



# The Hanover Insurance Group, Inc.

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Third Quarter 2019 Results  
October 31, 2019

*To be read in conjunction with the press release dated  
October 30, 2019 and conference call scheduled for  
October 31, 2019*



# Third Quarter 2019

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**Net Income and Operating Income <sup>(1)</sup> of \$2.96 and \$2.31 per Diluted Share, Respectively;  
Combined Ratio of 94.4%; Combined Ratio, Excluding Catastrophes <sup>(2)</sup>, of 91.3%**

- Net premiums written increase of 5.6%\*, which reflects growth in more profitable segments
- Price increases of 5.5% in Core Commercial Lines<sup>(3)</sup> and 5.0% in Personal Lines<sup>(4)</sup>
- Catastrophe losses of \$35.2 million, or 3.1 points, including several wind and hail events in the Upper Midwest, compared to \$44.9 million, or 4.2 points, of catastrophe losses in the prior-year quarter
- Current accident year loss and loss adjustment expense (“LAE”) ratio, excluding catastrophes<sup>(5)</sup>, of 59.6%, reflecting elevated property loss experience, while liability continues to perform in line with expectations
- Net investment income of \$68.8 million, up 3.6% from the prior-year quarter, driven by the continued investment of operational cash flows and investment of remaining proceeds from Chaucer sale
- Completed the previously announced \$150 million accelerated share repurchase (“ASR”) agreement on October 28, 2019, repurchasing approximately 1,150,000 shares of common stock
- Book value per share of \$78.01, up 4.9% from June 30, 2019, due primarily to net income and unrealized gains on investments

(1) See information about this and other non-GAAP measures and definitions used throughout this presentation on the final pages of this document.

The Hanover Insurance Group, Inc. may also be referred to as “The Hanover” or “the Company” interchangeably throughout this presentation

\* Unless otherwise stated, net premiums written growth and other growth comparisons are to the same period of the prior year



# Consolidated Financial Results Snapshot

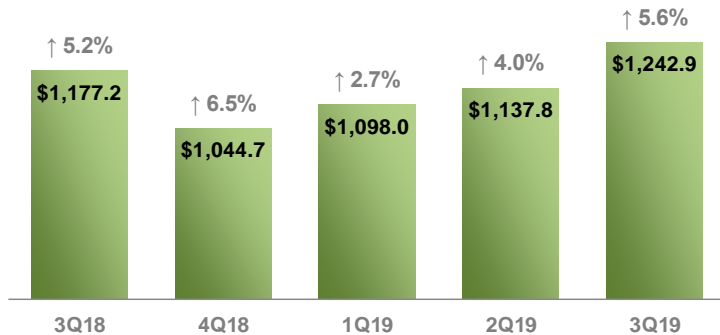
(\$ in millions, <i>except per share amounts</i> )	Three Months ended		Nine months ended	
	September 30, 2018	September 30, 2019	September 30, 2018	September 30, 2019
<b>Net income</b>	\$100.4	\$118.9	\$267.4	\$315.3
<b>Net income per share</b>	\$2.33	\$2.96	\$6.21	\$7.71
Operating income before interest and taxes	\$112.8	\$126.3	\$313.4	\$343.1
Operating income after taxes	\$84.9	\$93.0	\$227.2	\$251.4
<i>Operating income after taxes per share</i>	<i>\$1.97</i>	<i>\$2.31</i>	<i>\$5.28</i>	<i>\$6.15</i>
<b>Book value per share</b>	<i>\$70.40</i>	<i>\$78.01</i>	<i>\$70.40</i>	<i>\$78.01</i>
Shareholders' equity	\$2,982	\$3,087	\$2,982	\$3,087
Debt	\$778	\$668	\$778	\$668
Total capital	\$3,760	\$3,755	\$3,760	\$3,755
Debt/Total Capital	20.7%	17.8%	20.7%	17.8%
Total assets	\$15,624	\$12,627	\$15,624	\$12,627
Net income return on average equity <sup>(6)</sup>	13.6%	15.8%	12.1%	14.1%
Operating return on average equity <sup>(6)</sup>	11.2%	13.3%	10.3%	12.0%
Adjusted operating return on average equity <sup>(6)</sup>	14.1%	14.3%	13.0%	13.2%



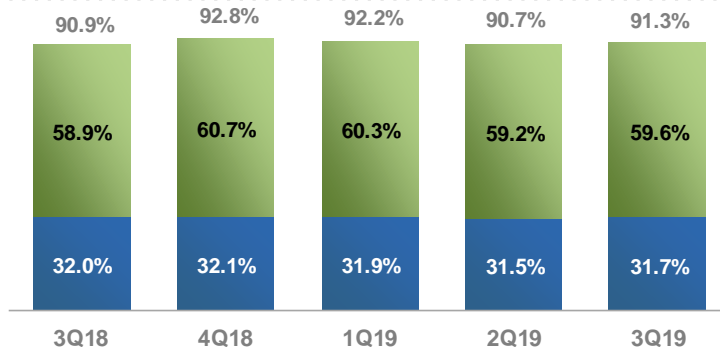
# Strong Operating Results

(\$ in millions)	Three months ended	
	September 30	
	2018	2019
Net premiums written	\$1,177.2	\$1,242.9
Growth	5.2%	5.6%
Net premiums earned	\$1,071.7	\$1,124.1
Combined ratio	95.1%	94.4%
Combined ratio, ex-cat	90.9%	91.3%
Current accident year combined ratio, ex-cat <sup>(2)</sup>	90.9%	91.3%

## Net Premiums Written and Growth (\$ in millions)



## Current Accident Year Combined Ratio, Ex-Cat



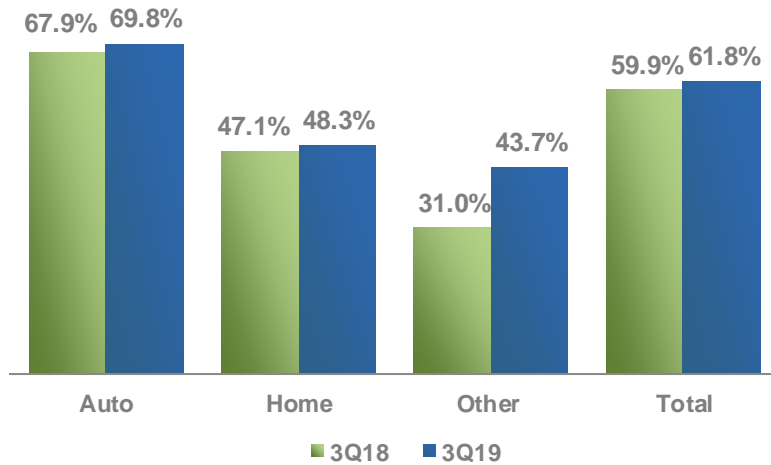
- Combined ratio of 94.4%, including:
  - 3.1 points of catastrophe losses
  - Favorable ex-cat prior-year reserve development in Workers' Compensation offset by unfavorable development in Personal Auto and Home
- Current accident year combined ratio, ex-cat, of 91.3% up 0.4 points over the prior-year quarter:
  - Current accident year loss and LAE ratio, ex-cats, of 59.6% increased 0.7 points over the prior-year quarter, driven by:
    - Elevated property losses in several areas of the business
    - The timing of auto liability loss selections in 2018
  - Expense ratio of 31.7% improved 0.3 points over the prior-year quarter, driven by growth leverage, continued expense rigor and timing of certain expenses
- Top-line growth of 5.6%, driven by:
  - Strong growth in higher-profit businesses
  - Partially offset by continued execution of profit improvement initiatives

Expense ratio<sup>(7)</sup> Current accident year loss and LAE ratio, ex-cat

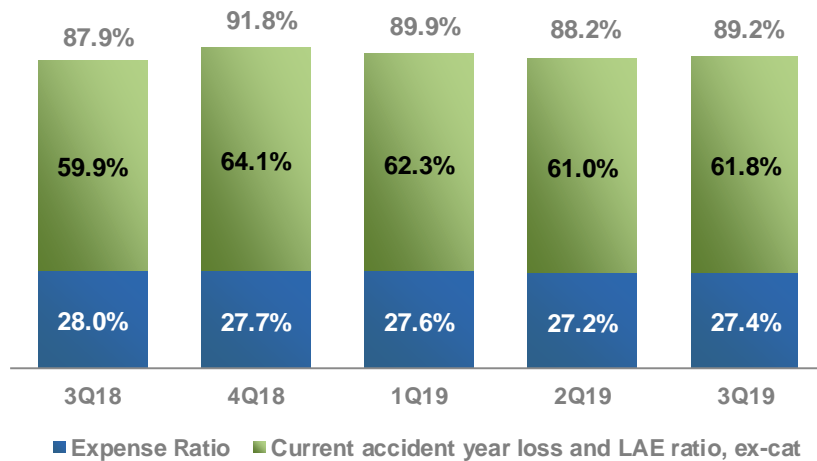


# Personal Lines Underwriting Highlights

## Current Accident Year Loss and LAE Ratio, Ex-Cat



## Current Accident Year Combined Ratio, Ex-Cat



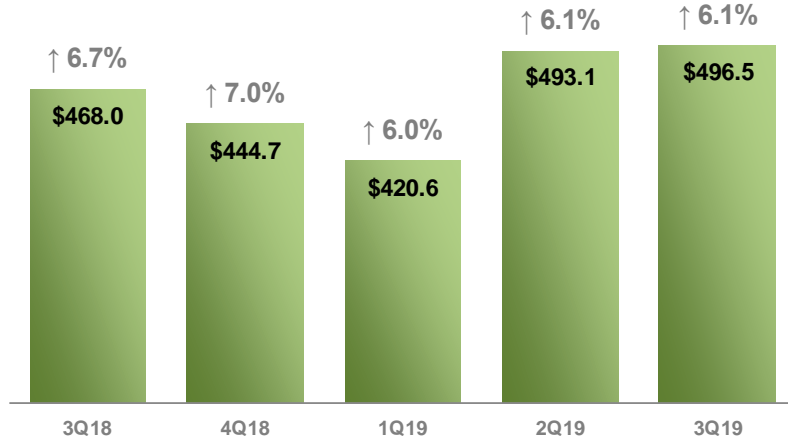
- Combined ratio of 93.3%, including:
  - Unfavorable ex-cat prior-year reserve development of \$5.6 million, or 1.2 points, primarily driven by increased severity in Auto bodily injury coverages
  - Catastrophe losses of 2.9 points
- Current accident year combined ratio, ex-cat, of 89.2% increased 1.3 points over the prior-year quarter:
  - Current accident year loss and LAE ratio, ex-cats, increased by 1.9 points, to 61.8%, driven by:
    - Personal Auto:
      - Timing of 2018 liability loss selections
      - Increase in property losses due to collision and comprehensive coverages (hail and animal hits)
    - Homeowners:
      - Elevated non-catastrophe weather losses, primarily hail
  - Expense ratio improved 0.6 points to 27.4% due to growth leverage, as well as higher than usual performance-based agency compensation in the third quarter of 2018



# Personal Lines Growth Highlights

(\$ in millions)

## Net Premiums Written and Growth



- Net premiums written growth of 6.1% due to targeted rate increases and organic new business momentum:

- Consistent price increases of 5.0%
- Healthy retention of 82.8%
- Policies in force grew 4.1% from the prior-year quarter

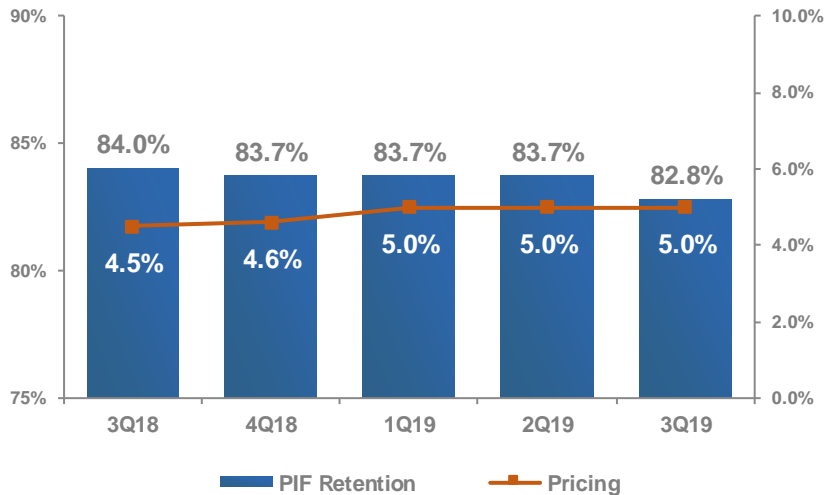
- Strong quality of growth:

- Account business is 85% of total book and new business
- Hanover Platinum product now makes up 50% of overall Personal Lines business

- Geographic expansion into Vermont, now writing Personal Lines business in 19 states

## Retention\*

## Pricing

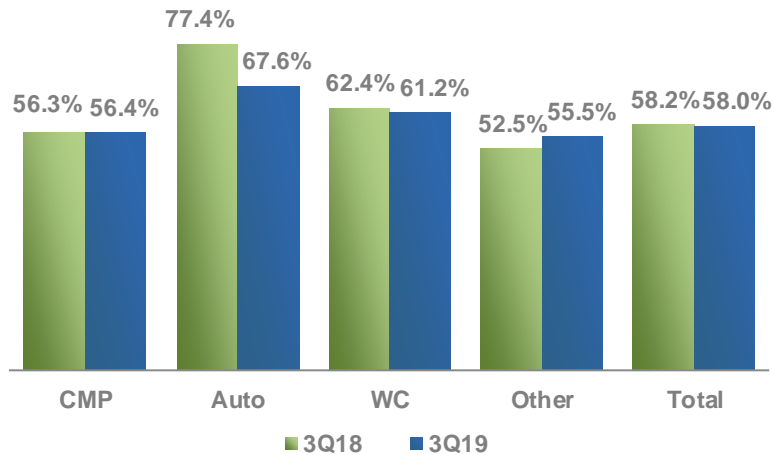


\*Retention is defined as ratio of net retained policies for noted period to those policies available to renew over the same period.

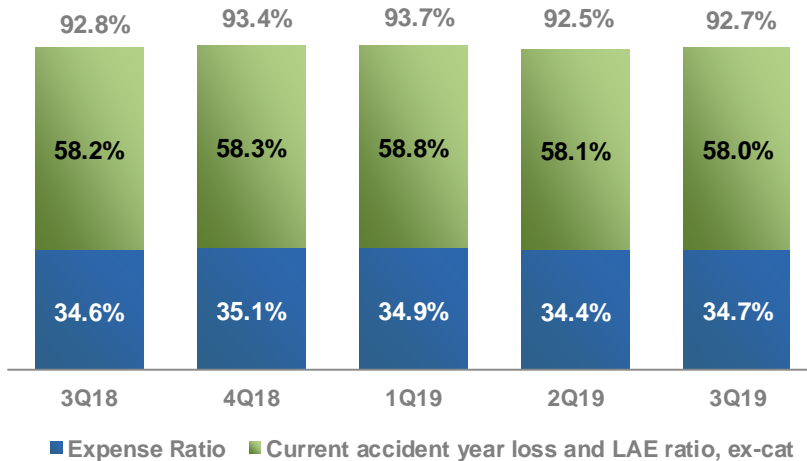


# Commercial Lines Underwriting Highlights

## Current Accident Year Loss and LAE Ratio, Ex-Cat



## Current Accident Year Combined Ratio, Ex-Cat

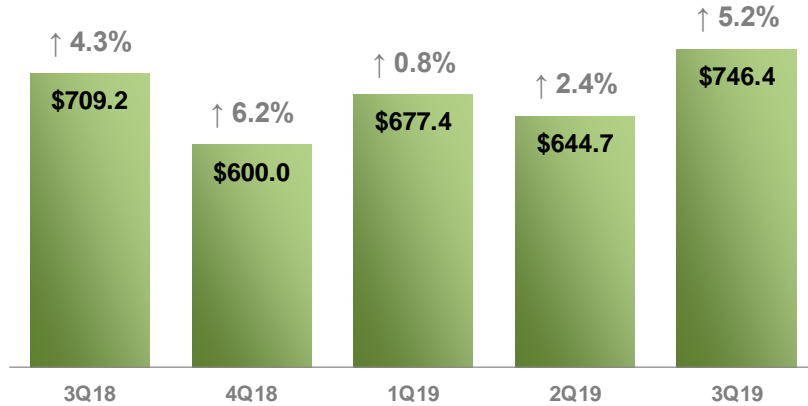


- Combined ratio of 95.2%:
  - Favorable ex-cat prior-year reserve development of \$5.6 million, or 0.8 points, primarily driven by continued favorability in Workers' Compensation
  - Catastrophe losses of 3.3 points
- Current accident year combined ratio, ex-cat, of 92.7% in-line with the prior-year quarter:
  - Current accident year loss and LAE ratio, excluding catastrophes, of 58.0%, consistent with Q3'18:
    - Impact of large property losses in Other Commercial Lines, primarily Marine
    - Offset by Commercial Auto favorability due to the timing of liability loss selections in 2018



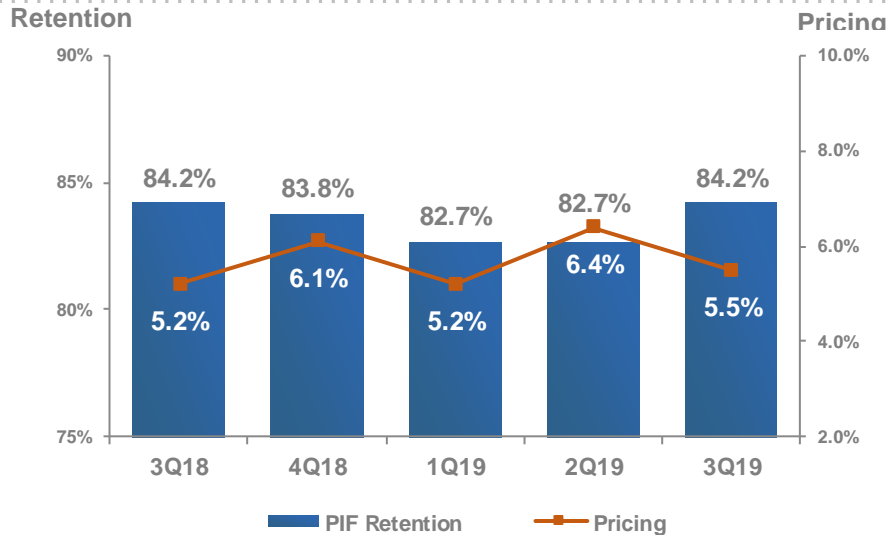
# Commercial Lines Growth Highlights

(\$ in millions) **Net Premiums Written and Growth**



- Net premiums written growth of 5.2%, an increase from 2.4% in the second quarter. Growth was driven by:
  - Core Commercial, including small commercial
  - Most profitable Specialty businesses, primarily in Professional Lines and Management Liability
  - Partially offset by profit improvement initiatives in Commercial Auto and Hanover Program business

## Core Commercial Lines <sup>(3)</sup>



- Core Commercial pricing of 5.5%, down from 6.4% in the second quarter of 2019, due to the exposure component of pricing, which can be volatile

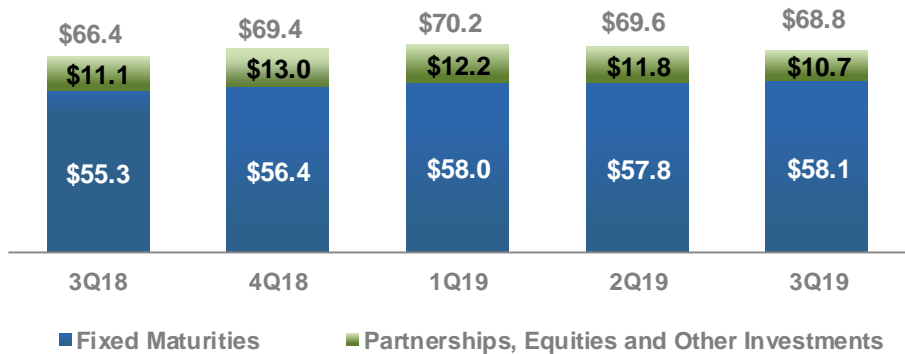




# Net Investment Income Trends

(\$ in millions)

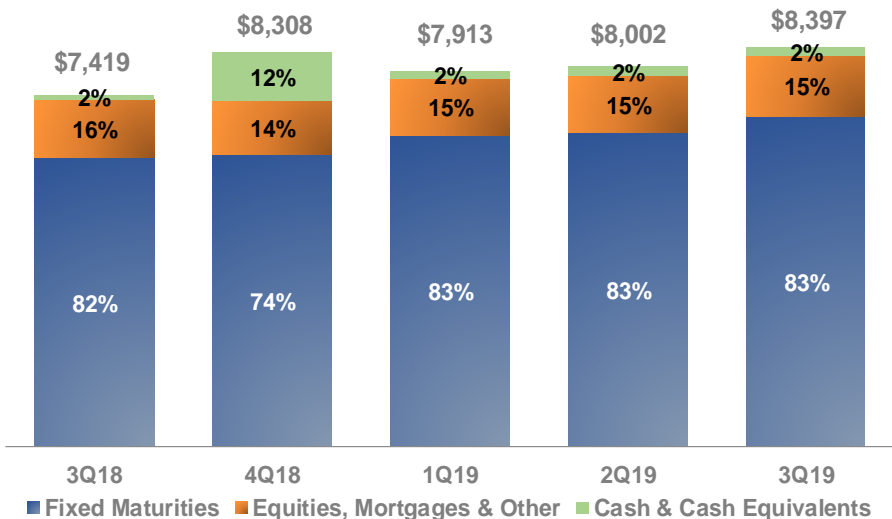
## Net Investment Income\*



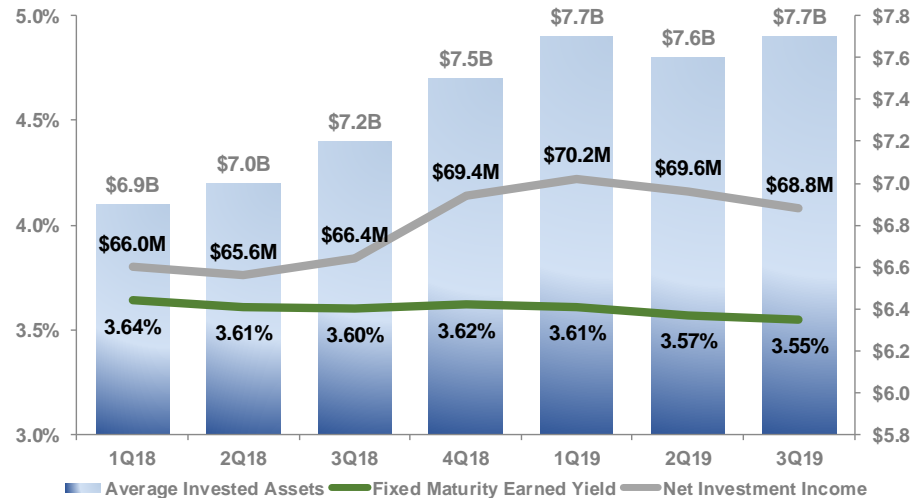
- Net investment income increased 3.6% from the prior-year quarter, primarily due to:
  - Continued reinvestment of operating cash flows and investment of remaining proceeds from the sale of Chaucer
  - Partially offset by lower partnership income and new money yields

(\$ in millions)

## Cash and Invested Assets



## Investment Portfolio Trends

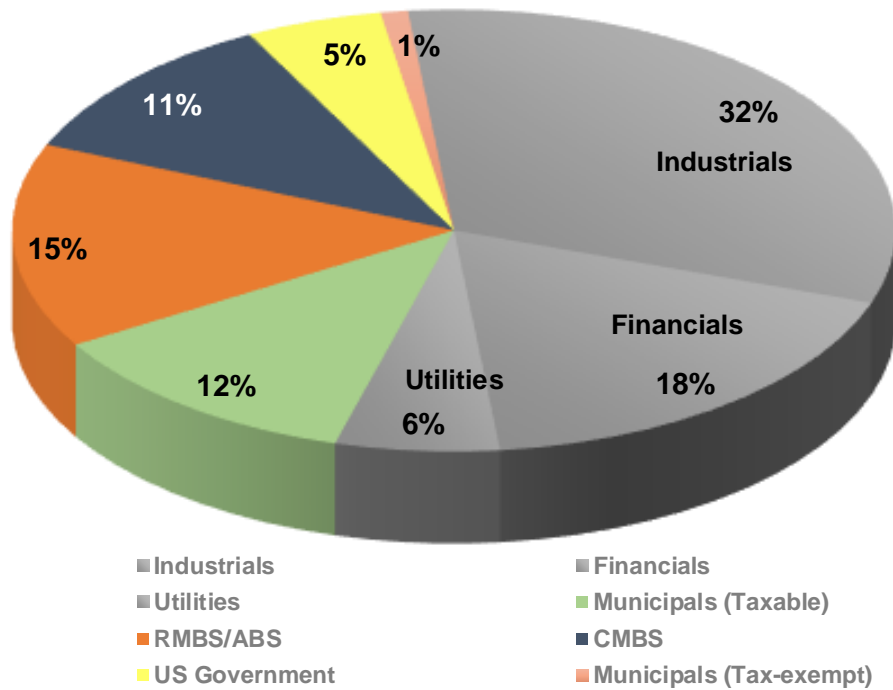


\*Net Investment Income from Partnerships, Equities and Other investments is presented net of investment expenses

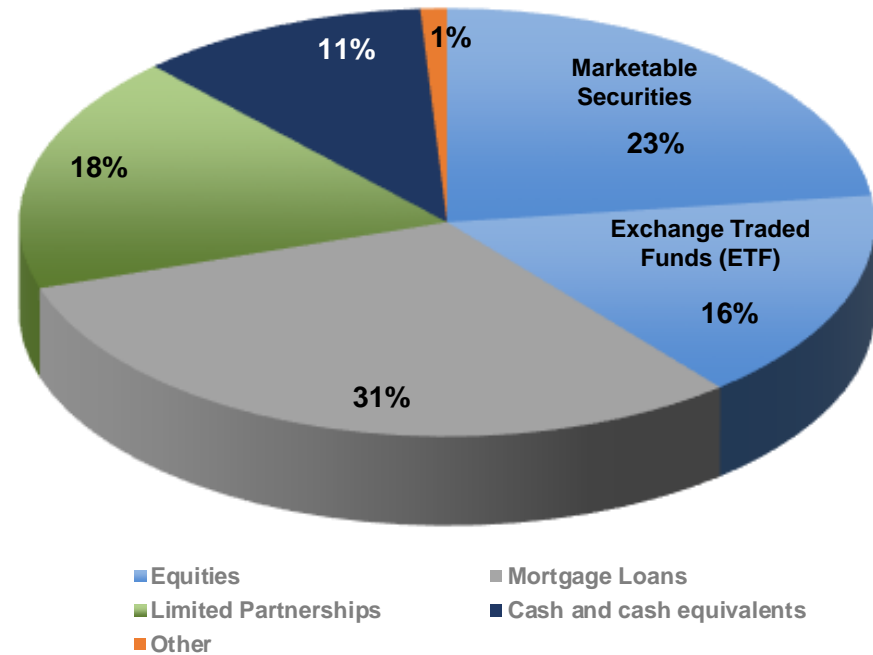


# Investment Portfolio Holdings – Total Invested Assets \$8.4B at September 30, 2019

Fixed Maturities \$6.9 Billion



Equities and Other \$1.5 Billion



**Fixed Income Characteristics:**

- 96% of fixed maturity securities are investment grade
- Weighted average quality: A+
- Duration: 4.2 years



# Appendix



## Book Value Roll Forward

Book value per share of \$78.01, up 4.9% from June 30, 2019

	<b>Three months ended September 30, 2019</b>
<b>Beginning book value per share</b> <i>(Shares outstanding: 39.6 million)</i>	<b>\$74.39</b>
Net income	2.96
Ordinary dividends	(0.60)
Change in unrealized gains (losses) on investments, net of tax	1.08
Employee stock & all other	0.18
<b>Ending book value per share</b> <i>(Shares outstanding: 39.6 million)</i>	<b>\$78.01</b>
<b><i>Growth</i></b>	<b>4.9%</b>



# Operating Return on Equity Calculation and Deployable Equity Balance

$$\text{Operating ROE} = \frac{\text{Annualized period operating income after taxes}}{\text{Average of beginning, ending, and interim quarters' (if applicable) shareholders' equity for the periods presented, excluding net unrealized appreciation (depreciation) on fixed maturity investments net of tax}}$$

$$\text{Adjusted Operating ROE} = \frac{\text{Annualized period operating income after taxes, excluding net investment income generated by undeployed Chaucer equity}}{\text{Average of beginning, ending, and interim quarters' (if applicable) shareholders' equity for the periods presented, excluding net unrealized appreciation (depreciation) on fixed maturity investments net of tax and undeployed equity related to Chaucer}}$$

## *Undeployed Equity Balance*

- On September 30, 2018, “equity attributable to Chaucer” was \$614.6 million, which was used for all prior-periods
- For period ended December 31, 2018 onward and until the deployable equity from the sale of Chaucer has been utilized, shareholders’ equity will be reduced by such “un-deployed equity”

Events	Deployable Equity
Sale close (December 30, 2018)	\$850.0 million
Less: Special Cash Dividend (December 30, 2018)	\$193.4 million
Undeployed equity as of December 31, 2018	\$656.6 million
Less: Accelerated Share Repurchase Program (January 2, 2019)	\$250.0 million
Undeployed equity as of March 31, 2019	\$406.6 million
Less: Accelerated Share Repurchase Program (June 28, 2019)	\$150.0 million
Undeployed equity as of September 30, 2019	\$256.6 million



# About The Hanover

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*The Hanover Insurance Group, Inc. is the holding company for several property and casualty insurance companies, which together constitute one of the largest insurance businesses in the United States. The company provides exceptional insurance solutions in a dynamic world. The Hanover distributes its products through a select group of independent agents and brokers. Together with its agents, The Hanover offers standard and specialized insurance protection for small and mid-sized businesses, as well as for homes, automobiles, and other personal items. For more information, please visit [hanover.com](http://hanover.com).*



# Forward-Looking Statements

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## Forward-Looking Statements and Non-GAAP Financial Measures

### Forward-Looking Statements

Certain statements in this document and comments made by management may be “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as, but not limited to, “believes,” “anticipates,” “expects,” “projects,” “forecasts,” “potential,” “should,” “could,” “continue,” “outlook,” and other similar expressions are intended to identify forward-looking statements. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. The Company cautions investors that any such forward-looking statements are estimates, beliefs, expectations and/or projections that involve significant judgement, and that historical results, trends and forward-looking statements are not guarantees and are not necessarily indicative of future performance. Actual results could differ materially from those anticipated.

These statements include, but are not limited to, the Company’s statements regarding:

- The Company’s outlook and its ability to achieve components or the sum of the respective period guidance on its future results of operations including: the combined ratio, excluding or including both prior-year reserve development and/or catastrophe losses; catastrophe losses; growth of net investment income, net premiums written and/or net premiums earned; expense ratio; operating return on adjusted or unadjusted average equity; and/or the effective tax rate;
- Uses of capital for share repurchases, special or ordinary cash dividends, business investments, or otherwise, and outstanding shares in future periods as a result of various share repurchase mechanisms;
- Variability of catastrophe losses due to risk concentrations, changes in weather patterns, terrorism or other events, as well as the complexity in estimating losses from large catastrophe events due to delayed reporting of the existence, nature or extent of losses or where “demand surge,” regulatory assessments, litigation, coverage and technical complexities or other factors may significantly impact the ultimate amount of such losses;
- Current accident year losses and loss selections (“picks”), excluding catastrophes, and prior accident year loss reserve development patterns, particularly in complex “longer tail” liability lines;
- The confidence or concern that the current level of reserves is adequate and/or sufficient for future claim payments, whether due to losses that have been incurred but not reported, circumstances that delay the reporting of losses, business complexity, adverse judgments or developments with respect to case reserves, the difficulties and uncertainties inherent in projecting future losses from historical data, changes in replacement and medical costs, or other factors;
- Efforts to manage expenses, including the Company’s long-term expense savings targets, while allocating capital to business investment, which is at management’s discretion;
- Mix improvement, underwriting initiatives and pricing segmentation actions, among others, to grow businesses believed to be more profitable or reduce premiums attributable to products believed to be less profitable; offset long-term and/or short-term loss trends due to increased frequency; increased “social inflation” from a more litigious environment, increased property replacement costs, and/or social movements;
- The ability to generate growth in targeted segments through new agency appointments; rate increases (as a result of its market position, agency relationships or otherwise), retention improvements or new business; expansion into new geographies; new product introductions; or otherwise; and
- Investment returns and the affect of macro-economic interest rate trends on new money yields.

### *Additional Risks and Uncertainties*

- Adverse claims experience, including those driven by large or increased frequency of catastrophe events (including terrorism) and severe weather;
- The uncertainty in estimating weather-related losses, and the limitations and assumptions used to model other property and casualty losses (particularly with respect to products with longer tails [such as casualty and bodily injury claims] or involving emerging issues related to losses incurred as the result of new lines of business, such as cyber or financial institutions coverage, or reinsurance contracts and reinsurance recoverables), leading to potential adverse development of loss and loss adjustment expense reserves;
- Litigation and the possibility of adverse judicial decisions, including those which expand policy coverage beyond its intended scope or award “bad faith” or other non-contractual damages, and the impact of “social inflation” affecting judicial awards and settlements;
- The ability to increase or maintain insurance rates in line with anticipated loss costs as a result of respective state’s department of insurance mandates to either raise or lower rates;
- Investment impairments, which may be affected by, among other things, the Company’s ability and willingness to hold investment assets until they recover in value, as well as credit and interest rate risk and general financial and economic conditions;
- Disruption of the independent agency channel, including the impact of competition and consolidation in the industry and among agents and brokers;
- Competition, particularly from competitors who have resource and capability advantages;



# Forward-Looking Statements and Non-GAAP Financial Measures

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## *Additional Risks and Uncertainties (Continued)*

- The global macroeconomic environment, including inflation, global trade wars and interest rate fluctuations, which, among other things, could result in reductions in market values of fixed maturity investments;
- Adverse state and federal regulation, legislative and/or regulatory actions (including recent significant revisions to Michigan's automobile personal injury protection system and related litigation, and revival statutes and extension of statute of limitations for sexual molestation claims);
- Financial ratings actions, in particular downgrades to our ratings;
- Operational and technology risks and evolving technological and product innovation, including the risk of cyber-security attacks or breaches on the Company's systems or resulting in claim payments;
- Uncertainties in estimating indemnification liabilities recorded in conjunction with obligations undertaken in connection with the sale of various businesses and discontinued operations; and
- The ability to collect from reinsurers, and the performance of the discontinued voluntary pools business (including those in the Other segment or in Discontinued Operations).

Investors should not place undue reliance on forward-looking statements, which speak only as of the date they are made, and should understand the risks and uncertainties inherent in or particular to the Company's business. We do not undertake the responsibility to update or revise our forward-looking statements.

## Non-GAAP Financial Measures

The discussion in this presentation and the associated conference call of The Hanover's financial performance includes reference to certain financial measures that are not derived from generally accepted accounting principles, or GAAP, such as operating income, operating income before taxes (and interest expense), combined ratios and loss ratios, excluding catastrophes and/or prior-year development and accident year loss ratios, excluding catastrophes. A reconciliation of non-GAAP measures to the closest GAAP measure is included in the end notes to this presentation, the press release dated October 30, 2019 or the financial supplement, which are posted on our website. The reconciliation of current accident year loss ratio and combined ratio excluding catastrophes to the most directly comparable GAAP measure, total loss ratio and combined ratio, is found in the end notes on the final pages of this document. Operating income (operating income per diluted share) is a non-GAAP measure. It is defined as net income excluding the after-tax impact of net realized and unrealized investment gains and losses, as well as results from discontinued operations divided by, in the case of per share reported figures, the average number of diluted shares of common stock. In referral to one of the Company's three segments, operating income is segment income before taxes.

Operating return on equity ("ROE") and adjusted operating ROE are non-GAAP measures. See end note (6) for a detailed explanation of how these measures are calculated. Operating ROE is based on non-GAAP operating income, and adjusted operating ROE is a measure of operating income as a return on only that portion of shareholders' equity attributable to the continuing operations. For measurement periods prior to the close of the Chaucer transaction, which occurred on December 28, 2018, "equity attributable to Chaucer", which was reported as discontinued operations, is excluded. For measurement periods post-closing, "the undeployed equity", and related net investment income, is excluded. This eliminates the dilutive impact of any excess capital that would have been included in shareholders' equity and net investment income included in operating income for the corresponding periods presented. In addition, the portion of shareholder equity attributed to unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is also excluded. The Company believes that these measures are helpful to investors and financial analysts in that they provide insight to the capital used by, and results of, continuing operations exclusive of interest, taxes and other non-operating items, and, in the case of "adjusted operating ROE", undeployed equity attributable to Chaucer. These measures should not be construed as substitutes for GAAP ROE, which is based on net income and shareholders' equity of the entire Company and without adjustments. The definition of other financial measures and terms can be found in the 2018 Annual Report on pages 72-74.





# End notes

(1) Operating income (loss) and operating income (loss) per diluted share are non-GAAP measures. See the disclosure on the use of non-GAAP measures throughout this presentation under the heading “Non-GAAP Financial Measures”. The following table provides the reconciliation of operating income (loss) and operating income (loss) per diluted share to the most directly comparable GAAP measures, income (loss) from continuing operations and income (loss) from continuing operations per diluted share, respectively, which are then reconciled to net income and net income per diluted share, respectively:

	Three months ended				Nine months ended			
	September 30, 2018		September 30, 2019		September 30, 2018		September 30, 2019	
	\$	Per	\$	Per	\$	Per	\$	Per
(In millions, except per share data)	Amount	Share Diluted	Amount	Share Diluted	Amount	Share Diluted	Amount	Share Diluted
<b>OPERATING INCOME (LOSS)</b>								
Commercial Lines	\$65.1		\$74.1		\$208.3		\$227.1	
Personal Lines	48.2		50.2		109.7		108.7	
Other	(0.5)		2.0		(4.6)		7.3	
Total	112.8		126.3		313.4		343.1	
Interest expense	(11.2)		(9.4)		(33.9)		(28.1)	
Operating income before income taxes	101.6	\$2.36	116.9	\$2.91	279.5	\$6.49	315.0	\$7.71
Income tax expense on operating income	(16.7)	(0.39)	(23.9)	(0.60)	(52.3)	(1.21)	(63.6)	(1.56)
Operating income after income taxes	84.9	1.97	93.0	2.31	227.2	5.28	251.4	6.15
Non-operating items:								
Net realized gains (losses) from sales and other	(0.2)	-	0.6	0.02	(0.1)	-	1.0	0.02
Net change in fair value of equity securities	23.6	0.54	15.0	0.37	6.7	0.15	75.3	1.84
Net other-than-temporary impairment losses on investments recognized in earnings	(0.4)	(0.01)	(0.8)	(0.02)	(2.8)	(0.07)	(1.2)	(0.03)
Other	(1.9)	(0.04)	(1.4)	(0.03)	(1.9)	(0.04)	(1.4)	(0.03)
Income tax benefit (expense) on non-operating items	(2.0)	(0.05)	4.8	0.12	7.8	0.18	(6.3)	(0.15)
Income from continuing operations, net of taxes	104.0	2.41	111.2	2.77	236.9	5.50	318.8	7.80
Discontinued Operations (net of taxes):								
Sale of Chaucer business	-	-	6.4	0.16	-	-	(2.6)	(0.06)
Income (loss) from Chaucer business	(3.6)	(0.08)	2.1	0.05	30.5	0.71	1.6	0.03
Loss from discontinued life business	-	-	(0.8)	(0.02)	-	-	(2.5)	(0.06)
Net income	\$100.4	\$ 2.33	\$118.9	\$ 2.96	\$267.4	\$ 6.21	\$315.3	\$ 7.71
Weighted average shares outstanding		43.1		40.2		43.1		40.9



## End notes continued

(2) Combined ratio, excluding catastrophes, and current accident year combined ratio, excluding catastrophes, are non-GAAP measures. The combined ratio, excluding catastrophes is equal to the combined ratio, excluding catastrophe losses. The current accident year combined ratio, excluding catastrophes, is equal to the combined ratio, excluding catastrophe losses and prior-year reserve development. These measures are used throughout this document. The combined ratio (which includes catastrophe losses and prior-year reserve development) is the most directly comparable GAAP measure. The following is a reconciliation of the GAAP combined ratio to the combined ratio, excluding catastrophes losses, and the current accident year combined ratio, excluding catastrophe losses:

	Three months ended September 30, 2019		
	Commercial Lines	Personal Lines	Total
Total combined ratio	95.2%	93.3%	94.4%
Less: Catastrophe loss ratio	3.3%	2.9%	3.1%
Combined ratio, excluding catastrophe losses	91.9%	90.4%	91.3%
Less: Prior-year reserve development ratio	(0.8%)	1.2%	-
Current accident year combined ratio, excluding catastrophe losses	<u>92.7%</u>	<u>89.2%</u>	<u>91.3%</u>
	June 30, 2019		
Total combined ratio	95.4%	97.0%	96.1%
Less: Catastrophe loss ratio	3.5%	8.1%	5.4%
Combined ratio, excluding catastrophe losses	91.9%	88.9%	90.7%
Less: Prior-year reserve development ratio	(0.6%)	0.7%	-
Current accident year combined ratio, excluding catastrophe losses	<u>92.5%</u>	<u>88.2%</u>	<u>90.7%</u>
	March 31, 2019		
Total combined ratio	94.2%	98.2%	95.8%
Less: Catastrophe loss ratio	1.6%	6.6%	3.6%
Combined ratio, excluding catastrophe losses	92.6%	91.6%	92.2%
Less: Prior-year reserve development ratio	(1.1%)	1.7%	-
Current accident year combined ratio, excluding catastrophe losses	<u>93.7%</u>	<u>89.9%</u>	<u>92.2%</u>
	December 31, 2018		
Total combined ratio	98.2%	96.0%	97.4%
Less: Catastrophe loss ratio	7.3%	0.7%	4.6%
Combined ratio, excluding catastrophe losses	90.9%	95.3%	92.8%
Less: Prior-year reserve development ratio	(2.5%)	3.5%	-
Current accident year combined ratio, excluding catastrophe losses	<u>93.4%</u>	<u>91.8%</u>	<u>92.8%</u>
	September 30, 2018		
Total combined ratio	96.6%	92.8%	95.1%
Less: Catastrophe loss ratio	5.1%	2.9%	4.2%
Combined ratio, excluding catastrophe losses	91.5%	89.9%	90.9%
Less: Prior-year reserve development ratio	(1.3%)	2.0%	-
Current accident year combined ratio, excluding catastrophe losses	<u>92.8%</u>	<u>87.9%</u>	<u>90.9%</u>



## End notes continued

(3) Core Commercial business provides commercial property and casualty coverages to small and mid-sized businesses in the U.S., generally with annual premiums per policy up to \$250,000, primarily through the commercial multiple peril, commercial auto and workers' compensation lines of business, as reported on the current quarter financial supplement. Price increases in Commercial Lines and Core Commercial Lines represent the average change in premium on renewed policies caused by the estimated net effect of base rate changes, discretionary pricing, inflation or changes in policy level exposure or insured risks.

(\$ in millions)	Three months ended		
	September 30, 2019		
	Core Commercial	Other Commercial	Total
Net premiums written	\$440.3	\$306.1	\$746.4
Net premiums earned	\$385.4	\$278.1	\$663.5
	June 30, 2019		
	Core Commercial	Other Commercial	Total
Net premiums written	\$367.5	\$277.2	\$644.7
Net premiums earned	\$385.6	\$273.2	\$658.8
	March 31, 2019		
	Core Commercial	Other Commercial	Total
Net premiums written	\$402.5	\$274.9	\$677.4
Net premiums earned	\$382.4	\$270.0	\$652.4
	December 31, 2018		
	Core Commercial	Other Commercial	Total
Net premiums written	\$338.9	\$261.1	\$600.0
Net premiums earned	\$376.3	\$268.1	\$644.4
	September 30, 2018		
	Core Commercial	Other Commercial	Total
Net premiums written	\$425.8	\$283.4	\$709.2
Net premiums earned	\$375.8	\$264.6	\$640.4

(4) Price increases in Personal Lines is the estimated cumulative premium effect of approved rate actions applied to policies available for renewal, regardless of whether or not policies are actually renewed. Accordingly, pricing changes do not represent actual increases or decreases realized by the Company.



## End notes continued

(5) Current accident year loss and LAE ratio, excluding catastrophe losses, is a non-GAAP measure, which is equal to the loss and LAE ratio (“loss ratio”), excluding prior-year reserve development and catastrophe losses. The loss ratio (which includes losses, LAE, catastrophe losses and prior-year loss reserve development) is the most directly comparable GAAP measure. The following is a reconciliation of the GAAP loss ratio to the current accident year loss and LAE ratio, excluding catastrophe losses:

	Three months ended									
	September 30, 2019									
	Commercial Multiple Peril	Commercial Auto	Workers' Comp	Commercial Other	Commercial Lines	Personal Auto	Home	Other Personal	Personal Lines	Total
Total loss and LAE Ratio	63.7%	69.2%	54.9%	56.9%	60.5%	71.9%	56.5%	42.0%	65.9%	62.7%
Less:										
Prior-year reserve development ratio	(0.1%)	1.2%	(6.3%)	(0.5%)	(0.8%)	1.6%	1.1%	(6.7%)	1.2%	-
Catastrophe ratio	7.4%	0.4%	-	1.9%	3.3%	0.5%	7.1%	5.0%	2.9%	3.1%
Current accident year loss ratio, excluding catastrophe losses	<u>56.4%</u>	<u>67.6%</u>	<u>61.2%</u>	<u>55.5%</u>	<u>58.0%</u>	<u>69.8%</u>	<u>48.3%</u>	<u>43.7%</u>	<u>61.8%</u>	<u>59.6%</u>
	June 30, 2019									
Total loss and LAE Ratio					61.0%				69.8%	64.6%
Less:										
Prior-year reserve development ratio					(0.6%)				0.7%	-
Catastrophe ratio					3.5%				8.1%	5.4%
Current accident year loss ratio, excluding catastrophe losses					<u>58.1%</u>				<u>61.0%</u>	<u>59.2%</u>
	March 31, 2019									
Total loss and LAE Ratio					59.3%				70.6%	63.9%
Less:										
Prior-year reserve development ratio					(1.1%)				1.7%	-
Catastrophe ratio					1.6%				6.6%	3.6%
Current accident year loss ratio, excluding catastrophe losses					<u>58.8%</u>				<u>62.3%</u>	<u>60.3%</u>
	December 31, 2018									
Total loss and LAE Ratio					63.1%				68.3%	65.3%
Less:										
Prior-year reserve development ratio					(2.5%)				3.5%	-
Catastrophe ratio					7.3%				0.7%	4.6%
Current accident year loss ratio, excluding catastrophe losses					<u>58.3%</u>				<u>64.1%</u>	<u>60.7%</u>
	September 30, 2018									
Total loss and LAE Ratio	65.6%	84.4%	52.2%	54.8%	62.0%	69.4%	57.4%	47.0%	64.8%	63.1%
Less:										
Prior-year reserve development ratio	(0.7%)	6.3%	(10.2%)	(1.7%)	(1.3%)	1.1%	2.7%	15.0%	2.0%	-
Catastrophe ratio	10.0%	0.7%	-	4.0%	5.1%	0.4%	7.6%	1.0%	2.9%	4.2%
Current accident year loss ratio, excluding catastrophe losses	<u>56.3%</u>	<u>77.4%</u>	<u>62.4%</u>	<u>52.5%</u>	<u>58.2%</u>	<u>67.9%</u>	<u>47.1%</u>	<u>31.0%</u>	<u>59.9%</u>	<u>58.9%</u>



## End notes continued

(6) Operating Return on Average Equity and Adjusted Operating Return on Average Equity (“Operating ROE” and “Adjusted Operating ROE”) are non-GAAP measures. As illustrated on page 13, operating ROE is calculated by dividing annualized operating income after tax for the applicable period (see under the heading in this presentation “Non-GAAP Financial Measures” and end note (1)), by average shareholders’ equity, excluding unrealized appreciation (depreciation) on fixed maturity investments, net of tax, for the stated period (end note (8)). Also as illustrated on page 13, for Adjusted Operating ROE, shareholders’ equity is adjusted for “equity attributable to Chaucer” for measurement periods prior to the close, which occurred on December 28, 2018, for “the undeployed equity” for measurement periods post-close and for net unrealized appreciation (depreciation) on fixed maturity investments, net of tax (end note (8)). Additionally, for the calculation of Adjusted Operating ROE, Operating Income, net of tax, is adjusted for the net investment income related to undeployed equity attributable to Chaucer, net of tax. Operating ROE and Adjusted Operating ROE should not be construed as substitutes for GAAP ROE. See calculations in table below, including the calculation of Net Income ROE using net income, annualized, and average shareholders’ equity without adjustments:

	Three months ended		Nine months ended	
	September 30 2018	September 30 2019	September 30 2018	September 30 2019
<i>Net Income ROE (non-GAAP)</i>				
Net Income (GAAP)	\$100.4	\$118.9	\$267.4	\$315.3
Annualized net income* (non-GAAP)	401.6	475.6	356.5	420.4
Average shareholders’ equity (GAAP) (end note (8))	2,961.1	3,014.0	2,958.3	2,977.4
Return on equity (non-GAAP)	<u>13.6%</u>	<u>15.8%</u>	<u>12.1%</u>	<u>14.1%</u>
<i>Operating Income ROE (non-GAAP)</i>				
Annualized operating income, net of tax* (end note (1))	\$339.6	\$372.0	\$302.9	\$335.2
Average shareholders’ equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and including the ASR payment (end note (8))	3,022.5	2,800.2	2,937.5	2,792.1
Operating return on equity	<u>11.2%</u>	<u>13.3%</u>	<u>10.3%</u>	<u>12.0%</u>
<i>Adjusted Operating Income ROE (non-GAAP)</i>				
Annualized operating income, net of tax* (end note (1))	\$339.6	\$372.0	\$302.9	\$335.2
Less: Annualized net investment income related to un-deployed equity attributable to Chaucer, net of tax**	-	(7.2)	-	(10.2)
Annualized operating income, including adjustment for NII related to un-deployed equity attributable to Chaucer, net of tax	339.6	364.8	302.9	325.0
Average adjusted shareholders’ equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity (end note (8))	2,407.9	2,543.6	2,322.9	2,460.5
Adjusted operating return on equity	<u>14.1%</u>	<u>14.3%</u>	<u>13.0%</u>	<u>13.2%</u>

\*For three months ended September 30, 2018 and 2019, respectively, annualized net and operating income is calculated by multiplying three months ended net income and operating income, respectively, by four. For nine months ended September 30, 2018 and 2019, respectively, annualized net and operating income is calculated by dividing nine months ended net income and operating income, respectively, by three and multiplying by 4.

\*\*Net investment income related to the un-deployed equity attributable for each quarter is calculated by multiplying the respective quarter’s un-deployed equity attributable to Chaucer by the respective quarter’s total pre-tax yield, net of tax and dividing by 4. For three months ended September 30, 2018 and 2019, net investment income related to the un-deployed equity attributable to Chaucer is annualized by multiplying the respective quarter’s net investment income by 4. For nine months ended September 30, 2018 and 2019, net investment income related to the un-deployed equity attributable to Chaucer is annualized by taking the sum of the net investment income attributable to the un-deployed equity attributable to Chaucer for each of the quarter’s in the respective period divided by 3 and multiplied by 4.



## End notes continued

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(7) Throughout this presentation, the expense ratio is reduced by installment and other fee for purposes of the ratio calculation.



## End notes continued

(8) Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is a non-GAAP measure. Total shareholders' equity is the most directly comparable GAAP measure, and is reconciled in the table below. For the calculation of Operating ROE, the average of total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, for the beginning, ending, and interim (if applicable) quarters are used. The balance at December 31, 2018 is adjusted by the payment of \$250 million made on January 2, 2019 related to the ASR entered into on December 30, 2018. For the calculation of Adjusted Operating ROE, the average shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and "equity attributable to Chaucer" for measurement periods prior to the close, or "undeployed equity" for measurement periods post-close, for the beginning and ending quarters are used (see page 13).

(\$ in millions)	December 30, 2017	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019
Total shareholders' equity (GAAP)	\$2,997.7	\$2,913.1	\$2,939.8	\$2,982.4	\$2,954.7	\$2,927.0	\$2,941.1	\$3,086.8
Less: net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	205.4	0.3	(48.8)	(74.0)	(27.2)	90.7	192.3	235.3
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	2,792.3	2,912.8	2,988.6	3,056.4	2,981.9	2,836.3	2,748.8	2,851.5
Less: Payment made on January 2, 2019 for the ASR agreement entered into on December 30, 2018	-	-	-	-	(250.0)	-	-	-
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and including the ASR payment	2,792.3	2,912.8	2,988.6	3,056.4	2,731.9	2,836.3	2,748.8	2,851.5
Less: Pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity	(614.6)	(614.6)	(614.6)	(614.6)	(406.6)	(406.6)	(256.6)	(256.6)
Adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity	<u>\$2,177.7</u>	<u>\$2,298.2</u>	<u>\$2,374.0</u>	<u>\$2,441.8</u>	<u>\$2,325.3</u>	<u>\$2,429.7</u>	<u>\$2,492.2</u>	<u>\$2,594.9</u>
<b>Quarter Averages</b>								
Average shareholders' equity (GAAP)				\$2,961.1				\$3,014.0
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and including the ASR payment				\$3,022.5				\$2,800.2
Average adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity; and including the ASR payment				\$2,407.9				\$2,543.6
<b>Year-to-date Averages</b>								
Average shareholders' equity (GAAP)				\$2,958.3				\$2,977.4
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and including the ASR payment				\$2,937.5				\$2,792.1
Average adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity; and including the ASR payment				\$2,322.9				\$2,460.5