

# **The Hanover Insurance Group, Inc.**

## **First Quarter 2017 Results**

**May 3, 2017**

**To be read in conjunction with the press release dated  
May 3, 2017 and conference call scheduled for May 4, 2017**

# 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," "forecast," "outlook," "should," "could," "confident," "plan," "guidance," "on track to" 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 "Hanover 2021" strategy; confidence in the ability to deliver acceptable profit levels in commercial auto; focus on maintaining solid margins and growing commercial lines in competitive market environment; ability to create opportunities to write high quality business at stable margins; the strength of reserves and the balance sheet, and the adequacy of current and prior-year reserve actions, following the actuarial reserving review in the fourth quarter 2016, the relative likelihood of favorable or unfavorable reserve development in domestic lines and expectations for Chaucer reserve development to contribute to earnings; our ability to achieve financial goals and generate strong earnings; ability to leverage our agency distribution network to expand shelf space with existing agents and generate growth; pricing compared to long-term loss trends and ability to produce a stable loss ratio; Specialty growth opportunities; future trends of commercial multi-peril liability claims; frequency and severity trends in personal and commercial auto; success of technology and service platform investments, and state and product expansion in Personal Lines; performance of Personal Lines expense ratio to come down modestly in 2017 from prior-year growth leverage; ability to capture the emerging-affluent market; pricing and retention trends; impact of bodily injury and collision severity trends on auto rates; the potential impact of capital actions and business investments; effects and volatility of pound sterling and other currencies on earnings; success of the proposed non-Lloyd's platform in Dublin; the ability to manage the cyclical nature of Chaucer's business, risk complexity, and challenging market conditions; future performance of Chaucer's current and prior-year development and large loss activity; share repurchases; increased income from expected "higher yielding assets;" volatility in unrealized gains; and ability to achieve components of the 2017 guidance, 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 May 3, 2017 and the Annual Report, Form 10-Q and other documents filed by The Hanover with the Securities and Exchange Commission, which are available at [www.hanover.com](http://www.hanover.com) under "Investors." We assume no obligation to update this presentation, which, unless otherwise noted, are as of March 31, 2017.

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 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 unrealized gains and losses. A reconciliation of non-GAAP measures to the closest GAAP measure is included in the end notes to this presentation, the press release dated May 3, 2017 or the financial supplement, which are posted on our website. The reconciliation of 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 starting on page 15 of this presentation. 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 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 gains and losses, is calculated as total shareholders' equity excluding the after-tax effect of unrealized investment gains and losses, divided by the number of common shares outstanding. The definition of other financial measures and terms can be found in the 2016 Annual Report on pages 77-80.

# First Quarter 2017 Highlights

**Net Income of \$1.05 per Diluted Share; Operating Income<sup>(1)</sup> of \$0.95 per Diluted Share;  
Combined Ratio of 99.5%, including Catastrophe Impact of 7.1 points**

- Catastrophe losses of \$84.1 million before taxes, or 7.1% of earned premiums, primarily from domestic catastrophe events in the Midwest; this compared to \$31.2 million, or 2.7%, in the prior-year quarter
- Combined ratio, excluding catastrophes<sup>(2)</sup> of 92.4%, in line with the first quarter of 2016
- No domestic prior-year loss reserve development
- Net premiums written up 3.7%, driven by growth in domestic businesses
- Continued price increases in Personal and Commercial Lines
- Net investment income of \$71.1 million in the first quarter, up 4.1% compared to the prior-year period
- Book value per share of \$68.44, up 1.5% from December 31, 2016; book value per share excluding net unrealized gains on investments<sup>(3)</sup> of \$63.62, up 1.0%

(1) Non-GAAP measure. See page 2 and end notes starting on page 15. These measures are used throughout this presentation.

# Consolidated Financial Results Snapshot

## Three Months Ended

(\$ in millions, except per share amounts)

	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017
<b>Net income (loss) per share</b>	\$1.80	\$0.05	\$2.06	(\$0.32)	<b>\$1.05</b>
Operating income (loss) after taxes per share <sup>(1)</sup>	\$1.64	\$1.24	\$1.83	(\$0.46)	<b>\$0.95</b>
<b>Book value per share</b>	\$69.30	\$70.58	\$72.08	\$67.40	<b>\$68.44</b>
Shareholders' equity	\$2,957	\$3,010	\$3,046	\$2,858	<b>\$2,914</b>
Debt	\$803	\$798	\$798	\$786	<b>\$786</b>
Total capital	\$3,760	\$3,808	\$3,844	\$3,644	<b>\$3,700</b>
Debt/total capital	21.4%	21.0%	20.8%	21.6%	<b>21.3%</b>
Total assets	\$14,028	\$14,164	\$14,364	\$14,220	<b>\$14,491</b>
Total equity, excluding net unrealized appreciation (depreciation) on investments, net of tax <sup>(4)</sup>	\$2,710.6	\$2,686.2	\$2,724.3	\$2,671.5	<b>\$2,708.5</b>
Average equity, excluding net unrealized appreciation (depreciation) on investments, net of tax <sup>(4)</sup>	\$2,702.6	\$2,698.4	\$2,705.3	\$2,697.9	<b>\$2,690.0</b>
Operating income (loss) after tax <sup>(1)</sup>	\$71.5	\$54.0	\$78.6	(\$19.7)	<b>\$40.8</b>
<b>Operating return on equity<sup>(5)</sup></b>	10.6%	8.0%	11.6%	(2.9)%	<b>6.1%</b>
Operating income (loss) before interest and taxes <sup>(1)</sup>	\$120.4	\$94.7	\$129.8	(\$22.1)	<b>\$69.1</b>

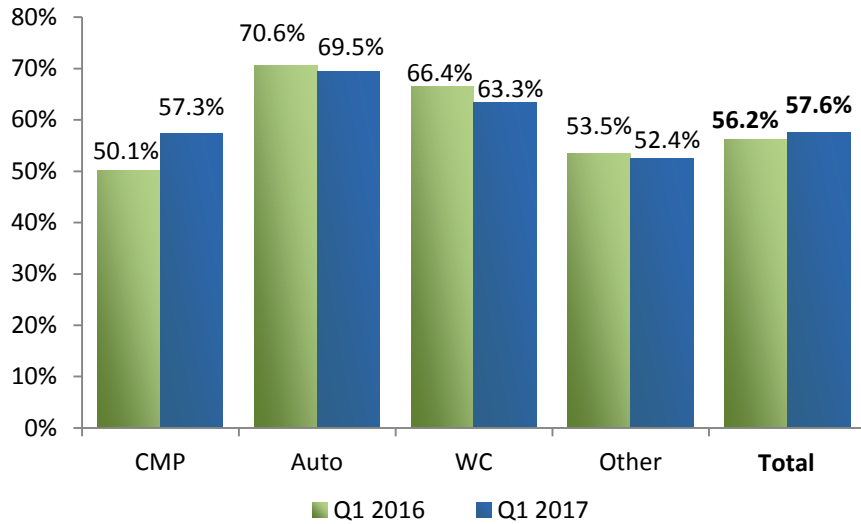
# Consolidated Underwriting Performance

	Three Months Ended	
	March 31	
(\$ in millions)	2016	2017
<b>Premiums:</b>		
Net Written	\$1,144	<b>\$1,187</b>
Net Earned	\$1,151	<b>\$1,181</b>
<b>Loss and LAE ratio:</b>		
Current accident year, ex-cat <sup>(7)</sup>	59.0%	<b>57.9%</b>
Prior year favorable reserve development	(0.9)%	<b>(0.2)%</b>
Catastrophe losses	2.7%	<b>7.1%</b>
<b>Loss and LAE ratio</b>	60.8%	<b>64.8%</b>
<b>Expense ratio</b>	34.2%	<b>34.7%</b>
<b>Combined ratio</b>	95.0%	<b>99.5%</b>
<b>Combined ratio, ex-cat<sup>(2)</sup></b>	92.3%	<b>92.4%</b>
<b>Current accident year combined ratio, ex-cat<sup>(6)</sup></b>	93.2%	<b>92.6%</b>
Underwriting income	\$54.1	<b>\$1.8</b>
Catastrophe losses	\$31.2	<b>\$84.1</b>
Ex-cat, underwriting income*	<u>\$85.3</u>	<u><b>\$85.9</b></u>

\*Non-GAAP measure, reconciles to underwriting income (loss) as displayed above

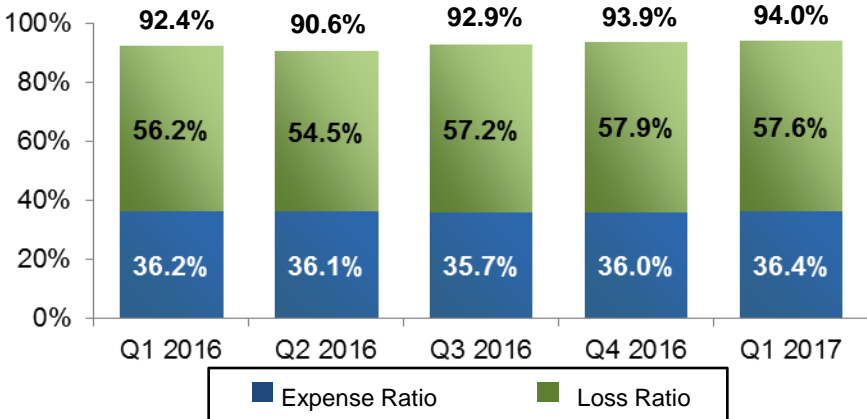
# Commercial Lines Underwriting Highlights

**Current Accident Year Loss Ratio, Ex-Cat <sup>(7)</sup>**



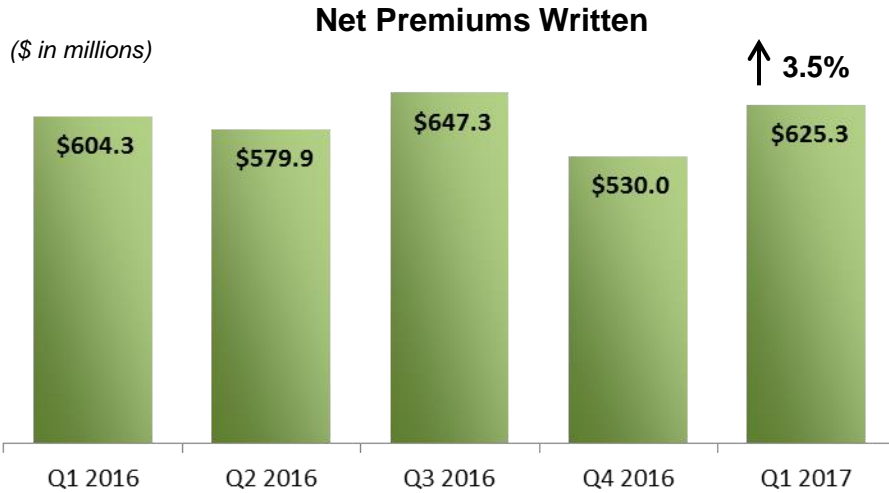
- No prior-year development, favorable or unfavorable
- Current accident year loss ratio, excluding catastrophes, increased 1.4 points compared to the prior-year quarter, driven by unfavorable comparison to lighter than usual weather and large loss experience in Commercial Multiple Peril in the first quarter 2016

**Current Accident Year Combined Ratio (CR), Ex-Cat <sup>(6)</sup>**

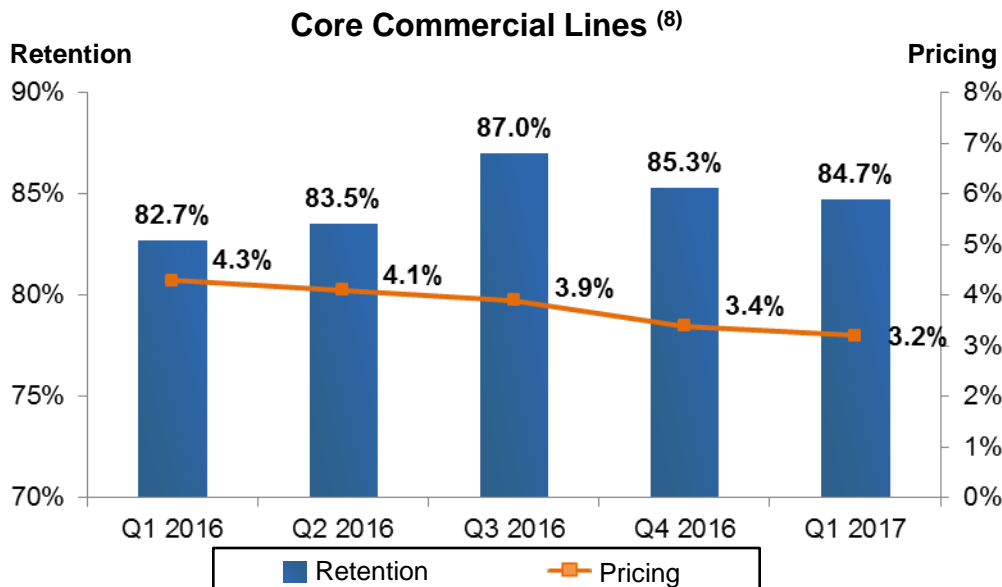


- Current accident year loss experience, excluding catastrophes, in all other commercial lines improved compared to the prior-year, a result of prior corrective actions specifically in Auto and Specialty segments, as well as continued strong performance in Workers' Compensation

# Commercial Lines Growth Highlights

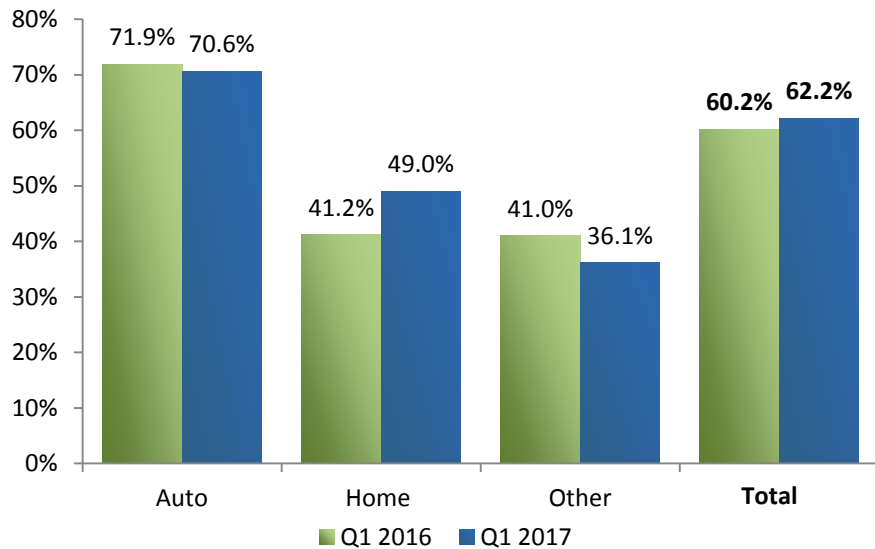


- Net premiums written growth driven by pricing, increased retention, and targeted new business expansion, particularly in small commercial and highest margin specialty businesses
- Retention strengthened 2 points over the prior-year quarter, driven by focus on maximizing retention on attractive business, while improving profitability on lower-performing accounts



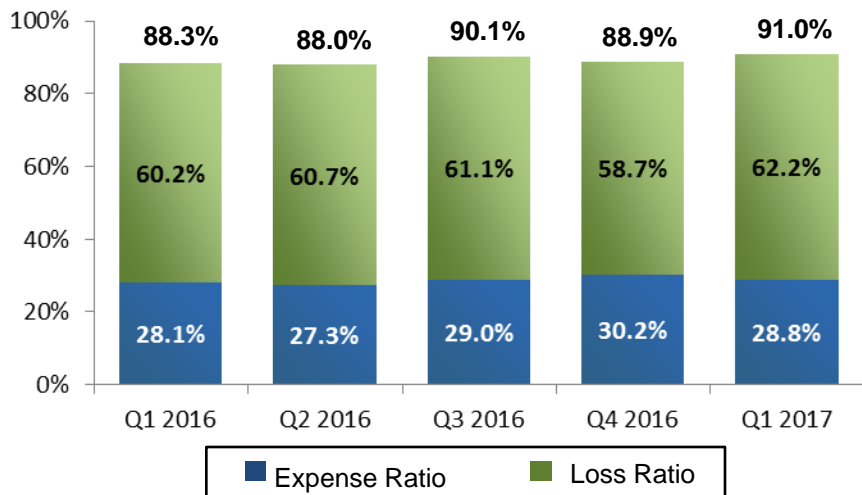
# Personal Lines Underwriting Highlights

**Current Accident Year Loss Ratio, Ex-Cat <sup>(7)</sup>**



- Current accident year loss ratio, excluding catastrophes, increased 2 points compared to the first quarter of 2016, which benefited from very benign weather and large loss experience
- Personal auto continued to see elevated bodily injury and physical damage severity, while frequency remained stable. Rate is keeping pace with loss trend

**Current Accident Year Combined Ratio (CR), Ex-Cat <sup>(6)</sup>**

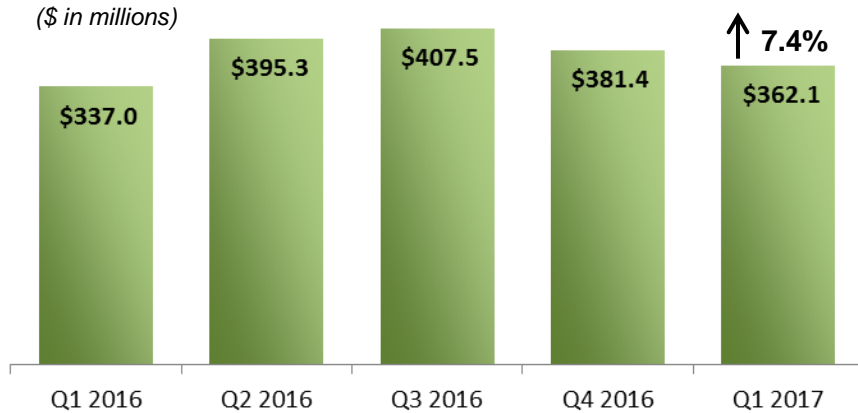


- The increase in the expense ratio was driven by timing of certain incremental investments. The ratio is in-line with full year 2016 results



# Personal Lines Growth Highlights

## Net Premiums Written

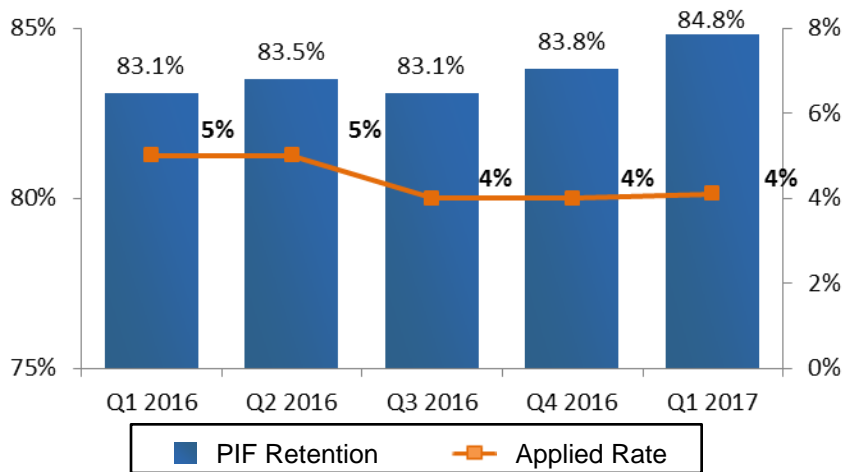


- Strong net premiums written growth driven by stable rate, new business momentum and improved retention

- Strong quality of the book of business:
  - Account business represents 88% of new business writings and 83% of total book
  - Platinum is ~80% of new business premium<sup>(9)</sup> and ~30% of net premiums written

## Retention

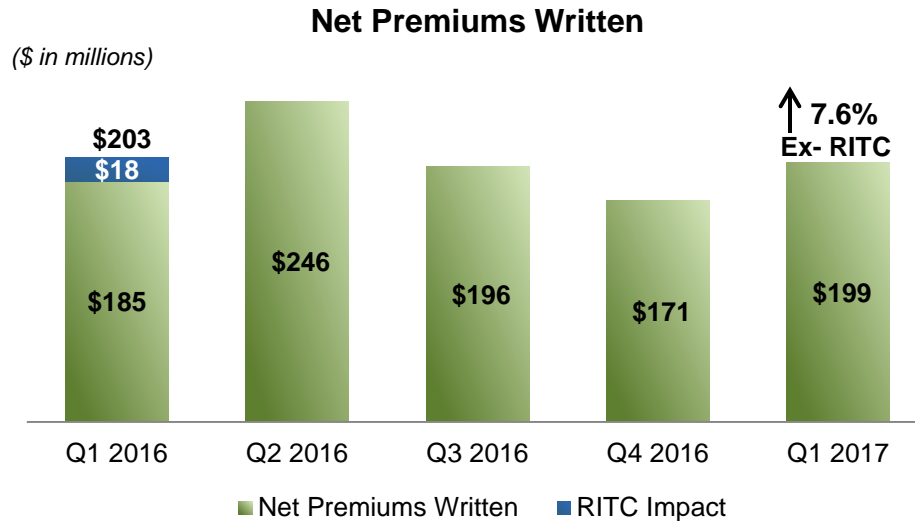
## Applied Rate



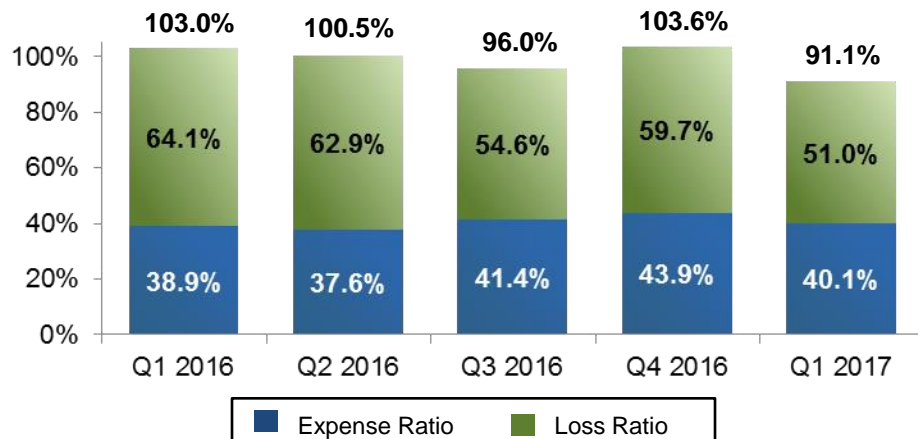
- Retention strengthened 1.7 points over the prior-year quarter, a near all-time high, due in part to the growth generated by our Platinum product

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

# Chaucer Highlights



## Current Accident Year CR, Ex-Cat <sup>(6)</sup>



## Underwriting Ratios, Adjusting for Reinsurance-to-Close ("RITC") <sup>(10)</sup>

	Q1 2016		Q1 2017
	Reported	Ex- RITC	Reported
AY LR, Ex-Cat	64.1%	61.0%	<b>51.0%</b>
Favorable Development	(13.4)%	(14.6)%	<b>(1.1)%</b>
Expense Ratio	38.9%	42.3%	<b>40.1%</b>
Combined Ratio	89.8%	88.9%	<b>93.5%</b>
CR, Ex- Cat	89.6%	88.7%	<b>90.0%</b>
AY CR, Ex-Cat	103.0%	103.3%	<b>91.1%</b>

- Current accident year loss ratio, excluding catastrophes, benefitted from very light large loss activity, compared to elevated large loss experience in the first quarter of 2016
- Favorable development of 1.1% reflects normal level of attritional development, offset by an increase in loss provision for large prior-year claims
- Excluding the impact of the RITC transaction, first quarter expense ratio was 2 points lower than in the prior-year quarter, driven by change in business mix and growth leverage
- Adjusting for the impact of the RITC transaction in the first quarter of 2016, net premiums written increased 7.6%, driven by strategic new business initiatives

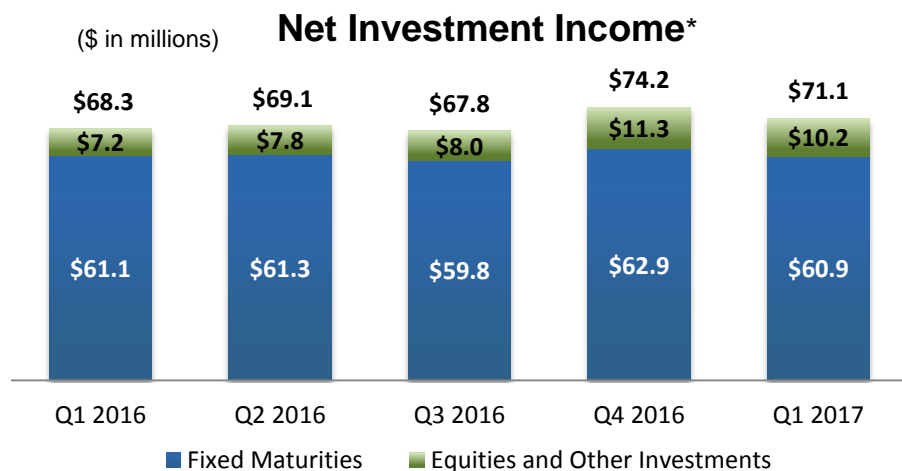
# Foreign Exchange Impact on Chaucer Segment Income

Transactional gains and losses in comprehensive income:

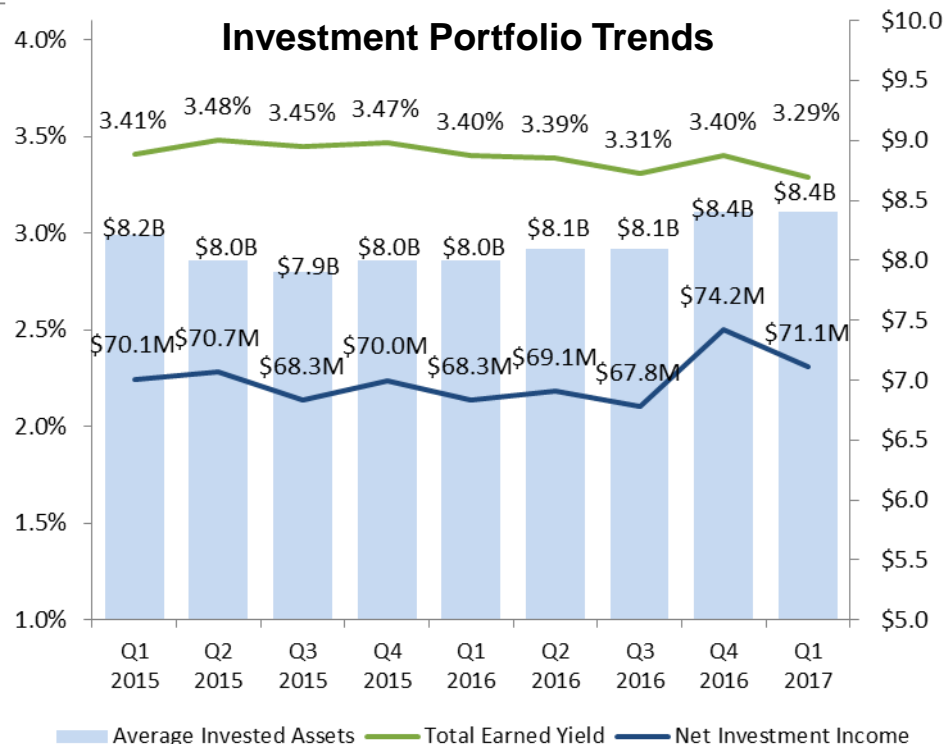
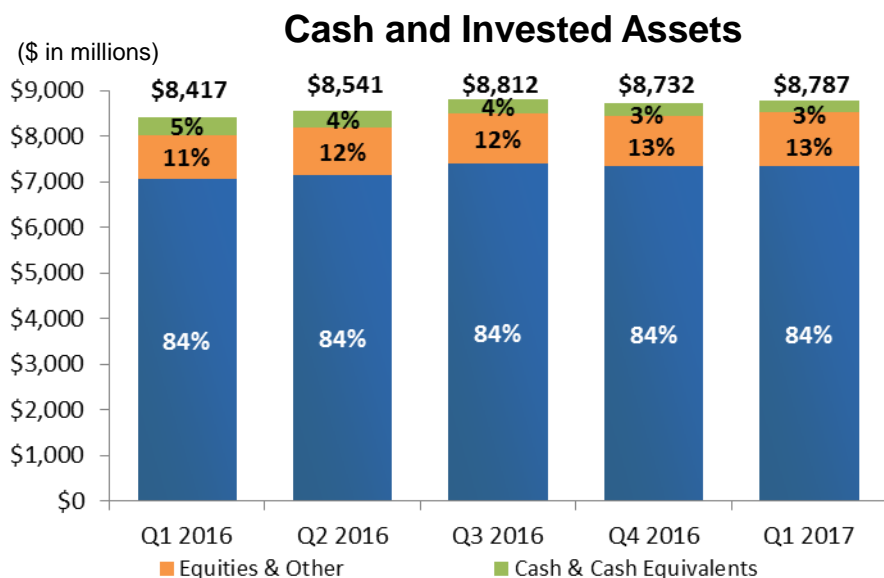
*in millions*

	Three Months Ended March 31	
	2016	2017
Effect of revaluing loss and LAE reserves	\$ (18.1)	\$ (4.0)
Effect of revaluing overseas deposits and cash	5.8	2.3
Effect of revaluing premium receivables	0.6	0.5
Total FX effect on operating income	\$ (11.7)	\$ (1.2)
FX losses reflected in net realized investment gains	(0.5)	-
Total FX effect on income before income taxes	\$ (12.2)	\$ (1.2)
Unrealized FX gains (losses) from investment securities	4.7	(0.2)
Total pre-tax effect of transactional FX losses on comprehensive income	\$ (7.5)	\$ (1.4)
Tax benefit	2.7	0.5
Total effect of transactional FX losses on comprehensive income	\$ (4.8)	\$ (0.9)

# Net Investment Income Trends



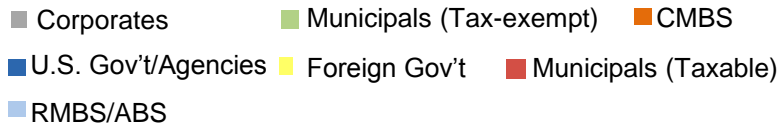
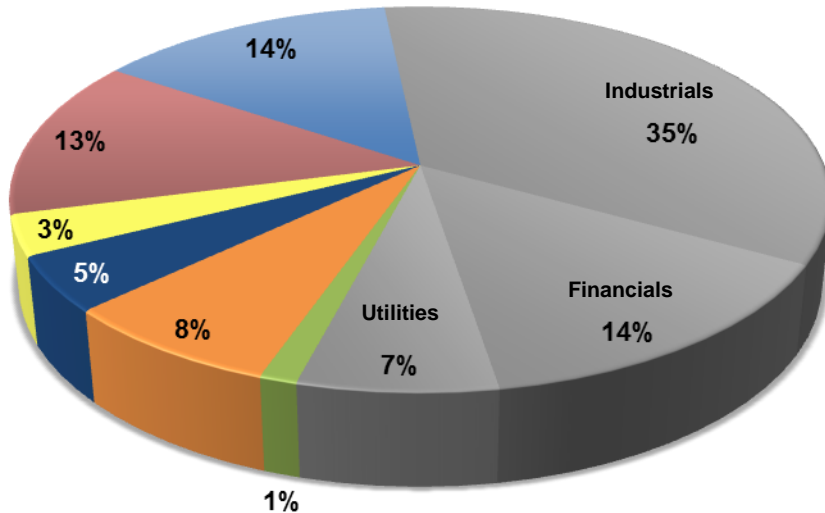
- Net investment income increased 4% over the prior-year quarter, primarily due to reinvestment of higher operating cash flows from underwriting activity, partially offset by lower new money yields



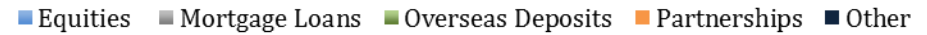
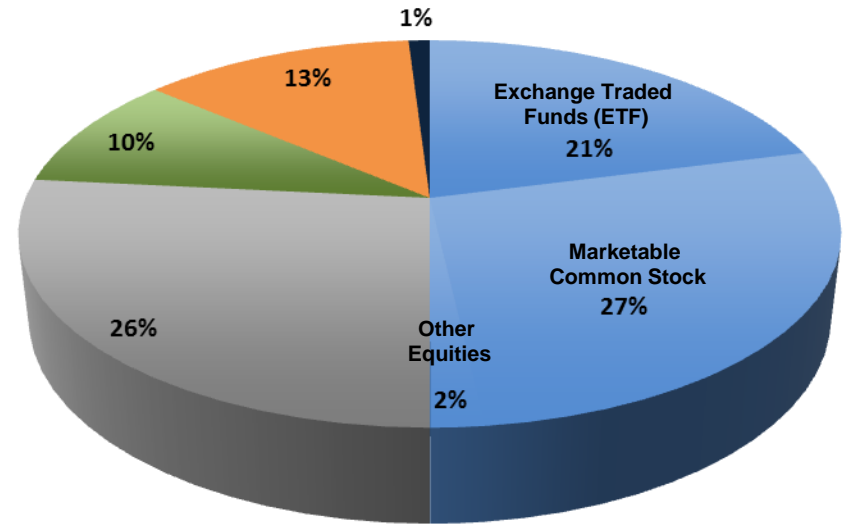
\*Net Investment Income from Equities and Other investments is presented net of investment expenses.

# Investment Portfolio Holdings Breakdown as of March 31, 2017

**Fixed Maturities \$7.3 Billion**



**Equities & Other \$1.2 Billion**



## Fixed Income Characteristics:

- 94% of fixed maturity securities are investment grade
- Weighted average quality A+
- Duration: 4.4 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. Through its international member company, Chaucer, The Hanover also underwrites business at Lloyd's of London in several major insurance and reinsurance classes, including marine, property and energy. For more information, please visit [hanover.com](http://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:

The Hanover Insurance Group, Inc.		Three months ended									
		March 31, 2016		June 30, 2016		September 30, 2016		December 31, 2016		March 31, 2017	
(In millions, except per share data)		\$ Amount	Per Share Diluted	\$ Amount	Per Share Diluted	\$ Amount	Per Share Diluted	\$ Amount	Per Share Diluted	\$ Amount	Per Share Diluted
<b>OPERATING INCOME (LOSS)</b>											
Commercial Lines		\$42.7		\$44.0		\$42.5		(\$93.3)		\$37.4	
Personal Lines		47.1		47.4		41.7		42.2		9.9	
Chaucer		33.7		5.5		48.4		39.2		24.9	
Other		(3.1)		(2.2)		(2.8)		(10.2)		(3.1)	
Total		120.4		94.7		129.8		(22.1)		69.1	
Interest expense		(14.7)		(15.6)		(12.5)		(12.1)		(12.0)	
Operating income (loss) before income taxes		105.7	\$2.43	79.1	\$1.82	117.3	\$2.73	(34.2)	(\$0.81)	57.1	\$1.33
Income tax (expense) benefit on operating income		(34.2)	(0.79)	(25.1)	(0.58)	(38.7)	(0.90)	14.5	0.35	(16.3)	(0.38)
Operating income (loss) after income taxes		71.5	1.64	54.0	1.24	78.6	1.83	(19.7)	(0.46)	40.8	0.95
Gain on disposal of U.K motor business, net of tax		-	-	0.3	0.01	-	-	-	-	-	-
Other non-operating items:											
Net realized investment gains (losses)		1.5	0.04	(0.7)	(0.02)	4.2	0.10	3.6	0.08	1.9	0.04
Loss from repurchase of debt		-	-	(86.1)	(1.98)	-	-	(2.2)	(0.05)	-	-
Other		0.7	0.01	0.2	-	2.5	0.06	0.2	-	-	-
Income tax benefit on other non-operating items		4.4	0.10	34.2	0.79	3.0	0.07	5.9	0.14	2.5	0.06
Income (loss) from continuing operations, net of taxes		78.1	1.79	1.9	0.04	88.3	2.06	(12.2)	(0.29)	45.2	1.05
Discontinued operations, net of taxes		0.1	0.01	0.1	0.01	0.1	-	(1.3)	(0.03)	-	-
Net income (loss)		\$78.2	\$1.80	\$2.0	\$0.05	\$88.4	\$2.06	(\$13.5)	(\$0.32)	\$45.2	\$1.05
Weighted average shares outstanding*			43.5		43.4		43.0		42.5		42.9

\*Weighted average shares outstanding and per diluted share amounts in the fourth quarter of 2016 exclude common stock equivalents, as the impact of these instruments was anti-dilutive.

# 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 loss reserve development) is the most directly comparable GAAP measure. The following is a reconciliation of Combined ratio, excluding catastrophes:

	Three months ended March 31, 2017				
	Commercial Lines	Personal Lines	Total Domestic	Chaucer	Consolidated
Total Combined Ratio	100.2%	101.6%	100.9%	93.5%	99.5%
Less: Catastrophe ratio	<u>6.2%</u>	<u>10.6%</u>	<u>7.9%</u>	<u>3.5%</u>	<u>7.1%</u>
Combined ratio, excluding catastrophe losses	<u>94.0%</u>	<u>91.0%</u>	<u>93.0%</u>	<u>90.0%</u>	<u>92.4%</u>

	Three months ended March 31, 2016				
	Commercial Lines	Personal Lines	Total Domestic	Chaucer	Consolidated
Total Combined Ratio	99.2%	91.4%	96.2%	89.8%	95.0%
Less: Catastrophe ratio	<u>3.3%</u>	<u>3.3%</u>	<u>3.3%</u>	<u>0.2%</u>	<u>2.7%</u>
Combined ratio, excluding catastrophe losses	<u>95.9%</u>	<u>88.1%</u>	<u>92.9%</u>	<u>89.6%</u>	<u>92.3%</u>

(3) The following is a reconciliation of book value per share, excluding net unrealized gains on investments:

	Period ended				
	March 31 2016	June 30 2016	September 30 2016	December 31 2016	March 31 2017
Book value per share	\$69.30	\$70.58	\$72.08	\$67.40	\$68.44
Less: Net unrealized gains on investments	<u>5.78</u>	<u>7.59</u>	<u>7.60</u>	<u>4.39</u>	<u>4.82</u>
Book value per share, excluding net unrealized gains on investments	<u>\$63.52</u>	<u>\$62.99</u>	<u>\$64.48</u>	<u>\$63.01</u>	<u>\$63.62</u>



# End Notes Continued

- (4) Total shareholders' equity, excluding net unrealized appreciation (depreciation) on 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 (ROE), we use the average of beginning and ending shareholders' equity, excluding net unrealized appreciation (depreciation) on investments, net of tax, for the period as calculated in the second table below:

(\$ In millions)	March 31	June 30	Period ended		March 31
	2016	2016	September 30 2016	December 31 2016	2017
Total shareholders' equity	\$2,957.0	\$3,009.7	\$3,045.7	\$2,857.5	\$2,913.5
Less: Net unrealized appreciation (depreciation) on investments, net of tax	<u>246.4</u>	<u>323.5</u>	<u>321.4</u>	<u>186.0</u>	<u>205.0</u>
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on investments, net of tax	<u>\$2,710.6</u>	<u>\$2,686.2</u>	<u>\$2,724.3</u>	<u>\$2,671.5</u>	<u>\$2,708.5</u>

(\$ In millions)	March 31	June 30	Period ended		March 31
	2016	2016	September 30 2016	December 31 2016	2017
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on investments, net of tax:					
Balance at the start of the period	\$2,694.5	\$2,710.6	\$2,686.2	\$2,724.3	\$2,671.5
Balance at the end of the period	<u>2,710.6</u>	<u>2,686.2</u>	<u>2,724.3</u>	<u>2,671.5</u>	<u>2,708.5</u>
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on investments, net of tax	<u>\$2,702.6</u>	<u>\$2,698.4</u>	<u>\$2,705.3</u>	<u>\$2,697.9</u>	<u>\$2,690.0</u>

- (5) Operating Return on Average Equity ("Operating ROE" or at times "ROE") is a non-GAAP financial measure. Operating ROE is calculated by dividing operating income after-tax annualized, as defined on end note (1), by average shareholders' equity, excluding unrealized appreciation (depreciation) on investments, net of tax, for the stated period, as defined on end note (4).

# End Notes Continued

(6) 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 loss reserve development) is the most directly comparable GAAP measure. The following is a reconciliation of Current accident year combined ratio, excluding catastrophe losses:

	Three months ended				
	March 31, 2017				
	Commercial Lines	Personal Lines	Total Domestic	Chaucer	Consolidated
Total Combined Ratio	100.2%	101.6%	100.9%	93.5%	99.5%
Less:					
Prior-year reserve development ratio	-	-	-	(1.1)%	(0.2)%
Catastrophe ratio	6.2%	10.6%	7.9%	3.5%	7.1%
Current accident year combined ratio, excluding catastrophe losses	<u>94.0%</u>	<u>91.0%</u>	<u>93.0%</u>	<u>91.1%</u>	<u>92.6%</u>
			December 31, 2016		
Total Combined Ratio	122.8%	93.4%	112.2%	87.3%	107.7%
Less:					
Prior-year reserve development ratio	27.6%	1.4%	18.1%	(14.7)%	12.3%
Catastrophe ratio	1.3%	3.1%	2.0%	(1.6)%	1.4%
Current accident year combined ratio, excluding catastrophe losses	<u>93.9%</u>	<u>88.9%</u>	<u>92.1%</u>	<u>103.6%</u>	<u>94.0%</u>
			September 30, 2016		
Total Combined Ratio	99.2%	93.1%	96.9%	81.3%	94.2%
Less:					
Prior-year reserve development ratio	3.3%	(0.3)%	1.9%	(13.2)%	(0.7)%
Catastrophe ratio	3.0%	3.3%	3.1%	(1.5)%	2.3%
Current accident year combined ratio, excluding catastrophe losses	<u>92.9%</u>	<u>90.1%</u>	<u>91.9%</u>	<u>96.0%</u>	<u>92.6%</u>
			June 30, 2016		
Total Combined Ratio	98.9%	91.3%	96.0%	103.2%	97.3%
Less:					
Prior-year reserve development ratio	3.8%	0.2%	2.5%	(4.0)%	1.3%
Catastrophe ratio	4.5%	3.1%	3.9%	6.7%	4.5%
Current accident year combined ratio, excluding catastrophe losses	<u>90.6%</u>	<u>88.0%</u>	<u>89.6%</u>	<u>100.5%</u>	<u>91.5%</u>
			March 31, 2016		
Total Combined Ratio	99.2%	91.4%	96.2%	89.8%	95.0%
Less:					
Prior-year reserve development ratio	3.5%	(0.2)%	2.1%	(13.4)%	(0.9)%
Catastrophe ratio	3.3%	3.3%	3.3%	0.2%	2.7%
Current accident year combined ratio, excluding catastrophe losses	<u>92.4%</u>	<u>88.3%</u>	<u>90.8%</u>	<u>103.0%</u>	<u>93.2%</u>

# End Notes Continued

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

Consolidated	Three months ended March 31, 2017				Three months ended March 31, 2016			
	Commercial Lines	Personal Lines	Chaucer	Consolidated	Commercial Lines	Personal Lines	Chaucer	Consolidated
Total Loss and LAE Ratio	63.8%	72.8%	53.4%	64.8%	63.0%	63.3%	50.9%	60.8%
Less:								
Prior-year reserve development ratio	-	-	(1.1)%	(0.2)%	3.5%	(0.2)%	(13.4)%	(0.9)%
Catastrophe ratio	6.2%	10.6%	3.5%	7.1%	3.3%	3.3%	0.2%	2.7%
Current accident year loss ratio, excluding catastrophe losses	<u>57.6%</u>	<u>62.2%</u>	<u>51.0%</u>	<u>57.9%</u>	<u>56.2%</u>	<u>60.2%</u>	<u>64.1%</u>	<u>59.0%</u>

Commercial Lines	Three months ended March 31, 2017					Three months ended March 31, 2016				
	Multiple Peril	Auto	Workers' Comp	Other	Total	Multiple Peril	Auto	Workers' Comp	Other	Total
Total Loss and LAE Ratio	68.8%	70.1%	63.3%	57.9%	63.8%	60.5%	75.2%	59.8%	62.0%	63.0%
Less:										
Prior-year reserve development ratio	-	-	-	-	-	4.0%	3.9%	(6.6)%	5.8%	3.5%
Catastrophe ratio	11.5%	0.6%	-	5.5%	6.2%	6.4%	0.7%	-	2.7%	3.3%
Current accident year loss ratio, excluding catastrophe losses	<u>57.3%</u>	<u>69.5%</u>	<u>63.3%</u>	<u>52.4%</u>	<u>57.6%</u>	<u>50.1%</u>	<u>70.6%</u>	<u>66.4%</u>	<u>53.5%</u>	<u>56.2%</u>

Personal Lines	Three months ended March 31, 2017				Three months ended March 31, 2016			
	Auto	Home	Other	Total	Auto	Home	Other	Total
Total Loss and LAE Ratio	71.2%	78.0%	38.3%	72.8%	71.8%	49.9%	43.2%	63.3%
Less:								
Prior-year reserve development ratio	-	-	1.1%	-	(0.4)%	-	1.1%	(0.2)%
Catastrophe ratio	0.6%	29.0%	1.1%	10.6%	0.3%	8.7%	1.1%	3.3%
Current accident year loss ratio, excluding catastrophe losses	<u>70.6%</u>	<u>49.0%</u>	<u>36.1%</u>	<u>62.2%</u>	<u>71.9%</u>	<u>41.2%</u>	<u>41.0%</u>	<u>60.2%</u>

# End Notes Continued

- (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 page 7 of the First Quarter 2017 Financial Supplement.

(\$ in millions)	Three months ended March 31, 2017			Three months ended March 31, 2016		
	Core Commercial	Other Commercial	Total	Core Commercial	Other Commercial	Total
Net Premiums Written	\$375.2	\$250.1	\$625.3	\$359.3	\$245.0	\$604.3
Net Premiums Earned	\$348.0	\$240.3	\$588.3	\$330.8	\$240.6	\$571.4

- (9) Excludes Massachusetts.
- (10) Reinsurance-to-close ("RITC") transaction represents the increase in Chaucer's retained share of its 2013 year of account of 98% that was closed and reinsured into its 2014 year of account, which was increased to a 100% share. In the first quarter of 2016, Chaucer recorded \$17.7 million of additional assumed premium and an equal amount of loss and LAE reserves related to the RITC transaction that had no meaningful effect on the combined ratio and operating earnings. However, the transaction increased the loss and loss adjustment expense ratio by approximately 4 points and reduced the expense ratio by a similar amount.