



N E W S R E L E A S E

WORCESTER, Mass., August 4, 2010--

**The Hanover Insurance Group Reports
Second Quarter Results**

Second Quarter 2010 Financial Highlights

- Net income of \$2.3 million, or \$0.05 per share
- After-tax segment income of \$1.8 million, or \$0.04 per share ⁽¹⁾
- Combined ratio of 106.1%
- Pre-tax catastrophe losses of \$85.0 million in the current quarter, representing \$1.21 per share after tax and 12.2 points of combined ratio
- Ex-catastrophe combined ratio⁽²⁾ of 93.9%
- Net premiums written of \$802.0 million, up 21% from the prior-year quarter
- Book value per share of \$52.61 at June 30, 2010, up 20% from June 30, 2009 and up 6% from year end 2009

Financial Highlights

<i>\$ in millions, except per share amounts</i>	Quarter ended June 30	
	2010	2009
Total Segment Income After Taxes ⁽¹⁾	\$1.8	\$44.0
Gain from Retirement of Debt, net of tax	-	22.3
Net Realized Investment Gains (Losses) and Other	0.4	(3.2)
Income from Continuing Operations	2.2	63.1
Gain from Discontinued Operations	<u>0.1</u>	<u>1.3</u>
Net Income	<u>\$2.3</u>	<u>\$64.4</u>
Net Income Per Share (Diluted)	\$0.05	\$1.25

(1) Segment income after tax and segment income after tax per share are non-GAAP measures. The reconciliation of these measures to the closest GAAP measure, income from continuing operations and income from continuing operations per share, is provided on page 11 of this press release.

(2) Ex-catastrophe combined ratio is a non-GAAP measure. The combined ratio (which includes catastrophe losses) is the closest GAAP measure.

The Hanover Insurance Group, Inc. (NYSE: THG) today reported net income for the second quarter of 2010 of \$2.3 million, or \$0.05 per share, compared to \$64.4 million, or \$1.25 per share, in the second quarter of last year. Net income for the second quarter of 2009 included an after-tax gain of \$22.3 million, or \$0.43 per share, from the company's debt restructuring.

Total Property and Casualty segment income before interest expense and taxes⁽¹⁾ was \$14.6 million in the second quarter of 2010, compared to \$76.3 million in the second quarter of last year. The pre-tax net impact of catastrophes was \$85.0 million in the second quarter of 2010, compared to \$30.2 million in the second quarter of 2009.

"While record second quarter catastrophes affected both the industry and our company, I am pleased with the solid progress we made in strengthening our franchise," said Frederick H. Eppinger, chief executive officer at The Hanover. "I am very pleased with our core, ex-cat performance, as we continued to make important progress on all of our key financial levers.

"In line with our expectations, key trends continued to improve, benefiting from our rate actions, improving business mix and increasing leverage of the investments that we have made. We also continued to generate strong growth in Commercial Lines with winning agents, positioning our company to achieve stronger and more balanced earnings in the future."

The following table details segment income:

<i>\$ in millions, except per share amounts</i>	Quarter ended	
	June 30	
	2010	2009
Personal Lines	\$(3.5)	\$25.6
Commercial Lines	16.9	50.9
Other Property and Casualty	1.2	(0.2)
Total Property & Casualty⁽¹⁾	14.6	76.3
Interest expense on debt	(11.7)	(10.5)
Total pre-tax segment income⁽¹⁾	2.9	65.8
Federal income tax expense	(1.1)	(21.8)
Total segment income after taxes⁽¹⁾	\$1.8	\$44.0
Per share⁽¹⁾	\$0.04	\$0.86

⁽¹⁾ Total Property & Casualty, Total pre-tax segment income and Total segment income after taxes (and per share) are non-GAAP measures. See reconciliations to income from continuing operations, the closest GAAP measure, provided on page 11 of this press release.

The following table summarizes the components of the GAAP combined ratio:

	Quarter ended June 30	
	2010	2009
Personal Lines losses (excluding catastrophes)	52.9%	54.9%
Personal Lines catastrophe-related losses	16.1%	6.2%
Total Personal Lines losses	69.0%	61.1%
Commercial Lines losses (excluding catastrophes)	43.1%	39.9%
Commercial Lines catastrophe-related losses	7.8%	2.8%
Total Commercial Lines losses	50.9%	42.7%
Total P&C (excluding catastrophes)	48.2%	48.5%
Total P&C catastrophe-related losses	12.2%	4.8%
Total P&C Losses	60.4%	53.3%
Loss adjustment expenses	11.0%	9.2%
Policy acquisition and other underwriting expenses ⁽¹⁾	34.7%	33.9%
Combined Ratio	106.1%	96.4%
Combined Ratio (excluding catastrophes)	93.9%	91.6%

(1) Policy acquisition and other underwriting expenses are reduced by installment fee revenues for purposes of the ratio calculation.

Personal Lines

Personal Lines incurred a pre-tax segment loss of \$3.5 million in the second quarter of 2010, compared to pre-tax segment income of \$25.6 million in the prior-year quarter. The Personal Lines GAAP combined ratio was 107.5% in the current quarter, compared to 99.9% in the second quarter of last year. Catastrophe-related losses were \$59.3 million, or 16.1 points of the second quarter combined ratio in 2010, compared to \$22.7 million, or 6.2 points, in the prior-year quarter. Excluding the pre-tax impact of catastrophes, Personal Lines pre-tax segment income would have been \$55.8 million in the second quarter of 2010, compared to \$48.3 million in the prior-year quarter.

The year-over-year increase in quarterly ex-catastrophe segment income is primarily the result of lower ex-catastrophe current accident year losses in both our auto and homeowners lines. We attribute this to rate increases and our continued shift toward whole accounts, along with more benign non-catastrophe weather losses in our homeowners line, compared to the second quarter of 2009.

Favorable development of prior-year loss reserves was \$11.0 million in the second quarter of 2010, compared to \$18.7 million in the second quarter of 2009, reducing the Personal Lines combined ratio by 3.0 points and 5.1 points, respectively.

Loss adjustment expenses (LAE) were somewhat higher in the current quarter, driven by elevated catastrophe activity.

Net premiums written were \$376.9 million in the second quarter of 2010, compared to \$371.8 million in the second quarter of 2009, an increase of 1.4%. Improved pricing and retention, partially offset by lower new business, drove the modest year-over-year growth.

Commercial Lines

Commercial Lines pre-tax segment income was \$16.9 million in the second quarter of 2010, compared to \$50.9 million in the second quarter of 2009. The Commercial Lines GAAP combined ratio was 104.7% in the second quarter of 2010, compared to 91.8% in the prior-year quarter. Catastrophe-related losses were \$25.7 million, or 7.8 points of the second quarter combined ratio in 2010, compared to \$7.5 million, or 2.8 points, in the second quarter of last year. Excluding the effect of catastrophes, Commercial Lines pre-tax segment income would have been \$42.6 million in the second quarter of 2010, compared to \$58.4 million in the prior-year quarter, primarily due to lower prior-year favorable development of loss and LAE reserves and higher underwriting expenses associated with our expansion initiatives.

Favorable development of prior-year loss reserves was \$11.7 million in the second quarter of 2010, compared to favorable development of \$17.8 million in the second quarter of 2009, reducing the Commercial Lines combined ratio by 3.5 points and 6.7 points, respectively.

Additionally, in the second quarter of 2009, LAE development included a \$6.4 million, or a 2.4 point benefit, related to the change in our LAE reserving methodology.

Other underwriting expenses were higher in the current quarter when compared to the second quarter of 2009, and reflect continued investments in our Commercial Lines businesses. On a sequential basis, however, at 42.6%, the current quarter expense ratio showed an improvement from 43.5% in the first quarter of 2010, driven by fixed cost leverage from earned premium growth.

Ex-catastrophe accident year losses were in line with the prior-year quarter. Most lines compared favorably to the prior-year quarter, with the exception of the commercial multiple peril line, which experienced more typical loss trends this quarter compared to unusually light losses in the second quarter of last year.

Net premiums written were \$425.1 million in the second quarter of 2010, an increase of \$134.0 million, or 46%, over \$291.1 million in the second quarter of 2009. This increase reflects the continued benefit of the renewal rights transaction, as well as growth in our specialty businesses.

Other Property & Casualty

Other Property & Casualty's pre-tax segment income was \$1.2 million in the second quarter of 2010, compared to a segment loss of \$0.2 million in the prior-year quarter. The increase was primarily driven by lower pension expense related to retained pension liabilities from previously disposed life businesses, partially offset by lower net investment income.

Discontinued Operations

Discontinued Operations include several exited businesses, as well as results of the accident and health business, which was discontinued in 1998.

The net gain on discontinued operations in the second quarter of 2010 was \$0.1 million, compared to a net gain of \$1.3 million in the second quarter of 2009.

Investment Results

Net investment income from continuing operations increased by \$0.5 million, to \$61.8 million for the second quarter of 2010, compared to \$61.3 million in the same period of 2009.

In the second quarter of 2010, the company recognized pre-tax net investment gains of \$3.6 million, primarily from sales of fixed maturities, which were partially offset by impairment charges of \$3.4 million on fixed maturities and equity securities. In the second quarter of 2009, the company recognized impairments of \$6.7 million on fixed maturities and perpetual preferred securities, partially offset by pre-tax net realized gains of \$3.1 million, primarily from sales of fixed maturities.

Realized gains/(losses) related to continuing operations:

<i>\$ in millions</i>	Quarter ended June 30, 2010	Quarter ended June 30, 2009
Net gains on sales of securities	\$ 3.6	\$3.1
Impairments:		
Investment grade fixed maturities	(1.8)	-
Below investment grade fixed maturities	-	(5.4)
Perpetual preferred securities	-	(1.3)
Equity securities	(1.6)	-
Total net realized gains (losses)	\$ 0.2	\$(3.6)

Investment Portfolio

The Company held \$5.3 billion in cash and investment assets at June 30, 2010, including cash and investment assets associated with the discontinued accident and health business.

Fixed maturities and cash represented 98% of our investment portfolio. Approximately 93% of our fixed maturity portfolio is rated investment grade. Net unrealized investment gains increased \$125.9 million during the first six months of 2010, from \$106.4 million at December 31, 2009, to \$232.3 million at June 30, 2010.

Book Value and Other Items

The following exhibit provides a roll forward of book value for the quarter and six months ended June 30, 2010:

<i>\$ in millions, except per share</i>	Quarter Ended June 30, 2010		Six Months Ended June 30, 2010	
	\$	Per share	\$	Per share
Beginning of Period Book Value	\$2,302.2	\$51.59	\$2,358.6	\$49.72
Net Income				
Continuing Operations	2.2	0.05	44.4	0.95
Discontinued Operations	0.1	-	(0.3)	(0.01)
Change in AOCI, net of tax				
Change in Pension and Postretirement Related Benefits	1.6	0.03	3.2	0.07
Change in Net Unrealized Investment Gains	56.8	1.27	94.2	2.11
Dividends to Shareholders	(12.0)	(0.25)	(24.3)	(0.50)
Common Stock Activity				
Accelerated Stock Repurchase Program	(4.6)	-	(105.5)	-
Other Stock Repurchases	-	-	(25.1)	-
Other, net	5.3	-	6.4	-
Common Stock Net Activity, per share	-	(0.08)	-	0.27
End of Period Book Value	\$2,351.6	\$52.61	\$2,351.6	\$52.61

Earnings Conference Call

The Hanover will host a conference call to discuss the company's second quarter results on Thursday, August 5, 2010 at 11:00 a.m. Eastern Time. **A PowerPoint slide presentation will accompany our prepared remarks and has been posted on our Web site.** Interested investors and others can listen to the call and access the presentation through The Hanover's Web site, located at www.hanover.com. Web-cast participants should go to the web site 15 minutes early to register, download, and install any necessary audio software. A re-broadcast of the conference call will be available on this Web site approximately two hours after the call.

Statistical Supplement

The Hanover's second quarter earnings news release and statistical supplement are available in the Investors section at www.hanover.com.

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," "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 which involve significant judgment and not guarantees of future performance, and actual results could differ materially. In particular, statements in this press release regarding "positioning our company to achieve stronger and more balanced earnings," "progress on all of our key profitability levers" and "continued benefit of the renewal rights transaction" and statements in the above referenced conference call regarding expectations for 2010 and beyond, including with respect to net written premium and policies in force growth, retention, new business growth, the ability to achieve rate increases, net investment income, the potential impact of capital actions and business investments, our financial strength, accident year loss ratios, the impact of product, account-based and geographic mix changes on future profitability, prior-year loss and loss adjustment expense reserve development from our continuing and run-off operations, segment income, expenses and expense ratios, effective tax rates, weighted shares outstanding and returns on equity are forward-looking statements. Statements regarding the possible impact of the current economic conditions on our business and investment portfolio, and with respect to the anticipated pricing environment, are also forward looking statements. Investors should consider the risks and uncertainties in our business and under current financial market conditions that may affect such estimates and future performance, including (i) the inherent difficulties in arriving at such estimates, particularly with respect to current accident year results and loss reserve development; (ii) the complexity of estimating losses from large catastrophe events or with respect to emerging issues such as "Chinese drywall" where circumstances may delay reporting of the existence, nature or extent of losses or where "demand surge," regulatory assessments, litigation, coverage and technical complexities or other factors may significantly impact the ultimate amount of such losses; (iii) the difficulties of estimating the impact of the current financial and economic environment on rates, investment income, product demand, losses and competitor actions; and (iv) the uncertainties in current circumstances of future rating agency requirements, which could affect the company as well as the company's investment portfolio; (v) and the impact of the federal government's recent adoption of national healthcare legislation, adoption of the Dodd-Frank Wall Street Reform and Consumer Protection Act or the Michigan Supreme Court's recent decision to override the so-called Kreiner decision and significantly expand the circumstances under which claimants can sue for non-economic losses resulting from automobile accidents in Michigan.

Investors are directed to consider the risks and uncertainties in the company's business that may affect future performance and that are discussed in readily available documents, including the company's annual report and other documents filed by The Hanover with the Securities and Exchange Commission and which are also available at www.hanover.com under "Investors." These uncertainties include the possibility of adverse catastrophe experiences (including terrorism) and severe weather, the uncertainty in estimating weather-related losses, the uncertainties in estimating property and casualty losses (particularly with respect to products with longer tails or involving emerging issues and with respect to losses incurred as the result of

new lines of business), the possibility of adverse judicial decisions, including those which expand policy coverage beyond its intended scope (such as the recent decision by the Michigan Supreme Court overturning the so-called Kreiner standard for suing for non-economic losses resulting from an automobile accident in Michigan), the ability to increase or maintain certain property and casualty insurance rates, the impact of new product introductions (such as our Management Liability products and expansion into health care product coverages) and expansion in geographic areas, including our western expansion, the impact of the company's recent acquisitions or the renewal rights transaction with OneBeacon Insurance Group, adverse loss development and adverse trends in mortality and morbidity and medical costs, changes in frequency and loss trends, the ability to improve renewal rates and increase new property and casualty policy counts, investment impairments (which may be affected by, among other things, our ability and willingness to hold investment assets until they recover in value), heightened competition (including increasing rate pressure, particularly in Commercial Lines), the continued deterioration of the economic environment, particularly in the state of Michigan, where the company has a significant portion of its business, adverse state and federal legislation or regulation or regulatory actions (including in the state of Michigan where there are legislative efforts to require prior regulatory approval of insurance rates, require insurers to make "low cost" policies available and otherwise reduce rates and expand benefits), and in Massachusetts where the Attorney General has proposed regulations which would significantly affect the new "managed competition" regulatory regime, particularly for companies such as The Hanover, which distribute private passenger automotive insurance through independent agents, financial ratings actions, uncertainties in estimating indemnification liabilities recorded in conjunction with indemnity obligations undertaken in connection with the sale of various businesses, including our former life companies, and increased uncertainties in general economic conditions and in investment and financial markets, which, among other things, could result in increased impairments of fixed income investments or the inability to collect from reinsurers and the performance of the discontinued voluntary pools, including the inherent uncertainty regarding the types of claims in such pools and the uncertainty whether the reserves would be sufficient. Comments referring to the net written premium growth, business mix, future profitability and premiums earned as a result of the OneBeacon Insurance Group renewal rights deal or the acquisition of Campania, Inc. are forward-looking statements.

Non-GAAP financial measures

The Hanover uses non-GAAP financial measures as important measures of the company's operating performance, including total segment income, segment income after tax, segment income after-tax per share, and measures of segment income and loss ratios excluding catastrophe losses and reserve development. 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 both the after-tax impact of net realized investment gains (losses), and results from discontinued operations, 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.

Segment income (Property and Casualty segment income) is net income, excluding federal income taxes and net realized investment gains and losses, including gains or losses on certain derivative instruments, because fluctuations in these gains and losses are determined by interest rates, financial markets and the timing of sales. Segment income also excludes net gains and losses on disposals of businesses, discontinued

operations, restructuring costs, extraordinary items, the cumulative effect of accounting changes and certain other items. Segment income is the sum of the segment income from: Personal Lines, Commercial Lines, and Other Property and Casualty. The Hanover believes that measures of total segment income provide investors with a valuable measure of the performance of the company's ongoing businesses because they highlight net income attributable to the core operations of the business.

The Hanover also provides measures of segment income and loss ratios that exclude the effects of catastrophe losses. A catastrophe is a severe loss, resulting from natural or manmade events, including risks such as fire, hurricane, earthquake, windstorm, explosion, terrorism or other similar events. Each catastrophe has unique characteristics. Catastrophes are not predictable as to timing or loss amount in advance. The Hanover believes that a discussion of the effect of catastrophes is meaningful for investors to understand the variability of periodic earnings and loss ratios.

Reserve development, which can be favorable or unfavorable, represents changes in our estimate of the costs to pay claims from prior years. We believe that a discussion of segment income excluding reserve development is helpful to investors since it provides insight into both our estimate of current year accident results and the accuracy of prior-year estimates.

Income from continuing operations is the most directly comparable GAAP measure for total segment income (and total segment income after tax) and measures of segment income that exclude the effects of catastrophe losses or reserve development. Segment income and measures of segment income that exclude the effects of catastrophe losses or reserve development should not be construed as substitutes for net income determined in accordance with GAAP. A reconciliation of income from continuing operations to segment income for the quarters ended June 30, 2010 and 2009 is set forth in the table at the end of this document and in the statistical supplement.

Loss ratios calculated in accordance with GAAP are the most directly comparable GAAP measure for loss ratios calculated excluding the effects of catastrophe losses. The presentation of loss ratios calculated excluding the effects of catastrophe losses should not be construed as a substitute for loss ratios determined in accordance with GAAP.

The Hanover Insurance Group, Inc., based in Worcester, Mass., is the holding company for a group of insurers that includes The Hanover Insurance Company, also based in Worcester, Citizens Insurance Company of America, headquartered in Howell, Michigan, and their affiliates. The Hanover offers a wide range of property and casualty products and services to individuals, families and businesses through an extensive network of independent agents, and has been meeting its obligations to its agent partners and their customers for more than 150 years. Taken as a group, The Hanover ranks among the top 30 property and casualty insurers in the United States.

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Definition of Reported Segments

Continuing operations include three Property and Casualty operating segments: Personal Lines, Commercial Lines, and Other Property and Casualty. The Personal Lines segment markets automobile, homeowners and ancillary coverages to individuals and families. The Commercial Lines segment offers a suite of products targeted at the small to mid-size business markets, which include commercial multiple peril, commercial automobile, workers' compensation and other commercial coverages, such as fidelity and surety bonds, and inland marine. The Other Property and Casualty segment includes Opus Investment Management, Inc., which provides investment management services to institutions, pension funds and other organizations, the operations of the holding company, as well as a block of run-off voluntary pools business, in which we have not actively participated since 1995.

The following is a reconciliation from segment income to net income⁽¹⁾:

<i>\$ in millions except per share</i>	Quarter ended June 30				Six months ended June 30			
	2010		2009		2010		2009	
	\$	Per Share ⁽²⁾	\$	Per Share ⁽²⁾	\$	Per Share ⁽²⁾	\$	Per Share ⁽²⁾
Property and Casualty								
Personal Lines	\$(3.5)	\$ --	\$25.6	\$ --	\$31.0	\$--	\$28.7	\$--
Commercial Lines	16.9	--	50.9	--	39.7	--	98.5	--
Other Property & Casualty	<u>1.2</u>	--	<u>(0.2)</u>	--	<u>1.6</u>	--	<u>(1.0)</u>	--
Total Property and Casualty	14.6	--	76.3	--	72.3	--	126.2	--
Interest expense on debt	<u>(11.7)</u>	--	<u>(10.5)</u>	--	<u>(21.0)</u>	--	<u>(20.9)</u>	--
Total segment income	2.9	0.06	65.8	1.28	51.3	1.09	105.3	2.05
Federal income tax expense on segment income	<u>(1.1)</u>	<u>(0.02)</u>	<u>(21.8)</u>	<u>(0.42)</u>	<u>(17.5)</u>	<u>(0.37)</u>	<u>(34.9)</u>	<u>(0.68)</u>
Total segment income after federal income taxes	1.8	0.04	44.0	0.86	33.8	0.72	70.4	1.37
Net realized investment gains (losses) and other	0.2	0.01	(3.5)	(0.07)	11.1	0.24	(9.7)	(0.19)
Gain on retirement of debt	--	--	34.3	0.67	--	--	34.3	0.67
Federal income tax benefit (expense) on non-segment income	<u>0.2</u>	--	<u>(11.7)</u>	<u>(0.23)</u>	<u>(0.5)</u>	<u>(0.01)</u>	<u>(11.7)</u>	<u>(0.23)</u>
Income from continuing operations, net of taxes	2.2	0.05	63.1	1.23	44.4	0.95	83.3	1.62
(Loss) gain from operations of discontinued FAFLIC business, net of taxes	(0.1)	--	0.9	0.02	(0.1)	--	5.9	0.11
(Loss) gain from discontinued accident and health business, net of taxes	(0.5)	(0.01)	0.2	--	(1.1)	(0.03)	(3.1)	(0.06)
Gain on disposal of variable life and annuity business net of taxes	0.7	0.01	0.2	--	0.9	0.02	4.1	0.08
Net income	\$2.3	\$0.05	\$64.4	\$1.25	\$44.1	\$0.94	\$90.2	\$1.75

⁽¹⁾ The separate financial information of each segment is presented consistent with the way results are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Management evaluates the results of the aforementioned segments on a pre-tax basis. Segment income is determined by adjusting net income for net realized investment gains and losses, because fluctuations in these gains and losses are determined by interest rates, financial markets and the timing of sales. Also, segment income excludes net gains and losses on disposals of businesses, discontinued operations, restructuring costs, extraordinary items, the cumulative effect of accounting changes and certain other items.

⁽²⁾ Per share data is per diluted share of common stock.