Exchange and any policy of the Company adopted in response to such rules. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited into the Deferral Plan as a result of an election by the participant.
- D. Rights Not Exclusive. The rights contained in the foregoing subsections A. through C. shall be in addition to, and shall not limit, any other rights or remedies that the Company may have under any applicable law or regulation. Nothing contained in subsections A. through C. shall be deemed to limit any additional legal or equitable rights or remedies the Company may have under applicable law with respect to any participant who may have caused or contributed to the Company's need to restate its financial results. If any of the provisions of subsections A. through C., or any part thereof, are held to be unenforceable, the court making such determination shall have the power to revise or
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modify such provision to make it enforceable to the maximum extent permitted by applicable law and, in its revised or modified form, said provision shall then be enforceable.

13. **Termination; Amendment.** The Plan may be suspended, terminated, amended or revised, in whole or in part, at any time and from time to time by the Committee, in its sole discretion.
14. **Unfunded Obligations.** The Plan will be unfunded and all payments due under the Plan shall be made from Progressive's general assets.
15. **No Employment Rights.** Nothing in the Plan, and no action hereunder, shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties, authority or compensation, at any time and without assigning a reason therefor.
16. **Set-Off Rights.** Progressive shall have the unrestricted right to set off against or recover out of any Annual Gainshare Payment or other sums owed to any participant under the Plan any amounts owed by such participant (including pursuant to Section 12) to Progressive.
17. **Misconduct.** No Participant shall have the right to receive any portion of any Annual Gainshare Payment if, prior to such payment being made, Participant's employment is terminated as a result of any action or inaction that, under Progressive's employment practices or policies as then in effect, constitutes grounds for immediate termination of employment, as determined by Progressive (or, in the case of an executive officer, the Committee) in its sole discretion. In addition, no participant who is a member of the Executive Team shall have the right to receive any Annual Gainshare Payment if, prior to such payment being made, participant's employment is terminated by Progressive for Cause, or if there occurs any action or inaction that constitutes grounds for termination for Cause or otherwise constitutes grounds for immediate termination of employment under the Company's employment practices or policies as then in effect, as determined by the Committee in its sole discretion. For purposes of this Section 17, "Cause" shall mean a felony conviction of a participant or the failure of a participant to contest prosecution for a felony; a participant's willful misconduct or dishonesty, any of which, in the judgment of the Committee, is harmful to the business or reputation of Progressive; or any material violation (in the judgment of the Committee (with respect to the Executive Team) or the Chief Executive Officer and/or Chief Human Resources Officer (with respect to other participants)) of any of the provisions of the Company's Code of Business Conduct and Ethics or the Chief Executive Officer/Senior Financial Officer's Code of Ethics (if applicable to the participant), or any confidentiality agreement, non-solicitation agreement, non-competition agreement or other agreement between the participant and Progressive.
18. **Employees Subject to Foreign Jurisdictions.** To the extent the Committee deems it necessary, appropriate or desirable to comply with foreign law or practice or taxation and to further the purposes of the Plan, the Committee may, without amending the Plan, exclude any employee not temporarily or permanently residing in the United States from participating in the Plan or establish rules applicable to Annual Gainshare Payments to participants who are foreign nationals or foreign residents, are employed outside the United States, or both, including rules that differ from those set forth in this Plan.
19. **Section 409A.** Payments under the Plan are intended to be exempt from Section 409A because no legally binding right to any Annual Gainshare Payment arises until the payment date, and, in the alternative, because any payment is a short term deferral under Section 409A; the Plan shall be administered and interpreted accordingly. Notwithstanding any provision of the Plan to the contrary, if the
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Committee determines that any payment under the Plan may constitute deferred compensation subject to Section 409A, the Committee may take any actions necessary to preserve the intended tax treatment of the benefits provided with respect to such payment. Any benefit under the Plan that is subject to Section 409A because deferred pursuant to the terms of the Deferral Plan shall be paid according to the terms of such plan.

20. **Prior Plans.** This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable to participants by, or due from, Progressive with respect to the 2022 and future Plan years (other than “stand-up” bonuses provided to employees of ARX Holding Corp. and its downstream subsidiaries and affiliates (“ARX”) and commissions provided to ARX employees involved in agency operations). Without limiting the generality of the foregoing, this Plan supersedes and replaces The Progressive Corporation 2021 Gainshare Plan (the “Prior Plan”), which is and shall be deemed to have terminated on the last day of the Company’s 2021 fiscal year (the “Prior Plan Termination Date”); provided, however, that (i) any bonuses or other sums earned and payable under the Prior Plan with respect to the 2021 Plan year shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder, and (ii) any provisions regarding recoupment of payments from executive officers and the administrative and interpretive authority of the Committee, the Chief Executive Officer and/or the Chief Human Resource Officer under the Prior Plan shall survive such termination.

21. **Effective Date.** This Plan is adopted, and is to be effective, as of the first day of Progressive’s 2022 fiscal year. This Plan shall be effective for the 2022 Plan year and for each Plan year thereafter unless and until terminated by the Committee.

22. **Governing Law.** This Plan shall be governed by, and interpreted and construed in accordance with, the laws of the State of Ohio applicable to contracts made and performed wholly within such state by residents thereof.

### Board of Directors' Compensation

Board of Directors for the 2021-2022 term:

<b>Board/Committee Fees</b>	
Independent Board Chair	\$470,000
Non-Employee Director	285,000
<b>Committee Chair Premium</b>	
Audit Committee Chair	35,000
Compensation Committee Chair	25,000
Investment & Capital Committee Chair	25,000
Nominating & Governance Committee Chair	20,000
Technology Committee Chair	25,000
<b>First Committee Assignment Premium</b>	
Audit Committee Member	10,000
<b>Second Committee Assignment Premium<sup>1</sup></b>	
Committee Member	15,000

<sup>1</sup>The premium is not provided to members of the Executive Committee.

**2022 PROGRESSIVE CAPITAL  
MANAGEMENT ANNUAL INCENTIVE PLAN**

1. **The Plan.** The Progressive Corporation and its subsidiaries (collectively "Progressive" or the "Company") have adopted the 2022 Progressive Capital Management Annual Incentive Plan (the "Plan") as part of their compensation program for the Company's investment professionals for the Company's 2022 fiscal year (the "Plan year"). The Plan is performance-based, is not a form of commission compensation, and is administered under the direction of the Compensation Committee of the Board of Directors of The Progressive Corporation (the "Compensation Committee" or "Committee"). Payment under the Plan, if any, is based on Company performance as defined by the Plan, not individual employee performance. References in this Plan to the Company's portfolio mean the respective portfolios of the Company's subsidiaries and affiliates that are actively managed by Progressive Capital Management Corp. ("PCM") and references in this Plan to the Company's investment results mean the investment results of those portfolios only.

The Company's investment professionals invest the funds of the Company in accordance with investment guidelines approved from time to time by the Investment and Capital Committee of the Board of Directors. Those guidelines address such matters as minimum average credit quality and the duration of the portfolio, as well as limitations on the extent to which the portfolio can be concentrated in individual issuers. Compliance with the guidelines is routinely monitored and variations therefrom must be reported to, and approved by, the Investment and Capital Committee.

2. **Participants.** Progressive employees who are assigned primarily to the Company's capital management function, including the Company's Chief Investment Officer ("CIO"), are eligible to be selected for participation in the Plan. Eligible employees in addition to the CIO will be selected by the CIO in consultation with the Chief Executive Officer ("CEO") or Chief Human Resource Officer ("CHRO") (the "Designated Executives") to participate in the Plan. Participants may also participate in other gainsharing, bonus or incentive compensation plans maintained by Progressive, if so determined by the Designated Executives (or in the case of the CIO or any other executive officer, by the Compensation Committee). Other eligible employees of the Company may be selected for participation in the Plan for or at any time during the Plan year by the Designated Executives. In such cases, the Designated Executives will determine the new participant's Target Percentage (described below) and other terms of participation (except with respect to the CIO or any other executive officer, as to whom all determinations must be made by the Committee). Throughout this Plan, references to "executive officers" refer to executive officers of The Progressive Corporation within the meaning of any Securities and Exchange Commission ("SEC") or New York Stock Exchange rule applicable to the Company.

3. **Annual Incentive Payment Determination.**

- A. **Annual Incentive Payment.** Each participant may earn an annual cash bonus (the "Annual Incentive Payment"), subject to the terms of this Plan. The amount of the Annual Incentive Payment earned by any participant will be determined by application of the following formula:

Annual Incentive = Paid Eligible Earnings x Target Percentage x Performance Factor  
Payment

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- B. *Paid Eligible Earnings*. Paid Eligible Earnings for the Plan year shall mean and include the following: regular, Earned Time Benefit pay (including Protected ETB-PSL but excluding the payout of unused Earned Time Benefit pay at termination), sick pay, holiday pay, funeral pay, military make-up pay, overtime pay, shift differential, and retroactive payments of any of the foregoing items, in each case received by the participant during the Plan year for work or services performed as an officer or employee of Progressive.

For purposes of the Plan, and notwithstanding the foregoing, Paid Eligible Earnings shall exclude all other types of compensation, including, without limitation: any short-term or long-term disability payments made to the participant; the earnings replacement component of any workers' compensation benefit or award; any amounts paid pursuant to a judgment in, or settlement related to, any action, suit or proceeding, whether in law or equity, to any extent arising from or relating to a participant's employment with the Company, or work or services performed for or on behalf of the Company; any amount paid under a separation allowance (or severance) plan; any bonus (including PCM Bonus Plan bonus or PCM Annual Incentive Plan payment), gainsharing or other incentive compensation award (whether denominated, or payable, in cash or equity), including, without limitation, payments from any discretionary cash fund; any dividend payments or dividend equivalent amounts; any unused Earned Time Benefit; and any other payment required by applicable law to be paid to a participant by the Company and intended to replace all or any portion of wages or earnings during a period of unemployment, whether due to illness, disability or otherwise (including, but not limited to, payments made pursuant to any statute, rule or regulation of a governmental authority relating to leave on account of maternity, paternity, parental status or responsibility, or sickness).

- C. *Target Percentage*. The Target Percentages for participants in the Plan shall be determined by or under the direction of the Committee, but will not exceed 125% for any participant. Target Percentages may vary among Plan participants and may be changed from year to year by or under the direction of the Designated Executives (or in the case of the CIO or any other executive officer, by the Compensation Committee).
- D. *Performance Factor*. The Performance Factor will be determined by the Committee after the expiration of the Plan year based on the performance of the Company's fixed-income investment portfolio (the "Fixed-Income Portfolio" or "Portfolio"), and such other factors and information relating to the performance of the Company's investment professionals as the Committee shall determine.

First, an indicated performance factor will be determined based on the fully taxable equivalent total return of the Fixed-Income Portfolio, in comparison to the total returns of the group of comparable investment firms identified by the Independent Data Source (the "Investment Benchmark"), over the one- and three-year periods ending on December 31 of the Plan year, as described below. For purposes of this Agreement, the "Independent Data Source" shall be a third-party independent data source determined by the Committee. After the end of the Plan year, the Independent Data Source will determine the firms that are included in the Investment Benchmark in accordance with the criteria specified on Exhibit I hereto. The Independent Data Source will also provide to the Company the monthly total return data for each of the Investment Benchmark firms for the three-year period ending on December 31 of the Plan year.

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Investment results for the Fixed-Income Portfolio will be marked to market, including 50% of the benefit of any state premium tax abatements for municipal securities held in the Portfolio that are realized by the Company during the Plan year, in order to calculate the Portfolio's fully taxable equivalent total return for the one-year (2022) and three-year period (2020-2022) periods, in each case compounded on a monthly basis. The investment performance achieved by the Fixed-Income Portfolio for the one- and three-year periods (each, a "comparison period") will then be compared against the total returns of the firms included in the Investment Benchmark for the same periods, also compounded on a monthly basis, as determined by the Company from the monthly performance data supplied by the Independent Data Source for each firm in the Investment Benchmark, to determine, for each comparison period, where the Fixed Income Portfolio's performance falls on a percentile basis when compared to the firms in the Investment Benchmark, as further described on Exhibit II ("Performance Ranking").

The Portfolio's Performance Ranking will be used to determine a performance score of between 0 and 2.0 for each comparison period, based on the following schedule:

<b>Comparison Period</b>	<b>Score = 0 Rank at or below</b>	<b>Score = 1.0 Rank equal to</b>	<b>Score = 2.0 Rank at or above</b>
One year	15 <sup>th</sup> Percentile	50 <sup>th</sup> Percentile	85 <sup>th</sup> Percentile
Three year	25 <sup>th</sup> Percentile	50 <sup>th</sup> Percentile	75 <sup>th</sup> Percentile

A Performance Ranking between the values identified in the schedule will be interpolated on a straight-line basis to generate the applicable performance score, as further described on Exhibit II. Once these performance scores are determined, an overall indicated performance factor will be determined by averaging the performance scores for the one- and three-year comparison periods.

The overall indicated performance factor will be reported to the Committee after the expiration of the Plan year, together with such supporting documentation as the Committee may require. The Committee may consider such additional information as it deems necessary or appropriate in its discretion. Such information may include, without limitation:

- the primary investment factors that are responsible for favorable or unfavorable results relative to the peer group, such as the Company's duration and yield curve position and the extent of its exposure to sectors of the fixed-income markets, including corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities, government bonds, preferred stocks and non-investment-grade bonds;
- the Company's holdings within each sector relative to the general market composition of each sector;
- the extent to which material investment decisions may have been driven by Company strategic or capital considerations; and
- the impact on investment results of significant portfolio cash flows driven by Company operations, strategic decisions or capital transactions.

In addition, the Committee may choose to consult with others, including, without limitation, management, the Board's Investment and Capital Committee, other Board members, and outside compensation and investment professionals, in evaluating the



performance of the Company's investment professionals for the year. The Committee will then determine the Performance Factor, which may vary among participants; provided that under no circumstances may the Performance Factor for any participant exceed 2.0 for the year.

- E. In the event that the Independent Data Source (or its successor or assigns) discontinues providing the data that is necessary to make the calculations required by this Plan, or modifies the information in such a way as to render the comparisons required by this Plan to be not meaningful, in the Committee's sole judgment, the determinations required above shall be made using investment return data for comparable firms satisfying the criteria set forth on Exhibit I as may be available from another recognized provider of investment industry data as the Committee may approve in its sole discretion.
- F. Notwithstanding any other provision of this Plan, the Fixed Income Portfolio shall not include any portfolio managed by, or any investment made at the direction of, any business unit or area other than PCM.

4. **Payment Procedures; Deferral.** The Annual Incentive Payments will be determined and paid to Plan participants as soon as practicable after the Performance Factor has been determined by the Committee, but no later than March 15th of the year immediately following the Plan year.

Any Plan participant who is then eligible to participate in The Progressive Corporation Executive Deferred Compensation Plan ("Deferral Plan") may elect to defer all or any portion of his or her Annual Incentive Payment otherwise payable to him/her under this Plan, subject to and in accordance with the terms of the Deferral Plan. If a Plan participant has made such an election under the Deferral Plan, then to the extent of such election, the Annual Incentive Payment will, instead of being paid to such participant as described in the immediately preceding paragraph, be credited to such participant's account under the Deferral Plan in accordance with the terms of the Deferral Plan.

5. **Qualification Date; Leave of Absence; Withholding.** Unless otherwise determined by the Committee, and except as otherwise expressly provided herein, in order to be entitled to receive an Annual Incentive Payment for the Plan year, the participant must be an active officer or regular employee of the Company on November 30 of the Plan year ("Qualification Date"). An individual who (i) is hired on or after December 1 of any Plan year, or (ii) whose employment terminates for any reason prior to the Qualification Date is not entitled to an Annual Incentive Payment for that Plan year. Annual Incentive Payments are not earned until paid.

Any participant who is on a leave of absence covered by the Family and Medical Leave Act of 1993, as amended (or equivalent state or local law), the American with Disabilities Act of 1991, as amended (or equivalent state or local law), personal leave of absence with the approval of the Company, military leave or short- or long-term disability (provided that, in the case of a long-term disability, the participant is still an employee of the Company) on the Qualification Date relating to the Plan year will be entitled to receive an Annual Incentive Payment for the Plan year based on the Paid Eligible Earnings received by the participant during the Plan year.

Progressive shall have the right to deduct from any Annual Incentive Payment, prior to payment, the amount of any taxes required to be withheld by any federal, state, local or foreign government with respect to such payments.

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6. **Other Plans.** Participants may be selected to participate in this Plan and in one or more other incentive plans offered by the Company. In the case of the CIO or any other executive officer, all determinations with respect to such incentive plans and the executive's participation therein shall be made by the Compensation Committee. In all other cases, the Designated Executives shall have full authority to determine the incentive plan or plans in which any employee shall participate during the Plan year and the weighting factor (if any) that will apply to each such plan.
7. **Non-Transferability.** Annual Incentive Payments shall be payable only to the participant or, in the event of the participant's death, to the participant's estate. The right to any Annual Incentive Payment hereunder may not be sold, transferred, assigned or encumbered, voluntarily or involuntarily, other than by will or the laws of descent or distribution. Nothing herein shall prevent any participant's interest hereunder from being subject to involuntary attachment, levy or other legal process.
8. **Administration.** The Plan will be administered by or under the direction of the Committee. The Committee will have the authority to adopt, alter, amend, modify, revise and repeal such rules, guidelines, procedures and practices governing the Plan as it, from time to time, in its sole discretion deem advisable.

The Committee will have full authority to determine the manner in which the Plan will operate, to interpret the provisions of the Plan and to make all determinations hereunder. All such interpretations and determinations shall be final and binding on Progressive, all Plan participants, their estates and beneficiaries and all other parties. No such interpretation or determination shall be relied on as a precedent for any similar action or decision. No member of the Committee shall incur any liability for any action taken or omitted, or any determination made, in good faith with respect to the Plan.

Unless otherwise determined by the Committee, all of the authority of the Committee hereunder (including, without limitation, the authority to administer the Plan, select the persons entitled to participate herein, interpret the provisions hereof, waive any of the requirements specified herein and make determinations hereunder and to select, approve, establish, , change or modify the Investment Benchmarks, Performance Targets and Target Percentages) may be exercised by the Designated Officers. If one or more of the Designated Officers is unavailable or unable to participate, or if such position is vacant, the Chief Financial Officer may act instead of such officer.

Notwithstanding anything in this Plan to the contrary: (a) all determinations made under this Plan with respect to the CIO or any other individual deemed to be an executive officer of the Company must be made only by the Compensation Committee; and (b) only the Committee may make the determination of the Performance Factor required by Section 3.D. above.

9. **Miscellaneous.**

- A. **Recoupment.** Progressive shall have the right to recoup any Annual Incentive Payment (or an appropriate portion thereof, as hereinafter provided) with respect to any Plan year paid to a participant hereunder who was an executive officer of Progressive at any time during such Plan year, if: (i) the Annual Incentive Payment was calculated by reference to the achievement during such Plan year of certain financial or operating results (which includes, for purposes hereof, the performance of the Fixed-Income Portfolio); (ii) such financial or operating
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results were incorrect and were subsequently the subject of a restatement by Progressive within three (3) years after the date on which such Annual Incentive Payment was paid to the participant; and (iii) the Annual Incentive Payment would have been paid, in whole or in part, to the participant if the restated financial or operating results had been known at the time the payment was made. Such recoupment right shall be available to Progressive whether or not the participant in question was at fault or responsible in any way in causing such restatement. In such circumstances, Progressive will have the right to recover from each such participant for such Plan year, and each such participant will refund to Progressive promptly upon demand, the amount by which the Annual Incentive Payment paid to such participant for the Plan year in question exceeded the payment that would have been made if the Annual Incentive Payment had been calculated by reference to the restated results, without interest; provided, however, that Progressive will not seek to recover such amounts from any participant who was not an executive officer at any time during the Plan year unless the amount due would exceed the lesser of five percent (5%) of the Annual Incentive Payment previously paid or twenty-thousand dollars (\$20,000). Such recovery, at the Committee's discretion, may be made by lump sum payment, installment payments, credits against future Annual Incentive Payments, annual gainsharing payments or other bonus payments, credits against any other compensation, or other appropriate mechanism. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited in the Deferral Plan as a result of an election by the participant.

- B. Further Rights. Notwithstanding the foregoing subsection A, if any participant that was an executive officer at any time during such Plan year engaged in fraud or other misconduct (as determined by the Committee or the Board, in their respective sole discretion) resulting, in whole or in part, in a restatement of the financial or operating results used hereunder to determine the Annual Incentive Payments for a specific Plan year, Progressive will further have the right to recover from such participant, and the participant will refund to Progressive upon demand, an amount equal to the entire Annual Incentive Payment paid to such participant for such Plan year plus interest at the rate of eight percent (8%) per annum or, if lower, the highest rate permitted by law, calculated from the date that such bonus was paid to the participant. Progressive shall further have the right to recover from such participant Progressive's costs and expenses incurred in connection with recovering such Annual Incentive Payment from the participant and enforcing its rights under this subsection B., including, without limitation, reasonable attorneys' fees. There shall be no time limit on the Company's right to recover such amounts under this subsection B., except as otherwise provided by applicable law. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited into the Deferral Plan as a result of an election by the participant.
- C. Compliance with Law and Exchange Requirements. The Annual Incentive Payments determined and paid pursuant to the Plan shall be subject to all applicable laws and regulations. Without limiting the foregoing, and notwithstanding anything to the contrary contained in this Plan, if the SEC adopts final rules under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that require, as a condition to the Company's continued listing on a national securities exchange ("Exchange"), that the Company develop and implement a policy requiring the recovery of erroneously awarded compensation, and such regulations are applicable to a participant awarded an Annual Incentive Payment pursuant to the Plan, then the Annual Incentive Payment paid to such
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participant (and any payment made to such participant pursuant to a similar plan) shall be subject to recoupment by the Company pursuant to the terms of the rules of the SEC and any applicable Exchange and any policy of the Company adopted in response to such rules. References in this paragraph to payments and amounts paid shall be deemed to include amounts deposited into the Deferral Plan as a result of an election by the participant.

- D. ***Rights Not Exclusive.*** The rights contained in the foregoing subsections A. through C. shall be in addition to, and shall not limit, any other rights or remedies that the Company may have under any applicable law or regulation. Nothing contained in subsections A. through C. shall be deemed to limit any additional legal or equitable rights or remedies the Company may have under applicable law with respect to any participant who may have caused or contributed to the Company's need to restate its financial results. If any of the provisions of subsections A. through C., or any part thereof, are held to be unenforceable, the court making such determination shall have the power to revise or modify such provision to make it enforceable to the maximum extent permitted by applicable law and, in its revised or modified form, said provision shall then be enforceable.
10. **Termination; Amendments.** The Plan may be suspended, terminated, amended or revised, in whole or in part, at any time and from time to time by the Committee, in its sole discretion.
11. **Unfunded Obligations.** The Plan will be unfunded and all payments due under the Plan will be made from Progressive's general assets.
12. **No Employment Rights.** Nothing in the Plan, and no action hereunder, shall be construed as conferring upon any person the right to remain a participant in the Plan or to remain employed by Progressive, nor shall the Plan limit Progressive's right to discipline or discharge any of its officers or employees or change any of their job titles, duties, authority or compensation, at any time and without assigning a reason therefor.
13. **Set-off Rights.** Progressive shall have the unrestricted right to set off against or recover out of any Annual Incentive Payment or other sums owed to any participant under the Plan any amounts owed by such participant (including pursuant to Section 9) to Progressive.
14. **Misconduct.** No participant shall have the right to receive any Annual Incentive Payment if, prior to such payment being made, participant's employment is terminated as a result of any action or inaction that, under Progressive's employment practices or policies as then in effect, constitutes grounds for immediate termination of employment, as determined by Progressive (or, in the case of an executive officer, the Committee) in its sole discretion. In addition, no participant who is an executive officer shall have the right to receive any Annual Incentive Payment if, prior to such payment being made, participant's employment is terminated by Progressive for Cause, or if there occurs any action or inaction that constitutes grounds for termination for Cause or otherwise constitutes grounds for immediate termination of employment under the Company's employment practices or policies as then in effect, as determined by the Committee in its sole discretion. For purposes of this Section 14, "Cause" shall mean a felony conviction of a participant or the failure of a participant to contest prosecution for a felony; a participant's willful misconduct or dishonesty, any of which, in the judgment of the Committee, is harmful to the business or reputation of Progressive; or any material violation (in the judgment of the Committee) of any of the provisions of the Company's Code of Business Conduct and Ethics or the Chief Executive Officer/Senior Financial Officer's Code of Ethics (if applicable to
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the participant), or any confidentiality agreement, non-solicitation agreement, non-competition agreement or other agreement between the participant and Progressive.

15. **Employees Subject to Foreign Jurisdictions.** To the extent the Committee deems it necessary, appropriate or desirable to comply with foreign law or practice or taxation and to further the purposes of the Plan, the Committee may, without amending the Plan, exclude any employee not temporarily or permanently residing in the United States from participating in the Plan or establish rules applicable to Annual Incentive Payments to participants who are foreign nationals or foreign residents, are employed outside the United States, or both, including rules that differ from those set forth in this Plan.
  16. **Section 409A.** Payments under the Plan are intended to be exempt from Section 409A because no legally binding right to any Annual Incentive Payment arises until the payment date, and, in the alternative, because any payment is a short term deferral under Section 409A; the Plan shall be administered and interpreted accordingly. Notwithstanding any provision of the Plan to the contrary, if the Committee determines that any payment under the Plan may constitute deferred compensation subject to Section 409A, the Committee may take any actions necessary to preserve the intended tax treatment of the benefits provided with respect to such payment. Any benefit under the Plan that is subject to Section 409A because deferred pursuant to the terms of the Deferral Plan shall be paid according to the terms of such plan.
  17. **Prior Plans.** This Plan supersedes all prior plans, agreements, understandings and arrangements regarding bonuses or other cash incentive compensation payable or due to any participant from Progressive with respect to the performance of Progressive's investment portfolio. Without limiting the generality of the foregoing, this Plan supersedes and replaces the 2021 Progressive Capital Management Annual Incentive Plan (the "Prior Plan"), which is and shall be deemed to have terminated on the last day of the Company's 2021 fiscal year (the "Prior Plan Termination Date"); provided, however, that (a) any bonuses or other sums earned and payable under the Prior Plan with respect to any Plan year ended on or prior to the Prior Plan Termination Date shall be unaffected by such termination and shall be paid to the appropriate participants when and as provided thereunder, and (b) any provisions regarding recoupment of payments from executive officers and the administrative and interpretive authority of the Committee and/or the Designated Officers under the Prior Plan shall survive.
  18. **Effective Date.** This Plan is adopted, and is effective, as of the first day of the Company's 2022 fiscal year and will be effective for the 2022 Plan year (which coincides with Progressive's 2022 fiscal year, except that investment returns are calculated on a calendar year basis).
  19. **Governing Law.** This Plan shall be governed by, and interpreted and construed in accordance with, the laws of the State of Ohio applicable to contracts made and performed wholly within such state by residents thereof.
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## **EXHIBIT I**

### **INVESTMENT BENCHMARK CRITERIA**

After the end of the Plan year, the Independent Data Source will determine the firms comprising the Investment Benchmark for the Plan year from its records and will supply to the Company the monthly total returns and any other relevant data for each of those firms for the three-year period ending on December 31 of the Plan year.

A firm will be included in the Investment Benchmark if the Independent Data Source is able to determine from its records that:

1. The firm has provided monthly data regarding its holdings and investment return, as necessary to determine or calculate such firm's monthly total return, and to evaluate such firm's compliance with each of the criteria set forth below, for the entire three-year period ending on December 31 of the Plan year; and
  2. At all times during the three-year period ending on December 31 of the Plan year, the information provided by the firm shows, or the Independent Data Source is able to calculate, that such firm's investment portfolio satisfies each of the following criteria:
    - Duration: Effective Duration between 1.5 years and 5.0 years
    - Credit Quality Average = A, or = AA, or = AAA, or = AAA+
    - Convexity (%)  $\geq -1$
    - Sector Allocation: U.S. High Yield Corporate Debt  $\leq 10\%$
    - Sector Allocation: Mortgages  $\leq 60\%$
    - Sector Allocation: U.S. Investment Grade Corporate Debt  $\leq 60\%$
    - Sector Allocation: CMBS  $\leq 60\%$
    - Sector Allocation: ABS  $\leq 60\%$
    - Sector Allocation: Emerging Markets Debt  $\leq 5\%$
  3. The Company will have no discretion to alter the Investment Benchmark list after it is finalized by the Independent Data Source.
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## **EXHIBIT II**

### **DETERMINATION OF PERFORMANCE RANKING AND PERFORMANCE SCORES**

Once all the total returns are calculated, the data is sorted in descending order from highest to lowest total return. From here, the process to compute the Performance Factor is as follows (this Exhibit shows the procedures and related calculations for the 1-year comparison period required by the Plan; the calculations for the 3-year comparison period would follow the same procedures, except that necessary adjustments would be made to determine the top and bottom 25% levels and the performance score variances between those levels):

#### **INTERPOLATED VALUES FOR SETTING TOP AND BOTTOM 15% LEVELS**

The top 15% and bottom 15% total return rankings are computed based on the total number of firms in the Investment Benchmark, excluding the PCM Fixed-Income Portfolio return. For example, if there were 279 participants, the return required to earn a 2.0 portfolio performance factor would be determined by interpolating between the forty-first and forty-second firm's returns, since  $15\% \text{ of } 279 = 41.85$ . The same procedure would be used to determine the 0.0 portfolio performance factor.

The total returns, computed by Investment Accounting, for the interpolated positions are calculated as follows (continuing to use an example of 279 survey firms):

$$\text{Interpolated Value} = \text{Firm 41 return} - ((\text{Firm 41 Return} - \text{Firm 42 Return}) * 0.85)$$

$$\text{Firm 41} = 18.35\%$$

$$\text{Firm 42} = 18.23\%$$

$$\text{Firm 41.85 (Interpolated Value)} = 18.35\% - ((18.35\% - 18.23\%) * 0.85) = 18.25\%.$$

In this case, the PCM Performance Factor will equal 2.0 if its total return equals the interpolated value for Firm 41.85 of 18.25%. A similar calculation is then used to determine the bottom 15% group and interpolated value for a 0.0 performance score.

Once the two groups are computed, top and bottom 15%, the remainder of the performance scores are calculated as follows:

Performance score variance =  $(2.00) / \text{Number of positions from first participant after the top 15\% ranking to the 1}^{\text{st}}$  participant in the bottom 15% ranking. In the case of 279 participants, the number of positions to divide the 2.00 performance factors by would be 198.

The calculation for the performance score variance from 2.00 – 0.00 would be:

$$2.00 / 198 = .010101 \text{ per position for 279 firms}$$

In the case of a tie in total returns between firms, each firm will have the same performance score, one step under the next higher position. The next lowest position would then be stepped down by a factor based on the number of participants who tie. In the case of a tie between two firms, the step down will be twice the performance score variance to maintain the proper stepping to the 0.00 performance score level.

Example: If firms 42 and 43 each had the same total return in the 279 firm example, then firms 42 and 43 would each have a Performance Factor of 1.989899, which is  $2.00 - .0010101$ . The

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number 44 position in this example would have a performance score of 1.969697, which is the required step down from 42 to 44.

In addition, if the returns are tied between the interpolated value set for the 2.00 performance score and any position below the 2.00 level, those lower positions will also be set to a 2.00 performance score. The step down factor in the performance score will work similarly as noted in the example above. For the last 15% group, all firms with total returns equaling the last interpolated total return value would have the same performance score as the last interpolated value (.0101012), and all others in the last 15% group would have a 0.00 Portfolio Performance Factor.

Once all the performance scores have been created, from 2.00 to 0.00, PCM's return is compared to the rankings to determine its Performance Factor. If the PCM return is not in the top or bottom 15% and does not match the return of any participant, then PCM's Performance Factor is an interpolated value between the firms with the next highest and next lowest returns.

The interpolation computation for the Performance Factor based on PCM's return is as follows:

$$\text{Performance score of firm below PCM return} + (\text{PCM's Return} - \text{Return below PCM}) / (\text{Return above PCM} - \text{Return below PCM}) * (\text{Performance score of firm above PCM} - \text{Performance score of firm below PCM})$$

Assuming the following data, using the 279 firm example:

<b><u>Firm</u></b>	<b><u>Performance score</u></b>	<b><u>Total return</u></b>
Firm above PCM	.90	13.61
PCM		13.39
Firm below PCM	.89	13.34

The calculation of PCM's Performance Factor is:

$$0.89 + (13.39 - 13.34) / (13.61 - 13.34) * (0.90 - 0.89) = 0.89$$

The final performance score is rounded to the nearest one-hundredth, if necessary.





September 14, 2021

Remi,

We're excited to formally confirm the details of your offer of employment as Progressive's Chief Marketing Officer. You will be based in Mayfield Village, Ohio and will report directly to our Chief Executive Officer, Tricia Griffith, as a member of our Executive Team. We anticipate that your start date will be November 1, 2021.

#### **Compensation Overview**

Compensation for our Executive Team is highly dependent on company performance. Gainshare and stock price performance play a significant role. A high percentage of total compensation is in the form of long-term equity awards, reflecting our belief that these awards support strong pay-for-performance linkages and further align the interests of our executives with those of our shareholders. As a member of our Executive Team, the Compensation Committee of our Board of Directors will generally review your total compensation package annually.

Your individualized initial annual compensation package (base salary, Gainshare, and annual equity awards) is described below and is in keeping with this executive compensation philosophy. Assuming a 1.0 Gainshare Factor and the target value for the performance-based RSU award, the total targeted value of this annual compensation package is \$2,000,000. Obviously, the actual value will depend on performance and market conditions.

#### **Base Salary**

Your initial base salary will be \$500,000, paid in 26 bi-weekly installments.

#### **Gainshare (Annual Cash Incentive Compensation)**

You will participate in Gainshare, Progressive's annual bonus plan for all Progressive employees, from our entry-level employees to our CEO. Your Gainshare target will be 100% of your eligible earnings. Gainshare payouts can range from zero to two times your target based on company results. Note that an annual Gainshare payout is earned only if you are employed on November 30 of the Gainshare year. More detail is available in our Gainshare plan, which may be modified from time to time and will govern actual payout in any year.

#### **2021 Equity Awards (Long-Term Compensation)**

Equity ownership is the basis for our long-term executive compensation component. Each year, senior leaders are eligible to receive restricted stock units (RSUs) through our 2015 equity incentive plan, typically in March. You'll be eligible for equity awards, with a combination of time-based and performance-based RSUs. Of course, all awards described below are, and any future awards will be, subject to the Compensation Committee's approval and discretion.

On or shortly after your start date, you will be awarded RSUs valued at \$1,000,000, of which \$500,000 will be a time-based award and \$500,000 will be a performance-based award. We expect these awards will be made on or shortly after your start date. One-third of this time-based award will be scheduled to vest in January of each of 2024, 2025 and

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2026. Your performance-based award will be dependent on the growth of our insurance businesses over a three-year (2021-2023) performance period, a 12-month trailing profitability goal and is subject to forfeiture if company performance goals are not met. The design for both of these awards is described more detail in our proxy statement.

All equity awards are subject to the terms and conditions of our equity compensation plan and the applicable award agreement. Generally, you must remain employed through the applicable vesting date(s) for the awards to vest. Note that the awards include confidentiality and non-competition provisions that are intended to protect against unfair competition. These provisions restrict you, during employment and for one year following termination of employment, from engaging in any competitive business activity that would risk disclosure and/or use of our confidential information.

Our Executive Team members are expected to have a meaningful interest in Progressive stock during their tenure. Accordingly, pursuant to our Corporate Governance Guidelines, within three years of becoming an Executive Team member, and at all times while serving in such a role thereafter, you will be expected to hold interests in Progressive common shares (including unvested RSUs, shares held on your behalf in the Progressive 401(k) plan and equivalent units held in our Executive Deferred Compensation Plan) in a dollar value equal to at least three times your annualized base salary. (You will meet this requirement once the awards described in this letter are granted.)

### **Additional Sign-on Compensation**

Recognizing that you will forego potential benefits available to you in your current role, we offer the following sign-on compensation items:

- To enable you to earn equity compensation more quickly, we will make an additional equity award on your start date. You will be awarded time-based RSUs valued at \$1,500,000. We expect this award will be made on or shortly after your start date and will vest as follows: \$500,000 in January 2022; \$500,000 in January 2023 and \$500,000 in January 2024. In addition to being subject to the same general terms and conditions described above, this equity award also will be subject to a clawback. If, on or after the January 2022 vesting event and prior to the first anniversary of your start date, either (i) you resign from your employment or (ii) Progressive terminates your employment for Cause (as defined in our 2015 equity incentive plan), then you will be required to transfer to Progressive all shares of stock (or, if such stock has been sold or otherwise transferred, the dollar value equivalent as of the applicable vesting date) that vested in connection with the January 2022 vesting event and you will be entitled to no consideration in connection therewith.
- You will receive a sign-on cash bonus in the gross amount of \$300,000 (subject to applicable taxes and/or withholdings) to be paid within 15 calendar days of your start date.

### **Additional Benefits**

We offer a comprehensive package of benefits, including medical, dental, vision, life, disability and other insurance coverage, on the same terms and conditions available to other employees. Within the first 60 days of your employment, you can select benefits for yourself and eligible dependents. Your coverage will become effective on your 31<sup>st</sup> day of employment. We also offer executives the ability to defer annual Gainshare payments and annual RSU awards under our Executive Deferred Compensation Plan. (But none of the initial compensation elements contemplated by this offer letter qualify for this type of deferral.)

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Progressive will provide you with reasonable relocation assistance to Ohio. Our vendor, Aires, will work with you to make your relocation as easy and smooth as possible. Note that relocation benefits are taxable.

We value work-life balance. In addition to seven paid holidays, we provide a Paid Time Off (PTO) program that combines sick, vacation and personal days. You will accrue PTO each pay period and for purposes of PTO only, Progressive will treat you as having 10 years of service, which means you will earn approximately 26 days of PTO annually. Additionally, you will receive a one-time credit of 160 hours of PTO within your first or second pay period.

We make it easy for you to invest in your future, and we do our part to help by matching your Progressive 401(k) plan contributions dollar-for-dollar, up to 6 percent. After you've completed 30 days of service with us, you'll be eligible to participate in this plan on the same terms and conditions available to our other employees.

We recognize the value of income security. To that end, if you are asked to leave Progressive for qualifying reasons, our Executive Separation Allowance Plan ("ESAP") offers a separation benefit that includes, among other things, payment of a lump sum amount of up to 156 weeks (three years) of base pay. As a special consideration, should you become entitled to benefits under the ESAP as a result of a separation occurring before you have completed two years of service with Progressive, we will make a supplemental payment to you in such amount that your lump sum ESAP payment and supplemental payment will sum to the value of 156 weeks of base pay. (For example, if you are asked to leave Progressive before the first anniversary of your start date and you become entitled to the applicable 52 weeks of base pay benefits under the ESAP associated with that tenure, we will make a supplemental payment to you equal to 104 weeks of base pay.)

Finally, while we hope this is the start of your long and successful career with Progressive, we also realize that not every workplace ends up being a perfect fit for every person. To that end, please know that your employment with Progressive is "at-will," which means that you (or Progressive) can end your employment here at any time and for any reason, with or without advance notice. In addition, while we've tried to highlight some important details about your employment here, this letter isn't an employment contract and doesn't replace any other agreements between you and Progressive, including any compensation and benefits plans.

#### **Other Things to Know**

We are proud of our culture, our people, and our products and services. We can't wait for you to learn more about them. To that end, you'll have a comprehensive new hire orientation and you'll complete our required manager training. You'll learn more about our work environment, company objectives, policies and procedures, and our Code of Business Conduct and Ethics, which guides our behavior at work and secures adherence to our high ethical standards. Further details will be shared about our "Core Values" which serve as the foundation for our Code.

Under the Immigration Reform and Control Act, all new employees of Progressive are required to complete a Federal I-9 Form and provide proof of identity and eligibility to work legally in the United States. Please watch for an email from HIREtech, our I-9 form vendor, with further instructions. It's best to use a computer running Google Chrome rather than a mobile device to complete this process.

For additional information about any of our compensation and benefit plans and programs and eligibility requirements, please feel free to speak with our Chief Human Resources Officer, Lori Niederst. You can read our most recent proxy statement, which we can provide

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for you. We'd also be happy to provide any compensation and benefits plan documents that you might want to review.

Of course, please know that the target annual compensation package and other benefits discussed in this letter are based on and subject to our compensation plans and policies as of today, which are summarized in a general way here. Those plans and policies, and how they affect you, may change over time as market conditions change or the Compensation Committee's thinking about executive compensation evolves. This is consistent with our treatment of the other members of our Executive Team, none of whom has a separate employment agreement with us at this time.

We're looking forward to sharing more of what makes us proud of our company from the innovation and culture to the continuous growth. We're available to answer any questions you have.

Congratulations,

/s/ Tricia Griffith  
Tricia Griffith  
CEO

**THE PROGRESSIVE CORPORATION**  
**2021 ANNUAL REPORT TO SHAREHOLDERS**

App.-A-1

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The Progressive Corporation and Subsidiaries  
**Consolidated Statements of Comprehensive Income**

For the years ended December 31,

(millions - except per share amounts)

	2021	2020	2019
<b>Revenues</b>			
Net premiums earned	\$ 44,368.7	\$ 39,261.6	\$ 36,192.4
Investment income	860.9	936.6	1,042.0
Net realized gains (losses) on securities:			
Net realized gains (losses) on security sales	614.3	914.7	334.6
Net holding period gains (losses) on securities	899.9	715.3	757.9
Net impairment losses recognized in earnings	(5.0)	0	(63.3)
Total net realized gains (losses) on securities	1,509.2	1,630.0	1,029.2
Fees and other revenues	691.8	603.5	563.7
Service revenues	271.4	226.4	195.0
Total revenues	47,702.0	42,658.1	39,022.3
<b>Expenses</b>			
Losses and loss adjustment expenses	33,627.6	25,121.8	25,470.5
Policy acquisition costs	3,712.8	3,273.2	3,023.2
Other underwriting expenses	5,654.7	5,570.0	4,975.1
Policyholder credit expense	0	1,077.4	0
Investment expenses	25.5	20.0	24.6
Service expenses	252.8	205.5	178.9
Interest expense	218.6	217.0	189.7
Total expenses	43,492.0	35,484.9	33,862.0
<b>Net Income</b>			
Income before income taxes	4,210.0	7,173.2	5,160.3
Provision for income taxes	859.1	1,468.6	1,180.3
Net income	3,350.9	5,704.6	3,980.0
Net income attributable to noncontrolling interest (NCI)	0	0	(9.7)
Net income attributable to Progressive	3,350.9	5,704.6	3,970.3
<b>Other Comprehensive Income (Loss)</b>			
Changes in:			
Total net unrealized gains (losses) on fixed-maturity securities	(891.1)	586.5	466.4
Net unrealized losses on forecasted transactions	0.7	0.8	0.8
Foreign currency translation adjustment	(0.6)	0	0
Other comprehensive income (loss)	(891.0)	587.3	467.2
Other comprehensive (income) loss attributable to NCI	0	0	(4.6)
Comprehensive income attributable to Progressive	\$ 2,459.9	\$ 6,291.9	\$ 4,432.9
<b>Computation of Earnings Per Common Share</b>			
Net income attributable to Progressive	\$ 3,350.9	\$ 5,704.6	\$ 3,970.3
Less: Preferred share dividends	26.9	26.9	26.9
Net income available to common shareholders	\$ 3,324.0	\$ 5,677.7	\$ 3,943.4
Average common shares outstanding - Basic	584.5	584.9	583.8
Net effect of dilutive stock-based compensation	2.6	2.7	3.4
Total average equivalent common shares - Diluted	587.1	587.6	587.2
Basic: Earnings per common share	\$ 5.69	\$ 9.71	\$ 6.75
Diluted: Earnings per common share	\$ 5.66	\$ 9.66	\$ 6.72

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries  
**Consolidated Balance Sheets**

December 31,

(millions - except per share amount)	2021	2020
<b>Assets</b>		
Available-for-sale securities, at fair value:		
Fixed maturities (amortized cost: \$43,794.2 and \$35,589.1)	\$ 43,873.1	\$ 36,810.9
Short-term investments (amortized cost: \$942.6 and \$5,218.5)	942.6	5,218.5
Total available-for-sale securities	44,815.7	42,029.4
Equity securities, at fair value:		
Nonredeemable preferred stocks (cost: \$1,571.8 and \$1,333.7)	1,639.9	1,422.9
Common equities (cost: \$1,264.1 and \$1,212.3)	5,058.5	4,078.0
Total equity securities	6,698.4	5,500.9
Total investments	51,514.1	47,530.3
Cash and cash equivalents	187.1	76.5
Restricted cash and cash equivalents	15.0	0
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	202.1	76.5
Accrued investment income	181.7	176.4
Premiums receivable, net of allowance for credit losses of \$280.4 and \$356.2	9,399.5	8,160.1
Reinsurance recoverables	4,980.5	4,019.4
Prepaid reinsurance premiums	457.6	368.1
Deferred acquisition costs	1,355.6	1,237.2
Property and equipment, net of accumulated depreciation of \$1,407.4 and \$1,291.4	1,137.3	1,106.0
Goodwill	452.7	452.7
Intangible assets, net of accumulated amortization of \$383.8 and \$326.1	117.3	171.4
Other assets	1,333.9	800.2
Total assets	\$ 71,132.3	\$ 64,098.3
<b>Liabilities and Shareholders' Equity</b>		
Unearned premiums	\$ 15,615.8	\$ 13,437.5
Loss and loss adjustment expense reserves	26,164.1	20,265.8
Net federal deferred income taxes	152.9	310.0
Dividends payable on common shares	58.5	2,694.5
Accounts payable, accrued expenses, and other liabilities <sup>1</sup>	6,010.6	4,955.8
Debt <sup>2</sup>	4,898.8	5,396.1
Total liabilities	52,900.7	47,059.7
Serial Preferred Shares (authorized 20.0)		
Serial Preferred Shares, Series B, no par value (cumulative, liquidation preference of \$1,000 per share) (authorized, issued, and outstanding 0.5)	493.9	493.9
Common shares, \$1.00 par value (authorized 900.0; issued 797.6 and 797.5, including treasury shares of 213.2 and 212.3)	584.4	585.2
Paid-in capital	1,772.9	1,672.9
Retained earnings	15,339.7	13,354.9
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on fixed-maturity securities	56.2	947.3
Net unrealized losses on forecasted transactions	(14.9)	(15.6)
Foreign currency translation adjustment	(0.6)	0
Total accumulated other comprehensive income (loss)	40.7	931.7
Total shareholders' equity	18,231.6	17,038.6
Total liabilities and shareholders' equity	\$ 71,132.3	\$ 64,098.3

<sup>1</sup> See Note 1 – Reporting and Accounting Policies for Commitments and Contingencies and Note 12 – Litigation for further discussion.

<sup>2</sup> 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**  
For the years ended December 31,

(millions - except per share amounts)	2021	2020	2019
<b>Serial Preferred Shares, No Par Value</b>			
Balance, beginning of year	\$ 493.9	\$ 493.9	\$ 493.9
Balance, end of year	493.9	493.9	493.9
<b>Common Shares, \$1.00 Par Value</b>			
Balance, beginning of year	585.2	584.6	583.2
Treasury shares purchased	(2.4)	(1.3)	(1.3)
Net restricted equity awards issued/vested	1.6	1.9	2.7
Balance, end of year	584.4	585.2	584.6
<b>Paid-In Capital</b>			
Balance, beginning of year	1,672.9	1,573.4	1,479.0
Amortization of equity-based compensation	100.7	89.4	90.1
Treasury shares purchased	(7.1)	(3.6)	(3.2)
Net restricted equity awards issued/vested	(1.6)	(1.9)	(2.7)
Reinvested dividends on restricted stock units	8.0	18.2	10.6
Adjustment to carrying amount of redeemable noncontrolling interest	0	(2.6)	(0.4)
Balance, end of year	1,772.9	1,672.9	1,573.4
<b>Retained Earnings</b>			
Balance, beginning of year	13,354.9	10,679.6	8,386.6
Net income attributable to Progressive	3,350.9	5,704.6	3,970.3
Treasury shares purchased	(213.5)	(106.7)	(86.8)
Cash dividends declared on common shares (\$1.90, \$4.90, and \$2.65 per share) <sup>1</sup>	(1,109.0)	(2,865.9)	(1,548.4)
Cash dividends declared on Serial Preferred Shares, Series B (\$53.75, \$80.625, and \$53.75 per share) <sup>1</sup>	(26.8)	(40.2)	(26.8)
Reinvested dividends on restricted stock units	(8.0)	(18.2)	(10.6)
Other, net	(8.8)	1.7	(4.7)
Balance, end of year	15,339.7	13,354.9	10,679.6
<b>Accumulated Other Comprehensive Income (Loss) Attributable to Progressive</b>			
Balance, beginning of year	931.7	341.7	(120.9)
Attributable to noncontrolling interest	0	2.7	(4.6)
Other comprehensive income (loss)	(891.0)	587.3	467.2
Balance, end of year	40.7	931.7	341.7
Total shareholders' equity	\$ 18,231.6	\$ 17,038.6	\$ 13,673.2

<sup>1</sup> See Note 14 – Dividends for further discussion.

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**  
For the years ended December 31,

(millions)	2021	2020	2019
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 3,350.9	\$ 5,704.6	\$ 3,980.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	279.7	274.9	239.8
Amortization of intangible assets	57.7	56.9	66.3
Net amortization of fixed-income securities	130.3	100.9	33.3
Amortization of equity-based compensation	100.7	89.4	90.2
Net realized (gains) losses on securities	(1,509.2)	(1,630.0)	(1,029.2)
Net (gains) losses on disposition of property and equipment	(3.6)	12.5	11.0
Changes in:			
Premiums receivable	(1,146.8)	(652.8)	(1,010.2)
Reinsurance recoverables	(508.7)	(640.5)	(682.8)
Prepaid reinsurance premiums	(74.9)	258.4	(316.8)
Deferred acquisition costs	(118.4)	(180.7)	(104.9)
Income taxes	(86.0)	(23.1)	227.2
Unearned premiums	2,111.4	1,048.7	1,702.3
Loss and loss adjustment expense reserves	4,752.8	2,160.4	2,704.6
Accounts payable, accrued expenses, and other liabilities	399.7	328.9	611.6
Other, net	26.1	(2.9)	(260.8)
Net cash provided by operating activities	7,761.7	6,905.6	6,261.6
<b>Cash Flows From Investing Activities</b>			
Purchases:			
Fixed maturities	(33,177.5)	(32,037.5)	(28,765.2)
Equity securities	(838.1)	(951.2)	(379.9)
Sales:			
Fixed maturities	18,965.2	22,727.2	18,412.7
Equity securities	780.6	431.8	471.4
Maturities, paydowns, calls, and other:			
Fixed maturities	7,013.8	7,109.4	6,145.5
Equity securities	223.1	113.8	49.9
Net (purchases) sales of short-term investments	4,355.7	(3,393.2)	31.5
Net unsettled security transactions	47.9	83.6	6.0
Acquisition of Protective Insurance Corporation, net of cash, cash equivalents, and restricted cash acquired <sup>1</sup>	(313.2)	0	0
Purchases of property and equipment	(243.5)	(223.5)	(363.5)
Sales of property and equipment	66.2	21.9	53.3
Net cash used in investing activities	(3,119.8)	(6,117.7)	(4,338.3)
<b>Cash Flows From Financing Activities</b>			
Dividends paid to common shareholders	(3,746.5)	(1,551.0)	(1,643.2)
Dividends paid to preferred shareholders	(26.8)	(26.8)	(26.8)
Acquisition of treasury shares for restricted stock tax liabilities	(67.2)	(68.7)	(84.4)
Acquisition of treasury shares acquired in open market	(155.8)	(42.9)	(6.9)
Payment of acquired company debt <sup>1</sup>	(20.0)	0	0
Payments of debt	(500.0)	0	0
Acquisition of additional shares of ARX Holding Corp.	0	(243.0)	(11.2)
Net proceeds from debt issuance	0	986.3	0
Proceeds from exercise of equity options	0	7.3	1.6
Net cash used in financing activities	(4,516.3)	(938.8)	(1,770.9)
Increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	125.6	(150.9)	152.4
Cash, cash equivalents, restricted cash, and restricted cash equivalents - beginning of year	76.5	227.4	75.0
Cash, cash equivalents, restricted cash, and restricted cash equivalents - end of year	\$ 202.1	\$ 76.5	\$ 227.4

<sup>1</sup> See Note 17 – Acquisition for further discussion.

See notes to consolidated financial statements.

## 1. REPORTING AND ACCOUNTING POLICIES

**Nature of Operations** The Progressive insurance organization began business in 1937. The financial results of The Progressive Corporation include its subsidiaries and affiliates (references to “subsidiaries” in these notes include affiliates as well). Our insurance subsidiaries provide personal and commercial auto insurance, personal residential and commercial property insurance, workers’ compensation insurance primarily for the transportation industry, business-related general liability insurance, and other specialty property-casualty insurance and related services. Our Personal Lines segment writes insurance for personal autos and recreational vehicles, which we refer to as our special lines products. Our Commercial Lines segment writes auto-related liability and physical damage insurance, workers’ compensation insurance primarily for the transportation industry, and business-related general liability and property insurance, predominately for small businesses. Our Property segment writes residential property insurance for homeowners, other property owners, and renters. We operate our businesses throughout the United States through both the independent agency and direct channels.

**Basis of Consolidation and Reporting** The accompanying consolidated financial statements include the accounts of The Progressive Corporation, our wholly owned insurance and non-insurance subsidiaries, and affiliates, in which we have a controlling financial interest. All intercompany accounts and transactions are eliminated in consolidation. All revenues are generated from external customers and we do not have a reliance on any major customer.

**Estimates** We are required to make estimates and assumptions when preparing our financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America (GAAP). As estimates develop into fact, results may, and will likely, differ from those estimates.

**Investments** Our fixed-maturity securities and short-term investments are accounted for on an available-for-sale basis. Fixed-maturity securities include debt securities and redeemable preferred stocks, which may have fixed or variable principal payment schedules, may be held for indefinite periods of time, and may be used as a part of our asset/liability strategy or sold in response to changes in interest rates, anticipated prepayments, risk/reward characteristics, liquidity needs, or other economic factors. These securities are carried at fair value with the corresponding unrealized gains (losses), net of deferred income taxes, reported in accumulated other comprehensive income.

Short-term investments may include Eurodollar deposits, commercial paper, repurchase transactions, and other securities expected to mature within one year. From time to time, we may also invest in municipal bonds that have maturity dates that are longer than one year but have either liquidity facilities or mandatory put features within one year.

Equity securities include common stocks, nonredeemable preferred stocks, and other risk investments. Common stocks and nonredeemable preferred stocks are carried at fair value, with the changes in fair value reported as a component of net holding period gains (losses) on securities reported in net income. The other risk investments include securities accounted for under the equity method of accounting. These securities are carried at cost and adjusted for our share of the investee’s earnings or losses, with the changes in carrying value reported in investment income.

Derivative instruments may include futures, options, forward positions, interest rate swap agreements, and credit default swaps and may be used in the portfolio for general investment purposes or to hedge the exposure to variable cash flows of a forecasted transaction (cash flow hedge).

To the extent we have derivatives held for general investment purposes, these derivative instruments would be recognized as either assets or liabilities and measured at fair value, with changes in fair value recognized in net income as a component of net holding period gains (losses) on securities.

Derivatives designated as hedges are required to be evaluated on established criteria to determine the effectiveness of their correlation to, and ability to reduce the designated risk of, specific securities or transactions. Effectiveness is required to be reassessed regularly. For cash flow hedges that are deemed to be effective, the changes in fair value of the hedge would be reported as a component of accumulated other comprehensive income and subsequently amortized into earnings over the life of the hedged transaction. If a hedge is deemed to become ineffective or discontinued, changes in fair value of the derivative instrument would be reported in income for the current period.

For derivatives settled through a clearinghouse, collateral is required to post initial margin and is subject to increases in margin beyond changes in fair value. Exposure to credit risk is limited to the carrying value; collateral may be required to limit credit risk. For bi-lateral derivative positions, net cash requirements are limited to changes in fair values, which may vary as a result of changes in interest rates, currency exchange rates, and other factors. We have elected not to offset fair value amounts that arise from derivative positions with the same counterparty under a master netting arrangement.

Investment securities are exposed to various risks such as interest rate, market, credit, and liquidity risk. Fair values of securities fluctuate based on the nature and magnitude of changing market conditions; significant changes in market conditions could materially affect the portfolio's value in the near term. We routinely monitor our fixed-maturity portfolio for pricing changes that might indicate potential credit losses exist and perform detailed reviews of securities with unrealized losses. For an unrealized loss that we determined to be related to current market conditions, we will not record an allowance for credit losses or a write-off of the fair value for securities we do not intend to sell. We will continue to monitor these securities to determine if the unrealized loss is due to credit deterioration. If we believe that a potential credit loss exists, we will record an allowance for the credit loss and recognize the realized loss as a component of realized gains and losses in the income statement. Once a credit loss allowance has been established, we will continue to evaluate the security, at least quarterly, to determine if changes in conditions have created the need to either increase, or decrease, the allowance recorded. If we determine that a security with a credit loss allowance previously recorded, is likely to be sold prior to the potential recovery of the credit loss or if we determine that the loss is uncollectible, we will reverse the allowance and write-off the security to its fair value.

Investment income consists of interest, dividends, and accretion (net of amortization). Interest is recognized on an accrual basis using the effective yield method, except for asset-backed securities, discussed below. Depending on the nature of the equity instruments, dividends are recorded at either the ex-dividend date or on an accrual basis.

Asset-backed securities, which are included in our fixed-maturity portfolio, are generally accounted for under the retrospective method. The retrospective method recalculates yield assumptions (based on changes in interest rates or cash flow expectations) historically to the inception of the investment holding period, and applies the required adjustment, if any, to the cost basis, with the offset recorded to investment income. The prospective method is used primarily for interest-only securities, asset-backed securities below high investment-grade status (i.e., below AA-), and certain asset-backed securities with sub-prime loan exposure or where there is a greater risk of non-

performance and where it is possible the initial investment may not be substantially recovered. The prospective method requires a calculation of expected future repayments and resets the yield to allow for future period adjustments; no current period impact to investment income or the security's cost is made based on the cash flow update. Prepayment assumptions are updated quarterly.

Realized gains (losses) on securities are computed based on the first-in first-out method. Realized gains (losses) also includes holding period valuation changes on equity securities, hybrid instruments (e.g., securities with embedded options, where the option is a feature of the overall change in the value of the instrument), and derivatives, as well as initial credit allowance losses, subsequent changes in credit loss allowances, and write-offs for losses deemed uncollectible or securities in a loss position that are expected to be sold prior to the recovery of the credit loss.

**Insurance Premiums and Receivables** Insurance premiums written are earned into income on a pro rata basis over the period of risk, based on a daily earnings convention. Accordingly, unearned premiums represent the portion of premiums written that are applicable to the unexpired risk. We provide insurance and related services to individuals and commercial accounts and offer a variety of payment plans. Generally, premiums are collected prior to providing risk coverage, minimizing our exposure to credit risk.

For our Personal Lines and Commercial Lines businesses, we perform a policy level evaluation to determine the extent to which the premiums receivable balance exceeds the unearned premiums balance. We then age this exposure to establish an allowance for credit losses based on prior experience.

For our Property business, the risk of uncollectibility is relatively low. If premiums are unpaid by the policy due date, we provide advance notice of cancellation in accordance with each state's requirements and, if the premiums remain unpaid after receipt of notice, we cancel the policy and write off any remaining balance.

To determine an allowance for credit losses, we evaluate the collectibility of premiums receivables based on historical and current collections experience using actuarial analysis. Our estimate of the future recoverability of our projected ultimate at-risk exposures also takes into consideration any unusual circumstances that we may encounter, such as moratoriums or other programs that may suspend collections. The following table summarizes

changes in our allowance for credit loss exposure on our premium receivables:

(millions)	2021	2020
Balance at January 1	\$ 356.2	\$ 283.2
Allowance for credit losses acquired <sup>1</sup>	3.5	0
Increase in allowance <sup>2</sup>	357.2	472.0
Write-offs <sup>3</sup>	(436.5)	(399.0)
Balance at December 31	\$ 280.4	\$ 356.2

<sup>1</sup> Allowance acquired in the Protective Insurance Corporation and subsidiaries acquisition.

<sup>2</sup> Represents the incremental increase in other underwriting expenses.

<sup>3</sup> Represents the portion of allowance that is reversed when premiums receivables are written off.

Premiums receivable balances are written off once we have exhausted our collection efforts. The decrease in the allowance for credit losses during 2021 in part reflects a higher level of collections on outstanding premiums receivable balances. The greater collections are likely due in part to changes in consumer spending habits and government stimulus spending during the year. During 2020, the allowance for credit losses was increased to reflect the greater potential for losses due to anticipated financial hardships of policyholders as a result of the economic impacts related to the spread of the novel coronavirus, COVID-19, and write-offs were lower due to moratoriums in place during the year.

**Deferred Acquisition Costs** Deferred acquisition costs include commissions, premium taxes, and other variable underwriting and direct sales costs incurred in connection with the successful acquisition or renewal of insurance contracts. These acquisition costs, net of ceding allowances, are deferred and amortized over the policy period in which the related premiums are earned. We consider anticipated investment income in determining the recoverability of these costs. Management believes these costs will be fully recoverable in the near term.

We do not defer any advertising costs. Total advertising costs, which are expensed as incurred, for the years ended December 31, were:

(millions)	Advertising Costs
2021	\$ 2,139.5
2020	2,175.7
2019	1,837.3

**Loss and Loss Adjustment Expense Reserves** Loss reserves represent the estimated liability on claims reported to us, plus reserves for losses incurred but not recorded (IBNR). These estimates are reported net of amounts estimated to be recoverable from salvage and subrogation. Loss adjustment expense reserves represent the estimated expenses required to settle these claims. The methods of making estimates and establishing these reserves are reviewed regularly, and resulting adjustments are reflected

in income in the current period. Such loss and loss adjustment expense reserves are susceptible to change.

**Reinsurance** Our reinsurance activity includes transactions which are categorized as Regulated and Non-Regulated. Regulated refers to plans in which we participate that are governed by insurance regulations and include state-provided reinsurance facilities (e.g., Michigan Catastrophic Claims Association (MCCA), North Carolina Reinsurance Facility, Florida Hurricane Catastrophe Fund), as well as state-mandated involuntary plans for commercial vehicles (Commercial Automobile Insurance Procedures/Plans – CAIP) and federally regulated plans for flood (National Flood Insurance Program – NFIP); we act as a servicing agent for CAIP and as a participant in the “Write Your Own” program for the NFIP. Non-Regulated includes voluntary contractual arrangements primarily related to our Property business and to the transportation network company business written by our Commercial Lines segment. Prepaid reinsurance premiums are earned on a pro rata basis over the period of risk, based on a daily earnings convention, which is consistent with premiums earned. See *Note 7 – Reinsurance* for further discussion.

We routinely monitor changes in the credit quality and concentration risks of the reinsurers who are counter parties to our reinsurance recoverables to determine if an allowance for credit losses should be established.

**Income Taxes** The income tax provision is calculated under the balance sheet approach. 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. The principal items giving rise to such differences include:

- investment securities (e.g., net unrealized gains (losses), net holding period gains (losses) on securities, write-downs on securities determined to be other-than-temporarily impaired);
- loss and loss adjustment expense reserves;
- unearned premiums reserves;
- deferred acquisition costs;
- property and equipment;
- intangible assets; and
- non-deductible accruals.

We review our deferred tax assets regularly for recoverability. See *Note 5 – Income Taxes* for further discussion.

**Property and Equipment** Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is recognized over the estimated useful lives of the assets using accelerated methods for computer equipment and the straight-line method for all other fixed assets. We evaluate impairment whenever events or circumstances warrant such a review and write-off the impaired assets if appropriate.

The cost and useful lives for property and equipment at December 31, were:

(\$ in millions)		2021	2020	Useful Lives
Land	\$	154.1	\$ 151.6	NA
Buildings, improvements, and integrated components		904.5	872.7	7-40 years
Capitalized software		441.2	392.6	3-10 years
Software licenses (internal use)		393.6	335.5	1-5 years
Computer equipment		261.3	253.8	3 years
All other property and equipment		390.0	391.2	3-10 years
Total cost		2,544.7	2,397.4	
Accumulated depreciation		(1,407.4)	(1,291.4)	
Balance at end of year	\$	1,137.3	\$ 1,106.0	

NA = Not applicable; land is not a depreciable asset.

Included in other assets in the consolidated balance sheets are “held for sale” property, which represents the fair value of these properties less the estimated costs to sell, of \$10.8 million and \$56.6 million at December 31, 2021 and 2020, respectively, and capitalized cloud computing arrangement implementation costs, net of amortization, of \$47.7 million and \$25.3 million at December 31, 2021 and 2020, respectively.

**Goodwill and Intangible Assets** Goodwill is the excess of the purchase price over the estimated fair value of the assets and liabilities acquired and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized.

Intangible assets are non-financial assets lacking physical substance, such as customer and agency relationships and software rights, and represent the future economic benefit of those acquired assets. See *Note 16 – Goodwill and Intangible Assets* for further discussion.

We evaluate our goodwill for impairment at least annually using a qualitative approach. If events or changes in circumstances indicate that the carrying value of goodwill or intangible assets may not be recoverable, we will evaluate such items for impairment using a quantitative approach.

**Guaranty Fund Assessments** We are subject to state guaranty fund assessments, which provide for the payment of covered claims or other insurance obligations of insurance companies deemed insolvent. These assessments are accrued after a formal determination of insolvency has occurred, and we have written the premiums on which the assessments will be based. Assessments that are available for recoupment from policyholders are capitalized when incurred; all other assessments are expensed.

**Fees and Other Revenues** Fees and other revenues primarily represent fees collected from policyholders relating to installment charges in accordance with our bill plans, as well as late payment and insufficient funds fees and revenue from ceding commissions. Fees and other revenues are generally earned when invoiced, except for excess ceding commissions, which are earned over the policy period.

**Service Revenues and Expenses** Our service businesses provide insurance-related services. Service revenues and expenses from our commission-based businesses are recorded in the period in which they are earned or incurred. Service revenues generated from processing business for involuntary CAIP plans are earned on a pro rata basis over the term of the related policies. Service expenses related to these CAIP plans are expensed as incurred.

**Equity-Based Compensation** We issue time-based and performance-based restricted stock unit awards to key members of management as our form of equity compensation, and time-based restricted stock awards to non-employee directors. Collectively, we refer to these awards as restricted equity awards. Compensation expense for time-based restricted equity awards with installment vesting is recognized over each respective vesting period. For performance-based restricted equity awards, compensation expense is recognized over the estimated vesting periods. Dividend equivalent units, which are based on the amount of common share dividends declared by the Board of Directors, are credited to outstanding restricted stock unit awards, both time-based and performance-based, at the time a dividend is paid to shareholders and are distributed upon or after vesting of the underlying award. We record an estimate for expected forfeitures of restricted equity awards based on our historical forfeiture rates.

The total compensation expense recognized for equity-based compensation for the years ended December 31, was:

(millions)	2021	2020	2019
Pretax expense	\$ 100.7	\$ 89.4	\$ 90.2
Tax benefit <sup>1</sup>	14.1	12.1	12.4

<sup>1</sup> Differs from statutory rate of 21% due to the expected disallowance of certain executive compensation deductions.

**Earnings Per Common 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. Basic earnings per common share is computed using the weighted average number of common shares outstanding during the reporting period, excluding unvested time-based restricted stock awards. Diluted earnings per common share includes common stock equivalents assumed outstanding during the period. Our common stock equivalents include the incremental shares assumed to be issued for:

- earned but unvested time-based restricted equity awards, and
- performance-based restricted equity awards that satisfied certain contingency conditions for unvested common stock equivalents during the period and are highly likely to continue to satisfy the conditions until the date of vesting.

**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, and are not considered part of the investment portfolio. The amount of reverse repurchase commitments held by these subsidiaries at December 31, 2021, 2020, and 2019, were \$137.1 million, \$93.5 million, and \$46.3 million, respectively. At December 31, 2021, the restricted cash and cash equivalents of \$15.0 million primarily included collateral held against unpaid premiums in the form of certificates of deposit. We held no restricted cash at December 31, 2020, and \$1.2 million at December 31, 2019.

For the years ended December 31, non-cash activity included the following:

(millions)		2021		2020		2019
Common share dividends <sup>1</sup>	\$	58.5	\$	2,694.5	\$	1,375.4
Preferred share dividends <sup>1</sup>		13.4		13.4		0
Operating lease liabilities <sup>2</sup>		86.7		60.3		63.1

<sup>1</sup> Declared but unpaid. See *Note 14 - Dividends* for further discussion.

<sup>2</sup> From obtaining right-of-use assets. See *Note 13 - Leases* for further discussion.

For the years ended December 31, we paid the following:

(millions)		2021		2020		2019
Income taxes	\$	842.4	\$	1,446.3	\$	954.3
Interest		224.0		206.0		184.9
Operating lease liabilities		88.6		86.5		84.0

Included in other assets in our consolidated balance sheet at December 31, 2021, is a \$541.5 million receivable from the MCCA, with a corresponding payable to policyholders included in other liabilities, related to a refund from the surplus of the MCCA to its member insurance companies. After funds are received from the MCCA, we are required to pass through the refund to the applicable Michigan policyholders. This transaction will have no effect on our liquidity, financial condition, cash flows, or results of operations.

**Commitments and Contingencies** We have certain noncancelable purchase obligations for goods and services with minimum commitments of \$1,017.8 million at December 31, 2021, primarily consisting of software licenses, maintenance on information technology equipment, and media placements. Aggregate payments on these obligations for the years ended December 31, were as follows:

(millions)		Payments
2022	\$	826.0
2023		163.3
2024		24.0
2025		3.9
2026		0.5
Thereafter		0.1
Total	\$	1,017.8

In addition, we have several multiple-layer property catastrophe reinsurance contracts with various reinsurers with terms ranging from one to three years; the minimum commitment under these agreements at December 31, 2021, was \$132.1 million.

**New Accounting Standards** We did not adopt any new accounting standards during the year ended December 31, 2021. We assessed the adoption impacts of recently issued accounting standards by the Financial Accounting Standards Board on our consolidated financial statements as well as material updates to previous assessments, if any. There were no new material accounting standards issued in the year ended December 31, 2021, that are expected to impact The Progressive Corporation or its subsidiaries.

## 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, net of deferred income taxes, in our consolidated balance

sheets. The net holding period gains (losses) reported below represent the inception-to-date changes in fair value of the securities. The changes in the net holding period gains (losses) between periods for the hybrid securities and equity securities are recorded as a component of net realized gains (losses) on securities in our consolidated statements of comprehensive income.

(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
<b>December 31, 2021</b>						
Available-for-sale securities:						
Fixed maturities:						
U.S. government obligations	\$ 18,586.1	\$ 92.9	\$ (190.8)	\$ 0	\$ 18,488.2	35.9 %
State and local government obligations	2,162.6	36.7	(14.0)	0	2,185.3	4.2
Foreign government obligations	17.9	0	0	0	17.9	0.1
Corporate debt securities	10,526.2	202.6	(33.4)	(3.3)	10,692.1	20.7
Residential mortgage-backed securities	787.7	2.3	(0.6)	0.6	790.0	1.5
Commercial mortgage-backed securities	6,561.0	38.9	(64.3)	0	6,535.6	12.7
Other asset-backed securities	4,981.8	13.3	(12.4)	(0.4)	4,982.3	9.7
Redeemable preferred stocks	170.9	0.7	(0.5)	10.6	181.7	0.4
Total fixed maturities	43,794.2	387.4	(316.0)	7.5	43,873.1	85.2
Short-term investments	942.6	0	0	0	942.6	1.8
Total available-for-sale securities	44,736.8	387.4	(316.0)	7.5	44,815.7	87.0
Equity securities:						
Nonredeemable preferred stocks	1,571.8	0	0	68.1	1,639.9	3.2
Common equities	1,264.1	0	0	3,794.4	5,058.5	9.8
Total equity securities	2,835.9	0	0	3,862.5	6,698.4	13.0
Total portfolio <sup>1</sup>	\$ 47,572.7	\$ 387.4	\$ (316.0)	\$ 3,870.0	\$ 51,514.1	100.0 %

(\$ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Holding Period Gains (Losses)	Fair Value	% of Total Fair Value
<b>December 31, 2020</b>						
Available-for-sale securities:						
Fixed maturities:						
U.S. government obligations	\$ 12,437.9	\$ 305.8	\$ (3.7)	\$ 0	\$ 12,740.0	26.8 %
State and local government obligations	3,099.4	123.1	(0.7)	0	3,221.8	6.8
Corporate debt securities	9,579.7	601.7	(0.1)	3.9	10,185.2	21.4
Residential mortgage-backed securities	503.3	7.1	(0.9)	0	509.5	1.1
Commercial mortgage-backed securities	6,042.6	142.5	(10.0)	0	6,175.1	13.0
Other asset-backed securities	3,745.0	40.1	(0.5)	0	3,784.6	7.9
Redeemable preferred stocks	181.2	3.6	(1.4)	11.3	194.7	0.4
Total fixed maturities	35,589.1	1,223.9	(17.3)	15.2	36,810.9	77.4
Short-term investments <sup>2</sup>	5,218.5	0	0	0	5,218.5	11.0
Total available-for-sale securities	40,807.6	1,223.9	(17.3)	15.2	42,029.4	88.4
Equity securities <sup>3</sup> :						
Nonredeemable preferred stocks	1,333.7	0	0	89.2	1,422.9	3.0
Common equities	1,212.3	0	0	2,865.7	4,078.0	8.6
Total equity securities	2,546.0	0	0	2,954.9	5,500.9	11.6
Total portfolio <sup>1</sup>	\$ 43,353.6	\$ 1,223.9	\$ (17.3)	\$ 2,970.1	\$ 47,530.3	100.0 %

<sup>1</sup> Includes \$143.4 million and \$95.5 million of net unsettled security purchase transactions at December 31, 2021 and 2020, respectively, with the offsetting payable included in other liabilities. The total fair value of the portfolio at December 31, 2021 and 2020 included \$4.2 billion and \$6.2 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

<sup>2</sup> A portion of these investments were used to fund our common share dividends in January 2021. See *Note 14 – Dividends* for further information.

<sup>3</sup> Includes a \$25.0 million reclassification from nonredeemable preferred stock to common equities to reflect the prior year conversion of a security and to conform to the current year classification.

At December 31, 2021, bonds and certificates of deposit in the principal amount of \$469.0 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 December 31, 2021 or 2020. At December 31, 2021, 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 invested in repurchase and reverse repurchase transactions during 2021 and 2020, but did not have any open positions at December 31, 2021 or 2020. To the extent we enter into repurchase or reverse repurchase transactions, consistent with past practice, we would elect not to offset these transactions and would report them on a gross basis on our consolidated balance sheets, despite the option to elect to offset these transactions as long as they were with the same counterparty and subject to an enforceable master netting arrangement.

**Hybrid Securities** Certain securities in our fixed maturities 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 at December 31:

(millions)	2021	2020
Fixed Maturities:		
Corporate debt securities	\$ 479.1	\$ 188.4
Residential mortgage-backed securities	536.2	0
Other asset-backed securities	89.2	34.8
Redeemable preferred stocks	130.8	131.4
Total hybrid securities	\$ 1,235.3	\$ 354.6

Since the embedded derivatives (e.g., change-in-control put option, debt-to-equity conversion, or any other feature unrelated to the credit quality or risk of default of the issuer that could impact the amount or timing of our expected future cash flows) do not have observable intrinsic values, we have elected to record the changes in fair value of these securities through income as a component of net realized gains or losses.



**Fixed Maturities** The composition of fixed maturities by maturity at December 31, 2021, was:

(millions)	Cost	Fair Value
Less than one year	\$ 5,496.5	\$ 5,514.8
One to five years	27,049.9	27,137.6
Five to ten years	11,182.0	11,155.1
Ten years or greater	65.8	65.6
Total	\$ 43,794.2	\$ 43,873.1

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:

(\$ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months			12 Months or Greater		
				No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
December 31, 2021									
U.S. government obligations	92	\$ 14,745.8	\$ (190.8)	85	\$ 13,790.8	\$ (158.5)	7	\$ 955.0	\$ (32.3)
State and local government obligations	127	954.2	(14.0)	122	927.3	(13.1)	5	26.9	(0.9)
Corporate debt securities	220	3,496.6	(33.4)	219	3,491.7	(33.3)	1	4.9	(0.1)
Residential mortgage-backed securities	20	138.6	(0.6)	14	135.4	(0.5)	6	3.2	(0.1)
Commercial mortgage-backed securities	168	4,315.4	(64.3)	165	4,295.0	(63.9)	3	20.4	(0.4)
Other asset-backed securities	178	3,204.7	(12.4)	176	3,200.6	(12.3)	2	4.1	(0.1)
Redeemable preferred stocks	1	12.0	(0.5)	0	0	0	1	12.0	(0.5)
Total fixed maturities	806	\$ 26,867.3	\$ (316.0)	781	\$ 25,840.8	\$ (281.6)	25	\$ 1,026.5	\$ (34.4)

(\$ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months			12 Months or Greater		
				No. of Sec.	Fair Value	Unrealized Losses	No. of Sec.	Fair Value	Unrealized Losses
December 31, 2020									
U.S. government obligations	9	\$ 1,511.0	\$ (3.7)	9	\$ 1,511.0	\$ (3.7)	0	\$ 0	0
State and local government obligations	30	208.7	(0.7)	30	208.7	(0.7)	0	0	0
Corporate debt securities	7	129.4	(0.1)	7	129.4	(0.1)	0	0	0
Residential mortgage-backed securities	21	44.4	(0.9)	0	0	0	21	44.4	(0.9)
Commercial mortgage-backed securities	43	893.3	(10.0)	9	93.6	(0.3)	34	799.7	(9.7)
Other asset-backed securities	22	183.7	(0.5)	9	74.4	(0.1)	13	109.3	(0.4)
Redeemable preferred stocks	1	11.0	(1.4)	0	0	0	1	11.0	(1.4)
Total fixed maturities	133	\$ 2,981.5	\$ (17.3)	64	\$ 2,017.1	\$ (4.9)	69	\$ 964.4	\$ (12.4)

The increase in the number of securities in an unrealized loss position since December 31, 2020, was primarily the result of an increase in interest rates. As of December 31, 2021, we had eight corporate debt securities that had their credit ratings downgraded during the year, with a combined fair value of \$168.4 million and an unrealized loss of \$0.8 million.

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 2021 or 2020 and did not have a material credit loss allowance balance as of December 31, 2021 or 2020. We considered several factors and inputs related to the individual securities as part of our analysis. The methodology and significant inputs used to measure the amount of credit losses in our portfolio included:

- current performance indicators on the business model or underlying assets (e.g., delinquency rates, foreclosure rates, and default rates);
- credit support (via current levels of subordination);
- historical credit ratings; and
- updated cash flow expectations based upon these performance indicators.

In order to determine the amount of credit loss, if any, 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 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 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 December 31, 2021 and 2020, we believe none of the unrealized losses relate to material credit losses on any specific securities, or in the aggregate, based on our review. We continue to expect all the securities in our portfolio to pay their principal and interest obligations.

In addition, we reviewed our accrued investment income outstanding on those securities in an unrealized loss position at December 31, 2021 and 2020, to determine if the accrued interest amounts were determined to be uncollectible. Based on our analysis, we believe the issuers have sufficient liquidity and capital reserves to meet their current interest, and future principal, obligations and, therefore, did not write off any accrued income as uncollectible at December 31, 2021 or 2020.

**Realized Gains (Losses)** The components of net realized gains (losses) for the years ended December 31, were:

(millions)	2021	2020	2019
<b>Gross realized gains on security sales</b>			
Available-for-sale securities:			
U.S. government obligations	\$ 105.8	\$ 612.5	\$ 164.4
State and local government obligations	51.2	102.4	6.1
Corporate and other debt securities	104.0	161.9	100.1
Residential mortgage-backed securities	0.3	0	0.2
Commercial mortgage-backed securities	41.9	23.7	8.1
Other asset-backed securities	1.2	0.2	0.8
Redeemable preferred stocks	1.5	0	2.2
Total available-for-sale securities	305.9	900.7	281.9
Equity securities:			
Nonredeemable preferred stocks	28.0	24.4	36.2
Common equities	369.6	88.6	61.7
Total equity securities	397.6	113.0	97.9
Subtotal gross realized gains on security sales	703.5	1,013.7	379.8
<b>Gross realized losses on security sales</b>			
Available-for-sale securities:			
U.S. government obligations	(52.0)	(9.6)	(20.4)
State and local government obligations	(3.4)	(0.7)	(0.7)
Foreign government obligations	(0.1)	0	0
Corporate and other debt securities	(8.3)	(6.5)	(7.9)
Residential mortgage-backed securities	(1.1)	0	(2.3)
Commercial mortgage-backed securities	(1.9)	(12.8)	(2.2)
Other asset-backed securities	(0.6)	0	(0.1)
Redeemable preferred stocks	0	0	(0.4)
Total available-for-sale securities	(67.4)	(29.6)	(34.0)
Equity securities:			
Nonredeemable preferred stocks	(1.7)	(8.7)	(3.2)
Common equities	(20.1)	(60.7)	(8.0)
Total equity securities	(21.8)	(69.4)	(11.2)
Subtotal gross realized losses on security sales	(89.2)	(99.0)	(45.2)
<b>Net realized gains (losses) on security sales</b>			
Available-for-sale securities:			
U.S. government obligations	53.8	602.9	144.0
State and local government obligations	47.8	101.7	5.4
Foreign government obligations	(0.1)	0	0
Corporate and other debt securities	95.7	155.4	92.2
Residential mortgage-backed securities	(0.8)	0	(2.1)
Commercial mortgage-backed securities	40.0	10.9	5.9
Other asset-backed securities	0.6	0.2	0.7
Redeemable preferred stocks	1.5	0	1.8
Total available-for-sale securities	238.5	871.1	247.9
Equity securities:			
Nonredeemable preferred stocks	26.3	15.7	33.0
Common equities	349.5	27.9	53.7
Total equity securities	375.8	43.6	86.7
Subtotal net realized gains (losses) on security sales	614.3	914.7	334.6
<b>Net holding period gains (losses)</b>			
Hybrid securities	(7.7)	7.4	18.0
Equity securities	907.6	706.5	739.9
Derivatives	0	1.4	0
Subtotal net holding period gains (losses)	899.9	715.3	757.9
<b>Other-than-temporary impairment losses</b>			
Other asset impairment	(5.0)	0	(63.3)
Subtotal other-than-temporary impairment losses	(5.0)	0	(63.3)
Total net realized gains (losses) on securities	\$ 1,509.2	\$ 1,630.0	\$ 1,029.2



Realized gains (losses) on securities sold are computed using the first-in-first-out method. During 2021, the realized gain in common equities primarily reflected the sale of common stocks held outside our indexed portfolio. 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 reported in other assets in the consolidated balance sheets. During 2020, the significant gains recognized on our fixed-income portfolio were the result of selling Treasury securities for opportunistic investments. For 2019, the other asset impairment losses related to federal renewable energy tax credit fund investments, which were reported in other assets on the consolidated balance sheets and were a result of lower than anticipated cash flows.

The following table reflects our holding period realized gains (losses) recognized on equity securities held at the respective year end for the years ended December 31:

(millions)	2021	2020	2019
Total net gains (losses) recognized during the period on equity securities	\$ 1,283.4	\$ 750.1	\$ 826.6
Less: Net gains (losses) recognized on equity securities sold during the period	375.8	43.6	86.7
Net holding period gains (losses) recognized during the period on equity securities held at period end	\$ 907.6	\$ 706.5	\$ 739.9

**Net Investment Income** The components of net investment income for the years ended December 31, were:

(millions)	2021	2020	2019
Available-for-sale securities:			
Fixed maturities:			
U.S. government obligations	\$ 149.5	\$ 166.3	\$ 268.6
State and local government obligations	44.1	62.7	36.5
Foreign government obligations	0.1	0	0
Corporate debt securities	301.1	284.0	268.9
Residential mortgage-backed securities	11.9	11.8	21.6
Commercial mortgage-backed securities	143.0	152.9	150.1
Other asset-backed securities	64.1	96.7	117.3
Redeemable preferred stocks	9.5	14.9	19.0
Total fixed maturities	723.3	789.3	882.0
Short-term investments	3.1	29.0	41.7
Total available-for-sale securities	726.4	818.3	923.7
Equity securities:			
Nonredeemable preferred stocks	70.3	60.6	61.8
Common equities	64.2	57.7	56.5
Total equity securities	134.5	118.3	118.3
Investment income	860.9	936.6	1,042.0
Investment expenses	(25.5)	(20.0)	(24.6)
Net investment income	\$ 835.4	\$ 916.6	\$ 1,017.4

The amount of investment income (interest and dividends) we earn varies based on the average assets held during the year and the book yields of the securities in our portfolio. On a year-over-year basis, investment income decreased 8% and 10% in 2021 and 2020, respectively, compared to the prior year, due to a decrease in the portfolio yield, which was partially offset by an increase in average assets. The recurring investment book yield decreased 20% in 2021, compared to 2020, and 23% in 2020, compared to 2019, as a result of investing cash from operations and reinvesting cash from sales, maturities, paydowns, and other redemptions at market yields that were significantly lower than the portfolio's overall yield. The income

reduction from the negative yield change was partially offset by a net increase in average assets, reflecting strong premium growth and underwriting profitability in part offset by common and preferred stock dividend payments and treasury share repurchases.

The increase in investment expenses in 2021, compared to 2020, primarily reflects an increase in incentive-based compensation and staffing. The decrease in 2020, compared to 2019, was due to no longer having an actively managed equity portfolio along with lower incentive-based compensation expense incurred during the year.

**Derivative Instruments** We did not have any derivative activity during 2021 or 2019. During 2020, we opened and closed U.S. Treasury Note futures to manage the portfolio duration and recorded a net realized gain of \$1.4 million. The maximum notional value held at one time during 2020

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

was \$114.6 million. At December 31, 2021, 2020, and 2019, we had no open derivative positions.

observable for the instruments, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- *Level 3:* Inputs that are unobservable. Unobservable inputs reflect our subjective evaluation about the assumptions market participants would use in pricing the financial instrument (e.g., certain structured securities and privately held investments).

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

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

(millions)	Fair Value				Cost
	Level 1	Level 2	Level 3	Total	
December 31, 2021					
Fixed maturities:					
U.S. government obligations	\$ 18,488.2	\$ 0	\$ 0	\$ 18,488.2	\$ 18,586.1
State and local government obligations	0	2,185.3	0	2,185.3	2,162.6
Foreign government obligations	0	17.9	0	17.9	17.9
Corporate debt securities	0	10,692.1	0	10,692.1	10,526.2
Subtotal	18,488.2	12,895.3	0	31,383.5	31,292.8
Asset-backed securities:					
Residential mortgage-backed	0	790.0	0	790.0	787.7
Commercial mortgage-backed	0	6,535.6	0	6,535.6	6,561.0
Other asset-backed	0	4,982.3	0	4,982.3	4,981.8
Subtotal asset-backed securities	0	12,307.9	0	12,307.9	12,330.5
Redeemable preferred stocks:					
Financials	0	50.9	0	50.9	50.7
Utilities	0	0	0	0	0
Industrials	10.7	120.1	0	130.8	120.2
Subtotal redeemable preferred stocks	10.7	171.0	0	181.7	170.9
Total fixed maturities	18,498.9	25,374.2	0	43,873.1	43,794.2
Short-term investments	942.4	0.2	0	942.6	942.6
Total available-for-sale securities	19,441.3	25,374.4	0	44,815.7	44,736.8
Equity securities:					
Nonredeemable preferred stocks:					
Financials	115.3	1,305.7	76.4	1,497.4	1,451.7
Utilities	0	82.9	0	82.9	80.0
Industrials	0	25.2	34.4	59.6	40.1
Subtotal nonredeemable preferred stocks	115.3	1,413.8	110.8	1,639.9	1,571.8
Common equities:					
Common stocks	4,991.6	50.0	0	5,041.6	1,247.2
Other risk investments	0	0	16.9	16.9	16.9
Subtotal common equities	4,991.6	50.0	16.9	5,058.5	1,264.1
Total equity securities	5,106.9	1,463.8	127.7	6,698.4	2,835.9
Total portfolio	\$ 24,548.2	\$ 26,838.2	\$ 127.7	\$ 51,514.1	\$ 47,572.7
Debt	\$ 0	\$ 5,857.4	\$ 0	\$ 5,857.4	\$ 4,898.8

(millions)	Fair Value				Cost
	Level 1	Level 2	Level 3	Total	
December 31, 2020					
Fixed maturities:					
U.S. government obligations	\$ 12,740.0	\$ 0	\$ 0	\$ 12,740.0	\$ 12,437.9
State and local government obligations	0	3,221.8	0	3,221.8	3,099.4
Corporate debt securities	0	10,185.2	0	10,185.2	9,579.7
Subtotal	12,740.0	13,407.0	0	26,147.0	25,117.0
Asset-backed securities:					
Residential mortgage-backed	0	509.5	0	509.5	503.3
Commercial mortgage-backed	0	6,175.1	0	6,175.1	6,042.6
Other asset-backed	0	3,784.6	0	3,784.6	3,745.0
Subtotal asset-backed securities	0	10,469.2	0	10,469.2	10,290.9
Redeemable preferred stocks:					
Financials	0	51.6	0	51.6	51.1
Utilities	0	11.7	0	11.7	10.0
Industrials	10.8	120.6	0	131.4	120.1
Subtotal redeemable preferred stocks	10.8	183.9	0	194.7	181.2
Total fixed maturities	12,750.8	24,060.1	0	36,810.9	35,589.1
Short-term investments	4,704.9	513.6	0	5,218.5	5,218.5
Total available-for-sale securities	17,455.7	24,573.7	0	42,029.4	40,807.6
Equity securities:					
Nonredeemable preferred stocks:					
Financials	117.7	1,212.3	10.0	1,340.0	1,253.6
Utilities	0	41.9	0	41.9	40.0
Industrials	0	24.3	16.7	41.0	40.1
Subtotal nonredeemable preferred stocks	117.7	1,278.5	26.7	1,422.9	1,333.7
Common equities:					
Common stocks	4,049.9	0	25.0	4,074.9	1,209.2
Other risk investments	0	0	3.1	3.1	3.1
Subtotal common equities	4,049.9	0	28.1	4,078.0	1,212.3
Total equity securities	4,167.6	1,278.5	54.8	5,500.9	2,546.0
Total portfolio	\$ 21,623.3	\$ 25,852.2	\$ 54.8	\$ 47,530.3	\$ 43,353.6
Debt	\$ 0	\$ 6,793.5	\$ 0	\$ 6,793.5	\$ 5,396.1

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

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

are primarily longer-dated securities issued by municipalities that contain either liquidity facilities or mandatory put features within one year.

At December 31, 2021, vendor-quoted prices represented 79% of our Level 1 classifications (excluding short-term investments), compared to 76% at December 31, 2020. The securities quoted by vendors in Level 1 primarily represent our holdings in U.S. Treasury Notes, which are frequently traded and the quotes are considered similar to exchange-traded quotes. The balance of our Level 1 pricing comes from quotes obtained directly from trades made on active exchanges.

At December 31, 2021, vendor-quoted prices comprised 98% of our Level 2 classifications (excluding short-term



investments and common stock), while dealer-quoted prices represented 2%, compared to 99% and 1%, respectively, at December 31, 2020. 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 our 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 our corporate debt and preferred stock (redeemable and nonredeemable) portfolios, as well as the notes issued by The Progressive Corporation (see *Note 4 – Debt*), we review securities by duration, coupon, and credit quality, as well as changes in interest rate and credit spread movements within that stratification. The review also includes recent trades, including: volume traded at various levels that establish a market; issuer specific fundamentals; and industry specific economic news as it comes to light.

For our municipal securities (e.g., general obligations, revenue, and housing), we stratify the portfolio to evaluate securities by type, coupon, credit quality, and duration to review price changes relative to credit spread and interest rate changes. Additionally, we look to economic data as it relates to geographic location as an indication of price-to-call or maturity predictors. For municipal housing securities, we look to changes in cash flow projections, both historical and reasonably estimable projections, to understand yield changes and their effect on valuation.

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

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

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

greater than 2%) as known events occur in the marketplace and affect a particular security's price at sale.

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

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 for 2021 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 companies, 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.

During 2021, we reclassified a Level 3 nonredeemable preferred stock held at December 31, 2020 to a Level 3 common stock to reflect that the security had converted during 2020 and to conform to the current year presentation. At December 31, 2021 and 2020, we did not have any securities in our fixed-maturity portfolio listed as Level 3.

During 2021 and 2020, there were no material assets or liabilities measured at fair value on a nonrecurring basis. 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 years ended December 31, 2021 and 2020:

(millions)	Level 3 Fair Value							
	Fair Value at Dec. 31, 2020	Calls/ Maturities/ Paydowns/Other	Purchases	Sales	Net Realized (Gain)/Loss on Sales	Change in Valuation	Net Transfers In (Out) <sup>1</sup>	Fair Value at Dec. 31, 2021
Equity securities:								
Nonredeemable preferred stocks:								
Financials	\$ 10.0	\$ 0	\$ 60.2	\$ 0	\$ 0	\$ 6.2	\$ 0	\$ 76.4
Industrials	16.7	0	5.0	(5.0)	(4.5)	22.2	0	34.4
Common equities:								
Common stocks	25.0	0	2.0	(6.0)	(8.7)	37.7	(50.0)	0
Other risk investments	3.1	13.8	0	0	0	0	0	16.9
Total Level 3 securities	\$ 54.8	\$ 13.8	\$ 67.2	\$ (11.0)	\$ (13.2)	\$ 66.1	\$ (50.0)	\$ 127.7

<sup>1</sup>The security was transferred into Level 2 since the price was deemed to be an observable market sale price as the result of recent sales of this security at a consistent price.

(millions)	Level 3 Fair Value							
	Fair Value at Dec. 31, 2019	Calls/ Maturities/ Paydowns/Other	Purchases	Sales	Net Realized (Gain)/Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at Dec. 31, 2020
Equity securities:								
Nonredeemable preferred stocks:								
Financials	\$ 27.1	\$ (52.1)	\$ 35.0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 10.0
Industrials	16.0	0	0	0	0	0.7	0	16.7
Common equities:								
Common stocks	0	25.0	0	0	0	0	0	25.0
Other risk investments	0.3	2.8	0	0	0	0	0	3.1
Total Level 3 securities	\$ 43.4	\$ (24.3)	\$ 35.0	\$ 0	\$ 0	\$ 0.7	\$ 0	\$ 54.8

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

Quantitative Information about Level 3 Fair Value Measurements					
(\$ in millions)	Fair Value at Dec. 31, 2021	Valuation Technique	Unobservable Input	Range of Input Values Increase (Decrease)	Weighted Average Increase (Decrease)
Equity securities:					
Nonredeemable preferred stocks	\$ 110.8	Market comparables	Weighted average market capitalization price change %	(20.2)% to (2.3)%	(7.7)%
Subtotal Level 3 securities	110.8				
Pricing exemption securities	16.9				
Total Level 3 securities	\$ 127.7				

Quantitative Information about Level 3 Fair Value Measurements					
(\$ in millions)	Fair Value at Dec. 31, 2020	Valuation Technique	Unobservable Input	Range of Input Values Increase (Decrease)	Weighted Average Increase (Decrease)
Equity securities:					
Nonredeemable preferred stocks	\$ 26.7	Pricing firm	Discount for lack of marketability %	5.0% to 15.0%	7.6%
Common stocks	25.0	Market comparables	Weighted average market capitalization price change %	29.3% to 124.2%	37.7%
Subtotal Level 3 securities	51.7				
Pricing exemption securities	3.1				
Total Level 3 securities	\$ 54.8				

Note: The table was updated to agree with the current year presentation and to reflect the purchase of a nonredeemable preferred stock security in the second quarter 2020 that was subject to an automatic conversion to common stock during third quarter 2020.

#### 4. DEBT

Debt at December 31, consisted of:

(millions)	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
3.75% Senior Notes due 2021 (issued: \$500.0, August 2011)	\$ 0	\$ 0	\$ 499.8	\$ 510.9
2.45% Senior Notes due 2027 (issued: \$500.0, August 2016)	497.7	517.9	497.3	541.1
6 5/8% Senior Notes due 2029 (issued: \$300.0, March 1999)	297.2	388.2	296.9	409.4
4.00% Senior Notes due 2029 (issued: \$550.0, October 2018)	545.9	621.0	545.5	660.4
3.20% Senior Notes due 2030 (issued: \$500.0, March 2020)	496.5	536.3	496.1	575.5
6.25% Senior Notes due 2032 (issued: \$400.0, November 2002)	396.2	547.9	396.0	582.0
4.35% Senior Notes due 2044 (issued: \$350.0, April 2014)	346.8	428.4	346.7	459.7
3.70% Senior Notes due 2045 (issued: \$400.0, January 2015)	395.6	447.1	395.5	481.0
4.125% Senior Notes due 2047 (issued: \$850.0, April 2017)	841.9	1,029.3	841.7	1,113.1
4.20% Senior Notes due 2048 (issued: \$600.0, March 2018)	590.2	741.3	590.0	806.7
3.95% Senior Notes due 2050 (issued: \$500.0, March 2020)	490.8	600.0	490.6	653.7
Total	\$ 4,898.8	\$ 5,857.4	\$ 5,396.1	\$ 6,793.5

All of the outstanding debt was issued by The Progressive Corporation and includes amounts that were borrowed and contributed to the capital of its insurance subsidiaries or used, or made available for use, for other business purposes. Fair values for these debt instruments are obtained from external sources. There are no restrictive financial covenants or credit rating triggers on the outstanding debt.

Interest on all debt is payable semiannually at the stated rates. All principal is due at the stated maturity. Each note is redeemable, in whole or in part, at any time; however, the redemption price will equal the greater of the principal amount of the note or a “make whole” amount calculated by reference to the present values of remaining scheduled principal and interest payments under the note.

There was no short-term debt outstanding at December 31, 2021. Short-term debt outstanding at December 31, 2020 consisted of the \$500 million 3.75% Senior Notes that matured in August 2021.

We issued \$500 million of 3.20% Senior Notes due 2030 and \$500 million of 3.95% Senior Notes due 2050 in March 2020, in an underwritten public offering. The net proceeds from these issuances, after deducting underwriters’ discounts, commissions, and other issuance costs, were approximately \$986.3 million in aggregate.

Aggregate required principal payments on debt outstanding at December 31, 2021, were as follows:

(millions)	Payments
2022	\$ 0
2023	0
2024	0
2025	0
2026	0
Thereafter	4,950
Total	\$ 4,950

Prior to certain issuances of our debt securities, we entered into forecasted transactions to hedge against possible rises in interest rates. When the contracts were closed upon the issuance of the applicable debt securities, we recognized the unrealized gains (losses) on these contracts as part of accumulated other comprehensive income (see *Note 1 – Reporting and Accounting Policies* for further discussion). These unrealized gains (losses) are being amortized as adjustments to interest expense over the life of the related notes. The following table shows the original gain (loss) recognized at debt issuance and the unamortized balance at December 31, 2021, on a pretax basis:

(millions)	Unrealized Gain (Loss) at Debt Issuance	Unamortized Balance at December 31, 2021
6 5/8% Senior Notes	\$ (4.2)	\$ (2.0)
6.25% Senior Notes	5.1	3.0
4.35% Senior Notes	(1.6)	(1.4)
3.70% Senior Notes	(12.9)	(11.1)
4.125% Senior Notes	(8.0)	(7.3)

We reclassified \$0.9 million in 2021, \$1.1 million in 2020, and \$1.0 million in 2019, of net unrealized losses from

accumulated other comprehensive income to interest expense on our closed debt issuance cash flow hedges.

During 2021 and 2020, we had a line of credit with PNC Bank, National Association (PNC), in the maximum principal amount of \$250 million. Subject to the terms and conditions of the line of credit documents, advances under the line of credit (if any) will bear interest at a variable rate equal to the higher of PNC's Prime Rate or the sum of the

Federal Funds Open Rate plus 175 basis points. Each advance must be repaid on the 30th day after the advance or, if earlier, on April 30, 2022, the expiration date of the line of credit. Prepayments are permitted without penalty. The line of credit is uncommitted and, as such, all advances are subject to PNC's discretion. We had no borrowings under either line of credit in 2021 or 2020.

## 5. INCOME TAXES

The components of our income tax provision for the years ended December 31, were as follows:

(millions)	2021	2020	2019
Current tax provision			
Federal	\$ 739.5	\$ 1,395.7	\$ 1,133.2
State	20.7	35.6	27.3
Deferred tax expense			
Federal	98.6	35.8	16.8
State	0.3	1.5	3.0
Total income tax provision	\$ 859.1	\$ 1,468.6	\$ 1,180.3

The provision for income taxes in the consolidated statements of comprehensive income differed from the statutory rate for the years ended December 31, as follows:

(millions)	2021		2020		2019	
Income before income taxes	\$ 4,210.0		\$ 7,173.2		\$ 5,160.3	
Tax at statutory federal rate	\$ 884.1	21 %	\$ 1,506.4	21 %	\$ 1,083.7	21 %
Tax effect of:						
Reversal of prior year tax credits	0	0	0	0	163.2	3
Tax credits <sup>1</sup>	(9.9)	0	(5.4)	0	(43.9)	(1)
Stock-based compensation	(19.4)	(1)	(22.7)	(1)	(25.9)	(1)
Tax-deductible dividends	(9.4)	0	(25.1)	(1)	(14.6)	0
Tax-preferenced investment income	(13.2)	0	(15.2)	0	(14.0)	0
Nondeductible compensation expense	8.4	0	6.4	0	8.1	0
State income taxes, net of federal taxes	16.6	0	29.3	1	24.0	1
Other items, net	1.9	0	(5.1)	0	(0.3)	0
Total income tax provision	\$ 859.1	20 %	\$ 1,468.6	20 %	\$ 1,180.3	23 %

<sup>1</sup> Included in the amount for 2019 is \$38.1 million of benefits on investments in federal renewable energy tax credit funds.

In late December 2018, we learned of allegations of potential fraudulent conduct by the sponsor of three tax credit fund investments we made from 2016 through 2018, including information about ongoing federal investigations. Based on our investigations and other information that became available to us, we concluded the sponsor had committed fraud through these tax credit funds and that all the tax credits and other tax benefits related to those investments were not valid. As a result, during 2019, we increased our provision for income taxes by \$163.2 million (\$252.0 million current income taxes payable, offset by \$88.8 million reduction of deferred tax liability),

principally reflecting the total reversal of the tax credits and other tax benefits previously recognized from certain renewable energy investments, plus interest. In addition, we made deposits of \$152.1 million for tax years 2017 and 2016 to stop additional interest from accruing. During 2020, \$48.8 million of this deposit was applied against our 2016 tax liability, including interest. During 2021, the remainder of the deposit was applied against our 2017 tax liability, including interest. The principals of the sponsor and various other individuals have pleaded guilty to federal criminal charges relating to the fraudulent tax credit funds, and some have been convicted.

Deferred income taxes reflect the tax effects of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The following table shows the components of the net deferred tax liability at December 31:

(millions)	2021	2020
Federal deferred income tax assets:		
Unearned premiums reserve	\$ 642.7	\$ 552.5
Loss and loss adjustment expense reserves	224.3	170.0
Non-deductible accruals	220.8	238.2
Operating lease liabilities	37.9	37.4
Investment basis differences	19.1	18.6
Hedges on forecasted transactions	4.0	4.1
Other	7.2	25.8
Federal deferred income tax liabilities:		
Net holding period gains on equity securities	(811.1)	(620.5)
Deferred acquisition costs	(284.7)	(259.8)
Property and equipment	(94.6)	(105.6)
Operating lease assets	(37.9)	(37.4)
Loss and loss adjustment expense reserve transition adjustment	(32.3)	(39.3)
Intangible assets	(16.9)	(27.6)
Net unrealized gains on fixed-maturity securities	(15.0)	(253.4)
Prepaid expenses	(6.8)	(5.5)
Other	(9.6)	(7.5)
Net federal deferred income taxes	(152.9)	(310.0)
State deferred income tax assets <sup>1</sup>	16.3	11.9
State deferred income tax liabilities <sup>1</sup>	(1.5)	(4.0)
Total	\$ (138.1)	\$ (302.1)

<sup>1</sup> Deferred assets and liabilities are recorded in other assets and accounts payable, accrued expenses, and other liabilities, respectively, on the consolidated balance sheets.

Although realization of the deferred tax assets is not assured, management believes that it is more likely than not that 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 and, therefore, no valuation allowance was needed at December 31, 2021 or 2020.

At December 31, 2021, we had \$19.2 million of net taxes recoverable (included in other assets on our consolidated balance sheets), compared to \$163.5 million of net taxes payable (included in other liabilities on our consolidated balance sheets) at December 31, 2020. Net taxes payable at December 31, 2020, included the impact from the reversal of the tax credit benefits for 2017.

The Progressive Corporation and its subsidiaries file a consolidated federal income tax return. As a result of the acquisition of The Protective Insurance Corporation and subsidiaries (Protective Insurance), Protective Insurance will be included in The Progressive Corporation consolidated federal income tax return for the period from June 1, 2021, to December 31, 2021 (see *Note 17 – Acquisition* for additional discussion). We will file a final consolidated federal income tax return for Protective Insurance for the period from January 1, 2021, to May 31,

2021. ARX Holding Corp. and its subsidiaries (ARX) has been included in the consolidated federal income tax return since April 2018, which is when our ownership interest in ARX first exceeded 80%.

The Progressive Corporation and its eligible subsidiaries participated in the Compliance Assurance Program (CAP) from 2007 through 2018. Under CAP, the IRS begins its examination process for the tax year before the tax return is filed, by examining significant transactions and events as they occur; however, a CAP examination does not include equity investments in pass-through entities in which the taxpayer owns less than 100% (e.g., partnerships, joint ventures, etc.). The goal of the CAP program is to expedite the exam process and to reduce the level of uncertainty regarding a taxpayer's tax filing positions.

All federal income tax years prior to 2018 are closed to examination for The Progressive Corporation, ARX, and Protective Insurance. The IRS CAP exam for 2018 for The Progressive Corporation has been completed and the return was accepted as filed. We consider 2018 to be effectively settled for The Progressive Corporation (other than with respect to equity investments in pass-through entities) while the 2019 through 2021 tax years remain open to examination. For ARX, only the short 2018 tax year

remains open to examination. Tax years 2018 through 2020 and the short period 2021 tax year remain open to examination for Protective Insurance.

The statute of limitations for state income tax purposes generally remains open for three to four years from the return filing date, depending upon the jurisdiction. There has been no significant state income tax audit activity.

## 6. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

We write personal and commercial auto insurance, residential property insurance, and other specialty property-casualty insurance and related services throughout the United States. As a property-casualty insurance company, we are exposed to hurricanes or other catastrophes. We are unable to predict the frequency or severity of any such events that may occur in the near term or thereafter. To help mitigate this risk in our Property business, we currently maintain excess of loss reinsurance coverage, both on an aggregate and a per occurrence basis, and had aggregate stop-loss reinsurance coverage covering accident years 2017 to 2019.

As we are primarily an insurer of motor vehicles and residential property, we have limited exposure to environmental, asbestos, and general liability claims. We have established reserves for such exposures, which represent about 1% of our total loss and loss adjustment expense reserves. We believe these reserves to be adequate based on information currently known. These claims are not expected to have a material effect on our liquidity, financial condition, cash flows, or results of operations.

### Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense (LAE) reserves represent our best estimate of our ultimate liability for losses and LAE relating to events that occurred prior to the end of any given accounting period but have not yet been paid. For our Personal and Commercial Lines vehicle businesses, which represent about 90% of our total carried reserves, we establish loss and LAE reserves after completing reviews at a disaggregated level of grouping. Progressive's actuarial staff reviews over 400 subsets of business data, which are at a combined state, product, and line coverage level, to calculate the needed loss and LAE reserves. During a reserve review, ultimate loss amounts are estimated using several industry standard actuarial projection methods. These methods take into account historical comparable loss data at the subset level and estimate the impact of various loss development factors, such as the frequency (number of losses per exposure), severity (dollars of loss per each claim), and average premium (dollars of premium per earned car year), as well as the frequency and severity of loss adjustment expense costs.

We begin our review of a set of data by producing multiple estimates of needed reserves, using both paid and incurred data, to determine if a reserve change is required. In the

We recognize interest and penalties, if any, as a component of income tax expense. For the years ended December 31, 2021, 2020, and 2019, \$0.1 million, \$0, and \$9.9 million, respectively, of interest and penalties expense has been recorded in the tax provision. We have not recorded any unrecognized tax benefits, or related interest and penalties, as of December 31, 2021 and 2020.

event of a wide variation among results generated by the different projections, our actuarial group will further analyze the data using additional quantitative analysis. Each review develops a point estimate for a relatively small subset of the business, which allows us to establish meaningful reserve levels for that subset. We believe our comprehensive process of reviewing at a subset level provides us more meaningful estimates of our aggregate loss reserves.

The actuarial staff completes separate projections of needed case and incurred but not recorded (IBNR) reserves. Since a large majority of the parties involved in an accident report their claims within a short time period after the occurrence, we do not carry a significant amount of IBNR reserves for older accident years. Based on the methodology we use to estimate case reserves for our vehicle businesses, we do not have expected development on reported claims included in our IBNR reserves. We do, however, include anticipated salvage and subrogation recoveries in our IBNR reserves, which could result in negative carried IBNR reserves, primarily in our physical damage reserves.

Changes from historical data may reduce the predictiveness of our projected future loss costs. Internal considerations that are process-related, which generally result from changes in our claims organization's activities, include claim closure rates, the number of claims that are closed without payment, and the level of the claims representatives' estimates of the needed case reserve for each claim. These changes and their effect on the historical data are studied at the state level versus on a larger, less indicative, countrywide basis. External items considered include the litigation atmosphere, state-by-state changes in medical costs, and the availability of services to resolve claims. These also are better understood at the state level versus at a more macro, countrywide level. The actuarial staff takes these changes into consideration when making their assumptions to determine needed reserve levels.

Similar to our vehicle businesses, our actuarial staff analyzes loss and LAE data for our Commercial Lines non-vehicle business and our Property business on an accident period basis. Many of the methodologies and key parameters reviewed are similar. In addition, for Protective

Insurance and our Property business, since claims adjusters primarily establish the case reserves, the actuarial staff includes expected development on case reserves as a component of the overall IBNR reserves.

Activity in the loss and LAE reserves is summarized as follows:

(millions)	2021	2020	2019
Balance at January 1	\$ 20,265.8	\$ 18,105.4	\$ 15,400.8
Less reinsurance recoverables on unpaid losses	3,798.2	3,212.2	2,572.7
Net balance at January 1	16,467.6	14,893.2	12,828.1
Net loss and loss adjustment expense reserves acquired <sup>1</sup>	729.2	0	0
Total beginning reserves	17,196.8	14,893.2	12,828.1
Incurred related to:			
Current year	33,632.3	24,926.5	25,238.2
Prior years	(4.7)	195.3	232.3
Total incurred	33,627.6	25,121.8	25,470.5
Paid related to:			
Current year	20,561.1	15,584.4	16,105.0
Prior years	8,832.8	7,963.0	7,300.4
Total paid	29,393.9	23,547.4	23,405.4
Net balance at December 31	21,430.5	16,467.6	14,893.2
Plus reinsurance recoverables on unpaid losses	4,733.6	3,798.2	3,212.2
Balance at December 31	\$ 26,164.1	\$ 20,265.8	\$ 18,105.4

<sup>1</sup> Net reserves acquired in Protective Insurance acquisition.

We experienced favorable reserve development of \$4.7 million in 2021 and unfavorable development of \$195.3 million and \$232.3 million in 2020 and 2019, respectively, which is reflected as “Incurred related to prior years” in the table above.

## 2021

- The slightly favorable reserve development for 2021, reflected approximately \$140 million of favorable prior year reserve development that was attributable to accident year 2020, offset by \$87 million of unfavorable development attributable to accident year 2019, with the remainder of the unfavorable development attributable to 2018 and prior accident years.
- Our personal auto products incurred \$113 million of favorable loss and LAE reserve development, with the Direct auto business contributing about 70%, primarily attributable to revised estimates of our per claim settlement costs and fewer late reports than originally anticipated, partially offset by higher than anticipated bodily injury severity.
- Our Commercial Lines business experienced \$87 million of unfavorable development, primarily due to increased injury severity and the emergence of large injury claims at rates higher than originally anticipated, primarily in Texas and Florida.
- Our Property business experienced \$36 million of unfavorable development primarily due to higher than anticipated severity and claims that were previously closed being reopened in Florida.
- Our special lines products experienced \$14 million of favorable development.



## 2020

- Approximately \$59 million of the unfavorable prior year reserve development was attributable to accident year 2019, \$107 million to accident year 2018, and the remainder to 2017 and prior accident years.
- Our personal auto products incurred about \$136 million of unfavorable loss and LAE reserve development, with the Agency and Direct auto businesses each contributing about half, primarily attributable to higher than anticipated frequency of reopened PIP claims, primarily in Florida, updated estimates of our per claim settlement costs, and late reported losses occurring toward the end of 2019 but not reported until 2020, which was partially offset by higher than anticipated salvage and subrogation recoveries.
- Our Commercial Lines business experienced about \$98 million of unfavorable development, primarily due to increased injury severity and the emergence of large injury claims at rates higher than originally anticipated.
- Our special lines products and Property business experienced about \$25 million and \$14 million, respectively, of favorable development driven by favorable case development across all products, as severity was lower than expected.

## 2019

- Approximately \$131 million of the unfavorable prior year reserve development was attributable to accident year 2018, \$73 million to accident year 2017, and the remainder to 2016 and prior accident years.
- Our personal auto products incurred about \$121 million of unfavorable loss and LAE reserve development, with the Agency and Direct auto businesses each contributing about half, primarily reflecting increased injury severity, a higher than anticipated frequency of reopened PIP claims, primarily in Florida, and late reported losses occurring in late 2018 but not reported until 2019.
- Our Commercial Lines business experienced about \$83 million of unfavorable development, primarily due to increased injury severity and more emergence of large injury claims than originally anticipated.
- Our special lines products experienced about \$14 million of unfavorable development, primarily due to less salvage and subrogation recoveries than originally anticipated and increased severity of late reported claims.
- Our Property business experienced about \$12 million of unfavorable development, primarily due to higher than originally anticipated homeowner and dwelling costs and fire liability costs.

### Incurred and Paid Claims Development by Accident Year

The following tables present our incurred, net of reinsurance, and paid claims development by accident year for the number of years that generally have historically represented the maximum development period for claims in any of our segment categories. The tables below include inception-to-date information for companies acquired and wholly exclude companies disposed of, rather than including information from the date of acquisition, or until the date of disposition. We believe the most meaningful presentation of claims development is through the retrospective approach by presenting all relevant historical information for all periods presented.

We have elected to present our incurred and paid claims development consistent with our GAAP reportable segments (see *Note 10 – Segment Information* for a discussion of our segment reporting), with a further disaggregation of our Personal Lines and Commercial Lines auto business claims development between liability and physical damage, since the loss patterns are significantly different between them. The Commercial

Lines other business includes Protective Insurance coverages other than liability and physical damage. Reserves for our run-off products are not considered material, and, therefore, are not included in a separate claims development table.

Only 2021 is audited; all prior years are considered required supplementary information and, therefore, are unaudited. Expected development on our case reserves is excluded from the IBNR reserves on our vehicle businesses, as discussed above. For the Property business and the Commercial Lines other business, the IBNR reserves include expected case development based on the methodology used in establishing the case reserves for that segment. The cumulative number of incurred claims are based on accident coverages (e.g., bodily injury, collision, comprehensive, personal injury protection, property damage) related to opened claims. Coverage counts related to claims closed without payment are excluded from the cumulative number of incurred claims.

**Personal Lines - Agency - Liability**  
(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2021	
Accident Year	For the years ended December 31,					Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 4,474.8	\$ 4,485.8	\$ 4,511.1	\$ 4,546.4	\$ 4,509.2	\$ 0	779,396
2018		5,141.8	5,182.1	5,192.7	5,238.7	89.3	856,502
2019			5,885.0	5,886.9	5,918.2	112.5	915,954
2020				5,433.8	5,405.4	280.3	754,470
2021					6,716.4	991.0	875,200
Total					\$ 27,787.9		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
Accident Year	For the years ended December 31,						
	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 2,074.0	\$ 3,478.5	\$ 4,048.5	\$ 4,285.5	\$ 4,418.3		
2018		2,378.0	4,028.7	4,635.0	4,940.6		
2019			2,715.2	4,533.2	5,272.8		
2020				2,383.0	4,112.2		
2021					2,855.4		
Total					\$ 21,599.3		
All outstanding liabilities before 2017, net of reinsurance <sup>1</sup>					85.7		
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 6,274.3		

<sup>1</sup> Required supplementary information (unaudited)

**Personal Lines - Agency - Physical Damage**  
(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2021	
Accident Year	For the years ended December 31,					Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 2,635.5	\$ 2,638.5	\$ 2,643.5	\$ 2,640.6	\$ 2,645.1	\$ 0.8	1,514,952
2018		2,819.0	2,822.6	2,821.7	2,818.9	(4.6)	1,695,396
2019			3,277.9	3,254.7	3,261.1	(3.1)	1,878,499
2020				3,328.5	3,319.8	(14.6)	1,782,861
2021					4,708.3	(222.0)	2,094,032
Total					\$ 16,753.2		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
Accident Year	For the years ended December 31,						
	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 2,599.8	\$ 2,643.2	\$ 2,640.9	\$ 2,640.8	\$ 2,641.7		
2018		2,769.1	2,827.4	2,819.9	2,819.5		
2019			3,242.5	3,259.2	3,255.9		
2020				3,250.1	3,322.5		
2021					4,438.1		
Total					\$ 16,477.7		
All outstanding liabilities before 2017, net of reinsurance <sup>1</sup>					2.1		
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 277.6		

<sup>1</sup> Required supplementary information (unaudited)

**Personal Lines - Direct - Liability**  
(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2021	
Accident Year	For the years ended December 31,					Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 4,209.5	\$ 4,209.9	\$ 4,229.3	\$ 4,254.4	\$ 4,219.2	\$ (0.5)	772,945
2018		4,904.8	4,980.9	5,003.2	5,052.5	77.1	871,243
2019			5,756.5	5,811.7	5,837.9	91.9	957,488
2020				5,356.9	5,322.7	263.2	787,231
2021					6,964.7	972.2	970,710
Total					\$ 27,397.0		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
Accident Year	For the years ended December 31,						
	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 1,912.6	\$ 3,255.2	\$ 3,808.3	\$ 4,035.6	\$ 4,147.1		
2018		2,235.1	3,863.5	4,481.7	4,787.7		
2019			2,630.3	4,452.5	5,218.8		
2020				2,301.3	4,018.7		
2021					2,915.0		
Total					\$ 21,087.3		
All outstanding liabilities before 2017, net of reinsurance <sup>1</sup>					63.5		
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 6,373.2		

<sup>1</sup> Required supplementary information (unaudited)

**Personal Lines - Direct - Physical Damage**  
(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2021	
Accident Year	For the years ended December 31,					Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 2,750.6	\$ 2,743.7	\$ 2,749.0	\$ 2,745.6	\$ 2,750.8	\$ 0.8	1,791,658
2018		3,202.3	3,181.9	3,182.0	3,179.3	(6.2)	2,070,183
2019			3,787.9	3,737.8	3,749.6	(5.5)	2,271,699
2020				3,775.6	3,753.3	(26.1)	2,136,940
2021					5,752.3	(311.9)	2,618,463
Total					\$ 19,185.3		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
Accident Year	For the years ended December 31,						
	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 2,742.1	\$ 2,753.5	\$ 2,748.4	\$ 2,747.6	\$ 2,747.9		
2018		3,170.0	3,193.8	3,183.0	3,182.6		
2019			3,782.6	3,751.3	3,746.8		
2020				3,720.0	3,765.9		
2021					5,421.9		
Total					\$ 18,865.1		
All outstanding liabilities before 2017, net of reinsurance <sup>1</sup>					2.1		
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 322.3		

<sup>1</sup> Required supplementary information (unaudited)

**Commercial Lines - Liability**  
(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2021	
For the years ended December 31,						Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
Accident Year	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 1,477.2	\$ 1,470.2	\$ 1,492.6	\$ 1,472.2	\$ 1,462.3	\$ 5.9	102,806
2018		1,880.4	1,913.7	1,976.2	1,971.4	34.7	119,972
2019			2,301.1	2,370.9	2,426.3	82.0	136,273
2020				2,335.7	2,388.8	175.5	117,027
2021					3,446.6	650.0	153,749
Total					\$ 11,695.4		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
For the years ended December 31,							
Accident Year	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 337.2	\$ 759.5	\$ 1,085.4	\$ 1,257.1	\$ 1,353.0		
2018		401.4	979.9	1,392.3	1,666.8		
2019			474.8	1,184.4	1,684.5		
2020				440.8	1,110.4		
2021					573.6		
Total					\$ 6,388.3		
All outstanding liabilities before 2017, net of reinsurance <sup>1</sup>					74.0		
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 5,381.1		

<sup>1</sup> Required supplementary information (unaudited)

**Commercial Lines - Physical Damage**  
(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2021	
For the years ended December 31,						Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
Accident Year	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 463.9	\$ 459.3	\$ 457.3	\$ 456.1	\$ 456.6	\$ 0	87,721
2018		528.7	528.3	526.3	525.6	(1.1)	93,305
2019			633.1	628.3	626.6	(1.9)	99,456
2020				631.8	624.9	(4.4)	99,436
2021					920.9	(11.4)	123,801
Total					\$ 3,154.6		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
For the years ended December 31,							
Accident Year	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 408.5	\$ 456.0	\$ 455.4	\$ 455.6	\$ 455.6		
2018		467.6	524.8	524.9	525.4		
2019			561.1	625.1	624.8		
2020				540.6	621.8		
2021					764.2		
Total					\$ 2,991.8		
All outstanding liabilities before 2017, net of reinsurance <sup>1</sup>					0.7		
Liabilities for claims and claim adjustment expenses, net of reinsurance					\$ 163.5		

<sup>1</sup> Required supplementary information (unaudited)

Commercial Lines - Other  
(\$ in millions)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance											As of December 31, 2021	
Accident Year	For the years ended December 31,										Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
	2012 <sup>1</sup>	2013 <sup>1</sup>	2014 <sup>1</sup>	2015 <sup>1</sup>	2016 <sup>1</sup>	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2012	\$ 62.2	\$ 59.2	\$ 57.0	\$ 61.7	\$ 68.8	\$ 71.9	\$ 70.1	\$ 70.0	\$ 70.9	\$ 71.1	\$ 3.0	7,434
2013		66.4	68.1	65.3	75.4	81.6	77.9	78.9	78.9	78.9	4.4	7,703
2014			74.9	70.0	68.3	70.5	70.7	69.4	70.7	70.9	4.3	7,969
2015				51.2	45.4	46.1	48.3	47.0	44.8	45.1	4.9	8,519
2016					51.8	43.3	41.0	41.5	40.2	40.1	3.8	7,065
2017						62.6	54.6	51.1	48.8	46.2	5.8	17,653
2018							81.5	81.3	76.7	77.0	7.8	15,389
2019								80.7	83.1	85.4	14.7	10,577
2020									75.0	80.7	24.8	9,260
2021										84.1	45.9	8,472
Total										\$ 679.5		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance												
Accident Year	For the years ended December 31,											
	2012 <sup>1</sup>	2013 <sup>1</sup>	2014 <sup>1</sup>	2015 <sup>1</sup>	2016 <sup>1</sup>	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2012	\$ 14.0	\$ 28.2	\$ 38.4	\$ 47.3	\$ 53.6	\$ 58.6	\$ 62.1	\$ 63.3	\$ 64.2	\$ 64.1		
2013		13.7	30.6	43.6	55.6	61.9	66.9	68.9	70.8	71.7		
2014			18.6	33.9	44.3	51.1	56.9	59.0	61.1	64.2		
2015				6.5	18.1	26.5	30.9	33.9	36.1	37.1		
2016					8.5	20.9	27.0	30.6	32.7	33.8		
2017						9.6	24.4	30.8	34.5	36.9		
2018							17.6	39.6	49.5	56.7		
2019								20.0	42.4	56.0		
2020									15.8	38.6		
2021										16.9		
Total										\$ 476.0		
All outstanding liabilities before 2012, net of reinsurance <sup>1</sup>										26.3		
Liabilities for claims and claim adjustment expenses, net of reinsurance										<u>\$ 229.8</u>		

<sup>1</sup> Required supplementary information (unaudited)

**Property Business**  
(\$ in millions)

**Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance**

**As of**  
**December 31, 2021**

Accident Year	For the years ended December 31,					Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Incurred Claim Counts
	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 672.8	\$ 680.9	\$ 683.4	\$ 681.3	\$ 681.5	\$ 0.4	76,236
2018		839.0	845.2	845.4	846.5	11.0	64,872
2019			971.7	965.2	962.8	2.4	75,434
2020				1,223.5	1,246.8	56.8	109,427
2021					1,539.6	333.4	118,874
				Total	\$ 5,277.2		
Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							
Accident Year	For the years ended December 31,						
	2017 <sup>1</sup>	2018 <sup>1</sup>	2019 <sup>1</sup>	2020 <sup>1</sup>	2021		
2017	\$ 506.7	\$ 647.1	\$ 670.1	\$ 675.0	\$ 679.1		
2018		595.9	781.2	812.6	826.6		
2019			708.0	930.4	950.5		
2020				832.5	1,141.2		
2021					1,035.4		
				Total	\$ 4,632.8		
				All outstanding liabilities before 2017, net of reinsurance <sup>1</sup>	6.1		
				Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 650.5		

<sup>1</sup> Required supplementary information (unaudited)

The following table reconciles the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses:

(millions)	2021	2020
Net outstanding liabilities		
Personal Lines		
Agency, Liability	\$ 6,274.3	\$ 5,378.7
Agency, Physical Damage	277.6	82.4
Direct, Liability	6,373.2	5,277.3
Direct, Physical Damage	322.3	40.6
Commercial Lines		
Liability	5,381.1	3,586.3
Physical Damage	163.5	82.7
Other	229.8	0
Property	650.5	474.7
Other business	62.6	66.7
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	19,734.9	14,989.4
Reinsurance recoverable on unpaid claims		
Personal Lines		
Agency, Liability	916.9	959.6
Agency, Physical Damage	0	0
Direct, Liability	1,472.7	1,475.8
Direct, Physical Damage	0	0
Commercial Lines		
Liability	1,266.4	758.5
Physical Damage	2.4	(0.3)
Other	202.0	0
Property	370.0	226.9
Other business	463.8	358.6
Total reinsurance recoverable on unpaid claims	4,694.2	3,779.1
Unallocated claims adjustment expense related to:		
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	1,695.6	1,478.2
Reinsurance recoverable on unpaid claims	39.4	19.1
Total gross liability for unpaid claims and claim adjustment expense	\$ 26,164.1	\$ 20,265.8

The following table shows the average historical claims duration as of December 31, 2021:

(Required Supplementary Information - Unaudited)

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance	Years				
	1	2	3	4	5
Personal Lines					
Agency, Liability	44.6%	31.3%	12.2%	5.6%	2.9%
Agency, Physical Damage	97.3	1.6	(0.2)	0	0
Direct, Liability	43.8	31.9	12.8	5.8	2.6
Direct, Physical Damage	98.2	0.4	(0.2)	0	0
Commercial Lines					
Liability	19.0	28.9	21.1	13.0	6.6
Physical Damage	86.9	11.2	0	0.1	0
Other	20.8	25.6	15.2	10.9	7.4
Property	69.7	22.9	3.0	1.2	0.6

## 7. REINSURANCE

The effect of reinsurance on premiums written and earned for the years ended December 31, was as follows:

(millions)	2021		2020		2019	
	Written	Earned	Written	Earned	Written	Earned
Direct premiums	\$ 48,129.6	\$ 46,018.6	\$ 41,736.4	\$ 40,687.7	\$ 39,222.0	\$ 37,519.7
Ceded premiums:						
Regulated	(674.5)	(650.2)	(648.2)	(686.5)	(711.1)	(670.8)
Non-Regulated	(1,049.9)	(999.7)	(519.5)	(739.6)	(933.0)	(656.5)
Total ceded premiums	(1,724.4)	(1,649.9)	(1,167.7)	(1,426.1)	(1,644.1)	(1,327.3)
Net premiums	\$ 46,405.2	\$ 44,368.7	\$ 40,568.7	\$ 39,261.6	\$ 37,577.9	\$ 36,192.4

Regulated refers to federal or state run plans and primarily includes the following:

- Federal reinsurance plan
  - National Flood Insurance Program (NFIP)
- State-provided reinsurance facilities
  - Michigan Catastrophic Claims Association (MCCA)
  - North Carolina Reinsurance Facility (NCRF)
  - Florida Hurricane Catastrophe Fund (FHCF)
- State-mandated involuntary plans
  - Commercial Automobile Insurance Procedures/Plans (CAIP)

Non-Regulated represents voluntary external reinsurance contracts entered into by the company. These include amounts ceded on our Commercial Lines business primarily related to transportation network company

(TNC) business, workers' compensation, and fleet trucking, which are all ceded under quota-share reinsurance agreements. Amounts ceded on our Property business are primarily multi-year catastrophic excess of loss and aggregate excess of loss agreements.

Non-regulated ceded written premium increased in 2021 and decreased in 2020, primarily due to our TNC business. Since TNC premiums are based on miles driven during the policy period, the fluctuations reflect the decrease in miles driven during 2020 due to the COVID-19 restrictions that were in place, and the subsequent lifting of those restrictions during 2021. The increase in 2021 was also driven by the acquisition of Protective Insurance, which cedes premiums on its workers' compensation and fleet trucking policies.

Our reinsurance recoverables and prepaid reinsurance premiums were comprised of the following at December 31:

(\$ in millions)	Reinsurance Recoverables				Prepaid Reinsurance Premiums			
	2021		2020		2021		2020	
Regulated:								
MCCA	\$ 2,364.0	47 %	\$ 2,428.8	60 %	\$ 26.7	6 %	\$ 33.3	9 %
CAIP	529.0	11	397.8	10	111.2	24	84.7	23
NCRF	118.7	2	88.6	2	44.4	10	41.9	11
FHCF	81.3	2	54.8	1	0	0	0	0
NFIP	13.9	0	24.2	1	62.4	14	60.7	17
Other	2.2	0	3.2	0	1.4	0	1.3	0
Total Regulated	3,109.1	62	2,997.4	74	246.1	54	221.9	60
Non-Regulated:								
Commercial Lines	1,518.4	31	753.2	19	198.2	43	134.5	37
Property	345.8	7	261.7	7	13.3	3	11.7	3
Other	7.2	0	7.1	0	0	0	0	0
Total Non-Regulated	1,871.4	38	1,022.0	26	211.5	46	146.2	40
Total	\$ 4,980.5	100 %	\$ 4,019.4	100 %	\$ 457.6	100 %	\$ 368.1	100 %

Reinsurance contracts do not relieve us from our obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to us. Our exposure to losses from the failure of Regulated plans is minimal, since these plans are funded by the federal government or

by mechanisms supported by insurance companies in applicable states. We evaluate the financial condition of our other reinsurers and monitor concentrations of credit risk to minimize our exposure to significant losses from reinsurer insolvencies. The increase in the Commercial



Lines reinsurance recoverables and prepaid reinsurance premiums during 2021 primarily reflected growth in our TNC business and the acquisition of Protective Insurance.

We routinely monitor changes in the credit quality and concentration risks of the reinsurers who are counterparties to our reinsurance recoverables to determine if an allowance for credit losses should be established. For at-risk uncollateralized recoverable balances, we evaluate a number of reinsurer specific factors, including reinsurer

## 8. STATUTORY FINANCIAL INFORMATION

Consolidated statutory surplus was \$16,423.7 million and \$15,194.6 million at December 31, 2021 and 2020, respectively. Statutory net income was \$2,283.9 million, \$4,911.4 million, and \$3,489.7 million for the years ended December 31, 2021, 2020, and 2019, respectively.

At December 31, 2021, \$1,314.5 million of consolidated statutory surplus represented net admitted assets of our insurance subsidiaries and affiliates that are required to meet minimum statutory surplus requirements in such entities' states of domicile. The companies may be licensed in states other than their states of domicile, which may have higher minimum statutory surplus requirements. Generally, the net admitted assets of insurance companies that, subject to other applicable insurance laws and

## 9. EMPLOYEE BENEFIT PLANS

**Retirement Plans** Progressive has a defined contribution pension plan (401(k) Plan) that covers employees who have been employed with the company for at least 30 days. Under Progressive's 401(k) Plan, we match up to a maximum of 6% of an employee's eligible compensation contributed to the plan. Employee and company matching contributions are invested, at the direction of the employee, in a number of investment options available under the plan, including various mutual funds, a self-directed brokerage option, and a Progressive common stock fund.

Progressive's common stock fund is an employee stock ownership program (ESOP) within the 401(k) Plan. At December 31, 2021, the ESOP held 20.9 million of our common shares, all of which are included in shares outstanding. Dividends on these shares are reinvested in common shares or paid out in cash, at the election of the participant, and the related tax benefit is recorded as part of our tax provision. Matching contributions to the 401(k) Plan for the years ended December 31, 2021, 2020, and 2019 were \$159.2 million, \$131.2 million, and \$120.8 million, respectively.

credit quality rating, credit rating outlook, historical experience, reinsurer surplus, recoverable duration, and collateralization composition in respect to our net exposure (i.e., the reinsurance recoverable amount less premiums payable to the reinsurer, where the right to offset exists). At December 31, 2021 and 2020, the allowance for credit losses related to these contracts was not material to our financial condition or results of operations.

regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the companies are licensed.

During 2021, the insurance subsidiaries paid aggregate cash dividends of \$2,857.0 million to their parent company. Based on the dividend laws currently in effect, the insurance subsidiaries could pay aggregate dividends of \$2,504.3 million in 2022 without prior approval from regulatory authorities, provided the dividend payments are not made within 12 months of previous dividends paid by the applicable subsidiary.

**Postemployment Benefits** Progressive provides various postemployment benefits to former or inactive employees who meet eligibility requirements, and to their beneficiaries and covered dependents. Postemployment benefits include salary continuation and disability-related benefits, including workers' compensation and, if elected, continuation of health-care benefits for specified limited periods. The liability for these benefits was \$22.3 million and \$24.1 million at December 31, 2021 and 2020, respectively.

**Incentive Compensation Plans – Employees** Progressive's incentive compensation programs include both non-equity incentive plans (cash) and equity incentive plans. Progressive's cash incentive compensation includes an annual cash incentive program (i.e., Gainshare Program) for virtually all employees. Progressive's equity incentive compensation plans provide for the granting of restricted stock unit awards to key members of management.

The amounts charged to expense for incentive compensation plans for the years ended December 31, were:

(millions)	2021		2020		2019	
	Pretax	After Tax	Pretax	After Tax	Pretax	After Tax
Non-equity incentive plans – cash	\$ 619.3	\$ 489.2	\$ 688.8	\$ 544.2	\$ 598.4	\$ 472.7
Equity incentive plans	100.7	79.6	89.4	70.6	90.1	71.2

Under Progressive’s 2015 Equity Incentive Plan, which provides for the granting of equity-based compensation to officers and other key employees, 17.0 million shares, in the aggregate, were authorized for issuance.

The restricted equity awards are issued as either time-based or performance-based awards. Generally, equity awards are expensed pro rata over their respective vesting periods, based on the market value of the awards at the time of grant, with accelerated expense for participants who reach qualified retirement provisions. The time-based awards vest in equal installments upon the lapse of specified periods of time, typically three, four, and five years, subject to the retirement provisions of the applicable award agreements.

Performance-based awards that contain variable vesting criteria are expensed based on management’s expectation of the percentage of the award, if any, that will ultimately vest. These estimates can change periodically throughout the measurement period. Vesting of performance-based awards is contingent upon the achievement of pre-determined performance goals within specified time periods.

The performance-based awards were granted to executives and other senior managers in 2021, in addition to their time-based awards, to provide additional incentive to achieve pre-established profitability and growth targets or relative investment performance. The targets for the performance-based awards, as well as the number of units that ultimately may vest, vary by grant.

The details of the performance-based equity awards that were outstanding at December 31, 2021, were as follows:

Performance Measurement	Year(s) of Grant	Vesting range (as a percentage of target)
Growth of our personal auto and commercial auto businesses and homeowners multi-peril business, each compared to its respective market	2019-2021	0-250%
Investment results relative to peer group	2019-2021	0-200%

All restricted equity awards are settled at or after vesting in Progressive common shares from existing treasury shares on a one-to-one basis.

A summary of all employee restricted equity award activity during the years ended December 31, follows:

	2021		2020		2019	
	Number of Shares <sup>1</sup>	Weighted Average Grant Date Fair Value	Number of Shares <sup>1</sup>	Weighted Average Grant Date Fair Value	Number of Shares <sup>1</sup>	Weighted Average Grant Date Fair Value
<b>Restricted Equity Awards</b>						
Beginning of year	3,570,271	\$ 57.68	3,879,077	\$ 48.28	4,856,356	\$ 38.56
Add (deduct):						
Granted <sup>2</sup>	1,476,802	70.11	1,629,534	55.28	1,835,145	49.61
Vested	(1,452,353)	46.88	(1,861,442)	36.19	(2,691,337)	31.85
Forfeited	(55,698)	60.81	(76,898)	52.79	(121,087)	43.98
End of year <sup>3,4</sup>	3,539,022	\$ 67.24	3,570,271	\$ 57.68	3,879,077	\$ 48.28

<sup>1</sup> Includes restricted stock units. All performance-based awards are included at their target amounts.

<sup>2</sup> We reinvest dividend equivalents on restricted stock units. For 2021, 2020, and 2019, the number of units “granted” shown in the table above includes 237,582, 144,389, and 210,159 of dividend equivalent units, respectively, at a weighted average grant date fair value of \$0, since the dividends were factored into the grant date fair value of the original grant.

<sup>3</sup> At December 31, 2021, the number of shares included 727,596 performance-based units at their target amounts. We expect 1,497,347 units to vest based upon our current estimates of the likelihood of achieving the pre-determined performance goals applicable to each award.

<sup>4</sup> At December 31, 2021, the total unrecognized compensation cost related to unvested equity awards was \$93.8 million, which includes performance-based awards at their currently estimated vesting value. This compensation expense will be recognized into the consolidated statements of comprehensive income over the weighted average vesting period of 2.1 years.

The aggregate fair value of the restricted equity awards that vested during the years ended December 31, 2021, 2020, and 2019, was \$139.1 million, \$148.9 million, and \$191.6 million, respectively, based on the actual stock price on the applicable vesting date.

**Incentive Compensation Plans – Directors** Progressive’s 2017 Directors Equity Incentive Plan, which provides for the granting of equity-based awards, including restricted stock awards, to non-employee directors, was approved by shareholders in 2017 and originally authorized awards for up to 0.5 million shares.

The Progressive Corporation permits each non-employee director to indicate a preference to receive either 100% of their compensation in the form of a restricted stock award or 60% in the form of a restricted stock award and 40% in the form of cash. If the director does not state a preference,

A summary of all directors’ restricted stock activity during the years ended December 31, follows:

	2021		2020		2019	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
<b>Restricted Stock</b>						
Beginning of year	39,403	\$ 74.77	38,451	\$ 73.43	41,706	\$ 62.23
Add (deduct):						
Granted	29,206	105.16	39,403	74.77	38,451	73.43
Vested	(39,403)	74.77	(38,451)	73.43	(41,706)	62.23
End of year <sup>1</sup>	29,206	\$ 105.16	39,403	\$ 74.77	38,451	\$ 73.43

<sup>1</sup> At December 31, 2021, 2020, and 2019, the remaining unrecognized compensation cost related to restricted stock awards was \$0.9 million, \$0.9 million, and \$0.8 million, respectively.

The aggregate fair value of the restricted stock vested during the years ended December 31, 2021, 2020, and 2019, was \$3.8 million, \$3.0 million, and \$3.0 million, respectively, based on the actual stock price at time of vesting.

**Deferred Compensation** The Progressive Corporation Executive Deferred Compensation Plan (Deferral Plan) permits eligible Progressive executives to defer receipt of some or all of their annual incentive payments and all of their annual equity awards. Deferred cash compensation is deemed invested in one or more investment funds, including Progressive common shares, offered under the Deferral Plan and elected by the participant. All Deferral Plan distributions attributable to deferred cash compensation will be paid in cash.

For all equity awards granted in or after March 2005, and deferred pursuant to the Deferral Plan, the deferred amounts are deemed invested in our common shares and are ineligible for transfer to other investment funds in the Deferral Plan; distributions of these deferred awards will be made in Progressive common shares. For all restricted stock awards granted prior to that date, the deferred amounts are eligible to be transferred to any of the investment funds in the Deferral Plan; distributions of

it is presumed that they preferred to receive 100% of their compensation in the form of restricted stock. After considering such preferences, the Compensation Committee of the Board of Directors determines the awards (restricted stock, or restricted stock and cash) for each non-employee director.

The restricted stock awards are issued as time-based awards. The vesting period (i.e., requisite service period) is typically 11 months from the date of each grant. To the extent a director is newly appointed during the year, or a director’s committee assignments change, the vesting period may be shorter. Both the restricted stock awards and cash, if elected, are expensed pro rata over their respective vesting periods based on the market value of the awards at the time of grant.

these deferred awards will be made in cash. We reserved 11.1 million of our common shares for issuance under the Deferral Plan.

An irrevocable grantor trust has been established to provide a source of funds to assist us in meeting our liabilities under the Deferral Plan. The Deferral Plan Irrevocable Grantor Trust account held the following assets at December 31:

(millions)	2021	2020
Progressive common shares <sup>1</sup>	\$ 137.1	\$ 134.2
Other investment funds <sup>2</sup>	189.1	167.2
Total	\$ 326.2	\$ 301.4

<sup>1</sup> Included 2.4 million and 2.8 million common shares as of December 31, 2021 and 2020, respectively, to be distributed in common shares, and are reported at grant date fair value.

<sup>2</sup> Amount is included in other assets on the consolidated balance sheets.

## 10. SEGMENT INFORMATION

We write personal and commercial auto insurance, personal residential and commercial property insurance, workers' compensation insurance, general liability insurance, and other specialty property-casualty insurance and provide related services. Our Personal Lines segment writes insurance for personal autos and recreational vehicles (our special lines products). The Personal Lines segment is comprised of both the Agency and Direct businesses. The Agency business includes business written by our network of more than 40,000 independent insurance agencies, including brokerages in New York and California, and strategic alliance business relationships (including other insurance companies, financial institutions, and national agencies). The Direct business includes business written directly by us online, by phone, or on mobile devices. We operate our Personal Lines businesses throughout the United States.

Our Commercial Lines segment writes auto-related liability and physical damage insurance, workers' compensation insurance primarily for the transportation industry, and business-related general liability and property insurance, predominately for small businesses. This segment operates throughout the United States and is distributed through both the independent agency, including brokerages, and direct channels.

Our Property segment writes residential property insurance for homeowners, other property owners, and renters through both the independent agency and direct channel, and writes flood insurance through the "Write Your Own" program for the National Flood Insurance Program,

through the agency channel. Our Property segment operates throughout the majority of the United States.

Our service businesses provide insurance-related services, including processing CAIP business and 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.

We evaluate profitability based on pretax underwriting profit (loss) for the Personal Lines, Commercial Lines, and Property segments. 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; (iii) other underwriting expenses; and (iv) policyholder credit expense. Service business pretax profit (loss) is the difference between service business revenues and service business expenses.

Assets and income taxes are not allocated to operating segments, as such allocation would be impractical. Expense allocations are based on certain assumptions and estimates primarily related to revenue and volume; stated segment operating results would change if different methods were applied. We do not separately identify depreciation expense by segment. Companywide depreciation expense was \$279.7 million in 2021, \$274.9 million in 2020, and \$239.8 million in 2019. The accounting policies of the operating segments are the same as those described in *Note 1 – Reporting and Accounting Policies*.

Following are the operating results for the years ended December 31:

	2021		2020		2019	
(millions)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)	Revenues	Pretax Profit (Loss)
Personal Lines						
Agency	\$ 16,881.0	\$ 992.1	\$ 15,789.5	\$ 2,236.5	\$ 14,904.1	\$ 1,673.2
Direct	18,492.3	619.2	16,830.6	2,076.5	15,305.9	1,181.4
Total Personal Lines <sup>1</sup>	35,373.3	1,611.3	32,620.1	4,313.0	30,210.0	2,854.6
Commercial Lines	6,945.2	767.8	4,875.8	634.8	4,427.6	458.8
Property <sup>2</sup>	2,042.5	(312.3)	1,765.7	(125.1)	1,554.8	(26.1)
Other indemnity <sup>3</sup>	7.7	(1.4)	0	0	0	0
Total underwriting operations	44,368.7	2,065.4	39,261.6	4,822.7	36,192.4	3,287.3
Fees and other revenues <sup>4</sup>	691.8	NA	603.5	NA	563.7	NA
Service businesses	271.4	18.6	226.4	20.9	195.0	16.1
Investments <sup>5</sup>	2,370.1	2,344.6	2,566.6	2,546.6	2,071.2	2,046.6
Interest expense	NA	(218.6)	NA	(217.0)	NA	(189.7)
Consolidated total	\$ 47,702.0	\$ 4,210.0	\$ 42,658.1	\$ 7,173.2	\$ 39,022.3	\$ 5,160.3

NA = Not applicable

<sup>1</sup> Personal auto insurance accounted for 94% of the total Personal Lines segment net premiums earned in 2021, 2020, and 2019; insurance for our special lines products (e.g., motorcycles, ATVs, RVs, watercraft, and snowmobiles) accounted for the balance of the Personal Lines net premiums earned.

<sup>2</sup> During 2021, 2020, and 2019, pretax profit (loss) includes \$56.6 million, \$56.9 million, and \$66.3 million, respectively, of amortization expense predominately associated with intangible assets attributable to our Property segment. See *Note 16 – Goodwill and Intangible Assets* for further discussion.

<sup>3</sup> Primarily includes Protective Insurance's run-off business operations.

<sup>4</sup> Pretax profit (loss) for fees and other revenues is allocated to operating segments.

<sup>5</sup> Revenues represent recurring investment income and total net realized gains (losses) on securities; pretax profit is net of investment expenses.

Our management uses underwriting margin and combined ratio as primary measures of underwriting profitability, as defined above. The underwriting margin is the pretax underwriting profit (loss) expressed as a percentage of net premiums earned (i.e., revenues from underwriting operations). Combined ratio is the complement of the underwriting margin. Following are the underwriting margins and combined ratios for our underwriting operations for the years ended December 31:

	2021		2020		2019	
	Underwriting Margin	Combined Ratio	Underwriting Margin	Combined Ratio	Underwriting Margin	Combined Ratio
Personal Lines						
Agency	5.9 %	94.1	14.2 %	85.8	11.2 %	88.8
Direct	3.4	96.6	12.3	87.7	7.7	92.3
Total Personal Lines	4.6	95.4	13.2	86.8	9.5	90.5
Commercial Lines	11.1	88.9	13.0	87.0	10.4	89.6
Property <sup>1</sup>	(15.3)	115.3	(7.1)	107.1	(1.7)	101.7
Total underwriting operations	4.7	95.3	12.3	87.7	9.1	90.9

<sup>1</sup> Included in 2021, 2020, and 2019, are 2.8 points, 3.2 points, and 4.3 points, respectively, of amortization expense associated with intangible assets.

## 11. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss), including reclassification adjustments by income statement line item, for the years ended December 31, were as follows:

(millions)	Components of Changes in Accumulated Other Comprehensive Income (after tax)					
	Pretax total accumulated other comprehensive income (loss)	Total tax (provision) benefit	After tax total accumulated other comprehensive income (loss)	Total net unrealized gains (losses) on securities	Net unrealized gains (losses) on forecasted transactions	Foreign currency translation adjustment
Balance at December 31, 2020	\$ 1,187.4	\$ (255.7)	\$ 931.7	\$ 947.3	\$ (15.6)	\$ 0
Other comprehensive income (loss) before reclassifications:						
Investment securities	(892.4)	193.0	(699.4)	(699.4)	0	0
Foreign currency translation adjustment	(0.8)	0.2	(0.6)	0	0	(0.6)
Total other comprehensive income (loss) before reclassifications	(893.2)	193.2	(700.0)	(699.4)	0	(0.6)
Less: Reclassification adjustment for amounts realized in net income by income statement line item:						
Net realized gains (losses) on securities	242.8	(51.1)	191.7	191.7	0	0
Interest expense	(0.9)	0.2	(0.7)	0	(0.7)	0
Total reclassification adjustment for amounts realized in net income	241.9	(50.9)	191.0	191.7	(0.7)	0
Total other comprehensive income (loss)	(1,135.1)	244.1	(891.0)	(891.1)	0.7	(0.6)
Balance at December 31, 2021	\$ 52.3	\$ (11.6)	\$ 40.7	\$ 56.2	\$ (14.9)	\$ (0.6)

(millions)	Components of Changes in Accumulated Other Comprehensive Income (after tax)					
	Pretax total accumulated other comprehensive income (loss)	Total tax (provision) benefit	After tax total accumulated other comprehensive income (loss)	Total net unrealized gains (losses) on securities	Net unrealized gains (losses) on forecasted transactions	(Income) loss attributable to NCI
Balance at December 31, 2019	\$ 435.7	\$ (94.0)	\$ 341.7	\$ 360.8	\$ (16.4)	\$ (2.7)
Reclassification of disproportionate amounts <sup>1</sup>	3.4	(0.7)	2.7	0	0	2.7
Adjusted balance at December 31, 2019	439.1	(94.7)	344.4	360.8	(16.4)	0
Other comprehensive income (loss) before reclassifications:						
Investment securities	1,557.2	(306.1)	1,251.1	1,251.1	0	0
Total other comprehensive income (loss) before reclassifications	1,557.2	(306.1)	1,251.1	1,251.1	0	0
Less: Reclassification adjustment for amounts realized in net income by income statement line item:						
Net realized gains (losses) on securities	810.0	(145.4)	664.6	664.6	0	0
Interest expense	(1.1)	0.3	(0.8)	0	(0.8)	0
Total reclassification adjustment for amounts realized in net income	808.9	(145.1)	663.8	664.6	(0.8)	0
Total other comprehensive income (loss)	748.3	(161.0)	587.3	586.5	0.8	0
Balance at December 31, 2020	\$ 1,187.4	\$ (255.7)	\$ 931.7	\$ 947.3	\$ (15.6)	\$ 0

<sup>1</sup>Adjustment to reflect the change in value on (income) loss attributable to noncontrolling interest in conjunction with the purchase transaction (See Note 15 - Redeemable Noncontrolling Interest for additional information).

(millions)	Components of Changes in Accumulated Other Comprehensive Income (after tax)						
	Pretax total accumulated other comprehensive income (loss)	Total tax (provision) benefit	After tax total accumulated other comprehensive income (loss)	Total net unrealized gains (losses) on securities	Net unrealized gains (losses) on forecasted transactions	(Income) loss attributable to NCI	
Balance at December 31, 2018	\$ (153.0)	\$ 32.1	\$ (120.9)	\$ (105.6)	\$ (17.2)	\$ 1.9	
Other comprehensive income (loss) before reclassifications:							
Investment securities	825.8	(174.9)	650.9	650.9	0	0	
Loss attributable to noncontrolling interest	(5.9)	1.3	(4.6)	0	0	(4.6)	
Total other comprehensive income (loss) before reclassifications	819.9	(173.6)	646.3	650.9	0	(4.6)	
Less: Reclassification adjustment for amounts realized in net income by income statement line item:							
Net realized gains (losses) on securities	232.2	(47.7)	184.5	184.5	0	0	
Interest expense	(1.0)	0.2	(0.8)	0	(0.8)	0	
Total reclassification adjustment for amounts realized in net income	231.2	(47.5)	183.7	184.5	(0.8)	0	
Total other comprehensive income (loss)	588.7	(126.1)	462.6	466.4	0.8	(4.6)	
Total at December 31, 2019	\$ 435.7	\$ (94.0)	\$ 341.7	\$ 360.8	\$ (16.4)	\$ (2.7)	

In an effort to manage interest rate risk, we may enter into forecasted transactions on Progressive's debt issuances. We expect to reclassify \$0.5 million (pretax) into interest expense during the next 12 months, related to net unrealized losses on forecasted transactions (see *Note 4 – Debt* for further discussion).

## 12. 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 insurance subsidiaries are named as defendants in a number of class action or individual lawsuits that challenge certain of the operations of the subsidiaries.

We describe litigation contingencies for which a loss is probable. In addition, we establish accruals for these lawsuits when we can reasonably estimate potential loss exposure, which may include a range of loss, and we will disclose such amount or range of loss if material. As to lawsuits for which the loss is considered probable but not estimable, we do not establish an accrual. Nevertheless, we continue to evaluate this pending litigation to determine if any losses not deemed probable and estimable become so, at which point we would establish an accrual at our best estimate of the loss or range of loss. We also describe litigation contingencies for which a loss is reasonably possible (but not probable). When disclosing reasonably possible litigation contingencies, we will disclose the amount or range of possible loss, if we are able to make that determination and if material. We review all reasonably possible losses on an ongoing basis to determine whether the likelihood of incurring a loss has

become probable, or whether the circumstances have changed such that we may now reasonably estimate a range of loss.

We may also be exposed to litigation contingencies that are remote. Remote litigation contingencies are those for which the likelihood of a loss is slight at period end. We do not disclose, or establish accruals for, remote litigation contingencies, but we evaluate these contingencies on an ongoing basis to determine whether the likelihood of a loss has increased.

Each year, certain of our pending litigation matters are brought to conclusion. For cases that have settled, but for which settlement is not complete, an accrual is established at our best estimate of the loss exposure. We regularly review these and other accruals to ensure they are adequate.

Settlements that are complete are fully reflected in our financial statements. The amounts accrued and/or paid for settlements during the periods presented were not material to our consolidated financial condition, cash flows, or results of operations.

The pending lawsuits summarized below are in various stages of development, and the outcomes are uncertain until final disposition or, if probable and estimable, are accrued and immaterial as of December 31, 2021. At period end, except to the extent an immaterial accrual has been established, we do not consider the losses from these

pending cases to be both probable and estimable, and we are unable to estimate a range of loss at this time. It is not possible to determine loss exposure for a number of reasons, including, without limitation, one or more of the following: liability appears to be remote; putative class action lawsuits generally pose immaterial exposure until a class is actually certified, which, historically, has not been granted by courts in the vast majority of our cases in which class certification has been sought; even certified class action lawsuits are subject to decertification, denial of liability and/or appeal; class definitions are often indefinite and preclude detailed exposure analysis; and complaints rarely state an amount sought as relief, and when such amount is stated, it often is a function of pleading requirements and may be unrelated to the potential exposure.

We plan to contest these suits vigorously, but may pursue settlement negotiations in some cases, as we deem appropriate. In the event that any one or more of these cases results in a substantial judgment against us, or settlement by us, or if our accruals (if any) prove to be inadequate, the resulting liability could have a material adverse effect on our consolidated financial condition, cash flows, and/or results of operations. Based on information currently known, we do not believe that the outcome of any pending cases described below will have a material impact on our consolidated financial condition, cash flows, and/or results of operations.

At December 31, 2021, pending lawsuits as described above that challenge certain of the operations of our subsidiaries included:

Lawsuits seeking class/collective action status:

- alleging we improperly handle, adjust, and pay physical damage claims, including how we value total loss claims, the payment of fees and taxes associated with total losses, and the payment of diminution of value damages.
- alleging we improperly adjust PIP claims in Florida.
- alleging we improperly adjust medical bills submitted by insureds or medical providers in medical claims.
- alleging we improperly pay and reimburse Medicare Advantage Plans on first party medical, PIP, and bodily injury claims.
- alleging we improperly accept uninsured motorist rejection.
- alleging we sell illusory underinsured motorist coverage.
- alleging we wrongfully withheld payments owed to insureds under uninsured/underinsured motorist coverage.
- alleging we must pay an insured the pre-loss actual cash value of a totaled vehicle in addition to the value of the salvage vehicle if we take ownership of the salvage vehicle.
- alleging we improperly calculate basic economic loss as it relates to wage loss coverage.
- alleging we violated the Telephone Consumer Protection Act.
- alleging we provided an insufficient amount of premium relief to California and Nevada insureds in response to the COVID-19 pandemic.
- alleging we deny or limit claims made under ordinance or law coverage.
- alleging we induce claimants to sign releases days after an accident, thereby depriving them of the right to pursue claims against our insureds.
- alleging we deny enhanced injury protection benefits following an insured's death.
- alleging we fail to timely and fully refund premiums to insureds upon taking title to vehicles that have been deemed total losses.
- alleging we and other stockholders of the Tribune Co. were overpaid for stock as part of a leveraged buyout.
- alleging certain of our compensation practices and overtime payment practices are improper, including our classification of certain employees as exempt from overtime pay requirements.

Lawsuits certified or conditionally certified as class/collective actions:

- alleging we improperly value total loss claims in Florida and Washington.
- alleging we improperly fail to pay fees and taxes associated with total losses in Florida.
- alleging we improperly adjust medical bills in Washington.
- alleging that certain of our compensation practices and overtime payment practices are improper, including our classification of certain employees as exempt from overtime pay requirements.



Non-class/collective/representative lawsuits:

- alleging we breached a contract by improperly handling a portfolio of high-deductible workers' compensation claims.
- alleging we improperly paid, reimbursed, and reported on claims in which the insured or claimant is a Medicare or Medicaid beneficiary.
- alleging we improperly estimate and pay for physical damage repairs.
- alleging we mistitled a vehicle by omitting a salvage designation.
- alleging we improperly listed an operating address with the Federal Motor Carrier Safety Administration.
- alleging that various employment policies, practices, and/or decisions are improper.

### 13. LEASES

Included in our consolidated balance sheets are certain operating leases for office space, computer equipment, and vehicles that are reported as a component of other assets and accounts payable, accrued expenses, and other liabilities.

The leased assets represent our right to use an underlying asset for the lease term and the lease liabilities represent our obligation to make lease payments arising from the lease. An incremental borrowing rate is used to calculate the present value of the remaining lease payments.

Contracts are reviewed at inception to determine if it contains a lease and whether the lease qualifies as an operating or financing lease. We do not have material financing leases.

Operating leases are expensed on a straight-line basis over the term of the lease. In determining the lease term, we consider the probability of exercising renewal options. We elected to account for leases with both lease and non-lease components as a single lease component and to apply a portfolio approach to account for our vehicle leases.

The following table summarizes the carrying amounts of our operating leased assets and liabilities at December 31, along with key inputs used to discount our lease liabilities:

(millions)	2021	2020
Operating lease assets	\$ 172.6	\$ 165.5
Operating lease liabilities	\$ 180.9	\$ 179.0
Weighted-average remaining term	2.9 years	3.0 years
Weighted-average discount rate	1.6 %	2.5 %

At December 31, 2021, the following table shows our operating lease liabilities, on an undiscounted basis for the periods indicated:

(millions)	Commitments
2022	\$ 72.4
2023	56.4
2024	39.3
2025	13.8
2026	3.1
Thereafter	0.1
Total	185.1
Interest	(4.2)
Present value of lease liabilities	\$ 180.9

The operating lease expense for the years ended December 31, was as follows:

(millions)	Expense
2021	\$ 90.4
2020	95.4
2019	102.0

## 14. DIVIDENDS

Following is a summary of our common and preferred share dividends that were declared and/or paid in the last three years:

(millions, except per share amounts)		Amount	
Declared	Payable	Per Share	Accrued/Paid <sup>1</sup>
<u>Common - Annual Variable Dividends:</u>			
December 2021	December 2021	\$ 1.50	\$ 876.5
December 2020	January 2021	4.50	2,635.9
December 2019	January 2020	2.25	1,316.9
December 2018	February 2019	2.5140	1,467.9
<u>Common - Quarterly Dividends:</u>			
December 2021	January 2022	0.10	58.5
August 2021	October 2021	0.10	58.5
May 2021	July 2021	0.10	58.5
March 2021	April 2021	0.10	58.5
December 2020	January 2021	0.10	58.6
August 2020	October 2020	0.10	58.6
May 2020	July 2020	0.10	58.5
February 2020	April 2020	0.10	58.5
December 2019	January 2020	0.10	58.5
August 2019	October 2019	0.10	58.5
May 2019	July 2019	0.10	58.4
February 2019	April 2019	0.10	58.4
<u>Preferred Dividends:</u>			
December 2021	March 2022	26.875	13.4
August 2021	September 2021	26.875	13.4
December 2020	March 2021	26.875	13.4
August 2020	September 2020	26.875	13.4
February 2020	March 2020	26.875	13.4
August 2019	September 2019	26.875	13.4
February 2019	March 2019	26.875	13.4

<sup>1</sup> The accrual is based on an estimate of shares outstanding as of the record date and the common share accrual is recorded as dividends payable on common shares on the consolidated balance sheets.

### Common Share Dividends

The Board of Directors adopted a policy of declaring regular quarterly common share dividends, and on at least an annual basis, to consider declaring an additional common share dividend, which was effective beginning in 2019.

### Preferred Share Dividends

During 2018, we issued 500,000 Series B Fixed-to-Floating Rate Cumulative Perpetual Serial Preferred Shares, without par value (the Series B Preferred Shares), with a liquidation preference of \$1,000 per share (the stated amount). Holders of the Series B Preferred Shares are entitled to receive cumulative cash dividends semi-annually in March and September, if and when declared by

the Board of Directors. Until March 15, 2023 (the fixed-rate period), the annual dividend rate is fixed at 5.375% of the stated amount per share. Beginning March 15, 2023, the annual dividend rate switches to a floating rate equal to the three-month London Interbank Offered Rate (LIBOR) (or comparable successor base rate) plus a spread of 2.539% applied to the stated amount per share. After the fixed-rate period and up until redemption of the Series B Preferred Shares, the dividends would be payable quarterly, if and when declared by the Board of Directors. The Series B Preferred Shares are perpetual and have no stated maturity date. After the fixed-rate period, we may redeem the Series B Preferred Shares at the stated amount plus all accrued and unpaid dividends.

## 15. REDEEMABLE NONCONTROLLING INTEREST

On April 1, 2020, Progressive purchased all remaining outstanding stock, including shares from exercised stock options, of ARX under a separately negotiated purchase agreement at a total cost of \$243.0 million.

Since these securities were redeemable upon the occurrence of an event that was not solely within the control of Progressive, we recorded the redeemable noncontrolling interest (NCI) as mezzanine equity on our consolidated balance sheets, representing the minority shares at the current estimated purchase price pursuant to the put and call provisions of the stockholders' agreement.

The changes in the components of redeemable NCI during the years ended December 31, were:

(millions)	2021	2020	2019
Balance, beginning of year	\$ 0	\$ 225.6	\$ 214.5
Net income attributable to NCI	0	0	9.7
Other comprehensive income (loss) attributable to NCI <sup>1</sup>	0	0	4.6
Exercise of stock options	0	16.0	7.7
Purchase/change of ARX minority shares	0	(241.6)	(11.2)
Change in redemption value	0	0	0.3
Balance, end of year	\$ 0	\$ 0	\$ 225.6

<sup>1</sup> Amount represents the other comprehensive income (loss) attributable to NCI, as reflected on the consolidated statements of comprehensive income; changes in accumulated other comprehensive income (loss) attributable to NCI due to a change in the minority ownership percentage does not impact the amount of redeemable NCI.

## 16. GOODWILL AND INTANGIBLE ASSETS

### Goodwill

The majority of the goodwill recorded as of December 31, 2021 and 2020, relates to the April 1, 2015, acquisition of a controlling interest in ARX. No impairment losses have been recorded on any of the outstanding goodwill.

### Intangible Assets

The following table is a summary of the net carrying amount of other intangible assets as of December 31:

(millions)	2021	2020
Intangible assets subject to amortization	\$ 104.9	\$ 159.0
Indefinite-lived intangible assets <sup>1</sup>	12.4	12.4
Total	\$ 117.3	\$ 171.4

<sup>1</sup> 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 both years presented.

Intangible assets subject to amortization for the years ended December 31, consisted of the following:

(millions)	2021			2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Policies in force	\$ 256.2	\$ 247.1	\$ 9.1	\$ 256.2	\$ 210.4	\$ 45.8
Agency relationships	159.2	76.8	82.4	159.2	65.4	93.8
Software rights	69.1	58.3	10.8	69.1	49.7	19.4
Trade name	3.6	1.0	2.6	0	0	0
Total	\$ 488.1	\$ 383.2	\$ 104.9	\$ 484.5	\$ 325.5	\$ 159.0

During 2021, we recognized a \$3.6 million trade name intangible asset, with an estimated two-year life, in connection with the Protective Insurance acquisition.

Amortization expense was \$57.7 million, \$56.9 million, and \$66.3 million for the years ended December 31, 2021, 2020, and 2019, respectively.

The estimated aggregate amortization on these intangible assets for each of the next five years as of December 31, 2021, follows:

(millions)	Amortization Expense
2022	\$ 31.0
2023	14.3
2024	11.4
2025	11.4
2026	11.4

## 17. ACQUISITION

On June 1, 2021, The Progressive Corporation, through an indirect subsidiary, acquired all of the outstanding Class A and Class B common shares of the Protective Insurance Corporation for \$23.30 per common share in cash, or approximately \$338 million in aggregate. Through its subsidiaries, Protective Insurance provides liability and workers' compensation coverage for trucking and public transportation fleets, along with trucking industry independent contractors. As a result of the Protective Insurance acquisition, we will be able to expand our capabilities with the expertise Protective Insurance offers in larger fleet and affinity programs, by providing additional product lines for us to add to our portfolio.

Protective Insurance and its subsidiaries represented 1% of companywide net premiums written from the date of acquisition and are reported as part of our Commercial Lines segment.

All assets and liabilities were recorded at fair value at the date of acquisition. If new information is obtained within 12 months from the date of acquisition about facts and circumstances that existed at the acquisition date, we will adjust the amounts previously recorded. We recorded a \$3.6 million intangible asset related to the Protective Insurance trade name, which is being amortized over 2 years; no other intangible assets were identified. For income tax purposes, the historical tax bases of the acquired assets and assumed liabilities were carried over and were not recorded at fair value; therefore, no tax-basis goodwill was created.

At the date of acquisition, Protective Insurance had total assets of \$1.7 billion, including investment securities of \$1.1 billion; cash, cash equivalents, and restricted cash and cash equivalents of \$24.3 million; reinsurance recoverables of \$452.4 million, and total liabilities of \$1.4 billion, primarily consisting of unearned premiums of \$66.9 million and loss and loss adjustment expense reserves of \$1.1 billion. In addition, Protective Insurance had outstanding borrowings of \$20.0 million under a revolving credit facility agreement that was repaid subsequent to acquisition. All of Protective Insurance's contingencies were recognized as of the acquisition date.

Acquisition-related costs recognized in 2021 were not material to our results of operations. The pro forma financial information assuming the acquisition had occurred as of the beginning of the calendar year prior to the year of acquisition, as well as the revenues and earnings generated during the year of acquisition, were not material for disclosure purposes. The results of operations and financial condition of Protective Insurance have been included in our consolidated statements of comprehensive income and consolidated balance sheets from the acquisition date. For the year ended December 31, 2021, our consolidated results included total revenue of \$338.3 million and net income of \$29.8 million from Protective Insurance.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of The Progressive Corporation

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of The Progressive Corporation and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### ***Valuation of Loss and Loss Adjustment Expense Reserves***

As described in Notes 1 and 6 to the consolidated financial statements, as of December 31, 2021, the Company reported a \$26.2 billion loss and loss adjustment expense (“LAE”) reserve liability, of which about 90% relate to Personal and Commercial Lines vehicle businesses. Reserves are based on estimates of ultimate liability for losses and LAE relating to events that occurred prior to the end of any given accounting period but have not yet been paid. Management establishes loss and LAE reserves after completing reviews at a disaggregated level of grouping. During a reserve review, ultimate loss amounts are estimated using several industry standard actuarial projection methods. These methods take into account historical comparable loss data at the subset level and estimate the impact of various loss development factors, such as the frequency (number of losses per exposure), severity (dollars of loss per each claim), and average premium (dollars of premium per earned car year), as well as the frequency and severity of LAE costs.

The principal considerations for our determination that performing procedures relating to the valuation of loss and LAE reserves is a critical audit matter are (i) the significant judgment by management when developing the estimate of loss and LAE reserves, which in turn led to a significant degree of auditor judgment and subjectivity in performing procedures relating to the valuation; (ii) the significant audit effort and judgment in evaluating audit evidence relating to the various actuarial projection methods and aforementioned loss development factors; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management’s valuation of loss and LAE reserves, including controls over the various actuarial projection methods, and development of the loss development factors. These procedures also included, among others, testing the completeness and accuracy of historical data provided by management and the involvement of professionals with specialized skill and knowledge to assist in (i) independently estimating reserves for certain lines of businesses using actual historical comparable loss data, independently derived loss development factors, and industry data and comparing this independent estimate to management’s actuarial determined reserves and (ii) evaluating the appropriateness of the actuarial projection methods and reasonableness of the aforementioned loss development factors used by management for determining the reserve balances for certain lines of businesses.

/s/ PricewaterhouseCoopers LLP  
Cleveland, Ohio  
February 28, 2022

We have served as the Company’s auditor since 1984.

### Management's Report on Internal Control over Financial Reporting

Progressive's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control structure was designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control – Integrated Framework (2013)*, management concluded that our internal control over financial reporting was effective as of December 31, 2021.

PricewaterhouseCoopers LLP, an independent registered public accounting firm that audited the financial statements included in this Annual Report, has audited, and issued an attestation report on the effectiveness of, our internal control over financial reporting as of December 31, 2021; such report appears herein.

### CEO and CFO Certifications

Susan Patricia Griffith, President and Chief Executive Officer of The Progressive Corporation, and John P. Sauerland, Vice President and Chief Financial Officer of The Progressive Corporation, have issued the certifications required by Sections 302 and 906 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations with respect to Progressive's 2021 Annual Report on Form 10-K, including the financial statements provided in this Report. Among other matters required to be included in those certifications, Mrs. Griffith and Mr. Sauerland have each certified that, to the best of their knowledge, the financial statements, and other financial information included in the Annual Report on Form 10-K, fairly present in all material respects the financial condition, results of operations, and cash flows of Progressive as of, and for, the periods presented. See Exhibits 31 and 32 to Progressive's Annual Report on Form 10-K for the complete Sections 302 and 906 certifications, respectively.

The Progressive Corporation and Subsidiaries  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand our financial condition and results of operations. MD&A should be read in conjunction with the consolidated financial statements and the related notes, and supplemental information.

## **I. OVERVIEW**

The Progressive insurance organization has been offering insurance to consumers since 1937. The Progressive Corporation is a holding company that does not have any revenue producing operations, physical property, or employees of its own. The Progressive Corporation, together with its insurance and non-insurance subsidiaries and affiliates, comprise what we refer to as Progressive.

We report three operating segments. Our Personal Lines segment writes insurance for personal autos and recreational vehicles (referred to as our special lines products). Our Commercial Lines segment writes auto-related liability and physical damage insurance, workers' compensation insurance primarily for the transportation industry, and business-related general liability and property insurance, predominately for small businesses. Our Property segment writes residential property insurance for homeowners, other property owners, and renters. We operate throughout the United States through both the independent agency and direct distribution channels. We are the third largest private passenger auto insurer in the country, the number one writer of commercial auto insurance, and one of the top 15 homeowners insurance carriers, in each case, based on premiums written.

Our underwriting operations, combined with our service and investment operations, make up the consolidated group.

### **A. Operating Results**

On a year-over-year basis, net income and comprehensive income decreased 41% and 61%, respectively. Underwriting income decreased 57% on a year-over-year basis, and investment income was down 8%, which reflects a lower portfolio yield in 2021, compared to 2020, partially offset by an increase in average assets during the year. In addition, unrealized gains on our fixed-maturity securities decreased \$891.1 million in 2021, compared to an increase of \$586.5 million in the prior year, primarily reflecting an increase in interest rates and narrowing credit spreads during 2021.

We generated a 4.7% underwriting profit margin during 2021, which was better than our goal of achieving an aggregate 4% margin for the year, although well below the 12.3% underwriting profit margin in 2020. The strong profitability in 2020, reflected the lower losses we incurred due to the federal, state, and local social distancing and shelter-in-place restrictions that were put in place to stop or

slow the spread of the novel coronavirus, COVID-19. We continued to enjoy strong margins at the beginning of 2021, however, starting in the second quarter, as states started to lift restrictions and miles driven started to return to near pre-pandemic levels, we began to see frequency and severity patterns shift.

The decreased underwriting profitability in 2021 primarily reflected an increase in the loss and loss adjustment expense ratio due to a 14% increase in personal auto accident frequency and a 9% increase in personal auto accident severity on a year-over-year basis. We saw both vehicle miles traveled and claims frequency per mile traveled increase relative to 2020. During the year, U.S. inflation rates experienced their largest annual increase in nearly 40 years and used car values increased materially, which put pressure on our average claims cost. In addition to rising frequency and severity, Hurricane Ida, our costliest storm in terms of loss costs, reduced our profitability with nearly \$420 million in losses, or 0.9 points.

With our dedication to achieve our target goal of a 96 combined ratio for our underwriting operations, throughout 2021, we filed personal auto rate changes where appropriate, including rate increases in 35 states, with net rate increases, in the aggregate of about 8%. Management continues to assess miles driven, driving patterns, loss severity, weather events, inflation, and other components of expected loss costs on a state-by-state basis and will continue to file for rate adjustments where deemed necessary.

In addition to rate actions, we also tightened underwriting criteria and took other non-rate measures during the year where losses indicated rate inadequacy. We reduced spend, in certain types of advertising, based on performance against our media and underwriting targets. Our total advertising spend during 2021 was 2% lower than the prior year. Consistent with rate actions, management will continue to assess where additional non-rate actions may be needed.

These rate and non-rate measures resulted in fewer new business auto applications during the year, and could impact growth in future periods. Nevertheless, we strongly believe that reaching our target profit margin takes precedence over growing premiums and these steps are necessary to get us well positioned for the future.



Despite raising rates, implementing underwriting restrictions, and taking other non-rate actions, we recognized growth in both policies in force and premiums during 2021. We added 1.8 million policies bringing companywide policies in force to 26.5 million at December 31, 2021, a 7% increase over last year end. Net premiums written grew 14% to end the year at \$46.4 billion, \$5.8 billion more premiums written than 2020.

We ended 2021 with total capital (debt plus shareholders' equity) of \$23.1 billion, \$0.7 billion more than 2020. The year-over-year increase primarily reflects our comprehensive income, in part offset by our common and preferred share dividends of \$1.1 billion, the maturity of our \$500 million 3.75% Senior Notes, and common share repurchases of \$223 million during the year.

## **B. Insurance Operations**

For 2021, our companywide underwriting profit margin was 4.7%, compared to 12.3% in 2020. Our Personal Lines and Commercial Lines operating segments were profitable with underwriting margins of 4.6% and 11.1%, respectively, while our Property segment had an underwriting loss of 15.3% for the year, which included 31.0 points of catastrophe losses.

Our overall incurred frequency in our personal auto business increased about 14%, while severity increased about 9%, compared to the prior year. The frequency of vehicle accidents were higher than the prior year as vehicle miles driven began to increase during 2021, although at year end driving patterns still had not yet returned to pre-COVID levels.

During the year, on a companywide basis, we recognized 3.0 loss ratio points related to catastrophe losses, compared to 2.2 points in 2020. Hurricane Ida contributed 0.9 loss ratio points, with the remaining catastrophe losses attributable to other hurricanes, wind, hail, and tornadoes throughout the United States.

On a year-over-year basis, net premiums written grew in each of our segments with Personal Lines growing 8%, Commercial Lines 51%, and Property 16%. Changes in net premiums written are a function of new business applications (i.e., policies sold), premium per policy, and retention. Policies in force grew 7% companywide, with Personal Lines, Commercial Lines, and Property growing 6%, 18%, and 12%, respectively.

During 2021, total new personal auto application growth decreased 3% on a year-over-year basis, with our Agency auto decreasing 8% and Direct auto flat. Agency auto new applications were down compared to the prior year, as a result of the actions taken to address profitability, as discussed above.

The increase in net premiums written in our Commercial Lines business reflected growth in all of our business market targets, but especially in our for-hire transportation

business market target, driven by greater demand for shipping services in light of the pandemic. The Commercial Lines growth was also aided, to a lesser extent, by an increase in our transportation network company (TNC) business, due to an increase in the miles driven, which is the basis for determining premiums written for this business. For our commercial auto business (excluding TNC) new applications increased 27% for 2021, compared to the prior year, driven by both increased quote volume and rate of conversion.

Our Property business new applications increased 20% for the year, primarily driven by growth in our direct channel.

During 2021, on a year-over-year basis, written premium per policy increased 1% in our Agency personal auto and decreased 1% in our Direct personal auto businesses. The rate increases implemented in 2021 did not have a significant effect on written premium per policy since they were predominately effective the second half of the year. Written premium per policy for our special lines products increased 4%, compared to the prior year.

Commercial Lines experienced a 17% increase in written premium per policy in our commercial auto products, which primarily reflected more vehicles per policy and a shift in the mix of business toward higher premium coverages. In aggregate, rate increases for commercial auto were about 4% in 2021.

Written premium per policy for our Property business grew 1% year over year, despite net rate increases of about 7% for 2021. During the year, the Property business recognized a shift in the mix of business to a larger share of renters policies, which have lower written premium per policy.

While we are taking actions to address profitability as discussed above, we remain focused on growth and 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 retention using a trailing 12-month total auto policy life expectancy and a trailing 3-month policy life expectancy. The trailing 3-month measure does not address seasonality and can reflect more volatility. On a trailing 3-month basis, our personal auto policy life expectancy was down 1% year over year. Our trailing 12-month total personal auto policy life expectancy was up 2% year over year, with Agency up 1% and Direct up 3%. Our trailing

12-month policy life expectancy increased 5% for special lines, 11% for Commercial Lines, and decreased 9% for Property.

### C. Investments

The fair value of our investment portfolio was \$51.5 billion at December 31, 2021, compared to \$47.5 billion at December 31, 2020. The \$4.0 billion increase from year-end 2020, primarily reflects positive investment results and solid cash flows from operations, net of common and preferred share dividend payments, common stock repurchases, and payment of Senior Notes that matured during the year.

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 December 31, 2021, 17% of our portfolio was allocated to Group I securities and 83% to Group II securities, compared to 14% and 86%, respectively, at December 31, 2020. The increase in the percentage of Group I securities during 2021 was primarily driven by common equity appreciation and an increase in non-investment-grade fixed maturities, in which we increased our exposure to short-duration credit bonds where the underlying loans had meaningful appreciation.

## II. FINANCIAL CONDITION

### A. Liquidity and Capital Resources

The Progressive Corporation receives cash through subsidiary dividends, capital raising and other transactions, and uses these funds to contribute to its subsidiaries (e.g., to support growth), to make payments to shareholders and debt holders (e.g., dividends and interest, respectively), to repurchase its common shares, and to redeem or pay off debt, as well as for acquisitions and other business purposes that may arise.

During 2021, The Progressive Corporation received cash dividends of \$2.4 billion, net of capital contributions, from its insurance and non-insurance subsidiaries. There were no capital raising transactions during the year.

The Progressive Corporation deployed capital through the following actions in 2021:

- Dividends
  - Common shares - declared aggregate dividends of \$1.90 per common share, or \$1.1 billion.
  - Preferred shares - declared aggregate Series B Preferred dividends of \$26.8 million.
- Debt Payment - paid \$500 million at maturity for our 3.75% Senior Notes.
- Common Share Repurchases - acquired 2.4 million of our common shares at a total cost of \$223.0 million to neutralize dilution from equity-based compensation granted during the year, consistent with our financial

Our recurring investment income generated a pretax book yield of 1.9% for 2021, compared to 2.4% for 2020, primarily due to investing new cash at lower interest rates. Our investment portfolio produced a fully taxable equivalent (FTE) total return of 2.6% for 2021 and of 7.9% for 2020. Our fixed-income and common stock portfolios had FTE total returns (0.1% and 33.4%, respectively, for 2021, compared to 6.7% and 24.3%, for 2020. The year-over-year decrease in our fixed-income FTE total return was the result of an increase in interest rates and narrowing credit spreads during the year. Our common stock portfolio's FTE total return primarily reflected positive market performance within the Russell 1000 index.

At both December 31, 2021 and 2020, the fixed-income portfolio had a weighted average credit quality of AA- with a duration of 3.0 years at year end 2021, compared to 2.9 years at December 31, 2020. We lengthened our portfolio duration slightly over the previous twelve months and it remains slightly below the midpoint of our 1.5 year to 5 year range, which we believe provides some protection against an increase in interest rates.

policies, and opportunistically when we believed our shares were trading below our determination of long-term fair value. The repurchases were made in the open market or pursuant to our equity compensation plans (i.e., repurchased shares to cover tax obligations upon vesting of restricted stock units).

- Acquisitions - acquired all of the outstanding Class A and Class B common shares of Protective Insurance Corporation for \$23.30 per share, or approximately \$338 million in aggregate.

Over the last three years, The Progressive Corporation received dividends from its subsidiaries, net of capital contributions, of \$8.6 billion, and issued \$1.0 billion of senior notes. The covenants on The Progressive Corporation's existing debt securities do not include any rating or credit triggers that would require an adjustment of the interest rate or an acceleration of principal payments in the event that our debt securities are downgraded by a rating agency. While we had an unsecured discretionary line of credit available to us during each of the last three years in the amount of \$250 million, we did not borrow under this arrangement, or engage in other short-term borrowings, to fund our operations or for liquidity purposes.

In the aggregate for the last three years, we made the following payments:

- \$7.0 billion for common and preferred share dividends;
- \$0.6 billion for interest on our outstanding debt;
- \$0.5 billion for the maturity of debt;
- \$0.4 billion to repurchase our common shares; and
- \$0.6 billion related to acquisitions.

For the three years ended December 31, 2021, operations generated positive cash flows of about \$20.9 billion, and cash flows are expected to remain positive in the reasonably foreseeable future. In 2021, operating cash flows increased \$0.9 billion, compared to 2020, in part due to the \$1.1 billion of policyholder credits paid out of operating cash flows in 2020, partially offset by paying losses at a faster rate than premiums were being collected during 2021. We do not believe we will have a need to raise capital to support our operations in the foreseeable future, although changes in market conditions affecting the insurance industry may necessitate otherwise.

As of December 31, 2021, we held \$19.4 billion in short-term investments and U.S. Treasury securities. Based on our portfolio allocation and investment strategies, we believe that we have sufficient readily available marketable securities to cover our claims payments in the event our cash flow from operations were to be negative. See *Item 1A – Risk Factors* in our 2021 Form 10-K filed with the U.S. Securities and Exchange Commission for a discussion of certain matters that may affect our portfolios and capital position.

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 are generally short in duration. At December 31, 2021, our loss and loss adjustment expense (LAE) reserves were \$26.2 billion. Typically, at any point in time, approximately 50% of our outstanding loss and LAE reserves are paid within the following twelve months and less than 20% are still outstanding after three years. See *Note 6 – Loss and Loss Adjustment Expense Reserves* for further information on the timing of claims payments.

Insurance companies are required to satisfy regulatory surplus and premiums-to-surplus ratio requirements. As of December 31, 2021, our consolidated statutory surplus was \$16.4 billion, compared to \$15.2 billion at December 31, 2020. Our net premiums written-to-surplus ratio was 2.8 to 1 at year-end 2021 and 2.7 to 1 at year-end 2020 and 2019. At year-end 2021, we also had access to \$4.2 billion of securities held in a non-insurance subsidiary, portions of which could be contributed to the capital of our insurance subsidiaries to support growth or for other purposes.

Insurance companies are also required to satisfy risk-based capital ratios. These ratios are determined by a series of dynamic surplus-related calculations required by the laws of various states that contain a variety of factors that are

applied to financial balances based on the degree of certain risks (e.g., asset, credit, and underwriting). Our insurance subsidiaries' risk-based capital ratios are in excess of applicable minimum regulatory requirements. Nonetheless, the payment of dividends by our insurance subsidiaries are subject to certain limitations. See *Note 8 – Statutory Financial Information* for additional information on insurance subsidiary dividends.

We seek to deploy our 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. Management views our capital position as consisting of three layers, each with a specific size and purpose:

- The first layer of capital, which we refer to as “regulatory capital,” is the amount of capital we need to satisfy state insurance regulatory requirements and support our objective of writing all the business we can write and service, consistent with our underwriting discipline of achieving a combined ratio of 96 or better. This capital is held by our various insurance entities.
- The second layer of capital we call “extreme contingency.” While our regulatory capital is, by definition, a cushion for absorbing financial consequences of adverse events, such as loss reserve development, litigation, weather catastrophes, and investment market corrections, we view that as a base and hold additional capital for even more extreme conditions. The modeling used to quantify capital needs for these conditions is extensive, including tens of thousands of simulations, representing our best estimates of such contingencies based on historical experience. This capital is held either at a non-insurance subsidiary of the holding company or in our insurance entities, where it is potentially eligible for a dividend to the holding company.
- The third layer is capital in excess of the sum of the first two layers and provides maximum flexibility to fund other business opportunities, repurchase stock or other securities, satisfy acquisition-related commitments, and pay dividends to shareholders, among other purposes. This capital is largely held at a non-insurance subsidiary of the holding company.

At all times measured during the last two years, which at a minimum occurs at the end of each month, our total capital exceeded the sum of our regulatory capital layer plus our self-constructed extreme contingency layer. At December 31, 2021, we held total capital (debt plus shareholders' equity) of \$23.1 billion, compared to \$22.4 billion at December 31, 2020. Our debt-to-total capital ratios at December 31, 2021, 2020, and 2019, were 21.2%, 24.1%, and 24.4%, respectively, and were consistent with our financial policy of maintaining a ratio of less than 30%, which we target to meet annually.

At December 31, 2021, we have various noncancelable contractual obligations that were outstanding. We held \$4.9 billion of Senior Notes with maturity dates ranging from 2027 through 2050, with \$3.6 billion of future interest payment obligations related to our outstanding debt. The next debt repayment of \$500 million is due upon the maturity of our 2.45% Senior Notes due 2027. See *Note 4 – Debt* for additional information on our long-term debt.

At year-end 2021, we also had \$1.0 billion of purchase obligations that are noncancelable commitments for goods and services (e.g., software licenses, maintenance on information technology equipment, and media placements). About 80% of our purchase obligations are paid within one year and less than 1% are outstanding for three years or longer. In addition, our Property business has \$132.1 million of minimum commitments under several multiple-layer property catastrophe reinsurance contracts with various reinsurers with terms ranging from one to three years. See *Note 1 – Reporting and Accounting Policies, Commitments and Contingencies* for a discussion of these obligations. We do not have any material commitments for capital expenditures in the reasonably foreseeable future.

As of December 31, 2021, we recorded a liability related to our obligation to refund \$541.5 million to eligible Michigan policyholders in conjunction with a refund from

the surplus of the Michigan Catastrophic Claims Association (MCCA) to its member insurance companies. This obligation will be fully funded by the MCCA. Therefore, this transaction will have no effect on our liquidity, financial condition, cash flows, or results of operations.

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 Series B Preferred Shares, our contractual obligations, and other expected capital requirements for the foreseeable future.

Nevertheless, we may determine to raise additional capital to take advantage of attractive terms in the market and provide additional financial flexibility. 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, depositary 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 years ended December 31:

	2021	2020	2019
Personal Lines			
Agency	37 %	40 %	41 %
Direct	41	42	42
Total Personal Lines	78	82	83
Commercial Lines	17	13	13
Property	5	5	4
Total underwriting operations	100 %	100 %	100 %

Our Personal Lines segment writes insurance for personal autos (which accounts for about 94% of the segment's net premiums written) and special lines products (e.g., motorcycles, watercraft, and RVs). Within Personal Lines we often refer to our four consumer segments, which include:

- 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 year-end 2021, 14% of our Agency auto policies in force were 12-month policies, compared to about 12% a year earlier. While the shift to 12-month policies is slow, to the extent our Agency new business application mix of annual policies grows, that 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. The special lines products are written for 12-month terms.

Our Commercial Lines business writes auto-related liability and physical damage insurance, workers' compensation coverage primarily for the transportation industry, and business-related general liability and property insurance, predominately for small businesses. The majority of our Commercial Lines business is written through the independent agency channel although our direct business is growing. The amount of commercial auto business written through the direct channel, excluding our TNC business, grew 66% year over year and represented about 10% of premiums written for 2021, compared to 9% for 2020 and 8% for 2019. To serve our direct channel customers, we continued to expand our product offerings, including adding states where we offer our business owners policy and include the product on our digital

platform serving direct small business consumers (BusinessQuote Explorer®). About 90% of our Commercial Lines auto policies are written for 12-month terms.

Our Property business writes residential property insurance for homeowners, other property owners, and renters. We write the majority of our Property business through the independent agency channel; however, we continue to expand the distribution of our Property product offerings in the direct channel, which represented about 23% of premiums written for 2021, compared to 18% and 16% for 2020 and 2019, respectively. Property policies are written for 12-month terms.

## B. Profitability

Profitability for our underwriting operations is defined by pretax underwriting profit, which is calculated as net premiums earned plus fees and other revenues less losses and loss adjustment expenses, policy acquisition costs, other underwriting expenses, and for 2020, policyholder credits. We also use underwriting margin, which is underwriting profit or loss expressed as a percentage of net premiums earned, to analyze our results. For the three years ended December 31, our underwriting profitability results were as follows:

	2021		2020		2019	
	Underwriting Profit (Loss)		Underwriting Profit (Loss)		Underwriting Profit (Loss)	
(\$ in millions)	\$	Margin	\$	Margin	\$	Margin
Personal Lines						
Agency	\$ 992.1	5.9 %	\$ 2,236.5	14.2 %	\$ 1,673.2	11.2 %
Direct	619.2	3.4	2,076.5	12.3	1,181.4	7.7
Total Personal Lines	1,611.3	4.6	4,313.0	13.2	2,854.6	9.5
Commercial Lines	767.8	11.1	634.8	13.0	458.8	10.4
Property <sup>1</sup>	(312.3)	(15.3)	(125.1)	(7.1)	(26.1)	(1.7)
Other indemnity <sup>2</sup>	(1.4)	NM	0	NM	0	NM
Total underwriting operations	\$ 2,065.4	4.7 %	\$ 4,822.7	12.3 %	\$ 3,287.3	9.1 %

<sup>1</sup> During 2021, 2020, and 2019, pretax profit (loss) includes \$56.6 million, \$56.9 million, and \$66.3 million, respectively, of amortization expense associated with acquisition-related intangible assets attributable to our Property segment.

<sup>2</sup> 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.

The decreases in underwriting profit margin in 2021, compared to 2020, primarily reflects higher accident frequency and severity in both our personal and commercial auto products, as well as higher catastrophe losses during 2021. Profitability in 2020 also reflects the favorable impact that we recognized due to the lower frequency experienced during the year as a result of restrictions in place to help slow the pace of the spread of COVID-19.

The pandemic has shifted consumer behavior and impacted general economic conditions. We have seen volatility in our severity trends as vehicle prices continue to rise and the cost to repair vehicles is increasing. We have responded, and will continue to respond, to these market changes through rate increases, underwriting restrictions, and other non-rate actions. Our focus on achieving our target underwriting profitability takes precedence over growth. See *Item 1A – Risk Factors Section VII. Other* in our 2021 Form 10-K filed with the U.S. Securities and Exchange Commission, for the year ended December 31, 2021, for a further discussion of the risks associated with COVID-19.

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:

<b>Underwriting Performance<sup>1</sup></b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Personal Lines – Agency			
Loss & loss adjustment expense ratio	75.6	63.5	69.8
Underwriting expense ratio	18.5	22.3	19.0
Combined ratio	94.1	85.8	88.8
Personal Lines – Direct			
Loss & loss adjustment expense ratio	77.2	62.9	71.4
Underwriting expense ratio	19.4	24.8	20.9
Combined ratio	96.6	87.7	92.3
Total Personal Lines			
Loss & loss adjustment expense ratio	76.4	63.2	70.6
Underwriting expense ratio	19.0	23.6	19.9
Combined ratio	95.4	86.8	90.5
Commercial Lines			
Loss & loss adjustment expense ratio	69.3	64.5	68.5
Underwriting expense ratio	19.6	22.5	21.1
Combined ratio	88.9	87.0	89.6
Property			
Loss & loss adjustment expense ratio	86.4	77.3	71.2
Underwriting expense ratio <sup>2</sup>	28.9	29.8	30.5
Combined ratio <sup>2</sup>	115.3	107.1	101.7
Total Underwriting Operations			
Loss & loss adjustment expense ratio	75.7	64.0	70.4
Underwriting expense ratio	19.6	23.7	20.5
Combined ratio	95.3	87.7	90.9
Accident year – Loss & loss adjustment expense ratio <sup>3</sup>	75.7	63.5	69.8

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

<sup>2</sup> Included in 2021, 2020, and 2019, are 2.8 points, 3.2 points, and 4.3 points, respectively, of amortization expense on acquisition-related intangible assets attributable to our Property segment. Excluding this expense, the Property business would have reported expense ratios of 26.1, 26.6, and 26.2, and combined ratios of 112.5, 103.9, and 97.4, for 2021, 2020, and 2019, respectively.

<sup>3</sup> 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)	2021	2020	2019
Change in net loss and LAE reserves	\$ 4,233.7	\$ 1,574.4	\$ 2,065.1
Paid losses and LAE	29,393.9	23,547.4	23,405.4
Total incurred losses and LAE	\$ 33,627.6	\$ 25,121.8	\$ 25,470.5

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

We experienced severe weather conditions in several areas of the country during each of the last three years. Hurricanes, hail storms, tornadoes, and wind activity contributed to catastrophe losses each year. The following table shows catastrophe losses incurred, net of reinsurance, for the years ended December 31:

(\$ in millions)	2021	2020	2019
Personal Lines	\$ 652.0	\$ 439.4	\$ 323.4
Commercial Lines	26.7	14.8	13.6
Property	633.4	423.8	214.5
Total catastrophe losses incurred	\$ 1,312.1	\$ 878.0	\$ 551.5
Combined ratio effect	3.0 pts.	2.2 pts.	1.5 pts.

Approximately 30% of the catastrophe losses in 2021 were attributable to Hurricane Ida, with the remainder attributable to severe weather throughout the United States. 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.

Future catastrophes could have a material impact on our financial condition, cash flows, or results of operations. As a result, we reinsure various risks, including, but not limited to, catastrophic losses. We do not have catastrophe-specific reinsurance for our Personal Lines or Commercial Lines businesses, but we reinsure portions of our Property business. The Property business reinsurance programs include multi-year catastrophe excess of loss and aggregate excess of loss contracts.

We evaluate our reinsurance programs during the renewal process, if not more frequently, to ensure our programs continue to effectively respond to the company's risk tolerance. As a result, during 2021, we renewed our occurrence excess of loss program and increased our retention from \$80 million to \$200 million. During 2021, we also added \$100 million of reinsurance coverage that, depending on the circumstances, could provide additional coverage for named storms or reduce our retention level for a second or later covered storm. For 2022, we entered into

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. See *Critical Accounting Policies - A. Loss and LAE Reserves* for a discussion of the effect of changing estimates.

Our total loss and LAE ratio increased 11.7 points in 2021 and decreased 6.4 points in 2020, each compared to the prior year. Our accident year loss and LAE ratio, which excludes the impact of prior accident year reserve development during each calendar year, increased 12.2 points in 2021 and decreased 6.3 points in 2020. Several factors that contributed to the year-over-year changes are discussed below and include the impact of catastrophe losses, changes in severity and frequency, and prior accident year reserve development.

a new aggregate excess of loss program that raised our retention level by \$100 million and reduced aggregate potential coverage by \$50 million, compared to our 2021 program. In each case, these decisions involved our evaluation of complex considerations relating to our ability to assume more direct risk on a companywide basis, the nature of the risk being insured, and the rising costs for these types of contracts. In our view, our capital position and growing balance sheet enabled us to assume more of these risks via higher retention levels, which largely offset the increasing premium costs for such insurance that we saw during 2021, resulting in slightly lower aggregate premiums for the year. We did not experience a significant lack of availability of any of the types of reinsurance that we typically purchase. See *Item 1A – Risk Factors* in our 2021 Form 10-K filed with the U.S. Securities and Exchange Commission, for the year ended December 31, 2021, for a discussion of certain risk related to catastrophe events and the potential impact of climate change. See *Item 1 – Description of Business-Reinsurance* on Form 10-K and *Note 7 – Reinsurance* for a discussion of our various reinsurance programs.

Under our various Property catastrophe-specific reinsurance, we ceded the following losses and allocated loss adjustment expenses (ALAE), including development on prior year storms, during the years ended December 31:

(in millions)	2021	2020	2019
Aggregate excess of loss			
Current accident year	\$ 0	\$ 120.9	NA
Prior accident years	27.4	NA	NA
Per occurrence excess of loss:			
Current accident year <sup>1</sup>	200.0	10.0	\$ 0
Prior accident years <sup>2</sup>	139.6	117.5	191.4
Total	\$ 367.0	\$ 248.4	\$ 191.4

NA = Not applicable; this reinsurance coverage was entered into on January 1, 2020.

<sup>1</sup> Amount for 2021 was solely attributable to Hurricane Ida.

<sup>2</sup> Amount for 2021 was primarily attributable to Hurricane Irma, which exceeded the excess of loss retention threshold in 2017 and, therefore, all development on this prior accident year storm has been fully ceded.

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.

Due to the impacts of shelter-in-place requirements that occurred throughout much of 2020, we believe that comparing current year frequency and severity to the prior year are not meaningful for our personal auto business. The trend comparisons for 2021 compare a two-year annualized change between 2021 and 2019 for personal auto frequency and severity for all coverages, excluding comprehensive coverage, which we believe are more insightful when trying to understand our current year profitability given the impact that COVID-19 restrictions had on our 2020 trends.

During 2021, we saw vehicle miles traveled and claims frequency per mile traveled increase relative to 2020, as states started lifting restrictions that were originally put in place in 2020 to help stop the spread of COVID-19.

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 was up over the prior-year periods 9% in 2021, 10% in 2020, and 7% in 2019. On a calendar-year annualized basis, for 2021, incurred severity increased 9% compared to 2019. While the total change in severity is fairly consistent when comparing to prior year as well as to 2019, we believe the individual line coverages are not indicative of the underlying trends, primarily in the auto property damage and collision coverages due in part to the timing of salvage and

subrogation collections in 2020. Therefore, we continue to believe comparisons to 2019 are more insightful.

- 2021 - On a 2021 year-over-2019 year annualized basis, severity increased 11% for our collision and bodily injury coverages, 8% for our property damage coverage, and 7% for our personal injury protection (PIP) coverage.
- 2020 - Severity increased 14% for our PIP coverage, 12% for our bodily injury coverage, 9% for our property damage coverage, and 5% for our collision coverage.
- 2019 - Severity increased 8% for our bodily injury coverage, 7% for our PIP coverage, and 6% for our collision and property damage coverages.

On a calendar-year basis, our commercial auto products incurred severity, excluding our TNC business, increased 14% in 2021, compared to 10% in 2020 and 19% in 2019. On a calendar-year annualized basis, for 2021, incurred severity increased 12% compared to 2019. Since the loss patterns in the TNC business are not indicative of our other commercial auto products, disclosing severity and frequency trends excluding that business is more indicative of our overall experience for the majority of our commercial auto products. In addition to general trends in the marketplace, the increase in our commercial auto products severity reflects increased medical costs and actuarially determined reserves due to accelerating paid loss trends and shifts in the mix of business to for-hire transportation, which has higher average severity than the business auto and contractor business market targets.

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, was up 14% in 2021, down 24% in 2020, and down 3% in 2019. On a calendar-year annualized basis for 2021, incurred frequency was down 7% compared to 2019.

- 2021 - On a 2021 year-over-2019 year annualized basis, frequency decreased 11% for our property damage and bodily injury coverages, 10% for our PIP coverage, and 3% for our collision coverage.
- 2020 - Frequency decreased 28% for our PIP coverage, 27% for our property damage coverage, 25% for our bodily injury coverage, and 23% for our collision coverage. The significant decreases in 2020 reflect the decrease in vehicle miles traveled as a result of the shelter-in-place restrictions put in place to help stop the spread of COVID-19.



- 2019 - Frequency decreased 5% for our PIP coverage, 4% for our collision and property damage coverages, and 3% for our bodily injury coverage.

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 degree of confidence, given the uncertainty of the current environment. 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

The table below presents the actuarial adjustments implemented and the loss reserve development experienced on a companywide basis in the years ended December 31:

(\$ in millions)	2021	2020	2019
<b>ACTUARIAL ADJUSTMENTS</b>			
Reserve decrease (increase)			
Prior accident years	\$ (78.5)	\$ (27.5)	\$ (65.8)
Current accident year	103.9	68.4	(120.4)
Calendar year actuarial adjustments	\$ 25.4	\$ 40.9	\$ (186.2)
<b>PRIOR ACCIDENT YEARS DEVELOPMENT</b>			
Favorable (unfavorable)			
Actuarial adjustments	\$ (78.5)	\$ (27.5)	\$ (65.8)
All other development	83.2	(167.8)	(166.5)
Total development	\$ 4.7	\$ (195.3)	\$ (232.3)
(Increase) decrease to calendar year combined ratio	0 pts.	(0.5) pts.	(0.6) 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 the current cost trends. For our Property business, 100% of catastrophe losses are reviewed monthly, and any development on catastrophe reserves are included as part of the actuarial adjustments. For the Personal Lines and Commercial Lines businesses, development for catastrophe losses for the vehicle businesses would be reflected in “all other development,” discussed below, to the extent they relate to prior year reserves. We report these actuarial adjustments separately for the current and prior accident years to reflect these adjustments as part of the total prior accident years development.

“All other development” represents claims settling for more or less than reserved, emergence of unrecorded claims at rates different than anticipated in our incurred but not recorded (IBNR) reserves, and changes in reserve estimates on specific claims. Although we believe the development from both the actuarial adjustments and “all

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.

On a year-over-year basis, incurred frequency in our Commercial Lines business, excluding TNC, saw an increase of about 9% in 2021, compared to decreases of about 15% in 2020 and 4% in 2019. On a calendar-year annualized basis, for 2021, incurred frequency decreased 4% compared to 2019. The frequency decrease was in part due to continued product segmentation and underwriting, which created a mix shift toward more preferred, lower-frequency, business.

other development” generally results from the same factors, we are unable to quantify the portion of the reserve development that might be applicable to any one or more of those underlying factors.

Our objective is to establish case and IBNR reserves that are adequate to cover all loss costs, while incurring minimal variation from the date the reserves are initially established until losses are fully developed. Our ability to meet this objective is impacted by many factors. Changes in case law, particularly related to PIP, can make it difficult to estimate reserves timely and with minimal variation. As reflected in the table above, we experienced favorable prior year development during 2021, compared to unfavorable prior year development in both 2020 and 2019.

Reserve development primarily related to the following:

- 2021 - The favorable development of \$127 million in our Personal Lines segment was offset by unfavorable development of \$87 million in Commercial Lines and \$36 million in Property. The Personal Lines development primarily reflects revised estimates of our per claim settlement costs, favorable PIP reform and litigation, partially offset by higher than anticipated bodily injury severity in our personal auto business. The unfavorable development in Commercial Lines is mostly due to an increase in bodily injury severity and the emergence of large bodily injury claims, while the Property business saw more previously closed claims reopen.
- 2020 - Personal and Commercial Lines both recognized unfavorable development of \$111 million and \$98 million, respectively, while our Property business had \$14 million of favorable development. Higher than anticipated frequency of reopened PIP claims in our personal auto business and an increase in bodily injury severity and the emergence of large bodily injury claims in our Commercial Lines business drove the unfavorable development.
- 2019 - All segments recognized unfavorable prior year development in 2019. Higher than anticipated claims occurring in late 2018 but not reported until 2019, a higher than anticipated frequency of reopened PIP claims in our personal auto business and less salvage and subrogation recoveries for our special lines products contributed to the \$135 million unfavorable development in Personal Lines. The \$83 million of unfavorable development in Commercial Lines reflected increased bodily injury severity. Higher than anticipated homeowners and dwelling costs

drove the \$12 million unfavorable development in the Property business.

See *Note 6 – Loss and Loss Adjustment Expense Reserves* for a more detailed discussion of our prior accident years development.

### ***Underwriting Expenses***

The companywide underwriting expense ratio (i.e., policy acquisition costs, other underwriting expenses, and, for 2020 only, policyholder credits, all net of fees and other revenues, expressed as a percentage of net premiums earned) decreased 4.1 points for 2021, compared to the prior year, primarily reflecting 2.7 points of policyholder credits issued in 2020. During 2021, we also decreased our advertising spend in an effort to improve profitability to reach our 96 combined ratio goal. In total, our advertising spend decreased 2% on a year-over-year basis, which had a 0.7 point impact on our companywide expense ratio. We also recognized a decrease in expense for uncollectible premium receivable accounts in 2021, compared to 2020, which contributed a favorable 0.4 point impact on the expense ratio, reflecting a change in consumer spending habits during the year.

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. By excluding acquisition costs from our underwriting expense ratio, we are able to understand costs other than those necessary to acquire new policies and grow the business. In 2021, our NAER decreased 3.7 points, 2.3 points, and 0.4 points in our Personal Lines, Commercial Lines, and Property businesses, respectively, compared to 2020. The decrease in the Personal and Commercial Lines NAER are primarily due to the policyholder credits issued in 2020. In comparing the 2021 NAER to 2019, the ratio decreased 0.7 points for Personal Lines, 0.9 points for Commercial Lines, and 0.8 points for Property.

### C. Growth

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

For the years ended December 31, (\$ in millions)	2021		2020		2019	
	\$	% Growth	\$	% Growth	\$	% Growth
<b>NET PREMIUMS WRITTEN</b>						
Personal Lines						
Agency	\$ 17,257.9	7 %	\$ 16,133.8	5 %	\$ 15,336.5	13 %
Direct	18,910.9	10	17,208.8	9	15,765.7	16
Total Personal Lines	36,168.8	8	33,342.6	7	31,102.2	15
Commercial Lines	8,015.9	51	5,315.3	11	4,791.8	20
Property	2,216.2	16	1,910.8	13	1,683.9	16
Other indemnity <sup>1</sup>	4.3	NM	0	0	0	0
Total underwriting operations	\$ 46,405.2	14 %	\$ 40,568.7	8 %	\$ 37,577.9	15 %
<b>NET PREMIUMS EARNED</b>						
Personal Lines						
Agency	\$ 16,881.0	7 %	\$ 15,789.5	6 %	\$ 14,904.1	14 %
Direct	18,492.3	10	16,830.6	10	15,305.9	18
Total Personal Lines	35,373.3	8	32,620.1	8	30,210.0	16
Commercial Lines	6,945.2	42	4,875.8	10	4,427.6	23
Property	2,042.5	16	1,765.7	14	1,554.8	21
Other indemnity <sup>1</sup>	7.7	NM	0	0	0	0
Total underwriting operations	\$ 44,368.7	13 %	\$ 39,261.6	8 %	\$ 36,192.4	17 %

NM = Not meaningful

<sup>1</sup> Represents Protective Insurance's run-off business.

December 31, (# in thousands)	2021		2020		2019	
	#	% Growth	#	% Growth	#	% Growth
<b>POLICIES IN FORCE</b>						
Agency auto	7,879.0	3 %	7,617.0	9 %	6,994.3	10 %
Direct auto	9,568.2	8	8,881.4	13	7,866.5	12
Total auto	17,447.2	6	16,498.4	11	14,860.8	11
Special lines <sup>1</sup>	5,288.5	8	4,915.1	8	4,547.8	4
Personal Lines - total	22,735.7	6	21,413.5	10	19,408.6	9
Commercial Lines	971.2	18	822.0	9	751.4	8
Property	2,776.2	12	2,484.4	13	2,202.1	14
Companywide total	26,483.1	7 %	24,719.9	11 %	22,362.1	10 %

<sup>1</sup> Includes insurance for motorcycles, watercraft, RVs, 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 tables below, we measure retention by policy life expectancy. We review our customer retention for our personal auto products using both a trailing 3-

month and a trailing 12-month period. We believe change 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 does not address seasonality and can reflect more volatility, this measure is more responsive to current experience and generally can be an indicator of how retention rates are moving.

At year-end 2021, we had 1.8 million more policies in force than at the end of 2020, with all of our segments contributing to this unit growth at varying degrees.

#### D. Personal Lines

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

	Growth Over Prior Year		
	2021	2020	2019
Applications			
New	(2)%	3 %	8 %
Renewal	11	8	13
Written premium per policy - Auto	0	(1)	2
Policy life expectancy - Auto			
Trailing 3 months	(1)	7	0
Trailing 12 months	2	10	0

New application growth in our Personal Lines products was down 2% during 2021, with our personal auto new application growth down 3% and our special lines new application growth up 4% during the year, driven by high demand in the new RV market.

We continued to see strong personal auto renewal application growth, which we believe was aided, in part, by our competitive product offerings, position in the marketplace, and rate decreases taken throughout 2020.

Personal auto quote volumes and rates of conversion (i.e., converting a quote to a sale) started the year strong. The beginning of 2021 benefited from the rate decreases taken in 2020 in response to lower vehicle miles driven caused by COVID-19 restrictions. As we started raising rates during the second half of 2021, both quotes and conversion began decreasing to end the year lower than the prior year.

Results varied by consumer segment. New business application growth was up slightly in our Diane consumer segment but down in the Sams, Wrights, and Robinsons during 2021. While quote volume decreased for Dianes, the rate of conversion increased. The Robinsons were the only consumer segment to see an increase in quote volume but a drop in conversion, which led to a decrease in Robinsons new business applications. Strong renewal growth for the Robinsons contributed to higher year-over-year growth in personal auto policies in force that outpaced our other consumer segments.

The decrease in our total personal auto new applications reflected actions taken during 2021 to address rising loss costs due to higher auto accident frequency and severity as vehicle miles traveled increased. In addition, new applications were elevated in 2020, due in part to the impact from PIP reform in Michigan, government stimulus checks, and resumed consumer shopping during the second half of 2020, following a significant decline in shopping early in the pandemic.

During 2021, rate increases became effective in 35 states, which had an average increase of about 11%. In the aggregate, on a countrywide basis, personal auto net rate increases, were up about 8% for the year. We also reduced advertising spend and tightened underwriting criteria in consumer segments where losses indicated rate inadequacy. These actions may have a negative impact on our policy life expectancy in the near term, as indicated by the decline in the trailing 3-month policy life expectancy.

Overall, our written premium per policy remained flat during 2021, compared to 2020. The rate increases implemented in 2021 were predominately effective later in the year and, therefore, did not have a significant impact on the written premium per policy.

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 good customer service at or below a companywide 96 combined ratio on a calendar-year basis.

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 2021.

#### The Agency Business

	Growth Over Prior Year		
	2021	2020	2019
Applications - Auto			
New	(8)%	(5)%	7 %
Renewal	8	7	12
Written premium per policy - Auto	1	0	3
Policy life expectancy - Auto			
Trailing 3 months	(3)	6	4
Trailing 12 months	1	10	3

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. During 2021, only 20 states and the District of Columbia generated new Agency auto application growth, including only two of our top 10 largest Agency states. Each of our consumer segments experienced a reduction in new applications through the Agency channel and, due to growth in policy renewals, growth in policies in force, except Sams who saw a decrease in policies in force.

During 2021, we experienced a 1% year-over-year increase in Agency auto quotes and an 8% decrease in the rate of conversion. The Robinsons and Dianas saw an increase in quote volume, while Wrights and Sams saw a decrease. The rate of conversion was down significantly during 2021, compared to last year, reflecting rate increases and the impact from tightening underwriting criteria this year, along with elevated conversion rates last year due in part to coverage reform in Michigan and government stimulus. Written premium per policy increased 1% for both new and renewal Agency auto business compared to 2020.

### ***The Direct Business***

	Growth Over Prior Year		
	2021	2020	2019
Applications - Auto			
New	0 %	5 %	9 %
Renewal	13	11	17
Written premium per policy - Auto	(1)	(1)	2
Policy life expectancy - Auto			
Trailing 3 months	2	6	(3)
Trailing 12 months	3	10	(3)

The Direct business includes business written directly by Progressive on the Internet, through mobile devices, and over the phone. During 2021, we generated new Direct auto application growth in 36 states and the District of Columbia, including four of our top 10 largest Direct states. In total, new applications were flat and renewal applications increased on a year-over-year basis. Strong growth in policy renewals contributed to the increase in policies in force across all consumer segments despite no overall growth in new business applications.

During 2021, we experienced a decrease in Direct auto quote volume of 4%, while our rate of conversion increased 3%. The decreases we experienced in our quote volume primarily reflect the decrease in advertising spending during 2021. All consumer segments saw a decrease in quotes of about 3% to 5%, with flat to a 2% increase in conversion on a year-over-year basis.

Written premium per policy for new and renewal Direct auto business decreased 3% and 1%, respectively, during 2021, compared to last year.

### **E. Commercial Lines**

The following table shows our year-over-year changes for our Commercial Lines business, excluding our TNC, BOP, and Protective Insurance products:

	Growth Over Prior Year		
	2021	2020	2019
Applications			
New	27 %	5 %	11 %
Renewal	12	6	9
Written premium per policy	17	4	8
Policy life expectancy			
Trailing 12 months	11	5	(2)

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 transportation network company (TNC) business and business owners policy (BOP) insurance. With the acquisition of Protective Insurance Corporation and its subsidiaries (Protective Insurance) during 2021, we expanded our portfolio of offerings to larger fleet, workers' compensation coverage for trucking and public transportation fleets, along with trucking industry independent contractors, and affinity programs (see *Note 17 – Acquisition* for further discussion). Protective Insurance represented 1% of our 2021 companywide net premiums written from the date of acquisition.

Our commercial auto product experienced significant year-over-year new application growth in 2021, reflecting continued improvement in the economy and our competitiveness in the marketplace. Similar to our experience in our personal auto business, our Commercial Lines business volume for 2020 was negatively impacted by COVID-19 restrictions, which influenced the demands and general consumer habits for goods and services provided by our Commercial Lines customers and required that certain businesses undergo temporary closure. During the second half of 2020 and throughout 2021, Commercial Lines experienced a greater demand for shipping services in light of the pandemic, primarily in our for-hire transportation business market target. During 2021, demand in the for-hire transportation market was the primary driver of new customer shopping, which resulted in a 22% increase in quote volume and a 4% increase in the rate of conversion in our commercial auto business during 2021, compared to 2020.

Written premium per policy for new and renewal commercial auto business increased 17% in 2021, compared to last year. The increases were primarily due to more vehicles per policy and a shift in the mix of business toward higher premium coverages. In aggregate, rate increases for commercial auto were about 4% in 2021. Our policy life expectancy increased compared to 2020, primarily due to shifts in the mix of business and product model enhancements.

Our TNC business experienced a strong increase in miles traveled, compared to 2020 when COVID-19 restrictions were in place. Our TNC net premiums written are impacted by miles driven and our 2021 net premiums written reflected the increase in rideshare miles that started to recover during the second half of 2020.

#### F. Property

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

	Growth Over Prior Year		
	2021	2020	2019
Applications			
New	20 %	12 %	(1) %
Renewal	10	14	22
Written premium per policy	1	0	2
Policy life expectancy			
Trailing 12 months	(9)	(3)	(1)

Our Property business writes residential property insurance for homeowners, other property owners, and renters, in the agency and direct channels. During 2021, the Property business experienced an increase in new applications, primarily driven by growth in our direct channel. Since our Property segment was not significantly impacted by COVID-19 restrictions during 2020, the year-over-year comparisons are not as impacted as they are in the Personal and Commercial Lines segments.

During 2021, we made targeted rate increases in hail prone and more volatile weather states and will continue to increase rates where needed to get us more closely in line with our profitability target. In the aggregate, on a countrywide basis, Property net rate increases, were up about 7% for the year. We plan to take non-rate actions to reduce volatility in our results, which are primarily attributable to the impact from weather-related catastrophe losses. We plan to focus our growth efforts in states with traditionally less catastrophe exposure and limit growth in the coastal and hail prone states. We began implementing underwriting changes during the second half of 2021 and will continue to take steps to reduce our concentration risk. In the second quarter of 2022, we will start non-renewing about 60,000 policies in Florida and expect that it will take about one year to complete the process.

Despite rate increases taken during the last 12 months in our home product, we did not experience the same rate of change in written premium per policy on a year-over-year basis, primarily attributable to a shift in the mix of business to a larger share of renters policies, which have lower written premiums per policy. Our policy life expectancy decreased compared to last year, primarily due to targeted underwriting changes being made in states where losses indicate rate inadequacy.

#### G. Litigation

The Progressive Corporation and/or its insurance subsidiaries are named as defendants in various lawsuits arising out of claims made under insurance policies issued by its 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, various Progressive entities are named as defendants in a number of alleged class/collective/representative actions or individual lawsuits arising out of the operations of the insurance subsidiaries. These cases include those alleging damages as a result of, among other things, our practices in evaluating or paying medical or injury claims or benefits, including, but not limited to, personal injury protection, medical payments, uninsured motorist/underinsured motorist, bodily injury benefits, and workers' compensation, and for reimbursing medical costs incurred by Medicare/Medicaid beneficiaries; our practices in evaluating or paying physical damage claims, including, but not limited to, our payment of total loss claims and labor rates paid to auto body repair shops; our insurance product design, including our response to the COVID-19 pandemic; employment matters; commercial disputes, including breach of contract; and cases challenging other aspects of our claims or marketing practices or other business operations. Other insurance companies and/or large employers face many of these same issues. During the last three years, we have settled several class/collective action and individual lawsuits. These settlements did not have a material effect on our financial condition, cash flows, or results of operations. See *Note 12 – Litigation* for a more detailed discussion.

#### H. Income Taxes

At December 31, 2021, we had recoverable income taxes of \$19.2 million, which was reported as part of other assets, compared to net current income taxes payable of \$163.5 million at December 31, 2020, which was reported as part of accounts payable, accrued expenses, and other liabilities on our consolidated balance sheets. The application of \$103.3 million of the deposit that we made in 2019, to protect us against additional taxes and interest owed for 2017, reduced the liability that was recorded at December 31, 2020. See *Note 5 – Income Taxes* for further information.

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 December 31, 2021 and 2020, we reported net deferred tax liabilities. We determined that we did not need a valuation allowance on our gross deferred tax assets for either year. 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.

#### IV. RESULTS OF OPERATIONS – INVESTMENTS

##### A. Portfolio Summary

At year-end 2021, the fair value of our investment portfolio was \$51.5 billion, compared to \$47.5 billion at year-end 2020. The \$4.0 billion increase from year-end 2020 primarily reflects positive investment results and solid cash flows from operations, net of shareholder dividends, common stock repurchases, and the payment of Senior Notes that matured during the year. Our investment income (interest and dividends) decreased 8% in 2021 and 10% in 2020 due to a decrease in the portfolio yield, which was partially offset by an increase in average assets.

##### B. 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 unrealized, gains (losses) on securities.

The following summarizes investment results for the years ended December 31:

	2021	2020	2019
Pretax recurring investment book yield	1.9 %	2.4 %	3.1 %
FTE total return:			
Fixed-income securities	(0.1)	6.7	6.0
Common stocks	33.4	24.3	30.5
Total portfolio	2.6	7.9	7.9

Our effective tax rate was 20% for 2021 and 2020, compared to 23% for 2019. The decrease in the effective tax rate during 2021 and 2020, compared to 2019, was primarily attributable to the reversal of prior year tax credits in 2019, partially offset by \$38.1 million of federal tax benefits resulting from our investments in renewable energy. See *Note 5 – Income Taxes* for a discussion of the reversal of prior year tax credits.

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

The decrease in the book yield during 2021 reflects investing new cash from operations and portfolio turnover during the year in lower interest rate securities. The year-over-year decrease in our fixed-income total return was the result of an increase in interest rates and narrowing credit spreads during the year.

A further break-down of our FTE total returns for our fixed-income portfolio for the years ended December 31, follows:

	2021	2020	2019
Fixed-income securities:			
U.S. Treasury Notes	(1.2)%	7.4 %	4.9 %
Municipal bonds	(0.2)	9.4	5.5
Corporate bonds	(0.4)	8.4	8.9
Residential mortgage-backed securities	1.3	3.0	3.3
Commercial mortgage-backed securities	0.5	4.2	6.2
Other asset-backed securities	0.7	2.8	3.4
Preferred stocks	6.9	6.6	13.8
Short-term investments	0.1	1.0	2.4

### C. Portfolio Allocation

The composition of the investment portfolio at December 31, was:

(\$ in millions)	Fair Value	% of Total Portfolio	Duration (years)	Rating <sup>1</sup>
<b>2021</b>				
U.S. government obligations	\$ 18,488.2	35.9 %	3.6	AAA
State and local government obligations	2,185.3	4.2	3.6	AA+
Foreign government obligations	17.9	0.1	4.5	AAA
Corporate debt securities	10,692.1	20.7	2.9	BBB
Residential mortgage-backed securities	790.0	1.5	0.4	A-
Commercial mortgage-backed securities	6,535.6	12.7	3.2	A+
Other asset-backed securities	4,982.3	9.7	1.2	AA
Preferred stocks	1,821.6	3.6	3.6	BBB-
Short-term investments	942.6	1.8	0.2	AA
Total fixed-income securities	46,455.6	90.2	3.0	AA-
Common equities	5,058.5	9.8	na	na
Total portfolio <sup>2</sup>	\$ 51,514.1	100.0 %	3.0	AA-

<b>2020</b>				
U.S. government obligations	\$ 12,740.0	26.8 %	3.3	AAA
State and local government obligations	3,221.8	6.8	4.4	AA
Corporate debt securities	10,185.2	21.4	3.8	BBB
Residential mortgage-backed securities	509.5	1.1	1.0	AA
Commercial mortgage-backed securities	6,175.1	13.0	3.2	AA-
Other asset-backed securities	3,784.6	7.9	1.0	AA+
Preferred stocks	1,617.6	3.4	3.6	BBB-
Short-term investments <sup>3</sup>	5,218.5	11.0	<0.1	AA
Total fixed-income securities	43,452.3	91.4	2.9	AA-
Common equities	4,078.0	8.6	na	na
Total portfolio <sup>2</sup>	\$ 47,530.3	100.0 %	2.9	AA-

na = not applicable

<sup>1</sup> Represents ratings at December 31, 2021 and 2020. 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-.

<sup>2</sup> Includes \$143.4 million and \$95.5 million of net unsettled security purchase transactions at December 31, 2021 and 2020, respectively, with the offsetting payable included in other liabilities. The total fair value of the portfolio at December 31, 2021 and 2020, included \$4.2 billion and \$6.2 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

<sup>3</sup> A portion of these investments were used to fund our common share dividends in January 2021. See *Note 14 – Dividends* for additional information.

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 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. Included in our Group I

securities are investments entered into by our corporate development group and the asset allocation strategy for these investments is 1.5% of our total portfolio fair value.

The following table shows the composition of our Group I and Group II securities at December 31:

(\$ in millions)	2021		2020	
	Fair Value	% of Total Portfolio	Fair Value	% of Total Portfolio
Group I securities:				
Non-investment-grade fixed maturities	\$ 2,032.4	3.9 %	\$ 1,006.4	2.1 %
Redeemable preferred stocks <sup>1</sup>	90.9	0.2	97.3	0.2
Nonredeemable preferred stocks	1,639.9	3.2	1,422.9	3.0
Common equities	5,058.5	9.8	4,078.0	8.6
Total Group I securities	8,821.7	17.1	6,604.6	13.9
Group II securities:				
Other fixed maturities	41,749.8	81.1	35,707.2	75.1
Short-term investments	942.6	1.8	5,218.5	11.0
Total Group II securities	42,692.4	82.9	40,925.7	86.1
Total portfolio	\$ 51,514.1	100.0 %	\$ 47,530.3	100.0 %

<sup>1</sup> We held no non-investment-grade redeemable preferred stocks at December 31, 2021 or 2020.

To determine the allocation between Group I and Group II, we use the credit ratings from models provided by the National Association of Insurance Commissioners (NAIC) for classifying our residential and commercial mortgage-backed securities, excluding interest-only securities, and the credit ratings from nationally recognized statistical rating organizations (NRSROs) for all other debt securities.

#### **Unrealized Gains and Losses**

As of December 31, 2021, our fixed-maturity portfolio had pretax net unrealized gains, recorded as part of accumulated other comprehensive income, of \$71.4 million, compared to \$1,206.6 million at December 31, 2020. The decrease in unrealized gains from 2020 was primarily due to increasing interest rates and narrowing credit spreads, which resulted in valuation declines in all fixed-maturity sectors, most

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 II securities.

prominently in the U.S. government, corporate debt, and commercial mortgage-backed portfolios.

See *Note 2 – Investments* for further details on our gross unrealized gains (losses).

**Holding Period Gains (Losses)**

The following table provides the balance and activity for both the gross and net holding period gains (losses) for 2021:

(millions)	Gross Holding Period Gains	Gross Holding Period Losses	Net Holding Period Gains (Losses)
Balance at December 31, 2020			
Hybrid fixed-maturity securities	\$ 15.2	\$ 0	\$ 15.2
Equity securities	2,961.5	(6.6)	2,954.9
Total holding period securities	2,976.7	(6.6)	2,970.1
Current year change in holding period securities			
Hybrid fixed-maturity securities	(2.2)	(5.5)	(7.7)
Equity securities	915.7	(8.1)	907.6
Total changes in holding period securities	913.5	(13.6)	899.9
Balance at December 31, 2021			
Hybrid fixed-maturity securities	13.0	(5.5)	7.5
Equity securities	3,877.2	(14.7)	3,862.5
Total holding period securities	\$ 3,890.2	\$ (20.2)	\$ 3,870.0

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 the fixed-income portfolio.

**Interest Rate Risk** This risk includes the change in value resulting from movements in the underlying market rates of debt securities held. We manage this risk by maintaining the portfolio's duration (a measure of the portfolio's exposure to changes in interest rates) between 1.5 and 5 years. The duration of the fixed-income portfolio was 3.0 years at December 31, 2021, compared to 2.9 years at December 31, 2020. The distribution of duration and convexity (i.e., a measure of the speed at which the duration of a security is expected to change based on a rise or fall in interest rates) is monitored on a regular basis.

The duration distribution of our fixed-income portfolio, excluding short-term investments, represented by the interest rate sensitivity of the comparable benchmark U.S. Treasury Notes, at December 31, was:

Duration Distribution	2021	2020
1 year	22.0 %	19.5 %
2 years	18.8	18.7
3 years	23.5	24.9
5 years	17.6	18.5
7 years	13.1	10.9
10 years	5.0	7.5
Total fixed-income portfolio	100.0 %	100.0 %

**Credit Rate Risk** This exposure is managed by maintaining an A+ minimum average portfolio credit quality rating, as defined by NRSROs. Our credit quality rating was above the minimum threshold during both 2021 and 2020.

The credit quality distribution of the fixed-income portfolio at December 31, was:

Rating	2021	2020
AAA	54.7 %	53.3 %
AA	8.7	9.8
A	8.6	11.1
BBB	21.7	22.9
Non-investment grade/non-rated: <sup>1</sup>		
BB	4.8	2.4
B	1.1	0.2
CCC and lower	0.1	0.1
Non-rated	0.3	0.2
Total fixed-income portfolio	100.0 %	100.0 %

<sup>1</sup> The ratings in the table above are assigned by NRSROs. The increase in 2021 reflects a shift in the mix of our investments and not credit rating downgrades.

**Concentration Risk** Our investment constraints limit investment in a single issuer, other than U.S. Treasury Notes or a state's general obligation bonds, to 2.5% of shareholders' equity, while the single issuer guideline on preferred stocks and/or non-investment-grade debt is 1.25% of shareholders' equity. Additionally, the guideline applicable to any state's general obligation bonds is 6% of shareholders' equity. We consider concentration risk both overall and in the context of individual asset classes and

sectors, including but not limited to common equities, residential and commercial mortgage-backed securities, municipal bonds, and high-yield bonds. At December 31, 2021 and 2020, we were within all of the constraints described above.

**Prepayment and Extension Risk** We are exposed to this risk especially in our asset-backed (i.e., structured product) and preferred stock portfolios. Prepayment risk includes the risk of early redemption of security principal that may need to be reinvested at less attractive rates. Extension risk includes the risk that a security will not be redeemed when anticipated, and that the security that is extended will have a lower yield than a security we might be able to obtain by reinvesting the expected redemption principal. Our holdings of different types of structured debt and preferred securities help manage this risk. During 2021 and 2020, we did not experience significant adverse prepayment or extension of principal relative to our cash flow expectations in the portfolio.

**Liquidity Risk** Our overall portfolio remains very liquid and we believe that it is sufficient to meet expected near-term liquidity requirements. The short-to-intermediate duration of our portfolio provides a source of liquidity, as we expect approximately \$4.5 billion, or 16.8%, of principal repayment from our fixed-income portfolio, excluding U.S. Treasury Notes and short-term investments, during 2022. Cash from interest and dividend payments provides an additional source of recurring liquidity.

The duration of our U.S. government obligations, which are included in the fixed-income portfolio, was comprised of the following at December 31, 2021:

(\$ in millions)	Fair Value	Duration (years)
<b>U.S. Treasury Notes</b>		
Less than one year	\$ 1,112.9	0.7
One to two years	3,913.3	1.5
Two to three years	4,628.5	2.4
Three to five years	4,533.1	4.1
Five to seven years	3,172.3	6.2
Seven to ten years	1,128.1	8.6
Total U.S. Treasury Notes	\$ 18,488.2	3.6

#### ASSET-BACKED SECURITIES

Included in the fixed-income portfolio are asset-backed securities, which were comprised of the following at December 31:

(\$ in millions)	Fair Value	Net Unrealized Gains (Losses)	% of Asset-Backed Securities	Duration (years)	Rating (at period end) <sup>1</sup>
<b>2021</b>					
Residential mortgage-backed securities	\$ 790.0	\$ 1.7	6.4 %	0.4	A-
Commercial mortgage-backed securities	6,535.6	(25.4)	53.1	3.2	A+
Other asset-backed securities	4,982.3	0.9	40.5	1.2	AA
Total asset-backed securities	\$ 12,307.9	\$ (22.8)	100.0 %	2.2	AA-
<b>2020</b>					
Residential mortgage-backed securities	\$ 509.5	\$ 6.2	4.9 %	1.0	AA
Commercial mortgage-backed securities	6,175.1	132.5	59.0	3.2	AA-
Other asset-backed securities	3,784.6	39.6	36.1	1.0	AA+
Total asset-backed securities	\$ 10,469.2	\$ 178.3	100.0 %	2.3	AA

<sup>1</sup> The credit quality ratings 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 December 31, 2021, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Residential Mortgage-Backed Securities (at December 31, 2021)							
(\$ in millions) Rating <sup>1</sup>	Non-Agency		Agency		Government/GSE <sup>2</sup>		% of Total
AAA	\$	194.7	\$	0.1	\$	1.6	24.9 %
AA		38.5		0		0.5	4.9
A		166.6		0		0	21.1
BBB		164.4		0		0	20.8
Non-investment grade/non-rated:							
BB		191.7		0		0	24.3
B		15.8		0		0	2.0
CCC and lower		5.2		0		0	0.6
Non-rated		10.9		0		0	1.4
Total fair value	\$	787.8	\$	0.1	\$	2.1	100.0 %
Increase (decrease) in value		0.3 %		(1.4)%		6.5 %	0.3 %

<sup>1</sup> The credit quality ratings are assigned by NRSROs; when we assigned the NAIC ratings for our RMBS, 92% of our non-investment-grade securities were rated investment grade and reported as Group II securities, with the remainder classified as Group I.

<sup>2</sup> 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 bonds that are backed by high-quality borrowers in the underlying mortgages or have strong structural protections. During 2021, we increased our exposure to short-duration credit bonds where the underlying loans had meaningful home price appreciation.

**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 December 31, 2021, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

Commercial Mortgage-Backed Securities (at December 31, 2021)						
(\$ in millions) Rating <sup>1</sup>	Multi-Borrower		Single-Borrower		Total	% of Total
AAA	\$	279.3	\$	1,669.4	\$ 1,948.7	29.8 %
AA		0		1,648.8	1,648.8	25.2
A		0		1,202.8	1,202.8	18.4
BBB		0		1,261.1	1,261.1	19.3
Non-investment grade/non-rated:						
BB		0		474.0	474.0	7.3
B		0.2		0	0.2	0
Total fair value	\$	279.5	\$	6,256.1	\$ 6,535.6	100.0 %
Increase (decrease) in value		3.7 %		(0.6)%	(0.4)%	

<sup>1</sup> The credit quality ratings are assigned by NRSROs; when we assigned the NAIC ratings for our CMBS, 57% 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 experienced lower volatility in 2021. New issuance in the single-asset single-borrower (SASB) market were at a record high in 2021 and were the primary source of additions into our portfolio. Credit spreads in the investment-grade SASB market were range-bound throughout the year, reaching their tightest levels in late second quarter and early third quarter. As a result, our net

purchases slowed and were asset- and deal-specific based on both credit spreads and our assessment of underlying collateral quality. As credit spreads widened in the third and fourth quarters of 2021, we continued to add to the portfolio at a measured pace, with a particular focus on high-quality office and multi-family apartments.

*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 December 31, 2021, to our original investment value (adjusted for returns of principal, amortization, and write-downs):

<b>Other Asset-Backed Securities (at December 31, 2021)</b>									
<b>(\$ in millions) Rating</b>	<b>Automobile</b>	<b>Collateralized Loan Obligations</b>	<b>Student Loan</b>	<b>Whole Business Securitizations</b>	<b>Equipment</b>	<b>Other</b>	<b>Total</b>	<b>% of Total</b>	
AAA	\$ 927.0	\$ 1,203.1	\$ 76.4	\$ 0	\$ 634.1	\$ 215.8	\$ 3,056.4	61.3 %	
AA	290.2	567.7	12.5	0	65.3	14.1	949.8	19.1	
A	22.3	0	8.7	0	127.3	160.6	318.9	6.4	
BBB	7.1	0	0	570.9	0	41.5	619.5	12.4	
Non-investment grade/non-rated:									
BB	0	0	0	0	0	37.7	37.7	0.8 %	
Total fair value	\$ 1,246.6	\$ 1,770.8	\$ 97.6	\$ 570.9	\$ 826.7	\$ 469.7	\$ 4,982.3	100.0 %	
Increase (decrease) in value	(0.1)%	(0.1) %	0.8 %	0.2 %	0.3 %	(0.3)%	0 %		

As valuations across other asset classes were more attractive, our OABS portfolio offered less relative value. During 2021, our allocation to collateralized loan obligation securities increased as they provided better return opportunities than other sectors.

#### *MUNICIPAL SECURITIES*

The following table details the credit quality rating of our municipal securities at December 31, 2021, without the benefit of credit or bond insurance:

<b>Municipal Securities (at December 31, 2021)</b>				
<b>(millions) Rating</b>	<b>General Obligations</b>	<b>Revenue Bonds</b>	<b>Total</b>	
AAA	\$ 653.1	\$ 245.2	\$ 898.3	
AA	484.7	720.7	1,205.4	
A	0	80.3	80.3	
BBB	0	1.0	1.0	
Non-rated	0	0.3	0.3	
Total	\$ 1,137.8	\$ 1,047.5	\$ 2,185.3	

Included in revenue bonds were \$488.4 million of single-family housing revenue bonds issued by state housing finance agencies, of which \$358.7 million were supported by individual mortgages held by the state housing finance agencies and \$129.7 million were supported by mortgage-backed securities.

Of the programs supported by mortgage-backed securities, 78% were collateralized by Ginnie Mae mortgages, which are fully guaranteed by the U.S. government; the remaining 22% were collateralized by Fannie Mae and Freddie Mac mortgages. Of the programs supported by individual mortgages held by the state housing finance agencies, the overall credit quality rating was AA+. Most of these mortgages were supported by FHA, VA, or private mortgage insurance providers.

As spreads tightened during 2021, we reduced our allocation to the municipal sector. Our sales were primarily in revenue bonds that were purchased in 2020 when spreads were wider and offered attractive performance opportunities. At 2021 valuations, municipal bonds were less attractive to us on a relative value basis.

## CORPORATE SECURITIES

The following table details the credit quality rating of our corporate securities at December 31, 2021:

Corporate Securities (at December 31, 2021)									
(millions) Rating	Consumer	Industrial	Communication	Financial Services	Agency	Technology	Basic Materials	Energy	Total
AAA	\$ 0	\$ 0	\$ 0	\$ 30.0	\$ 0	\$ 1.7	\$ 0	\$ 0	31.7
AA	62.3	0	0	111.4	1.0	18.2	0	13.6	206.5
A	374.4	244.2	232.4	1,008.4	0	145.7	123.6	99.8	2,228.5
BBB	2,302.6	1,424.6	134.0	994.5	0	689.8	14.7	893.7	6,453.9
Non-investment grade/non-rated:									
BB	532.6	129.1	204.8	166.6	0	85.5	36.0	85.1	1,239.7
B	355.3	83.3	0	42.8	0	0	0	0	481.4
CCC and lower	50.4	0	0	0	0	0	0	0	50.4
Total fair value	\$ 3,677.6	\$ 1,881.2	\$ 571.2	\$ 2,353.7	\$ 1.0	\$ 940.9	\$ 174.3	\$ 1,092.2	\$ 10,692.1

During 2021, the size of our corporate debt portfolio saw a modest increase. Activity during the year was primarily a combination of selling some of our investment-grade longer-maturity holdings we believed had exceeded our performance objective, adding investment-grade securities with more favorable risk reward profiles, and continuing to selectively increase our allocation to high-yield securities that we believed would benefit from the continuation of the economic recovery.

We shortened the maturity profile of the corporate portfolio during 2021 to reduce credit risk in a narrowing credit spread environment. The maturity profile was 2.9 years at December 31, 2021, compared to 3.8 years at December 31, 2020. Overall, our corporate securities, as a percentage of the fixed-income portfolio, has remained consistent since the end of 2020 at approximately 23%.

## PREFERRED STOCKS – REDEEMABLE AND NONREDEEMABLE

The table below shows the exposure break-down for our preferred stocks by sector and rating at year end:

Preferred Stocks (at December 31, 2021)							
(millions) Rating	Financial services						Total
	U.S. Banks	Foreign Banks	Insurance	Other Financial	Industrials	Utilities	
BBB	\$ 1,019.2	\$ 54.5	\$ 127.4	\$ 46.1	\$ 130.8	\$ 41.3	1,419.3
Non-investment grade/non-rated:							
BB	201.2	23.5	0	0	25.2	41.6	291.5
Non-rated	0	0	35.0	41.4	34.4	0	110.8
Total fair value	\$ 1,220.4	\$ 78.0	\$ 162.4	\$ 87.5	\$ 190.4	\$ 82.9	\$ 1,821.6

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

We also face the risk that dividend payments on our preferred stock holdings could be deferred for one or more periods or skipped entirely. As of December 31, 2021, all of our preferred securities continued to pay their dividends

in full and on time. Approximately 84% of our preferred stock securities pay dividends that have tax preferential characteristics, while the balance pay dividends that are fully taxable.

During 2021, we had a small net increase in our preferred stock portfolio and the portfolio was 3.9% of our fixed-income portfolio at December 31, 2021, compared to 3.7% at December 31, 2020. We primarily purchased nonredeemable preferred securities that we believe had attractive risk/reward profiles. Certain holdings were called and redeemed at par value during the year. The portfolio valuation increased throughout the year as credit spreads compressed.

### Common Equities

Common equities, as reported on the consolidated balance sheets at December 31, were comprised of the following:

(\$ in millions)	2021		2020	
Common stocks	\$	5,041.6	99.7 %	\$ 4,074.9 99.9 %
Other risk investments		16.9	0.3	3.1 0.1
Total common equities	\$	5,058.5	100.0 %	\$ 4,078.0 100.0 %

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 839 out of 1,030, or 81%, of the common stocks comprising the index at December 31, 2021, which made up 96% of the total market capitalization of the index. At December 31, 2021 and 2020, the year-to-date total return of the indexed portfolio, based on GAAP income, was within the designated tracking error, which is +/- 50 basis points.

The other risk investments consist of limited partnership interests. During 2021, we funded \$4.8 million on partnership investments and have an open funding commitment of \$7.4 million at December 31, 2021. In addition, partnership investments with a value of \$7.4 million at December 31, 2021 were assumed as part of our acquisition of Protective Insurance.

The following is a summary of our indexed common stock portfolio holdings by sector compared to the Russell 1000 Index composition:

Sector	Equity Portfolio Allocation at December 31, 2021	Russell 1000 Allocation at December 31, 2021	Russell 1000 Sector Return in 2021
Consumer discretionary	16.0 %	17.1 %	17.4 %
Consumer staples	4.8	5.0	18.2
Financial services	11.1	10.3	34.9
Health care	12.1	12.2	23.3
Materials and processing	1.6	1.6	25.4
Other energy	2.7	2.6	51.2
Producer durable	12.8	12.5	16.1
Real estate	3.2	3.3	38.6
Technology	30.2	29.9	37.2
Telecommunications	3.1	2.9	5.4
Utilities	2.4	2.6	18.7
Total common stocks	100.0 %	100.0 %	26.4 %

For 2021, our common stock portfolio FTE total return was 33.4%, compared to 26.4% for the Russell 1000 Index, due to common stocks we hold outside of the index.

## V. CRITICAL ACCOUNTING POLICIES

Progressive is required to make certain estimates and assumptions when preparing its financial statements and accompanying notes in conformity with GAAP. Actual results could differ from those estimates in a variety of areas. The three areas we view as most critical with respect to the application of estimates and assumptions is the establishment of our loss reserves, the methods for measuring expected credit losses on financial instruments, and our analysis of goodwill for impairment.

### A. Loss and LAE Reserves

Loss and loss adjustment expense (LAE) reserves represent our best estimate of our ultimate liability for losses and LAE relating to events that occurred prior to the end of any given accounting period but have not yet been paid. At December 31, 2021, we had \$21.4 billion of net loss and LAE reserves, which included \$17.3 billion of case reserves and \$4.1 billion of incurred but not recorded (IBNR) reserves. Personal auto liability and commercial auto liability reserves represent approximately 90% of our total carried net reserves. For this reason, the following discussion focuses on our vehicle businesses.

We do not review our loss reserves on a macro level and, therefore, do not derive a companywide range of reserves to compare to a standard deviation. Instead, we review a large majority of our reserves by product/state subset combinations on a quarterly time frame, with the remaining reserves generally reviewed on a semiannual basis. A change in our scheduled reviews of a particular subset of the business depends on the size of the subset or emerging issues relating to the product or state. By reviewing the reserves at such a detailed level, we have the ability to identify and measure variances in the trends by state, product, and line coverage that otherwise would not be seen on a consolidated basis. We believe our comprehensive process of reviewing at a subset level provides us more meaningful estimates of our aggregate loss reserves.

In analyzing the ultimate accident year loss and LAE experience, our actuarial staff reviews in detail, at the subset level, frequency (number of losses per earned car year), severity (dollars of loss per each claim), and average premium (dollars of premium per earned car year), as well as the frequency and severity of our LAE costs. The loss ratio, a primary measure of loss experience, is equal to the product of frequency times severity divided by the average premium. The average premium for personal and

commercial auto businesses is not estimated. The actual frequency experienced will vary depending on the change in the mix in class of drivers we insure, but the frequency projections for these lines of business are generally stable in the short term, because a large majority of the parties involved in an accident report their claims within a short time period after the occurrence. The severity experienced by Progressive is much more difficult to estimate, especially for injury claims, since severity is affected by changes in underlying costs, such as medical costs, jury verdicts, and regulatory changes. In addition, severity will vary relative to the change in our mix of business by limit.

Assumptions regarding needed reserve levels made by the actuarial staff take into consideration influences on available historical data that reduce the predictiveness of our projected future loss costs. Internal considerations that are process-related, which generally result from changes in our claims organization's activities, include claim closure rates, the number of claims that are closed without payment, and the level of the claims representatives' estimates of the needed case reserve for each claim. These changes and their effect on the historical data are studied at the state level versus on a larger, less indicative, countrywide basis.

External items considered include the litigation atmosphere, changes in medical costs, and the availability of services to resolve claims. These also are better understood at the state level versus at a more macro, countrywide level. The impact COVID-19 has on the items above, as well as additional considerations such as the type of accident and change in reporting patterns, are closely monitored.

At December 31, 2021, we had \$26.2 billion of carried gross reserves and \$21.4 billion of net reserves (net of reinsurance recoverables on unpaid losses). Our net reserve balance implicitly assumes that the loss and LAE severity for accident year 2021 over accident year 2020 would be 9.2% higher for personal auto liability and 11.5% higher for commercial auto liability. As discussed above, the severity estimates are influenced by many variables that are difficult to precisely quantify and which influence the final amount of claims settlements. That, coupled with changes in internal claims practices, the legal environment, and state regulatory requirements, requires significant judgment in the estimate of the needed reserves to be carried.



The following table highlights what the effect would be to our carried loss and LAE reserves, on a net basis, as of December 31, 2021, if during 2022 we were to experience the indicated change in our estimate of severity for the 2021 accident year (i.e., claims that occurred in 2021):

(millions)	Estimated Changes in Severity for Accident Year 2021				
	-4%	-2%	As Reported	+2%	+4%
Personal auto liability	\$ 13,178.8	\$ 13,487.8	\$ 13,796.8	\$ 14,105.8	\$ 14,414.8
Commercial auto liability	5,274.8	5,346.2	5,417.6	5,489.0	5,560.4
Other <sup>1</sup>	2,216.1	2,216.1	2,216.1	2,216.1	2,216.1
Total	\$ 20,669.7	\$ 21,050.1	\$ 21,430.5	\$ 21,810.9	\$ 22,191.3

<sup>1</sup> Includes reserves for personal and commercial auto physical damage claims and our non-auto lines of business; no change in estimates is presented due to the immaterial level of these reserves.  
Note: Every percentage point change in our estimate of severity for the 2021 accident year would affect our personal auto liability reserves by \$154.5 million and our commercial auto reserves by \$35.7 million.

Our 2021 year-end loss and LAE reserve balance also includes claims from prior years. Claims that occurred in 2021, 2020, and 2019, in the aggregate, accounted for approximately 92% of our reserve balance. If during 2022 we were to experience the indicated change in our estimate of severity for the total of the prior three accident years (i.e., 2021, 2020, and 2019), the effect to our year-end 2021 reserve balances would be as follows:

(millions)	Estimated Changes in Severity for Accident Years 2021, 2020, and 2019				
	-4%	-2%	As Reported	+2%	+4%
Personal auto liability	\$ 12,159.2	\$ 12,978.0	\$ 13,796.8	\$ 14,615.6	\$ 15,434.4
Commercial auto liability	5,079.6	5,248.6	5,417.6	5,586.6	5,755.6
Other <sup>1</sup>	2,216.1	2,216.1	2,216.1	2,216.1	2,216.1
Total	\$ 19,454.9	\$ 20,442.7	\$ 21,430.5	\$ 22,418.3	\$ 23,406.1

<sup>1</sup> Includes reserves for personal and commercial auto physical damage claims and our non-auto lines of business; no change in estimates is presented due to the immaterial level of these reserves.  
Note: Every percentage point change in our estimate of severity for the 2021, 2020, and 2019 accident years would affect our personal auto liability reserves by \$409.4 million and our commercial auto reserves by \$84.5 million.

Our best estimate of the appropriate amount for our reserves as of year-end 2021 is included in our financial statements for the year. Our goal is to ensure that total reserves are adequate to cover all loss costs, while sustaining minimal variation from the time reserves are initially established until losses are fully developed. At the point in time when reserves are set, we have no way of knowing whether our reserve estimates will prove to be high or low, or whether one of the alternative scenarios discussed above is reasonably likely to occur. The above tables show the potential favorable or unfavorable development we will realize if our estimates miss by 2% or 4%.

## B. Credit Losses on Financial Instruments

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

### Available-For-Sale Securities

We routinely monitor our fixed-maturity portfolio for pricing changes that might indicate potential losses exist and perform detailed reviews of securities with unrealized

losses to determine if an allowance for credit losses, a change to an existing allowance (recovery or additional loss), or a write-off for an amount deemed uncollectible needs to be recorded. In such cases, changes in fair value are evaluated to determine the extent to which such changes are attributable to: (i) credit related losses, which are specific to the issuer (e.g., financial conditions, business prospects) where the present value of cash flows expected to be collected is lower than the amortized cost basis of the security or (ii) market related factors, such as interest rates or credit spreads.

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

For securities whose losses are credit related losses, and for which we do not intend to sell in the near term, we will review the non-market components to determine if a

potential future credit loss exists, based on existing financial data available related to the fixed-maturity securities. If we anticipate that a credit loss exists, we will record an allowance for the credit loss and recognize a realized loss in the comprehensive income statement. For all securities for which an allowance for credit losses has been established, we will re-evaluate the securities, at least quarterly, to determine if further deterioration has occurred or if we project a subsequent recovery in the expected losses, which would require an adjustment to the allowance for credit losses. To the extent we determine that we will likely sell a security prior to recovery of the credit loss, or if the loss is deemed uncollectible, we will write-down the security to its fair value and reverse any credit loss allowance that may have been previously recorded.

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

Based on an analysis of our fixed-maturity portfolio, we have determined our allowance for credit losses related to available-for-sale securities was not material to our financial condition or results of operations for the periods ending December 31, 2021 and 2020.

#### Reinsurance Recoverables

We routinely monitor changes in the credit quality and concentration risks of the reinsurers who are counterparties to our reinsurance recoverables. At December 31, 2021, approximately 62% of our reinsurance recoverables were held in several mandatory state pools, including the Michigan Catastrophic Claims Association, Florida Hurricane Catastrophe Fund, and North Carolina Reinsurance Facility, and in plans where we act as a servicing agent to state-mandated involuntary plans for commercial vehicles (Commercial Automobile Insurance Procedures/Plans) and as a participant in the “Write Your Own” program for federally regulated plans for flood (National Flood Insurance Program). All of these programs

#### **C. Goodwill**

Goodwill represents the amount we paid to acquire companies in excess of the company’s fair value at the date of acquisition. At December 31, 2021, we had goodwill of \$452.7 million. The goodwill related to the April 1, 2015, acquisition of a controlling interest in ARX Holding Corp. (ARX) accounted for 98% of this balance and, therefore, the detailed discussion is focused on the ARX goodwill balance.

We test our goodwill balance for impairment at the reporting unit level annually as of October 1, or more frequently if indicators of impairment exist. Reporting units represent the lowest operational level of our business for which management regularly reviews discrete financial operating results. To test for impairment, we may elect to

are governed by insurance regulations. The remaining balance of our recoverables are composed of voluntary external contractual arrangements that primarily relate to the Property business and to our transportation network company business written by our Commercial Lines business. For these privately placed reinsurance arrangements, we regularly monitor reinsurer credit strength and analyze our reinsurance recoverable balances for expected credit losses at least quarterly, or more frequently if indicators of reinsurer credit deterioration, either individually or in aggregate, exists. For at-risk uncollateralized recoverable balances, we evaluate a number of reinsurer specific factors, including reinsurer credit quality rating, credit rating outlook, historical experience, reinsurer surplus, recoverable duration, and collateralization composition in respect to our net exposure (i.e., the reinsurance recoverable amount less premiums payable to the reinsurer, where the right to offset exists). Based on this assessment, reinsurers with credit risks will be individually subject to a credit default model, and an allowance for credit loss will be established, where warranted.

Based on the analysis of reinsurers, we have determined our allowance for credit losses related to our reinsurance recoverables was not material to our financial condition or results of operations for the period ending December 31, 2021.

#### Premium Receivables

We routinely monitor historical premium collections data for our premiums receivable balances, through actuarial analyses, to project the future recoverability of recorded receivables. As part of these analyses, we determine historical collectability rates and modify those rates based on current economic assumptions to establish estimates on default. These rates are applied to the stratified subsets of our consumer receivable balances, based on the age of the receivable to establish an allowance for credit losses. See *Note 1 – Reporting and Accounting Policies* for a description of our process and a roll forward of the allowance account during 2021 and 2020.

perform a qualitative or quantitative analysis, based on our judgment of the relevant qualitative factors that exist at the time we perform the valuation, including the consideration of the length of time lapsed since the previous quantitative assessment.

The qualitative analysis is performed by assessing certain trends and factors, actual and forecasted operating information (including growth rates and profitability), industry and macroeconomic data, and other relevant qualitative factors.

The quantitative goodwill impairment assessment consists of comparing the fair value of the reporting unit to its carrying value. If the fair value is less than its carrying

value, an impairment charge must be recognized for the difference. To determine the fair value of a reporting unit, we use discounted cash flow models. The models use assumptions including, but not limited to, discount rate, and forecasted growth, profitability, investment return, and capital requirements. The assumptions and estimates are consistent with those we believe other non-related marketplace participants would use and are based on management's best estimates at the time of the analysis.

The goodwill from the ARX acquisition of \$446 million is allocated equally to the Agency auto reporting unit and the ARX reporting unit. We performed a qualitative impairment analysis over the goodwill allocated to the Agency auto reporting unit. The results of the qualitative analysis did not indicate a need to perform an additional quantitative analysis.

For the \$223 million of goodwill allocated to the ARX reporting unit, we elected to perform a quantitative analysis, due to the results generated by ARX over the past several years. While we used the assumptions listed above, we believe that the most significant assumptions used to determine the estimated fair value were the discount rate and projected underwriting profitability of ARX.

The discount rate used was consistent with the weighted average cost of capital that we determined was likely to be expected by a market participant. The discount rate was based on expected rates of return, including consideration of company specific risk premiums. The discount rate used in our discounted cash flow model may be impacted by adverse changes in the macroeconomic environment, volatility in the equity and debt markets, or other industry specific factors, including, but not limited to, changes in catastrophe patterns.

The underwriting profitability assumptions are based on long-term forecasts of ARX's combined ratio. Underwriting profitability is dependent on ability to underwrite and price risks accurately and factors in weather-related catastrophe losses under historical conditions. In addition, when estimating our future underwriting profitability, we factored in changes currently underway to return ARX to profitability, including raising rates, implementing underwriting restrictions, and non-renewing certain policies in Florida to reduce our concentration risk.

As of the evaluation date, the calculated fair value of ARX was nearly 2.7 times greater than its carrying value and, therefore, there was no indication of impairment to the goodwill related to the ARX acquisition. Changes in our assumptions, strategic decisions, or economic and competitive conditions could result in a decline in fair value and result in a goodwill impairment charge in the future. Using the same growth, investment returns, and capital requirement assumptions in the discounted cash flow model, we determined that our discount factor could change by 4% or the forecasted underwriting profitability for ARX could decline by 6% before the fair value of ARX would be less than the current carrying value of the reporting unit indicating that goodwill might be impaired. We will continue to monitor changes in the reporting unit results and general macroeconomic conditions to determine if future impairment analysis is warranted.

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

- *our ability to underwrite and price risks accurately and to charge adequate rates to policyholders;*
- *our ability to establish accurate loss reserves;*
- *the impact of severe weather, other catastrophe events and climate change;*
- *the effectiveness of our reinsurance programs and the continued availability of reinsurance and performance by reinsurers;*
- *the highly competitive nature of property-casualty insurance markets;*
- *whether we innovate effectively and respond to our competitors’ initiatives;*
- *whether we effectively manage complexity as we develop and deliver products and customer experiences;*
- *how intellectual property rights affect our competitiveness and our business operations;*
- *whether we adjust claims accurately;*
- *our ability to maintain a recognized and trusted brand;*
- *our ability to attract, develop and retain talent and maintain appropriate staffing levels;*
- *compliance with complex and changing laws and regulations;*
- *litigation challenging our business practices, and those of our competitors and other companies;*
- *the impacts of a security breach or other attack involving our computer systems or the systems of one or more of our vendors;*
- *the secure and uninterrupted operation of the facilities, systems, and business functions that are critical to our business;*
- *the success of our efforts to acquire or develop new products or enter into new areas of business and navigate related risks;*
- *our continued ability to send and accept electronic payments;*
- *the possible impairment of our goodwill or intangible assets;*
- *the performance of our fixed-income and equity investment portfolios;*
- *the impact on our investment returns and strategies from regulations and societal pressures relating to environmental, social, and other public policy matters;*
- *the elimination of the London Interbank Offered Rate;*
- *our continued ability to access our cash accounts and/or convert securities into cash on favorable terms;*
- *the impact if one or more parties with which we enter into significant contracts or transact business fail to perform;*
- *legal restrictions on our insurance subsidiaries’ ability to pay dividends to The Progressive Corporation;*
- *limitations on our ability to pay dividends on our common shares under the terms of our outstanding preferred shares;*
- *our ability to obtain capital when necessary to support our business and potential growth;*
- *evaluations by credit rating and other rating agencies;*
- *the variable nature of our common share dividend policy;*
- *whether our investments in certain tax-advantaged projects generate the anticipated returns;*
- *the impact from not managing to short-term earnings expectations in light of our goal to maximize the long-term value of the enterprise;*
- *the impacts of the COVID-19 pandemic and measures taken in response; 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, 2021.*

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

**Supplemental Information**  
The Progressive Corporation and Subsidiaries  
**Ten Year Summary – Selected Financial Information**  
(unaudited)

(millions – except ratios, policies in force, per share amounts, and number of people employed)

	2021		2020		2019		2018		2017
Net premiums written	\$	46,405.2	\$	40,568.7	\$	37,577.9	\$	32,609.9	\$ 27,132.1
Growth		14 %		8 %		15 %		20 %	16 %
Net premiums earned	\$	44,368.7	\$	39,261.6	\$	36,192.4	\$	30,933.3	\$ 25,729.9
Growth		13 %		8 %		17 %		20 %	14 %
Policies in force (thousands):									
Personal Lines		22,735.7		21,413.5		19,408.6		17,759.0	16,075.5
Growth		6 %		10 %		9 %		10 %	10 %
Commercial Lines		971.2		822.0		751.4		696.9	646.8
Growth		18 %		9 %		8 %		8 %	6 %
Property <sup>1</sup>		2,776.2		2,484.4		2,202.1		1,936.5	1,461.7
Growth <sup>1</sup>		12 %		13 %		14 %		32 %	22 %
Total revenues	\$	47,702.0	\$	42,658.1	\$	39,022.3	\$	31,979.0	\$ 26,839.0
Underwriting margins: <sup>2</sup>									
Personal Lines		4.6 %		13.2 %		9.5 %		9.7 %	6.9 %
Commercial Lines		11.1 %		13.0 %		10.4 %		13.3 %	7.7 %
Property <sup>1</sup>		(15.3)%		(7.1)%		(1.7)%		(6.9)%	(5.1)%
Total underwriting operations		4.7 %		12.3 %		9.1 %		9.4 %	6.6 %
Net income attributable to Progressive	\$	3,350.9	\$	5,704.6	\$	3,970.3	\$	2,615.3	\$ 1,592.2
Per common share - diluted		5.66		9.66		6.72		4.42	2.72
Average equivalent common shares - diluted		587.1		587.6		587.2		586.7	585.7
Comprehensive income attributable to Progressive	\$	2,459.9	\$	6,291.9	\$	4,432.9	\$	2,520.1	\$ 1,941.0
Total assets	\$	71,132.3	\$	64,098.3	\$	54,895.3	\$	46,575.0	\$ 38,701.2
Debt outstanding		4,898.8		5,396.1		4,407.1		4,404.9	3,306.3
Redeemable noncontrolling interest		0		0		225.6		214.5	503.7
Total shareholders' equity		18,231.6		17,038.6		13,673.2		10,821.8	9,284.8
Statutory surplus		16,423.7		15,194.6		13,671.1		11,571.8	9,664.4
Common shares outstanding		584.4		585.2		584.6		583.2	581.7
Common share close price (at December 31)	\$	102.65	\$	98.88	\$	72.39	\$	60.33	\$ 56.32
Rate of return <sup>3</sup>		10.8 %		41.4 %		25.1 %		9.3 %	61.6 %
Market capitalization	\$	59,988.7	\$	57,864.6	\$	42,319.2	\$	35,184.5	\$ 32,761.3
Book value per common share		30.35		28.27		22.54		17.71	15.96
Ratios:									
Return on average common shareholders' equity:									
Net income attributable to Progressive		18.6 %		35.6 %		31.3 %		24.7 %	17.8 %
Comprehensive income attributable to Progressive		13.6 %		39.3 %		35.0 %		23.8 %	21.7 %
Debt to total capital <sup>4</sup>		21.2 %		24.1 %		24.4 %		28.9 %	26.3 %
Price to earnings		18.1		10.2		10.8		13.6	20.7
Price to book		3.4		3.5		3.2		3.4	3.5
Net premiums written to statutory surplus		2.8		2.7		2.7		2.8	2.8
Statutory combined ratio		94.8		87.9		90.5		89.9	92.8
Dividends declared per common share <sup>5</sup>	\$	1.90	\$	4.90	\$	2.65	\$	2.5140	\$ 1.1247
Number of people employed		49,077		43,326		41,571		37,346	33,656

<sup>1</sup> We began reporting our Property business as a segment on April 1, 2015, therefore, year-over-year growth for 2015 is not applicable (NA).

<sup>2</sup> Underwriting margins are calculated as pretax underwriting profit (loss), as defined in *Note 10 – Segment Information*, as a percentage of net premiums earned.

<sup>3</sup> Represents annual rate of return, assuming dividend reinvestment.

(millions – except ratios, policies in force, per share amounts, and number of people employed)

	2016		2015		2014		2013		2012
Net premiums written	\$	23,353.5	\$	20,564.0	\$	18,654.6	\$	17,339.7	\$ 16,372.7
Growth		14 %		10 %		8 %		6 %	8 %
Net premiums earned	\$	22,474.0	\$	19,899.1	\$	18,398.5	\$	17,103.4	\$ 16,018.0
Growth		13 %		8 %		8 %		7 %	7 %
Policies in force (thousands):									
Personal Lines		14,656.8		13,764.7		13,261.9		13,056.4	12,735.3
Growth		6 %		4 %		2 %		3 %	4 %
Commercial Lines		607.9		555.8		514.7		514.6	519.6
Growth		9 %		8 %		0 %		(1)%	2 %
Property <sup>1</sup>		1,201.9		1,076.5		—		—	—
Growth <sup>1</sup>		12 %		NA		—		—	—
Total revenues	\$	23,441.4	\$	20,853.8	\$	19,391.4	\$	18,170.9	\$ 17,083.9
Underwriting margins: <sup>2</sup>									
Personal Lines		4.7 %		6.5 %		6.7 %		6.6 %	4.4 %
Commercial Lines		6.4 %		15.9 %		17.2 %		6.5 %	5.2 %
Property <sup>1</sup>		3.8 %		10.1 %		—		—	—
Total underwriting operations		4.9 %		7.5 %		7.7 %		6.5 %	4.4 %
Net income attributable to Progressive	\$	1,031.0	\$	1,267.6	\$	1,281.0	\$	1,165.4	\$ 902.3
Per common share - diluted		1.76		2.15		2.15		1.93	1.48
Average equivalent common shares - diluted		585.0		589.2		594.8		603.6	607.8
Comprehensive income attributable to Progressive	\$	1,164.0	\$	1,044.9	\$	1,352.4	\$	1,246.1	\$ 1,080.8
Total assets	\$	33,427.5	\$	29,819.3	\$	25,787.6	\$	24,408.2	\$ 22,694.7
Debt outstanding		3,148.2		2,707.9		2,164.7		1,860.9	2,063.1
Redeemable noncontrolling interest		483.7		464.9		—		—	—
Total shareholders' equity		7,957.1		7,289.4		6,928.6		6,189.5	6,007.0
Statutory surplus		8,560.0		7,575.5		6,442.8		5,991.0	5,605.2
Common shares outstanding		579.9		583.6		587.8		595.8	604.6
Common share close price (at December 31)	\$	35.50	\$	31.80	\$	26.99	\$	27.27	\$ 21.10
Rate of return <sup>3</sup>		14.7 %		20.9 %		5.3 %		30.9 %	15.4 %
Market capitalization	\$	20,586.5	\$	18,558.5	\$	15,864.7	\$	16,247.5	\$ 12,757.1
Book value per common share		13.72		12.49		11.79		10.39	9.94
Ratios:									
Return on average common shareholders' equity:									
Net income attributable to Progressive		13.2 %		17.2 %		19.1 %		17.7 %	14.5 %
Comprehensive income attributable to Progressive		14.9 %		14.2 %		20.1 %		19.0 %	17.4 %
Debt to total capital <sup>4</sup>		28.3 %		27.1 %		23.8 %		23.1 %	25.6 %
Price to earnings		20.2		14.8		12.6		14.1	14.3
Price to book		2.6		2.5		2.3		2.6	2.1
Net premiums written to statutory surplus		2.7		2.7		2.9		2.9	2.9
Statutory combined ratio		94.8		91.8		92.1		93.4	95.2
Dividends declared per common share <sup>5</sup>	\$	0.6808	\$	0.8882	\$	0.6862	\$	1.4929	\$ 1.2845
Number of people employed		31,721		28,580		26,501		26,145	25,889

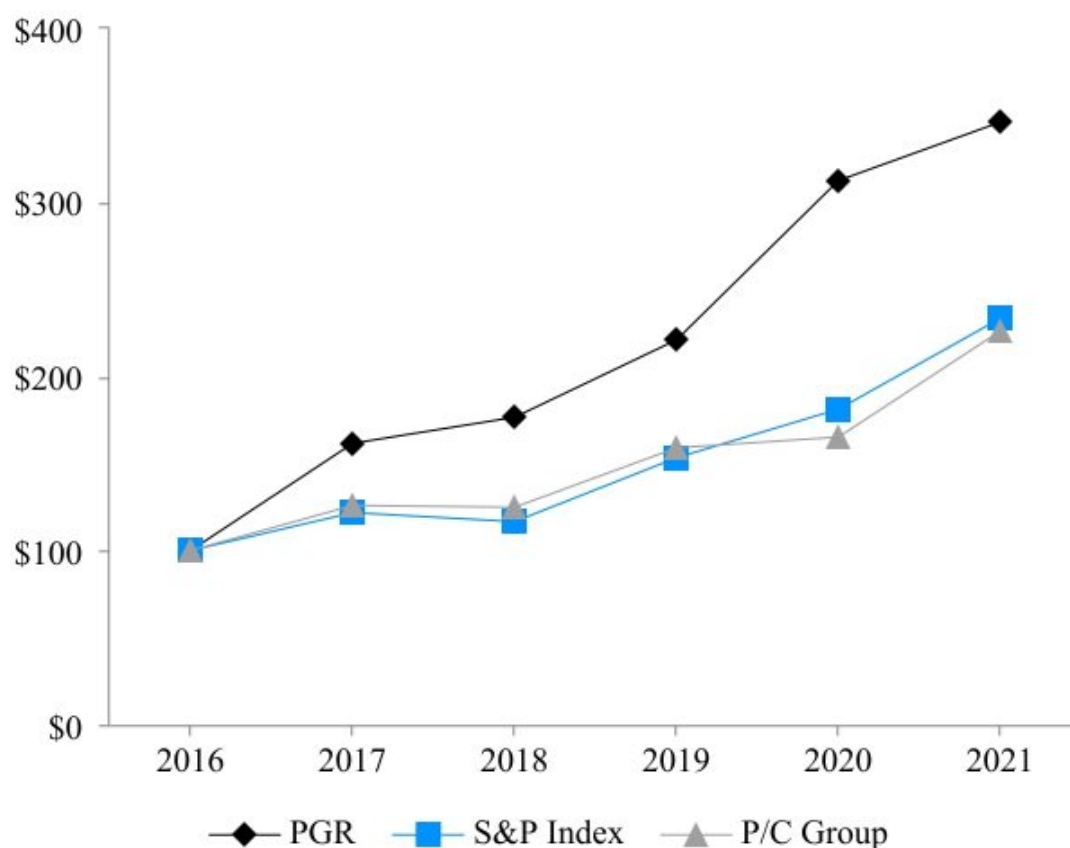
<sup>4</sup>Ratio reflects debt as a percent of debt plus shareholders' equity; redeemable noncontrolling interest is not part of this calculation.

<sup>5</sup>Represents dividends pursuant to the dividend policy in place for the applicable year, plus special cash dividends of \$1.00 per common share in 2013 and 2012 (see *Note 14 – Dividends* for further discussion).

The Progressive Corporation and Subsidiaries  
**Performance Graph**  
(unaudited)

The following performance graph compares the performance of Progressive's Common Shares (PGR) to the Standard & Poor's Index (S&P Index) and the Value Line Property/Casualty Industry Group (P/C Group) for the last five years.

**Cumulative Five-Year Total Return\***  
**PGR, S&P Index, P/C Group (Performance Results through 12/31/21)**



		(Assumes \$100 was invested at the close of trading on December 31, 2016)				
For the years ended December 31,		2017	2018	2019	2020	2021
PGR	\$	161.62	\$ 176.67	\$ 220.94	\$ 312.37	\$ 346.17
S&P Index		121.87	116.50	153.20	181.29	233.29
P/C Group <sup>1</sup>		125.64	124.81	158.88	165.04	226.29

\*Assumes reinvestment of dividends

<sup>1</sup> Per Value Line Publishing LLC

The Progressive Corporation and Subsidiaries  
**Quantitative Market Risk Disclosures**  
(unaudited)

Quantitative market risk disclosures are only presented for market risk categories when risk is considered material. Materiality is determined based on the fair value of the financial instruments at December 31, 2021, and the potential for near-term losses from reasonably possible near-term changes in market rates or prices. The discussion

below relates to instruments entered into for purposes other than trading; we had no trading financial instruments at December 31, 2021 and 2020. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* for our discussion of the qualitative information about market risk.

Financial instruments subject to interest rate risk were:

(millions)	Fair Value				
	-200 bps Change <sup>1</sup>	-100 bps Change <sup>1</sup>	Actual	+100 bps Change	+200 bps Change
U.S. government obligations	\$ 19,479.2	\$ 19,183.4	\$ 18,488.2	\$ 17,780.1	\$ 17,072.0
State and local government obligations	2,319.1	2,260.9	2,185.3	2,108.2	2,031.2
Foreign government obligations	19.1	18.6	17.9	17.1	16.3
Asset-backed securities	12,807.4	12,568.9	12,307.9	12,043.2	11,779.0
Corporate securities	11,255.6	11,003.3	10,692.1	10,378.9	10,064.5
Preferred stocks	1,948.6	1,885.5	1,821.6	1,757.5	1,693.2
Short-term investments	942.6	942.6	942.6	942.6	942.6
Total at December 31, 2021	\$ 48,771.6	\$ 47,863.2	\$ 46,455.6	\$ 45,027.6	\$ 43,598.8
Total at December 31, 2020	\$ 44,014.4	\$ 43,987.2	\$ 43,452.3	\$ 42,226.6	\$ 41,030.8

<sup>1</sup> The amounts reflect an interest rate of 1 basis point (bps) when the hypothetical decline in interest rates would have pushed yields to a negative level.

Exposure to risk is represented in terms of changes in fair value due to selected hypothetical movements in market rates. Bonds and preferred stocks are individually priced to yield to the worst case scenario, which includes any issuer-specific features, such as a call option. Asset-backed

securities and state and local government housing securities are priced assuming deal specific prepayment scenarios, considering the deal structure, prepayment penalties, yield maintenance agreements, and the underlying collateral.

Financial instruments subject to equity market risk were:

(millions)	Fair Value		
	-10%	Actual	+10%
Common equities at December 31, 2021	\$ 4,532.3	\$ 5,058.5	\$ 5,584.7
Common equities at December 31, 2020	\$ 3,634.5	\$ 4,078.0	\$ 4,521.5

The model represents the estimated value of our common equity portfolio given a +/-10% change in the market, based on the common stock portfolio's weighted average beta of 1.04 for 2021 and 1.09 for 2020. The beta is derived from recent historical experience, using the S&P 500 as the market surrogate. The historical relationship of

the common stock portfolio's beta to the S&P 500 is not necessarily indicative of future correlation, as individual company or industry factors may affect price movements. Betas are not available for all securities. In such cases, the change in fair value reflects a direct +/-10% change; the portion of our securities without betas is 1.3%.



The Progressive Corporation and Subsidiaries  
**Net Premiums Written by State**  
(unaudited)

(\$ in millions)	2021		2020		2019		2018		2017						
Florida	\$	6,290.7	13.6 %	\$	5,533.7	13.6 %	\$	5,233.4	13.9 %	\$	4,700.9	14.4 %	\$	3,808.0	14.0 %
Texas		5,343.5	11.5		4,530.5	11.2		4,081.0	10.8		3,388.6	10.4		2,704.9	10.0
California		2,585.1	5.6		2,241.2	5.5		2,208.8	5.9		1,836.0	5.6		1,520.5	5.6
Georgia		2,147.7	4.6		1,860.9	4.6		1,645.3	4.4		1,452.9	4.5		1,177.0	4.4
New York		2,008.6	4.3		1,932.8	4.8		1,843.2	4.9		1,699.0	5.2		1,472.8	5.4
Michigan		1,962.7	4.2		1,797.6	4.4		1,673.5	4.4		1,423.7	4.4		1,186.8	4.4
Ohio		1,563.0	3.4		1,404.2	3.4		1,339.5	3.6		1,194.0	3.7		1,033.5	3.8
Pennsylvania		1,504.8	3.2		1,327.2	3.3		1,268.3	3.4		1,157.4	3.5		1,005.5	3.7
New Jersey		1,417.5	3.1		1,242.0	3.1		1,192.3	3.2		1,088.1	3.3		985.8	3.6
Louisiana		1,154.4	2.5		1,039.4	2.6		965.6	2.6		856.5	2.6		739.2	2.7
All other		20,427.2	44.0		17,659.2	43.5		16,127.0	42.9		13,812.8	42.4		11,498.1	42.4
Total	\$	46,405.2	100.0 %	\$	40,568.7	100.0 %	\$	37,577.9	100.0 %	\$	32,609.9	100.0 %	\$	27,132.1	100.0 %

### Principal Office

The Progressive Corporation  
6300 Wilson Mills Road  
Mayfield Village, Ohio 44143  
440-461-5000  
progressive.com

### 24-Hour Insurance Quotes, Claims Reporting, and Customer Service

	Personal autos, motorcycles, recreational vehicles, homeowners, other property, and renters	Commercial autos/trucks, business property, and general liability
To receive a quote	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-888-806-9598 progressivecommercial.com
To report a claim	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-PROGRESSIVE (1-800-776-4737) progressivecommercial.com
<b>For customer service:</b>		
If you bought your policy directly through Progressive online or by phone	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-PROGRESSIVE (1-800-776-4737) progressivecommercial.com
If you bought your policy through an independent agent or broker	1-800-925-2886 (1-800-300-3693 in California) progressive.com/agent	1-800-895-2886 progressivecommercial.com
If you bought your policy through an independent agent or broker for the state of California	1-800-300-3693 Driveinsurance.com	1-800-895-2886 progressivecommercial.com
In addition, iPhone® and Android® users can download the Progressive App to start a quote, report a claim, or service a policy.		

**Annual Meeting** The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, Studio 96, 6671 Beta Drive, Mayfield Village, Ohio 44143 on May 13, 2022, at 10 a.m. eastern time.

**Online Annual Report and Proxy Statement** Our 2021 Annual Report to Shareholders can be found at: [progressive.com/annualreport](https://progressive.com/annualreport).

Our 2022 Proxy Statement and 2021 Annual Report to Shareholders, in a PDF format, can be found at: [progressiveproxy.com](https://progressiveproxy.com).

**Shareholder/Investor Relations** Progressive does not maintain a mailing list for distribution of shareholders' reports. To view Progressive's publicly filed documents, shareholders can access our website: [progressive.com/sec](https://progressive.com/sec). To view our earnings and other releases, access: [progressive.com/financial-releases](https://progressive.com/financial-releases).

For financial-related information or to request copies of Progressive's publicly filed documents free of charge, write to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143, email: [investor\\_relations@progressive.com](mailto:investor_relations@progressive.com), or call: 440-395-2222.

For all other company information, call: 440-461-5000 or access our website at: [progressive.com/contactus](https://progressive.com/contactus).

**Transfer Agent and Registrar** *Registered Shareholders:* If you have questions or changes to your account and your Progressive common shares are registered in your name, write to: American Stock Transfer & Trust Company, Attn: Operations Center, 6201 15th Avenue, Brooklyn, NY 11219; phone: 1-866-709-7695; email: [help@astfinancial.com](mailto:help@astfinancial.com); or visit their website at: [www.astfinancial.com](https://www.astfinancial.com).

*Beneficial Shareholders:* If your Progressive common shares are held in a brokerage or other financial institution account, contact your broker or financial institution directly regarding questions or changes to your account.

**Common Shares, Holders, and Dividends** The Progressive Corporation's common shares are traded on the New York Stock Exchange (symbol PGR). There were 1,856 shareholders of record on December 31, 2021. Progressive currently has a dividend policy under which the Board expects to declare regular, quarterly common share dividends and, on at least an annual basis, to consider declaring an additional variable common share dividend. The dividend policy can be found at: [progressive.com/dividend](https://www.progressive.com/dividend).

**Counsel** Baker & Hostetler LLP, Cleveland, Ohio

**Corporate Governance** Progressive's Corporate Governance Guidelines and Board Committee Charters are available at: [progressive.com/governance](https://www.progressive.com/governance).

**Accounting Complaint Procedure** Any employee or other interested party with a complaint or concern regarding accounting, internal accounting controls, or auditing matters relating to Progressive may report such complaint or concern directly to the Chairperson of the Audit Committee, as follows: Stuart B. Burgdoerfer, Chair of the Audit Committee, [auditchair@progressive.com](mailto:auditchair@progressive.com). Any such complaint or concern also may be reported anonymously over the following toll-free Alertline: 1-800-683-3604 or online at: [www.progressivealertline.com](https://www.progressivealertline.com).

Progressive will not retaliate against any individual by reason of his or her having made such a complaint or reported such a concern in good faith. View the complete procedures at: [progressive.com/governance](https://www.progressive.com/governance).

**Contact Non-Management Directors** Interested parties have the ability to contact the non-management directors as a group by sending a written communication clearly addressed to the non-management directors to either of the following:

Lawton W. Fitt, Chairperson of the Board, The Progressive Corporation, email: [chair@progressive.com](mailto:chair@progressive.com); or

Daniel P. Mascaro, Secretary, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or email: [secretary@progressive.com](mailto:secretary@progressive.com).

The recipient will forward communications so received to the non-management directors.

**Whistleblower Protections** Progressive will not retaliate against any officer or employee of Progressive because of any lawful act done by the officer or employee to provide information or otherwise assist in investigations regarding conduct that the officer or employee reasonably believes to be a violation of federal securities laws or of any rule or regulation of the Securities and Exchange Commission. View the complete Whistleblower Protections at: [progressive.com/governance](https://www.progressive.com/governance).

**Charitable Contributions** We contribute to: (i) The Insurance Institute for Highway Safety to further its work in reducing the human trauma and economic costs of auto accidents; (ii) Humble Design, a nonprofit organization we partnered with to furnish homes for families and veterans transitioning from homelessness; and, (iii) The Progressive Insurance Foundation. To more broadly represent our employees and their communities, The Progressive Insurance Foundation provides funds to national charitable organizations identified by our Employee Resource Groups and, beginning mid-2022, will contribute a fixed amount to eligible 501(c)(3) charitable organizations of each participating employee's choosing without requiring the employee to contribute. Over the last five years, the funds provided by The Progressive Insurance Foundation, which included an employee matching program, averaged approximately \$5 million per year.

**Social Responsibility and Sustainability** Progressive uses an online format to communicate our social responsibility efforts, and we see sustainability as part of the value we bring to our shareholders, customers, employees, agents, and communities. Our social responsibility and sustainability reports can be found at: [progressive.com/socialresponsibility](https://www.progressive.com/socialresponsibility) and [progressive.com/sustainability](https://www.progressive.com/sustainability), respectively.



Directors

Philip Bleser<sup>1,5,7</sup>  
Retired Chairman of Global Corporate  
Banking,  
JPMorgan Chase & Co.  
(financial services)

Roger N. Farah<sup>2,3,5,7</sup>  
Retired Executive Director,  
Tory Burch LLC  
(retailing)

Jeffrey D. Kelly<sup>1,7</sup>  
Retired Chief Operating Officer and  
Chief Financial Officer,  
RenaissanceRe Holdings Ltd.  
(reinsurance services)

Stuart B. Burgoerfer<sup>1,6,7</sup>  
Retired Executive Vice President and  
Chief Financial Officer,  
L Brands, Inc.  
(retailing)

Lawton W. Fitt<sup>2,4,5,7</sup>  
Chairperson of the Board,  
Retired Partner,  
Goldman Sachs Group  
(financial services)

Barbara R. Snyder<sup>3,7</sup>  
President,  
The Association of American Universities  
(higher education)

Pamela J. Craig<sup>3,6,7</sup>  
Retired Chief Financial Officer,  
Accenture PLC  
(global management consulting)

Susan Patricia Griffith<sup>2</sup>  
President and  
Chief Executive Officer,  
The Progressive Corporation

Jan E. Tighe<sup>3,6,7</sup>  
United States Navy, Vice Admiral, Retired  
(military)

Charles A. Davis<sup>4,7</sup>  
Chief Executive Officer,  
Stone Point Capital LLC  
(private equity investing)

Devin C. Johnson<sup>6,7</sup>  
Chief Operating Officer,  
The SpringHill Company  
(global consumer and entertainment)

Kahina Van Dyke<sup>4,6,7</sup>  
Global Head, Digital Channels and  
Client Data Analytics,  
Standard Chartered PLC  
  
(international banking)

- 1 Audit Committee Member
- 2 Executive Committee Member
- 3 Compensation Committee Member
- 4 Investment & Capital Committee

Member

- 5 Nominating & Governance  
Committee Member
- 6 Technology Committee Member
- 7 Independent Director

### Corporate Officers

Lawton W. Fitt  
Chairperson of the Board  
(non-executive)

Susan Patricia Griffith  
President  
and Chief Executive Officer

John P. Sauerland  
Vice President  
and Chief Financial Officer

Daniel P. Mascaro  
Vice President, Secretary,  
and Chief Legal Officer

Patrick S. Brennan  
Treasurer

Mariann Wojtkun Marshall  
Vice President, Assistant Secretary,  
and Chief Accounting Officer

### Other Executive Officers

Karen B. Bailo  
Commercial Lines President

Jonathan S. Bauer  
Chief Investment Officer

Steven A. Broz  
Chief Information Officer

Patrick K. Callahan  
Personal Lines President

William L. Clawson II  
Chief Human Resources Officer

Remi Kent  
Chief Marketing Officer

John Murphy  
Claims President

Lori Niederst  
Customer Relationship Management  
President

Andrew J. Quigg  
Chief Strategy Officer

## SUBSIDIARIES OF THE PROGRESSIVE CORPORATION

Name of Subsidiary	Jurisdiction of Incorporation
ARX Holding Corp.	Delaware
American Strategic Insurance Corp.	Florida
Ark Royal Underwriters, LLC	Florida
ASI Assurance Corp.	Florida
ASI Home Insurance Corp.	Florida
ASI Lloyds, Inc.	Texas
ASI Preferred Insurance Corp.	Florida
ASI Select Auto Insurance Corp.	California
ASI Select Insurance Corp.	Delaware
ASI Underwriters Corp.	Florida
ASI Underwriters of Texas, Inc.	Texas
Progressive Property Insurance Company	Florida
PropertyPlus Insurance Agency, Inc.	Delaware
Sunshine Security Insurance Agency, Inc.	Florida
Drive Insurance Holdings, Inc.	Delaware
Drive New Jersey Insurance Company	New Jersey
Progressive American Insurance Company	Ohio
Progressive Bayside Insurance Company	Ohio
Progressive Casualty Insurance Company	Ohio
PC Investment Company	Delaware
Progressive Gulf Insurance Company	Ohio
Progressive Specialty Insurance Company	Ohio
Trussville/Cahaba, AL, LLC	Ohio
Progressive Classic Insurance Company	Wisconsin
Progressive Commercial Advantage Agency, Inc.	Ohio
Progressive Commercial Casualty Company	Ohio
Progressive Freedom Insurance Company	Ohio
Progressive Hawaii Insurance Corp.	Ohio
Progressive Michigan Insurance Company	Michigan
Progressive Mountain Insurance Company	Ohio
Progressive Northern Insurance Company	Wisconsin
Progressive Northwestern Insurance Company	Ohio
Progressive Preferred Insurance Company	Ohio
Progressive Security Insurance Company	Louisiana
Progressive Southeastern Insurance Company	Indiana
Progressive West Insurance Company	Ohio
Garden Sun Insurance Services, Inc.	Hawaii
Pacific Motor Club	California
ProgNY Agency, Inc.	New York
Progressive Adjusting Company, Inc.	Ohio

Name of Subsidiary	Jurisdiction of Incorporation
Progressive Capital Management Corp.	New York
Progressive Commercial Holdings, Inc.	Delaware
Artisan and Truckers Casualty Company	Wisconsin
Blue Hill Specialty Insurance Company, Inc.	Illinois
National Continental Insurance Company	New York
Progressive Express Insurance Company	Ohio
Protective Insurance Corporation	Indiana
B&L Brokerage Services, Inc.	Indiana
Transport Specialty Insurance Agency, Inc.	Michigan
B&L Insurance, Ltd.	Bermuda
B&L Management Inc.	Delaware
Protective Insurance Company	Indiana
Protective Specialty Insurance Company	Indiana
Sagamore Insurance Company	Indiana
United Financial Casualty Company	Ohio
Progressive Direct Holdings, Inc.	Delaware
Mountain Laurel Assurance Company	Ohio
Progressive Advanced Insurance Company	Ohio
Progressive Advantage Agency, Inc.	Ohio
Progressive Auto Pro Insurance Agency, Inc.	Florida
Progressive Choice Insurance Company	Ohio
Progressive Direct Insurance Company	Ohio
Gadsden, AL, LLC	Ohio
Progressive Garden State Insurance Company	New Jersey
Progressive Marathon Insurance Company	Michigan
Progressive Max Insurance Company	Ohio
Progressive Paloverde Insurance Company	Indiana
Progressive Premier Insurance Company of Illinois	Ohio
Progressive Select Insurance Company	Ohio
Progressive Universal Insurance Company	Wisconsin
Progressive Innovation Co.	Delaware
Progressive Investment Company, Inc.	Delaware
Progressive Life Insurance Company	Ohio
Progressive Premium Budget, Inc.	Ohio
Progressive RSC, Inc.	Ohio
Progressive Vehicle Service Company	Ohio
Village Transport Corp.	Delaware
Wilson Mills Land Co.	Ohio
358 Ventures, Inc.	Ohio



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-16509, 33-51034, 33-57121, 333-41238, 333-172663, 333-185703, 333-185704, 333-204406, and 333-217922) and Form S-3 (No. 333-259667) of The Progressive Corporation of our report dated February 28, 2022 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the 2021 Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 28, 2022 relating to the financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
Cleveland, Ohio  
February 28, 2022

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Mariann Wojtkun Marshall

Date: February 22, 2022

Mariann W. Marshall

Vice President and Chief Accounting Officer

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ John P. Sauerland

Date: February 21, 2022

John P. Sauerland

Vice President and Chief Financial Officer

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Susan P. Griffith

Date: February 21, 2022

Susan Patricia Griffith

Director, President and Chief Executive Officer

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Lawton Wehle Fitt

Date: February 21, 2022

Lawton W. Fitt

Chairperson of the Board

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Philip Bleser

Date: February 21, 2022

Philip Bleser

Director

---

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Stuart B. Burgdoerfer

Date: February 21, 2022

Stuart B. Burgdoerfer

Director

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Pamela J. Craig

Date: February 21, 2022

Pamela J. Craig

Director

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Charles A. Davis

Date: February 21, 2022

Charles A. Davis

Director

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Roger N. Farah

Date: February 21, 2022

Roger N. Farah

Director

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Devin C. Johnson

Date: February 25, 2022

Devin C. Johnson

Director

---

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Jeffrey D. Kelly

Date: February 21, 2022

Jeffrey D. Kelly

Director

---

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Barbara R. Snyder

Date: February 25, 2022

Barbara R. Snyder

Director

---

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Jan E. Tighe

Date: February 21, 2022

Jan E. Tighe

Director

---

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I hereby constitute and appoint Mariann Wojtkun Marshall, John P. Sauerland, Daniel P. Mascaro, Laurie F. Humphrey and Allyson L. Bach, and each of them, my true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for me and in my name, place and stead, in any and all capacities, to sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of The Progressive Corporation for the year ended December 31, 2021, and any and all amendments relating thereto and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary and requisite to be done in connection with the foregoing, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their respective substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name in the capacity(ies) set forth below as of the date set forth below under my signature.

/s/ Kahina R. Van Dyke

Date: February 25, 2022

Kahina R. Van Dyke

Director

**CERTIFICATION**

I, Susan Patricia Griffith, certify that:

1. I have reviewed this annual report on Form 10-K of The Progressive Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2022

/s/ Susan Patricia Griffith

Susan Patricia Griffith

President and Chief Executive Officer



**CERTIFICATION**

I, John P. Sauerland, certify that:

1. I have reviewed this annual report on Form 10-K of The Progressive Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2022

/s/ John P. Sauerland

John P. Sauerland

Vice President and Chief Financial Officer

**SECTION 1350 CERTIFICATION**

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

(1) the Annual Report on Form 10-K of the Company for the period ended December 31, 2021 (the “Report”), which this certification accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

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

/s/ Susan Patricia Griffith

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Susan Patricia Griffith

President and Chief Executive Officer

February 28, 2022

**SECTION 1350 CERTIFICATION**

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

(1) the Annual Report on Form 10-K of the Company for the period ended December 31, 2021 (the “Report”), which this certification accompanies, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

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

/s/ John P. Sauerland

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John P. Sauerland

Vice President and Chief Financial Officer

February 28, 2022

## LETTER TO SHAREHOLDERS

If anyone would have signaled that 2021 would be even more challenging than 2020, we would not have believed it, but alas it was, however in a much different way. Driving returned to near pre-pandemic levels and severity outpaced our sophisticated models, especially during the latter half of the year. Whilst these trends reversed themselves from what we experienced during the heart of the pandemic, we reacted quickly to these fluctuations, knowing that our actions in the form of rate increases, would take time to earn in. We have a history of being a “first-mover” when we see trends change, and this time appears to be no different.

In light of all the reversions, we had the opportunity at every turn to show how flexible we were as a company. In fact, choosing the theme of flexibility for this year’s annual report aptly reflected 2021 and all of the twists and turns we navigated during the year. Peter Lewis, our longest running CEO, and the son of one of our founders, started using artwork and themes for our annual reports back in 1988, which was also the year I started with the company as a claim rep. That year, Peter chose seven artists to visually represent seven themes, of which flexibility was one of those themes. I always review the past annual reports to avoid duplication of themes, but I am quite certain that the flexibility that Peter wrote about versus the prodigious amount of what we had to adapt to this year do not compare 34 years later.

Aside from attempting to not duplicate a theme, I also only share the theme with a few select individuals involved in the process of selecting the artist and artwork that will be presented in the report. This year, we decided to approach things a little differently in our quest to be increasingly flexible. The artist we commissioned, Katy Fischer, created a nearly 560-piece mosaic made from colorful ceramic tiles to represent the theme in the report. The massive piece is magnificent and will be captured in photos to memorialize the artwork in its entirety and, of course, you can see it as part of the main fold-out in this report. That said, we determined that given the theme, as well as how incredibly flexible Progressive employees have been facing so many headwinds last year, we would share the art, piece by piece, with 560 deserving employees. To select the recipients, we invited employees to submit a story of how they, or a co-worker, exhibited flexibility in their interactions with our customers, each other, and/or those they care about. We had over 700 participants and the stories were so heartwarming that I wanted to share a few with you in my letter to our shareholders.

*Michelle is such a shining light and positive addition to this organization. I can’t think of anyone more deserving of this artwork than her, given her adaptability and her true nature.*

*Michelle has continued to be an example of flexibility while dealing with her own personal challenges. She was directly impacted by Hurricane Laura in 2020, like so many others in the region, but continued to be a supportive leader that was always available and encouraging to others. She was also the person who cooked and served meals to the linemen in the region during the early recovery efforts as she knew these workers were away from their families for extended periods of time to aid our local communities. In addition, Michelle’s sense of humor has helped our team to stay connected and laugh with each other during the pandemic.*

*It is difficult to describe Michelle, but she is a cross between a well-oiled machine, a cheerleader, and the Energizer bunny – dedicated and full of energy! She is a fantastic supervisor who has a drive and a desire to connect with people, bring them together, inspire them, and push them towards their goals. She is a wonderful asset to our Progressive culture.*

*Charley brings out the best of everyone she interacts with. She has maintained check ins with me even after I moved to another team. For our customers, she taught me how to not just say empathy but demonstrate empathy. She came up with creative ways to still follow our process but be empathetic with our customers when they were having a difficult time with the claim. She has also reached out to me and other co-workers when we were going through difficult times and sent us flowers or cards to show that she cares. In addition, Charley created an Employee Appreciation Day where the leaders highlighted what was special about their organization. Charley is a leader who is not afraid to be vulnerable and reach out to others. She has always been a strong ally and always encouraging Employee Resource Group involvement and participating in events. Her passion for Diversity & Inclusion initiatives is so evident. Charley displays care with every interaction she has with people. That care creates trust and allows us to be our true selves.*

I will share several more of these amazing stories of flexibility, throughout this letter and within the report, so that you can really get a sense of how we confront adversity by embracing each challenge directly and adapt as we need to along the way. I won't predict what we might face in 2022, but I guarantee you we will face it with energy, optimism, and nimbleness.

### **The year of adapting to volatile trends**

The first quarter of 2021 was relatively calm as we were still enjoying strong margins reporting a combined ratio (CR) of 89.3, even given the fact that during 2020 we had lowered our personal auto rates in 40 states producing estimated average savings for our customers of \$800 million. April 2021 was the first month where we posted a 96 CR, and we were beginning to see developments that turned out not to be temporary. Fast forward to the end of the quarter where we reported a 100.5 CR for the month of June and 96.5 for the second quarter 2021, versus an 87.7 in the same period the prior year. For the year, we reported a 95.3 CR and fulfilled our publicly stated financial goal of making at least 4 cents of aggregate underwriting profit in any given calendar year. Hitting our goal did not come without some challenges (reducing our marketing spend) and hard work on the part of many within the company.

We never like to find ourselves in this position, but we do whatever we can to try to live up to our commitment to our shareholders. The severity trends changed in more of a step function, rather than gradually over time, and we reacted in kind. We have stated many times over the years that our preference is to take "small bites of the apple" as it pertains to rate increases. We know consumers appreciate stable rates and we aim to provide that for them and to retain our current customer base. That said, given what we were seeing during the year, specifically in our severity trends, we knew we needed to take "larger bites" to get ahead of this fast-moving train. Profit and growth are inextricably connected yet occasionally we need to pull back on one to focus on the other and in the second half of 2021 our focus was on profit. We are swift in our decision making, and in getting the right rates on the street quickly, to put ourselves in the best position to grow when the opportunity arises.

You will see more details of results, across each functional area, in our Operations Summary section. I do want to share a few highlights that we would be proud of in any business environment let alone the current situation.

Across our Personal Lines organization, we added more than 1.3 million policies, ending 2021 with 22.7 million Personal Lines policies in force. We grew our Personal Lines net premiums written (NPW) and net premiums earned by nearly \$3 billion, crossing the \$36 billion NPW milestone to end the year at a stunning \$36.2 billion. While new applications will likely be more of a challenge as we increase rates, we believe we will be well positioned when the industry catches up with trends.

A big congratulations goes to the entire Commercial Lines organization for a terrific year. The Commercial Lines business reached \$8.0 billion in NPW, achieving 51% growth at an 88.9 CR in 2021, in large part due to growth in our commercial auto business. Not only have we achieved profitable double-digit premium growth for the 7<sup>th</sup> consecutive year, but our 2021 premium growth alone equates to almost the size of the #2 commercial auto insurer based on 2020 statutory results.

Our Commercial Lines business provides one of our greatest opportunities to expand our addressable market and grow. We expanded our business owners policy (BOP) product to 17 additional states in 2021, bringing our footprint to 34 states that represent more than 60% of the commercial multi-peril market based on 2020 industry statutory results.

We are excited to also expand our core commercial auto capabilities with the acquisition of Protective Insurance Corporation in 2021. Protective offers expertise in larger fleet and affinity programs and brings additional product lines for us to add to our portfolio.

Our Property business continued to help us attract more Robinson customers (i.e., people who want to bundle their home and auto insurance). While we met our growth goals in Property, we were again disappointed by underwriting losses in this business. Underwriting expenses and non-weather losses were both below our forecasts for the year, but weather-related catastrophe losses were substantially higher than we expected.

Improving profitability is our top priority for the Property business. In addition to disciplined underwriting and accurate pricing at the individual risk level, we have decided to take action to shift the overall mix of our Property business away from coastal and hail prone states to reduce volatility. We began implementing underwriting changes during the second half of 2021 and will continue to make changes in 2022 where we believe it is necessary to accomplish this goal.

Our operating growth and positive investment returns, along with the acquisition and integration of Protective, drove our investment portfolio above \$50 billion at year-end 2021. Our investment portfolio achieved a total return of 2.6% for the year. Our returns decelerated from the previous two years as higher interest rates drove down results in our fixed-income portfolio. While fixed-income results were slightly negative, our equity index replication strategy saw 27% returns due to expansion in both corporate profits and equity multiples. Overall, returns were much less volatile than during 2020. While interest rates moved higher, they traded in a fairly narrow range and equities moved higher with only a few minor downturns throughout the year.

We exited the year as we had started it, with our capital in a strong position. The capital strength allowed us to opportunistically repurchase our shares throughout the year when we believed they were trading below our determination of long-term fair value. In August 2021, we paid off \$500 million of 3.75% Senior Notes at maturity with cash on hand. Lastly, we declared and paid a \$1.50 per share variable dividend in December on top of the \$0.40 per share aggregate quarterly dividends that we paid throughout the year. We feel good about our ability to maintain a strong capital position and still be able to deliver these actions even in a year when we saw margins compress in our operating business.

### **Our Strategic Pillars**

We continue to use our four cornerstones as the construct that guides us as we think about our future and continuing to become a destination for our customers and consumers (or as we like to call them future customers). We start with “who we are” and that is clearly outlined in our five Core Values. Next is “why we’re here,” which is our Purpose. The third cornerstone is “where we’re headed,” which we’ve outlined in our Vision. Lastly, and the more tactical of all of the cornerstones, is “how we’ll get there,” which falls under four strategic pillars that have been our steadfast approach to making sure we invest in the most critical elements of People and Culture, Broad Needs of our Customers, our Leading Brand, and having Competitive Prices.

Even as we endured challenges from COVID-19 and then the subsequent variants of Delta and Omicron, we never took our eye off the long-term vision we laid out many years ago, and we face these ongoing hurdles unflinchingly. It’s just who we are and how we perform. In fact, even though much of what we have focused on in 2021 had been due to the pandemic, we have a very clear 5-year plan and don’t intend to miss a beat, and rather confront any roadblocks, known and unknown, that will come our way.

### **People and Culture**

When I think of a group that has adapted to so many changes and with such a positive approach, I think of all of the nearly 50 thousand dedicated and hard-working Progressive employees. We’ve communicated our desire to open our offices many times only to retract that directive based on a new COVID variant. We knew our top priority was to continue to protect the health and welfare of our people, while still serving our customers the way in which they deserve to be treated. I’m proud of our flexibility and we know that we will need to continue to be flexible as we watch the remainder of this pandemic unfold.

As we reacted to all of the external forces, we didn’t lose momentum on other very critical initiatives that we believe are imperative to the success of our business. We feel very strongly that in order to be consumers’ and agents’ number one choice and destination for auto, home, and other insurance, we need to understand and anticipate the needs of our customers and, in order to really understand our customers, we need to reflect them. For us, diversity, equity, and inclusion are business imperatives required to sustain our incredible growth and it’s our growth that generates additional career opportunities for all of us.

As I have said before, we’ve been at our Diversity and Inclusion efforts for nearly 15 years. Like every other part of our business, we have objectives, which have largely remained unchanged for over a decade, although we now represent our efforts as Diversity, Equity, and Inclusion (DE&I). Each year we measure our performance against these objectives and reassess our initiatives.

Our four Diversity, Equity, and Inclusion Objectives are as follows:

**1) Reflect the customers we serve:**

After almost a decade of efforts, we are close to achieving our workforce goal to have a gender and racial composition that's representative of the United States adult population—our proxy for the demographics of our current and potential customers. Our hiring volume over the past five years has given us significant opportunity to add diverse talent, particularly at the entry level, which accounts for much of our hiring. We will continue with the recruiting and development efforts that have proven to be most successful over the past few years.

**2) Leadership to reflect the people they lead:**

Our ability to lead and motivate a diverse workforce requires an engaged team of diverse managers and senior leaders. Our efforts continue to increase the representation of women and people of color in these leadership ranks. To focus our efforts, we set a goal in late 2020 to double representation of people of color in senior leadership. A concerted effort to increase the diversity of our candidate pools has proven effective. We have increased representation from 10%—where we had been for almost a decade—to 16%, more than halfway to our goal. We will maintain our momentum largely by maintaining our discipline in developing deep, diverse candidate pools through new and existing recruiting networks.

**3) Maintain a fair and inclusive work environment:**

We're committed to creating an environment where our people feel welcomed, valued, and respected. One key measure of success is participation in our Employee Resource Groups (ERGs). We believe our ERGs, and our outsized participation rates compared to benchmarks (Diversity Inc's Top 50), are a significant contributing factor to several people metrics at Progressive. Our ERG members are more engaged and more likely to both stay at Progressive and apply for promotions. This will fuel even more momentum as we think about our future leaders and DE&I initiatives.

In addition to our ERG participation, we use our annual Engagement and Culture survey as one measure of inclusion. Engagement at Progressive remains extremely high, placing us in the 97<sup>th</sup> percentile of all companies that use the Gallup survey. Comparing the results by gender and race, we see slight, non-meaningful gaps in scores for men and women. The scores for Black and Asian employees lag behind their white coworkers but were relatively consistent with the prior year.

**4) Contribute to our communities:**

With a few exceptions, we've narrowed the focus of our community support to causes that align with our business, simply put, cars and homes. We provide vehicles to veterans with our Keys to Progress® initiative and help furnish homes for the homeless. For the first time in 2020, we asked each of our ERGs to identify a national charitable organization that supports the communities they represent. During 2021, we continued that funding, further linking our community and DE&I efforts.

We've gained considerable ground on our DE&I objectives over the past few years, and we're encouraged by the momentum, particularly in diversifying our senior leadership ranks. We will continue to focus on diversity, equity, and inclusion to measure our culture and achieve our shared vision for the future.

Another important part of our culture is to work toward creating a better future for not only our employees but also for our agent partners, communities, shareholders, and the millions of customers who trust us to protect what's most important to them. We produce a sustainability report to allow investors and these key stakeholders to review financial and nonfinancial information about our environmental, social, and governance activities. One highlight during 2021, was the addition of a large solar array at one of our main campus locations, which we expect will ultimately reduce that location's carbon emissions by 1,500 metric tons per year. This is just one part of our growing renewable power program that will help us toward our goal of being carbon neutral (for scope 1 and 2 emissions) by 2025 and we are working to chart a course with the goal of being net-zero the following decade. For further information on our progress, check out our complete report at [progressive.com/sustainability](https://progressive.com/sustainability).

I'll close this section with another story from an artwork recipient.

*Eileen has epitomized flexibility in the workplace and has found numerous ways to ensure that everyone remains engaged and productive, and has fostered a healthy work/life balance for our team. She always finds ways to make herself available and is willing to change her plans to match the reality of the situation. As a result of her incredible flexibility, she is able to ensure that we maintain productivity during transitions. She embraces change and encourages the team to provide their thoughts and ideas, which has led to changes in processes that work for everyone. I can't think of anyone more deserving of this unique honor than Eileen.*

### **Broad Needs of our Customers**

We strive to be where, when, and how customers want to purchase and service their policies. We follow the customers' desires and attempt to make everything easy for them to obtain protection as they go through their insurance journeys. We want to be an insured's destination company and will continue to invest in making that happen.

We can meet the needs of consumers through both HomeQuote Explorer® (HQX), our online Property offering, and our in-house agency with about a dozen carriers covering property, renters, and umbrella insurance.

We offer products from Progressive Home, along with several unaffiliated partners, through HQX in order to give our customers the choice that best fits their needs. The ability to buy online is now available through at least one carrier in 48 states making it available to over 90% of consumers quoted.

We ended 2021 with growth of nearly 13% of our bundled auto and home customers we refer to as Robinsons. Currently, 21% of our customers are either Robinsons or have more than one product with Progressive (e.g., car and motorcycle).

On the direct Commercial Lines side of the house, we work with a number of carriers to offer business insurance products (including our Progressive BOP) on BusinessQuote Explorer® (BQX). As we and our carrier partners continued product rollouts and state expansion, we were able to increase our reach and meet the insurance needs of more customers. In 2021, over 90 carrier/product/state expansions took place across BQX. Furthermore, in collaboration with these carriers, we were able to expand their acceptability of additional risk types by over 175 small business classes. With our rebuild and refresh of our consumer BQX website, we've adopted state-of-the-art accessibility capabilities and are extremely mobile-friendly.

### **Leading Brand**

Amid the ever-changing business climate, our Marketing team flexed to deliver meaningful content to our target audiences. Thoughtfully, we adjusted our media spend when necessary to ensure our expenses and growth aligned with our profitability goals. Reducing our advertising spend is not something we like to do but was necessary under the circumstances. The great news is that our Progressive Brand is one that consumers readily recognize and respect. Our data-based approach to media provided us flexibility to alter our spend while minimizing long-term impact and it also gave us the opportunity to better understand what was and was not working. The learnings we've gained will make us more agile and even more precise when we return to growing our advertising.

Progressive is one of the country's most advertised brands, and we continually challenge ourselves to create marketing rooted in real human insights that resonate with our targeted audience. We leverage our network of well-known and well-loved characters to deliver against that goal. Our campaigns delight consumers and drive our



business, and the proof is in our ability to grow specifically in the number of preferred drivers we insure. Our commitment to marketing that drives business growth is unwavering.

In the spirit of relevance, in just two years' time, Dr. Rick has risen through industry and consumer ranks to become one of Progressive's most well-liked and lauded characters. In fact, the relative newcomer's likeability and cross-generational appeal earned him a spot on *Ad Age*'s most popular insurance ad characters list, taking up residency alongside our Flo and Jamie characters. More broadly, the Parentamorphosis campaign has amassed multiple awards for creative excellence, including two Effies in the insurance category. Pushing reach and relevance even further, Dr. Rick recently published *Dr. Rick Will See You Now*, a book to help young homeowners keep from turning into their parents. The limited-edition hardbound book sold out and the e-book earned a 4.5 of 5 rating on Amazon. This campaign extension *literally* brought our advertising character to real life and gave fans a tangible way to experience our brand.

In a space defined by many intangibles, how, when, and where we intersect with people has profound importance. To that end, we never rest and will propel forward with data driven, insightful, and innovative marketing that comes alive in both advertising and branded experiences that delight consumers and customers.

## **Competitive Prices**

A key component of our strategy pillar around competitive prices is operational efficiency. As well recognized, the environment we've operated in during the past two years has been quite dynamic, especially around the frequency of claims. This has necessitated balancing operational efficiency in the near-term with our longer-term growth prospects and our desired work environment. I'm proud of our entire team's flexibility and creativity as we've adjusted claims hiring and staffing levels more so perhaps in 2021, than we have in our entire history. Our loss adjustment expense (LAE) ratio for the year was 0.3 points higher than 2020, and approximately equal to 2019 when claims frequency was running more similarly to 2021.

Our key measure of operational efficiency outside of claims is what we call our non-acquisition expense ratio (NAER). This is the typical industry definition of underwriting expense ratio excluding agent commission and advertising expenses. Our growth aspirations require competitive agent commissions, as well as robust, and most likely growing, advertising spend. Consequently, we exclude these costs from our key efficiency metric. In 2020, we recognized over \$1 billion of policyholder credits in our NAER as well as substantially higher estimates of bad debt expense. As such, it is more appropriate to compare our 2021 efficiency metrics to 2019. For 2021 relative to 2019, our Personal Lines NAER was down 0.7 points and our Commercial Lines NAER was down 0.9 points.

Of course, our aggregate cost structure including commissions and advertising must also be competitive and we are pleased to report a Personal Lines expense ratio for 2021 of 19.0 versus 19.9 in 2019. However, some of this improvement is due to spending less on advertising than we would have otherwise preferred, in light of the sudden and dramatic rise in average loss costs that started during the second quarter 2021. Our advertising spend is derived by what we calculate to be allowable given the lifetime profitability of new customers, as well as our aggregate calendar year profitability. In times when we need to raise prices to ensure those profit objectives are met, we reduce advertising spend to reduce expenses until we are once again adequately priced to cover our loss costs.

Profitability in our Commercial Lines business has not been a constraint and we increased advertising spend significantly during 2020 and maintained that level of spend during 2021 in Commercial Lines. Our aggregate expense ratio in this business was 19.6 versus 21.1 in 2019.

The combinations of our Personal and Commercial Lines loss adjustment and underwriting expense ratios are amongst the lowest in the industry and are significant in supporting our strategy of providing competitive prices. Our plan is to balance continually to seek improvements to operational efficiency while making investments that help us to maintain or improve this advantage going forward. Said another way, we sometimes need to spend on investments, like technology, in order to increase efficiency.

In addition to efficiency, accuracy is one of our Claims Guiding Principles, which has a profound impact on competitive prices and customer satisfaction. An audit function, independent from the Claims organization, regularly evaluates our work to ensure we are resolving claims quickly, efficiently, and accurately. I'm pleased to say that our accuracy results have been resilient to the many challenges we faced this past year.

I also want to extend kudos to our actuarial group. Although we experienced fluctuations in the amount of prior year development recognized during 2021, I am pleased to report that we ended the year with 0% prior accident year development on our outstanding loss reserves. While we have had a great track record over the years, given all the uncertainty brought about by the pandemic, achieving the goal to establish loss and LAE reserves as accurate and timely as possible when we set our reserves was not an easy objective to meet. This accuracy in reserving contributes to more accurate pricing.

Another important aspect of having competitive prices is being able to segment rate to risk. Having industry leading segmentation has been critical to our success and allows us to price each customer based on their expected loss experience.

Along with adjusting rates to match increasing loss costs, during 2021 we continued to deploy enhanced segmentation through product model upgrades that help us accurately match rate to risk, a core element of ensuring we can deliver both competitive prices and solid underwriting profit margins.

Within our auto product, during the year, we completed 24 auto model upgrades across channels and our latest product design, 8.7, at year end was deployed in 22 states that represented more than half of our countrywide premium. We believe this model improves segmentation and pricing accuracy and is improving quote conversion of more preferred risks which is helping to reduce the growth headwinds we'd typically face when raising rates to deliver target profitability.

In Commercial Lines, product segmentation improvements, along with growing use of our predictive usage-based programs, have improved our competitiveness and helped us be considered more often amongst the most preferred truckers shopping for insurance. The combination of our deep focus on commercial auto, strength in the for-hire transportation business segment, and the shape of the economic recovery enabled us to extend our leadership position in the commercial auto market.

In our Property business, the story is similar. As we increase rates to match rising overall costs, we're also simultaneously improving the precision with which we match our prices to individual risks through deployment of our 4.0/4.1 product to 16 states in 2021.

### **Flexing into the new year**

The work we do and the culture we nurture are inseparable. We strive to take care of our customers when they need us most and we believe that is a noble calling. Our collective groups in Claims and our Sales and Service organizations in both Personal and Commercial Lines have truly risen to the occasion whether it was during the many catastrophic events or just to lend an ear as people shopped and had questions on their policies.

Another group that has really risen to the occasion has been our recruiting team. During 2021, the team helped us hire over 13,000 people to support our growth and to make sure we were able to meet customers' needs. The team worked hard to ensure that they were sourcing diverse candidates, and their efforts have been critical in helping us meet our DE&I objectives, as discussed above. A big thank you to the team.

Regardless of what comes our way, our culture is stronger than ever, and we are more motivated than ever to lean into our values and vision.

A great example of our culture, in action, comes from Arlo, a process specialist out of Nashville. His story is the epitome of how we think about the Golden Rule.

*My mom, stepdad, and younger sibling's home burned to the ground on Sunday Jan 9<sup>th</sup>. It was traumatic and surreal to stand with them as everything they owned burned before our eyes. Thankfully, everyone was okay, and they do have insurance to get them back on their feet. After sharing the tragedy with my leader, I had immediate support on taking time off to help my mom/family. In addition, my leader reached out and said that he's been working within our group, and they've raised nearly \$1,500 for my family! I was overwhelmed with emotion. I joined the group a little over a year ago and haven't met my team in-person. For this team to come together and raise money for my family – confirms my beliefs that we have remarkable and caring people working here. Truly a family, the Progressive family.*

I also want to welcome the Protective family into the Progressive fold. We are excited to get to know the Protective employees better and devise creative ways to profitably grow their existing business. We truly appreciate the knowledge the Protective team brings to the business and look forward to working collaboratively with them.

I started this letter by saying the flexibility we need now is somewhat different than what was needed 34 years ago. That said, the cover of the 1988 annual report read, “We don’t try to mold our people, we try to develop them, using their individual strengths as a pivot point.” That’s very consistent with how we feel over three decades later. We continue to truly care about each and every Progressive person having the opportunity to bring the best version of themselves to their teams and our customers. That won’t change and we have shown that it works.

In 1988, we ranked 37<sup>th</sup> when we compared ourselves against the entire property-casualty market and, relative to the \$199 billion personal auto insurance market at that time, our market share was 0.6%. Today, we are ranked third in personal auto, with an estimated market share of 14%, not to mention ranking #1 in commercial auto and in the top 15 homeowners carriers. With our new and expanded lines of products, we believe that the opportunity for growth remains solid.

To everyone at Progressive that makes this place so special, thank you. I’m more dedicated than ever to lead us successfully into this next chapter and truly can’t wait to see many of you walking the halls of our many locations. For now, stay safe and healthy.

Thanks for all that you do.

Tricia

/s/ Tricia Griffith

Tricia Griffith

President and Chief Executive Officer