

# The Hanover Insurance Group, Inc.

## **Q4 2009 Earnings Results**

To be read only in conjunction with the press release dated  
February 3, 2010 and the conference call scheduled for  
February 4, 2010.

# Forward-Looking Statements and Non-GAAP Financial Measures

Certain statements in this presentation, including responses to questions, contain or may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Use of the words "believes", "anticipates", "expects", "projections", "outlook", "should", "plan", "confident," "guidance," "on track to," "promise" and similar expressions is intended to identify forward-looking statements. In particular, this presentation includes forward-looking statements with respect to the pricing environment; net written premium and policies in force growth and retention; new business growth; prior year reserve development; accident year loss ratios; net investment income; expense ratio; pre-tax segment income; segment income EPS (after-tax segment income per share); the impact of various transactions, investments, product introductions, product, geographic and account based mix changes on future growth and profitability; return on equity; and effective tax rate, and may also include forward looking statements on underwriting conditions, the adequacy of reserves (including reserves established with respect to catastrophes), the impact of anticipated regulatory changes, the impact of any recent, pending or future acquisitions, new product availability and impact, capital levels, ratings, the number of shares outstanding, investment impairments, and discontinued operations.

The company cautions investors that forward-looking statements are not guarantees of 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 February 3, 2010 and Annual Report 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 speaks as of December 31, 2009.

These uncertainties include the current disruptions in the financial markets, the uncertain 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, the ability to increase or maintain certain property and casualty insurance rates, the impact of new product introductions, adverse loss development and adverse trends in mortality and morbidity, 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, heightened competition (including rate pressure), adverse and evolving state and federal legislation or regulation, adverse regulatory or litigation actions, financial ratings actions, and various other factors. Comments referring to the future profitability and premiums as a result of the OneBeacon renewal rights deal or the acquisition of Campania, Inc. are forward-looking statements.

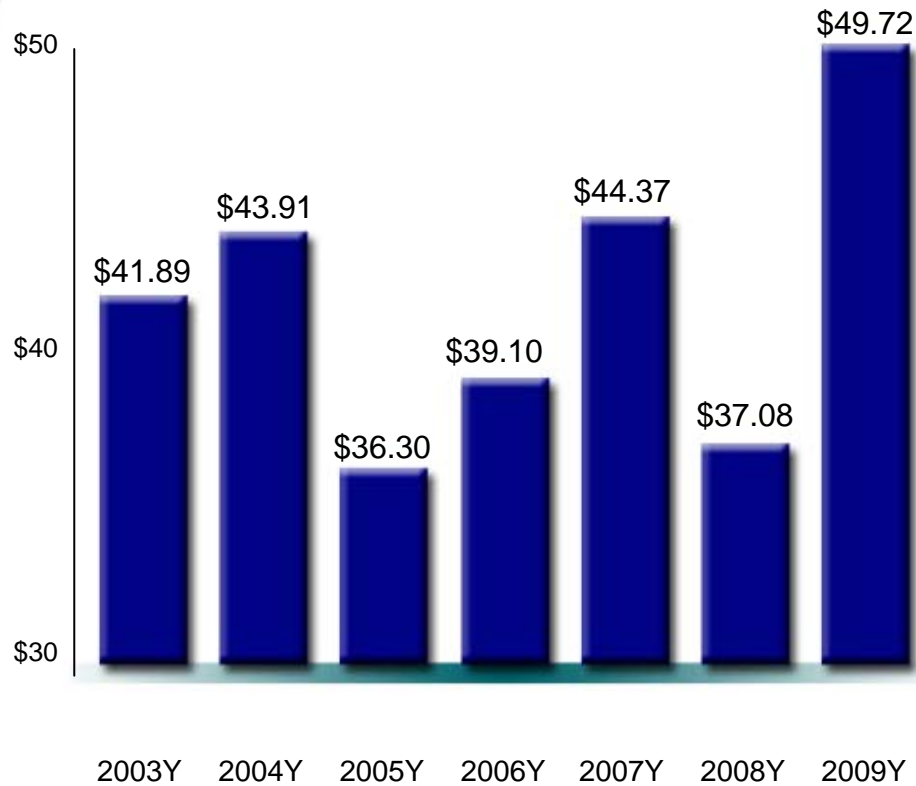
The discussion in this presentation of The Hanover's financial performance includes reference to certain financial measures that are not derived from generally accepted accounting principles, or GAAP, such as total segment income (sometimes referred to as property and casualty segment income), segment income after taxes, book value and book value per share excluding Accumulated Other Comprehensive Income and loss ratios excluding catastrophes and accident year loss ratios excluding catastrophes. A reconciliation of non-GAAP measures to the closest GAAP measure is included in both the press release and statistical supplement, which are posted on our website. The reconciliation of accident year loss ratio excluding catastrophes to the nearest GAAP measure, total loss ratio, is found on pages 11 and 12 of the statistical supplement. After-tax segment income EPS (sometimes referred to as "after-tax segment income per share") is a non-GAAP measure. It is defined as net income (loss) excluding the after-tax impact of net realized investment gains (losses), as well as results from discontinued operations for a period divided by the average number of diluted shares of common stock. The definition of other financial measures and terms can be found in the Annual Report on pages 67-69.

# THG Fourth Quarter Earnings

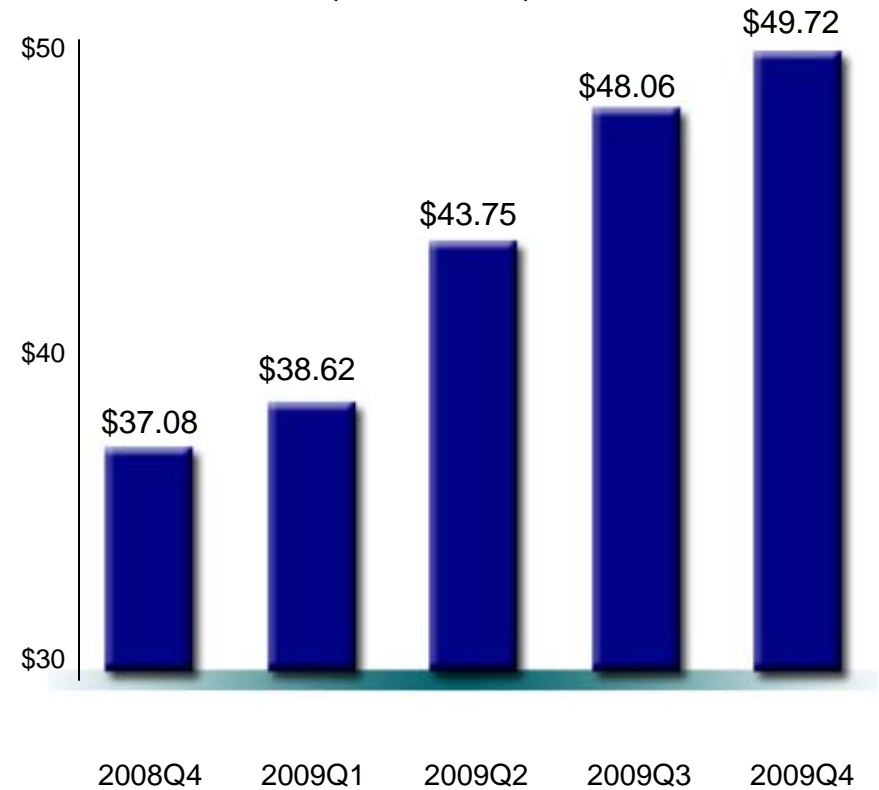
**Opening Remarks by  
Fred Eppinger**

# Book Value Growth

### 2003-2009

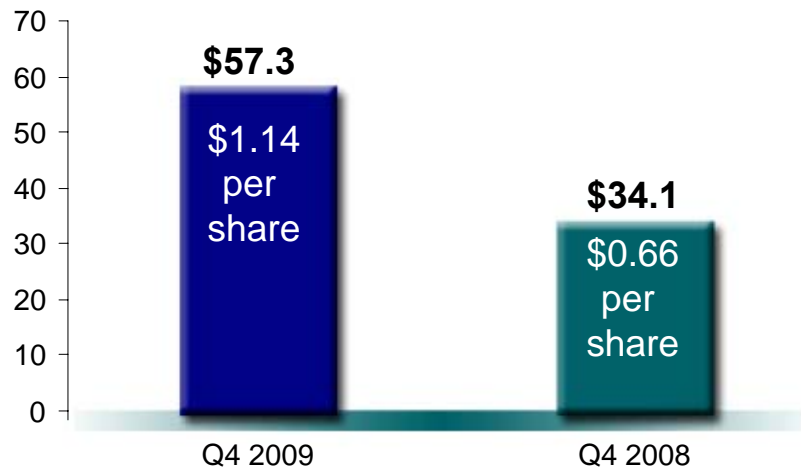


### Q42008 - Q42009

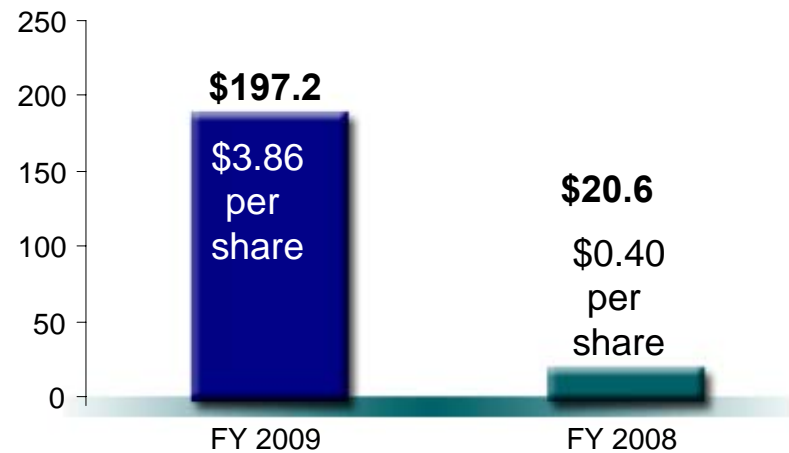


# Net Income Results

**QTR Net Income**  
(\$ in millions, except per share)

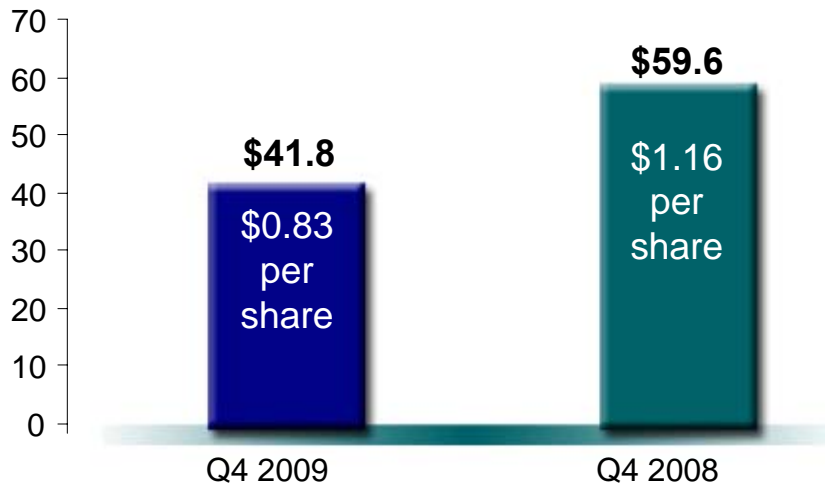


**Full Year Net Income**  
(\$ in millions, except per share)

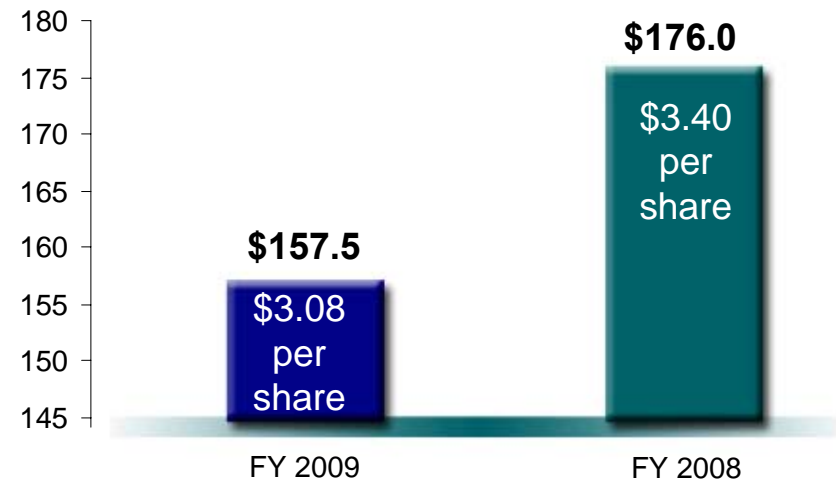


# Segment Income Results

**QTR After Tax Segment Income<sup>(1)</sup>**  
(\$ in millions, except per share)



**Full Year After Tax Segment Income<sup>(1)</sup>**  
(\$ in millions, except per share)



(1) Segment income after tax and segment income after tax per share are non-GAAP financial measures. The reconciliation to the closest GAAP measures are Income from Continuing Operations and Income from Continuing Operations per share and can be found on the last page of the earnings press release dated February, 3, 2010.

# THG Fourth Quarter Earnings

## **P&C Underwriting Highlights** **by Marita Zuraitis**

## P&C Pre-tax Segment Income Results

	<b>Q4 2009</b>	<b>Q4 2008</b>	<b>Change</b>
Pre-Tax Segment Income <sup>(1)</sup>	\$ 70M	\$ 98M	\$ (28)M
Catastrophe Impact	\$ 7M	\$ 14M	\$ (7)M
Adjusted Ex-Cat Segment Income <sup>(1)</sup>	<u>\$ 77M</u>	<u>\$ 112M</u>	<u>\$ (35)M</u>

	<b>FY 2009</b>	<b>FY 2008</b>	<b>Change</b>
Pre-Tax Segment Income <sup>(1)</sup>	\$ 270M	\$ 302M	\$ (32)M
Catastrophe Impact	\$ 99M	\$ 170M	\$ (71)M
Adjusted Ex-Cat Segment Income <sup>(1)</sup>	<u>\$ 369M</u>	<u>\$ 472M</u>	<u>\$(103)M</u>

(1) Pre-tax segment income and adjusted ex-cat segment income are non-GAAP financial measures. The reconciliation of Pre-tax Segment Income to the closest GAAP measure is Income from Continuing Operations and can be found on the last page of the earnings press release dated February, 3, 2010.



# PL Fourth Quarter Operating Highlights

	<u>Q4 2009</u>	<u>Q4 2008</u>	<u>Change</u>
Pre-tax Segment Income	\$ 20M	\$ 40M	\$ (20)M
Catastrophe Impact	\$ 6M	\$ 10M	\$ (4)M
Adjusted Ex-Cat Segment Income	<u>\$ 26M</u>	<u>\$ 50M</u>	<u>\$ (24)M</u>

- Lower favorable loss and LAE development \$(11)M
  - Lower ex-catastrophe accident year loss margins \$ (8)M
  - Lower net investment income \$ (2)M
  - Other \$ (3)M
- \$(24)M

# PL Full Year Operating Highlights

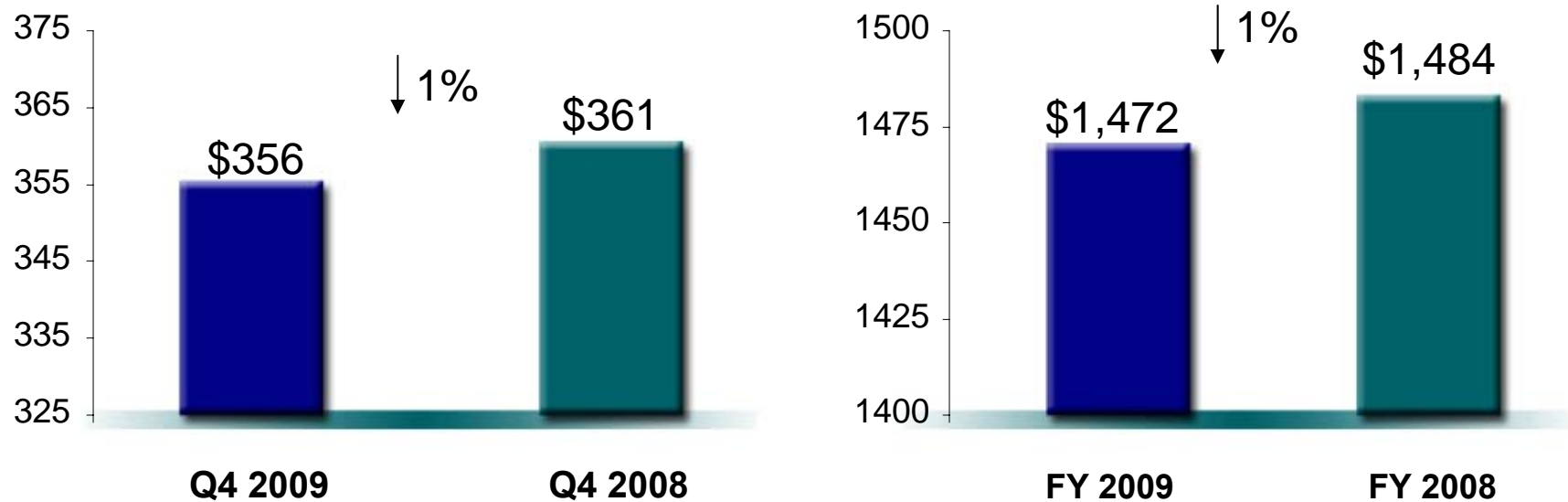
	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Pre-tax Segment Income	\$ 76M	\$ 124M	\$ (48)M
Catastrophe Impact	\$ 70M	\$ 85M	\$ (15)M
Adjusted Ex-Cat Segment Income	<u>\$146M</u>	<u>\$ 209M</u>	<u>\$ (63)M</u>

- Lower ex-catastrophe accident year loss margins \$ (21)M
  - Lower favorable loss and LAE reserve development \$ (20)M
  - Higher other underwriting expenses \$ (11)M
  - Lower net investment income \$ (9)M
  - Other \$ (2)M
- \$ (63)M

# PL Growth Trends

## Net Written Premium

*(\$ in millions)*



# CL Fourth Quarter Operating Highlights

	<u>Q4 2009</u>	<u>Q4 2008</u>	<u>Change</u>
Pre-tax Segment Income	\$ 53M	\$ 56M	\$ (3)M
Catastrophe Impact	\$ 0M	\$ 4M	\$ (4)M
Adjusted Ex-Cat Segment Income	<u>\$ 53M</u>	<u>\$ 60M</u>	<u>\$ (7)M</u>

- Lower ex-catastrophe accident year loss margins \$(10)M
- Higher underwriting expenses \$ (7)M
- Higher favorable prior year loss and LAE reserve development \$ 11M
- Other \$ (1)M
- \$ (7)M

# CL Full Year Operating Highlights

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Pre-tax Segment Income	\$ 190M	\$ 170M	\$ 20M
Catastrophe Impact	\$ 29M	\$ 84M	\$ (55)M
Adjusted Ex-Cat Segment Income	<u>\$ 219M</u>	<u>\$ 254M</u>	<u>\$ (35)M</u>

- Higher underwriting expenses \$(32)M
  - Lower ex-catastrophe accident year loss margins \$ (8)M
  - Higher favorable prior year loss and LAE reserve development \$ 6M
  - Lower other income \$ (1)M
- \$(35)M

# Commercial Lines Accident Year Loss Ratio

## Accident Year Ex-Cat Loss Ratio <sup>(1)</sup>

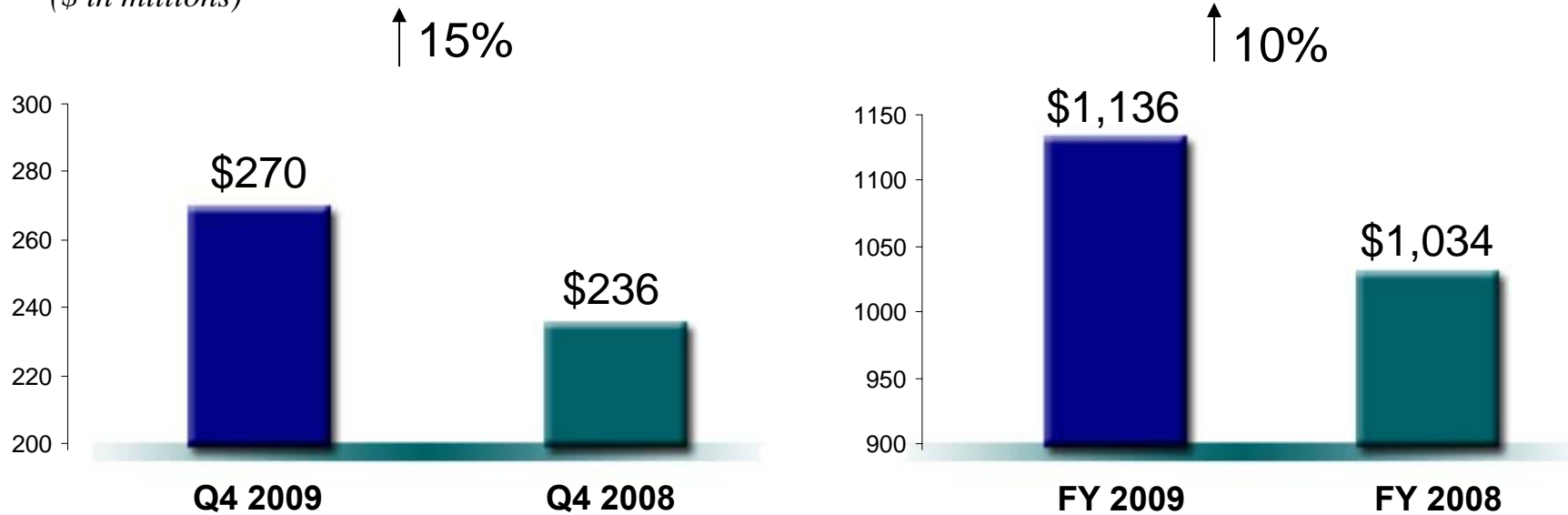
	Workers' Comp	Auto	Multiple Peril	Other	Total
Q4 2009	69.2%	55.0%	50.8%	40.1%	48.8%
Q4 2008	62.5%	56.1%	44.1%	34.8%	45.6%
Full Year 2009	68.2%	53.8%	48.3%	42.2%	49.0%
Full Year 2008	64.8%	53.5%	47.9%	37.1%	47.6%

(1) Non-GAAP measure

# CL Growth Trends

## Net Written Premium

(\$ in millions)



# THG Fourth Quarter Earnings

**Financial Review by  
Eugene Bullis**



# Reconciliation of Segment Income to Net Income

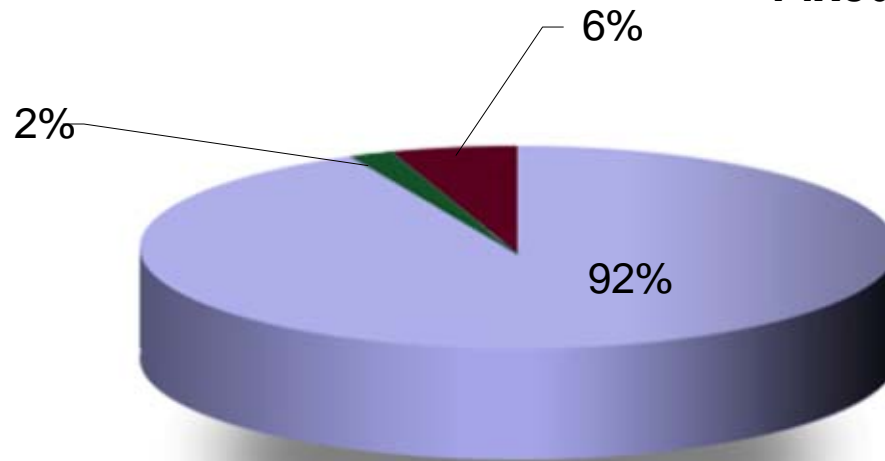
*\$ in millions, except per share*

	<u>Q4 2009</u>	<u>Q4 2008</u>	<u>FY 2009</u>	<u>FY 2008</u>
Segment Income, after tax <sup>(1)</sup>	\$ 42M	\$ 60M	\$ 158M	\$ 176M
Federal Income Tax Settlement	-	-	-	\$ 6M
Net Realized Investment Gains (Losses), and Other	\$ 11M	\$ (37)M	\$ 1M	\$ (97)M
Gain from Retirement of Corporate Debt	-	-	\$ 35M	-
Federal Income Tax Benefit (Expense) on Non-segment Items	\$ 3M	-	\$ (6)M	-
Gain (Loss) from Discontinued FAFLIC Business	\$ 1M	\$ 8 M	\$ 7M	\$ (85)M
Discontinued Operations	\$ -	\$ 3 M	\$ 2M	\$ 21M
Net Income	<u>\$ 57M</u>	<u>\$ 34M</u>	<u>\$ 197M</u>	<u>\$ 21M</u>
Per Share	\$1.14	\$0.66	\$3.86	\$0.40

(1) Segment income, after tax, is a non-GAAP financial measure. The reconciliation to the closest GAAP measure is Income from Continuing Operations and can be found on the last page of the earnings press release dated February, 3, 2010.

# THG Asset Mix

*% of market value*



- Fixed Income Securities
- Equities & Other Investments
- Cash & Cash Equivalents

## Fixed income characteristics:

**93% of fixed income securities are investment grade**

**Weighted average quality A+**

**Duration: 4.2 years**

## Investment Portfolio Holdings \$5.2B<sup>(1)</sup>

As of 12/31/2009

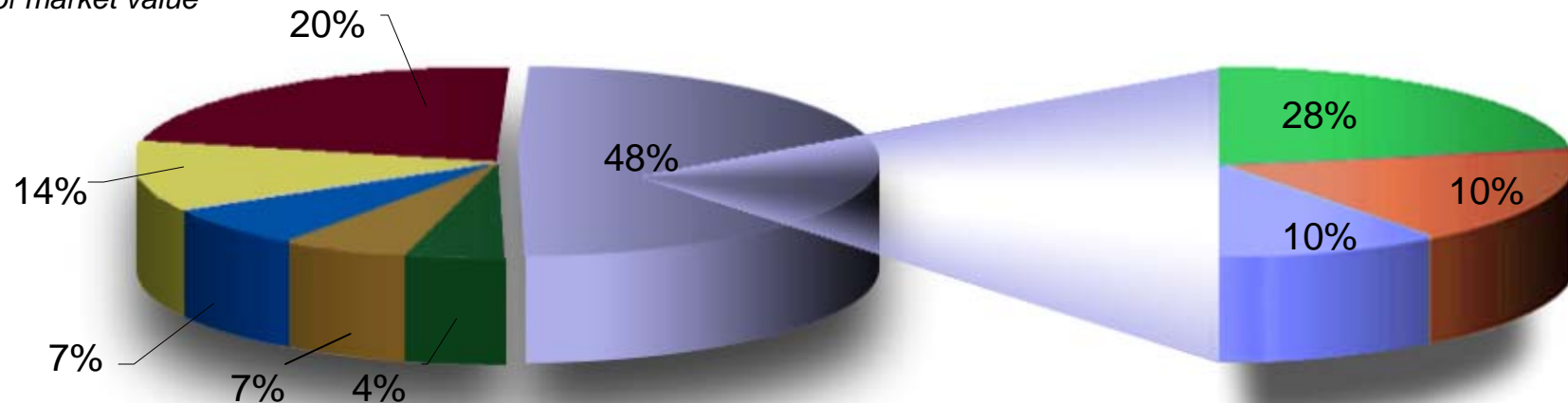
(1) This information and investment information presented later in this presentation includes assets of the discontinued accident and health business

# Fixed Income Sector Breakdown

**\$4.7 Billion Market Value**  
As of 12/31/2009

**Corporates \$2.3 Billion**

% of market value



- Corporates
- Municipals (Tax-exempt)
- CMBS
- U.S. Govt/Agencies
- Municipals (Taxable)
- MBS

- Industrials
- Financials
- Utilities

## Fixed Income Characteristics:

93% of fixed income securities are investment grade

Weighted average quality A+

Duration: 4.2 years

## Corporate Holding Characteristics:

87% Investment Grade

Duration 4.3 years

# CMBS Portfolio

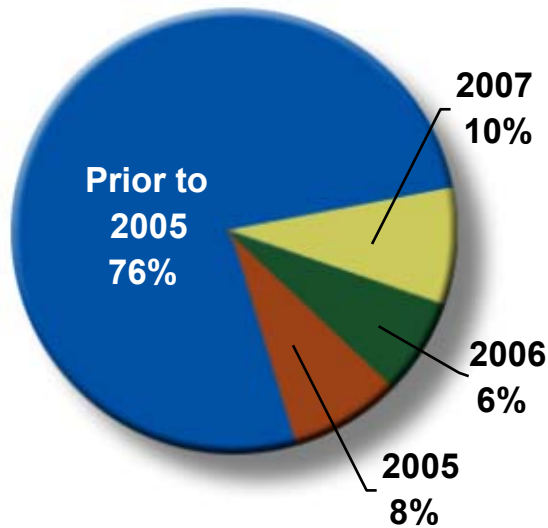
% of market value

**\$337.2 million**  
as of 12/31/2009

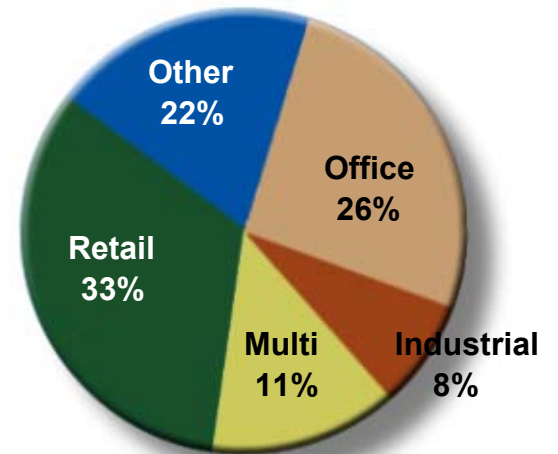
**Rating:**  
AAA – 79%  
AA – 10%  
A – 11%

Weighted average  
LTV: 69.9%

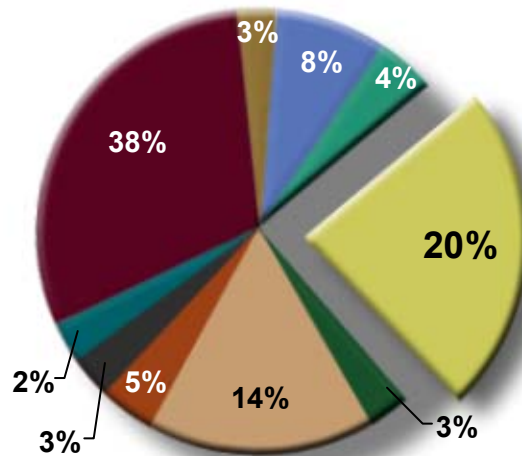
## Vintage



## Property Type



## Geography



■ Deceased ■ NJ ■ CA ■ TX ■ IL ■ MD ■ Other ■ NC ■ NY ■ FL

# Net Unrealized Position

(\$ in millions)

Investment Type	Wtd Avg Quality	Book Value	Market Value	Net Unrealized @ 12/31/2009	Net Unrealized @ 09/30/2009	Δ in Net Unrealized
Corporate:						
NAIC 1	A2/A	\$ 844.1	\$ 876.4	\$ 32.3	34.2	(1.9)
NAIC 2	BAA2/BBB	1,038.9	1,087.4	48.5	43.7	4.8
NAIC 3 and Below	B1/B+	300.6	304.5	3.9	(3.6)	7.5
	BAA1/BBB+	2,183.6	2,268.3	84.7	74.3	10.4
MBS / CMBS / ABS:						
MBS	AA1/AA+	858.8	874.4	15.6	16.3	(0.7)
CMBS	AA1/AA+	334.5	337.2	2.7	1.1	1.6
ABS	A2/A	63.1	65.6	2.5	2.8	(0.3)
Municipals:						
Taxable	AA3/AA-	685.6	669.0	(16.6)	4.7	(21.3)
Tax Exempt	A1/A+	159.1	163.2	4.1	3.4	0.7
U.S. Government	AAA	355.2	354.7	(0.5)	2.8	(3.3)
<b>Total Fixed Maturities</b>	<b>A1/A+</b>	<b>4,639.9</b>	<b>4,732.4</b>	<b>92.5</b>	<b>105.4</b>	<b>(12.9)</b>
<b>Equities</b>		<b>57.4</b>	<b>69.3</b>	<b>11.9</b>	<b>12.2</b>	<b>(0.3)</b>
<b>Fixed Maturities and Equities</b>		<b>\$ 4,697.3</b>	<b>\$ 4,801.7</b>	<b>\$ 104.4</b>	<b>\$ 117.6</b>	<b>\$ (13.2)</b>

# Capital Management

- Continued to repurchase stock:
  - Repurchased approximately 281,000 common shares for \$12 million in the open market in the fourth quarter 2009
  - Repurchased approximately 2,418,000 common shares under the ASR plan
  - As of December 31, 2009, have \$92 million remaining under the \$300 million share repurchase authorization
- Debt to total capital ratio at 15.5% at December 2009

# Change in Book Value Analysis

	Quarter Ended December 31, 2009	Year Ended December 31, 2009	Quarter Ended December 31, 2009	Year Ended December 31, 2009
<i>\$ in millions, except per share</i>				
Beginning of Period Book Value	\$2,407.1	\$1,887.2	\$48.06	\$37.08
Net Income				
Continuing Operations	55.9	187.8	1.11	3.68
Discontinued Operations	1.4	9.4	0.03	0.18
Change in AOCI, net of tax				
Change in Pension and Postretirement Related Benefits, net of taxes	21.1	29.8	0.45	0.63
Change in Net Unrealized Investment Losses, net of taxes	(8.1)	390.4	(0.16)	8.24
Release of Deferred Tax Valuation Allowance	26.6	26.6	0.56	0.56
Dividend	(37.5)	(37.5)	(0.75)	(0.75)
Common Stock Activity				
Accelerated Stock Repurchase Program	(100.6)	(100.6)	-	-
Other Stock Repurchases	(11.9)	(48.1)	-	-
Other, net	4.6	13.6	-	-
Common Stock Activity, per share	-	-	0.42	0.10
Ending of Period Book Value	\$2,358.6	\$2,358.6	\$49.72	\$49.72



# THG Balance Sheet Strength

<i>(In millions, except per share data)</i>	<b>December 2009</b>	<b>December 2008</b>
Total shareholders' equity	\$2,359	\$1,887
Total book value per share	\$49.72	\$37.08
Debt/total capital	15.5%	22.0%
THG holding company cash and investments <sup>(1)</sup>	\$293	\$411
Property and casualty adjusted statutory capital	\$1,742	\$1,601
Property and casualty premium to surplus ratio	1.5:1	1.6:1

(1) December 31, 2008 reflects proceeds from the FAFLIC sale of approximately \$220 million, which were received January 2, 2009 and \$42 million of THG trust preferred capital securities held at the holding company, which were retired as of July 30, 2009



# *Questions*