



# The Hanover Insurance Group, Inc.

## **Q1 2011 Earnings Results**

To be read in conjunction with the press release dated  
May 2, 2011 and the conference call scheduled for May 3, 2011

# 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," "line of sight," "will" and similar expressions is intended to identify forward-looking statements. In particular, this presentation and related earnings call includes forward-looking statements with respect to trends compared to prior statements of expectations; building momentum in Personal and Commercial Lines profitability improvement; the pricing environment and the company's ability to increase rates; competitive position, including with respect to agents; net written premium growth and retention; new business growth; future prior year reserve development; GAAP and accident year loss ratios; expectation for large losses in Commercial Lines; expense ratio and expense improvements from improving scale (and expenses to be incurred in connection with the proposed acquisition of Chaucer Holdings PLC ("Chaucer")); adequacy of capital to rating agency expectations; product margins, including with respect to specialty business; ability to realize on prior investments; net investment income and the effect of lower yields on future net investment income; product introductions; product-geographic- and account- based mix changes on future growth and profitability; and may also include forward looking statements on underwriting conditions, the adequacy of reserves, the impact of anticipated regulatory changes, potential benefits of the proposed acquisition of Chaucer, capital levels, ratings, the number of shares outstanding,, investment impairments and net investment income.

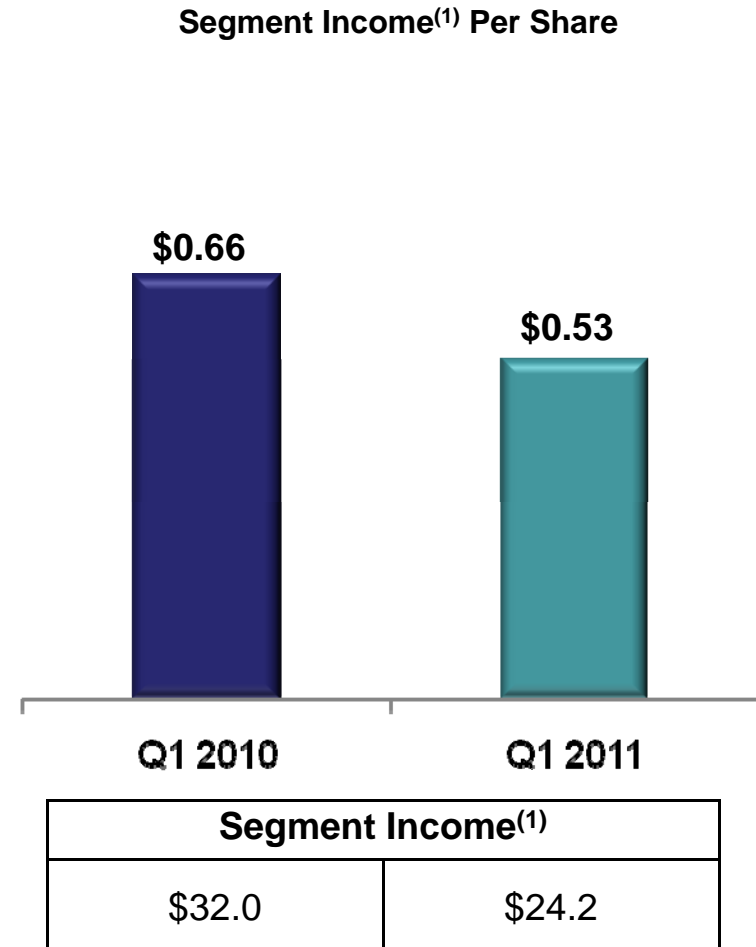
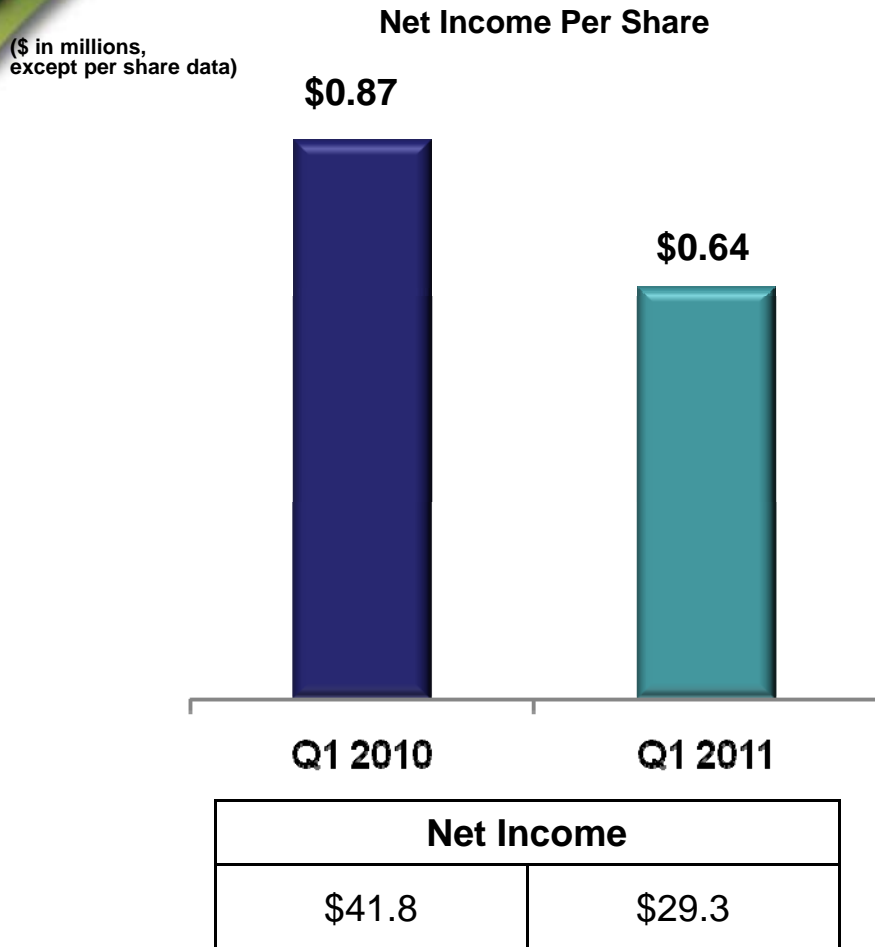
The company cautions investors that forward-looking statements are not guarantees of future performance, and actual results could differ materially. Investors are directed to consider the risks and uncertainties in our business that may affect future performance and that are discussed in readily available documents, including the company's earnings press release dated May 2, 2011 and the 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, unless otherwise noted, speaks as of March 31, 2011.

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, risks that the Chaucer transaction will not be consummated, that the company will not achieve the benefits from such transaction, the risks inherent in Chaucer's business and the risk that the Company will be unable to raise the senior debt to fund the Chaucer transaction or on the terms contemplated and various other factors.

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, and loss ratios excluding catastrophes and/or development and accident year loss ratios excluding catastrophes. A reconciliation of non-GAAP measures to the closest GAAP measure is included in either the press release or statistical supplement, which are posted on our website. The reconciliation of accident year loss ratio and combined ratio excluding catastrophes to the nearest GAAP measure, total loss ratio and combined ratio, is found on pages 6-8 of the statistical supplement. Segment income after-tax (segment income after tax per diluted 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 75-77.

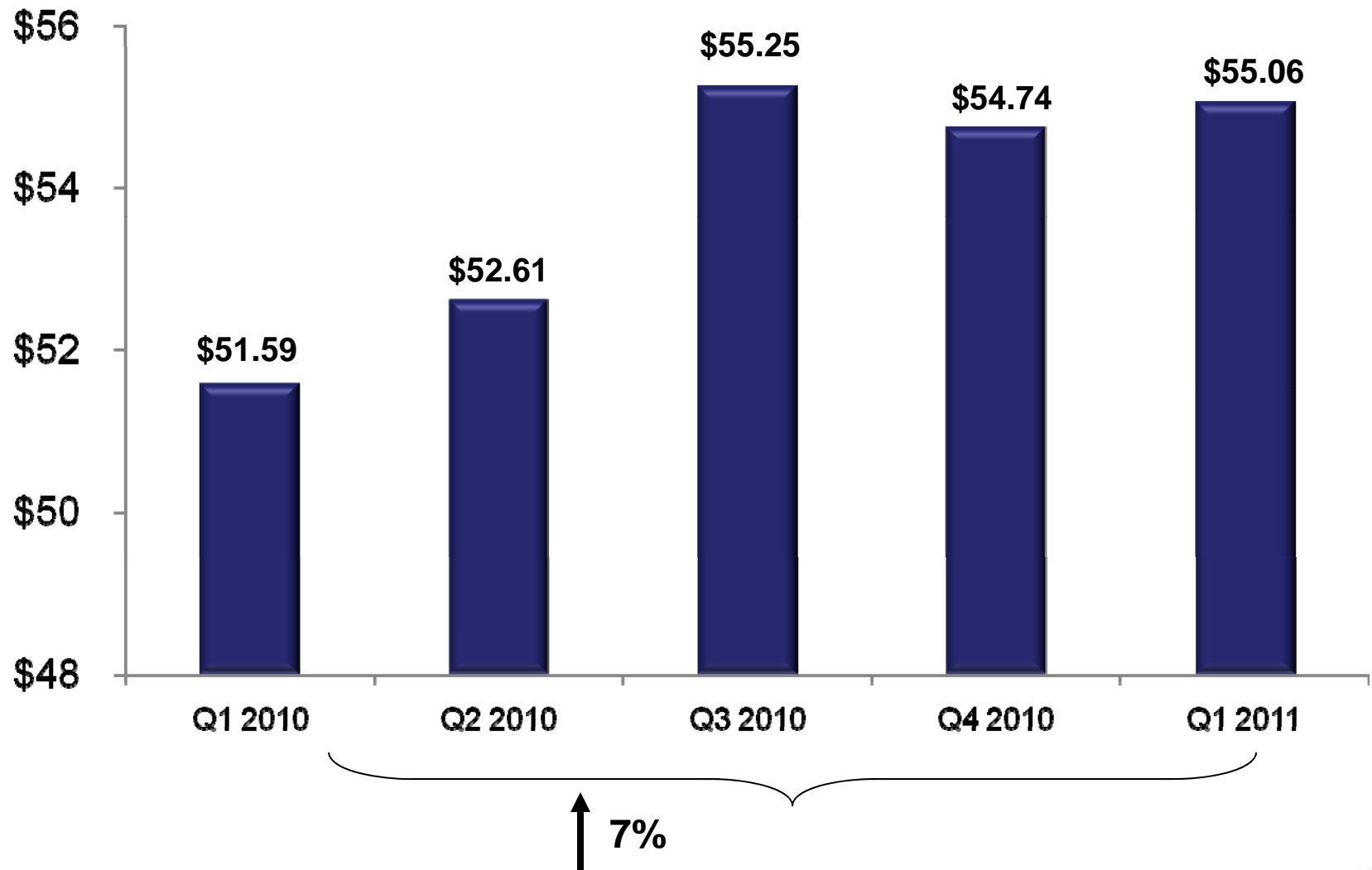
# **Opening Remarks by Fred Eppinger**

# First Quarter Results



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

## Book Value Per Share



# **Underwriting Highlights**

## **by Marita Zuraitis**

# Underwriting Performance

	Q1	
	2010	2011
Current accident year loss ratio, ex-cat	65.2%	64.2%
Catastrophe loss	5.2%	6.5%
Prior year favorable development	<u>(5.6%)</u>	<u>(3.7%)</u>
Loss and LAE ratio	64.8%	67.0%
Expense ratio	<u>34.9%</u>	<u>33.7%</u>
Combined ratio	<u>99.7%</u>	<u>100.7%</u>
Combined ratio, ex-cat <sup>(1)</sup>	94.5%	94.2%
Current accident year combined ratio, ex-cat <sup>(1)</sup>	100.1%	97.9%

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

# Commercial Lines First Quarter Operating Highlights

\$ in millions

	<u>Q1 2010</u>	<u>Q1 2011</u>	<u>Change</u>	<u>% Change</u>
Pre-tax Segment Income <sup>(1)</sup>	\$ 23	\$ 18	\$ (5)	(22)%
Catastrophe Impact	19	28	9	47%
Prior Year Favorable Development	(22)	(14)	8	(36)%
Adjusted Segment Income <sup>(1)</sup>	<u>\$ 20</u>	<u>\$ 32</u>	<u>\$ 12</u>	60%
Combined Ratio	102.7%	103.7%	1.0 pts	
Catastrophe Loss	6.2%	6.9%	(0.7) pts	
Prior Year Favorable Development	(7.4%)	(3.6%)	(3.8) pts	
<b>Current Accident Year Combined Ratio, Ex-cat<sup>(1)</sup></b>	<b>103.9%</b>	<b>100.4%</b>	<b>(3.5) pts</b>	

- Lower expense ratio (4.0) points
- Higher ex-catastrophe accident year loss and LAE ratio<sup>(1)</sup> 0.5 points

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

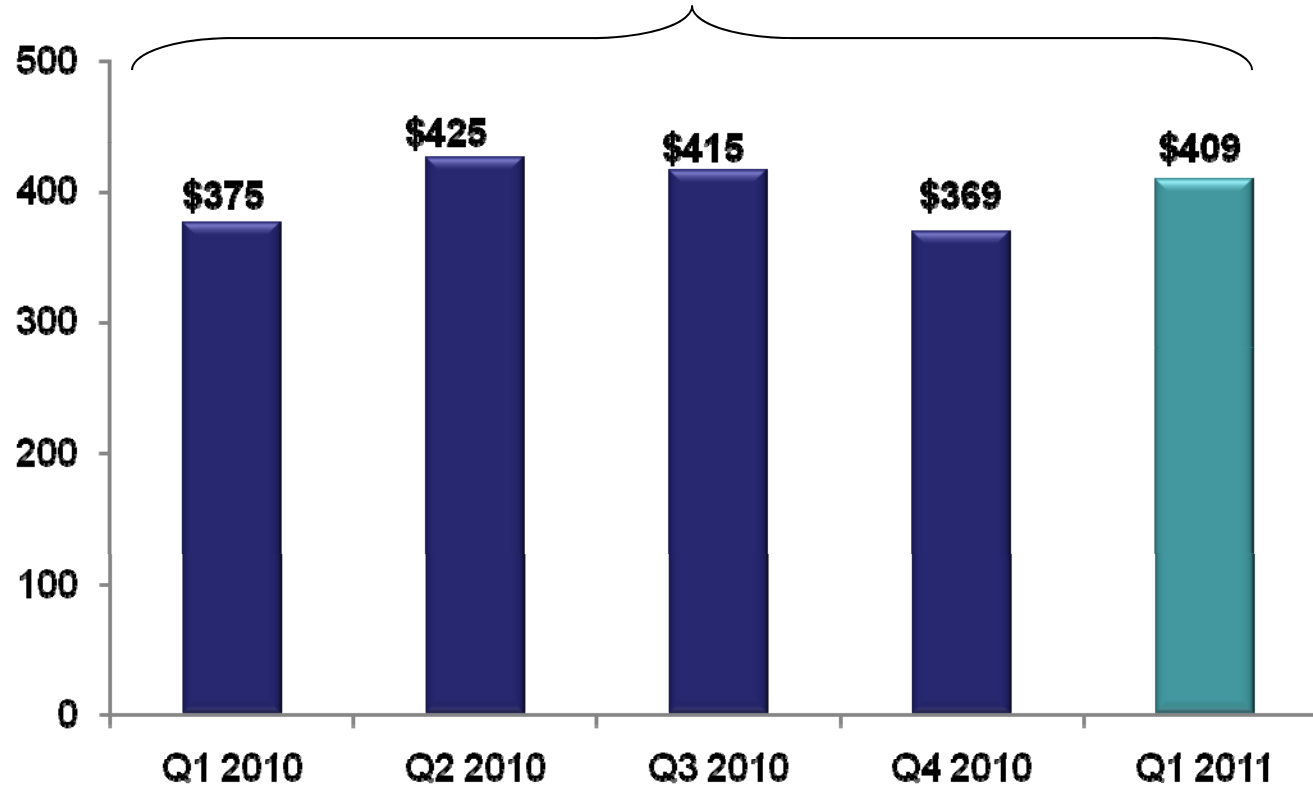


# Commercial Lines Growth Trends

\$ in millions

Net Written Premium

↑ 9%



# Personal Lines First Quarter Operating Highlights

*\$ in millions*

	<u>Q1 2010</u>	<u>Q1 2011</u>	<u>Change</u>	<u>% Change</u>
Pre-tax Segment Income <sup>(1)</sup>	\$ 35	\$ 30	\$ (5)	(14)%
Catastrophe Impact	16	22	6	38%
Prior Year Favorable Development	(15)	(14)	1	(7)%
Adjusted Segment Income <sup>(1)</sup>	<u>\$ 36</u>	<u>\$ 38</u>	<u>\$ 2</u>	6%
Combined Ratio	97.3%	97.5%	0.2 pts	
Catastrophe Loss	4.3%	6.2%	(1.9) pts	
Prior Year Favorable Development	(4.0)%	(3.9)%	(0.1) pts	
<b>Current Accident Year Combined Ratio, Ex-cat<sup>(1)</sup></b>	<b>97.0%</b>	<b>95.2%</b>	<b>(1.8) pts</b>	

- Lower ex-catastrophe accident year loss ratio <sup>(1)</sup> (1.0) points
- Lower expense ratio (0.8) points

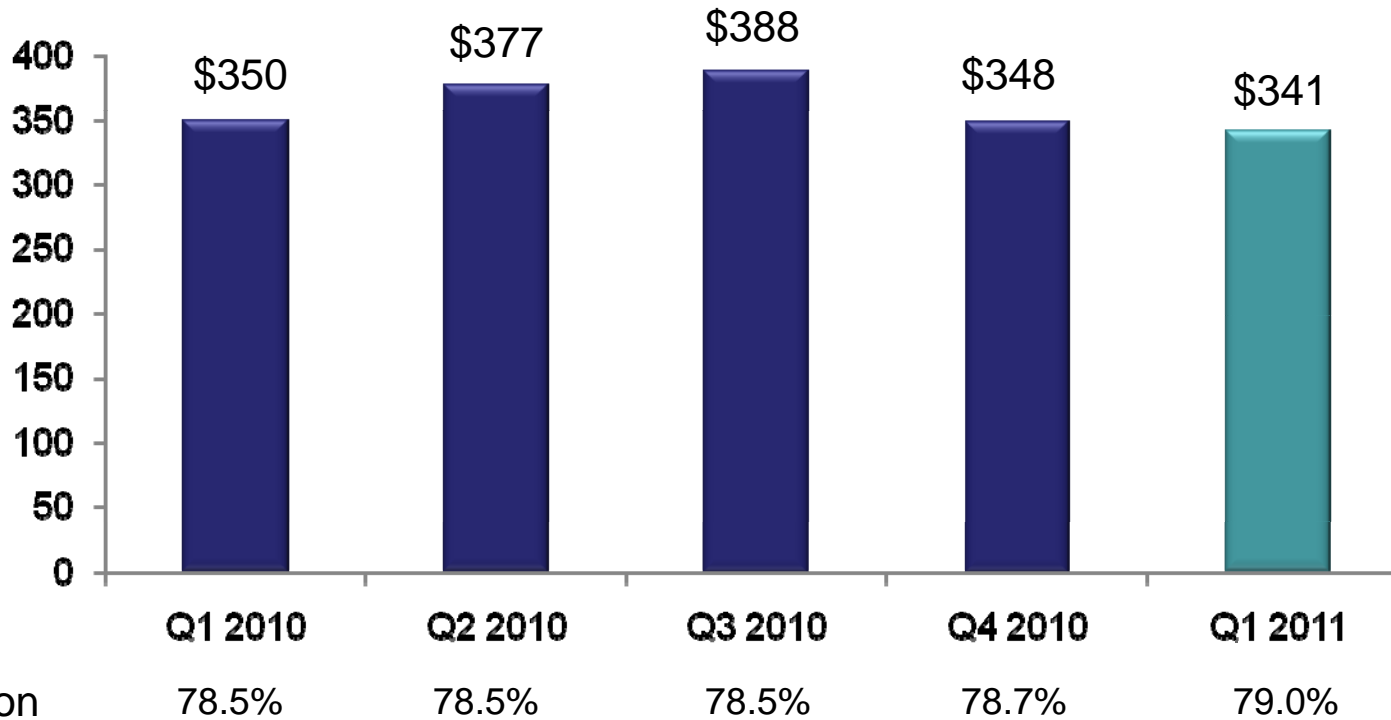
<sup>(1)</sup> Non-GAAP financial measure

# Personal Lines Growth Trends

\$ in millions

Net Written Premium

↓ 2%



2.0 points of 2.3% decrease in net written premium is attributable to planned activities in Louisiana and Florida

# **Financial Review by David Greenfield**

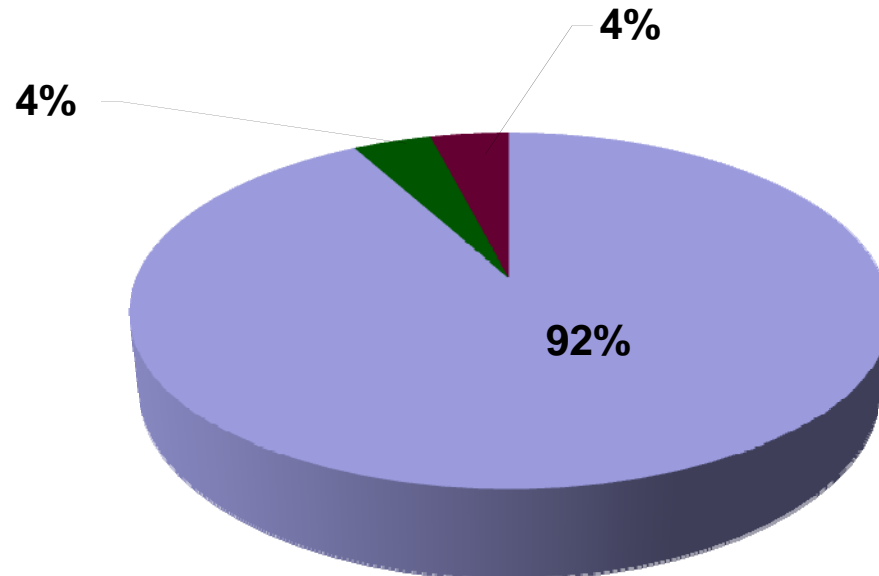
# Reconciliation of Segment Income to Net Income

\$ in millions, except per share amounts

	Q1	
	2010	2011
Property and Casualty		
GAAP underwriting loss	\$ (1.8)	\$ (9.5)
Net investment income	61.1	60.4
Other, net	(1.6)	(3.8)
Total Property and Casualty <sup>(1)</sup>	<u>57.7</u>	<u>47.1</u>
Interest Expense on Debt	(9.3)	(10.4)
Total Federal Income Tax Expense on Segment Income	<u>(16.4)</u>	<u>(12.5)</u>
Segment Income After Tax <sup>(1)</sup>	<u>\$ 32.0</u>	<u>\$ 24.2</u>
<i>Per Diluted Share</i>	<i>\$ 0.66</i>	<i>\$ 0.53</i>
Net Income	\$ 41.8	\$ 29.3
<i>Per Diluted Share</i>	<i>\$ 0.87</i>	<i>\$ 0.64</i>

(1) Total Property and Casualty and Segment Income After Tax are non-GAAP financial measures. The reconciliation to the closest GAAP measure, Income from Continuing Operations, can be found on the last page of the earnings press release dated May 2, 2011.

# Investment Portfolio Holdings



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

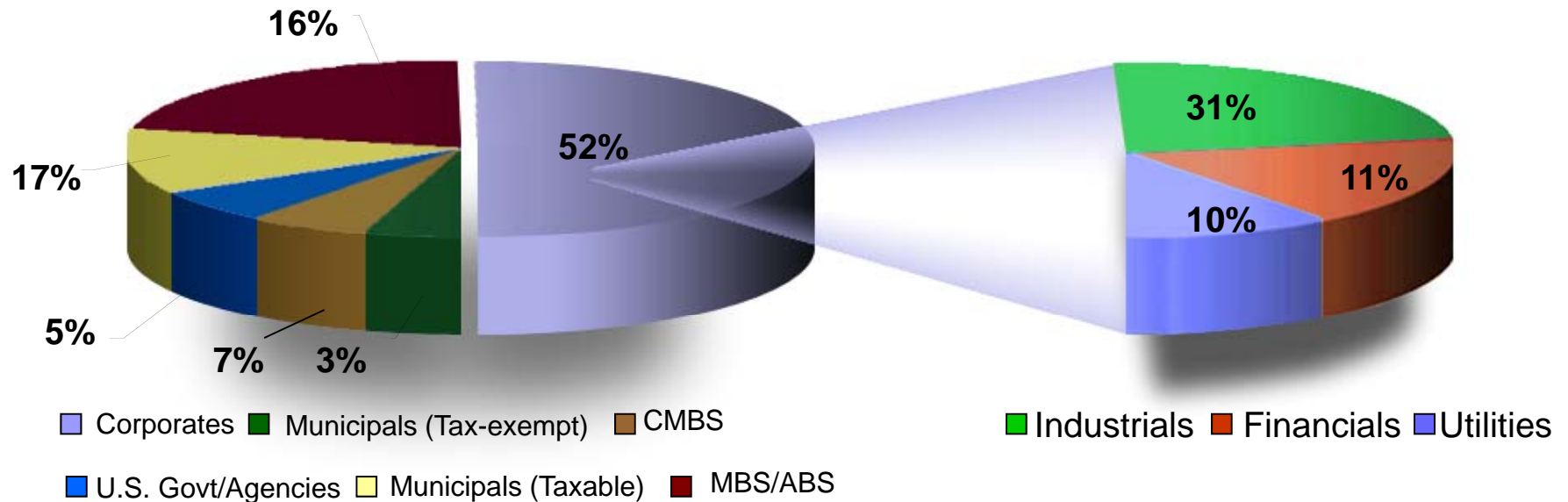
**\$5.2B Fair Value**

As of 3/31/2011

# Fixed Income Sector Breakdown

**\$4.8 Billion Fair Value**  
As of 3/31/2011

**Corporates \$2.5 Billion**



## Fixed Income Characteristics:

93% of fixed income securities are investment grade

Weighted average quality A+

Duration: 4.5 years

## Corporate Holding Characteristics:

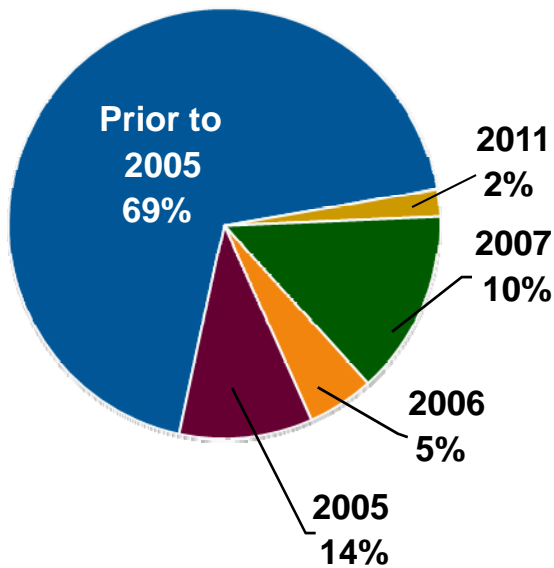
87% Investment Grade

Weighted average quality BBB+

Duration 4.5 years

# CMBS Portfolio

### Vintage



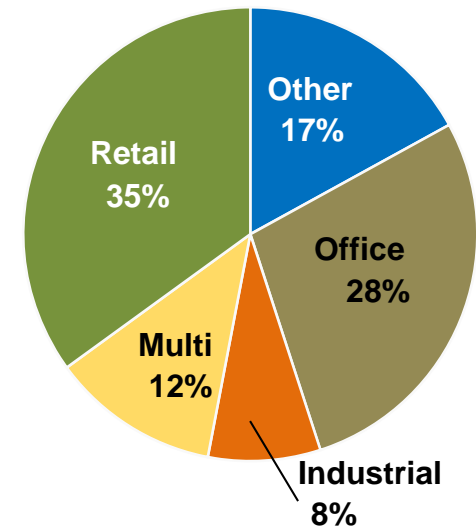
**\$361.6 million**  
as of 3/31/2011

Rating:

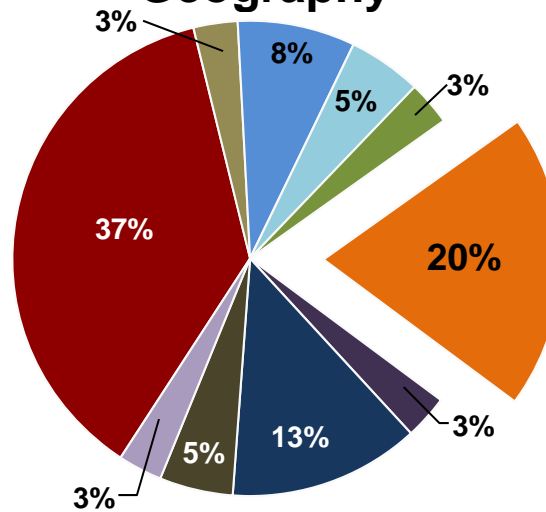
AAA – 73%  
AA – 10%  
A – 16%  
BBB – 1%

Weighted average  
LTV: 74%

### Property Type



### Geography



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



# Municipal Bond Portfolio

(as of 3/31/2011)

**\$954.0 million, or 18% of total investment portfolio and  
38% of total shareholders equity**

Privately Insured – 24% (A+)  
Government/Agency Insured – 6% (AAA)  
Uninsured – 70% (AA)  
Weighted Average Rating - AA

Revenue Bonds – 61%  
GO Bonds – 39%  
Taxable – 84%  
Tax-exempt – 16%

\$ in millions

State	Total		State	Local	Revenue	Average Rating of Hanover's Holdings
	Fair Value	%Municipals	General Obligation	General Obligation		
Texas	\$ 54.7	5.7%	10%	73%	17%	AA+
New York	54.4	5.7%	--	12%	88%	AA
Illinois	43.2	4.5%	--	34%	66%	A
Pennsylvania	38.6	4.1%	26%	32%	42%	AA-
Washington	37.6	3.9%	1%	25%	74%	AA
Virginia	37.6	3.9%	--	25%	75%	AA+
Ohio	37.0	3.9%	1%	--	99%	AA-
California	34.6	3.6%	18%	5%	77%	A+
Utah	34.0	3.6%	29%	13%	58%	AA
Georgia	33.8	3.5%	29%	34%	37%	AA
New Hampshire	29.5	3.1%	44%	8%	48%	AA
Tennessee	29.3	3.1%	2%	20%	78%	A+
Maryland	29.3	3.1%	1%	78%	21%	AA+
South Carolina	28.4	3.0%	--	64%	36%	AA-
Indiana	26.6	2.8%	--	--	100%	AA+
Wisconsin	25.3	2.7%	20%	2%	78%	A+
Minnesota	25.0	2.6%	--	57%	43%	AA+
New Jersey	23.9	2.5%	5%	9%	86%	AA-
Massachusetts	23.8	2.5%	1%	32%	67%	AA-
All other	307.4	32.2%	23%	18%	59%	AA
<b>Total Municipal Exposure</b>	<b>\$954.0</b>	<b>100%</b>	<b>14%</b>	<b>25%</b>	<b>61%</b>	<b>AA</b>

# Balance Sheet Strength

*\$ in millions, except per share data*

	<b>March 31 2010</b>	<b>December 31 2010</b>	<b>March 31 2011</b>
Book value per share	\$51.59	\$54.74	\$55.06
Shareholders' equity	\$2,302	\$2,461	\$2,489
Debt	\$632	\$606	\$561
Total capital	\$2,934	\$3,067	\$3,050
Debt/total capital	21.5%	19.8%	18.4%
THG holding company cash and investments	\$348	\$448	\$379
Statutory surplus	\$1,747	\$1,747	\$1,777
Property and casualty premium to surplus ratio	1.55:1	1.75:1	1.73:1

# *Questions*