# The Hanover Insurance Group, Inc.

## Third Quarter 2014 Results

**October 30, 2014**

**To be read in conjunction with the press release dated October 29, 2014 and conference call scheduled for October 30, 2014**

# Forward-Looking Statements and Non-GAAP Financial Measures

Forward-Looking Statements: 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,” “forecasts”, “outlook,” “should,” “plan,” “confident,” “guidance,” “on track or target to,” “promise,” “line of sight,” “will,” “on the right path to” and similar expressions are intended to identify forward-looking statements. In particular, this presentation and related earnings call includes or may include forward-looking statements with respect to the ability to continue to improve our underwriting profitability and financial performance; underlying loss ratio trends; outlook for the remainder of 2015; outlook on the market and economic conditions; Personal and Commercial Lines profitability improvement, including with respect to auto lines; growth momentum, particularly in Personal Lines where new business and retention trends due to the traction established through the launch of the Platinum product and the product’s potential to lead to better account persistency, lower price elasticity and margin enhancement; the pricing environment, price adequacy, and the company’s ability to increase rates in domestic P&C, in Lloyd’s businesses and in accounts designated as small, middle or large; the ability to achieve our ultimate goals, including our ability to delivery on ROE, combined ratio and growth targets; the impact of foreign exchange fluctuations; competitive position and meaningful growth, including with respect to agents; net premiums written growth and retention (including the impact of exposure management, profitability improvement and rate actions); new business growth; future prior year reserve development and reserve adequacy; the impact of various agency and exposure management actions on net written premiums, operating income, combined ratio, ROE and catastrophe losses and exposure in certain geographic areas; GAAP and accident year loss and combined ratios; expense ratio and expense improvements; the ability to improve profitability, earnings growth and returns; adequacy of capital to rating agency expectations; product margins and margin improvement, including with respect to auto and specialty lines of business; expected combined ratio and growth of Chaucer Holdings plc (“Chaucer”); the ability to manage market headwinds related to Chaucer’s business; net investment income, the effect of lower yields on future net investment income in 2014 and 2015 and changes to the overall investment strategy to offset pressure from the interest rate environment; product- geographic- and account- based mix changes on future growth, margin improvement and target returns; and may also include forward looking statements on underwriting conditions, capital levels, ratings, and future share repurchases and the number of shares outstanding. Specifically, comments regarding operating earnings expectations for 2014, including overall combined ratio and written premiums growth, and reserve adequacy are forward-looking statements.

The company cautions investors that neither historical results and trends nor forward-looking statements are guarantees of or necessarily indicate 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 October 29, 2014 and the Annual Report, Form 10-Q and other documents filed by The Hanover with the Securities and Exchange Commission, which are available at www.hanover.com under “About Us - Investors.” We assume no obligation to update this presentation, which, unless otherwise noted, speaks as of September 30, 2014.

These uncertainties include the uncertain U.S. and global 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, accident year picks, and incurred, but not reported loss and LAE reserves, the ability to increase or maintain certain property and casualty insurance rates in excess of loss trends, the impact of new product introductions, adverse loss and LAE development for prior years, 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, the impact of competition (including rate pressure), adverse and evolving state, federal and, with respect to Chaucer, international, legislation or regulation, adverse regulatory or litigation actions, financial ratings actions, and those risks inherent in Chaucer’s business.

Non-GAAP Measures: 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 operating income, operating income before taxes, combined ratios and loss ratios, excluding catastrophes and/or development and accident year loss ratios, excluding catastrophes and book value per share excluding net unrealized gains and losses. A reconciliation of non-GAAP measures to the closest GAAP measure is included in either the press release or financial 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 7, 10, 13 and 16 of the financial supplement. Operating income (operating income per diluted share) is a non-GAAP measure. It is defined as net income excluding the after-tax impact of net realized investment gains (losses), as well as results from discontinued operations divided by, in the case of per share reported figures, the average number of diluted shares of common stock. Book value per share, excluding net unrealized gains and losses, is calculated as total shareholders’ equity excluding the after-tax effect of unrealized investment gains and losses, divided by the number of common shares outstanding. The definition of other financial measures and terms can be found in the 2013 Annual Report on pages 81-83.

# Third Quarter Highlights

The third quarter of 2014 was characterized by strong underwriting performance, which gives us confidence in the value of our improved differentiated market position and our ability to maintain our momentum:

- Pre-tax operating income, excluding catastrophes[1], increased by 27%, compared to the prior-year quarter, to $174.5 million
- Net income of $1.22 per diluted share; operating income of $1.06 per diluted share
- Combined ratio of 98.2%; combined ratio, excluding catastrophes, of 90.8%[1]
- Catastrophe losses of $88.1 million, or 7.4 points of the combined ratio, including unusually large catastrophe activity in Michigan
- Net premiums written of $1.2 billion, up 5.3%, driven by growth in all three main business segments
- Strong price increases in both Commercial and Personal Lines continued in the third quarter
- Net investment income of $67.5 million
- Repurchased 226,000 common shares for approximately $14 million, at an average price of $60.82 per share
- Book value per share of $63.37, down 0.4% from June 30, 2014, and up 6.6% from December 31, 2013, reflecting the fluctuations of net unrealized investment gains in the quarter

[1] Non-GAAP measure. See page 2. These measures are used throughout this presentation.

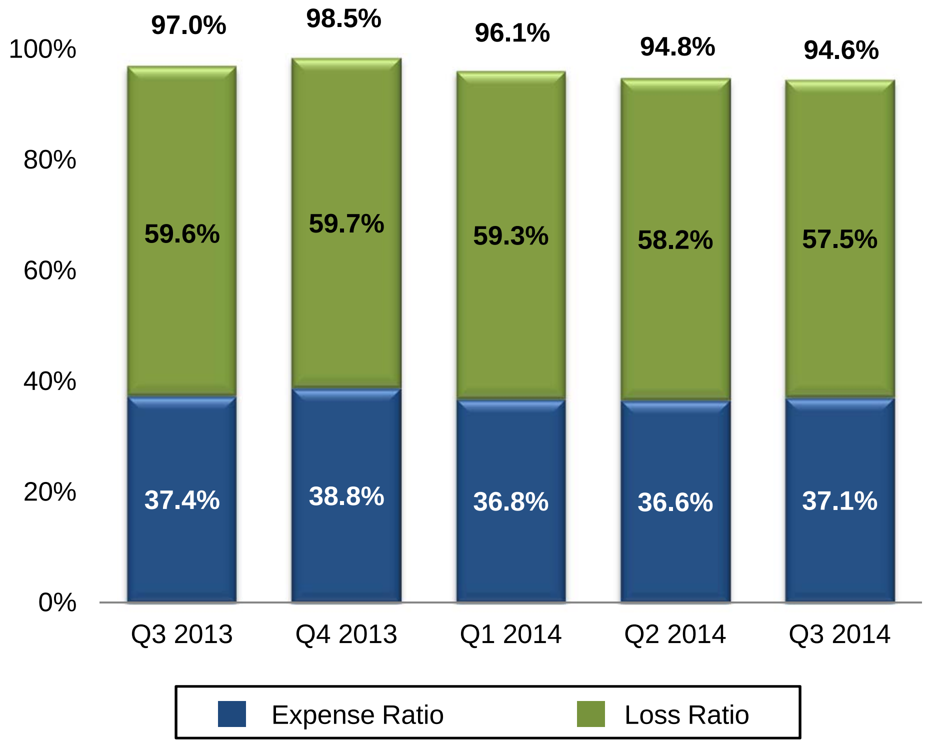
# Underwriting Performance

| ($ in millions) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Loss and LAE ratio:** | | | | |
| Current accident year, ex-cat[1] | 58.2% | 61.3% | 59.6% | 60.9% |
| Catastrophe losses | 7.4% | 2.7% | 5.7% | 3.4% |
| Prior year (favorable) reserve development | (1.8%) | (2.1%) | (2.0%) | (1.7%) |
| **Loss and LAE ratio** | 63.8% | 61.9% | 63.3% | 62.6% |
| **Expense ratio** | 34.4% | 34.1% | 34.4% | 34.2% |
| **Combined ratio** | 98.2% | 96.0% | 97.7% | 96.8% |
| **Combined ratio, ex-cat** | 90.8% | 93.3% | 92.0% | 93.4% |
| **Accident year combined ratio, ex-cat[1]** | 92.6% | 95.4% | 94.0% | 95.1% |
| **Underwriting income** | $18.0 | $41.4 | $69.1 | $94.2 |
| **Catastrophe losses** | 88.1 | 30.6 | 201.7 | 112.1 |
| **Ex-cat, underwriting income[1]** | $106.1 | $72.0 | $270.8 | $206.3 |
| **Ex-cat, ex-dev, underwriting income (loss)[1]** | $84.2 | $48.4 | $200.0 | $148.9 |

[1] Non-GAAP measure. See page 2. These measures are used throughout this presentation.

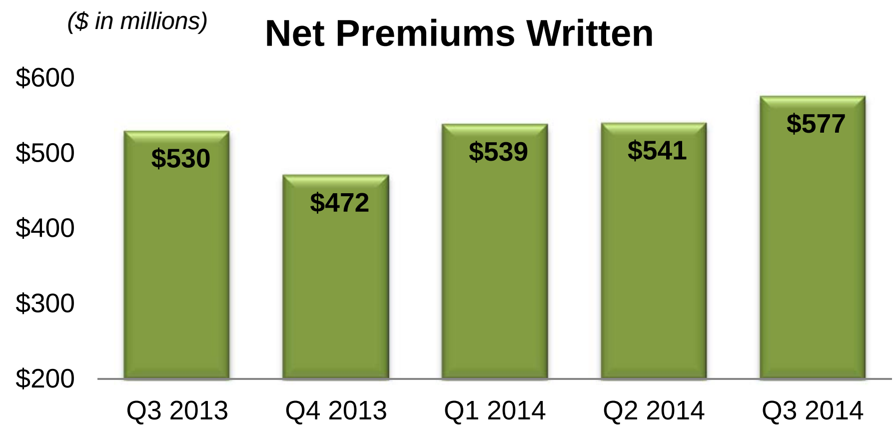
# Commercial Lines

### Accident Year Combined Ratio, Ex-Cat



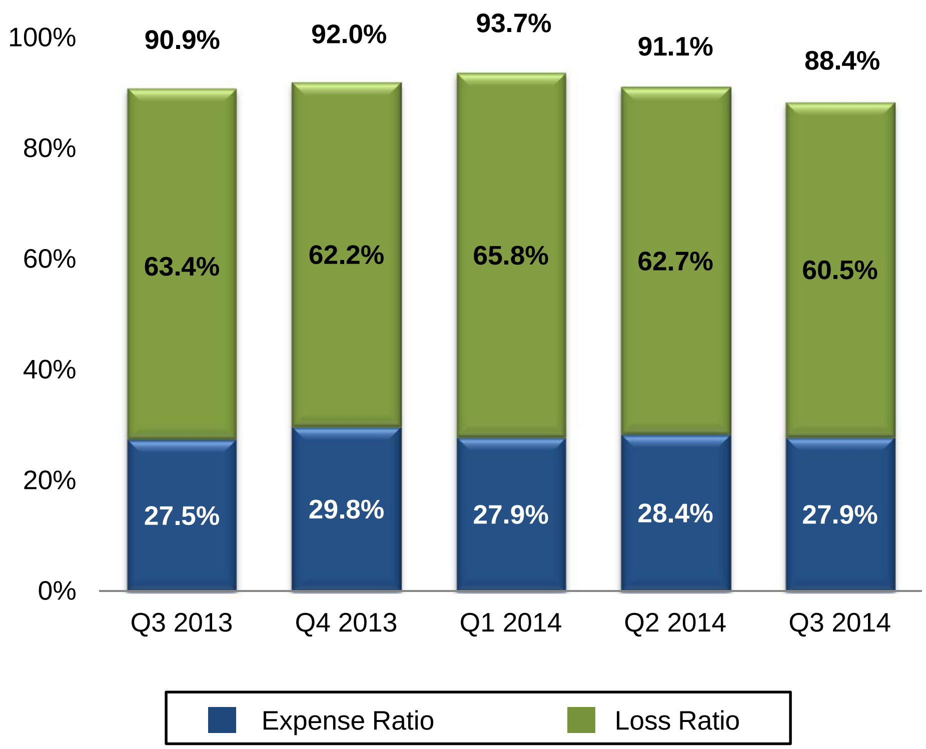

### Third Quarter Financial Highlights

- Net premiums written grew 8.7%, compared to the prior-year quarter, with robust growth experienced in most businesses
- Continued pricing gains of 7% in Core Commercial
- Accident year loss ratio, ex-cat, improved by 2.1 points, compared to the prior-year quarter, driven primarily by improved loss experience in Other Commercial and Commercial Auto



# Personal Lines

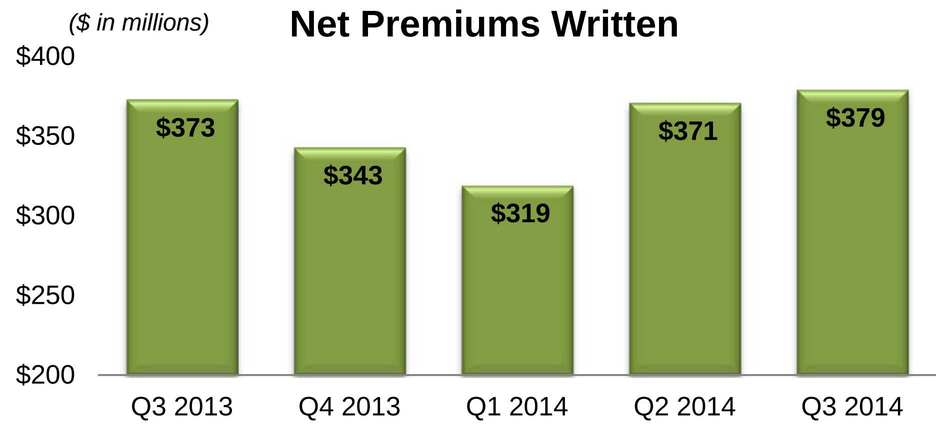
## Accident Year Combined Ratio, Ex-Cat




## Third Quarter Financial Highlights

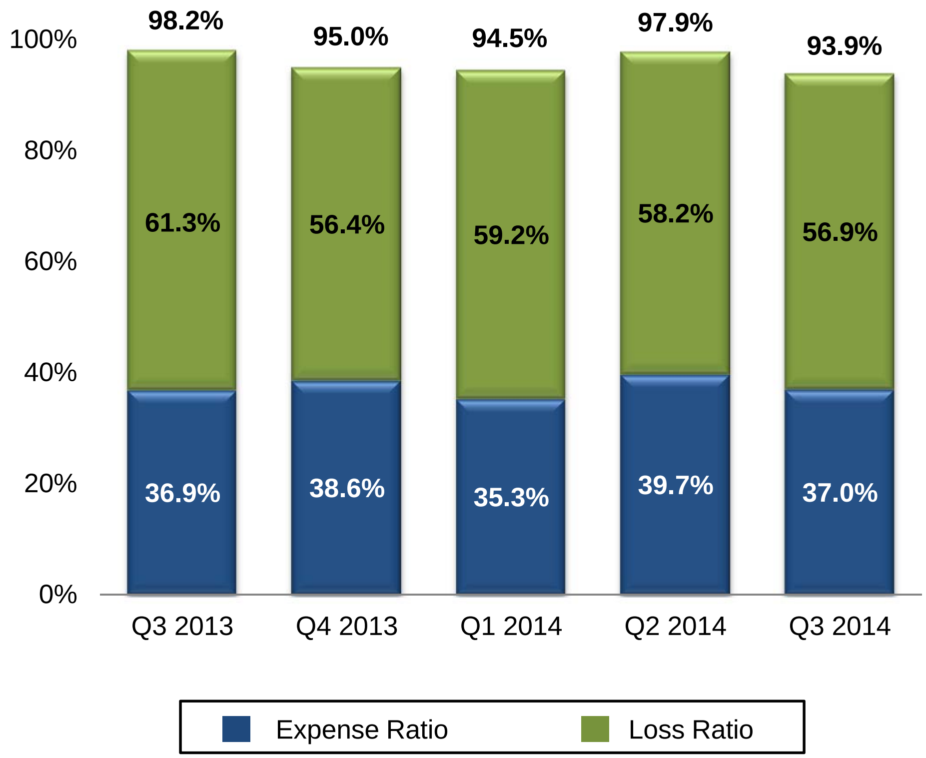
- Net premiums written increased by 1.7% compared to the prior-year quarter
  - Positive momentum shift as new business acceleration outpaced the effect of tapering exposure management actions
  - Retention was 76.3%, which reflects planned PIF reductions; adjusted voluntary retention stable at 80.6%
- Catastrophe losses of $51.6 million, or 14.6 points on the combined ratio, driven primarily by unusually large catastrophe activity in Michigan
- Accident-year loss ratio, ex-cat, improved by 3 points over the prior-year quarter, driven by a 4-point improvement in home and a 2-point improvement in auto

## Net Premiums Written



# Chaucer

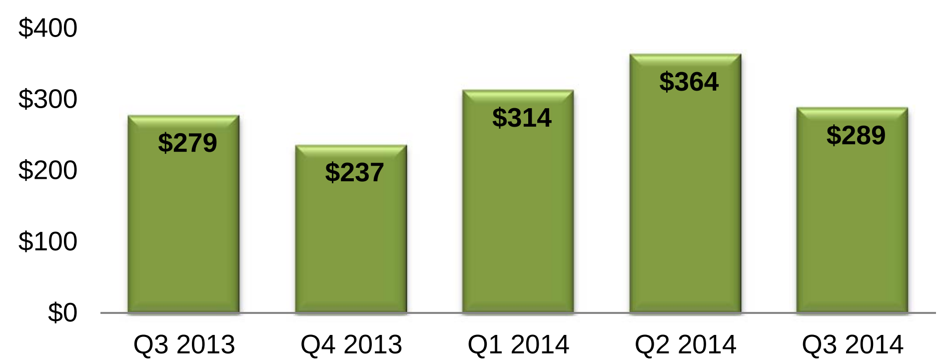
## Accident Year Combined Ratio, Ex-Cat




## Third Quarter Financial Highlights

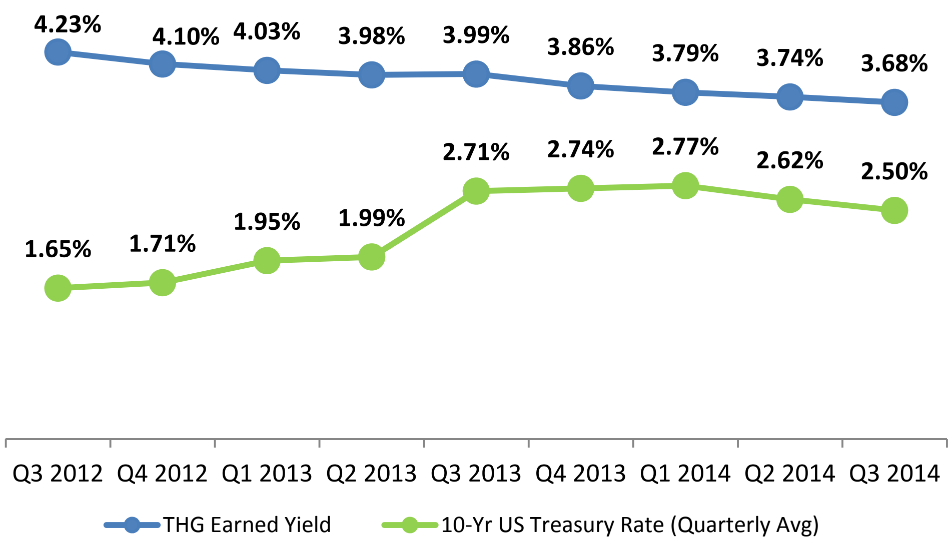
- Net premiums written grew 3.8%, compared to the prior-year quarter, driven by growth in the Casualty line
- Accident year loss ratio, ex-cat, decreased by 4.4 points, driven by lower large losses, primarily in the marine line

*($ in millions)* **Net Premiums Written**



# Net Investment Income

## Fixed Income Earned Yields

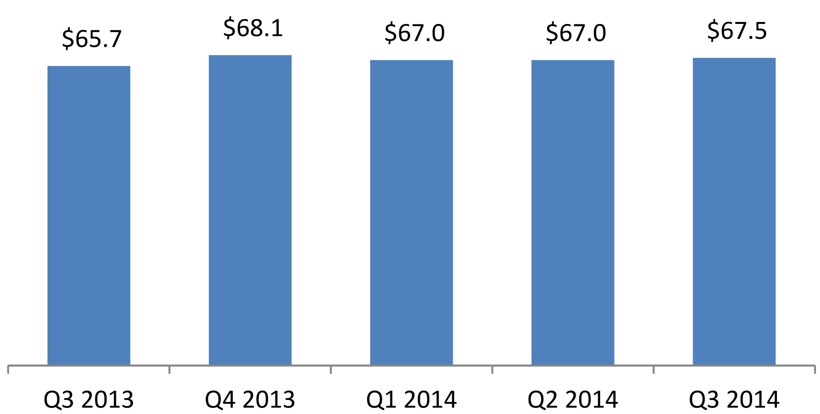



## Highlights

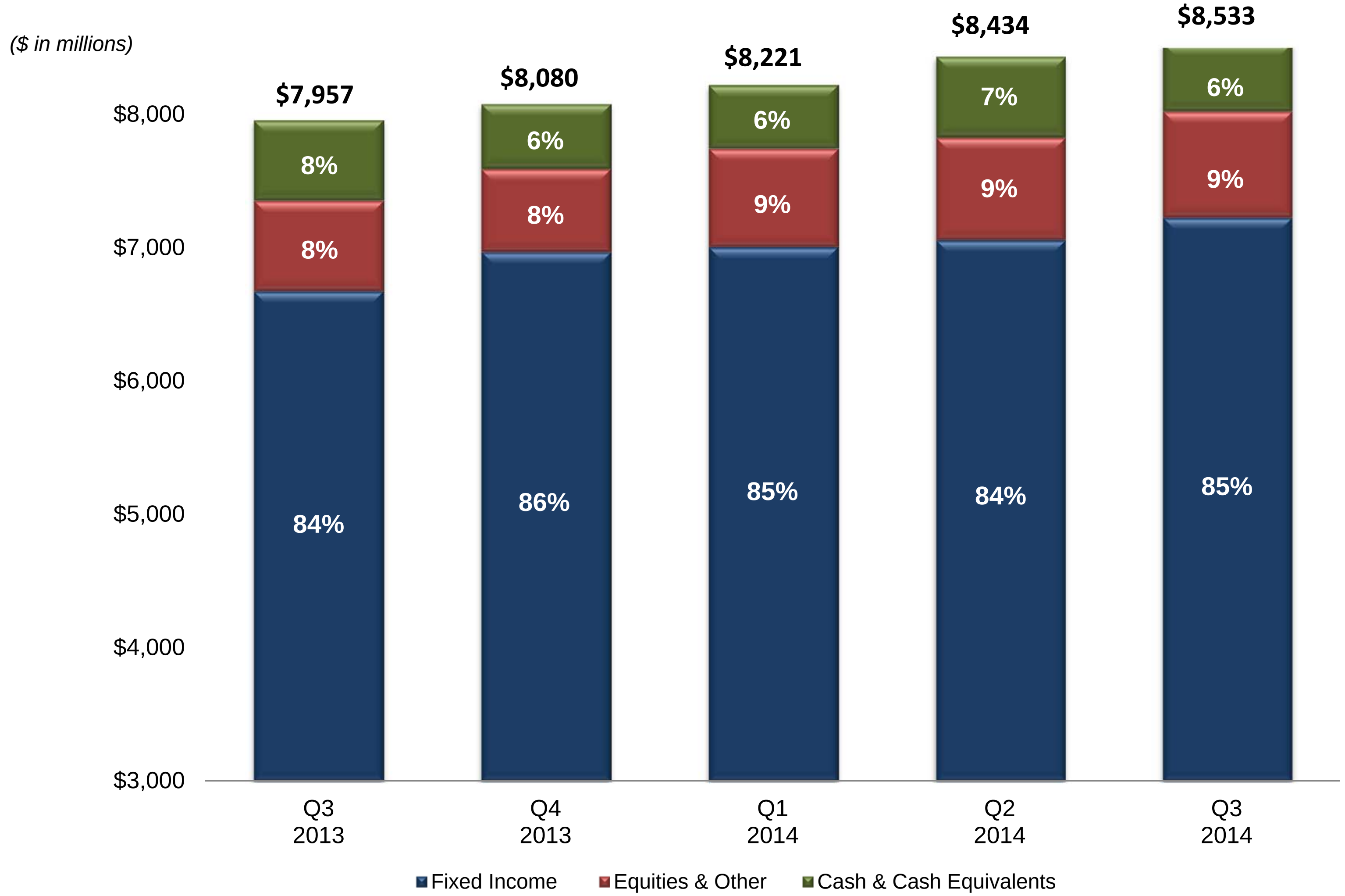
- Net investment income of $67.5 million, an increase of $1.8 million compared to prior-year quarter, primarily due to positive operating cash flows
- Continue to employ certain portfolio management strategies intended to augment our yield while managing volatility and risk

### Net Investment Income

*($ in millions)*

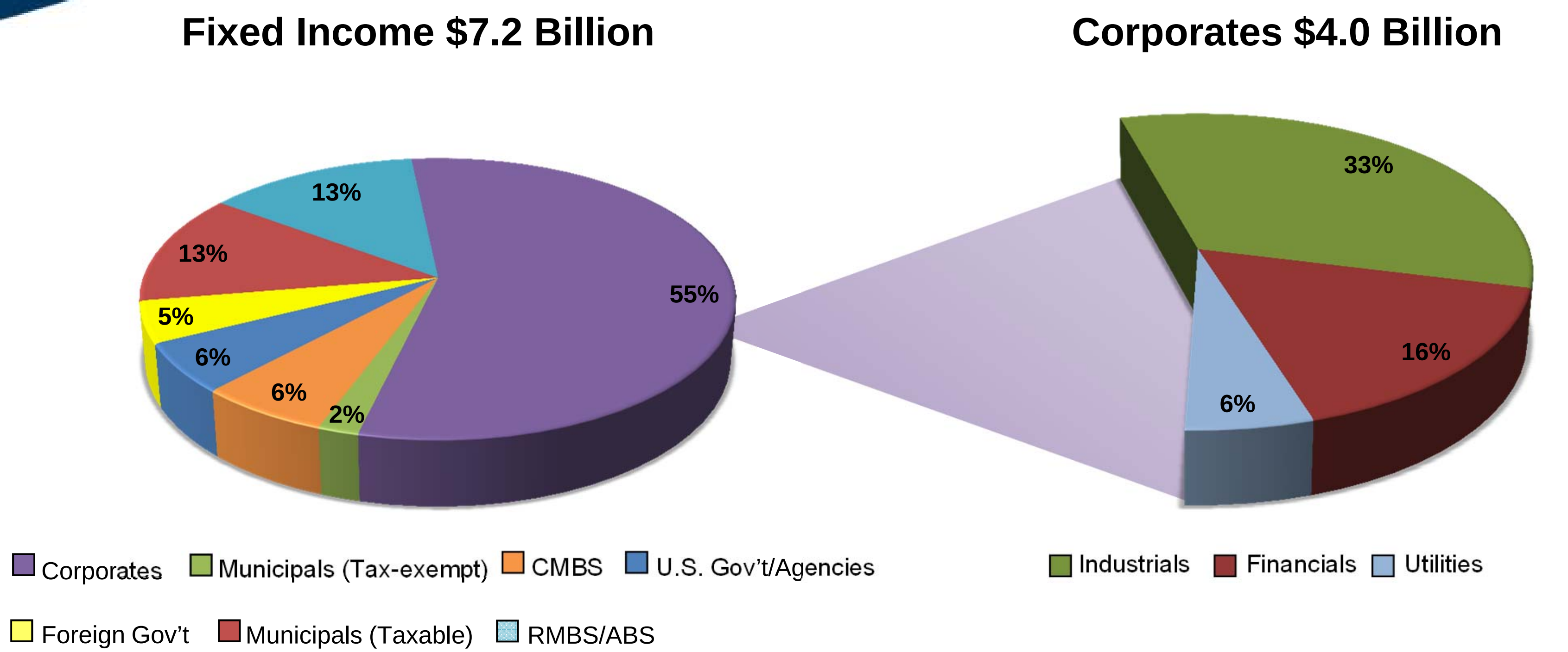


# Cash and Invested Assets



# Fixed Income Sector Breakdown

**September 30, 2014**




**Fixed Income Characteristics:**

- 94% of fixed income securities are investment grade
- Weighted average quality A+
- Duration: 4.2 years

**Corporate Holding Characteristics:**

- 90% Investment Grade
- Weighted average quality BBB+
- Duration 4.0 years

# Balance Sheet Strength

| *($ in millions, except per share data)* | December 31, 2013 | June 30, 2014 | September 30, 2014 |
|---|---|---|---|
| Book value per share | $59.43 | $63.65 | $63.37 |
| Shareholders' equity | $2,594 | $2,795 | $2,772 |
| Debt | $904 | $904 | $903 |
| Total capital | $3,498 | $3,699 | $3,675 |
| Debt/total capital | 25.8% | 24.4% | 24.6% |
| THG holding company cash and investments | $123 | $113 | $143 |

**Strong and flexible balance sheet**