

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-13754

**THE HANOVER INSURANCE GROUP, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

04-3263626  
(I.R.S. Employer  
Identification No.)

440 Lincoln Street, Worcester, Massachusetts 01653

(Address of principal executive offices) (Zip Code)

(508) 855-1000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$.01 par value	THG	New York Stock Exchange
7 5/8% Senior Debentures due 2025	THG	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Based on the closing sales price of June 30, 2021, the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was \$4,815,576,869.

The number of shares outstanding of the registrant's common stock, \$.01 par value, was 35,477,124 shares as of February 22, 2022.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of The Hanover Insurance Group, Inc.'s Proxy Statement to be filed pursuant to Regulation 14A relating to the 2022 Annual Meeting of Shareholders to be held May 10, 2022 are incorporated by reference in Part III.

**THE HANOVER INSURANCE GROUP, INC.**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021**  
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## **PART I**

### **ITEM 1 — BUSINESS**

#### **ORGANIZATION**

The Hanover Insurance Group, Inc. (“THG”) is a holding company organized as a Delaware corporation in 1995. We trace our roots to as early as 1852, when the Hanover Fire Insurance Company was founded. Our primary business operations are property and casualty insurance products and services. We market our products and services through independent agents and brokers in the United States (“U.S.”). Our consolidated financial statements include the accounts of THG; The Hanover Insurance Company (“Hanover Insurance”) and Citizens Insurance Company of America (“Citizens”), which are our principal property and casualty subsidiaries; and other insurance and non-insurance subsidiaries. Our results of operations also include the results of our discontinued operations, consisting primarily of our former accident and health and life insurance businesses.

#### **INFORMATION ABOUT OPERATING SEGMENTS**

We conduct our business operations through three operating segments. These segments are Commercial Lines, Personal Lines and Other. We report interest expense related to our corporate debt separately from the earnings of our operating segments.

Information with respect to each of our segments is included in “Results of Operations - Segments” in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“Management’s Discussion and Analysis”) and in Note 12 – “Segment Information” in the Notes to Consolidated Financial Statements.

The following is a discussion of our operating segments.

##### *GENERAL*

In our Commercial Lines and Personal Lines segments, we underwrite commercial and personal property and casualty insurance through Hanover Insurance, Citizens and other THG subsidiaries, and distribute them through select independent agents and brokers throughout the United States. Included in our Other segment are Opus Investment Management, Inc. (“Opus”), a wholly owned subsidiary of THG, which provides investment management services to our insurance and non-insurance companies, as well as to unaffiliated institutions, pension funds and other organizations; earnings on holding company assets; holding company and other expenses, including certain costs associated with retirement benefits due to former life insurance employees and agents; and a run-off voluntary property and casualty pools business.

Our business strategy focuses on providing our agents and customers with competitive insurance products delivered with clear and consistent underwriting and pricing expectations, while prudently growing and diversifying our product and geographical business mix. We conduct our business with an emphasis on disciplined underwriting, pricing, quality claim handling and customer service. In 2021, we wrote approximately \$5.0 billion in net premiums. Agency relationships and active agency management are core to our strategy while we continue to strengthen our position as one of the top property and casualty insurers focused on the independent agency channel in the United States.

##### *RISKS*

The industry’s and our profitability are significantly affected by numerous factors, including price; competition; volatile and unpredictable developments, such as weather conditions, catastrophes and other disasters; legal and regulatory developments affecting pricing, underwriting, policy coverage and other aspects of doing business, as well as insurer and insureds’ liability; extra-contractual liability; increased attorney involvement in claims matters; size of jury awards; civil unrest; acts of terrorism; fluctuations in interest rates and the value of investments; and other general economic conditions and trends, such as inflationary pressure or unemployment, that may affect the adequacy of reserves or the demand for insurance products. Our investment portfolio and its future returns are impacted by the capital markets and current economic conditions, which affect our liquidity, realized losses and impairments, credit default levels, our ability to hold such investments until recovery and other factors. Additionally, the economic conditions in geographic locations where we conduct business, especially those locations where our business is concentrated, affect the growth and profitability of our business. The regulatory environments in those locations, including any pricing, underwriting or product controls, shared market mechanisms or mandatory pooling arrangements, and other conditions, such as our agency relationships, affect the growth and profitability of our business. Our loss and loss adjustment expense (“LAE”) reserves are based on estimates, principally involving case assessments and actuarial projections, at a given time, of what we expect the ultimate settlement and administration of claims will cost based on facts and circumstances then known, predictions of future events, estimates of future trends in claims frequency and severity and judicial theories of liability, costs of repairs and replacement, legislative activity and other factors. We regularly reassess our estimate of loss reserves and LAE, both for current and past years, and resulting changes have and will affect our reported profitability and financial position.

The global pandemic (“Pandemic”) has significantly impacted the U.S. and global financial markets and economies since March 2020. Circumstances relating to the Pandemic are unprecedented in scope and impact, continue to evolve, are complex and uncertain, and are outside our control. Our investment portfolio was affected by the deterioration in investment markets during March 2020, as well as the volatility in the subsequent months. In addition, we experienced both favorable and adverse effects from the Pandemic on our underwriting results and operations, as well as our financial condition, during the period from March 2020 through December 2021.

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Several uncertainties persist related to the Pandemic, including, among others, return to workplace initiatives, virus variants, vaccination rates, driving patterns, court caseloads and backlogs, and inflationary pressures, including as a result of supply chain dynamics. We continue to believe that the Pandemic's impacts on our near-term results should be manageable. The severity, duration and long-term impacts of the Pandemic may, however, affect the property and casualty insurance industry, our business, and our financial results over the intermediate and long-term.

Reference is also made to "Risk Factors" in Part I – Item 1A.

## **LINES OF BUSINESS**

### **Commercial Lines**

Our Commercial Lines segment generated \$3.1 billion, or 60.0%, of consolidated operating revenues and \$3.0 billion, or 59.8%, of net premiums written, for the year ended December 31, 2021.

The following table provides net premiums written by line of business for our Commercial Lines segment.

<b>YEAR ENDED DECEMBER 31, 2021</b>	<b>Net Premiums Written</b>	<b>% of Total</b>
<i>(in millions, except ratios)</i>		
Commercial multiple peril	\$ 978.6	32.8%
Workers' compensation	354.7	11.9
Commercial automobile	349.0	11.7
Other commercial lines:		
Management and professional liability	318.3	10.7
Marine	308.5	10.3
Hanover Programs	205.5	6.9
Specialty industrial and commercial property	170.6	5.7
Monoline general liability	100.6	3.4
Surety	59.1	2.0
Other	138.8	4.6
Total	\$ 2,983.7	100.0%

Our Commercial Lines product suite provides agents and customers with products designed for small, middle and specialized markets.

Commercial Lines coverages include:

*Commercial multiple peril* coverage insures businesses against third-party general liability from accidents occurring on their premises or arising out of their operations, such as injuries sustained from products sold. It also insures business property for damage, such as that caused by fire, wind, hail, water damage (which may include flood), theft and vandalism.

*Workers' compensation* coverage insures employers against employee medical and indemnity claims resulting from injuries related to work. Workers' compensation policies are often written in conjunction with other commercial policies.

*Commercial automobile* coverage insures businesses against losses incurred from personal bodily injury, bodily injury to third parties, property damage to an insured's vehicle and property damage to other vehicles and property. Commercial automobile policies are often written in conjunction with other commercial policies.

*Other commercial lines* is comprised of:

- *management and professional liability* coverage is primarily composed of professional, management, and medical liability, which provides protection for directors, officers and other employees of companies that may be sued in connection with their performance, and errors and omissions protection to companies and individuals against negligence or bad faith, as well as protection for employment practices liability;
- *marine* coverage includes inland and ocean marine and insures businesses against physical losses to property, such as contractor's equipment, builders' risk and goods in transit, and also covers jewelers block, fine art and other valuables;
- *Hanover Programs* (formerly referred to as "AIX") provide coverage to markets where there are specialty coverage or risk management needs related to groups of similar businesses, including commercial multiple peril, commercial automobile, general liability, workers' compensation, and other commercial coverages;
- *specialty industrial and commercial property* provides insurance to small and medium-sized chemical, paint, solvent and other manufacturing and distribution companies, and fire and allied lines coverages;

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- *monoline general liability* coverage includes bodily injury, property damage and personal injury arising from products sold, or accidents occurring on premises, or from operations;
- *surety* provides businesses with contract surety coverage in the event of claims for non-performance or non-payment, and commercial surety coverage related to fiduciary or regulatory obligations; and
- *other commercial lines* coverages include umbrella, and fidelity and crime.

Our strategy in Commercial Lines focuses on building deep relationships with independent agents through differentiated product offerings, industry segmentation, and franchise value through selective distribution. We continue to make enhancements to our products and technology platforms that are intended to drive more total account placements in our small commercial and middle market business, and to enhance underwriting margins in our specialty businesses. This aligns with our focus of delivering the capabilities that we believe will help expand the depth and breadth of our partnerships with a limited number of agents.

Our small commercial, middle market, and specialty businesses each constitute approximately one-third of our total Commercial Lines business. Small commercial offerings, which generally include annual premiums of \$50,000 or less, deliver value through product expertise, local presence and ease of doing business. Middle market accounts, with annual premiums generally in the range of \$50,000 to \$250,000, require greater underwriting and claim expertise, as well as a focus on industry segments. Small and middle market accounts, which together are referred to as our “Core Commercial Lines” business, comprise approximately \$1.9 billion of the Commercial Lines segment net premiums written. Our specialty lines of business include management and professional liability, marine, Hanover Programs, specialty industrial and commercial property, monoline general liability and surety.

In our small commercial and middle market businesses, we offer coverages and capabilities in several key industries, including technology, schools and human services organizations, such as non-profit youth and community service organizations. We also provide further specialization in our core middle market commercial products, including real estate, hospitality, manufacturing, contractors and wholesale distributors.

Part of our strategy is to expand our specialty lines offerings to provide our agents and policyholders with a broader product portfolio to address their needs and to increase our market share of our partner agents’ total business. We have, over time, acquired various specialized businesses aimed at further diversifying and growing our specialty lines. We used these acquisitions as platforms to expand our product offerings and grow within our existing agency and broker distribution network.

We believe our small commercial capabilities, distinctiveness in the middle market, and continued development of our specialty business offerings provide us with a diversified portfolio of products and enable us to deliver significant value to our agents and policyholders. We believe these efforts will enable us to continue to improve the overall mix of our business and ultimately our underwriting profitability.

### **Personal Lines**

Our Personal Lines segment generated \$2.0 billion, or 39.7%, of consolidated operating revenues and \$2.0 billion, or 40.2%, of net premiums written, for the year ended December 31, 2021.

The following table provides net premiums written by line of business for our Personal Lines segment.

<b>YEAR ENDED DECEMBER 31, 2021</b>	<b>Net Premiums Written</b>	<b>% of Total</b>
<i>(in millions, except ratios)</i>		
Personal automobile	\$ 1,230.4	61.2%
Homeowners	704.1	35.0
Other	75.2	3.8
Total	\$ 2,009.7	100.0%

Personal Lines coverages include:

*Personal automobile* coverage insures individuals against losses incurred from personal bodily injury, bodily injury to third parties, property damage to an insured’s vehicle and property damage to other vehicles and other property.

*Homeowners* coverage insures individuals for losses to their residences and personal property, such as those caused by fire, wind, hail, water damage (excluding flood), theft and vandalism, and against third-party liability claims.

*Other personal lines* are comprised of personal umbrella, inland marine (jewelry, art, etc.), fire, personal watercraft, personal cyber and other miscellaneous coverages.

Our strategy in Personal Lines is to provide account-oriented business (i.e., writing both an insured’s automobile and homeowners insurance, along with other Personal Lines coverages when applicable) through select independent agents, with a focus on increasing geographic diversification. The market for our Personal Lines business is very competitive, with continued pressure on independent agents from direct insurance writers, as well as from the increased usage of real time comparative rating tools and increasingly

sophisticated rating and pricing tools. We maintain a focus on working with high quality, value-added agents that stress the importance of consultative selling and account rounding (the conversion of single policy customers to accounts with multiple policies and/or additional coverages, to address customers' broader objectives). We are focused on making business investments that are intended to help us maintain profitability, build a distinctive position in the market, deliver value to agents and customers, and provide us with profitable growth opportunities. We continue to refine our products and to work closely with these high potential agents to increase the percentage of business they place with us and to ensure that it is consistent with our preferred mix of business. Additionally, we remain focused on further diversifying our geographic mix beyond our largest historical core states of Michigan and Massachusetts. We expect these efforts to decrease our risk concentrations and our dependency on these states, as well as to contribute to improved profitability over time.

#### **Other**

The Other segment includes Opus, which provides investment advisory services to affiliates and also manages approximately \$3.0 billion of assets for unaffiliated institutions, such as insurance companies, retirement plans and foundations, including \$1.0 billion of funds we continued to manage during a transition period that ended on December 31, 2021, on behalf of China Reinsurance (Group) Corporation ("China Re") for our former Chaucer segment. The Other segment also includes earnings on holding company assets; holding company and other expenses, including certain costs associated with retirement benefits due to former life insurance employees and agents; and our run-off voluntary property and casualty pools business.

#### **MARKETING AND DISTRIBUTION**

We serve a variety of standard, specialty and targeted industry markets. Consistent with our objective to diversify our underwriting risks on a geographic and line of business basis, we currently have a split of approximately 40% Personal Lines, 37% Core Commercial Lines, and 23% specialty lines. Commercial Lines, including our small, middle market, and specialty businesses, and Personal Lines segments distribute our products primarily through a network of independent agents.

#### **Commercial and Personal Lines**

Our Commercial and Personal Lines independent agency distribution and field structure are designed to maintain a strong focus on local markets and the flexibility to respond to specific market conditions. During 2021, we wrote 20.7% of our Commercial and Personal Lines business in Michigan and 9.2% in Massachusetts. Our field management structure is a key factor in the establishment and maintenance of productive, long-term relationships with well-established independent agencies. We maintain 35 local offices across 24 states. The majority of processing support for these locations is provided from Worcester, Massachusetts; Howell, Michigan; Salem, Virginia; and Windsor, Connecticut.

Independent agents account for substantially all of the sales of our Commercial and Personal Lines property and casualty products. Agencies are appointed based on profitability, track record, financial stability, growth potential, professionalism and business strategy. Once appointed, we monitor their performance and, subject to legal and regulatory requirements, may take actions as necessary to change these business relationships, such as discontinuing the authority of the agent to underwrite certain products, or revising commissions or bonus opportunities. We compensate agents primarily through base commissions and bonus plans that are tied to an agency's written premium, growth and profitability.

Our Hanover Programs business and some specialty business is also distributed through managing general agents or wholesale distributors who have expertise in the industries served or products offered.

We are licensed to sell property and casualty insurance in all fifty states in the U.S., as well as in the District of Columbia ("D.C."). Throughout the U.S., we actively market Commercial Lines policies in 41 states and D.C., and Personal Lines policies in 20 states.

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The following table provides our top Commercial and Personal Lines geographical markets based on total net premiums written in each state in 2021.

YEAR ENDED DECEMBER 31, 2021	Commercial Lines		Personal Lines		Total Commercial and Personal Lines	
	Net Premiums Written	% of Total	Net Premiums Written	% of Total	Net Premiums Written	% of Total
<i>(in millions, except ratios)</i>						
Michigan	\$ 151.0	5.1%	\$ 883.9	44.0%	\$ 1,034.9	20.7%
Massachusetts	206.6	6.9	252.3	12.6	458.9	9.2
New York	237.0	7.9	116.7	5.8	353.7	7.1
California	347.6	11.6	—	—	347.6	7.0
Illinois	141.1	4.7	109.9	5.5	251.0	5.0
Texas	246.4	8.3	—	—	246.4	4.9
New Jersey	150.3	5.0	74.9	3.7	225.2	4.5
Connecticut	63.7	2.1	119.9	6.0	183.6	3.7
Georgia	98.8	3.3	59.6	3.0	158.4	3.2
Virginia	95.0	3.2	36.2	1.8	131.2	2.6
Maine	71.0	2.4	53.4	2.7	124.4	2.5
Wisconsin	57.3	1.9	47.2	2.3	104.5	2.1
Pennsylvania	72.5	2.4	31.8	1.6	104.3	2.1
Indiana	62.4	2.1	29.9	1.5	92.3	1.8
Minnesota	91.0	3.1	—	—	91.0	1.8
Tennessee	50.8	1.7	40.1	2.0	90.9	1.8
North Carolina	82.5	2.8	0.5	—	83.0	1.7
New Hampshire	45.8	1.5	35.4	1.8	81.2	1.6
Florida	79.8	2.7	—	—	79.8	1.6
Other	633.1	21.3	118.0	5.7	751.1	15.1
Total	\$ 2,983.7	100.0%	\$ 2,009.7	100.0%	\$ 4,993.4	100.0%

We manage our Commercial Lines portfolio, which includes our core and specialty businesses, with a focus on growth from the most profitable industry segments within our underwriting expertise. Our core business is generally comprised of several complementary commercial lines of business, consisting of small and middle market accounts, which include targeted industry segments. Additionally, we have multiple specialty lines of business. The Commercial Lines segment seeks to maintain strong agency relationships as an approach to secure and retain our agents' best business. We monitor the quality of business written through ongoing quality reviews, accountability for which is shared at the local, regional and corporate levels.

We manage Personal Lines business with a focus on acquiring and retaining preferred accounts. Currently, approximately 87% of our policies in force are account business. Approximately 57% of our Personal Lines net premium written is generated in the combined states of Michigan and Massachusetts. In Michigan, based upon direct premiums written for 2021, we underwrite approximately 7% of the state's total market.

Approximately 66% of our Michigan Personal Lines net premium written is in the personal automobile line and 31% is in the homeowners line. Michigan business represents approximately 47% of our total personal automobile net premiums written and approximately 39% of our total homeowners net premiums written. In Michigan, we are a principal market for many of our appointed agencies, with approximately \$2.2 million of total direct premiums written, per agency, in 2021.

In addition, in 2019, Michigan enacted major reforms of its system governing personal and commercial automobile insurance, especially related to automobile Personal Injury Protection ("PIP") coverage. We believe that we are effectively executing the transition to the reformed system and expect to navigate this market successfully. As of December 31, 2021, the net impact of these reforms was not significant to our total net premiums written and underwriting profit. For the full year 2021, net premiums written that were attributable to PIP coverage in Michigan were \$146.8 million, or 2.9% of our total company full year 2021 net premiums written, while Michigan personal automobile net premiums written represented 11.6% of our total company full year 2021 net premiums written. For more information, please refer to "Risk Factors" in Part I – Item 1A.

Approximately 66% of our Massachusetts Personal Lines net premium written is in the personal automobile line and 31% is in the homeowners line. Massachusetts business represents approximately 14% of our total personal automobile net premiums written and approximately 11% of our total homeowners net premiums written.

We sponsor local and national agent advisory councils to gain the benefit of our agents' insight and enhance our relationships. These councils and our other strong agency relationships provide market and operational feedback, input on the development of products and services, guidance on marketing efforts, and support for our strategies, and assist us in enhancing our local market presence.

## **Other**

With respect to our Other segment business, we market our third-party investment advisory services directly through Opus.

### *PRICING AND COMPETITION*

The property and casualty insurance industry is a very competitive market. In the Commercial and Personal Lines segments, we market and distribute through independent agents and brokers, and compete for business on the basis of product, price, agency and customer service, local relationships, ratings and effective claims handling, among other things. Our competitors include national, international, regional and local companies that sell insurance through various distribution channels, including independent agencies, captive agency forces, brokers and direct to consumers through the internet or otherwise. They also include mutual insurance companies, reciprocals and exchanges. We believe that our emphasis on maintaining strong agency relationships and a local presence in our markets, coupled with investments in products, operating efficiency, technology and effective claims handling, enable us to differentiate ourselves and compete more effectively. Our broad product offerings in Commercial Lines and total account strategy in Personal Lines are instrumental to our ability to capitalize on these relationships and improve profitability.

We seek to achieve targeted combined ratios in each of our product lines. Targets vary by product and geography and change with market conditions. The targeted combined ratios reflect competitive market conditions, investment yield expectations, our loss payout patterns and target returns on equity. This approach is intended to enable us to achieve measured growth and consistent profitability.

For all major product lines in the Commercial and Personal Lines segments, we employ pricing teams that produce exposure and experience-based rating models to support underwriting and pricing decisions. In addition, we seek to utilize our understanding of local markets to achieve superior underwriting results. We rely on market information provided by our local agents and on the knowledge of staff in the local branch offices. Since we maintain a strong local presence in many regions and a significant market share in a number of states, we can better apply our knowledge and experience in making underwriting and rate setting decisions. Also, we seek to gather objective and verifiable information at a policy level during the underwriting process, including prior loss experience, past driving records and, where permitted, credit histories.

### *CLAIMS MANAGEMENT*

Claims management includes the receipt of initial loss notifications, generation of appropriate responses to claim reports, loss appraisals, identification and handling of coverage issues, determination of whether further investigation is required, retention of legal representation, where appropriate, establishment of case reserves, approval of loss payments, and notification to reinsurers. Part of our strategy focuses on efficient, timely and fair claim settlements to meet customer service expectations and maintain valuable independent agent relationships. Additionally, effective claims management is important to our business since claim payments and related loss adjustment expenses are our largest expenditures.

We utilize experienced claims adjusters, appraisers, medical specialists, managers and attorneys to manage our claims. Our property and casualty operations have both virtual and field claims adjusters located throughout the states and regions in which we do business. Claims staff members frequently work closely with the independent agents who bound the policies under which coverage is claimed. Claims adjusting staff are supported by general adjusters for large property and large casualty losses, by automobile and heavy equipment damage appraisers for automobile material damage losses, and by medical specialists whose principal concentration is on workers' compensation and automobile injury cases. Additionally, the claims staff are supported by staff attorneys who specialize in litigation defense and claim settlements. We have a catastrophe response team to assist policyholders impacted by severe weather events. This team mobilizes quickly to impacted regions, often in advance for a large tracked storm, to support our local claims adjusters and facilitate a timely response to resulting claims. We also maintain a special unit that investigates suspected insurance fraud and abuse. We utilize claims processing technology, such as customer self-service applications and photo analytics technology, that enables most of the smaller and more routine Personal Lines claims to be processed at centralized locations.

### *CATASTROPHES*

We are subject to claims arising out of catastrophes, which historically have had a significant impact on our results of operations and financial condition. Coverage for such events is a core part of our business, and we expect to experience catastrophe losses in the future, which could have a material adverse impact on our financial results. Catastrophes can be caused by various events, including, among others, hurricanes, tornadoes and other windstorms, earthquakes, hail, severe winter weather, fire, explosions, riots, and terrorism. The incidence and severity of catastrophes are volatile and difficult to predict.

We endeavor to manage our catastrophe risks through underwriting procedures, including the use of deductibles and specific restrictions for flood and earthquake coverage, subject to regulatory restrictions and competitive pressures, and through geographic exposure management and reinsurance. Our catastrophe reinsurance program is structured to protect us on a per-occurrence and aggregate excess basis. We monitor geographic location and coverage concentrations with a view toward managing corporate exposure to catastrophic events. Although catastrophes can cause losses in a variety of property and casualty lines, commercial multiple peril and homeowners property coverages have, in the past, generated the majority of catastrophe-related claims.



**REINSURANCE****Reinsurance Program Overview**

We maintain ceded reinsurance programs designed to protect against large or unusual loss and LAE activity. We utilize a variety of proportional and non-proportional reinsurance agreements, which are intended to control our individual policy and aggregate exposure to large property and casualty losses, stabilize earnings and protect capital resources. These programs include facultative reinsurance (to limit exposure on a specified policy); specific excess and proportional treaty reinsurance (to limit exposure on individual policies or risks within specified classes of business); and catastrophe excess of loss reinsurance (to limit exposure to any one event that might impact more than one individual policy). Our proportional reinsurance consists of quota share reinsurance agreements and our non-proportional reinsurance includes excess of loss and stop loss reinsurance agreements.

Catastrophe reinsurance protects us, as the ceding insurer, from significant losses arising from a single event including, among others, hurricanes, tornadoes and other windstorms, earthquakes, hail, severe winter weather, fire, explosions, riots, flood and terrorism. We determine the appropriate amount of reinsurance based on our evaluation of the risks insured, exposure analyses prepared by advisors, our risk appetite and market conditions, including the availability and pricing of reinsurance. Although we believe our catastrophe reinsurance program, including our retention and co-participation amounts for 2022, is appropriate given our surplus level and the current reinsurance pricing environment, there can be no assurance that our reinsurance program will provide coverage levels that will prove adequate should we experience losses from one significant or several large catastrophes during 2022. Additionally, as a result of the current economic environment, as well as losses incurred by reinsurers in the past several years, the availability and pricing of appropriate reinsurance programs may be adversely affected in future renewal periods. We may not be able to pass these costs on to policyholders, or there may be a delay in passing these costs to policyholders, in the form of higher premiums or assessments.

We cede to reinsurers a portion of our risk based upon insurance policies subject to such reinsurance. Reinsurance contracts do not relieve us from our obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to us. We believe that the terms of our reinsurance contracts are consistent with industry practice in that they contain standard terms with respect to lines of business covered, limit and retention, arbitration and occurrence. Subsequent to the emergence of COVID-19 in March 2020, some of our reinsurance contract renewals contain varying forms of pandemic and other exclusions, which we believe are consistent with current reinsurance contract exclusions in the market generally. We believe our reinsurers are financially sound, based upon our ongoing review of the financial strength ratings assigned to them by rating agencies, their reputations in the reinsurance marketplace, our collections history, information and advice from third parties, and the analysis and guidance of our reinsurance advisors.

Reference is made to Note 13 — “Reinsurance” in the Notes to Consolidated Financial Statements. Reference is also made to “Involuntary Residual Markets” below.

Our 2022 reinsurance program for our Commercial Lines and Personal Lines segments is substantially consistent with our 2021 program design. The following discussion summarizes both our 2021 and 2022 reinsurance programs for our Commercial Lines and

Personal Lines segments (excluding coverage available under the U.S. federal terrorism program which is described below under “Terrorism”), but does not purport to be a complete description of the program or the various restrictions or limitations which may apply:

- Our Commercial Lines and Personal Lines segments are primarily protected by a property catastrophe occurrence program, a property per risk excess of loss treaty, as well as a casualty excess of loss treaty, with retentions of \$200 million, \$3 million, and \$2 million, respectively.
- The property catastrophe occurrence program provides coverage, on an occurrence basis, up to \$1.1 billion countrywide, less a \$200 million retention, with no co-participation, for all defined perils. For occurrences from \$1.1 billion to \$1.3 billion, we have coverage for 66% of losses. Additionally, there is a program feature which provides coverage in excess of \$250 million in aggregate catastrophe losses. This feature provides \$75 million of coverage, subject to 23% co-participation, that may respond either to an event that exceeds \$1.1 billion or to events in excess of \$250 million in aggregate catastrophe losses. The catastrophe losses subject to the aggregate feature are subject to a \$5 million deductible per event and have a per occurrence limit of \$200 million.
- The property per risk excess of loss treaty provides coverage, on a per risk basis, up to \$100 million, less a \$3 million retention, with a co-participation for the second half of 2021 and the first half of 2022 of 42.5% for reinsurance placed in the \$3 million to \$5 million layer, 5% for \$5 million in excess of the \$5 million layer, and no co-participation for reinsurance placed in excess of the \$10 million to \$100 million layer. There is a \$4.2 million annual aggregate deductible for the \$10 million excess of \$10 million layer. Accordingly, we retain \$4.2 million of loss in excess of the \$10 million attachment point before we can make a reinsurance recovery from the \$10 million excess of \$10 million layer.
- In 2021, the casualty excess of loss treaty provides coverage, on a per occurrence basis for each loss, up to \$75 million less a \$2 million retention, with co-participation of 6.5% in the \$2 million to \$5 million layer, 15% for \$5 million in excess of the \$5 million layer and no co-participation for reinsurance placed in excess of the \$10 million to \$75 million layer.

- For 2021 and 2022, Commercial Lines segments are further protected by excess of loss treaty agreements for specific lines of business. For example, the surety and fidelity bond excess of loss treaty provides coverage, on a per principal basis, up to \$40 million, less a \$7.5 million retention, with no co-participation.
- In addition to certain layers of coverage from our Commercial and Personal Lines segment reinsurance program as described above, Hanover Programs also includes surplus share, quota share, excess of loss, stop loss, facultative and other forms of reinsurance that cover the writings from Hanover specialty and proprietary programs. There are a variety of different programs, and the reinsurance structure is generally customized to fit the exposure profile for each program.

Our intention is to renew the surety and fidelity bond treaty, the property per risk excess of loss treaty and the property catastrophe treaty in July 2022 with the same or similar terms and conditions, but there can be no assurance that we will be able to maintain our current levels of reinsurance, pricing and terms and conditions. Our 2022 casualty excess of loss treaty is effective January 1, 2022.

During 2021, we entered into an agreement to transfer our Excess and Casualty Reinsurance Association (“ECRA”) pool participations to a third-party reinsurer. This transfer was executed through a 100% reinsurance arrangement for our ECRA claim liability participations, which were written during the period 1950 to 1982. In 1982, the pool was dissolved and since that time, the business has been in run-off. This transaction had no significant impact on our 2021 results of operations.

## **Terrorism**

As a result of the continuing threat of terrorist attacks, the insurance industry maintains a high level of focus with respect to the potential for losses caused by terrorist acts. Insured losses may encompass people, property and business operations covered under workers’ compensation, commercial multiple peril and other Commercial Lines policies, as well as Personal Lines policies. In certain cases, such as workers’ compensation, we are not able to exclude coverage for these losses, either because of regulatory requirements or competitive pressures. Losses caused by terrorist acts are not excluded from homeowners or personal automobile policies. We continually evaluate the potential effect of these low frequency, but potentially high severity events in our overall pricing and underwriting plans, especially for policies written in major metropolitan areas.

Although certain terrorism-related risks embedded in our Commercial and Personal Lines are covered under the existing Catastrophe, Property per Risk and Casualty Excess of Loss corporate reinsurance treaties (see “Reinsurance – Reinsurance Program Overview” above for additional information), private sector catastrophe reinsurance is limited or unavailable for losses attributed to acts of terrorism, particularly those involving nuclear, biological, chemical and/or radiological events. As a result, the industry’s primary reinsurance protection against large-scale terrorist attacks in the U.S. is provided through a federal program that provides compensation for insured losses resulting from acts of terrorism.

The Terrorism Risk Insurance Act of 2002 first established the Terrorism Risk Insurance Program (the “Program”). Coverage under the Program applies to workers’ compensation, commercial multiple peril and certain other Commercial Lines policies for direct written policies. The Program will expire in December 2027. All commercial property and casualty insurers are required to participate in the Program. Under the Program, a participating issuer, in exchange for making terrorism insurance available, may be entitled to be reimbursed by the Federal government for a portion of its aggregate losses. The Program does not cover losses in surety, Personal Lines or certain other lines of business.

As required by the Program, we offer policyholders in specific lines of commercial insurance the option to elect terrorism coverage. In order for a loss event to be reinsured under the Program, the loss event must meet aggregate industry loss minimums and must be the result of an act of terrorism as certified by the Secretary of the Treasury in consultation with the Secretary of Homeland Security and the U.S. Attorney General. Losses from events which do not qualify or are not so certified will not receive the benefit of the Program. Such losses may be deemed covered losses under the insured’s policy whether or not terrorism coverage was purchased. Further, under the Terrorism Risk Insurance Program Reauthorization Act of 2019, our share of U.S. domestic losses in 2021 from such events, if deemed certified terrorist events, would have been limited to 20% of losses in excess of an approximate \$471 million deductible, which represented 18.2% of year-end 2020 statutory policyholder surplus of our insurers, and, under the 2021 re-authorization, is estimated to be \$500.8 million in 2022, representing 18.4% of 2021 year-end statutory policyholder surplus, up to a combined annual aggregate limit for the federal government and all insurers of \$100 billion.

Given the unpredictability of terrorism losses, future losses from acts of terrorism could be material to our operating results, financial position, and/or liquidity. We attempt to manage our exposures on an individual line of business basis and in the aggregate by one-half square mile grids in major metropolitan areas.

## **Reinsurance Recoverables**

When we experience loss events that are subject to a reinsurance contract, reinsurance recoverables are recorded. The amount of the recorded reinsurance recoverable depends on the estimated size of the individual loss or the aggregate amount of all losses in a particular line, book of business or an aggregate amount associated with a particular accident year. The valuation of losses recoverable depends on whether the underlying loss is a reported loss, or an incurred but not reported loss. For reported losses, we value reinsurance recoverables at the time the underlying loss is recognized, in accordance with contract terms. For incurred but not reported

losses, we estimate the amount of reinsurance recoverable based on the terms of the reinsurance contracts and historical reinsurance recovery information and apply that information to the gross loss reserve estimates. The most significant assumption we use is the average size of the individual losses that will exceed our reinsurance retentions for those claims that have occurred but have not yet been reported to us. The reinsurance recoverable is based on what we believe are reasonable estimates and is disclosed separately on the financial statements. However, the ultimate amount of the reinsurance recoverable is not known until all losses are settled.

Other than our investment portfolio, the single largest asset class is our reinsurance recoverables, which consist of our estimate of amounts recoverable from reinsurers with respect to losses incurred to date (including losses incurred but not reported) and unearned premiums, net of amounts estimated to be uncollectible. These estimates are expected to be revised at each reporting period and such revisions, which could be material, affect our results of operations and financial position. Reinsurance recoverables include amounts due from state mandatory reinsurance or other involuntary risk sharing mechanisms, and private reinsurers to whom we have voluntarily ceded business.

We are subject to concentration of risk with respect to reinsurance ceded to various mandatory residual markets, facilities and pooling mechanisms. As a condition to conduct business in various states, we are required to participate in residual market mechanisms, facilities and pooling arrangements which usually are designed to provide insurance coverages to individuals or other entities that are otherwise unable to purchase such coverage voluntarily or at rates deemed reasonable. These market mechanisms, facilities and pooling arrangements comprise \$911.8 million of our total reinsurance recoverables on paid and unpaid losses and unearned premiums at December 31, 2021, \$901.8 million of which is attributable to the Michigan Catastrophic Claims Association (“MCCA”).

The MCCA is a mandatory reinsurance association that reinsures claims that arise under Michigan’s unlimited personal injury protection coverage, which, as of July 2, 2020, is one of the available coverage options under Michigan’s no-fault automobile insurance statute. The MCCA reinsures all such claims in excess of a statutorily established company retention, currently \$600,000. Funding for the MCCA comes from assessments against automobile insurers based upon their share of insured automobiles in the state for which the policyholders have elected unlimited PIP benefits. Insurers are allowed to pass along this cost to Michigan automobile policyholders. This recoverable accounted for 57% and 61% of our total personal automobile gross reserves at December 31, 2021 and 2020, respectively. Because the MCCA is supported by assessments permitted by statute, and there have been no significant uncollectible balances from MCCA identified during the three years ending December 31, 2021, we believe that we have no significant exposure to uncollectible reinsurance balances from this entity. As discussed under “Risk Factors” in Part I – Item 1A, in June 2019, Michigan enacted major reforms to its prior system governing personal and commercial automobile insurance. These changes, among other things, eliminated the requirement to purchase unlimited personal injury protection and allowed consumers to purchase a choice of coverage options. In addition, the reform legislation set forth cost savings measures for personal injury protection claims, including MCCA-reinsured claims, that took effect in July 2021. Our current estimate of MCCA reinsurance receivables has been reduced for these potential future claim cost savings. This estimate is subject to change and will be revised further as the actual impacts of these cost saving measures emerge in the future.

On November 3, 2021, the MCCA Board voted unanimously to return approximately \$3.0 billion of its estimated surplus to policyholders through its member insurance companies. The action occurred because the association’s surplus was deemed to have increased beyond a level necessary to cover its expected losses and expenses. Because policyholders are the ultimate payers of the MCCA premium, this return of MCCA surplus will be passed through to policyholders. The refund is expected to be paid to the Company during March 2022 and will be refunded to the policyholders shortly thereafter. The refund was treated as a refund of premium transaction in the Company’s financial statements, reducing both direct written premium and ceded written premium. There is no effect on net written premium or net earned premium. The total amount of the refund to the Company is expected to be \$183.2 million, comprising of \$179.1 million for personal automobile and \$4.1 million for commercial automobile policyholders.

In addition to the reinsurance ceded to various residual market mechanisms, facilities and pooling arrangements, we have \$995.5 million of reinsurance assets due from traditional reinsurers as of December 31, 2021. These amounts are due principally from highly-rated reinsurers, defined as rated A- or higher by A.M. Best or other equivalent rating agency. In certain instances, for example in our Hanover Programs business, we also require, from the reinsurer, a deposit of assets in trust, letters of credit or other acceptable collateral in order to support balances due from reinsurers that provide reinsurance only on a collateralized basis.

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The following table displays balances recoverable from our ten largest reinsurance groups at December 31, 2021, along with the A.M. Best rating for each group's ultimate parent or lead rating unit, if an A.M. Best rating is available. Reinsurance recoverables are comprised of paid losses recoverable, outstanding losses recoverable, incurred but not reported losses recoverable, and ceded unearned premium.

<b>REINSURERS</b>	<b>A.M. Best Rating</b>	<b>Reinsurance Recoverable</b>
<b><i>(in millions)</i></b>		
HDI Group (Hannover Ruckversicherungs AG)	A	\$ 153.3
Lloyd's Syndicates	A	122.6
Allegheny Corporation (Transatlantic Reinsurance Co.)	A+	91.1
Swiss Re Ltd.	A+	81.1
Toa Reinsurance Company Ltd.	A	73.1
Munich Reinsurance Companies	A+	63.1
Axis Capital Holding Ltd.	A	33.8
Exor N.V (Partner Reinsurance Company of the U.S)	A+	33.0
Berkshire Hathaway Inc. (General Reinsurance Corp)	A++	29.6
Markel Corporation	A	22.2
Subtotal		702.9
All other reinsurers		292.6
Residual markets, facilities, and pooling arrangements		911.8
Total		<u>\$ 1,907.3</u>

Reinsurance recoverable balances in the table above are shown before consideration of balances owed to reinsurers and any potential rights of offset, including collateral held by us, and are net of an allowance for uncollectible recoverables. Reinsurance treaties are generally purchased on an annual basis. Treaties typically contain provisions that allow us to demand that a reinsurer post letters of credit or assets as security if a reinsurer is an unauthorized reinsurer under applicable regulations or if its rating falls below a predetermined contractual level. In regards to reinsurance recoverables due from Lloyd's Syndicates, as part of the Lloyd's "chain of security" afforded to all of its policyholders, recourse is available to the Lloyd's Central Fund in the event of the failure of an individual syndicate and its capital providers.

Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred or ceded to the reinsurer, ceded reinsurance arrangements do not eliminate our obligation to pay claims to our policyholders. Accordingly, we bear credit risk with respect to our reinsurers. Specifically, our reinsurers may not pay claims made by us on a timely basis, or they may not pay some or all of these claims. In addition, from time to time insurers and reinsurers may disagree on the scope of the reinsurance or on the underlying insured risks. Any of these events would increase our costs and could have a material adverse effect on our business.

We have established a reserve for uncollectible reinsurance of \$8.9 million as of December 31, 2021, or 0.5% of the total reinsurance recoverable balance, which was determined by considering reinsurer specific default risk on paid and unpaid recoverables as indicated by their financial strength ratings, any ongoing solvency issues, any current risk of dispute on paid recoverables, and our past collection experience. There have been no significant balances determined to be uncollectible and thus no significant charges recorded during 2021 for uncollectible reinsurance recoverables.

Our exposure to credit risk from any one reinsurer is managed through diversification by reinsuring with a number of different reinsurers, principally in the United States and European reinsurance markets. When reinsurance for our Commercial and Personal Lines segments is placed, our standards of acceptability generally require that a reinsurer must have a minimum policyholder surplus of \$500 million, a rating from A.M. Best and/or S&P of "A" or better, or an equivalent financial strength if not rated. In addition, for lower rated or non-rated reinsurers, we customize collateral and restrict participation to effectively manage counterparty risk, with review and approval required by the counterparty credit committee.

#### REGULATION

Our insurance subsidiaries are subject to extensive regulation in the states in which they transact business and are supervised by the individual state insurance departments. Numerous aspects of our business are subject to regulation, including premium rates, mandatory covered risks, limitations on the ability to cancel, non-renew, reject business or limit writings in certain geographic areas, prohibited exclusions, licensing and appointment or termination of agents, restrictions on the size of risks that may be insured under a single policy, reserves and provisions for unearned premiums, losses and other obligations, deposits of securities for the benefit of policyholders, investments and capital, policy forms and coverages, advertising, claims handling, and other conduct, including restrictions on the use of credit information and other factors in underwriting, as well as other underwriting and claims practices. These restrictions limit the ability of insurers to underwrite or price policies on the basis of available third-party information (such as "social media") and "big data." Insurers are also subject to state laws and regulations governing the protection of their data systems

and the use and protection of personal information collected in the ordinary course of operations. States also regulate various aspects of the contractual relationships between insurers and independent agents.

Such laws, rules and regulations are usually overseen and enforced by the various state insurance departments, as well as through private rights of action and by state attorneys general. Such regulations or enforcement actions are often responsive to current consumer and political sensitivities, such as automobile and homeowners insurance rates and coverage forms, or which may arise after a major event. Such rules and regulations may result in rate suppression, limit our ability to manage our exposure to unprofitable or volatile risks, require expenditures to facilitate compliance, or lead to fines, premium refunds or other adverse consequences. The federal government also may regulate aspects of our businesses, such as the use of insurance (credit) scores or other information in underwriting and the protection of confidential information.

In addition, as a condition to writing business in certain states, insurers are required to participate in various pools or risk sharing mechanisms or to accept certain classes of risk, regardless of whether such risks meet their underwriting requirements for voluntary business. Some states also limit or impose restrictions on the ability of an insurer to withdraw from certain classes of business. For example, Massachusetts, New York and California each impose material restrictions on a company's ability to materially reduce its exposures or to withdraw from certain lines of business in their respective states. The state insurance departments can impose significant charges on an insurer in connection with a market withdrawal or refuse to approve withdrawal plans on the grounds that they could lead to market disruption. Laws and regulations that limit cancellation and non-renewal of policies or that subject withdrawal plans to prior approval requirements may significantly restrict our ability to exit unprofitable markets. Such actions and related regulatory restrictions may limit our ability to reduce our potential exposure to hurricane and other catastrophe-related losses.

The insurance laws of many states subject property and casualty insurers doing business in those states to statutory property and casualty guaranty fund assessments. The purpose of a guaranty fund is to protect policyholders by requiring that solvent property and casualty insurers pay the insurance claims of insolvent insurers. These guaranty associations generally pay these claims by assessing solvent insurers proportionately based on each insurer's share of voluntary premiums written in the state. While most guaranty associations provide for recovery of assessments through subsequent rate increases, surcharges or premium tax credits, there is no assurance that insurers will ultimately recover these assessments, which could be material, particularly following a large catastrophe or in markets which become disrupted.

We are subject to periodic financial and market conduct examinations conducted by state insurance departments. We are also required to file annual and other reports with state insurance departments relating to the financial condition of our insurance subsidiaries and other matters. The National Association of Insurance Commissioners ("NAIC") and the Federal Insurance Office are each actively engaged in reviewing and considering proposed insurer risk-based capital standards, risk analysis, solvency assessments and other regulatory initiatives.

Other aspects of our business are subject to regulation as well. For example, Opus is subject to state and federal securities law, including regulation by the Securities and Exchange Commission ("SEC"), pertaining to the marketing and provision of institutional investment management services.

#### *INVOLUNTARY RESIDUAL MARKETS*

As noted above, as a condition of our license to write business in various states, we are required to participate in mandatory property and casualty residual market mechanisms which provide insurance coverages where such coverage may not otherwise be available or at rates deemed reasonable. Such mechanisms provide coverage primarily for personal and commercial property, personal and commercial automobile, and workers' compensation, and include assigned risk plans, reinsurance facilities and involuntary pools, joint underwriting associations, fair access to insurance requirements ("FAIR") plans and commercial automobile insurance plans.

For example, since most states compel the purchase of a minimal level of automobile liability insurance, states have developed shared market mechanisms to provide the required coverages and in many cases, optional coverages, to those drivers who, because of their driving records or other factors, cannot find insurers who will insure them voluntarily. Also, FAIR plans and other similar property insurance shared market mechanisms increase the availability of property insurance in circumstances where homeowners are unable to obtain insurance at rates deemed reasonable, such as in coastal areas or in areas subject to other hazards. Licensed insurers writing business in such states are often required to pay assessments to cover reserve deficiencies generated by such plans.

With respect to FAIR plans and other similar property insurance shared market mechanisms that have significant exposures, it is difficult to accurately estimate our potential financial exposure for future events. Assessments following a large coastal event, particularly one affecting Massachusetts, Texas, North Carolina or New York, or a large wildfire event affecting California, could be material to our results of operations. Our participation in such shared markets or pooling mechanisms is generally proportional to our direct writings for the type of coverage written by the specific pooling mechanism in the applicable state or other jurisdiction. For example, we are subject to mandatory participation in the Michigan Assigned Claims ("MAC") facility. MAC is an assigned claim plan covering people injured in uninsured motor vehicle accidents. Our participation in the MAC facility is based on our share of personal and commercial automobile direct written premium in the state and resulted in underwriting losses of \$16.6 million in 2021. As a result of the aforementioned Michigan automobile reform that was effective July 2021, there is increased uncertainty regarding

its impact on our future MAC facility loss costs. There were no other mandatory residual market mechanisms that were significant to our 2021 results of operations.

#### RESERVE FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Reference is made to “Results of Operations – Segments – Reserve for Losses and Loss Adjustment Expenses” of Management’s Discussion and Analysis for discussion of prior year development. Additionally, information regarding loss and LAE reserve development appears in Note 14 – “Liabilities for Outstanding Claims, Losses and Loss Adjustment Expenses” in the Notes to Consolidated Financial Statements.

The following table reconciles reserves determined in accordance with accounting practices prescribed or permitted by insurance statutory authorities (“Statutory”) to reserves determined in accordance with generally accepted accounting principles (“GAAP”). The primary difference between the Statutory reserves and our GAAP reserves is the requirement, on a GAAP basis, to present reinsurance recoverables as an asset, whereas Statutory guidance provides that reserves are reflected net of the corresponding reinsurance recoverables. We do not use discounting techniques in establishing GAAP reserves for property and casualty losses and LAE, nor have we participated in any loss portfolio transfers or other similar transactions.

DECEMBER 31 (in millions)	2021	2020	2019
Statutory reserve for losses and LAE	\$ 4,862.3	\$ 4,490.4	\$ 4,184.2
GAAP adjustments:			
Reinsurance recoverables on unpaid losses of our insurance subsidiaries	1,693.8	1,641.6	1,574.8
Statutory reserves for discontinued accident and health business	(117.9)	(116.2)	(113.2)
Other	9.4	8.2	8.6
GAAP reserve for losses and LAE	\$ 6,447.6	\$ 6,024.0	\$ 5,654.4

Reserves for discontinued accident and health business of our insurance subsidiaries are included in liabilities of discontinued operations for GAAP and loss and loss adjustment expenses for Statutory reporting.

#### DISCONTINUED OPERATIONS

Discontinued operations primarily include our former accident and health and life insurance businesses and our former Chaucer operations.

The discontinued accident and health business includes interests in 22 accident and health reinsurance pools and arrangements that we retained subsequent to the sale of First Allmerica Financial Life Insurance Company (“FAFLIC”) in 2009. We ceased writing new premiums in this business in 1999, subject to certain contractual obligations. The reinsurance pool business consists primarily of long-term care, the medical and disability portions of workers’ compensation risks, assumed personal accident, individual medical, long-term disability, and special risk business. This business also includes residual health insurance policies. Total reserves for the assumed accident and health business were \$118.8 million at December 31, 2021. The long-term care pool accounted for approximately 74% of these reserves as of December 31, 2021. Reserves for the long-term care pool, individual medical, and residual health insurance policies are discounted. Reserves for all other assumed accident and health business are undiscounted. Assets and liabilities related to the discontinued accident and health business are reflected as assets and liabilities of discontinued life businesses.

Loss estimates associated with substantially all of the discontinued accident and health business are provided by managers of each pool. We adopt reserve estimates for this business that consider this information, expected returns on assets assigned to this business and other facts. We update these reserves as new information becomes available and further events occur that may affect the ultimate resolution of unsettled claims. Based on information provided to us by the pool managers, we believe the reserves recorded related to this business are adequate. However, since reserve and claim cost estimates related to the discontinued accident and health business are dependent on several assumptions, including, but not limited to, morbidity, lapses, future premium rates, future health care costs, persistency of medical care inflation and investment performance, and these assumptions can be impacted by technical developments and advancements in the medical field, medical and long-term care inflation and other factors, there can be no assurance that the reserves established for this business will prove sufficient. Revisions to these reserves could have a material adverse effect on our results of operations for a particular quarterly or annual period or on our financial position. See also “Risk Factors” in Part I – Item 1A.

Our long-term care pool accounts for the majority of our remaining reinsurance pool business. The potential risk and exposure of our long-term care pool is based upon expected estimated claims and payment patterns, using assumptions for, among other things, morbidity, lapses, future premium rates, and the interest rate used for discounting the future projected cash flows, as well as regulatory developments affecting the ceding insurers. The long-term exposure of this pool depends upon how our actual experience compares with these future cash flow projection assumptions.

Our former life insurance and Chaucer businesses, which are both also included in discontinued operations, include activities that were not significant to our 2021 results, although we retain indemnification obligations with respect to these businesses.



## INVESTMENT PORTFOLIO

Our wholly owned subsidiary, Opus, is responsible for managing our investment portfolio. Opus directly manages our fixed maturity and equity security portfolios, which together with cash, constitute approximately 91% of our total holdings. Opus is also responsible for the selection and monitoring of external asset managers for our commercial mortgage loan participations, limited partnership investments and leveraged loan holdings. We select and monitor external managers based on investment approach, track record of risk-adjusted returns and corporate governance.

Our investment strategy seeks to balance the goals of liquidity, capital preservation, net investment income stability and total return. The asset allocation process takes into consideration the profile and expected payout pattern of our liabilities, the level of capital required to support growth across lines of business and the risk profiles of a wide range of asset classes.

The majority of our assets are invested in investment grade fixed income securities across various sectors including U.S. government, municipal, corporate, residential and commercial mortgage-backed securities and asset-backed securities. Our holdings are diversified within and across major investment and industry sectors to mitigate credit and interest rate risk. We monitor the credit quality of our investments and our exposure to individual markets, borrowers, industries, sectors and, in the case of commercial mortgage-backed securities and commercial mortgage loan participations, property types and geographic locations. We include Environmental, Social and Governance (“ESG”) issues in our fundamental investment research process, because these important factors can influence the sustainability of an investment, and its risk and return profile.

Investments held by our regulated insurance subsidiaries are subject to state insurance statutes governing permitted investments. Investment considerations include asset/liability profile, including duration, convexity and other characteristics within specified risk tolerances. Our fixed maturity portfolio duration is approximately 4.9 years. We seek to maintain sufficient liquidity to support the cash flow requirements associated with our insurance and corporate liabilities by laddering the maturities within the portfolio, closely monitoring fixed maturity duration, and holding high-quality liquid public securities.

Reference is made to “Investments” in Management’s Discussion and Analysis.

## RATING AGENCIES

Insurance companies are rated by rating agencies to provide both industry participants and insurance consumers information on specific insurance companies. Higher ratings generally indicate the rating agencies’ opinion regarding financial stability and a stronger ability to pay claims.

We believe that strong ratings are important factors in marketing our products to our agents and customers, since rating information is broadly disseminated and generally used throughout the industry. Insurance company financial strength ratings are assigned to an insurer based upon factors deemed by the rating agencies to be relevant to policyholders and are not directed toward protection of investors. Such ratings are neither a rating of securities nor a recommendation to buy, hold or sell any security. Customers typically focus on claims-paying ratings, while creditors focus on debt ratings. Investors consider both rating types when evaluating a company’s overall financial strength.

## EMPLOYEES AND HUMAN CAPITAL RESOURCES

As of December 31, 2021, we had approximately 4,400 employees, all of whom are located in the United States. We believe our relations with employees are positive, as evidenced by employee feedback received through employee surveys and other formal and informal channels.

In order to successfully operate our business, we rely on our corporate culture and on attracting, developing and retaining qualified employees to differentiate our company and deliver on our commitments to our independent agents, customers, investors and other stakeholders. The following is a description of the material human capital measures and objectives that management focuses on in managing the business with the oversight and support of our Board of Directors.

### *Inclusion & Diversity*

We strive to foster an environment of inclusion and diversity (“I&D”) that welcomes the unique perspectives, experiences and insights of individuals from all backgrounds and walks of life, because we believe that this will lead to greater engagement of our employees in pursuit of our business objectives. Our goal is to continue to develop an inclusive and diverse workforce that fosters innovation, respect and collaboration.

Management has focused on I&D within our workforce by developing a multi-year educational program around inclusion that is designed to impact each of our employees, and by diversifying our sourcing practices to develop, advance and retain a diverse employee population. Additionally, we are investing in internal business resource groups to support our company’s cultural values, drive our business initiatives forward, meet the needs of both internal and external stakeholders, and foster our commitment to build an inclusive and diverse work environment. Management’s continued objectives in I&D include reinforcing inclusive behaviors at all levels of our organization, evaluating and mitigating bias in the talent lifecycle in an effort to recruit, hire, develop, and retain women,

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people of color, and other underrepresented groups, and continuing to focus on our internal business resource groups to promote belonging and the importance of allyship.

Accountability for I&D has been established by incorporating Board oversight of I&D, as part of our larger corporate culture, into the charter of the Compensation and Human Capital Committee of the Board of Directors (“CHCC”) and by including support of and progress on I&D initiatives as part of the incentive compensation evaluation process for our CEO and entire executive leadership team.

### *Engagement and Alignment with Company Culture*

We believe that an employee workforce that is engaged and aligned with our core cultural values of collaboration, accountability, respect and empowerment (our CARE values) is fundamental to delivering on our business commitments. Management focuses on maintaining an engaged workforce by providing transparent communications and soliciting employee feedback informally and through focus groups and employee surveys, including a comprehensive survey of our entire workforce conducted in 2021 by an independent third-party firm. To foster accountability, every employee, regardless of role, receives a formal evaluation and performance discussion annually, and the evaluation process is aligned to our CARE values and expected leadership behaviors. In addition, we expect that performance connections take place between manager and employee on an ongoing basis to discuss goals, overall performance, development opportunities, and demonstration of leadership and corporate values.

### *Development and Succession Planning*

We recognize the importance of employee development for our team members throughout their careers as an important driver of workforce engagement, retention, and succession planning. Management focuses on providing learning and development through multiple modalities, including utilizing a robust online learning management platform that accommodates various schedules and diverse learning styles, engaging in experiential learning through stretch assignments and special projects, using virtual and classroom workshops, providing reimbursement for tuition and education-related fees (including professional and industry designations), and through the course of our goal-setting and performance evaluation process.

We are committed to identifying and investing in the development of our future leaders and accomplish this through formal talent review and succession planning processes that are aligned to standard leadership capabilities and our critical roles. Our development focus may include 360 feedback assessments, formal leadership development programs, executive coaching and experiential development opportunities for many employees.

### *Incentivized Workforce*

The emphasis on our overall performance is intended to align the employee’s financial interests with the interests of shareholders. Our compensation philosophy is based on a merit system where employees are paid for their performance and recognized for their talents and contributions. We are committed to fair and equitable total compensation that includes base pay and short- and long-term incentives that are competitive with others in our industry, while also ensuring internal equity across our organization. We offer a 401(k) plan with a company matching contribution, flexible paid time off policies, an employee stock purchase program, retirement planning services, and health and wellness benefits described below, among other benefits. Most employees receive short-term incentive compensation based on annual goals with the funding and metrics approved by the CHCC. Additionally, our senior leaders receive long-term incentive compensation in the form of equity awards.

### *Employee Health and Wellness*

Our benefits packages are designed to maintain the physical, financial, mental and social well-being of our employees, their families and dependents. We offer medical plan selections and other health and wellness offerings, including among others dental, vision and hearing health options, life and disability insurance, an employee assistance program, paid parental leave and family and medical leave, flexible work schedules and remote work arrangements, health advocacy services, adoption assistance benefit, and child care and elder care support.

During the Pandemic, we have implemented enhanced safety protocols and procedures for employees working on-site, and enhanced and modified our benefits programs and human resources policies to address illness and absences from work related to the Pandemic, including additional paid time off to facilitate vaccinations. We also implemented measures intended to address operational efficiencies related to remote work such as investing in our technology infrastructure, business continuity, and employee engagement and retention needs.

## **EXECUTIVE OFFICERS OF THE REGISTRANT**

Reference is made to “Directors, Executive Officers and Corporate Governance” in Part III - Item 10.



## AVAILABLE INFORMATION

We file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, our definitive proxy statement on Schedule 14A, and other required information with the SEC. Shareholders may obtain reports, proxy and information statements, and other information with respect to our filings, at the SEC's website, <https://www.sec.gov>.

Our website address is <https://www.hanover.com>. We make available, free of charge, on or through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Code of Conduct is also available, free of charge, on our website. Additionally, our Corporate Governance Guidelines and the charters of our Audit Committee, Compensation and Human Capital Committee, Committee of Independent Directors, and Nominating and Corporate Governance Committee, are available on our website. All documents are also available in print to any shareholder who requests them. Unless specifically incorporated by reference, information on our website is not part of this Annual Report on Form 10-K.

## ITEM 1A—RISK FACTORS

### RISK FACTORS AND FORWARD-LOOKING STATEMENTS

*The following important factors, among others, in some cases have affected, and in the future could affect, our actual results and could cause our actual results to differ materially from historical results and from those expressed in any forward-looking statements made from time to time by us on the basis of our then-current expectations. The words “believes”, “anticipates”, “expects”, “projections”, “outlook”, “should”, “could”, “plan”, “guidance”, “likely”, “on track to”, “targeted” and similar expressions are intended to identify forward-looking statements. Our businesses are in rapidly changing and competitive markets and involve a high degree of risk and unpredictability. Forward-looking projections are subject to these risks and unpredictability.*

### **Risks Related to Underwriting, Risk Aggregation and Risk Management**

***Our results may fluctuate as a result of cyclical or non-cyclical changes in the property and casualty insurance industry.***

The property and casualty insurance industry historically has been subject to significant fluctuations and uncertainties. Our profitability is materially affected by the following items:

- increases in costs, particularly increases occurring after the time our insurance products are priced, including construction, automobile repair, and medical and rehabilitation costs. This includes inflation, rises in the cost of products due to disruptions in supply chains, tariffs or other factors and “cost shifting” from health insurers to casualty and liability insurers (whether as a result of injured parties without health insurance, coverage changes in health policies to make such coverage secondary to casualty policies, state or federal healthcare legislation, lower reimbursement rates by health insurers or government-sponsored insurance, or legislation and/or litigation related to the Medicare Secondary Payer Act, which may impose reporting, additional costs, and other requirements with respect to medical and related claims paid for Medicare eligible individuals). As it relates to construction, there are often temporary increases in the cost of building supplies and construction labor after a significant event (for example, so called “demand surge” that causes the cost of labor, construction materials and other items to increase in a geographic area affected by a catastrophe). In addition, we are limited in our ability to negotiate and manage reimbursable expenses incurred by our policyholders;
- competitive and regulatory pressures, which affect the prices of our products and the nature of the risks covered;
- volatile and unpredictable developments, including severe weather, catastrophes, wildfires, infrastructure failure, civil unrest, pandemics and terrorist actions;
- legal, regulatory and socio-economic developments, such as new theories of insured and insurer liability and related claims and extra-contractual awards such as punitive damages, financed litigation, where a third party unrelated to a lawsuit provides capital to a plaintiff in return for a portion of any financial recovery from the lawsuit, and “social inflation” or other increases in the costs of litigation, size of jury awards or changes in applicable laws and regulations (such as changes in the thresholds affecting “no fault” liability or when non-economic damages are recoverable for bodily injury claims or coverage requirements) that impact our claim payouts;
- fluctuations in interest rates, as a result of a change in monetary policy or otherwise, inflationary pressures, default rates, commodity prices, and other factors that affect net income, including with respect to investment returns and operating results for certain of our lines of business; and
- other general economic conditions and trends that may affect the adequacy of reserves.

The demand for property and casualty insurance can also vary significantly based on general economic conditions (either nationally or regionally), rising as the overall level of economic activity increases and falling as such activity decreases. Loss patterns also tend to vary inversely with local economic conditions, increasing during difficult or unstable economic times and moderating during

economic upswings or periods of stability. The current Pandemic has introduced additional complexity to loss patterns. The fluctuations in demand and competition could produce unpredictable underwriting results.

***Due to geographical concentration in our business, changes in economic, regulatory and other conditions in the regions where we operate could have a significant negative impact on our business as a whole. Geographic concentrations also expose us to losses that are potentially disproportionate to our market share in the event of natural or other catastrophes.***

We generate a significant portion of our net premiums written and earnings in Michigan, Massachusetts and other states in the Northeast. In addition, a significant amount of Commercial Lines' net written premium is generated in California. For the year ended December 31, 2021, approximately 20.7% and 9.2% of our net premiums written in our business were generated in the states of Michigan and Massachusetts, respectively, and 11.6% of our Commercial Lines' net premiums written was generated in California. Many states in which we do business impose significant rate control and residual market charges and restrict an insurer's ability to exit such markets (for example, the Insurance Commissioner in California has taken steps to limit non-renewal of property policies in geographic areas prone to wildfires). The revenues and profitability of our insurance subsidiaries are subject to prevailing economic, regulatory, demographic and other conditions, including adverse weather. Because of our geographic concentration in certain regions, our business, as a whole, could be significantly affected by changes in the economic, regulatory and other conditions in such areas.

Further, certain new catastrophe models assume an increase in frequency and severity of certain weather or other events, such as fires, flooding from heavy precipitation and hurricanes, as a result of changing weather patterns and global climate change, or otherwise. Financial strength rating agencies emphasize capital and reinsurance adequacy for insurers with geographic concentrations of risk that may be subject to disproportionate risk of loss. These factors also may result in insurers seeking to diversify their geographic exposure, which could result in increased regulatory restrictions in those markets where insurers seek to exit or reduce coverage, as well as an increase in competitive pressures in less weather-exposed markets.

***Our profitability may be adversely affected if our pricing models differ materially from actual results.***

The profitability of our business depends on the extent to which our actual claims experience is consistent with the assumptions we use in pricing our policies. We price our business in a manner that is intended to be consistent, over time, with actual results and return objectives. Our estimates and models, and/or the assumptions behind them, may differ materially from actual results.

If we fail to appropriately price the risks we insure, fail to change or are slow to change our pricing model to appropriately reflect our current experience, or if our claims experience is more frequent or severe than our underlying risk assumptions, our profit margins will be negatively affected. If we underestimate the frequency and/or severity of extreme adverse events, our financial condition may be adversely affected. If we overestimate the risks we are exposed to, we may overprice our products, and new business growth and retention of our existing business may be adversely affected.

***Our business is dependent on our ability to manage risk, and the failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations.***

Our business performance is highly dependent on our ability to manage operational risks arising from numerous day-to-day business activities, including insurance underwriting, claims processing, servicing, investment, financial and tax reporting, compliance with regulatory requirements and other activities. We utilize numerous strategies to mitigate our insurance risk exposure, including: underwriting; setting exposure limits, deductibles and exclusions to mitigate policy risk; updating and reviewing the terms and conditions of our policies; managing risk aggregation by product line, geography, industry type, credit exposure and other bases; and ceding insurance risk. We seek to monitor and control our exposure to risks arising out of these activities through an enterprise-wide risk management framework. However, there are inherent limitations in each of these tactics, and no assurance can be given that these processes and procedures will effectively control all known risks or effectively identify unforeseen risks or that an event or series of events will not result in loss levels in excess of our probable maximum loss models, which could have a material adverse effect on our financial condition or results of operations. It is also possible that losses could manifest themselves in ways that we do not anticipate and that our risk mitigation strategies are not designed to address. Such a manifestation of losses could have a material adverse effect on our financial condition or results of operations. These risks may be heightened during times of challenging macroeconomic conditions.

#### **Risks Related to Reserves and Claims**

***Actual losses from claims against our insurance subsidiaries may exceed their reserves for claims.***

We maintain reserves to cover the estimated ultimate liability for losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period. Reserves do not represent an exact calculation of liability. Rather, reserves represent estimates, involving actuarial projections and judgments at a given time, of what we expect the ultimate settlement and administration of incurred claims will cost based on facts and circumstances then known, predictions of future events, estimates of future trends in claims frequency and severity and judicial theories of liability, costs of repair and replacement, legislative activity and myriad other factors.

The inherent uncertainties of estimating reserves are greater for certain types of insurance lines, particularly liability lines. These include automobile bodily injury liability, automobile personal injury protection, general liability, and workers' compensation, where a longer period of time may elapse before a definitive determination of ultimate liability may be made, (sometimes referred to as "long-tail" business), environmental liability, where the technological, judicial and political climates involving these types of claims are continuously evolving, and casualty coverages such as professional liability. The emergence of the Pandemic in 2020 resulted in an increased level of uncertainty for many lines of business, particularly our long-tailed lines. There is also greater uncertainty in establishing reserves with respect to new business, particularly new business that is generated with respect to newer product lines, such as our cyber-risk lines and specialty general liability product, by newly appointed agents, or in new geographies where we have less experience in conducting business. In these cases, there is less historical experience or knowledge and less data that the actuaries can rely on. A combination of business that is both new to us and has longer development periods, provides even greater uncertainty in estimating insurance reserves.

In several specialty lines, we are modestly increasing, and expect to continue to increase, our exposure to longer-tailed liability lines. In addition, we have experienced extensions of the "tails" in certain lines of business as the full value of claims are presented later than had been our historical experience. The broad impact of the Pandemic on the claims environment may extend these "tails" even further. For example, there may be delays in both medical treatments and submission of medical expenses and deferment of elective medical procedures, or worsening of insureds' health status, which could increase our ultimate loss costs. Also, presumptive orders by state authorities have potentially increased workers' compensation exposures beyond contractual obligations. Additionally, shifts in claim settlement patterns due to delayed court proceedings and other issues, could contribute to the extension of "tails," increased loss costs and greater uncertainty in reserve estimates.

Estimating reserves is further complicated by unexpected claims or unintended coverages that emerge due to changing conditions. These emerging issues may increase the size or number of claims beyond our underwriting intent and may not become apparent for many years after a policy is issued, such as was the case for the industry with respect to environmental, asbestos, and certain product liability claims. Similar concerns have emerged with what has been called "silent" cyber, or claims arising for cyber losses under traditional policies where such coverage is not contemplated. These losses are reflected as prior year reserve development. Although we undertake underwriting actions that are designed to limit losses once emerging issues are identified, we remain subject to losses on policies issued during those years preceding the underwriting actions.

Additionally, the introduction of new Commercial Lines products and the development of new niche and specialty lines present new risks. Certain specialty products, such as the human services program, non-profit directors and officers liability and employment practices liability policies, lawyers and other professional liability policies, healthcare lines and directors and officers coverage may also require a longer period of time (the so-called "tail") to determine the ultimate liability associated with the claims and may produce more volatility in our results and less certainty in our accident year reserves. Some lines of business, such as surety, are less susceptible to establishing reserves based on actuarial or historical experience, and losses may be episodic, depending on economic and other factors. Changes in laws, such as so-called "reviver" statutes that retrospectively change the statutes of limitations for certain claims, such as sexual molestation claims, add further uncertainty to the adequacy of prior estimates.

Underwriting results and operating income could be adversely affected by further changes in our net loss and LAE estimates related to significant events or emerging risks, such as risks related to attacks on or breaches of cloud-based data information storage or computer network systems ("cyber-risks"), privacy regulations or disruptions caused by major power grid failures or widespread electrical and electronic equipment failure due to aging infrastructure, natural factors like hurricanes, earthquakes, wildfires, solar flares and pandemic or societal factors like terrorism and civil unrest.

Estimating losses following any major catastrophe, or with respect to emerging claims, is an inherently uncertain process. Factors that add to the complexity of estimating losses from these events include legal and regulatory uncertainty, the complexity of factors contributing to the losses, delays in claim reporting, and with respect to areas with significant property damage, the impact of "demand surge" and a slower pace of recovery resulting from the extent of damage sustained in the affected areas due, in part, to the availability and cost of resources to effect repairs. Emerging claims issues may involve complex coverage, liability and other costs that could significantly affect LAE. As a result, there can be no assurance that our ultimate costs associated with these events will not be substantially different from current estimates (for example, actual losses arising from an event could have varied widely depending on the interpretation of various policy provisions). Investors should consider the risks and uncertainties in our business that may affect net loss and LAE reserve estimates and future performance, including the difficulties in arriving at such estimates.

Anticipated losses associated with business interruption exposure, the impact of wind versus water as the cause of loss, disputes over the extent of damage caused by hailstorms (particularly with respect to roof damage claims), supplemental payments on previously closed claims caused by the development of latent damages or new theories of liability and inflationary pressures leading to claims cost escalation could also have a negative impact on future loss reserve development. Many states permit insureds to simply sign-over their claims to contractors or others (so-called "assignment of benefits"), which frequently generate higher claim demands. Other states permit filing suits without prior discussions, which has a similar effect and also increases loss adjustment costs.

Because of the inherent uncertainties involved in setting reserves and establishing current and prior-year “loss picks,” including those related to catastrophes, we cannot provide assurance that the existing reserves or future reserves established by our insurance subsidiaries will prove adequate in light of subsequent events. Our results of operations and financial condition have in the past been, and in the future could be, materially affected by adverse loss development for events that we insured in prior periods.

### **Risks Related to Weather Events, Catastrophes and Climate Change**

#### ***Limitations on the ability to predict the potential impact of weather events and catastrophes may impact our future profits and cash flows.***

Our business is subject to claims arising out of catastrophes that may have a significant impact on our results of operations and financial condition. We have experienced, and in the future will experience catastrophe losses, which could have a material adverse impact on our business. Catastrophes can be caused by various events, including hurricanes, floods, earthquakes, tornadoes, wind, hail, fires, drought, severe winter weather, volcanic eruptions, tropical storms, tsunamis, sabotage, civil unrest, terrorist actions, explosions, nuclear accidents, solar flares, and power outages, which could be exacerbated by infrastructure failure. The frequency and severity of catastrophes are inherently unpredictable.

The extent of gross losses from a catastrophe is a function of the total amount of insured exposure in the area affected by the event and the severity of the event. The extent of net losses depends on the applicability, amount and collectability of reinsurance.

Additionally, the severity of certain catastrophes could be so significant that it restricts the ability of certain locations to recover their economic viability in the near term. Repeated catastrophes, or the threat of catastrophes, could undermine the long-term economic viability of certain locations like coastal or wildfire-exposed communities, which could have a significant negative impact on our business.

Although catastrophes can cause losses in a variety of property and casualty lines, homeowners and commercial multiple peril property insurance have, in the past, generated the vast majority of our catastrophe-related claims. Our catastrophe losses have historically been principally weather-related, particularly from hurricanes and hail damage, as well as snow and ice damage from winter storms.

Although the insurance industry and rating agencies have developed various models intended to help estimate potential insured losses under thousands of scenarios, there is no reliable way of predicting the probability of such events or the magnitude of such losses before a specific event occurs. We utilize various models and other techniques in an attempt to measure and manage potential catastrophe losses within various income and capital risk appetites. However, such models and techniques have many limitations, and changes in climate conditions may also cause our historical underlying modeling data to not adequately reflect the current frequency and severity of weather-related events in the future, limiting our ability to effectively evaluate and manage risks of catastrophes and severe weather events. In addition, due to historical concentrations of business, regulatory restrictions and other factors, our ability to manage such concentrations is limited, particularly in the Northeast, and in the state of Michigan.

We purchase catastrophe reinsurance as protection against catastrophe losses. Reinsurance is subject to the adequacy and counterparty reinsurance risks described below. Should we experience losses from one significant or several large catastrophes, there can be no assurance that our reinsurance program will provide adequate coverage levels.

#### ***Climate change may adversely impact our results of operations and/or our financial position.***

Global climate change from rising planet temperatures over the last several decades has been linked to a number of factors that contribute to the increased unpredictability, frequency, duration and severity of weather events, including: changing weather patterns, a rise in ocean temperatures, and sea level rise. Further increases or persistence in these conditions would lead to higher overall losses, which we may not be able to recoup, particularly in a highly regulated and competitive environment, and higher reinsurance costs. Certain catastrophe models assume an increase in frequency and severity of certain weather or other events, which could result in a disproportionate impact on insurers with certain geographic concentrations of risk. This would also likely increase the risks of writing property insurance in coastal areas or areas susceptible to wildfires or flooding, particularly in jurisdictions that restrict pricing and underwriting flexibility. The threat of rising seas or other catastrophe losses as a result of global climate change may also cause property values in coastal or such other communities to decrease, reducing the total amount of insurance coverage that is required.

In addition, global climate change and global climate change transitions could lead to new or enhanced regulation, which may be difficult or costly to comply with, or impact assets that we invest in, which may result in realized and unrealized losses in future periods that could have a material adverse impact on our results of operations and/or financial position. It is not possible to foresee the impacts of potential future climate regulation, or which, if any, assets, industries or markets may be materially and adversely affected by global climate change and global climate change transitions, nor is it possible to foresee the magnitude of such effects.

### **Risks Related to Reinsurance**

#### ***We cannot guarantee the adequacy of or ability to maintain our current level of reinsurance coverage.***

Like insurance companies, reinsurance companies can also be adversely impacted by catastrophes. In setting our retention levels and coverage limits, we consider our level of statutory surplus and exposures, as well as the current reinsurance pricing environment, but there can be no assurance that we adequately set these levels or limits or that we will be able to maintain our current or desired levels of reinsurance coverage. In particular, and as discussed under “Reinsurance Program Overview” in Information About Operating Segments - Reinsurance, not all of our 2022 reinsurance programs for the Commercial and Personal Lines are fully placed. Reinsurance is a significant factor in our overall cost of providing primary insurance. However, unlike primary insurers, reinsurers are not subject to rate or other restrictions requiring them to continue availability of reinsurance or limiting cost increases or mandating coverage forms. An individual insurer’s reinsurance expense is correlated to the level of losses experienced by its reinsurers. Future catastrophic events and other changes in the reinsurance marketplace, including as a result of investment losses or disruptions due to challenges in the financial markets that have occurred or could occur in the future, may adversely affect our ability to obtain such coverages, as well as adversely affect the cost of obtaining that coverage.

Additionally, the availability, scope of coverage, cost, and creditworthiness of reinsurance could continue to be adversely affected by new catastrophes, terrorist attacks, cyber-risks, and the perceived risks associated with future terrorist activities, global conflicts, including the threat of nuclear conflict, and the changing legal and regulatory environment (including changes that could create new insured risks). Federal reinsurance for terrorism risks coverage offered by insurers is available under the federal terrorism risk insurance program, but it only applies to certified events of terrorism (as defined in the legislation) and contains certain caps and deductibles. Although the federal terrorism risk insurance program coverage is in effect through December 31, 2027, if this program is modified unfavorably by the government in the future, then private reinsurance for events of terrorism may not be available to us or available at reasonable or acceptable rates.

***Although we monitor their financial soundness, we cannot be sure that our reinsurers will pay in a timely fashion, if at all.***

We purchase reinsurance by transferring (known as ceding) part of the risk that we have assumed to reinsurance companies in exchange for part of the premium we receive in connection with the risk. As of December 31, 2021, our reinsurance receivable (including from the MCCA) amounted to approximately \$1.9 billion. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred or ceded to the reinsurer, it does not relieve us (the reinsured) of our liability to our policyholders. Accordingly, we bear counterparty risk with respect to our reinsurers, including risks resulting from over-concentration of exposures within the industry. Although we monitor our reinsurers and their financial condition, we cannot be sure that they will pay the reinsurance recoverables owed to us currently or in the future or that they will pay such recoverables on a timely basis. The contractual obligations under reinsurance agreements are typically with individual subsidiaries of the reinsurance group and are not typically guaranteed by other group members. In certain circumstances, with “unauthorized” reinsurers or those with lower financial strength ratings, we may require collateral equal to 100% of estimated reinsurance recoverables. The collateral can serve to mitigate credit risk. In the event of losses, we may look to “draw down” on this collateral to satisfy reinsurance recoveries due to us, but if the collateral held is insufficient to meet those recoveries, we will be exposed to losses.

#### **Risks Related to Regulation, Mandatory Market Mechanisms and Mandatory Assessments**

***Our businesses are heavily regulated, and changes in regulation may reduce our profitability.***

Our insurance businesses are subject to supervision and regulation by the state insurance authority in each state where we transact business. This system of supervision and regulation relates to numerous aspects of an insurance company’s business and financial condition, including limitations on the authorization of lines of business, underwriting limitations, the ability to utilize credit-based insurance scores, gender, geographic location, information publicly available (such as on social media), education, occupation, income or other factors in underwriting, the ability to terminate agents, supervisory and liability responsibilities for agents, the setting of premium rates, the requirement to write certain classes of business that we might otherwise avoid or charge different premium rates, restrictions on the ability to withdraw from certain lines of business or terminate policies or classes of policyholders, the establishment of standards of solvency, the licensing of insurers and agents, compensation of and contractual arrangements with independent agents, concentration of investments, levels of reserves, the payment of dividends, transactions with affiliates, changes of control, protection of private information of our agents, policyholders, claimants and others (which may include highly sensitive financial or medical information or other private information such as social security numbers, driving records or driver’s license numbers) and the approval of policy forms. From time to time, various states and Congress have proposed to prohibit or otherwise restrict the use of credit-based insurance scores in underwriting or rating our Personal Lines business. The elimination of the use of credit-based insurance scores could cause significant disruption to our business and our confidence in our pricing and underwriting. Most insurance regulations are designed to protect the interests of policyholders rather than stockholders and other investors.

Legislative and regulatory restrictions are constantly evolving and are subject to then-current political pressures. For example, following major events, states have considered, and in some cases adopted, proposals such as homeowners’ “Bill of Rights,” restrictions on storm deductibles, additional mandatory claim handling guidelines and mandatory coverages. More recently, the California Insurance Commissioner restricted the ability of carriers to non-renew certain coverages in wildfire disaster areas, and the New York Department of Financial Services and regulatory agencies in other states have enacted comprehensive cybersecurity regulations and required insurers to take steps related to global climate change.



Also, the federal Medicare, Medicaid and State Children's Health Insurance Program Extension Act mandates reporting and other requirements applicable to property and casualty insurance companies that make payments to or on behalf of claimants who are eligible for Medicare benefits. These requirements have made bodily injury claim resolutions more difficult, particularly for complex matters or for injuries requiring treatment over an extended period, and they impose significant penalties for non-compliance and reporting errors. These requirements also have increased the circumstances under which the federal government may seek to recover from insurers amounts paid to claimants in circumstances where the government had previously paid benefits.

State regulatory oversight and various proposals at the federal level, through the Federal Insurance Office or other agencies, may, in the future, adversely affect our ability to sustain adequate returns in certain lines of business or in some cases, operate lines profitably. In recent years, the state insurance regulatory framework has come under increased federal scrutiny, and certain state legislatures have considered or enacted laws that alter and, in many cases, increase state authority to regulate insurance companies and insurance holding company systems.

Our business could be negatively impacted by adverse state and federal legislation or regulation, or judicial developments, including those resulting in: decreases in rates, including for example, recent regulatory or bureau actions to mandate reduced premiums for workers' compensation insurance; limitations on premium levels; coverage and benefit mandates; limitations on the ability to manage care and utilization or other claim costs; requirements to write certain classes of business or in certain geographies; restrictions on underwriting, methods of compensating independent producers, or our ability to cancel or renew certain business (which negatively affects our ability to reduce concentrations of property risks); higher liability exposures for our insureds; increased assessments or higher premium or other taxes; and enhanced ability to pierce "no fault" thresholds, recover non-economic damages (such as "pain and suffering"), or pierce policy limits.

These regulations serve to protect customers and other third parties and are heavily influenced by the then-current political environment. If we are found to have violated an applicable regulation, administrative or judicial proceedings may be initiated against us that could result in censures, fines, civil penalties (including punitive damages), the issuance of cease-and-desist orders, premium refunds or the reopening of closed claim files, among other consequences. These actions could have a material adverse effect on our financial position and results of operations.

In addition, we are reliant upon independent agents and brokers to market our products. Changes in regulations related to insurance agents and brokers that materially impact the profitability of the agent and broker business or that restrict the ability of agents and brokers to market and sell insurance products would have a material adverse effect on our business.

Further, as we continue to expand our business into new regions, either organically or through acquisition, we become subject to the regulations and different regulatory bodies governing such business in those locales.

From time to time, we are also involved in investigations and proceedings by federal, state, and other governmental and self-regulatory agencies. We cannot provide assurance that these investigations, proceedings and inquiries will not result in actions that would adversely affect our results of operations or financial condition.

***We are subject to uncertainties related to Michigan PIP Reform.***

Starting in 1973, the state of Michigan required all personal and commercial automobile policies issued in the state to include no-fault personal injury protection ("PIP") coverage without a cap on maximum benefits allowed (i.e., "unlimited PIP benefits"). Insurers were required to retain a portion of the risk and the MCCA, a legislatively-created reinsurance mechanism, reinsures the portion of the risk in excess of the insurer's mandated retention. The mandatory retention amount increases biennially at a statutory mandated rate and is currently \$600,000. Premiums on Michigan automobile policies include a charge for both the insurer's retained amount and a separately identified pass-through charge determined by the MCCA.

In response to concerns about the overall cost and affordability of automobile insurance in Michigan, the state enacted legislation in June 2019 that significantly changed no-fault and PIP systems. The new legislation, effective July 2, 2020, eliminated the requirement that all insureds purchase unlimited PIP coverage and substituted instead tiered limits, ranging from zero (for those with certain health benefits meeting specified criteria) to unlimited benefits. In contrast, the minimum amounts of bodily injury coverage drivers are required to purchase increased, and we anticipate an increase in tort liability and related litigation from these changes. The legislation includes underwriting and other restrictions and mandates, in addition to subjecting rates, forms and rules to prior approval from the Michigan Department of Insurance and Financial Services ("Michigan Insurance Department") before implementation.

The legislation also imposes various cost controls, including medical fee schedules based on a multiple of Medicare reimbursement rates, and mandated PIP premium rate reductions with an eight-year premium rate freeze for the PIP component of automobile policies. The Michigan Insurance Department is also preparing regulations to establish utilization controls. The rate freeze was effective contemporaneously with the adoption of the legislation and the mandatory rate reduction was effective July 2, 2020, and the expense and utilization controls went into effect on July 1, 2021.

In response to the future savings expected to be garnered from the expense and utilization controls, the MCCA reassessed its outstanding liabilities and estimated that the deficit reported in more recent years had been "erased" (notwithstanding a persistent

reported annual deficit, the MCCA's annual operations have always been cash flow positive). Our current estimate of MCCA receivables has been reduced for these potential future claim cost savings. As of December 31, 2021, our estimated reinsurance recoverable from the MCCA was \$901.8 million. This estimate is subject to change and will be revised further as the actual impacts of these cost saving measures emerge in the future.

Many medical and other providers who receive reimbursement under the PIP system strenuously objected to the fee schedules, cost controls and utilization restrictions imposed by the new legislation. Since the reform legislation was adopted, we have experienced an increase in litigation from medical and other providers demanding higher reimbursements under the current system. On October 3, 2019, litigation captioned Andary et. al. v. USAA Casualty Insurance Company and Citizens Insurance Company of America (a subsidiary of THG), Circuit Court for the County of Ingham, Michigan Case 19-738-CZ, was filed. The plaintiffs seek a declaratory judgment that the fee schedules, attendant care reimbursement limits, cost controls and utilization provisions of the new legislation violate multiple provisions of the Michigan state constitution. We intend to vigorously contest plaintiffs' claims.

For the year ending December 31, 2021, Michigan personal automobile insurance represented approximately 47% of our total personal automobile net premiums written. PIP net written premium (which does not include the MCCA pass-through assessment) represents approximately 25% of those Michigan personal automobile premiums. It is not clear at this time whether projected savings from the various cost control measures, assuming they remain in effect, will be commensurate with the required PIP reductions and rate controls. Accordingly, there is increased uncertainty attributable to these changes regarding the future performance of our Michigan personal automobile lines.

***We may incur financial losses resulting from our participation in shared market mechanisms, mandatory reinsurance programs and mandatory and voluntary pooling arrangements.***

In most of the jurisdictions that we operate in, our insurance subsidiaries are required to participate in mandatory property and casualty shared market mechanisms, government-sponsored reinsurance programs or pooling arrangements. These arrangements are designed to provide various insurance coverages to individuals or other entities that are otherwise unable to purchase such coverage or to support the costs of uninsured motorist claims in a particular state or region. We cannot predict whether our participation in these shared market mechanisms or pooling arrangements will provide underwriting profits or losses to us. For the year ended December 31, 2021, we experienced an underwriting loss of \$15.1 million from participation in these mechanisms and pooling arrangements, compared to \$10.5 million and \$14.1 million in 2020 and 2019, respectively. We may face similar or more significant earnings fluctuations in the future.

Additionally, increases in the number of participants or insureds in state-sponsored reinsurance pools, FAIR plans or other residual market mechanisms, particularly in the states of Massachusetts, Texas, California, New York, or North Carolina, combined with regulatory restrictions on the ability to adequately price, underwrite, or non-renew business, as well as new legislation, or changes in existing case law, could expose us to significant risks of increased assessments from these residual market mechanisms. There could also be a significant adverse impact as a result of losses incurred in those states due to hurricane or other high loss exposures, as well as the declining number of carriers providing coverage in those regions. We are unable to predict the likelihood or impact of such potential assessments or other actions.

We also have credit risk associated with certain mandatory reinsurance programs, such as the MCCA. See "We are subject to uncertainties related to Michigan PIP Reform," above for more information on the MCCA.

In addition, we may be adversely affected by liabilities resulting from our previous participation in certain voluntary property and casualty assumed reinsurance pools. We have terminated our participation in virtually all property and casualty voluntary pools, but we remain subject to claims related to the periods when we participated. The property and casualty industry's assumed reinsurance businesses have suffered substantial losses during the past several years, particularly related to environmental and asbestos exposure for property and casualty coverages, in some cases resulting from incidents alleged to have occurred decades ago. Due to the inherent volatility in these businesses, possible issues related to the enforceability of reinsurance treaties in the industry and the continuing history of increased losses, we cannot provide assurance that our current reserves are adequate or that we will not incur losses in the future. Our operating results and financial position may be adversely affected by liabilities resulting from any such claims in excess of our loss estimates. As of December 31, 2021, our gross reserves totaled \$38.2 million for these legacy voluntary property and casualty assumed reinsurance pools, with the largest being the Excess Casualty Reinsurance Association ("ECRA") pool. During 2021, we entered into a reinsurance agreement whereby we agreed to cede 100% of the ECRA business, which represents 89% of our gross reserves for these legacy pools, to a third-party reinsurer.

***We are subject to mandatory assessments by state guaranty funds; an increase in these assessments could adversely affect our results of operations and financial condition.***

All fifty U.S. states and the District of Columbia have insurance guaranty fund laws requiring property and casualty insurance companies doing business within the state to participate in guaranty associations. These associations are organized to pay contractual obligations under insurance policies issued by impaired or insolvent insurance companies. The associations levy assessments, up to prescribed limits, on all member insurers in a particular state based on the proportionate share of the premiums written by member

insurers in the lines of business that the impaired or insolvent insurer is engaged in. Although mandatory assessments by state guaranty funds that are used to cover losses to policyholders of insolvent or rehabilitated companies can be substantially recovered over time through policyholder surcharges or a reduction in future premium taxes in many states (provided the collecting insurer continues to write business in such state), there can be no assurance that all funds will be recoupable in the future. During 2021, we had a total assessment of \$2.0 million levied against us, with refunds of \$0.2 million received in 2021 for a total net assessment of \$1.8 million. As of December 31, 2021, we had \$0.9 million of reserves related to guaranty fund assessments. In the future, these assessments may increase above levels experienced in prior years. Future increases in these assessments depend upon the rate of insolvencies of insurance companies.

***We are subject to litigation risks, including risks relating to the application and interpretation of contracts, and adverse outcomes in litigation and legal proceedings could adversely affect our results of operations and financial condition.***

We are subject to litigation risks, including risks relating to the application and interpretation of insurance and reinsurance contracts and our handling of claim matters (which can lead to bad faith and other forms of extra-contractual liability), and are routinely involved in litigation that challenges specific terms and language incorporated into property and casualty contracts, such as claims reimbursements, covered perils and exclusion clauses, among others, or the interpretation or administration of such contracts, including with respect to Pandemic-related litigation. We are also involved in legal actions that do not arise in the ordinary course of business, some of which assert claims for substantial amounts. Adverse outcomes could materially affect our results of operations and financial condition.

### **Risks Related to Our Agency Distribution and Growth Strategies**

***Our profitability could be adversely affected by our relationships with our agencies.***

Substantially all of our products are distributed through independent agents and brokers who have the principal relationships with policyholders. Agents and brokers generally own the “renewal rights,” and thus our business model is dependent on our relationships with, and the success of, the agents and brokers with whom we do business.

We periodically review the agencies, including managing general agencies, with whom we do business to identify those that do not meet our profitability standards or are not aligned with our business objectives. Following these periodic reviews, we may restrict such agencies’ access to certain types of policies or terminate our relationship with them, subject to applicable contractual and regulatory requirements that limit our ability to terminate agents or require us to renew policies. Even through the utilization of these measures, we may not achieve the desired results.

Because we rely on independent agents as our sales channel, any deterioration in the relationships with our independent agents or failure to provide competitive compensation to our independent agents could lead agents to place more premium with other carriers and less premium with us. In addition, we could be adversely affected if the agencies with whom we do business, including managing general agencies, exceed the authority that we have given them, fail to transfer collected premium to us or breach the obligations that they owe to us. Although we routinely monitor our agency relationships, such actions could expose us to liability.

Also, if agency consolidation continues at its current pace or increases in the future and more agencies are consolidated into larger agencies or managing general agencies, our sales channel could be materially affected in a number of ways, including loss of market access or market share in certain geographic areas if an acquirer is not one of our appointed agencies, loss of agency talent as the people most knowledgeable about our products and with whom we have developed strong working relationships exit the business following a disposition of an agency, increases in our commission costs as larger agencies acquire more negotiating leverage over their fees, and interference with the core agency business of selling insurance due to integration or distraction. Any such disruption that materially affects our sales channel could have a negative impact on our results of operations and financial condition.

As the speed of digitization accelerates, we are subject to risks associated with both our agents’ and our ability to keep pace. In an increasingly digital world, agents who cannot provide a digital or technology-driven experience risk losing customers who demand such an experience, and such customers may choose to utilize more technology-driven agents or abandon the independent agency channel altogether. Additionally, if we are not able to keep pace with competitors’ digital offerings, we may not be able to meet the demand from our agents or their customers, which could lead to a loss of customers, agents or both.

***We may not be able to grow as quickly or as profitably as we intend, which is important to our current strategy.***

Over the past several years, we have made, and our current plans are to continue to make, significant investments in our Commercial and Personal Lines of business, in order to, among other things, strengthen our product offerings and service capabilities, expand into new geographic areas, improve technology and our operating models, build expertise in our personnel, and expand our distribution capabilities, with the ultimate goal of achieving significant, sustained growth. The ability to achieve significant profitable premium growth in order to earn adequate returns on such investments and expenses, and to grow further without proportionate increases in expenses, is an important part of our current strategy. There can be no assurance that we will be successful at profitably growing our business, or that we will not alter our current strategy due to changes in our markets or an inability to successfully maintain acceptable



margins on new or existing business or for other reasons, including general economic conditions because of the Pandemic or otherwise, in which case premiums written and earned, operating income and net book value could be adversely affected.

***We may be affected by disruptions caused by the introduction of new products, related technology changes, and new operating models in Commercial Lines, Personal Lines and specialty businesses and future acquisitions, and expansion into new geographic areas.***

There are increased underwriting risks associated with premium growth and the introduction of new products or programs in our Commercial Lines, Personal Lines and specialty businesses. Additionally, there are increased underwriting risks associated with the appointment of new agencies and managing general agencies and with the expansion into new geographical areas.

The introduction of new Commercial Lines products and the development of new niche and specialty lines presents new risks. Certain new specialty products may present longer “tail” risks and increased volatility in profitability. Our expansion into western states, including California, presents additional underwriting risks since the regulatory, geographic, natural risk, legal environment, demographic, business, economic and other characteristics of these states present different challenges from those in the states where we historically have conducted business. In addition, our agency relationships in these new geographies are not as developed.

Our Personal Lines production and earnings may be unfavorably affected by the continued introduction of new products, expanded risk appetites and our focus on account business (i.e., policyholders who have both automobile and homeowner insurance with us) that we believe, despite pricing discounts, will ultimately be more profitable business. We may also experience adverse selection, which occurs when insureds purchase our products because of underpricing, operational difficulties or implementation impediments with independent agents or the inability to grow new markets after the introduction of new products or the appointment of new agents.

As we enter new states or regions or grow our business, there can be no assurance that we will not experience higher loss trends than anticipated.

### **Risks Related to Technology, Data Security and Privacy**

***We may experience difficulties with technology, implementing new technologies, data security and/or outsourcing relationships, which could have a negative impact on our ability to conduct our business.***

We use computer systems to store, retrieve, evaluate and utilize customer and company data and information. Our computer, information technology and telecommunications systems, in turn, interface with and rely upon third-party systems, including cloud-based data storage. Our business is highly dependent on our ability and the ability of certain third parties, to access these systems to perform necessary business functions, including, without limitation, providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, providing customer support and managing investment portfolios. Systems attacks, failures or outages could compromise our ability to perform these functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a disaster such as a natural catastrophe, epidemic or pandemic, an industrial accident, a blackout, a computer virus, a cyber security attack or intrusion, a terrorist attack or war, or interference from solar flares, our systems or the external systems that we rely on may be inaccessible to our employees, customers or business partners for an extended period of time. Even if our employees are able to report to work, they may be unable to perform their duties for an extended period of time if our data or the systems that we rely on are disabled or destroyed or if our disaster recovery plans are inadequate or suffer from unforeseen consequences. These same risks are ones that our critical third-party vendors may face, and if those vendors are adversely impacted, then our operations could be harmed. This could result in a materially adverse effect on our business results and liquidity.

We increasingly rely on technological and data-driven solutions to operate our business. If we are slow to adapt to, roll out or implement new technologies, particularly those systems, platforms and applications that leverage data and analytics capabilities, it could materially affect our ability to meet the expectations of our customers or compete with more technologically adept competitors, particularly those with greater resources to devote to new technologies or technological enhancements.

In addition, we may increase our reliance upon third-party vendors to provide or support technology, data storage and business process functions in the future. If we do not effectively develop, implement and monitor our outsourcing and third-party risk management strategies, third-party providers do not perform as anticipated, or we or they experience technological or other problems with a migration or in operations, we may not realize productivity improvements or cost efficiencies and may experience operational difficulties, liabilities for breaches of confidential information, increased costs and a loss of business. Our outsourcing of certain technology, data storage and business process functions to third parties may expose us to enhanced risk related to data security, which could result in monetary and reputational damages. In addition, our ability to receive services from third-party providers outside of the United States might be impacted by global differences in social and cultural expectations, political instability, or substantially different, conflicting or onerous regulatory requirements or policies, which could impact our operational effectiveness. As a result, our ability to conduct our business might be adversely affected.

***Data security incidents, including, but not limited to, those resulting from a malicious cyber security attack on us or our business partners and service providers, or intrusions into our systems or data sources could disrupt or otherwise negatively impact our business.***

Our systems and the systems that we rely on, like others in the financial services industry, are vulnerable to cyber security risks, and we are subject to disruption and other adverse effects caused by such activities. Large corporations such as ours are subject to daily attacks on their systems and other vulnerabilities to data security incidents. These attacks and incidents have included, or may in the future include: unauthorized access, viruses, malware or other malicious code, ransomware, deceptive social engineering campaigns (also known as “phishing” or “spoofing”), loss or theft of assets, employee errors or malfeasance, third-party errors or malfeasance, as well as system failures and other security events. Threat actors who design and commit such attacks may have various goals, from seeking confidential information or the misdirection of payments, to holding systems for ransom, or causing operational disruption. The effects of these activities could result in material disruptions to our operations, financial loss or material damage to our reputation. Like other companies, we have from time to time experienced, and are likely to continue to experience, security events and data intrusion, and while none of these events to date have had a material adverse effect on our business, no assurances can be made that such attacks or security events will not have a material adverse effect on our business in the future. As the breadth, frequency, and complexity of cyber security attacks and other data security events become more prevalent and the methods used to perpetrate them evolve, we may be required to devote additional personnel, or financial or systems resources, to protect our Company and invest in additional resources to support our data security program. From time to time we have had to, and in the future we may need to, increase or expend resources to investigate or remediate vulnerabilities as a result of data security incidents. Such resources are costly in time and expense, and detract from resources spent on or are otherwise devoted to our core operations. In addition, depending on the nature of an incident, we may not be able to detect an incident readily, assess its severity or impact, or appropriately respond in a timely manner, which could increase our risk and exposures.

The third parties with whom we work are also subject to these same risks, and we are vulnerable if a cyber security attack or other data security incident impacts a third-party vendor or service provider. Such an event could threaten to disrupt our business if the third party’s operations are compromised, or provide attackers an opportunity to exploit that compromise to pivot and attack our systems through the technical and operational relationships that we have with our trusted business partners. While we implement measures to protect against such events (e.g., utilizing secure transmission capabilities with third-party vendors and others with whom we do business when possible), including a formal review and assessment of our third-party providers’ cybersecurity controls, as appropriate, and modifications to our business processes to manage these risks, we cannot assure that our efforts will always be successful.

***Any failure to protect the confidentiality of customer information could adversely affect our reputation or expose us to fines, penalties or litigation, which could have a material adverse effect on our business, financial condition and results of operations.***

We are required to safeguard the confidential personal information of our customers and applicants. We are subject to an increasing number of federal, state, local and international laws and regulations regarding privacy and data security, as well as contractual commitments. These laws and regulations are rapidly evolving, complex, vary significantly from jurisdiction to jurisdiction, and sometimes conflict. In the absence of updated, uniform federal privacy legislation, there is a growing trend in the states in which we operate, to adopt comprehensive privacy legislation that provides consumers with various privacy rights and imposes significant compliance burdens on covered companies. Failure to comply with data security or privacy laws or regulations could subject us to regulatory enforcement actions and fines, penalties, litigation, private rights of action or public statements against us by consumer advocacy groups or others if confidential customer information is misappropriated from our computer systems, those of our vendors or others with whom we do business, or otherwise. Despite the security measures that may be in place, any such systems may be vulnerable to the types of attacks and security incidents described above. Any well-publicized compromise of security could deter people from entering into transactions that involve transmitting confidential information, impart reputational or other harm, and/or have a material adverse effect on our business. Additionally, privacy legislation may make our business partners more reluctant to share information with us that is useful in conducting our business.

#### **Risks Related to Competition and Competitors in the Property and Casualty Insurance Market**

***Intense competition could negatively affect our ability to maintain or increase our profitability, particularly in light of the various competitive, financial, strategic, technological, structural, informational and resource advantages that our competitors have.***

We compete, and will continue to compete, with a large number of companies, including international, national and regional insurers, specialty insurance companies, underwriting agencies and financial services institutions. We also compete with mutual insurance companies, reciprocal and exchange companies that may not have shareholders and may have different profitability targets than publicly or privately owned companies. In recent years, there has been substantial consolidation and convergence among companies in the financial services industry, resulting in increased competition from large, well-capitalized financial services firms. Many of our competitors have greater financial, technical, technological, and operating resources than we do, greater access to data analytics or “big data,” and may be able to offer a wider range of, or more sophisticated, commercial and personal line products. Some of our competitors also have different marketing, advertising and sales strategies than we do and market and sell their products to consumers

directly. In addition, competition in the U.S. property and casualty insurance market has intensified over the past several years. This competition has had, and may continue to have, an adverse impact on our revenues and profitability.

The industry and we are challenged by changing practices caused by the Internet, application-based programs relying on algorithms and computer modeling to underwrite policies and administer claims, and the increased usage of real time comparative rating tools and claims management processes, which have led to greater competition in the insurance business in general, particularly on the basis of price and pressure to reduce coverages to compete on price and to respond to customer requests as quickly as possible.

We also face heightened competition resulting from the entry of new competitors and the introduction of new products by new and existing competitors. Recent entries into the property and casualty marketplace by large technology companies, retail companies, so-called “Insurtech” companies and other non-traditional insurance providers, who aim to leverage their information about technology and direct access to customers, without the burden of legacy systems, access and ability to manipulate “big data,” artificial intelligence, speed in responding to customer requests or other developing opportunities, may increase competition. Increased competition could make it difficult for us to obtain new or retain existing customers. It could also result in increasing our service, administrative, policy acquisition or general expenses as we seek to distinguish our products and services from those of our competitors. In addition, our administrative, technology and management information systems’ expenditures could increase substantially as we try to maintain or improve our competitive position or keep up with evolving technology in order to deliver the same or similar customer or agency experience as those offered by our competitors.

We compete for business not just on the basis of price, but also on the basis of product coverages, reputation, financial strength, quality of service (including claims adjustment service), experience and breadth of product offering. We cannot provide assurance that we will be able to maintain a competitive position in the markets where we operate, or that we will be able to expand our operations into new markets.

### **Risks Related to Financial Strength and Debt Ratings**

*We are rated by several rating agencies, and downgrades to our ratings could adversely affect our operations.*

Our ratings are important in establishing our competitive position and marketing the products of our insurance companies to our agents and customers. Rating information is broadly disseminated and generally used throughout the industry. Many policyholders, particularly larger commercial customers, will not purchase, and many agents will not distribute, products of insurers that do not meet certain financial strength ratings.

Our insurance company subsidiaries are rated by A.M. Best, Moody’s, and Standard & Poor’s. These ratings reflect the rating agency’s opinion of our insurance subsidiaries’ financial strength, operating performance, position in the marketplace, risk management, and ability to meet their obligations to policyholders. These ratings are not evaluations directed to investors, and are not recommendations to buy, sell or hold our securities. Our ratings are subject to periodic review by the rating agencies, and we cannot guarantee the continued retention or improvement of our current ratings. This is particularly true given that rating agencies may change their criteria or increase capital requirements for various rating levels.

A downgrade in one or more of our or any of our subsidiaries’ claims-paying ratings could negatively impact our business and competitive position, particularly in lines where customers require us to maintain minimum ratings. Additionally, a downgrade in one or more of our debt ratings could adversely impact our ability to access the capital markets and other sources of funds, increase the cost of current credit facilities, and/or adversely affect pricing of new debt that we may seek in the capital markets in the future. Our ability to raise capital in the equity markets could also be adversely affected.

*Negative changes in our level of statutory surplus could adversely affect our ratings and profitability.*

The capacity for an insurance company’s growth in premiums is in part a function of its statutory surplus. Maintaining appropriate levels of statutory surplus, as measured by state insurance regulators, is considered important by state insurance regulatory authorities and by rating agencies. As our business grows, or due to other factors, regulators may require that additional capital be retained or contributed to increase the level of statutory surplus. Failure to maintain certain levels of statutory surplus could result in increased regulatory scrutiny, action by state regulatory authorities or a downgrade by private rating agencies. Surplus in our insurance company subsidiaries is affected by, among other things, results of operations and investment gains, losses, impairments, and dividends from each of those companies to its parent company. A number of these factors affecting our level of statutory surplus are, in turn, influenced by factors that are out of our control, including the frequency and severity of catastrophes, changes in policyholder behavior, changes in rating agency models and economic factors, such as changes in equity markets, credit markets or interest rates.

The NAIC uses a system for assessing the adequacy of statutory capital for property and casualty insurers. The system, known as risk-based capital, is in addition to the states’ fixed dollar minimum capital and other requirements. The system is based on risk-based formulas that apply prescribed factors to the various risk elements in an insurer’s business and investments to report a minimum capital requirement proportional to the amount of risk assumed by the insurer. Any failure to maintain appropriate levels of statutory surplus would have an adverse impact on our ability to maintain or grow our business.

**Risks Related to Discontinued Operations**

*We could be subject to additional losses related to the sales of our discontinued FAFLIC and variable life insurance and annuity businesses and our former Chaucer business.*

On January 2, 2009, we sold our remaining life insurance subsidiary, FAFLIC, to Commonwealth Annuity and Life Insurance Company (“Commonwealth Annuity”). Coincident with the sale transaction, Hanover Insurance and FAFLIC entered into a reinsurance contract whereby Hanover Insurance assumed FAFLIC’s discontinued accident and health insurance business. We previously owned Commonwealth Annuity, but sold it in 2005 in conjunction with our disposal of our variable life insurance and annuity business. In connection with these transactions, we have agreed to indemnify Commonwealth Annuity for certain contingent liabilities, including litigation and other regulatory matters.

On December 28, 2018, we sold the majority of our Chaucer business (specifically our U.K.-based Lloyd’s entities) to China Re, with the rest of the Chaucer sale completed in April 2019. In connection with these transactions, we made certain representations and warranties and agreed to indemnify China Re for certain pre-sale contingent liabilities, including tax and litigation matters.

We cannot provide assurance as to what the costs of any indemnifications will be when they ultimately settle.

*We may incur financial losses related to our discontinued assumed accident and health reinsurance pools and arrangements.*

We previously participated, through FAFLIC, in approximately 40 assumed accident and health reinsurance pools and arrangements. The business was retained in the sale of FAFLIC and assumed by Hanover Insurance through a reinsurance agreement. In 1999, prior to the sale of FAFLIC to Commonwealth Annuity, FAFLIC had ceased writing new premiums in this business, subject to certain contractual obligations. We are currently monitoring and managing the run-off of our related participation in the 22 pools with remaining liabilities. See “Item 1 – Business – Discontinued Operations,” for information on the processes and risks associated with reserves established for these businesses.

Our long-term care pool accounts for the majority of our remaining accident and health reinsurance pool business. The potential risk and exposure of our long-term care pool is based upon expected estimated claims and payment patterns, using assumptions for, among other things, morbidity, lapses, future premium rates, the impact of policy inflation protection riders, and the interest rate used for discounting the future projected cash flows. The long-term exposure of this pool depends upon how our actual experience compares with these future cash flow projection assumptions. If any of our assumptions prove to be inaccurate, our reserves may be inadequate, which may have a material adverse effect on our results of operations.

Based on the information provided by the pool managers, we believe that the recorded reserves related to this business are appropriate. However, due to the inherent volatility in this business and the reporting lag of losses that tend to develop over time and which ultimately affect excess covers, as well as uncertainty surrounding both future claim expenses and with future premium rate levels for certain of these businesses, there can be no assurance that current reserves are adequate or that we will not have additional losses in the future.

**Risks Related to Investments, Capital Markets and Economic Conditions**

*Other market fluctuations and general economic, market and political conditions may also negatively affect our business, profitability, investment portfolio, and the market value of our common stock.*

It is difficult to predict the impact of a challenging economic environment on our business. In Commercial Lines, a difficult economy in the past has resulted in reductions in demand for insurance products and services since there are more companies ceasing to do business and there are fewer business start-ups, particularly as businesses are affected by a decline in overall consumer and business spending. Additionally, claims frequency could increase as policyholders submit and pursue claims more aggressively than in the past, fraud incidences may increase, or we may experience higher incidents of abandoned properties or poorer maintenance, which may also result in more claims activity. We have experienced higher workers’ compensation claims as injured employees take longer to return to work, increased surety losses as construction companies experience financial pressures and higher retroactive premium returns as audit results reflect lower payrolls. Our business could also be affected by an ensuing consolidation of independent insurance agencies. Our ability to increase pricing has been impacted as agents and policyholders have been more price sensitive, customers shop for policies more frequently or aggressively, utilize comparative rating models or, in Personal Lines in particular, turn to direct sales channels rather than independent agents. We have experienced decreased new business premium levels, retention and renewal rates, and renewal premiums. Specifically, in Personal Lines, policyholders may reduce coverages or change deductibles to reduce premiums, experience declining home values, or be subject to increased foreclosures, and policyholders may retain older or less expensive automobiles and purchase or insure fewer ancillary items such as boats, trailers and motor homes for which we provide coverages. Additionally, if as a result of a difficult economic environment, drivers continue to eliminate automobile insurance coverage or to reduce their bodily injury limit, we may be exposed to more uninsured and underinsured motorist coverage losses. Conversely, favorable economic conditions may also impact our business and results of operations.

At December 31, 2021, we held approximately \$9.4 billion of investment assets in categories such as fixed maturities, equity securities, other investments, and cash and short-term investments. Our investments are primarily concentrated in the domestic market. Our investment returns, and thus our profitability, statutory surplus and shareholders' equity, may be adversely affected from time to time by conditions affecting our specific investments and, more generally, by bond, stock, real estate and other market fluctuations and general economic, market and political conditions, including the impact of the Pandemic, changing government policies, including monetary policies, and geopolitical risks (which may include the impact of terrorism in various parts of the world or pandemic events). These broader market conditions are out of our control. Our ability to make a profit on insurance products depends in significant part on the returns on investments supporting our obligations under these products, and the value of specific investments may fluctuate substantially depending on the foregoing conditions. We may use a variety of strategies to hedge our exposure to interest and currency rates and other market risks. However, hedging strategies are not always available and carry certain credit risks, and our hedging could be ineffective. Moreover, increased government regulation of certain derivative transactions used to hedge certain market risks has served to prevent (or otherwise substantially increase the cost associated with) hedging such risks.

Additionally, the aggregate performance of our investment portfolio depends, to a significant extent, on the ability of our investment managers to select and manage appropriate investments. As a result, we are also exposed to operational and compliance risks, which may include, but are not limited to, a failure to follow our investment guidelines, technological and staffing deficiencies and inadequate disaster recovery plans. The failure of these investment managers to perform their services in a manner consistent with our expectations and investment objectives could adversely affect our ability to conduct our business.

Debt securities comprise a material portion of our investment portfolio. Although we have an investment strategy that provides for asset diversification, the concentration of our investment portfolio in any one type of investment, industry or geography could have a disproportionately adverse effect on our investment portfolio. The issuers of debt securities, as well as borrowers under the loans we make, customers, trading counterparties, counterparties under swaps and other derivative contracts, banks which have commitments under our various borrowing arrangements, and reinsurers, may be affected by declining market conditions or credit weaknesses. These parties may default on their obligations to us due to lack of liquidity, downturns in the economy or real estate values, operational failure, bankruptcy or other reasons. Future increases in interest rates could result in increased defaults as borrowers are unable to pay the additional borrowing costs on variable rate securities or obtain refinancing. We cannot provide assurance that impairment charges will not be necessary in the future. In addition, evaluation of available-for-sale securities for credit-related impairment losses includes inherent uncertainty and subjective determinations. We cannot be certain that such impairments are adequate as of any stated date. Our ability to fulfill our debt and other obligations could be adversely affected by the default of third parties on their obligations owed to us.

Deterioration in the global financial markets may adversely affect our investment portfolio and have a related impact on our other comprehensive income, shareholders' equity and overall investment performance. Recent economic activity has slowed, although growth continues at a moderate rate, and monetary policies in developed economies currently remain accommodative. However, the effects of geo-political developments and conditions in global financial markets could change rapidly in ways that we cannot anticipate, resulting in additional realized and unrealized losses.

Market conditions also affect the value of assets under our employee pension plans, including our Cash Balance Plan. The expense or benefit related to our employee pension plans results from several factors, including, but not limited to, changes in the market value of plan assets, interest rates, regulatory requirements or judicial interpretation of benefits. At December 31, 2021, our plan assets included approximately 90% of fixed maturities and 10% of equity securities and other assets. Additionally, our qualified plan assets exceeded liabilities by \$19.4 million at December 31, 2021. Declines in the market value of plan assets and lower interest rates from levels at December 31, 2021, among other factors, could impact our funding estimates and negatively affect our results of operations. Deterioration in market conditions, including as a result of the Pandemic, and differences between our assumptions and actual occurrences, and behaviors, could result in a need to fund more into the qualified plan to maintain an appropriate funding level.

Additional uncertainties, which could affect our business prospects and investments include the current U.S. political environment, which is characterized by potentially sharp policy differences that may affect all aspects of the economy.

***We may experience unrealized losses on our investments, especially during a period of heightened volatility, or if assumptions related to our investment valuations are changed, which could have a material adverse effect on our results of operations or financial condition.***

Our investment portfolio and shareholders' equity can be, and in the past have been, significantly impacted by changes in the market values of our securities. U.S. and global financial markets and economies remain uncertain, particularly in light of the Pandemic and inflationary pressures. Market uncertainty could result in unrealized and realized losses in future periods, and adversely affect the liquidity of our investments, which could have a material adverse impact on our results of operations and our financial position. Information with respect to interest rate sensitivity is included in "Quantitative and Qualitative Disclosures" in Management's Discussion and Analysis. Valuation of financial instruments (i.e., Level 1, 2, or 3) include methodologies, estimates, assumptions and judgments that are inherently subjective and open to different interpretations and could result in changes to investment valuations or the ability to receive such valuations on sale. During periods of market disruption, it may be difficult to value certain of our securities



if trading becomes less frequent and/or market data becomes less observable. In addition, in times of financial market disruption, certain asset classes that were in active markets with significant observable data may become illiquid. In those cases, the valuation process includes inputs that are less observable and require more subjectivity and judgment by management. Changes in these subjective methodologies, estimates, assumptions and judgments used to value our investments could also materially affect the valuation of certain investments.

If, following such declines, we are unable to hold our investment assets until they recover in value, or if such asset value never recovers, we would incur impairment losses that would be recognized as realized losses in our results of operations, reduce net income and earnings per share and adversely affect our liquidity and capital position. Impairment determinations, like valuations, are also subjective, and changes to the methodologies, estimates, assumptions and judgments used to determine impairments may affect the timing and amount of impairment losses recognized in our results of operations. Temporary declines in the market value of fixed maturities are recorded as unrealized losses, which do not affect net income and earnings per share, but reduce other comprehensive income, which is reflected on our Consolidated Balance Sheets. We cannot provide assurance that we will not have additional impairment losses and/or unrealized or realized investment losses in the future.

We invest a portion of our portfolio in common stocks, preferred stocks, and limited partnerships. The value of these assets fluctuates with the equity markets. Particularly in times of economic weakness, the market value and liquidity of these assets may decline, and may impact net income, capital and cash flows.

***We are exposed to significant capital market risks related to changes in interest rates, credit spreads, and equity prices, which may adversely affect our results of operations, financial position or cash flows.***

We are exposed to significant capital market risks related to changes in interest rates, credit spreads, and equity prices. Significant declines in equity prices, changes in interest rates, and changes in credit spreads each could have a material adverse effect on our results, financial position or cash flows. Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. Our investment portfolio contains interest rate sensitive instruments, such as fixed income securities, which may be adversely affected by changes in interest rates from governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A rise in market yields would reduce the fair value of our investment portfolio, but it provides the opportunity to earn higher rates of return on funds reinvested. A further decline in interest rates, on the other hand, would increase the fair value of our investment portfolio, but we would earn lower rates of return on reinvested assets. We may be forced to liquidate investments prior to maturity at a loss in order to cover liabilities, and such liquidation could be accelerated in the event of significant loss events, such as catastrophes. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to mitigate the interest rate risk of our assets relative to our liabilities.

Our investment portfolio is invested primarily in high quality, investment-grade fixed income securities. However, we also invest in non-investment-grade high yield fixed income securities and limited partnerships. These securities, which pay a higher rate of interest, also have a higher degree of credit or default risk. These securities may also be less liquid in times of economic weakness or market disruptions. Additionally, reported values of our investments do not necessarily reflect the lowest current market price for the asset, and if we require significant amounts of cash on short notice, we may have difficulty selling our investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both. While we have procedures to monitor the credit risk and liquidity of our invested assets, we expect from time to time, and particularly in periods of economic weakness, to experience default losses in our portfolio. This would result in a corresponding reduction of net income, capital and cash flows.

***Inflationary pressures may negatively impact expenses, reserves and the value of investments.***

Inflationary pressures in the U.S., as a result of the Pandemic, or otherwise, with respect to medical and health care, automobile repair and construction costs, as well as social inflation of litigation costs, jury awards and settlement expectations, all of which are significant components of our indemnity liabilities under policies we issue to our customers, and which could also impact the adequacy of reserves we have set aside for prior accident years, may have a negative effect on our results of operations. Inflationary pressures also cause or contribute to, or are the result of, increases in interest rates, which would reduce the fair value of our investment portfolio.

#### **Risks Related to Capital, Liquidity and Cash Flow**

***We are a holding company and rely on our insurance company subsidiaries for cash flow; we may not be able to receive dividends from our subsidiaries in needed amounts and may be required to provide capital to support their operations.***

We are a holding company for a group of insurance companies, and our principal assets are the shares of capital stock of these subsidiaries. Our ability to make required interest payments on our debt, as well as our ability to pay operating expenses and pay dividends to shareholders, depends upon the receipt of sufficient funds from our subsidiaries. The payment of dividends by our insurance company subsidiaries is subject to regulatory restrictions and will depend on the surplus and future earnings of these subsidiaries, as well as these regulatory restrictions. We are required to notify insurance regulators prior to paying any dividends from our insurance subsidiaries, and pre-approval is required with respect to “extraordinary dividends.”

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Because of the regulatory limitations on the payment of dividends from our insurance company subsidiaries, we may not always be able to receive dividends from these subsidiaries at times and in amounts necessary to meet our debt and other obligations, or to pay dividends to our shareholders. The inability of our subsidiaries to pay dividends to us in an amount sufficient to meet our debt interest and funding obligations would have a material adverse effect on us. These regulatory dividend restrictions also impede our ability to transfer cash and other capital resources among our subsidiaries. Similarly, our insurance subsidiaries may require capital from the holding company to support their operations.

Our dependence on our insurance subsidiaries for cash flow, and their potential need for capital support, exposes us to the risk of changes in their ability to generate sufficient cash inflows from new or existing customers, from inadequate investment returns, or from increased cash outflows. Cash outflows may result from claims activity and expense payments. Because of the nature of our business, claims activity can arise suddenly and in amounts which could outstrip our capital or liquidity resources (particularly in the event of a large catastrophe loss). Reductions in cash flow or capital demands from our subsidiaries could have a material adverse effect on our business and results of operations.

***We may require additional capital or credit in the future, which may not be available or only available on unfavorable terms.***

We monitor our capital adequacy on a regular basis. Our future capital and liquidity requirements depend on many factors, including premiums written, loss reserves and claim payments, investment portfolio composition and risk exposures, the availability of letters and lines of credit, and maturing outstanding debt, as well as regulatory and rating agency capital requirements. In addition, our capital strength can affect our ratings.

To the extent that our existing capital is insufficient or unavailable to fund our future operating requirements and/or cover claim losses, we may need to raise additional funds through financings or limit our growth. Any equity or debt financing, if available, may be on terms that are unfavorable to us. In the case of equity financings, dilution to our shareholders could result and, in any case, such securities may have rights, preferences, and privileges that are senior to our common stock. If we are not able to obtain additional capital as necessary, our business, results of operations and financial condition could be adversely affected.

### **Risks Related to the Pandemic**

***The impact of the COVID-19 Pandemic and related general economic conditions could have a material adverse effect on our results of operations, financial condition or cash flows.***

Circumstances relating to the Pandemic are unprecedented in scope and impact, continue to evolve, and are complex and uncertain. We are still monitoring and assessing the continued impacts of the Pandemic and its future impact on our business, financial condition and results of operations. Prolonged disruptions related to the Pandemic may affect our insureds ability to pay premiums or result in customers reducing or eliminating coverages. In addition, supply chain disruptions, inflation or other difficulties caused by the Pandemic could lead to more costly or lengthy claims resolutions. Significant agent disruption could affect our agent partners and their ability to operate their businesses and place business with us or lead consumers to choose our competitors that offer direct-to-consumer or other solutions. These changes may materially and adversely affect our ability to profitably grow our business or maintain our current premium levels, particularly if these conditions exist for a significant amount of time. Also, it may be more difficult or costly to obtain reinsurance for certain types of coverages or at retention levels appropriate for our business mix.

As a result of the Pandemic and related economic conditions, our investment portfolio has become volatile and yields on our fixed income investments have declined. The severity and length of the Pandemic may continue to have a negative impact on our investment portfolio, investment income, liquidity and capital position, of which the impact could be material.

If the threat of the Pandemic continues, a significant percentage of our workforce may be unable to work, whether because of illness, quarantine, limitations on travel or other government restrictions in connection with the Pandemic, or other disruptions, the quality or timeliness of our services and operations may be negatively impacted. Also, with a large percentage of our workforce working remotely, we are highly reliant on the effective functioning of our business continuity plans and technology, and we are subject to threats and vulnerabilities. We also outsource a variety of functions to third parties, including certain of our administrative operations. As a result, we rely upon the successful ongoing execution of the business continuity plans of such entities in the current environment. While we closely monitor the business continuity activities of these third parties, successful ongoing execution of their business continuity strategies are largely outside our control. If one or more of the third parties to whom we outsource certain critical business activities experience operational impacts, some of which could be significant, from the spread of COVID-19 and governmental reactions thereto or claims that they cannot perform due to a force majeure, it could adversely impact our business, results of operations and/or financial condition.

While we believe that our in-force Commercial Lines policies in large part do not cover business interruption losses related to the Pandemic, legislation has been discussed and introduced in various states and in the U.S. Congress to retroactively amend insurance contracts to provide business interruption coverage, to impose presumptions on insurance policy interpretation, and/or limit policy exclusions for losses allegedly related to the Pandemic. While we believe that many of those proposals, including retroactive legislation changing the terms of an insurance contract, would be unconstitutional and otherwise violative of well-established law, if such changes were to be enacted and upheld, we would be exposed to a significant unfunded liability. On the Federal level, there is

also uncertainty around legislation to address insurance coverages for pandemics prospectively. State regulators may also continue to impose premium refund orders similar to those issued to date that call for premium refunds or credits across multiple lines of business, including both our Commercial and Personal Lines, mandate rate reductions for lines such as personal automobile and commercial automobile coverages due to a decrease in claims frequency as a result of less driving during the Pandemic, and/or mandate additional presumptions of compensability in workers' compensation coverages. The uncertainties related to these various legislative and regulatory matters, and the potential that other such uncertainties will arise in reaction to the Pandemic, could adversely impact our ability to sustain adequate returns in certain lines of business or in some cases operate lines profitably.

**General Risk Factors**

*If we are unable to attract, develop and retain qualified personnel, or if we experience the loss or retirement of key executives or other key employees, particularly those experienced in the property and casualty industry, we may not be able to compete effectively, and our operations could be impacted significantly.*

*Errors or omissions, misconduct or fraud in connection with the administration of any of our insurance or investment management operations may cause our business and profitability to be negatively impacted.*

*Changes in current accounting practices and future pronouncements may require us to incur considerable additional compliance expenses, to retroactively apply new requirements, or to make financial restatements.*

*Failure to design, implement or maintain effective internal control over financial reporting could have a material adverse effect on financial statements, financial reporting, investor confidence, our business and stock price.*

*Our stock price is influenced by our financial performance, industry trends and sentiment and other larger macro-economic factors described above in risk factors related to investments, capital markets and economic conditions that are out of our control. These factors could cause the market price of our common stock to fluctuate, become volatile, and there is no guarantee that it will remain at or exceed current or historical levels.*

**ITEM 1B—UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2—PROPERTIES**

We conduct our business operations primarily in our company-owned facilities in Worcester, Massachusetts and Howell, Michigan. We also lease offices throughout the United States for branch sales, underwriting and claims processing functions, and the operations of acquired subsidiaries.

We believe our facilities are adequate for our present needs in all material respects.

**ITEM 3—LEGAL PROCEEDINGS**

The Company has been named a defendant in various legal proceedings arising in the normal course of business. In addition, the Company is involved, from time to time, in examinations, investigations and proceedings by governmental and self-regulatory agencies. The potential outcome of any such action or regulatory proceedings in which the Company has been named a defendant or the subject of an inquiry, examination or investigation, and its ultimate liability, if any, from such action or regulatory proceedings, is difficult to predict at this time. The ultimate resolutions of such proceedings are not expected to have a material effect on the Company's financial position, although they could have a material effect on the results of operations for a particular quarterly or annual period.

**ITEM 4—MINE SAFETY DISCLOSURES**

Not applicable.



**PART II****ITEM 5—MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****COMMON STOCK AND STOCKHOLDER OWNERSHIP**

Our common stock is traded on the New York Stock Exchange under the symbol “THG”. On February 22, 2022, we had approximately 14,775 shareholders of record and 35,477,124 shares of common stock outstanding. On the same date, the trading price of our common stock was \$139.53 per share.

**DIVIDENDS**

We currently expect that quarterly cash dividends, comparable to the \$0.75 per share dividend we paid in the fourth quarter of 2021, will continue to be paid in the future; however, the payment of future quarterly or special dividends on our common stock will be determined by the Board of Directors from time to time based upon cash available at our holding company, our results of operations and financial condition and such other factors as the Board of Directors considers relevant.

Dividends to shareholders may be funded from dividends paid to us from our subsidiaries. Dividends from insurance subsidiaries are subject to restrictions imposed by state insurance laws and regulations. See “Liquidity and Capital Resources” in Management’s Discussion and Analysis and Note 11 – “Dividend Restrictions” in the Notes to Consolidated Financial Statements.

**ISSUER PURCHASES OF EQUITY SECURITIES**

The Board of Directors has authorized a stock repurchase program which provides for aggregate repurchases of our common stock of up to \$1.3 billion. Under the repurchase authorization, we may repurchase, from time to time, common stock in amounts, at prices and at such times as we deem appropriate, subject to market conditions and other considerations. Repurchases may be executed using open market purchases, privately negotiated transactions, accelerated repurchase programs or other transactions. We are not required to purchase any specific number of shares or to make purchases by any certain date under this program. On October 29, 2020, pursuant to the terms of an accelerated share repurchase (“ASR”) agreement, we paid \$100.0 million in exchange for shares of our common stock. We received an initial share delivery, of approximately 0.8 million shares of common stock, which was approximately 80% of the total number of shares expected to be repurchased. On January 29, 2021, we received approximately 45,000 shares of our common stock as final settlement of shares repurchased under this ASR agreement. In addition to the shares received under the ASR agreement, during 2021, we repurchased approximately 1.2 million shares, at an aggregate cost of \$162.6 million. As of December 31, 2021, we had repurchased 7.7 million shares under this \$1.3 billion program and had approximately \$361 million available for additional repurchases.

Shares purchased in the fourth quarter of 2021 were as follows:

PERIOD	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (in millions)
October 1 - 31, 2021 <sup>(1)</sup>	75,524	\$ 133.28	75,022	\$ 371
November 1 - 30, 2021 <sup>(1)</sup>	78,772	127.31	78,536	361
December 1 - 31, 2021 <sup>(1)</sup>	274	127.28	—	361
Total	<u>154,570</u>	<u>\$ 130.23</u>	<u>153,558</u>	<u>\$ 361</u>

- (1) Includes 502, 236 and 274 shares withheld to satisfy tax withholding amounts due from employees related to the receipt of stock which resulted from the exercise or vesting of equity awards for the months ended October 31, November 30 and December 31, 2021, respectively.

**ITEM 6—RESERVED**

**ITEM 7—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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## INTRODUCTION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist readers in understanding the consolidated results of operations and financial condition of The Hanover Insurance Group, Inc. and its subsidiaries ("THG"). Consolidated results of operations and financial condition are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). This discussion should be read in conjunction with the Consolidated Financial Statements and related footnotes included elsewhere herein.

Results of operations include the accounts of The Hanover Insurance Company ("Hanover Insurance") and Citizens Insurance Company of America ("Citizens"), our principal property and casualty companies, and certain other insurance and non-insurance subsidiaries. Our results of operations also include the results of our discontinued operations, consisting primarily of our former accident and health and life insurance businesses.

## EXECUTIVE OVERVIEW

Business operations consist of three operating segments: Commercial Lines, Personal Lines and Other.

Our strategy, which focuses on the independent agency distribution channel, supports THG's commitment to our select independent agents. It is designed to generate profitable growth by leveraging the strengths of our distribution approach, including expansion of our agency footprint in underpenetrated geographies, as warranted. As part of that strategy, we have increased our capabilities in specialty markets and made investments designed to develop growth solutions for our agency distribution channel and meet the needs of our customers. Our goal is to grow responsibly in all of our businesses, while managing volatility.

The global pandemic ("Pandemic") has significantly impacted the U.S. and global financial markets and economies since March 2020. Circumstances relating to the Pandemic are unprecedented in scope and impact, continue to evolve, are complex and uncertain, and are outside our control. Our investment portfolio was affected by the deterioration in investment markets during March 2020, as well as volatility in the subsequent months. In addition, we experienced both favorable and adverse effects from the Pandemic on our underwriting results and operations, as well as our financial condition, during the period from March 2020 through December 2021. Several uncertainties persist related to the Pandemic, including, among others, return to work initiatives, virus variants, vaccination rates, driving patterns, court caseloads and backlogs, and inflationary pressures. We continue to believe that the Pandemic's impacts on our near-term results should be manageable. However, the severity, duration and long-term impacts of the Pandemic may affect the property and casualty insurance industry, our business, and our financial results over the intermediate and long-term. (See "Contingencies and Regulatory Matters" and "Item 1A – Risk Factors" for further discussion).

Net income was \$418.7 million in 2021, compared to \$358.7 million in 2020, an increase of \$60.0 million, primarily due to changes in the fair value of equity securities and, to a lesser extent, \$26.3 million of impairments on fixed income securities in the prior year that did not recur in 2021, partially offset by lower operating income.

Operating income before interest expense and income taxes (a non-GAAP financial measure; see also "Results of Operations – Consolidated – Non-GAAP Financial Measures") was \$432.3 million in 2021 compared to \$484.7 million in 2020, a decrease of \$52.4 million. This decrease was primarily due to higher catastrophe losses and higher Personal Lines non-catastrophe losses, partially offset by higher net investment income, earned premium growth, and net favorable development on prior years' loss and loss adjustment expense ("LAE") reserves ("prior years' loss reserves"). The higher Personal Lines non-catastrophe losses were primarily due to higher personal automobile losses, attributable to higher loss severity and frequency, though 2021 loss frequency remains below pre-Pandemic levels.

Pre-tax catastrophe losses were \$402.6 million in 2021, compared to \$286.7 million in 2020. The increase of \$115.9 million was primarily due to hurricane Ida and several wind events and hailstorms in the Midwest during the third quarter of 2021 and the freeze events in Texas and surrounding states during the first quarter of 2021. Net favorable development on prior years' loss reserves was \$56.1 million in 2021, compared to \$15.5 million in 2020, an increase of \$40.6 million.

### Commercial Lines

Our account-focused approach to the small commercial market, distinctiveness in the middle market, and continued development of specialty lines provides us with a diversified portfolio of products and delivers significant value to agents and policyholders. We continue to pursue our core strategy of developing strong relationships with agents, enhanced franchise value through selective distribution, distinctive products and coverages, and through continued investment in industry specialization. Net premiums written increased 9.2% in 2021 compared to 2020, primarily due to increased exposures and rate increases, following the reduction in insured business activity in 2020 as a result of the Pandemic.

Underwriting results declined in 2021, primarily due to higher catastrophe losses, partially offset by earned premium growth, favorable development of prior years' loss reserves, and lower expenses. The competitive nature of the Commercial Lines market requires us to be highly disciplined in our underwriting process to ensure that we write business at acceptable margins, and we continue to seek rate increases across many lines of business.

## Personal Lines

Personal Lines focuses on working with high quality, value-oriented agencies that deliver consultative selling to customers and stress the importance of account rounding (the conversion of single policy customers to accounts with multiple policies and/or additional coverages, to address customers' broader objectives). Approximately 87% of our policies in force have been issued to customers with multiple policies and/or coverages with us. We are focused on seeking profitable growth opportunities, building a distinctive position in the market in order to meet our customers' needs and diversifying geographically. We continue to seek appropriate rate increases that meet or exceed underlying loss cost trends, subject to regulatory and competitive considerations.

Net premiums written increased 7.7% in 2021, compared to the same period in 2020, which includes a return of approximately \$30 million of premiums in 2020 to our eligible personal automobile customers in all our markets, providing financial relief during the Pandemic. Excluding the impact of the premium refund, net premiums written grew by 6.0%, primarily due to increased new business, retention and, to a lesser extent, renewal rate increases. Underwriting results declined in 2021, primarily due to higher non-catastrophe losses, catastrophe losses, and expenses, partially offset by favorable development of prior years' loss reserves and earned premium growth. The higher expenses were primarily due to the absence in 2021 of a non-recurring premium tax benefit of \$13.8 million from a Michigan refund related to tax years 2014 through 2016 that was received in 2020.

## DESCRIPTION OF OPERATING SEGMENTS

Primary business operations include insurance products and services currently provided through three operating segments: Commercial Lines, Personal Lines and Other. Commercial Lines includes commercial multiple peril, commercial automobile, workers' compensation, and other commercial coverages, such as management and professional liability, marine, Hanover Programs, specialty industrial and commercial property, monoline general liability and surety. Personal Lines includes personal automobile, homeowners, and other personal coverages, such as umbrella. Included in the "Other" segment are Opus Investment Management, Inc., which markets investment management services to institutions, pension funds, and other organizations; earnings on holding company assets; holding company and other expenses, including certain costs associated with retirement benefits due to our former life insurance employees and agents; and a run-off voluntary property and casualty pools business. We present the separate financial information of each segment consistent with the manner in which our chief operating decision maker evaluates results in deciding how to allocate resources and in assessing performance.

We report interest expense on debt separately from the earnings of our operating segments. This consists of interest on our senior and subordinated debentures.

## RESULTS OF OPERATIONS – CONSOLIDATED

### 2021 Compared to 2020

Consolidated net income was \$418.7 million in 2021, compared to \$358.7 million in 2020, an increase of \$60.0 million. The year over year comparison of consolidated net income reflects an increase in after-tax net realized and unrealized investment gains of \$88.5 million, principally related to changes in the fair value of equity securities. This was partially offset by a decrease in operating income before interest expense and income taxes of \$52.4 million. The decrease in operating income before interest expense and income taxes was primarily due to higher catastrophe losses and increased Personal Lines non-catastrophe current accident year losses, partially offset by higher net investment income, earned premium growth, and net favorable development on prior years' loss reserves.

### 2020 Compared to 2019

Consolidated net income was \$358.7 million in 2020, compared to \$425.1 million in 2019, a decrease of \$66.4 million. The year over year comparison of consolidated net income reflects a decrease in after-tax net realized and unrealized investment gains of \$82.5 million, principally related to changes in the fair value of equity securities. This was partially offset by an increase in operating income before interest expense and income taxes of \$31.1 million, primarily due to lower non-catastrophe current accident year losses, primarily in our personal and commercial automobile lines, and favorable development on prior years' loss reserves, partially offset by higher catastrophe losses and, to a lesser extent, lower net investment income.

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The following table reflects operating income (loss) before interest expense and income taxes for each operating segment and a reconciliation to consolidated net income from operating income before interest expense and income taxes (a non-GAAP measure).

YEARS ENDED DECEMBER 31	2021	2020	2019
<i>(in millions)</i>			
Operating income (loss) before interest expense and income taxes:			
Commercial Lines	\$ 269.9	\$ 275.4	\$ 300.1
Personal Lines	158.5	212.5	144.9
Other	3.9	(3.2)	8.6
Operating income before interest expense and income taxes	432.3	484.7	453.6
Interest expense on debt	(34.0)	(37.1)	(37.5)
Operating income before income taxes	398.3	447.6	416.1
Income tax expense on operating income	(80.0)	(92.6)	(84.5)
Operating income	318.3	355.0	331.6
Non-operating items:			
Net realized and unrealized investment gains	123.0	5.0	109.4
Net loss from repayment of debt	—	(6.2)	—
Other	—	(1.6)	(3.4)
Income tax benefit (expense) on non-operating items	(21.3)	9.8	(8.6)
Income from continuing operations, net of taxes	420.0	362.0	429.0
Discontinued operations (net of taxes):			
Income from Chaucer business	1.2	0.4	0.4
Loss from discontinued life businesses	(2.5)	(3.7)	(4.3)
Net income	\$ 418.7	\$ 358.7	\$ 425.1

#### Non-GAAP Financial Measures

In addition to consolidated net income, discussed above, we assess our financial performance based upon pre-tax “operating income,” and we assess the operating performance of each of our three operating segments based upon the pre-tax operating income (loss) generated by each segment. As reflected in the table above, operating income before interest expense and income taxes excludes interest expense on debt and certain other items, which we believe are not indicative of our core operations, such as net realized and unrealized investment gains and losses. Such gains and losses are excluded since they are determined by interest rates, financial markets and the timing of sales. Also, operating income before interest expense and income taxes excludes net gains and losses on disposals of businesses, gains and losses related to the repayment of debt, discontinued operations, costs to acquire businesses, restructuring costs, the cumulative effect of accounting changes and certain other items. Although the items excluded from operating income before interest expense and income taxes are important components in understanding and assessing our overall financial performance, we believe a discussion of operating income before interest expense and income taxes enhances an investor’s understanding of our results of operations by highlighting net income attributable to the core operations of the business. However, operating income before interest expense and income taxes, which is a non-GAAP measure, should not be construed as a substitute for income before income taxes or income from continuing operations, and operating income should not be construed as a substitute for net income.

Catastrophe losses and prior years’ reserve development are significant components in understanding and assessing the financial performance of our business. Management reviews and evaluates catastrophes and prior years’ reserve development separately from the other components of earnings. References to “current accident year underwriting results” exclude prior accident year reserve development, and may also be presented, “excluding catastrophes.” Prior years’ reserve development and catastrophes are not predictable as to timing or the amount that will affect the results of our operations and have an effect on each year’s operating and net income. Management believes that providing certain financial metrics and trends excluding the effects of catastrophes and prior years’ reserve development helps investors to understand the variability in periodic earnings and to evaluate the underlying performance of our operations. Discussion of catastrophe losses in this Management’s Discussion and Analysis includes development on prior years’ catastrophe reserves and, unless otherwise indicated, such development is excluded from discussions of prior year loss and LAE reserve development.

## RESULTS OF OPERATIONS - SEGMENTS

The following is our discussion and analysis of the results of operations by business segment. The operating results are presented before interest expense, income taxes and other items which management believes are not indicative of our core operations, including realized gains and losses, as well as unrealized gains and losses on equity securities, and the results of discontinued operations.

The following table summarizes the results of operations for the periods indicated:

YEARS ENDED DECEMBER 31	2021	2020	2019
<i>(in millions)</i>			
Operating revenues			
Net premiums written	\$ 4,993.4	\$ 4,598.5	\$ 4,581.7
Net premiums earned	\$ 4,770.2	\$ 4,527.4	\$ 4,474.5
Net investment income	310.7	265.1	281.3
Other income	23.9	27.3	25.5
Total operating revenues	5,104.8	4,819.8	4,781.3
Losses and operating expenses			
Losses and LAE	3,134.2	2,844.5	2,864.6
Amortization of deferred acquisition costs	982.7	951.0	926.7
Other operating expenses	555.6	539.6	536.4
Total losses and operating expenses	4,672.5	4,335.1	4,327.7
Operating income before interest expense and income taxes	\$ 432.3	\$ 484.7	\$ 453.6

### 2021 Compared to 2020

Operating income before interest expense and income taxes was \$432.3 million for the year ended December 31, 2021, compared to \$484.7 million for the year ended December 31, 2020, a decrease of \$52.4 million. This decrease was primarily due to higher catastrophe losses and increased Personal Lines non-catastrophe current accident year losses, partially offset by higher net investment income, earned premium growth, and net favorable development on prior years' loss reserves. The higher Personal Lines non-catastrophe current accident year losses were primarily due to higher personal automobile losses, attributable to higher loss severity and frequency, though 2021 loss frequency remains below pre-Pandemic levels.

Net premiums written increased by \$394.9 million for the year ended December 31, 2021, compared to the year ended December 31, 2020, primarily due to pricing increases, a reduction in insured business activity in 2020, and the aforementioned 2020 premium refund.

### 2020 Compared to 2019

Operating income before interest expense and income taxes was \$484.7 million for the year ended December 31, 2020, compared to \$453.6 million for the year ended December 31, 2019, an increase of \$31.1 million. This increase was primarily due to lower non-catastrophe current accident year losses primarily in our personal and commercial automobile lines, and favorable development on prior years' loss reserves, partially offset by higher catastrophe losses and lower net investment income. The lower non-catastrophe current accident year losses reflect a reduced level of economic activity as a result of the Pandemic. The increase in catastrophe losses was primarily due to higher property damages related to riots and civil unrest in several major cities across the country, hurricane Isaias, wildfires on the West Coast, and wind and hailstorms in the Midwest and Southeast.

Net premiums written increased by \$16.8 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. Premiums grew during 2020 in both our Commercial and Personal Lines segments, partially offset by the personal automobile premium refund of approximately \$30 million in the second quarter of 2020.

# PRODUCTION AND UNDERWRITING RESULTS

The following table summarizes premiums written on a gross and net basis, net premiums earned and loss (including catastrophe losses), LAE, expense and combined ratios for the Commercial Lines and Personal Lines segments. Loss, LAE, catastrophe loss and combined ratios shown below include prior year reserve development. These items were not meaningful for our Other segment.

	YEAR ENDED DECEMBER 31, 2021						
<i>(dollars in millions)</i>	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
Commercial Lines	\$ 3,448.9	\$ 2,983.7	\$ 2,840.8	8.0	63.8	33.8	97.6
Personal Lines	1,895.4	2,009.7	1,929.4	9.1	68.5	27.7	96.2
Total	\$ 5,344.3	\$ 4,993.4	\$ 4,770.2	8.4	65.7	31.3	97.0

	YEAR ENDED DECEMBER 31, 2020						
<i>(dollars in millions)</i>	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
Commercial Lines	\$ 3,201.0	\$ 2,733.1	\$ 2,683.3	4.9	61.4	34.4	95.8
Personal Lines	1,953.5	1,865.4	1,844.1	8.4	64.7	27.7	92.4
Total	\$ 5,154.5	\$ 4,598.5	\$ 4,527.4	6.3	62.8	31.6	94.4

	YEAR ENDED DECEMBER 31, 2019						
<i>(dollars in millions)</i>	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Catastrophe Loss Ratios	Loss & LAE Ratios	Expense Ratios	Combined Ratios
Commercial Lines	\$ 3,127.3	\$ 2,707.2	\$ 2,654.2	3.1	60.6	34.6	95.2
Personal Lines	1,991.2	1,874.5	1,820.3	4.7	68.9	27.4	96.3
Total	\$ 5,118.5	\$ 4,581.7	\$ 4,474.5	3.8	64.0	31.6	95.6

The following tables summarize net premiums written, and loss and LAE and catastrophe loss ratios by line of business for the Commercial Lines and Personal Lines segments. Loss and LAE and catastrophe loss ratios include prior year reserve development.

	YEAR ENDED DECEMBER 31, 2021		
<i>(dollars in millions)</i>	Net Premiums Written	Loss & LAE Ratios	Catastrophe Loss Ratios
Commercial Lines:			
Commercial multiple peril	\$ 978.6	76.2	17.5
Commercial automobile	349.0	64.4	0.4
Workers' compensation	354.7	52.9	—
Other commercial	1,301.4	56.8	5.0
Total Commercial Lines	2,983.7	63.8	8.0
Personal Lines:			
Personal automobile	1,230.4	66.0	1.6
Homeowners	704.1	75.5	23.1
Other personal	75.2	43.9	2.7
Total Personal Lines	2,009.7	68.5	9.1
Total	\$ 4,993.4	65.7	8.4

	YEAR ENDED DECEMBER 31, 2020		
<i>(dollars in millions)</i>	Net Premiums Written	Loss & LAE Ratios	Catastrophe Loss Ratios
Commercial Lines:			
Commercial multiple peril	\$ 921.7	68.6	9.3
Commercial automobile	336.0	69.0	0.6
Workers' compensation	320.3	49.5	—
Other commercial	1,155.1	56.6	4.1
Total Commercial Lines	2,733.1	61.4	4.9
Personal Lines:			
Personal automobile	1,151.5	62.7	1.0
Homeowners	653.4	71.1	22.1
Other personal	60.5	31.6	2.5
Total Personal Lines	1,865.4	64.7	8.4
Total	\$ 4,598.5	62.8	6.3

	YEAR ENDED DECEMBER 31, 2019		
<i>(dollars in millions)</i>	Net Premiums Written	Loss & LAE Ratios	Catastrophe Loss Ratios
Commercial Lines:			
Commercial multiple peril	\$ 909.4	63.0	7.5
Commercial automobile	336.1	71.9	0.4
Workers' compensation	334.6	50.7	—
Other commercial	1,127.1	58.3	1.4
Total Commercial Lines	2,707.2	60.6	3.1
Personal Lines:			
Personal automobile	1,186.1	74.0	0.5
Homeowners	636.9	61.5	12.8
Other personal	51.5	41.5	2.8
Total Personal Lines	1,874.5	68.9	4.7
Total	\$ 4,581.7	64.0	3.8

The following tables summarize GAAP underwriting results for the Commercial Lines, Personal Lines and Other segments and reconciles them to operating income (loss) before interest expense and income taxes.

	YEAR ENDED DECEMBER 31, 2021			
<i>(in millions)</i>	Commercial Lines	Personal Lines	Other	Total
Underwriting profit, excluding prior year reserve development and catastrophes	\$ 255.2	\$ 217.3	\$ —	\$ 472.5
Prior year favorable (unfavorable) loss and LAE reserve development on non-catastrophe losses	34.0	23.1	(1.0)	56.1
Prior year favorable catastrophe development	12.0	3.0	—	15.0
Current year catastrophe losses	(239.3)	(178.3)	—	(417.6)
Underwriting profit (loss)	61.9	65.1	(1.0)	126.0
Net investment income	209.4	89.4	11.9	310.7
Fees and other income	9.7	9.7	4.5	23.9
Other operating expenses	(11.1)	(5.7)	(11.5)	(28.3)
Operating income before interest expense and income taxes	\$ 269.9	\$ 158.5	\$ 3.9	\$ 432.3



	YEAR ENDED DECEMBER 31, 2020			
<i>(in millions)</i>	Commercial Lines	Personal Lines	Other	Total
Underwriting profit (loss), excluding prior year reserve development and catastrophes	\$ 219.5	\$ 286.7	\$ (0.1)	\$ 506.1
Prior year favorable (unfavorable) loss and LAE reserve development on non-catastrophe losses	19.0	0.7	(4.2)	15.5
Prior year favorable (unfavorable) catastrophe development	18.8	(1.7)	—	17.1
Current year catastrophe losses	(151.0)	(152.8)	—	(303.8)
Underwriting profit (loss)	106.3	132.9	(4.3)	234.9
Net investment income	175.3	76.7	13.1	265.1
Fees and other income	9.7	10.6	7.0	27.3
Other operating expenses	(15.9)	(7.7)	(19.0)	(42.6)
Operating income (loss) before interest expense and income taxes	<u>\$ 275.4</u>	<u>\$ 212.5</u>	<u>\$ (3.2)</u>	<u>\$ 484.7</u>

	YEAR ENDED DECEMBER 31, 2019			
<i>(in millions)</i>	Commercial Lines	Personal Lines	Other	Total
Underwriting profit (loss), excluding prior year reserve development and catastrophes	\$ 176.0	\$ 171.8	\$ (0.1)	\$ 347.7
Prior year favorable (unfavorable) loss and LAE reserve development on non-catastrophe losses	28.7	(26.6)	(1.2)	0.9
Prior year favorable catastrophe development	24.6	2.9	—	27.5
Current year catastrophe losses	(107.8)	(89.0)	—	(196.8)
Underwriting profit (loss)	121.5	59.1	(1.3)	179.3
Net investment income	180.1	80.1	21.1	281.3
Fees and other income	9.2	11.4	4.9	25.5
Other operating expenses	(10.7)	(5.7)	(16.1)	(32.5)
Operating income before interest expense and income taxes	<u>\$ 300.1</u>	<u>\$ 144.9</u>	<u>\$ 8.6</u>	<u>\$ 453.6</u>

#### 2021 Compared to 2020

##### Commercial Lines

Commercial Lines net premiums written were \$2,983.7 million for the year ended December 31, 2021, compared to \$2,733.1 million for the year ended December 31, 2020. This \$250.6 million increase was primarily driven by increased exposures and rate increases following the reduction in insured business activity in 2020, as a result of the Pandemic.

Commercial Lines underwriting profit for the year ended December 31, 2021 was \$61.9 million, compared to \$106.3 million for the year ended December 31, 2020, a decrease of \$44.4 million. Catastrophe losses for the year ended December 31, 2021 were \$227.3 million, compared to \$132.2 million for the year ended December 31, 2020. The \$95.1 million increase was primarily due to freeze events in Texas and surrounding states associated with record low temperatures in the first quarter of 2021 and hurricane Ida and several wind and hailstorms in the Midwest in the third quarter of 2021. Favorable development on prior years' loss reserves, excluding catastrophes, for the year ended December 31, 2021 was \$34.0 million, compared to \$19.0 million for the year ended December 31, 2020, an increase of \$15.0 million.

Commercial Lines current accident year underwriting profit, excluding catastrophes, was \$255.2 million for the year ended December 31, 2021, compared to \$219.5 million for the year ended December 31, 2020, an increase of \$35.7 million, primarily due to earned premium growth and lower expenses. Within non-catastrophe current accident year losses, lower loss activity in our miscellaneous property, inland marine and surety lines was partially offset by higher loss activity in our commercial multiple peril and specialty industrial lines.

We continue to manage underwriting performance through increased rates, pricing segmentation, specific underwriting actions and targeted new business growth. Our ability to achieve overall rate increases is affected by many factors, including regulatory activity and the current competitive pricing environment, particularly within the workers' compensation line. Due to uncertainty caused by the Pandemic, there is a level of uncertainty in our ability to grow our business, and to maintain or improve our underwriting profitability in this environment. The extent and duration of the Pandemic's future disruption to our businesses are unknown and may result in continued moderation in claims volumes, due to periodic disruptions in business activity, and in corresponding premium levels.

**Personal Lines**

Personal Lines net premiums written were \$2,009.7 million for the year ended December 31, 2021, compared to \$1,865.4 million for the year ended December 31, 2020, an increase of \$144.3 million. During the second quarter of 2020, we returned approximately \$30 million of automobile premiums to our eligible Personal Lines customers in all our markets, providing financial relief during the Pandemic. In addition, net premiums written grew due to increased new business, retention and, to a lesser extent, renewal rate increases.

Net premiums written in the personal automobile line of business for the year ended December 31, 2021 were \$1,230.4 million, compared to \$1,151.5 million for the year ended December 31, 2020, an increase of \$78.9 million. Personal automobile policies in force increased by 6.1%. Net premiums written in the homeowners line of business for the year ended December 31, 2021 were \$704.1 million, compared to \$653.4 million for the year ended December 31, 2020, an increase of \$50.7 million. Homeowners policies in force increased by 6.0%.

Personal Lines underwriting profit for the year ended December 31, 2021 was \$65.1 million, compared to \$132.9 million for the year ended December 31, 2020, a decrease of \$67.8 million. Catastrophe losses for the year ended December 31, 2021 were \$175.3 million, compared to \$154.5 million for the year ended December 31, 2020. The increase of \$20.8 million was primarily due to several wind and hailstorms throughout the Midwest and hurricane Ida during the third quarter of 2021. Favorable development on prior years' loss reserves for the year ended December 31, 2021 was \$23.1 million, compared to \$0.7 million for the year ended December 31, 2020, an increase of \$22.4 million.

Personal Lines current accident year underwriting profit, excluding catastrophes, was \$217.3 million in the year ended December 31, 2021, compared to \$286.7 million for the year ended December 31, 2020. This \$69.4 million decrease was primarily due to higher current accident year losses and higher expenses, primarily due to a 2020 non-recurring premium tax benefit, partially offset by earned premium growth. The higher current accident year losses in 2021 were attributable to higher personal automobile loss severity and frequency, though 2021 loss frequency remains below pre-Pandemic levels. In addition, there were increased weather-related losses in the homeowners line in 2021.

We have been able to obtain rate increases in our Personal Lines markets and believe that our ability to obtain increases will continue over the longer term. Our ability to maintain Personal Lines net premiums written may be affected, however, by price competition, and regulatory and legal activity, economic conditions and other developments. See "Contingencies and Regulatory Matters." Additionally, these factors, along with weather-related loss volatility, may also affect our ability to maintain and improve underwriting results. We monitor these trends and consider them in our rate actions. Due to uncertainty caused by the Pandemic, there is a level of uncertainty in our ability to retain or grow our business, and to maintain or improve our underwriting profitability in this environment.

**Other**

Our Other segment had operating income of \$3.9 million for the year ended December 31, 2021, compared to an operating loss of \$3.2 million for the year ended December 31, 2020, a favorable change of \$7.1 million. This improvement was primarily due to lower charitable contributions in 2021, compared to the elevated level in 2020. In addition, prior year's results included a \$3.3 million reserve increase, based on the receipt of an updated third-party actuarial study for the legacy Excess and Casualty Reinsurance Association ("ECRA") pool.

*2020 Compared to 2019***Commercial Lines**

Commercial Lines net premiums written were \$2,733.1 million for the year ended December 31, 2020, compared to \$2,707.2 million for the year ended December 31, 2019, an increase of \$25.9 million. The modest premium growth during 2020 reflects a reduction of insured business activity as a result of the Pandemic.

Commercial Lines underwriting profit for the year ended December 31, 2020 was \$106.3 million, compared to \$121.5 million for the year ended December 31, 2019, a decrease of \$15.2 million. Catastrophe-related losses for the year ended December 31, 2020 were \$132.2 million, compared to \$83.2 million for the year ended December 31, 2019, an increase of \$49.0 million. Favorable development on prior years' loss reserves, excluding catastrophes, for the year ended December 31, 2020 was \$19.0 million, compared to \$28.7 million for the year ended December 31, 2019, a decrease of \$9.7 million.

Commercial Lines current accident year underwriting profit, excluding catastrophes, was \$219.5 million for the year ended December 31, 2020, compared to \$176.0 million for the year ended December 31, 2019. This \$43.5 million increase was primarily due to lower non-catastrophe current accident year losses. The lower current year non-catastrophe losses were primarily due to lower large loss activity in our specialty industrial property and marine lines, and lower losses in our commercial automobile line, partially offset by reserve provisions for exposures due to the Pandemic and to higher property losses in our commercial multiple peril line. The reserve provisions for exposures due to the Pandemic of approximately \$19 million were primarily reflected in our workers' compensation, healthcare, commercial multiple peril, management and professional liability, and surety lines. The lower non-catastrophe current accident year losses reflect a reduced level of economic activity as a result of the Pandemic.

**Personal Lines**

Personal Lines net premiums written were \$1,865.4 million for the year ended December 31, 2020, compared to \$1,874.5 million for the year ended December 31, 2019, a decrease of \$9.1 million. During the second quarter of 2020, we returned approximately \$30 million of premiums to our eligible Personal Lines automobile customers in all markets, providing financial relief during the Pandemic. Excluding the impact of the premium refund, net premiums written would have increased 1.1%.

Net premiums written in the personal automobile line of business for the year ended December 31, 2020 were \$1,151.5 million, compared to \$1,186.1 million for the year ended December 31, 2019, a decrease of \$34.6 million. This decrease was primarily due to the aforementioned premium refund of approximately \$30 million and a decrease in policies in force of 2.8%. Net premiums written in the homeowners line of business for the year ended December 31, 2020 were \$653.4 million, compared to \$636.9 million for the year ended December 31, 2019, an increase of \$16.5 million. This increase was primarily driven by pricing increases, partially offset by a 1.1% decrease in policies in force.

Personal Lines underwriting profit for the year ended December 31, 2020 was \$132.9 million, compared to \$59.1 million for the year ended December 31, 2019, an increase of \$73.8 million. Catastrophe losses for the year ended December 31, 2020 were \$154.5 million, compared to \$86.1 million for the year ended December 31, 2019, an increase of \$68.4 million. Favorable development on prior years' loss reserves for the year ended December 31, 2020 was \$0.7 million, compared to unfavorable development of \$26.6 million for the year ended December 31, 2019, a favorable change of \$27.3 million.

Personal Lines current accident year underwriting profit, excluding catastrophes, was \$286.7 million in the year ended December 31, 2020, compared to \$171.8 million for the year ended December 31, 2019. This \$114.9 million increase was primarily due to lower current accident year losses in our personal automobile line, and, to a lesser extent, a non-recurring premium tax benefit. Personal automobile losses were lower due to fewer accidents and decreased claim activity resulting from fewer miles driven as a result of the Pandemic.

**Other**

Other operating losses were \$3.2 million for the year ended December 31, 2020, compared to other operating income of \$8.6 million for the year ended December 31, 2019, a decrease of \$11.8 million. This was primarily due to lower net investment income as a result of the deployment of proceeds in 2019 from the sale of our former Chaucer business, as well as increased charitable contributions in 2020.

**RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES****Overview of Loss Reserve Estimation Process**

We maintain reserves for our insurance products to provide for our ultimate liability for losses and loss adjustment expenses (our "loss reserves") with respect to reported and unreported claims incurred as of the end of each accounting period. These reserves are estimates, taking into account past loss experience, modified for current trends, as well as prevailing economic, legal and social conditions. Loss reserves represent our largest liability.

Management's process for establishing loss reserves is a comprehensive process that involves input from multiple functions throughout our organization, including actuarial, finance, claims, legal, underwriting, distribution, and business operations management. The process incorporates facts currently known, as well as the current, and in some cases, the anticipated, state of the law and coverage litigation. Based on information currently available, we believe that the aggregate loss reserves at December 31, 2021 were adequate to cover claims for losses that had occurred as of that date, including both those known to us and those yet to be reported. However, as described below, there are significant uncertainties inherent in the loss reserving process. Our estimate of the ultimate liability for losses that had occurred as of December 31, 2021 is expected to change in future periods as we obtain further information, and such changes could have a material effect on our results of operations and financial position.

Our loss reserves include case estimates for claims that have been reported and estimates for claims that have been incurred but not reported ("IBNR") at the balance sheet date. They also include estimates of the expenses associated with processing and settling all reported and unreported claims, less estimates of anticipated salvage and subrogation recoveries. Our loss reserves are not discounted to present value.

Case reserves are established by our claim personnel individually on a claim by claim basis and based on information specific to the occurrence and terms of the underlying policy. For some classes of business, average case reserves are used initially. Case reserves are periodically reviewed and modified based on new or additional information pertaining to the claim.

Our ultimate IBNR reserves are estimated by management and our reserving actuaries on an aggregate basis for each line of business or coverage for loss and loss expense liabilities not reflected within the case reserves. The sum of the case reserves and the IBNR reserves represents our estimate of total unpaid losses and loss adjustment expenses.

We regularly review our loss reserves using a variety of industry accepted analytical techniques. We update the loss reserves as historical loss experience develops, additional claims are reported and resolved, and new information becomes available. Net changes in loss reserves are reflected in operating results in the period in which the reserves are changed.

The IBNR reserve includes a provision for claims that have occurred but have not yet been reported to us, some of which may not yet be known to the insured, as well as a provision for future development on reported claims. IBNR represents a significant proportion of our total net loss reserves, particularly for long-tail liability classes. In fact, approximately 51% of our aggregate net loss reserves at December 31, 2021 were for IBNR losses and loss expenses.

### **Critical Judgments and Key Assumptions**

We determine the amount of our net loss reserves (i.e., net of estimated reinsurance recoverables) based on an estimation process that is complex and considers information from both company specific and industry data, as well as general economic and other information. The estimation process utilizes a combination of objective and subjective information, the blending of which requires significant professional judgment. There are various assumptions required, including future trends in frequency and severity of claims, operational changes in claim handling and case reserving practices, and trends related to general economic and social conditions. Informed judgments as to our ultimate exposure to losses are an integral component of our loss reserve estimation process.

There is greater inherent uncertainty in estimating insurance reserves for certain types of property and casualty insurance lines, particularly liability lines, where a longer period of time may elapse before a definitive determination of ultimate liability and losses may be made (sometimes referred to as “long-tail” business). In addition, the technological, judicial, regulatory and political climates involving these types of claims are continuously evolving. The emergence of the Pandemic during 2020 resulted in an increased level of uncertainty for many lines of business, particularly for our long-tail lines. There is also greater uncertainty in establishing reserves with respect to business that is new to us, particularly new business which is generated with respect to newly introduced product lines, by newly appointed agents or in geographies in which we have less experience in conducting business. In both of these cases, there is less historical experience or knowledge, and less data upon which we can rely. A combination of business that is both new to us and has longer development periods provides even greater uncertainty in estimating insurance reserves. In our management and professional liability lines, we are modestly increasing, and expect to continue to increase, our exposure to longer-tailed liability lines, including directors and officers liability, errors and omissions liability, and product liability coverages. In addition, in recent periods, we have experienced extensions of the “tails” in certain lines of business as the full value of claims are presented later than had been our historical experience. The broad impact of the Pandemic on our claims environment may extend these “tails” even further. For example, there may be delays in both medical treatments and submission of medical expenses and deferment of elective medical procedures, which may have worsened insureds’ health status, which may increase our ultimate loss costs. Also, presumptive orders by relevant state authorities have potentially increased workers’ compensation exposures beyond contractual obligations.

We regularly update our reserve estimates as new information becomes available and additional events occur which may impact the resolution of unsettled claims. Reserve adjustments are reflected in the results of operations as adjustments to losses and LAE. Often, these adjustments are recognized in periods subsequent to the period in which the underlying policy was written and the loss event occurred. When these types of subsequent adjustments affect prior years, they are described separately as “prior year reserve development.” Such development can be either favorable or unfavorable to our financial results and may vary by line of business. As discussed below, estimated loss and LAE reserves for claims occurring in prior years, in the aggregate, developed favorably by \$56.1 million, \$15.5 million and \$0.9 million for the years ended December 31, 2021, 2020 and 2019, respectively, although there was some significant variance by line of business. Additionally, our estimated loss and LAE reserves for catastrophe claims occurring in prior years developed favorably by \$15.0 million, \$17.1 million and \$27.5 million for the years ended December 31, 2021, 2020 and 2019, respectively. There can be no assurance that current loss and LAE reserves will be sufficient.

We regularly review our reserving techniques, our overall reserving position and our reinsurance. Based on (i) our review of historical data, legislative enactments, judicial decisions, legal developments in impositions of damages and policy coverage, political attitudes and trends in general economic conditions, (ii) our review of per claim information, (iii) our historical loss experience and that of the industry, (iv) the nature of policies written by us, and (v) our internal estimates of required reserves, we believe that adequate provision has been made for loss reserves. Given the inherent complexity of our loss reserve estimation process and the potential variability of the assumptions used, the actual emergence of losses will vary, perhaps substantially, from the estimate of losses included in our financial statements, particularly in those instances where settlements or other claim resolutions do not occur until well into the future. Our net loss reserves at December 31, 2021 were \$4.8 billion. Therefore, a relatively small percentage change in the estimate of net loss reserves would have a material effect on our results of operations. Similarly, a one percentage point change in the aggregate loss and LAE ratio resulting from a change in reserve estimation is currently projected to have an approximate \$50 million impact on operating income, based on 2021 full year premiums written.

The major causes of material uncertainty relating to ultimate losses and LAE (“risk factors”) generally vary for each line of business, as well as for each separately analyzed component of the line of business. In some cases, such risk factors are explicit assumptions of the estimation method and in others, they are implicit. For example, a method may explicitly assume that a certain percentage of claims will close each year, but will implicitly assume that the legal interpretation of existing contract language will remain

substantially unchanged. Actual results will likely vary from expectations for each of these assumptions, resulting in an ultimate claim liability that is different from that being estimated currently.

Some risk factors affect multiple lines of business. Examples include changes in claim handling and claim reserving practices, changes in claim settlement patterns due to the Pandemic and other factors, regulatory and legislative actions, court actions, so-called “social inflation,” timeliness of claim reporting, state mix of claimants and degree of claimant fraud. The extent of the impact of a risk factor will also vary by components within a line of business. Individual risk factors are subject to interactions with other risk factors within line of business components. Thus, risk factors can have offsetting or compounding effects on required reserves.

Inflation generally increases the cost of losses covered by insurance contracts. The effect of inflation varies by product. Our insurance premiums are established before the amount of losses and LAE and the extent to which inflation may affect such expenses are known. Consequently, we attempt, in establishing rates and reserves, to anticipate the potential impact of inflation in the projection of ultimate costs. For example, we monitor, and continue to experience, increases in medical costs, wages and legal costs, which are key considerations in setting reserve assumptions for workers’ compensation, bodily injury and other liability lines. We are also monitoring the continued advancements in technology and design found in automobiles and homes, and the increased claims settlement costs that result from labor shortages, and repairs or replacement of such equipment impacted by supply chain disruptions, which could lead to material shortages and elevated prices of building materials. Estimated increases are reflected in our current reserve estimates, but continued increases are expected to contribute to increased losses and LAE in the future.

We are also defendants in various litigation matters, including putative class actions, which may seek punitive damages, bad faith or extra-contractual damages, legal fees and interest, or claim a broader scope of policy coverage or settlement and payment obligations than our interpretation. Resolution of these cases is often highly unpredictable and could involve material unanticipated damage awards. We have experienced, and others in the industry have reported, increased attorney involvement in claims including COVID-19-related matters, delayed submissions of medical and other expense claims, court closures resulting in delayed claim settlements, and a trend toward higher valued settlements and litigation, all of which contribute to uncertainty regarding reserve estimates.

## **Loss and LAE Reserves by Line of Business**

### *Reserving Process Overview*

Our loss reserves include amounts related to short-tail and long-tail classes of business. “Tail” refers to the time period between the occurrence of a loss and the final settlement of the claim. The longer the time span between the incidence of a loss and the settlement of the claim (i.e., a longer tail), the more the ultimate settlement amount may likely vary from our original estimate.

Short-tail classes consist principally of automobile physical and property damage, commercial property, homeowners property and marine business. For these property coverages, claims are generally reported and settled shortly after the loss occurs because the claims relate to tangible property and are more likely to be discovered shortly after the loss occurs. Consequently, the estimation of loss reserves for these classes is generally less complex.

While we estimate that approximately half of our written premium is in, what we would characterize as, shorter-tail classes of business, most of our loss reserves relate to longer-tail liability classes of business. Long-tailed classes include automobile liability, commercial liability, third-party coverage and workers’ compensation. For many liability claims, significant periods of time, ranging up to several years or more, may elapse between the occurrence of the loss, the discovery and reporting of the loss to us and the settlement of the claim. As a result, loss experience in the more recent accident years for long-tailed liability coverage has limited statistical credibility because a relatively small proportion of losses in these accident years (the calendar years in which losses are incurred) are reported claims and an even smaller proportion are paid losses. Liability claims are also more susceptible to litigation and can be significantly affected by changing contract interpretations, the legal, political and social environment, the risk and expense of protracted litigation, and inflation. Consequently, the estimation of loss reserves for these coverages is more complex and typically subject to a higher degree of variability and uncertainty compared to short-tailed coverages.

Most of our indirect business from our run-off voluntary and ongoing involuntary pools is assumed long-tailed casualty reinsurance. Reserve estimates for this business are therefore subject to the variability caused by extended loss emergence periods. The estimation of loss reserves for this business is further complicated by delays between the time the claim is reported to the ceding insurer and when it is reported by the ceding insurer to the pool manager and then to us, and by our dependence on the quality and consistency of the loss reporting by the ceding company and actuarial estimates by the pool manager. These reserving factors also apply to our discontinued assumed accident and health reinsurance pools and arrangements that are included in our liabilities of discontinued life businesses (See “Risk Factors” in Part I – Item 1A for further discussion).

A review of loss reserves for each of the classes of business in which we write is conducted regularly, generally quarterly. This review process takes into consideration a variety of trends that impact the ultimate settlement of claims. Where appropriate, the review includes a review of overall payment patterns and the emergence of paid and reported losses relative to expectations.

The loss reserve estimation process relies on the basic assumption that past experience, adjusted for the effects of current developments and likely trends, is an appropriate basis for predicting future outcomes. As part of this process, we use a variety of analytical methods that consider experience, trends and other relevant factors. IBNR reserves are generally calculated by first projecting the ultimate cost of all claims that have been reported or expected to be reported in the future and then subtracting reported losses and loss expenses. Reported losses include cumulative paid losses and loss expenses plus case reserves. Within the loss reserving process, standard actuarial methods which include: (1) loss development factor methods; (2) expected loss methods (Bornheutter-Ferguson); and (3) adjusted loss methods (Berquist-Sherman), are given due consideration. These methods are described below:

- Loss development factor methods generally assume that the losses yet to emerge for an accident year are proportional to the paid or reported loss amount observed to date. Historical patterns of the development of paid and reported losses by accident year can be predictive of the expected future patterns that are applied to current paid and reported losses to generate estimated ultimate losses by accident year.
- Bornheutter-Ferguson methods utilize the product of the expected ultimate losses times the proportion of ultimate losses estimated to be unreported or unpaid to calculate IBNR. The expected ultimate losses are based upon current estimates of ultimate losses from prior accident years, adjusted to reflect expected earned premium, current rating, claims cost levels and changes in business mix. The expected losses, and corresponding loss ratios, are a critical component of Bornheutter-Ferguson methodologies and provide a general reasonability guide.
- Berquist-Sherman methods are used for estimating reserves in business lines where historical development patterns may be deemed less reliable for more recent accident years' ultimate losses. Under these methods, patterns of historical paid or reported losses are first adjusted to reflect current payment settlement patterns and case reserve adequacy and then evaluated in the same manner as the loss development factor methods described above. When the adequacy of case reserves change, the Berquist-Sherman incurred method may be deemed more reliable than the reported loss development factor method. Likewise, when the settlement patterns change, the Berquist-Sherman paid method may be deemed more reliable than the paid loss development factor method.

In addition to the methods described above, various tailored reserving methodologies are used for certain businesses. For example, for some low volume and high volatility classes of business, special reserving techniques are utilized that estimate IBNR by selecting the loss ratio that balances actual reported losses to expected reported losses as defined by the estimated underlying reporting pattern. Also, for some classes with long exposure periods (e.g., construction defect, engineering and surety), earnings patterns plus an estimated reporting lag applied to the Bornheutter-Ferguson initial expected loss ratio are used to estimate IBNR. This is done in order to reflect the changing average exposure periods by policy year (and consequently accident year).

In completing the loss reserve analysis, a variety of assumptions must be made for each line of business, coverage and accident year. Each estimation method has its own pattern, parameter and/or judgmental dependencies, with no estimation method being better than the others in all situations. The relative strengths and weaknesses of the various estimation methods, when applied to a particular class of business, can also change over time, depending on the underlying circumstances. In many cases, multiple estimation methods will be valid for the particular facts and circumstances of the relevant class of business. The manner of application and the degree of reliance on a given method will vary by line of business and coverage, and by accident year based on an evaluation of the above dependencies and the potential volatility of the loss frequency and severity patterns. The estimation methods selected or given weight at a particular valuation date are those that are believed to produce the most reliable indication for the loss reserves being evaluated. Selections incorporate input from claims personnel, pricing actuaries, and underwriting management on loss cost trends and other factors that could affect ultimate losses.

For most classes of shorter-tailed business in our Commercial and Personal Lines segments, the emergence of paid and incurred losses generally exhibits a relatively stable pattern of loss development from one accident year to the next. Thus, for these classes, the loss development factor method is generally appropriate. For some of the classes of shorter-tailed business, the emergence of paid and incurred losses may exhibit a relatively volatile pattern of loss development from one accident year to the next. In these cases where there is a relatively low level of reliability placed on the available paid and incurred loss data, expected loss methods or adjusted loss methods are considered appropriate for the most recent accident year.

For longer-tailed lines of business, applying the loss development factor method often requires even more judgment in selecting development factors, as well as more significant extrapolation. For those long-tailed lines of business with high frequency and relatively low per-loss severity (e.g., personal automobile liability), volatility will often be sufficiently modest for the loss development factor method to be given significant weight, even in the most recent accident years, but expected loss methods and adjusted loss methods are always considered and frequently utilized in the selection process. For those long-tailed lines of business with low frequency and high loss potential (e.g., commercial general liability), anticipated loss experience is less predictable because of the small number of claims and erratic claim severity patterns. In these situations, the loss development factor methods may not produce a reliable estimate of ultimate losses in the most recent accident years since many claims either have not yet been reported or are only in the early stages of the settlement process. Therefore, the loss reserve estimates for these accident years may be based on



methods less reliant on extrapolation, such as Bornheutter-Ferguson. Over time, as a greater number of claims are reported and the statistical credibility of loss experience increases, loss development factor methods or adjusted loss methods are given increasing weight.

Management endeavors to apply as much available data as practicable to estimate the loss reserve amount for each line of business, coverage and accident year, utilizing varying assumptions, projections and methods. The ultimate outcome is expected to fall within a range of potential outcomes around this loss reserve estimated amount.

Our carried reserves for each line of business and coverage are determined based on our quarterly loss reserving process. In making the determination, we consider numerous quantitative and qualitative factors. Quantitative factors include changes in reserve estimates in the period, the maturity of the accident year, trends observed over the recent past, the level of volatility within a particular class of business, the estimated effects of reinsurance, including reinstatement premiums, general economic trends, and other factors. Qualitative factors may include legal and regulatory developments, changes in claim handling and case reserving practices, recent entry into new markets or products, changes in underwriting practices or business mix, concerns that we do not have sufficient or quality historical reported and paid loss and LAE information with respect to a particular line or segment of our business, effects of the economy and political outlook, perceived anomalies in the historical results, evolving trends or other factors, such as the impact of the Pandemic. In doing so, we must evaluate whether a change in the data represents credible actionable information or an anomaly. Such an assessment requires considerable judgment. Even if a change is determined to be apparent, it is not always possible to determine the extent of the change. As a result, there can be a time lag between the emergence of a change and a determination that the change should be partially or fully reflected in the carried loss reserves. In general, changes are made more quickly to reserves for more mature accident years and less volatile classes of business.

#### Reserving Process Uncertainties

As stated above, numerous factors (both internal and external) contribute to the inherent uncertainty in the process of establishing loss reserves, including changes in the rate of inflation for goods and services related to insured damages (e.g., medical care, home and automobile repairs, etc.), changes in the judicial interpretation of policy provisions and settlement obligations, changes in the general attitude of juries in determining damage awards, legislative actions, such as expanding liability, coverage mandates or expanding or suspending statutes of limitations which otherwise limit the times within which claims can be made, changes in the extent of insured injuries, changes in the trend of expected frequency and/or severity of claims, changes in our book of business (e.g., change in mix due to new or modified product offerings, new or rapidly expanding geographic areas, etc.), changes in our underwriting practices, and changes in claim handling procedures and/or systems. Regarding our indirect business from voluntary and involuntary pools, we are periodically provided loss estimates by managers of each pool. We adopt reserve estimates for the pools that consider this information and other facts.

In addition, we must consider the uncertain effects of emerging or potential claims and coverage issues that arise as legal, judicial and social conditions, political risks, and economic conditions change. For example, claims which we consider closed may be re-opened as additional damages surface or new liability or damage theories are presented. Also, historically, we have observed more frequent and higher severity in workers' compensation, bodily injury and other liability claims and more credit related losses (for example, in our surety business) during periods of economic uncertainty or high unemployment. Economic and labor force dynamics have resulted in many experienced workers retiring from their positions, who have been replaced with newly skilled workers, which could result in more workplace accidents. These, and other issues, could have a negative effect on our loss reserves by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims.

As part of our loss reserving analysis, we consider the various factors that contribute to the uncertainty in the loss reserving process. Those factors that could materially affect our loss reserve estimates include loss development patterns and loss cost trends, reporting lags, rate and exposure level changes, the effects of changes in coverage and policy limits, business mix shifts, the effects of regulatory and legislative developments, economic circumstances, the effects of changes in judicial interpretations, the effects of emerging claims and coverage issues, and the effects of changes in claim handling and claim reserving practices. In making estimates of reserves, however, we do not necessarily make an explicit assumption for each of these factors. Moreover, all estimation methods do not utilize the same assumptions and typically no single method is determinative in the reserve analysis for a line of business and coverage. Consequently, changes in our loss reserve estimates generally are not the result of changes in any one assumption. Instead, the variability will be affected by the interplay of changes in numerous assumptions, many of which are implicit to the approaches used.

For each line of business and coverage, we regularly adjust the assumptions and methods used in the estimation of loss reserves in response to our actual loss experience, as well as our judgments regarding changes in trends and/or emerging patterns. In those instances where we primarily utilize analyses of historical patterns of the development of paid and reported losses, this may be reflected, for example, in the selection of revised loss development factors. In longer-tailed classes of business and for which loss experience is less predictable due to potential changes in judicial interpretations, potential legislative actions, the cost of litigation or determining liability and the ultimate loss, inflation, potential claims, shifting claim settlement patterns due to delayed court proceedings, and other issues, this may be reflected in a judgmental change in our estimate of ultimate losses for particular accident

years. Most of the insurance policies we have written over many years are written on an “occurrence” basis, which means we insure specified acts or events which occurred during the covered period, even if claims first arise from such events many years later. For example, the industry incurred significant losses as a result of claims arising from asbestos and environmental damage which occurred decades ago and was not known at such time, and in many cases policy limits were available for each year during which such occurrence policies were in place.

The impact of the Pandemic could have a material adverse effect on our carried loss reserves. While we believe that our in-force Commercial Lines policies in large part do not cover business interruption losses related to the Pandemic, legislation has been discussed and introduced to retroactively amend insurance contracts to provide business interruption coverage, to impose presumptions on insurance policy interpretation, and/or limit policy exclusions for losses allegedly related to the Pandemic. If these changes were to be enacted and upheld, we would be exposed to a significant unfunded liability.

The future impact of the various factors that contribute to the uncertainty in the loss reserving process is impossible to predict. There is potential for significant variation in the development of loss reserves, particularly for long-tailed classes of business and classes of business that are more vulnerable to economic or political risks.

#### Reserving Process for Catastrophe Events

The estimation of claims and claims expense reserves for catastrophes is also comprised of estimates of losses from reported claims and IBNR, primarily for damage to property. In general, our estimates for catastrophe reserves are determined on an event basis by considering various sources of available information, including specific loss estimates reported to us based on claim adjuster inspections, overall industry loss estimates, our internal data regarding exposures related to the geographical location of the event and estimates of potential subrogation recoveries. However, depending on the nature of the catastrophe, the estimation process can be further complicated by other impediments. For example, for hurricanes and other severe wind storms and wildfires, complications often include the inability of insureds to promptly report losses, delays in the ability of claims adjusting staff to inspect losses, difficulties in determining whether wind storm losses are covered by our homeowners policy (generally for damage caused by wind or wind driven rain) or are specifically excluded from coverage caused by flood, challenges in estimating additional living expenses, assessing the impact of demand surge, exposure to mold or smoke damage, and the effects of numerous other considerations. Another example is the complication of estimating the cost of business interruption coverage on Commercial Lines policies. Estimates for catastrophes which occur at or near the end of a financial reporting period may be even less reliable since we will have less claims data available and little time to complete our estimation process. In such situations, we may adapt our practices to accommodate the circumstances.

For events designated as catastrophes, we generally calculate IBNR reserves directly as a result of an estimated IBNR claim count and an estimated average claim amount for each event. Such an assessment involves a comprehensive analysis of the nature of the event, of policyholder exposures within the affected geographic area and of available claims intelligence. Depending on the nature of the event, available claims intelligence could include surveys of field claims associates within the affected geographic area, aerial photographs of the affected area, feedback from a catastrophe claims team sent into the area, as well as data on claims reported as of the financial statement date. In addition, loss emergence from similar historical events is compared to the estimated IBNR for our current catastrophe events to help assess the reasonableness of our estimates. However, in some cases, it may be difficult to estimate certain catastrophe losses which are unique and do not have instances of historical precedence, such as the property damage arising from the 2020 riots and civil unrest.

#### Reserving Sensitivity Analysis

The following discussion presents disclosure related to possible variation in net reserve estimates (i.e., net of estimated reinsurance recoverables) due to changes in key assumptions. This information is provided for illustrative purposes only. Many other assumptions may also lead to material reserve adjustments. If any such variations do occur, then they would likely occur over a period of several years and therefore their impact on our results of operations would be recognized during the same periods. It is important to note, however, that there is the potential for future variations greater than the amounts described below and for any such variations to be recognized in a single quarterly or annual period. No consideration has been given to potential correlation or lack of correlation among key assumptions or among lines of business and coverage as described below. As a result, and because there are so many other factors which affect our net reserve estimate, it would be inappropriate to take the amounts described below and simply add them together in an attempt to estimate volatility in total. While we believe these are reasonably possible scenarios, the reader should not consider the following sensitivity analysis as illustrative of a net reserve range.

- Personal and Commercial Automobile Bodily Injury – loss reserves recorded for bodily injury on voluntary business were \$826.7 million as of December 31, 2021. A key assumption for bodily injury is the inflation rate underlying the estimated reserve. A five point change (e.g., 4% changed to 9% or -1%) in the embedded inflation rate would have changed total reserves by approximately \$70 million, either positive or negative, respectively, at December 31, 2021.

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- Personal Automobile Personal Injury Protection Medical Payment – loss reserves recorded for personal injury protection medical payment on voluntary business were \$139.6 million as of December 31, 2021, of which approximately 97% relates to Michigan policies. A key assumption for this coverage is the inflation rate underlying the estimated reserve. Given the long reporting pattern for this line of business, an additional key assumption is the amount of additional development required to reach full maturity, thereby reflecting ultimate costs, as represented by the tail factor. A five point change in the embedded inflation rate and a one point change to the tail factor assumption (e.g., 2% changed to 1% or 3%) would have changed total reserves by approximately \$47 million, either positive or negative, at December 31, 2021.
- Workers' Compensation – loss reserves recorded for workers' compensation on voluntary business were \$464.3 million as of December 31, 2021. A key assumption for workers' compensation is the inflation rate underlying the estimated reserve. Given the long reporting pattern for this line of business, an additional key assumption is the amount of additional development required to reach full maturity, thereby reflecting ultimate costs, as represented by the tail factor. A five point change in the embedded inflation rate and a one point change to the tail factor assumption would have changed total reserves by approximately \$150 million, either positive or negative, at December 31, 2021.
- Monoline and Multiple Peril General Liability – loss reserves recorded for monoline and multiple peril general liability on voluntary business were approximately \$1.0 billion as of December 31, 2021. A key assumption for monoline and multiple peril general liability is the implied adequacy of the underlying case reserves. A ten point change in case adequacy (e.g., 10% deficiency changed to 0% or 20% deficiency) would have changed total reserves by approximately \$113 million, either positive or negative, at December 31, 2021.
- Specialty Programs - loss reserves recorded for Hanover Programs were \$376.5 million as of December 31, 2021. Two key assumptions underlying the actuarial reserve analysis for specialty programs are the inflation rate underlying the estimated reserve for our commercial automobile liability, general liability and workers' compensation coverages, as well as the tail factor selection for workers' compensation. A five point change to the embedded inflation rate for the aforementioned coverages, and a one point change in the workers' compensation tail factor on Hanover Programs would have changed total reserves by approximately \$53 million at December 31, 2021.

#### Carried Reserves and Reserve Rollforward

The following table provides a reconciliation of the gross beginning and ending reserve for unpaid losses and loss adjustment expenses.

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions)</i>			
Gross reserve for losses and LAE, beginning of year	\$ 6,024.0	\$ 5,654.4	\$ 5,304.1
Reinsurance recoverable on unpaid losses	1,641.6	1,574.8	1,472.6
Net reserve for losses and LAE, beginning of year	4,382.4	4,079.6	3,831.5
Net incurred losses and LAE in respect of losses occurring in:			
Current year	3,205.3	2,877.8	2,893.0
Prior year non-catastrophe development	(56.1)	(15.5)	(0.9)
Prior year catastrophe development	(15.0)	(17.1)	(27.5)
Total incurred losses and LAE	3,134.2	2,845.2	2,864.6
Net payments of losses and LAE in respect of losses occurring in:			
Current year	1,464.1	1,347.7	1,315.4
Prior years	1,298.7	1,194.7	1,301.1
Total payments	2,762.8	2,542.4	2,616.5
Net reserve for losses and LAE, end of year	4,753.8	4,382.4	4,079.6
Reinsurance recoverable on unpaid losses	1,693.8	1,641.6	1,574.8
Gross reserve for losses and LAE, end of year	\$ 6,447.6	\$ 6,024.0	\$ 5,654.4

The following table summarizes the gross reserve for losses and LAE by line of business.

<b>DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions)</i>			
Commercial multiple peril	\$ 1,365.6	\$ 1,211.0	\$ 1,122.0
Workers' compensation	721.6	699.4	698.2
Commercial automobile	484.9	454.8	427.0
Other commercial lines:			
Hanover Programs	613.0	565.3	512.9
Management and professional liability	407.9	340.8	281.5
Monoline general liability	308.2	280.3	265.5
Umbrella	279.1	230.2	197.9
Specialty industrial and commercial property	130.0	76.9	71.1
Surety	100.9	93.6	76.9
Marine	98.9	94.0	95.9
Other lines	29.2	29.5	28.4
Total other commercial lines	1,967.2	1,710.6	1,530.1
Total Commercial Lines	4,539.3	4,075.8	3,777.3
Personal automobile	1,590.7	1,670.3	1,645.1
Homeowners and other personal	277.7	237.5	194.3
Total Personal Lines	1,868.4	1,907.8	1,839.4
Total Other Segment	39.9	40.4	37.7
Total loss and LAE reserves	\$ 6,447.6	\$ 6,024.0	\$ 5,654.4

“Other commercial lines – Other lines” in the table above, is primarily comprised of our fidelity and crime line of business. Loss and LAE reserves in our “Total Other Segment” relate to our run-off voluntary assumed reinsurance pools business.

#### Prior Year Development

Conditions and trends that have affected reserve development in the past will not necessarily recur in the future. As discussed under “Reserving Process Overview” in the preceding section, our historical loss experience and loss development patterns are important factors in estimating loss reserves, however, they are not the only factors we evaluate to establish reserves. Therefore, a mechanical application of standard actuarial methodologies in projecting ultimate claims could result in materially different reserves to those held. Accordingly, it is not appropriate to extrapolate future favorable or unfavorable development based on amounts experienced in prior periods.

The following table summarizes prior year (favorable) unfavorable development by segment for the periods indicated:

	<b>2021</b>			<b>2020</b>			<b>2019</b>		
	<b>Loss &amp; LAE</b>	<b>Catastrophe</b>	<b>Total</b>	<b>Loss &amp; LAE</b>	<b>Catastrophe</b>	<b>Total</b>	<b>Loss &amp; LAE</b>	<b>Catastrophe</b>	<b>Total</b>
<i>(in millions)</i>									
Commercial Lines	\$ (34.0)	(12.0)	\$ (46.0)	\$ (19.0)	(18.8)	\$ (37.8)	\$ (28.7)	(24.6)	\$ (53.3)
Personal Lines	(23.1)	(3.0)	(26.1)	(0.7)	1.7	1.0	26.6	(2.9)	23.7
Other Segment	1.0	—	1.0	4.2	—	4.2	1.2	—	1.2
Total prior year favorable development	\$ (56.1)	\$ (15.0)	\$ (71.1)	\$ (15.5)	\$ (17.1)	\$ (32.6)	\$ (0.9)	\$ (27.5)	\$ (28.4)

#### Catastrophe Loss Development

In 2021, favorable catastrophe development was \$15.0 million, primarily due to lower than expected losses related to certain 2018 through 2020 hurricanes, tornadoes, and other storms. In 2020, favorable catastrophe development was \$17.1 million, primarily due to lower than expected losses related to certain 2017, 2018, and 2019 wind storms, winter storms and hurricanes and the 2017 and 2018 California wildfires. In 2019, favorable catastrophe development was \$27.5 million, primarily due to lower than expected losses related to the 2017 and 2018 California wildfires, including the sale of subrogation rights on certain California wildfire losses, and the 2018 hurricane Florence.

### Loss and LAE Development, excluding catastrophes

The following table provides a summary of (favorable) unfavorable loss and LAE reserve development, excluding catastrophes.

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions)</i>			
Commercial multiple peril	\$ (4.7)	\$ 14.2	\$ (6.6)
Workers' compensation	(23.1)	(36.0)	(32.6)
Commercial automobile	3.4	15.5	6.4
Other commercial lines	(9.6)	(12.7)	4.1
Total Commercial Lines	(34.0)	(19.0)	(28.7)
Personal automobile	(23.5)	4.5	22.0
Homeowners and other personal lines	0.4	(5.2)	4.6
Total Personal Lines	(23.1)	(0.7)	26.6
Total Other Segment	1.0	4.2	1.2
Total loss and LAE reserve development, excluding catastrophes	<u>\$ (56.1)</u>	<u>\$ (15.5)</u>	<u>\$ (0.9)</u>

### 2021 Loss and LAE Development, excluding catastrophes

In 2021, net favorable loss and LAE development, excluding catastrophes, was \$56.1 million. Commercial Lines favorable development of \$34.0 million was primarily due to lower than expected losses of \$23.1 million within the workers' compensation line in accident years 2014 through 2020, and in our other commercial lines. Within other commercial lines, including Hanover Programs, lower than expected losses of \$19.3 million in our commercial miscellaneous property and specialty industrial property lines, primarily in accident years 2019 and 2020, and lower than expected losses in our surety line, primarily in accident years 2013 through 2016, 2018 and 2019, were partially offset by higher than expected losses of \$25.6 million within the general liability lines, primarily in accident years 2018 through 2020. Personal Lines favorable development of \$23.1 million was primarily due to lower than expected losses of \$23.5 million in the personal automobile line, driven by lower bodily injury and personal injury protection losses, primarily in accident year 2020. In addition, Other Segment unfavorable development of \$1.0 million was due to adverse loss trends in our run-off voluntary assumed property and casualty reinsurance pools business, which includes asbestos and environmental reserves.

### 2020 Loss and LAE Development, excluding catastrophes

In 2020, net favorable loss and LAE development, excluding catastrophes, was \$15.5 million. Commercial Lines favorable development of \$19.0 million was primarily due to lower than expected losses of \$36.0 million within the workers' compensation line in accident years 2016 through 2019. This was partially offset by higher than expected losses in our commercial automobile line driven by higher bodily injury and personal protection losses, primarily in accident years 2017 through 2019, and the commercial multiple peril line, primarily in accident years 2017 and 2019. Within other commercial lines, lower than expected losses in our marine line, in accident years 2017 through 2019 and specialty industrial property lines were partially offset by higher than expected losses in the general liability coverages within Hanover Programs. In addition, the adverse prior development in our Other Segment was due to our run-off voluntary assumed property and casualty reinsurance pools business primarily based on an updated third-party actuarial study received in the first quarter of 2020 for the legacy Excess and Casualty Reinsurance Association ("ECRA") pool that consists primarily of asbestos and environmental exposures.

### 2019 Loss and LAE Development, excluding catastrophes

In 2019, net favorable loss and LAE development, excluding catastrophes, was \$0.9 million. Commercial Lines favorable development of \$28.7 million was primarily due to lower than expected losses of \$32.6 million within the workers' compensation line in accident years 2015 through 2018, and lower than expected losses in our commercial multiple peril line, primarily in accident years 2015 through 2016, partially offset by higher than expected losses in our commercial automobile and other commercial lines. Higher than expected losses in the commercial automobile line was driven by higher bodily injury severity and personal injury protection in accident years 2016 through 2017. Within other commercial lines, higher than expected losses of \$24.6 million in Hanover Programs, primarily in accident years 2011, 2013, 2015, and 2017, was partially offset by lower than expected losses in our general liability, marine and surety lines. Personal Lines unfavorable development of \$26.6 million was primarily due to higher than expected losses of \$22.0 million in the personal automobile line, driven by bodily injury severity and personal injury protection in accident years 2016 through 2017. In addition, Other Segment unfavorable development of \$1.2 million was due to adverse loss trends in our run-off voluntary assumed property and casualty reinsurance pools business which includes asbestos and environmental reserves.

### Asbestos and Environmental Reserves

As of December 31, 2021, we have \$11.7 million of net asbestos and environmental reserves, comprised of \$9.6 million of direct reserves and \$2.1 million of assumed reinsurance pool reserves. This compares to net reserves of \$39.8 million and \$37.9 million as of December 31, 2020 and 2019, respectively. Ending loss and LAE reserves for all direct business written by our insurance companies related to asbestos and environmental damage liability were \$9.6 million, \$8.3 million and \$8.4 million, net of reinsurance of \$16.7

million, \$17.9 million and \$17.6 million for the years ended December 31, 2021, 2020 and 2019, respectively. Activity for our direct asbestos and environmental reserves was not significant to our 2021, 2020 or 2019 financial results. As a result of our historical direct underwriting mix of Commercial Lines policies toward smaller and middle market risks, past asbestos and environmental damage liability loss experience has remained minimal in relation to our total loss and LAE incurred experience. Although we attempt to limit our exposures to asbestos and environmental damage liability through specific policy exclusions, we have been, and may continue to be, subject to claims related to these exposures.

In addition to reserves we carry to cover exposure in our direct business, we have established gross and net loss and LAE reserves for assumed reinsurance pool business with asbestos and environmental damage liability. As of December 31, 2021, we have \$31.0 million of gross reserves and \$2.1 million of net reserves for assumed reinsurance pool business. This compares to gross and net loss and LAE reserves of \$31.5 million and \$29.5 million at December 31, 2020 and 2019, respectively. These reserves relate to pools in which we have terminated our participation; however, we continue to be subject to claims related to years in which we were a participant. Results of operations from these pools are included in our Other segment. A significant part of our gross pool reserves relates to our participation in the ECRA voluntary pool. In 1982, the pool was dissolved and since that time, the business has been in run-off. During 2021, we entered into an agreement to transfer our ECRA pool participations to a third-party reinsurer. This transfer was executed through a 100% reinsurance arrangement for our ECRA claim liability participations written during the period 1950 to 1982. This transaction had no significant impact on our 2021 results of operations.

We estimate our ultimate liability for asbestos, environmental and toxic tort liability claims, whether resulting from direct business, assumed reinsurance or pool business, based upon currently known facts, reasonable assumptions where the facts are not known, current law, and methodologies currently available. Although these outstanding claims are not believed to be significant, their existence gives rise to uncertainty and are discussed because of the possibility that they may become significant. We believe that, notwithstanding the evolution of case law expanding liability in asbestos and environmental claims, recorded reserves related to these claims are adequate. Nevertheless, the asbestos, environmental and toxic tort liability reserves could be revised, and any such revisions could have a material adverse effect on our results of operations for a particular quarterly or annual period, or on our financial position.

#### Reinsurance Recoverables

Reinsurance recoverables were \$1,907.3 million and \$1,874.3 million at December 31, 2021 and December 31, 2020, respectively, of which \$100.4 million and \$88.4 million, respectively, represent billed recoverables. A reinsurance recoverable is billed after an eligible reinsured claim is paid by an insurer. Billed reinsurance recoverables related to the MCCA were \$49.8 million and \$35.5 million at December 31, 2021 and December 31, 2020, respectively, and billed non-MCCA reinsurance recoverables totaled \$50.6 million and \$52.9 million at December 31, 2021 and December 31, 2020, respectively. As of December 31, 2021 and 2020, there were no balances outstanding greater than 90 days.

## INVESTMENTS

### *INVESTMENT RESULTS*

Net investment income before income taxes was as follows:

<b>DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(dollars in millions)</i>			
Fixed maturities	\$ 216.9	\$ 222.5	\$ 232.4
Limited partnerships	68.2	16.7	19.7
Mortgage loans	18.0	17.5	16.3
Equity securities	15.6	14.8	16.3
Other investments	3.0	3.2	5.3
Investment expenses	(11.0)	(9.6)	(8.7)
Net investment income	\$ 310.7	\$ 265.1	\$ 281.3
Earned yield, fixed maturities	2.99%	3.33%	3.58%
Earned yield, total portfolio	3.70%	3.35%	3.65%

The increase in net investment income in 2021 was primarily due to higher limited partnership income and, to a lesser extent, the continued investment of operational cash flows, partially offset by the impact of lower new money yields. Higher income from our limited partnerships primarily reflects increased valuations resulting from positive performance of the funds' underlying equity holdings. Limited partnership results in 2020, particularly early in the year, were negatively impacted by Pandemic-related business and financial market disruptions. Income from partnerships can vary significantly from period to period and neither the elevated results during 2021, nor the weak results in 2020, reflect expected long-term returns for this asset class. The decrease in net investment income in 2020 was primarily due to the impact of lower new money yields, the deployment of cash during 2019 for accelerated share repurchases and special dividends, and lower limited partnership income. These decreases were partially offset by the continued



investment of operational cash flows. We expect average fixed income yields to continue to decline as new money rates remain lower than embedded book yields.

### INVESTMENT PORTFOLIO

We held cash and investment assets diversified across several asset classes, as follows:

DECEMBER 31	2021		2020	
(dollars in millions)	Carrying Value	% of Total Carrying Value	Carrying Value	% of Total Carrying Value
Fixed maturities, at fair value	\$ 7,723.9	82.3%	\$ 7,454.4	83.2%
Equity securities, at fair value	661.3	7.0	598.5	6.7
Mortgage and other loans	434.0	4.6	467.6	5.2
Other investments	333.4	3.6	325.6	3.6
Cash and cash equivalents	230.9	2.5	120.6	1.3
Total cash and investments	\$ 9,383.5	100.0%	\$ 8,966.7	100.0%

### CASH AND INVESTMENTS

Total cash and investments increased \$416.8 million, or 4.6%, for the year ended December 31, 2021, primarily due to the continued investment of operational cash flows, partially offset by the funding of financing activities, including our stock repurchases and dividend payments, and by net market value depreciation.

The following table provides information about the investment types of our fixed maturities portfolio:

DECEMBER 31	2021			
(in millions)	Amortized Cost, net of Allowance for Credit Losses	Fair Value	Net Unrealized Gain (Loss)	Change in Net Unrealized for the Year
Investment Type				
U.S. Treasury and government agencies	\$ 394.3	\$ 396.2	\$ 1.9	\$ (13.7)
Foreign government	2.2	2.6	0.4	(0.1)
Municipals:				
Taxable	1,149.2	1,173.0	23.8	(36.1)
Tax-exempt	27.0	27.8	0.8	(0.9)
Corporate	3,931.2	4,090.1	158.9	(182.5)
Asset-backed:				
Residential mortgage-backed	1,068.2	1,069.6	1.4	(31.1)
Commercial mortgage-backed	802.4	824.4	22.0	(32.6)
Asset-backed	140.3	140.2	(0.1)	(2.7)
Total fixed maturities	\$ 7,514.8	\$ 7,723.9	\$ 209.1	\$ (299.7)

The decrease in net unrealized gains on fixed maturities was primarily due to higher prevailing interest rates.

Amortized cost and fair value by rating category were as follows:

DECEMBER 31		2021			2020		
<i>(dollars in millions)</i>	Rating Agency Equivalent Designation	Amortized Cost, net of Allowance for Credit Losses	Fair Value	% of Total Fair Value	Amortized Cost, net of Allowance for Credit Losses	Fair Value	% of Total Fair Value
NAIC Designation							
1	Aaa/Aa/A	\$ 4,867.5	\$ 4,987.6	64.6%	\$ 4,590.6	\$ 4,894.2	65.7%
2	Baa	2,302.2	2,380.4	30.8	2,075.6	2,258.9	30.3
3	Ba	216.9	225.2	2.9	162.3	173.6	2.3
4	B	123.2	125.3	1.6	109.3	118.3	1.6
5	Caa and lower	5.0	5.4	0.1	7.3	7.7	0.1
6	In or near default	—	—	—	0.5	1.7	—
Total fixed maturities		\$ 7,514.8	\$ 7,723.9	100.0%	\$ 6,945.6	\$ 7,454.4	100.0%

Based on ratings by the National Association of Insurance Commissioners (“NAIC”), approximately 95% and 96% of our fixed maturity portfolio consisted of investment grade securities at December 31, 2021 and 2020, respectively. The quality of our fixed maturity portfolio remains strong based on ratings, capital structure position, support through guarantees, underlying security, issuer diversification and yield curve position.

Our investment portfolio primarily consists of fixed maturity securities whose fair value is susceptible to market risk, including interest rate changes. See also “Quantitative and Qualitative Disclosures about Market Risk.” Duration is a measurement used to quantify our inherent interest rate risk and analyze invested assets relative to our reserve liabilities.

The duration of our fixed maturity portfolio was as follows:

DECEMBER 31	2021			2020		
<i>(dollars in millions)</i>	Amortized Cost, net of Allowance for Credit Losses	Fair Value	% of Total Fair Value	Amortized Cost, net of Allowance for Credit Losses	Fair Value	% of Total Fair Value
<b>Duration</b>						
0-2 years	\$ 1,080.2	\$ 1,108.3	14.3 %	\$ 1,460.6	\$ 1,510.5	20.3 %
2-4 years	1,581.1	1,660.9	21.5	1,738.4	1,872.5	25.1
4-6 years	2,263.8	2,349.0	30.4	1,570.0	1,734.0	23.3
6-8 years	1,603.8	1,622.4	21.0	1,016.6	1,134.0	15.2
8-10 years	854.9	846.5	11.0	812.2	837.8	11.2
10+ years	131.0	136.8	1.8	347.8	365.6	4.9
<b>Total fixed maturities</b>	<b>\$ 7,514.8</b>	<b>\$ 7,723.9</b>	<b>100.0 %</b>	<b>\$ 6,945.6</b>	<b>\$ 7,454.4</b>	<b>100.0 %</b>
Weighted average duration		<b>4.9</b>			<b>4.8</b>	

Our fixed maturity and equity securities are carried at fair value. Financial instruments whose value was determined using significant management judgment or estimation constituted less than 1% of the total assets we measured at fair value. See also Note 4 - “Fair Value” in the Notes to Consolidated Financial Statements.

Equity securities primarily consist of U.S. income-oriented large capitalization common stocks and developed market equity index exchange-traded funds.

Mortgage and other loans consist primarily of commercial mortgage loan participations, which represent our interest in commercial mortgage loans originated by a third-party. We share, on a pro-rata basis, in all related cash flows of the underlying mortgage loans, which are primarily investment-grade quality and diversified by geographic area and property type.

Other investments consist primarily of our interest in corporate middle market and real estate limited partnerships. Corporate middle market limited partnerships may invest in senior or subordinated debt, preferred or common equity or a combination thereof, of privately-held middle market businesses. Real estate limited partnerships hold equity ownership positions in real properties and invest in debt secured by real properties. Our limited partnerships are generally accounted for under the equity method, or as a practical expedient using the fund’s net asset value, with financial information provided by the partnership on a two or three month lag.

Although we expect to invest new funds primarily in investment grade fixed maturities, we have invested, and expect to continue to invest, a portion of funds in limited partnerships, common equity securities, below investment grade fixed maturities and other investment assets.

We deposit funds with various state and governmental authorities. See Note 2 – “Investments” in the Notes to Consolidated Financial Statements for additional information.

#### IMPAIRMENTS

For the years ended December 31, 2021, 2020 and 2019, we recognized in earnings \$0.7 million, \$26.3 million and \$2.0 million, respectively, of impairments. In 2021, impairments primarily consisted of \$1.3 million on fixed maturities, partially offset by recoveries of credit losses on mortgage loans. In 2020, impairments primarily consisted of \$17.6 million on fixed maturities, primarily relating to intend-to-sell securities, and \$6.7 million of estimated credit losses on mortgage loans. In 2019, impairments consisted entirely of corporate fixed maturity securities.

At December 31, 2021 and 2020, the allowance for credit losses on mortgage loans was \$7.1 million and \$7.9 million, respectively. The allowance for credit losses on available-for-sale securities was \$0.3 million and \$0.1 million at December 31, 2021 and 2020, respectively.

There were no fixed maturity securities on non-accrual status at December 31, 2021. The carrying values of fixed maturity securities on non-accrual status at December 31, 2020 were not material. The effects of non-accruals compared with amounts that would have been recognized in accordance with the original terms of the fixed maturities for the years ended December 31, 2021, 2020 and 2019 were also not material. Any defaults in the fixed maturities portfolio in future periods may negatively affect investment income.

**UNREALIZED LOSSES**

Gross unrealized losses on fixed maturities at December 31, 2021 were \$48.0 million, an increase of \$44.7 million compared to December 31, 2020, primarily attributable to higher prevailing interest rates. At December 31, 2021, gross unrealized losses consisted primarily of \$15.6 million on corporate fixed maturities, \$11.0 million on residential mortgage-backed securities, \$8.0 on municipals and \$7.4 million on U.S. government securities. See also Note 2 – “Investments” in the Notes to Consolidated Financial Statements.

We view gross unrealized losses on fixed maturities as non-credit related since it is our assessment that these securities will recover, allowing us to realize their anticipated long-term economic value. Further, we do not intend to sell, nor is it more likely than not we will be required to sell, such debt securities before this expected recovery of amortized cost (see also “Liquidity and Capital Resources”). Inherent in our assessment are the risks that market factors may differ from our expectations; the global economic recovery following the Pandemic takes longer than current expectations; we may decide to subsequently sell a security for unforeseen business needs; or changes in the credit assessment from our original assessment may lead us to determine that a sale at the current value would maximize recovery on such investments. To the extent that there are such adverse changes, an impairment would be recognized as a realized loss. Although unrealized losses on fixed maturities are not reflected in the results of financial operations until they are realized, the fair value of the underlying investment, which does reflect the unrealized loss, is reflected in our Consolidated Balance Sheets.

The following table sets forth gross unrealized losses for fixed maturities by maturity period at December 31, 2021 and 2020. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties, or we may have the right to put or sell the obligations back to the issuers.

<b>DECEMBER 31</b>	<b>2021</b>	<b>2020</b>
<b>(in millions)</b>		
Due after one year through five years	\$ 0.7	\$ —
Due after five years through ten years	19.4	0.5
Due after ten years	10.9	2.0
	31.0	2.5
Mortgage-backed and asset-backed securities	17.0	0.8
Total fixed maturities	\$ 48.0	\$ 3.3

Our investment portfolio and shareholders’ equity can be significantly impacted by changes in market values of our securities. Market volatility could increase and defaults on fixed income securities could occur. As a result, we could incur additional realized and unrealized losses in future periods, which could have a material adverse impact on our results of operations and/or financial position.

Positive economic growth in the U.S. continues, driven by the strength of the labor market and consumer spending. Risks to the economic outlook remain, including new variants of COVID-19 and various supply chain and labor market imbalances. With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the Pandemic have improved recently, but remain below pre-Pandemic levels of economic activity. Job gains have been solid in recent months and unemployment rates have declined substantially. Inflation has risen to the highest levels in many years, well beyond the Federal Reserve’s (the “Fed”) target of 2%. Overall financial conditions have been accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. However, the path of the economy depends on the course of COVID-19. Progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation. It is unclear how such actions and inflationary pressures will affect the continued economic recovery and our investment portfolio.

With inflation having exceeded their 2% target for some time, combined with improvement in the labor market, the Fed announced a reduction in its asset purchase program with its cessation expected in March 2022. The Fed’s asset purchase program represents a significant source of demand for certain sectors of the fixed income market and even a well-telegraphed, gradual winding down of the program may result in market disruption. In addition, the Fed’s most recent projections released in December signaled the greatest likelihood to begin raising interest rates would be in 2022, assuming forecasts for growth, unemployment and inflation are achieved.

Fundamental conditions in certain corporate sectors remain challenging, such as the lodging and hospitality sectors, which still face lower than pre-Pandemic levels of demand. We may experience defaults on fixed income securities, particularly with respect to non-investment grade debt securities. Although we perform rigorous credit analysis of our fixed income investments, it is difficult to foresee which issuers, industries or markets will be most affected. As a result, the value of our fixed maturity portfolio could change rapidly in ways we cannot currently anticipate, and we could incur additional realized and unrealized losses in future periods.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### INTEREST RATE SENSITIVITY

The valuation of the investment portfolio is subject to risk resulting from interest rate fluctuations, which may adversely impact the valuation of the investment portfolio. In a rising interest rate environment, the value of the fixed maturity sector, which comprises approximately 82% of our investment portfolio, may decline as a result of decreases in the fair value of the securities. Our intent is to hold securities to maturity and recover the decline in valuation as prices accrete to par. However, our intent may change prior to maturity due to changes in the financial markets, our analysis of an issuer's credit metrics and prospects, or as a result of changes in cash flow needs. Interest rate fluctuations may also reduce net investment income and, as a result, profitability. The portfolio may realize lower yields and therefore lower net investment income on securities because securities with prepayment and call features may prepay at a different rate than originally projected. Also, in an increasing rate environment, the duration of our fixed maturity portfolio could lengthen as issuers choose not to exercise their option to call or prepay their debt. For this and other reasons, funds may not be available to invest at higher interest rates.

In a declining interest rate environment, prepayments and calls may increase as issuers exercise their option to refinance at lower rates. The resulting funds would be reinvested at lower yields.

The following table illustrates the estimated impact on the fair value of our fixed maturity portfolio at December 31, 2021 and 2020 of hypothetical changes in prevailing interest rates, defined as changes in interest rates on U.S. Treasury debt. It does not reflect changes in credit spreads, liquidity spreads and other factors that also affect the value of securities. Since changes in prevailing interest rates are often accompanied by changes in these other factors, the reader should not assume that an actual change in interest rates would result in the values illustrated.

*(dollars in millions)*

INVESTMENT TYPE	+300bp	+200bp	+100bp	0	-100bp	-200bp	-300bp
Residential mortgage-backed securities	\$ 900	\$ 955	\$ 1,010	\$ 1,070	\$ 1,110	\$ 1,135	\$ 1,160
Municipal securities	1,005	1,065	1,130	1,201	1,275	1,350	1,430
All other fixed maturity securities	4,740	4,965	5,205	5,453	5,715	5,985	6,275
Total December 31, 2021	\$ 6,645	\$ 6,985	\$ 7,345	\$ 7,724	\$ 8,100	\$ 8,470	\$ 8,865
Total December 31, 2020	\$ 6,395	\$ 6,735	\$ 7,090	\$ 7,454	\$ 7,805	\$ 8,165	\$ 8,570

Our investment strategy seeks to balance the goals of liquidity, capital preservation, net investment income stability and total return. The allocation process takes into consideration the profile and expected payout pattern of our liabilities, the level of capital required to support growth across lines of business and the risk profiles of a wide range of asset classes.

The majority of our assets are invested in investment grade fixed income securities across various sectors including U.S. government, municipal, corporate, residential and commercial mortgage-backed securities and asset-backed securities. Our holdings are diversified within and across major investment and industry sectors to mitigate credit and interest rate risk. We monitor the credit quality of our investments and our exposure to individual markets, borrowers, industries, sectors and, in the case of commercial mortgage-backed securities and commercial mortgage loan participations, property types and geographic locations. In addition, we currently carry debt that is subject to interest rate risk, which was issued at fixed interest rates between 2.50% and 8.207%. Current market conditions, in light of our risk tolerance, restrict our ability to invest fixed income assets at similar rates of return; therefore, earnings on a similar level of assets are not sufficient to cover current debt interest costs.

### EQUITY PRICE RISK

Our equity securities portfolio is exposed to equity price risk arising from potential volatility in equity market prices. Portfolio characteristics are analyzed regularly and price risk is actively managed through a variety of techniques. A hypothetical increase or decrease of 10% in the market price of our equity securities would have resulted in an increase or decrease in the fair value of the equity securities portfolio of approximately \$66 million at December 31, 2021 and \$60 million at December 31, 2020, which amounts, after taxes, would be reported in net income.

## OTHER ITEMS

Net income also included the following items:

	YEARS ENDED DECEMBER 31				
<i>(in millions)</i>	Commercial Lines	Personal Lines	Other	Discontinued Operations	Total
<b>2021</b>					
Net realized and unrealized investment gains (losses)	\$ 89.4	\$ 37.8	\$ (4.2)	\$ —	\$ 123.0
Discontinued operations - Chaucer business, net of taxes	—	—	—	1.2	1.2
Discontinued life businesses, net of taxes	—	—	—	(2.5)	(2.5)
<b>2020</b>					
Net realized and unrealized investment gains (losses)	\$ 5.2	\$ 3.5	\$ (3.7)	\$ —	\$ 5.0
Loss from repayment of debt	—	—	(6.2)	—	(6.2)
Other non-operating items	(0.9)	(0.7)	—	—	(1.6)
Discontinued operations - Chaucer business, net of taxes	—	—	—	0.4	0.4
Discontinued life businesses, net of taxes	—	—	—	(3.7)	(3.7)
<b>2019</b>					
Net realized and unrealized investment gains	\$ 75.0	\$ 33.4	\$ 1.0	\$ —	\$ 109.4
Other non-operating items	(1.3)	(1.2)	(0.9)	—	(3.4)
Discontinued operations - Chaucer business, including loss on sale, net of taxes	—	—	—	0.4	0.4
Discontinued life businesses, net of taxes	—	—	—	(4.3)	(4.3)

We manage investment assets for our Commercial Lines, Personal Lines and Other segments based on the requirements of our combined property and casualty companies. We allocate the investment income, expenses and realized gains and losses to our Commercial Lines, Personal Lines and Other segments based on actuarial information related to the underlying businesses.

Net realized and unrealized investment gains were \$123.0 million, \$5.0 million and \$109.4 million in 2021, 2020 and 2019, respectively. Net realized and unrealized investment gains in 2021 were primarily due to \$119.1 million of appreciation in the fair value of our equity securities. Net realized and unrealized investment gains in 2020 were primarily due to net realized gains from sales and other of \$17.9 million and, to a lesser extent, appreciation in the fair value of our equity securities of \$13.4 million, partially offset by impairment losses on investments. Net realized and unrealized investment gains in 2019 were primarily due to \$106.5 million of appreciation in the fair value of our equity securities.

In 2020, we repurchased all of our outstanding 6.35% subordinated debentures due March 30, 2053 with a net carrying value of \$168.9 million, at a cost of \$175.0 million, resulting in a pre-tax loss of \$6.1 million. Additionally, in 2020 we repurchased a portion of our 7.625% senior debentures with a net carrying value of \$0.8 million.

In 2021, discontinued operations, in total, generated net losses of \$1.3 million, net of tax, consisting of \$2.5 million of losses related to our former accident and health business, partially offset by \$1.2 million of income from our former Chaucer business. Losses in our former accident and health business primarily related to the long-term care pool whereas income from our former Chaucer business resulted from the release of certain tax positions, due to the expiration of certain statutes of limitations. In 2020 and 2019, discontinued operations, in total, generated net losses of \$3.3 million and \$3.9 million, net of tax, respectively, primarily related to the long-term care pool in our former accident and health business.

## INCOME TAXES

We file a consolidated U.S. federal income tax return that includes our holding company and its domestic subsidiaries (including non-insurance operations).

The provision for income taxes from continuing operations was an expense of \$101.3 million, \$82.8 million, and \$93.1 million in 2021, 2020 and 2019, respectively. These amounts resulted in consolidated effective tax rates of 19.4%, 18.6% and 17.8% on pre-tax income for 2021, 2020 and 2019, respectively. The provisions in 2021, 2020 and 2019 reflect benefits related to tax planning strategies implemented in prior years of \$4.6 million, \$9.2 million and \$14.8 million, respectively. The provisions in 2021, 2020 and 2019 also included excess tax benefits related to stock-based compensation of \$2.6 million, \$2.1 million and \$3.0 million, respectively. In addition, the provision for 2021 includes a net benefit related to prior years' federal research tax credits of \$1.7 million. Lastly, the provision for 2019 includes a charge of \$1.2 million, which relates to the 2017 changes in the tax law related to the 2018 sale of Chaucer. Absent these items, the provision for income taxes for 2021, 2020 and 2019 would have been expenses of \$110.2 million, \$94.1 million and \$109.7 million, respectively, or 21.1% for 2021, 21.2% for 2020 and 21.0% for 2019.

The income tax provision on operating income was an expense of \$80.0 million, \$92.6 million and \$84.5 million for 2021, 2020 and 2019, respectively. These provisions resulted in effective tax rates for operating income of 20.1%, 20.7% and 20.3% in 2021, 2020 and 2019, respectively. The provisions for 2021, 2020 and 2019 reflect the aforementioned excess tax benefits related to stock-based compensation. The provision for 2021 also reflects the aforementioned net benefit related to prior years' federal research tax credits. Absent these items, the provision for income taxes for 2021, 2020 and 2019 would have been expenses of \$84.3 million, \$94.7 million and \$87.5 million, or 21.2% for 2021 and 2020 and 21.0% for 2019.

During 2021, we recorded increases in reserves related to uncertain tax positions of \$2.0 million as an expense in continuing operations. We also recorded decreases in reserves related to uncertain tax positions, due to the expirations of certain statutes of limitations during 2021, 2020 and 2019. The 2021 reserve release of \$1.1 million was recorded as a benefit to income from discontinued Chaucer business, net of taxes. The 2020 reserve release of \$0.5 million was recorded as a benefit to the income (loss) from discontinued life businesses, net of taxes. The 2019 reserve release of \$2.0 million was recorded as a benefit to income from our former Chaucer business, net of taxes. We are subject to U.S. federal and state examinations and foreign examinations for years after 2017. The audit of our Massachusetts corporate excise tax years 2017 and 2018 commenced in June 2021.

In prior years, we completed several transactions which resulted in the realization, for tax purposes only, of unrealized gains in our investment portfolio. As a result of these transactions, we were able to realize capital losses carried forward and release the valuation allowance recorded against the deferred tax asset related to those losses. The releases of valuation allowances were recorded as a benefit in accumulated other comprehensive income. Previously unrealized benefits of \$4.6 million, \$9.2 million and \$14.8 million, attributable to non-operating income, were recognized as part of our income from continuing operations during 2021, 2020 and 2019, respectively. The remaining amount of \$7.0 million in accumulated other comprehensive income will be released into income from continuing operations in future years, as the investment securities subject to these transactions are sold or mature.

### **CRITICAL ACCOUNTING ESTIMATES**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements. These statements have been prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following critical accounting estimates are those which we believe affect the more significant judgments and estimates used in the preparation of our financial statements. Additional information about other significant accounting policies and estimates may be found in Note 1 – “Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements.

#### *RESERVE FOR LOSSES AND LOSS EXPENSES*

See “Reserve for Losses and Loss Adjustment Expenses” within “Results of Operations – Segments” for a discussion of our critical accounting estimates for loss reserves.

#### *REINSURANCE RECOVERABLE BALANCES*

See “Reinsurance Recoverables” in Part I – Item 1 for information on our reinsurance recoverable balances.

#### *PENSION BENEFIT OBLIGATIONS*

We currently have a qualified defined benefit plan and several smaller non-qualified benefit plans. In order to measure the liabilities and expense associated with these plans, we must make various estimates and key assumptions, including discount rates used to value liabilities, assumed rates of return on plan assets, employee turnover rates and anticipated mortality rates. These estimates and assumptions are reviewed at least annually and are based on our historical experience, as well as current facts and circumstances. In addition, we use outside actuaries to assist in measuring the expenses and liabilities associated with our defined benefit pension plan.

Two significant assumptions used in the determination of benefit plan obligations and expenses that are dependent on market factors, which have been subject to a greater level of volatility in recent years, are the discount rate and the return on plan asset assumptions. The discount rate enables us to state expected future benefit payments as a present value on the measurement date. We also use this discount rate in the determination of our pre-tax pension expense or benefit. A higher discount rate decreases the present value of benefit obligations and decreases pension expense. We determined our discount rate for the qualified benefit plan utilizing independent yield curves which provide for a portfolio of high quality bonds that are expected to match the cash flows of our pension plans. Bond information used in the yield curve included only those rated Aa or better as of December 31, 2021 and 2020, respectively, and had been rated by at least two well-known rating agencies. The discount rates used to value liabilities in our qualified pension plan were 3.25% and 3.00% as of December 31, 2021 and 2020, respectively.

To determine the expected long-term return on plan assets, we generally consider historical mean returns by asset class for passive indexed strategies, as well as current and expected asset allocations, and adjust for certain factors that we believe will have an impact on future returns. Actual returns on plan assets in any given year seldom result in the achievement of the expected rate of return on assets. Actual returns on plan assets in excess of these expected returns will generally reduce our net actuarial losses (or increase actuarial gains) that are reflected in the accumulated other comprehensive income balance in shareholders' equity, whereas actual



returns on plan assets that are less than expected returns will generally increase our net actuarial losses (or decrease actuarial gains) that are reflected in accumulated other comprehensive income. These gains or losses are amortized into expense in future years. The qualified benefit plan held assets consisting of approximately 90% fixed maturities and 10% equity securities at December 31, 2021.

The expected return on asset assumption was 3.75% and 4.75% in 2021 and 2020, respectively. Asset returns are reflected net of administrative expenses.

Net actuarial losses related to the qualified benefit plan of \$12.5 million and net actuarial gains of \$7.2 million were reflected as changes to accumulated other comprehensive income in 2021 and 2020, respectively. Net actuarial losses in 2021 resulted from lower than expected investment returns during the year, partially offset by an increase in the discount rate. Net actuarial gains in 2020 resulted from net investment gains during the year, as well as favorable mortality experience, partially offset by a decrease in the discount rate. In 2021 and 2020, amortization of actuarial losses from prior years was \$2.1 million and \$5.4 million, respectively.

Expenses related to our qualified benefit plan are generally calculated based upon information available at the beginning of the plan year. Our pre-tax benefit related to our qualified benefit plan was \$2.3 million for 2021, compared to a pre-tax expense of \$0.3 million for 2020. As a result of lower than expected market returns in 2021, partially offset by an increase in the discount rate, our pension benefit related to our qualified benefit plan is expected to decrease from \$2.3 million in 2021 to an expense of \$1.5 million in 2022.

Holding all other assumptions constant, sensitivity to changes in our key assumptions related to our qualified benefit plan is as follows:

<i>(in millions)</i>	
<i>Discount Rate -</i>	
25 basis point increase	
Change in Benefit Obligation	\$ (9.0)
Change in 2022 Expense	(1.0)
25 basis point decrease	
Change in Benefit Obligation	9.4
Change in 2022 Expense	1.1
<i>Expected Return on Plan Assets -</i>	
25 basis point increase	
Change in 2022 Expense	(1.2)
25 basis point decrease	
Change in 2022 Expense	1.2

#### INVESTMENT CREDIT LOSSES

We employ a systematic methodology to evaluate declines in fair values below amortized cost for all fixed maturity investments. The methodology utilizes a quantitative and qualitative process that seeks to ensure that available evidence concerning the declines in fair value below amortized cost is evaluated in a disciplined manner. In determining whether a decline in fair value below amortized cost should be recorded as an impairment, we evaluate several factors and circumstances, including the issuer's overall financial condition; the issuer's credit and financial strength ratings; the issuer's financial performance, including earnings trends, dividend payments and asset quality; any specific events which may influence the operations of the issuer; the general outlook for market conditions in the industry or geographic region in which the issuer operates; and the degree to which the fair value of an issuer's securities is below our cost. We consider factors that might raise doubt about the issuer's ability to make contractual payments as they become due and whether we expect to recover the entire amortized cost basis of the security.

We monitor corporate fixed maturity securities with unrealized losses on a quarterly basis and more frequently when necessary to identify potential credit deterioration, as evidenced by ratings downgrades, unexpected price variances, and/or company or industry specific concerns. We apply consistent standards of credit analysis which includes determining whether the issuer is current on its contractual payments, and we consider past events, current conditions and reasonable and supportable forecasts to evaluate whether we expect to recover the entire amortized cost basis of the security. We utilize valuation declines as a potential indicator of credit deterioration and apply additional levels of scrutiny in our analysis as the severity of the decline increases.

For our impairment review of asset-backed fixed maturity securities, we forecast our best estimate of the prospective future cash flows of the security to determine if we expect to recover the entire amortized cost basis of the security. Our analysis includes estimates of underlying collateral default rates based on historical and projected delinquency rates and estimates of the amount and timing of potential recovery. We consider available information relevant to the collectability of cash flows, including information about the payment terms of the security, prepayment speeds, the financial condition of the underlying borrowers, collateral trustee reports, credit ratings analysis and other market data when developing our estimate of the expected cash flows.

When an impairment of a fixed maturity security occurs, and we intend to sell or more likely than not will be required to sell the investment before recovery of its amortized cost basis, the amortized cost of the security is reduced to its fair value, with a

corresponding charge to earnings, which reduces net income and earnings per share. If we do not intend to sell the fixed maturity investment or more likely than not will not be required to sell it, we separate the impairment into the amount we estimate represents the credit loss and the amount related to all other factors. The amount of the estimated loss attributable to credit is recognized in earnings, which reduces net income and earnings per share.

We estimate the amount of the credit impairment by comparing the amortized cost of the fixed maturity security with the net present value of the fixed maturity security's projected future cash flows, discounted at the effective interest rate implicit in the investment prior to impairment.

Declines in market value which are not credit loss related are recorded as unrealized losses, which do not affect net income and earnings per share, but reduce accumulated other comprehensive income, which is reflected in our Consolidated Balance Sheets. We cannot provide assurance that the impairments will be adequate to cover future losses or that we will not have substantial additional impairments in the future. See Note 2 – "Investments" and Note 3 – "Investment Income and Gains and Losses" in the Notes to Consolidated Financial Statements for further discussion regarding securities in an unrealized loss position and impairments.

## STATUTORY SURPLUS OF INSURANCE SUBSIDIARIES

The following table reflects statutory surplus for our insurance subsidiaries:

<b>DECEMBER 31</b>	<b>2021</b>	<b>2020</b>
<i>(in millions)</i>		
Total Statutory Capital and Surplus	\$ 2,720.0	\$ 2,588.5

The statutory capital and surplus for our insurance subsidiaries increased \$131.5 million during 2021, primarily due to underwriting profits and net realized and unrealized investment gains, primarily due to changes in the fair value of equity securities, partially offset by the payment of a \$255 million dividend.

The NAIC prescribes an annual calculation regarding risk based capital ("RBC"). RBC ratios for regulatory purposes, as described in the glossary, are expressed as a percentage of the capital required to be above the Authorized Control Level (the "Regulatory Scale"); however, in the insurance industry, RBC ratios are widely expressed as a percentage of the Company Action Level. The following table reflects the Company Action Level, the Authorized Control Level and RBC ratios for Hanover Insurance (which includes Citizens and other insurance subsidiaries), as of December 31, 2021 and 2020, expressed both on the Industry Scale (Total Adjusted Capital divided by the Company Action Level) and Regulatory Scale (Total Adjusted Capital divided by Authorized Control Level):

<i>(dollars in millions)</i>	<i>Company Action Level</i>	<i>Authorized Control Level</i>	<i>RBC Ratio Industry Scale</i>	<i>RBC Ratio Regulatory Scale</i>
<b>DECEMBER 31, 2021</b>				
The Hanover Insurance Company	\$ 1,187.7	\$ 593.9	228%	456%
<b>DECEMBER 31, 2020</b>				
The Hanover Insurance Company	\$ 1,105.2	\$ 552.6	233%	467%

## LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of our ability to generate sufficient cash flows to meet the cash requirements of business operations. As a holding company, our primary ongoing source of cash is dividends from our insurance subsidiaries. However, dividend payments to us by our insurance subsidiaries are subject to limitations imposed by regulators, such as prior notice periods and the requirement that dividends in excess of a specified percentage of statutory surplus or prior year's statutory earnings receive prior approval (so called "extraordinary dividends"). Hanover Insurance paid \$255.0 million, \$245.0 million and \$140.0 million in dividends to the holding company in 2021, 2020 and 2019, respectively.

Sources of cash for our insurance subsidiaries primarily consist of premiums collected, investment income and maturing investments. Primary cash outflows are payments for losses and loss adjustment expenses, policy and contract acquisition expenses, other underwriting expenses and investment purchases. Cash outflows related to losses and loss adjustment expenses can be variable because of uncertainties surrounding settlement dates for liabilities for unpaid losses and because of the potential for large losses, either individually or in the aggregate. We periodically adjust our investment policy to respond to changes in short-term and long-term cash requirements.

Net cash provided by operating activities was \$823.7 million during 2021, as compared to \$707.6 million during 2020 and \$602.9 million in 2019. The \$116.1 million increase in cash provided in 2021 as compared to 2020 was primarily due to increased premiums and, to a lesser extent, a decrease in federal income tax payments, partially offset by higher loss and LAE payments. The \$104.7 million increase in cash provided in 2020 as compared to 2019 was primarily due to lower loss and LAE payments, a decrease in Federal income tax payments, and a slight increase in premium collections.

Net cash used in investing activities was \$460.2 million during 2021, as compared to \$608.8 million during 2020 and \$311.9 million in 2019. During 2021, 2020 and 2019, cash used in investing activities primarily related to net purchases of fixed maturities and, to a lesser extent, equity securities and other investments.

Net cash used in financing activities was \$253.2 million during 2021, as compared to \$193.9 million during 2020 and \$1,099.3 million in 2019. During 2021, cash used in financing activities primarily resulted from repurchases of common stock through the open market and the payment of quarterly dividends to shareholders. During 2020, cash used in financing activities primarily resulted from repurchases of common stock through both an accelerated share repurchase ("ASR") agreement and the open market, the repayment of subordinated debentures and the payment of quarterly dividends to shareholders, partially offset by cash received from the issuance of senior debentures. During 2019, cash used in financing activities primarily resulted from repurchases of common stock through three ASR agreements, the payments of two special dividends in addition to regular quarterly dividends to shareholders, and the repayment of the Federal Home Loan Bank ("FHLB") advances.

Dividends to common shareholders are subject to quarterly board approval and declaration. During 2021, we paid dividends that totaled \$102.2 million. This included three quarterly dividends of \$0.70 per share and one quarterly dividend of \$0.75 per share. We believe that our holding company assets are sufficient to provide for future shareholder dividends should the Board of Directors declare them.

At December 31, 2021, THG, as a holding company, held approximately \$378.1 million of fixed maturities and cash. We believe our holding company assets will be sufficient to meet our current year obligations, which we expect to consist primarily of quarterly dividends to our shareholders (as and to the extent declared), interest on our senior and subordinated debentures, certain costs associated with benefits due to our former life employees and agents and, to the extent required, payments related to indemnification of liabilities associated with the sale of various subsidiaries. As discussed below, we have, and opportunistically may continue to, repurchase our common stock and debt. We do not expect that it will be necessary to dividend additional funds from our insurance subsidiaries in order to fund 2022 holding company obligations; however, we may decide to do so.

We expect to continue to generate sufficient positive operating cash to meet all short-term and long-term cash requirements relating to current operations, including the funding of our qualified defined benefit pension plan. We believe that this plan is fully funded. The ultimate payment amounts for our benefit plan is based on several assumptions, including but not limited to, the rate of return on plan assets, the discount rate for benefit obligations, mortality experience, interest crediting rates, inflation and the ultimate valuation and determination of benefit obligations. Since differences between actual plan experience and our assumptions are almost certain, changes, both positive and negative, to our current funding status and ultimately our obligations in future periods are likely.

Our insurance subsidiaries maintain a high degree of liquidity within their respective investment portfolios in fixed maturity and short-term investments. We believe that the quality of the assets we hold will allow us to realize the long-term economic value of our portfolio, including securities that are currently in an unrealized loss position. We do not anticipate the need to sell these securities to meet our insurance subsidiaries' cash requirements since we expect our insurance subsidiaries to generate sufficient operating cash to meet all short-term and long-term cash requirements relating to current operations. However, there can be no assurance that unforeseen business needs or other items will not occur causing us to have to sell those securities in a loss position before their values fully recover, thereby causing us to recognize impairment charges in that time period.

The Board of Directors has authorized a stock repurchase program which provides for aggregate repurchases of our common stock of up to \$1.3 billion. Under the repurchase authorization, we may repurchase, from time to time, common stock in amounts, at prices and at such times as we deem appropriate, subject to market conditions and other considerations. Repurchases may be executed using open market purchases, privately negotiated transactions, accelerated repurchase programs or other transactions. We are not required to purchase any specific number of shares or to make purchases by any certain date under this program. On October 29, 2020, pursuant to the terms of an accelerated share repurchase (“ASR”) agreement (the “October 2020 ASR”), we paid \$100.0 million in exchange for shares of our common stock. We received an initial share delivery, of approximately 0.8 million shares of common stock, which was approximately 80% of the total number of shares expected to be repurchased under the October 2020 ASR agreement. On January 29, 2021, we received approximately 45,000 shares of our common stock as final settlement of shares repurchased under the October 2020 ASR. In addition to the shares repurchased under the October 2020 ASR, during 2021 we repurchased approximately 1.2 million shares at an aggregate cost of \$162.6 million. As of December 31, 2021, we had repurchased 7.7 million shares under this \$1.3 billion program and had approximately \$361 million available for additional repurchases.

We maintain our membership in the FHLB to provide access to additional liquidity based on our holdings of FHLB stock and pledged collateral. At December 31, 2021, we had borrowing capacity of \$97.3 million. There were no borrowings outstanding under this short-term facility at December 31, 2021; however, we have borrowed and may continue to borrow, from time to time, through this facility to provide short-term liquidity.

On April 30, 2019, we entered into a credit agreement that provides for a five-year unsecured revolving credit facility not to exceed \$200.0 million at any one time outstanding, with the option to increase the facility up to \$300.0 million, (assuming no default and satisfaction of other specified conditions, including the receipt of additional lender commitments). The agreement also includes an uncommitted subfacility of \$50.0 million for standby letters of credit. Borrowings, if any, under this new agreement are unsecured and incur interest at a rate per annum equal to, at our election, either (i) the greater of, (a) the prime commercial lending rate of the administrative agent, (b) the NYFRB Rate plus half a percent, or (c) the one month Adjusted LIBOR plus one percent and a margin that ranges from 0.25% to 0.625% depending on our debt rating, or (ii) Adjusted LIBOR for the applicable interest period, plus a margin that ranges from 1.25% to 1.625% depending on our debt rating. The agreement also contains certain financial covenants such as maintenance of specified levels of consolidated equity and leverage ratios, and requires that certain of our subsidiaries maintain minimum RBC ratios. We currently have no borrowings under this agreement and had no borrowings during 2021. The LIBOR rate, upon which Adjusted LIBOR is based, is in the process of being discontinued. During 2021, certain key tenors of LIBOR were extended with a new cessation date of June 30, 2023. Our credit agreement permits us to agree with the Administrative Agent for the credit facility on a replacement to Adjusted LIBOR subject to the satisfaction of certain conditions.

At December 31, 2021, we were in compliance with the covenants of our debt and credit agreements.

#### *FINANCING OBLIGATIONS AND OTHER ESTIMATED OPERATING PAYMENTS*

Financing obligations generally include repayment of our senior debentures, subordinated debentures and lease payments. Annual payments are related to the contractual principal and interest payments of these financing obligations as of December 31, 2021, unless otherwise noted, and lease payments reflect expected cash payments based upon active lease terms. It is expected that in the normal course of business, leases that expire will generally be renewed or replaced by leases on similar property and equipment. In addition, as discussed below, we expect payments related to our loss and LAE obligations, payments in support of the obligations of our benefit plans and for commitments to purchase investment securities at a future date. Actual payments may differ from the contractual and/or estimated payments.

Our senior debenture obligations include senior debentures of \$61.8 million due in 2025, which pay an annual interest rate of 7.625%, senior debentures of \$375.0 million due in 2026, which pay annual interest at a rate of 4.50%, and our senior debentures of \$300.0 million due in 2030, which pay annual interest at a rate of 2.50%. Additionally, we carry subordinated debentures of \$50.1 million due in 2027, which pay interest at an annual rate of 8.207%. Interest associated with this debt includes \$33.2 million due in one year or less and \$151.7 million due after one year.

Our subsidiaries are lessees with a number of leases, consisting primarily of equipment, real estate and fleet vehicles. Our lease obligations include \$18.5 million due in one year or less and \$39.7 million due after one year.

We currently have obligations to pay benefits under our qualified and non-qualified defined benefit pension and post-retirement benefit plans. We do not expect to make any significant contributions to our qualified plan in order to meet our minimum funding requirements for the next several years; however, additional contributions may be required in the future based on the level of pension assets and liabilities in future periods. Estimated payments to be made for non-qualified pension, postretirement, and postemployment benefits totaled \$4.1 million due in one year or less and \$26.8 million due after one year. These estimated payments extend until 2031; however, it is likely that payments will be required beyond 2031. Estimates of these payments and the payment patterns are based upon historical experience. The ultimate payment amount for our pension and postretirement benefit plans is based on several assumptions, including, but not limited to, the rate of return on plan assets, the discount rate for benefit obligations, mortality experience, interest crediting rates and then ultimate valuation of benefit obligations. Differences between actual plan experience and our assumptions are likely and will likely result in changes to our funding obligations in future periods.

Our investment commitments relate primarily to limited partnerships and were \$82.0 million due in one year or less and \$122.4 due after one year.

Unlike many other forms of contractual obligations, loss and LAE reserves do not have definitive due dates and the ultimate payment dates are subject to a number of variables and uncertainties. The total loss and LAE reserve payments expected to be made in one year or less of \$2,185.0 million and after one year of \$4,262.6 million are estimates based principally on historical experience.

## **CONTINGENCIES AND REGULATORY MATTERS**

### *REGULATORY AND INDUSTRY DEVELOPMENTS*

In response to the Pandemic, regulators in many of the states in which we operate have issued orders or guidance pertaining to, among other things, (a) premium refunds, credits or reductions for personal automobile insurance premiums and premiums for other insurance lines that regulators have determined are disproportionately impacted by the Pandemic, including certain commercial lines, for the periods during which governmental restrictions were or remain in effect, with premium adjustments based on factors such as the ongoing frequency and severity of claims, inflation, repair costs and reinsurance pricing, among others; (b) premium payment grace periods, moratoriums on policy non-renewals and cancellations, and other measures that are similar to actions historically implemented in regions heavily impacted by catastrophes, which we anticipate to be manageable, depending on the duration of the regulatory orders and the degree to which policyholder payment patterns vary as a result; and (c) a reassessment of rates in light of current exposures, loss experience and economic conditions. Regulatory restrictions on rate increases, underwriting, policy terms, and the ability to non-renew business may, depending on their duration, limit THG's ability to manage our mix of business and any potential exposures that emerge in our lines of business in the near term.

Draft legislation has been proposed in several state legislatures and/or in the United States Congress that seeks to require insurers to retroactively pay unfunded Pandemic business interruption claims that insurance policies do not currently cover, to impose presumptions on insurance policy interpretation, and/or to mandate prospective pandemic coverage. The impact of such legislation, were it to be adopted, would, according to a statement of the NAIC on March 25, 2020, "create substantial solvency risks" for the property and casualty insurance sector, "significantly undermine the ability of insurers to pay other types of claims, and potentially exacerbate the negative financial and economic impacts the country is currently experiencing." Industry trade groups further assert that any such legislation would be violative of basic contract law and well-founded principles of constitutional law. Federal stimulus plans such as the CARES Act and the American Rescue Plan Act of 2021 providing financial support to individuals and businesses during the Pandemic may mitigate the political pressure to continue advancing such proposed legislation.

Proposals are also being considered at the federal level to establish government-funded pandemic insurance programs, possibly similar to the federal terrorism risk insurance program. Discussion on such competing proposals is ongoing and at a preliminary stage such that it is too early to estimate their potential impact, if any, on our business.

Information regarding litigation and legal contingencies appears in Note 15 – "Commitments and Contingencies" in the Notes to Consolidated Financial Statements. Information related to certain regulatory and industry developments are contained in "Regulation" in Part I – Item 1 and in "Risk Factors" in Part I – Item 1A.

## **RISKS AND FORWARD-LOOKING STATEMENTS**

Management's Discussion and Analysis contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. For a discussion of indicators of forward-looking statements and specific important factors that could cause actual results to differ materially from those contained in forward-looking statements, see "Risk Factors" in Part I – Item 1A. This Management's Discussion and Analysis should be read and interpreted in light of such factors.

## **GLOSSARY OF SELECTED INSURANCE TERMS**

*Account business* – Customers with multiple policies and/or coverages.

*Account rounding* – The conversion of single policy customers to accounts with multiple policies and/or additional coverages, to address customers' broader objectives.

*Benefit payments* – Payments made to an insured or their beneficiary in accordance with the terms of an insurance policy.

*Big data* – Large, diverse, complex sets of information that grow at ever-increasing rates and require special tools and methods to process. It encompasses the volume of information, the velocity, or speed at which it is created and collected, and the variety or scope of the data points being covered. Big data analytics refers to the use of predictive analytics, user behavior analytics, or certain other advanced data analytics methods that extract value from big data.

*Casualty insurance* – Insurance that is primarily concerned with the losses caused by injuries to third persons and their property (other than the policyholder) and the related legal liability of the insured for such losses.

*Catastrophe* – A severe loss, resulting from natural or manmade events, including, among others, hurricanes, tornadoes and other windstorms, earthquakes, hail, severe winter weather, fire, explosions, and terrorism.

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**Catastrophe loss** – Loss and directly identified loss adjustment expenses from catastrophes, including development on prior years’ catastrophe loss reserves. The Insurance Services Office (“ISO”) Property Claim Services (“PCS”) defines a catastrophe loss as an event that causes \$25 million or more in insured property losses from U.S. direct writers and affects a significant number of property and casualty policyholders and insurers. In limited instances where the impact of an event extends across multiple geographic areas or time periods, but is not within the specific parameters established by PCS, we may determine that certain losses are better included within the same catastrophe event. In addition to those catastrophe events declared by ISO, claims management also generally includes within the definition of a “catastrophe loss”, a property loss event that causes approximately \$5 million or more in company insured losses and affects in excess of one hundred policyholders. For the international business in our Commercial Lines segment, management utilizes a “catastrophe loss” definition that is substantially consistent with the ISO definition framework.

**Cede; cedent; ceding company** – When a party reinsures its liability with another party, it “cedes” business and is referred to as the “cedent” or “ceding company”.

**Core Commercial Lines** – Commercial property and casualty coverages provided to small and mid-sized business in the United States, generally with annual premiums, per policy, up to \$250,000, primarily through the commercial multiple peril, commercial automobile and workers’ compensation lines of business.

**Credit spread** – The difference between the yield on the debt securities of a particular corporate debt issue and the yield of a similar maturity of U.S. Treasury debt securities.

**Current accident year results** – A non-GAAP measure of the estimated earnings impact of current premiums offset by estimated loss experience and expenses for the current accident year. This measure includes the estimated increase in revenue associated with higher prices (premiums), including those caused by price inflation and changes in exposure, partially offset by higher volume driven expenses and inflation of loss costs. Volume driven expenses include acquisition costs such as commissions paid to agents, which are typically based on a percentage of premium dollars.

**Earned premium** – The portion of a premium that is recognized as income, or earned, based on the expired portion of the policy period, that is, the period for which loss coverage has actually been provided. For example, after six months, \$50 of a \$100 annual premium is generally considered earned premium. The remaining \$50 of annual premium is unearned premium. Net earned premium is earned premium net of reinsurance.

**Excess of loss reinsurance** – Reinsurance that indemnifies the insured against all or a specific portion of losses under reinsured policies in excess of a specified dollar amount or “retention”.

**Exposure** – As it relates to underwriting, a measure of the rating units or premium basis of a risk; for example, an exposure of a number of automobiles. As it relates to loss events, the maximum value of claims made on an insurer from an event or events that would result in the total exhaustion of the cover or indemnity offered by an insurance policy.

**Exposure management actions** – Actions that focus on improving underwriting profitability and/or lessening earnings volatility by reducing our exposures and property concentrations in certain geographies and lines that are believed to be more prone to catastrophe and non-catastrophe losses. These actions include, but are not limited to, non-renewal, rate increases, stricter underwriting standards and higher deductible utilization, agency management actions, and more selective portfolio management by modifying our business mix.

**Frequency** – The number of claims occurring during a given coverage period.

**Loss adjustment expenses (“LAE”)** – Expenses incurred in the adjusting, recording, and settlement of claims. These expenses include both internal company expenses and outside services. Allocated LAE (“ALAE”) refers to defense and cost containment expenses, including legal fees, court costs, and investigation fees. Unallocated LAE (“ULAE”) refers to expenses that generally cannot be associated with a specific claim. ULAE includes internal costs such as salaries, fringe benefits and other overhead costs associated with the claim settlement process and external adjustment and appraisal fees.

**Loss costs** – An amount of money paid for an insurance claim.

**Loss reserves** – Liabilities established by insurers to reflect the estimated cost of claims payments and the related expenses that the insurer will ultimately be required to pay in respect of insurance it has written. Reserves are established for losses and for LAE.

**Lower (higher) expenses** – Represents the period over period comparison of expenses relative to growth in earned premium. Volume driven expenses typically fluctuate commensurate with changes in premium. Accordingly, as we grow premium, these expenses increase from an absolute dollar perspective, but tend to stay proportionate compared to premium. Fixed expenses can remain constant or increase or decrease irrespective of the growth or decline in premium. When describing expenses as being “lower” or “higher” we are generally referring to changes in fixed costs relative to premium (fixed cost leverage). These “lower” or “higher” expenses correspond to a lower or higher expense ratio.

**Marine insurance** – In Commercial Lines, this is a type of coverage developed for insuring businesses against physical losses to property such as contractor’s equipment, builder’s risk and goods in transit. It covers articles in transit by all forms of land and air



transportation as well as bridges, tunnels, ocean and other means of transportation and communication. In the context of Personal Lines, this term relates to floater policies that cover expensive personal items such as fine art and jewelry.

*Morbidity* – Morbidity relates to the occurrence of illness, disability or other physical or psychological impairment, whether temporary or permanent, for insured risks. Morbidity is a key assumption for long-term care insurance and other forms of individual and group health benefits.

*Partner agents; partner agencies; partner independent agents; agency partners; business partners* – Independent agents (agencies) are self-employed, commission-based businesses who generally represent, and sell insurance policies provided by several insurance companies. We have appointed and developed mutually beneficial relationships with a limited number of independent agents who are demonstrated experts in their field, growth-oriented and align with our strategy. Although we may refer to those agencies as “partner agents”, these are not legally binding “partnerships”, but rather an opportunity for both the agent (agencies) and THG to work together and achieve common goals.

*Peril* – A cause of loss.

*Price(ing) increase or decrease (Commercial Lines)* – Represents the average change in premium on renewed policies caused by the estimated net effect of base rate changes, discretionary pricing, inflation or changes in policy level exposure or insured risk.

*Price(ing) increase or decrease (Personal Lines)* – The estimated cumulative premium effect of approved rate actions applied to policies available for renewal, regardless of whether or not policies are actually renewed. Pricing changes do not represent actual increases or decreases realized by THG.

*Property insurance* – Insurance that provides coverage for tangible property in the event of loss, damage or loss of use.

*Rate* – The estimated pure pricing factor upon which the policyholder’s premium is based excluding changes in exposure or risk.

*Ratios: (1)*

*Catastrophe loss ratio* – The ratio of catastrophe losses incurred to premiums earned.

*Combined ratio* – This ratio is the GAAP equivalent of the statutory ratio that is widely used as a benchmark for determining an insurer’s underwriting performance. A ratio below 100% generally indicates profitable underwriting prior to the consideration of investment income (loss). A combined ratio over 100% generally indicates unprofitable underwriting prior to the consideration of investment income (loss). The combined ratio is the sum of the loss and loss adjustment expense ratio and the expense ratio.

*Expense ratio* – The ratio of underwriting expenses (including the amortization of deferred acquisition costs), less premium installment and other fee income and premium charge offs, to premiums earned for a given period.

*Loss and loss adjustment expense (“LAE”) ratio* – The ratio of loss and loss adjustment expenses to premiums earned for a given period. The LAE ratio includes catastrophe losses and prior year reserve development.

*Loss ratio* – The ratio of losses (including catastrophe losses) to premiums earned for a given period.

*Reinstatement premium* – A pro-rata reinsurance premium that may be charged to us by our reinsurers. A reinstatement premium may be contractually required to be charged for restoring an amount of reinsurance coverage reduced as the result of a reinsurance loss payment that depletes or exhausts a reinsurance treaty or treaty layer. Reinsurance reinstatement premiums accrued by us are accounted for as a reduction in net premiums earned rather than as an “expense”. For certain reinsurance treaties, a ceding commission adjustment is recorded commensurate with a reinstatement premium accrual. A ceding commission is a fee paid by a reinsurance company to a direct writer to cover the costs of issuing the policy and is recorded as a contra-expense.

*Reinsurance* – An arrangement in which an insurance company, or a reinsurance company, known as the reinsurer, agrees to indemnify another insurance or reinsurance company, known as the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies. Reinsurance can provide a ceding company with several benefits, including a reduction in net liability on risks and catastrophe protection from large or multiple losses. Reinsurance does not legally discharge the primary insurer from its liability with respect to its obligations to the insured.

*Risk based capital (“RBC”)* – A method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The RBC ratio for regulatory purposes is calculated as total adjusted capital divided by required risk based capital. Total adjusted capital for property and casualty companies is capital and surplus, adjusted for the non-tabular reserve discount applicable to our assumed discontinued accident and health insurance business. The Company Action Level is the first level at which regulatory involvement is specified based upon the level of capital.

Regulators may take action for reasons other than triggering various RBC action levels. The various action levels are summarized as follows:

- The Company Action Level, which equals 200% of the Authorized Control Level, requires a company to prepare and submit a RBC plan to the commissioner of the state of domicile. A RBC plan proposes actions which a company may take

in order to bring statutory capital above the Company Action Level. After review, the commissioner will notify the company if the plan is satisfactory.

- The Regulatory Action Level, which equals 150% of the Authorized Control Level, requires the insurer to submit to the commissioner of the state of domicile a RBC plan, or if applicable, a revised RBC plan. After examination or analysis, the commissioner will issue an order specifying corrective actions to be taken.
- The Authorized Control Level authorizes the commissioner of the state of domicile to take whatever regulatory actions are considered necessary to protect the best interest of the policyholders and creditors of the insurer.
- The Mandatory Control Level, which equals 70% of the Authorized Control Level, authorizes the commissioner of the state of domicile to take actions necessary to place the company under regulatory control (i.e., rehabilitation or liquidation).

*Securities lending* – We have, from time to time, engaged our banking provider to lend securities from our investment portfolio to third parties. These lent securities are fully collateralized by cash. When securities are lent, we monitor the fair value of the securities on a daily basis to assure that the collateral is maintained at a level of at least 102% of the fair value of the loaned securities. We record securities lending collateral as a cash equivalent, with an offsetting liability in expenses and taxes payable.

*Severity* – A monetary increase in the loss costs associated with the same or similar type of event or coverage.

*Social inflation* – A term used to explain rising insurance claim payouts due to various factors associated with a more costly legal environment, such as increased litigation frequency, expanded theories of liability and higher jury awards. Higher than the expected litigation payouts to plaintiffs due to these and other factors, may then give rise to the initiation of additional lawsuits seeking similarly elevated awards and increasing settlement costs, which can compound the effect.

*Specialty Lines* – A major component of our Other commercial lines business. There is no accepted industry definition of “specialty lines”, but for our purpose specialty lines consist of products such as marine, surety, specialty industrial property, excess and surplus, professional liability, management liability and various other program businesses. When discussing net premiums written and other financial measures of our specialty businesses, we may include non-specialty premiums that are written as part of the entire account.

*Statutory accounting practices* – Recording transactions and preparing financial statements in accordance with the rules and procedures prescribed or permitted by insurance regulatory authorities including the National Association of Insurance Commissioners, which in general reflect a liquidating, rather than going concern, concept of accounting.

*Underwriting* – The process of selecting risks for insurance and determining in what amounts and on what terms the insurance company will accept risks.

*Underwriting expenses* – Expenses incurred in connection with the acquisition, pricing and administration of a policy or contract, and other insurance company expenses unrelated to claims handling or investments.

*Unearned premiums* – The portion of a premium representing the unexpired amount of the contract term as of a certain date.

*Written premium* – The premium assessed for the entire coverage period of an insurance policy or contract without regard to how much of the premium has been earned. See also “Earned premium” above. Net premium written is written premium net of reinsurance.

(1) Ratios may not be comparable to similarly titled measures of other companies.

## **ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Reference is made to “Quantitative and Qualitative Disclosures about Market Risk” in Management’s Discussion and Analysis.

**ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of The Hanover Insurance Group, Inc.

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of The Hanover Insurance Group, Inc. and its subsidiaries (the “Company”) as of December 31, 2021 and December 31, 2020, and the related consolidated statements of income, of comprehensive income, of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes and schedules of condensed financial information of the registrant, of supplementary insurance information, and of supplemental information concerning property and casualty insurance operations as of December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2021, and schedule of summary of investments – other than investments in related parties as of December 31, 2021 listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and December 31, 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Valuation of loss and loss adjustment expense reserves*

As described in Notes 1 and 14 to the consolidated financial statements, loss and loss adjustment expense reserves were \$6.4 billion as of December 31, 2021. These liabilities are determined using case basis evaluations and statistical analyses of historical loss patterns and represent estimates of the ultimate cost of all losses incurred but not paid. The loss reserve estimation process relies on the basic assumption that past experience, adjusted for the effects of current developments and likely trends, is an appropriate basis for management to predict future outcomes. As part of this process, management uses a variety of analytical methods that consider experience, trends and other relevant factors, as well as considers numerous quantitative and qualitative factors, including the maturity of the accident year, the level of volatility within a particular class of business, the sufficiency or quality of historical reported and paid loss and loss adjustment expenses information, legal and regulatory developments and changes in underwriting, claim handling and case reserving practices. The Company's ultimate incurred but not reported ("IBNR") reserves are estimated by management and reserving actuaries on an aggregate basis for each line of business or coverage for loss and loss expense liabilities not reflected within the case reserves.

The principal considerations for our determination that performing procedures relating to the valuation of loss and loss adjustment expense reserves is a critical audit matter are the significant judgment by management when developing their estimate. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the various analytical methods and factors used by management in developing the estimate, such as historical loss patterns and other relevant quantitative and qualitative factors, which related to the maturity of the accident year, the level of volatility within a particular class of business, and the sufficiency or quality of historical reported and paid loss and loss adjustment expenses information. Also, our audit effort included the involvement of professionals with specialized skill and knowledge to assist in performing procedures and evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the Company's valuation of loss and loss adjustment expense reserves, including controls over the analytical methods applied and development of qualitative and quantitative factors. These procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in either (i) developing an independent estimate of the reserves using historical loss patterns, and other relevant quantitative and qualitative factors, which related to the maturity of the accident year, the level of volatility within a particular class of business, and the sufficiency or quality of historical reported and paid loss and loss adjustment expenses information, for reserves by line of business or coverage on a test basis, and comparison of this independent estimate to management's actuarially determined reserves; or (ii) on a test basis for reserves by line of business or coverage, evaluating the appropriateness of management's analytical methods and reasonableness of factors for determining the reserve balances. Performing these procedures involved testing the completeness and accuracy of data provided by management.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 24, 2022

We have served as the Company's auditor since 1991.

**THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions, except per share data)</i>			
<b>Revenues</b>			
Premiums	\$ 4,770.2	\$ 4,527.4	\$ 4,474.5
Net investment income	310.7	265.1	281.3
Net realized and unrealized investment gains (losses):			
Net realized gains from sales and other	4.6	17.9	4.9
Net change in fair value of equity securities	119.1	13.4	106.5
Impairment losses on investments	(0.7)	(26.3)	(2.0)
Total net realized and unrealized investment gains	123.0	5.0	109.4
Fees and other income	23.9	27.3	25.5
Total revenues	5,227.8	4,824.8	4,890.7
<b>Losses and expenses</b>			
Losses and loss adjustment expenses	3,134.2	2,845.2	2,865.5
Amortization of deferred acquisition costs	982.7	951.0	926.7
Interest expense	34.0	37.1	37.5
Loss on repayment of debt	—	6.2	—
Other operating expenses	555.6	540.5	538.9
Total losses and expenses	4,706.5	4,380.0	4,368.6
Income from continuing operations before income taxes	521.3	444.8	522.1
Income tax expense (benefit):			
Current	77.5	105.9	80.5
Deferred	23.8	(23.1)	12.6
Total income tax expense	101.3	82.8	93.1
Income from continuing operations	420.0	362.0	429.0
Discontinued operations:			
Income from Chaucer business, net of taxes	1.2	0.4	0.4
Loss from discontinued life businesses, net of taxes	(2.5)	(3.7)	(4.3)
Net income	\$ 418.7	\$ 358.7	\$ 425.1
<b>Earnings per common share:</b>			
<b>Basic:</b>			
Income from continuing operations	\$ 11.70	\$ 9.61	\$ 10.72
Discontinued operations:			
Income from Chaucer business, net of taxes	0.03	0.01	0.01
Loss from discontinued life businesses, net of taxes	(0.06)	(0.10)	(0.11)
Net income per share	\$ 11.67	\$ 9.52	\$ 10.62
Weighted average shares outstanding	35.9	37.7	40.0
<b>Diluted:</b>			
Income from continuing operations	\$ 11.52	\$ 9.50	\$ 10.56
Discontinued operations:			
Income from Chaucer business, net of taxes	0.03	0.01	0.01
Loss from discontinued life businesses, net of taxes	(0.06)	(0.09)	(0.11)
Net income per share	\$ 11.49	\$ 9.42	\$ 10.46
Weighted average shares outstanding	36.4	38.1	40.6

The accompanying notes are an integral part of these consolidated financial statements.

**THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions)</i>			
Net income	\$ 418.7	\$ 358.7	\$ 425.1
Other comprehensive income (loss), net of tax:			
Available-for-sale securities:			
Changes in net unrealized gains (losses) on investment securities:			
Having no credit losses recognized in the Consolidated Statements of Income	(243.2)	210.6	238.8
Having credit losses recognized in the Consolidated Statements of Income	—	1.5	2.8
Amount realized with sale of Chaucer business	—	—	0.1
Total available-for-sale securities	(243.2)	212.1	241.7
Pension and postretirement benefits:			
Net actuarial gains (losses) arising in the period	(9.8)	3.1	16.2
Amortization recognized as net periodic benefit and postretirement cost	2.7	4.7	9.0
Total pension and postretirement benefits	(7.1)	7.8	25.2
Cumulative foreign currency translation adjustment:			
Amount realized with sale of Chaucer business	—	—	0.7
Total cumulative foreign currency translation adjustment	—	—	0.7
Total other comprehensive income (loss), net of tax	(250.3)	219.9	267.6
Comprehensive income	\$ 168.4	\$ 578.6	\$ 692.7

The accompanying notes are an integral part of these consolidated financial statements.



**THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

DECEMBER 31	2021	2020
<i>(in millions, except share data)</i>		
<b>Assets</b>		
Investments:		
Fixed maturities, at fair value (amortized cost of \$7,514.8 and \$6,945.6)	\$ 7,723.9	\$ 7,454.4
Equity securities, at fair value	661.3	598.5
Other investments	767.4	793.2
Total investments	9,152.6	8,846.1
Cash and cash equivalents	230.9	120.6
Accrued investment income	49.8	51.2
Premiums and accounts receivable, net	1,469.5	1,339.3
Reinsurance recoverable on paid and unpaid losses and unearned premiums	1,907.3	1,874.3
Deferred acquisition costs	552.0	477.5
Goodwill	178.8	178.8
Other assets	606.3	445.7
Assets of discontinued businesses	107.1	110.2
Total assets	\$ 14,254.3	\$ 13,443.7
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$ 6,447.6	\$ 6,024.0
Unearned premiums	2,734.9	2,482.7
Expenses and taxes payable	907.7	687.5
Deferred income tax liability	60.8	97.3
Reinsurance premiums payable	55.1	48.4
Debt	781.6	780.8
Liabilities of discontinued businesses	121.7	120.8
Total liabilities	11,109.4	10,241.5
Commitments and contingencies		
<b>Shareholders' Equity</b>		
Preferred stock, par value \$0.01 per share; 20.0 million shares authorized; none issued	—	—
Common stock, par value \$0.01 per share; 300.0 million shares authorized; 60.5 million shares issued	0.6	0.6
Additional paid-in capital	1,887.2	1,857.4
Accumulated other comprehensive income	122.2	372.5
Retained earnings	2,983.2	2,668.0
Treasury stock at cost (25.0 and 24.1 million shares)	(1,848.3)	(1,696.3)
Total shareholders' equity	3,144.9	3,202.2
Total liabilities and shareholders' equity	\$ 14,254.3	\$ 13,443.7

The accompanying notes are an integral part of these consolidated financial statements.

**THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

YEARS ENDED DECEMBER 31	2021	2020	2019
<i>(in millions)</i>			
<b>Preferred Stock</b>			
Balance at beginning and end of year	\$ —	\$ —	\$ —
<b>Common Stock</b>			
Balance at beginning and end of year	0.6	0.6	0.6
<b>Additional Paid-in Capital</b>			
Balance at beginning of year	1,857.4	1,837.3	1,871.8
Settlement and prepayment of accelerated share repurchases	5.0	4.4	(49.5)
Employee and director stock-based awards and other	24.8	15.7	15.0
Balance at end of year	1,887.2	1,857.4	1,837.3
<b>Accumulated Other Comprehensive Income (Loss), net of tax</b>			
<b>Net Unrealized Appreciation (Depreciation) on Investments:</b>			
Balance at beginning of year	428.1	216.0	(27.2)
Net appreciation (depreciation) on available-for-sale securities	(243.2)	212.1	241.6
Adoption of Accounting Standards Updates (No. 2017-08 in 2019)	—	—	1.5
Amount realized with sale of Chaucer business	—	—	0.1
Balance at end of year	184.9	428.1	216.0
<b>Defined Benefit Pension and Postretirement Plans:</b>			
Balance at beginning of year	(55.6)	(63.4)	(88.6)
Net amount arising in the period	(9.8)	3.1	16.2
Net amount recognized as net periodic benefit cost	2.7	4.7	9.0
Balance at end of year	(62.7)	(55.6)	(63.4)
<b>Cumulative Foreign Currency Translation Adjustment:</b>			
Balance at beginning of year	—	—	(0.7)
Amount realized with sale of Chaucer business	—	—	0.7
Balance at end of year	—	—	—
Total accumulated other comprehensive income	122.2	372.5	152.6
<b>Retained Earnings</b>			
Balance at beginning of year	2,668.0	2,410.9	2,182.3
Cumulative effect of accounting change, net of taxes	—	(0.9)	(1.5)
Balance at beginning of year, as adjusted	2,668.0	2,410.0	2,180.8
Net income	418.7	358.7	425.1
Dividends to shareholders	(103.5)	(100.7)	(195.0)
Balance at end of year	2,983.2	2,668.0	2,410.9
<b>Treasury Stock</b>			
Balance at beginning of year	(1,696.3)	(1,485.2)	(983.5)
Shares purchased at cost	(167.6)	(217.2)	(514.1)
Net shares reissued at cost under employee stock-based compensation plans	15.6	6.1	12.4
Balance at end of year	(1,848.3)	(1,696.3)	(1,485.2)
Total shareholders' equity	\$ 3,144.9	\$ 3,202.2	\$ 2,916.2

The accompanying notes are an integral part of these consolidated financial statements.

**THE HANOVER INSURANCE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31	2021	2020	2019
<i>(in millions)</i>			
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 418.7	\$ 358.7	\$ 425.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Net loss from repayment of debt	—	6.2	—
Loss from sale of Chaucer business	—	—	1.2
Net realized investment gains	(123.5)	(5.1)	(109.0)
Net amortization and depreciation	16.9	18.2	21.6
Stock-based compensation expense	22.9	20.1	17.4
Amortization of defined benefit plan costs	3.4	6.0	11.4
Deferred income tax expense (benefit)	23.9	(23.0)	12.5
Change in deferred acquisition costs	(74.5)	(10.2)	(14.4)
Change in premiums receivable, net of reinsurance premiums payable	(123.4)	(84.0)	(78.7)
Change in loss, loss adjustment expense and unearned premium reserves	677.0	437.9	498.6
Change in reinsurance recoverable	(32.9)	(60.0)	(179.1)
Change in expenses and taxes payable	179.0	67.5	11.0
Other, net	(163.8)	(24.7)	(14.7)
Net cash provided by operating activities	823.7	707.6	602.9
<b>Cash Flows From Investing Activities</b>			
Proceeds from disposals and maturities of fixed maturities	1,564.4	1,317.5	1,336.9
Proceeds from disposals of equity securities and other investments	286.3	172.8	250.3
Purchase of fixed maturities	(2,112.7)	(1,829.1)	(1,588.3)
Purchase of equity securities and other investments	(190.2)	(255.1)	(332.2)
Capital expenditures	(8.0)	(14.9)	(13.3)
Net proceeds from sale of Chaucer business	—	—	34.7
Net cash used in investing activities	(460.2)	(608.8)	(311.9)
<b>Cash Flows From Financing Activities</b>			
Proceeds from exercise of employee stock options	20.5	6.3	14.4
Proceeds from debt borrowings, net	—	296.4	—
Change in cash collateral related to securities lending program	—	—	(5.0)
Dividends paid to shareholders	(102.2)	(99.5)	(386.2)
Repayment of debt	—	(175.8)	(151.1)
Repurchases of common stock	(162.6)	(212.8)	(563.6)
Other financing activities	(8.9)	(8.5)	(7.8)
Net cash used in financing activities	(253.2)	(193.9)	(1,099.3)
Net change in cash and cash equivalents	110.3	(95.1)	(808.3)
Net change in cash related to discontinued operations	—	—	3.3
Cash and cash equivalents, beginning of year	120.6	215.7	1,020.7
Cash and cash equivalents, end of year	\$ 230.9	\$ 120.6	\$ 215.7
<b>Supplemental Cash Flow Information</b>			
Interest payments	\$ 33.4	\$ 33.9	\$ 37.0
Income tax payments, net	\$ 74.0	\$ 97.0	\$ 113.7

The accompanying notes are an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***A. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION*

The consolidated financial statements of The Hanover Insurance Group, Inc. (“THG” or the “Company”), include the accounts of The Hanover Insurance Company (“Hanover Insurance”) and Citizens Insurance Company of America (“Citizens”), THG’s principal property and casualty companies; and other insurance and non-insurance subsidiaries. These legal entities conduct their operations through several business segments discussed in Note 12 – “Segment Information.” The consolidated financial statements also include the Company’s discontinued operations, consisting primarily of the Company’s former accident and health and life insurance businesses and our former Chaucer operations.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (“U.S. GAAP”) requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of the Company’s management these financial statements reflect all adjustments, consisting of normal recurring items, necessary for a fair presentation of the financial position and results of operations.

*B. INVESTMENTS*

Fixed maturities are classified as available-for-sale and are carried at fair value, with unrealized gains and losses, net of taxes, reported in accumulated other comprehensive income (“AOCI”), a separate component of shareholders’ equity. The amortized cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity.

Equity securities are carried at fair value. Increases and decreases in fair value are reported in net income.

Other investments consist primarily of mortgage participations and limited partnerships. Mortgage participations represent interests in commercial mortgage loans originated and serviced by a third-party of which the Company shares, on a pro-rata basis, in all related cash flows of the underlying mortgage loans. Mortgage participations are stated at unpaid principal balances adjusted for deferred fees or expenses, net of an allowance for credit losses. Investments in limited partnerships include interests in private equity and real estate funds. Investments in limited partnership interests purchased prior to January 1, 2018, where the Company’s interest is so minor that it exercises virtually no influence over operating and financial policies, are accounted for at fair value utilizing the net asset value (“NAV”) as a practical expedient to determine fair value. All other limited partnerships are accounted for in accordance with the equity method of accounting.

The Company excludes accrued interest receivable from both the estimated fair value and the amortized cost basis of its investment securities, and reports such amounts separately on the consolidated balance sheets as accrued investment income. When an accrued interest receivable is deemed uncollectible it is written off as a charge to investment income, rather than recorded through an allowance.

Net investment income includes interest, dividends and income from limited partnership interests. Interest income is recognized based on the effective yield method, which includes the amortization of premiums and accretion of discounts. The effective yield used to determine the amortization for fixed maturities subject to prepayment risk, such as mortgage-backed and asset-backed securities, is recalculated and adjusted periodically based upon actual historical and projected future cash flows. The adjustment to yields for highly rated prepayable fixed maturities is accounted for using the retrospective method. The adjustment to yields for all other prepayable fixed maturities is accounted for using the prospective method. Fixed maturities and mortgage participations for which payments are delinquent are placed on non-accrual status, and thereafter interest income is recognized only when cash payments are received.

Realized investment gains and losses on sales are reported as a component of revenues based upon specific identification of the investment assets sold. Impairments are reported as realized investment losses, and include credit losses (and any subsequent recoveries) on fixed maturities and mortgage participations, and intend-to-sell impairment losses on fixed maturities. Changes in the fair value of equity securities are reported in net realized and unrealized investment gains (losses), including increases and decreases in fair value on securities that are still held and realized gains and losses on securities that have been sold.

The Company reviews fixed maturity securities in an unrealized loss position and assesses whether it intends to sell the security or more likely than not will be required to sell the security before the recovery of its amortized cost basis. If the debt security meets either of these two criteria, an intend-to-sell impairment is recognized in earnings equal to the entire difference between the security’s amortized cost basis and its fair value at the impairment measurement date. If neither of the above criteria are met, the credit loss portion of the unrealized loss is recorded through earnings and the non-credit portion remains in other comprehensive income. Credit losses are estimated by comparing the amortized cost of the fixed maturity security with the net present value of the security’s projected future cash flows, discounted at the effective interest rate implicit in the investment prior to impairment. The non-credit portion of the impairment is equal to the difference between the fair value and the net present value of the security’s cash flows at the impairment measurement date. Until January 1, 2020, intend-to-sell impairments and credit losses on fixed maturities resulted in a

reduction of the amortized cost basis of the security, and reversal of an impairment was not allowed. Beginning January 1, 2020, credit losses are recorded through an allowance for credit losses rather than an adjustment to amortized cost. Recoveries of impairments on fixed maturities are recognized as reversals of the allowance for credit loss and are no longer accreted as investment income through an adjustment to investment yield. The allowance for credit losses is limited to the amount that fair value is less than amortized cost and therefore, increases in the fair value of investments due to reasons other than credit could result in decreases in the allowance and an increase in net income.

Mortgage participations are pooled by similar risk characteristics and evaluated for credit losses. The allowance for credit losses is calculated using expected loss rates, which vary based on risk factors such as property type, geographic market, and loan-to-value and debt service coverage ratios.

#### *C. FINANCIAL INSTRUMENTS*

In the normal course of business, the Company may enter into transactions involving various types of financial instruments, including debt, investments, such as fixed maturities, equity securities and mortgage loans, investment and loan commitments, and certain derivative contracts. These instruments involve credit risk and could also be subject to risk of loss due to interest rate fluctuation. The Company evaluates and monitors each financial instrument individually and, when appropriate, obtains collateral or other security to minimize losses.

#### *D. CASH AND CASH EQUIVALENTS*

Cash and cash equivalents include cash on hand, amounts due from banks and highly liquid debt instruments purchased with an original maturity of three months or less.

#### *E. DEFERRED ACQUISITION COSTS*

Acquisition costs consist of commissions, underwriting costs and other costs, which vary with, and are primarily related to, the successful production of premiums. Acquisition costs are deferred and amortized over the terms of the insurance policies.

Deferred acquisition costs (“DAC”) for each operating segment are reviewed to determine if the costs are recoverable from future income, including investment income. If such costs are determined to be unrecoverable, they are expensed at the time of determination. Although recoverability of DAC is not assured, the Company believes it is more likely than not that all of these costs will be recovered. The amount of DAC considered recoverable, however, could be reduced in the near term if the estimates of total revenues discussed above are reduced or permanently impaired as a result of a disposition of a line of business. The amount of amortization of DAC could be revised in the near term if any of the estimates discussed above are revised.

#### *F. REINSURANCE RECOVERABLES*

The Company shares certain insurance risks it has underwritten, through the use of reinsurance contracts, with various insurance entities. Reinsurance accounting is followed for ceded transactions when the risk transfer provisions of ASC 944, *Financial Services – Insurance*, have been met. As a result, when the Company experiences loss or claims events that are subject to a reinsurance contract, reinsurance recoverables are recorded. The amount of the reinsurance recoverable can vary based on the terms of the reinsurance contract, the size of the individual loss or claim, or the aggregate amount of all losses or claims in a particular line or book of business, or an aggregate amount associated with a particular accident year. The valuation of losses or claims recoverable depends on whether the underlying loss or claim is a reported loss or claim, or an incurred but not reported loss. For reported losses and claims, the Company values reinsurance recoverables at the time the underlying loss or claim is recognized, in accordance with contract terms. For incurred but not reported losses, the Company estimates the amount of reinsurance recoverables based on the terms of the reinsurance contracts and historical reinsurance recovery information and applies that information to the gross loss reserve. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business and the balance is disclosed separately in the financial statements. However, the ultimate amount of the reinsurance recoverable is not known until all losses and claims are settled. Allowances are established for amounts deemed uncollectible and reinsurance recoverables are recorded net of these allowances. The Company evaluates the financial condition of its reinsurers and monitors concentration risk to minimize its exposure to significant credit losses from individual reinsurers.

#### *G. PROPERTY, EQUIPMENT, CAPITALIZED SOFTWARE AND LEASES*

Property, equipment, leasehold improvements and capitalized software are recorded at cost, less accumulated depreciation and amortization. Depreciation is generally provided using the straight-line method over the estimated useful lives of the related assets, which generally range from 3 to 30 years. The estimated useful life for capitalized software is generally 5 to 7 years. Amortization of leasehold improvements is provided using the straight-line method over the lesser of the term of the lease or the estimated useful life of the improvements.

The Company has entered into operating and financing leases through which it uses “right-of-use” assets that are recorded at the present value of future minimum lease payments, less accumulated depreciation. Depreciation is generally provided using the straight-

line method over the estimated useful lives of the related assets, which generally range from 4 to 6 years for real estate and fleet leases.

The Company tests for the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company recognizes impairment losses only to the extent that the carrying amounts of long-lived assets exceed the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets. When an impairment loss occurs, the Company reduces the carrying value of the asset to fair value and no longer depreciates the asset. Fair values are estimated using discounted cash flow analysis.

#### *H. GOODWILL AND INTANGIBLE ASSETS*

The Company carries its goodwill at cost, net of amortization accumulated prior to January 1, 2002, and net of impairments. Increases to goodwill are generated through acquisition and represent the excess of the cost of an acquisition over the fair value of net assets acquired, including any intangibles acquired. Since January 1, 2002, goodwill is no longer amortized but, rather, is reviewed for impairment. Additionally, acquisitions can also produce intangible assets, which have either a definite or indefinite life. Intangible assets with definite lives are amortized over that life, whereas those intangible assets determined to have an indefinite life are reviewed at least annually for impairment.

The Company tests for the recoverability of goodwill and intangible assets with indefinite lives annually, or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company recognizes impairment losses only to the extent that the carrying amounts of reporting units with goodwill exceed the fair value. The amount of the impairment loss that would be recognized is determined based upon the excess of the carrying value of goodwill compared to the implied fair value of the goodwill, as determined with respect to all assets and liabilities of the reporting unit. The Company has performed its annual review of goodwill and intangible assets with indefinite lives for impairment in the fourth quarters of 2021 and 2020 with no impairments recognized. At December 31, 2021 and 2020, the Company held goodwill of \$178.8 million and intangible assets with indefinite lives of \$15.0 million.

#### *I. LIABILITIES FOR LOSSES, LAE AND UNEARNED PREMIUMS*

Liabilities for outstanding claims, losses and loss adjustment expenses (“LAE”) are estimates of payments to be made for reported losses and LAE and estimates of losses and LAE incurred but not reported (“IBNR”). These liabilities are determined using case basis evaluations and statistical analyses of historical loss patterns, and represent estimates of the ultimate cost of all losses incurred but not paid. These estimates are continually reviewed and adjusted as necessary; adjustments are reflected in current operations. Estimated amounts of salvage and subrogation on unpaid losses are deducted from the liability for unpaid claims.

Premiums for direct and assumed business are reported as earned on a pro-rata basis over the contract period. The unexpired portion of these premiums is recorded as unearned premiums.

All losses, LAE and unearned premium liabilities are based on the various estimates discussed in this note. Although the adequacy of these amounts cannot be assured, the Company believes that it is more likely than not that these liabilities and accruals will be sufficient to meet future obligations of policies in force. The amount of liabilities and accruals, however, could be revised in the near-term if the estimates discussed above are revised.

#### *J. DEBT*

The Company’s debt at December 31, 2021 includes senior and subordinated debentures. Debt instruments are carried at principal amount borrowed, net of any applicable unamortized discounts and issuance costs. See Note 5 – “Debt and Credit Arrangements.”

#### *K. PREMIUM, PREMIUM RECEIVABLE, FEE REVENUE AND RELATED EXPENSES*

Insurance premiums written are generally recorded at the policy inception and are primarily earned on a pro-rata basis over the terms of the policies for all products. Premiums written may also include estimates that are derived from multiple sources, which include the historical experience of the underlying business, similar businesses, and available industry information. These estimates are regularly reviewed and updated, and any resulting adjustments are included in the current year’s results. Unearned premium reserves represent the portion of premiums written that relates to the unexpired terms of the underlying in-force insurance policies and reinsurance contracts. Premium receivables reflect the unpaid balance of premiums written as of the balance sheet date. Premium receivables are generally short-term in nature and are reported net of an allowance for estimated uncollectible premium accounts. The Company reviews its receivables for collectability at the balance sheet date. The allowance for uncollectible accounts was not material as of December 31, 2021 and 2020. Ceded premiums are charged to income over the applicable term of the various reinsurance contracts with third-party reinsurers. Reinsurance reinstatement premiums, when required, are recognized in the same period as the loss event that gave rise to the reinstatement premiums. Losses and related expenses are matched with premiums, resulting in their recognition over the lives of the contracts. This matching is accomplished through estimated and unpaid losses and amortization of deferred acquisition costs.



## **L. INCOME TAXES**

The Company is subject to the tax laws and regulations of the U.S. federal jurisdiction and various state jurisdictions, as well as foreign jurisdictions in which it operates or where it operated previously. The Company files a consolidated U.S. federal income tax return that includes the holding company and its U.S. subsidiaries. Generally, taxes are accrued at the U.S. statutory tax rate of 21% for income from the U.S. operations. The Company accrues taxes on certain non-U.S. income that is subject to U.S. tax at the enacted U.S. tax rate. Foreign tax credits, where available, were utilized to offset U.S. tax, as permitted.

The Company's accounting for income taxes represents its best estimate of various events and transactions.

Deferred income taxes are generally recognized when assets and liabilities have different values for financial statement and tax reporting purposes, and for other temporary taxable and deductible differences as defined by ASC 740, *Income Taxes* ("ASC 740"). These temporary differences are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse. These differences result primarily from insurance reserves, deferred acquisition costs, investments, software capitalization and employee benefit plans.

The realization of deferred tax assets depends upon the existence of sufficient taxable income within the carryback or carryforward periods under the tax law in the applicable tax jurisdiction. Consideration is given to all available positive and negative evidence, including reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. Valuation allowances are established if, based on available information, it is determined that it is more likely than not that all or some portion of the deferred tax assets will not be realized. Changes in valuation allowances are generally reflected in income tax expense or as an adjustment to other comprehensive income (loss), depending on the nature of the item for which the valuation allowance is being recorded.

## **M. STOCK-BASED COMPENSATION**

The Company recognizes the fair value of compensation costs for all share-based payments, including employee stock options, in the financial statements. Unvested awards are generally expensed on a straight-line basis, by tranche, over the vesting period of the award. The Company's stock-based compensation plans are discussed further in Note 9 – "Stock-Based Compensation Plans."

## **N. EARNINGS PER SHARE**

Earnings per share ("EPS") for the years ended December 31, 2021, 2020 and 2019 is based on a weighted average of the number of shares outstanding during each year. Basic and diluted EPS is computed by dividing income available to common stockholders by the weighted average number of shares outstanding for the period. The weighted average shares outstanding used to calculate basic EPS differ from the weighted average shares outstanding used in the calculation of diluted EPS due to the effect of dilutive employee stock options, nonvested stock grants, and other contingently issuable shares. If the effect of such items is antidilutive, the weighted average shares outstanding used to calculate diluted EPS would be equal to those used to calculate basic EPS.

Options to purchase shares of common stock whose exercise prices are greater than the average market price of the common shares are not included in the computation of diluted earnings per share because the effect would be antidilutive.

## **O. NEW ACCOUNTING PRONOUNCEMENTS**

### ***Recently Implemented Standards***

In October 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") Update No. 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*. This guidance clarifies, for each reporting period, that an entity should reevaluate whether a callable debt security with multiple call dates is required to amortize any premium to the next call date. The updated guidance is effective for annual and interim periods beginning after December 15, 2020 and should be applied on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities. The Company implemented this guidance effective January 1, 2021, and it did not have a material impact on its financial position or results of operations.

In January 2020, the FASB issued ASC Update No. 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. This ASC update clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting when using the measurement alternative under ASC 321. This update also clarifies the accounting for certain forward contracts and purchased options accounted for under ASC 815. The updated guidance is effective for annual and interim periods beginning after December 15, 2020. The Company implemented this guidance effective January 1, 2021, and it did not have a material impact on its financial position or results of operations.

In December 2019, the FASB issued ASC Update No. 2019-12, *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes*. This ASC update removes certain exceptions to the general principles in ASC 740, including intraperiod tax allocation when there is a loss from continuing operations, foreign subsidiary treatment under certain conditions and for calculating interim income taxes when the year-to-date loss exceeds the anticipated loss. This update also clarifies and amends existing guidance related to

changes in tax laws, business combinations and employee stock plans, among others. The updated guidance is effective for interim and annual periods beginning after December 15, 2020. The Company implemented this guidance effective January 1, 2021, and it did not have a material impact on its financial position or results of operations.

In August 2018, the FASB issued ASC Update No. 2018-14 (Topic 715-20) *Compensation – Retirement Benefits – Defined Benefit Plans – General – Disclosure Framework – Changes to the Disclosure Requirements for the Defined Benefit Plans*. This ASC update modifies disclosures related to defined benefit pension or other postretirement plans. This ASC update removes the disclosure of amounts in AOCI expected to be recognized over the next fiscal year and the effects of a one percentage point change of health care cost trends on net periodic benefit costs and postretirement benefit obligations and clarifies the specific requirements of disclosures related to the project benefit obligation and accumulated benefit obligation. This ASC Update also adds disclosures related to weighted average crediting rates for cash balance plans and requires disclosure of an explanation of any significant gains and losses related to changes in benefit obligations for the period. The amendments in this ASC update are effective for fiscal years ending after December 15, 2020, and should be applied on a retrospective basis to all periods presented. Early adoption is permitted. The Company implemented this guidance effective December 31, 2020, and it did not have an impact on the Company's financial position or results of operations as the update is disclosure related.

In August 2018, the FASB issued ASC Update No. 2018-13, (Topic 820) *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This update removes the requirement for disclosure of the following: 1) the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, 2) the policy for timing of transfers between levels, and 3) the valuation processes for Level 3 fair value measurements. This update also added a requirement to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, in addition to other fair value disclosure modifications. This update required both prospective and retrospective application to certain disclosures upon implementation. The Company implemented this guidance effective January 1, 2020 and it did not have an impact on the Company's financial position or results of operations as the update is disclosure related.

In June 2016, the FASB issued ASC Update No. 2016-13, (Topic 326) *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASC Update No. 2016-13"). This ASC update introduces new guidance for the accounting for credit losses on financial instruments within its scope. A new model, referred to as the current expected credit losses model, requires an entity to determine credit-related impairment losses for financial instruments held at amortized cost and to estimate these expected credit losses over the life of an exposure (or pool of exposures). The estimate of expected credit losses should consider both historical and current information, reasonable and supportable forecasts, as well as estimates of prepayments. The estimated credit losses and subsequent adjustment to such loss estimates are recorded through an allowance account which is deducted from the amortized cost of the financial instrument, with the offset recorded in current earnings. ASC Update No. 2016-13 also modifies the impairment model for available-for-sale debt securities. The new model requires an estimate of expected credit losses only when the fair value is below the amortized cost of an asset, thus the length of time the fair value of an available-for-sale debt security has been below the amortized cost no longer affects the determination of whether a credit loss exists. In addition, credit losses on available-for-sale debt securities will be limited to the difference between the security's amortized cost basis and its fair value. In November 2018, the FASB issued ASC Update No. 2018-19, *Codification Improvement to Topic 326, Financial Instruments – Credit Losses*, which explicitly states that receivables arising from operating leases are not within the scope of Subtopic 326-20.

In 2019 and 2020, the FASB issued several updates to ASC Update 2016-13, including the issuance in April 2019 of ASC Update 2019-04, *Codification Improvements to Topic 360, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging and Topic 825, Financial Instruments*, the issuance in May 2019 of ASC Update 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*, the issuance in November 2019 of ASC Update No.2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* and the issuance in February 2020 of ASC Update 2020-02, *Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842) – Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*. The Company implemented this guidance effective January 1, 2020 and it did not have a material impact on its financial position or results of operations.

#### *P. RECLASSIFICATIONS*

Certain prior year amounts have been reclassified to conform to the current year presentation, when applicable.

## 2. INVESTMENTS

### A. FIXED MATURITIES

The amortized cost and fair value of available-for-sale fixed maturities were as follows:

#### DECEMBER 31, 2021

(in millions)

	<i>Amortized Cost</i>	<i>Allowance for Credit Losses</i>	<i>Amortized Cost, Net of Allowance for Credit Losses</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
U.S. Treasury and government agencies	\$ 394.3	\$ —	\$ 394.3	\$ 9.3	\$ 7.4	\$ 396.2
Foreign government	2.2	—	2.2	0.4	—	2.6
Municipal	1,176.2	—	1,176.2	32.6	8.0	1,200.8
Corporate	3,931.5	(0.3)	3,931.2	174.5	15.6	4,090.1
Residential mortgage-backed	1,068.2	—	1,068.2	12.4	11.0	1,069.6
Commercial mortgage-backed	802.4	—	802.4	26.6	4.6	824.4
Asset-backed	140.3	—	140.3	1.3	1.4	140.2
Total fixed maturities	<u>\$ 7,515.1</u>	<u>\$ (0.3)</u>	<u>\$ 7,514.8</u>	<u>\$ 257.1</u>	<u>\$ 48.0</u>	<u>\$ 7,723.9</u>

#### DECEMBER 31, 2020

(in millions)

	<i>Amortized Cost</i>	<i>Allowance for Credit Losses</i>	<i>Amortized Cost, Net of Allowance for Credit Losses</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
U.S. Treasury and government agencies	\$ 376.4	\$ —	\$ 376.4	\$ 17.6	\$ 2.0	\$ 392.0
Foreign government	2.2	—	2.2	0.5	—	2.7
Municipal	1,042.1	—	1,042.1	61.7	0.1	1,103.7
Corporate	3,770.0	(0.1)	3,769.9	341.8	0.4	4,111.3
Residential mortgage-backed	978.2	—	978.2	33.1	0.6	1,010.7
Commercial mortgage-backed	705.4	—	705.4	54.8	0.2	760.0
Asset-backed	71.4	—	71.4	2.6	—	74.0
Total fixed maturities	<u>\$ 6,945.7</u>	<u>\$ (0.1)</u>	<u>\$ 6,945.6</u>	<u>\$ 512.1</u>	<u>\$ 3.3</u>	<u>\$ 7,454.4</u>

The Company enters into various agreements that may require its fixed maturities to be held as collateral by others. At December 31, 2021 and 2020, fixed maturities with fair values of \$106.6 million and \$103.9 million, respectively, were held as collateral for the FHLB collateralized borrowing program. See Note 5 — “Debt and Credit Arrangements” for additional information related to the Company’s FHLB program. Additionally, at December 31, 2021 and 2020, fixed maturities with fair values of \$303.4 million and \$315.2 million, respectively, were on deposit with various state governmental authorities or trustees.

The amortized cost and fair value by maturity periods for fixed maturities are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, or the Company may have the right to put or sell the obligations back to the issuers.

#### DECEMBER 31

(in millions)

	2021	
	<i>Amortized Cost, net of Allowance for Credit Losses</i>	<i>Fair Value</i>
Due in one year or less	\$ 290.1	\$ 294.2
Due after one year through five years	1,955.7	2,059.8
Due after five years through ten years	2,641.2	2,715.7
Due after ten years	616.9	620.0
	<u>5,503.9</u>	<u>5,689.7</u>
Mortgage-backed and asset-backed securities	2,010.9	2,034.2
Total fixed maturities	<u>\$ 7,514.8</u>	<u>\$ 7,723.9</u>

## B. UNREALIZED GAINS AND LOSSES

Unrealized gains and losses on available-for-sale fixed maturities are summarized in the following table.

### YEARS ENDED DECEMBER 31

<i>(in millions)</i>	2021	2020	2019
Net appreciation (depreciation), beginning of year	\$ 428.1	\$ 216.0	\$ (27.2)
Net appreciation (depreciation) on available-for-sale fixed maturities	(302.1)	280.2	324.7
Benefit (provision) for deferred income taxes	58.9	(68.1)	(83.0)
Cumulative effect adjustment for ASU 2017-08, net of tax	—	—	1.5
	(243.2)	212.1	243.2
Net appreciation, end of year	\$ 184.9	\$ 428.1	\$ 216.0

## C. FIXED MATURITY SECURITIES IN AN UNREALIZED LOSS POSITION

The following tables provide information about the Company's available-for-sale fixed maturity securities that were in an unrealized loss position at December 31, 2021 and 2020, including the length of time the securities have been in an unrealized loss position:

### DECEMBER 31, 2021

<i>(in millions)</i>	12 months or less		Greater than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Investment grade:						
U.S. Treasury and government agencies	\$ 2.3	\$ 98.0	\$ 5.1	\$ 101.3	\$ 7.4	\$ 199.3
Municipal	7.9	480.8	0.1	2.5	8.0	483.3
Corporate	13.6	599.6	0.4	7.5	14.0	607.1
Residential mortgage-backed	11.0	653.5	—	—	11.0	653.5
Commercial mortgage-backed	4.6	204.0	—	—	4.6	204.0
Asset-backed	1.4	91.5	—	—	1.4	91.5
Total investment grade	40.8	2,127.4	5.6	111.3	46.4	2,238.7
Below investment grade:						
Corporate	1.6	95.8	—	—	1.6	95.8
Total fixed maturities	\$ 42.4	\$ 2,223.2	\$ 5.6	\$ 111.3	\$ 48.0	\$ 2,334.5

### DECEMBER 31, 2020

<i>(in millions)</i>	12 months or less		Greater than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Investment grade:						
U.S. Treasury and government agencies	\$ 2.0	\$ 140.7	\$ —	\$ —	\$ 2.0	\$ 140.7
Municipal	0.1	19.3	—	0.7	0.1	20.0
Corporate	0.4	53.4	—	—	0.4	53.4
Residential mortgage-backed	0.6	94.4	—	—	0.6	94.4
Commercial mortgage-backed	0.2	33.2	—	—	0.2	33.2
Total investment grade	3.3	341.0	—	0.7	3.3	341.7
Below investment grade:						
Corporate	—	4.6	—	—	—	4.6
Total fixed maturities	\$ 3.3	\$ 345.6	\$ —	\$ 0.7	\$ 3.3	\$ 346.3

The Company views gross unrealized losses on fixed maturities as non-credit related and through its assessment of unrealized losses has determined that these securities will recover, allowing the Company to realize the anticipated long-term economic value. The Company currently does not intend to sell, nor does it expect to be required to sell these securities before recovery of their amortized cost. The Company employs a systematic methodology to evaluate declines in fair value below amortized cost for fixed maturity securities. In determining impairments, the Company evaluates several factors and circumstances, including the issuer's overall financial condition; the issuer's credit and financial strength ratings; the issuer's financial performance, including earnings trends and asset quality; any specific events which may influence the operations of the issuer; the general outlook for market conditions in the industry or geographic region in which the issuer operates; and the degree to which the fair value of an issuer's securities is below the Company's amortized cost. The Company also considers any factors that might raise doubt about the issuer's ability to make contractual payments as they come due and whether the Company expects to recover the entire amortized cost basis of the security.

#### D. OTHER INVESTMENTS

The Company's mortgage participations and other mortgage loans were \$434.0 million and \$467.6 million at December 31, 2021 and 2020, respectively. Participating interests in commercial mortgage loans are originated and serviced by a third-party. For these investments, the Company shares, on a pro-rata basis, in all related cash flows of the underlying mortgages. Mortgage participations and other mortgage loans were comprised of the following property types and geographic locations.

DECEMBER 31	2021	2020
<i>(in millions)</i>		
Property Type:		
Office	\$ 154.8	\$ 160.4
Apartments	125.5	128.3
Hotel	62.0	62.7
Retail	61.4	68.5
Industrial	37.4	55.6
Allowance for credit losses	(7.1)	(7.9)
Total	<u>\$ 434.0</u>	<u>\$ 467.6</u>

DECEMBER 31	2021	2020
<i>(in millions)</i>		
Geographic Region:		
South Atlantic	\$ 108.8	\$ 108.3
Pacific	93.0	117.0
Mid-Atlantic	58.9	73.8
New England	58.2	43.5
West South Central	48.6	70.8
East North Central	27.7	27.8
Mountain	18.5	12.5
Other	27.4	21.8
Allowance for credit losses	(7.1)	(7.9)
Total	<u>\$ 434.0</u>	<u>\$ 467.6</u>

At December 31, 2021, scheduled maturities of mortgage participations and other loans were as follows: due in 2022 - \$16.0 million; in 2023 - \$16.4 million; 2024 - \$70.0 million; 2025 - \$88.2 million and thereafter - \$243.4 million. Actual maturities could differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties, and loans may be refinanced. During 2021, the Company did not refinance any loans based on terms that differed from current market rates.

In determining estimated credit losses on mortgage participations and other loans, the Company evaluates several factors, including credit risk. The amortized cost of mortgage participations and other loans by credit ratings and year of origination was as follows:

DECEMBER 31, 2021	Year of Origination						
<i>(in millions)</i>	Prior to 2017	2017	2018	2019	2020	2021	Total
Credit Quality							
Aaa/Aa/A	\$ 115.3	\$ 48.5	\$ 31.0	\$ 47.3	\$ 27.4	\$ 62.1	\$ 331.6
Baa	44.9	—	9.8	—	6.0	—	60.7
Ba and lower	48.8	—	—	—	—	—	48.8
Amortized cost	<u>\$ 209.0</u>	<u>\$ 48.5</u>	<u>\$ 40.8</u>	<u>\$ 47.3</u>	<u>\$ 33.4</u>	<u>\$ 62.1</u>	\$ 441.1
Allowance for credit losses							(7.1)
Amortized cost, net of allowance for credit losses							<u>\$ 434.0</u>

Other investments also include interests in limited partnerships of \$319.9 million and \$312.5 million at December 31, 2021 and December 31, 2020, respectively.

#### E. OTHER

At December 31, 2021 and 2020, the Company's exposure to concentration of investments in a single investee that exceeded 10% of shareholders' equity included securities of U.S. government-sponsored agencies, as well as mortgage participations with a highly rated single third-party of \$425.7 million and \$459.3 million, respectively.

At December 31, 2021, there were contractual investment commitments of up to \$256.3 million.

### 3. INVESTMENT INCOME AND GAINS AND LOSSES

#### A. NET INVESTMENT INCOME

The components of net investment income were as follows:

YEARS ENDED DECEMBER 31 (in millions)	2021	2020	2019
Fixed maturities	\$ 216.9	\$ 222.5	\$ 232.4
Limited partnerships	68.2	16.7	19.7
Mortgage loans	18.0	17.5	16.3
Equity securities	15.6	14.8	16.3
Other investments	3.0	3.2	5.3
Gross investment income	321.7	274.7	290.0
Less: investment expenses	(11.0)	(9.6)	(8.7)
Net investment income	\$ 310.7	\$ 265.1	\$ 281.3

The change in fair value of limited partnerships measured using NAV is reported in net investment income, of which \$17.1 million of holding gains were related to securities still owned at December 31, 2021, and \$6.9 million and \$4.6 million of holding losses were related to securities still owned at December 31, 2020 and 2019 respectively.

There were no fixed maturity securities on non-accrual status at December 31, 2021. The carrying values of fixed maturity securities on non-accrual status at December 31, 2020 were not material. The effects of non-accruals for the years ended December 31, 2021, 2020 and 2019, compared with amounts of net investment income that would have been recognized in accordance with the original terms of the fixed maturities were also not material.

#### B. NET REALIZED AND UNREALIZED INVESTMENT GAINS AND LOSSES

Net realized and unrealized gains (losses) on investments, including impairments, were as follows:

YEARS ENDED DECEMBER 31 (in millions)	2021	2020	2019
Equity securities	\$ 119.1	\$ 13.4	\$ 106.5
Fixed maturities	1.7	(4.2)	3.1
Other investments	1.5	2.5	—
Mortgage loans	0.7	(6.7)	(0.2)
Net realized and unrealized investment gains	\$ 123.0	\$ 5.0	\$ 109.4

The following table provides pre-tax net realized and unrealized gains (losses) on equity securities:

YEARS ENDED DECEMBER 31 (in millions)	2021	2020	2019
Net gains recognized during the period	\$ 119.1	\$ 13.4	\$ 106.5
Less: net gains (losses) recognized on equity securities sold during the period	2.2	(19.8)	2.8
Net unrealized gains recognized during the period on equity securities still held	\$ 116.9	\$ 33.2	\$ 103.7

#### Impairments

Included in net realized and unrealized investment gains for the years ended December 31, 2021, 2020 and 2019, were impairments of investment securities totaling \$0.7 million, \$26.3 million and \$2.0 million, respectively. In 2021, impairments consisted of \$1.3 million on fixed maturities, offset by recoveries of \$0.6 million of estimated credit losses on mortgage loans. In 2020, impairments primarily consisted of \$17.6 million on fixed maturities and \$6.7 million of estimated credit losses on mortgage loans. Impairments on fixed maturities included \$16.5 million relating to intend-to-sell securities and \$1.1 million of estimated credit losses. In 2019, impairments consisted entirely of corporate fixed maturity securities.

See Note 1, “Summary of Significant Accounting Policies — New Accounting Pronouncements: Recently Implemented Standards,” for a discussion of new guidance effective January 1, 2020, which affects the accounting for expected credit losses on fixed maturity securities and mortgage loans. Under the new guidance, credit losses on fixed maturities continue to be measured based on the present value of expected future cash flows compared to amortized cost; however, credit losses on available-for-sale fixed maturities are now recognized through an allowance instead of a direct write down of amortized cost. The new guidance stipulates that recoveries of previously recorded credit losses are recorded immediately as a reversal of the allowance. In addition, the allowance is limited to the amount that fair value is less than amortized cost and therefore, increases in the fair value of investments due to reasons other than



credit could result in decreases in the allowance. Changes in the allowance for credit losses are recorded in net realized and unrealized investment gains (losses). At December 31, 2021 and 2020, the allowance for credit losses on mortgage loans was \$7.1 million and \$7.9 million, respectively and the allowance for credit losses on available-for-sale securities was \$0.3 million and \$0.1 million, respectively.

The methodology and significant inputs used to measure the amount of credit losses were as follows:

Fixed maturities, Corporate bonds – the Company utilized a financial model that derives expected cash flows based on probability-of-default factors by credit rating and asset duration, and loss-given-default factors based on security type. These factors are based on historical data provided by an independent third-party rating agency. In addition, other qualitative market data relevant to the realizability of contractual cash flows may be considered, including current conditions and reasonable and supportable forecasts.

Mortgage loans – the Company estimated losses by applying expected loss rates, which are based on historical data. Embedded in expected loss rates are mortgage risk ratings and risk factors associated with property type such as office, retail, lodging, multi-family and industrial. Risk ratings, based on property characteristics and metrics including the geographic market, are predominantly driven by estimates of loan-to-value and debt service coverage ratios. Ratings may be adjusted to reflect current conditions and to incorporate reasonable and supportable forecasts, such as volatility of cash flows and valuation.

The proceeds from sales of available-for-sale fixed maturities, and the gross realized gains and gross realized losses on those sales, were as follows:

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions)</i>			
Proceeds from sales	\$ 485.0	\$ 264.1	\$ 541.2
Gross gains	6.4	9.9	6.9
Gross losses	16.9	2.9	5.7

#### 4. FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, i.e., exit price, in an orderly transaction between market participants. The Company emphasizes the use of observable market data whenever available in determining fair value. Fair values presented for certain financial instruments are estimates which, in many cases, may differ significantly from the amounts that could be realized upon immediate liquidation. A hierarchy of the three broad levels of fair value is as follows, with the highest priority given to Level 1 as these are the most observable, and the lowest priority given to Level 3:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data, including model-derived valuations.

Level 3 – Unobservable inputs that are supported by little or no market activity.

When more than one level of input is used to determine fair value, the financial instrument is classified as Level 2 or Level 3 according to the lowest level input that has a significant impact on the fair value measurement.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments and have not changed since last year.

##### *FIXED MATURITIES*

Level 1 securities generally include U.S. Treasury issues and other securities that are highly liquid, and for which quoted market prices are available. Level 2 securities are valued using pricing for similar securities and pricing models that incorporate observable inputs including, but not limited to, yield curves and issuer spreads. Level 3 securities include issues for which little observable data can be obtained, primarily due to the illiquid nature of the securities, and for which significant inputs used to determine fair value are based on the Company's own assumptions.

The Company utilizes third party pricing services for the valuation of the majority of its fixed maturity securities and receives one quote per security. When quoted market prices in an active market are available, they are provided by the pricing service as the fair value and such values are classified as Level 1. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing services prepare estimates of fair value for those securities using pricing techniques based on a market approach. Inputs into the fair value pricing common to all asset classes include: benchmark U.S. Treasury security yield curves; reported trades of identical or similar fixed maturity securities; broker/dealer quotes of identical or similar fixed maturity securities

and structural characteristics such as maturity date, coupon, mandatory principal payment dates, frequency of interest and principal payments, and optional redemption features. Inputs into the fair value applications that are unique by asset class include, but are not limited to:

- U.S. government agencies – determination of direct versus indirect government support and whether any contingencies exist with respect to the timely payment of principal and interest.
- Foreign government – estimates of appropriate market spread versus underlying related sovereign treasury curve(s) dependent on liquidity and direct or contingent support.
- Municipals – overall credit quality, including assessments of the level and variability of: sources of payment such as income, sales or property taxes, levies or user fees; credit support such as insurance; state or local economic and political base; natural resource availability; and susceptibility to natural or man-made catastrophic events such as hurricanes, earthquakes or acts of terrorism.
- Corporate fixed maturities – overall credit quality, including assessments of the level and variability of: economic sensitivity; liquidity; corporate financial policies; management quality; regulatory environment; competitive position; ownership; restrictive covenants; and security or collateral.
- Residential mortgage-backed securities – estimates of prepayment speeds based upon: historical prepayment rate trends; underlying collateral interest rates; geographic concentration; vintage year; borrower credit quality characteristics; interest rate and yield curve forecasts; government or monetary authority support programs; tax policies; and delinquency/default trends.
- Commercial mortgage-backed securities – overall credit quality, including assessments of the value and supply/demand characteristics of: collateral type such as office, retail, residential, lodging, or other; geographic concentration by region, state, metropolitan statistical area and locale; vintage year; historical collateral performance including defeasance, delinquency, default and special servicer trends; and capital structure support features.
- Asset-backed securities – overall credit quality, including assessments of the underlying collateral type such as credit card receivables, automobile loan receivables and equipment lease receivables; geographic diversification; vintage year; historical collateral performance including delinquency, default and casualty trends; economic conditions influencing use rates and resale values; and contract structural support features.

Generally, all prices provided by the pricing service, except actively traded securities with quoted market prices, are reported as Level 2.

The Company holds privately placed fixed maturity securities and certain other fixed maturity securities that do not have an active market and for which the pricing service cannot provide fair values. The Company determines fair values for these securities using either matrix pricing, which utilizes the market approach, or broker quotes. The Company will use observable market data as inputs into the fair value techniques, as discussed in the determination of Level 2 fair values, to the extent it is available, but is also required to use a certain amount of unobservable judgment due to the illiquid nature of the securities involved. Unobservable judgment reflected in the Company's matrix model accounts for estimates of additional spread required by market participants for factors such as issue size, credit stress, structural complexity, high bond coupon or other unique features. These matrix-priced securities are reported as Level 2 or Level 3, depending on the significance of the impact of unobservable judgment on the security's value. Additionally, the Company may obtain non-binding broker quotes, which are reported as Level 3.

#### *EQUITY SECURITIES*

Level 1 consists of publicly traded securities, including exchange traded funds, valued at quoted market prices. Level 2 includes securities that are valued using pricing for similar securities and pricing models that incorporate observable inputs. Level 3 consists of common or preferred stock of private companies for which observable inputs are not available.

The Company utilizes a third-party pricing service for the valuation of the majority of its equity securities and receives one quote for each equity security. When quoted market prices in an active market are available, they are provided by the pricing service as the fair value, and such values are classified as Level 1. The Company holds certain equity securities that have been issued by privately-held entities that do not have an active market and for which the pricing service cannot provide fair values. Generally, the Company estimates fair value for these securities based on the issuer's book value and market multiples and reports them as Level 3. Additionally, the Company may obtain non-binding broker quotes, which are reported as Level 3.

#### *OTHER INVESTMENTS*

Other investments primarily include mortgage participations and limited partnerships not subject to the equity method of accounting. The fair values of limited partnerships not subject to the equity method of accounting are based on the NAV provided by the general partner, adjusted for recent financial information, and are excluded from the fair value hierarchy.

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The estimated fair values of the financial instruments were as follows:

<i>(in millions)</i>	DECEMBER 31, 2021		DECEMBER 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets carried at:</b>				
<i>Fair Value through AOCI:</i>				
Fixed maturities	\$ 7,723.9	\$ 7,723.9	\$ 7,454.4	\$ 7,454.4
<i>Fair Value through Net Income:</i>				
Equity securities	661.3	661.3	598.5	598.5
Other investments	143.8	143.8	176.8	176.8
<i>Amortized Cost/Cost:</i>				
Other investments	450.8	472.9	470.3	504.8
Cash and cash equivalents	230.9	230.9	120.6	120.6
Total financial instruments	<u>\$ 9,210.7</u>	<u>\$ 9,232.8</u>	<u>\$ 8,820.6</u>	<u>\$ 8,855.1</u>
<b>Financial Liabilities carried at:</b>				
<i>Amortized Cost:</i>				
Debt	<u>\$ 781.6</u>	<u>\$ 845.5</u>	<u>\$ 780.8</u>	<u>\$ 887.7</u>

The Company has processes designed to ensure that the values received from its third-party pricing services are accurately recorded, that the data inputs and valuation approaches and techniques utilized are appropriate and consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. The Company reviews the pricing services' policies describing its methodology, processes, practices and inputs, including various financial models used to value securities. For assets carried at fair value, the Company performs a review of the fair value hierarchy classifications and of prices received from its pricing services on a quarterly basis. Also, the Company reviews the portfolio pricing, including a process for which securities with changes in prices that exceed a defined threshold are verified to independent sources, if available. If upon review, the Company is not satisfied with the validity of a given price, a pricing challenge would be submitted to the pricing service along with supporting documentation for its review. The Company does not adjust quotes or prices obtained from the pricing service unless the pricing service agrees with the Company's challenge. During 2021 and 2020, the Company did not adjust any prices received from its pricing services.

Changes in the observability of valuation inputs may result in a reclassification of certain financial assets or liabilities within the fair value hierarchy. As previously discussed, the Company utilizes third-party pricing services for the valuation of the majority of its fixed maturities and equity securities. The pricing services have indicated that they will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If a pricing service discontinues pricing an investment, the Company will use observable market data to the extent it is available, but may also be required to make assumptions for market based inputs that are unavailable due to market conditions.

The following tables provide, for each hierarchy level, the Company's investment assets that were measured at fair value on a recurring basis.

<i>(in millions)</i>	DECEMBER 31, 2021			
	Total	Level 1	Level 2	Level 3
<b>Fixed maturities:</b>				
U.S. Treasury and government agencies	\$ 396.2	\$ 221.5	\$ 174.7	\$ —
Foreign government	2.6	—	2.6	—
Municipal	1,200.8	—	1,186.8	14.0
Corporate	4,090.1	—	4,090.0	0.1
Residential mortgage-backed	1,069.6	—	1,069.6	—
Commercial mortgage-backed	824.4	—	813.1	11.3
Asset-backed	140.2	—	140.2	—
Total fixed maturities	<u>7,723.9</u>	<u>221.5</u>	<u>7,477.0</u>	<u>25.4</u>
Equity securities	661.3	651.2	—	10.1
Other investments	4.3	—	—	4.3
Total investment assets at fair value	<u>\$ 8,389.5</u>	<u>\$ 872.7</u>	<u>\$ 7,477.0</u>	<u>\$ 39.8</u>

<i>(in millions)</i>	DECEMBER 31, 2020			
	Total	Level 1	Level 2	Level 3
Fixed maturities:				
U.S. Treasury and government agencies	\$ 392.0	\$ 155.8	\$ 236.2	\$ —
Foreign government	2.7	—	2.7	—
Municipal	1,103.7	—	1,096.7	7.0
Corporate	4,111.3	—	4,110.8	0.5
Residential mortgage-backed	1,010.7	—	1,010.7	—
Commercial mortgage-backed	760.0	—	747.6	12.4
Asset-backed	74.0	—	74.0	—
Total fixed maturities	7,454.4	155.8	7,278.7	19.9
Equity securities	598.5	593.0	—	5.5
Other investments	4.0	—	—	4.0
Total investment assets at fair value	\$ 8,056.9	\$ 748.8	\$ 7,278.7	\$ 29.4

Limited partnerships measured at fair value using the NAV based on an ownership interest in partners' capital have not been included in the hierarchy tables. At December 31, 2021 and 2020, the fair values of these investments were \$139.5 million and \$172.8 million, respectively, approximately 2% of total investment assets.

The following tables provide, for each hierarchy level, the Company's estimated fair values of financial instruments that were not carried at fair value.

<i>(in millions)</i>	DECEMBER 31, 2021			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 230.9	\$ 230.9	\$ —	\$ —
Other investments	472.9	—	2.8	470.1
Total financial instruments	\$ 703.8	\$ 230.9	\$ 2.8	\$ 470.1
Liabilities:				
Debt	\$ 845.5	\$ —	\$ 845.5	\$ —

<i>(in millions)</i>	DECEMBER 31, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 120.6	\$ 120.6	\$ —	\$ —
Other investments	504.8	—	2.7	502.1
Total financial instruments	\$ 625.4	\$ 120.6	\$ 2.7	\$ 502.1
Liabilities:				
Debt	\$ 887.7	\$ —	\$ 887.7	\$ —

The following tables provide a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

**YEAR ENDED DECEMBER 31, 2021**

<i>(in millions)</i>	Fixed Maturities				Equity and Other	Total Assets
	Municipal	Corporate	Commercial mortgage-backed	Total		
Balance at beginning of year	\$ 7.0	\$ 0.5	\$ 12.4	\$ 19.9	\$ 9.5	\$ 29.4
Total gains (losses):						
Included in total net realized and unrealized investment gains	—	—	—	—	4.6	4.6
Included in other comprehensive income - net appreciation (depreciation) on available-for-sale securities	(0.1)	—	(0.5)	(0.6)	0.3	(0.3)
Purchases and sales:						
Purchases	10.0	—	—	10.0	—	10.0
Sales	(2.9)	(0.4)	(0.6)	(3.9)	—	(3.9)
Balance at end of year	\$ 14.0	\$ 0.1	\$ 11.3	\$ 25.4	\$ 14.4	\$ 39.8
Changes in unrealized losses for the period included in other comprehensive income for assets held at the end of the year	\$ —	\$ —	\$ (0.5)	\$ (0.5)	\$ —	\$ (0.5)

**YEAR ENDED DECEMBER 31, 2020**

<i>(in millions)</i>	Fixed Maturities				Equity and Other	Total Assets
	Municipal	Corporate	Commercial mortgage-backed	Total		
Balance at beginning of year	\$ 12.1	\$ 0.6	\$ 12.7	\$ 25.4	\$ 5.6	\$ 31.0
Transfers out of Level 3	(3.5)	—	—	(3.5)	—	(3.5)
Total gains:						
Included in total net realized and unrealized investment gains	—	—	—	—	3.9	3.9
Included in other comprehensive income - net appreciation on available-for-sale securities	0.1	—	0.7	0.8	—	0.8
Sales	(1.7)	(0.1)	(1.0)	(2.8)	—	(2.8)
Balance at end of year	\$ 7.0	\$ 0.5	\$ 12.4	\$ 19.9	\$ 9.5	\$ 29.4
Changes in unrealized gains for the period included in other comprehensive income for assets held at the end of the year	\$ 0.3	\$ —	\$ 0.7	\$ 1.0	\$ —	\$ 1.0

During the year ended December 31, 2021, there were no transfers between Level 2 and Level 3. For the year ended December 31, 2020, a fixed maturity security was transferred from Level 3 to Level 2, primarily as a result of assessing the significance of unobservable inputs on the fair value measurement. There were no Level 3 liabilities held by the Company for the years ended December 31, 2021 and 2020.

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The following table provides quantitative information about the significant unobservable inputs used by the Company in the fair value measurements of Level 3 assets. Where discounted cash flows were used in the valuation of fixed maturities, the internally-developed discount rate was adjusted by the significant unobservable inputs shown in the table.

(in millions)	DECEMBER 31,		2021		2020	
	Valuation Technique	Significant Unobservable Inputs	Fair Value	Range (Wtd Average)	Fair Value	Range (Wtd Average)
Fixed maturities:						
Municipal	Discounted cash flow	Discount for: Small issue size Credit stress	\$ 14.0	4.5 - 6.8% (6.5%) —	\$ 7.0	0.7 - 6.8% (5.0%) 0.2% (0.2%)
Corporate	Discounted cash flow	Discount for: Small issue size Above-market coupon	0.1	2.5% (2.5%) 0.3% (0.3%)	0.5	2.5% (2.5%) 0.3% (0.3%)
Commercial mortgage-backed	Discounted cash flow	Discount for: Small issue size Above-market coupon Lease structure Credit stress	11.3	1.9 - 3.1% (2.7%) 0.5% (0.5%) 0.3% (0.3%) —	12.4	1.9 - 3.1% (2.7%) 0.5% (0.5%) 0.3% (0.3%) 0.2% (0.2%)
Equity securities	Market comparables	Net tangible asset market multiple	1.3	1.0X (1.0X)	1.1	1.0X (1.0X)
	Internal price	Unadjusted price from financing rounding	8.8	11.18 (11.18)	4.4	5.60 (5.60)
Other	Discounted cash flow	Discount rate	4.3	16.1% (16.1%)	4.0	16.2% (16.2%)

The weighted average of the unobservable inputs was weighted by the relative fair value of the fixed maturity securities to which the inputs were applied. Each unobservable input is based on the Company's subjective opinion and therefore inherently contains a degree of uncertainty. Significant increases (decreases) in any of the above inputs in isolation would result in a significantly lower (higher) fair value measurement. There were no interrelationships between these inputs which might magnify or mitigate the effect of changes in unobservable inputs on the fair value measurement.

## 5. DEBT AND CREDIT ARRANGEMENTS

Debt consists of the following:

DECEMBER 31 (in millions)	2021	2020
Senior debentures maturing April 15, 2026	\$ 375.0	\$ 375.0
Senior debentures maturing September 1, 2030	300.0	300.0
Senior debentures maturing October 15, 2025	61.8	61.8
Subordinated debentures maturing February 3, 2027	50.1	50.1
Total principal debt	786.9	786.9
Unamortized debt issuance costs	(5.3)	(6.1)
Total	\$ 781.6	\$ 780.8

The Company held \$375.0 million par value of 4.5% unsecured senior debentures at December 31, 2021 and 2020, that were issued on April 8, 2016, and mature on April 15, 2026. The Company also held \$300.0 million aggregate principal amount of 2.50% unsecured senior debentures, issued on August 24, 2020 and maturing September 1, 2030 at December 31, 2021 and 2020.

Additionally, the Company had outstanding 7.625% unsecured senior debentures with a par value of \$61.8 million as of December 31, 2021 and 2020, maturing on October 15, 2025. All of the Company's outstanding senior debentures are subject to certain restrictive covenants, including limitations on the issuance or disposition of stock of restricted subsidiaries and limitations on liens, and pay interest semi-annually.

The Company also held subordinated debentures maturing February 3, 2027 which had a par value of \$50.1 million as of December 31, 2021 and 2020, and pay cumulative dividends semi-annually at 8.207%.

Membership in FHLB provides the Company with access to additional short-term liquidity based on the level of investment in FHLB stock and pledged collateral. Total holdings of FHLB stock were \$2.8 million and \$2.6 million at December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, the Company had pledged government agency securities with a fair value of \$106.6 million and \$103.9 million, respectively, as collateral for periodic short-term borrowings with the FHLB. There were no borrowings outstanding with the FHLB at December 31, 2021 or 2020.



At December 31, 2021, the Company had a \$200.0 million credit agreement which expires in April 2024. The Company had no borrowings under this agreement as of December 31, 2021.

Interest expense was \$34.0 million, \$37.1 million, and \$37.5 million in 2021, 2020 and 2019, respectively. At December 31, 2021, the Company was in compliance with the covenants associated with all of its debt indentures and credit arrangements.

## 6. INCOME TAXES

Provisions for income taxes have been calculated in accordance with the provisions of ASC 740. Income from continuing operations before income taxes and a summary of the components of income tax expense in the Consolidated Statements of Income are shown below:

YEARS ENDED DECEMBER 31 (in millions)	2021	2020	2019
Income from continuing operations before income taxes	\$ 521.3	\$ 444.8	\$ 522.1
Income tax expense (benefit):			
Current	\$ 77.5	\$ 105.9	\$ 80.5
Deferred	23.8	(23.1)	12.6
Total income tax expense	\$ 101.3	\$ 82.8	\$ 93.1

On June 14, 2019, the U.S. Department of the Treasury issued regulations that changed the taxation of certain non-U.S. income. These regulations were applied retroactively to January 1, 2018. As a result, the Company incurred, in 2019, additional federal income tax of \$1.2 million from the 2018 sale of Chaucer. Although the impact of these regulations relates to the calculation of the income tax expense related to the sale of Chaucer, ASC 740 prescribes that the effect of certain retroactive law changes be presented in continuing operations. In accordance with ASC 740, the Company has recorded a provision for this amount as a component of income tax expense in continuing operations in its Consolidated Statements of Income for the year ended December 31, 2019.

The income tax expense attributable to the consolidated results of continuing operations is different from the amount determined by multiplying income from continuing operations before income taxes by the U.S. statutory federal income tax rate of 21% . The sources of the difference and the tax effects of each were as follows:

YEARS ENDED DECEMBER 31 (in millions)	2021	2020	2019
Expected income tax expense	\$ 109.5	\$ 93.4	\$ 109.6
Tax difference related to investment disposals and maturities	(4.6)	(9.2)	(14.8)
Stock-based compensation windfall benefit	(2.6)	(2.1)	(3.0)
Prior years' federal research tax credits	(1.7)	—	—
Dividend received deduction	(1.2)	(1.1)	(1.3)
Current year federal tax credits	(0.5)	—	—
Tax-exempt interest	(0.2)	(0.2)	(0.3)
Nondeductible expenses	2.3	1.8	1.7
Effect of changes in the tax law and rates	—	—	1.2
Other, net	0.3	0.2	—
Income tax expense	\$ 101.3	\$ 82.8	\$ 93.1
Effective tax rate	19.4%	18.6%	17.8%

The following are the components of the Company's deferred tax assets and liabilities, (excluding those associated with its discontinued operations).

<b>DECEMBER 31</b>	<b>2021</b>	<b>2020</b>
<i>(in millions)</i>		
Deferred tax assets:		
Loss, LAE and unearned premium reserves, net	\$ 170.0	\$ 150.8
Employee benefit plans	7.2	6.0
Other	11.4	16.9
Total deferred tax assets	188.6	173.7
Deferred tax liabilities:		
Deferred acquisition costs	115.9	100.3
Investments, net	108.6	146.7
Software capitalization	24.9	24.0
Total deferred tax liabilities	249.4	271.0
Net deferred tax liability	\$ (60.8)	\$ (97.3)

Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized. The Company believes it is more likely than not that the deferred tax assets will be realized; therefore there was no valuation allowance required at December 31, 2021 or 2020.

In prior years, the Company completed several transactions which resulted in, for tax purposes only, realized gains in its investment portfolio. As a result of these transactions, the Company was able to utilize capital losses carried forward and to release the valuation allowance recorded against the deferred tax asset related to these losses. The releases of these valuation allowances were recorded as a benefit in accumulated other comprehensive income. Previously unrealized benefits of \$4.6 million, \$9.2 million and \$14.8 million, were recognized as part of income from continuing operations during 2021, 2020 and 2019, respectively. The remaining amount of \$7.0 million in accumulated other comprehensive income will be released into income from continuing operations in future years, as the investment securities subject to these transactions are sold or mature.

The table below provides a reconciliation of the beginning and ending liability for uncertain tax positions as follows:

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions)</i>			
Liability at beginning of year, net	\$ 0.9	\$ 1.3	\$ 3.0
Additions for tax positions of current year	2.0	—	—
Subtractions as a result of a lapse of the applicable statute of limitations	(0.9)	(0.4)	(1.7)
Liability at end of year, net	\$ 2.0	\$ 0.9	\$ 1.3

There were no tax positions at December 31, 2021, 2020 and 2019 for which the ultimate deductibility was highly certain, but for which there was uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, a change in the timing of deductions would not impact the annual effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in federal income tax expense. For the years ended December 31, 2021, 2020 and 2019 the Company recognized a de minimis amount of net interest and has not recognized any penalties associated with unrecognized tax benefits. During both 2021 and 2020, the Company released accrued interest of \$0.1 million due to the expirations of a statute of limitations.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions, as well as foreign jurisdictions. The Company and its subsidiaries are subject to U.S. federal and state income tax examinations and foreign examinations for years after 2017. The audit of the Company's Massachusetts corporate excise tax for years 2017 and 2018 commenced in June 2021.

## 7. PENSION PLANS

### DEFINED BENEFIT PLANS

The Company recognizes the funded status of its defined benefit plans in its Consolidated Balance Sheets. The funded status is measured as the difference between the fair value of plan assets and the projected benefit obligation of the Company's defined benefit plans. The Company provides information for its overfunded plan separate from its underfunded plan.

#### Defined Benefit Plans

Prior to 2005, THG provided retirement benefits to substantially all of its employees under defined benefit pension plans. These plans were based on a defined benefit cash balance formula, whereby the Company annually provided an allocation to each covered employee based on a percentage of that employee's eligible salary, similar to a defined contribution plan arrangement. In addition to the cash balance allocation, certain employees who had met specified age and service requirements as of December 31, 1994 were eligible for a grandfathered benefit based primarily on each employee's years of service and compensation during their highest five consecutive plan years of employment. The Company's policy for the plans is to fund at least the minimum amount required by the Employee Retirement Income Security Act of 1974 ("ERISA").

As of January 1, 2005, the defined benefit pension plans were frozen, and since that date no further cash balance allocations have been credited to participants. Participants' accounts are credited with interest daily, based upon the General Agreement of Trades and Tariffs rate (the 30-year Treasury Bond interest rate). As of December 31, 2021, based on current estimates of plan liabilities and other assumptions, the assets of the qualified defined benefit pension plan exceeded the projected benefit obligation by approximately \$19.4 million.

#### Assumptions

##### Defined Benefit Plans

In order to measure the expense associated with these plans, management must make various estimates and assumptions, including discount rates used to value liabilities, assumed rates of return on plan assets, employee turnover rates and anticipated mortality rates, for example. The estimates used by management are based on the Company's historical experience, as well as current facts and circumstances. In addition, the Company uses outside actuaries to assist in measuring the expense and liability associated with these plans.

The Company measures the funded status of its plans as of the date of its year-end statement of financial position. The Company utilizes a measurement date of December 31st to determine its benefit obligations, consistent with the date of its Consolidated Balance Sheets.

Weighted average assumptions used to determine pension benefit obligations are as follows:

DECEMBER 31	2021	2020	2019
Discount rate - qualified plan	3.25%	3.00%	3.75%
Discount rate - non-qualified plan	3.25%	2.88%	4.00%
Cash balance interest crediting rate	3.00%	3.00%	3.50%

The Company utilizes a measurement date of January 1st to determine its periodic pension costs. Weighted average assumptions used to determine net periodic pension costs for the defined benefit plans are as follows:

YEARS ENDED DECEMBER 31	2021	2020	2019
<i>Qualified plan</i>			
Discount rate	3.00%	3.75%	4.50%
Expected return on plan assets	3.75%	4.75%	5.50%
Cash balance interest crediting rate	3.00%	3.50%	3.50%
<i>Non-qualified plan</i>			
Discount rate	2.88%	4.00%	4.50%

The expected rates of return were determined using historical mean returns for each asset class, adjusted for certain factors believed to have an impact on future returns. These returns are generally weighted to the plan's actual asset allocation, and are net of administrative expenses. For the qualified defined benefit plan, the 2021 expected return on plan assets of 3.75% reflects long-term expectations and decreased modestly based upon long-term market expectations and expense management efforts. The Company reviews and updates, at least annually, its expected return on plan assets based on changes in the actual assets held by the plan and market conditions.

## Plan Assets

### Qualified Defined Benefit Plan

For the qualified defined benefit plan, a target allocation approach is utilized, which focuses on creating a mix of assets that will generate modest growth from equity securities while minimizing volatility from changes in the markets and economic environment. Various factors are taken into consideration in determining the appropriate asset mix, such as census data, actuarial valuation information and capital market assumptions. Target allocations are reviewed and updated at least annually. Changes are made periodically.

The following table provides its year-end 2021 target allocations and actual invested asset allocations at December 31, 2021 and 2020.

DECEMBER 31	2021 TARGET LEVELS	2021	2020
Fixed income securities:			
Fixed maturities	88%	88%	87%
Money market funds	2%	1%	3%
Total fixed income securities	90%	89%	90%
Equity securities	10%	11%	10%
Total plan assets	100%	100%	100%

The following table presents, for each hierarchy level, the qualified defined benefit plan's investment assets that are measured at fair value at December 31, 2021 and 2020. Refer to Note 4 – "Fair Value" for a description of the different levels in the Fair Value Hierarchy.

DECEMBER 31 (in millions)	2021				2020			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Fixed income securities:								
Fixed maturities	\$ 64.5	\$ 48.5	\$ —	\$ 16.0	\$ 29.5	\$ 10.4	\$ —	\$ 19.1
Money market mutual funds	7.2	7.2	—	—	11.3	11.3	—	—
Total investments at fair value	\$ 71.7	\$ 55.7	\$ —	\$ 16.0	\$ 40.8	\$ 21.7	\$ —	\$ 19.1

### Fixed Income Securities and Mutual Funds

Securities classified as Level 1 at December 31, 2021 and 2020 include actively traded mutual funds and publicly traded securities, which are valued at quoted market prices. Securities classified as Level 3 at December 31, 2021 and 2020 include assets held in a fixed account of an insurance company. The fair value of the investment is estimated using a comparable public market financial institution derived fair value curve that uses non-observable inputs for market liquidity and unique credit characteristics of its underlying securities.

The Plan also holds investments measured at fair value using NAV based on the value of the underlying investments, which is determined independently by the investment manager and have not been included in the table above. These include investments in commingled pools and investment-grade fixed income securities held in a custom fund, and other commingled pools that primarily invest in publicly traded common stocks. The daily NAV, which is not published as a quoted market price for these investments, is used as the basis for transactions. Redemption of these funds is not subject to restriction. The fair values of these investments are as follows:

DECEMBER 31	2021	2020
Fixed maturities	\$ 354.0	\$ 414.4
Equity securities	52.3	52.7
Total investments carried at NAV	\$ 406.3	\$ 467.1

The table below provides a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

YEARS ENDED DECEMBER 31 (in millions)	2021	2020
Balance at beginning of period	\$ 19.1	\$ 22.9
Less: Assets transferred to Level 1 investments	(3.5)	(4.3)
Return on plan assets related to assets still held	0.4	0.5
Balance at end of year	\$ 16.0	\$ 19.1

## Obligations and Funded Status

The Company recognizes the current funded status of its plans in its Consolidated Balance Sheets. Changes in the funded status of the plans are reflected as components of either net income or accumulated other comprehensive income. The components of accumulated other comprehensive income are reflected as a net actuarial gain or loss.

The following table reflects the benefit obligations, fair value of plan assets and funded status of the plans at December 31, 2021 and 2020.

DECEMBER 31 (in millions)	Qualified Pension Plan		Non-Qualified Pension Plan	
	2021	2020	2021	2020
<b>Change in benefit obligation:</b>				
Benefit obligation, beginning of period <sup>(1)</sup>	\$ 483.3	\$ 472.5	\$ 33.0	\$ 31.7
Interest cost	14.0	17.1	0.9	1.2
Actuarial (gains) losses	(5.2)	25.9	(0.1)	3.0
Benefits paid	(33.5)	(32.2)	(2.8)	(2.9)
Benefit obligation, end of year <sup>(1)</sup>	458.6	483.3	31.0	33.0
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning of period	510.7	487.6	—	—
Actual return on plan assets	0.8	55.3	—	—
Contributions	—	—	2.8	2.9
Benefits paid	(33.5)	(32.2)	(2.8)	(2.9)
Fair value of plan assets, end of year	478.0	510.7	—	—
Funded status of the plans	\$ 19.4	\$ 27.4	\$ (31.0)	\$ (33.0)

(1) The accumulated benefit obligation for these plans is equal to the projected benefit obligation.

Actuarial gains related to the change in the benefit obligation for the Company's qualified benefit plan were \$5.2 million for the year ended December 31, 2021, compared to actuarial losses of \$25.9 million for the year ended December 31, 2020. Actuarial gains related to the change in the benefit obligation for the Company's non-qualified benefit plan were \$0.1 million for the year ended December 31, 2021, compared to actuarial losses of \$3.0 million for the year ended December 31, 2020. For both plans, the actuarial gains in 2021 primarily reflect slight increases in the discount rate, partially offset by less favorable mortality experience. In 2020, the actuarial losses primarily reflect reductions in the discount rate driven by decreases in corporate bond interest rates, partially offset by favorable mortality experience.

## Components of Net Periodic Pension (Benefit) Cost

The components of total net periodic pension (benefit) cost are as follows:

YEARS ENDED DECEMBER 31 (in millions)	2021	2020	2019
Interest cost	\$ 14.9	\$ 18.3	\$ 21.3
Expected return on plan assets	(18.4)	(22.2)	(23.4)
Recognized net actuarial loss	3.2	5.8	11.3
Net periodic pension (benefit) cost	\$ (0.3)	\$ 1.9	\$ 9.2

The following table reflects the total amounts recognized in accumulated other comprehensive income relating to the defined benefit pension plans as of December 31, 2021 and 2020.

DECEMBER 31 (in millions)	2021	2020
Net actuarial loss	\$ 76.6	\$ 67.4

The unrecognized net actuarial gains or losses which exceed 10% of the greater of the projected benefit obligations or the fair value of plan assets are amortized as a component of net periodic pension cost over the next five years.

## Contributions

In accordance with ERISA guidelines, the Company is not required to fund its qualified benefit plan in 2022. The Company expects to contribute \$2.9 million to its non-qualified pension plan to fund 2022 benefit payments. During 2019, the Company made a discretionary contribution of \$10.0 million to its qualified benefit plan. At this time, no additional discretionary contributions are expected to be made into any of the plans during 2022.

**Benefit Payments**

<b>YEARS ENDED DECEMBER 31</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027-2031</b>
<i>(in millions)</i>						
Qualified pension plan	\$ 38.3	\$ 37.6	\$ 36.6	\$ 34.6	\$ 33.6	\$ 147.2
Non-qualified pension plan	\$ 2.9	\$ 2.7	\$ 2.7	\$ 2.6	\$ 2.5	\$ 10.8

The benefit payments are based on the same assumptions used to measure the Company's benefit obligations at the end of 2021. Benefit payments related to the qualified plan will be made from plan assets held in trust and not included with Company assets, whereas those payments related to the non-qualified plan will be provided for by the Company.

**DEFINED CONTRIBUTION PLAN**

In addition to the defined benefit plans, THG provides a qualified defined contribution 401(k) plan for all of its employees, whereby the Company matches employee elective 401(k) contributions, up to a maximum of 6% of eligible compensation in 2021, 2020 and 2019. The Company's expense for this matching provision was \$25.2 million, \$24.1 million and \$22.2 million for 2021, 2020 and 2019, respectively. In addition to this matching provision, the Company can elect to make an annual contribution to employees' accounts.



## 8. OTHER COMPREHENSIVE INCOME (LOSS)

The following table provides changes in other comprehensive income (loss).

YEARS ENDED DECEMBER 31	2021			2020			2019		
		Tax Benefit	Net of		Tax Benefit	Net of		Tax Benefit	Net of
(in millions)	Pre-Tax	(Expense)	Tax	Pre-Tax	(Expense)	Tax	Pre-Tax	(Expense)	Tax
Changes in net unrealized gains (losses) on investment securities:									
Net unrealized gains (losses) arising during period for those having no credit losses in Consolidated Statements of Income	\$ (300.1)	\$ 63.0	\$ (237.1)	\$ 274.6	\$ (57.7)	\$ 216.9	\$ 326.0	\$ (68.5)	\$ 257.5
Net unrealized gains arising during period for those having credit losses in Consolidated Statements of Income	(0.2)	0.1	(0.1)	1.3	(0.2)	1.1	1.5	(0.4)	1.1
Amount of gains realized from sales and other recognized in Consolidated Statements of Income	(3.0)	(3.9)	(6.9)	(13.5)	(6.4)	(19.9)	(5.0)	(13.7)	(18.7)
Amount of credit (losses) recoveries recognized in Consolidated Statements of Income	0.2	(0.1)	0.1	1.2	(0.3)	0.9	2.1	(0.4)	1.7
Amount of additional impairment losses recognized in Consolidated Statements of Income	1.0	(0.2)	0.8	16.6	(3.5)	13.1	—	—	—
Unrealized losses realized with sale of Chaucer business	—	—	—	—	—	—	0.1	—	0.1
Net unrealized gains (losses)	(302.1)	58.9	(243.2)	280.2	(68.1)	212.1	324.7	(83.0)	241.7
Pension and postretirement benefits:									
Net gains (losses) arising in the period from net actuarial gains (losses)	(12.4)	2.6	(9.8)	3.9	(0.8)	3.1	20.5	(4.3)	16.2
Amortization of net actuarial losses recognized as net periodic benefit cost	3.4	(0.7)	2.7	6.0	(1.3)	4.7	11.4	(2.4)	9.0
Total pension and postretirement benefits	(9.0)	1.9	(7.1)	9.9	(2.1)	7.8	31.9	(6.7)	25.2
Cumulative foreign currency translation obligation recognized with sale of Chaucer business	—	—	—	—	—	—	0.9	(0.2)	0.7
Other comprehensive income (loss)	<u>\$ (311.1)</u>	<u>\$ 60.8</u>	<u>\$ (250.3)</u>	<u>\$ 290.1</u>	<u>\$ (70.2)</u>	<u>\$ 219.9</u>	<u>\$ 357.5</u>	<u>\$ (89.9)</u>	<u>\$ 267.6</u>

Reclassifications out of accumulated other comprehensive income (loss) were as follows:

YEARS ENDED DECEMBER 31 (in millions)	2021	2020	2019	
Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)			Affected Line Item in the Statement Where Net Income is Presented
Net unrealized gains on investment securities	\$ 3.0	\$ 13.4	\$ 5.0	Net realized gains from sales and other
	(1.3)	(17.6)	(2.0)	Impairment losses on investments
	1.7	(4.2)	3.0	Total before tax
	4.2	10.2	14.1	Tax benefit
	5.9	6.0	17.1	Continuing operations; net of tax
	—	—	(0.1)	Gain on sale of Chaucer business
	0.1	(0.1)	(0.1)	Discontinued life businesses
	6.0	5.9	16.9	Net of tax
Amortization of defined benefit pension and postretirement actuarial losses	(3.4)	(6.0)	(11.4)	Loss adjustment expenses and other operating expenses (1)
	0.7	1.3	2.4	Tax benefit
	(2.7)	(4.7)	(9.0)	Continuing operations; net of tax
Cumulative foreign currency translation obligation recognized with sale of Chaucer business	—	—	(0.7)	Gain on sale of Chaucer business
Total reclassifications for the period	\$ 3.3	\$ 1.2	\$ 7.2	Benefit reflected in income, net of tax

(1) The amount reclassified from accumulated other comprehensive income for the pension and postretirement benefits was allocated approximately 40% to loss adjustment expenses and 60% to other operating expenses for each of the years ended December 31, 2021, 2020 and 2019.

## 9. STOCK-BASED COMPENSATION PLANS

On May 20, 2014, shareholders approved The Hanover Insurance Group 2014 Long-Term Incentive Plan (the “2014 Stock Plan”). With respect to new share-based award issuances, the 2014 Stock Plan replaced The Hanover Insurance Group, Inc. 2006 Long-Term Incentive Plan (the “2006 Stock Plan”) and authorized the issuance of 6,100,000 shares in a new share pool, plus any shares subject to outstanding awards under the 2006 Stock Plan that may become available for reissuance as a result of the cash settlement, forfeiture, expiration or cancellation of such awards. The 2014 Stock Plan provides for the granting of the same types of awards as the 2006 Stock Plan, including stock options and stock appreciation rights (“SARS”), restricted and unrestricted stock, stock units, performance and market-based stock awards and cash awards. In accordance with the 2014 Stock Plan, the issuance of one share of common stock in the form of an option or SAR will reduce the share pool by one share, whereas the issuance of one share of common stock for the other types of stock awards provided by the Plan will reduce the pool by 3.8 shares. As of December 31, 2021, there were 1,981,322 shares available for grants under the 2014 Stock Plan.

Additionally, on May 20, 2014, shareholders approved The Hanover Insurance Group 2014 Employee Stock Purchase Plan (the “ESPP Plan”) authorizing the issuance of 2,500,000 shares under such plan. As of December 31, 2021, 2,313,265 shares were available for grant under the ESPP Plan.

Compensation cost for the years ended December 31, 2021, 2020 and 2019 totaled \$22.9 million, \$20.1 million and \$17.4 million, respectively. Related tax benefits were \$4.8 million, \$4.2 million and \$3.7 million, respectively.

### STOCK OPTIONS

Under the 2014 Stock Plan, options may be granted to eligible employees, directors or consultants at an exercise price equal to the market price of the Company’s common stock on the date of grant. Option shares may be exercised subject to the terms prescribed by the Compensation and Human Capital Committee of the Board of Directors (the “Committee”) at the time of grant. Options granted in 2021, 2020 and 2019 generally vest over 3 years with 33 1/3% vesting in each year. Options must be exercised not later than ten years from the date of grant.

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Information on the Company's stock options is summarized below.

YEARS ENDED DECEMBER 31	2021		2020		2019	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<i>(in whole shares and dollars)</i>						
Outstanding, beginning of year	1,282,278	\$ 93.64	1,121,559	\$ 87.88	1,099,076	\$ 85.75
Granted (1)	178,040	115.35	242,598	118.34	252,813	119.36
Exercised	(225,338)	80.24	(54,721)	75.86	(191,601)	71.20
Forfeited or cancelled	(4,769)	118.01	(27,158)	112.18	(38,729)	107.34
Outstanding, end of year	1,230,211	\$ 99.14	1,282,278	\$ 93.64	1,121,559	\$ 87.88
Exercisable, end of year	845,429	\$ 91.10	852,804	\$ 82.76	662,555	\$ 75.63

- (1) In accordance with plan provisions, 2019 includes 67,605 options related to special dividends paid by the Company in January 2019 and December 2019, in order to retain the intrinsic value of outstanding awards. The remaining 185,208 option awards were granted at an exercise price of \$119.36.

Cash received for options exercised for the years ended December 31, 2021, 2020 and 2019 was \$18.0 million, \$3.9 million and \$12.3 million, respectively. The intrinsic value of options exercised for the years ended December 31, 2021, 2020 and 2019 was \$12.2 million, \$2.7 million and \$10.1 million, respectively.

The excess tax benefit realized from options exercised for the years ended December 31, 2021, 2020 and 2019 was \$2.0 million, \$0.4 million and \$1.7 million, respectively. The aggregate intrinsic value at December 31, 2021 for shares outstanding and shares exercisable was \$39.3 million and \$33.8 million, respectively. At December 31, 2021, the weighted average remaining contractual life for shares outstanding and shares exercisable was 6.4 years and 5.4 years, respectively. Additional information about employee options outstanding and exercisable at December 31, 2021 is included in the following table:

Range of Exercise Prices	Options Outstanding			Options Currently Exercisable	
	Number	Weighted Average Remaining Contractual Lives	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$40.01 to \$54.61	78,093	1.81	\$ 49.75	78,093	\$ 49.75
\$66.14 to \$66.26	78,599	3.16	66.14	78,599	66.14
\$70.51 to \$77.91	113,328	4.42	74.57	113,328	74.57
\$82.39 to \$92.68	155,291	5.22	85.45	154,029	85.39
\$104.11 to \$113.32	243,285	6.16	104.25	243,485	104.25
\$115.35	178,040	9.16	115.35	—	—
\$117.22 to \$118.54	383,375	7.77	118.01	177,895	117.76

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. For all options granted through December 31, 2021, the exercise price equaled the market price on the grant date. Compensation cost related to options is based upon the grant date fair value and expensed on a straight-line basis over the service period for each separately vesting portion of the option as if the option was, in substance, multiple awards.

The weighted average grant date fair value of options granted during the years ended December 31, 2021, 2020 and 2019 was \$20.96 , \$14.45 and \$18.12, respectively.

The following significant assumptions were used to determine the fair value for options granted in the years indicated.

	2021	2020	2019
Dividend yield	2.427 %	2.193% to 2.805 %	2.011 %
Expected volatility	24.115% to 31.315 %	17.671% to 24.495 %	18.495% to 19.100%
Weighted average expected volatility	27.45 %	18.10 %	18.86%
Risk-free interest rate	0.194% to 1.046 %	0.262% to 1.042 %	2.527% to 2.617%
Expected term, in years	2.5 to 6.5	2.5 to 6.5	2.5 to 6.5

The expected dividend yield is based on the Company's dividend payout rate(s), in the year noted, excluding the effect of any special dividends provided. Expected volatility is based generally on the Company's historical daily stock price volatility. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The

expected term of options granted represents the period of time that options are expected to be outstanding and is derived primarily using historical exercise, forfeit and cancellation behavior, along with certain other factors expected to differ from historical data.

The fair value of shares that vested during the years ended December 31, 2021 and 2020 was \$1.0 million and \$4.6 million, respectively. As of December 31, 2021, the Company had unrecognized compensation expense of \$2.7 million related to unvested stock options that is expected to be recognized over a weighted average period of 1.4 years.

#### RESTRICTED STOCK UNITS

Stock grants may be awarded to eligible employees at a price established by the Committee (which may be zero). Under the 2014 Stock Plan, the Company may award shares of restricted stock, restricted stock units, as well as shares of unrestricted stock. Restricted stock grants may vest based upon performance criteria, market criteria or continued employment and be in the form of shares or units. Vesting periods are established by the Committee.

The Company granted both market-based and performance-based restricted share units in 2021, 2020 and 2019. These units generally vest after three years of continued employment and after the achievement of certain performance targets. The Company also granted time-based restricted stock units to eligible employees in 2021, 2020 and 2019 that generally vest after three years of continued employment.

The following table summarizes information about employee restricted stock units:

YEARS ENDED DECEMBER 31	2021		2020		2019	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Time-based restricted stock units:						
Outstanding, beginning of year	350,480	\$ 116.37	335,166	\$ 109.55	332,481	\$ 97.28
Granted	173,963	115.69	143,128	117.72	149,698	117.60
Vested	(119,645)	111.30	(94,993)	94.54	(109,493)	84.57
Forfeited	(24,698)	117.17	(32,821)	115.74	(37,520)	106.03
Outstanding, end of year	380,100	\$ 117.60	350,480	\$ 116.37	335,166	\$ 109.55
Performance and market-based restricted stock units:						
Outstanding, beginning of year	97,043	\$ 119.59	86,252	\$ 110.70	69,838	\$ 95.58
Granted	62,143	114.66	54,415	105.10	42,605	116.67
Vested	(43,506)	122.27	(40,601)	80.92	(23,521)	79.57
Forfeited	(1,832)	116.90	(3,023)	124.78	(2,670)	135.92
Outstanding, end of year	113,848	\$ 115.92	97,043	\$ 119.59	86,252	\$ 110.70

In 2021, 2020 and 2019, the Company granted market-based awards totaling 37,848, 21,379, and 24,410, respectively, to certain members of senior management, which are included in the table above as performance and market-based restricted stock activity. The vesting of these stock units is based on the relative total shareholder return ("TSR") of the Company. This metric is generally based on relative TSR for a three-year period as compared to a group of Property and Casualty peer companies. The fair value of market-based awards was estimated at the date of grant using a valuation model. These units have the potential to range from 0% to 150% of the shares disclosed.

In 2021, 14,501 market-based restricted stock units were included as granted due to completion levels in excess of 100% for units granted in 2018. The weighted average grant date fair value of these awards was \$122.27. In 2020, 13,532 market-based restricted stock units were included as granted due to completion levels in excess of 100% for units granted in 2017. The weighted average grant date fair value of these awards was \$80.92. In 2019, 5,820 market-based restricted stock units were included as granted due to completion levels in excess of 100% for units granted in both 2016 and 2017. The weighted average grant date fair value of these awards was \$75.95.

In 2021, 2020 and 2019, the Company also granted performance-based restricted stock units totaling 21,401, 19,504 and 18,195, respectively to certain members of senior management, which are included in the table above as performance and market-based restricted stock activity. The vesting of these stock units is determined through the use of a performance-based metric (return on equity) and has the potential to range from 0% to 150% of the shares disclosed.

The increase in fair value from grant date of restricted stock and restricted stock units that vested during the years ended December 31, 2021, 2020 and 2019 was \$1.2 million, \$4.5 million and \$3.7 million, respectively. There was no increase in the fair value from grant date for performance and market-based restricted stock units that vested in 2021; however, for 2020 and 2019 the increase was \$2.0 million, \$1.1 million, respectively.

Also, during 2021, 2020 and 2019 there were 900 shares, 1,074 shares, and 966 shares, respectively, of performance-based awards that forfeited.

At December 31, 2021, the fair value of outstanding restricted stock units was \$44.7 million and the weighted average remaining contractual life was 1.3 years. The fair value of outstanding performance and market-based restricted stock units was \$13.2 million and the weighted average remaining contractual life was 1.3 years. As of December 31, 2021, there was \$26.7 million of total unrecognized compensation cost related to unvested restricted stock units and performance and market-based restricted stock units. The cost is expected to be recognized over a weighted average period of 1.7 years. Compensation cost associated with restricted stock, restricted stock units and performance and market-based restricted stock units is generally calculated based upon grant date fair value, which is determined using current market prices.

## 10. EARNINGS PER SHARE AND SHAREHOLDERS' EQUITY TRANSACTIONS

The following table provides weighted average share information used in the calculation of the Company's basic and diluted earnings per share:

DECEMBER 31	2021	2020	2019
<i>(in millions, except per share data)</i>			
Basic shares used in the calculation of earnings per share	35.9	37.7	40.0
Dilutive effect of securities:			
Employee stock options	0.3	0.2	0.3
Non-vested stock grants	0.2	0.2	0.3
Diluted shares used in the calculation of earnings per share	36.4	38.1	40.6
Per share effect of dilutive securities on income from continuing operations	\$ (0.18)	\$ (0.11)	\$ (0.16)
Per share effect of dilutive securities on net income	\$ (0.18)	\$ (0.10)	\$ (0.16)

Diluted earnings per share during 2021, 2020 and 2019 excludes 0.2 million, 0.4 million and 0.2 million, respectively, of common shares issuable under the Company's stock compensation plans, because their effect would be antidilutive.

The Board of Directors has authorized a stock repurchase program which provides for aggregate repurchases of the Company's common stock of up to \$1.3 billion. Under this program the Company had approximately \$361 million available at December 31, 2021. Under the repurchase authorization, the Company may repurchase, from time to time, common stock in amounts, at prices and at such times as the Company deems appropriate, subject to market conditions and other considerations. Repurchases may be executed using open market purchases, privately negotiated transactions, accelerated repurchase programs or other transactions. The Company is not required to purchase any specific number of shares or to make purchases by any certain date under this program. During 2019, the Company executed two accelerated share repurchase ("ASR") agreements, through which it repurchased approximately 2.2 million shares of its common stock for \$300 million. On October 29, 2020, pursuant to the terms of another ASR agreement the Company paid \$100 million and received 0.9 million shares of its common stock, with approximately 80% of the total number of shares received in October 2020 and approximately 45,000 shares received in January 2021 as final settlement of shares repurchased. The Company also repurchased 1.2 million, 1.1million and 0.1 million shares through open market purchases during 2021, 2020 and 2019, respectively.

## 11. DIVIDEND RESTRICTIONS

The individual law of all states, including New Hampshire and Michigan, where Hanover Insurance and Citizens are domiciled, respectively, restrict the payment of dividends to stockholders by insurers. These laws affect the dividend paying ability of Hanover Insurance and Citizens.

Pursuant to New Hampshire's statute, the maximum dividends and other distributions that an insurer may pay in any twelve month period, without prior approval of the New Hampshire Insurance Commissioner, is limited to the lesser of 10% of such insurer's statutory policyholder surplus as of the preceding December 31, or statutory net income less net realized gains. Hanover Insurance declared and paid dividends to its parent totaling \$255.0 million in 2021, \$245.0 million in 2020 and \$140.0 million in 2019. At January 1, 2022, the maximum dividend payable without prior approval was \$16.3 million. In May 2022, the maximum dividend declared payable without prior approval will increase by \$255.0 million to a total amount of \$271.3 million.

Pursuant to Michigan's statute, the maximum dividends and other distributions that an insurer may pay in any twelve month period, without prior approval of the Michigan Insurance Commissioner, is limited to the greater of 10% of policyholders' surplus as of December 31 of the immediately preceding year or the statutory net income less net realized gains, for the immediately preceding calendar year. Citizens declared and paid an ordinary dividend to its parent, Hanover Insurance, totaling \$90.0 million in 2021. In 2020 and 2019, an extraordinary dividend of \$82.0 million and an ordinary dividend of \$106.0 million, respectively, were declared and paid by Citizens. Accordingly, Citizens cannot declare a further dividend without prior approval until November 2022, at which time the maximum dividend declared payable without prior approval will be \$72.9 million.

The statutes in both New Hampshire and Michigan require that prior notice to the respective Insurance Commissioner of any proposed dividend be provided and such Commissioner may, in certain circumstances, prohibit the payment of the proposed dividend.

## **12. SEGMENT INFORMATION**

The Company's primary business operations include insurance products and services provided through three operating segments: Commercial Lines, Personal Lines and Other. Commercial Lines includes commercial multiple peril, commercial automobile, workers' compensation, and other commercial coverages, such as management and professional liability, marine, Hanover Programs, specialty industrial and commercial property, monoline general liability and surety. Personal Lines includes personal automobile, homeowners and other personal coverages. Included in the Other segment are Opus Investment Management, Inc., which markets investment management services to institutions, pension funds and other organizations; earnings on holding company assets; holding company and other expenses, including certain costs associated with retirement benefits due to the Company's former life insurance employees and agents; and, a run-off property and casualty voluntary pools business. The separate financial information 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.

The Company reports interest expense related to debt separately from the earnings of its operating segments. For 2021, this consisted of interest on the Company's senior and subordinated debentures.

Management evaluates the results of the aforementioned segments based on operating income before income taxes, excluding interest expense on debt. Operating income before income taxes excludes certain items which are included in net income, such as net realized and unrealized investment gains and losses. Such gains and losses are excluded since they are determined by interest rates, financial markets and the timing of sales. Also, operating income before income taxes excludes net gains and losses on disposals of businesses, gains and losses related to the repayment of debt, discontinued operations, costs to acquire businesses, restructuring costs, the cumulative effect of accounting changes and certain other items. Although the items excluded from operating income before income taxes may be important components in understanding and assessing the Company's overall financial performance, management believes that the presentation of operating income before income taxes enhances an investor's understanding of the Company's results of operations by highlighting net income attributable to the core operations of the business. However, operating income before income taxes should not be construed as a substitute for income before income taxes or income from continuing operations and operating income should not be construed as a substitute for net income.



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Summarized below is financial information with respect to the Company's business segments.

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions)</i>			
Operating revenues:			
Commercial Lines	\$ 3,059.9	\$ 2,868.3	\$ 2,843.5
Personal Lines	2,028.5	1,931.4	1,911.8
Other	16.4	20.1	26.0
Total	5,104.8	4,819.8	4,781.3
Net realized and unrealized investment gains	123.0	5.0	109.4
Total revenues	\$ 5,227.8	\$ 4,824.8	\$ 4,890.7
Operating income (loss) before interest expense and income taxes:			
Commercial Lines:			
Underwriting income	\$ 61.9	\$ 106.3	\$ 121.5
Net investment income	209.4	175.3	180.1
Other expense	(1.4)	(6.2)	(1.5)
Commercial Lines operating income	269.9	275.4	300.1
Personal Lines:			
Underwriting income	65.1	132.9	59.1
Net investment income	89.4	76.7	80.1
Other income	4.0	2.9	5.7
Personal Lines operating income	158.5	212.5	144.9
Other:			
Underwriting loss	(1.0)	(4.3)	(1.3)
Net investment income	11.9	13.1	21.1
Other expense	(7.0)	(12.0)	(11.2)
Other operating income (loss)	3.9	(3.2)	8.6
Operating income before interest expense and income taxes	432.3	484.7	453.6
Interest on debt	(34.0)	(37.1)	(37.5)
Operating income before income taxes	398.3	447.6	416.1
Non-operating income (loss) items:			
Net realized and unrealized investment gains	123.0	5.0	109.4
Net loss from repayment of debt	—	(6.2)	—
Other non-operating items	—	(1.6)	(3.4)
Income from continuing operations before income taxes	\$ 521.3	\$ 444.8	\$ 522.1

The following table provides identifiable assets for the Company's business segments and discontinued operations:

<b>DECEMBER 31</b>	<b>2021</b>	<b>2020</b>
<i>(in millions)</i>		
	<b>Identifiable Assets</b>	
Property and Casualty	\$ 14,147.2	\$ 13,333.5
Assets of discontinued businesses	107.1	110.2
Total	\$ 14,254.3	\$ 13,443.7

The Company reviews the assets of its insurance subsidiaries collectively and does not allocate them among the Commercial Lines, Personal Lines and Other segments.

#### Discontinued accident and health and life businesses

During 1999, the Company exited its accident and health insurance business, consisting of its Employee Benefit Services business, its Affinity Group Underwriters business and its accident and health assumed reinsurance pool business. Prior to 1999, these businesses comprised substantially all of the former Corporate Risk Management Services segment. On January 2, 2009, Hanover Insurance directly assumed a portion of the accident and health business and the remainder of the discontinued First Allmerica Financial Life Insurance Company ("FAFLIC") accident and health business was reinsured by Hanover Insurance in connection with the sale of FAFLIC to Commonwealth Annuity.

At December 31, 2021 and 2020, the portion of the discontinued accident and health business that was directly assumed had assets of \$87.7 million and \$90.3 million, respectively, consisting primarily of invested assets, and liabilities of \$92.3 million and \$89.8 million, respectively, consisting primarily of policy liabilities. At December 31, 2021 and 2020, the assets and liabilities of this business, as well as those of the reinsured portion of the accident and health business are classified as assets and liabilities of discontinued operations in the Consolidated Balance Sheets.

The Company's former life insurance businesses include indemnity obligations and other activities.

Discontinued accident and health and life operations for the year ended December 31, 2021, resulted in losses of \$2.5 million. For the years ended December 31, 2020 and 2019, this business resulted in losses of \$3.7 million, including \$1.7 million related to income taxes, and \$4.3 million, including \$0.9 million related to income taxes, respectively.

### 13. REINSURANCE

In the normal course of business, the Company seeks to reduce the losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Reinsurance transactions are accounted for in accordance with the provisions of ASC 944.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company determines the appropriate amount of reinsurance based on evaluations of the risks accepted and analyses prepared by consultants and on market conditions (including the availability and pricing of reinsurance). The Company also believes that the terms of its reinsurance contracts are consistent with industry practice in that they contain standard terms with respect to lines of business covered, limit and retention, arbitration and occurrence. The Company believes that its reinsurers are financially sound, based upon an ongoing review of financial strength ratings assigned to them by rating agencies, their reputations in the reinsurance marketplace, collections history, advice from third parties, and the analysis and guidance of the Company's reinsurance advisors.

As a condition to conduct certain business in various states, the Company is required to participate in residual market mechanisms, facilities, and pooling arrangements such as the Michigan Catastrophic Claims Association ("MCCA"). The Company is subject to concentration of risk with respect to reinsurance ceded to the MCCA. Funding for MCCA comes from assessments against automobile insurers based upon their share of insured automobiles in the state for which the policyholders have elected unlimited personal injury protection ("PIP") benefits. Insurers are allowed to pass along this cost to Michigan automobile policyholders that have elected unlimited PIP benefits.

On November 3, 2021, the MCCA Board voted unanimously to return approximately \$3.0 billion of its estimated surplus to policyholders through its member insurance companies. Since policyholders are the ultimate payers of the MCCA premium, this return of MCCA surplus will be passed through to policyholders. The refund is expected to be paid to the Company during March 2022 and will be refunded to the policyholders shortly thereafter. The refund was treated as a refund of premium transaction in the Company's financial statements, reducing both direct written premium and ceded written premium. There is no effect on net written premium or net earned premium. The total amount of the refund to the Company is expected to be approximately \$183.2 million, comprising of \$179.1 million for personal automobile and \$4.1 million for commercial automobile policyholders. Direct and ceded premium numbers in the table below reflect this refund. The Company has reflected the expected payment to its policyholders in "Expenses and taxes payable" in the Consolidated Balance Sheets.

Additionally, Michigan enacted major reforms to its prior system governing personal and commercial automobile insurance in June 2019. Among other things, the reform legislation set forth cost saving measures for personal injury protection claims, including MCCA-reinsured claims, that took effect in July 2021. The Company's current estimate of MCCA reinsurance receivables has been reduced for these potential future claim cost savings. This resulted in a \$122.9 million decrease in MCCA reinsurance recoverables during 2021, and a corresponding decrease in MCCA ceded losses incurred. This estimate of MCCA reinsurance receivables is subject to change and will be revised further as the actual impacts of these cost saving measures emerge in the future.

Including the aforementioned refund of \$183.2 million, during 2021 the Company's MCCA net impact was to reduce both direct premiums earned and premiums ceded by \$143.7 million. Including the aforementioned decrease in the Company's estimated MCCA reinsurance recoverables of \$122.9 million, during 2021 the Company's MCCA net impact was to reduce ceded incurred losses and LAE by \$68.0 million. The Company ceded to the MCCA premiums earned and losses and LAE incurred of \$84.6 million and \$99.2 million, respectively, in 2020, and \$84.3 million and \$108.5 million, respectively, in 2019.

The MCCA represented 47.3% of the total reinsurance receivable balance at December 31, 2021. Reinsurance recoverables related to the MCCA were \$901.8 million and \$1,024.7 million at December 31, 2021 and 2020, respectively. Since the MCCA is supported by assessments permitted by statute, and there have been no significant uncollectible balances from the MCCA identified during the three years ending December 31, 2021, the Company believes it has no significant exposure to uncollectible reinsurance balances from this entity.

The following table provides the effects of reinsurance.

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions)</i>			
Premiums written:(1)			
Direct	\$ 5,310.7	\$ 5,131.4	\$ 5,090.8
Assumed	33.6	23.1	27.7
Ceded	(350.9)	(556.0)	(536.8)
Net premiums written	\$ 4,993.4	\$ 4,598.5	\$ 4,581.7
Premiums earned:(1)			
Direct	\$ 5,131.3	\$ 5,063.8	\$ 4,953.3
Assumed	27.7	24.6	26.3
Ceded	(388.8)	(561.0)	(505.1)
Net premiums earned	\$ 4,770.2	\$ 4,527.4	\$ 4,474.5
Percentage of assumed to net premiums earned	0.6 %	0.5 %	0.6 %
Losses and LAE:			
Direct	\$ 3,407.1	\$ 3,200.5	\$ 3,223.3
Assumed	17.7	15.9	21.4
Ceded(2)	(290.6)	(371.2)	(379.2)
Net losses and LAE	\$ 3,134.2	\$ 2,845.2	\$ 2,865.5

(1) Direct and ceded premiums written and earned in 2021 were reduced by the \$183.2 million MCCA refund of premium, as discussed above.

(2) The ceded losses and LAE in 2021 declined compared to 2020 and 2019 primarily due to the decrease in MCCA incurred losses that resulted from Michigan automobile reform, as discussed above.

#### 14. LIABILITIES FOR OUTSTANDING CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES

##### *Reserving Process Overview*

Management's process for establishing loss reserves is a comprehensive process that involves input from multiple functions throughout the organization, including actuarial, finance, claims, legal, underwriting, distribution and business operations management. A review of loss reserves for each of the classes of business that the Company writes is conducted regularly, generally quarterly. This review process takes into consideration a variety of trends that impact the ultimate settlement of claims. Where appropriate, the loss reserving process includes a review of overall payment patterns and the emergence of paid and reported losses relative to expectations.

The loss reserve estimation process relies on the basic assumption that past experience, adjusted for the effects of current developments and likely trends, is an appropriate basis for predicting future outcomes. As part of this process, the Company uses a variety of analytical methods that consider experience, trends and other relevant factors. IBNR reserves are generally calculated by first projecting the ultimate cost of all claims that have been reported or expected to be reported in the future and then subtracting reported losses and LAE. IBNR reserves include both incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses. Reported losses include cumulative paid losses and LAE plus outstanding case reserves. The Company's ultimate IBNR reserves are estimated by management and reserving actuaries on an aggregate basis for each line of business or coverage for loss and LAE liabilities not reflected within the case reserves. Case reserves are established by claim personnel individually on a claim by claim basis and based on information specific to the occurrence and terms of the underlying policy. Case reserves are periodically reviewed and modified based on new or additional information pertaining to the claim.

For events designated as catastrophes, the Company generally calculates IBNR reserves directly as a result of an estimated IBNR claim count and an estimated average claim amount for each event. Such an assessment involves a comprehensive analysis of the nature of the event, of policyholder exposures within the affected geographic area and of available claims intelligence.

Carried reserves for each line of business and coverage are determined based on the quarterly loss reserving process. In making the determination, the Company considers numerous quantitative and qualitative factors. Quantitative factors include actual payments made and changes in case reserve estimates in the period, as compared to previously experienced patterns, the maturity of the accident year, trends observed over the recent past, the level of volatility within a particular class of business, the estimated effects of reinsurance, including reinstatement premiums, general economic trends and other factors. Qualitative factors may include legal and regulatory developments, changes in claim handling and case reserving practices, recent entry into new markets or products, changes in underwriting practices, concerns that the Company does not have sufficient or quality historical reported and paid loss and LAE

information with respect to a particular line of business and coverage, effects of the economy and political outlook, perceived anomalies in the historical results, evolving trends or other factors, such as the continuing impact of the Pandemic.

### ***Reserve Rollforward and Prior Year Development***

The Company regularly updates its reserve estimates as new information becomes available and further events occur which may impact the resolution of unsettled claims. Reserve adjustments are reflected in results of operations as adjustments to losses and LAE. Often these adjustments are recognized in periods subsequent to the period in which the underlying policy was written and loss event occurred. These types of subsequent adjustments are described as loss and LAE “development.” Such development can be either favorable or unfavorable to the Company’s financial results and may vary by line of business. In this section, all amounts presented include catastrophe losses and LAE.

The table below provides a reconciliation of the gross beginning and ending reserve for unpaid losses and loss adjustment expenses.

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>(in millions)</b>			
Gross reserve for losses and LAE, beginning of year	\$ 6,024.0	\$ 5,654.4	\$ 5,304.1
Reinsurance recoverable on unpaid losses	1,641.6	1,574.8	1,472.6
Net loss and LAE reserves, beginning of year	4,382.4	4,079.6	3,831.5
Net incurred losses and LAE in respect of losses occurring in:			
Current year	3,205.3	2,877.8	2,893.0
Prior years	(71.1)	(32.6)	(28.4)
Total incurred losses and LAE	3,134.2	2,845.2	2,864.6
Net payments of losses and LAE in respect of losses occurring in:			
Current year	1,464.1	1,347.7	1,315.4
Prior years	1,298.7	1,194.7	1,301.1
Total payments	2,762.8	2,542.4	2,616.5
Net reserve for losses and LAE, end of year	4,753.8	4,382.4	4,079.6
Reinsurance recoverable on unpaid losses	1,693.8	1,641.6	1,574.8
Gross reserve for losses and LAE, end of year	\$ 6,447.6	\$ 6,024.0	\$ 5,654.4

The following table provides a summary of (favorable) unfavorable loss and LAE reserve development.

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>(in millions)</b>			
Commercial multiple peril	\$ (13.0)	\$ (0.2)	\$ (19.5)
Workers’ compensation	(23.1)	(36.0)	(32.6)
Commercial automobile	2.1	15.4	5.8
Other commercial lines	(12.0)	(17.0)	(7.0)
Total Commercial Lines	(46.0)	(37.8)	(53.3)
Personal automobile	(24.8)	5.2	21.6
Homeowners and other personal lines	(1.3)	(4.2)	2.1
Total Personal Lines	(26.1)	1.0	23.7
Total Other Segment	1.0	4.2	1.2
Total loss and LAE reserve development, including catastrophes	\$ (71.1)	\$ (32.6)	\$ (28.4)

As a result of continuing trends in the Company’s business, reserves, including catastrophes, have been re-estimated for all prior accident years and were decreased by \$71.1 million, \$32.6 million and \$28.4 million in 2021, 2020 and 2019, respectively.

### **2021**

In 2021, net favorable loss and LAE development was \$71.1 million, primarily as a result of net favorable Commercial Lines development of \$46.0 million, and net favorable Personal Lines development of \$26.1 million. Commercial Lines favorable development was primarily due to lower than expected losses of \$23.1 million within the workers’ compensation line in accident years 2014 through 2020, and within commercial multiple peril and other commercial lines. In addition, Commercial Lines favorable development includes lower than expected losses related to certain 2018 through 2020 hurricanes, tornadoes, and other storms. Within other commercial lines, lower than expected losses in the commercial miscellaneous property line, primarily in accident years 2019 and 2020, the surety line, primarily in accident years 2013 through 2016, 2018 and 2019, the marine line, primarily in accident year

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2020, and within the specialty industrial property line, primarily in accident years 2019 and 2020, were partially offset by higher than expected losses of \$25.6 million within the general liability lines, primarily in accident years 2018 through 2020. Personal Lines favorable development was primarily due to lower than expected losses of \$24.8 million in the personal automobile line, driven by lower bodily injury and personal injury protection losses, primarily in accident year 2020. In addition, Other Segment unfavorable development of \$1.0 million was due to the Company's run-off voluntary assumed property and casualty reinsurance pools business, which includes asbestos and environmental reserves.

## 2020

In 2020, net favorable loss and LAE development was \$32.6 million, primarily as a result of net favorable Commercial Lines development of \$37.8 million, partially offset by unfavorable development in the Other Segment. Commercial Lines favorable development was primarily due to lower than expected losses of \$36.0 million within the workers' compensation line in accident years 2016 through 2019 and within other commercial lines. These were partially offset by higher than expected losses in the commercial automobile line driven by higher bodily injury and personal injury protection losses, primarily in accident years 2017 through 2019. In addition, Commercial Lines favorable development includes lower than expected losses related to certain 2017, 2018 and 2019 wind storms, winter storms and hurricanes, and the 2017 and 2018 California wildfires. Within other commercial lines, lower than expected losses in the marine line, primarily in accident years 2017 through 2019, and the specialty industrial property lines were partially offset by higher than expected losses in the general liability coverages within Hanover Programs in accident years 2016 through 2019. Other Segment unfavorable development was due to the Company's run-off voluntary assumed property and casualty reinsurance pools business primarily based on an updated third-party actuarial study received during 2020 for the Excess and Casualty Reinsurance Association pool that primarily consists of asbestos and environmental exposures.

## 2019

In 2019, net favorable loss and LAE development was \$28.4 million, primarily as a result of net favorable Commercial Lines development of \$53.3 million, partially offset by unfavorable Personal Lines development of \$23.7 million. Commercial Lines favorable development was primarily due to lower than expected losses of \$32.6 million within the workers' compensation line in accident years 2015 through 2018, as well as within the commercial multiple peril line in accident years 2015 and 2016, and within other commercial lines. These were partially offset by higher than expected losses in the commercial automobile line driven by higher bodily injury severity and personal injury protection losses. In addition, Commercial Lines favorable development includes lower than expected losses related to the 2017 and 2018 California wildfires, including the sale of subrogation rights on certain California wildfire losses, and hurricane Florence in 2018. Within other commercial lines, lower than expected losses in the marine line, primarily in accident years 2015 through 2018, general liability lines and surety line were partially offset by higher than expected losses in Hanover Programs, primarily in accident years 2011, 2013, 2015 and 2017. Personal Lines unfavorable development was primarily due to higher than expected losses of \$21.6 million in the personal automobile line, driven by bodily injury severity and personal injury protection in accident years 2016 through 2017. In addition, Other Segment unfavorable development of \$1.2 million was due to the Company's run-off voluntary assumed property and casualty reinsurance pools business, which includes asbestos and environmental reserves.

## Carried Reserves

The table below summarizes the gross, ceded and net reserve for losses and LAE and reconciles to the incurred claims development in the following section. Accordingly, the commercial multiple peril, workers' compensation, commercial automobile liability and general liability and umbrella - occurrence lines presentation includes Hanover Programs business.

YEAR ENDED DECEMBER 31, (in millions)	2021			2020		
	Gross	Ceded	Net	Gross	Ceded	Net
Commercial multiple peril	\$ 1,613.3	\$ (197.1)	\$ 1,416.2	\$ 1,429.4	\$ (163.9)	\$ 1,265.5
Workers' compensation	815.6	(187.8)	627.8	795.4	(182.6)	612.8
Commercial automobile liability	533.4	(29.4)	504.0	504.1	(30.6)	473.5
General liability and umbrella - occurrence	699.7	(221.2)	478.5	612.0	(176.0)	436.0
General liability - claims made	386.0	(41.2)	344.8	323.7	(30.5)	293.2
Other lines	531.1	(173.4)	357.7	451.6	(85.1)	366.5
Total Commercial Lines and other	4,579.1	(850.1)	3,729.0	4,116.2	(668.7)	3,447.5
Personal automobile liability	1,560.0	(838.4)	721.6	1,649.9	(968.5)	681.4
Homeowners	238.5	(4.0)	234.5	210.6	(3.0)	207.6
Other personal lines	70.0	(1.3)	68.7	47.3	(1.4)	45.9
Total Personal Lines	1,868.5	(843.7)	1,024.8	1,907.8	(972.9)	934.9
Total loss and LAE reserves	\$ 6,447.6	\$ (1,693.8)	\$ 4,753.8	\$ 6,024.0	\$ (1,641.6)	\$ 4,382.4

General liability and umbrella - occurrence is primarily comprised of the Company's commercial monoline general liability and umbrella coverages. General liability - claims made is primarily comprised of the Company's commercial professional and management liability lines. Within Total Commercial Lines and other, other lines is primarily comprised of marine, surety, specialty industrial and commercial property, product liability, voluntary pools, healthcare, and fidelity lines. Included in the above table, primarily in other lines, are \$57.3 million and \$57.7 million of gross asbestos and environmental reserves as of December 31, 2021 and 2020, respectively.

#### ***Incurred claims development tables***

For the following net reserve components, commercial multiple peril, workers' compensation, commercial automobile liability, general liability and umbrella - occurrence, general liability - claims made, personal automobile liability and homeowners, the Company is presenting incurred claims development tables by accident year. The commercial multiple peril, workers' compensation, commercial automobile liability, general liability and umbrella - occurrence lines presentation includes Hanover Programs business. In each of these tables, the Company is presenting the number of years for which claims are typically outstanding, which is consistent with the period at which substantially all of the reserve development has emerged based on past history. The tables presented below include cumulative incurred loss and allocated loss adjustment expenses ("ALAE"), cumulative paid loss and ALAE and IBNR balances at December 31, 2021. IBNR includes both incurred but not reported liabilities and expected development on reported claims. In addition, cumulative incurred claim counts are presented as of December 31, 2021 and claim duration is presented in a separate table disclosing the average annual percentage payout of incurred claims by age, net of reinsurance. Claim duration is calculated as an average of paid loss and ALAE divided by incurred loss and ALAE by elapsed year. The incurred claims development tables presented are reconciled to the net carried reserves in the preceding table as of December 31, 2021.

Incurred claim count information presented represents claim frequency by individual claimant and measures the frequency of direct claim settlements that have resulted in or are expected to result in claim payments. Claim count information is presented in a manner consistent with that used in the quarterly loss reserving process. A single claim event, particularly in automobile lines, may result in multiple individual claimants and, therefore, multiple claim counts. Incurred claim counts are comprised of outstanding claims and those that are closed with a loss payment and exclude those that are closed without a loss payment. A single claim event may result in multiple claims closed with a payment when a claim is subsequently reopened with further payment. In this case, a reopened claim payment is counted as an incremental claim settlement. Claim count information is not available for direct and assumed participations in various involuntary pools and residual market mechanisms, which represent approximately 4% or less of the total gross earned premium and gross incurred claims for the lines presented. Incurred claim counts are also not adjusted for the effect of claims ceded as part of reinsurance programs, although the incurred losses and cumulative paid losses presented in the following tables are presented net of reinsurance ceded.

Commercial multiple peril  
(\$ in millions)

Incurred Losses and ALAE, Net of Reinsurance									As of December 31, 2021	
YEARS ENDED DECEMBER 31,									Cumulative Incurred Claim Count	
Accident Year	2014 Unaudited	2015 Unaudited	2016	2017	2018	2019	2020	2021	IBNR	
2014	\$ 443.9	\$ 439.6	\$ 464.8	\$ 459.4	\$ 449.1	\$ 444.4	\$ 441.0	\$ 439.9	\$ 10.2	15,870
2015		446.0	456.3	463.7	467.4	465.2	460.9	457.3	15.3	15,566
2016			447.1	449.6	448.7	447.4	449.6	446.6	17.3	15,723
2017				538.7	544.8	551.6	555.6	558.9	26.9	16,562
2018					578.2	560.9	556.1	557.6	45.1	17,100
2019						583.8	593.0	605.9	86.2	16,073
2020							628.9	613.8	161.9	13,927
2021								739.3	275.0	14,522
Total								\$ 4,419.3		

Cumulative Paid Losses and ALAE, Net of Reinsurance								
YEARS ENDED DECEMBER 31,								
Accident Year	2014 Unaudited	2015 Unaudited	2016	2017	2018	2019	2020	2021
2014	\$ 171.7	\$ 267.8	\$ 316.0	\$ 363.4	\$ 395.2	\$ 407.7	\$ 411.7	\$ 414.5
2015		161.9	260.1	315.6	363.2	397.0	413.6	421.8
2016			140.3	237.9	290.2	342.2	369.6	389.0
2017				170.9	296.4	370.6	422.9	466.7
2018					178.8	306.2	363.7	406.9
2019						169.3	317.2	386.5
2020							217.4	350.8
2021								259.9
Total								3,096.1
Total reserves for 2014 – 2021 accident years (incurred - paid)								1,323.2
Total reserves for 2013 and prior accident years								67.5
Unallocated loss adjustment expense								25.5
Net reserves at December 31, 2021								\$ 1,416.2



**Workers' compensation**  
*(\$ in millions)*

Incurred Losses and ALAE, Net of Reinsurance											As of December 31, 2021	
YEARS ENDED DECEMBER 31,											Cumulative Incurred Claim Count	
Accident Year	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	2018	2019	2020	2021	IBNR	
2012	\$ 176.3	\$ 171.1	\$ 165.2	\$ 157.2	\$ 162.9	\$ 163.7	\$ 163.7	\$ 161.9	\$ 161.4	\$ 160.9	\$ 7.6	13,091
2013		179.3	167.4	160.1	154.4	155.3	155.4	154.9	153.3	152.4	8.5	11,741
2014			182.1	172.9	154.7	152.1	150.3	148.2	145.8	143.7	10.7	10,959
2015				189.6	164.2	157.5	150.3	146.0	142.7	139.5	13.5	11,495
2016					189.6	180.5	164.6	158.2	152.8	149.3	14.6	15,951
2017						186.1	172.1	160.8	156.6	151.3	15.9	16,776
2018							187.2	182.1	172.1	170.1	20.4	17,552
2019								187.9	182.0	179.7	21.8	17,451
2020									182.5	180.9	51.2	13,455
2021										193.7	63.1	14,398
Total										\$ 1,621.5		

  

Cumulative Paid Losses and ALAE, Net of Reinsurance												
YEARS ENDED DECEMBER 31,												
Accident Year	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	2018	2019	2020	2021		
2012	\$ 30.4	\$ 74.8	\$ 102.6	\$ 120.1	\$ 130.7	\$ 136.0	\$ 141.4	\$ 143.7	\$ 146.6	\$ 147.4		
2013		30.9	74.6	101.2	114.0	122.8	127.4	131.4	133.8	135.5		
2014			30.6	70.5	92.3	105.6	112.5	117.8	121.0	122.8		
2015				28.0	65.7	87.2	99.4	105.8	109.6	112.3		
2016					33.9	78.1	99.5	111.1	117.1	121.0		
2017						32.8	73.0	94.1	106.6	113.7		
2018							35.6	80.7	103.4	118.1		
2019								33.3	83.1	112.7		
2020									30.7	76.4		
2021										43.0		
Total										1,102.9		
Total reserves for 2012 – 2021 accident years (incurred - paid)										518.6		
Total reserves for 2011 and prior accident years										88.5		
Unallocated loss adjustment expense and other										20.7		
Net reserves at December 31, 2021										\$ 627.8		

**Commercial automobile liability**  
*(\$ in millions)*

Incurred Losses and ALAE, Net of Reinsurance									As of December 31, 2021	
YEARS ENDED DECEMBER 31,									Cumulative Incurred Claim Count	
Accident Year	2014 Unaudited	2015 Unaudited	2016	2017	2018	2019	2020	2021	IBNR	
2014	\$ 168.5	\$ 163.3	\$ 177.3	\$ 181.7	\$ 185.1	\$ 185.0	\$ 183.5	\$ 183.1	0.5	13,481
2015		163.4	168.3	166.9	167.8	167.6	170.3	168.5	0.5	12,831
2016			157.0	157.7	163.0	174.3	172.5	173.3	0.9	11,666
2017				159.5	170.1	182.1	188.5	195.5	4.7	11,522
2018					182.8	176.1	182.9	190.0	13.4	11,248
2019						180.5	192.0	195.0	31.4	10,333
2020							171.6	159.0	69.4	6,200
2021								173.4	117.7	5,550
Total								<u>\$ 1,437.8</u>		

  

Cumulative Paid Losses and ALAE, Net of Reinsurance										
YEARS ENDED DECEMBER 31,										
Accident Year	2014 Unaudited	2015 Unaudited	2016	2017	2018	2019	2020	2021		
2014	\$ 33.1	\$ 70.8	\$ 102.7	\$ 137.1	\$ 168.2	\$ 176.3	\$ 178.2	\$ 178.6		
2015		32.2	63.8	96.4	129.3	144.5	152.5	156.7		
2016			27.8	60.7	98.3	134.0	147.2	155.0		
2017				26.9	71.2	105.9	137.7	158.6		
2018					29.2	59.7	92.5	127.3		
2019						29.5	75.8	108.5		
2020							23.4	48.1		
2021								19.0		
Total								<u>951.8</u>		
Total reserves for 2014 – 2021 accident years (incurred - paid)								486.0		
Total reserves for 2013 and prior accident years								11.4		
Unallocated loss adjustment expense								6.6		
Net reserves at December 31, 2021								<u>\$ 504.0</u>		

General liability and umbrella - occurrence  
(\$ in millions)

Incurred Losses and ALAE, Net of Reinsurance											As of December 31, 2021	
YEARS ENDED DECEMBER 31,											Cumulative Incurred Claim Count	
Accident Year	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	2018	2019	2020	2021	IBNR	
2012	\$ 77.2	\$ 59.3	\$ 62.2	\$ 64.3	\$ 71.1	\$ 74.2	\$ 69.1	\$ 71.2	\$ 72.8	\$ 73.7	\$ 2.5	1,774
2013		84.1	67.4	71.5	88.6	84.4	81.2	80.4	79.1	79.9	3.6	1,995
2014			100.9	82.3	98.6	101.4	98.3	99.8	98.4	98.5	5.8	2,087
2015				104.2	99.3	99.6	97.0	98.3	99.7	98.5	9.6	2,437
2016					95.6	100.7	101.5	100.8	98.7	100.0	10.9	1,896
2017						97.7	107.6	109.2	110.7	110.5	20.0	1,799
2018							99.8	106.4	104.0	105.4	26.2	1,809
2019								104.2	105.7	115.5	38.1	1,640
2020									99.8	101.1	66.2	1,145
2021										102.8	81.6	1,308
Total										\$ 985.9		

Cumulative Paid Losses and ALAE, Net of Reinsurance												
YEARS ENDED DECEMBER 31,												
Accident Year	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016	2017	2018	2019	2020	2021		
2012	\$ 2.2	\$ 12.6	\$ 29.8	\$ 43.8	\$ 52.1	\$ 60.6	\$ 63.0	\$ 64.5	\$ 65.0	\$ 65.9		
2013		2.4	11.0	26.8	43.1	56.1	63.5	67.6	70.1	71.3		
2014			3.1	14.5	31.4	52.8	70.4	83.6	87.3	89.3		
2015				3.3	15.2	30.8	48.5	65.7	77.3	83.9		
2016					3.1	15.0	31.6	52.5	63.4	68.9		
2017						4.4	17.0	34.5	49.8	63.6		
2018							4.1	15.6	35.7	48.4		
2019								7.5	16.7	33.5		
2020									3.9	16.6		
2021										4.1		
Total										545.5		
Total reserves for 2012 – 2021 accident years (incurred - paid)										440.4		
Total reserves for 2011 and prior accident years										24.6		
Unallocated loss adjustment expense and other										13.5		
Net reserves at December 31, 2021										\$ 478.5		

**General liability - claims made**  
*(\$ in millions)*

Incurred Losses and ALAE, Net of Reinsurance								As of December 31, 2021	
YEARS ENDED DECEMBER 31,								Cumulative Incurred Claim Count	
Accident Year	2015 Unaudited	2016	2017	2018	2019	2020	2021	IBNR	
2015	\$ 93.2	\$ 98.8	\$ 98.4	\$ 90.2	\$ 90.3	\$ 91.0	\$ 90.5	\$ 0.3	991
2016		103.6	101.7	97.1	89.7	95.2	95.2	1.3	1,010
2017			103.3	104.6	98.1	96.0	94.4	4.7	1,111
2018				120.9	127.8	132.5	133.2	9.9	1,369
2019					126.8	127.1	133.7	23.5	1,373
2020						142.8	141.0	48.8	1,554
2021							159.0	88.3	2,164
Total							\$ 847.0		

  

Cumulative Paid Losses and ALAE, Net of Reinsurance									
YEARS ENDED DECEMBER 31,									
Accident Year	2015 Unaudited	2016	2017	2018	2019	2020	2021		
2015	\$ 10.0	\$ 43.6	\$ 64.2	\$ 76.0	\$ 81.8	\$ 83.7	\$ 87.1		
2016		11.1	42.9	66.1	75.5	80.4	86.4		
2017			12.3	42.3	67.2	76.5	82.7		
2018				17.3	56.1	87.5	104.7		
2019					17.8	56.7	81.3		
2020						18.1	52.9		
2021							17.7		
Total							512.8		
Total reserves for 2015 – 2021 accident years (incurred - paid)							334.2		
Total reserves for 2014 and prior accident years							5.1		
Unallocated loss adjustment expense							5.5		
Net reserves at December 31, 2021							\$ 344.8		

**Personal automobile liability**  
(\$ in millions)

Incurred Losses and ALAE, Net of Reinsurance						As of	
YEARS ENDED DECEMBER 31,						December 31, 2021	
Accident Year	2017	2018	2019	2020	2021	IBNR	Cumulative Incurred Claim Count
2017	\$ 363.6	\$ 362.3	\$ 383.4	\$ 392.2	\$ 393.8	\$ 5.9	43,097
2018		394.2	395.3	400.3	406.7	13.3	42,995
2019			431.2	431.8	436.1	31.9	42,119
2020				378.0	347.0	95.9	26,038
2021					407.2	188.4	26,735
Total					\$ 1,990.8		
Cumulative Paid Losses and ALAE, Net of Reinsurance							
YEARS ENDED DECEMBER 31,							
Accident Year	2017	2018	2019	2020	2021		
2017	\$ 115.0	\$ 229.2	\$ 302.7	\$ 343.8	\$ 363.4		
2018		121.7	237.2	307.4	353.1		
2019			131.0	262.2	336.6		
2020				95.9	179.2		
2021					106.4		
Total					1,338.7		
Total reserves for 2017 – 2021 accident years (incurred - paid)					652.1		
Total reserves for 2016 and prior accident years					53.3		
Unallocated loss adjustment expense					16.2		
Net reserves at December 31, 2021					\$ 721.6		

**Homeowners**  
(\$ in millions)

Incurred Losses and ALAE, Net of Reinsurance						As of	
YEARS ENDED DECEMBER 31,						December 31, 2021	
Accident Year	2018	2019	2020	2021		IBNR	Cumulative Incurred Claim Count
2018	\$ 312.9	\$ 316.2	\$ 317.3	\$ 314.5		3.2	32,742
2019		344.5	345.3	342.1		7.6	33,700
2020			418.8	423.3		10.0	35,116
2021				461.4		97.1	33,672
Total				\$ 1,541.3			
Cumulative Paid Losses and ALAE, Net of Reinsurance							
YEARS ENDED DECEMBER 31,							
Accident Year	2018	2019	2020	2021			
2018	\$ 213.7	\$ 290.1	\$ 300.8	\$ 305.6			
2019		234.7	311.7	322.5			
2020			281.5	387.7			
2021				306.9			
Total				1,322.7			
Total reserves for 2018 – 2021 accident years (incurred - paid)				218.6			
Total reserves for 2017 and prior accident years				12.3			
Unallocated loss adjustment expense				3.6			
Net reserves at December 31, 2021				\$ 234.5			

The following table is information about average historical claims duration as of December 31, 2021. The table is computed based on the paid and incurred claims data, net of reinsurance, for the accident years presented in the preceding claims development tables.

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance:										
	Unaudited									
	1	2	3	4	5	6	7	8	9	10
Commercial multiple peril	33.4%	22.4%	11.6%	10.0%	7.2%	3.6%	1.3%	0.6%		
Workers' compensation	20.3%	27.4%	15.4%	8.9%	5.1%	3.1%	2.5%	1.4%	1.4%	0.5%
Commercial automobile liability	15.4%	19.5%	18.4%	18.7%	11.1%	4.5%	1.7%	0.3%		
General liability and umbrella - occurrence	3.8%	11.5%	17.8%	18.0%	14.3%	10.3%	4.7%	2.4%	1.1%	1.2%
General liability - claims made	12.3%	30.9%	23.1%	11.4%	6.1%	4.2%	3.7%			
Personal automobile liability	28.6%	27.9%	17.7%	10.8%	5.0%					
Homeowners	67.4%	24.0%	3.3%	1.5%						

## 15. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

The Company has been named a defendant in various legal proceedings arising in the normal course of business. In addition, the Company is involved, from time to time, in examinations, investigations and proceedings by governmental and self-regulatory agencies. The potential outcome of any such action or regulatory proceedings in which the Company has been named a defendant or the subject of an inquiry, examination or investigation, and its ultimate liability, if any, from such action or regulatory proceedings, is difficult to predict at this time. The ultimate resolutions of such proceedings are not expected to have a material effect on its financial position, although they could have a material effect on the results of operations for a particular quarterly or annual period.

### Residual Markets

The Company is required to participate in residual markets in various states, which generally pertain to high risk insureds, disrupted markets or lines of business or geographic areas where rates are regarded as excessive. The results of the residual markets are not subject to the predictability associated with the Company's own managed business, and are significant to both the personal and commercial automobile lines of business.

## 16. STATUTORY FINANCIAL INFORMATION

The Company's insurance subsidiaries are required to file annual statements with state regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis), as codified by the National Association of Insurance Commissioners ("NAIC"). Permitted statutory accounting practices encompass all accounting practices that are not prescribed; such practices differ from state to state, may differ from company to company within a state, and may change in the future. The Company's insurance subsidiaries did not have any permitted practices as of or for the years ended December 31, 2021, 2020 and 2019.

Statutory capital and surplus differs from shareholders' equity reported in accordance with U.S. GAAP primarily because under the statutory basis of accounting, deferred acquisition costs are expensed when incurred and the recognition of deferred tax assets is based on different recoverability assumptions.

The following table provides statutory net income for the years ended December 31 and statutory capital and surplus for the insurance subsidiaries as of December 31 for the periods indicated:

(in millions)	2021	2020	2019
Statutory Net Income	\$ 301.3	\$ 360.9	\$ 348.4
Statutory Capital and Surplus	2,720.0	2,588.5	2,470.2

The minimum statutory capital and surplus necessary to satisfy the Company's regulatory requirements was \$593.9 million, \$552.6 million and \$531.8 million, which equals the Authorized Control Level at December 31, 2021, 2020 and 2019, respectively.

## 17. SUBSEQUENT EVENTS

There were no subsequent events requiring adjustment to the financial statements and no additional disclosures required in the notes to the consolidated financial statements.

## **ITEM 9—CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A—CONTROLS AND PROCEDURES**

### **DISCLOSURE CONTROLS AND PROCEDURES EVALUATION**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our “disclosure controls and procedures”, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

#### *LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS*

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### *CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES*

Based on our controls evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) material information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## **INTERNAL CONTROL OVER FINANCING REPORTING**

### *MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING*

Our management is responsible for establishing and maintaining adequate “internal control over financial reporting”, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the updated *Internal Control – Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the updated framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2021.

The effectiveness of our internal control over financial reporting as of December 31, 2021 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

#### *CHANGES IN INTERNAL CONTROL*

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the internal control over financial reporting, as required by Rule 13a-15(d) of the Exchange Act, to determine whether any changes occurred during the period covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that there was no such change during the last quarter of the fiscal year covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 9B—OTHER INFORMATION**

None.

## **ITEM 9C—DISCLOSURES REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.



**PART III**

**ITEM 10—DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**DIRECTORS OF THE REGISTRANT**

Except for the portions about executive officers and our Code of Conduct that are set forth below, this information is incorporated herein by reference to the Proxy Statement for the Annual Meeting of Shareholders to be held on May 10, 2022 to be filed pursuant to Regulation 14A under the Exchange Act.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

Set forth below is biographical information concerning our executive officers.

**Jeffrey M. Farber, 57**

*Executive Vice President, Chief Financial Officer*

Mr. Farber joined THG in October 2016 after spending the previous five years with American International Group (AIG). He joined AIG as Senior Vice President and Deputy Chief Financial Officer and then was appointed Chief Risk Officer, Commercial and Consumer Business. Prior to AIG, Mr. Farber served as Executive Vice President and Chief Financial Officer of GAMCO Investors, Inc., a public company asset manager. Previously, he held senior accounting and finance roles at The Bear Stearns Companies, Inc., most recently as Senior Managing Director, Controller and Senior Vice President, responsible for finance, tax and global procurement. He began his career at Deloitte & Touche LLP, rising to partner in the firm.

**Dennis F. Kerrigan, 57**

*Executive Vice President, General Counsel and Assistant Secretary*

Mr. Kerrigan joined the Company as Executive Vice President, Deputy General Counsel and Assistant Secretary, in January 2020, becoming General Counsel in April 2020. Before joining THG, Mr. Kerrigan was Executive Vice President, General Counsel and Corporate Secretary for Zurich North America, from 2008 to 2019. Previously, he was a litigation partner with the law firm then known as Dewey & LeBoeuf.

**Richard W. Lavey, 54**

*Executive Vice President; President, Hanover Agency Markets*

Mr. Lavey has served as Executive Vice President, and President Hanover Agency Markets since November 2017. Mr. Lavey previously served as Executive Vice President, Chief Growth Innovation Officer from February 2017 to November 2017. Prior to that time, he was President, Personal Lines of THG since November 2014 and Chief Marketing Officer since 2011, assuming responsibility for Field Operations in 2016. Mr. Lavey joined THG in 2004 and during this time has also served in the following roles: Chief Distribution Officer, Senior Vice President, Operations and Marketing; Regional President, Northeast; and Vice President, Field Operations and Marketing and Distribution. Prior to joining the Company, Mr. Lavey worked for The Hartford Financial Services Group, Inc. and The Travelers Corp.

**Willard T. Lee, 52**

*Executive Vice President, Chief Information and Innovation Officer*

Mr. Lee became Executive Vice President, Chief Information Officer in April 2021 after briefly serving as Deputy Chief Information and Technology Innovation Officer. Prior to that time, he was Business and Innovation CIO of THG since October 2017 and Chief Operating Officer, Specialty Lines since June 2012. Mr. Lee joined THG in May 2003 and during this time has also served in the following roles: Vice President, Corporate Development and Vice President, Commercial Lines Product Development. Prior to joining THG, Mr. Lee worked for BancTec/Plexus.

**Denise M. Lowsley, 50**

*Executive Vice President, Chief Human Resources Officer*

Ms. Lowsley joined the Company as Executive Vice President and Chief Human Resources Officer in October 2019. Prior to joining the Company, she spent the previous 10 years as Senior Vice President and Chief Human Resources Officer at The Navigators Group, Inc., a specialty property and casualty insurance holding company. Before joining Navigators, Ms. Lowsley was International Vice President, Compensation and Benefits at New York Life Insurance Company, and had spent the previous 10 years at Liberty Mutual Insurance Group, rising to the role of Global Human Resources Manager.

**John C. Roche, 58**

*President and Chief Executive Officer*

Mr. Roche became President and Chief Executive Officer in November 2017. Prior to that he led the Company's personal and commercial lines businesses as Executive Vice President and President, Hanover Agency Markets. Since joining the Company in 2006, Mr. Roche has served in several senior leadership positions, including President, Business Insurance; Vice President, Field Operations, Marketing and Distribution; and Vice President, Commercial Lines Underwriting and Product Management. Prior to joining the Company, he served in senior roles at the St. Paul Travelers Companies. He began his career at Fireman's Fund and Atlantic Mutual, where he held a number of underwriting and management positions.

**Bryan J. Salvatore, 57**

*Executive Vice President; President, Specialty*

Mr. Salvatore joined the Company in June 2017 as Executive Vice President and President, Specialty. Prior to joining the Company, he spent 20 years with Zurich North America in a number of leadership roles, most recently serving as President of the company's specialty products business since 2012. Prior to joining Zurich in 1997, Mr. Salvatore was a Director in the programs division of Frank Crystal & Co., Inc., a leading brokerage firm.

**Mark J. Welzenbach, 62**

*Executive Vice President, Chief Claims Officer*

Mr. Welzenbach was appointed Chief Claims Officer of THG shortly after joining the Company in 2005. Before joining the Company, Mr. Welzenbach was Senior Vice President, Claims for The Hartford Financial Services Group, Inc. from 1995 to 2005. Prior to that, he was Director of Claims from 1991 to 1995 for Travelers Insurance Company. Mr. Welzenbach began his career as a practicing attorney.

OTHER SENIOR CORPORATE OFFICER OF THE REGISTRANT

**Warren E. Barnes, 60**

*Senior Vice President, Corporate Controller and Principal Accounting Officer*

Mr. Barnes was appointed Principal Accounting Officer in 2015. Mr. Barnes joined the Company in 1993, and has been its Controller since 1997. Before joining the Company, Mr. Barnes was employed from 1985 to 1993 by the public accounting firm then known as Price Waterhouse. He is a certified public accountant in the Commonwealth of Massachusetts and the State of Vermont.

Pursuant to section 4.4 of the Company's by-laws, each officer shall hold office until the first meeting of the Board of Directors following the next annual meeting of the shareholders and until his or her respective successor is chosen and qualified unless a shorter period shall have been specified by the terms of his or her election or appointment, or in each case until such officer sooner dies, resigns, is removed or becomes disqualified.

**ANNUAL MEETING OF SHAREHOLDERS**

The Board of Directors of THG has scheduled the 2022 Annual Meeting of Shareholders for May 10, 2022. The record date for determining the shareholders of the Company entitled to notice of and to vote at such Annual Meeting is March 14, 2022.

**CODE OF CONDUCT**

Our Code of Conduct is available, free of charge, on our website at [www.hanover.com](http://www.hanover.com) under "Why The Hanover – Our Governance – Company Policies". The Code of Conduct applies to our directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer and Corporate Controller. In addition, we expect our agents, contractors and others with whom we do business to act in accordance with our Code of Conduct. We will disclose any future amendments to the Code of Conduct (other than technical, administrative or non-substantive amendments) within four business days following the date of such amendment. While we do not expect to grant waivers to our Code of Conduct, any such waivers to our Chief Executive Officer, Chief Financial Officer or Corporate Controller will be posted on our website at [www.hanover.com](http://www.hanover.com), as required by applicable law or New York Stock Exchange requirements. A printed copy of the Code of Conduct will be provided, free of charge, by contacting the Company's Corporate Secretary at the Company's headquarters, 440 Lincoln Street, Worcester, MA 01653.

**ITEM 11—EXECUTIVE COMPENSATION**

Incorporated herein by reference from the Proxy Statement for the Annual Meeting of Shareholders to be held May 10, 2022, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

## ITEM 12—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2021 with respect to compensation plans under which equity securities of the Company are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup>	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans <sup>(2)</sup>
Equity compensation plans approved by security holders	1,808,143	\$ 99.14	4,294,587
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>1,808,143</b>	<b>\$ 99.14</b>	<b>4,294,587</b>

(1) Includes 577,932 shares of common stock which may be issued upon vesting of outstanding restricted stock units, performance-based stock units, and market-based restricted stock units (assuming the maximum award amount) of which, 27,060 represent dividend equivalent shares associated with the 2019, 2020 and 2021 awards. The weighted average exercise price does not take these awards into account.

(2) On May 20, 2014, shareholders approved The Hanover Insurance Group 2014 Long-Term Incentive Plan (the “2014 Stock Plan”). With respect to new share-based award issuances, the 2014 Stock Plan replaced The Hanover Insurance Group, Inc. 2006 Long-Term Incentive Plan (the “2006 Stock Plan”) and authorized the issuance of 6,100,000 shares in a new share pool, plus any shares subject to outstanding awards under the 2006 Stock Plan that may become available for reissuance as a result of the cash settlement, forfeiture, expiration or cancellation of such awards. In accordance with the 2014 Stock Plan, the issuance of one share of common stock in the form of an option or Stock Appreciation Right will reduce the share pool by one share, whereas the issuance of one share of common stock for the other types of stock awards provided by the Plan will reduce the pool by 3.8 shares. Additionally, on May 20, 2014, the shareholders approved The Hanover Insurance Group 2014 Employee Stock Purchase Plan, authorizing the issuance of 2,500,000 shares, under such plan.

Additional information related to Security Ownership of Certain Beneficial Owners and Management is incorporated herein by reference from the Proxy Statement for the Annual Meeting of Shareholders to be held May 10, 2022, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

## ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated herein by reference from the Proxy Statement for the Annual Meeting of Shareholders to be held May 10, 2022, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

## ITEM 14—PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated herein by reference from the Proxy Statement for the Annual Meeting of Shareholders to be held May 10, 2022, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

**PART IV****ITEM 15—EXHIBITS, FINANCIAL STATEMENT SCHEDULES****(A)(1) FINANCIAL STATEMENTS**

The consolidated financial statements and accompanying notes thereto are included on pages 67 to 113 of this Form 10-K.

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**(A)(2) FINANCIAL STATEMENTS SCHEDULES**

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**(A)(3) EXHIBIT INDEX**

- 2.1 [Agreement for the Sale and Purchase of Shares in the Capital of The Hanover Insurance International Holdings Limited, Chaucer Insurance Company Designated Activity Company and Hanover Australia HoldCo Pty Ltd., dated September 13, 2018, by and between the Registrant and China Reinsurance \(Group\) Corporation \(the schedules and exhibits have been omitted pursuant to Item 601\(b\)\(2\) of Regulation S-K\), previously filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Commission on September 13, 2018 and incorporated herein by reference.](#)
- 2.2 [Supplemental Agreement by and between the Registrant and China Reinsurance \(Group\) Corporation, dated December 28, 2018 relating to the Agreement for the Sale and Purchase of Shares in the Capital of The Hanover Insurance International Holdings Limited, Chaucer Insurance Company Designated Activity Company and Hanover Australia HoldCo Pty Ltd., dated September 13, 2018, by and between the Registrant and China Reinsurance \(Group\) Corporation, previously filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Commission on January 3, 2019 and incorporated herein by reference.](#)
- 2.3 [Second Supplemental Agreement by and between the Registrant and China Reinsurance \(Group\) Corporation, dated March 27, 2019 relating to the Agreement for the Sale and Purchase of Shares in the Capital of The Hanover Insurance International Holdings Limited, Chaucer Insurance Company Designated Activity Company and Hanover Australia HoldCo Pty Ltd., dated September 13, 2018, by and between the Registrant and China Reinsurance \(Group\) Corporation, previously filed as Exhibit 2.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 2, 2019 and incorporated herein by reference.](#)
- 3.1 [Certificate of Incorporation of the Registrant, previously filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 16, 2006 and incorporated herein by reference.](#)
- 3.2 [Amended By-Laws of the Registrant, previously filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Commission on November 21, 2006 and incorporated herein by reference.](#)
- 4.1 [Specimen Certificate of the Registrant's Common Stock, previously filed as Exhibit 4 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 16, 2006 and incorporated herein by reference.](#)
- 4.2 Form of Indenture relating to the Debentures between the Registrant, as issuer, and State Street Bank & Trust Company, as trustee, previously filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (File No. 33-96764) filed with the Commission on September 11, 1995 and incorporated herein by reference. (P)
- 4.3 [Form of Global Debenture relating to the Registrant's 7 5/8% Senior Debentures due 2025, previously filed as Exhibit 4.2 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 16, 2006 and incorporated herein by reference.](#)
- 4.4 [Indenture, dated February 3, 1997, relating to the Registrant's Junior Subordinated Debentures, previously filed as Exhibit 3 to the Registrant's Current Report on Form 8-K filed with the Commission on February 5, 1997 and incorporated herein by reference.](#)
- 4.5 [First Supplemental Indenture, dated July 30, 2009, amending the indenture dated February 3, 1997 relating to the Junior Subordinated Debentures of the Registrant, previously filed as Exhibit 4.5 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 1, 2010 and incorporated herein by reference.](#)
- 4.6 [Form of Global Security representing \\$300,000,000 principal amount of Junior Subordinated Debentures of the Registrant, previously filed as Exhibit 4.6 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 1, 2010 and incorporated herein by reference.](#)
- 4.7 [Base Indenture, dated as of April 8, 2016, between the Registrant, as issuer, and U.S. Bank National Association, as trustee, previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Commission on April 8, 2016 and incorporated herein by reference.](#)
- 4.8 [First Supplemental Indenture \(to the Base Indenture dated as of April 8, 2016\), as of April 8, 2016, between the Registrant, as issuer, and U.S. Bank National Association, as trustee, previously filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Commission on April 8, 2016 and incorporated herein by reference.](#)
- 4.9 [Form of Security Certificate representing the 4.5% Notes due 2026, previously filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Commission on April 8, 2016 and incorporated herein by reference.](#)
- 4.10 [Second Supplemental Indenture \(to the Base Indenture dated as of April 8, 2016\) dated as of August 24, 2020 between the Registrant, as issuer, and U.S. Bank National Association, as trustee, previously filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Commission on August 24, 2020 and incorporated herein by reference.](#)

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- 4.11 [Form of Security Certificate representing the 2.5% Notes due 2030, previously filed as Exhibit 4.3 \(and included in Exhibit 4.2\) to the Registrant's Current Report on Form 8-K filed with the Commission on August 24, 2020 and incorporated herein by reference.](#)
- 4.12 [Description of Registrant's Securities.](#)
- +10.1 State Mutual Life Assurance Company of America Excess Benefit Retirement Plan, previously filed as Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (No. 33-91766) filed with the Commission on May 1, 1995 and incorporated herein by reference. (P)
- +10.2 [The Hanover Insurance Group Cash Balance Pension Plan, as amended, previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on October 31, 2019 and incorporated herein by reference.](#)
- +10.3 [The Hanover Insurance Group Retirement Savings Plan, as amended.](#)
- +10.4 [The Hanover Insurance Group, Inc. Amended and Restated Non-Qualified Retirement Savings Plan, previously filed as Exhibit 10.30 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 24, 2011 and incorporated herein by reference.](#)
- +10.5 [The Hanover Insurance Group, Inc. 2006 Long-Term Incentive Plan, as amended, previously filed as Annex I to the Registrant's Definitive Proxy Statement on Schedule 14A filed with the Commission on March 29, 2012 and incorporated herein by reference.](#)
- +10.6 [Form of Non-Qualified Stock Option Agreement under The Hanover Insurance Group, Inc. 2006 Long-Term Incentive Plan, previously filed as Exhibit 10.38 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 26, 2013 and incorporated herein by reference.](#)
- +10.7 [Amendment to outstanding Stock Options issued under The Hanover Insurance Group, Inc. 2006 Long-Term Incentive Plan, previously filed as Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 25, 2016 and incorporated herein by reference.](#)
- +10.8 [The Hanover Insurance Group 2014 Long-Term Incentive Plan, previously filed as Annex I to the Registrant's Definitive Proxy Statement on Schedule 14A filed with the Commission on April 3, 2014 and incorporated herein by reference.](#)
- +10.9 [Form of Non-Qualified Stock Option Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan, previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Commission on May 20, 2014 and incorporated herein by reference.](#)
- +10.10 [Amendment to outstanding Stock Options issued under The Hanover Insurance Group 2014 Long-Term Incentive Plan, previously filed as Exhibit 10.18 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 25, 2016 and incorporated herein by reference.](#)
- +10.11 [Form of Non-Qualified Stock Option Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan, previously filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 25, 2016 and incorporated herein by reference.](#)
- +10.12 [Form of Non-Qualified Stock Option Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan for Chief Financial Officer, previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on November 4, 2016 and incorporated herein by reference.](#)
- +10.13 [Form of Non-Qualified Stock Option Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan, previously filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 27, 2018 and incorporated herein by reference.](#)
- +10.14 [Form of Non-Qualified Stock Option Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan for Chief Financial Officer, previously filed as Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 27, 2018 and incorporated herein by reference.](#)
- +10.15 [Form of Non-Qualified Stock Option Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan, previously filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 24, 2020 and incorporated herein by reference.](#)
- +10.16 [Form of Performance-Based Restricted Stock Unit Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan, previously filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 27, 2018 and incorporated herein by reference.](#)

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- +10.17 [Form of Performance-Based Restricted Stock Unit Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan for Chief Financial Officer, previously filed as Exhibit 10.22 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 27, 2018 and incorporated herein by reference.](#)
- +10.18 [Form of Restricted Stock Unit Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan, previously filed as Exhibit 10.24 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 27, 2018 and incorporated herein by reference.](#)
- +10.19 [Form of Restricted Stock Unit Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan, previously filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 27, 2018 and incorporated herein by reference.](#)
- +10.20 [Form of Restricted Stock Unit Agreement under The Hanover Insurance Group 2014 Long-Term Incentive Plan for Chief Financial Officer, previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 2, 2019 and incorporated herein by reference.](#)
- +10.21 [The Hanover Insurance Group, Inc. Amended and Restated Employment Continuity Plan, previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 11, 2008 and incorporated herein by reference.](#)
- +10.22 [Form of Side Letter Agreement for New Participants in The Hanover Insurance Group, Inc. Amended and Restated Employment Continuity Plan waiving right to IRC §280G "Gross-Up" Payments, previously filed as Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on July 29, 2016 and incorporated herein by reference.](#)
- +10.23 [Description of 2019 — 2020 Non-Employee Director Compensation, previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 1, 2019 and incorporated herein by reference.](#)
- +10.24 [The Hanover Insurance Group, Inc. Non-Employee Director Deferral Plan, previously filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 27, 2009 and incorporated herein by reference.](#)
- +10.25 [Offer Letter, dated September 21, 2016, by and between Jeffrey M. Farber and the Registrant, previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on September 23, 2016 and incorporated herein by reference.](#)
- +10.26 [The Hanover Insurance Group Second Amended and Restated 2014 Employee Stock Purchase Plan, previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on October 28, 2020 and incorporated herein by reference.](#)
- +10.27 [Form of Leadership Severance Arrangement, previously filed as Exhibit 10.40 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 27, 2018 and incorporated herein by reference.](#)
- +10.28 [Offer Letter, dated December 2, 2019, by and between Dennis F. Kerrigan and the Registrant, previously filed as Exhibit 10.29 to the Registrant's Annual Report of Form 10-K filed with the Commission on February 24, 2021 and incorporated herein by reference.](#)
- 10.29 [Form of Accident and Health Coinsurance Agreement between The Hanover Insurance Company, as Reinsurer, and First Allmerica Financial Life Insurance Company \(the schedules and certain exhibits have been omitted pursuant to Item 601\(b\)\(2\) of Regulation S-K\), previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on August 4, 2008 and incorporated herein by reference.](#)
- 10.30 [Credit Agreement dated April 30, 2019, among the Registrant, as Borrower, JPMorgan Chase Bank, N.A., as administrative agent, and various other lender parties, previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 2, 2019 and incorporated herein by reference.](#)
- 21 [Subsidiaries of THG.](#)
- 23 [Consent of Independent Registered Public Accounting Firm.](#)
- 24 [Power of Attorney.](#)
- 31.1 [Certification of Chief Executive Officer, pursuant to 15 U.S.C. 78m, 78o\(d\), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.](#)



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- 31.2 [Certification of the Chief Financial Officer, pursuant to 15 U.S.C. 78m, 78o\(d\), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 99.1 Internal Revenue Service Ruling dated April 15, 1995 previously filed as Exhibit 99.1 to the Registrant's Registration Statement on Form S-1 (No. 33-91766) filed with the Commission on May 1, 1995 and incorporated herein by reference. (P)
- 101 The following materials from The Hanover Insurance Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2021 formatted in Inline eXtensible Business Reporting Language ("iXBRL"): (i) Consolidated Statements of Income for the years ended December 31, 2021, 2020 and 2019; (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2021, 2020 and 2019; (iii) Consolidated Balance Sheets at December 31, 2021 and 2020; (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2021, 2020 and 2019; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019; (vi) related notes to these consolidated financial statements; and (vii) Financial Statement Schedules.
- 104 The cover page from The Hanover Insurance Group Inc.'s Annual Report on Form 10-K for the year ended December 31, 2021, formatted in iXBRL (embedded within EX-101).

+ Management contract or compensatory plan or arrangement.

(P) Paper exhibits.

## **ITEM 16 – FORM 10-K SUMMARY**

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 24, 2022

THE HANOVER INSURANCE GROUP, INC.  
\_\_\_\_\_  
Registrant  
By: \_\_\_\_\_ /S/ JOHN C. ROCHE  
John C. Roche,  
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 24, 2022	By: <u>/S/ JOHN C. ROCHE</u> <b>John C. Roche,</b> <b>President, Chief Executive Officer and Director</b>
Date: February 24, 2022	By: <u>/S/ JEFFREY M. FARBER</u> <b>Jeffrey M. Farber,</b> <b>Executive Vice President and Chief Financial Officer</b>
Date: February 24, 2022	By: <u>/S/ WARREN E. BARNES</u> <b>Warren E. Barnes,</b> <b>Senior Vice President, Corporate Controller and</b> <b>Principal Accounting Officer</b>
Date: February 24, 2022	By: <u>*</u> <b>Kevin J. Bradicich,</b> <b>Director</b>
Date: February 24, 2022	By: <u>*</u> <b>Theodore H. Bunting, Jr.</b> <b>Director</b>
Date: February 24, 2022	By: <u>*</u> <b>Jane D. Carlin,</b> <b>Director</b>
Date: February 24, 2022	By: <u>*</u> <b>J. Paul Condryn III,</b> <b>Director</b>
Date: February 24, 2022	By: <u>*</u> <b>Cynthia L. Egan,</b> <b>Chair of the Board</b>
Date: February 24, 2022	By: <u>*</u> <b>Daniel T. Henry,</b> <b>Director</b>
Date: February 24, 2022	By: <u>*</u> <b>Martin P. Hughes,</b> <b>Director</b>
Date: February 24, 2022	By: <u>*</u> <b>Wendell J. Knox,</b> <b>Director</b>
Date: February 24, 2022	By: <u>*</u> <b>Kathleen S. Lane,</b> <b>Director</b>
Date: February 24, 2022	By: <u>*</u> <b>Joseph R. Ramrath,</b> <b>Director</b>
Date: February 24, 2022	By: <u>*</u> <b>Harriett “Tee” Taggart,</b> <b>Director</b>
Date: February 24, 2022	*By: <u>/S/ JEFFREY M. FARBER</u> <b>Jeffrey M. Farber,</b> <b>Attorney-in-fact</b>

**SCHEDULE I**
**THE HANOVER INSURANCE GROUP, INC.**
**SUMMARY OF INVESTMENTS – OTHER THAN INVESTMENTS IN RELATED PARTIES**
**DECEMBER 31, 2021**
*(in millions)*

<i>Type of investment</i>	<b>Cost (1)</b>	<b>Fair Value</b>	<b>Amount at which shown in the balance sheet (2)</b>
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	\$ 1,461.7	\$ 1,464.9	\$ 1,464.9
States, municipalities and political subdivisions	1,176.2	1,200.8	1,200.8
Foreign governments	2.2	2.6	2.6
Public utilities	371.2	387.3	387.3
All other corporate bonds	4,503.8	4,668.3	4,668.3
Total fixed maturities	7,515.1	7,723.9	7,723.9
Equity securities:			
Common stocks:			
Public utilities	59.4	96.6	96.6
Banks, trusts and insurance companies	57.0	78.9	78.9
Industrial, miscellaneous and all other	247.8	477.0	477.0
Nonredeemable preferred stock	1.0	8.8	8.8
Total equity securities	365.2	661.3	661.3
Mortgage loans on real estate	441.1	456.1	434.0
Real estate	6.4	7.2	6.4
Other long-term investments	276.5	327.0	327.0
Total investments	\$ 8,604.3	\$ 9,175.5	\$ 9,152.6

(1) Original cost of equity securities and, as to fixed maturities, original cost reduced by repayments and adjusted for amortization of premiums and accretion of discounts.

(2) Mortgage loans on real estate are shown on the balance sheet net of the allowance for credit losses.

**SCHEDULE II**
**THE HANOVER INSURANCE GROUP, INC.**
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**
**PARENT COMPANY ONLY**
**STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions)</i>			
<b>Revenues</b>			
Net investment income	\$ 8.7	\$ 10.7	\$ 19.8
Net realized gains from sales and other	1.2	0.4	5.3
Other income	—	—	0.4
Total revenues	9.9	11.1	25.5
<b>Expenses</b>			
Interest expense	34.0	37.0	37.4
Employee benefit related expenses	1.5	2.3	5.0
Interest expense on loan from subsidiary	6.9	7.0	6.9
Loss from repayment of debt	—	6.2	—
Other operating expenses	5.8	9.8	7.1
Total expenses	48.2	62.3	56.4
Net loss before income taxes and equity in income of subsidiaries	(38.3)	(51.2)	(30.9)
Income tax benefit	16.4	22.1	25.6
Equity in income of subsidiaries	440.6	387.2	432.4
Income from continuing operations	418.7	358.1	427.1
Sale of Chaucer business (net of income tax benefit of \$5.3 in 2019)	—	—	(2.1)
Income from discontinued life business (net of income tax benefit of \$0.5 in 2020)	—	0.6	0.1
Net income	418.7	358.7	425.1
Other comprehensive (loss) income, net of tax	(250.3)	219.9	267.6
Comprehensive income	\$ 168.4	\$ 578.6	\$ 692.7

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

**SCHEDULE II (CONTINUED)**
**THE HANOVER INSURANCE GROUP, INC.**
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**
**PARENT COMPANY ONLY**
**BALANCE SHEETS**

<b>DECEMBER 31</b>	<b>2021</b>	<b>2020</b>
<i>(in millions, except per share data)</i>		
<b>Assets</b>		
Fixed maturities - at fair value (amortized cost of \$354.6 and \$369.5)	\$ 356.7	\$ 381.3
Equity securities - at fair value	1.2	1.1
Cash and cash equivalents	21.4	15.6
Investments in subsidiaries	3,665.2	3,718.3
Net receivable from subsidiaries	26.0	25.2
Current income tax receivable	6.7	—
Other assets	2.6	2.9
Total assets	<u>\$ 4,079.8</u>	<u>\$ 4,144.4</u>
<b>Liabilities</b>		
Expenses and state taxes payable	\$ 18.0	\$ 23.2
Current income tax payable	—	2.7
Interest payable	10.3	10.5
Debt	906.6	905.8
Total liabilities	<u>934.9</u>	<u>942.2</u>
<b>Shareholders' Equity</b>		
Preferred stock, par value \$0.01 per share; 20.0 million shares authorized; none issued	—	—
Common stock, par value \$0.01 per share; 300.0 million shares authorized; 60.5 million shares issued	0.6	0.6
Additional paid-in capital	1,887.2	1,857.4
Accumulated other comprehensive income	122.2	372.5
Retained earnings	2,983.2	2,668.0
Treasury stock at cost (25.0 and 24.1 million shares)	(1,848.3)	(1,696.3)
Total shareholders' equity	<u>3,144.9</u>	<u>3,202.2</u>
Total liabilities and shareholders' equity	<u>\$ 4,079.8</u>	<u>\$ 4,144.4</u>

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.

**SCHEDULE II (CONTINUED)**
**THE HANOVER INSURANCE GROUP, INC.**
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**
**PARENT COMPANY ONLY**
**STATEMENTS OF CASH FLOWS**

<b>YEARS ENDED DECEMBER 31</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<i>(in millions)</i>			
<b>Cash flows from operating activities</b>			
Net income	\$ 418.7	\$ 358.7	\$ 425.1
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Loss from sale of Chaucer business	—	—	2.1
Net realized investment gains	(1.2)	(0.4)	(5.3)
Net loss from repayment of debt	—	6.2	-
Equity in net income of subsidiaries	(440.6)	(387.2)	(432.3)
Dividends received from subsidiaries	89.5	60.3	69.9
Deferred income tax benefit	(2.0)	(8.5)	(13.9)
Change in expenses and taxes payable	(14.1)	5.6	(107.8)
Change in net receivable from subsidiaries	16.9	15.5	11.6
Other, net	4.8	4.4	3.9
Net cash provided by (used in) operating activities	72.0	54.6	(46.7)
<b>Cash flows from investing activities</b>			
Proceeds from disposals and maturities of fixed maturities	238.7	166.6	447.9
Proceeds from disposals of equity securities	—	—	122
Purchase of fixed maturities	(60.6)	(32.4)	(316.1)
Purchase of equity securities	—	—	(122)
Net cash received from sale of Chaucer business	—	—	35.1
Net cash provided by investing activities	178.1	134.2	166.9
<b>Cash flows from financing activities</b>			
Proceeds from exercise of employee stock options	20.5	6.3	14.4
Proceeds from debt borrowings, net	—	296.4	—
Dividends paid to shareholders	(102.2)	(99.5)	(386.2)
Repayment of debt	—	(175.8)	—
Repurchases of common stock	(162.6)	(212.8)	(563.6)
Net cash used in financing activities	(244.3)	(185.4)	(935.4)
Net change in cash and cash equivalents	5.8	3.4	(815.2)
Cash and cash equivalents, beginning of year	15.6	12.2	827.4
Cash and cash equivalents, end of year	\$ 21.4	\$ 15.6	\$ 12.2

Included in other operating cash flows was the cash portion of dividends received from unconsolidated subsidiaries. Additionally, investment assets of \$166.0 million, \$185.6 million and \$70.1 million were transferred to the parent company in 2021, 2020 and 2019, respectively, to settle dividend obligations and other intercompany borrowings and balances.

The condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto.



**SCHEDULE III**
**THE HANOVER INSURANCE GROUP, INC.**
**SUPPLEMENTARY INSURANCE INFORMATION**
**DECEMBER 31, 2021**
*(in millions)*

Segments	Deferred acquisition costs	Future policy benefits, losses, claims and loss expenses	Unearned premiums	Other policy claims and benefits payable	Premium revenue	Net investment income (1)	Benefits, claims, losses and settlement expenses	Amortization of deferred acquisition costs	Other operating expenses (2)	Premiums written
Commercial Lines	\$ 370.0	\$ 4,529.8	\$ 1,667.5	\$ 9.6	\$ 2,840.8	\$ 209.4	\$ 1,811.2	\$ 641.2	\$ 337.6	\$ 2,983.7
Personal Lines	182.0	1,868.4	1,067.4	—	1,929.4	89.4	1,322.0	341.5	206.5	2,009.7
Other	—	39.8	—	—	—	11.9	1.0	—	18.8	—
Interest on Debt	—	—	—	—	—	—	—	—	34.0	—
Eliminations	—	—	—	—	—	—	—	—	(7.3)	—
Total	<u>\$ 552.0</u>	<u>\$ 6,438.0</u>	<u>\$ 2,734.9</u>	<u>\$ 9.6</u>	<u>\$ 4,770.2</u>	<u>\$ 310.7</u>	<u>\$ 3,134.2</u>	<u>\$ 982.7</u>	<u>\$ 589.6</u>	<u>\$ 4,993.4</u>

**DECEMBER 31, 2020**
*(in millions)*

Segments	Deferred acquisition costs	Future policy benefits, losses, claims and loss expenses	Unearned premiums	Other policy claims and benefits payable	Premium revenue	Net investment income (1)	Benefits, claims, losses and settlement expenses	Amortization of deferred acquisition costs	Other operating expenses (2) (3)	Premiums written
Commercial Lines	\$ 312.1	\$ 4,067.4	\$ 1,513.9	\$ 8.6	\$ 2,683.3	\$ 175.3	\$ 1,647.6	\$ 618.4	\$ 327.8	\$ 2,733.1
Personal Lines	165.4	1,907.6	968.8	—	1,844.1	76.7	1,193.3	332.6	193.7	1,865.4
Other	—	40.4	—	—	—	13.1	4.3	—	31.4	—
Interest on Debt	—	—	—	—	—	—	—	—	37.1	—
Eliminations	—	—	—	—	—	—	—	—	(6.2)	—
Total	<u>\$ 477.5</u>	<u>\$ 6,015.4</u>	<u>\$ 2,482.7</u>	<u>\$ 8.6</u>	<u>\$ 4,527.4</u>	<u>\$ 265.1</u>	<u>\$ 2,845.2</u>	<u>\$ 951.0</u>	<u>\$ 583.8</u>	<u>\$ 4,598.5</u>

**DECEMBER 31, 2019**
*(in millions)*

Segments	Deferred acquisition costs	Future policy benefits, losses, claims and loss expenses	Unearned premiums	Other policy claims and benefits payable	Premium revenue	Net investment income (1)	Benefits, claims, losses and settlement expenses	Amortization of deferred acquisition costs	Other operating expenses (2)	Premiums written
Commercial Lines	\$ 307.4	\$ 3,768.9	\$ 1,446.7	\$ 8.4	\$ 2,654.2	\$ 180.1	\$ 1,610.0	\$ 604.4	\$ 330.3	\$ 2,707.2
Personal Lines	160.0	1,839.4	970.0	—	1,820.3	80.1	1,254.2	322.3	191.6	1,874.5
Other	—	37.7	—	—	—	21.1	1.3	—	23.1	—
Interest on Debt	—	—	—	—	—	—	—	—	37.5	—
Eliminations	—	—	—	—	—	—	—	—	(6.1)	—
Total	<u>\$ 467.4</u>	<u>\$ 5,646.0</u>	<u>\$ 2,416.7</u>	<u>\$ 8.4</u>	<u>\$ 4,474.5</u>	<u>\$ 281.3</u>	<u>\$ 2,865.5</u>	<u>\$ 926.7</u>	<u>\$ 576.4</u>	<u>\$ 4,581.7</u>

- (1) The Company manages investment assets for its Commercial Lines, Personal Lines and Other segments on a combined basis, based on the requirements of its combined insurance companies. Net investment income is allocated to these segments based on actuarial information related to the underlying businesses.
- (2) For other operating expenses that are not directly attributable to a single segment, expenses are generally allocated based upon either net premiums written or net premiums earned.
- (3) In 2020, the Other segment includes \$6.2 million of losses from the repayment of debt.

**SCHEDULE IV**

**THE HANOVER INSURANCE GROUP, INC.**

**REINSURANCE**

Incorporated herein by reference to Note 13 — “Reinsurance” in the Notes to Consolidated Financial Statements.

**SCHEDULE V**
**THE HANOVER INSURANCE GROUP, INC.**
**VALUATION AND QUALIFYING ACCOUNTS**
**DECEMBER 31**

<i>(in millions)</i> Description	<i>Balance at beginning of period</i>	<i>Additions (Charged to costs and expenses)</i>	<i>Deductions</i>	<i>Balance at end of period</i>
<b>2021</b>				
Allowance for doubtful accounts	\$ 9.3	\$ 10.1	\$ (13.1)	\$ 6.3
Allowance for uncollectible reinsurance recoverables	6.6	2.3	—	8.9
	<u>\$ 15.9</u>	<u>\$ 12.4</u>	<u>\$ (13.1)</u>	<u>\$ 15.2</u>
<b>2020</b>				
Allowance for doubtful accounts	\$ 3.5	\$ 16.9	\$ (11.1)	\$ 9.3
Allowance for uncollectible reinsurance recoverables	3.9	2.7	—	6.6
	<u>\$ 7.4</u>	<u>\$ 19.6</u>	<u>\$ (11.1)</u>	<u>\$ 15.9</u>
<b>2019</b>				
Allowance for doubtful accounts	\$ 4.2	\$ 9.5	\$ (10.2)	\$ 3.5
Allowance for uncollectible reinsurance recoverables	3.9	—	—	3.9
	<u>\$ 8.1</u>	<u>\$ 9.5</u>	<u>\$ (10.2)</u>	<u>\$ 7.4</u>

**SCHEDULE VI**
**THE HANOVER INSURANCE GROUP, INC.**
**SUPPLEMENTAL INFORMATION CONCERNING PROPERTY AND CASUALTY INSURANCE OPERATIONS**
**YEARS ENDED DECEMBER 31**
*(in millions)*

<i>Affiliation with Registrant</i>	<i>Deferred acquisition costs</i>	<i>Reserves for unpaid claims and claim adjustment expenses (1)</i>	<i>Discount, if any, deducted from previous column (2)</i>	<i>Unearned premiums (1)</i>
Consolidated Property and Casualty Subsidiaries				
2021	\$ 552.0	\$ 6,447.6	\$ —	\$ 2,734.9
2020	\$ 477.5	\$ 6,024.0	\$ —	\$ 2,482.7

	<i>Earned premiums</i>	<i>Net investment income</i>	<i>Claims and claim adjustment expenses incurred related to</i>		<i>Amortization of deferred acquisition costs</i>	<i>Paid claims and claim adjustment expenses</i>	<i>Premiums written</i>
			<i>Current year</i>	<i>Prior years</i>			
2021	\$ 4,770.2	\$ 310.7	\$ 3,205.3	\$ (71.1)	\$ 982.7	\$ 2,762.8	\$ 4,993.4
2020	\$ 4,527.4	\$ 265.1	\$ 2,877.8	\$ (32.6)	\$ 951.0	\$ 2,542.4	\$ 4,598.5
2019	\$ 4,474.5	\$ 281.3	\$ 2,893.9	\$ (28.4)	\$ 926.7	\$ 2,616.5	\$ 4,581.7

- (1) Reserves for unpaid claims and claim adjustment expenses are shown gross of \$1,693.8 million and \$1,641.6 million of reinsurance recoverable on unpaid losses in 2021 and 2020, respectively. Unearned premiums are shown gross of prepaid premiums of \$113.1 million and \$144.2 million in 2021 and 2020, respectively. Reserves for unpaid claims and claims adjustment expense also include policyholder dividends.
- (2) The Company does not use discounting techniques.

**DESCRIPTION OF SECURITIES  
REGISTERED UNDER SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

The Hanover Insurance Group, Inc. has two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”): (1) our common stock, par value \$0.01 per share (the “Common Stock”) and (2) our 7 5/8% Senior Debentures due 2025 (the “Senior Debentures”). In this “Description of Securities,” unless otherwise indicated, “we,” “us,” “our,” “the Company” and similar words refer to The Hanover Insurance Group, Inc. and not any of its subsidiaries.

**DESCRIPTION OF COMMON STOCK**

The following description of our Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Certificate of Incorporation (our “Certificate of Incorporation”) and our Amended By-laws (our “By-laws”), each of which have been filed with the Securities and Exchange Commission as exhibits to this Annual Report on Form 10-K.

**General**

We are authorized to issue up to 300,000,000 shares of Common Stock, par value \$0.01 per share. The outstanding shares of Common Stock are validly issued, fully paid and nonassessable. Our Common Stock is listed for quotation on the New York Stock Exchange under the symbol “THG.”

**Dividends**

The holders of our Common Stock are entitled to receive proportionally any dividends declared by our board of directors, subject to any preferential dividend rights of any outstanding preferred stock.

**Voting Rights**

The holders of our Common Stock are entitled to one vote for each share held on all matters properly submitted to a vote of the stockholders. The holders of our Common Stock do not have any cumulative voting rights.

**Liquidation/Dissolution Rights**

In the event of a liquidation, dissolution or winding up, holders of our Common Stock are entitled to share ratably in all of our assets remaining after the payment of all debts and other liabilities, subject to the prior distribution rights of any outstanding preferred stock that may be issued in the future.

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## **Other Rights**

The holders of our Common Stock have no preemptive, subscription, redemption, sinking fund or conversion rights. All shares of Common Stock have equal rights and preferences. The rights, preferences and privileges of the holders of our Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any class or series of our preferred stock that we may designate and issue in the future.

## **Transfer Agent**

The transfer agent and registrar for our Common Stock is Computershare Limited.

## **Provisions of Our Certificate of Incorporation and By-laws and Delaware Law That May Have Anti-Takeover Effects**

Certain provisions of our Certificate of Incorporation and By-laws may be deemed to have an anti-takeover effect and may prevent, delay, or defer a tender offer or takeover attempt that a stockholder may deem in his, her, or its best interest. The existence of these provisions also could limit the price that investors might be willing to pay for our securities. Such provisions include:

### *Staggered Board, Removal of Directors, and Charter Amendments relating to the Board*

Our Certificate of Incorporation and By-laws provide for the division of our board of directors into three classes, with each class being as nearly equal in number as possible, serving staggered three-year terms. Our Certificate of Incorporation provides that any amendments to the Certificate of Incorporation relating to certain actions, including amendments thereto, with respect to the By-laws, actions by directors and classes may only be made by the affirmative vote of the holders of at least two-thirds of the shares of capital stock issued and outstanding and entitled to vote. These provisions may have the effect of making it more difficult for a third party to acquire control of us, or of discouraging a third party from attempting to acquire control of us.

### *Authorized but Unissued Shares*

The authorized but unissued shares of Common Stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the New York Stock Exchange. These additional shares may be utilized for a variety of corporate purposes. In particular, our board of directors could issue shares of preferred stock that could, depending on the terms of the series, impede the completion of a takeover effort. Our board of directors may determine that the issuance of such shares of preferred stock is in our, and our stockholders', best interest. Such issuance could discourage a potential acquirer from making an unsolicited acquisition attempt through which such acquirer may be able to change the composition of the board, including a tender offer or other transaction a majority of our stockholders might believe to be in their best interest or in which stockholders might receive a substantial premium for their stock over the then-current market price.

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### *Advance Notice Requirements for Director Nominations*

Our By-laws provide that any stockholder entitled to vote for the election of directors at a meeting may nominate persons for election as directors by giving timely notice thereof in proper written form to the clerk accompanied by a petition signed by at least 100 record holders of capital stock of the corporation which shows the class, series (if any) and number of shares held by each person and which holders represent in the aggregate at least 1% of the outstanding shares entitled to vote in the election of directors. To be timely, a stockholder nominating individuals for election to the board of directors must provide advanced notice to us not less than 60 days nor more than 90 days prior to the meeting, unless such meeting occurs less than 70 days after notice or public disclosure of the date of the meeting is given or made, in which case notice will be timely if received by us not later than the close of business on the tenth day after the day on which notice or public announcement of the date of such meeting was made.

### *Limits on Ability of Stockholders to Act by Written Consent*

Our Certificate of Incorporation provides that our stockholders may not act by written consent. In addition, our By-laws require that special meetings of stockholders be called only by our board of directors, our chair of the board, if any, our president, or, upon application of a majority of our directors or by the holders of at least 25% of the shares of our capital stock entitled to vote on matters to be considered at the meeting, our secretary (or, in the absence or upon the refusal of the secretary, by an assistant secretary or other officer). Further, business transacted at any special meeting of stockholders is limited to matters relating to the purpose or purposes stated in the notice of meeting. This limit on the ability of our stockholders to act by written consent or to call a special meeting may lengthen the amount of time required to take stockholder proposed actions.

### *Section 203 of the General Corporation Law of the State of Delaware*

We are subject to Section 203 of the Delaware General Corporation Law. This statute regulating corporate takeovers prohibits a Delaware corporation from engaging in any business combination with an interested stockholder for three years following the date that the stockholder became an interested stockholder, unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
  - upon completion of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (1) shares owned by persons who are directors and also officers, and (2) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
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- the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is any person who, together with such person's affiliates and associates (1) owns 15% or more of a corporation's voting securities or (2) is an affiliate or associate of a corporation and was the owner of 15% or more of the corporation's voting securities at any time within the three year period immediately preceding a business combination governed by Section 203. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve.

## **DESCRIPTION OF 7 5/8% SENIOR DEBENTURES DUE 2025**

The following description of our Senior Debentures is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the Indenture, dated as of October 16, 1995, by and between the Company and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee (the "Trustee") (such indenture, as supplemented, the "1995 Indenture") which is incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part. You can find the definitions of certain terms used in this description under "Certain Definitions Related to Senior Debentures." Defined terms used in this description but not defined below under "Certain Definitions Related to Senior Debentures" or elsewhere in this description have the meanings assigned to them in the 1995 Indenture.

### **General**

We issued \$200 million aggregate principal amount of the Senior Debentures on October 16, 1995, of which, as of December 31, 2021, \$61.8 million aggregate principal amount remains outstanding. The Senior Debentures were limited to \$200 million aggregate principal amount. The debentures were issued in denominations of \$1,000 and any integral multiple thereof. Payments of principal of, and interest on, the debentures are made in U.S. dollars.

Subject to certain restrictions relating to Indebtedness secured by a Lien on the capital stock or Indebtedness of any Restricted Subsidiary, as discussed below, the 1995 Indenture does not contain any provisions that would limit the ability of the Company to incur additional indebtedness. Under the 1995 Indenture, the Company has the ability to issue senior indebtedness with terms different from those of senior indebtedness previously issued (including the Senior Debentures) without the consent of the holders, and to reopen a previous issue of a series of senior indebtedness and issue additional senior indebtedness of such series, in either case in an aggregate principal amount determined by the Company.

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The Depository Trust Company (“DTC”) acts as securities depository for the Senior Debentures. The Senior Debentures will be issued only as fully registered securities registered in the name of Cede & Co., DTC’s nominee. One or more fully registered global security certificates, representing the total aggregate principal amount of the Senior Debentures, was issued and deposited with DTC or its custodian and bears a legend regarding the restrictions on exchanges and registration of transfer.

The Senior Debentures are traded on the New York Stock Exchange under the symbol “THG.”

The Senior Debentures will mature on October 15, 2025 (the “Senior Debenture Maturity Date”)

The Senior Debentures are not subject to any sinking fund.

### **Ranking**

The Senior Debentures are unsecured senior obligations of the Company. The Senior Debentures rank *pari passu* with all other unsecured and unsubordinated indebtedness of the Company. The Senior Debentures are also structurally subordinated to all debt and other liabilities of our subsidiaries. Therefore, the rights of the Company and its creditors, including the holders of the Senior Debentures, to participate in the assets of any subsidiary upon such subsidiary's liquidation or reorganization or otherwise will be subject to the prior claims of the subsidiary's policyholders and creditors, except to the extent that the Company itself be a creditor with recognized claims against the subsidiary.

### **Interest**

Subject to applicable law, as described below, interest on the Senior Debentures accrues at an annual rate equal to 7 5/8% until the principal has been paid or duly made available for payment. The interest on the Senior Debentures is payable semi-annually in arrears on October 15 and April 15 of each year. We pay interest to those persons who are holders of records of the Senior Debentures at the close of business on the preceding October 1 or April 1, as applicable. The amount of interest payable for any interest payment period will be computed on the basis of a 360-day year comprised of twelve 30-day months.

### **Redemption**

The Senior Debentures are not redeemable prior to the Senior Debenture Maturity Date.

### **Certain Covenants**

The 1995 Indenture contains covenants including, but not limited to, covenants with respect to the following matters:

#### *Limitation on Issuance or Disposition of Stock of Restricted Subsidiaries*

The Company will not, nor will it permit any Restricted Subsidiary to, issue, sell or otherwise dispose of any shares of capital stock (other than non-voting preferred stock) of any Restricted Subsidiary, except for:

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- directors qualifying shares;
- sales or other dispositions to the Company or to one or more Restricted Subsidiaries;
- the disposition of all or any part of the capital stock of any Restricted Subsidiary for consideration which is at least equal to the fair value of such capital stock as determined by the Company's or such Restricted Subsidiary's board of directors, as the case may be (acting in good faith), in any case in accordance with the laws of the jurisdiction of incorporation of such corporation; provided, however, that any such capital stock issued, sold, granted, transferred or otherwise disposed of to any employee, officer, director, agent or consultant pursuant to any agreement, plan or arrangement approved by the board of directors of the Company or such Restricted Subsidiary, as appropriate, shall be deemed to be issued, sold or otherwise disposed of at fair value; or
- any issuance, sale, assignment, transfer or other disposition made in compliance with an order of a court or regulatory authority of competent jurisdiction, other than an order issued at the request of the Company or any Restricted Subsidiary.

#### *Limitation on Liens*

Neither the Company nor any Restricted Subsidiary may incur, issue, assume or guarantee any Indebtedness secured by a lien on any shares of capital stock or any Indebtedness of any Restricted Subsidiary, without effectively providing that the Senior Debentures (together with, if the Company shall so determine, any other Indebtedness which is not subordinated to the Senior Debentures) shall be secured equally and ratably with (or prior to) such Indebtedness, so long as such Indebtedness shall be so secured. This restriction does not apply to Indebtedness secured by any of the following:

- Liens in favor of, or required by, governmental authorities, including insurance regulatory authorities;
  - Liens existing on the date of the 1995 Indenture;
  - Liens on any shares of capital stock or Indebtedness of any corporation existing at the time such corporation merges into or consolidates with the Company or a Restricted Subsidiary;
  - Liens in favor of the Company or any Restricted Subsidiary;
  - Liens, pledges or deposits to secure statutory obligations, including Liens and deposits required or provided for under state insurance laws and similar regulatory statutes;
  - Materialmen's, mechanics', carrier's, workmen's, repairmen's, or other like Liens, and pledges and deposits made in the ordinary course of business to obtain the release thereof; and
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- any extension, renewal or replacement as a whole or in part, of any Lien referred to in the foregoing clauses; provided, however, that (a) such extension, renewal or replacement Lien shall be limited to all or a part of the same shares of capital stock or Indebtedness that secured the Lien extended, renewed or replaced and (b) the Indebtedness secured by such Lien at such time is not so increased.

The 1995 Indenture does not contain any provisions other than the foregoing which will restrict the Company from incurring, assuming or becoming liable with respect to any indebtedness or other obligations, whether secured or unsecured, or from paying dividends or making other distributions on its capital stock or purchasing or redeeming its capital stock. The 1995 Indenture does not contain any financial ratios or specified levels of net worth or liquidity to which the Company must adhere. In addition, the 1995 Indenture does not contain any provision which would require that the Company repurchase or redeem or otherwise modify the terms of any of the Senior Debentures upon a change in control or other events involving the Company which may adversely affect the creditworthiness of the Senior Debentures.

### **Consolidation, Merger or Sale of Assets**

We have the ability to merge or consolidate with, or convey, transfer or lease all or substantially all of our property, to another corporation, provided that:

- in the event we consolidate with or merge into another person or convey, transfer or lease our properties and assets substantially as an entirety to any person, the person formed by such consolidation or into which we are merged that acquires by conveyance or transfer, or leases, our properties and assets substantially as an entirety is a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and expressly assumes, by a supplemental indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all the debt securities and the performance and observance of every covenant in the 1995 Indenture on the part of us to be performed or observed;
  - immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of ours or a subsidiary as a result of such transaction as having been incurred by us or such subsidiary at the time of such transaction, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, has happened and is continuing; and
  - we have delivered to the Trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with all requirements of the 1995 Indenture and that all conditions precedent provided for in the 1995 Indenture relating to the transaction have been complied with.
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## Events of Default

The 1995 Indenture provides, with respect to the Senior Debentures, that the following events shall constitute Events of Default:

- a default in payment of principal or any premium when due;
- a default for 30 days in payment of any interest when due;
- there is a default in the performance, or breach, of any term, covenant or warranty of the Company contained in the Senior Debentures or the 1995 Indenture which affects or is applicable to the Senior Debentures (other than a default in the performance, or breach of a term, covenant or warranty which is specifically dealt with elsewhere in the 1995 Indenture or which has expressly been included in the 1995 Indenture solely for the benefit of one or more series of Securities other than the Senior Debentures) and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the holders of at least 25% in principal amount of all Senior Debentures a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” under the 1995 Indenture;
- default shall have occurred with respect to any obligation of the Company (other than its obligations under the Senior Debentures) or of a Restricted Subsidiary whether as principal, guarantor, surety or other obligor for the payment of any Indebtedness in excess of \$15 million in the aggregate, subject to certain restrictions; or
- specified events of the Company’s or a Restricted Subsidiary’s bankruptcy, insolvency or reorganization.

If an Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Senior Debentures may declare the principal amount of all the Senior Debentures to be due and payable immediately by a notice in writing to us, and to the Trustee if given by holders. If an Event of Default occurs because of specified events of our bankruptcy, insolvency or reorganization, the principal amount of all the Senior Debentures will be automatically accelerated, without any action by the trustee or any holder thereof.

After a declaration of acceleration, but before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of a majority in aggregate principal amount of Senior Debentures, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if (a) the Company has paid or deposited with the Trustee a sum sufficient to pay (i) all sums paid or advanced by the Trustee under the 1995 Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, (ii) all overdue interest on all Senior Debentures, (iii) the unpaid principal of any Senior Debentures which has become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Senior Debentures, and (iv) interest on overdue interest at the rate borne by the Senior Debentures; and (b) all Events of Default, other than the non-payment of principal of (or premium, if any, on) the Senior Debentures which have become due solely by such declaration of acceleration, have been cured or waived.

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Subject to the provisions of the Trust Indenture Act of 1939, as amended from time to time (the “TIA”) relating to the duties of the Trustee, the Trustee shall be under no obligation to exercise any of its rights or powers under the 1995 Indenture, including such rights or powers with respect to an Event of Default, at the request, order or direction of any of the holders of Senior Debentures, unless such holders shall have offered to the Trustee reasonable indemnity or security against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Subject to such provisions for the indemnification of the Trustee and specified limitations contained in the 1995 Indenture, the holders of not less than a majority in aggregate principal amount of the Senior Debentures shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee under the 1995 Indenture or exercising any trust or power conferred on the Trustee with respect to the Senior Debentures.

#### **Waiver, Modifications and Amendment**

The holders of a majority of the principal amount of the outstanding debt securities of any particular series may, on behalf of the holders of all debt securities of the series, waive past defaults with respect to that particular series, except for:

- the payment of the principal of (or premium, if any) or interest on any security of such series; or
- defaults relating to any covenants of the 1995 Indenture which cannot be changed without the consent of each holder of a debt security directly affected by the change.

The holders of a majority in aggregate principal amount of the outstanding debt securities of each series affected may, on behalf of the holders of all debt securities of the series, waive our compliance with some of the restrictive provisions of the 1995 Indenture.

We and the Trustee may amend the 1995 Indenture with the consent of the holders of a majority of the principal amount of the outstanding debt securities of each series that is affected. However, without the consent of each directly affected holder, such changes shall not include the following with respect to debt securities held by a non-consenting holder:

- change the stated maturity of, the principal of, or any installment of principal of or interest on, any security, or reduce the principal amount, the rate of interest or any premium payable upon the redemption, or reduce the amount of the principal due and payable upon a declaration of acceleration of maturity of a discount security, or change any place of payment where, or currency in which, any security or any premium or the interest is payable, or impair the right to institute suit for the enforcement of any payment on or after the stated maturity (or, in the case of redemption, on or after the redemption date);
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- reduce the percentage in principal amount of the Senior Debentures necessary for any such modification or amendment or for any waiver of compliance with certain provisions of the 1995 Indenture which affect the Senior Debentures or certain defaults applicable to the Senior Debentures under the 1995 Indenture and their consequences provided for thereunder, or to reduce the requirements for quorum or voting with respect to the Senior Debentures; or
- modify any of the above requirements or the ability to waive certain past defaults or covenants, except to increase any percentage or to provide that certain other provisions of the indenture cannot be modified or certain past defaults cannot be waived without the consent of the holder of each outstanding security directly affected.

We and the Trustee may amend the 1995 Indenture without the consent of the holders for any of the following purposes:

- to evidence the succession of another person succeeding us and the assumption by any such successor of our covenants in the 1995 Indenture and in the debt securities;
  - to add to our covenants for the benefit of the holders of all or any series of debt securities (and if such covenants are to be for the benefit of less than all series of debt securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power conferred upon us in the 1995 Indenture;
  - to add any additional events of default with respect to all or any series of debt securities (and if such events of default are to be for the benefit of less than all series of debt securities, stating that such events of default are expressly being included solely for the benefit of such series);
  - to add to or change any of the provisions of the 1995 Indenture to such extent as shall be necessary to permit or facilitate the issuance of debt securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of debt securities in uncertificated form;
  - to change or eliminate any of the provisions of the 1995 Indenture, provided that any such change or elimination shall become effective only when there is no security outstanding of any series created prior to the execution of such supplemental indenture which is entitled to the benefit of such provision;
  - to secure the securities pursuant to the requirements of the limitation on liens;
  - to establish the form or terms of debt securities of any series as permitted by the 1995 Indenture;
  - to evidence and provide for the acceptance of appointment hereunder by a successor trustee with respect to the debt securities of one or more series or to add to or change any of the provisions of the indenture as shall be necessary to provide for or facilitate the administration of the trusts thereunder by more than one trustee;
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- to cure any ambiguity, to correct or supplement any provision therein which may be defective or inconsistent with any other provision in the 1995 Indenture, or to make any other provisions with respect to matters or questions arising under the 1995 Indenture, provided such action shall not adversely affect the interests of the holders of debt securities of any series in any material respect; or
- to supplement any of the provisions of the 1995 Indenture to such extent as shall be necessary to permit or facilitate the defeasance and discharge of the Senior Debentures; provided that any such action shall not adversely affect the interests of the holders of the Senior Debentures in any material respect.

### **Satisfaction and Discharge**

The 1995 Indenture will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of Senior Debentures, as expressly provided for in the 1995 Indenture) as to all Senior Debentures when (i) either (a) all such Senior Debentures theretofore authenticated and delivered (except lost, stolen or destroyed Senior Debentures which have been replaced or paid and Senior Debentures for whose payment money has theretofore been deposited in trust with the Trustee or any Paying Agent or segregated and held in trust by the Company and thereafter repaid to the Company) have been delivered to the Trustee for cancellation or (b) all such Senior Debentures not theretofore delivered to the Trustee for cancellation have become due and payable or will become due and payable at their Stated Maturity within one year or are to be called for redemption within one year and the Company has irrevocably deposited or caused to be deposited with the Trustee funds in an amount sufficient to pay and discharge the entire indebtedness on such Senior Debentures not theretofore delivered to the Trustee for cancellation, for principal (and premium, if any) and interest to the date of deposit (in the case of Senior Debentures which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be; (ii) the Company has paid or caused to be paid all other sums payable under the 1995 Indenture by the Company; and (iii) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent under the 1995 Indenture relating to the satisfaction and discharge of the 1995 Indenture have been complied with.

### **Defeasance and Covenant Defeasance**

The 1995 Indenture provides that the Company may elect either:

- defeasance for a series of debt securities, whereby we are discharged from any and all obligations with respect to the debt securities of that series, except as may be otherwise provided in the 1995 Indenture; or
  - covenant defeasance for a series of debt securities, whereby we are released from our obligations with respect to certain covenants that apply to that series.
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We may do so by depositing with the Trustee money, and/or certain government securities which through the payment of principal and interest in accordance with their terms will provide money in an amount sufficient to pay the principal and any premium and interest on the applicable series of debt securities, and any mandatory sinking fund or analogous payments on their scheduled due dates. No Event of Default shall have occurred or be continuing on the date of such deposit. This type of a trust may only be established if, among other things, we have delivered to the trustee an opinion of counsel and officer's certificate meeting the requirements set forth in the 1995 Indenture.

### **Transfer**

No service charge will be made for any registration of transfer or exchange of Senior Debentures, but payment will be required of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

### **The Trustee**

U.S. Bank National Association is the Trustee. Subject to the provisions of the TIA, the Trustee is under no obligation to exercise any of its powers vested in it by the 1995 Indenture at the request of any holder of the Senior Debentures unless the holder offers the Trustee reasonable indemnity against the costs, expenses and liabilities which might result. The Trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in performing its duties if the Trustee reasonably believes that it is not reasonably assured of repayment or adequate indemnity. We have entered, and from time to time may continue to enter, into banking or other relationships with U.S. Bank National Association or its affiliates.

### **Applicable Law**

The Senior Debentures and the 1995 Indenture will be governed by, and construed in accordance with, the laws of the State of New York.

### **Payment and Paying Agent**

Payment of the principal of and interest on the Senior Debenture is made in immediately available funds at the Corporate Trust Office of the Trustee or such other office or agency of the Company as may be designated for such purpose, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the Company's option, payment of interest due on an Interest Payment Date may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register maintained by the Company, or, if such Person shall have made arrangements therefor in writing (or such other means as deemed acceptable by the Paying Agent) with the Paying Agent not later than the Record Date immediately preceding the applicable Interest Payment Date, then by wire transfer of immediately available funds to an account maintained by such Person at a bank located in the United States.

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## Certain Definitions Related to Senior Debentures

“Indebtedness” means, with respect to any Person, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, including, without limitation, all obligations, contingent or otherwise, of such Person in connection with any letters of credit and acceptances issued under letter of credit facilities, acceptance facilities or other similar facilities, if, and to the extent, any of the foregoing would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, but excluding any trade payables and other accrued current liabilities and letters of credit, in each case incurred in the ordinary course of business, (ii) all obligations of such Person evidenced by bonds, notes, debentures or other similar instruments (including a purchase money obligation), if, and to the extent, any of the foregoing would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, (iii) all Indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even if the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), but excluding trade accounts payable arising in the ordinary course of business, (iv) all Capital Lease Obligations of such Person, (v) all Indebtedness referred to in (but not excluded from) clause (i), (ii), (iii) or (iv) above of other Persons and all dividends (excluding policyholder dividends) of other Persons, the payment of which is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien, upon or in property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, (vi) all Guaranteed Debt of such Person, (vii) to the extent not otherwise included in this definition, all obligations of such person under Currency Agreements, Interest Rate Agreements and Commodity Agreements and (viii) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in clauses (i) through (vii) above. Indebtedness shall not include obligations under insurance, reinsurance or retrocession contracts entered into in the ordinary course of business.

“Lien” means any lien, mortgage, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement and any lease in the nature thereof).

“Person” means any individual, corporation, partnership, joint venture, association, joint-stock or limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Restricted Subsidiary” means certain of our significant Subsidiaries and any other Subsidiary that may succeed, by merger, consolidation or otherwise, to all or substantially all of the assets of one or more of such Subsidiaries, as determined in good faith by our board of directors, such determination to be evidenced by a resolution of such board.

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“Stated Maturity,” when used with respect to any Senior Debenture or any installment of principal thereof or interest thereon, means the date specified in such Senior Debenture as the fixed date on which the principal of such Senior Debenture, or such installment of principal or interest, is due and payable, except as otherwise provided in the case of Capital Lease Obligations.

“Subsidiary” means a corporation of which a majority of the Capital Stock having voting power under ordinary circumstances to elect a majority of the board of directors is owned or controlled by the Company or by one or more Subsidiaries, or by the Company and one or more Subsidiaries.

**THE HANOVER INSURANCE GROUP  
RETIREMENT SAVINGS PLAN**

Amended and restated generally effective January 1, 2015

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THE HANOVER INSURANCE GROUP  
RETIREMENT SAVINGS PLAN

ARTICLE I

NAME, PURPOSE AND EFFECTIVE DATE OF PLAN AND RESTATED PLAN

1.01 Name of Plan. The name of the Plan is The Hanover Insurance Group Retirement Savings Plan. Prior to January 1, 2005, the Plan was known as “The Allmerica Financial Employees’ 401(k) Matched Savings Plan”. Effective January 1, 2005, the Plan became known as “The Allmerica Financial Retirement Savings Plan”. Effective December 1, 2005, the Plan became known as “The Hanover Insurance Group Retirement Savings Plan”.

1.02 Purpose. This Plan has been established for the exclusive benefit of the Plan Participants and their Beneficiaries and as far as possible shall be administered in a manner consistent with this intent and consistent with the requirements of Code Section 401.

Subject to Sections 15.04 and 18.05, under no circumstances shall any contributions made to the Plan be used for, or be diverted to, purposes other than for the exclusive benefit of Plan Participants or their Beneficiaries.

1.03 Plan and Plan Restatement Effective Date. The effective date of this Plan was November 22, 1961. The effective date of this amended and restated Plan is January 1, 2015 (except for those provisions of the Plan which have an alternative effective date). Except to the extent otherwise specifically provided herein, the provisions of the amended and restated Plan as set forth herein shall apply to a Participant who is employed by the Employer on or after January 1, 2015. The rights and benefits of any Participant whose employment with the Employer terminated prior to January 1, 2015, shall be determined in accordance with the provisions of the Plan as in effect from time to time prior to January 1, 2015, provided, however, that if the Account balance of any such Participant has not been completely distributed before January 1, 2015, then such Account balance shall be invested, accounted for and distributed in accordance with the provisions of the Plan as set forth in this document except as otherwise required by applicable law or as otherwise specifically provided herein.

ARTICLE II

DEFINITIONS

The terms defined in this Article shall have the meanings stated herein unless the context clearly indicates otherwise.

2.01 “Accrued Benefit” shall mean the sum of the balances in a Participant’s 401(k) Account, Roth Elective Deferral Account, Match Contribution Account, Non-Elective Employer Contribution Account, Regular Account, Rollover Account, Tax Deductible Contribution Account and Voluntary Contribution Account.

- 2.02 “Account” shall mean an account established and maintained pursuant to Section 8.01 for each Participant, when appropriate, to account for the Participant’s Accrued Benefit.
- 2.03 (a) “Affiliate” shall mean any corporation affiliated with the Employer through the action of such corporation’s board of directors and the Employer’s Board of Directors.
- (b) “Affiliate” shall also mean any corporation which is a member of a controlled group of corporations (as defined in Code Section 414(b)) which includes the Employer; any trade or business (whether or not incorporated) which is under common control (as defined in Code Section 414(c)) with the Employer; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Code Section 414(m)) which includes the Employer; and any other entity required to be aggregated with the Employer pursuant to Code Section 414(o) and the regulations thereunder.
- 2.04 “Affirmative Election” shall mean an election by an Eligible Participant to (a) make Salary Reduction Contributions to the Plan at the whole percentage of his or her Compensation or at the separate whole percentages of his or her salary and other Compensation specified in his or her Salary Reduction Agreement, or (b) not to make Salary Reduction Contributions to the Plan.
- 2.05 “Age” shall mean the age of a person at his or her last birthday.
- 2.06 “Annuity Starting Date” shall mean the first day of the first period for which the Plan pays an amount as an annuity. In the case of a payment not in an annuity form, Annuity Starting Date shall mean the first day of the first period for which the benefit form is paid.
- 2.07 “Automatic Contributions” shall mean the Pre-tax Elective Deferrals that result from the operation of Section 5.05(c).
- 2.08 “Automatic Contribution Arrangement” shall mean the arrangement set forth in Section 5.05 pursuant to which, in the absence of an Affirmative Election, an Employee, who is eligible to participate in the Plan is treated as having elected to direct the Employer to reduce his or her Compensation in order that the Employer may make Pre-tax Elective Deferrals to the Plan on behalf of the Participant equal to a uniform percentage of Compensation.
- 2.09 “Beneficiary” shall mean the person, trust, organization or estate designated to receive Plan benefits payable on or after the death of a Participant.
- 2.10 “Catch-up Contributions” shall mean Salary Reduction Contributions made to the Plan that are in excess of an otherwise applicable Plan limit and that are made by Participants who are Age 50 or over by the end of their taxable years. An “otherwise applicable Plan limit” is a limit in the Plan that applies to Salary Reduction Contributions without regard to Catch-up Contributions, such as the limits on Annual Additions, the dollar limitation on Salary Reduction Contributions under Code Section 402(g) (not counting Catch-up Contributions). Catch-up Contributions for a Participant for a taxable year may not exceed the dollar limit on Catch-up Contributions under Code Section 414(v)(2)(B)(i) for the taxable year as adjusted for increases in the cost of living in accordance with Code Section 414(v)(2)(C).



Catch-up Contributions are not subject to the limits on Annual Additions, are not counted in the ADP test and are not counted in determining the minimum top-heavy allocation under Code Section 416 (but Catch-up Contributions made in prior years are counted in determining whether the Plan is top-heavy).

2.11 “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time. Reference to any section or subsection to the Code, includes reference to any comparable or succeeding provisions of any legislation which amends, supplements or replaces any such section or subsection, and also includes reference to any regulation issued pursuant to or with respect to such section or subsection.

2.12 “Compensation” shall mean:

- (a) For purposes of Articles IX and X, for purposes of determining a Participant’s Salary Reduction Contributions pursuant to Section 3.01(b), 5.04, and 5.05 and for purposes of determining an Eligible Employee’s Match Contribution under Section 4.02 and Non-Elective Employer Contribution pursuant to Section 4.03, Compensation shall mean the total wages or salary, overtime, bonuses, and any other taxable remuneration paid to an Employee by the Employer during the Plan Year, while the Employee is a Participant, as reported on the Participant’s W-2 for the Plan Year. Provided, however, that Compensation for this purpose shall be determined without reduction for (i) any Salary Reduction Contributions contributed to the Plan on the Participant’s behalf for the Plan Year and (ii) any other amount which is contributed or deferred by the Employer at the election of a Participant which is not includible in the gross income of the Participant by reason of Code Section 125, 132(f)(4), 402(e)(3), 402(h), or 403(b).

Notwithstanding the above, for purposes of determining a Participant’s Salary Reduction Contributions pursuant to Section 3.01(b), 5.04, and 5.05 and for purposes of determining an Eligible Employee’s Match Contribution under Section 4.02 and Non-Elective Employer Contribution pursuant to Section 4.03, Compensation shall not include:

- (i) incentive compensation paid to Participants pursuant to the Employer’s Executive Long Term Performance Unit Plan or pursuant to any similar or successor cash or equity long-term incentive compensation plan;
- (ii) Employer contributions to a deferred compensation plan or arrangement (other than (i) Salary Reduction Contributions contributed to the Plan on the Participant’s behalf for the Plan Year; and (ii) any other amount which is contributed or deferred by the Employer at the election of a Participant which is not includible in the gross income of the Participant by reason of Code Section 125, 132(f)(4), 402(e)(3), 402(h), or 403(b)) either for the year of deferral or for the year included in the Participant’s gross income;

- (iii) any income which is received by or on behalf of a Participant in connection with the grant, receipt, settlement, exercise, lapse of risk of forfeiture or restriction on transferability, or disposition of any stock option, stock award, stock grant, stock appreciation right or similar right or award granted under any plan, now or hereafter in effect, of the Employer or any successor to the Employer, the Employer's parent, any such successor's parent, any subsidiaries or affiliates of the Employer, or any stock or securities underlying any such option, award, grant or right;
  - (iv) severance payments paid in a lump sum, provided that for Plan Years beginning on and after January 1, 2008 such excluded severance payments shall not include any payment of regular compensation for services during the Participant's regular working hours, or compensation for services outside the Participant's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, if the payment would have been paid to the Participant prior to a severance from employment, if the Participant had continued in employment with the Employer and if the payment is made by the later of 2½ months after the Participant's severance from employment or by the end of the Plan Year in which the Participant's severance from employment occurs;
  - (v) Code Section 79 imputed income; long term disability and workers' compensation benefit payments;
  - (vi) taxable moving expense allowances or taxable tuition or other educational reimbursements;
  - (vii) for Plan Years commencing after December 31, 1998, compensation paid in the form of commissions;
  - (viii) non-cash taxable benefits provided to executives, including the taxable value of Employer-paid club memberships, chauffeur services and Employer-provided automobiles; and
  - (ix) other taxable amounts received other than cash compensation for services rendered, as determined by the Plan Administrator.
- (b) For purposes of Section 4.04 (Minimum Employer Contributions for Top Heavy Plans) and for purposes of Article VII (Limitations on Allocations) the term "Compensation" means a Participant's wages, salaries, fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer maintaining the Plan to the extent that the amounts are includible in gross income (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements or other expense allowances under a nonaccountable plan (as described in Treasury Regulation Section 1.62-2(c)), and excluding the following:

- (i) Employer contributions to a plan of deferred compensation which are not includible in the Employee's gross income for the taxable year in which contributed, or Employer contributions under a simplified employee pension plan to the extent such contributions are deductible by the Employee, or any distributions from a plan of deferred compensation;
- (ii) Amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by an Employee becomes freely transferable or is no longer subject to a substantial risk of forfeiture;
- (iii) Amounts realized for the sale, exchange or other disposition of stock acquired under a qualified stock option; and
- (iv) Other amounts which received special tax benefits.

Notwithstanding the foregoing, Compensation for purposes of the Plan shall also include Employee elective deferrals under Code Section 402(g)(3), Roth Elective Deferrals and any amounts contributed or deferred by the Employer at the election of the Employee and not includible in the gross income of the Employee, by reason of Code Sections 125, 132(f)(4), 402(e)(3), 402(h), and 403(b).

Additionally, amounts under Code Section 125 include any amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he has other health coverage (deemed Code Section 125 compensation). Such an amount will be treated as an amount under Code Section 125 only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

For purposes of applying the limitations of Article VII, Compensation for a Limitation Year is the Compensation actually paid or includible in gross income during such Year.

- (c) Notwithstanding (a) and (b) above, the annual Compensation of each Participant taken into account for determining all benefits provided under the Plan for any Plan Year shall not exceed \$265,000, as adjusted for increases in the cost of living in accordance with Code Section 401(a)(17)(B) for Plan Years beginning after December 31, 2015.

The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which Compensation is determined beginning in such calendar year.

If Compensation is being determined for a Plan Year that contains fewer than 12 calendar months, then the annual Compensation limit is an amount equal to the annual Compensation limit for the calendar year in which the Compensation period begins multiplied by the ratio obtained by dividing the number of full months in the period by 12.

For purposes of applying the limitations of Article VII with respect to Limitation Years the following provisions shall be applicable.

- (i) Compensation paid after severance from employment. Compensation actually paid or includible in gross income during a Limitation Year shall be adjusted, as set forth herein, for the following types of compensation paid after a Participant's severance from employment with the Employer (or any Affiliate). However, amounts described in Paragraphs A. and B. below shall only be included in Compensation for such Limitation Year to the extent such amounts are paid by the later of 2½ months after severance from employment or by the end of the Limitation Year that includes the date of such severance from employment. Any other payment of compensation paid after severance of employment that is not described in the following types of compensation shall not be considered Compensation for such Limitation Year, even if payment is made within the time period specified above.
  - A. Regular Pay. Compensation shall include regular pay after severance of employment if:  
(1) The payment is regular compensation for services during the Participant's regular working hours, or compensation for services outside the Participant's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments; and (2) The payment would have been paid to the Participant prior to a severance from employment if the Participant had continued in employment with the Employer.
  - B. Leave Cashouts And Deferred Compensation. Leave cashouts shall be included in Compensation if those amounts would have been included in the definition of Compensation if they were paid prior to the Participant's severance from employment, and the amounts are payment for unused accrued bona fide sick, vacation, or other leave, but only if the Participant would have been able to use the leave if employment had continued. In addition, deferred compensation shall be included in Compensation if the compensation would have been included in the definition of Compensation if it had been paid prior to the Participant's severance from employment, and the compensation is received pursuant to a nonqualified unfunded deferred compensation plan, but only if the payment would have been paid at the same time if the Participant had continued in employment with the Employer and only to the extent that the payment is includible in the Participant's gross income.
  - C. Salary Continuation Payments for Military Service Participants. Compensation shall not include payments to an individual who does not currently perform services for the Employer by reason of qualified military service (as that term is used in Code Section 414(u)(1)) to the extent those payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the Employer rather than entering qualified military service.

- D. Salary Continuation Payments for Disabled Participants. Compensation does not include compensation paid to a Participant who is permanently and totally disabled (as defined in Code Section 22(e)(3)).
- (ii) Compensation for a Limitation Year but not paid during the Limitation Year. Compensation for a Limitation Year shall not include amounts earned but not paid during the Limitation Year solely because of the timing of pay periods and pay dates.
- (iii) Inclusion of Certain Nonqualified Deferred Compensation Amounts. Compensation for a Limitation Year shall include amounts that are includible in the gross income of a Participant under the rules of Code Section 409A or because the amounts are constructively received by the Participant.
- (d) Notwithstanding paragraphs (a), (b) and (c) above,
- (i) USERRA. For purposes of Employee and Employer make-up contributions, Compensation during the period of military service shall be deemed to be the Compensation the Employee would have received during such period if the Employee were not in qualified military service, based on the rate of pay the Employee would have received from the Employer but for the absence due to military leave. If the Compensation the Employee would have received during the leave is not reasonably certain, Compensation will be equal to the Employee's average Compensation from the Employer during the twelve (12) month period immediately preceding the military leave or, if shorter, the Employee's actual period of employment with the Employer.
- (ii) Differential Wage Payments. An individual receiving a differential wage payment, as defined by Code Section 3401(h)(2), shall be treated as an Employee of the Employer making the payment. The differential wage payment shall be treated as Compensation for the purposes of Code Section 415(c)(3) and Treasury Regulation Section 1.415-(c)(2) (e.g., for the purposes of Code Section 415, top-heavy provisions of Code Section 416, determination of highly compensated employees under Code Section 414(q)). The Plan shall not be treated as failing to meet the requirements of any provision described in Code Section 414(u)(1)(C) by reason of any contribution or benefit which is based on the differential wage payment. The foregoing sentence shall apply only if all Employees of the Employer performing service in the uniformed services described in Code Section 3401(h)(2)(A) are entitled to receive differential wage payments (as defined in Code Section 3401(h)(2)) on reasonably equivalent terms and, if eligible to participate in a retirement plan maintained by the Employer, to make contributions based on the payments on reasonably equivalent terms (taking into account Code Sections 410(b)(3), (4), and (5)).

- 2.13 “Eligible Employee” shall mean an Employee who has satisfied the requirements to participate in this Plan as set forth in Section 3.01.
- 2.14 “Eligible Participant” shall mean an Eligible Employee subject to the Automatic Contribution Arrangement as provided for in Section 5.05(b).
- 2.15 “Employee” shall mean any person reported on the payroll records of the Employer as an Employee who is deemed by the Employer to be a common law Employee. However, the term Employee will not include any individual who is not reported on the payroll records of the Employer or an affiliated Employer as a common law Employee. If such person is later determined by the Employer or by a court or governmental agency to be or to have been an Employee, he or she will only be eligible for participation prospectively and may participate in the Plan as soon as reasonably practicable following such determination and after the satisfaction of all other eligibility requirements.
- 2.16 “Employer” shall mean The Hanover Insurance Company; provided that, prior to January 1, 2008 “Employer” shall mean First Allmerica Financial Life Insurance Company.
- 2.17 “Employment Commencement Date” shall mean the date on which an Employee first performs an Hour of Service or, in the case of an Employee who has a One Year Break in Service, the date on which he or she first performs an Hour of Service after such Break.
- 2.18 “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.
- 2.19 “Excess Elective Deferrals” shall mean those Salary Reduction Contributions of a Participant that either (1) are made during the Participant’s taxable year and exceed the dollar limitation under Code Section 402(g) (including, if applicable, the dollar limitation on Catch-up Contributions defined in Code Section 414(v)) for such year; or (2) are made during a calendar year and exceed the dollar limitation under Code Section 402(g) (including, if applicable, the dollar limitation on Catch-up Contributions defined in Code Section 414(v)) for the Participant’s taxable year beginning in such calendar year, counting only Salary Reduction Contributions made under this Plan and any other 401(k) qualified retirement plan, contract or arrangement maintained by the Employer. Excess Elective Deferrals shall be treated as Annual Additions under the Plan, unless such amounts are distributed no later than the first April 15 following the close of the Participant’s taxable year.
- 2.20 “Fiduciary” shall mean any person who (i) exercises any discretionary authority or discretionary control respecting management of the Plan or exercises any authority or control respecting management or disposition of its assets; (ii) renders investment advice for a fee or other compensation, direct or indirect, with respect to any monies or other property of the Plan or has any authority or responsibility to do so; or (iii) has any discretionary authority or discretionary responsibility in the administration of the Plan, including, but not limited to, the Trustee and the Plan Administrator.
- 2.21 “First Allmerica” shall mean First Allmerica Financial Life Insurance Company.

- 2.22 “Five Percent Owner” shall mean, in the case of a corporation, any person who owns (or is considered as owning within the meaning of Code Section 416(i)) more than five percent of the outstanding stock of the Employer or stock possessing more than five percent of the total combined voting power of all stock of the Employer. In the case of an Employer that is not a corporation, “Five Percent Owner” shall mean any person who owns or under applicable regulations is considered as owning more than five percent of the capital or profits interest in the Employer. In determining percentage ownership hereunder, employers that would otherwise be aggregated under Code Sections 414(b), (c), and (m) shall be treated as separate employers.
- 2.23 “Former Participant” shall mean a person on whose behalf an Account is maintained, who was an Eligible Employee but who is not entitled to accrue a benefit under this Plan because he or she has ceased to be eligible to participate in the Plan for any reason.
- 2.24 “401(k) Account” shall mean the account established and maintained for each Participant who has directed the Employer to make Pre-tax Elective Deferral Contributions to the Trust on his or her behalf or for whom the Employer has made 401(k) Employer Contributions to the Trust on his or her behalf, and all earnings and appreciation thereon, less any withdrawals therefrom and any losses and expenses charged thereto.
- 2.25 “401(k) Employer Contribution” shall mean a 401(k) contribution made by the Employer to the Trust for Plan Years prior to 1995 pursuant to Section 4.01 of the Plan as in effect prior to 1995.
- 2.26 “Highly Compensated Employee” shall mean any Employee who:
- (a) was a Five Percent Owner at any time during the Plan Year or the preceding Plan Year; or
  - (b) for the preceding Plan Year:
    - (i) had Compensation from the Employer in excess of \$120,000 as adjusted for increases in the cost of living in accordance with Code Section 414(q)(1) for Plan Years beginning after December 31, 2015; and
    - (ii) for such preceding Year was in the top-paid group of Employees for such preceding Year.

For purposes of this Section the “top-paid group” for a Plan Year is the top 20% of Employees ranked on the basis of Compensation paid during such Year.

In addition to the foregoing, the term “Highly Compensated Employee” shall also mean any former Employee who separated from service prior to the Plan Year, performs no service for the Employer during the Plan Year, and was an actively employed Highly Compensated Employee in the separation year or any Plan Year ending on or after the date the Employee attained Age 55.

For purposes of this Section Compensation means Compensation determined for purposes of Article VII (Limitations on Allocations).

The determination of who is a Highly Compensated Employee, including the determinations of the numbers and identity of Employees in the top-paid group and the Compensation that is considered will be made in accordance with Code Section 414(q) and the regulations thereunder.

2.27 “Hour of Service” shall mean:

- (a) Each hour for which an Employee is paid, or entitled to payment, for the performance of duties for the Employer. For purposes of the Plan an Employee who is exempt from the requirements of the Fair Labor Standards Act of 1938, as amended, shall be credited with 45 Hours of Service for each complete or partial week he or she would be credited with at least one Hour of Service under this Section.
- (b) Each hour for which an Employee is paid, or entitled to payment, by the Employer on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. Notwithstanding the preceding sentence:
  - (i) No more than 1000 hours shall be credited to an Employee under this Subsection (b) on account of any single continuous period during which the Employee performs no duties (whether or not such period occurs in a single computation period);
  - (ii) No hours shall be credited under this Subsection (b) for any payments made or due under a plan maintained solely for the purpose of complying with any applicable worker’s compensation, unemployment compensation or disability insurance laws; and
  - (iii) No hours shall be credited under this Subsection (b) for a payment, which solely reimburses an Employee for medical or medically related expenses incurred by the Employee.

For purposes of this Subsection (b) a payment shall be deemed to be made by or due from an Employer regardless of whether such payment is made by or due from the Employer directly, or indirectly, through, among others, a trust fund or insurer, to which the Employer contributes or pays premiums.

- (c) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer. The same Hours of Service shall not be both credited under Subsections (a) or (b), as the case may be, and under this Subsection. No more than 501 Hours shall be credited under this Subsection for a period of time during which an Employee did not or would not have performed duties.



(d) Special rules for determining Hours of Service under Subsection (b) or (c) for reasons other than the performance of duties.

In the case of a payment which is made or due which results in the crediting of Hours of Service under Subsection (b) or in the case of an award or agreement for back pay, to the extent that such an award or agreement is made with respect to a period during which an Employee performs no duties, the number of Hours of Service to be credited shall be determined as follows:

- (i) In the case of a payment made or due which is calculated on the basis of units of time (such as hours, days, weeks or months), the number of Hours of Service to be credited for “exempt” Employees described in Subsection (a) shall be determined as provided in such Subsection. For all other Employees, the Hours of Service to be credited shall be those regularly scheduled hours in such unit of time; provided, however, that when a non-exempt Employee does not have regularly scheduled hours, such Employee shall be credited with 8 Hours of Service for each workday for which he or she is entitled to be credited with Hours of Service under paragraph (b).
- (ii) Except as provided in Paragraph (d)(iii), in the case of a payment made or due which is not calculated on the basis of units of time, the number of Hours of Service to be credited shall be equal to the amount of the payment divided by the Employee’s most recent hourly rate of compensation (as determined below) before the period during which no duties are performed.
  - A. The hourly rate of compensation of Employees paid on an hourly basis shall be the most recent hourly rate of such Employees.
  - B. In the case of Employees whose compensation is determined on the basis of a fixed rate for specified periods of time (other than hours) such as days, weeks or months, the hourly rate of compensation shall be the Employee’s most recent rate of compensation for a specified period of time (other than an hour), divided by the number of hours regularly scheduled for the performance of duties during such period of time. The rule described in Subsection (d)(i) shall also be applied under this paragraph to Employees without a regular work schedule.
  - C. In the case of Employees whose compensation is not determined on the basis of a fixed rate for specified periods of time, the Employee’s hourly rate of compensation shall be the lowest hourly rate of compensation paid to Employees in the same job classification as that of the Employee or, if no Employees in the same job classification have an hourly rate, the minimum wage as established from time to time under Section 6(a)(1) of the Fair Labor Standards Act of 1938, as amended.

- (iii) Rule against double credit. An Employee shall not be credited on account of a period during which no duties are performed with more hours than such Employee would have been credited but for such absence.
- (e) Crediting of Hours of Service to computation periods.
  - (i) Hours of Service described in Subsection (a) shall be credited to the Employee for the computation period or periods in which the duties are performed.
  - (ii) Hours of Service described in Subsection (b) shall be credited as follows:
    - A. Hours of Service credited to an Employee on account of a payment which is calculated on the basis of units of time (such as hours, days, weeks or months) shall be credited to the computation period or periods in which the period during which no duties are performed occurs, beginning with the first unit of time to which the payment relates.
    - B. Hours of Service credited to an Employee by reason of a payment which is not calculated on the basis of units of time shall be credited to the computation period in which the period during which no duties are performed occurs, or if the period during which no duties are performed extends beyond one computation period, such Hours of Service shall be allocated between not more than the first two computation periods in accordance with reasonable rules established by the Employer, which rules shall be consistently applied with respect to all Employees within the same job classification, reasonably defined.
  - (iii) Hours of Service described in Subsection (c) shall be credited to the computation period or periods to which the award or agreement for back pay pertains, rather than to the computation period in which the award, agreement or payment is made.
- (f) For purposes of the Plan, Hours of Service shall also include Hours of Service determined in accordance with the rules set forth in this Section 2.27:
  - (i) with the Employer in a position in which he or she was not eligible to participate in this Plan; or
  - (ii) as a Career Agent or General Agent of First Allmerica; or
  - (iii) for periods prior to January 1, 1998, with Citizens, Hanover, or as an employee of a General Agent of First Allmerica; or

- (iv) with Financial Profiles, Inc., or Advantage Insurance Network, Affiliates of First Allmerica, including periods of service completed prior to the date each became an Affiliate; or
  - (v) for periods prior to January 1, 2008 with First Allmerica; or
  - (vi) with an Affiliate.
- (g) Rules for Non-Paid Leaves of Absence. For purposes of the Plan, a Participant will also be credited with Hours of Service during any non-paid leave of absence granted by the Employer. Except as provided in Subsection (a) for exempt Employees, the number of Hours of Service to be credited under this Subsection (g) shall be the number of regularly scheduled working hours in each workday during the leave of absence; provided, however, that no more than the number of Hours in one regularly scheduled work year of the Employer will be credited for each non-paid leave of absence. In the case of a non-exempt Employee without a regular work schedule, the number of Hours to be credited shall be based on a 40-hour workweek and an 8-hour workday. Hours of Service described in this Subsection (g) shall be credited to the Employee for the computation period or periods during which the leave of absence occurs.
- Notwithstanding the foregoing, for Plan Years beginning after December 31, 1998, all Employees (exempt and non-exempt) shall be credited with 8 Hours of Service for each workday for which they are entitled to be credited with Hours of Service for a non-paid leave of absence pursuant to this Subsection (g).
- (h) Rules for Maternity or Paternity Leaves of Absence. In addition to the foregoing rules, solely for purposes of determining whether a One Year Break in Service has occurred in a computation period, an individual who is absent from work for maternity or paternity reasons shall receive credit for the Hours of Service which would otherwise have been credited to such individual but for such absence, or in any case in which such Hours cannot be determined, 8 Hours of Service per day of such absence. Provided, however, that:
- (i) Hours shall not be credited under both this Paragraph (h) and one of the other Paragraphs of this Section 2.27;
  - (ii) no more than 501 Hours shall be credited for each maternity or paternity absence; and
  - (iii) if a maternity or paternity leave extends beyond one Plan Year, the Hours shall be credited to the Plan Year in which the absence begins to the extent necessary to prevent a One Year Break in service, otherwise such Hours shall be credited to the following Plan Year.

For purposes of this paragraph, an absence from work for maternity or paternity reasons means an absence (i) by reason of the pregnancy of the individual, (ii) by reason of a birth of a child of the individual, (iii) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement.

- (i) Other Federal Law. Nothing in this Section shall be construed to alter, amend, modify, invalidate, impair or supersede any law of the United States or any rule or regulation issued under any such law.

2.28 “Key Employee” shall mean, for the purposes of determining whether the Plan is top-heavy, any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the determination date is an officer of the Employer having an annual Compensation greater than \$170,000 (as adjusted under Code Section 416(i)(1) for Plan Years beginning after December 31, 2015), a Five Percent Owner, or a 1-percent owner of the Employer having an annual Compensation of more than \$150,000.

The determination of who is a Key Employee will be made in accordance with Code Section 416(i)(1) and the regulations thereunder. For purposes of determining whether a Participant is a Key Employee, the Participant’s Compensation means Compensation as defined for purposes of Article VII.

2.29 “Limitation Year” shall mean a calendar year. The Limitation Year may only be changed by a Plan amendment. If the Plan is terminated effective as of a date other than the last day of the Plan’s Limitation Year, then the Plan shall be treated as if the Plan had been amended to change its Limitation Year and, in any such case, the Defined Contribution Dollar Limitation shall be prorated as prescribed by Treasury Regulation Section 1.415(j)-1(d)(3).

2.30 “Match Contribution” shall mean the contribution made by the Employer to the Trust pursuant to Section 4.02.

2.31 “Match Contribution Account” shall mean the account established for each Participant for whom the Employer has allocated Match Contributions to the Trust and all earnings and appreciation thereon, less any withdrawals therefrom and any losses and expenses charged thereto.

2.32 “Non-Elective Employer Contributions” shall mean Employer contributions that are made by the Employer pursuant to Section 4.03.

2.33 “Non-Elective Employer Contribution Account” shall mean the account established for each Employee for whom the Employer has made a Non-Elective Employer Contribution to the Trust and all earnings and appreciation thereon, less any withdrawals therefrom and any losses and expenses charged thereto.

2.34 “Non-Highly Compensated Employee” shall mean any Employee who is not a Highly Compensated Employee.

- 2.35 “Non-Key Employee” shall mean any Employee who is not a Key Employee.
- 2.36 “Normal Retirement Age” shall mean the date on which the Participant attains Age 65.
- 2.37 “One Year Break in Service” shall mean any vesting computation period during which an Employee does not complete more than 500 Hours of Service.
- 2.38 “Participant” shall mean an Eligible Employee and, where the context requires, a Former Participant.
- 2.39 “Plan Administrator” shall mean the Benefits Committee, which shall have fiduciary responsibility for the interpretation and administration of the Plan, as provided for in Article XIV. Members of the Benefits Committee shall be appointed as provided for in Section 15.01 hereof.
- 2.40 “Plan Year” shall mean a calendar year.
- 2.41 “Pre-tax Elective Deferral” shall mean a Salary Reduction Contribution that is not includible in the gross income of the Eligible Employee on whose behalf the contribution is made at the time that the deferral is made.
- 2.42 “Qualified Automatic Contribution Arrangement (“QACA”)” shall mean a qualified automatic contribution arrangement that meets the requirements of Code Section 401(k)(13)(B). This Plan is intended to satisfy the requirements of Code Section 401(k)(13)(B) including but not limited to, the automatic enrollment and contribution provisions and the applicable notice requirements of Section 5.05 and the required Employer contributions of the Match Contribution made by the Employer to the Trust pursuant to Section 4.02.
- 2.43 “Qualified Default Investment Alternative” shall mean an investment alternative available to Participants and Beneficiaries that satisfies the requirements of ERISA Section 404(c)(5) and the regulations thereunder and shall be subject to the following rules:
- (a) No Employer Securities. The Qualified Default Investment Alternative does not hold or permit the acquisition of Employer securities, except as permitted by Department of Labor Regulation Section 2550.404c-5(e)(1)(ii);
  - (b) Transfer Permitted. The Qualified Default Investment Alternative permits a Participant or Beneficiary to transfer, in whole or in part, his or her investment from the Qualified Default Investment Alternative to any other investment alternative available under the Plan, pursuant to the rules of Department of Labor Regulation Section 2550.404c-5(c)(5);

(c) Management. The Qualified Default Investment Alternative is:

- (1) Managed by: (A) an investment manager, within the meaning of ERISA Section 3(38); (B) a Plan trustee that meets the requirements of ERISA Section 3(38)(A), (B) and (C); or (C) the Sponsor Employer who is a named fiduciary within the meaning of ERISA Section 402(a)(2);
- (2) An investment company registered under the Investment Company Act of 1940; or
- (3) An investment product or fund described in Department of Labor Regulation Section 2550.404c-5(e)(4)(iv) or (v); and

(d) Types of Permitted Investments. The Qualified Default Investment Alternative must be an investment product or fund described in Department of Labor Regulation Section 2550.404c-5(e)(4).

2.44 “Qualified Domestic Relations Order” shall mean any judgment, decree or order (including approval of a property settlement agreement) which:

- (i) relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child or other dependent of a Participant;
- (ii) is made pursuant to a state domestic relations law (including a community property law);
- (iii) constitutes a “qualified domestic relations order” within the meaning of Code Section 414(p); and
- (iv) is entered on or after January 1, 1985.

Effective April 6, 2007, a domestic relations order that otherwise satisfies the requirements for a qualified domestic relations order (QDRO) will not fail to be a QDRO: (i) solely because the order is issued after, or revises, another domestic relations order or QDRO; or (ii) solely because of the time at which the order is issued, including issuance after the annuity starting date or after the Participant’s death.

2.45 “Qualified Early Retirement Age” shall mean the later of:

- (i) Age 55; or
- (ii) the date on which the Participant begins participation.

2.46 “Qualified Joint and Survivor Annuity” shall mean an annuity for the life of the Participant, with a survivor annuity for the life of his or her spouse in an amount equal to 50% of the amount of the annuity payable during the joint lives of the Participant and his or her spouse, and which is the amount of benefit which can be purchased by the Participant’s Accrued Benefit.

- 2.47 “Regular Account” shall mean the account established and maintained for each Participant for whom the Employer has allocated Regular Employer Contributions to the Trust, and all earnings and appreciation thereon, less any withdrawals therefrom and any losses and expenses charged thereto.
- 2.48 “Regular Employer Contribution” shall mean a Regular Contribution made by the Employer to the Trust for years prior to 1995 pursuant to Section 4.01 as in effect prior to 1995.
- 2.49 “Rollover Account” shall mean the account established and maintained for each Participant who has made a Rollover Contribution to the Trust or whose accrued benefit from another qualified plan has been transferred to this Trust in accordance with Section 5.03 of the Plan, and all earnings and appreciation thereon, less any withdrawals therefrom and any losses and expenses charged thereto.
- 2.50 “Rollover Contribution” shall mean a contribution made to the Trust pursuant to Section 5.03.
- 2.51 “Roth Elective Deferral” shall mean a Salary Reduction Contribution that has been irrevocably designated as Roth Elective Deferral by the Participant in his or her Salary Reduction Agreement and that is includible in the Participant’s gross income for tax purposes at the time the deferral is made pursuant to Code Section 402A and any applicable guidance or regulations issued thereunder. Roth Elective Deferrals may be treated as Catch-Up Contributions. Roth Elective Deferrals shall be maintained in a separate account for each Participant who has directed the Employer to make a Roth Elective Deferral to the Trust.
- 2.52 “Roth Elective Deferral Account” shall mean the separate account established and maintained for each Participant who has directed the Employer to make a Roth Elective Deferral to the Trust on his or her behalf to record the contribution and withdrawal of a Participant’s Roth Elective Deferrals and other adjustments as required by the Plan. No contributions other than designated Roth Elective Deferrals and direct rollover contributions described in Code Section 402A(c)(3) may be allocated to a Roth Elective Deferral Account.
- 2.53 “Salary Reduction Agreement” shall mean an agreement between the Employer and an Eligible Employee as set forth in Sections 3.01(b), 5.04 and 5.05 pursuant to which the Eligible Employee authorizes the Employer to withhold the specified whole percentage of his or her Compensation or the specified separate whole percentages of his or her salary and other Compensation for deposit to the Plan on behalf of such Eligible Employee.
- 2.54 “Salary Reduction Contribution” shall mean the Pre-tax Elective Deferrals and or Roth Elective Deferrals made by the Employer to the Trust on behalf of an Eligible Employee pursuant to a Salary Reduction Agreement and in accordance with Section 5.04 and or an Automatic Contribution made by the Employer on behalf of an Eligible Participant pursuant to the Automatic Contribution Arrangement provisions of Section 5.05.

With respect to any Plan Year the total amount of a Participant's Salary Reduction Contributions is the sum of all employer contributions made on behalf of such Participant pursuant to a deferral under any qualified cash or deferred arrangement as described in Code Section 401(k), any Simplified Employee Pension Plan with a cash or deferred arrangement as described in Code Section 408(k)(6), any SIMPLE IRA Plan described in Code Section 408(p), any plan as described under Code Section 501(c)(18), and any Employer contributions made on behalf of a Participant for the purchase of an annuity contract under Code Section 403(b) pursuant to a Salary Deferral Agreement.

Pre-tax Elective Deferrals or Roth Elective Deferrals shall not include any deferrals properly distributed as Excess Annual Additions.

- 2.55 "Spouse" or "spouse" means the individual person to whom a Participant is legally married for Federal tax purposes on the applicable date required by the context or as otherwise provided for in the Plan; provided, however, that from June 26, 2013 through September 15, 2013, any reference to those terms means the individual, if any, to whom the Participant is married in a marriage that is recognized under the laws of the state of the Participant's residence on that date.
- 2.56 "Suspense Account" shall mean the account established by the Trustee for maintaining contributions and forfeitures which have not yet been allocated to Participants.
- 2.57 "Tax Deductible Contribution Account" shall mean the account established and maintained for each Participant who has made a Tax Deductible Voluntary Contribution to the Trust, and all earnings and appreciation thereon, less any withdrawals therefrom and any losses and expenses charged thereto.
- 2.58 "Tax Deductible Voluntary Contribution" shall mean a contribution made to the Trust for years before 1987 and pursuant to Section 5.02 as in effect prior to 1995.
- 2.59 "Top Heavy Plan" shall mean for any Plan Year that any of the following conditions exists:
- (i) If the top heavy ratio (as defined in Article VI) for this Plan exceeds 60 percent and this Plan is not part of any required aggregation group or permissive aggregation group of plans.
  - (ii) If this Plan is a part of a required aggregation group of plans (but not part of a permissive aggregation group) and the top heavy ratio for the group of plans exceeds 60 percent.
  - (iii) If this Plan is a part of a required aggregation group and part of a permissive aggregation group of plans and the top heavy ratio for the permissive aggregation group exceeds 60 percent.

See Article VI for requirements and additional definitions applicable to Top Heavy Plans.



The Match Contribution provided for in Section 4.02 may also be used to satisfy the minimum contribution requirement for a Top-Heavy Plan, provided no other contribution is made to the Plan for that Plan Year. Further, notwithstanding anything in the Plan to the contrary, in any Plan Year in which Employer contributions to the Plan consist solely of the Match Contribution provided for in Section 4.02, then such Plan will not be treated as a Top Heavy Plan and will be exempt from the top heavy requirements of Code Section 416. Furthermore, if the Plan (but for the prior sentence) would be treated as a Top Heavy Plan because the Plan is a member of an aggregation group which is a top heavy group, then the contributions under the Plan may be taken into account in determining whether any other plan in the aggregation group meets the top heavy requirements of Code Section 416.

2.60 “Top Heavy Plan Year” shall mean that, for a particular Plan Year, the Plan is a Top Heavy Plan.

2.61 “Totally and Permanently Disabled” shall mean the inability of a Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

In determining the nature, extent and duration of any Participant’s disability, the Plan Administrator may select a physician to examine the Participant. The final determination of the nature, extent and duration of such disability shall be made solely by the Plan Administrator upon the basis of such evidence as he or she deems necessary and acting in accordance with uniform principles consistently applied.

2.62 “Trustee” shall mean the bank or trust company or person or persons who shall be constituted the original trustee or trustees for the Plan and Trust created therefor, and also any and each successor trustee or trustees.

2.63 “Trust Fund” shall mean, include and consist of any payments made to the Trustee by the Employer under the Plan and Trust Indenture, or the investments thereof, together with all income and gains of every nature thereon which shall be added to the principal thereof by the Trustee, less all losses thereon and all payments therefrom.

2.64 “Trust Indenture” or “Trust” shall mean the Trust Indenture between the Employer and the Trustee in the form annexed hereto, and any and all amendments thereof or thereto.

2.65 “USERRA” shall mean the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended. Notwithstanding any provision of the Plan to the contrary, contributions, benefits, Plan loan repayment, suspensions and service credit with respect to qualified military service will be provided in accordance with Code Section 414(u).

2.66 “Valuation Date” shall mean each day as of which the value of the Trust Fund shall be calculated. The Plan Administrator reserves the right to change the frequency of Valuation Dates; provided, however, that in no event shall Valuation Dates occur less frequently than once each calendar quarter.

- 2.67 “Voluntary After-Tax Contributions” shall mean a contribution made to the Trust for years prior to 1995 pursuant to Section 5.01 as in effect prior to 1995.
- 2.68 “Voluntary Contribution Account” shall mean the account established and maintained for each Participant who has made a Voluntary After-Tax Contribution to the Trust, and all earnings and appreciation thereon, less any withdrawals therefrom and any losses and expenses charged thereto.
- 2.69 “Year of Service” shall mean, for purposes of determining vesting under Article XIII, the twelve consecutive month period, commencing on the first day an Employee completes an Hour of Service and in which the Employee completes at least 1,000 Hours of Service. Thereafter, for purposes of determining vesting under Article XIII, the determination of a Year of Service will commence on the anniversary of the first day the Employee completed an Hour of Service and the twelve consecutive month period that follows, provided the Employee completes at least 1,000 Hours of Service during such period.

In computing a “Year of Service” for purposes of the Plan, each twelve-month period shall be considered as completed as of the close of business on the last working day, which occurs within such period, provided that the Employee had completed at least 1,000 Hours of Service during the period ending on such date.

Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with Code Section 414(u).

### ARTICLE III

#### ELIGIBILITY AND PARTICIPATION

- 3.01 (a) In General. Employees who are employed by the Employer on January 1, 2015 and who were eligible to participate in this Plan on December 31, 2014 shall be Participants in this Plan on January 1, 2015.

An Employee shall be eligible to participate in this Plan upon completion of one Hour of Service, provided the Employee is then employed in an eligible class of Employees.

An Employee shall be eligible to receive Match Contributions upon completion of one Hour of Service, provided the Employee is then employed in an eligible class of Employees.

Notwithstanding the foregoing, the following Employees shall not be eligible to become or remain active Participants hereunder:

- (i) All Employees holding a General Agent’s Contract with the Employer or with an Affiliate;

- (ii) All Employees holding a Career Agent's or Annuity Specialist's Contract with the Employer or with an Affiliate;
- (iii) Leased Employees within the meaning of Code Sections 414(n) and (o);
- (iv) A contractor's employee, i.e., a person working for a company providing goods or services (including temporary employee services) to the Employer or to an Affiliate whom the Employer does not regard to be its common law employee, as evidenced by its failure to withhold taxes from his or her compensation, even if the individual is actually the Employer's common law Employee; or
- (v) An independent contractor, i.e., a person who is classified by the Employer as an independent contractor, as evidenced by its failure to withhold taxes from his or her compensation, even if the individual is actually the Employer's common law Employee.

Special rules for certain persons who were employed by One Beacon Insurance Group, LTD. or any business entity affiliated with One Beacon Insurance Group, LTD. immediately before being employed by the Employer are stated in Appendix A attached hereto.

Special rules for certain persons who were employed by (i) Campania Holding Company, Inc. or its direct or indirect subsidiaries; (ii) Benchmark Professional Insurance Services, Inc. or its direct or indirect subsidiaries; or (iii) Insurance Company of the West or its direct or indirect subsidiaries, immediately before being employed by the Employer are stated in Appendix B attached hereto.

Special rules for certain persons who were employed by (i) Professionals Direct, Inc. or its direct or indirect subsidiaries; (ii) Verlan Holdings, Inc. or its direct or indirect subsidiaries; or (iii) AIX Holdings, Inc. or its direct or indirect subsidiaries, immediately before being employed by the Employer are stated in Appendix C attached hereto.

- (b) Employee Participation. On or after the date an Employee first becomes eligible to participate in the Plan, the Employee may direct the Employer to reduce his or her Compensation in order that the Employer may make Salary Reduction Contributions to the Plan, including Catch-up Contributions, on the Employee's behalf in accordance with Section 5.04; provided that any Eligible Participant shall be subject to the automatic enrollment and contribution provisions of Section 5.05.

3.02 Classification Changes. In the event of a change in job classification, such that an Employee, although still in the employment of the Employer, no longer is an Eligible Employee, all contributions to be allocated on his or her behalf shall cease and any amount credited to the Employee's Accounts on the date the Employee shall become ineligible shall continue to vest, become payable or be forfeited, as the case may be, in the same manner and to the same extent as if the Employee had remained a Participant.

If a Participant's Salary Reduction Agreement is terminated because he or she is no longer a member of an eligible class of Employees, but the Participant has not terminated his or her employment, such Employee shall again be eligible to enter into a new Salary Reduction Agreement immediately upon his or her return to an eligible class of Employees. If such Participant terminates his or her employment with the Employer, he or she shall again be eligible to enter into a Salary Reduction Agreement immediately upon his or her recommencement of service as an Eligible Employee.

In the event an Employee who is not a member of the eligible class of Employees becomes a member of the eligible class, such Employee shall be eligible to participate immediately.

- 3.03 Participant Cooperation. Each eligible Employee who becomes a Participant hereunder thereby agrees to be bound by all of the terms and conditions of this Plan and Trust.

## ARTICLE IV

### EMPLOYER CONTRIBUTIONS AND FORFEITURES

- 4.01 Salary Reduction Contributions. The Employer shall make Salary Reduction Contributions to the Plan and Trust, including Catch-up Contributions described in Code Section 414(v), to the extent and in the manner specified in Sections 3.01(b), 5.04, and 5.05.

Salary Reduction Contributions, including Catch-up Contributions described in Code Section 414(v), shall be allocated, as applicable, to a Participant's 401(k) Account and or Roth Elective Deferral Account as soon as administratively feasible after being withheld from the Participant's Compensation at the earliest date on which such contributions can reasonably be segregated from the Employer's general assets but no later than the 15th business day of the month following the month in which the Salary Reduction Contributions would have otherwise been payable to the Participant.

- 4.02 Match Contributions.

- (a) For each pay period during a Plan Year that a Salary Reduction Contribution is made to the Plan on behalf of a Participant, the Employer shall make a Match Contribution to the Plan on behalf of the Participant equal to 100% of such Salary Reduction Contributions that do not exceed 6% of the Participant's Compensation for such pay period; provided that no such Match Contribution shall be made with respect to any part or all of any such Salary Reduction Contribution that, when added to other such Salary Reduction Contributions made to the Plan on behalf of the Participant during the Plan Year, would cause the applicable dollar amount under Code Section 402(g)(1)(B) to be exceeded for such Plan Year unless the Salary Reduction Contribution may be treated as a Catch-up Contribution that does not exceed the limitation under Code Section 402(g)(1)(C). All such Match Contributions shall be made to the Match Contribution Account established for the Participant as soon after each such pay period as practicable.

The Employer shall contribute Match Contributions to the Trust Fund as soon as practicable following the end of each pay period. Such Match Contributions shall be made in cash and shall be allocated to the Match Contribution Account of each Participant. Such Match Contributions shall be invested per the directions of Participants in accordance with the provisions of Article XVI.

Within 30 days following the end of each Plan Year, if required, the Employer shall make a “true-up” Match Contribution to the Match Contribution Account of each Participant employed by the Employer during the Plan Year, such that the total amount of Match Contributions for each Participant for the Plan Year shall be equal to 100% of the Participant’s Salary Reduction Contributions that do not exceed 6% of the Participant’s Compensation for such Plan Year (and not merely 100% of the Participant’s Salary Reduction Contributions that do not exceed 6% of the Participant’s Compensation for each pay period during the Plan Year); provided that no such Match Contribution shall be made with respect to any part or all of any such Salary Reduction Contributions that would cause the applicable dollar amount under Code Section 402(g)(1)(B) to be exceeded for such Plan Year unless the Salary Reduction Contribution can be treated as a Catch-up Contribution that does not exceed the limitation under Code Section 402(g)(1)(C).

- (b) The Match Contributions made pursuant to Section 4.02(a) shall be subject to the withdrawal restrictions set forth in Code Section 401(k)(2)(B) and Treasury Regulation Section 1.401(k)-1(d). Pursuant to such restrictions, such contributions (and earnings thereon) shall not be distributable earlier than severance from employment, death, disability, an event described in Code Section 401(k)(10), or the attainment of age 59½ and shall not be eligible for distribution for reasons of “financial hardship”.

#### 4.03 Non-Elective Employer Contributions.

- (a) The Board of Directors of the Employer may, in its discretion, determine to make a Non-Elective Employer Contribution to the Plan on behalf of the Employer for each Eligible Employee who is employed by the Employer on the last day of such Plan Year in an amount equal to a uniform percentage of each such Employee’s Compensation. Any such contribution shall be made in cash to the Non-Elective Employer Contribution Account established for each such Eligible Employee.

The contribution shall be made in cash. Such contribution shall be made to the Non-Elective Employer Contribution Account to be established for each such Employee and shall be invested per the direction of the Participant in accordance with the provisions of Article XVI.

- (b) Notwithstanding any other provision in the Plan to the contrary and subject to compliance with applicable Code discrimination laws, rules and regulations, each Participant who was an Employee on December 31, 2014, has been continuously employed from December 31, 2014 through March 2, 2015 and who earned Compensation during the Plan Year ended December 31, 2014, shall receive an Employer paid contribution of \$500.00, whether or not such Employee has elected to make Salary Reduction Contributions to the Plan during such continuous period of employment. This Employer contribution shall be made in cash to the Non-Elective Employer Contribution Account established for any such eligible Participant on or as soon after March 2, 2015 as is practicable and shall be invested per the direction of the Participant in accordance with the provisions of Article XVI.

4.04

Minimum Employer Contribution for Top Heavy Plan Years.

- (a) Minimum Allocation for Non-Key Employees. Notwithstanding anything in the Plan to the contrary except (b) through (e) below, for any Top Heavy Plan Year Employer Contributions allocated to the Accounts of each Non-Key Employee Participant shall be equal to at least three percent of such Non-Key Employee's Compensation (as defined for purposes of Article VII as limited by Code Section 401(a)(17)) for the Plan Year. However, should the Employer Contributions allocated to the Accounts of each Key Employee for such Top Heavy Plan Year be less than three percent of each Key Employee's Compensation, the Employer Contribution allocated to the Accounts of each Non-Key Employee shall be equal to the largest percentage allocated to Accounts of a Key Employee. The preceding sentence shall not apply if this Plan is required to be included in an aggregation group (as described in Code Section 416) if such plan enables a defined benefit plan required to be included in such group to meet the requirements of Code Section 401(a)(4) or 410. For purposes of determining the percentage of Employer Contributions allocated to the Accounts of Key Employees, Salary Reduction Contributions made on their behalf shall be counted and be considered to be Employer Contributions. However, in determining whether a minimum Employer Contribution has been made to a Non-Key Employee's Accounts, Salary Reduction Contributions made on his or her behalf shall be excluded and not considered.
- (b) For purposes of the minimum allocations set forth above, the percentage allocated to the Accounts of any Key Employee shall be equal to the ratio of the sum of the Employer Contributions allocated on behalf of such Key Employee divided by the Employee's Compensation for the Plan Year (as defined for purposes of Article VII), not in excess of the applicable compensation dollar limitation imposed by Code Section 401(a)(17).
- (c) For any Top Heavy Plan Year, the minimum allocations set forth above shall be allocated to the Accounts of all Non-Key Employees who are Participants and who are employed by the Employer on the last day of the Plan Year, including Non-Key Employee Participants who have failed to complete a Year of Service.

(d) Notwithstanding anything herein to the contrary, in any Plan Year in which a Non-Key Employee is a Participant in both this Plan and a defined benefit pension plan included in a Required or Permissive Group of Top Heavy Plans, the Employer shall not be required to provide a Non-Key Employee with both the full separate minimum defined benefit plan benefit and the full separate minimum defined Contribution plan allocation described in this Section. Therefore, if the Employer maintains such a defined benefit and defined contribution plan, the top-heavy minimum benefits shall be provided as follows:

- (i) If a Non-Key Employee is a participant in such defined benefit plan but is not a Participant in this defined contribution plan, the minimum benefits provided for Non-Key Employees in the defined benefit plan shall be provided to the Employee if the defined benefit plan is a Top Heavy Plan and the minimum contributions described in this Section 4.04 shall not be provided.
- (ii) If a Non-Key Employee is a participant in such defined benefit plan and is also a Participant in this defined contribution plan, the minimum benefits for Non-Key Employee participants in Top Heavy Plans provided in the defined benefit plan shall not be applicable to any such Non-Key Employee who receives contributions and forfeitures equal to 5% of his or her compensation in this Plan.

Notwithstanding anything herein to the contrary, no minimum contribution will be required under this Plan (or the minimum contribution under this Plan will be reduced, as the case may be) for any Plan Year if the Employer maintains another qualified defined contribution plan under which a minimum contribution is being made for such year for the Participant in accordance with Code Section 416.

(e) The minimum allocation required under this Section 4.04 (to the extent required to be nonforfeitable under Code Section 416(b)) may not be forfeited under Code Sections 411(a)(3)(B) or 411(a)(3)(D).

4.05 Contributions under USERRA. For Plan Years beginning on and after January 1, 2008, the Employer shall also make Match Contributions, Top-Heavy minimum contributions and any other Employer contribution for the benefit of Participants who are covered by USERRA. Match Contributions under USERRA shall be made in the Plan Year for which the Participant exercises his or her right to make-up elective deferrals contributions (Salary Reduction Contributions) for prior years. Top-Heavy minimum contributions and other Employer contributions for USERRA protected service shall be made during the Plan Year in which the individual returns to employment with the Employer. Employer contributions required under USERRA are not increased or decreased with respect to Plan investment earnings for the period to which such contributions relate. The Employer's contribution for any Plan Year shall be subject to the limitations on allocations contained in Article VII.

4.06 Application of Forfeitures. Amounts forfeited during a Plan Year shall be used to reduce Match Contributions for that Plan Year and each succeeding Plan Year, if necessary.

- 4.07 Limitations upon Employer Contributions. In no event shall the Employer contribution for any Plan Year exceed the maximum allowable under Code Sections 404 and 415 or any similar or subsequent provision.
- 4.08 Payment of Contributions to Trustee. The Employer shall make payment of all contributions, including Participant contributions, which shall be remitted to the Employer by payroll deduction or otherwise, directly to the Trustee in accordance with this Article IV but subject to Section 4.09.
- 4.09 Receipt of Contributions by Trustee. The Trustee shall accept and hold under the Trust such contributions of money, or other property approved by the Employer for acceptance by the Trustee, on behalf of the Employer and Participants as it may receive from time to time from the Employer. All such contributions shall be accompanied by written instructions from the Employer accounting for the manner in which they are to be credited and specifying the appropriate Participant Account to which they are to be allocated.

## ARTICLE V

### EMPLOYEE CONTRIBUTIONS AND ROLLOVER CONTRIBUTIONS

- 5.01 Voluntary After-Tax Contributions. For Plan Years beginning prior to January 1, 1995, a Participant could contribute Voluntary After-Tax Contributions to the Plan and Trust in each Plan Year during which he or she was a Plan Participant in amounts as determined under the Plan in effect prior to 1995.

The Plan shall separately account for: (i) pre-1987 Voluntary After-Tax Contributions; (ii) investment income attributable to pre-1987 Voluntary After-Tax Contributions; and (iii) post-1986 Voluntary After-Tax Contributions and income attributable to such contributions.

- 5.02 Tax Deductible Voluntary Contributions. The Plan Administrator will not accept Tax Deductible Voluntary Contributions made for years after 1986. Such contributions made for years prior to that date will be maintained in a separate account which will be nonforfeitable at all times, and which shall include gains and losses in accordance with Section 8.02.
- 5.03 Rollover Contributions. With the consent of the Plan Administrator, the Trustee may accept funds transferred from other pension, profit sharing or stock bonus plans qualified under Section 401(a) of the Internal Revenue Code or Rollover Contributions, provided that the plan from which such funds are transferred permits the transfer to be made.

In the event of a transfer or Rollover Contribution to this Plan, the Plan Administrator shall maintain a 100% vested and nonforfeitable account for the amount transferred and its share of the Trust Fund's accretions or losses, to be known as the Participant's Rollover Account. Transferred and Rollover Contributions shall be separately accounted for.



“Rollover Contribution” means any rollover contribution described in Code Sections 402(c)(4), 403(a)(4), 403(b)(8), 408(d)(3) or 457(e)(16).

An Employee who makes a contribution to the Plan described in this Section shall become a Plan Participant on the date the Trustee accepts the contribution. However, no Employer Contributions will be made on behalf of such Employee, nor will the Employee be eligible to direct the Employer to make Salary Reduction Contributions on his or her behalf, until the Employee satisfies the Plan eligibility requirements for such contributions set forth in Article III.

The Trustee shall not accept funds transferred from plans qualified under Code Section 401(a) unless the transferor plan is maintained by the Employer or by an Affiliate. Notwithstanding the foregoing the Trustee shall not accept funds transferred from any such plan, which would otherwise provide for a life annuity form of payment to the Participant.

The Plan shall accept a direct rollover from another Roth Elective Deferral Account under a retirement plan as described in Code Section 402A(e)(1) in accordance with such uniform administrative procedures as the Plan Administrator shall establish. Notwithstanding the foregoing sentence, an in-plan Roth rollover shall not be permitted under this Plan. Any rollover of “designated Roth contributions”, as defined in Subsection 6.01(e), shall be subject to the requirements of Code Section 402(c). To the extent the Plan accepts Rollover Contributions of designated Roth contributions, the Plan will separately account for such contributions, including separate accounting for the portion of the Rollover Contribution that is includible in gross income and the portion that is not includible in gross income, if applicable. If the Plan accepts a direct rollover of designated Roth contributions, the Trustee and the Plan Administrator shall be entitled to rely on a statement from the distributing plan’s administrator identifying (i) the Eligible Employee’s basis in the rolled over amounts and (ii) the date on which the Eligible Employee’s 5-taxable-year period of participation (as required under Code Section 402A(d)(2) for a qualified distribution of designated Roth contributions) started under the distributing plan. If the 5-taxable-year period of participation under the distributing plan would end sooner than the Eligible Employee’s 5-taxable-year period of participation under the Plan, the 5-taxable-year period of participation applicable under the distributing plan shall continue to apply with respect to the Rollover Contribution.

#### 5.04 Salary Reduction Contributions.

- (a) An Eligible Employee or Eligible Participant may enter into a Salary Reduction Agreement with the Employer authorizing the Employer to withhold a portion of his or her Compensation in order to make Salary Reduction Contributions to the Plan, including Catch-up Contributions. The Salary Reduction Agreement shall be in such form as the Plan Administrator shall approve (including, if applicable by such means as telephonic communication or electronic media). Each Eligible Employee or Eligible Participant who enters into a Salary Reduction Agreement shall specify a whole percentage of his or her Compensation or separate whole percentages of his or her salary and other Compensation to be withheld by the Employer and deposited to the Plan on his or her behalf. Each Salary Reduction Agreement shall become effective as soon after the Eligible Employee or Eligible

Participant has entered into the Salary Reduction Agreement as is administratively feasible. Except for occasional, bona fide administrative considerations, Salary Reduction Contributions made pursuant to a Salary Reduction Agreement cannot precede the earlier of (1) the performance of services relating to the contribution and (2) when the Compensation that is subject to the election would be currently available to the Participant in the absence of an election to defer.

Any such Salary Reduction Contribution shall be credited to the Participant's 401(k) Account or Roth Elective Deferral account, whichever is applicable. A Participant may terminate deferrals at any time. A Participant may elect at any time to change or discontinue his or her Salary Reduction Agreement upon notice in accordance with uniform and nondiscriminatory procedures as the Plan Administrator shall adopt and communicate to the Participants. Any such election will be effective as soon as practicable following the receipt of the notification by the Plan Administrator or its delegate in accordance with uniform and nondiscriminatory procedures established and communicated to the Participants. The Plan Administrator may amend or terminate said agreement on notice to the affected Participant, if required to maintain the qualified status of the Plan.

- (b) Make-up Elective Deferrals under USERRA. A Participant who has the right to make-up elective deferrals (Salary Reduction Contributions) under USERRA shall be permitted to increase his or her elective deferral with respect to a make-up year without regard to any provision limiting contributions for such Plan Year. Make-up contributions shall be limited to the maximum amount permitted under the Plan and the statutory limitations applicable with respect to the make-up year. Employee-related make-up contributions must be made within the time period beginning on the date of reemployment and continuing for the lesser of five (5) years or three (3) times the period of military service.

#### 5.05 Qualified Automatic Contribution Arrangement ("QACA").

- (a) Effective Date of the QACA. Effective for Plan Years beginning on or after January 1, 2009, the provisions of this Section 5.05 shall apply to each Participant subject to the QACA and the Employer will provide the Match Contribution specified in Section 4.02. This Section 5.05 supersedes any State (or Commonwealth) law that would directly or indirectly prohibit or restrict the inclusion of an automatic contribution arrangement in the Plan, pursuant to ERISA Section 514(e)(1) and Department of Labor Regulation Section 2550.404c-5(f).
- (b) Participants Subject to the QACA. The following Eligible Employees shall be Eligible Participants subject to the Automatic Contribution Arrangement:
  - (i) Each Employee who becomes eligible to participate in the Plan on and after January 1, 2009 and is eligible to make a Salary Reduction Contribution.
  - (ii) Each Employee who became eligible to participate in the Plan prior to January 1, 2009 and who is eligible to participate in the Plan on January 1, 2009, except any such Participant who had in effect a Salary Reduction

Agreement on such date (regardless of the amount of the Salary Reduction Contribution affirmatively elected under the agreement).

(c) Automatic Contribution Arrangement.

- (i) Automatic Contributions. Except as provided in Section 5.05(d), an Eligible Participant will be treated as having elected to direct the Employer to reduce his or her Compensation in order that the Employer may make Pre-tax Elective Deferrals to the Plan equal to the following uniform percentages of Compensation:
  - A. Initial Period. An Eligible Participant will be treated as having elected to have the Employer make Pre-tax Elective Deferrals to the Plan in an amount equal to 3% of his or her Compensation during the initial period. For this purpose, the initial period begins when the Employee is first subject to the Automatic Contributions default election under this Section 5.05(c)(i) and ends on the last day of the following Plan Year.
  - B. Subsequent Plan Years. For the three Plan Years immediately following the initial period, an Eligible Participant will be treated as having elected to have the Employer make Pre-tax Elective Deferrals to the Plan in the amounts equal to 4%, 5% and 6% respectively, of his or her Compensation. For all Plan Years thereafter, an Eligible Participant will be treated as having elected to have the Employer make Pre-tax Elective Deferrals to the Plan in the amounts equal to 6% of his or her Compensation.
  - C. Treatment of Rehires. The default percentages of Compensation stated above for the purposes of the Automatic Contributions are based on the date the initial period begins, regardless of whether the Employee continues to be eligible to make Pre-tax Elective Deferrals under the Plan after that date. Thus, the applicable percentage is generally determined based on the number of years since an Automatic Contribution was first made on behalf of an Eligible Participant. However, if Automatic Contributions are not made on behalf of an Eligible Participant for an entire Plan Year (e.g., due to termination of employment), such Eligible Participant shall be treated as having a new initial period for determining the default percentage of Compensation stated above (if Automatic Contributions are to recommence with respect to the Eligible Participant), regardless of what minimum percentage would otherwise apply to that Eligible Participant.
- (ii) Effective Date of Automatic Contributions. The effective date of the first Automatic Contribution provided for in paragraph (i) above, will be as soon after an Eligible Participant becomes subject to the QACA as is practicable, consistent with (a) applicable law, and (b) the objective of affording the

Eligible Participant a reasonable period of time after receipt of the notice to make an Affirmative Election (and, an investment election). However, in no event will the Automatic Contribution be effective later than the earlier of (a) the pay date for the second payroll period that begins after the date the QACA safe harbor notice (described in Section 5.05(e)) is provided to the Eligible Participant, or (b) the first pay date that occurs at least 30 days after the QACA safe harbor notice is provided to the Eligible Participant.

(d) Rules Related to Automatic Contributions.

- (i) Affirmative Election to Override Automatic Contributions. An Eligible Participant will have a reasonable period of time after receipt of the notice to make an Affirmative Election (and, an investment election). The Automatic Contributions provided for in Section 5.05(c) shall cease with respect to an Eligible Participant as soon as administratively feasible after the Eligible Participant makes an Affirmative Election. An Eligible Participant's Affirmative Election will not expire, but will remain in force until changed by the Eligible Participant. An Eligible Participant need not execute a subsequent or new Affirmative Election in order to have the prior or old Affirmative Election apply to override the Automatic Contributions provided for in Section 5.05(c) in any subsequent Plan Year. Any subsequent change to an Eligible Participant's Affirmative Election will be made in accordance with Section 5.04 relating to a Participant's right to elect at any time to change or discontinue his or her Salary Reduction Agreement.
- (ii) Applying Statutory Limits to Automatic Contributions. The Automatic Contributions provided for in Section 5.05(c) shall be limited each Plan Year so as not to exceed the limits of Code Sections 401(a)(17), 402(g)(1), or 415.
- (iii) No Automatic Contributions during Hardship Suspension. No Automatic Contributions provided in Section 5.05(c) shall apply during the six-month period of suspension, under Section 11.02, of a Participant's right to make Salary Reduction Contributions to the Plan following a distribution for "financial hardship".

- (e) Default Investment. If an Eligible Participant does not direct the investment of the assets in his or her Account, including the Automatic Contributions and Match Contributions related thereto, then such assets will be invested in a Qualified Default Investment Alternative as provided for in Section 16.03.
- (f) Notice Requirements for QACA Safe Harbor. The notice requirement is satisfied if each Eligible Participant is given an annual notice of the his or her rights and obligations under the Plan and the notice provided satisfies the content requirement and the timing requirement as follows:

- (i) The notice shall be sufficiently accurate and comprehensive to inform the Eligible Participant of the Eligible Participant's rights and obligations under the Plan and written in a manner calculated to be understood by the average Eligible Participant. The notice shall accurately describe: (1) the Match Contribution formula stated in Section 4.02; (2) any other contributions under the Plan and the conditions under which such contributions are made; (3) the type and amount of Compensation that may be deferred under the Plan; (4) how to make cash or deferred elections, including any administrative requirements that apply to such elections; (5) the periods available under the Plan for making cash or deferred elections; (6) withdrawal and vesting provisions applicable to contributions under the Plan; and (7) information that makes it easy to obtain additional information about the Plan; provided that the notice requirement with respect to the information described in items (2), (3), and (4) may be satisfied by cross-reference to the applicable sections of the Plan's summary plan description. In addition, the notice shall accurately describe: (1) the Automatic Contributions that will be made on behalf of the Eligible Participant in the absence of an Affirmative Election; (2) the Eligible Participant's right to elect not to have the Automatic Contributions made on his or her behalf (or to elect to have Salary Reduction Contributions made in a percentage of Compensation different than that which is provided for in Section 5.05(c), at the percentage of Compensation specified in his or her Salary Reduction Agreement); and (3) how contributions made under the Automatic Contribution Arrangement will be invested in the absence of any investment election by the Eligible Participant. After receipt of the notice described in this paragraph, any Eligible Participant to whom the Automatic Contribution Arrangement relates must have a reasonable period of time before the first Automatic Contribution is made to exercise the rights set forth within the notice including, but not limited to, executing an Affirmative Election to override the Automatic Contributions provided for in Section 5.05(c).
- (ii) If the notice is provided to Eligible Participants within a reasonable period before the beginning of each Plan Year (or in the Plan Year an Employee becomes eligible, within a reasonable period before the Employee becomes eligible), the Plan shall satisfy the notice requirements. Notwithstanding the foregoing general rule, a notice shall be deemed to have been provided in timely manner if the notice is provided to each Employee who is eligible to participate in the Plan for the Plan Year at least thirty (30) days but no more than ninety (90) days before the beginning of the Plan Year. If an Employee does not receive the notice because he or she only becomes eligible to participate in the Plan after the ninetieth day before the beginning of the Plan Year, the requirement to give the notice will be satisfied if the notice is provided not more than ninety (90) days before the Employee becomes eligible to participate in the Plan, but in no event later than the date the Employee becomes eligible to participate in the Plan.

- (iii) Each Eligible Participant may make or modify a deferral election during the thirty (30) day period immediately following receipt of the notice described above, as provided for in Section 5.04.
- (iv) The Plan may provide the notice in writing or by electronic means. If provided electronically, the notice must be no less understandable than a written paper document and at the time of delivery of the electronic notice, the Employee is advised that he or she may request to receive the notice in writing at no additional charge.

## ARTICLE VI

### PROVISIONS APPLICABLE TO TOP HEAVY PLANS

- 6.01 In General. For any Top Heavy Plan Year, the Plan shall provide the minimum contribution for Non-Key Employees described in Section 4.04.

If the Plan is or becomes a Top Heavy Plan, the provisions of this Article will supersede any conflicting provisions in the Plan.

- 6.02 Determination of Top Heavy Status.

- (a) This Plan shall be a Top Heavy Plan for any Plan Year if any of the following conditions exists:
  - (i) If the top heavy ratio for this Plan exceeds 60 percent and this Plan is not part of any required aggregation group or permissive aggregation group of plans.
  - (ii) If this Plan is a part of a required aggregation group of plans but not part of a permissive aggregation group and the top heavy ratio for the group of plans exceeds 60 percent.
  - (iii) If this Plan is a part of a required aggregation group and part of a permissive aggregation group of plans and the top heavy ratio for the permissive aggregation group exceeds 60 percent.
- (b) The Plan top heavy ratio shall be determined as follows:
  - (i) **Defined Contribution Plans Only:** If the Employer maintains one or more defined contribution plans (including any Simplified Employee Pension Plan, as defined in Code Section 408(k)) and the Employer has not maintained any defined benefit plan which during the 5-year period ending on the determination date(s) has or has had accrued benefits, the top-heavy ratio for this Plan alone or for the required or permissive aggregation group, as appropriate, is a fraction, the numerator of which is the sum of the account balances of all Key Employees as of the determination date(s) (including any part of any account balance distributed in the 1-year period ending on the determination date(s) (5-year period ending on the determination date in the case of a distribution made for a reason other than severance from employment, death or disability), and the denominator of which is the sum of all account balances (including any part of any account balance distributed in the 1-year period ending on the determination date(s)) (5-year period ending on the determination date in the case of a distribution made for a reason other than

severance from employment, death or disability), both computed in accordance with Code Section 416 and the regulations thereunder. Both the numerator and denominator of the top-heavy ratio are increased to reflect any contribution not actually made as of the determination date, but which is required to be taken into account on that date under Code Section 416 and the regulations thereunder.

- (ii) **Defined Contribution and Defined Benefit Plans:** If the Employer maintains one or more defined contribution plans (including any Simplified Employee Pension Plan) and the Employer maintains or has maintained one or more defined benefit plans which during the 5-year period ending on the determination date(s) has or has had any accrued benefits, the top-heavy ratio for any required or permissive aggregation group, as appropriate, is a fraction, the numerator of which is the sum of account balances under the aggregated defined contribution plan or plans for all Key Employees, determined in accordance with (i) above, and the present value of accrued benefits under the aggregated defined benefit plan or plans for all Key Employees as of the determination date(s), and the denominator of which is the sum of the account balances under the aggregated defined contribution plan or plans for all Participants, determined in accordance with (i) above, and the present value of accrued benefits under the defined benefit plan or plans for all Participants as of the determination date(s), all determined in accordance with Code Section 416 and the regulations thereunder. The accrued benefits under a defined benefit plan in both the numerator and denominator of the top-heavy ratio are increased for any distribution of an accrued benefit made in the 1-year period ending on the determination date(s) (5-year period ending on the determination date in the case of a distribution made for a reason other than severance from employment, death or disability).
- (iii) **Determination of Values of Account Balances and Accrued Benefits:** For purposes of (i) and (ii) above the value of Account balances and the present value of Accrued Benefits will be determined as of the most recent valuation date that falls within or ends with the 12-month period ending on the determination date, except as provided in Code Section 416 and the regulations thereunder for the first and second plan years of a defined benefit plan. The account balances and accrued benefits of a Participant (1) who is not a Key Employee but who was Key Employee in a prior year, or (2) who has not had at least one Hour of Service with the Employer at any time during the 1-year period ending on the determination date will be disregarded. The calculation of the top-heavy ratio and the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Code Section 416 and the regulations thereunder. Tax Deductible Voluntary Employee contributions will not be taken into account

for purposes of computing the top-heavy ratio. When aggregating plans the value of account balances and accrued benefits will be calculated with reference to the determination dates that fall within the same calendar year.

The Accrued Benefit of a Participant other than a Key Employee shall be determined under (i) the method, if any, that uniformly applies for accrual purposes under all defined benefit plans maintained by the Employer; or (ii) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of Code Section 411(b)(1)(C).

- (c) Permissive aggregation group: The required aggregation group of plans plus any other plan or plans of the Employer which, when considered as a group with the required aggregation group, would continue to satisfy the requirements of Code Sections 401(a)(4) and 410.
- (d) Required aggregation group: (i) Each qualified plan of the Employer in which at least one Key Employee participates or participated at any time during the determination period (regardless of whether the Plan has terminated), and (ii) any other qualified plan of the Employer which enables a plan described in (i) to meet the requirements of Code Section 401(a)(4) or 410.
- (e) Determination date: The last day of the preceding Plan Year.
- (f) Present Value: Present value shall be based on the 1971 Group Annuity Table, unprojected for post-retirement mortality, with no assumption for pre-retirement withdrawal and interest at the rate of 5% per annum.

## ARTICLE VII

### LIMITATIONS ON ALLOCATIONS

(See Sections 7.12-7.16 for definitions applicable to this Article VII).

- 7.01 If the Participant does not participate in, and has never participated in another qualified plan, a welfare benefit fund (as defined in Code Section 419(e)), an individual medical account (as defined in Code Section 415(l)(2)) or a simplified employee pension (as defined in Code Section 408(k)), maintained by the Employer, the amount of Annual Additions which may be credited to the Participant's Accounts for any Limitation Year will not exceed the lesser of the Maximum Permissible Amount or any other limitation contained in this Plan. If the Employer contribution that would otherwise be contributed or allocated to the Participant's Account would cause the Annual Additions for the Limitation Year to exceed the Maximum Permissible Amount, the amount contributed or allocated will be reduced so that the Annual Additions for the Limitation Year will equal the Maximum Permissible Amount.
- 7.02 Prior to determining the Participant's actual Compensation for the Limitation Year, the Employer may determine the Maximum Permissible Amount for a Participant on the basis



of a reasonable estimation of the Participant's annual Compensation for the Limitation Year, uniformly determined for all Participants similarly situated.

- 7.03 As soon as is administratively feasible after the end of the Limitation Year, the Maximum Permissible Amount for the Limitation Year will be determined on the basis of the Participant's actual Compensation for the Limitation Year.
- 7.04 Excess Annual Additions. Notwithstanding any provision of the Plan to the contrary, if the Annual Additions (within the meaning of Code Section 415) are exceeded for any Participant, then the Plan may only correct such excess in accordance with the Employee Plans Compliance Resolution System (EPCRS) as set forth in Revenue Procedure 2008-50 or any superseding guidance, including, but not limited to, the preamble of the Final Treasury Regulations under Code Section 415.
- 7.05 (a) Aggregation and Disaggregation of Plans. Sections 7.06 through 7.11 apply if, in addition to this Plan, the Participant is covered under another qualified defined contribution plan, a welfare benefit fund, an individual medical account or a simplified employee pension maintained by the Employer during any Limitation Year. The term "Employer" for this purpose means the Employer that adopts this Plan and all members of a controlled group or an affiliated service group that includes the Employer (within the meaning of Code Sections 414(b), (c), (m) or (o)), except that for purposes of this Section, the determination shall be made by applying Code Section 415(h), and shall take into account tax-exempt organizations under Treasury Regulation Section 1.414(c)-5, as modified by Treasury Regulation Section 1.415(a)-1(f)(1). For purposes of this Section:
- (i) A former Employer is a "predecessor employer" with respect to a Participant in a plan maintained by an Employer if the Employer maintains a plan under which the Participant had accrued a benefit while performing services for the former Employer, but only if that benefit is provided under the plan maintained by the Employer. For this purpose, the formerly affiliated plan rules in Treasury Regulation Section 1.415(f)-1(b)(2) apply as if the Employer and predecessor Employer constituted a single employer under the rules described in Treasury Regulation Section 1.415(a)-1(f)(1) and (2) immediately prior to the cessation of affiliation (and as if they constituted two, unrelated employers under the rules described in Treasury Regulation Section 1.415(a)-1(f)(1) and (2) immediately after the cessation of affiliation) and cessation of affiliation was the event that gives rise to the predecessor employer relationship, such as a transfer of benefits or plan sponsorship.
  - (ii) With respect to an Employer of a Participant, a former entity that antedates the Employer is a "predecessor employer" with respect to the Participant if, under the facts and circumstances, the employer constitutes a continuation of all or a portion of the trade or business of the former entity.
- (b) Break-Up of an Affiliate Employer or an Affiliated Service Group. For purposes of aggregating plans for Code Section 415, a "formerly affiliated plan" of an employer is taken into account for purposes of applying the Code Section 415 limitations to the Employer, but the formerly affiliated plan is treated as if it had terminated immediately prior to the "cessation of affiliation." For purposes of this paragraph, a "formerly affiliated plan" of an Employer is a plan that, immediately prior to the cessation of affiliation, was actually maintained by one or more of the entities that

constitute the employer (as determined under the employer affiliation rules described in Treasury Regulation Section 1.415(a)-1(f)(1) and (2)), and immediately after the cessation of affiliation, is not actually maintained by any of the entities that constitute the employer (as determined under the employer affiliation rules described in Treasury Regulation Section 1.415(a)-1(f)(1) and (2)). For purposes of this paragraph, a “cessation of affiliation” means the event that causes an entity to no longer be aggregated with one or more other entities as a single employer under the employer affiliation rules described in Treasury Regulation Section 1.415(a)-1(f)(1) and (2) (such as the sale of a subsidiary outside a controlled group), or that causes a plan to not actually be maintained by any of the entities that constitute the employer under the employer affiliation rules of Treasury Regulation Section 1.415(a)-1(f)(1) and (2) (such as a transfer of plan sponsorship outside of a controlled group).

- (c) Midyear Aggregation. Two or more defined contribution plans that are not required to be aggregated pursuant to Code Section 415(f) and the regulations thereunder as of the first day of a Limitation Year do not fail to satisfy the requirements of Code Section 415 with respect to a Participant for the Limitation Year merely because they are aggregated later in that Limitation Year, provided that no Annual Additions are credited to the Participant’s Account after the date on which the plans are required to be aggregated.

- 7.06 The Annual Additions which may be credited to a Participant’s Accounts under this Plan for any such Limitation Year will not exceed the Maximum Permissible Amount reduced by the Annual Additions credited to a Participant’s Account under the other plans, welfare benefit funds, individual medical accounts and simplified employee pensions for the same Limitation Year. If the Annual Additions with respect to the Participant under other defined contribution plans, welfare benefit funds, individual medical accounts and simplified employee pensions maintained by the Employer are less than the Maximum Permissible Amount and the Employer contribution that would otherwise be contributed or allocated to the Participant’s Accounts under this Plan would cause the Annual Additions for the Limitation Year to exceed this limitation, the amount contributed or allocated will be reduced so that the Annual Additions under all such plans and funds for the Limitation Year will equal the Maximum Permissible Amount. If the Annual Additions with respect to the Participant under such other defined contribution plans, welfare benefit funds, individual medical accounts and simplified employee pensions in the aggregate are equal to or greater than the Maximum Permissible Amount, no amount will be contributed or allocated to the Participant’s Accounts under this Plan for the Limitation Year.
- 7.07 Prior to determining the Participant’s actual Compensation for the Limitation Year, the Employer may determine the Maximum Permissible Amount in the manner described in Section 7.02.
- 7.08 As soon as is administratively feasible after the end of the Limitation Year, the Maximum Permissible Amount for the Limitation Year will be determined on the basis of the Participant’s actual Compensation for the Limitation Year.
- 7.09 If, pursuant to Section 7.08, or as a result of the allocation of forfeitures, a Participant’s Annual Additions under this Plan and such other plans would result in an Excess Amount for a Limitation Year, the Excess Amount will be deemed to consist of the Annual Additions last allocated, except that Annual Additions attributable to a simplified employee

pension will be deemed to have been allocated first, followed by Annual Additions to a welfare benefit fund or individual medical account, regardless of the actual allocation date.

7.10 If an Excess Amount was allocated to a Participant on an allocation date of this Plan which coincides with an allocation date of another plan, the Excess Amount attributed to this Plan will be the product of:

- (i) the total Excess Amount allocated as of such date, times
- (ii) the ratio of (A) the Annual Additions allocated to the Participant for the Limitation Year as of such date under this Plan to (B) the total Annual Additions allocated to the Participant for the Limitation Year as of such date under this and all the other qualified defined contribution plans.

7.11 Any Excess Amount attributed to this Plan will be disposed of in the manner described in Section 7.04.

(Sections 7.12 - 7.16 are definitions used in this Article VII).

7.12 Annual Additions. The sum of the following amounts credited to a Participant's Accounts for the Limitation Year except as otherwise provided below.

- (i) Employer contributions (including Salary Reduction Contributions);
- (ii) Employee contributions;
- (iii) forfeitures; and
- (iv) allocations under a simplified employee pension.

Employee and Employer make-up contributions under USERRA received during the current Limitation Year shall be treated as Annual Additions with respect to the Limitation Year to which the make-up contributions are attributable.

For this purpose, any Excess Amount applied under Section 7.11 in the Limitation Year to reduce Employer contributions will be considered Annual Additions for such Limitation Year.

Amounts allocated to an individual medical account, as defined in Code Section 415(l)(2), which is part of a defined benefit pension plan maintained by the Employer, are treated as Annual Additions to a defined contribution plan. Also, amounts derived from contributions paid or accrued, which are attributable to post-retirement medical benefits allocated to the separate account of a Key Employee, as defined in Code Section 419(A)(d)(3), or under a welfare benefit fund, as defined in Code Section 419(e), maintained by the Employer, are treated as Annual Additions to a defined contribution plan.

Restorative Payments. Annual Additions shall not include restorative payments. A restorative payment is a payment made to restore losses to a Plan resulting from actions by a fiduciary for which there is reasonable risk of liability for breach of a fiduciary duty under ERISA or under other applicable federal or state law, where Participants who are

similarly situated are treated similarly with respect to the payments. Generally, payments are restorative payments only if the payments are made in order to restore some or all of the Plan's losses due to an action (or a failure to act) that creates a reasonable risk of liability for such a breach of fiduciary duty (other than a breach of fiduciary duty arising from failure to remit contributions to the Plan). This includes payments to a plan made pursuant to a Department of Labor order, the Department of Labor's Voluntary Fiduciary Correction Program, or a court-approved settlement, to restore losses to a qualified defined contribution plan on account of the breach of fiduciary duty (other than a breach of fiduciary duty arising from failure to remit contributions to the Plan). Payments made to the Plan to make up for losses due merely to market fluctuations and other payments that are not made on account of a reasonable risk of liability for breach of a fiduciary duty under ERISA are not restorative payments and generally constitute contributions that are considered Annual Additions.

Other Amounts. Annual Additions shall not include: (1) The direct transfer of a benefit or employee contributions from a qualified plan to this Plan; (2) Rollover contributions (as described in Code Section 401(a)(31), 402(c)(1), 403(a)(4), 403(b)(8), 408(d)(3), and 457(e)(16)); (3) Repayments of loans made to a Participant from the Plan; (4) Catch-up Contributions; and (5) Repayments of amounts described in Code Section 411(a)(7)(B) (in accordance with Code Section 411(a)(7)(C)) and Code Section 411(a)(3)(D), as well as Employer restorations of benefits that are required pursuant to such repayments, as provided for in Section 13.11.

- 7.13 Defined Contribution Dollar Limitation. \$53,000 (in 2015) as adjusted for increases in the cost of living in accordance with Code Section 415(d).
- 7.14 Employer. For purposes of this Article, Employer shall mean the Employer that adopts this Plan and all members of a controlled group of corporations (as defined in Code Section 414(b) as modified by Section 415(h)), all trades or business under common control (as defined in Code Section 414(c) as modified by Code Section 415(h)), or all members of an affiliated service group (as defined in Code Section 414(m)) of which the Employer is a part, and any other entity required to be aggregated with the Employer pursuant to Code Section 414(o) and the regulations thereunder.
- 7.15 Excess Amount. The excess of the Participant's Annual Additions for the Limitation Year over the Maximum Permissible Amount.
- 7.16 Maximum Permissible Amount. The maximum Annual Addition that may be contributed or allocated to a Participant's Accounts under the Plan for any Limitation Year shall not exceed the lesser of:
- (i) the Defined Contribution Dollar Limitation; or
  - (ii) 100 percent of the Participant's Compensation for the Limitation Year.

The Compensation limitation referred to in (ii) shall not apply to any contribution for medical benefits (within the meaning of Code Section 401(h) or 419A(f)(2)) which is otherwise treated as an Annual Addition under Code Section 415(c)(1) or 419A(d)(2).

If a short Limitation Year is created because of an amendment changing the Limitation Year to a different 12-consecutive month period, the maximum permissible amount will not exceed the Defined Contribution Dollar Limitation multiplied by the following fraction:

Number of months in the short Limitation Year

12

## ARTICLE VIII

### PARTICIPANT ACCOUNTS AND VALUATION OF ASSETS

- 8.01 Participant Accounts. The Plan Administrator or its agent shall establish a separate recordkeeping account for each Participant showing the fair market value of his or her Plan benefits. Each Participant's account may be separated for recordkeeping purposes into the following sub-accounts: 401(k) Account, Roth Elective Deferral Account, Match Contribution Account, Non-Elective Employer Contribution Account, Regular Account, Rollover Account, Tax Deductible Contribution Account and Voluntary Contribution Account and such other accounts as the Plan Administrator shall deem appropriate for each Participant to account for the Participant's Accrued Benefit. All contributions by or on behalf of a Participant shall be deposited to the appropriate Account.

The Plan Administrator shall instruct the Trustee to credit all appropriate amounts to each Participant's Accounts. The Plan Administrator shall keep records, which shall include the Account balances of each Participant.

- 8.02 Valuation of Trust Fund. As of each Valuation Date the Trustee shall determine (or cause to be determined) the net worth of the assets of the Trust Fund and report such value to the Plan Administrator in writing. In determining such net worth, the Trustee shall evaluate the assets of the Trust Fund at their fair market value as of such Valuation Date. In making any such valuation of the Trust Fund, the Trustee shall not include any contributions made by the Employer, which have not been allocated to Participant Accounts prior to such Valuation Date.

## ARTICLE IX

### 401(k) ALLOCATION LIMITATIONS

- 9.01 Average Actual Deferral Percentage Tests. This Plan will be treated as meeting the actual deferral percentage test set forth in Code Section 401(k)(3)(A)(ii) in each Plan Year with respect to which the Qualified Automatic Contribution Arrangement provisions of this Plan remain in effect.
- 9.02 Maximum Salary Reduction Contributions. No Employee shall be permitted to have Salary Reduction Contributions made under this Plan, other than Catch-up Contributions, during any calendar year in excess of the applicable dollar amount under Code Section 402(g).

9.03 Participant Excess Elective Deferral Claims. Participants under other plans described in Code Sections 401(k), 408(k) or 403(b) may submit a claim to the Plan Administrator specifying the amount of their Excess Elective Deferral. Such claim shall: (i) be in writing; (ii) be submitted no later than March 1 of the year after the Excess Elective Deferral was made; and (iii) state that such amount, when added to amounts deferred under other plans described in Code Sections 401(k), 408(k) or 403(b), exceeds the applicable dollar amount under Code Section 402(g)).

9.04 Distribution of Excess Elective Deferrals. Excess Elective Deferrals adjusted for allocable income (gain or loss), but NOT including any adjustment for income or loss for the period between the end of the Plan Year and the date of the distribution (the “gap period”) shall be distributed to the affected Participant no later than the April 15<sup>th</sup> date following the calendar year in which such Excess Elective Deferrals were made.

The Plan Administrator may use any reasonable method for computing the income or loss allocable to Excess Elective Deferrals, provided that the method does not violate Code Section 401(a)(4), is used consistently for all Participants and for all corrective distributions under the Plan for the Plan Year, and is used by the Plan in allocating income to Participant’s Accounts. A Plan will not fail to use a reasonable method for computing the income or loss allocable to Excess Elective Deferrals merely because the income allocable to Excess Elective Deferrals determined on a date that is no more than seven (7) days before the distribution.

The Plan Administrator may adopt a uniform written administrative policy that permits a Participant (including a Highly Compensated Employee) who has made Salary Reduction Contributions for a year where such contributions include both pre-tax Elective Deferrals and Roth Elective Deferrals to elect whether the Excess Elective Deferrals, are to be attributed to Pre-tax Elective Deferrals or Roth Elective Deferrals or a combination of the two. In the event that no such administrative policy is adopted, Excess Elective Deferrals will be first attributed to Pre-tax Elective Deferrals, and if such pre-tax contributions are not in an amount sufficient to make full correction, will then be attributed to Roth Elective Deferrals.

No distribution of an Excess Elective Deferral shall be made unless the correcting distribution is made after the date on which the Plan received the Excess Elective Deferral and both the Participant and the Plan designates the distribution as a distribution of an Excess Elective Deferral.

Notwithstanding any provision of this Plan to the contrary, any Match Contributions plus earnings that are attributable to any Excess Elective Deferrals that have been refunded shall be forfeited. All such forfeitures shall be treated as arising in the Plan Year after that in which the refunded Excess Elective Deferrals were made and shall be used to reduce future Employer Match Contributions.

9.05 Operation in Accordance With Regulations. The determination and treatment of Excess Elective Deferrals shall be made in accordance with such additional requirements as may be prescribed by the Secretary of the Treasury.

## ARTICLE X

### 401(m) ALLOCATION LIMITATIONS

- 10.01 Average Contribution Percentage Tests. This Plan will be treated as meeting the actual contribution percentage test set forth in Code Section 401(m)(2) in each Plan Year with respect to which the Qualified Automatic Contribution Arrangement provisions of this Plan remain in effect.

## ARTICLE XI

### IN-SERVICE WITHDRAWALS

- 11.01 Withdrawals from Tax Deductible Contribution or Voluntary Contribution Accounts. A Participant shall have the right at any time to request the Plan Administrator for a withdrawal in cash of amounts in his or her Tax Deductible Contribution Account or Voluntary Contribution Account.
- 11.02 Withdrawals from Match Contribution, 401(k) Account, Roth Elective Deferral Account, and Non-Elective Employer Contribution Accounts. At any time after a Participant attains Age 59½ or is Totally and Permanently Disabled, a Participant shall have the right to request the Plan Administrator for a withdrawal in cash of amounts from the vested portion of his or her Match Contribution Account, 401(k) Account, or Roth Elective Deferral Account. A Participant who has attained age 59½ or is Totally and Permanently Disabled may also withdraw any part or all of the vested portion of his or her Non-Elective Employer Contribution Account.

A Participant who is an Employee shall have the right at any time to request the Plan Administrator for a withdrawal in cash of his or her Salary Reduction Contributions and 401(k) Employer Contributions made by the Employer to the Plan on his or her behalf, with earnings accrued thereon as of December 31, 1988 for “financial hardship”.

The Plan Administrator shall determine whether an event constitutes a financial hardship as provided for in this Section. Any such determination shall be based upon non-discriminatory rules and procedures, which shall be conclusive and binding upon all persons. The amount of a distribution based upon “financial hardship,” less any income and penalty taxes, shall not exceed the amount required to meet the immediate financial need created by the hardship and not reasonably available from other resources of the Employee.

In determining whether a hardship distribution is permissible the following special rules shall apply:

- (i) The following are the only financial needs considered immediate and heavy:
  - A. Expenses incurred or necessary for medical care that would be deductible under Code Section 213(d) (determined without regard to whether the expenses exceed 7.5% of adjusted gross income) of the Employee, his or her spouse, children and other dependents;

- B. The cost directly related to the purchase (excluding mortgage payments) of the principal residence of the Employee;
  - C. Payment of tuition and related educational expenses (including but not limited to expenses associated with room and board) for up to the next twelve (12) months of post-secondary education for the Employee, his or her spouse, children or other dependents as defined in Code Section 152, without regard to Code Sections 152(b)(1), (b)(2) and (d)(1)(B);
  - D. The need to prevent eviction of the Employee, from, or a foreclosure on the mortgage of, the Employee's principal residence;
  - E. Payments for burial or funeral expenses for the Employee's deceased parent, spouse, child or dependent as defined in Code Section 152 without regard to Code Section 152(d)(1)(B); or
  - F. Expenses for the repair of damage to the Employee's principal residence that would qualify for the casualty deduction under Code Section 165 (determined without regard to whether the loss exceeds 10% of adjusted gross income).
- (ii) A distribution will be considered as necessary to satisfy an immediate and heavy financial need of the Employee only if:
- A. The Employee has obtained all distributions, other than hardship distributions, and all nontaxable loans under all plans maintained by the Employer;
  - B. All plans maintained by the Employer provide that the Employee's Salary Reduction Contributions (and any other Employee contributions) will be suspended for six months after the receipt of the hardship distribution; provided that in the case of any Employee who has made an Affirmative Election, Salary Reduction Contributions, if any, under such an election shall resume at the end of such suspension period and provided further that in the case of an Eligible Participant who has not made an Affirmative Election, Automatic Contributions shall resume at the end of such suspension period subject to the provisions of Section 5.05; and
  - C. The distribution, less any income and penalty taxes, is not in excess of the amount of an immediate and heavy financial need.

The processing of applications and any distributions of amounts under this Section shall be made as soon as administratively feasible.



11.03 Withdrawals from Regular or Rollover Accounts. Once a Participant has participated in the Plan for two years, at any time thereafter the Participant shall have the right at any time to request the Plan Administrator for a withdrawal in cash of amounts allocated to his or her Rollover Account. A Participant may request a withdrawal of cash amounts allocated to his or her Rollover Account immediately upon the Trustee's receipt of such Rollover Contribution. Once a Participant's Regular Account is 100% vested the Participant shall have the right at any time to request the Plan Administrator for a withdrawal in cash of amounts allocated to such Account; provided, however, that unless the Participant is over Age 59½ or is Permanently and Totally Disabled, the amount subject to withdrawal shall not include amounts attributable to contributions made to the Regular Account during the two-year period preceding the date of payment.

11.04 Rules for In-Service Withdrawals. The Plan Administrator may impose a dollar minimum for partial withdrawals and may implement on a uniform and nondiscriminatory basis, an ordering rule for in-service withdrawals from a Participant's Account. If the amount in the Participant's appropriate Account is less than the minimum, the Plan Administrator shall pay the Participant the entire amount then in the Participant's Account from which the withdrawal is to be made if a withdrawal of the entire amount is otherwise permissible under the rules set forth in this Article. If the entire amount cannot be paid under such rules, whatever amount is permissible shall be paid.

In the case of a withdrawal from a Rollover Account described in Section 13.03, if necessary to comply with the joint and survivor rules of Code Sections 401(a)(11) and 417, the Plan Administrator shall require the consent of any Participant's spouse before making any in-service withdrawal. Any such consent shall satisfy the requirements of Section 13.08.

Any amount to be withdrawn shall be payable as of the Valuation Date coincident with or next following the date which is 15 days following receipt of the written request by the Plan Administrator.

## ARTICLE XII

### PLAN LOANS

12.01 General Rules. Upon the application of any Participant or Beneficiary the Plan Administrator may enter into a loan agreement with such person and authorize the Trustee to make a loan pursuant thereto. The amount of any such loan and the provisions for its repayment shall be in accordance with such non-discriminatory rules and procedures as are adopted by the Plan Administrator and uniformly applied to all borrowers. Such written procedures shall be part of this Plan document.

Applications for loans will be made to the Plan Administrator using forms provided by the Plan Administrator. Loan applications meeting the requirements of this Article will be granted and all borrowers must execute a promissory note meeting the requirements of this Article.

Plan loans shall be granted on a uniform nondiscriminatory basis, so that they are available to all borrowers on a reasonably equivalent basis and are not made available to highly compensated Employees or officers of the Employer in an amount greater than the amount made available to other Employees. Loans will be made available to Former Participants to the extent required by regulations issued by the Department of Labor under ERISA Section 408(b) and to other participants as needed to satisfy Code Section 401(a)(4) and the regulations thereunder. Such loans shall be adequately secured, shall bear a reasonable rate of interest and shall provide for periodic repayment over a reasonable period of time, all in accordance with the Plan Administrator's rules and procedures for Plan loans.

To the extent required under Code Sections 401(a)(11) and 417 and the regulations thereunder, a Participant must obtain the consent of his or her spouse, if any, within the 180-day period before the time the Participant's Accrued Benefit is used as security for a Plan loan. A new consent is required if the Accrued Benefit is used for any increase in the amount of security. The consent shall comply with the requirements of Code Section 417, but shall be deemed to meet any requirements contained in such section relating to the consent of any subsequent spouse.

If the Plan Administrator approves a request for a loan, funds shall be withdrawn from the recordkeeping sub-accounts, including Roth Elective Deferrals, in the order specified in the loan policy provided that Tax Deductible Voluntary Contributions, plus earnings thereon, may not be used as security for Plan loans.

The Plan Administrator may not require a minimum loan amount greater than \$1,000.

No loan shall be made to the extent such loan when added to the outstanding balance of all other loans to the borrower would exceed one-half ( $\frac{1}{2}$ ) of the present value of the nonforfeitable Accrued Benefit of the borrower under the Plan (but not more than \$50,000 reduced by the difference between the highest outstanding balance during the previous 365 days and the current outstanding balance).

For purposes of calculating the above limitations, all loans and accrued benefits from all plans of the Employer and other members of a group of employers described in Code Sections 414(b), (c) and (m) are aggregated.

The Plan Administrator shall determine a reasonable rate of interest for each loan by identifying the rate(s) charged for similar and equivalent commercial loans by institutions in the business of making loans. No loan shall be granted to any borrower or other person who already has a total of two loans or more outstanding under this Plan or any other plan maintained by the Employer or who is in default on any loan.

The Plan Administrator may direct the Trustee to deduct from a Participant's Accounts under the Plan a reasonable fee (as determined by the Committee) to offset the cost of processing and administering the loan.

12.02 Loan Repayments. The borrower shall repay any loan in accordance with the loan agreement. Loans shall provide for periodic repayment, with payment to be no less frequent than quarterly over a period not to exceed five (5) years; provided, however, that loans used to acquire any dwelling unit which, within a reasonable time, is to be used (determined at the time the loan is made) as a principal residence of a Participant, may provide for periodic repayment, with payment to be no less frequent than quarterly over a reasonable period of time that exceeds five (5) years.

In the event the loan is not repaid within the time period prescribed, the Plan Administrator shall direct the Trustee to deduct the total amount due and payable, plus interest thereon, from distributable amounts in the borrower's Accounts. If distributable amounts in the borrower's Accounts are not sufficient to repay such amount, the Plan Administrator shall enforce the terms of any agreement providing additional security for the loan and shall pursue such other remedies available at law to collect the indebtedness.

In the event of a loan default, attachment of the borrower's Accrued Benefit will not occur until a distributable event occurs in the Plan. Default shall occur upon the earlier of any uncured failure to make payments in accordance with the promissory note or the death of the borrower.

Loan repayments will be suspended under this Plan as permitted under Code Section 414(u)(4).

### ARTICLE XIII

#### RETIREMENT, TERMINATION AND DEATH BENEFITS

13.01 Retirement or Termination from Service. The Accrued Benefit of each Employee who was hired prior to December 2, 1986 and who became a Participant in the Plan on or prior to January 1, 1989, shall be 100% vested and nonforfeitable at all times. The Regular Account of Employees who are hired on or after December 2, 1986 and who become Participants after December 31, 1988 shall vest according to the following schedule:

<u>Completed Years of Service</u>	<u>Vested Percentage</u>
Less Than 2	0
2	25
3	50
4	75
5	100

The Match Contribution and Non-Elective Employer Contribution Accounts of each Employee who was hired after December 1, 1986 shall be 50% vested and nonforfeitable after the completion of one Year of Service and 100% vested and nonforfeitable after the completion of two Years of Service. Provided, however, that the Match Contribution and Non-Elective Employer Contribution Accounts of such Employees shall be 100% vested and nonforfeitable at all times for such Employees who completed at least one Hour of Service on or before December 31, 2004. Notwithstanding the foregoing provisions of this paragraph, the Match Contribution and Non-Elective Employer Contribution Accounts of each Employee whose employment with The Hanover Insurance Company was terminated in connection with the sale of Citizen's Management, Inc. on or about April 30, 2012 shall be 100% vested and nonforfeitable upon his or her termination of employment. Notwithstanding the foregoing provisions of this paragraph, the Match Contribution and Non-Elective Employer Contribution Accounts of

each of the following two Employees whose employment with The Hanover Insurance Company was terminated in connection with a transaction between AIX and First Community Insurance Company pursuant to a certain Market Facilitation Agreement dated February 14, 2013 shall be 100% vested and nonforfeitable upon his or her termination of employment: Peggy Carreira and Maida Pacheco.

Any amendment to the above provisions of this Section, including the above vesting schedule, shall comply with the requirements of Section 19.03.

Notwithstanding the foregoing, each actively employed Participant's Accrued Benefit shall become 100% vested and nonforfeitable when the Participant attains his or her Normal Retirement Age, dies, or becomes Totally and Permanently Disabled.

The Salary Reduction Contributions, Employer Match Contributions contributed to the Plan for Plan Years commencing prior to January 1, 2005, 401(k) Employer Contributions, Tax Deductible Contributions and Voluntary After-Tax Contributions of all Participants, plus earnings thereon, shall be 100% vested and nonforfeitable at all times.

Upon a Participant's attainment of his or her Normal Retirement Age or termination of employment, the Participant shall be entitled to a benefit that can be provided by the value of his or her vested Accrued Benefit in accordance with the provisions of this Article.

The Plan Administrator shall notify the Trustee when the Normal Retirement Age or termination of employment of each Participant shall occur and shall also advise the Trustee as to the manner in which retirement or termination benefits are to be distributed to a Participant, subject to the provisions of this Article. Upon receipt of such notification and subject to the other provisions of this Article, the Trustee shall take such action as may be necessary in order to distribute the Participant's vested Accrued Benefit.

A Participant whose employment status changes from that of a common law employee to that of a "leased employee" within the meaning of Code Section 414(n) shall not be considered to have a severance from employment for the purposes of this Section and this Article (unless the safe harbor plan requirements described in Code Section 414(n)(5) are met).

13.02 Late Retirement Benefits. If a Participant shall continue in active employment following his or her Normal Retirement Age, he or she shall continue to participate under the Plan and Trust. Except as provided in Section 13.06, upon actual retirement such Participant shall be entitled to a benefit that can be provided by the value of his or her Accrued Benefit. Late Retirement benefits shall be distributed in accordance with the further provisions of this Article.

13.03 Death Benefits. If a Participant or Former Participant shall die prior to the commencement of any benefits otherwise provided under this Article XIII, except as provided below, his or her Beneficiary shall be entitled to a lump sum death benefit equal to the amount credited to the Participant's Account as of the date the Plan Administrator receives due proof of the Participant's death. In lieu of receiving benefits in a lump sum, a Beneficiary may elect to receive benefits under any option described in Section 13.06; provided that in lieu of receiving a lump sum death benefit, and except with respect to amounts held in a Rollover Account as described below in this Section, the Beneficiary of a Participant may only elect to receive benefits under the installment payment option described in Section 13.06.

Notwithstanding anything in the Plan to the contrary, if a Participant or Former Participant is married on the date of his or her death, Plan pre-retirement death benefits will be paid to the Participant's or Former Participant's then spouse unless such spouse has consented to payment to another Beneficiary, as provided in Section 13.08.

Notwithstanding the first paragraph, if a Rollover Account is being maintained for a married Participant who dies prior to the commencement of Plan benefits and if any portion of the amount in the Rollover Account is attributable to amounts transferred directly (or indirectly from another transferee Plan) to this Plan from a defined benefit pension plan, from a money purchase pension plan or from a stock bonus or profit sharing plan which would otherwise provide for a life annuity form of payment to the Participant, the amount in the Rollover Account will be used to purchase a life annuity for the Participant's spouse unless the Participant has requested that the Rollover Account be distributed in a different form or be paid to another Beneficiary. Any such request must be made during the election period, which shall begin on the first day of the Plan Year in which the Participant attains Age 35 and shall end on the date of the Participant's death. If a Participant severs employment prior to the first day of the Plan Year in which Age 35 is attained, with respect to the value of the Rollover Account as of the date of separation, the election period shall begin on the date of separation. Any such request must be consented to by the Participant's spouse. To be effective, the spousal consent must meet the requirements of Section 13.08. Any annuity provided with a portion of Participant's Rollover Account in accordance with this paragraph shall be payable for the life of the Participant's spouse and shall commence on the date the Participant would have attained Age 55 or, if the Participant was over Age 55 on the date of his or her death, such life annuity shall commence immediately. At the request of the spouse, such Rollover Account may be used to purchase a life annuity or may be taken in another form allowed under the Plan at an earlier or later commencement date.

If a Participant shall die subsequent to the commencement of any benefit otherwise provided under this Article XIII, the death benefit, if any, shall be determined in accordance with the benefit option in effect for the Participant.

The Plan Administrator may require such proper proof of death and such evidence of the right of any person to receive payment of the value of the Accounts of a deceased Participant or a deceased Former Participant, as the Administrator deems necessary. The Administrator's determination of death and of the right of any person to receive payment shall be conclusive and binding on all persons.

13.04 Death Benefits Under USERRA. In the case of a Participant who dies while performing qualified military service as defined in Code Section 414(u), the survivors of the Participant are entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan had the Participant resumed and then terminated employment on account of death. Moreover, the Plan will credit the Participant's qualified military service as service for vesting purposes, as though the Participant had resumed employment under USERRA immediately prior to the Participant's death.

13.05 Designation of Beneficiary. Each Participant shall designate his or her Beneficiary on a form provided by the Plan Administrator, and such designation may include primary and contingent beneficiaries; provided, however, that if a Participant or Former Participant is married on the date of his or her death, the Participant's then spouse shall be the Participant's Beneficiary unless such spouse consented to the designation of another Beneficiary in accordance with Section 13.08. If a Participant does not designate a Beneficiary and is not married at the date of his or her death, the estate of the Participant shall be deemed to be the designated Beneficiary. If a Participant has completed a Beneficiary designation in which the Participant designates his or her spouse as the Beneficiary, and the Participant and the Participant's spouse are legally divorced subsequent to the date of such designation, then the designation of such spouse as a Beneficiary hereunder will be deemed null and void unless the Participant, subsequent to the legal divorce, reaffirms the designation by completing a new Beneficiary designation form.

A designated Beneficiary shall include a non-spouse designated Beneficiary. For this purpose, a non-spouse designated Beneficiary means a designated Beneficiary other than (i) a surviving spouse (as defined in Section 13.08) or (ii) a spouse or former spouse who is an Alternate Payee under a Qualified Domestic Relations Order.

13.06 Distribution of Benefits. The Plan Administrator shall direct the Trustee to make payment of any benefits provided under this Article XIII upon the event giving rise to distribution of such benefit, or within 60 days thereafter.

All distributions under this Plan will be made in accordance with Code Section 401(a)(9), including the incidental death benefit requirements of Code Section, §401(a)(9)G, Treasury Regulations Sections 1.401(a)(9)-2 through 1.401(a)(9)-9, and any other provisions reflecting Code Section 401(a)(9) that are prescribed in revenue rulings, notices and other guidance published in the Internal Revenue Bulletin. The Plan provisions reflecting Code Section 401(a)(9) shall override any distribution options set out in the Plan that are inconsistent with Code Section 401(a)(9).

Unless the Participant elects otherwise, distribution of benefits will begin no later than the 60th day after the latest of the close of the Plan Year in which:

- (i) the Participant attains Age 65;
- (ii) occurs the 10th anniversary of the year in which the Participant commenced participation in the Plan; or,
- (iii) the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant and spouse to consent to a distribution when a benefit is immediately distributable, within the meaning of Section 13.12, shall be deemed to be an election to defer commencement of payment of any benefit sufficient to satisfy this Section. Except as provided in this Article, in no event will benefits begin to be distributed prior to the later of Age 62 or Normal Retirement Age without the consent of the Participant.

Except as provided below and in Sections 13.03, 13.07, 13.11 and 13.12, if benefits become payable to a Participant as a result of termination of employment or retirement, the Participant's vested Accrued Benefit shall be distributed by the Trustee in such manner as the Participant shall direct, in accordance with one or more of the options listed below. Provided, however, that a married Participant may not elect an option involving a life contingency without the consent of his or her spouse. To be effective, the spousal consent must meet the requirements of Section 13.08.

Notwithstanding the foregoing, if on the date of severance from employment of a married Participant prior to the attainment of his or her Qualified Early Retirement Age a Rollover Account as described in Section 13.03 is being maintained for the Participant, such Account will remain in force until the Former Participant attains Age 55 when, if the Former Participant is then married, the value of such Rollover Account will be used to purchase a Qualified Joint and Survivor Annuity for the benefit of the Former Participant and his or her then spouse. At any time prior to the date of purchase, the Former Participant may request that his or her Rollover Account be distributed under one or more of the options listed below; provided, however, that if the Former Participant is married on the date of the request, the Former Participant's then spouse must consent thereto. To be effective, the spousal consent must meet the requirements of Section 13.08. If a Former Participant who was married on the date of his or her severance from employment is not married at Age 55, at Age 55 the Former Participant's Rollover Account (as described in Section 13.03) shall be distributed by the Trustee in such manner as the Former Participant shall direct, in accordance with one or more of the options listed below. If a Former Participant entitled to a deferred benefit pursuant to this paragraph dies prior to Age 55 and prior to commencement of Plan benefits, his or her Beneficiary shall be entitled to a death benefit pursuant to Section 13.03.

If a Qualified Joint and Survivor Annuity is not required under the above rules or pursuant to Section 13.07, the portion of the Participant's Accrued Benefit that is attributable to a Rollover Account as described in Section 13.03 shall be distributed by the Trustee in such manner as the Participant shall elect, in accordance with one or more of the following methods of distribution, which may be paid in cash or in kind, or a combination of them; provided that an in-kind distribution shall only be available with respect to an annuity contract that is purchased by the Trustee at the time of distribution:

- (i) One lump sum payment.
- (ii) An annuity for the life of the Participant.

- (iii) An annuity for the joint lives of the Participant and his or her spouse with 50%, 66<sup>2</sup>/<sub>3</sub>%, 75% or 100% (whichever is specified when this option is elected) of such amount payable as an annuity for life to the survivor. No further benefits are payable after the death of both the Participant and his or her spouse.
- (iv) An annuity for the life of the Participant with installment payments for a period certain not longer than the life expectancy of the Participant.
- (v) Installment payments for a period certain not longer than the life expectancy of the Participant and his or her spouse.

The portion of the Participant's Accrued Benefit that is not attributable to a Rollover Account as described in Section 13.03 shall be distributed by the Trustee in such manner as the Participant shall elect, in accordance with one or more of the following methods of distribution, which shall be paid in cash:

- (i) One lump sum payment.
- (ii) Installment payments for a period certain not longer than the life expectancy of the Participant and his or her spouse.

All optional forms of benefits shall be actuarially equivalent.

Notwithstanding anything in the Plan to the contrary, any annuity policy which is distributed by the Trustee shall provide by its terms that the same shall not be sold, transferred, assigned, discounted, pledged or encumbered in any way except to or through the insurer, and then only in accordance with a right conferred under the terms of the annuity policy.

Notwithstanding anything in the Plan to the contrary, the entire interest of a Participant must be distributed or begin to be distributed no later than the Participant's Required Beginning Date.

The Required Beginning Date of a Participant is the first day of April of the calendar year following the calendar year in which the Participant attains age 70½; provided, however, that a Participant, who is not a Five Percent Owner and who does not retire by the end of the calendar year in which such Participant reaches age 70½, may elect to defer their Required Beginning Date to the first day of April of the calendar year following the calendar year in which the Participant retires. If, after the date of such election, a Participant becomes a Five Percent Owner, the Required Beginning Date is the first day of April following the later of: (i) the calendar year in which the Participant attains age 70½; or (ii) the earlier of the calendar year with or within which ends the Plan Year in which the Participant becomes a Five Percent Owner, or the calendar year in which the Participant retires.



Notwithstanding any provisions of this Plan relating to required minimum distributions under Code Section 401(a)(9), a Participant or Beneficiary who would have been required to receive required minimum distributions for 2009 but for the enactment of Code Section 401(a)(9)(H) ("2009 RMDs"), and who would have satisfied that requirement by receiving distributions that are equal to the 2009 RMDs will not receive those distributions for 2009 unless the Participant or Beneficiary chooses to receive such distributions. Participants and Beneficiaries described in the preceding sentence will be given the opportunity to elect to receive the distributions described in the preceding sentence.

13.07 Automatic Joint and Survivor Annuity. Notwithstanding anything in Section 13.06 to the contrary, if a Rollover Account as described in Section 13.03 is being maintained for a married Participant and if Plan benefits become payable to such Participant on or after the Participant's Qualified Early Retirement Age, such Rollover Account will be used to purchase a Qualified Joint and Survivor Annuity unless the Participant has elected otherwise. To be effective, any election out of a Qualified Joint and Survivor Annuity must be consented to by the Participant's spouse at the time Plan benefits become payable. Any election (by a Participant on whose behalf a Rollover Account as described in Section 13.03 is maintained) out of a Qualified Joint and Survivor Annuity must be in writing and may be made during the election period, which shall be the 180-day period ending on the annuity starting date.

13.08 Participant Elections and Spousal Consents. Married Participants may choose a Beneficiary other than their spouse or, in the case of a Rollover Account described in Section 13.03, may choose a form of retirement benefit other than a Qualified Joint and Survivor Annuity. Any Beneficiary designation shall be in accordance with the requirements of Section 13.05. Any election (by a Participant on whose behalf a Rollover Account as described in Section 13.03 is maintained) out of a Qualified Joint and Survivor Annuity must be in writing and may be made during the election period, which shall be the 180-day period ending on the annuity starting date. To be effective, any designation of a Beneficiary who is not the spouse of the Participant on the date of the Participant's death or any such election out of the Qualified Joint and Survivor Annuity must be consented to by Participant's spouse. For purposes of this Section the term "spouse" means the spouse of the Participant on the date of the Participant's death or on the date Plan benefits commence, whichever is applicable; provided that a former spouse will be treated in the same manner as a spouse to the extent provided under a Qualified Domestic Relations Order as described in Code Section 414(p).

To be effective, spousal consent must be in writing on a form furnished by or satisfactory to the Plan Administrator and witnessed by a Plan representative or notary public. Provided, however, spousal consent shall not be required under such circumstances as may be prescribed by the Plan Administrator in accordance with rules and regulations promulgated by the Secretary and the Treasury. Any spousal consent will be valid only with respect to the spouse who signs the consent. Additionally, a revocation of an election out of a Qualified Joint and Survivor Annuity may be made by a Participant without the consent of the spouse at any time before the commencement of benefits. The number of revocations shall not be limited.

- 13.09 Distribution to a Minor Participant or Beneficiary. In the event a distribution is to be made to a minor, then the Plan Administrator may, in the Administrator's sole discretion, direct that such distribution be paid to the legal guardian of the minor, or if none, to a parent of such minor or a responsible adult with whom the minor maintains his or her residence, or to the custodian for such minor under the Uniform Gift to Minors Act, if such is permitted by the laws of the state in which said minor resides. Such a payment to the legal guardian or parent of a minor or to such a custodian shall fully discharge the Trustee, Employer, and Plan from further liability on account thereof.
- 13.10 Location of Participant or Beneficiary Unknown. In the event that all, or any portion, of the distribution payable to a Participant or his or her Beneficiary hereunder shall, at the expiration of five years after it shall become payable, remain unpaid solely by reason of the inability of the Plan Administrator, after sending a registered letter, return receipt requested, to the payee's last known address, and after reasonable effort, to ascertain the whereabouts of such Participant or his or her Beneficiary, the amount so distributable shall be forfeited and allocated in accordance with the terms of this Plan. In the event a Participant or Beneficiary is located subsequent to his or her benefit being forfeited, such benefit shall be restored.
- 13.11 Forfeitures; Restoration of Benefits Upon Reemployment. If a Participant terminates from employment, the Participant's vested Accrued Benefit shall be deferred to the earliest of the Participant's death, Total and Permanent Disability or attainment of Normal Retirement Age, at which time such vested benefit shall be payable in accordance with Sections 13.06 and 13.13.

Notwithstanding the foregoing, such a Participant may elect to have payments commence at any time after termination in accordance with Section 13.06. Partial distributions of vested benefits will not be permitted except in accordance with Section 13.06. The non-vested portion of the Participant's Accrued Benefit shall be forfeited when the Participant incurs five consecutive One Year Breaks in Service or, if earlier, when the Participant or his or her spouse (or surviving spouse) receives a distribution of his or her vested Accrued Benefit. If the value of the Participant's vested Accrued Benefit is zero when the Participant terminates employment, the Participant shall be deemed to have received a distribution of such vested Accrued Benefit.

Except as provided below, the non-vested portion of the Accrued Benefit of any terminated Participant will be used to reduce Employer Match Contributions for the Plan Year in which the forfeiture occurs and for subsequent Plan Years, if necessary.

A Participant who severs employment and who subsequently resumes employment with the Employer will again become a Participant when the Participant becomes an Eligible Employee. If a Former Participant is subsequently reemployed, the following rules shall also be applicable:

- (i) If any Former Participant shall be reemployed by the Employer before incurring five consecutive One Year Breaks in Service, and such Former Participant had received a distribution of his or her vested Accrued Benefit prior to his or her reemployment, his or her forfeited Account balance shall be reinstated if he or she repays the full amount attributable to Employer Contributions which was distributed to him or her, not including, at the Participant's option, amounts attributable to any Salary Reduction Contributions. Such repayment must be made by the Former Participant before the date on which the individual incurs five consecutive One Year Breaks in Service following the date of distribution. A Participant who was deemed to have received a distribution of his or her vested amount shall be deemed to have repaid such amount as of the first date on which he or she again becomes a Participant. In the event the Former Participant does repay the full amount distributed to him or her, the forfeited portion of the Participant's Account must be restored in full, unadjusted by any gains or losses occurring subsequent to the date of distribution.
- (ii) Restorations of forfeitures will be made as of the date that the Plan Administrator is notified that the Trustee has received the required repayment. Any forfeiture amount that must be restored to a Participant's Account will be taken from any forfeitures that have not yet been applied and, if the amount of forfeitures available for this purpose is insufficient, the Employer will make a timely supplemental contribution of an amount sufficient to enable the Trustee to restore the forfeiture amount to the Participant's Account.
- (iii) If a Former Participant resumes service after incurring five consecutive One Year Breaks in Service, forfeited amounts will not be restored under any circumstances.

If a Former Participant resumes service before incurring five consecutive One Year Breaks in Service, both the pre-break and post-break service will count in vesting both any restored pre-break and post-break employer-derived Account balance.

13.12 Restrictions on Immediate Distributions.

- (a) If the value of a Participant's vested Accrued Benefit is immediately distributable, the Participant and the Participant's spouse (or where either the Participant or the spouse has died, the survivor) must consent to any distribution of such Accrued Benefit.

Except as provided below, the consent of the Participant and the Participant's spouse shall be obtained in writing within the 180-day period ending on the annuity starting date. The annuity starting date is the first day of the first period for which an amount is paid as an annuity or any other form. The Plan Administrator shall notify the Participant and/or the Participant's spouse of the right to defer any distribution until the Participant's Accrued Benefit is no longer immediately distributable and the consequences of failing to defer receipt of the distribution. Such notification shall include a general description of the material features, and an explanation of the relative values of, the optional forms of benefit available under the Plan in a manner that would satisfy the notice requirements of Code Section 417(a)(3), if applicable, and shall be provided no less than 30 days and no more than 180 days prior to the annuity starting date.

However, distribution may commence less than 30 days after the notice described in the preceding sentence is given, provided the distribution is not one to which Code Section 417 applies, the Participant is clearly informed of his or her right to take 30 days after receiving the notice to decide whether or not to elect a distribution (and, if applicable, a particular distribution option), and the Participant, after receiving the notice, affirmatively elects to receive the distribution prior to the expiration of the 30-day minimum period.

If a distribution is one to which Code Sections 411(a)(11)(A) and 417 applies, a Participant may commence receiving a distribution in a form other than a Qualified Joint and Survivor Annuity less than 30 days after receipt of the written explanation described in the preceding paragraph provided: (1) the Participant has been provided with information that clearly indicates that the Participant has at least 30 days to consider whether to waive the Qualified Joint and Survivor Annuity and elect (with spousal consent) a form of distribution other than a Qualified Joint and Survivor Annuity; (2) the Participant is permitted to revoke any affirmative distribution election at least until the Distribution Commencement Date or, if later, at any time prior to the expiration of the 7-day period that begins the day after the explanation of the Qualified Joint and Survivor Annuity is provided to the Participant; and (3) the Distribution Commencement Date is after the date the written explanation was provided to the Participant. The Distribution Commencement Date may be a date prior to the date the written explanation is provided to the Participant if the distribution does not commence until at least 30 days after such written explanation is provided, subject to the waiver of the 30-day period. For the purposes of this paragraph, the Distribution Commencement Date is the date a Participant commences distributions from the Plan. If a Participant commences distribution with respect to a portion of his/her Account Balance, a separate Distribution Commencement Date applies to any subsequent distribution. If distribution is made in the form of an annuity, the Distribution Commencement Date is the first day of the first period for which annuity payments are made.

Notwithstanding the foregoing, only the Participant need consent to the commencement of a distribution in the form of a Qualified Joint and Survivor Annuity while the Accrued Benefit is immediately distributable. Furthermore, if payment in the form of a Qualified Joint and Survivor Annuity is not required with respect to the Participant, only the Participant need consent to the distribution of an Accrued Benefit that is immediately distributable. The consent of the Participant or the Participant's spouse shall not be required to the extent that a distribution is required to satisfy Code Section 401(a)(9) or 415. In addition, upon termination of this Plan if the Plan does not offer an annuity option (purchased from a commercial provider) and if the Employer or any entity within the same controlled group as the Employer does not maintain another defined contribution plan (other than an employee stock ownership plan as defined in Code Section 4975(e)(7)), the Participant's Accrued Benefit may, without the Participant's consent, be distributed to the Participant. However, if any entity within the same controlled group as the Employer maintains another defined contribution plan (other than an employee stock ownership plan as defined in Code Section 4975(e)(7)) then the Participant's Accrued Benefit will be transferred, without the Participant's consent, to the other plan if the Participant does not consent to an immediate distribution.

An Accrued Benefit is immediately distributable if any part of the Accrued Benefit could be distributed to the Participant (or surviving spouse) before the Participant attains (or would have attained if not deceased) the later of Normal Retirement Age or age 62.

### 13.13 Rollovers to Other Qualified Plans.

- (a) Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Article, a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a Direct Rollover. For purposes of determining the portion of a disbursement of benefits from the Plan to a distributee that is not includible in gross income under Code Section 72, the guidance under I.R.S. Notice 2014-54 shall be followed.
- (b) Definitions.
  - (i) Eligible rollover distribution: An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Code Section 401(a)(9); any hardship distribution described in Code Section 401(k)(2)(B)(i) (iv); the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for

net unrealized appreciation with respect to employer securities); any corrective distributions of Excess Elective Deferrals or Roth Elective Deferrals under Code Section 402(g), and the income attributable thereto; and any other distribution(s) that is reasonably expected to total less than \$200 during a year. A portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because it consists of after-tax employee contributions which are not includible in gross income. However, such portion may be transferred only to an individual retirement account or individual retirement annuity described in Code Section 408(a) or 408(b), or to a qualified plan described in Code Section 401(a) or an annuity plan described in Code Section 403(a), or to an annuity contract described in Code Section 403(b), which plan or contract agrees to separately account for amounts so transferred, including separate accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible. Such portion may also be transferred to a Roth IRA.

- (ii) **Eligible retirement plan:** An eligible retirement plan is an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), or a qualified Plan described in Code Section 401(a), that accepts the distributee's eligible rollover distribution, an annuity contract described in Code Section 403(b) and an eligible plan under Code Section 457(b), which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. An Eligible Retirement Plan shall also include a Roth individual retirement account as described in Code Section 408A.
- (iii) **Distributee:** A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), are distributees with regard to the interest of the spouse or former spouse.
- (iv) **Direct Rollover:** A direct rollover is a payment by the Plan to the eligible retirement plan specified by the distributee. A Direct Rollover of a distribution from a Roth Elective Deferral Account under this Plan will be made to another Roth Elective Deferral Account under an applicable retirement plan described in Code Section 402A(e)(1) or to a Roth IRA described in Code Section 408A, and only to the extent the rollover is permitted under the rules of Code Section 402(c).

Notwithstanding the provisions of this Plan relating to required minimum distributions under Code Section 401(a)(9), and solely for purposes of applying the direct rollover provisions of the Plan, 2009 RMDs (as defined in Section 13.06), but only if paid with an additional amount that is an

eligible rollover distribution without regard to IRC §401(a)(9)(H), will be treated as eligible rollover distributions.

- (c) A non-spouse Beneficiary who is a “designated beneficiary” under Code Section 401(a)(9)(E) and the regulations thereunder, by a direct trustee-to-trustee transfer (“direct rollover”), may roll over all or any portion of his or her distribution to an individual retirement account or an individual retirement annuity as defined in Code Section 408(a) and 408(b) or Roth IRA as defined in Code Section 408A, that is established on behalf of the Beneficiary. In order to be able to roll over the distribution, the distribution otherwise must satisfy the definition of an eligible rollover distribution. If a non-spouse Beneficiary receives a distribution from the Plan, the distribution is not eligible for a “60-day” rollover.

If the Participant’s named Beneficiary is a trust, the Plan may make a direct rollover to an individual retirement account on behalf of the trust, provided the trust satisfies the requirements to be a “designated beneficiary” within the meaning of Code Section 401(a)(9)(E).

A non-spouse Beneficiary may not roll over an amount which is a required minimum distribution, as determined under applicable Treasury Regulations and other Internal Revenue Service guidance. If the Participant dies before his or her required beginning date and the non-spouse Beneficiary rolls over to an IRA the maximum amount eligible for rollover, the Beneficiary may elect to use either the 5-year rule or the life expectancy rule, pursuant to Treasury Regulation Section 1.401(a)(9)-3 Q&A-4(c), in determining the required minimum distributions from the IRA that receives the non-spouse Beneficiary’s distribution.

- 13.14 Payment under Qualified Domestic Relations Orders. Notwithstanding any provisions of the Plan to the contrary, if there is entered any Qualified Domestic Relations Order that affects the payment of benefits hereunder, such benefits shall be paid in accordance with the applicable requirements of such Order, provided that such Order (i) does not require the Plan to provide any type or form of benefits, or any option, that is not otherwise provided hereunder, (ii) does not require the Plan to provide increased benefits, and (iii) does not require the payment of benefits to an alternate payee which are required to be paid to another alternate payee under another order previously determined to be a Qualified Domestic Relations Order.

To the extent required or permitted by any such Order, at any time on or after the date the Plan Administrator has determined that the Order is a Qualified Domestic Relations Order, the alternate payee shall have the right to request the Plan Administrator to commence distribution of benefits under the Plan regardless of whether the Participant is otherwise entitled to a distribution at such time under the Plan. Except as specifically provided in a Qualified Domestic Relations Order, amounts distributed under this Section shall be taken pro rata from the investment options in which each of the Participant’s Accounts is invested. The Plan Administrator shall establish reasonable procedures to determine whether an order or other decree is a Qualified Domestic Relations Order, and to administer distributions under such orders.

13.15 USERRA.

- (a) Severance from Employment. An individual shall be treated as having been severed from employment for purposes of Code Section 401(k)(2)(B)(i)(I) during any period the individual is performing service in the uniformed services described in Code Section 3401(h)(2)(A). If an individual performing such service in the uniformed services elects to receive a distribution by reason of severance from employment, the individual may not make a Salary Reduction Contribution or other Employee contribution during the 6-month period beginning on the date of the distribution.
- (b) Qualified Reservist Distribution under USERRA. A Participant who is ordered or called to active duty may take a Qualified Reservist Distribution if the following are satisfied:
  - (1) the distribution consists solely of elective deferrals (Salary Reduction Contributions);
  - (2) the Participant was ordered or called to active duty for a period in excess of one hundred and seventy nine (179) days or for an indefinite period; and
  - (3) the distribution from the Plan is made during the period which begins on the date of such order or call and ends at the close of the active duty period.

The ten percent (10%) early withdrawal penalty tax will not apply to a qualified reservist distribution, which meets the requirements stated above.

ARTICLE XIV

PLAN FIDUCIARY RESPONSIBILITIES

14.01 Plan Fiduciaries. The Plan Fiduciaries shall be:

- (i) the Trustee(s) of the Plan;
- (ii) the Plan Administrator; and
- (iii) such other person or persons as may be designated by the Plan Administrator in accordance with the provisions of this Article XIV.

14.02 General Fiduciary Duties. Each Plan Fiduciary shall discharge his or her duties solely in the interest of the Participants and their Beneficiaries and act:

- (i) for the exclusive purpose of providing benefits to Participants and their Beneficiaries and defraying reasonable expenses of administering the Plan;
- (ii) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;



- (iii) by diversifying the investments of the Plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so, if the Fiduciary has the responsibility to invest plan assets; and
- (iv) in accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with the provisions of current laws and regulations.

Each Plan Fiduciary shall perform the duties specifically assigned to him or her. No Plan Fiduciary shall have any responsibility for the performance or non-performance of any duties not specifically allocated to him or her.

14.03 Duties of the Trustee(s). The specific responsibilities and duties of the Trustee(s) are set forth in the Trust Indenture between the Employer and the Trustee(s). In general the Trustee(s) shall:

- (i) invest Plan assets, subject to directions from the Plan Administrator or from any duly appointed investment manager;
- (ii) maintain adequate records of receipts, disbursements, and other transactions involving the Plan; and
- (iii) prepare such reports, statements, tax returns and other forms as may be required under the Trust Indenture or applicable laws and regulations.

14.04 Powers and Duties of the Plan Administrator. The Plan Administrator is the Benefits Committee. The Plan Administrator shall have the power, discretionary authority, and duty to interpret the provisions of the Plan and to make all decisions and take all actions that shall be necessary or proper in order to carry out the provisions of the Plan. Without limiting the generality of the foregoing, the Plan Administrator shall:

- (i) monitor compliance with the provisions of ERISA and other applicable laws with respect to the Plan;
- (ii) establish an investment policy and funding method consistent with objectives of the Plan and with the requirements of applicable laws and regulations;
- (iii) invest Plan assets except to the extent that the Plan Administrator has delegated such investment duties to an investment manager;
- (iv) evaluate from time to time investment policy and the performance of any investment manager or investment advisor appointed by it;
- (v) interpret and construe the Plan in order to resolve any ambiguities therein;

- (vi) determine all questions concerning the eligibility of any person to participate in the Plan, the right to and the amount of any benefit payable under the Plan to or on behalf of an individual and the date on which any individual ceases to be a Participant, with any such determination to be conclusively binding and final, to the extent permitted by applicable law, upon all persons interested or claiming an interest in the Plan;
- (vii) establish guidelines as required for the orderly and uniform administration of the Plan;
- (viii) exercise overall control of the operation and administration of the Plan in matters not allocated to some other Fiduciary by the terms of this Plan;
- (ix) administer the Plan on a day-to-day basis in accordance with the provisions of this Plan and all other pertinent documents;
- (x) retain and maintain Plan records, including Participant census data, participation dates, compensation records, and such other records necessary or desirable for proper Plan administration;
- (xi) prepare and arrange for delivery to Participants of such summaries, descriptions, announcements and reports as are required to be given to Participants under applicable laws and regulations;
- (xii) file with the U.S. Department of Labor, the Internal Revenue Service and other regulatory agencies on a timely basis all required reports, forms and other documents;
- (xiii) prepare and furnish to the Trustee(s) sufficient records and data to enable the Trustee(s) to properly perform its obligations under the Trust Indenture; and
- (xiv) to take appropriate actions required to correct any errors made in determining the eligibility of any Employee for benefits under the Plan or the amount of benefits payable under the Plan and in correcting any error made in computing the benefits of any Participant or Beneficiary, the Plan Administrator may make equitable adjustments (an increase or decrease) in the amount of any future benefits payable under the Plan, including the recovery of any overpayment of benefits paid from the Plan as provided in Treasury Regulation Section 1.401(a)-13(c)(2)(iii).

The Plan Administrator may appoint or employ such advisers or assistants as the Plan Administrator deems necessary and may delegate to any one or more of its members any responsibility it may have under the Plan or designate any other person or persons to carry out any responsibility it may have under the Plan.

Notwithstanding any provisions elsewhere to the contrary, the Plan Administrator shall have total discretion to fulfill the above responsibilities as the Plan Administrator sees fit on a uniform and consistent basis and as the Plan Administrator believes a prudent person acting in a like capacity and familiar with such matters would do.

- 14.05 Designation of Fiduciaries. The Plan Administrator shall have the authority to appoint and remove Trustee(s) in accordance with the Trust Indenture. The Plan Administrator may appoint and remove an investment manager and delegate to said investment manager power to manage, acquire or dispose of any assets of the Plan.

While there is an investment manager, the Plan Administrator shall have no obligation under this Plan with regard to the performance or non-performance of the duties delegated to the investment manager.

The Plan Administrator shall appoint all other Fiduciaries of this Plan. In making its appointment or delegation of authority, the Plan Administrator may designate all of the responsibilities to one person or it may allocate the responsibilities, on a continuing basis or on an ad hoc basis, to one or more individuals either jointly or severally. No individual named a Fiduciary shall have any responsibility for the performance or non-performance of any responsibilities or duties not allocated to him or her.

The appointing authority of a Fiduciary shall periodically, but not less frequently than annually, review the performance of each fiduciary appointed in order to carry out the general fiduciary duties specified in Section 14.02 and, where appropriate, take or recommend remedial action.

- 14.06 Delegation of Duties by a Fiduciary. Except as provided in this Plan or in the appointment as a Fiduciary, no Plan Fiduciary may delegate his or her fiduciary responsibilities. If authorized by the appointing authority, a Fiduciary may appoint such agents as may be deemed necessary and delegate to such agents any non-fiduciary powers or duties, whether ministerial or discretionary. No Fiduciary or agent of a Fiduciary who is a full-time employee of the Employer will receive any compensation from the Plan for his or her services, but the Employer or the Plan shall pay all expenses that such employee reasonably incurs in the discharge of his or her duties.

## ARTICLE XV

### BENEFITS COMMITTEE

- 15.01 Appointment of Benefits Committee. The Benefits Committee shall consist of three or more members appointed from time to time by the president of the Employer (the "President"), who shall also designate one of the members as chairman. Each member of the Benefits Committee and its chairman shall serve at the pleasure of the President.
- 15.02 Benefits Committee to Act by Majority Vote, etc. The Benefits Committee shall act by majority vote of all members. All actions, determinations, interpretations and decisions of the Benefits Committee with respect to any matter within their jurisdiction will be conclusive and binding on all persons. Any person may rely conclusively upon any action if certified by the Benefits Committee.

Notwithstanding the above, a member of the Benefits Committee who is also a Participant shall not vote or act upon any matter relating solely or primarily to him or herself.

- 15.03 Records and Reports of the Benefits Committee. The Benefits Committee shall keep a record of all of its proceedings and acts, and shall keep such books of account, records and other data as may be necessary for the proper administration of the Plan and file or deliver to Participants and their Beneficiaries whatever reports are required by any regulatory authority.
- 15.04 Costs and Expenses of Administration. Notwithstanding any provisions of the Plan to the contrary (but subject to the provisions of Section 12.01), all clerical, legal and other expenses of the Plan and the Trust, including Trustee's fees, shall be paid by the Plan, except to the extent the Employer elects to pay such amounts; provided, however, that if the Employer pays such amounts it shall be reimbursed by the Trust for such amounts unless the Employers elects not to be so reimbursed.
- 15.05 Indemnification of the Plan Administrator and Assistants. The Employer shall indemnify and defend to the extent permitted under the By-Laws of the Employer any Employee or former Employee (i) who serves or has served as a member of the Benefits Committee, (ii) who has been appointed to assist the Benefits Committee in administering the Plan, or (iii) to whom the Benefits Committee has delegated any of its duties or responsibilities against any liabilities, damages, costs and expenses (including attorneys' fees and amounts paid in settlement of any claims approved by the Employer) occasioned by any act or omission to act in connection with the Plan, if such act or omission to act is in good faith and without gross negligence; provided that such Employee or former Employee is not otherwise indemnified or saved harmless under any liability insurance or other indemnification arrangement.

## ARTICLE XVI

### INVESTMENT OF THE TRUST FUND

- 16.01 In General. Subject to the direction of the Plan Administrator or any duly appointed investment manager in accordance with Section 14.05, the Trustee shall receive all contributions to the Trust and shall hold, invest and control the whole or any part of the assets in accordance with the provisions of the annexed Trust Indenture.
- 16.02 Investment of the Trust Fund. In order to provide retirement and other benefits for Plan Participants and their Beneficiaries, the Trustee shall invest Plan assets in one or more permissible investments specified in the Trust Indenture ("Permissible Investments").

All collective investment trusts and group trusts shall also conform to the terms of the Plan.

This Plan is intended to comply with the requirements of ERISA Section 404(c). Each Participant is responsible and has sole discretion to give directions to the Trustee in such form as the Trustee may require concerning the investment of his or her Accrued Benefit in one or more of the Permissible Investments, which directions must be followed by the Trustee. The designation by a Participant of the allocation of his Accrued Benefit among the Permissible Investments may be made from time to time, with such frequency and in

accordance with such procedures as are established and set forth in the Trust Indenture and applied in a uniform nondiscriminatory manner. Any such procedure shall be communicated to the Participants and designed with the intention of permitting the Participants to exercise control over the assets in their respective accounts within the meaning of ERISA Section 404(c) and the regulations thereunder.

Neither the Plan Administrator, the Trustee, the Employer nor any other person shall be under any duty to question any investment, voting or other direction of the Participant or make any suggestions to the Participant in connection therewith, and the Trustee shall comply as promptly as practicable with directions given by the Participant hereunder. All such directions may be of continuing nature or otherwise and may be revoked by the Participant at any time in such form as the Trustee may require. Neither the Plan Administrator, the Trustee, the Employer nor any other person shall be responsible or liable for any costs losses or expenses which may arise or result from or be related to the compliance or refusal or failure to comply with any directions from the Participant. The Trustee may refuse to comply with any direction from the Participant in the event the Trustee, in its sole or absolute discretion, deems such direction improper by virtue of applicable law or regulations. For purposes of this Section, all references to "Participant" shall include all Beneficiaries of Participants who are deceased and any Alternate Payees under a Qualified Domestic Relations Order, as provided for in Section 19.01.

## 16.03 Default Investment.

### (a) General Rules.

- (i) Qualified Default Investment Alternative. If a Participant or Beneficiary has the opportunity to direct the investment of the assets in his or her Account (but does not direct the investment of such assets), then such assets in his or her Account will be invested in a Qualified Default Investment Alternative.
- (ii) Transfer from Qualified Default Investment Alternative. Any Participant or Beneficiary on whose behalf assets are invested in a Qualified Default Investment Alternative may transfer, in whole or in part, such assets to any other investment alternative available under the Plan with a frequency consistent with that afforded to a Participant or Beneficiary who elected to invest in the Qualified Default Investment Alternative, but not less frequently than once within any 3-month period.
- (iii) No Fees during First 90 Days. Any Participant's or Beneficiary's election to make such transfer from the Qualified Default Investment Alternative or other first investment in a Qualified Default Investment Alternative on behalf of a Participant or Beneficiary, will not be subject to any restrictions, fees or expenses (including surrender charges, liquidation or exchange fees, redemption fees and similar expenses charged in connection with the liquidation of, or transfer from, the investment), except as permitted in Department of Labor Regulation Section 2550.404c-5(c)(5)(ii) (B).

- (iv) Limited Fees after First 90 Days. Following the end of the 90-day period described in paragraph (iii), any transfer described in paragraph (ii) above shall not be subject to any restrictions, fees or expenses not otherwise applicable to a Participant or Beneficiary who elected to invest in that Qualified Default Investment Alternative.
  - (v) Materials Must Be Provided. A Plan fiduciary shall provide to a Participant or Beneficiary the materials set forth in Department of Labor Regulation Section 2550.404c-1(b)(2)(i)(B)(1)(viii) and (ix) and Department of Labor Regulation Section 404c-1(b)(2)(i)(B)(2) relating to a Participant's or Beneficiary's investment in a Qualified Default Investment Alternative.
- (b) Notice Requirements. The following provisions apply to the notice required by a Qualified Default Investment Alternative:
- (i) Manner. Such notice will be written in a manner calculated to be understood by the average Plan Participant.
  - (ii) Content. Such notice will contain the following:
    - A. A description of the circumstances under which assets in the individual account of a Participant or Beneficiary may be invested on behalf of the Participant or Beneficiary in a Qualified Default Investment Alternative; and, if applicable, an explanation of the circumstances under which Automatic Contributions will be made on behalf of a Participant, the percentage of Compensation that such Automatic Contributions represent, and the right of the Participant to elect not to have such made on the Participant's behalf (or to elect to have Salary Reduction Contributions made at a different percentage);
    - B. An explanation of the right of Participants and Beneficiaries to direct the investment of assets in their individual accounts;
    - C. A description of the Qualified Default Investment Alternative, including a description of the investment objectives, risk and return characteristics (if applicable), and fees and expenses attendant to the Qualified Default Investment Alternative;
    - D. A description of the right of the Participants and Beneficiaries on whose behalf assets are invested in a Qualified Default Investment Alternative to direct the investment of those assets to any other investment alternative under the Plan, including a description of any applicable restrictions, fees or expenses in connection with such transfer; and

- E. An explanation of where the Participants and Beneficiaries can obtain investment information concerning the other investment alternatives available under the Plan.
- (iii) **Timing.** The Participant or Beneficiary on whose behalf an investment in a Qualified Default Investment Alternative may be made must be furnished such notice during the following periods: (1) At least 30 days in advance of the Participant's eligibility to participate in the Plan, or at least 30 days in advance of the date of any first investment in a Qualified Default Investment Alternative on behalf of a Participant or Beneficiary; and (2) Within a reasonable period of time of at least 30 days in advance of each subsequent Plan Year.

## ARTICLE XVII

### CLAIMS PROCEDURE

- 17.01 **Claims Fiduciary.** The Plan Administrator will act as Claims Fiduciary except to the extent that the Plan Administrator has delegated the function to some other person or persons, committee or entity.

Notwithstanding any provision elsewhere to be contrary, the Claims Fiduciaries shall have total discretion to fulfill their fiduciary duties as they see fit on a uniform and consistent basis as they believe a prudent person acting in a like capacity and familiar with such matters would do.

- 17.02 **Claims for Benefits.** Claims for benefits under the Plan may be filed with the Plan Administrator on forms supplied by the Employer. For the purpose of this procedure, "claim" means a request for a Plan benefit by a Participant or a Beneficiary of a Participant. If the basis of the claim includes documentation not a part of the records of the Plan or of the Employer, all such documentation must be included with the claim.

- 17.03 **Notice of Denial of Claim.** If a claim is wholly or partially denied, the Plan Administrator shall notify the claimant of the denial of the claim within a reasonable period of time. Such notice of denial (i) shall be in writing, (ii) shall be written in a manner calculated to be understood by the claimant, and (iii) shall contain (A) the specific reason or reasons for denial of the claim, (B) a specific reference to the pertinent Plan provisions upon which the denial is based, (C) a description of any additional material or information necessary for the claimant to perfect the claim, along with an explanation why such material or information is necessary, and (D) an explanation of the Plan's claim review procedure. Unless special circumstances require an extension of time for processing the claim, the Plan Administrator shall notify the claimant of the claim denial no later than ninety (90) days after receipt of the claim. If such an extension is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial 90-day period. The extension notice shall indicate the special circumstances requiring the extension of time and the date by which the Plan Administrator expects to render the final decision.

- 17.04 Request for Review of Denial of Claim. Within 120 days of the receipt of the claimant of the written notice of the denial of the claim, or such later time as shall be deemed reasonable taking into account the nature of the benefit subject to the claim and any other attendant circumstances or if the claim has not been granted within a reasonable period of time, the claimant may file a written request with the Plan Administrator to conduct a full and fair review of the denial of the claimant's claim for benefits. In connection with the claimant's appeal of the denial of his or her benefit, the claimant may review pertinent documents and may submit issues and comments in writing.
- 17.05 Decision on Review of Denial of Claim. The Plan Administrator shall deliver to the claimant a written decision on the claim promptly, but not later than 60 days, after the receipt of the claimant's request for review, except that if there are special circumstances, which require an extension of time for processing, the aforesaid 60-day period may be extended to 120 days. Such decision shall (i) be written in a manner calculated to be understood by the claimant, (ii) include specific reasons for the decision, and (iii) contain specific references to the pertinent Plan provisions upon which the decision is based.
- 17.06 Limitations Periods for Filing Claims and Legal Actions. To be considered timely filed under the Plan's claims procedures and notwithstanding anything in this Plan to the contrary, a claim for benefits filed after January 31, 2016 must be filed with the appropriate Claims Fiduciary under Sections 17.02 or 17.04 before the first (1st) anniversary of the date on which claimant knew or reasonably should have known of the principal facts upon which the claim is based. Notwithstanding anything in this Plan to the contrary, a legal action to recover Plan benefits or to enforce or clarify rights under the Plan under ERISA Section 502, ERISA Section 510 or under any other provision of law, whether statutory or not, may not be brought after January 31, 2016 by any claimant on any matter pertaining to this Plan unless the legal action is initiated in the proper forum before the earlier of (i) the expiration of thirty (30) completed calendar months after the date on which the claimant knew or reasonably should have known of the principal facts on which the claim is based, or (ii) the expiration of six (6) completed calendar months after the claimant has exhausted the applicable claims procedures under this Plan. For the purpose of applying this Section, knowledge of all facts that the Participant knew or reasonably should have known will be imputed to every claimant who is, or who purports to be, a Beneficiary of the Participant or otherwise purports to derive an entitlement to a Plan benefit or a Plan right by reference to the Participant.

Exhaustion of the Plan's claims procedures is mandatory for every claim and dispute of whatever nature or from whatever source and arising under this Plan. As to such claims and disputes, no claimant shall be permitted to commence any legal action to recover Plan benefits or to enforce or clarify rights under the Plan under ERISA Section 502, ERISA Section 510 or under any other provision of law, whether or not statutory, until the applicable claims procedures set forth in the Plan have been exhausted in their entirety.

In any legal action described in this Section, all explicit and all implicit determinations by the Administrator, any Claims Fiduciary and all other persons determining or reviewing claims in such legal action (including, but not limited to, determinations as to whether the claim, or a request for a review of a denied claim, was timely filed) shall be afforded the maximum deference permitted by law.



Any interpretation, determination or other action of such persons shall be subject to change only if it was arbitrary or capricious or a more serious abuse of discretion. Any external review of a final decision or action by such persons reviewing a claim under this Plan shall be based only on such evidence presented to or considered by such persons at the time they made the decision or decisions that are the subject of review.

## ARTICLE XVIII

### AMENDMENT AND TERMINATION

- 18.01 Employer May Amend Plan. The Plan may be modified or amended in whole or in part by the action of the Board of Directors of the Employer at any time or times, and retroactively if it is deemed advisable by the Directors to conform the Plan to conditions which must be met to qualify the Plan or the Trust Indenture for tax benefits available under the applicable provisions of the Internal Revenue Code as it exists at any such time or times; provided, however, that no such modifications or amendment shall make it possible for any part of the Trust Fund to be used for purposes other than the exclusive benefit of the Participants or their Beneficiaries.

Notwithstanding the above paragraph, an amendment to the Plan may not decrease a Participant's Accrued Benefit, and may not reduce or eliminate a benefit, right or feature of this Plan that is protected under Code Section 411(d)(6) (except as provided for by the Code or the Treasury Regulations issued thereunder) determined immediately prior to the date of adoption, or if later, the effective date of the amendment. Should any early retirement benefit or other optional retirement benefits be changed by amendment to this Plan, all benefits accrued prior to the date of such amendment shall not be reduced.

- 18.02 Employer May Discontinue Plan. The Employer reserves the right at any time to partially terminate the Plan or to terminate the Plan in its entirety. Any such termination or partial termination of such Plan shall become effective immediately upon receipt by the Trustee of a copy of the vote or resolutions of the Directors of the Employer terminating its Plan, certified as true and correct by the clerk or secretary of the Employer. A partial plan termination shall be deemed to have occurred based on the facts and circumstances in existence at the time as required by Section 1.411(d)-2(b)(1) of the Treasury Regulations and Revenue Ruling 2007-43 and upon any such partial termination, the rights of all affected employees to the amounts credited to their accounts shall be non-forfeitable.

In the event of termination of the Plan there shall be a 100% vesting and nonforfeitability of all rights and benefits under this Trust and Plan irrespective of the length of participation under the Plan. However, the Trust shall remain in existence, and all of the provisions of the Trust shall remain in force, which are necessary in the sole opinion of the Trustees other than the provisions relating to Employer and Employee contributions. All of the assets on hand on the date specified in such resolution shall be held, administered and distributed by the Trustees in the manner provided in the Plan, except that a Participant shall have a 100% vested and nonforfeitable interest in his or her Accounts, subject to Section 18.05.

Subject to Section 18.05, any other remaining assets of the Trust Fund shall also be vested in Participants on a pro rata basis based on their respective Accrued Benefit in relation to the aggregate of the Accrued Benefits of all Participants. In the event of a partial termination of Plan, this Section will only apply to those Participants who are affected by such partial termination of Plan. In the event that the Board of Directors of the Employer shall decide to terminate completely the Plan and Trust, they shall be terminated as of a date to be specified in certified copies of its resolution to be delivered to the Trustees. Upon termination of the Plan and Trust, after payment of all expenses and proportional adjustment of Participants' Accounts to reflect such expenses, fund profits or losses and reallocations to the date of termination, each Participant shall be entitled to receive in cash any amounts then credited to his or her Participants' Accounts.

- 18.03 Discontinuance of Contributions. In the event that the Employer shall completely discontinue its contributions, each Participant or Beneficiary of a Participant affected shall be fully vested in any values credited to his or her Participant's Accounts. All of the assets on hand on the date contributions are discontinued shall be held, administered and distributed by the Trustees in the manner provided in the Plan.
- 18.04 Merger and Consolidation of Plan, Transfer of Plan Assets or Liabilities. In the case of any merger, consolidation with or transfer of assets or liabilities by the Employer to another plan, each Participant in the Plan on the date of the transaction shall have a benefit in the surviving plan (determined as if such plan were terminated immediately after the transaction) at least equal to the benefit to which he or she would have been entitled to receive immediately prior to the transaction if the plan had then terminated.
- 18.05 Return of Employer Contributions Under Special Circumstances. Notwithstanding any provisions of this Plan to the contrary:
- (a) Any monies or other Plan assets held in Trust by the Trustee attributable to any contributions made to this Plan by the Employer because of a mistake of fact may be returned to the Employer within one year after the date of contribution.
  - (b) Any monies or other Plan assets held in Trust by the Trustee attributable to any contribution made by the Employer which is conditional on the initial qualification of the Plan, as amended, under the Internal Revenue Code may be refunded to the Employer; provided that:
    - (i) the Plan amendment is submitted to the Internal Revenue Service for qualification within one year from the date the amendment is adopted, and
    - (ii) Such contribution that was made conditioned upon Plan requalification is returned to the Employer within one year after the date the Plan's requalification is denied.
  - (c) Any monies or other Plan assets held in Trust by the Trustee attributable to any contribution made by the Employer which is conditional on the deductibility of such contribution may be refunded to the Employer, to the extent the deduction is disallowed under Code Section 404, within one year after the date of such disallowance.

## ARTICLE XIX

### MISCELLANEOUS

- 19.01 Protection of Employee Interest. No Participant, Beneficiary or other person, including alternate payees entitled to benefits pursuant to a Qualified Domestic Relations Order, shall have the right to assign, pledge, alienate or convey any right, benefit or payment to which he or she shall be entitled in accordance with the provisions of the Plan, and any such attempted assignment, pledge, alienation or conveyance shall be null and void and of no effect. To the extent permitted by law, none of the benefits, payments, proceeds or rights herein created and provided for shall in any way be subject to any debts, contracts or engagements of any Participant, Beneficiary, alternate payee or other person entitled to benefits hereunder, nor to any suits, actions or other judicial process to levy upon or attach the same for the payment thereof. Provided, however, that this provision does not preclude the Plan Administrator from complying with the terms of a Qualified Domestic Relations Order.

If any Participant shall attempt to alienate or assign his or her interest provided by the Plan, the Plan Administrator shall take such steps as it deems necessary to preserve such interest for the benefit of the Participant or his or her Beneficiary.

Notwithstanding anything in this Section or in the Plan to the contrary, the Plan Administrator (i) shall comply with the terms of any Qualified Domestic Relations Order, as described in Code Section 414(p) entered on or after January 1, 1985, and (ii) shall comply with the terms of any domestic relations order entered before January 1, 1985 if the Administrator is paying benefits pursuant to such order on such date.

- 19.02 USERRA Compliance. Notwithstanding any provisions of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with the rules and requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994 and Code Section 414(u).

- 19.03 Amendment to Vesting Schedule. No amendment to the Plan vesting schedule shall deprive a Participant of his or her nonforfeitable rights to benefits accrued to the date of the amendment. Further, if the vesting schedule of the Plan is amended, or the Plan is amended in any way that directly or indirectly affects the computation of a Participant's nonforfeitable percentage, each Participant with at least 3 Years of Service with the Employer may elect, within a reasonable period after the adoption of the amendment, to have his or her nonforfeitable percentage computed under the Plan without regard to such amendment. The period during which the election may be made shall commence with the date the amendment is adopted and shall end on the latest of:

- (i) 60 days after the amendment is adopted;
- (ii) 60 days after the amendment becomes effective; or
- (iii) 60 days after the Participant is issued written notice of the amendment by the Employer or Plan Administrator.

- 19.04 Meaning of Words Used in Plan. Wherever any words are used herein in the masculine gender, they shall be construed as though they were also used in the feminine or neuter gender in all cases where they would so apply. Wherever any words are used herein in the singular form, they shall be construed as though they were also used in the plural form in all cases where they would so apply.
- Titles used herein are for general information only and this Plan is not to be construed by reference thereto.
- 19.05 Plan Does Not Create Nor Modify Employment Rights. The Plan and Trust shall not be construed as creating or modifying any contracts of employment between the Employer and any Participant. All Employees of the Employer shall be subject to discharge to the same extent that they would have been if the Plan and Trust had never been adopted.
- 19.06 Massachusetts Law Controls. This Plan shall be governed by the laws of the Commonwealth of Massachusetts to the extent that they are not pre-empted by the laws of the United States of America.
- 19.07 Payments to Come from Trust Fund. All benefits and amounts payable under the Plan or Trust Indenture shall be paid or provided for solely from the Trust Fund, and neither the Employer nor the Plan Administrator assumes any liability or responsibility therefor.
- 19.08 Receipt and Release for Payments. Any payment to any Participant, his or her legal representative, Beneficiary, or to any guardian or committee appointed for such Participant or Beneficiary in accordance with the provisions of this Plan and Trust, shall, to the extent thereof, be in full satisfaction of all claims hereunder against the Trustee and the Employer, any of whom may require such Participant, legal representative, Beneficiary, guardian, custodian or committee, as a condition precedent to such payment, to execute a receipt and release thereof in such form as shall be determined by the Trustee or Employer.
- 19.09 Electronic Communications. Any electronic communications made by the Plan to Participants in regards to eligible rollover distribution tax notices, Participant consents to distributions, and tax withholding notices shall comply with the requirements contained in Treasury Regulation Section 1.401(a)-21, in addition to all otherwise applicable requirements relating to the specific communication.
- 19.10 Plan Interpretation. If, due to errors in drafting, any Plan provision does not accurately reflect its intended meaning, as demonstrated by consistent interpretations or other evidence of intent, or as determined by the Plan Administrator in its sole and exclusive judgment, the provision shall be considered ambiguous and shall be interpreted by all Plan fiduciaries in a fashion consistent with its intent, as determined by the Employer in its sole discretion. The Employer shall amend the Plan retroactively to cure any such ambiguity. This Section may not be invoked by any person to require the Plan to be interpreted in a manner that is inconsistent with its interpretation by Plan fiduciaries.

EXECUTED, this 26th day of January, 2016.

	The Hanover Insurance Company		
	By:	/s/ Elena Patronas	
		Name: Elena Patronas	
		Title: Vice President	

## APPENDIX A

Special provisions applicable to Employees formerly employed by One Beacon Insurance Group, LTD. or a business entity affiliated with One Beacon Insurance Group, LTD.

Notwithstanding anything elsewhere in the Plan to the contrary, the following special rules shall apply to each person (i) who became employed by the Employer on or after December 3, 2009, in connection with the transactions contemplated by the Renewal Rights and Asset Purchase Agreement dated December 3, 2009 by and among The Hanover Insurance Company, The Hanover Insurance Group, Inc., One Beacon Insurance Group, LTD. and certain business entities affiliated with One Beacon Insurance Group, LTD. and (ii) who was employed by One Beacon Insurance Group, LTD. or a business entity affiliated with One Beacon Insurance Group, LTD. immediately before being employed by the Employer:

1. For the purposes of vesting, each such person shall be given a past service credit under the Plan for his or her period of employment with One Beacon Insurance Group, LTD. or any business entity affiliated with One Beacon Insurance Group, LTD. from his most recent date of hire as shown on records furnished to the Employer to and including the date on which such person became employed by the Employer to the same extent as though such period were a period of employment with the Employer.
2. Any compensation paid to any such person by One Beacon Insurance Group, LTD. or a business entity affiliated with One Beacon Insurance Group, LTD. prior to the date on which such person became employed by the Employer shall NOT be taken into account for the purposes of this Plan.

## APPENDIX B

Special provisions applicable to Employees formerly employed by (i) Campania Holding Company, Inc. or its direct or indirect subsidiaries (“Campania”); (ii) Benchmark Professional Insurance Services, Inc. or its direct or indirect subsidiaries (“Benchmark”); or (iii) Insurance Company of the West or its direct or indirect subsidiaries (“ICW”).

Notwithstanding anything elsewhere in the Plan to the contrary, the following special rules shall apply to each person who became employed by the Employer:

- On or about January 15, 2010, in connection with the transactions contemplated by the Stock Purchase Agreement by and among The Hanover Insurance Group, Inc., Richard J. O’Gorman, Katherine Dimitrakopoulos and Benchmark Professional Insurance Services, Inc. dated January 15, 2010, and who was employed by Benchmark immediately before being employed by the Employer;
  - On about March 31, 2010, in connection with the transactions contemplated by the Stock Purchase Agreement by and among The Hanover Insurance Group, Inc., Iona LLC, Campania Holding Company, Inc. and the Principal Members of Iona, LLC, dated January 15, 2010, and who was employed by Campania immediately before being employed by the Employer; or
  - On or after July 8, 2010, in connection with the transactions contemplated by Surety Business Transition Agreement by and among Insurance Company of the West, certain of its insurance company subsidiaries and The Hanover Insurance Company dated July 8, 2010, and who was employed by ICW immediately before being employed by the Employer.
1. For the purposes of vesting, each such person shall be given a past service credit under the Plan for his or her period of employment with, as applicable, Campania, Benchmark or ICW, that immediately preceded his or her employment with the Employer, from his or her most recent date of hire as shown on records furnished to the Employer to and including the date on which such person became employed by the Employer to the same extent as though such period were a period of employment with the Employer.
  2. Any compensation paid to any such person by, as applicable, Campania, Benchmark or ICW prior to the date on which such person became employed by the Employer shall NOT be taken into account for the purposes of this Plan.

## APPENDIX C

Special provisions applicable to Employees formerly employed by (i) Professionals Direct, Inc. or its direct or indirect subsidiaries (“PDI”); (ii) Verlan Holdings, Inc. or its direct or indirect subsidiaries (“Verlan”); or (iii) AIX Holdings, Inc. or its direct or indirect subsidiaries (“AIX”).

(a) PDI

Pursuant to a certain Agreement and Plan of Merger by and among Professionals Direct, Inc., Hanover Acquisition Corp. and The Hanover Insurance Group, Inc. dated June 25, 2007, on September 14, 2007 (the “PDI Closing Date”), an Affiliate of the Employer acquired Professionals Direct, Inc. and its subsidiaries. Employees of PDI who continued to be employed by PDI after the PDI Closing Date (“PDI Closing Hires”) remained employees of PDI (now an Affiliate of Employer) on a separate PDI payroll up to and through December 31, 2007 (the “PDI Transition Period”) when their employment was transferred from PDI to the Employer.

- (1) Notwithstanding anything elsewhere in the Plan to the contrary, the following special rules shall apply to PDI Closing Hires:
  - (i) PDI Closing Hires shall be eligible to participate in the Plan, subject to its provisions, effective as of the PDI Closing Date and to the same extent that such employees would otherwise have been eligible to participate in the Plan had such PDI Closing Hires commenced employment with the Employer on the PDI Closing Date.
  - (ii) For the purposes of vesting, each such person shall be given a past service credit under the Plan for his or her period of employment with PDI that immediately preceded his or her employment with the Employer, from his or her most recent date of hire as shown on records furnished to the Employer to and including the date on which such person became employed by the Employer (or if terminated during the PDI Transition Period, until the date of termination) to the same extent as though such period were a period of employment with the Employer.
  - (iii) Any compensation paid to any such person by PDI prior to the PDI Closing Date shall NOT be taken into account for the purposes of this Plan.

(b) Verlan

- (1) Notwithstanding anything elsewhere in the Plan to the contrary, the following special rules shall apply to each person who became employed by the Employer effective on or about March 14, 2008, in connection with the transactions contemplated by the Agreement and Plan of Merger by and among The Hanover Insurance Group, Inc., Northdale Acquisition Corp. and Verlan Holdings, Inc. dated January 10, 2008, and who was employed by Verlan immediately before being employed by the Employer;



- (i) For the purposes of vesting, each such person shall be given a past service credit under the Plan for his or her period of employment with Verlan that immediately preceded his or her employment with the Employer, from his or her most recent date of hire as shown on records furnished to the Employer to and including the date on which such person became employed by the Employer to the same extent as though such period were a period of employment with the Employer.
- (ii) Any compensation paid to any such person by Verlan prior to the date on which such person became employed by the Employer shall NOT be taken into account for the purposes of this Plan.

(c) AIX

Pursuant to a certain Stock Purchase Agreement by and among AIX Holdings, Inc., certain of its shareholders and The Hanover Insurance Group, Inc. dated August 5, 2008, on November 28, 2008 (the "AIX Closing Date"), an Affiliate of the Employer acquired AIX Holdings, Inc. and its subsidiaries. Employees of AIX who continued to be employed by AIX after the AIX Closing Date ("AIX Closing Hires") remained employees of AIX (now an Affiliate of Employer) on a separate AIX payroll up to and through December 31, 2009 (the "AIX Transition Period") when the employment of these employees was transferred from AIX to the Employer. Additionally, those employees hired by AIX during the AIX Transition Period ("AIX Transition Hires") also remained employees of AIX on a separate AIX payroll until the expiration of the AIX Transition Period when such employees were transferred from AIX to the Employer.

- (1) Notwithstanding anything elsewhere in the Plan to the contrary, the following special rules shall apply to AIX Closing Hires and AIX Transition Hires:
  - (i) AIX Closing Hires shall be eligible to participate in the Plan, subject to its provisions, effective as of the AIX Closing Date and to the same extent that such employees would otherwise have been eligible to participate in the Plan had such AIX Closing Hires commenced employment with the Employer on the AIX Closing Date.
  - (ii) AIX Transition Hires shall be eligible to participate in the Plan, subject to its provisions, effective as of as their date of hire by AIX and to the same extent that such employees would otherwise have been eligible to participate in the Plan had such AIX Transition Hires commenced employment with the Employer on their date of hire with AIX.

- (iii) For the purposes of vesting, each such person shall be given a past service credit under the Plan for his or her period of employment with AIX that immediately preceded his or her employment with the Employer, from his or her most recent date of hire as shown on records furnished to the Employer to and including the date on which such person became employed by the Employer (or if terminated during the AIX Transition Period, until the date of termination) to the same extent as though such period were a period of employment with the Employer.
- (iv) Any compensation paid to any such person by AIX prior to the AIX Closing Date shall NOT be taken into account for the purposes of this Plan.

**THE HANOVER INSURANCE GROUP  
RETIREMENT SAVINGS PLAN  
FIRST AMENDMENT  
To the Restatement Generally Effective January 1, 2015**

THIS AMENDMENT is executed by The Hanover Insurance Company, a New Hampshire corporation (the "Company").

**WHEREAS**, the most recent restatement of The Hanover Insurance Group Retirement Savings Plan (the "Plan") is effective January 1, 2015; and

**WHEREAS**, the Company has reserved the right to amend the Plan any time under Section 18.01 of the Plan; and

**WHEREAS**, the Company desires to amend the Plan to clarify Participants' rights with respect to the distribution of their benefits effective January 1, 2017.

**NOW, THEREFORE**, the Plan is amended effective as of January 1, 2017 as follows:

1. The eighth paragraph of Section 13.06 of the Plan be deleted and the following new paragraph inserted in lieu thereof:

The portion of the Participant's Accrued Benefit that is not attributable to a Rollover Account as described in Section 13.03 shall be distributed in whole or in part by the Trustee in such a manner as the Participant shall elect, in accordance with one of more of the following methods of distribution, which shall be paid in cash:

- (i) One lump sum payment.
- (ii) Installment payments for a period certain not longer than the life expectancy of the Participant and his or her spouse.

This Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Amendment and, except as hereby amended, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment has been executed this 13th day of December, 2016.

THE HANOVER INSURANCE COMPANY

By: /s/ Elena Patronas  
Elena Patronas, Vice President

**THE HANOVER INSURANCE GROUP, INC.**  
**RETIREMENT SAVINGS PLAN**  
**SECOND AMENDMENT**  
**to the Restatement Generally Effective January 1, 2015**

This Second Amendment is executed by The Hanover Insurance Company, a New Hampshire corporation (the "Corporation").

**WHEREAS**, the Corporation sponsors The Hanover Insurance Group Retirement Savings Plan (the "Plan");

**WHEREAS**, the most recent restatement of the Plan is effective January 1, 2015 and such restatement was amended by the adoption of the First Amendment on December 13, 2016; and

**WHEREAS**, the Corporation has reserved the right to amend the Plan at any time under Section 18.01 of the Plan.

**NOW, THEREFORE**, the Plan is amended, effective as of the date hereof, as follows:

1. Section 4.03 of the Plan is amended by the addition of the following new paragraph (c):

“(c) Notwithstanding any other provision in the Plan to the contrary and subject to compliance with applicable Code discrimination laws, rules and regulations, each Participant (other than members of the Executive Leadership Team) who was an Employee on December 31, 2016, has been continuously employed by the Employer from December 31, 2016 through March 15, 2017 and who earned Compensation during the Plan Year ended December 31, 2016, shall receive an Employer paid contribution of \$500.00, whether or not such Participant has elected to make Salary Reduction Contributions to the Plan during such continuous period of employment. This Employer contribution shall be made in cash to the Non-Elective Employer Contribution Account established for any such eligible Participant on or as soon after March 15, 2017 as is practicable and shall be invested per the direction of the Participant in accordance with Section 16.02 of the Plan.”

This Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Amendment. Except as amended hereby, the Plan shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, this Second Amendment has been executed this 20th day of February, 2017.

THE HANOVER INSURANCE COMPANY

By: /s/ Elena Patronas  
Elena Patronas, Vice President

**THE HANOVER INSURANCE GROUP  
RETIREMENT SAVINGS PLAN**

**THIRD AMENDMENT  
To the Restatement Generally Effective January 1, 2015**

THIS AMENDMENT is executed by The Hanover Insurance Company, a New Hampshire corporation (the “Company”).

**WHEREAS**, the most recent restatement of The Hanover Insurance Group Retirement Savings Plan (the “Plan”) is effective January 1, 2015 and such restatement was amended by the adoption of the first amendment dated December 13, 2016 and the second amendment dated February 20, 2017.

**WHEREAS**, the Company has reserved the right to amend the Plan any time under Section 18.01 of the Plan; and

**WHEREAS**, the Company desires to amend the Plan to clarify the procedures by which a participant in the Plan is determined to be disabled under the Plan.

**NOW, THEREFORE**, the Plan is amended, effective January 1, 2018, as provided herein:

Section 2.61 is deleted in its entirety and the following new Section 2.61 is inserted in lieu thereof:

“2.61           “Totally and Permanently Disabled” shall mean the inability of a Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months as evidenced by a written determination of the Social Security Administration that the Participant is disabled and entitled to benefits under the federal Social Security Act.

Section 11.03, the reference to “Permanently and Totally Disabled” is deleted and changed to “Totally and Permanently Disabled”.

This Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Amendment. Except as amended hereby, the Plan shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, this Third Amendment has been executed this 13th day of December, 2017.

THE HANOVER INSURANCE COMPANY

By: /s/ Elena Patronas  
Elena Patronas, Vice President

**THE HANOVER INSURANCE GROUP**

**RETIREMENT SAVINGS PLAN**

**FOURTH AMENDMENT**

**To the Restatement Generally Effective January 1, 2015**

THIS AMENDMENT is executed by The Hanover Insurance Company, a New Hampshire corporation (the “Company”).

**WHEREAS**, the most recent restatement of The Hanover Insurance Group Retirement Savings Plan (the “Plan”) is effective January 1, 2015 and such restatement was amended by the adoption of the first amendment dated December 13, 2016, the second amendment dated February 20, 2017 and the third amendment dated December 13, 2017.

**WHEREAS**, the Company has reserved the right to amend the Plan any time under Section 18.01 of the Plan; and

**WHEREAS**, the Company desires to amend the Plan to clarify provisions in the Plan related to rollover contributions and withdrawals from a Regular Account, and to amend provisions in the Plan related to hardship distributions in light of changes in the law.

**NOW, THEREFORE**, the Plan is amended as provided herein:

1. **Effective January 1, 2018, the Plan is amended as provided below:**

1. Delete the third paragraph of Section 5.03 of the Plan in its entirety and insert in lieu thereof the following new paragraphs:

“Rollover Contribution” means any distribution from an eligible retirement plan, as defined in Section 13.13(b)(ii) that an Eligible Employee elects to contribute to the Plan, or have considered as contributed, in accordance with the provisions of this Section. An Eligible Employee who is or was entitled to receive a distribution that is eligible for rollover to a qualified plan under Code Section 408(d)(3) or an eligible rollover distribution, as defined in Code Section 402(c)(4) and Treasury Regulations issued thereunder, including an eligible rollover distribution received by the Eligible Employee as a surviving Spouse or as a Spouse or former Spouse who is an alternate payee under a qualified domestic relations order, from an eligible retirement plan, may elect to contribute all or any portion of such distribution to the Trust directly from such eligible retirement plan (a “direct rollover”) or within 60 days of receipt of such distribution to the Eligible Employee. Rollover Contributions shall only be made in the form of cash.

Notwithstanding the foregoing, the Plan shall not accept the following as Rollover Contributions: (i) any rollover of designated Roth contributions, except as provided in this Section (below); (ii) any rollover of after-tax employee

contributions, which are not designated Roth contributions, that are not made by a direct rollover; (iii) any rollover from an individual retirement account or annuity described in Code Section 408(a) or (b) (including a Roth IRA under Code Section 408A) to the extent such amount would not otherwise be includible in the Employee's income; or (iv) any rollover amounts that are not "designated Roth contributions", which are to be contributed to the Plan as "designated Roth contributions".

To the extent the Plan accepts Rollover Contributions of after-tax employee contributions, the Plan will separately account for such contributions, including separate accounting for the portion of the Rollover Contribution that is includible in gross income and the portion that is not includible in gross income.

2. Delete the third sentence of the last paragraph of Section 5.03 of the Plan in its entirety and insert in lieu thereof the following new sentence:

Any rollover of "designated Roth contributions", as defined in Code Section 402A(c)(1), shall be subject to the requirements of Code Section 402(c).

3. Delete subparagraph (i)F. in the fourth paragraph of Section 11.02 of the Plan in its entirety and insert in lieu thereof the following new subparagraph:
  - F. Expenses for the repair of damage to the Eligible Employee's principal residence that would qualify for the casualty deduction under Code Section 165 (determined without regard to Code Section 165(h)(5) and whether the loss exceeds 10% of adjusted gross income).
4. Delete Section 11.03 of the Plan in its entirety and insert the following new Section 11.03 in lieu thereof:
  - 11.03 Withdrawals from Regular or Rollover Accounts. A Participant may elect to withdraw up to 100 percent of the amount then credited to his or her Regular or Rollover Account in cash. Such withdrawals may be made at any time.

2. **Effective January 1, 2019, the Plan is amended as provided below:**

1. Delete Section 5.05(d)(iii) of the Plan in its entirety.
2. Delete Section 11.02 of the Plan in its entirety and insert the following new Section 11.02 in lieu thereof:

11.02 Withdrawals from Match Contribution, 401(k) Account, Roth Elective Deferral Account, and Non-Elective Employer Contribution Accounts. At any time after a Participant attains Age 59½ or is Totally and Permanently Disabled, a Participant shall have the right to request the Plan Administrator for a withdrawal in cash of amounts from the vested portion of his or her Match Contribution Account, 401(k) Account, or Roth Elective Deferral Account. A Participant who has attained age 59½ or is Totally and Permanently Disabled may also withdraw any part or all of the vested portion of his or her Non-Elective Employer Contribution Account.

A Participant who is an Eligible Employee shall have the right at any time to ask the Plan Administrator for a hardship distribution in cash from his or her Salary Reduction Contributions with earnings thereon and from the 401(k) Employer Contributions made by the Employer to the Plan on his or her behalf with earnings thereon, in an amount necessary to satisfy an immediate and heavy financial need of the Eligible Employee.

The Plan Administrator shall determine whether a request for a hardship distribution is for an amount necessary to satisfy an “immediate and heavy financial need” based on the provisions of this Section. Any such determination shall be based upon non-discriminatory rules and procedures, which shall be conclusive and binding upon all persons.

A distribution is made on account of an immediate and heavy financial need of the Eligible Employee only if the distribution is for –

- (1) Expenses for (or necessary to obtain) medical care that would be deductible under Code Section 213(d), determined without regard to the limitations in Code Section 213(a) (relating to the applicable percentage of adjusted gross income and the recipients of the medical care) provided that, the recipient of the medical care is the Eligible Employee, the Eligible Employee’s Spouse, child or dependent (as defined in Code Section 152 without regard to Code Section 152(b)(1), (b)(2) and (d)(1)(B)).
- (2) Costs directly related to the purchase of a principal residence for the Eligible Employee (excluding mortgage payments);
- (3) Payment of tuition, related educational fees, and room and board expenses, for up to the next 12 months of post-secondary education for the Eligible Employee, for the Eligible Employee's Spouse, child or dependent (as defined in Code Section 152 without regard to Code Section 152(b)(1), (b)(2) and (d)(1)(B));
- (4) Payments necessary to prevent the eviction of the Eligible Employee from the Eligible Employee’s principal residence or foreclosure on the mortgage on that residence;



- (5) Payments for burial or funeral expenses for the Eligible Employee's deceased parent, Spouse, child or dependent (as defined in Code Section 152 without regard to Code Section 152(d)(1)(B));
- (6) Expenses for the repair of damage to the Eligible Employee's principal residence that would qualify for the casualty deduction under Code Section 165 (determined without regard to Code Section 165(h)(5) and whether the loss exceeds 10% of adjusted gross income); or
- (7) Expenses and losses (including loss of income) incurred by the Eligible Employee on account of a disaster declared by the Federal Emergency Management Agency (FEMA) under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, Pub. L. 100-707, provided that the Eligible Employee's principal residence or principal place of employment at the time of the disaster was located in an area designated by FEMA for individual assistance with respect to the disaster.

A distribution is necessary to satisfy an immediate and heavy financial need of the Eligible Employee only to the extent the amount of the distribution is not in excess of the amount required to satisfy the financial need (including any amounts necessary to pay any federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution).

A distribution is not necessary to satisfy an immediate and heavy financial need of an Eligible Employee unless the Eligible Employee has obtained all other currently available distributions (but not hardship distributions or nontaxable loans, determined at the time that the loan is made) under the Plan and all other plans of deferred compensation, whether qualified or nonqualified, maintained by the Employer and its Affiliates. In addition, the Eligible Employee must represent (in writing, by an electronic medium, or in such other form as may be prescribed by the Commissioner of the Internal Revenue Service) that he or she has insufficient cash or other liquid assets to satisfy the need. The Plan Administrator may rely on the Eligible Employee's representation unless the Plan Administrator has actual knowledge to the contrary.

Prior to January 1, 2019, the Plan provided for a 6-month suspension of an Eligible Employee's Salary Reduction Contributions after the receipt of a hardship distribution as a condition of obtaining the hardship distribution. An Eligible Employee who received a hardship distribution in the second half of the Plan Year ended 2018 will be prohibited from making contributions until January 1, 2019. If any such Eligible Employee made an Affirmative Election, Salary Reduction Contributions, if any, under the Affirmative Election shall resume as of January 1, 2019. If any such any Eligible Employee did not make an Affirmative Election, Automatic Contributions shall resume with respect to such Eligible Employee as of January 1, 2019 subject to the provisions of Section 5.05.

This Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Amendment. Except as amended hereby, the Plan shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, this Fourth Amendment has been executed this 21st day of December, 2018.

THE HANOVER INSURANCE COMPANY

By: /s/ Elena Patronas

Elena Patronas, Vice President

**THE HANOVER INSURANCE GROUP**

**RETIREMENT SAVINGS PLAN**

**FIFTH AMENDMENT**

**To the Restatement Generally Effective January 1, 2015**

THIS AMENDMENT is executed by The Hanover Insurance Company, a New Hampshire corporation (the “Company”).

**WHEREAS**, the most recent restatement of The Hanover Insurance Group Retirement Savings Plan (the “Plan”) is effective January 1, 2015 and such restatement was amended by the adoption of the first amendment dated December 13, 2016, the second amendment dated February 20, 2017, the third amendment dated December 13, 2017 and the fourth amendment dated December 21, 2018.

**WHEREAS**, the Company has reserved the right to amend the Plan any time under Section 18.01 of the Plan; and

**WHEREAS**, the Company desires to amend the Plan in light of the final regulations issued by the Internal Revenue Service governing hardship distributions.

**NOW, THEREFORE**, the Plan is amended effective as of January 1, 2019 as provided herein:

1. Delete the second sentence in the penultimate paragraph of Section 11.02 of the Plan in its entirety and insert the following new sentence in lieu thereof:

“In addition, the Eligible Employee must represent (in writing, by an electronic medium, or in such other form as may be prescribed by the Commissioner of the Internal Revenue Service) that he or she has insufficient cash or other liquid assets reasonably available to satisfy the need.”

2. Add the following new paragraph immediately after the last paragraph of Section 11.02 of the Plan:

“To obtain a hardship distribution an Eligible Participant shall complete the Plan’s application process and provide any required documentation. The Plan Administrator may also impose additional non-discriminatory conditions on hardship distributions, including a minimum dollar amount for the hardship distribution. The processing of applications and any distributions of amounts under this Section shall be made as soon as administratively feasible.”

This Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Amendment. Except as amended hereby, the Plan shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, this Fifth Amendment has been executed this 12th day of December, 2019.

THE HANOVER INSURANCE COMPANY

By: /s/ Elena Patronas

Elena Patronas, Vice President

**THE HANOVER INSURANCE GROUP  
RETIREMENT SAVINGS PLAN**

**SIXTH AMENDMENT  
To the Restatement Generally Effective January 1, 2015**

THIS AMENDMENT is executed by The Hanover Insurance Company, a New Hampshire corporation (the “Company”).

**WHEREAS**, the most recent restatement of The Hanover Insurance Group Retirement Savings Plan (the “Plan”) is effective January 1, 2015 and such restatement was amended by the adoption of the first amendment dated December 13, 2016, the second amendment dated February 20, 2017, the third amendment dated December 13, 2017, the fourth amendment dated December 21, 2018 and the fifth amendment dated December 12, 2019; and

**WHEREAS**, the Company has reserved the right to amend the Plan any time under Section 18.01 of the Plan; and

**WHEREAS**, the Company desires to amend the Plan to, among other things, provide more flexible distribution alternatives for Participants.

NOW, THEREFORE, the Plan is amended effective as of January 1, 2022 as provided herein:

1. Section 5.05(f)(iii) of the Plan is deleted, and is replaced with the following language: “(iii) Left Blank Intentionally”.
2. The first paragraph of Section 13.03 of the Plan is deleted, and is replaced with the following language:  
“13.03 Death Benefits. If a Participant or Former Participant shall die prior to the commencement of any benefits otherwise provided under this Article XIII, except as provided below, his or her Beneficiary shall be entitled to a lump sum death benefit equal to the amount credited to the Participant’s Account as of the date the Plan Administrator receives due proof of the Participant’s death. In lieu of receiving benefits in a lump sum, a Beneficiary may elect to receive benefits under any applicable option described in Section 13.06.”
3. Subsection (v) of the seventh paragraph of Section 13.06 of the Plan is deleted and replaced with the following new paragraphs:  
“(v) A series of substantially equal periodic cash installments of a fixed percentage, a specified dollar amount, or an amount calculated to result in the payment of such Rollover Account over a fixed period no longer than the life

expectancy of the Participant or the joint life expectancy of the Participant and his or her Beneficiary, or an amount calculated to result in the payment of the Rollover Account pursuant to any similar objectively determined formula or method.

A Participant may change his or her prior distribution election at any time to accelerate or decelerate installment payments, modify installment payments, stop payments entirely, or receive a lump sum or partial lump sum distribution of the remainder of his or her Rollover Account.”

4. The eighth paragraph of Section 13.06 of the Plan is deleted and replaced with the following new paragraphs:

“The portion of the Participant’s Accrued Benefit that is not attributable to a Rollover Account as described in Section 13.03 shall be distributed in whole or in part by the Trustee in such manner as the Participant shall elect, in accordance with one or more of the following methods of distribution, which shall be paid in cash:

- (i) A lump sum payment; and
- (ii) A series of substantially equal periodic cash installments of a fixed percentage, a specified dollar amount, or an amount calculated to result in the payment of such Accrued Benefit over a fixed period no longer than the life expectancy of the Participant or the joint life expectancy of the Participant and his or her Beneficiary, or an amount calculated to result in the payment of the Accrued Benefit pursuant to any similar objectively determined formula or method.

A Participant may change his or her prior distribution election at any time to accelerate or decelerate installment payments, modify installment payments, stop payments entirely, or receive a lump sum or partial lump sum distribution of the remainder of his or her Accrued Benefit.”

This Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provision of this Amendment. Except as amended hereby, the Plan shall remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, this Sixth Amendment has been executed this 9th day of December 2021.

THE HANOVER INSURANCE COMPANY

By: /s/ Elena Patronas  
Elena Patronas, Vice President

**Direct and Indirect Subsidiaries of the Registrant****I. The Hanover Insurance Group, Inc. (Delaware)**

- A. Opus Investment Management, Inc. (Massachusetts)
  - a. The Hanover Insurance Company (New Hampshire)
    - 1. Citizens Insurance Company of America (Michigan)
    - 2. Allmerica Financial Benefit Insurance Company (Michigan)
    - 3. Allmerica Plus Insurance Agency, Inc. (Massachusetts)
    - 4. The Hanover American Insurance Company (New Hampshire)
    - 5. Citizens Insurance Company of Ohio (Ohio)
    - 6. Citizens Insurance Company of The Midwest (Indiana)
    - 7. The Hanover New Jersey Insurance Company (New Hampshire)
    - 8. Massachusetts Bay Insurance Company (New Hampshire)
    - 9. Allmerica Financial Alliance Insurance Company (New Hampshire)
    - 10. Professionals Direct, Inc. (Michigan)
    - 11. Verlan Fire Insurance Company (New Hampshire)
    - 12. The Hanover National Insurance Company (New Hampshire)
    - 13. AIX, Inc. (Delaware)
      - (i) AIX Insurance Services of California, Inc. (California)
    - 14. NOVA Casualty Company (New York)
      - (i) AIX Specialty Insurance Company (Delaware)
      - (ii) AIXHI LLC (Massachusetts)
        - 1. NAG MERGER LLC (Massachusetts)
    - 15. 440 Lincoln Street Holding Company LLC (Massachusetts)
    - 16. Campmed Casualty & Indemnity Company, Inc. (New Hampshire)
    - 17. CitySquare II Investment Company LLC (Massachusetts)
      - (i) Front Street Financing LLC (Massachusetts)
    - 18. The Hanover Atlantic Insurance Company Ltd. (Bermuda)
    - 19. The Hanover Casualty Company (Texas)
  - b. Citizens Insurance Company of Illinois (Illinois)
  - c. CitySquare II Development Co. LLC (Massachusetts)
- B. VeraVest Investments, Inc. (Massachusetts)
- C. Verlan Holdings, Inc. (Maryland)
  - a. Hanover Specialty Insurance Brokers, Inc. (Virginia)
- D. Campania Holding Company, Inc. (Virginia)
- E. Educators Insurance Agency, Inc. (Massachusetts)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-24929, No. 333-31397, No. 333-134394, No. 333-134395, No. 333-196107) and Form S-3 (No. 333-247958) of The Hanover Insurance Group, Inc. of our report dated February 24, 2022 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

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PricewaterhouseCoopers LLP

Boston, MA

February 24, 2022



## POWER OF ATTORNEY

We, the undersigned, hereby severally constitute and appoint John C. Roche, Jeffrey M. Farber, and Dennis F. Kerrigan, each of them singly, our true and lawful attorneys, with full power in each of them, to sign for and in each of our names and in any and all capacities, the Form 10-K of The Hanover Insurance Group, Inc. (the "Company") and any other filings made on behalf of said Company pursuant to the requirements of the Securities Exchange Act of 1934, and to file the same with all exhibits and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys and each of them, acting alone, full power and authority to do and perform each and every act and thing requisite or necessary to be done, hereby ratifying and confirming all that said attorneys or any of them may lawfully do or cause to be done by virtue hereof. Witness our hands and common seal on the date set forth below.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ John C. Roche</u> John C. Roche	President, Chief Executive Officer and Director	<u>February 1, 2022</u>
<u>/s/ Jeffrey M. Farber</u> Jeffrey M. Farber	Executive Vice President and Chief Financial Officer	<u>February 1, 2022</u>
<u>/s/ Warren E. Barnes</u> Warren E. Barnes	Senior Vice President, Corporate Controller and Principal Accounting Officer	<u>February 14, 2022</u>
<u>/s/ Kevin J. Bradicich</u> Kevin J. Bradicich	Director	<u>February 3, 2022</u>
<u>/s/ Theodore H. Bunting, Jr.</u> Theodore H. Bunting, Jr.	Director	<u>February 2, 2022</u>
<u>/s/ Jane D. Carlin</u> Jane D. Carlin	Director	<u>February 3, 2022</u>
<u>/s/ J. Paul Condryn III</u> J. Paul Condryn III	Director	<u>February 2, 2022</u>
<u>/s/ Cynthia L. Egan</u> Cynthia L. Egan	Chair of the Board	<u>February 4, 2022</u>
<u>/s/ Daniel T. Henry</u> Daniel T. Henry	Director	<u>February 2, 2022</u>
<u>/s/ Martin P. Hughes</u> Martin P. Hughes	Director	<u>February 3, 2022</u>
<u>/s/ Wendell J. Knox</u> Wendell J. Knox	Director	<u>February 2, 2022</u>
<u>/s/ Kathleen S. Lane</u> Kathleen S. Lane	Director	<u>February 7, 2022</u>
<u>/s/ Joseph R. Ramrath</u> Joseph R. Ramrath	Director	<u>February 3, 2022</u>
<u>/s/ Harriett Tee Taggart</u> Harriett "Tee" Taggart	Director	<u>February 2, 2022</u>

**CERTIFICATION AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, John C. Roche, certify that:

1. I have reviewed this annual report on Form 10-K of The Hanover Insurance Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and "internal control over financial reporting" (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2022

/s/ John C. Roche

John C. Roche

President, Chief Executive Officer and Director

**CERTIFICATION AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey M. Farber, certify that:

1. I have reviewed this annual report on Form 10-K of The Hanover Insurance Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and "internal control over financial reporting" (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2022

/s/ Jeffrey M. Farber

Jeffrey M. Farber

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as President, Chief Executive Officer and Director of The Hanover Insurance Group, Inc. (the “Company”), does hereby certify that to the undersigned’s knowledge:

- 1) the Company’s Annual Report on Form 10-K for the period ended December 31, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company’s Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John C. Roche

John C. Roche

President, Chief Executive Officer and Director

Dated: February 24, 2022

**CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Executive Vice President and Chief Financial Officer of The Hanover Insurance Group, Inc. (the “Company”), does hereby certify that to the undersigned’s knowledge:

- 1) the Company’s Annual Report on Form 10-K for the period ended December 31, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company’s Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey M. Farber

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Jeffrey M. Farber  
Executive Vice President and  
Chief Financial Officer

Dated: February 24, 2022