

# **The Hanover Insurance Group, Inc.**

## **Third Quarter 2016 Results**

**November 3, 2016**

**To be read in conjunction with the press release dated  
November 3, 2016 and conference call scheduled for November 4, 2016**

# Forward-Looking Statements and Non-GAAP Financial Measures

**Forward-looking statements:** Certain statements in this release or in the above-referenced conference call may be forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Use of the words "believes," "anticipates," "expects," "projections," "forecast," "outlook," "should," "could," "confident," "plan," "guidance," "on track to" and similar expressions is intended to identify forward-looking statements. The company cautions investors that any such forward-looking statements are estimates or projections that involve significant judgment and that neither historical results and trends nor forward-looking statements are guarantees or necessarily indicative of future performance. Actual results could differ materially. In particular, "forward-looking statements" include statements in this press release or in such conference call regarding our ability to achieve financial goals and generate strong earnings, profitable growth and target returns in the short- and long-term; prospects for margin expansion through rate, risk selection and expense actions; ability to leverage our agency distribution network to expand shelf space with existing agents and generate growth; pricing compared to long-term loss trends; future trends of commercial multi-peril liability claims or relating to AIX program business; frequency and severity trends in personal and commercial auto; ability to leverage pricing, business mix and expense ratio improvement to drive commercial growth and profitability improvement; Commercial Lines account size and agency strategy to help manage competitive rate pressures; ability to achieve scale and expense leverage and expand capabilities in Specialty to improve results and increase profitable growth; success of technology investments and state and product expansion in Personal Lines, including our planned entry into Pennsylvania and into the near-affluent market; success of Platinum penetration to generate better margins; pricing and retention trends; impact of bodily injury and collision severity trends on auto rates; cost leverage for growth; the potential impact of capital actions and business investments; implications of Brexit and the effects and volatility of pound sterling and other currencies on earnings; impact of commodity prices on future earnings in light of Chaucer's trade credit business; success of the proposed non-Lloyd's platform in Dublin; the ability to manage the cyclical nature of Chaucer's business, challenging market conditions, and long-term financial targets; maintain long-term profitability and leverage underwriting intellectual property, and international reach to uphold relevancy and leadership position at Chaucer; ability to create growth opportunities via new platforms and penetrating U.S. non-admitted market; success of Chaucer's business initiatives to offset topline headwinds; the estimated impact of Hurricane Matthew on fourth quarter earnings and the assumed catastrophe rate; the outcome of our strategic planning process; the outcome of the annual actuarial reserving review in the fourth quarter 2016, which could impact the company's carried reserves; increased income from expected "higher yielding assets;" impact of low new money yields and low interest rates on earnings; changes to investment approach, including participation in the tax-exempt space; ability of energy investment holdings to maintain their value in light of low oil prices and increased regulation; and financial and earnings guidance for the fourth quarter and full year 2016, are all 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 November 3, 2016 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](http://www.hanover.com) under "Investors." We assume no obligation to update this presentation, which, unless otherwise noted, are as of September 30, 2016.

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 and returns, 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 dated November 3, 2016 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 2015 Annual Report on pages 78-80.

# Third Quarter 2016 Highlights

Net income of \$2.06 per diluted share and operating income<sup>(1)</sup> of \$1.83 per diluted share

- Combined ratio of 94.2%, including 2.3 points of catastrophe losses
- Net premiums written<sup>(2)</sup> of \$1.3 billion; up 4.3%, driven by growth in domestic businesses
- Continued price increases in Commercial and Personal Lines
- Stable net investment income of \$67.8 million
- Book value per share of \$72.08, up 2.1% from June 30, 2016, and up 8.9% from December 31, 2015; book value per share excluding net unrealized gains on investments of \$64.48, up 2.4% and up 2.8%, respectively
- Repurchased approximately 465,000 shares of common stock for \$37.7 million

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

(2) Net premiums written do not reflect the June 30, 2015 transfer of \$137.4 million of unearned premium reserves previously written by the U.K. motor business. This transfer of unearned premium reserves is part of the disposition of the U.K. motor business and has no impact on net premiums earned.

# Consolidated Financial Results Snapshot

	Three Months Ended				Nine Months Ended		
	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	September 30, 2015	September 30, 2016
<i>(\$ in millions, except per share amounts)</i>							
<b>Operating income after taxes per share</b>	<b>\$1.61</b>	<b>\$1.82</b>	<b>\$1.64</b>	<b>\$1.24</b>	<b>\$1.83</b>	<b>\$4.43</b>	<b>\$4.71</b>
Net Income per share	\$1.74	\$1.76	\$1.80	\$0.05	\$2.06	\$5.64	\$3.89
<b>Book value per share</b>	<b>\$66.55</b>	<b>\$66.21</b>	<b>\$69.30</b>	<b>\$70.58</b>	<b>\$72.08</b>	<b>\$66.55</b>	<b>\$72.08</b>
Shareholders' equity	\$2,878	\$2,844	\$2,957	\$3,010	\$3,046	\$2,878	\$3,046
Debt	\$803	\$803	\$803	\$798	\$798	\$803	\$798
Total capital	\$3,681	\$3,647	\$3,760	\$3,808	\$3,844	\$3,681	\$3,844
Debt/total capital	21.8%	22.0%	21.4%	21.0%	20.8%	21.8%	20.8%
Total assets	\$14,031	\$13,781	\$14,028	\$14,164	\$14,364	\$14,031	\$14,364
<b>Average equity, excluding net unrealized appreciation (depreciation) on investments, net of tax<sup>(3)</sup></b>	<b>\$2,678</b>	<b>\$2,687</b>	<b>\$2,703</b>	<b>\$2,698</b>	<b>\$2,705</b>	<b>\$2,611</b>	<b>\$2,709</b>
Operating income after tax	\$72	\$80	\$72	\$54	\$79	\$200	\$204
<b>Operating return on equity</b>	<b>10.8%</b>	<b>12.0%</b>	<b>10.6%</b>	<b>8.0%</b>	<b>11.6%</b>	<b>10.2%</b>	<b>10.0%</b>

(3) Non-GAAP measure. Shareholder's equity as of September 30, 2016 of \$3,046 million, as reported above, is the closest GAAP measure.

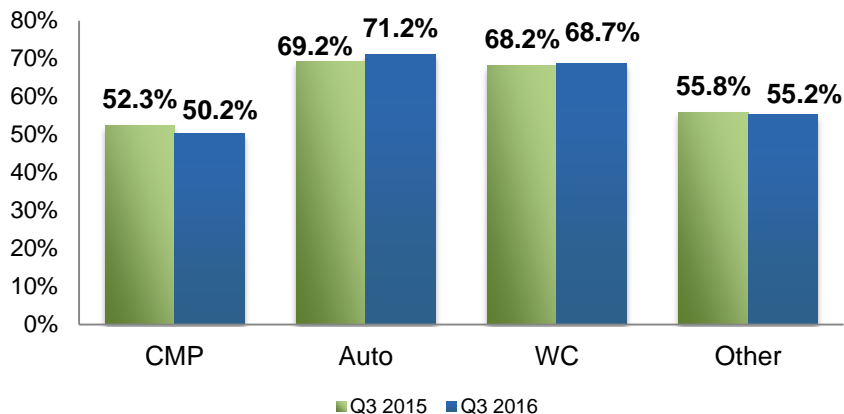
# Consolidated Underwriting Performance

(\$ in millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2016	2015	2016
<b>Premiums:</b>				
Net Written	\$1,200	\$1,251	\$3,708 <sup>(2)</sup>	\$3,617
Net Earned	\$1,150	\$1,161	\$3,567	\$3,458
<b>Loss and LAE ratio:</b>				
Current accident year, ex-cat	58.0%	58.0%	59.7%	58.3%
Prior year (favorable) unfavorable reserve development, ex-cat	(1.9)%	(0.7)%	(2.1)%	(0.1)%
Catastrophe losses	4.0%	2.3%	4.3%	3.2%
<b>Loss and LAE ratio</b>	<b>60.1%</b>	<b>59.6%</b>	<b>61.9%</b>	<b>61.4%</b>
<b>Expense ratio</b>	<b>34.8%</b>	<b>34.6%</b>	<b>34.0%</b>	<b>34.1%</b>
<b>Combined ratio</b>	<b>94.9%</b>	<b>94.2%</b>	<b>95.9%</b>	<b>95.5%</b>
Combined ratio, ex-cat <sup>(4)</sup>	90.9%	91.9%	91.6%	92.3%
Accident year combined ratio, ex-cat <sup>(4)</sup>	92.8%	92.6%	93.7%	92.4%
Underwriting income	\$54.9	\$63.9	\$135.6	\$145.3
Catastrophe losses	45.8	26.9	154.6	109.1
Ex-cat, underwriting income	<u>\$100.7</u>	<u>\$90.8</u>	<u>\$290.2</u>	<u>\$254.4</u>

(4) Combined ratio, excluding catastrophes, is a non-GAAP measure. This measure and measures excluding prior-year reserve development ("accident-year" ratios) are used throughout this document. The combined ratio (which includes catastrophe losses and prior-year loss reserve development) is the closest GAAP measure. See the disclosure on the use of non-GAAP measures under the heading "Forward-Looking Statements and Non-GAAP Financial Measures."

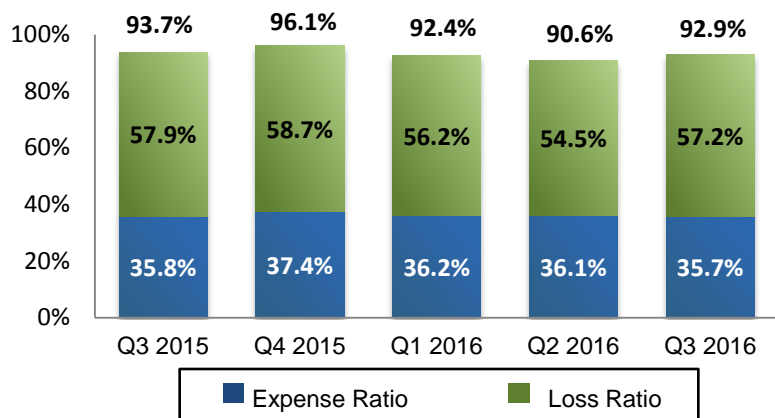
# Commercial Lines Third Quarter 2016 Underwriting Highlights

**Accident Year Loss Ratio, Ex-Cat<sup>(5)</sup>**

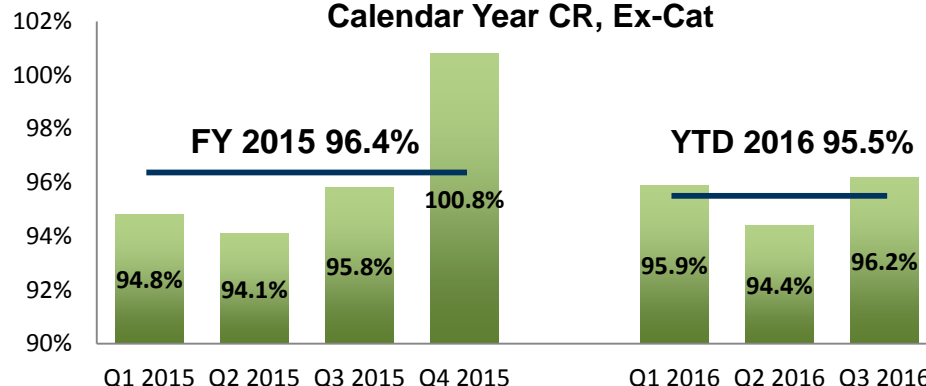


- All-in combined ratio of 99.2% increased compared to 98.3% in the prior-year quarter, driven by unfavorable development in Other commercial lines, primarily within AIX, and commercial multi-peril liability coverages
- Accident year loss ratio of 57.2%, excluding catastrophes, was a half-a-point improvement over the prior-year quarter, primarily driven by favorable property experience in commercial multi-peril line

**Accident Year Combined Ratio (CR), Ex-Cat**



**Calendar Year CR, Ex-Cat**

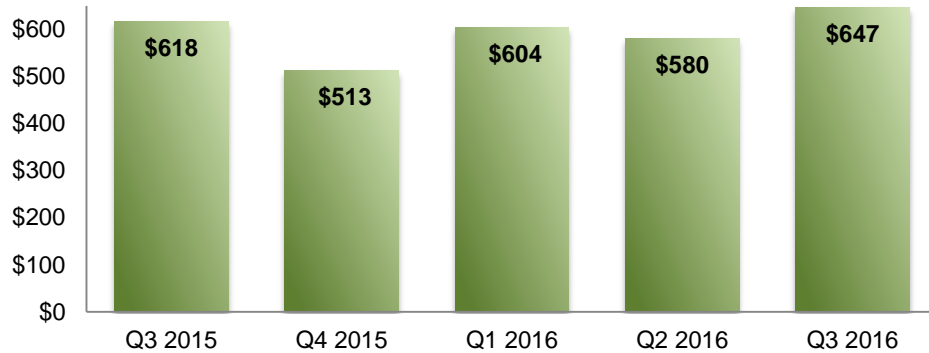


(5) Loss ratio, excluding catastrophes, is a non-GAAP measure. This measure and measures excluding prior-year reserve development ("accident-year" ratios) are used throughout this document. The loss ratio (which includes catastrophe losses and prior-year loss reserve development) is the closest GAAP measure. See the disclosure on the use of non-GAAP measures under the heading "Forward-Looking Statements and Non-GAAP Financial Measures."

# Commercial Lines Third Quarter 2016 Growth Highlights

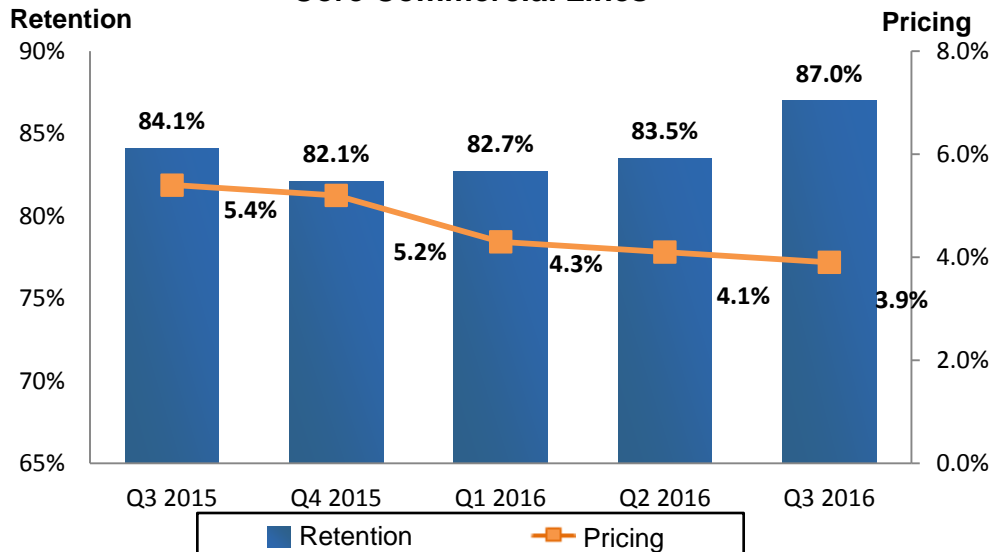
## Net Premiums Written

(\$ in millions)



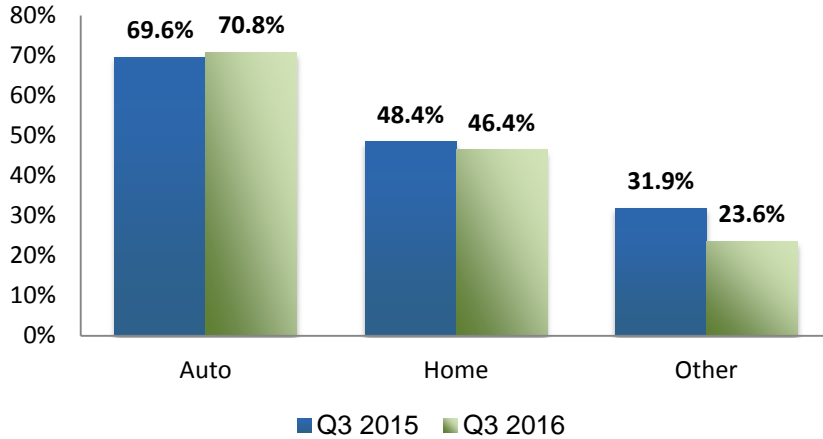
- Net premium written growth of 4.8% driven by stable pricing increases and improved retention
- Retention strengthened 3 points, helped by timing of profit improvement initiatives executed in the third quarter 2015, as well as superior retention levels on best performing business

## Core Commercial Lines



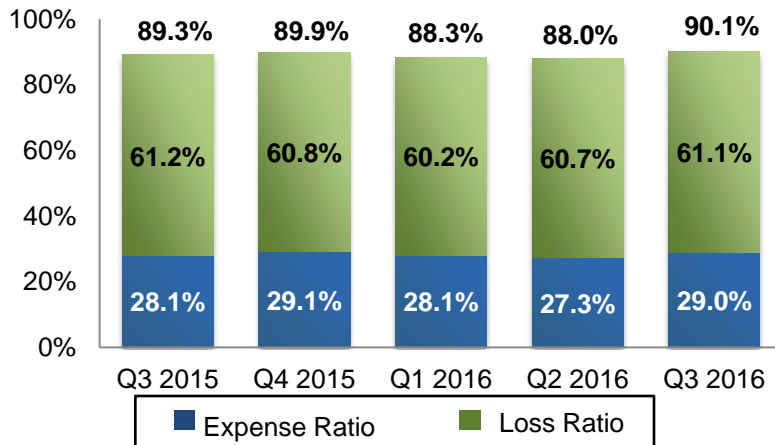
# Personal Lines Third Quarter 2016 Underwriting Highlights

### Accident Year Loss Ratio, Ex-Cat

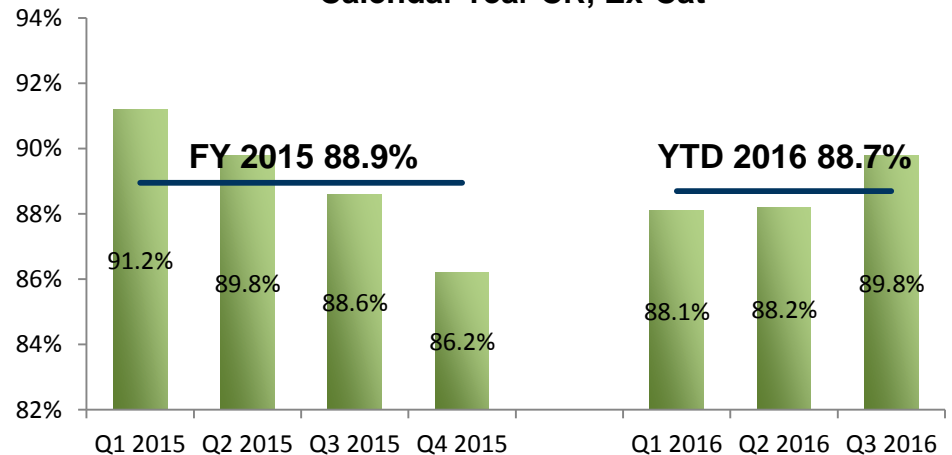


- Strong combined ratio of 93.1%, a one point improvement over the prior-year quarter, helped by benign catastrophe losses
- Current accident year loss ratio of 61.1%, consistent with third quarter of 2015:
  - The auto loss ratio increased one point compared to the prior-year quarter, due to higher severity of property and physical damage claims,
  - Offset by favorable loss experience in the homeowners line as a result of the ongoing impact of higher rate, and lower non-catastrophe weather losses
- The one point uptick in the expense ratio was primarily driven by higher agency performance-based compensation

### Accident Year CR, Ex-Cat



### Calendar Year CR, Ex-Cat

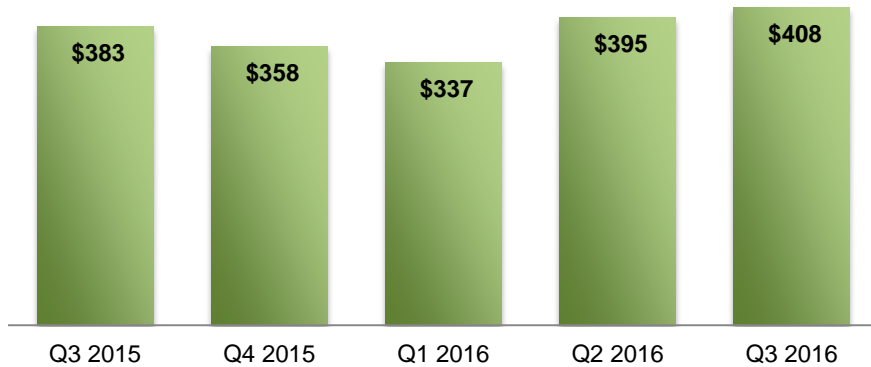




# Personal Lines Third Quarter 2016 Growth Highlights

## Net Premiums Written

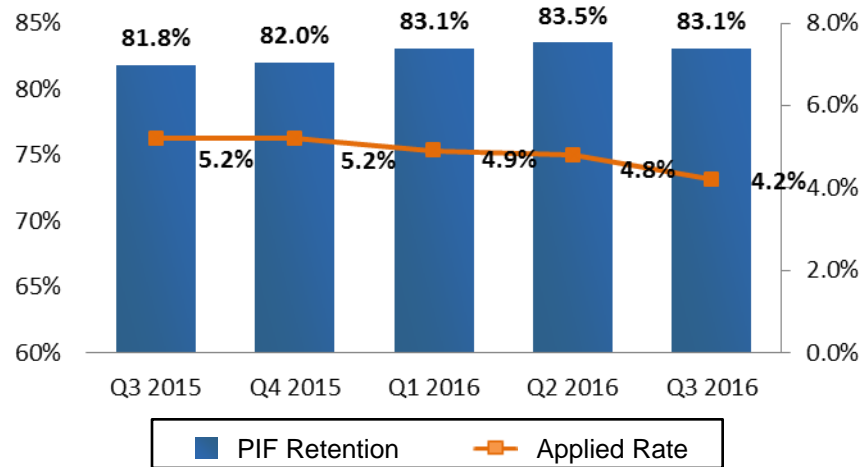
(\$ in millions)



- Net premium written growth of 6.3% supported by strong new business, rate increases and improved retention
- Account business represents 82% of total policies in force and 88% of new business writings

## Retention

## Applied Rate

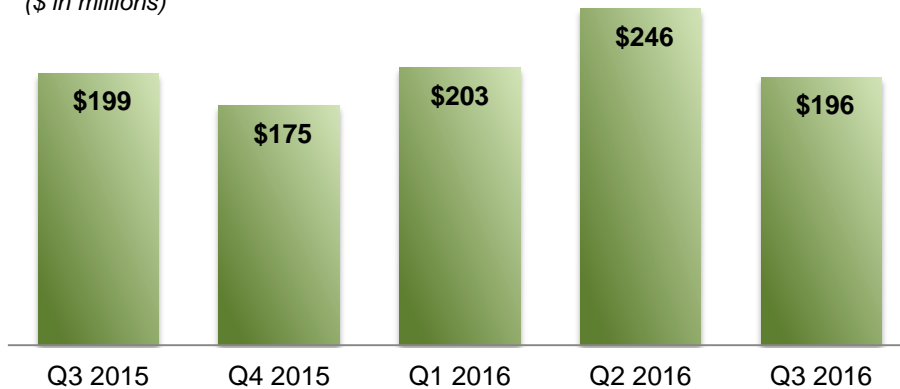


\*Retention is defined as ratio of net retained policies for noted period to those policies available to renew over the same period.

# Chaucer Third Quarter 2016 Highlights

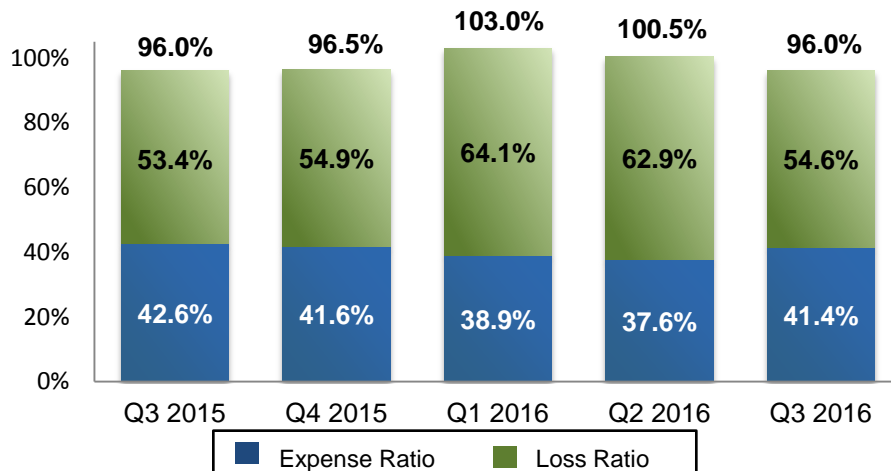
## Net Premiums Written

(\$ in millions)



- Strong combined ratio of 81.3%, helped by the absence of catastrophe losses; attritional and large losses were in line with expectation
- Net premium written declined 1.3%, while gross written premiums increased 6.2%, excluding the impact of U.K. motor business
- Gross premium written growth benefited from ongoing investments in talent and new business initiatives, despite the soft market conditions
- Remain disciplined to preserve margins and sacrifice top line, if terms do not meet underwriting requirements

## Accident Year CR, Ex-Cat

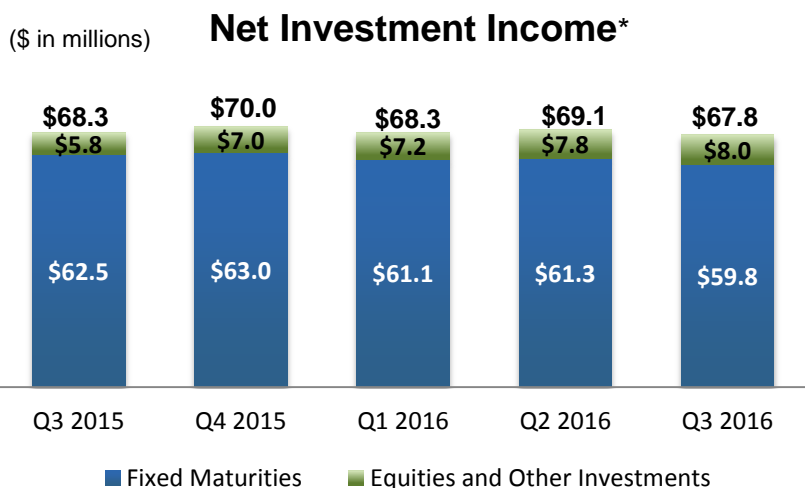


# Foreign Exchange Impact on Chaucer Segment Income

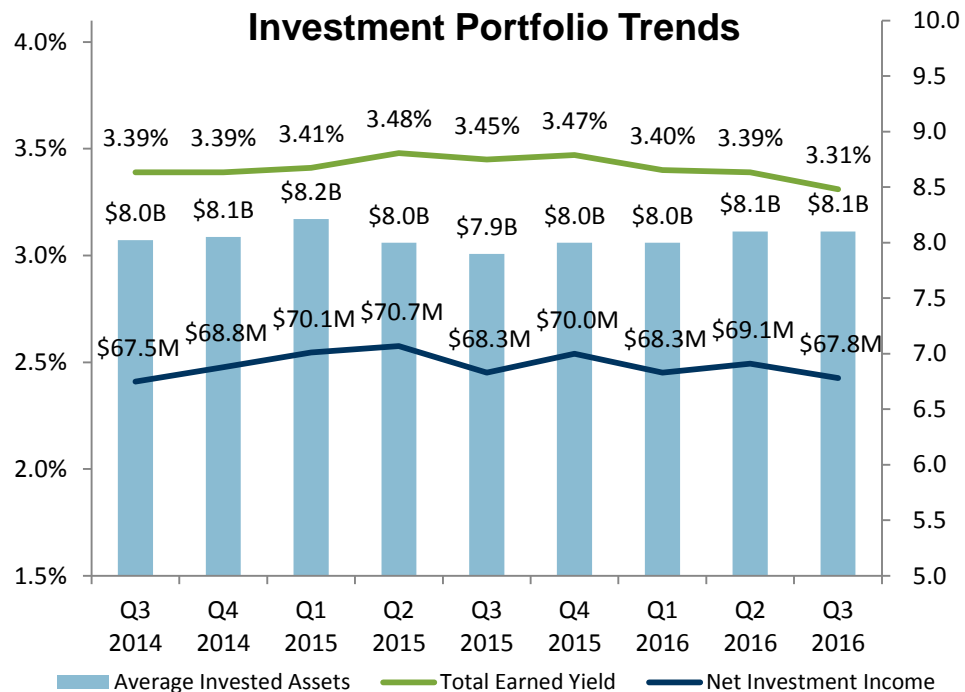
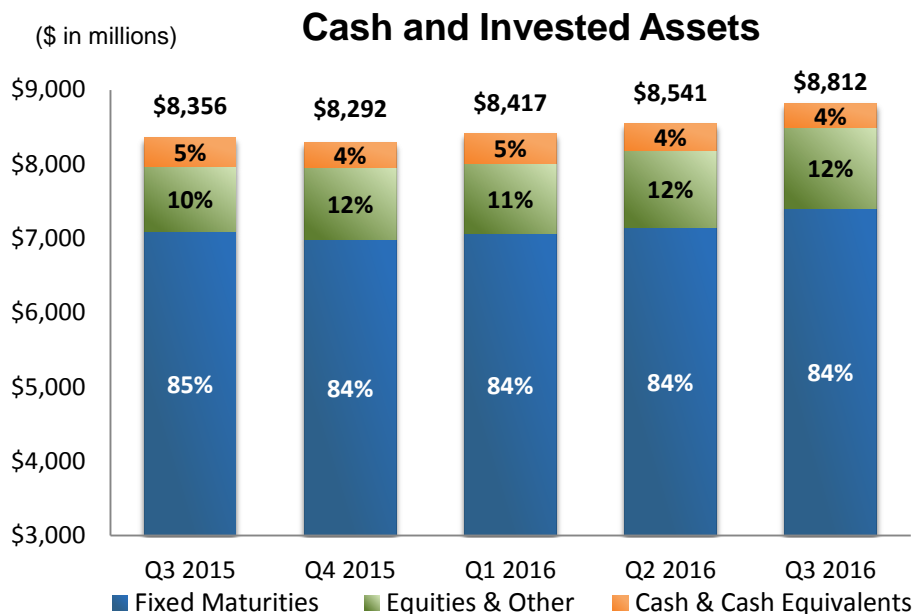
- During the three and nine months ended September 30, 2016, the GBP continued to weaken against most currencies, due to the uncertainty surrounding Brexit negotiations. Effect of Chaucer's foreign exchange gains and losses on its U.S. dollar based financial results is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
<i>(\$ in millions)</i>				
Effect of revaluing loss and LAE reserves	\$ 1.2	\$ (10.4)	\$ 20.2	\$ (43.6)
Effect of revaluing overseas deposits and cash	(3.0)	3.3	(4.0)	13.0
Effect of revaluing premium receivables	(1.2)	0.3	(1.4)	3.1
Total FX effect on segment income	\$ (3.0)	\$ (6.8)	\$ 14.8	\$ (27.5)
FX losses reflected in realized gains/losses	-	-	(3.2)	(0.7)
Total FX effect on pre-tax income	\$ (3.0)	\$ (6.8)	\$ 11.6	\$ (28.2)
Unrealized FX gains (losses) from investment securities	2.5	2.1	(1.2)	9.6
Total pre-tax effect of transactional FX gains (losses) on comprehensive income	\$ (0.5)	\$ (4.7)	\$ 10.4	\$ (18.6)
Tax benefit (expense)	0.2	1.6	(3.6)	6.5
Total effect of transactional FX gains (losses) on comprehensive income	\$ (0.3)	\$ (3.1)	\$ 6.8	\$ (12.1)

# Net Investment Income Trends



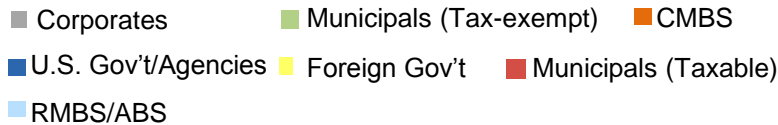
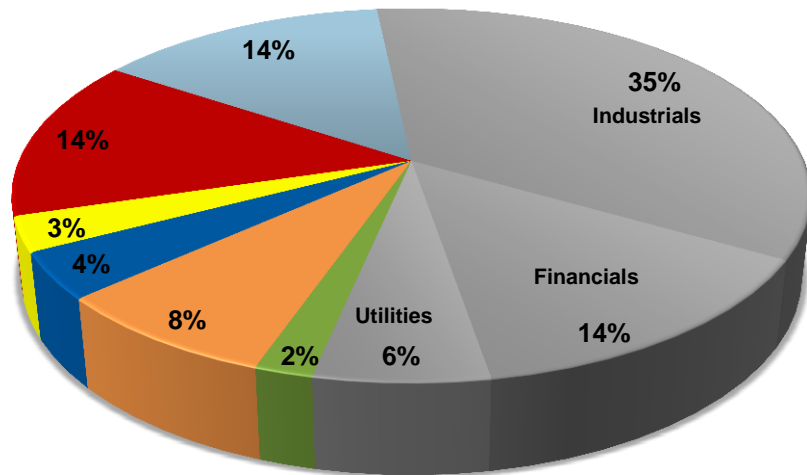
- Net investment income remained fundamentally in line with the prior-year quarter:
  - Low interest rates continued to put pressure on net investment income, which was partially offset by investing higher net cash flows
- Expect yields to continue to pressure investment income results



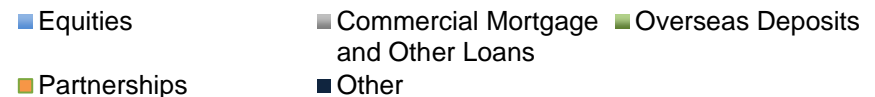
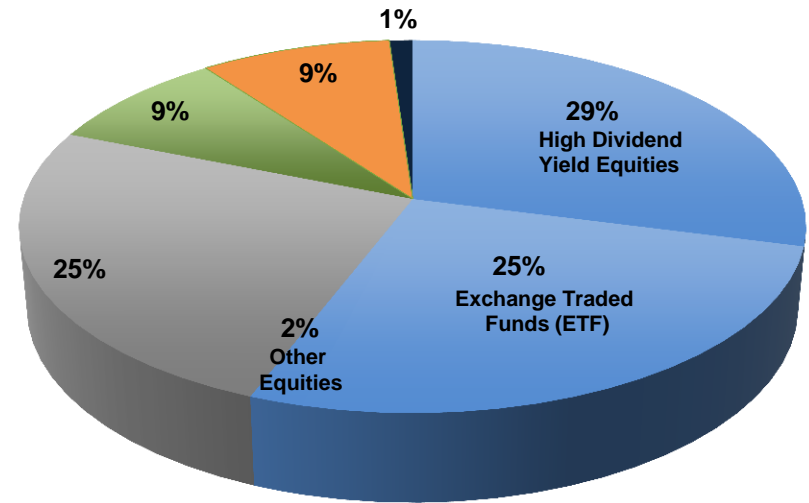
\*Net Investment Income from Equities and Other investments is presented net of investment expenses.

# Investment Portfolio Holdings Breakdown as of September 30, 2016

**Fixed Income \$7.4 Billion**



**Equities & Other \$1.1 Billion**



## Fixed Income Characteristics:

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

# About The Hanover

*The Hanover Insurance Group, Inc., based in Worcester, Mass., is the holding company for several property and casualty insurance companies, which together constitute one of the largest insurance businesses in the United States. For more than 160 years, The Hanover has provided a wide range of property and casualty products and services to businesses, individuals, and families. The Hanover distributes its products through a select group of independent agents and brokers. Together with its agents, the company offers specialized coverages for small and mid-sized businesses, as well as insurance protection for homes, automobiles, and other personal items. Through its international member company, Chaucer, The Hanover also underwrites business at Lloyd's of London in several major insurance and reinsurance classes, including marine, casualty, property and energy. For more information, please visit [hanover.com](http://hanover.com)*