



# The Hanover Insurance Group, Inc. 2017 Annual Shareholder Meeting

May 16, 2017

The  
**Hanover**  
Insurance Group®

# 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 regarding our ability to continue our progress toward a more successful future; our ability to deliver substantial value for our shareholders, partners, customers and other stakeholders; ability to deliver on the 2017 outlook, assuming catastrophe losses are on budget for the year; ability to build on our strengths and capitalize on opportunities created by emerging market trends, including helping our partners grow, growing responsibly, limiting volatility, and generating top-quartile returns; ability to create business solutions to help agents thrive in the future; ability to deliver superior returns for our shareholders, 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 May 3, 2017 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 March 31, 2017.

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 (and interest expense), combined ratios and loss ratios, excluding catastrophes and/or prior-year 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 the end notes to this presentation, the press release dated May 3, 2017 or the financial supplement, which are posted on our website. The reconciliation of accident year loss ratio and combined ratio excluding catastrophes to the most directly comparable GAAP measure, total loss ratio and combined ratio, is found in the end notes starting on page 15 of this presentation. 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 and 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 2016 Annual Report on pages 77-80.

# Definitions and Reconciliations Continued

Operating income (loss) and operating income (loss) per diluted share are non-GAAP measures. See the disclosure on the use of non-GAAP measures throughout this presentation under the heading "Forward-Looking Statements and Non-GAAP Financial Measures." Operating income (loss) before taxes, as referenced in the results, is defined as, operating income (loss) before taxes and interest expense. The following table provides the reconciliation of operating income (loss) and operating income (loss) per diluted share to the most directly comparable GAAP measures, income from continuing operations and income (loss) from continuing operations per diluted share, respectively:

The Hanover Insurance Group, Inc.	Three months ended		Twelve months ended	
	March 31, 2017		December 31, 2016	
	\$ Amount	Per Share Diluted	\$ Amount	Per Share Diluted
<i>(\$ In millions, except per share data)</i>				
<b>OPERATING INCOME (LOSS)</b>				
Commercial Lines	\$37.4		\$35.9	
Personal Lines	9.9		178.4	
Chaucer	24.9		126.8	
Other	<u>(3.1)</u>		<u>(18.3)</u>	
Total operating income before interest and taxes	69.1		322.8	
Interest expense	<u>(12.0)</u>		<u>(54.9)</u>	
Operating income before income taxes	57.1	\$1.33	267.9	\$6.20
Income tax expense on operating income	<u>(16.3)</u>	<u>(0.38)</u>	<u>(83.5)</u>	<u>(1.93)</u>
Operating income after income taxes	40.8	0.95	184.4	4.27
Gain on disposal of U.K motor business, net of tax	-	-	0.9	0.02
Other non-operating items:				
Net realized investment gains	1.9	0.04	8.6	0.20
Loss from repayment of debt	-	-	(88.3)	(2.05)
Other	-	-	3.0	0.07
Income tax benefit on other non-operating items	<u>2.5</u>	<u>0.06</u>	<u>47.5</u>	<u>1.10</u>
Income from continuing operations, net of taxes	45.2	1.05	156.1	3.61
Discontinued operations, net of taxes	<u>-</u>	<u>-</u>	<u>(1.0)</u>	<u>(0.02)</u>
Net income	<u>\$45.2</u>	<u>\$1.05</u>	<u>\$155.1</u>	<u>\$3.59</u>
Weighted average shares outstanding		42.9		43.2

# Definitions and Reconciliations Continued

Total shareholders' equity, excluding net unrealized appreciation (depreciation) on investments, net of tax, is a non-GAAP measure. Total Shareholder's equity, is the most directly comparable GAAP measure, and is reconciled in the table below. For the calculation of Operating Return on Equity (ROE), we use the average of beginning and ending shareholders' equity, excluding net unrealized appreciation (depreciation) on investments, net of tax, for the period as calculated in the second table below:

(\$ In millions)	Period Ended		
	December 31 2016	March 31 2017	December 31 2015
Total shareholders' equity	\$2,857.5	\$2,913.5	\$2,844.4
Less: Net unrealized appreciation (depreciation) on investments, net of tax	<u>186.0</u>	<u>205.0</u>	<u>149.9</u>
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on investments, net of tax	<u>\$2,671.5</u>	<u>\$2,708.5</u>	<u>\$2,694.5</u>

(\$ In millions)	Three months ended	Twelve months ended
	March 31 2017	December 31 2016
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on investments, net of tax:		
Balance at the start of the period	\$2,671.5	\$2,694.5
Balance at the end of the period	<u>2,708.5</u>	<u>2,671.5</u>
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on investments, net of tax	<u>\$2,690.0</u>	<u>\$2,683.0</u>

Operating Return on Average Equity ("Operating ROE" or at times "ROE") is a non-GAAP financial measure. Operating ROE is calculated by dividing operating income after-tax annualized, as defined on the Operating income (loss) and operating income (loss) per diluted share end note, by average shareholders' equity, excluding unrealized appreciation (depreciation) on investments, net of tax, for the stated period, as defined on the Total shareholders' equity, excluding net unrealized appreciation (depreciation) on investments, net of tax note above.

# Definitions and Reconciliations Continued

Operating income, excluding domestic prior year development after taxes, is a non-GAAP measure. The following table is a reconciliation of operating income, excluding domestic prior year development after taxes, to Operating income (loss) after taxes. See end note on Operating income (loss) and operating income (loss) per diluted share for a reconciliation to income (loss) from continuing operations and income (loss) from continuing operations per diluted share, which is the nearest GAAP measure

	Twelve months ended	
	December 31, 2016	December 31, 2015
Operating income after income taxes	\$184.4	\$280.0
Domestic prior-year development pre-tax	235.6	25.8
Less: Tax benefit	<u>82.5</u>	<u>9.0</u>
Operating income excluding domestic prior year development after taxes	<u>\$337.5</u>	<u>\$296.8</u>

Combined ratio, excluding catastrophes, is a non-GAAP measure, which is equal to the combined ratio, excluding catastrophe losses. This measure and measures excluding prior-year reserve development (“current accident-year” ratios) are used throughout. The combined ratio (which includes catastrophe losses and prior-year loss reserve development) is the most directly comparable GAAP measure. The following is a reconciliation of Combined ratio, excluding catastrophes:

	Three months ended March 31, 2017
Total Combined Ratio	99.5%
Less: Catastrophe ratio	<u>7.1%</u>
Combined ratio, excluding catastrophe losses	<u>92.4%</u>

Reinsurance-to-close (“RITC”) transaction represents the increase in Chaucer’s retained share of its 2013 year of account of 98% that was closed and reinsured into its 2014 year of account, which was increased to a 100% share. In the first quarter of 2016, Chaucer recorded \$17.7 million of additional assumed premium and an equal amount of loss and LAE reserves related to the RITC transaction that had no meaningful effect on the combined ratio and operating earnings. However, the transaction increased the loss and loss adjustment expense ratio by approximately 4 points and reduced the expense ratio by a similar amount. The following is a reconciliation of Net Premiums Written to Net Premiums Written, excluding RITC transaction:

	Three months ended	
	March 31 2016	March 31 2017
Net Premiums Written	\$1,144.3	\$1,186.8
Less: Reinsurance-to-close	<u>17.7</u>	<u>-</u>
Net Premiums Written, excluding reinsurance-to-close	<u>\$1,126.6</u>	<u>\$1,186.8</u>