



The Hanover Insurance Group

Annual Meeting of Shareholders

May 14, 2019



Agenda

Review our:

- Competitive position and prospects
- Recent performance
- Mission to build the premier P&C company



Our world is changing rapidly...and agility will be key to our success!



Legal and regulatory

- Increased litigation and complex regulation (changing courts, ADA lawsuits, wage equity, #MeToo)



Customer preferences

- Changing customer preferences and expectations (want it easy and want it now)



Climate

- Changing weather patterns (more frequent and severe storms)



Globalization

- World is becoming more connected and customers' operations/dependencies are more global



New technologies

- Big data and advanced analytics
- Impact of cyber, IoT and new technologies



We are positioned to manage change to our advantage

Strong financial
foundation

Proven and
distinctive strategy

Agile, responsive
business model

Broad and deep
partnerships

Experienced and
committed team



We delivered a strong financial performance in 2018...

- After-tax operating income⁽¹⁾ – \$292 million
- Ex-cat, combined ratio⁽²⁾ – 91%
- Record U.S. revenue and operating income

2018
Adjusted
Operating ROE⁽³⁾

12.6%



...while making important strategic gains across our company

- Expanded distribution
- Added technological and analytical capabilities
- Enhanced solutions for partners and customers
- Fostered more innovation
- Sold international specialty business, Chaucer Holdings
- Focused on proven, distinctive domestic business



We are off to a strong start in 2019...

First quarter:

- Operating EPS⁽¹⁾ – **\$1.96**
- Combined ratio – **95.8%**
- Operating ROE⁽³⁾ – **11.6%**
- Adjusted ROE⁽³⁾ – **13.1%**



...intently focused on our vision: To be the premier P&C company in the independent agency channel...





...and advancing our unique, collaborative culture

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AMERICA'S
BEST MID-SIZE
EMPLOYERS
POWERED BY STATISTA

HUMAN RIGHTS CAMPAIGN FOUNDATION
BEST
PLACES TO WORK
2019 for **LGBTQ Equality**
100% CORPORATE EQUALITY INDEX™



We look ahead with confidence

Determined to leverage our strengths
and deliver significant value!





Forward-looking statements

Certain statements in the presentation (or responses to questions) may be “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as, but not limited to, “believes,” “anticipates,” “expects,” “projects,” “forecasts,” “potential,” “should,” “could,” “continue,” “outlook,” and other similar expressions are intended to identify forward-looking statements. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. The company cautions investors that any such forward-looking statements are estimates, beliefs, expectations or projections that involve significant judgement, and that historical results, trends and forward-looking statements are not guarantees and are not necessarily indicative of future performance. Actual results could differ materially from those anticipated. These statements include, but are not limited to, the Company’s statements regarding its future prospects and ability to deliver sustainable value to shareholders in the future; utilization of remaining proceeds from the sale of Chaucer; and future earnings and revenue growth, including throughout the current year.

Additional Risks and Uncertainties

Investors are further cautioned and should consider the risks and uncertainties in the company’s business that may affect such estimates and future performance that are discussed in the company’s most recently filed reports on Form 10-K and Form 10-Q and other documents filed by The Hanover Insurance Group, Inc. (“The Hanover”) with the Securities and Exchange Commission (“SEC”) and that are also available at www.hanover.com under “Investors.” Investors should not place undue reliance on forward-looking statements, which speak only as of the date they are made, and should understand the risks and uncertainties inherent in or particular to the company’s business. We do not undertake the responsibility to update or revise our forward-looking statements.



Non-GAAP Financial Measures

Non-GAAP Financial Measures

The discussion in this presentation 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) and combined ratios, excluding catastrophes and/or prior-year development. 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 1, 2019 or the financial supplement, which are posted on our website. Current accident year loss ratio and combined ratio excluding catastrophes are non-GAAP measures; total loss ratio and combined ratio are the most directly comparable GAAP measures. 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 and unrealized 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. Operating return on equity ("ROE") and adjusted operating ROE are non-GAAP measures. See end note (3) for a detailed explanation of how these measures are calculated. Operating ROE is based on non-GAAP operating income, and adjusted operating ROE is a measure of operating income as a return on only that portion of shareholders' equity attributable to the continuing business. For measurement periods prior to the close of the Chaucer transaction, which occurred on December 28, 2018, "equity attributable to Chaucer", which was reported as discontinued operations, is excluded. For measurement periods post-closing, "the un-deployed equity", and related net investment income, is excluded. This eliminates the dilutive impact of any excess capital that would have been included in "equity attributable to Chaucer" and "the un-deployed equity" for the corresponding periods presented. Had the actual Chaucer equity for all prior periods been used, the adjusted operating ROE for the continuing businesses for each of the reported periods would have been higher than illustrated in this disclosure. Management believes that these measures are helpful to investors and financial analysts in that they provide insight to the capital used by, and results of, continuing operations exclusive of interest, taxes and other non-operating items. These measures should not be construed as substitutes for GAAP ROE, which is based on net income and shareholders' equity of the entire company and without adjustments. The definition of other financial measures and terms can be found in the 2018 Annual Report on pages 72-74.



End notes

1) Operating income (loss) and operating income (loss) per diluted share are non-GAAP measures (also referred to as after-tax operating income and operating EPS, respectively, in this presentation). See the disclosure on the use of non-GAAP measures throughout this presentation under the heading “Non-GAAP Financial Measures.” 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 (loss) from continuing operations and income (loss) from continuing operations per diluted share, respectively:

	Three months ended		Year ended			
	March 31, 2019		December 31, 2018		December 31, 2017	
	\$	Per Share	\$	Per Share	\$	Per Share
(In millions, except per share data)	Amount	Diluted	Amount	Diluted	Amount	Diluted
OPERATING INCOME (LOSS)						
Commercial Lines	\$80.2		\$265.7		\$177.4	
Personal Lines	26.8		146.2		158.7	
Other	2.8		(5.4)		(8.8)	
Total	109.8		406.5		327.3	
Interest expense	(9.4)		(45.1)		(45.2)	
Operating income before income taxes	100.4	\$2.44	361.4	\$8.40	282.1	\$6.56
Income tax expense on operating income	(19.7)	(0.48)	(69.3)	(1.61)	(89.5)	(2.08)
Operating income after income taxes	80.7	1.96	292.1	6.79	192.6	4.48
Non-operating items:						
Net realized gains (losses) from sales and other	(0.4)	(0.01)	(2.7)	(0.06)	26.7	0.62
Net change in fair value of equity securities	48.6	1.18	(43.4)	(1.01)	-	-
Net other-than-temporary impairment losses on investments recognized in earnings	-	-	(4.6)	(0.11)	(5.6)	(0.13)
Loss from repayment of debt	-	-	(28.2)	(0.65)	-	-
Other	-	-	-	-	(10.3)	(0.24)
Income tax benefit (expense) on non-operating items	(6.3)	(0.15)	25.8	0.60	12.7	0.30
Income from continuing operations, net of taxes	122.6	2.98	239.0	5.56	216.1	5.03
Discontinued Operations:						
Gain from sale of Chaucer business, net of taxes	0.9	0.02	131.9	3.07	-	-
Income (loss) from Chaucer business, net of taxes	(0.3)	(0.01)	20.0	0.46	(13.1)	(0.30)
Income (loss) from discontinued life businesses, net of taxes	(0.8)	(0.02)	0.1	-	(16.8)	(0.40)
Net income	\$122.4	\$ 2.97	\$391.0	\$ 9.09	\$186.2	\$ 4.33
Weighted average shares outstanding		41.2		43.0		43.0



End notes

(2) Combined ratio, excluding catastrophes, is a non-GAAP measure, which is equal to the combined ratio, excluding catastrophe losses. The combined ratio (which includes catastrophe losses) is the most directly comparable GAAP measure. The following is a reconciliation of the GAAP combined ratio to the combined ratio, excluding catastrophes losses:

	Year ended December 31, 2018
	Consolidated
Total combined ratio	96.1%
Less: catastrophe ratio	5.2%
Combined ratio, excluding catastrophe losses	<u>90.9%</u>

(3) Operating Return on Average Equity and Adjusted Operating Return on Average Equity (“Operating ROE” and “Adjusted Operating ROE”) are non-GAAP measures. Operating ROE is calculated by dividing annualized operating income after tax for the applicable period (see end note (1)), by average shareholders’ equity, excluding unrealized appreciation (depreciation) on fixed maturity investments, net of tax, for the stated period. For the calculation of Adjusted Operating ROE, shareholders’ equity is adjusted for “equity attributable to Chaucer” for measurement periods prior to the close, which occurred on December 28, 2018, for “the un-deployed equity” for measurement periods post-close and for net unrealized appreciation (depreciation) on fixed maturity investments, net of tax. Additionally, for the calculation of Adjusted Operating ROE, Operating Income, net of tax, is adjusted for the net investment income related to un-deployed equity attributable to Chaucer, net of tax, for measurement periods post-close. Operating ROE and Adjusted Operating ROE should not be construed as substitutes for GAAP ROE. Total shareholders’ equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, is also a non-GAAP measure. Total shareholders’ equity is the most directly comparable GAAP measure, and is reconciled on the following pages. For the calculation of Operating ROE, the average shareholders’ equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, for the beginning, ending, and, if applicable, intra-reported quarters are used. For the calculation of Operating ROE and Adjusted Operating ROE for the three months ended March 31, 2019, the balance at December 31, 2018 is adjusted by the payment of \$250 million made on January 2, 2019 related to the ASR entered into on December 30, 2018. For the calculation of Adjusted Operating ROE, the average shareholders’ equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and “equity attributable to Chaucer” for measurement periods prior to the close, or “un-deployed equity” for measurement periods post-close, for the beginning and ending quarters are used. See calculations on the following pages, including the calculation of Net Income ROE using net income, annualized, and average shareholders’ equity without adjustments:



End notes

(3) Continued.

	<u>December 31, 2017</u>	<u>March 31, 2018</u>	<u>June 30, 2018</u>	<u>September 30, 2018</u>	<u>December 31, 2018</u>
Total shareholders' equity (GAAP)	\$2,997.7	\$2,913.1	\$2,939.8	\$2,982.4	\$2,954.7
Less: net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	<u>205.4</u>	<u>0.3</u>	<u>(48.8)</u>	<u>(74.0)</u>	<u>(27.2)</u>
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	\$2,792.3	\$2,912.8	\$2,988.6	\$3,056.4	\$2,981.9
Less: Pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity	<u>614.6</u>	<u>614.6</u>	<u>614.6</u>	<u>614.6</u>	<u>656.6</u>
Adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity	<u><u>\$2,177.7</u></u>	<u><u>\$2,298.2</u></u>	<u><u>\$2,374.0</u></u>	<u><u>\$2,441.8</u></u>	<u><u>\$2,325.3</u></u>
Average shareholders' equity					\$2,957.5
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax					\$2,946.4
Average adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity					\$2,323.4



End notes

(3) Continued.

(\$ in millions)	<u>December 31, 2018</u>	<u>March 31, 2019</u>
Total shareholders' equity (GAAP)	\$2,954.7	\$2,927.0
Less: net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	<u>(27.2)</u>	<u>90.7</u>
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax	2,981.9	2,836.3
Less: Payment made on January 2, 2019 for the ASR agreement entered into on December 30, 2018	<u>(250.0)</u>	<u>-</u>
Total shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and including the ASR payment	2,731.9	2,836.3
Less: Pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity	<u>(406.6)</u>	<u>(406.6)</u>
Adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity	<u>\$2,325.3</u>	<u>\$2,429.7</u>
Average shareholders' equity (GAAP)		\$2,940.9
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and including the ASR payment		\$2,784.1
Average adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity; and including the ASR payment		\$2,377.5



End notes

(3) Continued.

	Twelve months ended December 31	Three months ended March 31
<i>Net Income ROE (non-GAAP)</i>	2018	2019
Net Income (GAAP)	\$391.0	\$122.4
Annualized net income*		489.6
Average shareholders' equity (GAAP)	2,957.5	2,940.9
Return on equity	<u>13.2%</u>	<u>16.6%</u>
<i>Operating Income ROE (non-GAAP)</i>		
Operating income, net of tax* (end note (1))	\$292.1	\$322.8
Average shareholders' equity, excluding net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and including the ASR payment only for the period ended March 31, 2019	2,946.4	2,784.1
Operating return on equity	<u>9.9%</u>	<u>11.6%</u>
<i>Adjusted Operating Income ROE (non-GAAP)</i>		
Operating income, net of tax* (end note (1))	\$292.1	\$322.8
Less: Annualized net investment income related to un-deployed equity attributable to Chaucer, net of tax**	-	(11.7)
Annualized operating income, including adjustment for NII related to un-deployed equity attributable to Chaucer, net of tax	292.1	311.1
Average adjusted shareholders' equity, excluding both net unrealized appreciation (depreciation) on fixed maturity investments, net of tax, and pre-sale, equity attributable to Chaucer; or post-close, un-deployed equity	2,323.4	2,377.5
Adjusted operating return on equity	<u>12.6%</u>	<u>13.1%</u>

*For three months ended March 31, 2019, net and operating income is annualized, which is calculated by multiplying three months ended March 31, 2019 net and operating income by 4. Twelve months ended December 31, 2018 is actual reported net and operating income.

**For the three months ended March 31, 2019, annualized net investment income related to un-deployed equity attributable to Chaucer is calculated by multiplying the un-deployable equity attributable to Chaucer by the total annualized pre-tax yield, net of tax.



Other Non-GAAP Measure

Below is a reconciliation of net premiums written to net premiums written, excluding Commercial Auto and Hanover Program business (what is referred to as growth “excluding the impact of these underwriting actions” in the prepared remarks by John C. Roche):

Consolidated	March 31, 2018	March 31, 2019	Growth
Consolidated net premiums written	\$1,068.7	\$1,098.0	2.7 %
Less:			
Commercial Auto	89.7	85.8	(4.3)%
Program Business	<u>52.8</u>	<u>46.3</u>	<u>(12.4)%</u>
Net premiums written, excluding Commercial Auto and Program Business	<u>\$926.2</u>	<u>\$965.9</u>	<u>4.3 %</u>