



# The Hanover Insurance Group, Inc.

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## Second Quarter Results

August 1, 2012

To be read in conjunction with the press release dated  
August 1, 2012 and the conference call scheduled for August 2, 2012

# 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 to,” “promise,” “line of sight,” “will” 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 financial performance; underlying loss ratio trends; guidance on 2012 segment income per share; outlook on the market and economic conditions, especially in respect to the surety business; catastrophe losses for the remainder of 2012, and in particular, the third quarter of 2012; building momentum in Personal and Commercial Lines profitability improvement; the pricing environment 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 written premium growth and retention; new business growth; future prior year reserve development and reserve adequacy; the impact of seasonality; the impact of various agency and exposure management actions on net written premiums and segment income; GAAP and accident year loss ratios; expense ratio and expense improvements from improving scale; adequacy of capital to rating agency expectations; product margins, including with respect to auto lines of business; expected profitability and contribution of Chaucer Holdings plc (“Chaucer”) to consolidated earnings, including the ability to realize the benefits of Chaucer’s prior pricing and mix management actions; net investment income and the effect of lower yields on future net investment income; product- geographic- and account- based mix changes on future growth and profitability; and may also include forward looking statements on underwriting conditions, capital levels, ratings, the number of shares outstanding, investment impairments and net investment income.

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 August 1, 2012 and the Annual Report 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, speaks as of June 30, 2012.

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, 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, the risks that the company will not achieve the benefits from the Chaucer transaction and those inherent in Chaucer’s business.

**Basis of Presentation:** Prior periods were restated for the effect of the company’s adoption of the new Deferred Acquisition Cost (“DAC”) methodology. See Book Value and Other Items on page 7 of the press release dated August 1 for more detail.

**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 total segment income, segment income after taxes, combined ratios and loss ratios excluding catastrophes and/or development and accident year loss ratios excluding catastrophes. A reconciliation of non-GAAP measures to the closest GAAP measure is included in either the press release or statistical 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 and 13 of the statistical supplement. Segment income after-tax (segment income after tax 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 for a period 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 80-82.

## Second Quarter Highlights

- Net income of \$20.8 million, or \$0.46 per share; segment income after tax<sup>(1)</sup> of \$10.0 million, or \$0.22 per share
- Combined ratio of 103.1%; ex-catastrophe combined ratio of 96.0%<sup>(1)</sup>
- Net premiums written of \$1,197.6 million, 46.9% higher than the prior-year quarter driven by:
  - Addition of \$329.8 million in net premiums written by Chaucer
  - Commercial Lines growth of 12.8%, driven by both core commercial and specialty businesses
- Continuing improvement in Commercial Lines pricing trends; strong retention
- Repurchased approximately 259,000 of common shares for \$10.0 million
- Book value per share of \$58.81 at June 30, 2012, up 8.0% from June 30, 2011 and 2.0% from March 31, 2012

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

# Underwriting Performance

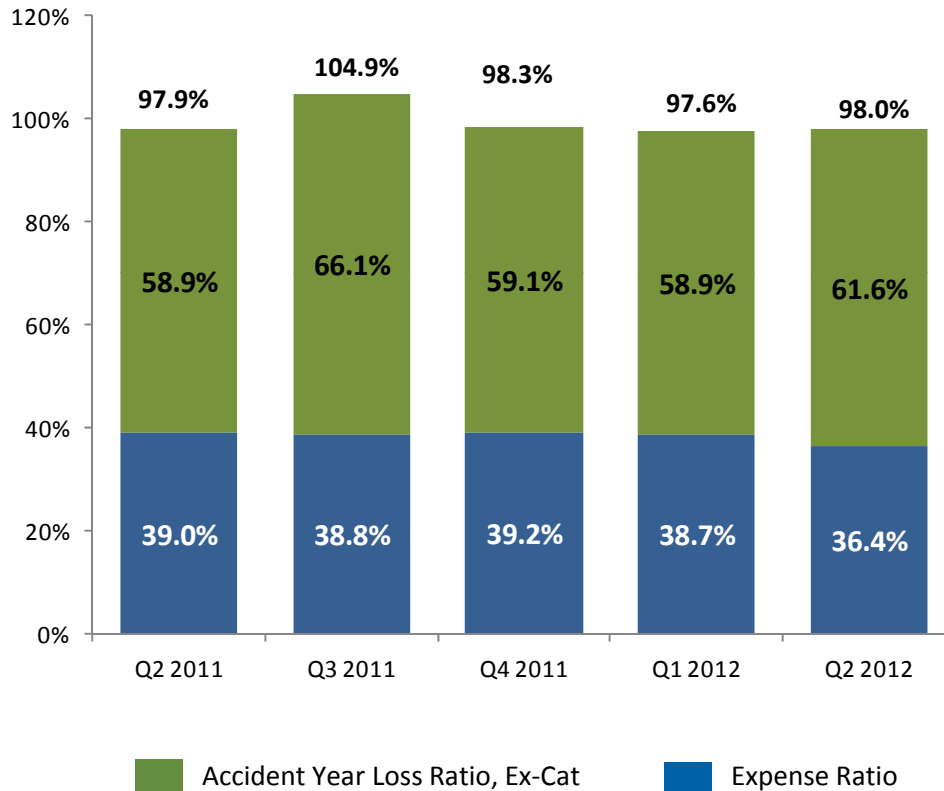
	Three Months Ended <sup>(2)</sup> June 30		Six Months Ended <sup>(2)</sup> June 30	
	2012	2011	2012	2011
<b>Loss and LAE ratio:</b>				
Current accident year, ex-cat	61.1%	61.8%	61.3%	63.1%
Catastrophe losses	7.1%	20.3%	5.5%	13.5%
Prior year unfavorable (favorable) reserve development	1.6%	(2.0%)	--	(2.9%)
<b>Loss and LAE ratio</b>	<b>69.8%</b>	<b>80.1%</b>	<b>66.8%</b>	<b>73.7%</b>
<b>Expense ratio</b>	<b>33.3%</b>	<b>33.3%</b>	<b>33.8%</b>	<b>33.4%</b>
<b>Combined ratio</b>	<b>103.1%</b>	<b>113.4%</b>	<b>100.6%</b>	<b>107.1%</b>
<b>Combined ratio, ex-cat</b>	<b>96.0%</b>	<b>93.1%</b>	<b>95.1%</b>	<b>93.6%</b>
<b>Accident year combined ratio, ex-cat<sup>(1)</sup></b>	<b>94.4%</b>	<b>95.1%</b>	<b>95.1%</b>	<b>96.5%</b>
<b>Underwriting income (loss)</b>	<b>\$ (36.7)</b>	<b>\$ (107.1)</b>	<b>\$ (20.7)</b>	<b>\$ (116.6)</b>
<b>Catastrophes</b>	<b>74.1</b>	<b>156.7</b>	<b>114.7</b>	<b>206.4</b>
<b>Ex-cat, underwriting income<sup>(1)</sup></b>	<b>\$ 37.4</b>	<b>\$ 49.6</b>	<b>\$ 94.0</b>	<b>\$ 89.8</b>
<b>Ex-cat, ex-dev, underwriting income<sup>(1)</sup></b>	<b>\$ 54.6</b>	<b>\$ 34.3</b>	<b>\$ 94.0</b>	<b>\$ 46.0</b>

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

(2) Data for 2011 excludes Chaucer since it was not acquired until July 1, 2011.

# Commercial Lines

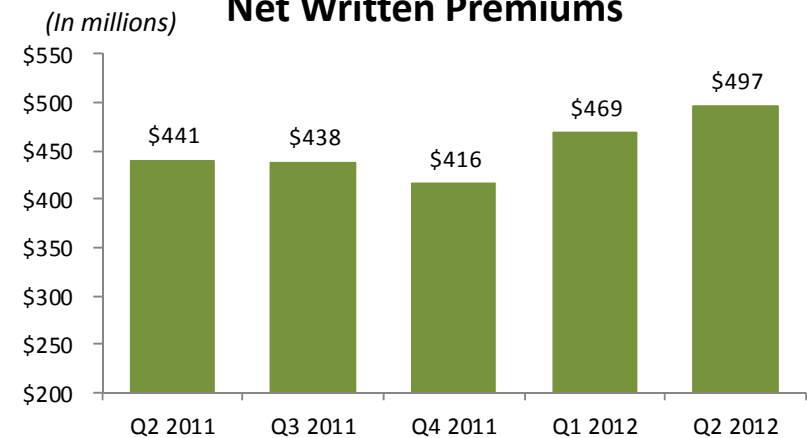
## Accident Year Combined Ratio, Ex-Cat



## Q2'2012 Highlights

- Combined ratio of 109.7%, driven by catastrophes and unfavorable reserve development in surety and commercial auto lines
- Expense ratio improved by almost 3 points from Q2 2011, driven by fixed cost leverage and operating model efficiencies
- Net written premium growth of 12.8%, driven by both core commercial and specialty businesses
- Pricing increases of approximately 6% in core commercial
- Strong retention at 84.1%

## Net Written Premiums



# Personal Lines

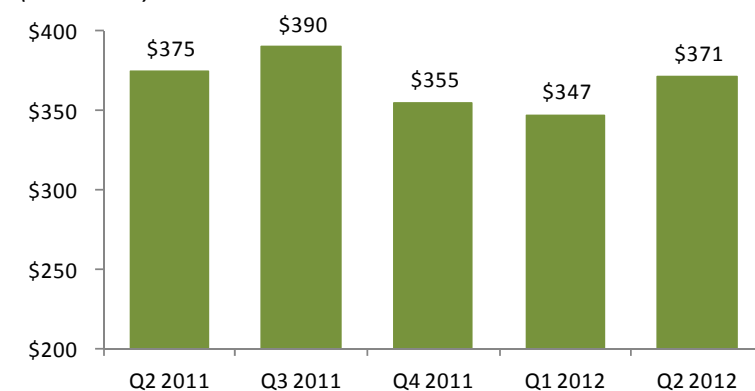
## Accident Year Combined Ratio, Ex-Cat



## Q2'2012 Highlights

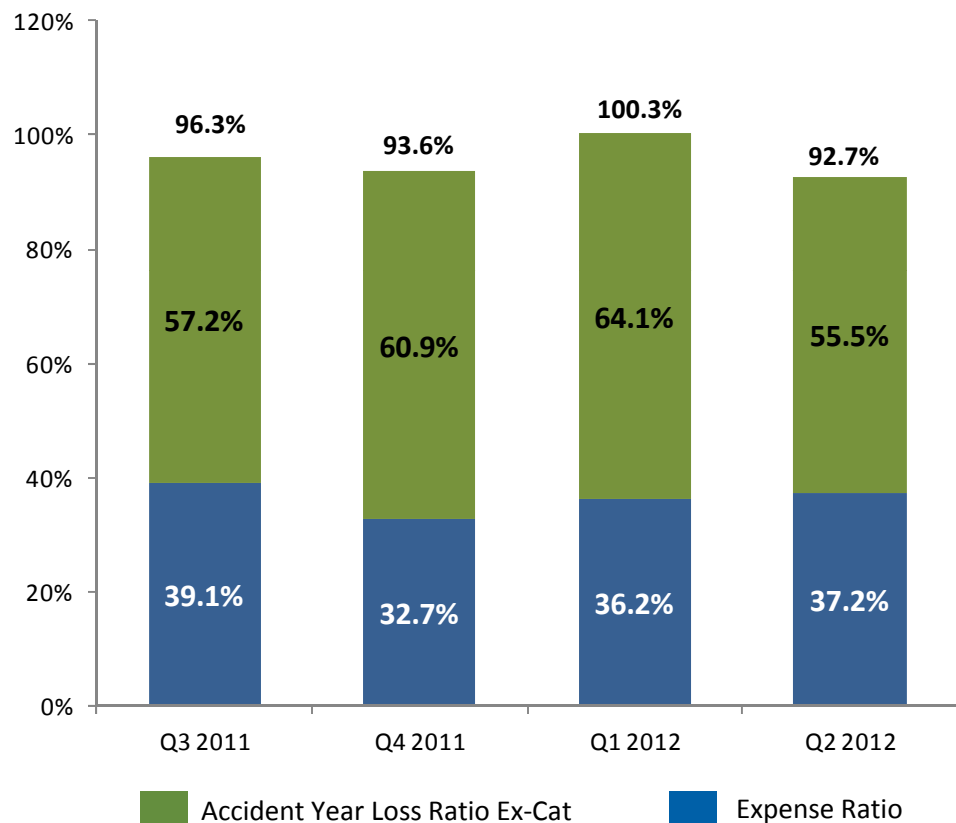
- Combined ratio of 102.0%, which included almost 9 points in catastrophe losses and was affected by unfavorable reserve development
- Lower accident-year loss ratio excluding catastrophes driven by lower non-catastrophe weather losses in the homeowners' line
- Net written premium declined 1%
  - Applied rate increases of 5% in auto and 9% in homeowners
  - Impact of exposure management actions, primarily in the Northeast
- Retention improved 1.5 points from Q2 2011, driven by business mix and account strategy

## Net Written Premiums



# Chaucer

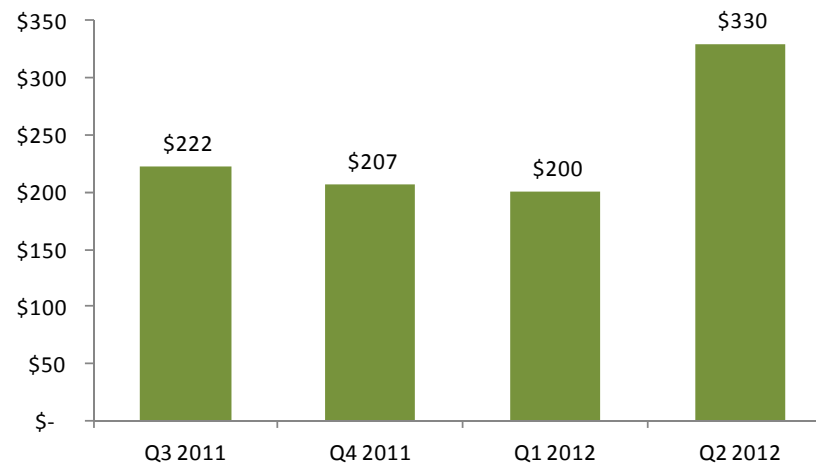
## Accident Year Combined Ratio, Ex-Cat



## Q2'2012 Highlights

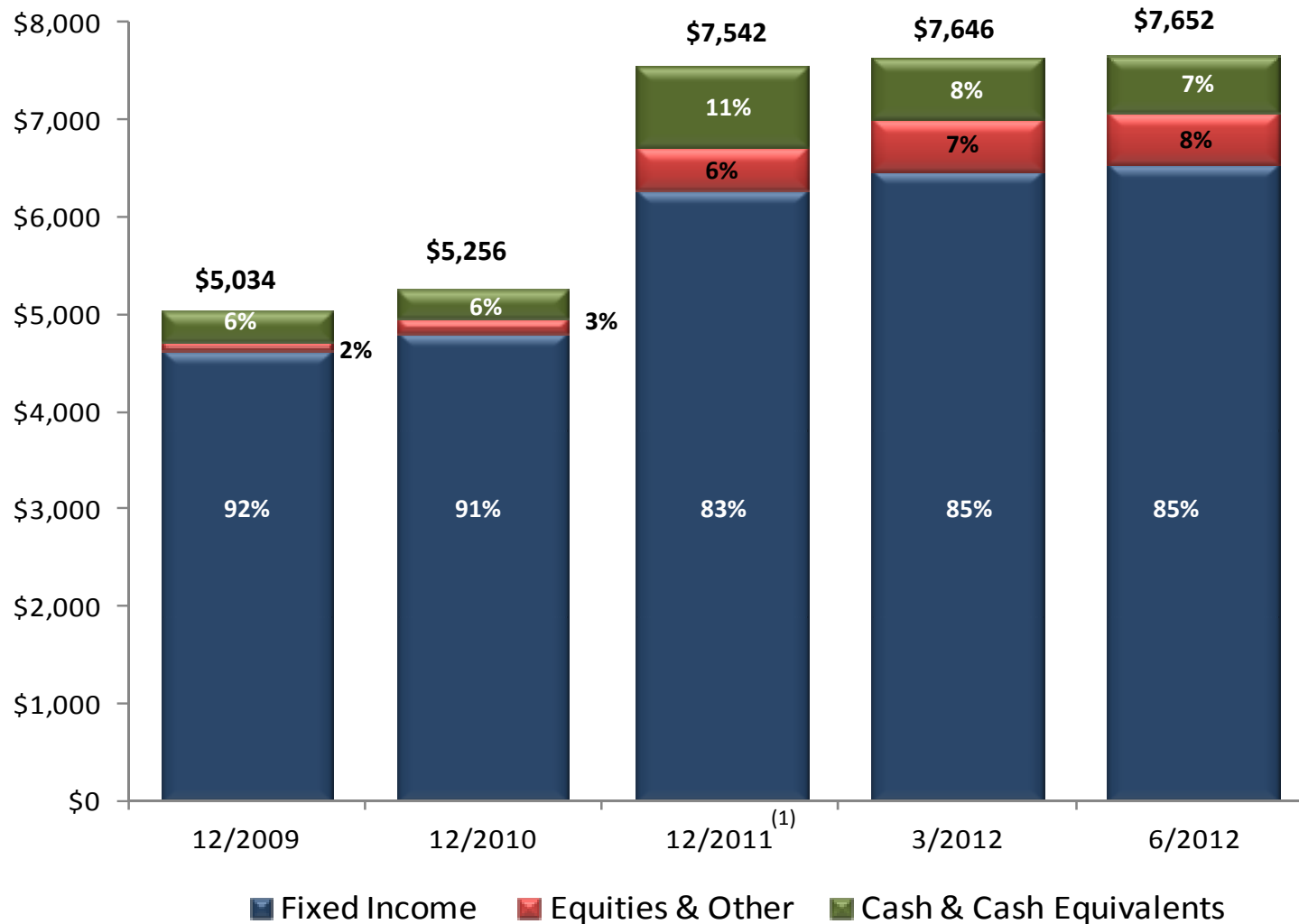
- Segment income before interest and taxes of \$29.8 million
- Combined ratio of 91.9% included 1.4 points of catastrophe losses and 2.2 points of prior-year favorable reserve development
- Net written premiums of \$329.8 million; net earned premiums of \$236.5 million
- Approximately 71% of the Chaucer portfolio is experiencing rate increases; UK Motor rates moderated after experiencing substantial increases over the last two years

## (In millions) Net Written Premiums



# Investment Portfolio

\$ in millions

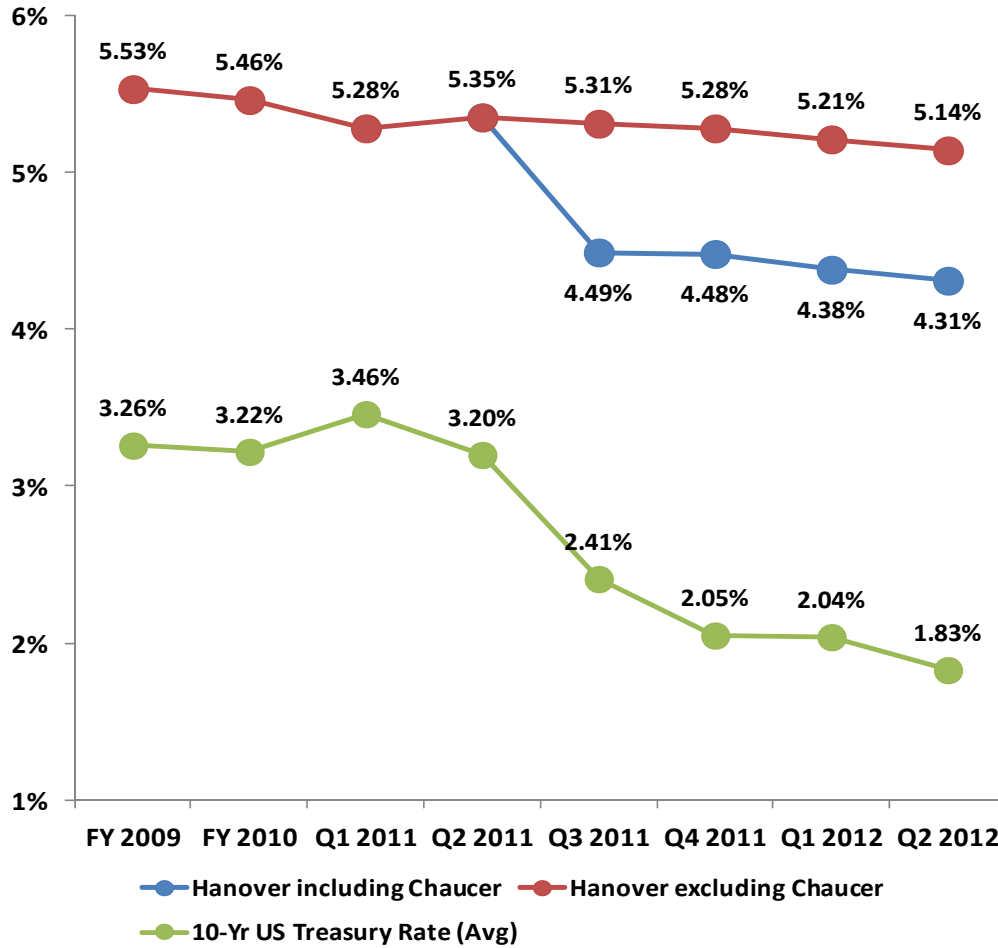


(1) Increase in assets from 2010 is principally a result of the acquisition of Chaucer in 2011.



# Fixed Income Yields

## Earned Yields



- Hanover has a consistent history of strong earned yields
- Decline in yield reflects addition of Chaucer's investment portfolio:

Quarter ended 6/30/2012		
	Yield	Duration
Hanover	5.14%	4.5
Chaucer	2.30%	2.6
<b>Consolidated</b>	<b>4.31%</b>	<b>4.0</b>

- Hanover's standalone earned yield decreased only 7 basis points from Q1 2012

# Exposure to European Issuers

(as of 6/30/2012)

\$ in millions

## Sovereign Debt

	Market Value	Book Value	% of Total Portfolio (\$7.7B)	Average Quality Rating
United Kingdom	89	88	1.2%	Aaa

## Supranational and Foreign Agency

	Market Value	Book Value	% of Total Portfolio (\$7.7B)	Average Quality Rating
Supranationals	\$76	\$75	1.0%	Aaa
Germany	52	52	0.7%	Aaa
Netherlands	14	14	0.2%	Aaa
France	5	5	0.1%	Aaa
Norway	3	3	0.0%	Aa1
Sweden	1	1	0.0%	A1
<b>Total</b>	<b>\$151</b>	<b>\$150</b>	<b>2.0%</b>	<b>Aaa</b>

## European Bank Exposure

	Market Value	Book Value	% of Total Portfolio (\$7.7B)	Average Quality Rating
United Kingdom				
Term Deposits (UK)	\$264	\$264	3.5%	A2
Debt	73	72	0.9%	A1
Netherlands	24	24	0.3%	Aa3
France	17	18	0.2%	Aa3
Switzerland	16	16	0.2%	A1
Sweden	16	15	0.2%	Aa3
Spain	12	12	0.2%	A2
Norway	3	3	0.0%	Aaa
<b>Total</b>	<b>\$425</b>	<b>\$424</b>	<b>5.5%</b>	<b>Aa2</b>

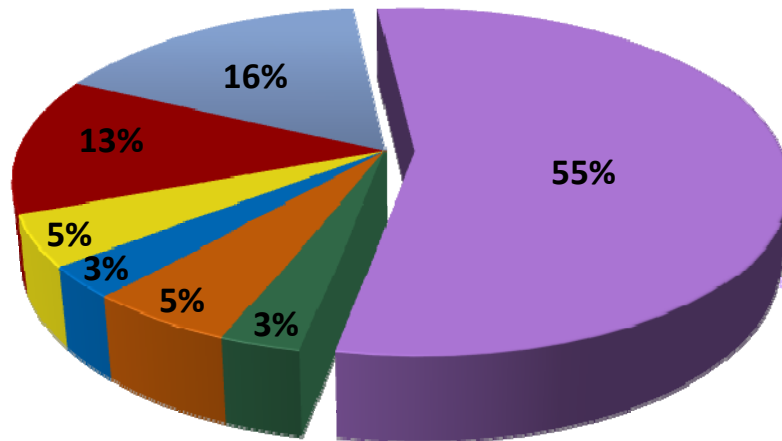
## European Non-Bank Exposure

	Market Value	Book Value	% of Total Portfolio (\$7.7B)	Average Quality Rating
United Kingdom	\$246	\$234	3.2%	A3
Germany	69	66	0.9%	A3
Switzerland	69	64	0.9%	A3
France	59	56	0.8%	A1
Spain	27	28	0.4%	Baa2
Italy	16	16	0.2%	Baa1
Belgium	14	13	0.2%	A3
Sweden	13	13	0.2%	Baa1
Netherlands	11	9	0.2%	A2
Ireland	10	9	0.1%	Baa1
Portugal	10	11	0.1%	Ba1
Luxembourg	9	9	0.1%	Baa3
Norway	3	3	0.0%	Aa1
Denmark	2	2	0.0%	Baa2
<b>Total</b>	<b>\$558</b>	<b>\$533</b>	<b>7.3%</b>	<b>A3</b>

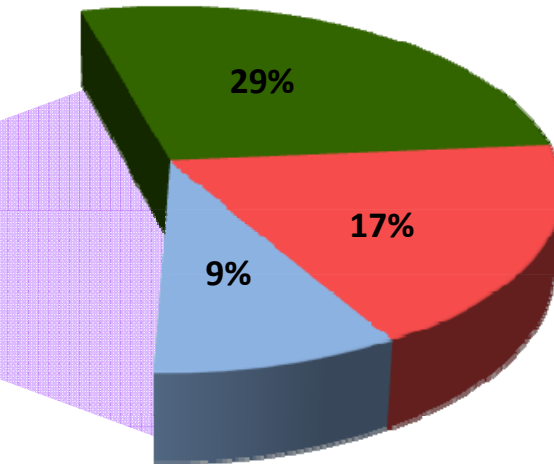
# Fixed Income Sector Breakdown

as of 6/30/2012

**Fixed Income \$6.5 Billion**



**Corporates \$3.6 Billion**



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

■ Industrials  
 ■ Financials  
 ■ Utilities

## Fixed Income Characteristics:

- 94% of fixed income securities are investment grade
- Weighted average quality A+
- Duration: 4.0 years

## Corporate Holding Characteristics:

- 91% Investment Grade
- Weighted average quality BBB+
- Duration 3.9 years

# Balance Sheet Strength

*\$ in millions, except per share data*

	June 30 2011	December 31 2011	June 30 2012
Book value per share	\$54.44	\$55.67	\$58.81
Shareholders' equity	\$2,462	\$2,484	\$2,618
Debt	\$858	\$911	\$917
Total capital	\$3,320	\$3,395	\$3,535
Debt/total capital	25.8%	26.8%	26.0%
THG holding company cash and investments <sup>(1)</sup>	\$760	\$207	\$185

<sup>(1)</sup> A portion of Holding company cash and investments at June 30, 2011 represents cash held for the acquisition of Chaucer.

# Questions