



# The Hanover Insurance Group, Inc.

## **Q1 2010 Earnings Results**

To be read only in conjunction with the press release dated  
May 6, 2010 and the conference call scheduled for  
May 7, 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 after-tax operating earnings per share, the pricing environment and the Company's ability to increase rates; net written premium growth and retention; new business growth (including as a result of the renewal rights transaction, new product introductions and geographic expansion); prior year reserve development; accident year loss ratios; expense ratio; product margins, including with respect to new business; the impact of various transactions, investments, product introductions, product, geographic and account based mix changes on future growth and profitability; return on equity; 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, net investment income, 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 May 6, 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 March 31, 2010.

These uncertainties include 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, 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 profitability and future performance and growth as a result of the OneBeacon renewal rights deal, westward expansion, or new product introductions, the acquisition of Campania, Inc. and Benchmark 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 page 9 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 77-79.

# THG First Quarter Earnings

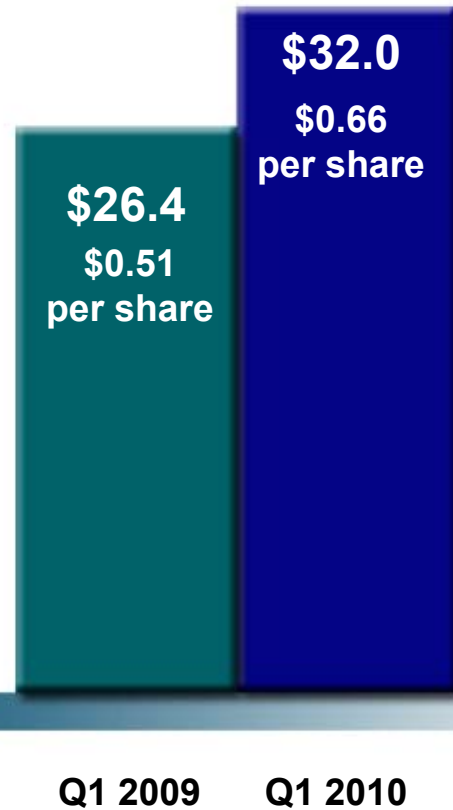
**Opening Remarks by  
Fred Eppinger**

# First Quarter 2010

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

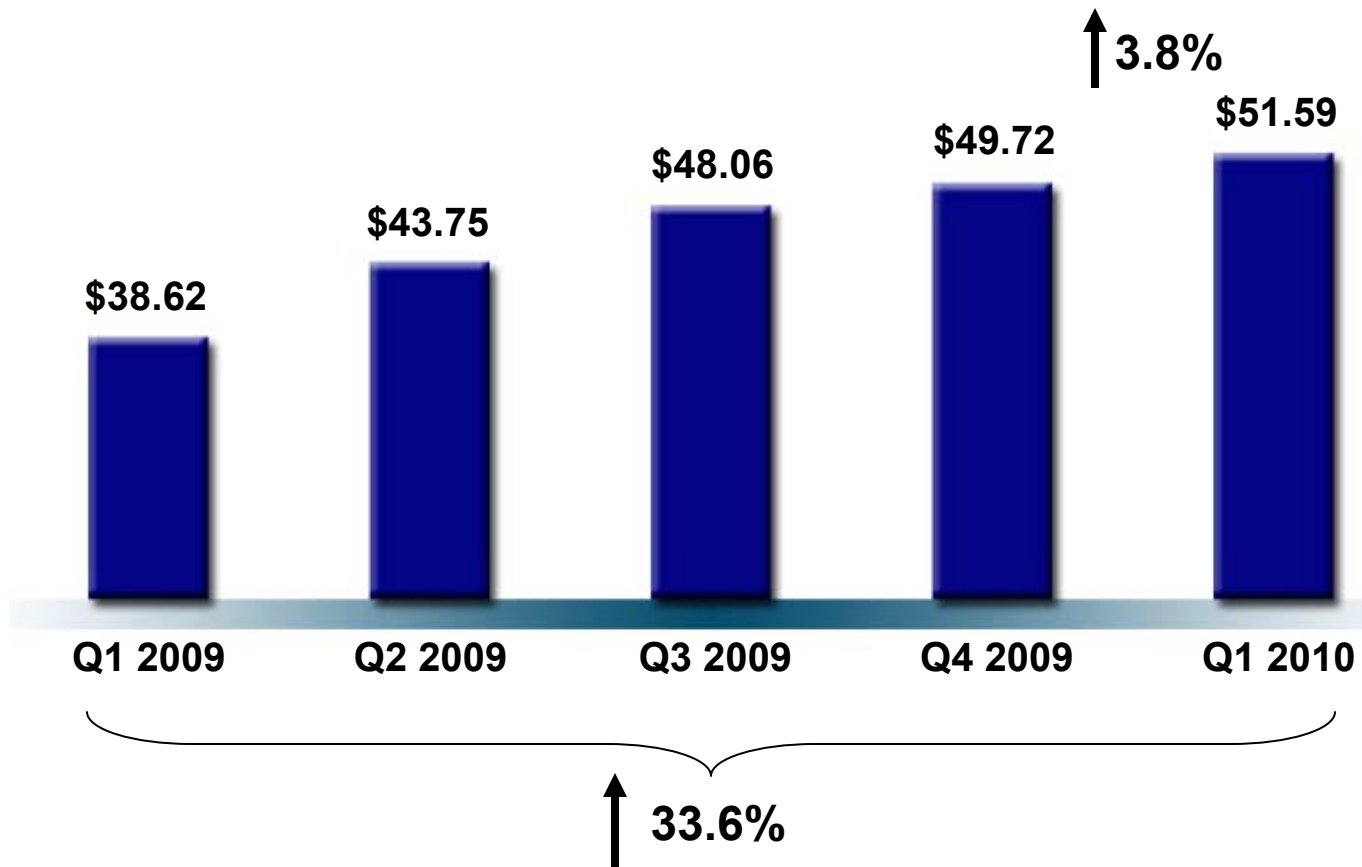


**QTR After Tax Segment Income<sup>(1)</sup>**  
(\$ in millions, except per share)



<sup>(1)</sup> Non-GAAP Financial Measure

## Book Value Per Share Growth





# THG First Quarter Earnings

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

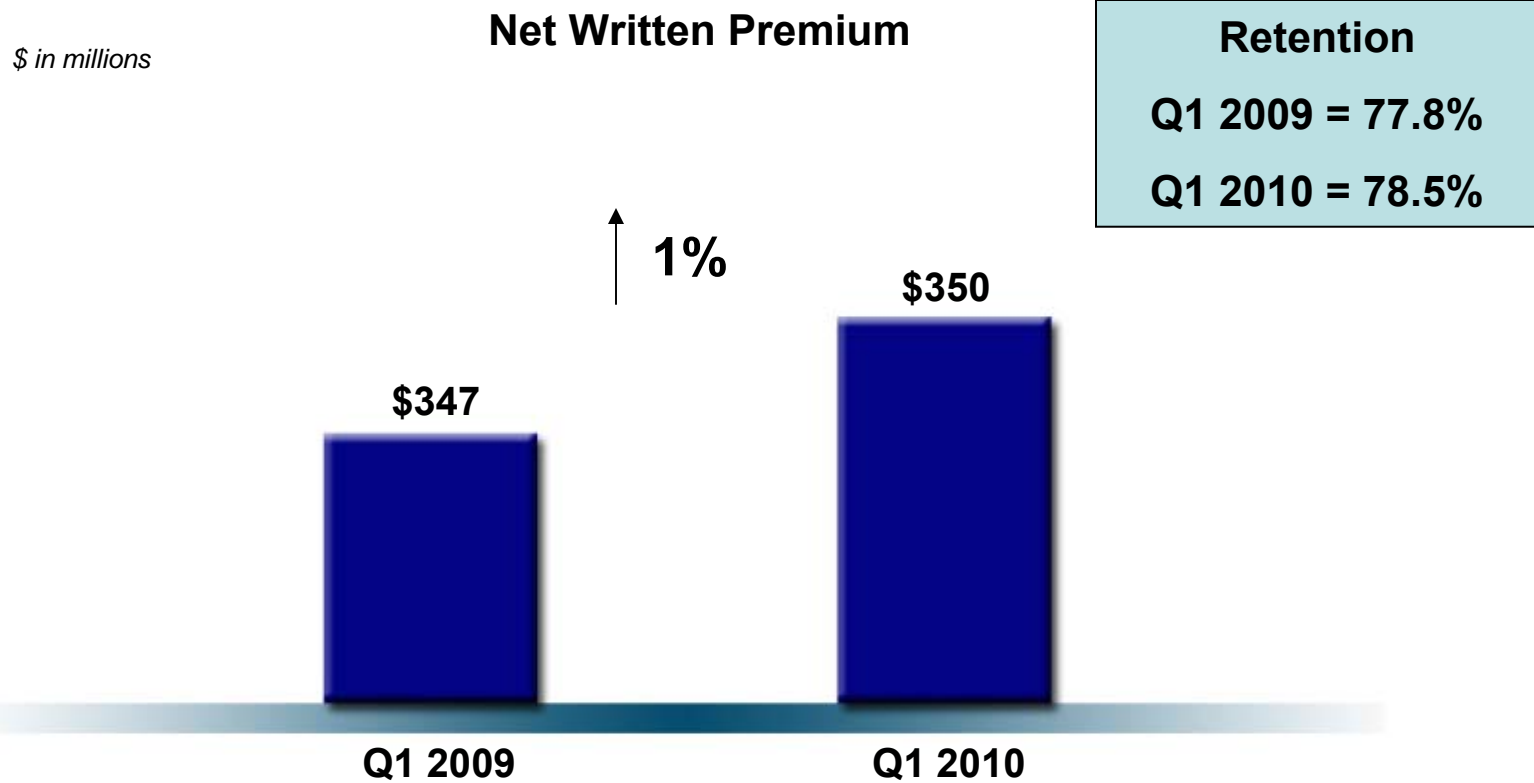
# PL First Quarter Operating Highlights

	<u>Q1 2010</u>	<u>Q1 2009</u>	<u>Change</u>
Pre-Tax Segment Income <sup>(1)</sup>	\$ 34 M	\$ 3 M	\$ 31 M
Catastrophe Impact	16 M	26 M	(10) M
Adjusted Ex-Cat Segment Income <sup>(1)</sup>	<u>\$ 50 M</u>	<u>\$ 29 M</u>	<u>\$ 21 M</u>

- Higher ex-catastrophe accident year loss margins \$ 16M
  - Higher favorable loss and LAE development \$ 7M
  - Lower net investment income \$ (2)M
- \$ 21M

<sup>(1)</sup> Non-GAAP financial measure

# PL Growth Trends





# CL First Quarter Operating Highlights

	<u>Q1 2010</u>	<u>Q1 2009</u>	<u>Change</u>
Pre-Tax Segment Income <sup>(1)</sup>	\$ 23 M	\$ 48 M	\$ (25) M
Catastrophe Impact	19 M	11 M	8 M
Adjusted Ex-Cat Segment Income <sup>(1)</sup>	<u>\$ 42 M</u>	<u>\$ 59 M</u>	<u>\$ (17) M</u>

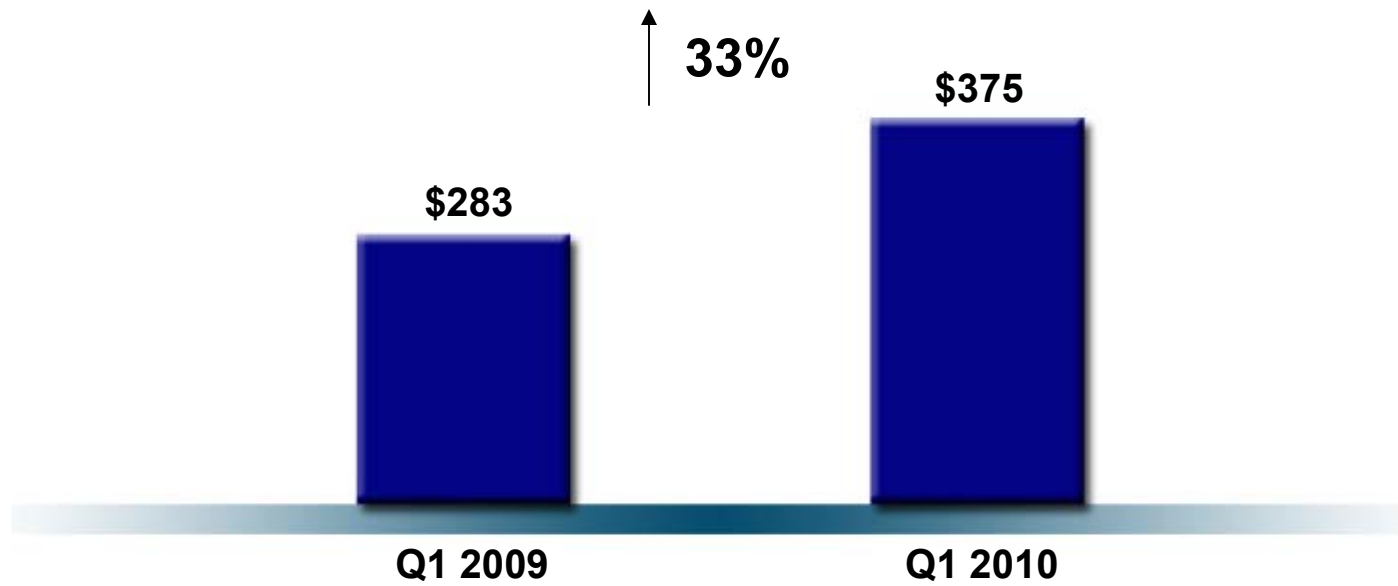
- Higher underwriting expenses \$ (11)M
  - Lower favorable prior year loss and LAE reserve development \$ (11)M
  - Higher ex-catastrophe accident year loss margins \$ 5M
- \$ (17)M**

<sup>(1)</sup> Non-GAAP financial measure

# CL Growth Trends

## Net Written Premium

*\$ in millions*





# THG First Quarter Earnings

**Financial Review by  
Steve Bensinger**

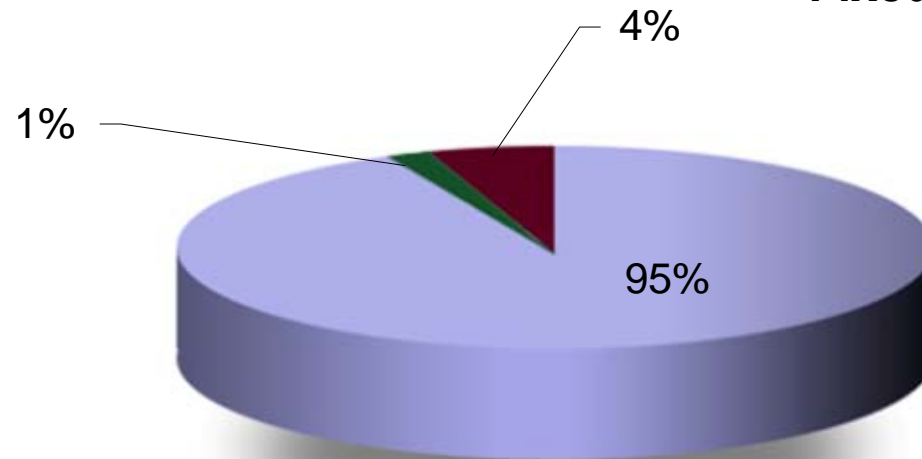
## Reconciliation of Segment Income to Net Income

<i>\$ in millions</i>	<b>Q1 2010</b>	<b>Q1 2009</b>
Total Property and Casualty	\$ 57.7	\$ 49.9
Interest Expense on Debt	(9.3)	(10.4)
Total Federal Income Tax Expense on Segment Income	<u>(16.4)</u>	<u>(13.1)</u>
Segment Income After Tax <sup>(1)</sup>	32.0	26.4
Net Realized Investment Gains (Losses)	10.9	(6.1)
Other	(0.7)	(0.1)
(Loss) gain from Discontinued Operations	(0.4)	5.6
Net Income	<u>\$ 41.8</u>	<u>\$ 25.8</u>
Net Income Per Share	\$ 0.87	\$ 0.50

(1) Segment income, after tax, is a non-GAAP financial measure. The reconciliation to the closest GAAP measure, Income from Continuing Operations, and can be found on the last page of the earnings press release dated May 6, 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: 4.1 years**

**Investment Portfolio Holdings \$5.1B<sup>(1)</sup> Market Value**

As of 3/31/2010

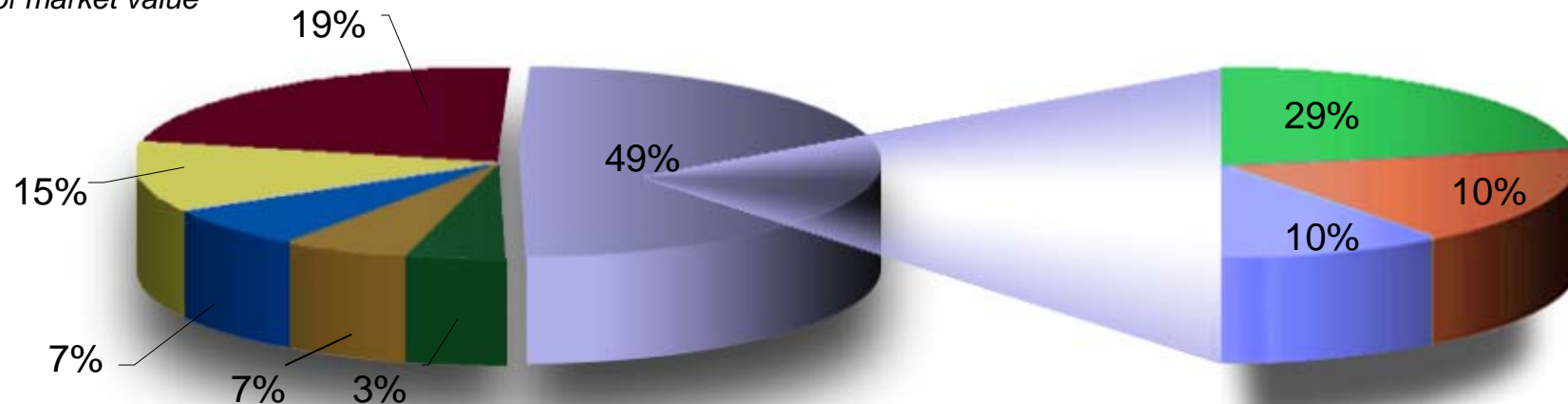
(1) This information and investment information presented later in this presentation includes assets of the discontinued accident and health business

# Fixed Income Sector Breakdown

**\$4.9 Billion Market Value**  
As of 3/31/2010

**Corporates \$2.4 Billion**

% of market value



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

## Fixed Income Characteristics:

93% of fixed income securities are investment grade

Weighted average quality A+

Duration: 4.1 years

## Corporate Holding Characteristics:

86% Investment Grade

Duration 4.3 years

# CMBS Portfolio

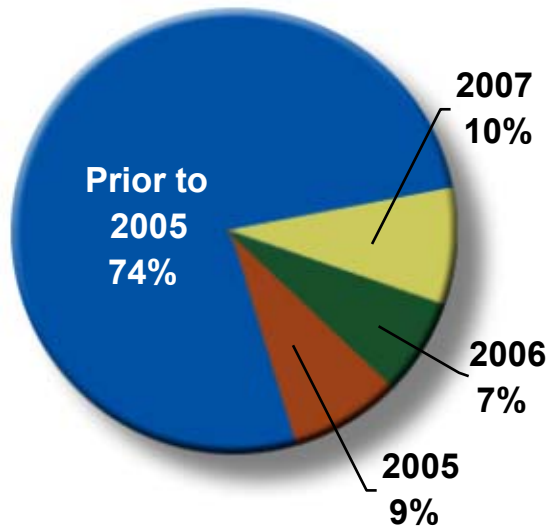
% of market value

**\$356.0 million**  
as of 3/31/2010

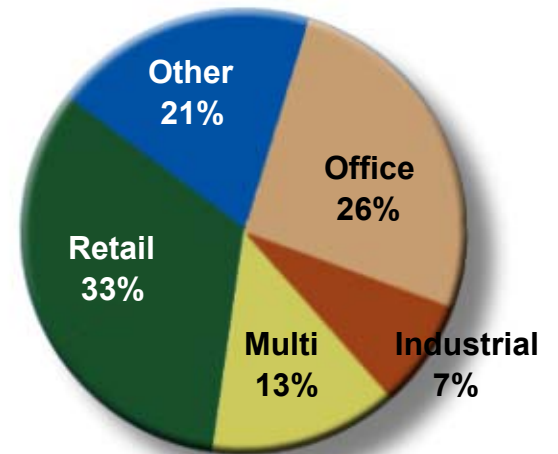
**Rating:**  
AAA – 78%  
AA – 11%  
A – 11%

Weighted average  
LTV: 71.1%

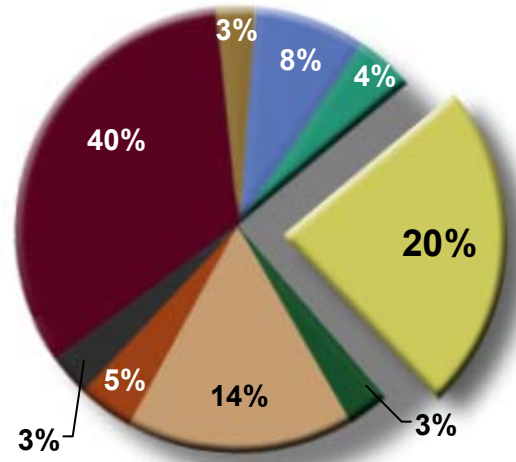
## Vintage



## Property Type



## Geography



■ Defeased ■ NJ ■ CA ■ TX ■ IL ■ Other ■ NC ■ NY ■ FL

# Net Unrealized Position

(\$ in millions)

Investment Type	Wtd Avg Quality	Book Value	Market Value	Net Unrealized @ 3/31/2010	Net Unrealized @ 12/31/2009	Δ in Net Unrealized
Corporate:						
NAIC 1	A2/A	\$ 869.7	\$ 912.5	\$ 42.8	\$ 32.3	\$ 10.5
NAIC 2	BAA2/BBB	1,055.7	1,118.0	62.3	48.5	13.8
NAIC 3 and Below	B1/B+	327.3	338.9	11.6	3.9	7.7
	BAA1/BBB+	2,252.7	2,369.4	116.7	84.7	32.0
MBS / CMBS / ABS:						
MBS	AA1/AA+	804.8	829.9	25.1	15.6	9.5
CMBS	AA1/AA+	347.1	356.0	8.9	2.7	6.2
ABS	A2/A	70.2	73.4	3.2	2.5	0.7
Municipals:						
Taxable	AA3/AA-	716.4	711.0	(5.4)	(16.6)	11.2
Tax Exempt	A1/A+	167.0	170.8	3.8	4.1	(0.3)
U.S. Government	AAA	352.0	354.0	2.0	(0.5)	2.5
<b>Total Fixed Maturities</b>	<b>A1/A+</b>	<b>4,710.2</b>	<b>4,864.5</b>	<b>154.3</b>	<b>92.5</b>	<b>61.8</b>
<b>Mortgage loans and other long-term investments</b>		<b>26.5</b>	<b>28.5</b>	<b>2.0</b>	<b>2.0</b>	<b>-</b>
<b>Equities</b>		<b>38.2</b>	<b>45.9</b>	<b>7.7</b>	<b>11.9</b>	<b>(4.2)</b>
<b>Total Investments</b>		<b>\$ 4,774.9</b>	<b>\$ 4,938.9</b>	<b>\$ 164.0</b>	<b>\$ 106.4</b>	<b>\$ 57.6</b>



# Capital Management

- Executed \$200 million, 10-year senior debt offering with a 7.5% coupon
- Continued to repurchase stock:
  - Repurchased approximately 610,000 common shares for \$25 million in the open market in the first quarter 2010
  - Repurchased approximately 2.3 million common shares under an accelerated stock repurchase transaction
  - As of March 31, 2010, have \$65 million remaining under the \$400 million share repurchase authorization
- Debt to total capital ratio at 21.5% at March 2010

# THG Balance Sheet Strength

<i>(In millions, except per share data)</i>	<b>March 31 2010</b>	<b>December 31 2009</b>
Total shareholders' equity	\$2,302	\$2,359
Total book value per share	\$51.59	\$49.72
Debt/total capital	21.5%	15.5%
THG holding company cash and investments	\$348	\$293
Statutory surplus	\$1,747	\$1,742
Property and casualty premium to surplus ratio	1.6:1	1.5:1

# *Questions*