



The Hanover Insurance Group, Inc.

Third Quarter 2018 Results

November 1, 2018

*To be read in conjunction with the press release dated
October 31, 2018 and conference call scheduled for
November 1, 2018*



Forward-Looking Statements and Non-GAAP Financial Measures

Forward-looking statements

Certain statements in this release or in the above-referenced conference call may be forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Use of the words "believes," "anticipates," "expects," "projections," "potential," "forecast," "outlook," "should," "could," "confident," "plan," "guidance," "on track to," "committed to," "looking ahead," "ability to," "will," "will remain," "will continue," and similar expressions is intended to identify forward-looking statements. The company cautions investors that any such forward-looking statements are estimates or projections that involve significant judgment and that neither historical results and trends nor forward-looking statements are guarantees or necessarily indicative of future performance. Actual results could differ materially.

In particular, "forward-looking statements" include statements in this press release or in such conference call regarding our ability to deliver on long-term goals and objectives, specifically growing profitably within our distribution plant, increasing specialized capabilities, focus on innovation, and financial management to further distinguish The Hanover as a premier Property and Casualty company; the likelihood the sale of the Chaucer business to China Re will be consummated; expected benefits of such sale; ability to close the sale by the end of the year or the first quarter of 2019; attainment of necessary approvals including from the Prudential Regulation Authority ("PRA"), the Society and Corporation of Lloyd's ("Lloyd's"), and the regulators in the People's Republic of China ("PRC"); attainment and effectiveness of reinsurance contracts to mitigate risk to the \$45 million of contingent consideration; uses of potential proceeds from a sale; success of efforts to manage domestic expenses, including to fund certain business initiatives; ability to generate strong growth, attractive margins, and return on equity; strength of balance sheet and capital base; ability to grow in lines with adequate pricing and target profitability; risk selection; the level of conservatism and strength of reserves and the balance sheet; likelihood reserves will run off favorably rather than unfavorably; ability to generate overall growth; ability to deliver above-target profit margins; ability to produce stable loss ratios in Commercial Lines due to pricing, product, geographic and underwriting actions; pricing compared to long-term loss trends; pricing segmentation and mix improvement initiatives to help mitigate long-term loss trends; volatility in commercial and personal property lines; Specialty growth opportunities to contribute to the positive growth and earnings trajectory; workers' compensation loss trends; future trends of commercial multi-peril liability claims; frequency and severity trends in personal and commercial auto; commercial auto performance, including price and underwriting execution to offset increases in liability claims; middle market portfolio profit improvement execution and additional growth opportunities; strengthen focus in attractive industry segments, including cyber and financial institutions, to further expand product offering; ability to increase rates in certain states; continue a balanced growth and consistent profitability in Personal Lines; expectation that Personal Lines will deliver superior returns; the completion of TAP rollout to remaining Personal Line states by mid-2019; implications of U.S. tax reform, including an expected effective tax rate of approximately 21% in 2018; insurance demand; use of capital; net investment income in 2018; share repurchases; increased income from expected "higher yielding assets"; volatility in unrealized gains; current adjusted return on average equity as an indication of future earnings power; and the ability to achieve components or the sum of the full year 2018 guidance, including combined ratio and catastrophe ratio, are all forward-looking statements.

The company cautions investors that neither historical results and trends nor forward-looking statements are guarantees of or necessarily indicate future performance, and actual results could differ materially. Investors are directed to consider the risks and uncertainties in our business that may affect future performance and that are discussed in readily available documents, including the company's earnings press release dated October 31, 2018 and the Annual Report, Form 10-K and other documents filed by The Hanover with the Securities and Exchange Commission, which are available at www.hanover.com under "Investors." We assume no obligation to update this presentation, which, unless otherwise noted, are as of September 30, 2018.

These uncertainties include the uncertain U.S. and global economic environment, the possibility of adverse catastrophe experience (including terrorism) and severe weather, the uncertainties in estimating catastrophe and non-catastrophe weather-related losses, the uncertainties in estimating property and casualty losses, accident year picks, and incurred but not reported loss and LAE reserves, the ability to increase or maintain certain property and casualty insurance rates in excess of loss trends, the impact of new product introductions, adverse loss and LAE development for prior years, changes in frequency and loss trends, the ability to improve renewal rates and increase new property and casualty policy counts, adverse selection in underwriting activities, investment impairments and returns, the impact of competition (including rate pressure), adverse and evolving state, federal and, with respect to Chaucer, international, legislation or regulation, adverse regulatory or litigation actions, financial ratings actions, and those risks inherent in Chaucer's business.

Non-GAAP Financial Measures: The discussion in this presentation 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, and book value per share, excluding net appreciation (depreciation) on fixed maturity investments, net of tax. 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 31, 2018 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. Book value per share, excluding net unrealized appreciation (depreciation) on fixed maturity investments, is also a non-GAAP measure. It is calculated as total shareholders' equity excluding the after-tax effect of unrealized investment gains and losses on fixed maturities, divided by the number of common shares outstanding. Operating return on equity ("ROE") and adjusted operating ROE are non-GAAP measures. See end note (4) 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 business, and therefore equity attributable to Chaucer, which is held for sale, is excluded. For this purpose, the "equity attributable to Chaucer" as of September 30, 2018 is used for all measurement periods. This eliminates the impact of any excess capital that would have been included in "equity attributable to Chaucer" for prior periods presented. Had the actual Chaucer equity for all prior periods been used, the adjusted operating ROE for the continuing businesses for each of the reported periods would have been higher than illustrated in this disclosure. Management 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. 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 2017 Annual Report on pages 80-83.



Third Quarter 2018

The Hanover Reports Third Quarter Net Income and Operating Income⁽¹⁾ of \$2.33 and \$1.97 per Diluted Share, Respectively; Third Quarter Combined Ratio of 95.1%; Combined Ratio, Excluding Catastrophes⁽²⁾, of 90.9%

- Combined ratio, excluding catastrophes, of 90.9%, an increase of 1.5 points over the prior-year quarter, due to variability in property losses and an increase in the Commercial Auto loss ratio
- Catastrophe losses of \$44.9 million, or 4.2 points of the combined ratio, driven primarily by Hurricane Florence and Colorado hail events
- Net premiums written increased 5.2%, with strong growth in more profitable Personal Lines, Small Commercial and target Specialty businesses
- Continued price increases in Commercial and Personal Lines
- Net investment income of \$66.4 million, up 6.1% from the prior-year quarter, driven by higher cash flows from operations
- Book value per share of \$70.40, up 1.8% from June 30, 2018, primarily due to earnings accretion, partially offset by changes in fair value of the fixed income portfolio
- Repurchased approximately 157,000 shares of common stock for \$18.9 million during the third quarter of 2018

(1) See information about this and other non-GAAP measures and definitions used throughout this presentation on the final pages of this document. As discussed in the September 13, 2018 press release, the Chaucer segment results are reported in discontinued operations pending its sale to China Reinsurance (Group) Corporation ("China Re").



Consolidated Financial Results Snapshot

(\$ in millions, except per share amounts)

	Three months ended		Nine months ended	
	September 2017	September 2018	September 2017	September 2018
Net income per share	\$0.26	\$2.33	\$3.14	\$6.21
Operating income after taxes per share	\$1.21	\$1.97	\$2.96	\$5.28
Book value per share	\$70.10	\$70.40	\$70.10	\$70.40
Shareholders' equity	\$2,972.0	\$2,982.4	\$2,972.0	\$2,982.4
Debt	\$787	\$778	\$787	\$778
Total capital	\$3,759	\$3,760	\$3,759	\$3,760
Debt/Total Capital	20.9%	20.7%	20.9%	20.7%
Total assets	\$15,389	\$15,624	\$15,389	\$15,624
Adjusted equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and equity attributable to Chaucer as of September 30, 2018 ⁽³⁾	\$2,128.9	\$2,441.8	\$2,128.9	\$2,441.8
Average adjusted equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and equity attributable to Chaucer as of September 30, 2018 ⁽³⁾	\$2,131.0	\$2,407.9	\$2,092.9	\$2,309.8
Operating income after taxes	\$52.0	\$84.9	\$126.8	\$227.2
Operating return on average equity ⁽⁴⁾	7.6%	11.2%	6.2%	10.4%
Adjusted operating return on average equity⁽⁴⁾	9.8%	14.1%	8.1%	13.1%
Operating income before interest and taxes ⁽¹⁾	\$86.2	\$112.8	\$218.3	\$313.4

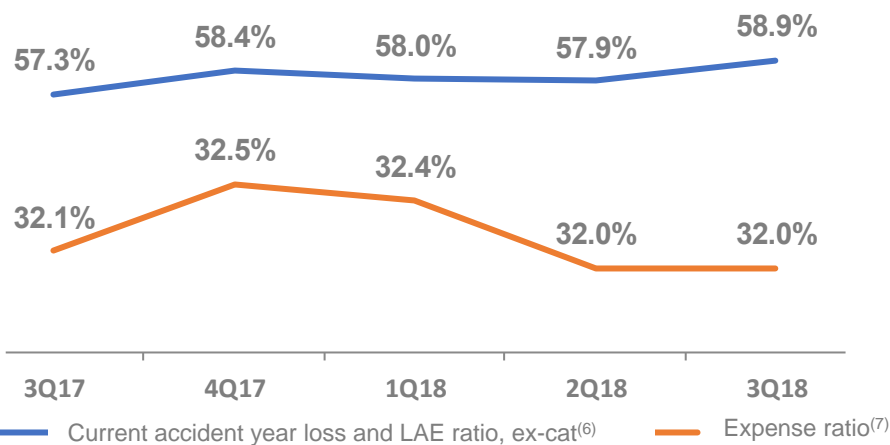


Strong Growth and Solid Operating Results Despite an Active Catastrophe Quarter

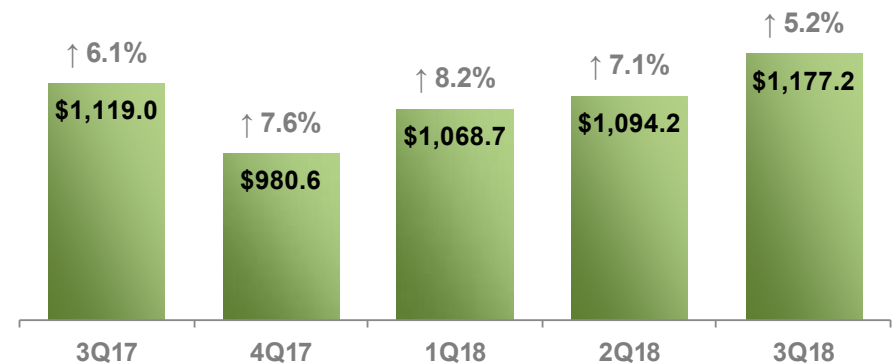
(\$ in millions)	Three months ended September 30	
	2017	2018
Net premiums written	\$1,119.0	\$1,177.2
Growth	6.1%	5.2%
Net premiums earned	\$1,004.4	\$1,071.7
Combined ratio	97.1%	95.1%
Combined ratio, ex-cat	89.4%	90.9%
Current accident year combined ratio, ex-cat⁽⁵⁾	89.4%	90.9%

- Combined ratio of 95.1% in the third quarter of 2018, including 4.2 points of catastrophe losses
- Catastrophe losses of \$44.9 million driven primarily by wind and flood losses from Hurricane Florence and Colorado hail events
- Combined ratio, excluding catastrophes, of 90.9%, a 1.5 point increase from the prior-year, driven by property variability and increases in current accident year picks in Commercial Auto
- Top-line growth of 5.2% driven by strong growth in Small Commercial, Personal Lines and most profitable Specialty Commercial business

Current accident year loss and expense ratio trends



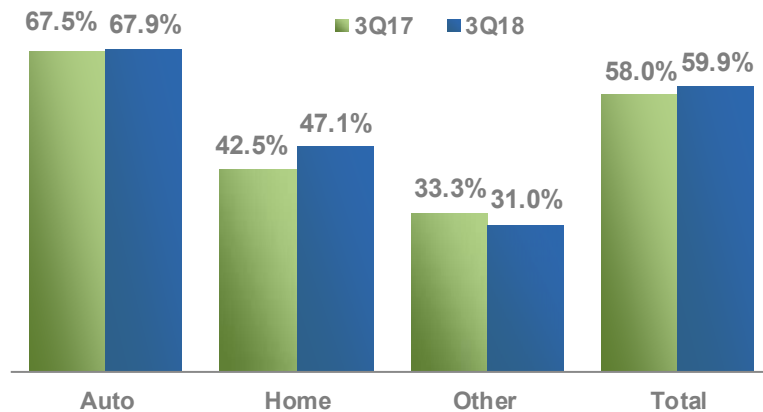
(\$ in millions) Net premiums written growth



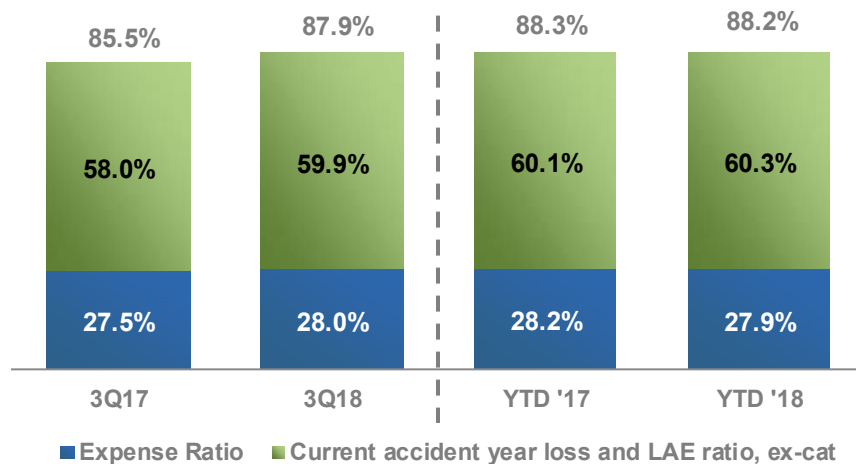


Personal Lines Underwriting Highlights

Current Accident Year Loss and LAE Ratio, Ex-Cat



Current Accident Year Combined Ratio, Ex-Cat



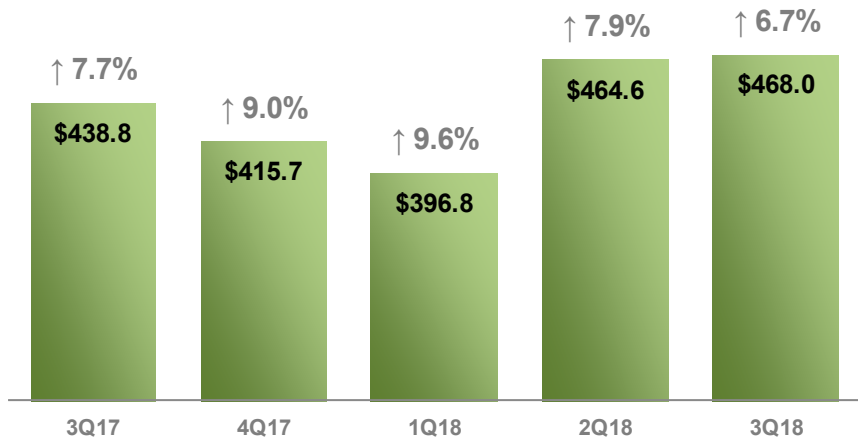
- Combined ratio of 92.8% in the third quarter of 2018, including 2.9 points of catastrophe losses and 2.0 points of unfavorable prior-year reserve development
- Unfavorable prior-year reserve development driven by:
 - A small number of unusual losses in Homeowners
 - Auto increases driven by higher bodily injury severity, primarily from accident year 2016
- Current accident year combined ratio, excluding catastrophes, increased to 87.9% from 85.5% in the prior-year quarter driven by:
 - Increase in the homeowners current accident year loss ratio, excluding catastrophes, due to property variability, including non-cat weather, and lower than usual losses in the third quarter of 2017
 - Expense ratio increase of 0.5 points, driven by higher agency performance-based compensation, primarily in Michigan
- Year-to-date performance is in line with prior-year, and consistent with expectations



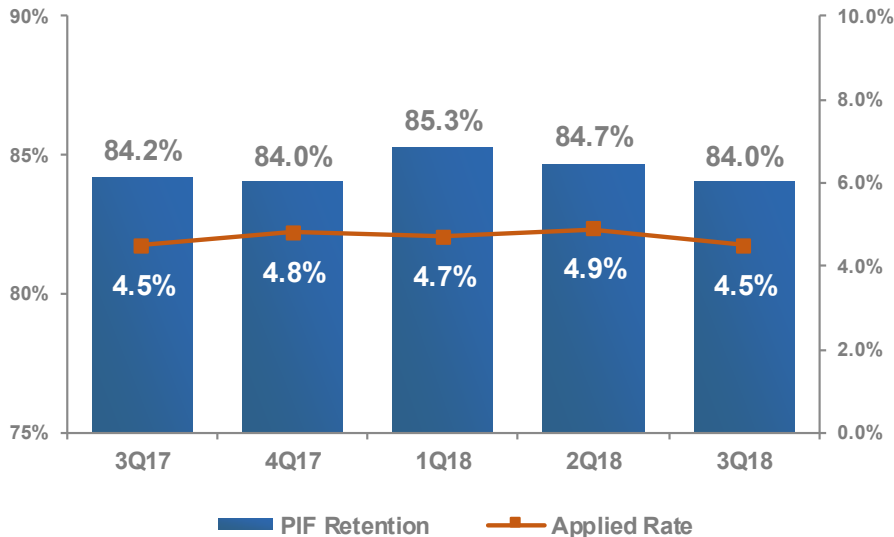
Personal Lines Growth Highlights

(\$ in millions)

Net Premiums Written



Retention*



- Strong net premiums written growth of 6.7%, driven by solid retention and continued rate increases
 - Policies in force grew 3.3% from the prior-year quarter, primarily from Hanover Platinum business
- Strong quality of growth:
 - Increased presence in targeted markets focusing on whole account business
 - Hanover Platinum product now makes up 42% of overall Personal Lines business**
 - Strong agency partnerships
- Solid rate increases of 4.5%; substantially in line with loss trends
- Strong retention of 84.0%, in line with expectations

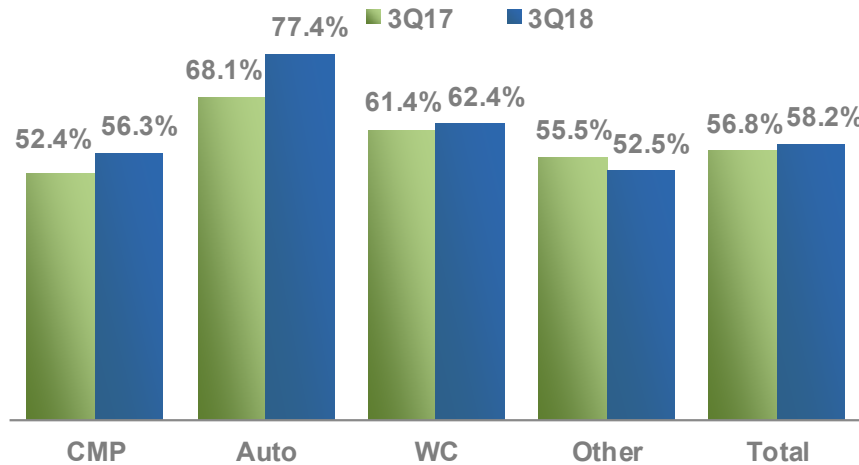
*Retention is defined as ratio of net retained policies for noted period to those policies available to renew over the same period.

**Includes Massachusetts starting in the third quarter 2018

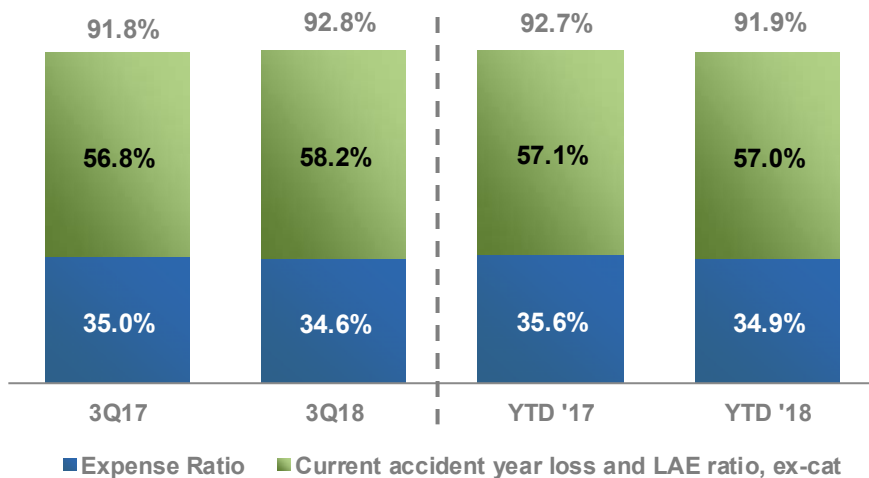


Commercial Lines Underwriting Highlights

Current Accident Year Loss and LAE Ratio, Ex-Cat



Current Accident Year Combined Ratio, Ex-Cat



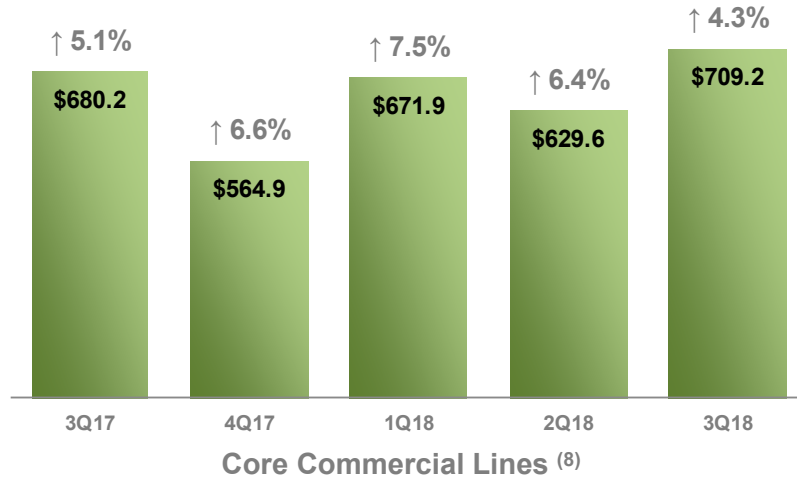
- Combined ratio of 96.6% in the third quarter of 2018, including 5.1 points of catastrophe losses and 1.3 points of favorable prior-year reserve development
- Favorable prior-year reserve development driven by releases in Workers' Compensation and General and Professional Liability lines, partially offset by Commercial Auto reserve additions due to increase in bodily injury severity
- Current accident year combined ratio, excluding catastrophes, of 92.8%, an increase of 1.0 point from the third quarter of 2017 driven by:
 - Increase in the current accident year loss and LAE ratio, excluding catastrophes due to:
 - Higher incidence of large losses in CMP, attributable to property variability and comparison to a lower level of losses in the prior-year quarter
 - Increased accident year pick in Auto in response to increased estimates for prior years
 - Somewhat offset by improvement in other commercial lines driven by past underwriting actions
 - Partially offset by improvements in the expense ratio, driven by continued operating efficiencies and fixed cost leverage from continued premium growth
- Year-to-date loss performance is in line with prior-year, and consistent with expectations, while benefitting from improvement in expenses



Commercial Lines Growth Highlights

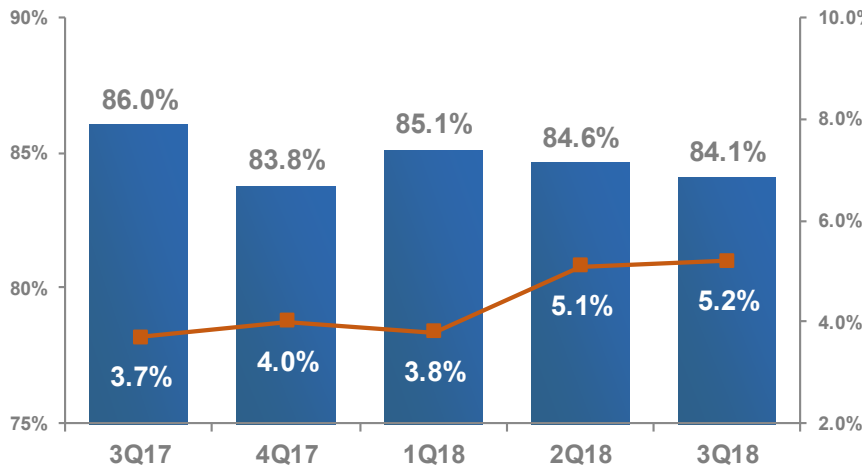
(\$ in millions)

Net Premiums Written



- Net premiums written growth of 4.3%, driven by:
 - Solid Small Commercial growth
 - Specialty growth in most profitable segments, including professional and healthcare lines
 - Middle Market growth in technology and other profitable industry niches was offset by continuing profit actions
- Core Commercial pricing increase of 5.2%, fundamentally in line with the second quarter of 2018
 - Commercial Auto upper-single-digits
 - Competitive pricing in Workers' Compensation
 - Granular pricing segmentation

Retention



■ PIF Retention — Applied Rate

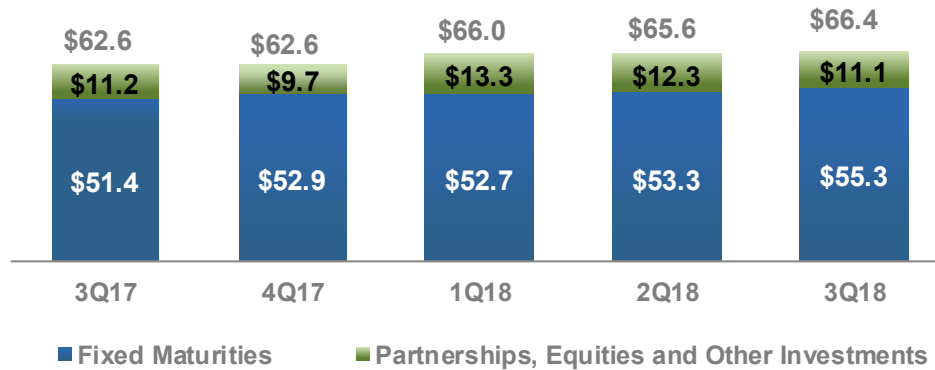
- Strong retention of 84.1%, which remains in line with targeted levels



Net Investment Income Trends

(\$ in millions)

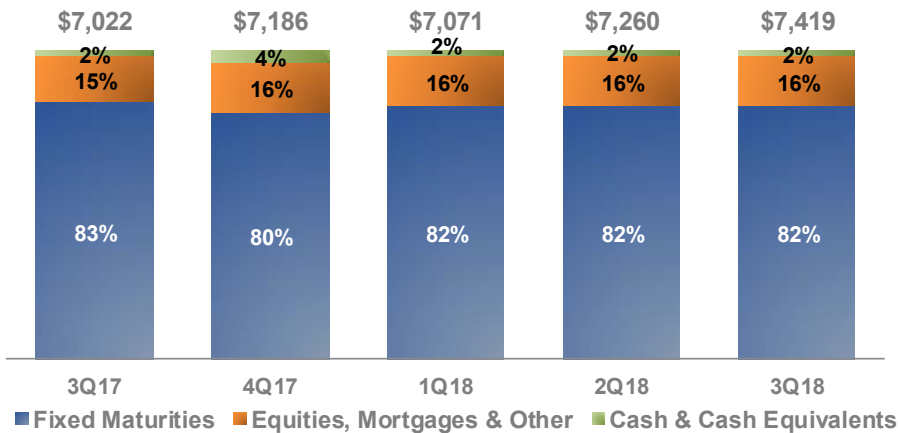
Net Investment Income*



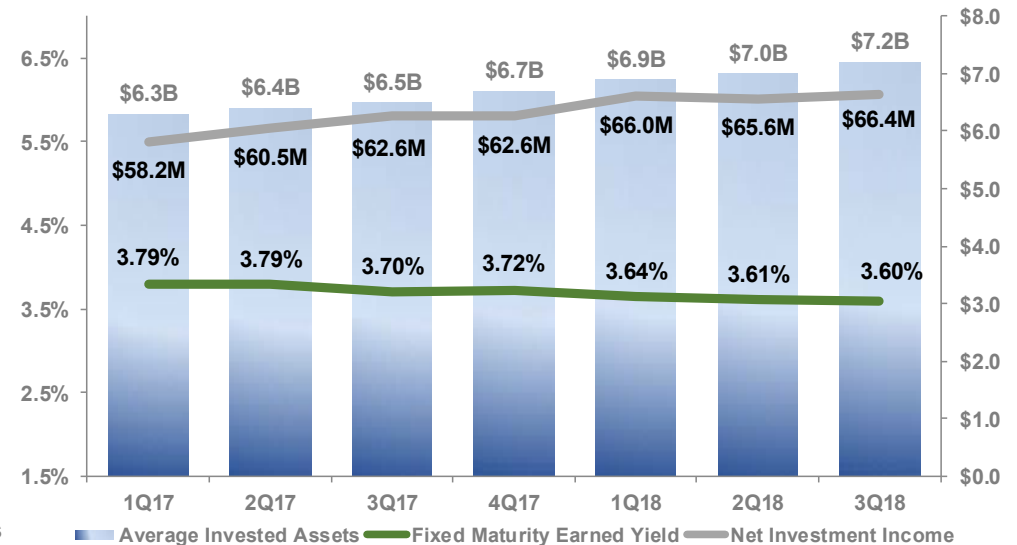
- Net investment income increased 6.1% over the prior-year quarter due to investment of higher operating cash flows
- Net investment income from fixed maturities grew 7.6%

(\$ in millions)

Cash and Invested Assets



Investment Portfolio Trends

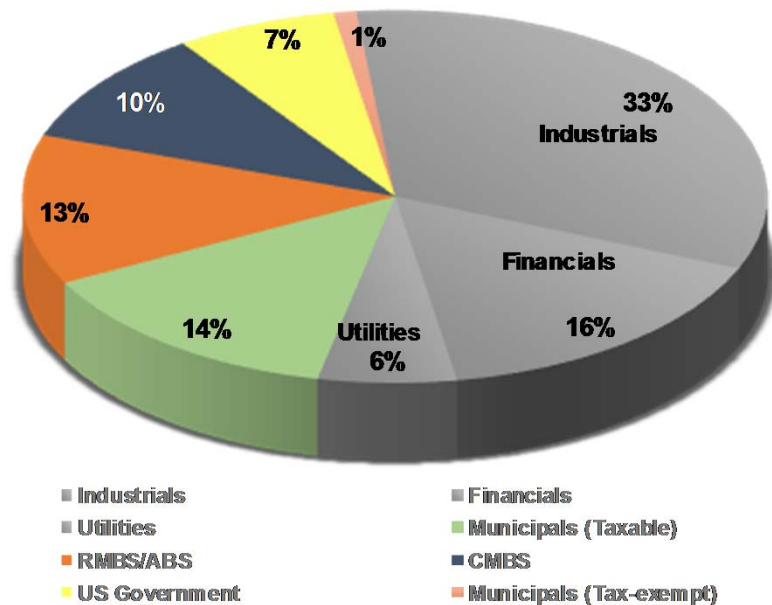


*Net Investment Income from Partnerships, Equities and Other investments is presented net of investment expenses.

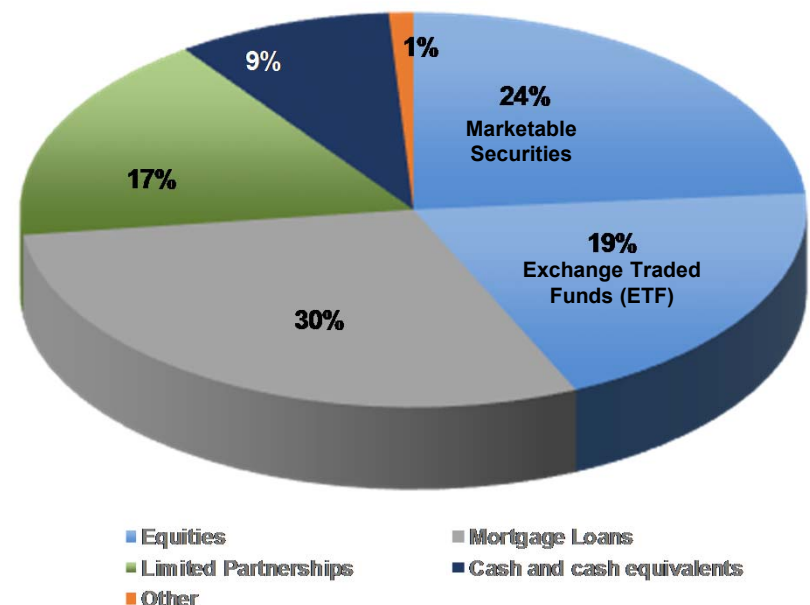


Investment Portfolio Holdings – Total Domestic Invested Assets \$7.4B September 30, 2018

Fixed Maturities \$6.1 Billion



Equities and Other \$1.3 Billion



Fixed Income Characteristics:

- 95% of fixed maturity securities are investment grade
- Weighted average quality: A+
- Duration: 4.7 years



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 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. The Hanover also writes international business through its subsidiary, Chaucer. As announced on September 13, 2018, Chaucer is subject to a sale agreement with China Reinsurance (Group) Corporation. For more information, please visit hanover.com.



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 “Forward-Looking Statements and Non-GAAP Financial Measures.” Operating income (loss) before taxes, as referenced in the results of the three business segments, is defined as, with respect to such segment, operating income (loss) before taxes and interest expense. 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:

	Three months ended				Nine months ended			
	September 30, 2017		September 30, 2018		September 30, 2017		September 30, 2018	
	\$ Amount	Per Share Diluted	\$ Amount	Per Share Diluted	\$ Amount	Per Share Diluted	\$ Amount	Per Share Diluted
<i>(In millions, except per share data)</i>								
OPERATING INCOME (LOSS)								
Commercial Lines	\$28.0		\$65.1		\$108.2		\$208.3	
Personal Lines	59.6		48.2		117.1		109.7	
Other	(1.4)		(0.5)		(7.0)		(4.6)	
Total	86.2		112.8		218.3		313.4	
Interest expense	(11.3)		(11.2)		(33.9)		(33.9)	
Operating income before income taxes	74.9	\$1.75	101.6	\$2.36	184.4	\$4.30	279.5	\$6.49
Income tax expense on operating income	(22.9)	(0.54)	(16.7)	(0.39)	(57.6)	(1.34)	(52.3)	(1.21)
Operating income after income taxes	52.0	1.21	84.9	1.97	126.8	2.96	227.2	5.28
Non-operating items:								
Net realized gains (losses) from sales and other	14.6	0.34	(0.2)	-	25.0	0.58	(0.1)	-
Net change in fair value of equity securities	-	-	23.6	0.54	-	-	6.7	0.15
Net other-than-temporary impairment losses on investments recognized in earnings	(1.3)	(0.03)	(0.4)	(0.01)	(4.5)	(0.11)	(2.8)	(0.07)
Other	(5.5)	(0.13)	(1.9)	(0.04)	(7.3)	(0.17)	(1.9)	(0.04)
Income tax benefit (expense) on other non-operating items	(0.3)	(0.01)	(2.0)	(0.05)	4.2	0.10	7.8	0.18
Income from continuing operations, net of taxes	59.5	1.38	104.0	2.41	144.2	3.36	236.9	5.50
Income (loss) from discontinued Chaucer business, net of taxes	(47.2)	(1.10)	(3.6)	(0.08)	(8.3)	(0.19)	30.5	0.71
Net loss from discontinued life business, net of taxes	(1.2)	(0.02)	-	-	(1.2)	(0.03)	-	-
Net income	\$11.1	\$ 0.26	\$100.4	\$ 2.33	\$134.7	\$ 3.14	\$267.4	\$ 6.21
Weighted average shares outstanding		42.9		43.1		42.9		43.1



End notes continued

(2) Combined ratio, excluding catastrophes, is a non-GAAP measure, which is equal to the combined ratio, excluding catastrophe losses. This measure and measures excluding prior-year reserve development (“current accident-year” ratios) 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:

	Three months ended September 30, 2017			Three months ended September 30, 2018		
	Commercial Lines	Personal Lines	Total	Commercial Lines	Personal Lines	Total
Total combined ratio	102.1%	89.2%	97.1%	96.6%	92.8%	95.1%
Less: catastrophe ratio	10.3%	3.7%	7.7%	5.1 %	2.9%	4.2%
Combined ratio, excluding catastrophe losses	<u>91.8%</u>	<u>85.5%</u>	<u>89.4%</u>	<u>91.5%</u>	<u>89.9%</u>	<u>90.9%</u>



End notes continued

(3) Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is a non-GAAP measure. Total shareholder's equity is the most directly comparable GAAP measure, and is reconciled in the table below. For the calculation of Operating Return on Equity ("operating ROE") in end note (4), the average of beginning and ending shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is used for the period as shown in the table below. For the calculation of "adjusted operating return on average equity", as referenced on page 4 and end note (4), unrealized appreciation (depreciation) on fixed maturity investment (net of tax) and September 30, 2018 equity attributable to Chaucer of \$614.6 million, are both excluded.

(\$ in millions)	Period ended*							
	June 30, 2017	September 30, 2017	June 30, 2018	September 30, 2018	December 31 2016	September 30, 2017	December 31 2017	September 30, 2018
Total shareholders' equity (GAAP)	\$ 2,972.5	\$ 2,972.0	\$ 2,939.8	\$ 2,982.4	\$ 2,857.5	\$ 2,972.0	\$ 2,997.7	\$ 2,982.4
Less: net unrealized appreciation (depreciation) on fixed maturity investments net of tax	224.8	228.5	(48.8)	(74.0)	186.0	228.5	205.4	(74.0)
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	\$ 2,747.7	\$ 2,743.5	\$ 2,988.6	\$ 3,056.4	\$ 2,671.5	\$ 2,743.5	\$ 2,792.3	\$ 3,056.4
Less: Equity attributable to Chaucer as of September 30, 2018	614.6	614.6	614.6	614.6	614.6	614.6	614.6	614.6
Adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and equity attributable to Chaucer	\$ 2,133.1	\$ 2,128.9	\$ 2,374.0	\$ 2,441.8	\$ 2,056.9	\$ 2,128.9	\$ 2,177.7	\$ 2,441.8
Average shareholders' equity (GAAP)		\$ 2,972.3		\$ 2,961.1		\$ 2,914.8		\$ 2,990.1
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax		\$ 2,745.6		\$ 3,022.5		\$ 2,707.5		\$ 2,924.4
Adjusted average shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax and equity attributable to Chaucer		\$ 2,131.0		\$ 2,407.9		\$ 2,092.9		\$ 2,309.8

*Prior to 2018, unrealized appreciation (depreciation) also included changes in the fair value of equity securities. Effective January 1, 2018, as a result of the implementation of a new accounting standard, these changes in fair value are included in net income as a component of net realized and unrealized investment gains and losses.



End notes continued

(4) Operating return on average equity ("operating ROE") is a non-GAAP measure. Operating ROE is calculated by dividing annualized operating income after tax for the applicable period (as defined in end note (1)), by average shareholders' equity, excluding unrealized appreciation (depreciation) on fixed maturity investments, net of tax, for the stated period, as defined in end note (3). For the calculation of Adjusted Operating ROE, the average of beginning and ending shareholders' equity, excluding equity attributable to Chaucer (as of September 30, 2018) and net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is used. Operating ROE and Adjusted Operating ROE should not be construed as substitutes for GAAP ROE. See calculations in table below, including the calculation of GAAP ROE using net income and average shareholders' equity without adjustments:

	Three months ended		Nine months ended	
	September 30 2017	September 30 2018	September 30 2017	September 30 2018
Annualized net income*	\$ 44.4	\$ 401.6	\$ 179.6	\$ 356.5
Average shareholders' equity (GAAP)	2,972.3	2,961.1	2,914.8	2,990.1
Return on equity	1.5%	13.6%	6.2%	11.9%
<i>Reported - Consolidated</i>				
Annualized operating income after taxes*	\$ 208.0	\$ 339.6	\$ 169.1	\$ 302.9
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	2,745.6	3,022.5	2,707.5	2,924.4
Operating return on equity	7.6%	11.2%	6.2%	10.4%
<i>Adjusted - Domestic & Other</i>				
Annualized operating income after taxes*	\$ 208.0	\$ 339.6	\$ 169.1	\$ 302.9
Adjusted average shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax and equity attributable to Chaucer	2,131.0	2,407.9	2,092.9	2,309.8
Adjusted operating return on equity	9.8%	14.1%	8.1%	13.1%

*For three months ended September 30, 2018, annualized net and operating income is calculated by multiplying three months ended net income and operating income, respectively, by 4. For nine months ended September 30, 2018, annualized net and operating income is calculated by dividing nine months ended net and operating income, respectively, by 3 and multiplying by 4.



End notes continued

- (5) Current accident year combined ratio, excluding catastrophe losses, is a non-GAAP measure, which is equal to the combined ratio, excluding prior-year reserve development and catastrophe losses. 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 current accident year combined ratio, excluding catastrophe losses:

	Three months ended September 30, 2018		
	Commercial Lines	Personal Lines	Total
Total combined ratio	96.6%	92.8%	95.1%
Less:			
Prior-year reserve development ratio	(1.3%)	2.0%	-
Catastrophe ratio	5.1%	2.9%	4.2%
Current accident year combined ratio, excluding catastrophe losses	<u>92.8%</u>	<u>87.9%</u>	<u>90.9%</u>
	September 30, 2017		
Total combined ratio	102.1%	89.2%	97.1%
Less:			
Prior-year reserve development ratio	-	-	-
Catastrophe ratio	10.3%	3.7%	7.7%
Current accident year combined ratio, excluding catastrophe losses	<u>91.8%</u>	<u>85.5%</u>	<u>89.4%</u>
	Nine months ended September 30, 2018		
	Commercial Lines	Personal Lines	Total
Total combined ratio	95.9%	95.4%	95.8%
Less:			
Prior-year reserve development ratio	(1.0%)	1.4%	-
Catastrophe ratio	5.0%	5.8%	5.3%
Current accident year combined ratio, excluding catastrophe losses	<u>91.9%</u>	<u>88.2%</u>	<u>90.5%</u>
	September 30, 2017		
Total combined ratio	100.6%	94.2%	98.1%
Less:			
Prior-year reserve development ratio	-	-	-
Catastrophe ratio	7.9%	5.9%	7.1%
Current accident year combined ratio, excluding catastrophe losses	<u>92.7%</u>	<u>88.3%</u>	<u>91.0%</u>



End notes continued

(6) 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:

Consolidated	Three months ended				
	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018
Total loss and LAE Ratio	65.0%	62.5%	64.2%	63.5%	63.1%
Less:					
Prior-year reserve development ratio	-	-	-	-	-
Catastrophe ratio	7.7%	4.1%	6.2%	5.6%	4.2%
Current accident year loss ratio, excluding catastrophe losses	<u>57.3%</u>	<u>58.4%</u>	<u>58.0%</u>	<u>57.9%</u>	<u>58.9%</u>

Personal Lines	Three months ended				Three months ended			
	September 30, 2017				September 30, 2018			
	Auto	Home	Other	Total	Auto	Home	Other	Total
Total loss and LAE Ratio	68.0%	52.2%	35.4%	61.7%	69.4%	57.4%	47.0%	64.8%
Less:								
Prior-year reserve development ratio	-	-	-	-	1.1%	2.7%	15.0%	2.0%
Catastrophe ratio	0.5%	9.7%	2.1%	3.7%	0.4%	7.6%	1.0%	2.9%
Current accident year loss ratio, excluding catastrophe losses	<u>67.5%</u>	<u>42.5%</u>	<u>33.3%</u>	<u>58.0%</u>	<u>67.9%</u>	<u>47.1%</u>	<u>31.0%</u>	<u>59.9%</u>

Commercial Lines	Three months ended					Three months ended				
	September 30, 2017					September 30, 2018				
	Multiple Peril	Auto	Workers' Comp	Other	Total	Multiple Peril	Auto	Workers' Comp	Other	Total
Total loss and LAE Ratio	61.4%	72.9%	61.4%	71.7%	67.1%	65.6%	84.4%	52.2%	54.8%	62.0%
Less:										
Prior-year reserve development ratio	-	-	-	-	-	(0.7)%	6.3%	(10.2)%	(1.7)%	(1.3)%
Catastrophe ratio	9.0%	4.8%	-	16.2%	10.3%	10.0%	0.7%	-	4.0%	5.1%
Current accident year loss ratio, excluding catastrophe losses	<u>52.4%</u>	<u>68.1%</u>	<u>61.4%</u>	<u>55.5%</u>	<u>56.8%</u>	<u>56.3%</u>	<u>77.4%</u>	<u>62.4%</u>	<u>52.5%</u>	<u>58.2%</u>



End notes continued

- (7) On this page and later in this document, the expense ratio is reduced by installment fees for purposes of the ratio calculation.
- (8) 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 third quarter financial supplement.

(\$ in millions)	Three months ended September 30, 2017			Three months ended September 30, 2018		
	Core Commercial	Other Commercial	Total	Core Commercial	Other Commercial	Total
Net premiums written	\$409.7	\$270.5	\$680.2	\$425.8	\$283.4	\$709.2
Net premiums earned	\$358.3	\$245.7	\$604.0	\$375.8	\$264.6	\$640.4

(\$ in millions)	Nine months ended September 30, 2017			Nine months ended September 30, 2018		
	Core Commercial	Other Commercial	Total	Core Commercial	Other Commercial	Total
Net premiums written	\$1,125.7	\$771.4	\$1,897.1	\$1,184.4	\$826.3	\$2,010.7
Net premiums earned	\$1,053.7	\$729.8	\$1,783.5	\$1,115.5	\$788.5	\$1,904.0