



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

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## **First Quarter 2014 Results**

**April 30, 2014**

**To be read in conjunction with the press release dated  
April 29, 2014 and the conference call scheduled for April 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,” “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 2014 and beyond; outlook on the market and economic conditions; Personal and Commercial Lines profitability improvement, including with respect to auto lines; the pricing environment, price adequacy, and the company’s ability to increase rates in domestic P&C and in Lloyd’s businesses; the impact of foreign exchange fluctuations; competitive position, 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 future impact of frequency and severity trends and anticipated improvements in the quality of business and reductions to catastrophe-prone businesses); the impact of various agency and exposure management actions on net written premiums, operating income, margin improvement, 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; the ability to deliver on strategic and return on equity goals; adequacy of capital to rating agency expectations; product margins and margin improvement, including with respect to auto lines of business; expected combined ratio and growth of Chaucer Holdings plc (“Chaucer”); net investment income and the effect of lower yields on future net investment income in 2014 and 2015; 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, future share repurchases and the number of shares outstanding, investment impairments and net investment income. 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 April 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](http://www.hanover.com) under “About Us - Investors.” We assume no obligation to update this presentation, which, unless otherwise noted, speaks as of March 31, 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 6, 8, 10 and 12 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.

# First Quarter Highlights

The first quarter represented a strong beginning to the year, despite higher-than-usual catastrophe and non-catastrophe weather related losses:

- Net income of \$1.22 per diluted share; operating income of \$1.05 per diluted share
- Combined ratio of 98.3%, including 5.0% of catastrophes
- Operating income, excluding catastrophes<sup>(1)</sup>, increased by over 15% to \$142.9 million
- Net premiums written of \$1.2 billion, up 8.9%
- Strong price increases in both Commercial and Personal Lines continued in the first quarter
- Net investment income of \$67.0 million
- Book value per share of \$61.24, up 3.0% from December 31, 2013

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

# Underwriting Performance

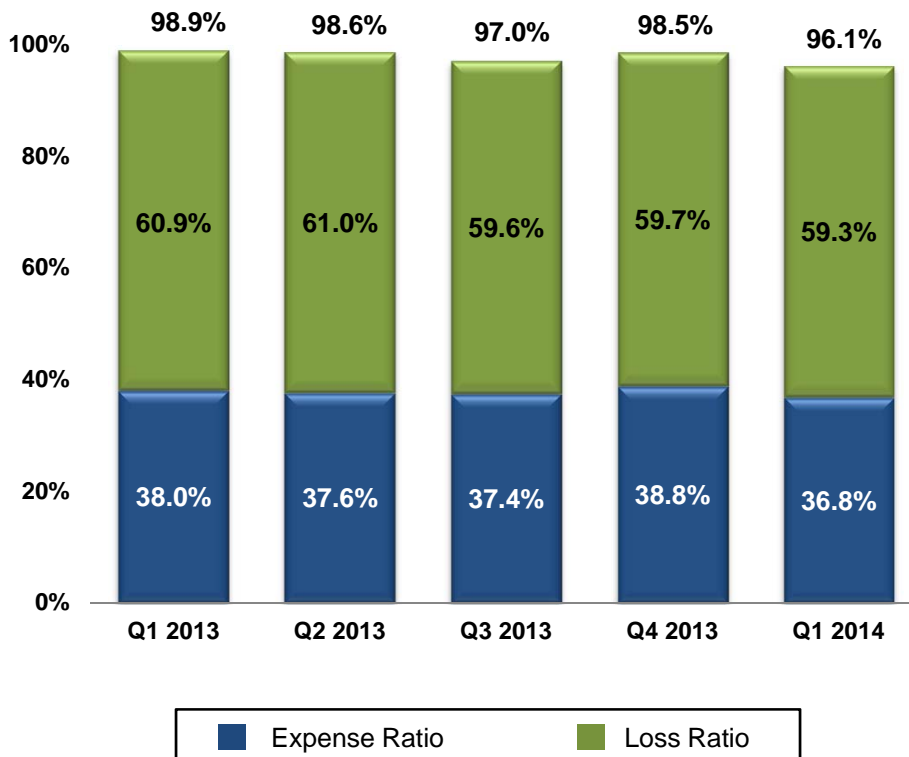
(\$ in millions)

	Three Months Ended March 31	
	2014	2013
<b>Net premiums earned</b>	<b>\$1,163.0</b>	<b>\$1,094.3</b>
<b>Loss and LAE ratio:</b>		
Current accident year, ex-cat	61.3%	61.0%
Catastrophe losses	5.0%	2.0%
Prior year favorable reserve development	(1.7%)	(0.6%)
<b>Loss and LAE ratio</b>	<b>64.6%</b>	<b>62.4%</b>
<b>Expense ratio</b>	<b>33.7%</b>	<b>33.7%</b>
<b>Combined ratio</b>	<b>98.3%</b>	<b>96.1%</b>
<b>Combined ratio, ex-cat<sup>(1)</sup></b>	<b>93.3%</b>	<b>94.1%</b>
<b>Accident year combined ratio, ex-cat<sup>(1)</sup></b>	<b>95.0%</b>	<b>94.7%</b>
<b>Underwriting income</b>	<b>\$ 16.8</b>	<b>\$ 38.9</b>
<b>Catastrophe losses</b>	<b>57.9</b>	<b>21.7</b>
<b>Ex-cat, underwriting income<sup>(1)</sup></b>	<b>\$ 74.7</b>	<b>\$ 60.6</b>

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

# Commercial Lines Highlights

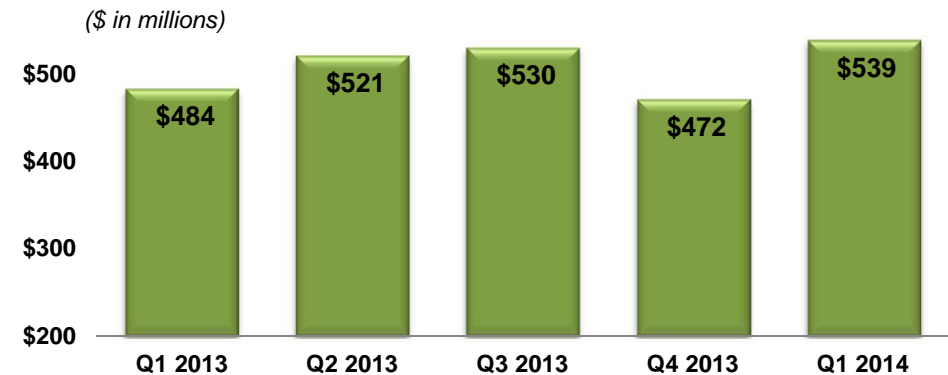
## Accident Year Combined Ratio, Ex-Cat



## Financial Highlights

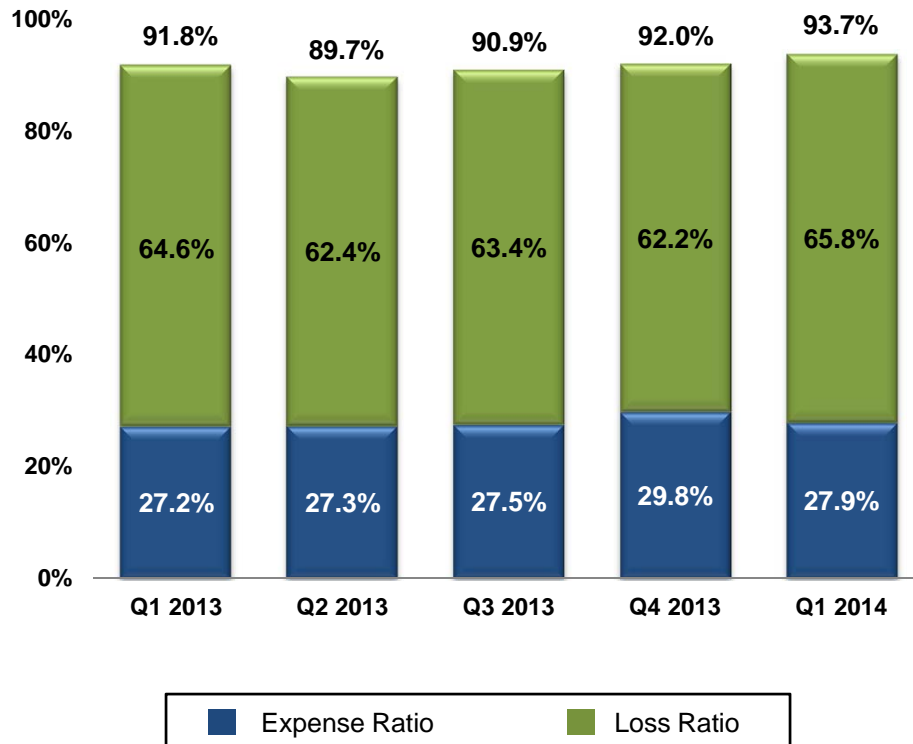
- Net premiums written grew 11.5% compared to the prior-year quarter, driven primarily by growth in Core Commercial
- Continued renewal pricing gains of 8% in Core Commercial
- Accident year loss ratio, excluding catastrophes, improved by 1.6 points compared to the prior-year quarter

## Net Premiums Written



# Personal Lines Highlights

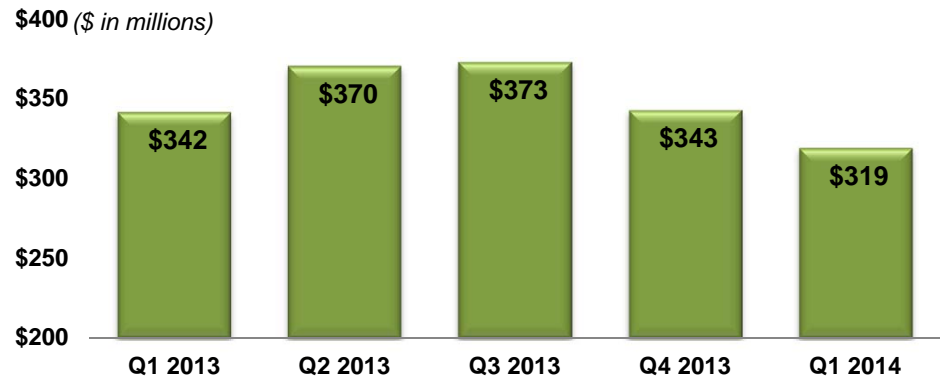
## Accident Year Combined Ratio, Ex-Cat



## Financial Highlights

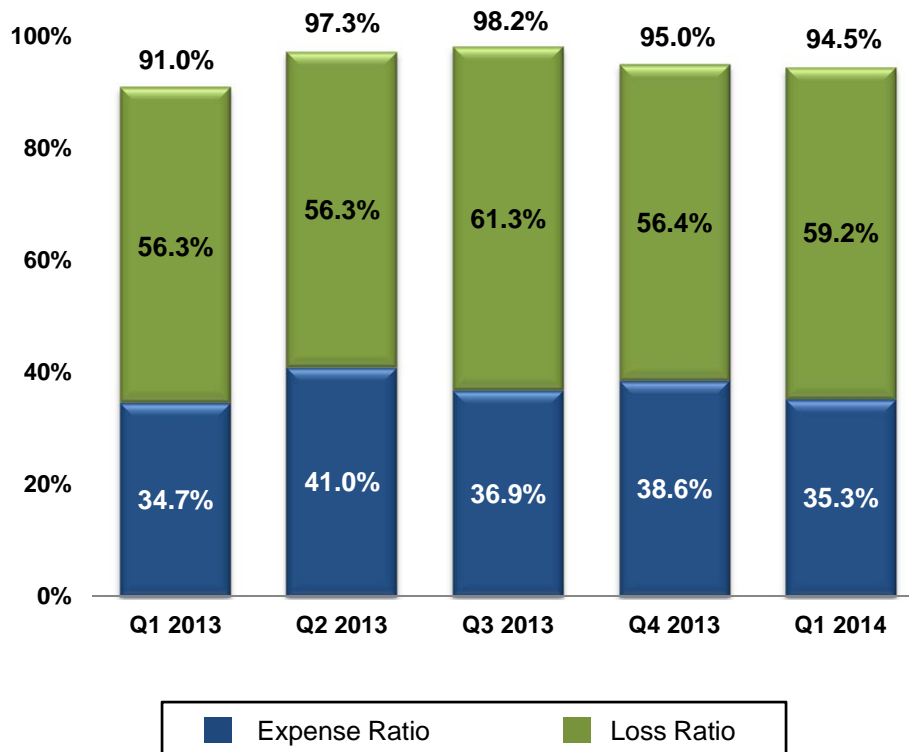
- Net premiums written decreased by 6.6% compared to the prior-year quarter
  - Continued impact of exposure management actions
  - Partially offset by rate increases above loss cost inflation
  - Retention was 74%, with adjusted voluntary retention stable at 80%, which reflects planned PIF reductions
- Accident year loss ratio, excluding catastrophes, increased by 1.2 points, reflecting the effects of non-catastrophe weather
  - Non-catastrophe weather losses contributed over 2 points incrementally to the current accident-year loss ratio

## Net Premiums Written



# Chaucer Highlights

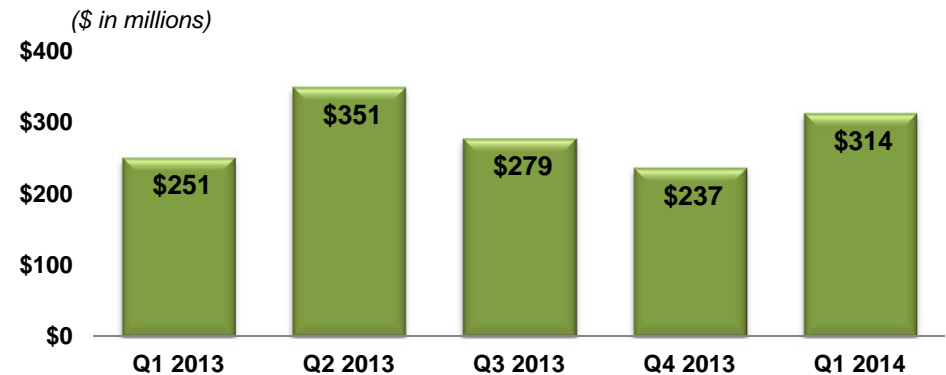
## Accident Year Combined Ratio, Ex-Cat



## Financial Highlights

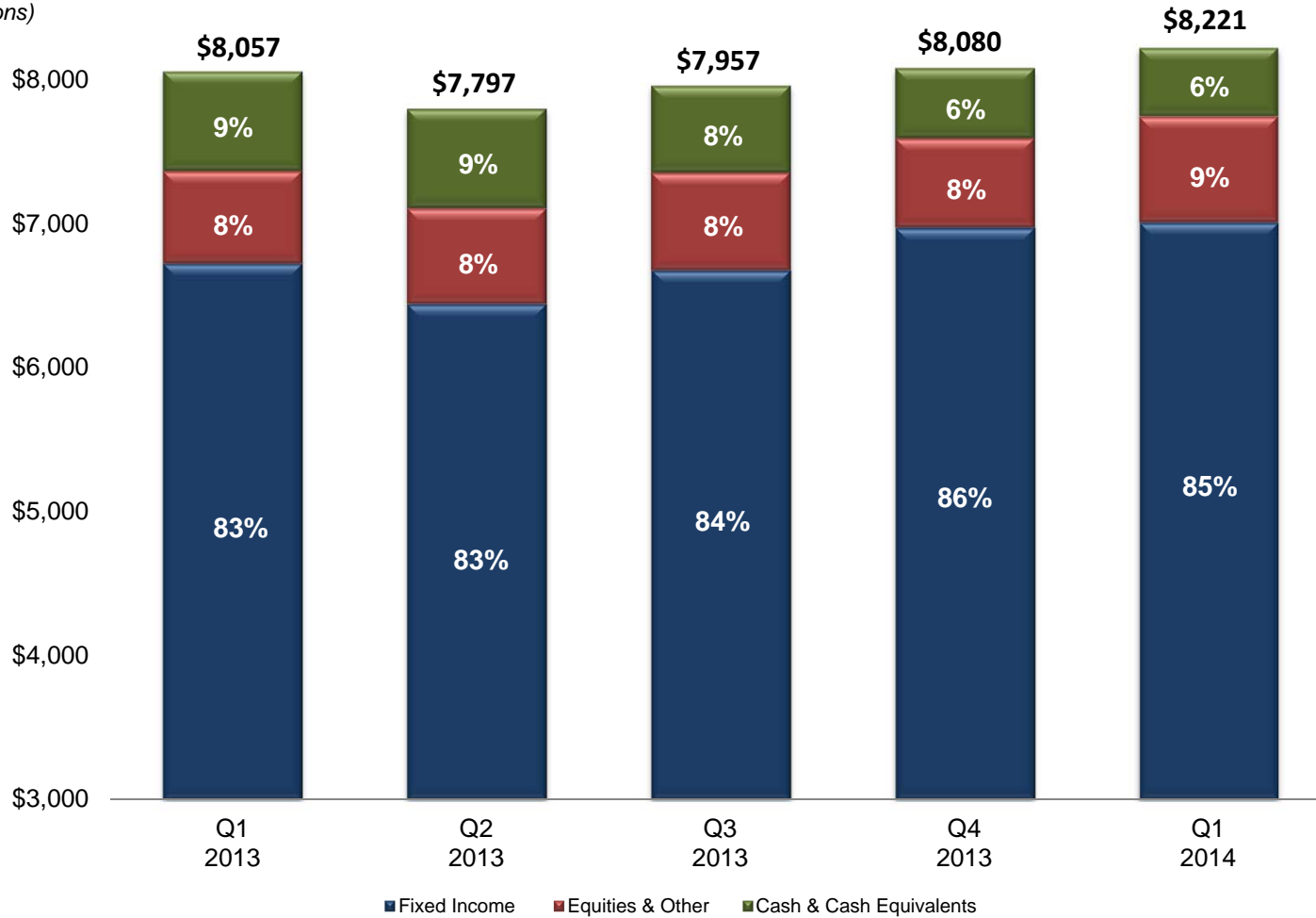
- Net premiums written grew 25%, compared to the prior-year quarter, due mostly to non-recurring factors, including:
  - Growth in the Casualty line, which has a large January 1 renewal
  - Increased syndicate participation
  - Benefit of foreign exchange impact
- Accident year loss ratio, excluding catastrophes, increased by 2.9 points, reflecting higher losses, primarily in the Marine and Aviation line

## Net Premiums Written



# Cash and Invested Assets

(\$ in millions)

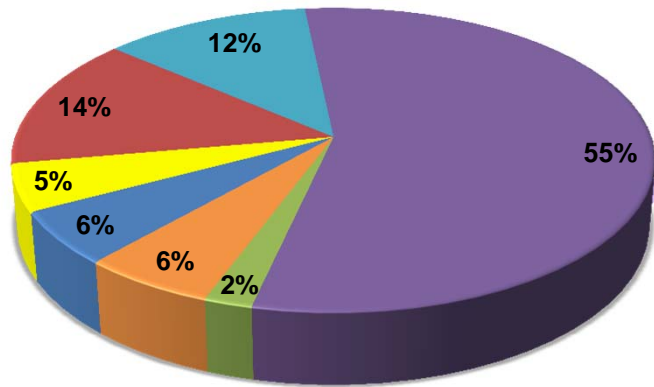




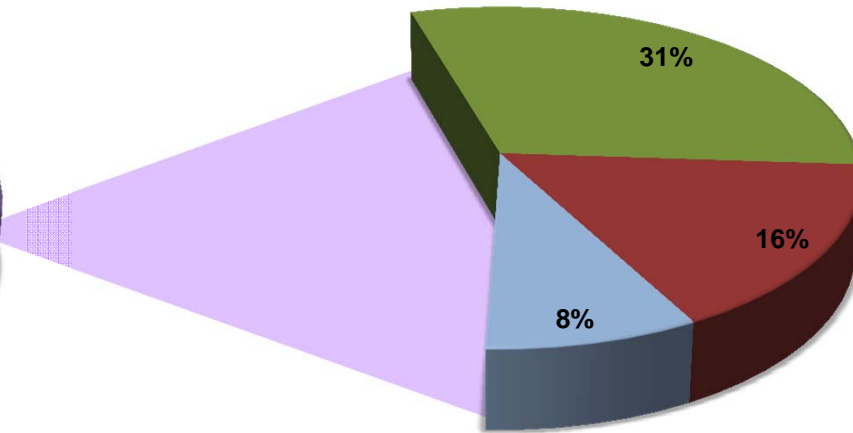
# Fixed Income Sector Breakdown

March 31, 2014

**Fixed Income \$7.0 Billion**



**Corporates \$3.9 Billion**



■ Corporates 
 ■ Municipals (Tax-exempt) 
 ■ CMBS 
 ■ U.S. Gov't/Agencies  
■ Foreign Gov't 
 ■ Municipals (Taxable) 
 ■ RMBS/ABS

■ Industrials 
 ■ Financials 
 ■ Utilities

**Fixed Income Characteristics:**

- 94% of fixed income securities are investment grade
- Weighted average quality A+
- Duration: 4.1 years

**Corporate Holding Characteristics:**

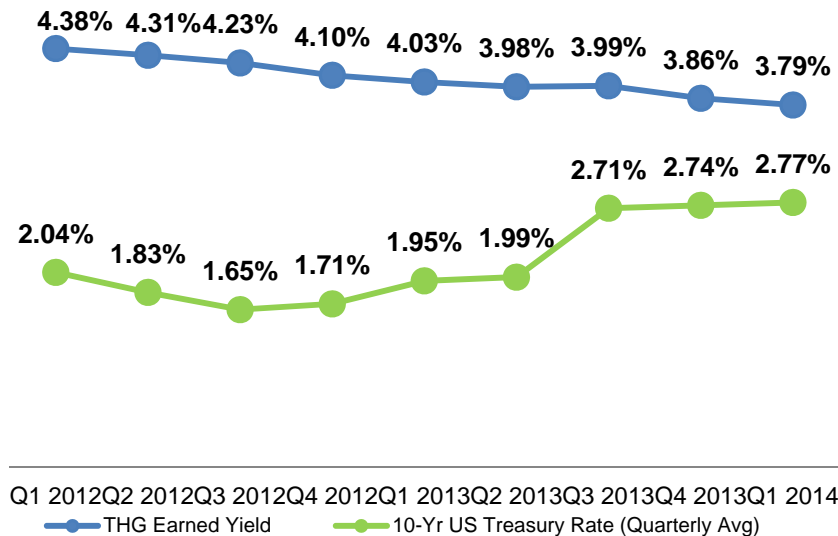
- 90% Investment Grade
- Weighted average quality BBB+
- Duration 3.9 years

# Net Investment Income

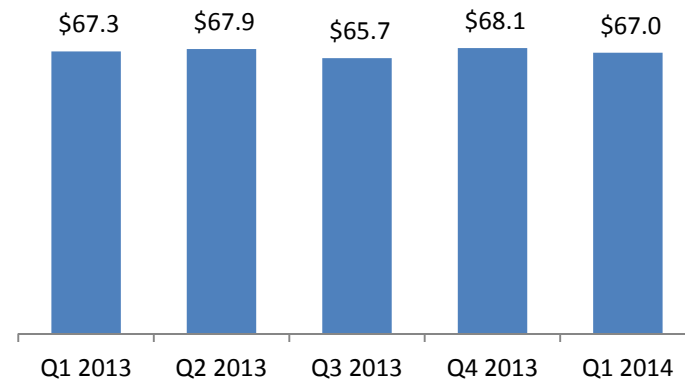
## Highlights

- Net investment income of \$67.0 million, slightly lower than the prior-year quarter, primarily due to lower new money yields, offset by operating cash flows
- Continue to employ certain portfolio management strategies intended to augment our yield without meaningfully increasing overall risk

## Fixed Income Yield



## Net Investment Income



# Balance Sheet Strength

(\$ in millions, except per share data)

	March 31, 2013	December 31, 2013	March 31, 2014
Book value per share	\$59.58	\$59.43	\$61.24
Shareholders' equity	\$2,624	\$2,594	\$2,681
Debt	\$978	\$904	\$904
Total capital	\$3,602	\$3,498	\$3,585
Debt/total capital	27.2%	25.8%	25.2%
THG holding company cash and investments	\$295*	\$123	\$106

\*Includes the proceeds of \$175 million hybrid debt issuance in March 2103.

**Strong and flexible balance sheet**

# Questions