



The Hanover Insurance Group, Inc.

First Quarter 2022 Results
May 4, 2022

*To be read in conjunction with the press release dated
May 3, 2022, and conference call scheduled for May 4, 2022*



First Quarter Operating Highlights

The Hanover Reports Strong First Quarter Net and Operating Income⁽¹⁾ of \$2.90 and \$3.26 per Diluted Share, Respectively; Net and Operating Return on Equity⁽²⁾ of 14.0% and 15.7%, Respectively

- Operating income of \$117.7 million increased 91.6% from \$61.4 million in the prior-year quarter
- Combined ratio of 93.4%; combined ratio, excluding catastrophes⁽³⁾ of 89.8%
- Net premiums written increase of 9.7%*, with strong growth from each segment
- Rate increases⁽⁴⁾ of 6.3% in Core Commercial, 8.4% in Specialty and 2.7% in Personal Lines
- Renewal price change⁽⁴⁾ up 9.7% in Core Commercial, 12.6% in Specialty and 4.3% in Personal Lines
- Catastrophe loss ratio of 3.6%, below the company's first quarter catastrophe assumption by 1.2 points
- Current accident year loss and loss adjustment expense ("LAE") ratio, excluding catastrophes⁽⁵⁾, of 59.2%, as continued favorable loss frequency in personal auto and the earning-in of rate increases across commercial lines businesses were offset by the impact of higher property severity in Personal Lines
- Net investment income of \$76.9 million, in line with the prior-year quarter, as both periods benefited from similar elevated levels of partnership income
- Book value per share of \$79.58, down 10.2% from December 31, 2021, driven by a decrease in the fair value of fixed maturity investments resulting from higher interest rates. Book value per share, excluding net unrealized depreciation on fixed maturity investments, net of tax⁽⁶⁾, increased 2.0% from December 31, 2021.

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

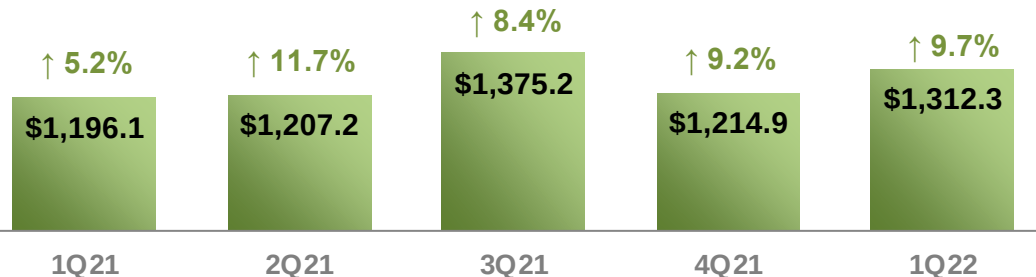
	Three months ended	
	March 31, 2021	March 31, 2022
(\$ in millions, except per share amounts)		
Net income	\$92.7	\$104.8
<i>Per diluted share</i>	<i>\$2.51</i>	<i>\$2.90</i>
Operating income before interest expense and income taxes	\$85.1	\$154.4
Operating income after income taxes	\$61.4	\$117.7
<i>Per diluted share</i>	<i>\$1.66</i>	<i>\$3.26</i>
<i>Book value per share</i>	<i>\$84.21</i>	<i>\$79.58</i>
<i>Book value per share, excluding net unrealized appreciation (depreciation) on fixed maturity investments</i>	<i>\$77.50</i>	<i>\$85.06</i>
Shareholders' equity	\$3,046.8	\$2,832.8
Debt	\$781.0	\$781.8
Total capital	\$3,827.8	\$3,614.6
Debt/total capital	20.4%	21.6%
Total assets	\$13,448.0	\$13,847.2
Net income return on average equity ⁽²⁾	11.9%	14.0%
Operating return on average equity ⁽²⁾	8.8%	15.7%



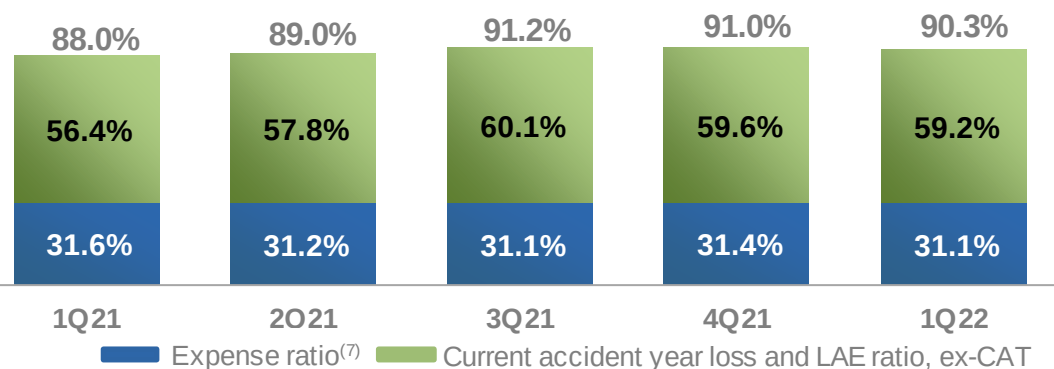
Strong Operating Results

(\$ in millions)

Net Premiums Written and Growth



Current Accident Year Combined Ratio, Ex-CAT



Net premiums written increased 9.7%, fueled by strong growth in each business segment

Current accident year combined ratio, ex-CAT, increased from the prior-year quarter, primarily driven by:

- Higher property severity in personal auto and home from inflationary pressure and supply chain disruption

Partially offset by:

- Continued favorable loss frequency in personal auto, which remains below pre-pandemic experience and relatively consistent with the fourth quarter of 2021
- The benefit from earning-in rate increases within Core Commercial and Specialty
- Lower expense ratio, which improved 50-basis-points from the prior-year quarter and is solidly in line with the company's full year target

(\$ in millions)

	Three months ended March 31	
	2021	2022
Net premiums written	\$1,196.1	\$1,312.3
Growth	5.2%	9.7%
Net premiums earned	\$1,161.8	\$1,263.8
Combined ratio	98.8%	93.4%
Combined ratio, ex-cat	87.3%	89.8%
Current accident year combined ratio, ex-cat ⁽³⁾	88.0%	90.3%

Favorable prior-year reserve development of \$6.0 million, or 0.5 points, driven by Specialty and Core Commercial, partially offset by unfavorable development in home



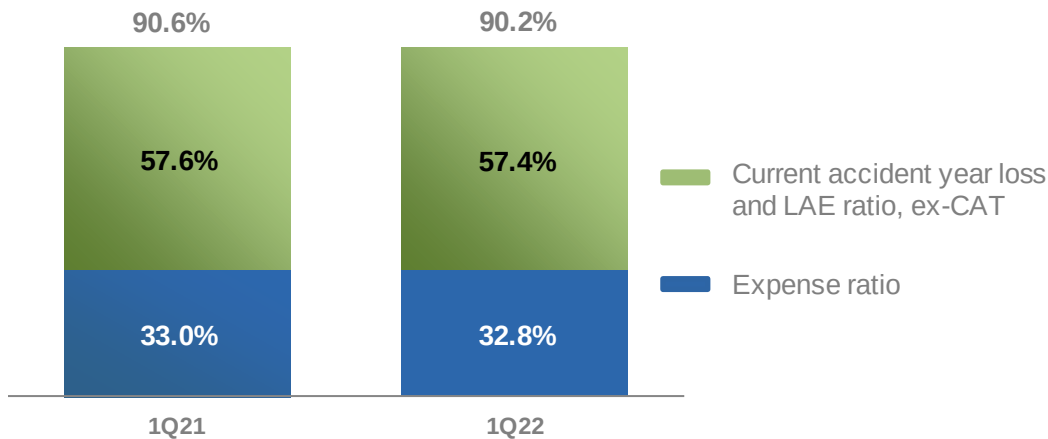
Core Commercial Underwriting Highlights

(\$ in millions)

	Three months ended March 31	
	2021	2022
Net premiums written	\$480.6	\$526.6
<i>Growth</i>	4.3%	9.6%
Net premiums earned	\$435.2	\$474.7
<i>Growth</i>	1.0%	9.1%
Catastrophe ratio	21.7%	4.1%
Prior year development ratio	-0.6%	-1.3%
Expense ratio	33.0%	32.8%
Combined ratio	111.7%	93.0%
Combined ratio, ex-CAT	90.0%	88.9%

- Current accident year combined ratio, ex-CAT, of 90.2% reflects a slight improvement over the prior-year quarter, as the benefit of earning-in rate increases was partially offset by higher large losses in commercial multiple peril, in particular from a tornado event that did not meet the catastrophe definition
- Catastrophe losses of 4.1 points compared favorably to unusually elevated catastrophe losses in the prior-year quarter
- Favorable prior-year reserve development of \$6.4 million, or 1.3 points, driven primarily by continued favorability in workers' compensation

Current Accident Year Combined Ratio, Ex-CAT

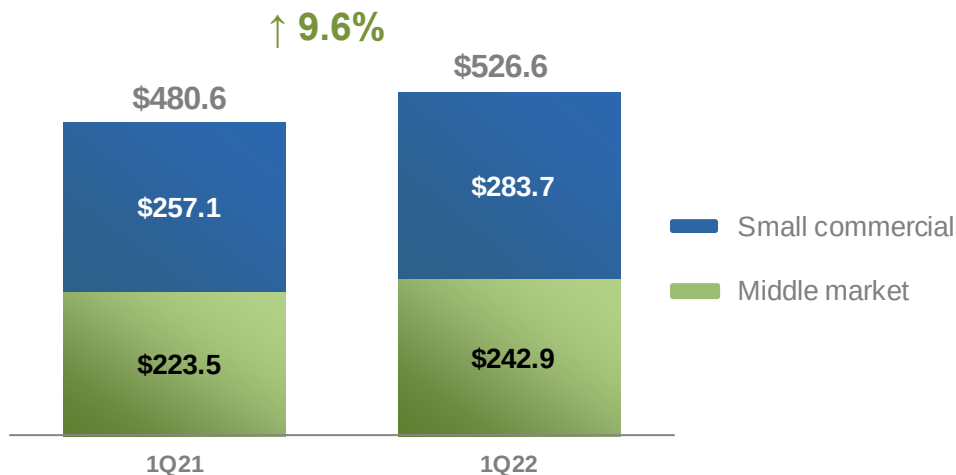




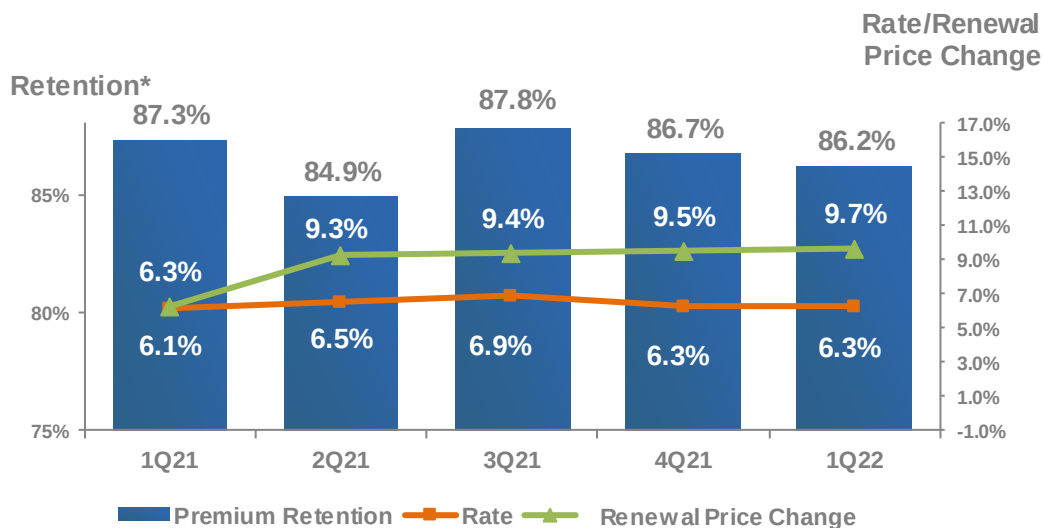
Core Commercial Growth Highlights

(\$ in millions)

Net Premiums Written and Growth



- Net premiums written growth of 9.6% in the first quarter of 2022, driven by increased exposures from uptick in economic activity and strong renewals
 - Meaningful contribution from small commercial, which delivered growth of 10.3%, supported by strong pricing and retention
 - Ongoing rollout of our industry-leading small commercial TAP Sales platform continues to gain traction, highlighted by a 20% year-over-year increase in new business submissions
 - Achieved middle market growth of 8.7%, with continued focus on optimizing the portfolio to enhance rate and retention



- Achieved healthy rate increases of 6.3%
- Robust renewal price increases of 9.7%, reflect a significant increase from the prior-year quarter and have continued on a strong trajectory
- Retention continues to be above historical levels

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

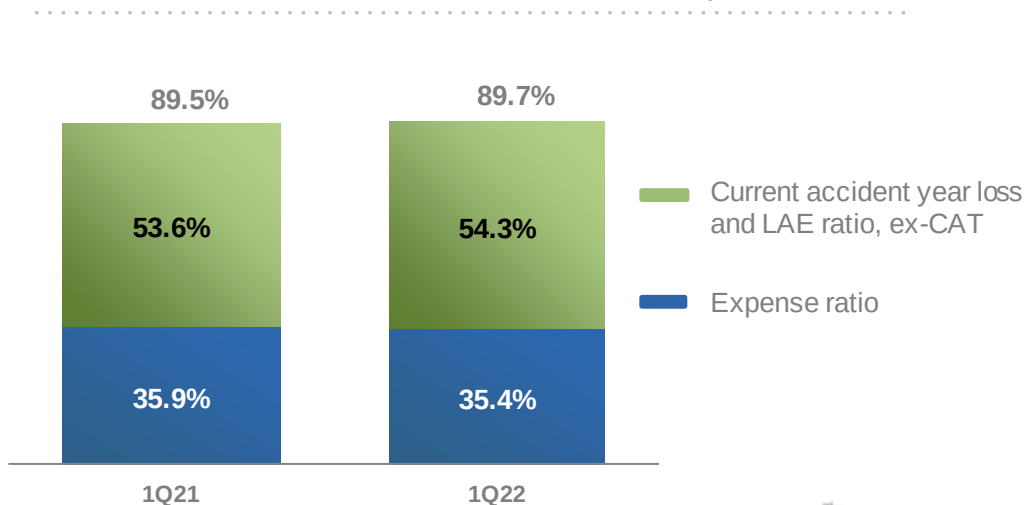


Specialty Underwriting Highlights

(\$ in millions)	Three months ended March 31	
	2021	2022
Net premiums written	\$276.8	\$302.8
Growth	12.1%	9.4%
Net premiums earned	\$257.7	\$283.8
Growth	5.2%	10.1%
Catastrophe ratio	9.5%	2.7%
Prior year development ratio	-0.2%	-4.7%
Expense ratio	35.9%	35.4%
Combined ratio	98.8%	87.7%
Combined ratio, ex-CAT	89.3%	85.0%

- Current accident year combined ratio, ex-CAT, of 89.7% is relatively in line with prior-year quarter, as the benefit of earning-in rate increases was offset by a few large property losses in the company's Specialty property and casualty subsegment
- 50-basis-point improvement in the expense ratio driven by fixed cost leverage from premium growth
- Catastrophe losses of 2.7 points compared favorably to elevated catastrophe losses of 9.5 points in the prior-year quarter
- Favorable prior-year reserve development of \$13.2 million, or 4.7 points, with contributions from multiple lines across multiple accident years

Current Accident Year Combined Ratio, Ex-CAT

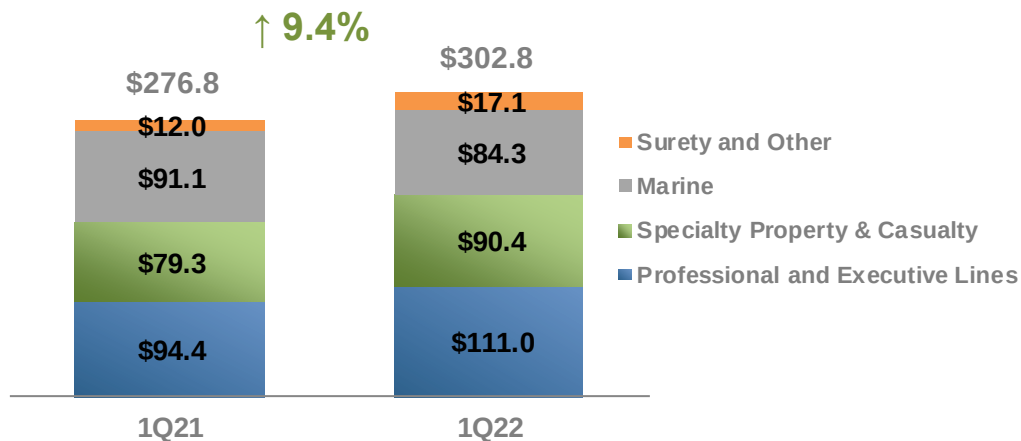




Specialty Growth Highlights

(\$ in millions)

Net Premiums Written and Growth

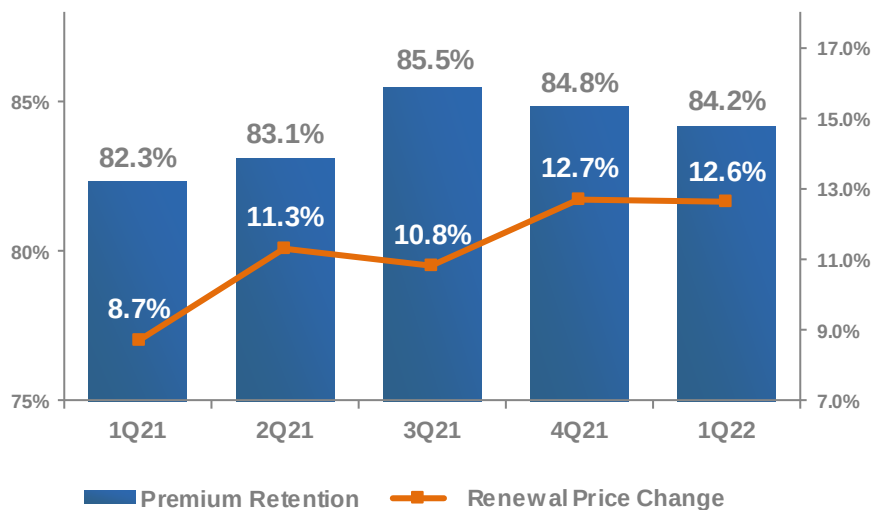


Net premiums written increased 9.4% in the quarter, supported by robust rate increases, strong retention and new business

- Achieving double-digit growth or higher across Surety, Professional and Executive lines, and E&S
- Rate increases of 8.4%
- Renewal price increases of 12.6% reflect the increase in economic activity in addition to rate

Retention*

Renewal Price Change



Very pleased with the quality of the business

- Continuing to build on our leading position in the small to mid-sized specialty segment
- Leveraging one of the broadest range of products for retail agents in the market

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

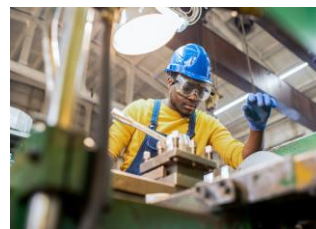
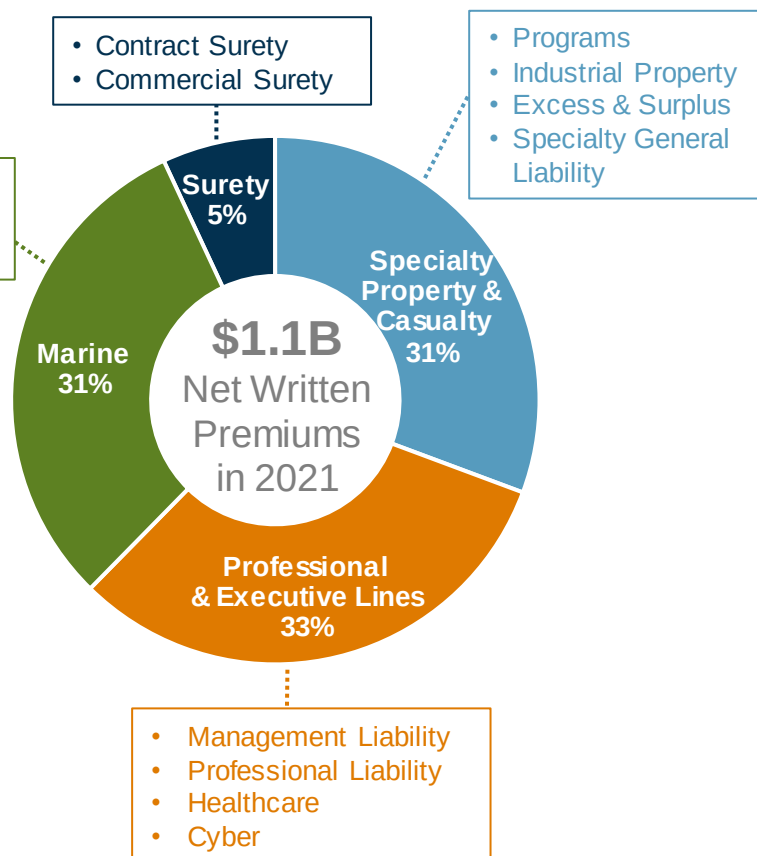


The Hanover's Specialty Portfolio

Broad capabilities for small to mid-sized clients primarily served by retail agents

A leading carrier in the small and middle markets:

Examples of our comprehensive specialty solutions:



Complex Manufacturer

- 1) Excess & Surplus Property and Casualty
- 2) Management Liability
- 3) Specialty General Liability
- 4) Industrial Property
- 5) Cyber



Large-scale Product Distributor

- 1) Industrial Property
- 2) Excess & Surplus Property and Casualty
- 3) Marine Warehouse Legal Liability
- 4) Management Liability, including Crime
- 5) Cyber



Large Community Bank

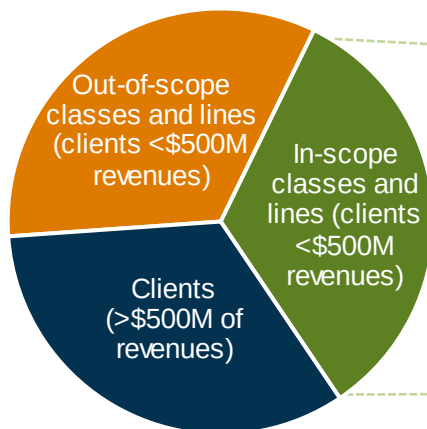
- 1) Professional Liability
- 2) Management Liability, including D&O, EPLI and Crime
- 3) Cyber
- 4) Financial Institutions Bond
- 5) Marine Fine Arts Floater
- 6) Lease Bond



Proven Growth Strategy on Track to Deliver ~10% CAGR Over the Next 5 Years

Clear line of sight to attractive market opportunities

\$129B
U.S. Specialty Market



The Hanover Specialty Market Opportunity

~\$45B

Segment	Premium
Excess & Surplus	\$10B
Marine	\$10B
Professional Liability	\$8B
Management Liability	\$6B
Healthcare	\$5B
Surety & Fidelity	\$4B
Industrial Property	\$2B

Accelerating Growth Fueled By...

Expanded Product Capabilities

Continue to broaden product offerings in small to mid-sized market segments

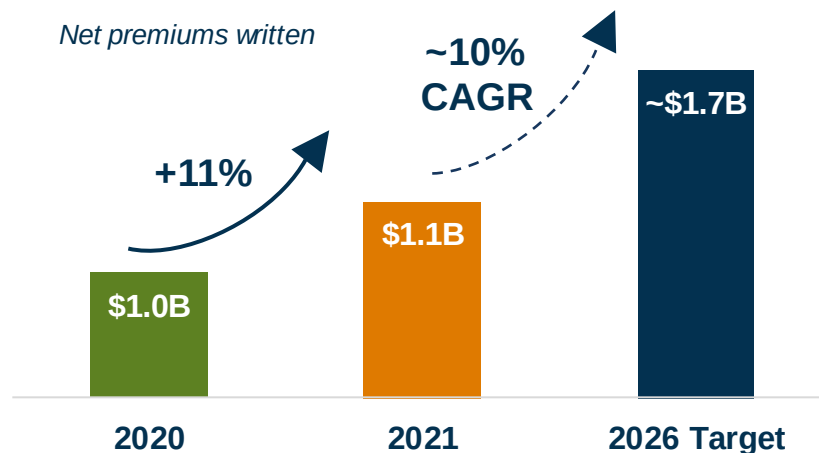
Optimized Distribution

Deepen retail, specialist and wholesaler relationships

Advanced Technology

Optimize performance through digital investment

Specialty is a Critical Growth Driver





Personal Lines Underwriting Highlights

(\$ in millions)

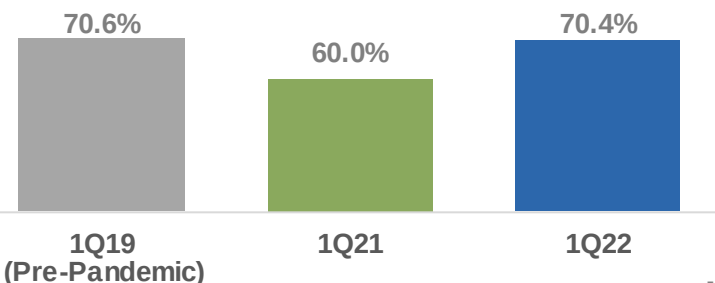
	Three months ended March 31	
	2021	2022
Net premiums written	\$438.7	\$482.9
Growth	2.2%	10.1%
Net premiums earned	\$468.9	\$505.3
Growth	0.7%	7.8%
Catastrophe ratio	3.1%	3.6%
Prior year development ratio	-1.1%	2.7%
Expense ratio	28.0%	27.2%
Combined ratio	87.0%	97.1%
Combined ratio, ex-CAT	83.9%	93.5%

Combined ratio, ex-CAT, increased 9.6 points to 93.5%, primarily due to:

- Unfavorable prior-year development driven by higher severity and longer cycle times in homeowners repair activity primarily related to fourth quarter 2021 claims, which resulted in an increase of supplemental payments on closed claims
- An increase in the current accident year loss and LAE ratio, ex-CAT, in both auto and home & other
- Partially offset by an 80-basis-point improvement in the expense ratio from the prior-year quarter, driven by fixed cost leverage from premium growth and lower performance-based agency compensation

Personal Auto

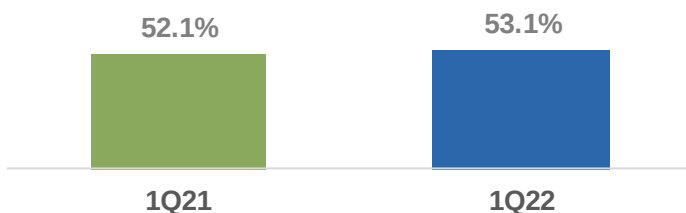
Current Accident Year Loss
and LAE Ratio, Ex-CAT



- Higher underlying loss ratio in 1Q22 driven by an increase in property severity, and to a lesser extent, an increase in loss frequency from very suppressed levels in 1Q21
- Frequency continues to track favorably compared to pre-pandemic levels and is relatively consistent with fourth quarter 2021, helping offset inflationary impacts
- Personal auto underlying loss ratio is slightly below the 70.6% reported in the pre-pandemic first quarter of 2019

Home & Other

Current Accident Year Loss
and LAE Ratio, Ex-CAT



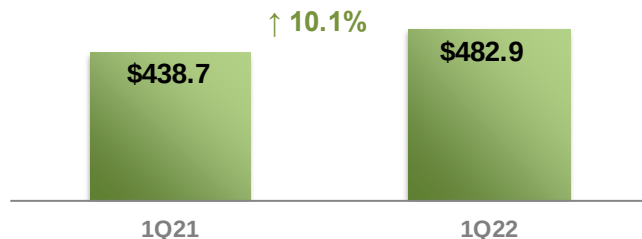
- Higher home property severity in the quarter was partially offset by fewer large fire losses and more benign non-catastrophe weather losses in the first quarter of 2022 compared the first quarter of 2021
- Increased property severity pressure in home is being addressed by achieving higher rate and exposures



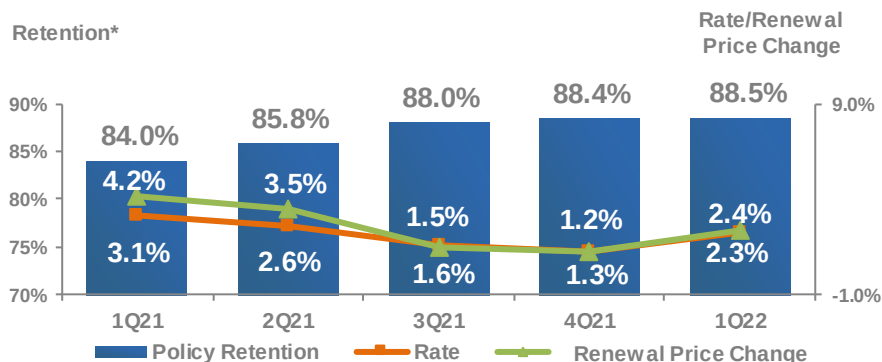
Personal Lines Growth Highlights

(\$ in millions)

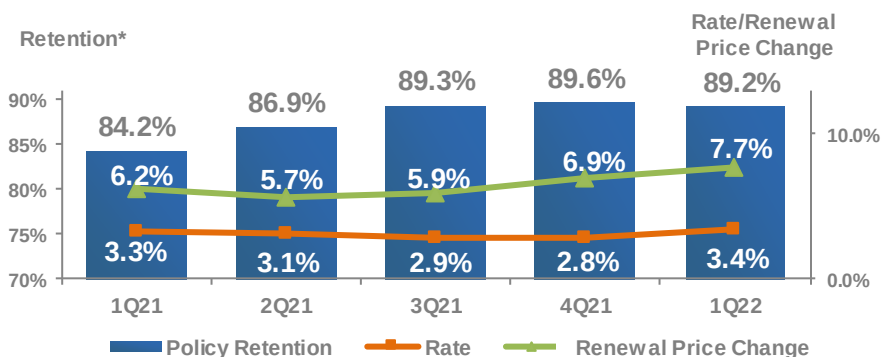
Net Premiums Written and Growth



Personal Auto Retention and Rate



Homeowners Retention and Rate



High quality book of business with favorable mix:

- Book is 87% account business
- 25% of customers now have an umbrella coverage, one of the most profitable coverages in Personal Lines
- Continue to gain positive momentum in Prestige, which grew 70% year-over-year and now represents 8% of the total Personal Lines book

Net premiums written increased 10.1% in the quarter, reflecting:

- Meaningful new business growth
- Continuing strong retention, culminating in 88.8% for the quarter
- Robust rate increases of 2.7% and renewal price increases of 4.3%
 - Homeowners renewal price increases of 7.7%
 - Auto renewal price increases of 2.4%

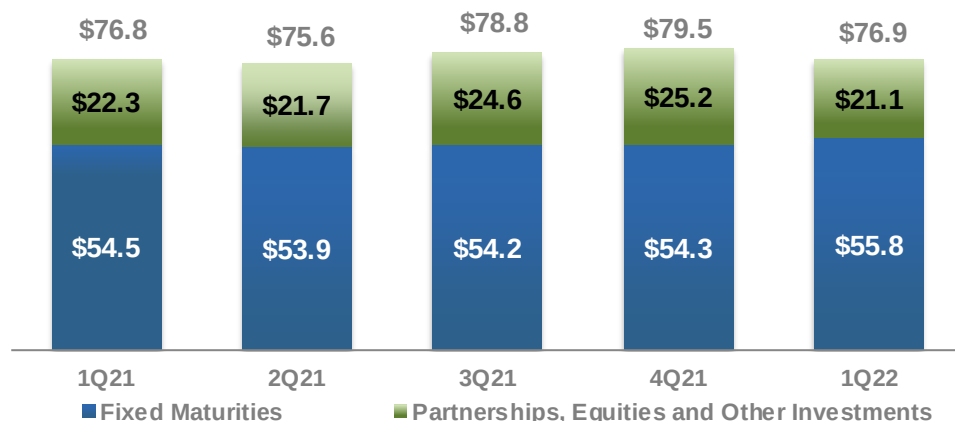
*Retention is defined as ratio of net retained policies for the noted period to those policies available to renew over the same period and includes the impact of rewrites.



Net Investment Income Trends

(\$ in millions)

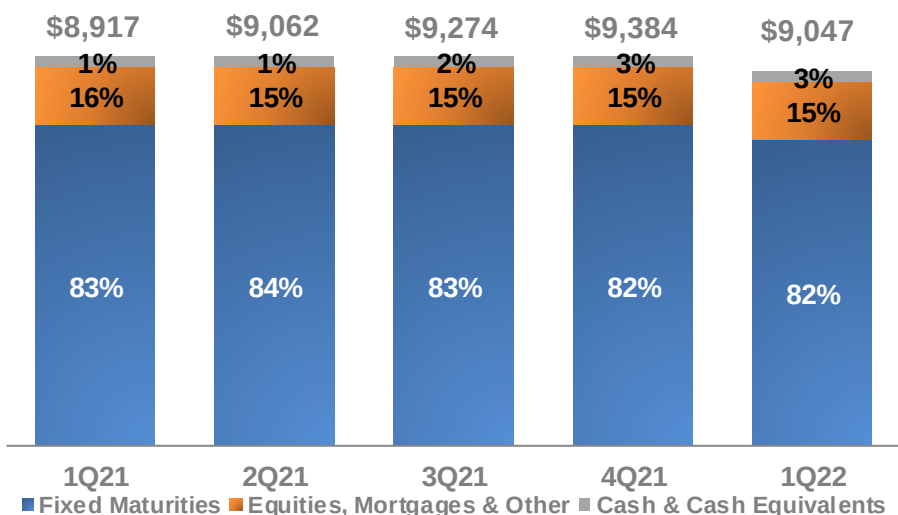
Net Investment Income*



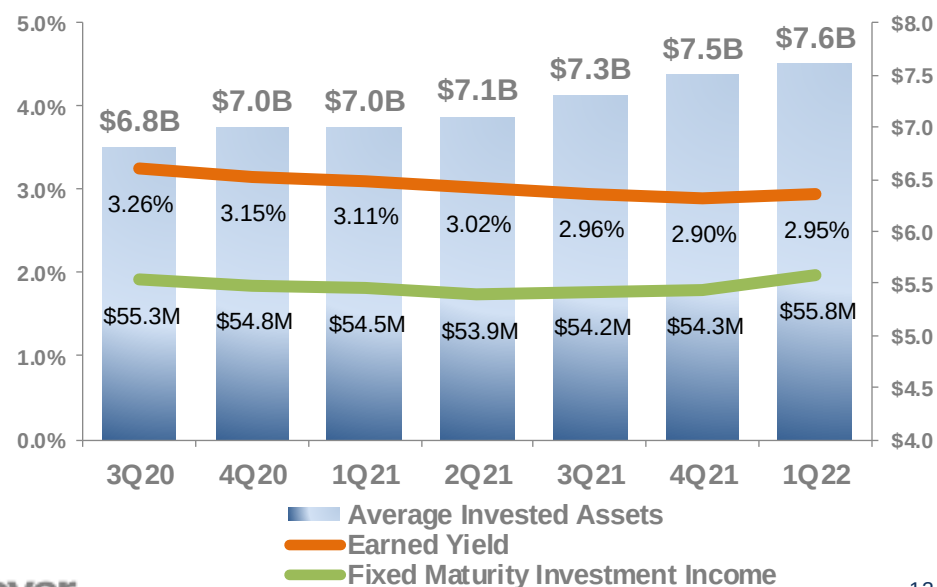
- Delivered net investment income of \$76.9 million, in line with prior year, as both periods benefited from similar elevated levels of partnership income

(\$ in millions)

Cash and Invested Assets



Fixed Maturity Investment Portfolio Trends



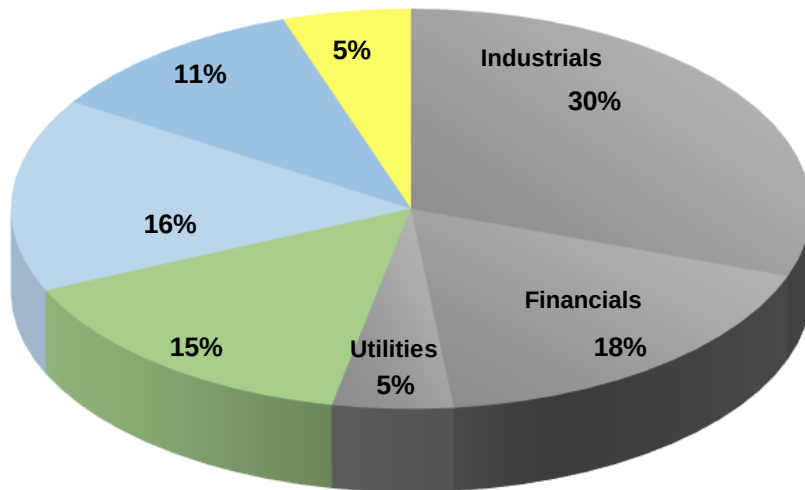
* Net investment income from partnerships, equities and other investments is presented net of investment expenses



Investment Portfolio – Total Invested Assets and Cash of \$9.0 Billion

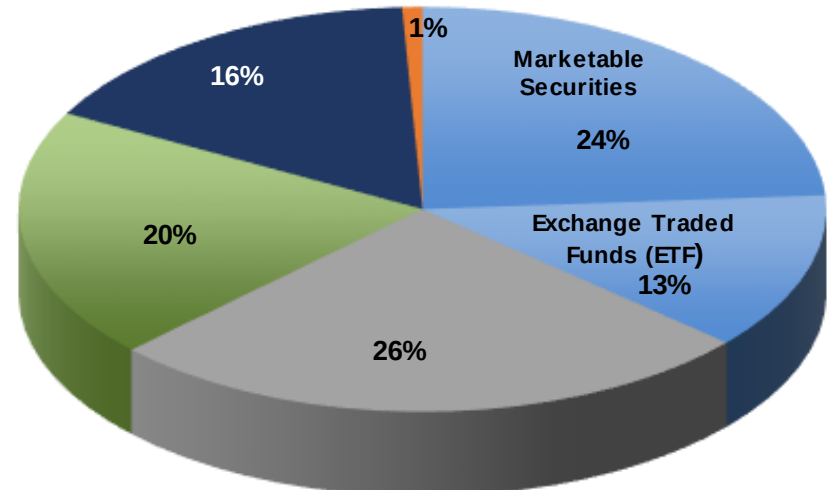
As of March 31, 2022

Fixed Maturities: \$7.4 Billion



■ Industrials ■ Financials ■ Utilities
■ Municipals (Taxable) ■ RMBS/ABS ■ CMBS
■ US Government

Equities, Cash and Other: \$1.6 Billion



■ Equities ■ Mortgage Loans
■ Limited Partnerships ■ Cash and cash equivalents
■ Other

High-quality, well-laddered fixed income portfolio

- 95% of fixed maturity securities are investment grade
- Weighted average quality: A+
- Duration: 4.9 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

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 judgment, 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 continued impacts of the 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, changes in claims frequency as a result of fluctuations in economic activity, severity from higher cost of repairs due to, among other things, supply chain disruptions, inflation, 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 liquidity and capital levels;
- Variability of catastrophe losses due to risk concentrations, changes in weather patterns including climate change, wildfires, severe storms, hurricanes, 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 year losses and loss selections (“picks”), excluding catastrophes, and prior year development patterns, particularly in complex “longer-tail” liability lines, as well as the inherent variability in short-tail property and non-catastrophe weather losses;
- Changes in frequency and loss severity trends;
- Ability to manage the impact of inflationary pressures, as a result of the Pandemic or otherwise, including, but not limited to, supply chain disruptions, labor shortages, and increases in cost of goods, services, and materials;
- 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;
- Risks and uncertainties with respect to our ability to retain profitable policies in force and attract profitable policies and to increase rates commensurate with, or in excess of, loss trends;
- 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, inflationary pressures and corresponding governmental and/or central banking initiatives taken in response thereto, and geopolitical circumstances on new money yields and overall investment returns.



Additional Risks and Uncertainties (continued)

Additional Risks and Uncertainties

- 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 Core Commercial, Specialty and/or 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 volatility, fluctuations in interest rates (which have a significant impact on the market value of our investment portfolio and thus our book value), inflationary pressures, default rates and other factors that affect investment returns from the investment portfolio;
- Data security incidents, including, but not limited to, those resulting from a malicious cyber security attack on the company or its business partners and service providers, or intrusions into the company's systems or data sources;
- 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 disputes, war, 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 on or breaches of the company's systems and/or impacting our outsourcing relationships and third-party operations, 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 37 of the company's Annual Report on Form 10-K for the year ended December 31, 2021, 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 2021 Annual Report on pages 63-66.

Operating income and operating income per share are non-GAAP measures. They are defined as net income excluding the after-tax impact of net realized 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: Core Commercial, Specialty, 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 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 from continuing operations or net income determined in accordance with GAAP. A reconciliation of operating income (loss) to income from continuing operations and net income for the relevant periods is included on page 19 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 "current 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 (2) 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 and shareholders' equity of the entire company and without adjustments.

Forward-looking Non-GAAP Measures

The company calculates forward-looking non-GAAP financial measures based on its internal forecasts, among other factors. Forward-looking non-GAAP measures, including 2026 targets, are not reconciled because such measures and reconciliations are not available without unreasonable effort that would require the company to make estimates or assumptions about unidentified and unknown factors during the period referenced, such as catastrophes, economic and market conditions, and competitive factors, among others. The company's forecast, including, but not limited to, operating return on equity ("ROE"), net premiums written ("NPW"), operating earnings per share ("EPS"), book value per share ("BVPS") and expense ratio, are non-GAAP measures. The company's forecast represents long-term aspirational goals, which reflect the company's current expectations for future periods and could differ materially from actual results.



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.” 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 from continuing operations and income from continuing operations per diluted share, respectively, which are then reconciled to net income and net income per diluted share, respectively:

	Three months ended			
	March 31, 2021		March 31, 2022	
(In millions, except per share data)	\$ Amount	Per Share (Diluted)	\$ Amount	Per Share (Diluted)
OPERATING INCOME (LOSS)				
Core Commercial	(\$14.8)		\$67.5	
Specialty	17.0		50.0	
Personal Lines	81.8		36.3	
Other	1.1		0.6	
Total	85.1		154.4	
Interest expense	(8.5)		(8.5)	
Operating income before income taxes	76.6	\$2.07	145.9	\$4.04
Income tax expense on operating income	(15.2)	(0.41)	(28.2)	(0.78)
Operating income after income taxes	61.4	1.66	117.7	3.26
Non-operating items:				
Net realized gains (losses) from sales and other	(1.6)	(0.04)	3.0	0.08
Net change in fair value of equity securities	39.1	1.06	(18.0)	(0.50)
Impairment losses on investments	-	-	(0.9)	(0.02)
Income tax benefit (expense) on non-operating items	(6.1)	(0.16)	3.5	0.09
Income from continuing operations, net of taxes	92.8	2.52	105.3	2.91
Discontinued Operations (net of taxes):				
Loss from discontinued life businesses	(0.1)	(0.01)	(0.5)	(0.01)
Net income	\$92.7	\$2.51	\$104.8	\$2.90
Dilutive weighted average shares outstanding		36.9		36.1



End notes continued

(2) 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 (8)). Please see end note (8) 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 ROE using net income, annualized, and average shareholders’ equity without adjustments:

(\$ in millions)	(Non-GAAP) Three months ended	
	March 31, 2021	March 31, 2022
<i>Net Income ROE</i>		
Net Income (GAAP)	\$92.7	\$104.8
Annualized net income*	370.8	419.2
Average shareholders' equity (end note (8))	3,124.5	2,988.9
Return on equity	11.9 %	14.0 %
<i>Operating Income ROE</i>		
(Non-GAAP)		
Operating income after income taxes	\$61.4	\$117.7
Annualized operating income, net of tax* (end note (1))	245.6	470.8
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax (end note (8))	2,789.2	2,993.9
Operating return on equity	8.8 %	15.7 %

*For three months ended March 31, 2021, and 2022, annualized net income and operating income after income taxes is calculated by multiplying three months ended net income and operating income after income taxes, respectively, by four.



End notes continued

(3) 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, 2022				
	Core Commercial	Specialty	Personal Lines	Total
Total combined ratio (GAAP)	93.0 %	87.7 %	97.1 %	93.4 %
Less: Catastrophe loss ratio	4.1 %	2.7 %	3.6 %	3.6 %
Combined ratio, excluding catastrophe losses (non-GAAP)	88.9 %	85.0 %	93.5 %	89.8 %
Less: Prior-year reserve development ratio	(1.3)%	(4.7)%	2.7 %	(0.5)%
Current accident year combined ratio, excluding catastrophe losses (non-GAAP)	90.2 %	89.7 %	90.8 %	90.3 %
March 31, 2021				
Total combined ratio (GAAP)	111.7 %	98.8 %	87.0 %	98.8 %
Less: Catastrophe loss ratio	21.7 %	9.5 %	3.1 %	11.5 %
Combined ratio, excluding catastrophe losses (non-GAAP)	90.0 %	89.3 %	83.9 %	87.3 %
Less: Prior-year reserve development ratio	(0.6)%	(0.2)%	(1.1)%	(0.7)%
Current accident year combined ratio, excluding catastrophe losses (non-GAAP)	90.6 %	89.5 %	85.0 %	88.0 %



End notes continued

(4) Renewal price changes in Core Commercial and Specialty 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 Core Commercial and Specialty 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. Renewal price change in Personal Lines represents the average change in premium on policies available to renew caused by the net effects of filed rate, inflation adjustments or other changes in policy level exposure or insured risks, regardless of whether or not the policies are retained for the duration of their contractual terms. Rate change 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, rate changes do not represent actual increases or decreases realized by the company. Personal Lines rate changes do not include inflation or changes in policy level exposure or insured risks.

(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, 2022						
	Core Commercial	Specialty	Personal Auto	Home & Other	Personal Lines	Total
Total loss and LAE Ratio	60.2 %	52.3 %	70.3 %	69.3 %	69.9 %	62.3 %
Less:						
Prior-year reserve development ratio	(1.3)%	(4.7)%	(0.1)%	7.0 %	2.7 %	(0.5)%
Catastrophe ratio	4.1 %	2.7 %	-	9.2 %	3.6 %	3.6 %
Current accident year loss ratio, excluding catastrophe losses	57.4 %	54.3 %	70.4 %	53.1 %	63.6 %	59.2 %
March 31, 2021						
Total loss and LAE Ratio	78.7 %	62.9 %	58.4 %	60.0 %	59.0 %	67.2 %
Less:						
Prior-year reserve development ratio	(0.6)%	(0.2)%	(1.8)%	0.1 %	(1.1)%	(0.7)%
Catastrophe ratio	21.7 %	9.5 %	0.2 %	7.8 %	3.1 %	11.5 %
Current accident year loss ratio, excluding catastrophe losses	57.6 %	53.6 %	60.0 %	52.1 %	57.0 %	56.4 %



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, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and adjusted for special dividends, 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	March 31
	2021	2022
Book value per share	\$ 88.59	\$ 79.58
Less: Net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, per share	5.21	(5.48)
Book value per share, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	\$ 83.38	\$ 85.06
Change in book value per share		(10.2)%
Change in book value per share, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax		2.0 %



End notes continued

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

(8) 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, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	March 31, 2022
Total shareholders' equity (GAAP)	\$3,202.2	\$3,046.8	\$3,154.0	\$3,102.3	\$3,144.9	\$2,832.8
Less: net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	428.1	242.6	304.7	256.8	184.9	(195.0)
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	<u>\$2,774.1</u>	<u>\$2,804.2</u>	<u>\$2,849.3</u>	<u>\$2,845.5</u>	<u>\$2,960.0</u>	<u>\$3,027.8</u>
Average shareholders' equity (GAAP)		\$3,124.5				\$2,988.9
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax		\$2,789.2				\$2,993.9