



The Hanover Insurance Group, Inc.

First Quarter 2021 Results

April 30, 2021

*To be read in conjunction with the press release dated
April 29, 2021, and conference call scheduled for April 30, 2021*



First Quarter 2021 Operating Highlights

The Hanover Reports First Quarter Net Income and Operating Income⁽¹⁾ of \$2.51 and \$1.66 per Diluted Share, Respectively; Combined Ratio of 98.8%; Combined Ratio, Excluding Catastrophes⁽²⁾, of 87.3%

- Net premiums written increase of 5.2%*, reflecting growth in all segments
- Combined ratio of 98.8%; combined ratio, excluding catastrophes⁽²⁾ of 87.3%
- Consistent with the pre-announcement, catastrophe losses of \$133.3 million, or 11.5% of net premiums earned, primarily due to freeze events in Texas and surrounding states
- Rate increases of 6.1% in core commercial lines⁽³⁾ and 3.1% in Personal Lines⁽⁴⁾
- Improved current accident year loss and loss adjustment expense (“LAE”) ratio, excluding catastrophes⁽⁵⁾, of 56.4%, due to continued favorable loss frequency, particularly in personal and commercial auto
- Net investment income of \$76.8 million, increased 10.3% from the prior-year quarter, primarily from higher partnership income
- Book value per share of \$84.21, down 4.3% from December 31, 2020, primarily driven by a decrease in net unrealized gains of fixed maturity investments, net of tax, partially offset by net income. Excluding net unrealized gains on fixed maturity investments, net of tax, book value per share⁽⁶⁾ increased 1.7% from December 31, 2020

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

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

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



Consolidated Financial Results Snapshot

	Three months ended	
	March 31, 2020	March 31, 2021
(\$ in millions, <i>except per share amounts</i>)		
Net income (loss)	(\$40.0)	\$92.7
<i>Per (basic)* / diluted share</i>	(\$1.04)	\$2.51
Operating income before interest expense and income taxes	\$117.1	\$85.1
Operating income after income taxes	\$86.8	\$61.4
<i>Per diluted share</i>	\$2.23	\$1.66
Book value per share	\$72.05	\$84.21
Shareholders' equity	\$2,736.6	\$3,046.8
Debt	\$707.5	\$781.0
Total capital	\$3,444.1	\$3,827.8
Debt/total capital	20.5 %	20.4 %
Total assets	\$12,277.4	\$13,448.0
Net income (loss) return on average equity ⁽⁷⁾	(5.7)%	11.9 %
Operating return on average equity ⁽⁷⁾	13.1 %	8.8 %

*Operating income per share metrics are calculated using diluted shares outstanding; prior year non-operating items, loss from continuing and discontinued operations and net loss per share metrics were calculated using basic shares outstanding due to antidilution. Basic shares outstanding consist of the daily weighted average number of common shares outstanding during the period. Diluted shares outstanding consist of the daily weighted average number of basic and dilutive common equivalent shares (employee stock options and non-vested stock grants) outstanding.



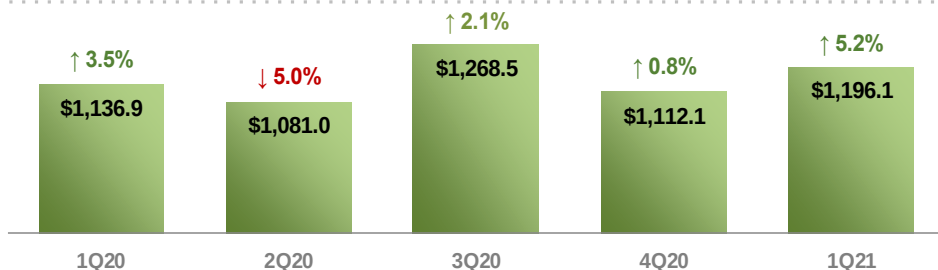
Strong Operating Results

(\$ in millions)

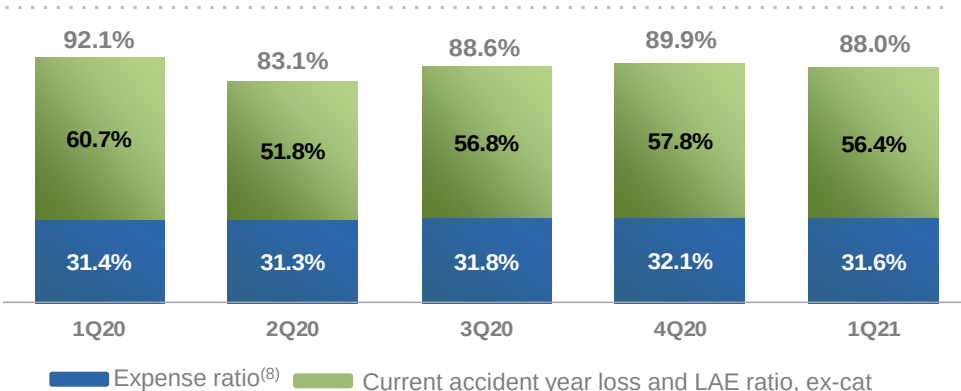
	Three months ended March 31	
	2020	2021
Net premiums written	\$1,136.9	\$1,196.1
Growth	3.5%	5.2%
Net premiums earned	\$1,141.4	\$1,161.8
Combined ratio	95.2%	98.8%
Combined ratio, ex-cat	91.9%	87.3%
Current accident year combined ratio, ex-cat ⁽²⁾	92.1%	88.0%

(\$ in millions)

Net Premiums Written and Growth



Current Accident Year Combined Ratio, Ex-Cat



Combined ratio of 98.8%, 3.6 points higher than prior-year quarter, driven by catastrophe losses

- Catastrophe losses of 11.5 points, driven by winter freeze events, primarily in Texas
- Net favorable prior-year reserve development of \$8.2 million, or 0.7 points

Current accident year combined ratio, ex-cat, of 88.0%, improved 4.1 points compared to the prior-year quarter

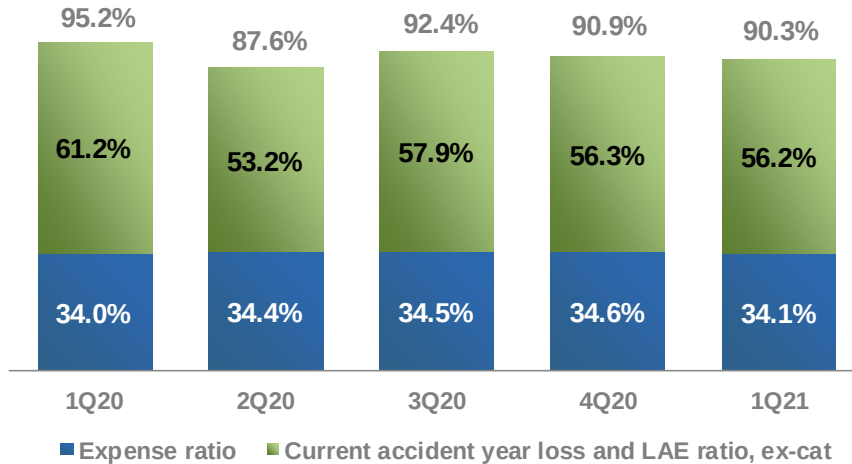
- Current accident year loss and LAE ratio, excluding catastrophes, of 56.4%, improved 4.3 points due to:
 - Favorable loss frequency, primarily in auto
- Expense ratio⁽⁸⁾ of 31.6%, 0.2 points higher than prior year, which was reduced by the timing of an increase in variable agency compensation in 2020
 - Fixed cost leverage to drive improvement in future quarters
 - Visibility to expense ratio improvement of at least 0.3 points for full year 2021

Net premiums written increased 5.2%, driven by all segments, with particularly strong growth in specialty lines⁽⁹⁾, primarily reported in other commercial lines ("OCL")

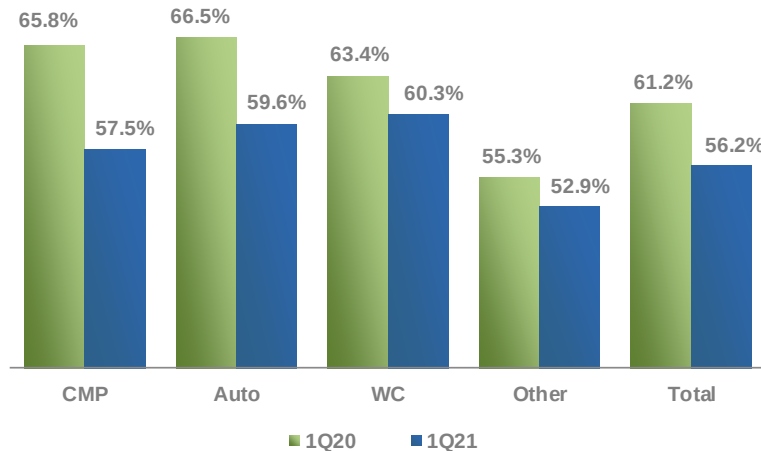


Commercial Lines Underwriting Highlights

Current Accident Year Combined Ratio, Ex-Cat



Current Accident Year Loss and LAE Ratio, Ex-Cat



Combined ratio of 106.9%, increased 8.7 points from prior-year quarter, primarily due to elevated catastrophes, partially offset by strong underlying underwriting performance

- Catastrophe losses of 17.1 points, driven by the winter freeze events, primarily in Texas, our second largest Commercial Lines state, with 2.9% market share in commercial multiple peril (“CMP”)
- Net favorable prior-year reserve development of 0.5 points, reflecting continued favorability in workers’ compensation

Current accident year combined ratio, ex-cat, of 90.3%, improved 4.9 points, reflecting:

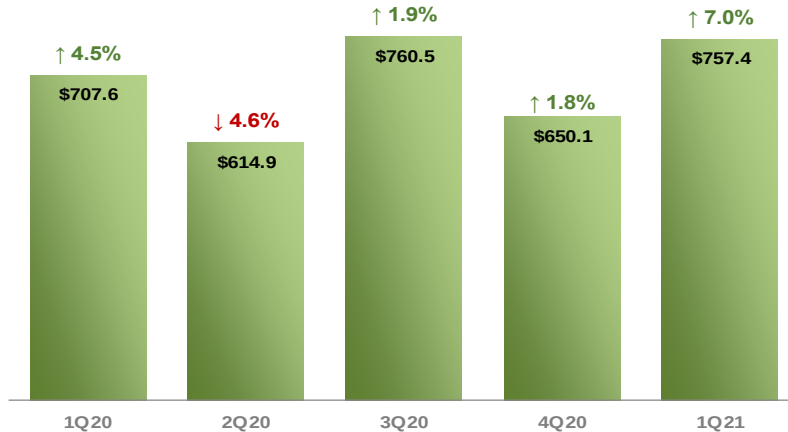
- Improvement in current accident year loss and LAE ratio, excluding catastrophes, of 5.0 points, driven by favorable comparison to prior-year quarter, which included one large fire loss in CMP, as well as lower loss frequency in commercial auto
- Expense ratio of 34.1%, in line with prior-year quarter



Commercial Lines Growth Highlights

(\$ in millions)

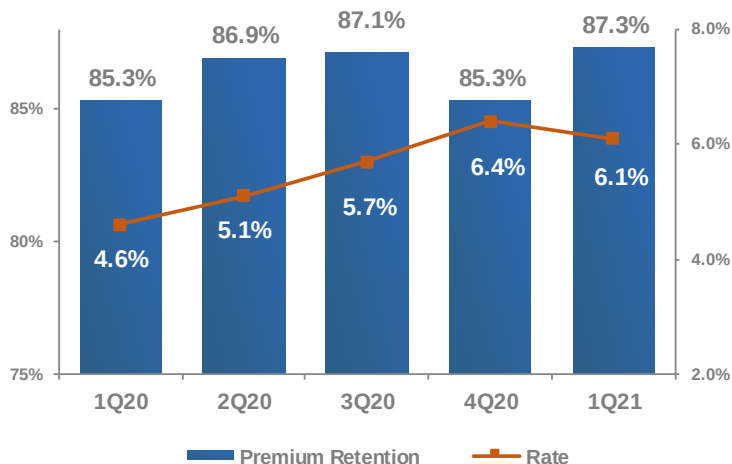
Net Premiums Written and Growth



Core Commercial Lines⁽³⁾

Retention*

Rate



Net premiums written growth of 7.0% with momentum exceeding pre-COVID levels, reflecting:

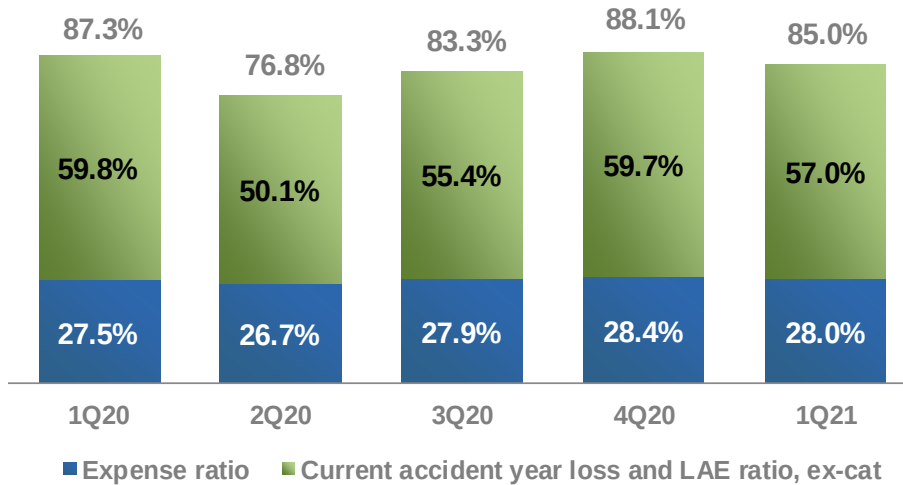
- Very strong growth in OCL, with contributions from nearly all specialty lines
- Historically high retention with continued strong rate increases:
 - Core commercial retention of 87.3%, higher than any quarter in 2020 and sequential improvement of 2.0 points from the fourth quarter
 - Rate increases of 6.1% in core commercial and 7.5% in specialty, well above long-term loss trends
 - Our assessment of the overall specialty rate environment in our markets is unchanged from the fourth quarter. Variability in specialty rate increases in any given quarter is driven by specific renewals at the program or account level.

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



Personal Lines Underwriting Highlights

Current Accident Year Combined Ratio, Ex-Cat



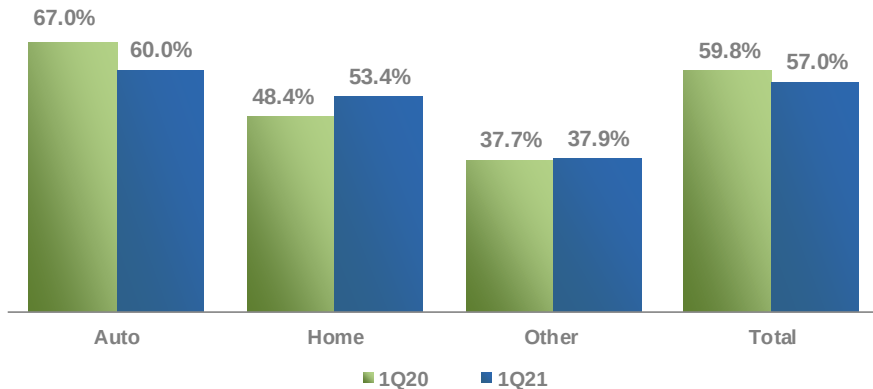
Combined ratio of 87.0%, improved 3.0 points compared to prior-year quarter

- Net favorable prior-year reserve development of \$5.2 million, or 1.1 points, primarily from personal auto
- Catastrophe losses of 3.1 points, in line with the prior-year quarter

Current accident year combined ratio, ex-cat, of 85.0%, improved 2.3 points from prior-year quarter, reflecting:

- Improvement in current accident year loss and LAE ratio, excluding catastrophes, of 2.8 points, due to auto frequency benefit
- Expense ratio increase of 0.5 points, primarily driven by an increase in agency variable compensation

Current Accident Year Loss and LAE Ratio, Ex-Cat

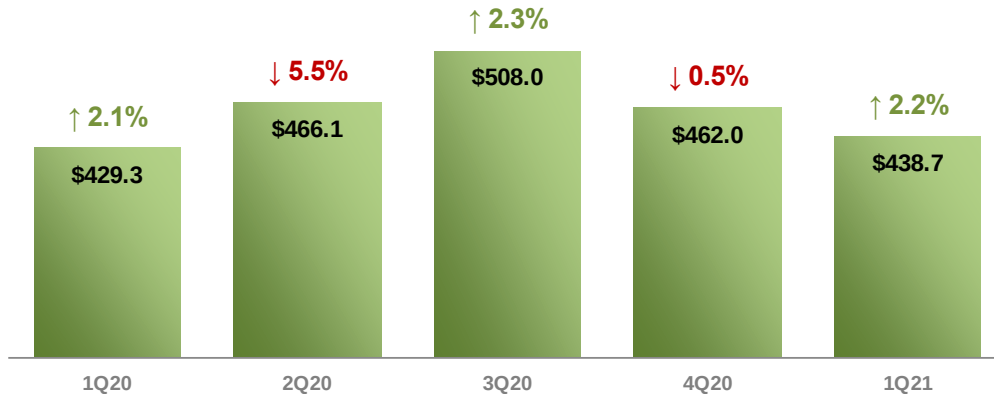




Personal Lines Growth Highlights

(\$ in millions)

Net Premiums Written and Growth



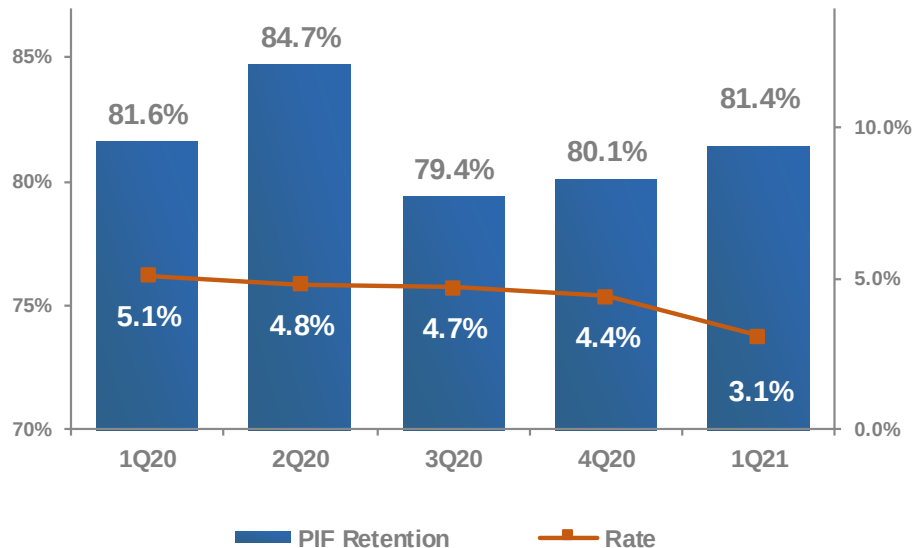
Net premiums written growth of 2.2%, reflecting:

- Thoughtful rate adjustments to protect renewal book, while maintaining attractive new business pricing
- Strong sequential improvement in retention, up 1.3 points from the fourth quarter 2020 to 81.4%
- Personal Lines sequential PIF growth of 0.4%

Very satisfied with the quality of business:

- Increasing momentum in Hanover Prestige brand
- Strong market position with committed agency followership is driving growth

Retention*



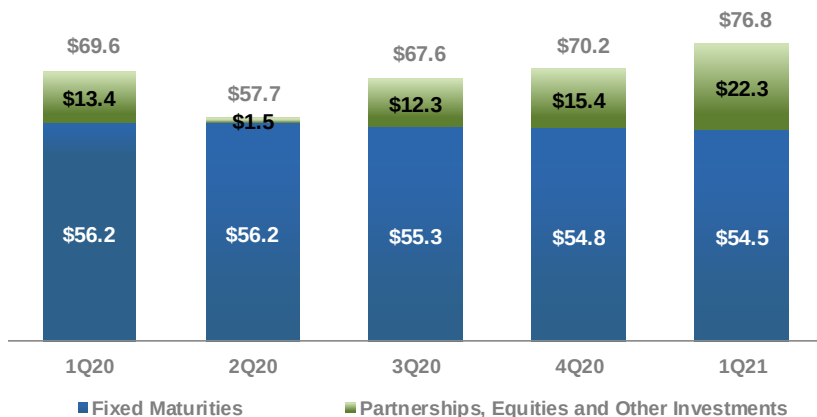
*Retention is defined as ratio of net retained policies for noted period to those policies available to renew over the same period.



Net Investment Income Trends

(\$ in millions)

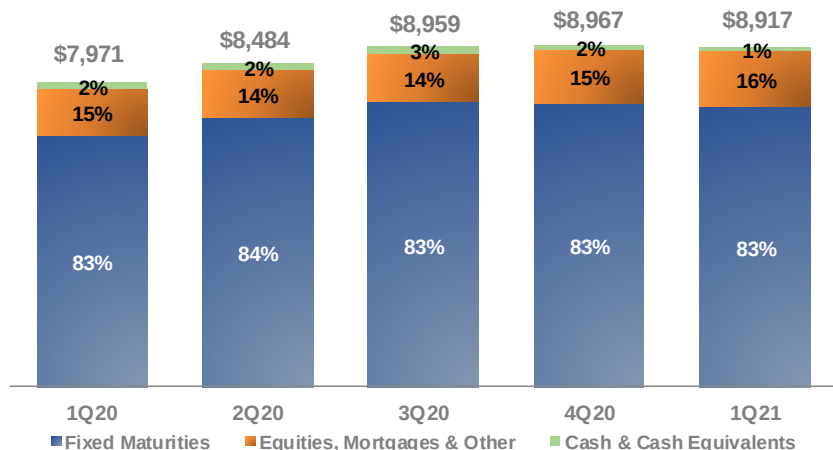
Net Investment Income*



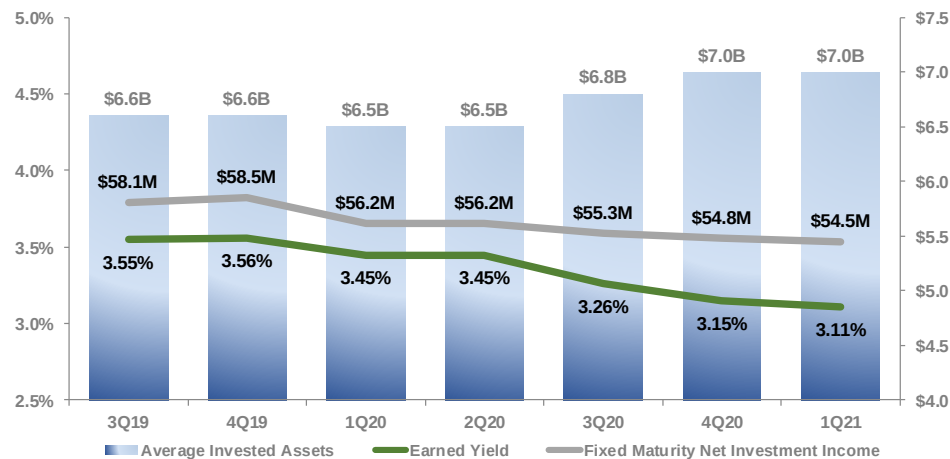
- Net investment income of \$76.8 million, an increase of 10.3% from prior-year quarter, driven by:
 - Unusually high income from partnerships
 - Partially offset by lower new money yields

(\$ in millions)

Cash and Invested Assets



Fixed Maturity Investment Portfolio Trends



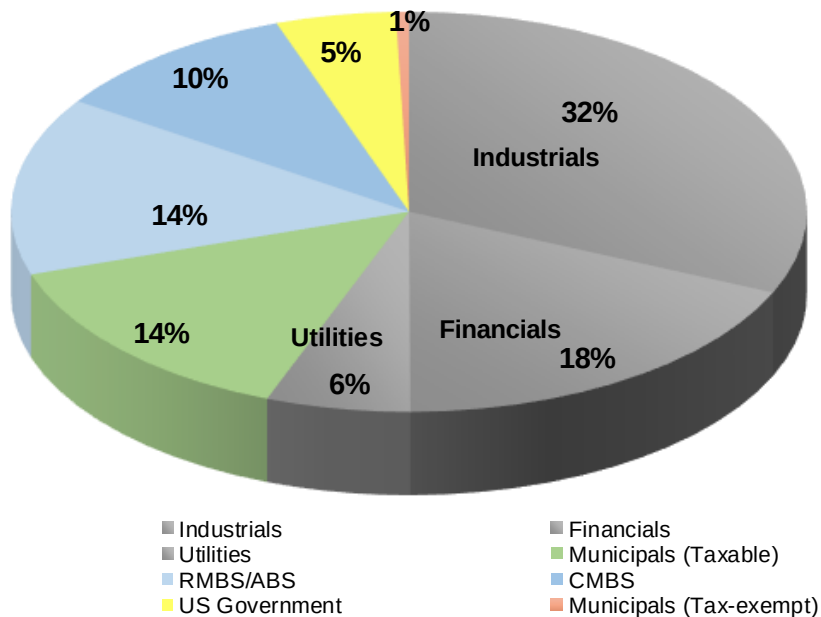
* Net Investment Income from Partnerships, Equities and Other investments is presented net of investment expenses



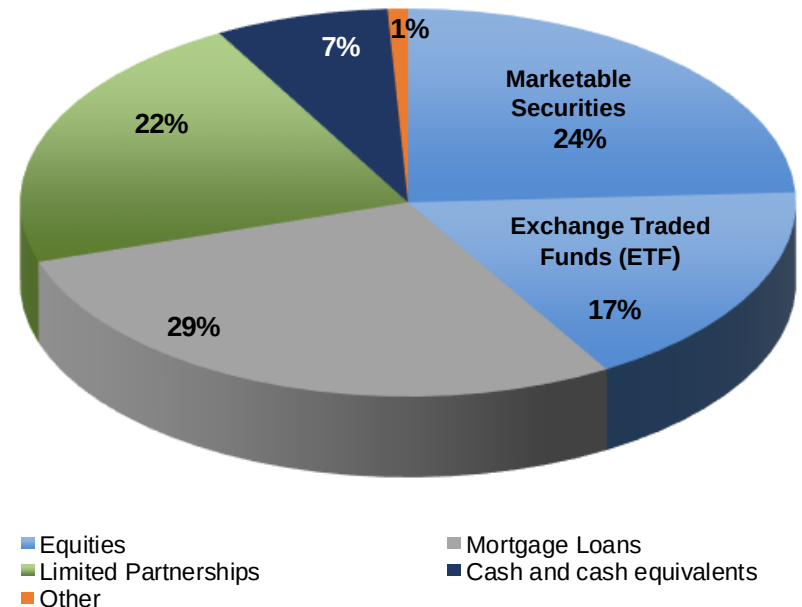
Investment Portfolio Holdings – Total Invested Assets and Cash of \$8.9B

As of March 31, 2021

Fixed Maturities: \$7.4 Billion



Equities, Cash and Other: \$1.5 Billion



Fixed Income Characteristics:

- 96% of fixed maturity securities are investment grade
- Weighted average quality: A+
- Duration: 5.0 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 through a select group of independent agents and brokers. Together with its agent partners, 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.



Forward-Looking Statements and Additional Risks and Uncertainties

Forward-Looking Statements

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

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

- The company’s outlook and its ability to achieve components or the sum of the respective period guidance on its future results of operations including: the combined ratio, excluding or including both prior-year reserve development and/or catastrophe losses; catastrophe losses; net investment income; growth of net premiums written and/or net premiums earned in total or by line of business; expense ratio; operating return on equity; and/or the effective tax rate;
- The impact of the COVID-19 outbreak and subsequent global pandemic (“Pandemic”) and related economic conditions on the company’s operating and financial results, including, but not limited to, the impact on the company’s investment portfolio, declining claims frequency as a result of reduced economic activity, severity from higher cost of repairs due to, among other things, supply chain disruptions, declines in premium as a result of, among other things, credits or returns to the company’s customers, lower submissions, changes in renewals and policy endorsements, public health guidance, and the impact of government orders and restrictions in the states and jurisdictions in which the company operates;
- Uses of capital for share repurchases, special or ordinary cash dividends, business investments or growth, or otherwise, and outstanding shares in future periods as a result of various share repurchase mechanisms, capital management framework, especially in the current environment, and overall comfort with capital levels;
- Variability of catastrophe losses due to risk concentrations, changes in weather patterns including climate change, wildfires, terrorism, civil unrest, riots or other events, as well as the complexity in estimating losses from large catastrophe events due to delayed reporting of the existence, nature or extent of losses or where “demand surge,” regulatory assessments, litigation, coverage and technical complexities or other factors may significantly impact the ultimate amount of such losses;
- Current accident year losses and loss selections (“picks”), excluding catastrophes, and prior accident year loss reserve development patterns, particularly in complex “longer-tail” liability lines, as well as the inherent variability in short-tail property and non-catastrophe weather losses;
- The confidence or concern that the current level of reserves is adequate and/or sufficient for future claim payments, whether due to losses that have been incurred but not reported, circumstances that delay the reporting of losses, business complexity, adverse judgments or developments with respect to case reserves, the difficulties and uncertainties inherent in projecting future losses from historical data, changes in replacement and medical costs, as well as complexities related to the Pandemic, including legislative, regulatory or judicial actions that expand the intended scope of coverages, or other factors;
- Characterization of some business as being “more profitable” in light of inherent uncertainty of ultimate losses incurred, especially for “longer-tail” liability businesses;
- Efforts to manage expenses, including the company’s long-term expense savings targets, while allocating capital to business investment, which is at management’s discretion;
- Mix improvement, underwriting initiatives, coverage restrictions and pricing segmentation actions, among others, to grow businesses believed to be more profitable or reduce premiums attributable to products or lines of business believed to be less profitable; balance rate actions and retention; offset long-term and/or short-term loss trends due to increased frequency; increased “social inflation” from a more litigious environment and higher average cost of resolution, increased property replacement costs, and/or social movements;
- The ability to generate growth in targeted segments through new agency appointments; rate increases (as a result of its market position, agency relationships or otherwise), retention improvements or new business; expansion into new geographies; new product introductions; or otherwise; and
- Investment returns and the effect of macro-economic interest rate trends and overall security yields, including the macro-economic impact of the Pandemic and corresponding governmental initiatives taken in response, and geopolitical circumstances on new money yields and overall investment returns.



Additional Risks and Uncertainties (continued)

Additional Risks and Uncertainties

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

- The severity, duration and long-term impact related to the Pandemic, including, but not limited to, actual and possible government responses, legislative, regulatory and judicial actions, changes in frequency and severity of claims in both Commercial and Personal Lines, impacts to distributors (including agent partners), and the possibility of additional premium adjustments, including credits and returns, for the benefit of insureds;
- Changes in regulatory, legislative, economic, market and political conditions, particularly in response to COVID-19 and the Pandemic (such as legislative or regulatory actions that would retroactively require insurers to cover business interruption or other types of claims irrespective of terms, exclusions or other conditions included in the contractual terms of the policies that would otherwise preclude coverage, mandatory returns and other rate-related actions, as well as presumption legislation in regards to workers' compensation);
- Heightened investment market volatility, fluctuations in interest rates (which have a significant impact on the market value of the investment portfolio and thus book value), U.S. Federal Reserve actions, inflationary pressures, default rates, prolonged global market conditions and other factors that affect investment returns from the investment portfolio;
- Adverse claims experience, including those driven by large or increased frequency of catastrophe events (including those related to terrorism, riots and civil unrest), and severe weather;
- The uncertainty in estimating weather-related losses or the long-term impacts of the Pandemic, and the limitations and assumptions used to model other property and casualty losses (particularly with respect to products with longer-tail liability lines, such as casualty and bodily injury claims, or involving emerging issues related to losses incurred as the result of new lines of business, such as cyber or financial institutions coverage, or reinsurance contracts and reinsurance recoverables), leading to potential adverse development of loss and loss adjustment expense reserves;
- Litigation and the possibility of adverse judicial decisions, including those which expand policy coverage beyond its intended scope and/or award "bad faith" or other non-contractual damages, and the impact of "social inflation" affecting judicial awards and settlements;
- The ability to increase or maintain insurance rates in line with anticipated loss costs and/or governmental action, including mandates by state departments of insurance to either raise or lower rates or provide credits or return premium to insureds;
- Investment impairments, which may be affected by, among other things, the company's ability and willingness to hold investment assets until they recover in value, as well as credit and interest rate risk and general financial and economic conditions;
- Disruption of the independent agency channel, including the impact of competition and consolidation in the industry and among agents and brokers;
- Competition, particularly from competitors who have resource and capability advantages;
- The global macroeconomic environment, including actions taken in response to the Pandemic, inflation, global trade wars, energy market disruptions, equity price risk, and interest rate fluctuations, which, among other things, could result in reductions in market values of fixed maturities and other investments;
- Adverse state and federal regulation, legislative and/or regulatory actions (including recent significant revisions to Michigan's automobile personal injury protection system and related litigation, and various regulations, orders and proposed legislation related to business interruption and workers' compensation coverages, premium grace periods and returns, and rate actions);
- Financial ratings actions, in particular, downgrades to the company's ratings;
- Operational and technology risks and evolving technological and product innovation, including risks created by remote work environments, and the risk of cyber-security attacks or breaches on the company's systems or resulting in claim payments (including from products not intended to provide cyber coverage);
- Uncertainties in estimating indemnification liabilities recorded in conjunction with obligations undertaken in connection with the sale of various businesses and discontinued operations; and
- The ability to collect from reinsurers, reinsurance pricing, reinsurance terms and conditions, and the performance of the run-off voluntary property and casualty pools business (including those in the Other segment or in Discontinued operations).

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



Non-GAAP Financial Measures

As discussed on page 38 of the company's Annual Report on Form 10-K for the year ended December 31, 2020, the company uses non-GAAP financial measures as important measures of its operating performance, including operating income, operating income before interest expense and income taxes, operating income per share, and components of the combined ratio, both excluding and/or including, catastrophe losses, prior-year reserve development and the expense ratio. Management believes these non-GAAP financial measures are important indications of the company's operating performance. The definition of other non-GAAP financial measures and terms can be found in the 2020 Annual Report on pages 67-70.

Operating income and operating income per share are non-GAAP measures. They are defined as net income (loss) excluding the after-tax impact of net realized and unrealized investment gains (losses), gains and/or losses on the repayment of debt, other non-operating items, and results from discontinued operations. Net realized and unrealized investment gains (losses), which include changes in the fair value of equity securities still held, are excluded for purposes of presenting operating income, as they are, to a certain extent, determined by interest rates, financial markets and the timing of sales. Operating income also excludes net gains and losses from disposals of businesses, gains and losses related to the repayment of debt, costs to acquire businesses, restructuring costs, the cumulative effect of accounting changes and certain other items. Operating income is the sum of the segment income from: Commercial Lines, Personal Lines, and Other, after interest expense and income taxes. In reference to one of the company's three segments, "operating income" is the segment income before both interest expense and income taxes. The company also uses "operating income per share" (which is after both interest expense and income taxes). It is calculated by dividing operating income by the weighted average number of diluted shares of common stock. The company believes that metrics of operating income and operating income in relation to its three segments provide investors with a valuable measure of the performance of the company's continuing businesses because they highlight the portion of net income (loss) attributable to the core operations of the business. Income (loss) from continuing operations is the most directly comparable GAAP measure for operating income (and operating income before income taxes) and measures of operating income that exclude the effects of catastrophe losses and/or reserve development should not be misconstrued as substitutes for income (loss) from continuing operations or net income (loss) determined in accordance with GAAP. A reconciliation of operating income (loss) to income (loss) from continuing operations and net income (loss) for the relevant periods is included on page 15 of this presentation and in the Financial Supplement.

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

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

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

Operating return on equity ("ROE") is a non-GAAP measure. See end note (7) for a detailed explanation of how this measure is calculated. Operating ROE is based on non-GAAP operating income. In addition, the portion of shareholder equity attributed to unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is excluded. The company believes this measure is helpful in that it provides insight to the capital used by, and results of, the continuing business exclusive of interest expense, income taxes, and other non-operating items. These measures should not be misconstrued as substitutes for GAAP ROE, which is based on net income (loss) and shareholders' equity of the entire company and without adjustments.



End notes

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

(In millions, except per share data)	Three months ended			
	March 31, 2020		March 31, 2021	
	\$ Amount	Per Share*	\$ Amount	Per Share (Diluted)
OPERATING INCOME (LOSS)				
Commercial Lines	\$54.6		\$2.2	
Personal Lines	64.9		81.8	
Other	(2.4)		1.1	
Total	117.1		85.1	
Interest expense	(9.4)		(8.5)	
Operating income before income taxes	107.7	\$2.77	76.6	\$2.07
Income tax expense on operating income	(20.9)	(0.54)	(15.2)	(0.41)
Operating income after income taxes	86.8	2.23	61.4	1.66
Per share adjustment	-	0.04	-	-
Non-operating items:				
Net realized gains (losses) from sales and other	3.1	0.08	(1.6)	(0.04)
Net change in fair value of equity securities	(136.2)	(3.56)	39.1	1.06
Impairment losses on investments	(28.5)	(0.74)	-	-
Income tax benefit (expense) on non-operating items	36.1	0.94	(6.1)	(0.16)
Income (loss) from continuing operations, net of taxes	(38.7)	(1.01)	92.8	2.52
Discontinued Operations (net of taxes):				
Loss from discontinued life businesses	(1.3)	(0.03)	(0.1)	(0.01)
Net income (loss)	(40.0)	(\$1.04)	\$92.7	\$2.51
Dilutive weighted average shares outstanding		38.9		36.9
Basic weighted average shares outstanding		38.3		36.4

* Operating income per share metrics are calculated using diluted shares outstanding; prior year non-operating items, loss from continuing and discontinued operations and net loss per share metrics were calculated using basic shares outstanding due to antidilution



End notes continued

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

Three months ended March 31, 2021			
	Commercial Lines	Personal Lines	Total
Total combined ratio (GAAP)	106.9 %	87.0 %	98.8 %
Less: Catastrophe loss ratio	17.1 %	3.1 %	11.5 %
Combined ratio, excluding catastrophe losses (non-GAAP)	89.8 %	83.9 %	87.3 %
Less: Prior-year reserve development ratio	(0.5)%	(1.1)%	(0.7)%
Current accident year combined ratio, excluding catastrophe losses (non-GAAP)	90.3 %	85.0 %	88.0 %
March 31, 2020			
Total combined ratio (GAAP)	98.2 %	90.0 %	95.2 %
Less: Catastrophe loss ratio	3.5 %	3.0 %	3.3 %
Combined ratio, excluding catastrophe losses (non-GAAP)	94.7 %	87.0 %	91.9 %
Less: Prior-year reserve development ratio	(0.5)%	(0.3)%	(0.2)%
Current accident year combined ratio, excluding catastrophe losses (non-GAAP)	95.2 %	87.3 %	92.1 %



End notes continued

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

(\$ in millions)	Three months ended		
	March 31, 2021		
	Core Commercial	Other Commercial	Total Commercial
Net premiums written	\$431.9	\$325.5	\$757.4
Net premiums earned	\$396.1	\$296.8	\$692.9
	December 31, 2020		
	Core Commercial	Other Commercial	Total Commercial
Net premiums written	\$367.9	\$282.2	\$650.1
Net premiums earned	\$398.6	\$285.1	\$683.7
	September 30, 2020		
	Core Commercial	Other Commercial	Total Commercial
Net premiums written	\$441.2	\$319.3	\$760.5
Net premiums earned	\$385.9	\$279.2	\$665.1
	June 30, 2020		
	Core Commercial	Other Commercial	Total Commercial
Net premiums written	\$347.2	\$267.7	\$614.9
Net premiums earned	\$381.7	\$276.9	\$658.6
	March 31, 2020		
	Core Commercial	Other Commercial	Total Commercial
Net premiums written	\$421.7	\$285.9	\$707.6
Net premiums earned	\$395.4	\$280.5	\$675.9

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



End notes continued

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

Three months ended										
March 31, 2021										
	Commercial Multiple Peril	Commercial Auto	Workers' Comp	Commercial Other	Commercial Lines	Personal Auto	Home	Other Personal	Personal Lines	Total
Total loss and LAE Ratio	96.8 %	59.3 %	56.5 %	62.3 %	72.8 %	58.4 %	62.0 %	38.6 %	59.0 %	67.2 %
Less:										
Prior-year reserve development ratio	(0.3)%	(0.2)%	(3.8)%	0.2 %	(0.5)%	(1.8)%	-	0.7 %	(1.1)%	(0.7)%
Catastrophe ratio	39.6 %	(0.1)%	-	9.2 %	17.1 %	0.2 %	8.6 %	-	3.1 %	11.5 %
Current accident year loss ratio, excluding catastrophe losses	57.5 %	59.6 %	60.3 %	52.9 %	56.2 %	60.0 %	53.4 %	37.9 %	57.0 %	56.4 %
March 31, 2020										
Total loss and LAE Ratio	74.0 %	72.0 %	54.7 %	56.6 %	64.2 %	68.6 %	54.2 %	27.7 %	62.5 %	63.8 %
Less:										
Prior-year reserve development ratio	1.8 %	5.3 %	(8.7)%	(1.9)%	(0.5)%	1.0 %	(1.9)%	(11.5)%	(0.3)%	(0.2)%
Catastrophe ratio	6.4 %	0.2 %	-	3.2 %	3.5 %	0.6 %	7.7 %	1.5 %	3.0 %	3.3 %
Current accident year loss ratio, excluding catastrophe losses	65.8 %	66.5 %	63.4 %	55.3 %	61.2 %	67.0 %	48.4 %	37.7 %	59.8 %	60.7 %



End notes continued

(6) Book value per share, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is a non-GAAP measure. Book value per share is the most directly comparable GAAP measure and is reconciled in the table below.

	Period ended	
	December 31, 2020	March 31, 2021
Book value per share	\$ 87.96	\$ 84.21
Less: Net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, per share	11.76	6.71
Book value per share, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	\$ 76.20	\$ 77.50
Change in book value per share		(4.3)%
Change in book value per share, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax		1.7 %



End notes continued

(7) Operating Return on Average Equity (“Operating ROE”) is a non-GAAP measure. Operating ROE is calculated by dividing annualized operating income after taxes for the applicable period (see under the heading in this presentation “Non-GAAP Financial Measures” and end note (1)), by average shareholders’ equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, for the stated period (end note (10)). Please see end note (10) for a detailed reconciliation of adjusted shareholders’ equity with and without net unrealized appreciation (depreciation) on fixed maturity investments, net of tax. Operating ROE should not be misconstrued as a substitute for GAAP ROE. See calculations in table below, including the calculation of net income (loss) ROE using net income (loss), annualized, and average shareholders’ equity without adjustments:

(\$ in millions)	Three months ended	
	March 31, 2020	March 31, 2021
<i>Net Income (loss) ROE (non-GAAP)</i>		
Net income (loss) (GAAP)	(\$40.0)	\$92.7
Annualized net income (loss) (non-GAAP)	(160.0)	370.8
Average shareholders' equity (GAAP) (end note (10))	2,826.4	3,124.5
Return on equity (non-GAAP)	(5.7)%	11.9 %
<i>Operating Income ROE (non-GAAP)</i>		
Operating income after income taxes	\$86.8	\$61.4
Annualized operating income, net of tax* (end note (1))	347.2	245.6
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax (end note (10))	2,652.0	2,789.2
Operating return on equity	13.1 %	8.8 %

*For three months ended March 31, 2020, and 2021, annualized net income (loss) and operating income after income taxes is calculated by multiplying three months ended net income (loss) and operating income after income taxes, respectively, by four.



End notes continued

(8) Throughout this presentation, for purposes of the expense ratio calculation, expenses are reduced by installment and other fee revenues.

(9) Specialty lines, a major component of Other Commercial Lines, consist of products such as marine, surety, specialty industrial property, professional liability, management liability and various other program businesses. When discussing net premiums written and other financial measures of our specialty businesses, we may include non-specialty premiums that are written as part of the entire account.

(10) Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is a non-GAAP measure. Total shareholders' equity is the most directly comparable GAAP measure and is reconciled in the table below. For the calculation of operating ROE, the average of beginning and each included quarter's ending shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is used for the period as shown and reconciled in the table below:

(\$ in millions)	December 31, 2019	March 31, 2020	December 31, 2020	March 31, 2021
Total shareholders' equity (GAAP)	\$2,916.2	\$2,736.6	\$3,202.2	\$3,046.8
Less: net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	216.0	132.8	428.1	242.6
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	<u>\$2,700.2</u>	<u>\$2,603.8</u>	<u>\$2,774.1</u>	<u>\$2,804.2</u>
Quarter Averages				
Average shareholders' equity (GAAP)		\$2,826.4		\$3,124.5
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax		\$2,652.0		\$2,789.2