The Hanover Reports Third Quarter Net Income and Operating Income of $2.96 and $2.31 per Diluted Share, Respectively; Combined Ratio of 94.4%; Combined Ratio, Excluding Catastrophes, of 91.3%

WORCESTER, Mass., October 30, 2019 - The Hanover Insurance Group, Inc. (NYSE: THG) today reported net income of $118.9 million, or $2.96 per diluted share, in the third quarter of 2019, compared to $100.4 million, or $2.33 per diluted share, in the prior-year quarter. Operating income [1] was $93.0 million, or $2.31 per diluted share, for the third quarter of 2019. This compared to operating income of $84.9 million, or $1.97 per diluted share, in the prior-year quarter. The difference between net and operating income in the third quarter of 2019 is primarily due to an after-tax increase in the fair value of equity securities of $11.9 million, or $0.29 per fully diluted share, and $12.8 million, after-tax, of favorable items related to the Chaucer sale, or $0.32 per fully diluted share, which are excluded from operating income.

Third Quarter Highlights

- Net premiums written increase of 5.6%*, which reflects growth in more profitable segments
- Price increases of 5.5% in Core Commercial Lines [2] and 5.0% in Personal Lines [3]
- 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[4], 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

"We are pleased with our performance in the quarter, sustaining the positive momentum we have established across our business and building on the strong results we posted for the first half of the year," said John C. Roche, president and chief executive officer at The Hanover. "We delivered an adjusted ROE[5] of 14.3% and increased net written premiums by 5.6%. We continued to successfully navigate a dynamic market environment, achieving solid price increases of 5.5% in Core Commercial and 5.0% in Personal Lines. Our performance reflects the breadth and relevance of our product mix, deep industry expertise and our unique partnership approach with agents."

"We delivered an ex-cat combined ratio[6] of 91.3% during the quarter," said Jeffrey M. Farber, executive vice president and chief financial officer. "Underlying loss ratios were solid, but slightly above our expectations due to increased property loss activity across several areas of the business. At the same time, liability lines performed

(1) See information about this and other non-GAAP measures and definitions used throughout this press release 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 press release.
*Unless otherwise stated, net premiums written growth and other growth comparisons are to the same period of the prior year

consistent with our expectations. The company's market position and strong agency relationships allowed us to implement rate increases, where needed. We remain committed to a diligent capital management framework, as we wrapped up the $150 million ASR announced in June and continue to review additional capital deployment options, all with the interests of our shareholders in mind."

	Three months ended September 30		Nine months ended September 30	
($ in millions, except per share data)	2019	2018	2019	2018
Net premiums written	$1,242.9	$1,177.2	$3,478.7	$3,340.1
Net income	118.9	100.4	315.3	267.4
per diluted share	*2.96*	*2.33*	*7.71*	*6.21*
Operating income	93.0	84.9	251.4	227.2
per diluted share	*2.31*	*1.97*	*6.15*	*5.28*
Net investment income	68.8	66.4	208.6	198.0
Book value per share	*$78.01*	*$70.40*	*$78.01*	*$70.40*
Ending shares outstanding	39.6	42.4	39.6	42.4
Combined ratio	94.4 %	95.1 %	95.4 %	95.8 %
Catastrophe ratio	3.1 %	4.2 %	4.0 %	5.3 %
Combined ratio, excluding catastrophes	91.3 %	90.9 %	91.4 %	90.5 %
Current accident year combined ratio, excluding catastrophes[6]	91.3 %	90.9 %	91.4 %	90.5 %

Third Quarter Operating Highlights

Commercial Lines

Commercial Lines operating income before taxes was $74.1 million, compared to $65.1 million in the third quarter of 2018. The Commercial Lines combined ratio was 95.2%, compared to 96.6% in the prior-year quarter. Catastrophe losses were $22.0 million, or 3.3 points of the combined ratio. Third quarter 2018 catastrophe losses were $32.5 million, or 5.1 points of the combined ratio.

Third quarter 2019 results included $5.6 million, or 0.8 points, of net favorable prior-year reserve development, driven primarily by continued favorability in workers' compensation. This compared to net favorable prior-year reserve development of $8.5 million, or 1.3 points, in the third quarter of 2018.

Commercial Lines current accident year combined ratio, excluding catastrophes, was 92.7%, consistent with the prior-year quarter. The current accident year loss and LAE ratio, excluding catastrophes, decreased by 0.2 points to 58.0%, driven primarily by the timing of auto liability loss selections in 2018, partially offset by property losses in other commercial lines ("OCL"), including inland marine in the current quarter.

Net premiums written were $746.4 million in the quarter, up 5.2% from the prior-year quarter, primarily from Specialty and small commercial. Core Commercial price increases averaged 5.5% for the third quarter, with retention remaining strong at 84.2%.

The following table summarizes premiums and the components of the combined ratio for Commercial Lines:

	Three months ended September 30		Nine months ended September 30	
($ in millions)	2019	2018	2019	2018
Net premiums written	$746.4	$709.2	$2,068.5	$2,010.7
Net premiums earned	663.5	640.4	1,974.7	1,904.0
Operating income before taxes	74.1	65.1	227.1	208.3
Loss and LAE ratio	60.5%	62.0%	60.3%	61.0%
Expense ratio(7)	34.7%	34.6%	34.7%	34.9%
Combined ratio	95.2%	96.6%	95.0%	95.9%
Prior-year development ratio	(0.8)%	(1.3)%	(0.9)%	(1.0)%
Catastrophe ratio	3.3 %	5.1 %	2.8 %	5.0 %
Combined ratio, excluding catastrophes	91.9 %	91.5 %	92.2 %	90.9 %
Current accident year combined ratio, excluding catastrophes	92.7 %	92.8 %	93.1 %	91.9 %

Personal Lines

Personal Lines operating income before taxes was $50.2 million in the quarter, compared to $48.2 million in the third quarter of 2018. The Personal Lines combined ratio was 93.3%, compared to 92.8% in the prior-year quarter. Catastrophe losses were $13.2 million, or 2.9 points of the combined ratio, including favorable development of $0.7 million, or 0.2 points in the quarter. Third quarter 2018 catastrophe losses were $12.4 million, or 2.9 points of the combined ratio.

Third quarter 2019 results included $5.6 million, or 1.2 points, of net unfavorable prior-year reserve development, primarily driven by bodily injury severity in personal auto. This compared to net unfavorable prior-year reserve development of $8.5 million, or 2.0 points, in the third quarter of 2018.

Personal Lines current accident year combined ratio, excluding catastrophe losses, increased by 1.3 points to 89.2%, from 87.9% in the prior-year quarter, driven primarily by the timing of auto liability loss selections in 2018, as well as higher non-catastrophe weather losses in homeowners.

The expense ratio improved by 0.6 points to 27.4% in the third quarter of 2019, attributable to fixed cost leverage from premium growth, the timing of certain expenses, and higher than usual performance-based agency compensation in the prior-year quarter.

Net premiums written were $496.5 million in the quarter, up 6.1% from the prior-year quarter, driven by targeted rate increases, organic new business momentum and healthy retention of 82.8%. Personal Lines average rate increases in the third quarter of 2019 were 5.0%.

The following table summarizes premiums and components of the combined ratio for Personal Lines:

	Three months ended September 30		Nine months ended September 30	
($ in millions)	2019	2018	2019	2018
Net premiums written	$496.5	$468.0	$1,410.2	$1,329.4
Net premiums earned	460.6	431.3	1,355.5	1,268.4
Operating income before taxes	50.2	48.2	108.7	109.7
Loss and LAE ratio	65.9%	64.8%	68.7%	67.5%
Expense ratio	27.4%	28.0%	27.4%	27.9%
Combined ratio	93.3%	92.8%	96.1%	95.4%
Prior-year development ratio	1.2 %	2.0 %	1.2 %	1.4 %
Catastrophe ratio	2.9 %	2.9 %	5.8 %	5.8 %
Combined ratio, excluding catastrophes	90.4 %	89.9 %	90.3 %	89.6 %
Current accident year combined ratio, excluding catastrophes	89.2 %	87.9 %	89.1 %	88.2 %

Investments

Net investment income was $68.8 million for the third quarter of 2019, compared to $66.4 million in the prior-year quarter. The increase was driven by the continued investment of operational cash flows and the investment of the remaining proceeds from the sale of Chaucer, partially offset by lower partnership income and lower new money yields. The average pre-tax earned yield on fixed maturities was 3.55% and 3.60% for the quarters ended September 30, 2019 and 2018, respectively. Total pre-tax earned yield on the investment portfolio for the quarter ended September 30, 2019 was 3.57%, down from 3.68% in the prior-year quarter.

Net realized and unrealized investment gains recognized in earnings in the third quarter of 2019 and 2018 were $14.8 million and $23.0 million, respectively, primarily due to appreciation in the fair value of equity securities.

The Company held $8.4 billion in cash and invested assets on September 30, 2019. Fixed maturities and cash represented 85% of the investment portfolio. Approximately 96% of the Company's fixed maturity portfolio is rated investment grade. Net unrealized gains on the fixed maturity portfolio at the end of the third quarter of 2019 were $253.8 million before taxes, an increase in fair value of $56.9 million since June 30, 2019. This change was due to lower prevailing interest rates at September 30, 2019.

Shareholders' Equity

On September 30, 2019, book value per share was $78.01, up 4.9% from June 30, 2019. The increase was driven by net income and unrealized gains from investments. This was partially offset by the payment of regular quarterly dividends.

In addition, the $150 million ASR agreement with Scotiabank was completed on October 28, 2019. Under this agreement, the Company repurchased approximately 1,150,000 shares of common stock, including the final delivery of approximately 200,000 shares on October 30, 2019.

Earnings Conference Call

The Company will host a conference call to discuss its third quarter results on Thursday, October 31, at 10:00 a.m. E.T. **A PowerPoint slide presentation will accompany the prepared remarks and has been posted on The Hanover's website.** Interested investors and others can listen to the call and access the presentation through The Hanover's website, located at www.hanover.com, in the "Investors" section. Investors may access the conference call by dialing 1-844-413-3975 in the U.S. and 1-412-317-5458 internationally. Web-cast participants should go to the website 15 minutes early to register, download and install any necessary audio software. A re-broadcast of the conference call will be available on this website approximately two hours after the call.

About The Hanover

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 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

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Definition of Reported Segments

Continuing operations include three operating segments: Commercial Lines, Personal Lines and Other. The Commercial Lines segment offers a suite of products targeted at the small to mid-size business markets, which include commercial multiple peril, commercial automobile, workers' compensation and other commercial coverages such as specialty program business, inland marine, management and professional liability and surety. The Personal Lines segment markets automobile, homeowners and ancillary coverages to individuals and families. The "Other" segment includes Opus Investment Management, Inc., which provides investment management services to institutions, pension funds and other organizations, the operations of the holding company, as well as a block of voluntary pools business in which we have not actively participated since 1995.

Financial Supplement

The Hanover's third quarter earnings news release and financial supplement are available in the "Investors" section of the Company's website at hanover.com.

Condensed Financial Statements and Reconciliations

The Hanover Insurance Group, Inc.				
Condensed Consolidated Income Statements	Three months ended September 30		Nine months ended September 30	
($ in millions)	2019	2018	2019	2018
Revenues				
Premiums earned	$1,124.1	$1,071.7	$3,330.2	$3,172.4
Net investment income	68.8	66.4	208.6	198.0
Net realized and unrealized investment gains (losses):				
Net realized gains (losses) from sales and other	0.6	(0.2)	1.0	(0.1)
Net change in fair value of equity securities	15.0	23.6	75.3	6.7
Net other-than-temporary impairment losses on investments recognized in earnings	(0.8)	(0.4)	(1.2)	(2.8)
Total net realized and unrealized investment gains	14.8	23.0	75.1	3.8
Fees and other income	7.0	5.5	18.9	17.3
Total revenues	1,214.7	1,166.6	3,632.8	3,391.5
Losses and expenses				
Losses and loss adjustment expenses	705.3	676.4	2,122.6	2,018.5
Amortization of deferred acquisition costs	232.8	224.4	692.8	664.7
Interest expense	9.4	11.2	28.1	33.9
Other operating expenses	136.9	131.9	400.6	393.0
Total losses and expenses	1,084.4	1,043.9	3,244.1	3,110.1
Income from continuing operations before income taxes	130.3	122.7	388.7	281.4
Income tax expense	23.5	18.7	68.7	44.5
Effect of new tax regulations on Chaucer gain on sale	(4.4)	-	1.2	-
Income from continuing operations	111.2	104.0	318.8	236.9
Discontinued operations (net of taxes):				
Sale of Chaucer business	6.4	-	(2.6)	-
Income (loss) from Chaucer business	2.1	(3.6)	1.6	30.5
Loss from discontinued life businesses	(0.8)	-	(2.5)	-
Net income	$118.9	$100.4	$315.3	$267.4

The Hanover Insurance Group, Inc.		
Condensed Consolidated Balance Sheets		
($ in millions)	September 30 2019	December 31 2018
Assets		
Total investments	$8,239.6	$7,287.4
Cash and cash equivalents	157.6	1,020.7
Premiums and accounts receivable, net	1,298.8	1,176.7
Reinsurance recoverable on paid and unpaid losses and unearned premiums	1,734.2	1,648.6
Other assets	1,091.0	1,105.0
Assets held-for-sale	-	57.4
Assets of discontinued businesses	106.0	103.9
Total assets	$12,627.2	$12,399.7
Liabilities		
Loss and loss adjustment expense reserves	$5,550.5	$5,304.1
Unearned premiums	2,456.8	2,277.8
Debt (2018 includes the $125.0 FHLB loan retired on January 2, 2019)	667.8	777.9
Other liabilities (2018 includes the special dividend for an aggregate $193.4 million)	748.1	947.1
Liabilities held-for-sale	-	22.2
Liabilities of discontinued businesses	117.2	115.9
Total liabilities	9,540.4	9,445.0
Total shareholders' equity	3,086.8	2,954.7
Total liabilities and shareholders' equity	$12,627.2	$12,399.7

The following is a reconciliation from operating income to net income[8]:

The Hanover Insurance Group, Inc.

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

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

Investors are further cautioned and should consider the risks and uncertainties in the Company's business that may affect such estimates and future performance that are discussed in the Company's most recently filed reports on Form 10-K and Form 10-Q and other documents filed by The Hanover Insurance Group, Inc. with the Securities and Exchange Commission ("SEC") and that are also available at www.hanover.com under "Investors." These risks and uncertainties include, but are not limited to:

- 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;
- 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 reviver statues 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

As discussed on pages 40 and 41 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, the Company uses non-GAAP financial measures as important measures of its operating performance, including operating income, operating income before interest expense and taxes, operating income per share, and components of the combined ratio, both excluding and/or including, catastrophe losses, prior-year reserve development and the expense ratio. Management believes these non-GAAP financial measures are important indications of the Company’s operating performance. The definition of other non-GAAP financial measures and terms can be found in the 2018 Annual Report on pages 72-74.

Operating income and operating income per share are non-GAAP measures. They are defined as net income excluding the after-tax impact of net realized investment gains (losses), fair value changes on equity securities, gains and/or losses on the repayment of debt, other non-operating items, and results from discontinued operations. Net realized investment gains and losses, which include changes in the fair value of equity securities still held, are excluded for purposes of presenting operating income as they are, to a certain extent, determined by interest rates, financial markets and the timing of sales. Operating income also excludes net gains and losses from discontinued operations, restructuring costs, the cumulative affect of accounting changes and certain other items. Operating income is the sum of the segment income from: Commercial Lines, Personal Lines, and Other, after interest expenses and taxes. In reference to one of the Company’s three segments, “operating income” is the segment income before both interest expense and taxes. The Company also uses “operating income per share” (which is after both interest expense and taxes) to compare its operating performance to various external audiences. It is calculated by dividing operating income by the weighted average number of diluted shares of common stock. The Company believes that metrics of operating income and operating income in relation to its three segments provide investors with a valuable measure of the performance of the Company’s continuing businesses because they highlight the portion of net income (loss) attributable to the core operations of the business. Income from continuing operations is the most directly comparable GAAP measure for operating income (and operating income before taxes) and measures of operating income that exclude the effects of catastrophe losses and/or reserve development should not be construed as substitutes for income from continuing operations or net income determined in accordance with GAAP. A reconciliation of operating income to income from continuing operations and net income for the relevant periods is included on page 8 of this press release and in the Financial Supplement.

The Company may also provide measures of operating income and combined ratios that exclude the impact of catastrophe losses (which in all respects include prior accident year catastrophe loss development). A catastrophe is a severe loss, resulting from natural or manmade events, including, but is not limited to, hurricanes, tornadoes, windstorms, earthquakes, hail, severe winter weather, fire, explosions and terrorisms. Due to the unique characteristics of each catastrophe loss, there is an inherent inability to reasonably estimate the timing or loss amount in advance. The Company believes that a separate discussion excluding the effects of catastrophe losses is meaningful to understand the underlying trends and variability of earnings, loss and combined ratio results, among others.

Prior accident year reserve development, which can be favorable or unfavorable, represents changes in the Company’s estimate of costs related to claims from prior years. Calendar year loss and loss adjusted expense (“LAE”) ratios determined in accordance with GAAP, excluding prior accident year reserve development, are sometimes referred to as “accident year loss ratios”. The Company believes that a discussion of loss and combined ratios, excluding prior accident year reserve development, is helpful since it provides insight into both estimates of current accident year results and the accuracy of prior-year estimates.

The loss and combined ratios in accordance with GAAP are the most directly comparably GAAP measures for the loss and combined ratio calculated excluding the effects of catastrophe losses and/or reserve development. The presentation of loss and combined ratios calculated excluding the effects of catastrophe losses and/or reserve development should not be construed as substitutes for the loss and/or combined ratios determined in accordance with GAAP.

Operating return on equity (“ROE”) and adjusted operating ROE are non-GAAP measures. See end note (5) 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 the portion of shareholders’ equity attributable to continuing operations, and therefore, the “un-deployed equity” attributable to Chaucer is excluded from shareholders’ equity and the related net investment income from the reinvestment of the un-deployed equity is excluded from net and operating income. 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 in that they provide insight to the capital used by, and results of, the continuing business exclusive of interest, taxes and other non-operating items, and, in this case of “adjusted operating ROE”, undeployed equity attributed to Chaucer. These measures should not be by construed as substitutes for GAAP ROE, which is based on net income and shareholders’ equity of the entire Company and without adjustments.

Endnotes

(1) Operating income (loss) and operating income (loss) per diluted share are non-GAAP measures. Operating income before taxes, as referenced in the results of the business segments, is defined as, with respect to such segment, operating income before taxes and interest expense. These measures are used throughout this document. The reconciliation of operating income and operating income per diluted share to the closest GAAP measures, income from continuing operations and income from continuing operations per diluted share, respectively, is provided on the preceding pages of this press release. See the disclosure on the use of this and other non-GAAP measures under the heading "Forward-Looking Statements and Non-GAAP Financial Measures."

(2) 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 pages 8 and 9 of the Third Quarter 2019 Financial Supplement. Price increases in 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.

	Three months ended September 30, 2019			Three months ended September 30, 2018		
($ in millions)	Core Commercial	Other Commercial	Total	Core Commercial	Other Commercial	Total
Net premiums written	$440.3	$306.1	$746.4	$425.8	$283.4	$709.2
Net premiums earned	$385.4	$278.1	$663.5	$375.8	$264.6	$640.4

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
($ in millions)	Core Commercial	Other Commercial	Total	Core Commercial	Other Commercial	Total
Net premiums written	$1,210.3	$858.2	$2,068.5	$1,184.4	$826.3	$2,010.7
Net premiums earned	$1,153.4	$821.3	$1,974.7	$1,115.5	$788.5	$1,904.0

(3) 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.

(4) 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 ratio, excluding catastrophe losses:

	Three months ended September 30, 2019			Three months ended September 30, 2018		
	Commercial Lines	Personal Lines	Total	Commercial Lines	Personal Lines	Total
Total loss ratio (GAAP)	60.5%	65.9%	62.7%	62.0%	64.8%	63.1%
Less: Catastrophe ratio	3.3%	2.9%	3.1%	5.1%	2.9%	4.2%
Prior-year reserve development ratio	(0.8%)	1.2%	-	(1.3%)	2.0%	-
Current accident year loss and LAE ratio, excluding catastrophe losses (non-GAAP)	58.0%	61.8%	59.6%	58.2%	59.9%	58.9%

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Commercial Lines	Personal Lines	Total	Commercial Lines	Personal Lines	Total
Total loss ratio (GAAP)	60.3%	68.7%	63.7%	61.0%	67.5%	63.6%
Less: Catastrophe ratio	2.8%	5.8%	4.0%	5.0%	5.8%	5.3%
Prior-year reserve development ratio	(0.9%)	1.2%	-	(1.0%)	1.4%	-
Current accident year loss and LAE ratio, excluding catastrophe losses (non-GAAP)	58.4%	61.7%	59.7%	57.0%	60.3%	58.3%

(5) Operating Return on Average Equity and Adjusted Operating Return on Average Equity ("Operating ROE" and "Adjusted Operating ROE") are non-GAAP measures. Operating ROE is calculated by dividing operating income after tax for the applicable period (see under the heading in this press release "Non-GAAP Financial Measures" and end note (1)), annualized, by the average of beginning, ending, and interim quarters' (if applicable) total shareholders' equity, excluding unrealized appreciation (depreciation) on fixed maturity investments, net of tax, for the period presented. Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is also a non-GAAP measure. Total shareholders' equity is the most directly comparable GAAP measure, and is reconciled below. For Adjusted Operating ROE, shareholders' equity is further adjusted for "the un-deployed equity" attributable to the sale of Chaucer in 2018, which is also a non-GAAP measure. Additionally, for the calculation of Adjusted Operating ROE, Operating income, net of tax, is adjusted for the net investment income related to un-deployed 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 the table below, including the calculation of ROE using net income and average shareholders' equity without adjustments:

($ in millions)	Period ended June 30 2019	Period ended September 30 2019
Total shareholders' equity (GAAP)	$2,941.1	$3,086.8
Less: net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	192.3	235.3
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	2,748.8	2,851.5
Less: un-deployed equity related to Chaucer	(256.6)	(256.6)
Adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and post-close, un-deployed equity attributable to Chaucer	$2,492.2	$2,594.9
Average shareholders' equity (GAAP)		$3,014.0
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax		$2,800.2
Average adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and un-deployed equity attributable to Chaucer		$2,543.6

($ in millions)	Three months ended September 30 2019
Net Income ROE (non-GAAP due to annualization of net income)	
Net income (GAAP)	$118.9
Annualized net income*	$475.6
Average shareholders' equity (GAAP)	$3,014.0
Return on equity	15.8%
Operating Income ROE (non-GAAP)	
Operating income after taxes	$93.0
Annualized operating income, net of tax*	$372.0
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	$2,800.2
Operating return on equity	13.3%
Adjusted Operating Income ROE (non-GAAP)	
Annualized operating income, net of tax*	$372.0
Less: Annualized net investment income related to un-deployed equity attributable to Chaucer, net of tax**	($7.2)
Annualized operating income, including adjustment for NII related to un-deployed equity attributable to Chaucer, net of tax	$364.8
Average adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and un-deployed equity attributable Chaucer	$2,543.6
Adjusted operating return on equity	14.3%

*For the three months ended September 30, 2019, annualized net and operating income is calculated by multiplying three months ended net income and operating income, respectively, by four.

**Annualized net investment income related to un-deployed equity attributable to Chaucer is calculated by multiplying the un-deployable equity attributable to Chaucer held throughout the quarter by the total annual pre-tax yield, net of tax.

(6) Combined ratio, excluding catastrophes, and current accident year combined ratio, excluding catastrophes, are non-GAAP measures. These measures are used throughout this document. The combined ratio (which includes catastrophe losses and prior-year loss 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, and to the current accident year combined ratio, excluding catastrophes losses:

	Three months ended September 30, 2019			Three months ended September 30, 2018		
	Commercial Lines	Personal Lines	Total	Commercial Lines	Personal Lines	Total
Total combined ratio (GAAP)	95.2%	93.3%	94.4%	96.6%	92.8%	95.1%
Less: Catastrophe ratio	3.3%	2.9%	3.1%	5.1%	2.9%	4.2%
Combined ratio, excluding catastrophe losses (non-GAAP)	91.9%	90.4%	91.3%	91.5%	89.9%	90.9%
Less: Prior-year reserve development ratio	(0.8%)	1.2%	-	(1.3%)	2.0%	-
Current accident year combined ratio, excluding catastrophe losses (non-GAAP)	92.7%	89.2%	91.3%	92.8%	87.9%	90.9%

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Commercial Lines	Personal Lines	Total	Commercial Lines	Personal Lines	Total
Total combined ratio (GAAP)	95.0%	96.1%	95.4%	95.9%	95.4%	95.8%
Less: Catastrophe ratio	2.8%	5.8%	4.0%	5.0%	5.8%	5.3%
Combined ratio, excluding catastrophe losses (non-GAAP)	92.2%	90.3%	91.4%	90.9%	89.6%	90.5%
Less: Prior-year reserve development ratio	(0.9%)	1.2%	-	(1.0%)	1.4%	-
Current accident year combined ratio, excluding catastrophe losses (non-GAAP)	93.1%	89.1%	91.4%	91.9%	88.2%	90.5%

(7) Here, and later in this document, the expense ratio is reduced by installment and other fee revenues for purposes of the ratio calculation.

(8) The separate financial information of each operating segment is presented consistent with the way results are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Management evaluates the results of the aforementioned operating segments without consideration of interest expense on debt and on a pre-tax basis.