



# The Hanover Insurance Group, Inc.

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Fourth Quarter 2018 Results  
January 31, 2019

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



# Forward-Looking Statements

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## 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 the related conference call regarding our ability to deliver on long-term goals and objectives, specifically continuing to leverage the strengths of the agency distribution channel by providing partners with more capabilities and using proprietary analytics; further expansion of specialty capabilities and business specialization through selective appetite expansion and product build-outs; driving innovation across the firm to deliver new solutions, enhance acquisition opportunities, enhance data and analytics and drive process efficiencies; ability to generate top-quartile industry returns; the likelihood the sale of the Irish and Australian Chaucer entities to China Re will be consummated by the end of the first quarter of 2019; expected benefits of the sale, including reduced catastrophe exposure, earnings volatility and capital flexibility; receipt of the up to \$45 million contingent consideration; success of efforts to manage the expense ratio while funding certain business initiatives; ability to generate strong growth, attractive margins, and return on equity; strength of the balance sheet and capital base; ability to grow in lines with adequate pricing and target profitability; the level of comfort and strength of reserves; ability to deliver above-target profit margins; ability to grow Commercial Lines selectively while maintaining stable underwriting profits; 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 and pricing pressure; future trends of commercial multi-peril liability claims; frequency and bodily injury severity trends in personal and commercial auto; commercial auto performance, including price and underwriting execution to offset increases in liability claims; ability to increase rates in sectors with higher bodily injury severity; expected effective tax rate of approximately 21% in 2019; use of capital; increased investment income from higher operating cash flows and interest rates; volatility in unrealized gains and losses; ability to achieve additional rate increases in 2019; further rate increases in Commercial auto; and the ability to achieve components or the sum of the full year 2019 guidance, including net premiums written growth to be in the mid-single digits, net investment income growth to be in the mid-single-digits, improvement in the expense ratio; combined ratio, excluding catastrophe losses, to be 91 to 92 percent, among others; 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 January 30, 2019 and the Annual Report on Form 10-K 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 December 31, 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 and federal legislation or regulation, adverse regulatory or litigation actions and financial ratings actions.



# Non-GAAP Financial Measures

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## Non-GAAP Financial Measures

The discussion in this presentation and the associated conference call of The Hanover's financial performance includes reference to certain financial measures that are not derived from generally accepted accounting principles, or GAAP, such as operating income, operating income before taxes (and interest expense), combined ratios and loss ratios, excluding catastrophes and/or prior-year development and accident year loss ratios, excluding catastrophes, and book value per share, excluding the impact of the \$4.75 special dividend declared on December 30, 2018. A reconciliation of non-GAAP measures to the closest GAAP measure is included in the end notes to this presentation, the press release dated January 30, 2019 or the financial supplement, which are posted on our website. The reconciliation of current accident year loss ratio and combined ratio excluding catastrophes to the most directly comparable GAAP measure, total loss ratio and combined ratio, is found in the end notes on the final pages of this document. Operating income (operating income per diluted share) is a non-GAAP measure. It is defined as net income excluding the after-tax impact of net realized and unrealized investment gains and losses, as well as results from discontinued operations divided by, in the case of per share reported figures, the average number of diluted shares of common stock. 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 maturity investments, divided by the number of common shares outstanding. In the fourth quarter of 2018, in order to illustrate the impact of the special dividend which was declared on December 30, 2018, but not paid until January 25, 2019, book value growth excluding the impact of the special dividend, a non-GAAP metric, was presented. Operating return on equity ("ROE") and adjusted operating ROE are non-GAAP measures. See end note (6) for a detailed explanation of how these measures are calculated. Operating ROE is based on non-GAAP operating income, and adjusted operating ROE is a measure of operating income as a return on only that portion of shareholders' equity attributable to the continuing business. For measurement periods prior to the close of the Chaucer transaction, which occurred on December 28, 2018, "equity attributable to Chaucer", which was reported as held for sale, is excluded. For measurement periods post-closing, "the un-deployed equity", is excluded. This eliminates the dilutive impact of any excess capital that would have been included in "equity attributable to Chaucer" and "the un-deployed equity" for the corresponding 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.



# Fourth Quarter 2018

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**Net Income and Operating Income<sup>(1)</sup> of \$2.88 and \$1.51 per Diluted Share, Respectively;  
Full Year Net Income and Operating Income of \$9.09 and \$6.79 per Diluted Share, Respectively;  
Full Year Combined Ratio of 96.1%; Combined Ratio, Excluding Catastrophes<sup>(2)</sup>, of 90.9%**

- Fourth quarter combined ratio of 97.4%, including 4.6 points of catastrophe losses
- Net premiums written increased 6.5% for the fourth quarter and 6.7% for the year, with growth in more profitable Personal Lines, Specialty, and Small Commercial businesses
- Continued price increases in both Commercial and Personal Lines, with an increase of 6.1% in Core Commercial Lines in the fourth quarter
- Net investment income of \$69.4 million in the fourth quarter, up 10.9% from the prior-year quarter, and \$267.4 million for the full year, up 9.6% from 2017, driven by higher cash flows from operations and higher partnership income
- Book value per share of \$69.81, down 0.8% from September 30, 2018; book value per share up 5.9%, adding back the impact of the \$4.75 special dividend declared on December 30, 2018<sup>(3)</sup>
- Following the close of the Chaucer sale on December 28, 2018, the Board of Directors approved a special dividend of \$4.75 per common share and an Accelerated Share Repurchase (“ASR”) agreement for \$250 million; the company retired 1.8 million shares as of the ASR settlement date on January 2, 2019
- Repurchased approximately 117,400 shares of common stock for \$13.5 million during the fourth quarter and approximately 497,200 shares for \$57.7 million during the full year 2018
- On December 7, 2018, the Board of Directors approved an increase to the quarterly common dividend of 11%, to \$0.60 per common share

(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.



# Consolidated Financial Results Snapshot

| (\$ in millions, <i>except per share amounts</i> )  | Three months ended |               | Year ended    |               |
|---|--------------------|---------------|---------------|---------------|
|   | December 2017      | December 2018 | December 2017 | December 2018 |
| <b>Net income per share</b>   | \$1.20             | \$2.88        | \$4.33        | \$9.09        |
| <i>Operating income after taxes per share</i>   | \$1.53             | \$1.51        | \$4.48        | \$6.79        |
| <b>Book value per share</b>   | \$70.59            | \$69.81       | \$70.59       | \$69.81       |
| Shareholders' equity  | \$2,997.7          | \$2,954.7     | \$2,997.7     | \$2,954.7     |
| Debt  | \$787              | \$778         | \$787         | \$778         |
| Total capital   | \$3,785            | \$3,733       | \$3,785       | \$3,733       |
| Debt/Total Capital  | 20.8%              | 20.8%         | 20.8%         | 20.8%         |
| Total assets  | \$15,470           | \$12,400      | \$15,470      | \$12,400      |
| Adjusted equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and equity attributable to Chaucer <sup>(4)</sup>         | \$2,177.7          | \$2,325.3     | \$2,177.7     | \$2,325.3     |
| Average adjusted equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and equity attributable to Chaucer <sup>(4)</sup> | \$2,153.3          | \$2,383.6     | \$2,118.1     | \$2,323.4     |
| Operating income after taxes  | \$65.8             | \$64.9        | \$192.6       | \$292.1       |
| Net income return on average equity   | 6.9%               | 16.7%         | 6.3%          | 13.2%         |
| Operating return on average equity <sup>(5)</sup>   | 9.5%               | 8.6%          | 7.0%          | 9.9%          |
| <b>Adjusted operating return on average equity<sup>(5)</sup></b>  | 12.2%              | 10.9%         | 9.1%          | 12.6%         |
| Operating income before interest and taxes <sup>(1)</sup>   | \$109.0            | \$93.1        | \$327.3       | \$406.5       |

In connection with notes (4) and (5), please see a detailed explanation of the calculation used for adjusted equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and equity attributable to Chaucer, operating return on average equity and adjusted operating return on average equity on the final pages of this document.



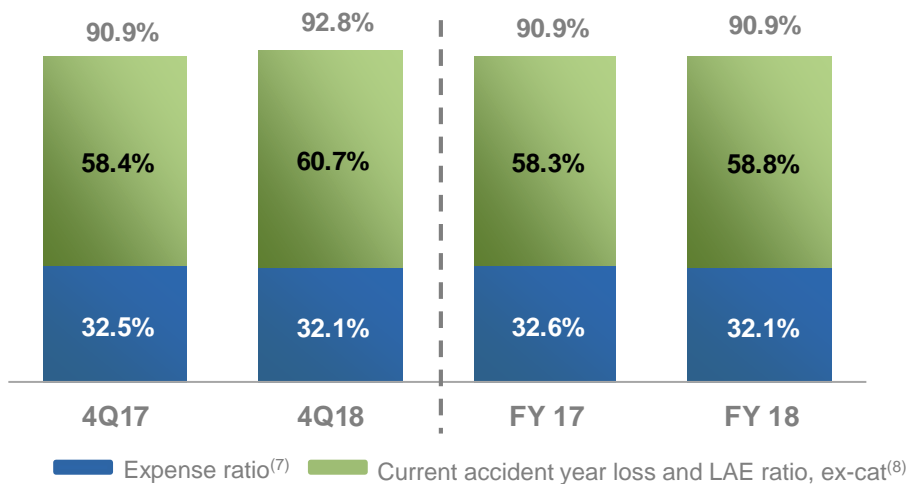
# Strong Growth and Solid Operating Results

(\$ in millions)

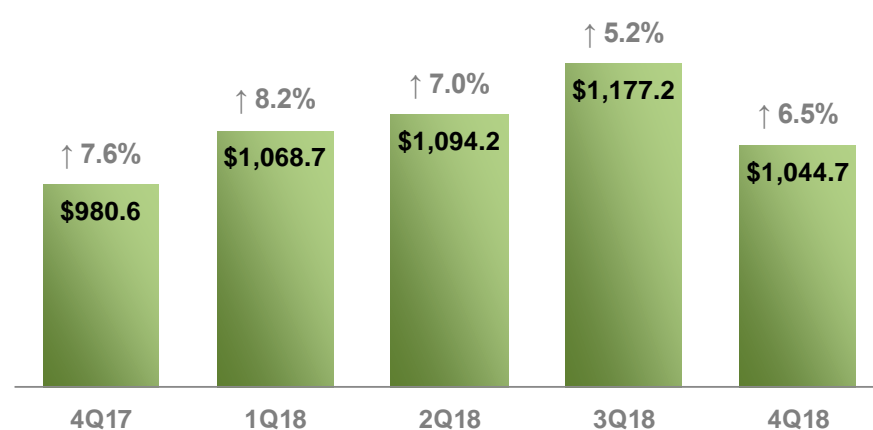
|   | Three months ended<br>December 31 |           | Year ended<br>December 31 |           |
|---|-----------------------------------|-----------|---------------------------|-----------|
|   | 2017                              | 2018      | 2017                      | 2018      |
| Net premiums written  | \$980.6                           | \$1,044.7 | \$4,109.1                 | \$4,384.8 |
| Growth  | 7.6%                              | 6.5%      | 5.8%                      | 6.7%      |
| Net premiums earned   | \$1,023.4                         | \$1,082.0 | \$3,980.4                 | \$4,254.4 |
| Combined ratio  | 95.0%                             | 97.4%     | 97.3%                     | 96.1%     |
| <b>Combined ratio, ex-cat</b>                                     | 90.9%                             | 92.8%     | 90.9%                     | 90.9%     |
| <b>Current accident year combined ratio, ex-cat<sup>(6)</sup></b> | 90.9%                             | 92.8%     | 90.9%                     | 90.9%     |

- Full year combined ratio of 96.1%, and 90.9% ex-cats, in line with prior year:
  - 0.5 points improvement in the expense ratio, offset by an increase in the ex-cat current accident year loss and LAE ratio
  - Catastrophe loss ratio of 5.2%
- Fourth quarter combined ratio of 97.4%, and 92.8% ex-cats, driven by property variability and adjustments to full year loss selections
- Fourth quarter catastrophe losses of \$50 million, or 4.6%, driven primarily by California wildfires and Hurricane Michael – in line with or better than our market share would indicate
- Full year top-line growth of 6.7% driven by strong growth in profitable segments including Personal Lines, Specialty lines, and Small Commercial

Current Accident Year Combined Ratio, Ex-Cat



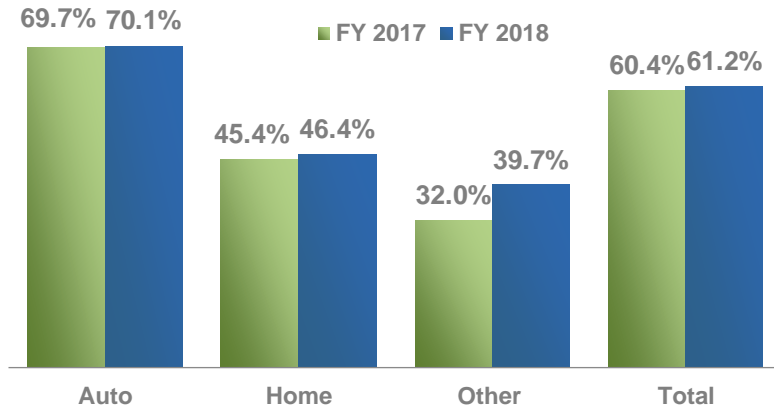
(\$ in millions) Net Premiums Written and Growth



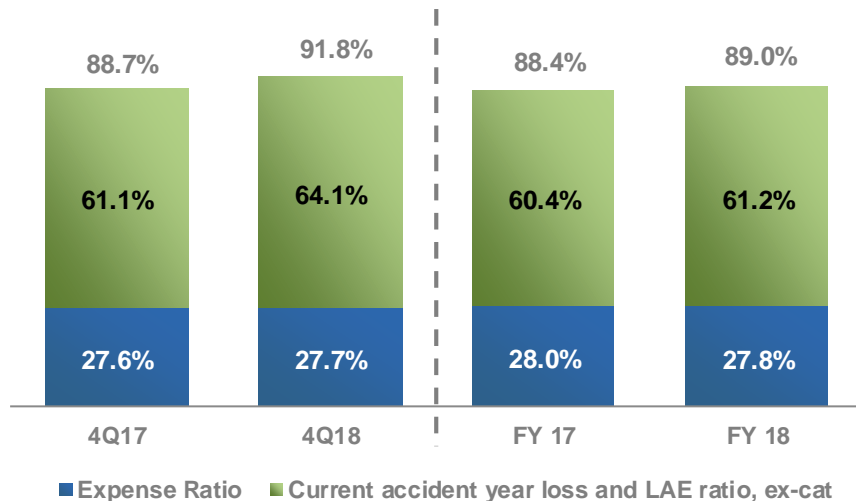


# Personal Lines Underwriting Highlights

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



## Current Accident Year Combined Ratio, Ex-Cat



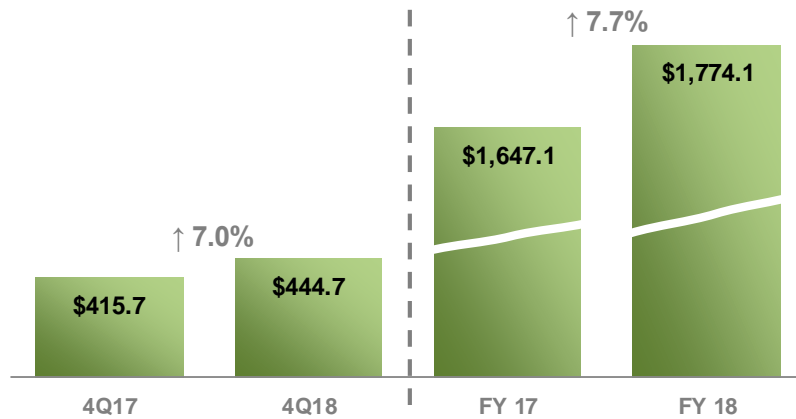
- Combined ratio of 95.5% increased 1.4 points in 2018, primarily due to unfavorable prior-year development – line continues to perform above target returns
- Full year current accident year combined ratio, excluding catastrophes, increased 0.6 points, driven by non-cat weather and large loss variability in homeowners, and a slight increase in current accident year loss selections in auto bodily injury
- Combined ratio of 96.0% increased 2 points in the fourth quarter:
  - Unfavorable prior-year reserve development in the fourth quarter of \$15.4 million, or 3.5 points, driven by:
    - Homeowners increase due to adjustments on a small number of large claims, including umbrella endorsements to homeowners policies, primarily from the 2017 accident year
    - Auto increase due to higher estimates for bodily injury severity in recent accident years attributable to increased attorney involvement and medical cost inflation
  - Current accident year loss and LAE ratio, ex-cats, increased to 64.1% in the quarter, driven by:
    - Homeowners increases due to non-catastrophe weather losses, primarily as a result of frequent rainfalls in the Northeast and Midwest
    - Auto increases due to bodily injury severity, in response to pressure in prior accident years – includes adjustments to prior quarters; full year auto accident year loss and LAE ratio increased slightly to 70.1% from 69.7%



# Personal Lines Growth Highlights

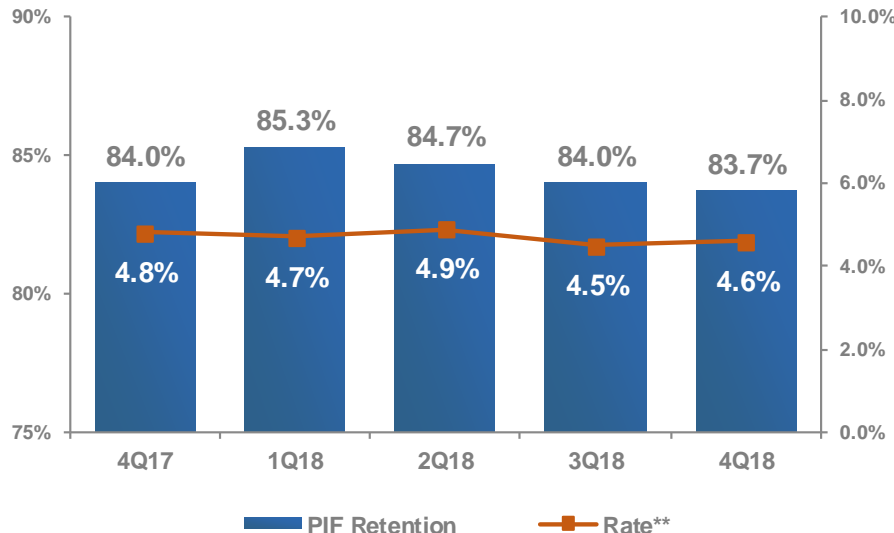
(\$ in millions)

## Net Premiums Written and Growth



- Net premiums written growth of 7.7% in 2018 and 7.0% in the quarter driven by rate increases and stable retention:
  - Solid rate increases of 4.6% in the quarter
  - Stable retention of 83.7% in the quarter, in-line with expectations
  - Policies in force grew 3.5% during 2018, primarily from Hanover Platinum product

## Retention\*



- Strong quality of growth:
  - Account business is 84% of total book
  - Hanover Platinum product now makes up 44% of overall Personal Lines business
  - Diversifying book through strong growth in targeted geographies

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

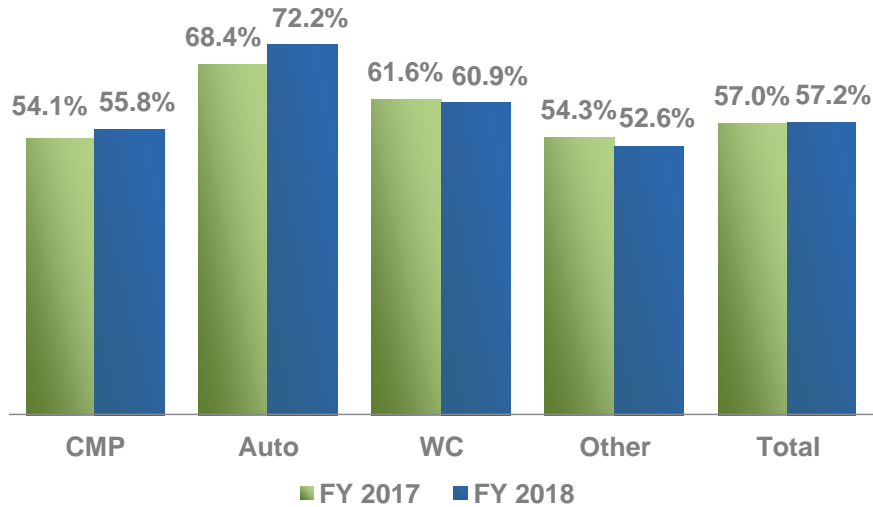
\*\*See the definitions of "rate" for Personal Lines on page 82 of the 2017 Annual Report on Form 10-K.





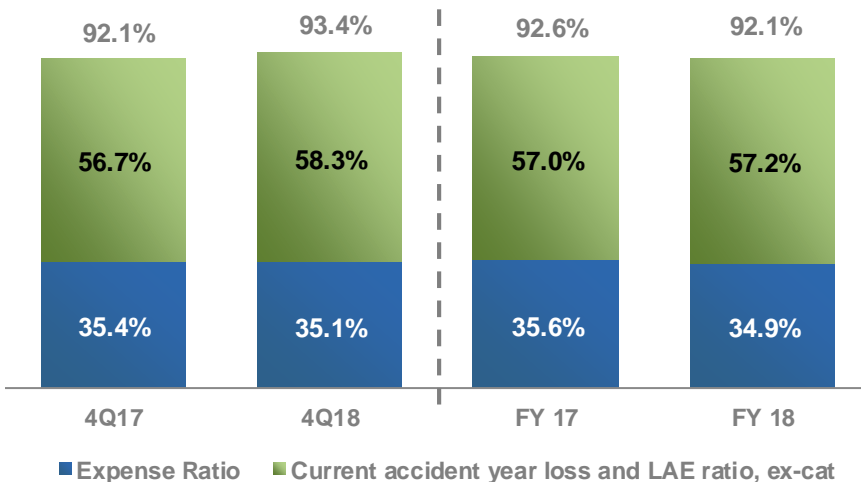
# Commercial Lines Underwriting Highlights

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



- Combined ratio of 96.4% improved 2.9 points in 2018, driven by higher level of favorable prior-year reserve development, improved expense ratio and lower catastrophe losses
- Full year current accident year combined ratio, excluding catastrophes improved by 0.5 points to 92.1% driven by:
  - Lower expense ratio from fixed cost leverage and earning-in the benefits of the 2017 cost initiative
  - Stable overall current accident year loss and LAE ratio, excluding catastrophe losses
- Combined ratio of 98.2% increased 2.8 points in the fourth quarter:

## Current Accident Year Combined Ratio, Ex-Cat

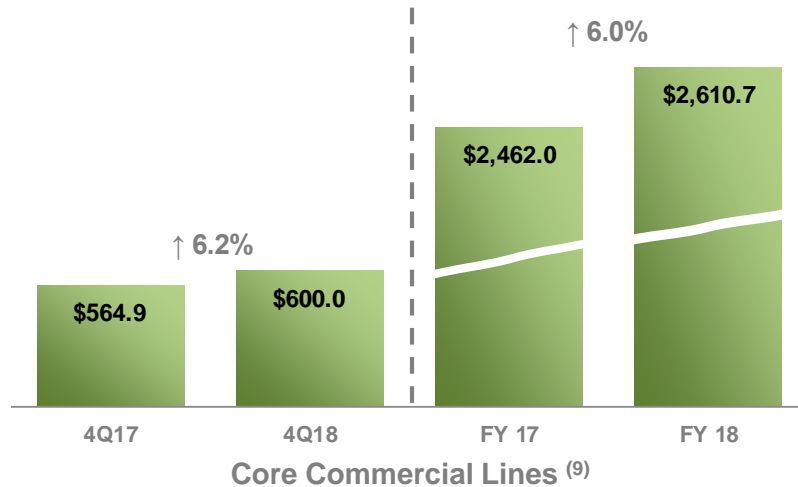


- Favorable prior-year reserve development in the fourth quarter of \$16.0 million, or 2.5 points, driven by:
  - Releases in Workers' Compensation and General and Professional Liability lines
  - Partially offset by Commercial Auto reserve additions as a result of increased attorney involvement and medical cost inflation
- Current accident year loss and LAE ratio, excluding catastrophes, increased to 58.3%, driven by:
  - Increased accident year pick in auto in response to increased estimates for bodily injury severity for prior years
  - Large property losses in commercial multiple peril line

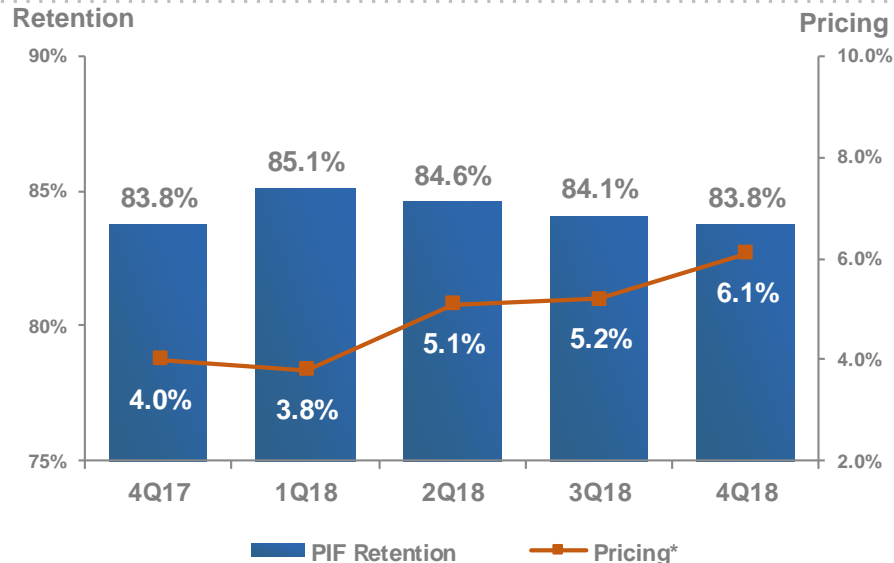


# Commercial Lines Growth Highlights

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



- Net premiums written growth of 6.0% in the year and 6.2% in the quarter, driven by:
  - Core Commercial pricing increase of 6.1%, substantial increase from the third quarter of 2018 led by Commercial Auto; Workers' Compensation pricing remains competitive
  - Stable retention of 83.8% in the quarter, which remains in line with targets
  - Growth coming from most profitable segments:
    - Specialty growth in Professional, Marine and Specialty Property lines
    - Small Commercial
    - Middle Market growth in technology and other profitable industry niches, partially offset by continuing profit actions



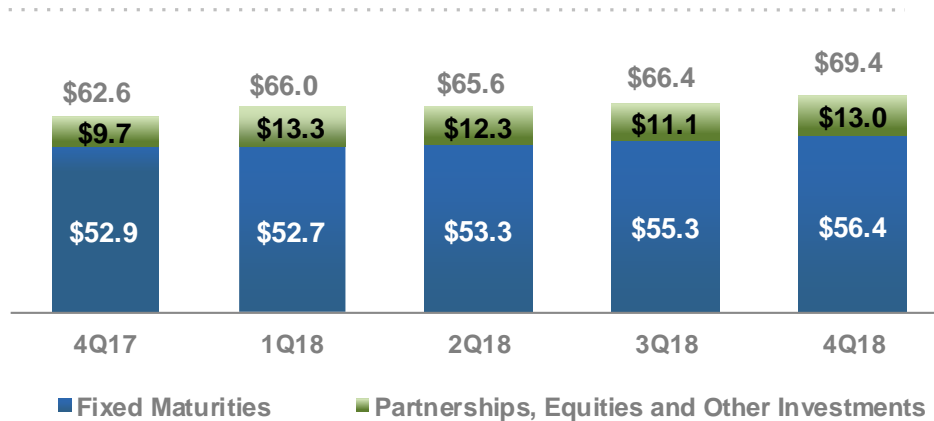
\*See the definitions of "pricing" for Commercial Lines on page 82 of the 2017 Annual Report on Form 10-K.



# Net Investment Income Trends

(\$ in millions)

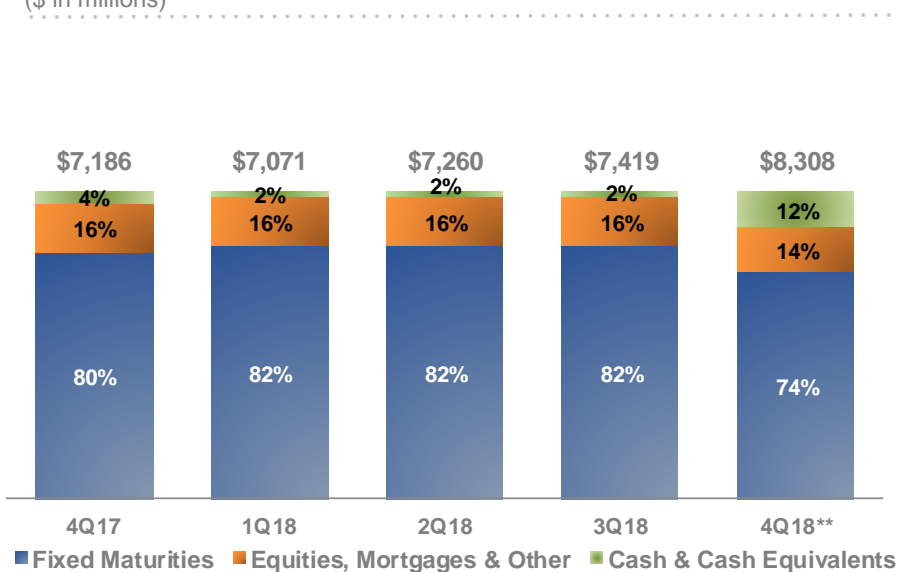
## Net Investment Income\*



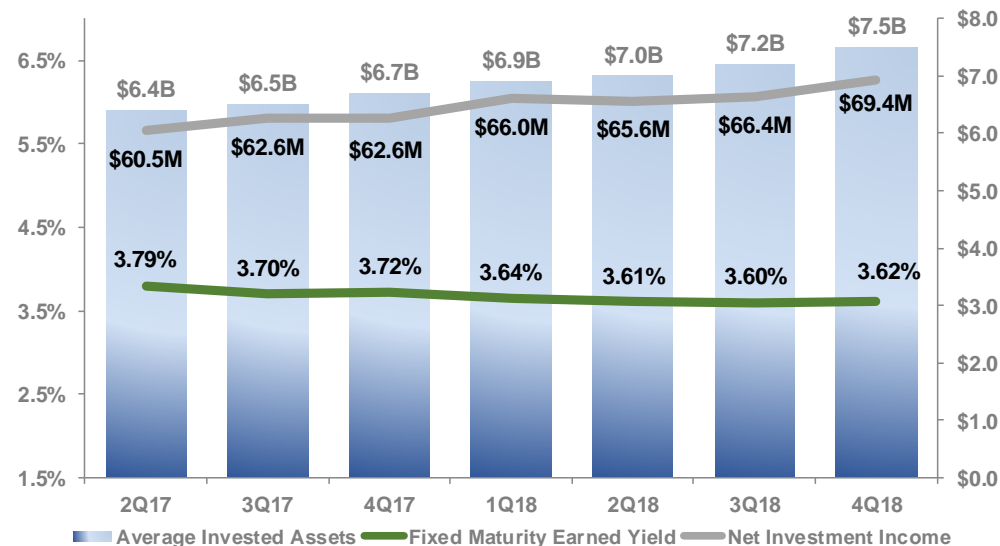
- Net investment income increased 10.9% over the prior-year quarter, and 9.6% for the full year, primarily due to:
  - Reinvestment of higher operating cash flows from underwriting activity
  - Higher partnership income
- Net investment income from fixed maturities grew 5.8% in the year and 6.6% over the prior-year quarter

(\$ in millions)

## Cash and Invested Assets



## Investment Portfolio Trends



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

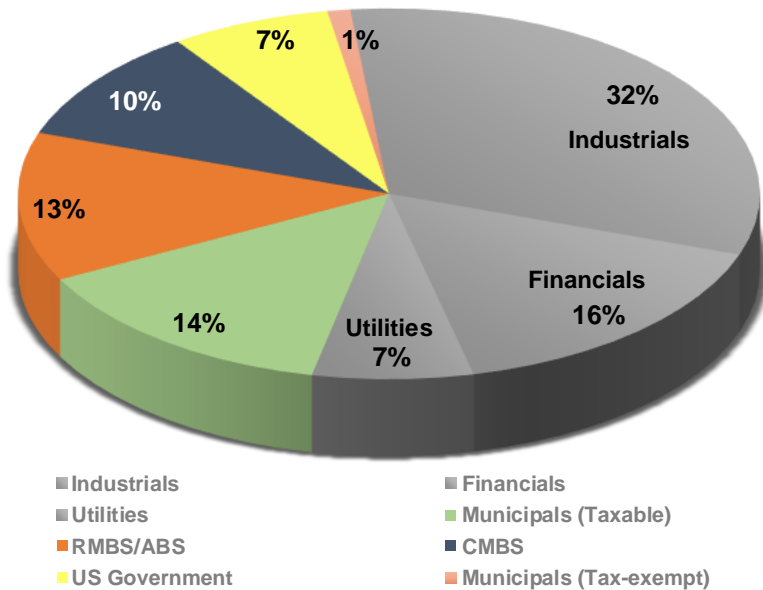
\*\*Includes \$779 million in initial cash consideration received in connection with the sale of Chaucer



# Investment Portfolio Holdings – Total Invested Assets \$8.3B

## December 31, 2018

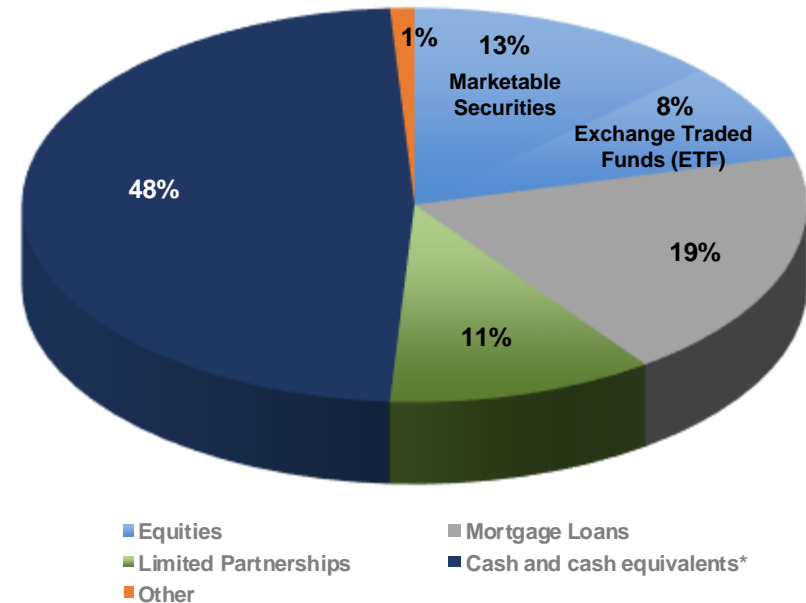
### Fixed Maturities \$6.2 Billion



### Fixed Income Characteristics:

- 95% of fixed maturity securities are investment grade
- Weighted average quality: A+
- Duration: 4.5 years

### Equities and Other \$2.1 Billion



\*Includes \$779 million in initial cash consideration received in connection with the sale of Chaucer



## Book Value Roll Forward

Book value per share of \$69.81, down 0.8% from September 30, 2018; book value per share up 5.9%, adding back the impact of the \$4.75 special dividend declared on December 30, 2018

|  | Three months<br>ended<br>December 31 | Year<br>ended<br>December 31 |
|--|--------------------------------------|------------------------------|
| <b>Beginning book value per share</b>  | <b>\$70.40</b>                       | <b>\$70.59</b>               |
| Net income   | 2.88                                 | 9.09                         |
| Regular dividends  | (0.60)                               | (2.22)                       |
| Special dividend   | (4.75)                               | (4.75)                       |
| Change in unrealized gains (losses) on investments                             | 0.65                                 | (4.02)                       |
| Additional economic gain on the Chaucer Sale*                                  | 1.39                                 | 1.39                         |
| Other  | (0.16)                               | (0.27)                       |
| <b>Ending book value per share</b>   | <b>\$69.81</b>                       | <b>\$69.81</b>               |
| <b><i>Growth</i></b>   | <b><i>(0.8%)</i></b>                 | <b><i>(1.1%)</i></b>         |
| <b>Add: Special dividend</b>   | <b>\$4.75</b>                        | <b>\$4.75</b>                |
| <b>Ending book value per share, adding back the impact of special dividend</b> | <b>\$74.56</b>                       | <b>\$74.56</b>               |
| <b><i>Growth</i></b>   | <b><i>5.9%</i></b>                   | <b><i>5.6%</i></b>           |

\*To reverse the impact of realizing historical unrealized investment losses, pension losses and other items in the GAAP gain on the Chaucer sale within net income, which are already accounted for in the beginning equity



# Operating Return on Equity Calculation and Deployable Equity Balance

$$\text{Operating ROE} = \frac{\text{Annualized period operating income after taxes}}{\text{Average of beginning and all quarter-end shareholders' equity for the period presented, excluding net unrealized appreciation (depreciation) on fixed maturity investments net of tax}}$$

$$\text{Adjusted Operating ROE} = \frac{\text{Annualized period operating income after taxes, excluding net investment income generated by un-deployed Chaucer equity}}{\text{Average of beginning and all quarter-end shareholders' equity for the period presented, excluding net unrealized appreciation (depreciation) on fixed maturity investments net of tax and "un-deployed equity" related to Chaucer}}$$

## *Deployable Equity Balance*

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

| Events   | Deployable Equity      |
|--|------------------------|
| Sale close (December 30, 2018)                               | \$850.0 million        |
| Less: Special Cash Dividend (December 30, 2018)              | \$193.4 million        |
| <b>Un-deployed equity as of December 31, 2018</b>            | <b>\$656.6 million</b> |
| Less: Accelerated Stock Repurchase Program (January 2, 2018) | \$250.0 million        |
| <b>Un-deployed equity as of January 2, 2019</b>              | <b>\$406.6 million</b> |



# About The Hanover

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



# End notes

(1) Operating income (loss) and operating income (loss) per diluted share are non-GAAP measures. See the disclosure on the use of non-GAAP measures throughout this presentation under the heading “Non-GAAP Financial Measures.” 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 |                         |                   |                         | Year ended        |                         |                   |                         |
|--|--------------------|-------------------------|-------------------|-------------------------|-------------------|-------------------------|-------------------|-------------------------|
|  | December 31, 2018  |                         | December 31, 2017 |                         | December 31, 2018 |                         | December 31, 2017 |                         |
|  | \$<br>Amount       | Per<br>Share<br>Diluted | \$<br>Amount      | Per<br>Share<br>Diluted | \$<br>Amount      | Per<br>Share<br>Diluted | \$<br>Amount      | Per<br>Share<br>Diluted |
| (In millions, except per share data)   |                    |                         |                   |                         |                   |                         |                   |                         |
| <b>OPERATING INCOME (LOSS)</b>   |                    |                         |                   |                         |                   |                         |                   |                         |
| Commercial Lines   | \$57.4             |                         | \$69.2            |                         | \$265.7           |                         | \$177.4           |                         |
| Personal Lines   | 36.5               |                         | 41.6              |                         | 146.2             |                         | 158.7             |                         |
| Other  | (0.8)              |                         | (1.8)             |                         | (5.4)             |                         | (8.8)             |                         |
| Total  | 93.1               |                         | 109.0             |                         | 406.5             |                         | 327.3             |                         |
| Interest expense   | (11.2)             |                         | (11.3)            |                         | (45.1)            |                         | (45.2)            |                         |
| Operating income before income taxes   | 81.9               | \$1.91                  | 97.7              | \$2.27                  | 361.4             | \$8.40                  | 282.1             | \$6.56                  |
| Income tax expense on operating income   | (17.0)             | (0.40)                  | (31.9)            | (0.74)                  | (69.3)            | (1.61)                  | (89.5)            | (2.08)                  |
| Operating income after income taxes  | 64.9               | 1.51                    | 65.8              | 1.53                    | 292.1             | 6.79                    | 192.6             | 4.48                    |
| Non-operating items:   |                    |                         |                   |                         |                   |                         |                   |                         |
| Net realized gains (losses) from sales and other                                 | (2.6)              | (0.06)                  | 1.7               | 0.04                    | (2.7)             | (0.06)                  | 26.7              | 0.62                    |
| Net change in fair value of equity securities*                                   | (50.1)             | (1.17)                  | -                 | -                       | (43.4)            | (1.01)                  | -                 | -                       |
| Net other-than-temporary impairment losses on investments recognized in earnings | (1.8)              | (0.04)                  | (1.1)             | (0.03)                  | (4.6)             | (0.11)                  | (5.6)             | (0.13)                  |
| Loss from repayment of debt  | (26.3)             | (0.61)                  | -                 | -                       | (28.2)            | (0.65)                  | -                 | -                       |
| Other  | -                  | -                       | (3.0)             | (0.07)                  | -                 | -                       | (10.3)            | (0.24)                  |
| Income tax benefit (expense) on other non-operating items                        | 18.0               | 0.42                    | 8.5               | 0.20                    | 25.8              | 0.60                    | 12.7              | 0.30                    |
| Income from continuing operations, net of taxes                                  | 2.1                | 0.05                    | 71.9              | 1.67                    | 239.0             | 5.56                    | 216.1             | 5.03                    |
| Discontinued Operations  |                    |                         |                   |                         |                   |                         |                   |                         |
| Gain from sale of Chaucer business, net of taxes                                 | 131.9              | 3.08                    | -                 | -                       | 131.9             | 3.07                    | -                 | -                       |
| Income (loss) from Chaucer business, net of taxes                                | (10.5)             | (0.25)                  | (4.8)             | (0.11)                  | 20.0              | 0.46                    | (13.1)            | (0.30)                  |
| Income (loss) from discontinued life business, net of taxes                      | 0.1                | -                       | (15.6)            | (0.36)                  | 0.1               | -                       | (16.8)            | (0.40)                  |
| Net income   | \$123.6            | \$ 2.88                 | \$51.5            | \$ 1.20                 | \$391.0           | \$ 9.09                 | \$186.2           | \$ 4.33                 |
| Weighted average shares outstanding  |                    | 42.9                    |                   | 43.0                    |                   | 43.0                    |                   | 43.0                    |

\* This line item was not required under GAAP until 2018





## 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<br>December 31, 2017 |                   |              | Three months ended<br>December 31, 2018 |                   |              |
|--|---|-------------------|--------------|---|-------------------|--------------|
|  | Commercial<br>Lines                     | Personal<br>Lines | Total        | Commercial<br>Lines                     | Personal<br>Lines | Total        |
|  | Total combined ratio                    | 95.4%             | 94.0%        | 95.0%                                   | 98.2%             | 96.0%        |
| Less: catastrophe ratio                      | 4.8%                                    | 3.0%              | 4.1%         | 7.3 %                                   | 0.7%              | 4.6%         |
| Combined ratio, excluding catastrophe losses | <u>90.6%</u>                            | <u>91.0%</u>      | <u>90.9%</u> | <u>90.9%</u>                            | <u>95.3%</u>      | <u>92.8%</u> |
|  | Year ended<br>December 31, 2017         |                   |              | Year ended<br>December 31, 2018         |                   |              |
|  | Commercial<br>Lines                     | Personal<br>Lines | Total        | Commercial<br>Lines                     | Personal<br>Lines | Total        |
|  | Total combined ratio                    | 99.3%             | 94.1%        | 97.3%                                   | 96.4%             | 95.5%        |
| Less: catastrophe ratio                      | 7.1%                                    | 5.1%              | 6.4%         | 5.6%                                    | 4.5%              | 5.2%         |
| Combined ratio, excluding catastrophe losses | <u>92.2%</u>                            | <u>89.0%</u>      | <u>90.9%</u> | <u>90.8%</u>                            | <u>91.0%</u>      | <u>90.9%</u> |



## End notes continued

(3) The following is a calculation of book value per share (GAAP) and book value per share, excluding the impact of the \$4.75 special dividend declared on December 30, 2018 (non-GAAP):

|   | Three Months ended<br>December 31, 2018 |
|---|---|
| Book value per share growth calculation:  |   |
| End of period book value  | \$69.81                                 |
| Less beginning of period book value   | 70.40                                   |
| Change in book value  | (0.59)                                  |
| Special dividends declared of December 30, 2018                                   | 4.75                                    |
| Change in book value and declared special dividend                                | \$4.16                                  |
| Change in book value *  | (0.8)%                                  |
| Special dividend declared to shareholders as percentage of beginning book value** | 6.7 %                                   |
| Total change in book value, adding back the impact of special dividend            | 5.9 %                                   |

\*Change in book value divided by beginning book value

\*\*Special dividend declared to shareholders divided by beginning book value



## End notes continued

(4) Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is a non-GAAP measure. Total shareholders' equity is the most directly comparable GAAP measure, and is reconciled in the table on the following page. For the calculation of Operating ROE, the average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, for the beginning, ending and intra-reported quarters' are used. For the calculation of Adjusted Operating ROE, the average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, and "equity attributable to Chaucer" for measurement periods prior to the close, or "the un-deployed equity" for measurement periods post-close, net of tax, for the beginning, ending and intra-reported quarters' are used (see page 14).

|   | <u>December 31, 2017</u> | <u>March 31, 2018</u>   | <u>June 30, 2018</u>    | <u>September 30, 2018</u> | <u>December 31, 2018</u> |
|---|--------------------------|-------------------------|-------------------------|---------------------------|--------------------------|
| Total shareholders' equity (GAAP)   | \$2,997.7                | \$2,913.1               | \$2,939.8               | \$2,982.4                 | \$2,954.7                |
| Less: net unrealized appreciation (depreciation) on fixed maturity investments, net of tax  | <u>205.4</u>             | <u>0.3</u>              | <u>(48.8)</u>           | <u>(74.0)</u>             | <u>(27.2)</u>            |
| Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax  | \$2,792.3                | \$2,912.8               | \$2,988.6               | \$3,056.4                 | \$2,981.9                |
| Less: Pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity   | <u>614.6</u>             | <u>614.6</u>            | <u>614.6</u>            | <u>614.6</u>              | <u>656.6</u>             |
| Adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity         | <u><u>\$2,177.7</u></u>  | <u><u>\$2,298.2</u></u> | <u><u>\$2,374.0</u></u> | <u><u>\$2,441.8</u></u>   | <u><u>\$2,325.3</u></u>  |
| Average shareholders' equity  |                          |                         |                         |                           | \$2,957.5                |
| Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax  |                          |                         |                         |                           | \$2,946.4                |
| Average adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity |                          |                         |                         |                           | \$2,323.4                |



# End notes continued

(4) Continued.

|  | December 31, 2016 | March 31, 2017   | June 30, 2017    | September 30, 2017 | December 31, 2017 |
|--|-------------------|------------------|------------------|--------------------|-------------------|
| Total shareholders' equity (GAAP)  | \$2,857.5         | \$2,913.5        | \$2,972.5        | \$2,972.0          | \$2,997.7         |
| Less: net unrealized appreciation (depreciation) on fixed maturity investments, net of tax   | 186.0             | 205.0            | 224.8            | 228.5              | 205.4             |
| Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax   | \$2,671.5         | \$2,708.5        | \$2,747.7        | \$2,743.5          | \$2,792.3         |
| Less: Pre-sale, equity attributable to Chaucer   | 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         | <u>\$2,056.9</u>  | <u>\$2,093.9</u> | <u>\$2,133.1</u> | <u>\$2,128.9</u>   | <u>\$2,177.7</u>  |
| Average shareholders' equity (GAAP)  |                   |                  |                  |                    | \$2,942.6         |
| Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax   |                   |                  |                  |                    | \$2,732.7         |
| Average adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and equity attributable to Chaucer |                   |                  |                  |                    | \$2,118.1         |

|   | September 30, 2017 | December 31, 2017 | September 30, 2018 | December 31, 2018 |
|---|--------------------|-------------------|--------------------|-------------------|
| Total shareholders' equity (GAAP)   | \$2,972.0          | \$2,997.7         | \$2,982.4          | \$2,954.7         |
| Less: net unrealized appreciation (depreciation) on fixed maturity investments, net of tax  | 228.5              | 205.4             | (74.0)             | (27.2)            |
| Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax  | \$2,743.5          | \$2,792.3         | \$3,056.4          | \$2,981.9         |
| Less: Pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity   | 614.6              | 614.6             | 614.6              | 656.6             |
| Adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity         | <u>\$2,128.9</u>   | <u>\$2,177.7</u>  | <u>\$2,441.8</u>   | <u>\$2,325.3</u>  |
| Average shareholders' equity (GAAP)   |                    | \$2,984.9         |                    | \$2,968.6         |
| Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax  |                    | \$2,767.9         |                    | \$3,019.2         |
| Average adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity |                    | \$2,153.3         |                    | \$2,383.6         |



## End notes continued

(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 annualized operating income after tax for the applicable period (under the heading in this press release “Non-GAAP Financial Measures”, see end note (1)), by average shareholders’ equity, excluding unrealized appreciation (depreciation) on fixed maturity investments, net of tax, for the stated period. For Adjusted Operating ROE, shareholders’ equity is adjusted for “equity attributable to Chaucer” for measurement periods prior to the close, which occurred on December 28, 2018 and “the un-deployed equity” for measurement periods post-close and net unrealized appreciation (depreciation) on fixed maturity investments, net of tax. Operating ROE and Adjusted Operating ROE should not be construed as substitutes for GAAP ROE. See calculations in table below, including the calculation of GAAP ROE using net income and average shareholders’ equity without adjustments:

|  | Three months ended  |                     | Years ended         |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | December 31<br>2017 | December 31<br>2018 | December 31<br>2017 | December 31<br>2018 |
| <i>Net Income ROE</i>  |                     |                     |                     |                     |
| Annualized net income*   | \$ 206.0            | \$ 494.4            | \$ 186.2            | \$ 391.0            |
| Average shareholders' equity (GAAP)  | 2,984.9             | 2,968.6             | 2,942.6             | 2,957.5             |
| Return on average equity   | <u>6.9%</u>         | <u>\$ 16.7%</u>     | <u>6.3%</u>         | <u>13.2%</u>        |
| <i>Operating income ROE (non-GAAP)</i>   |                     |                     |                     |                     |
| Annualized operating income after taxes*   | \$ 263.2            | \$ 259.6            | \$ 192.6            | \$ 292.1            |
| Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax                                       | 2,767.9             | 3,019.2             | 2,732.7             | 2,946.4             |
| Operating return on average equity   | <u>9.5%</u>         | <u>\$ 8.6%</u>      | <u>7.0%</u>         | <u>9.9%</u>         |
| <i>Adjusted operating income ROE (non-GAAP)</i>  |                     |                     |                     |                     |
| Annualized operating income after taxes*   | \$ 263.2            | \$ 259.6            | \$ 192.6            | \$ 292.1            |
| Adjusted average shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and un-deployed equity | 2,153.3             | 2,383.6             | 2,118.1             | 2,323.4             |
| Adjusted operating return on average equity  | <u>12.2%</u>        | <u>\$ 10.9%</u>     | <u>9.1%</u>         | <u>12.6%</u>        |

\*For three months ended December 31, 2018, annualized net and operating income is calculated by multiplying three months ended net income and operating income, respectively, by 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 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<br>December 31, 2018                            |                     |                   |              |
|--|---------------------|-------------------|--------------|
|  | Commercial<br>Lines | Personal<br>Lines | Total        |
| Total combined ratio   | 98.2%               | 96.0%             | 97.4%        |
| Less:  |                     |                   |              |
| Prior-year reserve development ratio                               | (2.5%)              | 3.5%              | -            |
| Catastrophe ratio  | 7.3%                | 0.7%              | 4.6%         |
| Current accident year combined ratio, excluding catastrophe losses | <u>93.4%</u>        | <u>91.8%</u>      | <u>92.8%</u> |
| December 31, 2017  |                     |                   |              |
| Total combined ratio   | 95.4%               | 94.0%             | 95.0%        |
| Less:  |                     |                   |              |
| Prior-year reserve development ratio                               | (1.5%)              | 2.3%              | -            |
| Catastrophe ratio  | 4.8%                | 3.0%              | 4.1%         |
| Current accident year combined ratio, excluding catastrophe losses | <u>92.1%</u>        | <u>88.7%</u>      | <u>90.9%</u> |
| Year ended<br>December 31, 2018                                    |                     |                   |              |
|  | Commercial<br>Lines | Personal<br>Lines | Total        |
| Total combined ratio   | 96.4%               | 95.5%             | 96.1%        |
| Less:  |                     |                   |              |
| Prior-year reserve development ratio                               | (1.3%)              | 2.0%              | -            |
| Catastrophe ratio  | 5.6%                | 4.5%              | 5.2%         |
| Current accident year combined ratio, excluding catastrophe losses | <u>92.1%</u>        | <u>89.0%</u>      | <u>90.9%</u> |
| December 31, 2017  |                     |                   |              |
| Total combined ratio   | 99.3%               | 94.1%             | 97.3%        |
| Less:  |                     |                   |              |
| Prior-year reserve development ratio                               | (0.4%)              | 0.6%              | -            |
| Catastrophe ratio  | 7.1%                | 5.1%              | 6.4%         |
| Current accident year combined ratio, excluding catastrophe losses | <u>92.6%</u>        | <u>88.4%</u>      | <u>90.9%</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) 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       |                   | Year ended        |                   |
|--|--------------------------|-------------------|-------------------|-------------------|
|  | December 31, 2017        | December 31, 2018 | December 31, 2017 | December 31, 2018 |
|  | Total loss and LAE Ratio | 62.5%             | 65.3%             | 64.7%             |
| Less:  |                          |                   |                   |                   |
| Prior-year reserve development ratio                           | -                        | -                 | -                 | -                 |
| Catastrophe ratio  | 4.1%                     | 4.6%              | 6.4%              | 5.2%              |
| Current accident year loss ratio, excluding catastrophe losses | 58.4%                    | 60.7%             | 58.3%             | 58.8%             |

| Personal Lines   | Year ended        |       |       |       | Year ended        |       |       |       |
|--|-------------------|-------|-------|-------|-------------------|-------|-------|-------|
|  | December 31, 2017 |       |       |       | December 31, 2018 |       |       |       |
|  | Auto              | Home  | Other | Total | Auto              | Home  | Other | Total |
| Total loss and LAE Ratio                                       | 70.7%             | 59.8% | 35.9% | 66.1% | 72.0%             | 61.2% | 48.1% | 67.7% |
| Less:  |                   |       |       |       |                   |       |       |       |
| Prior-year reserve development ratio                           | 0.4 %             | 0.9 % | 2.1 % | 0.6 % | 1.4 %             | 2.7 % | 6.2 % | 2.0 % |
| Catastrophe ratio  | 0.6%              | 13.5% | 1.8%  | 5.1%  | 0.5%              | 12.1% | 2.2%  | 4.5%  |
| Current accident year loss ratio, excluding catastrophe losses | 69.7%             | 45.4% | 32.0% | 60.4% | 70.1%             | 46.4% | 39.7% | 61.2% |

| Commercial Lines   | Year ended        |       |               |        |        | Year ended        |       |               |        |        |
|--|-------------------|-------|---------------|--------|--------|-------------------|-------|---------------|--------|--------|
|  | December 31, 2017 |       |               |        |        | December 31, 2018 |       |               |        |        |
|  | Multiple Peril    | Auto  | Workers' Comp | Other  | Total  | Multiple Peril    | Auto  | Workers' Comp | Other  | Total  |
| Total loss and LAE Ratio                                       | 66.2%             | 70.6% | 58.6%         | 61.1%  | 63.7%  | 66.4%             | 79.9% | 51.0%         | 54.9%  | 61.5%  |
| Less:  |                   |       |               |        |        |                   |       |               |        |        |
| Prior-year reserve development ratio                           | 0.3 %             | 0.8 % | (3.0)%        | (0.5)% | (0.4)% | (0.1)%            | 6.9 % | (9.9)%        | (2.4)% | (1.3)% |
| Catastrophe ratio  | 11.8%             | 1.4%  | -             | 7.3%   | 7.1%   | 10.7%             | 0.8%  | -             | 4.7%   | 5.6%   |
| Current accident year loss ratio, excluding catastrophe losses | 54.1%             | 68.4% | 61.6%         | 54.3%  | 57.0%  | 55.8%             | 72.2% | 60.9%         | 52.6%  | 57.2%  |



## End notes continued

(9) 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 fourth quarter financial supplement.

| (\$ in millions)     | Three months ended<br>December 31, 2017 |                  |         | Three months ended<br>December 31, 2018 |                  |         |
|----------------------|---|------------------|---------|---|------------------|---------|
|                      | Core Commercial                         | Other Commercial | Total   | Core Commercial                         | Other Commercial | Total   |
| Net premiums written | \$323.4                                 | \$241.5          | \$564.9 | \$338.9                                 | \$261.1          | \$600.0 |
| Net premiums earned  | \$363.3                                 | \$252.8          | \$616.1 | \$376.3                                 | \$268.1          | \$644.4 |

| (\$ in millions)     | Twelve months ended<br>December 31, 2017 |                  |           | Twelve months ended<br>December 31, 2018 |                  |           |
|----------------------|--|------------------|-----------|--|------------------|-----------|
|                      | Core Commercial                          | Other Commercial | Total     | Core Commercial                          | Other Commercial | Total     |
| Net premiums written | \$1,449.1                                | \$1,012.9        | \$2,462.0 | \$1,523.3                                | \$1,087.4        | \$2,610.7 |
| Net premiums earned  | \$1,417.0                                | \$982.6          | \$2,399.6 | \$1,491.8                                | \$1,056.6        | \$2,548.4 |